MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
V.N. KARAZIN KHARKIV NATIONAL UNIVERSITY

Karazin Banking Institute

Department	**Banking Business and Financial Technologies**
Level of higher education	**second (master’s) level**
Specialty	**072 Finance, Banking, Insurance and Stock Market**
Educational program	**Financial technologies and banking management**
Group	**AF-23M full-time mode of study**

QUALIFYING MASTER'S THESIS

on the topic:

MANAGEMENT OF FINANCIAL STABILITY OF BANKS IN MARKET CONDITIONS

higher education student **Wu Lige**

The qualifying master's thesis was accepted for defense by the decision of the Department of Banking Business and Financial Technologies

Protocol No. 5 dated «06» December 2024

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Kharkiv – 2024

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APPROVED
Head of the Departmentof Banking
Business and Financial Technologies
Doctor of Economics, Professor
Galyna Azarenkova
« 25 **»** September 2024

TASK
FOR THE QUALIFYING MASTER'S THESIS

of Wu Lige

1. Topic of the work "MANAGEMENT OF FINANCIAL STABILITY OF BANKS IN MARKET CONDITIONS"

   Scientific adviser Doctor of Economics, Professor Valeriia Baranova
   (surname, first name, patronymic, academic degree, academic title)

   Approved by order of the university dated 17.09.2024 No. 4601-3к/1025; 15.11.2024 No. 4601-3к/1491
2. Deadline for the student to submit the work November 18, 2024
3. List of issues to be developed:

In Chapter 1: to find out the essence and signs of financial stability of the bank; to determine the factors ensuring the stability of banks; to generalize the mechanism of ensuring the financial stability of banks in Ukraine.

In Chapter 2: to analyze the main indicators of the stability of the banking sector of Ukraine; to analyze the capitalization and performance of banks.

In Chapter 3: to determine the priority directions for ensuring the financial stability of the banking sector of Ukraine; to justify ways to improve the efficiency of bank capitalization management in order to maintain the financial stability ofthe banking sector.

4. Work plan

No.	Name of work stages
1	The choice of the topic of the qualifying master's thesis
2	Approval of the plan and tasks of the qualifying master's thesis
3	Completion of a qualifying master's thesis
4	Submission of a qualifying master's thesis to the department to check for borrowings from other documents
5	Admission by the head of the department to the defense of a qualifying master's thesis
6	Defense of a qualifying master's thesis

5. Date of the task issue September 25, 2024

Student Wu Lige Wu Lige

Signature Initials, surname

Scientific advisor Valeriia BARANOVA

Signature Initials, surname

ABSTRACT
ON THE QUALIFYING MASTER'S THESIS
"MANAGEMENT OF FINANCIAL STABILITY OF BANKS IN MARKET CONDITIONS"

of Wu Lige

The qualifying master's thesis comprises 92 pages, 8 tables, 18 figures, 1 formula, and a list of 86 references.

The **object of research** is the financial stability of banks.

The **subject of research** is the means of maintaining the financial stability of banks in Ukraine.

The **purpose of the qualifying master's thesis** is to deepen the theoretical and methodological foundations of managing the financial stability of banks and to develop scientific and practical recommendations for ensuring financial stability in the modern economy of Ukraine.

The **tasks of the qualifying master's thesis** are as follows:

- to explore the essence and characteristics of a bank's financial stability;
- to identify the factors that ensure the stability of banks;
- to analyze the main indicators of the stability of Ukraine's banking sector;
- to conduct an analysis of the capitalization and performance of banks as the basis for the stability of Ukraine's banking sector;
- to study modern methods for maintaining the financial stability of banks;
- to justify strategies for improving the efficiency of bank capitalization management to ensure the financial stability of the banking sector.

Based on the results of the research, theoretical and practical provisions have been formulated, leading to concrete proposals for improving the management of financial stability in the banking sector under market conditions.

The obtained results include the development of recommendations for enhancing the management of banks' financial stability in Ukraine's economy. These recommendations aim to strengthen the financial position of banks and are applicable to optimizing their organizational structures, developing and implementing both short-term and long-term strategies, and improving current and strategic management practices.

Practical significance: The research results can be directly utilized by banks to enhance their financial stability. The proposed measures are designed to optimize organizational structures, refine financial strategies, and improve the implementation of current and strategic management practices. These recommendations are particularly relevant in the context of Ukraine's modern economy, where financial stability is critical for sustainable growth.

KEYWORDS: financial stability of the bank, indicators of the bank's stability, bank capitalization, financial stability management.

CONTENT

INTRODUCTION

Relevance of the research topic. In the modern conditions of the development of the national economy, the state of the banking system is of great importance. Banks are one of the main sources of investment of financial resources in the country's economy. Ensuring the financial stability of the banking system and individual banks is a priority task that must be solved on the path of Ukraine's integration into the European economic space.

The formation of an effective mechanism for regulating the banking system of Ukraine is an objective necessity, as it justifies the measures to achieve the goals of regulating the banking system in the context of ensuring its necessary parameters in the conditions of the adverse influence of endogenous and exogenous factors and the constant increase in the level of uncertainty of their changes. Therefore, an important element of state regulation of the banking system is the assessment of the state of regulated objects at the micro (microprudential analysis) and macro (macroprudential analysis) levels.

Considering the special role of banking institutions in ensuring the stability of the entire financial system and in financing the real sector of the economy, the search for ways to ensure their financial stability is a recognized necessity, since the banking system is considered in relation to the financial and economic systems, systemic risks and interrelationships are investigated connections between systemically significant participants operating in different markets. Thus, the issue of ensuring the financial stability of banks becomes particularly relevant in modern economic conditions.

The object of research is financial stability of banks.

The subject of research is means of maintaining the financial stability of banks in Ukraine.

When studying the financial stability of banks, a number of methods were used, which, in particular, include: the systematic method (when studying coordinated and internally related actions, methods and principles of ensuring the financial stability of the bank), statistical method, econometric and comparative method (when conducting an analysis of financial indicators banks in Ukraine), graphical, tabular and modeling methods (applied in all sections of the work in order to organize the analysis and optimize the presentation of research results), the method of scientific abstraction (when studying the essence of financial stability of banks and its management).

The aim of the thesis is a deepening of theoretical and methodological principles regarding the management of the financial stability of banks and the formation of scientific and practical recommendations for its provision in the modern economy of Ukraine.

To achieve the goal, the following tasks have been defined:

- find out the essence and signs of the bank's financial stability;
- determine the factors ensuring the stability of banks and their classification characteristics;
- generalize the mechanism of ensuring the financial stability of banks in Ukraine;
- to analyze the main indicators of the stability of the banking sector of Ukraine;
- to conduct an analysis of the capitalization and performance of banks as a basis for the stability of the banking sector of Ukraine;
- conduct a study of modern methods of maintaining the financial stability of domestic banks;
- determine the priority directions for ensuring the financial stability of the banking sector of Ukraine;
- justify ways to improve the efficiency of bank capitalization management in order to maintain the financial stability of the banking sector.

The information base of the study consists of the works of Ukrainian and foreign scientists, legislative and by-laws of Ukraine, official reporting of banks and statistical data on their activity indicators, materials of the National Bank of Ukraine (NBU), the Association of Ukrainian Banks, the Ministry of Finance of

Ukraine, as well as periodicals, publications in open press and publicly available information resources of the worldwide Internet.

The degree of study of the problem. The work of many leading foreign and domestic scientists is devoted to the problems of financial stability of banks and its provision. Among the foreign specialists who paid attention to this topic, we can name such authors as: K.J. Barltrop, D.U. Blackwell, E. Gill, E.J. Delan, D.S. Kidwell, R. Kotter, D. McNaughton, R.L. Peterson, E. Reed, P.S. Rose, J.F. Sinky; among domestic economists, one should note the works of A.O. Epifanova, I.V. Sala, V.V. Vitlinskyi, M.I. Savluka, V.V. Kovalenko, O.Y. Shevtsova, A.M. Gerasimovicha, O.M. Tridida, I.M. Chmutova

The study of the works of the specified scientists allows to thoroughly approach the research of the essence of the scientific task, as well as to identify questions that remain unresolved. In particular, the issues of ensuring the financial stability of banks in modern conditions of economic instability remain unresolved. This determines the relevance and necessity of further research into the problem of ensuring the financial stability of banks and determines the practical significance of the research.

Practical significance of the research consists in the development of recommendations for improving the management of the financial stability of banks in the economy of Ukraine, aimed at strengthening the financial condition of banks. The results of the work can be used by banks in the optimization of their organizational structure, development and implementation of short-, long- and long-term strategies, in the implementation of current and strategic management.

CHAPTER 1
THEORETICAL FOUNDATIONS OF THE BANK'S FINANCIAL STABILITY

1.1. Essence of financial stability of the bank

The analysis of theoretical works in which the essence and meaning of the concept of "bank stability" are thoroughly revealed shows the absence of a unified approach to the definition of this important economic category. This leads to its identification with other concepts and complicates the analysis of criteria, components, as well as the characteristics of the essence of this category. Therefore, it is expedient to carry out new research on the definition of the essence and content of the concept of "bank stability".

The concept of financial stability in world practice is considered in two popular directions. The first is characterized by the study of the concept of financial stability itself, while the second focuses on explaining the causes of destabilizing phenomena.

Supporters of the first direction include, in particular, A. Crockett, who states that “…financial stability is determined by the stability of key financial institutions and markets…” [78, p. 8].

This approach assumes that the stability of the financial system is primarily ensured when its key links are stable and able to perform the duties assigned to them.

The aspect of the stability of markets and their indicators is important in this definition. However, many researchers focus on the fact that financial stability is a feature of the system as a set of institutional units.

For example, Kallaur P. V. defines financial stability "... as the simultaneous stability of banks and non-bank financial intermediaries, financial markets and payment infrastructure"

National Institute of Strategic Studies - as "... the ability of the financial system to effectively perform its functions, in particular to ensure the effective distribution of resources", focusing on the stability of participants in financial relations [5, p. 27]. Such institutional approaches to determining financial stability involve the use of microprudential and macroprudential analytical tools in studies based on the analysis of the state of individual institutions, as well as aggregated indicators for the banking system. In general, a rather significant narrowing of the study of the financial system to the banking system is characteristic of Ukrainian scientific thought.

In particular, Belenka G. V. defines financial stability as "... the state of the banking sector, which includes such systemic characteristics as stability, reliability, ability to self-regulate and solvency, and in which the impact of adverse and unpredictable events (shocks) on the banking sector or its individual elements does not interfere with ensuring performance of its main functions, as well as counteracting the potential consequences of endogenous and exogenous imbalances" [3, p. 4].

The concentration of attention on the banking sector when considering the financial system of Ukraine in general is quite justified, taking into account the leading role of banking institutions in the financial market at low rates of development of leasing and insurance operations, underdeveloped stock market. At the same time, a significant amount of research in this area postulates the aggregation of the concept of financial stability to identification with the stability of the set of institutions that make up the financial system.

In fact, this is the basis of the interpretation of financial stability developed by the National Bank. According to the definition of the National Bank of Ukraine, "a stable banking system is characterized by the reliability, balance and proportionality of the functioning of its structural elements, the ability to maintain stable balance and reliability over a long period of time" [43].

In a broader sense, the banking system is considered stable in the absence of individual bank failures or when it is stable, profitable and fully compliant with national legislation and risk management principles established by the Basel Committee on Banking Supervision (BCBS) [5, p. 28].

The National Bank of Ukraine monitors the activities of financial institutions in order to monitor the state of the system and perform the supervisory functions directly assigned to it. This monitoring takes place on the basis of the methodology developed by BCBS (Basel I and Basel II) through a system of standards.

The use of such methods makes it possible to control banks, which are the basis of the financial sector of Ukraine, in terms of compliance with the necessary indicators of liquidity, solvency, credit risks, etc.

The interpretation of bank stability can be found in M.I. Savluk. [58], according to him, "bank stability means the bank's constant ability to meet its obligations and ensure profitability at a level sufficient for normal functioning in a competitive environment. The system of economic standards for the regulation of banking activity, which was implemented by the National Bank of Ukraine and is mandatory for all banks, is aimed at creating the necessary conditions for the stable operation of banks.

At the same time Savluk M.I. does not distinguish between the concepts of "stability" and "sustainability", since in the very next sentence he submits: "The most important economic standards that characterize the financial stability of a bank, its ability to fulfill most other standards, are capital standards, in particular the minimum amount of authorized capital, the standard of solvency and capital adequacy standard". Savluk M.I. interprets the financial stability of the bank as the ability to fulfill most of the economic regulations that are mandatory for every bank.

That is, the financial stability of the bank, according to him, comes down to the ability to fulfill a number of coefficients, the main ones among which he singles out: capital standards (minimum size, solvency, sufficiency); liquidity standards (instant, general, ratio of highly liquid to working assets); risk standards; profitability indicators, including return on assets, return on equity, interest margin, and others.

Another, slightly narrower approach to determining the essence of the bank's financial stability is highlighted by Fomin I., Deputy Chairman of the Board of JSC "Ukrinbank". He is one of the few who separates the concepts of stability and stability and notes that "the level of stability of a bank should be understood as the maximum or limit level of unforeseen expenses, at which the institution maintains a state of normal functioning. Accordingly, the degree of stability of the bank, as noted by Fomin I., is the speed with which the bank overcomes the negative consequences of unforeseen factors that can lead to financial losses" [70, p. 12].

Thus, Fomin I. reduces financial stability to capital adequacy. The higher the capital adequacy, the more financially stable the bank will be. In general, we agree with this thesis, but it should be noted that a bank can go bankrupt even with a high level of capital adequacy, if it turns out to be illiquid. That is, to reduce financial stability only to capital adequacy is, from our point of view, wrong. It is influenced by a much larger number of factors, although the amount of capital occupies one of the most important positions among them.

V.P. Panteleev singles out his approach to solving the problem. and Halyava S.P. They note that "the general stability of both the country's economy and individual enterprises, including banks, requires such a movement of cash flows that ensures a constant excess of the receipt of funds over their expenses" [46, p.32]. The researchers were in solidarity with us regarding the relationship between the concepts of "stability" and "sustainability". They also note that financial stability is a component of bank stability. The authors mention the concepts of stability, sustainability, reliability, strength (security), liquidity, but do not specify how exactly they differ. Often, "stability" and "sustainability" are interchanged, which indicates the vagueness of the separation of these concepts.

The stability of the banking system is interpreted quite broadly by O. I. Baranovsky, who proves that it is the ability to resist external and internal influences, maintaining stable balance and reliability over time [2, p. 75-87]. So, on the one hand, O.I. Baranovsky considers the stability of the banking system through other combined concepts, and, on the other hand, emphasizes the importance of taking into account the time factor in the disclosure of these concepts.

However, in more detail the influence of the time factor in determining the financial stability of banks O.I. Baranovsky does not lead. In the same study, O.I. Baranovsky, we find that, for example, I. Larionova defines stability as the qualitative state of the system in dynamics [2, p. 75-87]. It also highlights the importance of the time factor in revealing bank stability.

In accordance with the above, the main approaches to defining the generalized concept of financial stability of the bank's development can be presented according to fig. 1.1 (concluded by the author on the basis of the given definitions).

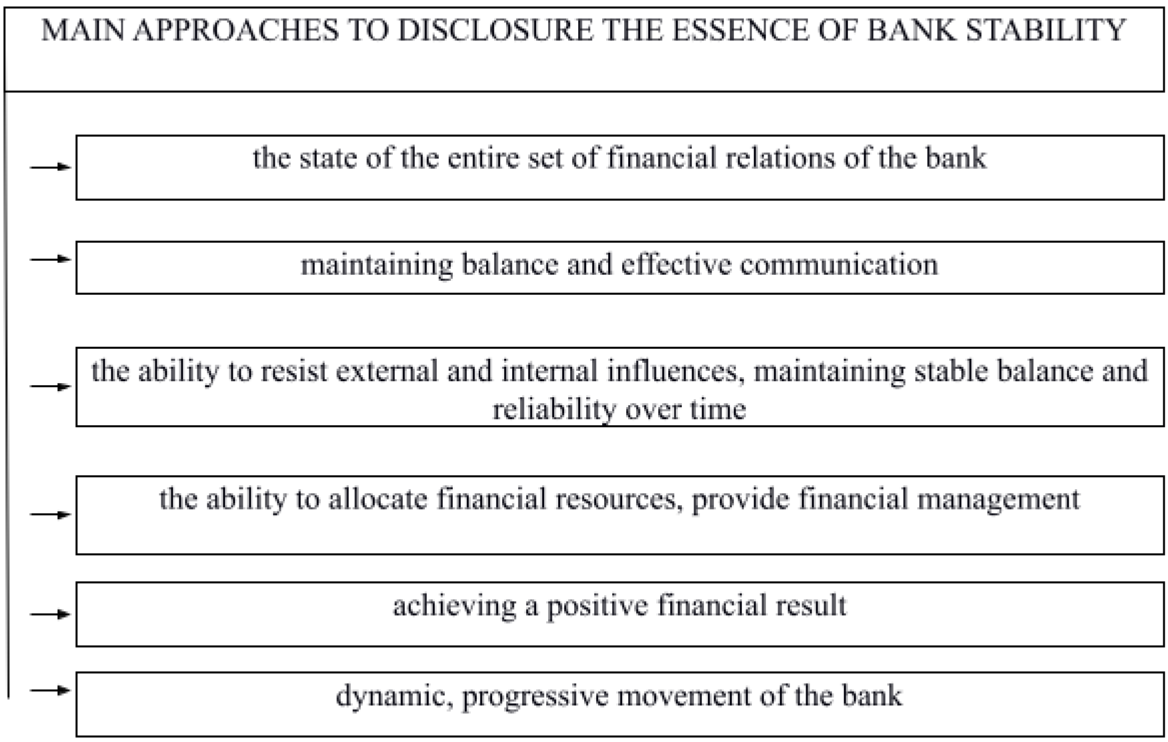

Fig. 1.1. The main approaches to revealing the essence of the bank's stability
Source: compiled by the author based on [5, 23, 40, 53,78]

As we can see, there is still no single approach to understanding the essence of the bank's financial stability today. Having analyzed most of them, we offer our own definition, which takes into account the best experience of domestic science and practice and aims to improve it. In our opinion, the financial stability of a bank should be understood as the ability of a banking institution to work uninterruptedly over time - to provide services and satisfy requirements, maintaining the optimal amount of liquidity, profitability and solvency at an acceptable level of risks, and at the same time withstand the negative impact of external and internal factors.

It should be noted that stability presupposes the presence of a certain period of operation of the bank and the related dynamics of its development. A stable growing bank will never experience sharp ups or downs, as such would destabilize it.

Although the financial stability of the bank is a qualitative systemic characteristic, it mainly includes quantitative components reflecting the financial aspect of the bank's functioning. Among the quality components, it is necessary to highlight the level of security of the bank and the professionalism of the management and staff.

1.2. Factors ensuring the stability of banks and their classification characteristics

The sharp drop in the level of trust of the population and business entities in banking institutions over the past year prioritizes the financial stability of the bank among other properties inherent in the institution. The very concept of the level of financial stability, as a symbiosis of indicators, in modern conditions can both withdraw the bank from the financial market and give significant competitive advantages [7, p. 184-187].

The activity of banks is essentially a complex of interconnected processes that depend on numerous and diverse factors. At the same time, it is necessary to take into account the fact that the negative influence of some factors can reduce or even nullify the positive influence of other factors. In such a situation, those banks that, thanks to their already existing potential, will be able to fully mitigate the negative impact of factors and suffer minimal losses will have more opportunities to survive.

Usually, when it comes to the factors of bank stability, in most cases they appeal to external and internal factors. Below it is proposed to classify them as follows (Fig. 1.2).

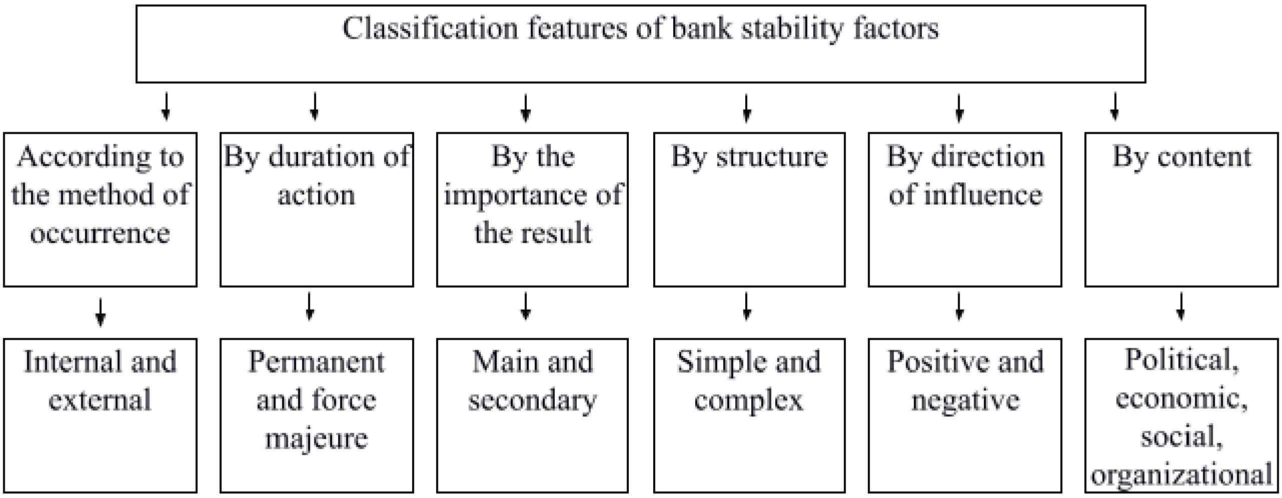

Fig. 1.2. Classification of factors affecting the stability of the bank [42]

The need to specify certain factors that will determine the stability of the functioning of banks in the economic environment is determined by the need to develop tactics and strategies for their activities. The stability of banks will be determined by external and internal factors. Usually, external factors do not depend on the work of banks, and internal factors will reflect the effective work of a banking institution.

At the same time, the most important is the classification according to the method of occurrence of factors, as shown in Figs. 1.3.

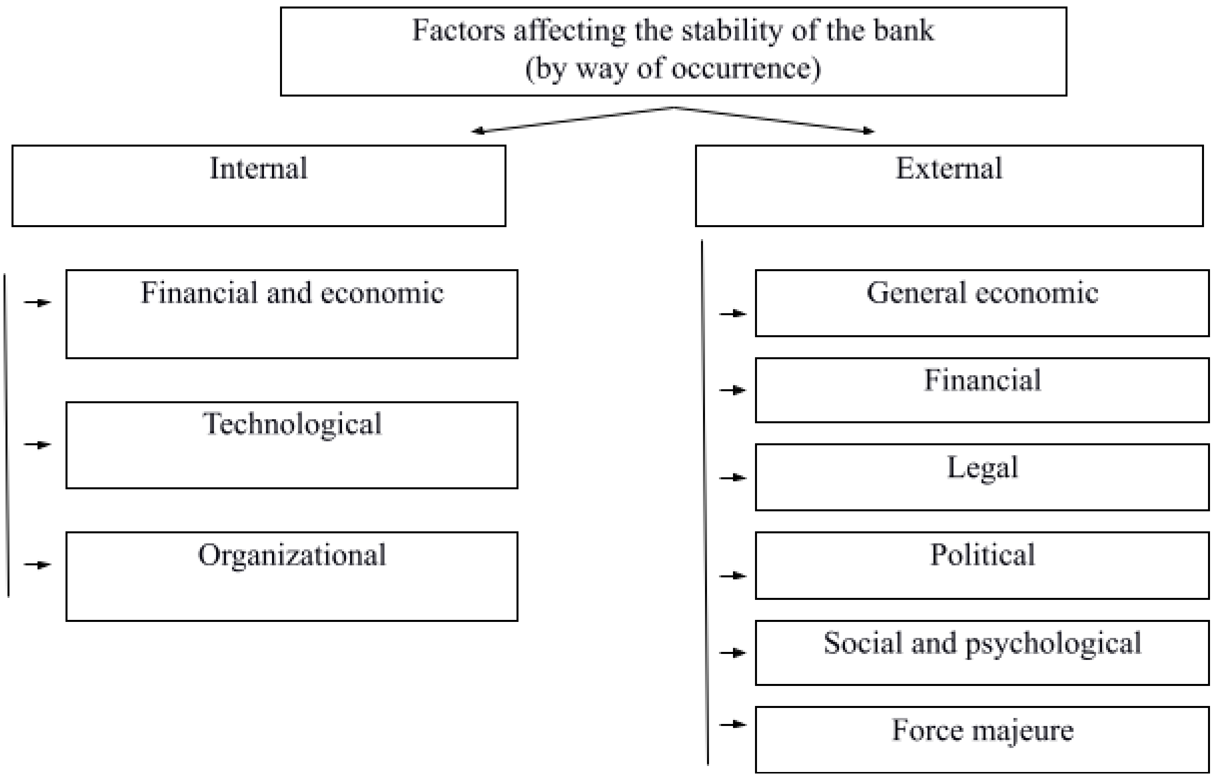

Fig. 1.3. Factors affecting the stability of the bank
(by way of occurrence) [42]

The decisive role belongs primarily to external factors, which can be divided into six groups, as shown in Fig. 1.3:

1) general economic;
2) financial;
3) legal;
4) political;
5) socio-psychological;
6) force majeure.

General economic factors include the potential of the existing sector of the economy; renewal and disposal of production facilities, opportunities for cross-industry resource transfer; competitiveness of product manufacturers; investments; balance of the country's balance of payments; the value of gross domestic product (GDP). The economic stability of the country in general will be the basis of the stability of banking institutions and their foundation. On the other hand, difficulties in the economy will seriously affect the efficiency and stability of banks. So, for example, economic crises will reduce the financial stability of bank clients, which will necessarily lead to an outflow of funds from banks and a decrease in the reversibility of issued loans, which will ultimately have a negative impact on the stability of banks. Economic upswings, in turn, will affect the stability of banks [42, p. 251-252].

It is worth noting that financial factors, i.e. the state and development of the financial market, exert a significant influence on the stability of banks. First of all, the state of the financial market will be determined by the following indicators: inflation rates, monetary emission, interest on short-term loans, the country's gold and currency reserves, changes in state regulation in foreign economic and currency areas, the size of the country's foreign debt, the state and prospects of the development of the stock market.

Legal factors, i.e. methods and forms of legal regulation of banking activities, significantly affect the stability of banks. The stability of the current legislation and its relative conservatism will create prerequisites for normal legal regulation of emerging problem situations. At the same time, the legislation will be able to make a significant impact on the development of the banking system through the rules of regulation of existing banking operations. The preparation of bills that will improve the current legislation, the elimination of gaps in it, can be classified as urgent tasks, the stability of the banking system of the state will depend on their solution.

Political factors exert a significant influence on the stability of the banking system in general and individual banks. The political situation in the state is determined by the stability of the current government, its policies, stability or social tension in administrative and territorial entities, as well as the influence of opposition forces. Political stability is one of the main conditions for the successful development of the banking services market, as it determines the possibilities of socio-economic development of the state and strengthening its position in the international market.

General economic, legal, financial and political factors largely determine the entire complex of socio-political factors. Socio-psychological factors include: the confidence of the country's population in the correctness of the economic transformations carried out, in the stability of currency, customs and tax legislation, in the prospects for the development of the country's economy in general, as well as its individual industries. All of the factors listed above together will shape the level of clients' trust in banks, their willingness to carry out banking operations and use banking services.

The stability of banks can also be affected by any force majeure factors. Such factors are the result of natural disasters and unforeseen events, which will result in disruptions of banks. Such factors can be classified into natural, economic and political. Natural factors will include those that technically complicate the operation of banks. These can be earthquakes, floods, hurricanes and similar natural phenomena, as well as mass riots, revolutions, wars.

Internal factors should be understood as a combination of a number of factors that will be formed by the banks themselves and directly depend on their main activity.

Internal factors of bank stability can be divided into three groups: 1) financial and economic; 2) technological; 3) organizational.

Among the mentioned factors, the decisive role belongs to the group of financial and economic factors. Such financial and economic factors that affect the stability of banking institutions are: structure and volume of own funds; the level of income, expenses and profit; sources of funds and their further effective placement. These factors will be effective only in interaction with each other, that is, they must always be taken into account by banks as a whole. The bank's ability to withstand the negative impact of financial and economic factors determines its financial stability [5].

The financial stability of a bank is primarily a quantitative and qualitative characteristic of the financial condition of a banking institution, which shows the results of its financial management, characterizes the financial potential of the bank's business activity, its ability to satisfy the financial interests of clients. This characteristic also determines the socio-economic significance of the bank in a competitive market environment.

The next group of internal factors that will affect the stability of the bank's work includes technological factors. These factors include the banking institution's orientation to the development of advanced banking technologies, to the market's need for new banking products and services. Modern banking activity presents banks with a number of problems that are practically impossible to solve without extensive and complex use of advanced information technologies. Today, the automation of processes has affected most types of banking services. Today, it is impossible to imagine the successful operation of a banking institution without the use of computer networks. From this it can be seen that telecommunication and computer technology becomes a significant factor in accelerating the adaptation of the banking sector to most of the requirements of the international banking community, and this, in turn, contributes to a more stable operation of banks.

Organizational factors that will affect the stability of credit organizations include: the level of management (management); internal policy of the bank; relations with the founders of the bank; personnel qualification. At the same time, the bank's strategy, that is, the conceptual basis of the bank's activity, will be of greatest importance. The development of a bank's strategy should be understood as a search for a balance between its environment and opportunities [46].

A rather important organizational factor that indicates the impact on the stability of Ukrainian banks is the quality of the management system of banking institutions. Banks should pay special attention to this factor. Most of the tactical and strategic miscalculations of credit organizations are usually associated with insufficiently qualified bank management. The ineffectiveness of management in banks can be judged by the following indicators of their work:

the admission of a large number of violations of the current legislation of the country and the requirements of regulatory acts established by banking supervision bodies;

mass revocation of licenses of the National Bank of Ukraine, aggravation of problems of unprofitability or profitability, increasing number of bank bankruptcies [42, p. 253-254].

Of particular importance for the stability of banks is their internal policy, which is carried out in the course of their activity. Such a policy should primarily be aimed at preventing the main causes of bank bankruptcies: illiquidity, loss of assets due to a fall in the value of securities or overdue loans, rising costs, losses from core activities, prevention of crimes by professionals, corruption. In addition, the internal policy of the bank should be aimed at hiring highly qualified specialists, since quality management is the main condition for reliable and profitable operation of the bank, especially during the economic crisis.

Thus, the stability of the bank in itself represents a complex general economic category, which is able to work in conditions of compliance with all its rules. Because of this, an important condition for the existence of any bank is the need to assess its financial stability, taking into account all the factors and indicators listed above.

1.3. The mechanism for ensuring the financial stability of banks in Ukraine

Various issues regarding the effective financial system in Ukraine, and in particular state regulation and supervision, as well as the search for effective methods and mechanisms for ensuring the stability of banks and the banking system, are extremely relevant today.

At the current stage of development of the banking sector in the conditions of a market economy, one of the determining factors influencing the mechanisms of state regulation of banking activity is the policy of the National Bank of Ukraine, which is the main subject of ensuring stability and stability of the banking system of Ukraine.

In particular, Article 55 of the Law of Ukraine "On the National Bank of

Ukraine" states that the main goal of banking regulation and supervision is the safety and financial stability of the banking system, protection of the interests of depositors and creditors [21].

The essence of state regulation of banking activity is that the regulation mechanism is carried out, first of all, within the banking system and is expressed in the influence of the central bank on commercial ones [18]. The purpose of state regulation of the banking sector is to support the stability and stability of the national banking system, prevent the bankruptcy of individual banks, support competition in the banking sector, and meet the needs of society and bank clients in obtaining quality banking services.

Therefore, the main influence of the state as a regulator of macroeconomic processes on the banking system is carried out through the central bank, which acts as the main body of state regulation of macroeconomic processes using monetary methods.

However, in order to ensure the stability of banks' work and maintain trust in the state's banking system, not only timely and effective actions of the main regulator of financial markets - the central bank, but also balanced and coordinated activities of various branches of government, primarily the executive branch, are necessary.

In Ukraine, in accordance with the laws of Ukraine "On banks and banking activities" [22] and "About the National Bank of Ukraine" [21], the main regulatory body of the monetary and credit sphere is the National Bank of Ukraine, which constantly supervises compliance by banks and other financial and credit institutions with banking legislation, regulatory acts of the National Bank of Ukraine, and economic standards.

State regulation of banking activity is based on protective and preventive measures. Preventive measures are aimed at restricting access to banking activities (licensing, narrowing the spheres of banks' activities), preventing possible negative consequences of this or that process. In particular, these measures include: setting limits on the conduct of certain banking operations to limit unreasonable risks, requirements for the size and structure of the bank's own capital, requirements for liquidity, requirements for diversification of banking risks. These measures are implemented by establishing standards, the observance of which by banks is positive for maintaining their financial stability.

Protective measures (protective) are carried out in the event of a threatening situation for the bank, which may cause bankruptcy. In particular, they include: creation and operation of the deposit guarantee fund of individuals; formation of a reserve by banks to compensate for possible losses on active operations; refinancing of banks.

Protective measures increase depositors' confidence in the banking system, and preventive measures, in turn, ensure the effectiveness of the former.

Administrative regulation is a set of measures aimed at prohibiting or imposing requirements by the state on the performance of certain actions by banks through licensing and quotas. Indicative regulation is aimed at establishing economic norms, determining mandatory reserve norms for banks, clarifying norms of deductions to reserves to cover risks from active banking operations, forming interest policy; refinancing of banks, operations with securities on the open market. In addition to the above, we can add socio-psychological and information-technical methods, which are especially relevant in the conditions of the development of the market economy.

Regarding the latter, we note: the transparency of the monetary policy, active educational activities among the population are aimed at increasing the financial literacy of the society, the formation of a positive image of the banking system, which increases trust in banks, contributes to the expansion of their resource base, thereby ensuring the effective development of banking activities.

Methods and forms of regulation should be rationalized, implementing the main principles of their effectiveness, namely timeliness and optimality, effectiveness at minimal costs. The evolution of methods supplants direct and strengthens the position of indirect measures of regulation.

An important place in the system of state regulation of banking activity is occupied by legal regulation, which defines legislative norms, the scope of bank operations, the procedure for licensing and liability. Note that banking legislation, on the one hand, is designed to promote banking activity, and on the other hand, to restrain the bank where its activity conflicts with the interests of the state in general economic regulation. Legal regulation in the case of an unformed legal field is not always effective in practice, especially as regards guarantees of the rights of investors, depositors and creditors.

The legislative framework in the field of regulation of banking activities has developed significantly after the independence of Ukraine, but there are still "bottlenecks" and unused opportunities for expanding and improving the legal field. In particular, the concepts of "financial stability" and "financially stable bank" are not defined in modern banking legislation. There remains an urgent need to supplement the banking legislation with methodical recommendations regarding the assessment of the financial stability of banks and the use of a standardized set of indicators.

In the Instruction "On the Procedure for Regulating the Activities of Ukrainian Banks" [26] there is only a reference to the CAMELS system - as one of the possible methodological bases for assessing the financial stability of banks. Separate information is available in the provision "On the procedure for the formation and use of a reserve for the compensation of possible losses in the credit operations of banks."

Also, at the moment, by decision of the Board of the National Bank of Ukraine, the Procedure for determining and approving the bank's rating assessment according to the CAMELSO rating system [56], which is an officially recognized improved system of rating assessment of banks, which is widely used by supervisory authorities of many countries around the world. The CAMELSO scoring system is based on a combination of quantitative and qualitative assessment, accounting approach and professional judgment. Supervision of banks, based on risk assessments according to this rating system, consists in determining the general state of the bank based on standardized criteria covering all areas of its activity.

The purpose of evaluating banks according to the CAMELSO rating system is to determine their financial condition, the quality of management and corporate governance, the transparency of operations and the effectiveness of internal controls, risk management; identification of deficiencies that may lead to the bank's bankruptcy and require increased control by banking supervision authorities, as well as taking appropriate measures to correct deficiencies and stabilize the bank's financial condition.

The process of formalization of the bank's financial stability depends significantly on the level of development of the system of analysis and assessment of banking activity risks. In Ukraine, the modern system of analyzing and assessing the risks of banking activity involves the use by the National Bank of Ukraine of the system of economic standards for the activity of banks, the SAMELSO rating system and the "Risk Assessment System" [4, p. 72-84].

Ensuring financial stability in the post-crisis period requires the transformation of the financial system with the parallel formation by the National Bank of Ukraine of a mechanism for ensuring its stability.

So, the generalization of theoretical provisions regarding the disclosure of the essence of financial stability in the development of banks and the analysis of various definitions regarding the definition of financial stability allowed us to generalize the essence of this concept. The analysis of scientists' views on its definition is quite ambiguous, most identify it with stability, reliability, liquidity, etc., although all of them are only its components. Financial stability is a qualitative system characteristic that includes a number of quantitative components that reflect the financial aspect of the bank's functioning.

The peculiarities of the state guarantee of the stability of banks in the future should be the provision of transparency and sufficiency of information in the field of assessing the financial condition of banks, since the bank management often hides information. State authorities, in turn, must take over responsibility for the information that enters the financial market and is the basis of banks' judgments about the further development of the macroeconomic situation, individual elements and instruments of the financial market in order to adequately assess the level of risk of their operations.

CHAPTER 2
ANALYSIS OF THE FINANCIAL STABILITY OF THE BANKING SECTOR OF UKRAINE

2.1. Analysis of the main indicators of the stability of the banking sector of Ukraine

Trends in the development of the banking system in 2015-2016 show that most solvent banks managed to adapt to work in the conditions of the financial and economic crisis. The banking system as a whole shows operational profitability, the largest banks have carried out or are carrying out recapitalization to cover the losses incurred, unscrupulous and insolvent banks are being withdrawn from the market, the inflow of company and population deposits is recorded. In 2016, the National Bank of Ukraine completes the cleaning of the banking system and begins the next stage - its reboot.During 2015, the Ukrainian banking system operated in extremely difficult conditions. The military conflict in the East of Ukraine and the annexation of Crimea, the accumulated external imbalances and the deterioration of the situation on the global commodity markets led to an economic downturn, caused a significant devaluation of the national currency and the rise of inflation.

The main systemic risks, the implementation of which negatively affected the activity of banks, were: the deterioration of the solvency of borrowers due to the decrease in the incomes of the population and the loss-making activity of many enterprises; narrowing of the resource base of banks due to a significant outflow of deposits during 2014-2015; insecurity of creditors' rights; geopolitical risks associated with the annexation of Crimea and military operations in eastern Ukraine.

Despite this, the Ukrainian banking system as a whole has adapted to the new conditions: the largest banks have already reassessed their assets, formed reserves for active operations and attracted additional capital, and started revising their business models. The joint work of banks and the National Bank continues to restore the full functioning of the banking sector, in particular, strengthening the solvency of banks through further recapitalization and bringing related party lending operations to the standards established by the National Bank.

The primary task for the National Bank of Ukraine in 2015 was to clean up the banking sector – removing unscrupulous participants from the market and increasing transparency by revealing the real owners of banks. The regulator has almost completed the implementation of the first stage of the Comprehensive Program "Cleaning the Banking Sector". As of January 1, 2016, 120 banking institutions had a license of the National Bank of Ukraine to carry out banking activities, of which 117 institutions were functioning. In turn, as of December 1, 2016, the number of operating banks decreased to 98. Of them, 39 banks have foreign capital (17 have 100% foreign capital).

Table 2.1

Cleaning up the banking system in 2014-2016

Status of banks	Number of banks			Authorized capital, billion UAH		
	2014	2015	2016 (as of 01.12)	2014	2015	2016 (as of 01.12)
active	147	117	98	173.4	206.4	151,048
insolvent	16	3	3	6.8	3.6	1,337
banking system, everything	163	120	101	180.2	210	152,385
in the process of liquidation	22	62	14	-	-	-

Source: compiled by the author based on [44]

Credit activity of banks remained low during the last three years. Due to the reduction of the resource base, deterioration of the solvency and payment discipline of borrowers, banks have reduced lending to both businesses and citizens. Credit balances (without accrued interest) of solvent banks in national currency decreased by 875 million. hryvnias, and in foreign countries - by 2.6 billion dollars.

In general, the loan portfolio decreased, but thanks to large-scale restructuring, hryvnia loans to enterprises increased, while foreign currency loans accelerated their decline. Banks systematically issue new loans only to agricultural companies. The portfolio of loans issued to households continues to decrease. Next year, the degree of intensification of lending will depend, first of all, on the rate of recovery of the solvency of enterprises and progress in strengthening the protection of creditors' rights.

In January-September 2016, the balance of loans issued to enterprises and households by solvent banks decreased by 2.6% at a fixed exchange rate. The reasons are the slow recovery of the economy, business indebtedness and high interest rates. The main trend of 2016 is the change of the currency of loans to the hryvnia in the process of restructuring liabilities. Over three quarters, hryvnia loans grew by 10%, the jump in the third quarter was particularly noticeable. At the same time, foreign currency loans in dollar equivalent decreased by 11%. The loan portfolio grew only in state-owned banks - by 2.0% since the beginning of the year, a decrease was recorded in other groups.

The decrease in the price of the financial resource led to a decrease in credit rates. A large-scale restructuring had a major impact on the cost of hryvnia loans for businesses, as part of which the new hryvnia rates were closer to dollar rates than to hryvnia rates.

The loan portfolio is growing significantly only in agriculture. For nine months, the growth in the industry as a whole at a fixed exchange rate was 16%. Industry indicators give every reason to hope that the trend will continue.

Nominal lending to the electricity supply industry has grown significantly. However, its only factor is the unblocking of the financial activities of Energoatom NEC in June, thanks to which the company was able to attract loans for the purchase of fuel.

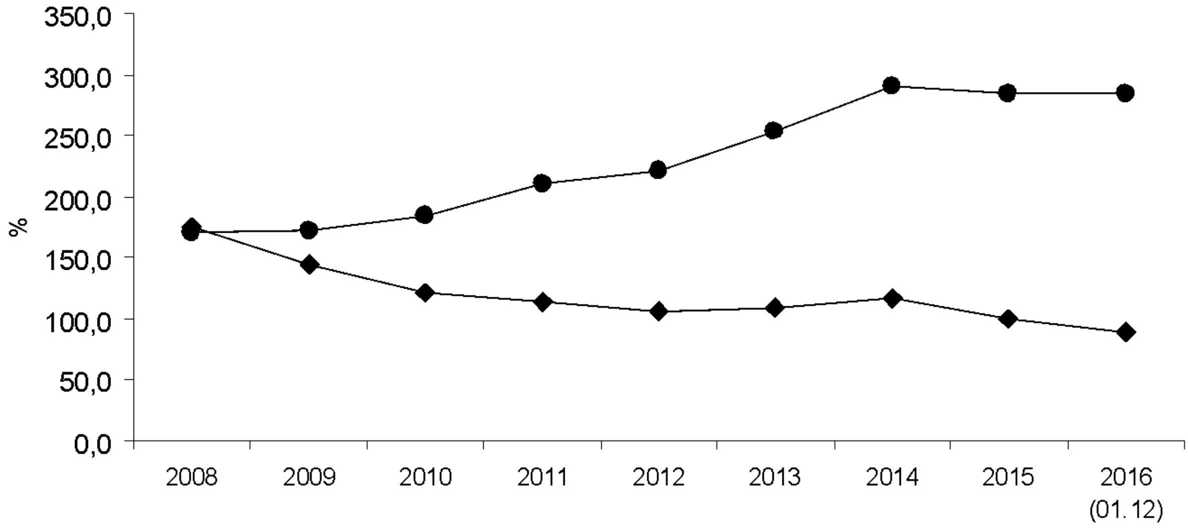

Fig. 2.1. Dynamics of loans granted by solvent banks in 2018-2016 (2007=100%)

Source: built by the author based on [44]

Due to the high risks of non-repayment of loans and a significant accumulated portfolio of problem debts, in 2015 banks mainly focused on: debt restructuring (due to extension of loan terms, interest rate revision, etc.); maintenance of constructive relations with existing creditworthy borrowers; assignment and sale of problem assets.

The specific weight of foreign currency loans in the loan portfolio increased significantly as a result of the exchange rate decrease (58% compared to 51% on 01.01.2015).

The devaluation of the hryvnia led to problems with the servicing of such loans by borrowers who do not have their own currency earnings. In order to improve the situation, many banks in 2015 started implementing programs to restructure foreign currency loans.

The quality of bank assets deteriorated significantly in 2015. The specific weight of negatively classified debt in the credit portfolio of operating banks as of January 1, 2016 was 28.2%, or 365.6 billion. UAH (compared to 18.4% and UAH 197.5 billion a year earlier). The quality of loans in foreign currency worsened to the greatest extent - the increase in the volume of problem debt amounted to 3.8 billion. dollars

During 2016, the National Bank of Ukraine conducted a diagnosis of the quality of assets and capital adequacy of 40 banks (from the 21st to the 60th in terms of assets). 39 solvent banks remained unexamined (less than 2% of system assets). The diagnostic examination of 40 banks, as well as the first 20 banks in 2015 (Khreshchatyk and Fido banks were declared insolvent), revealed chronic problems of most Ukrainian banks - inadequate reflection of asset quality and a significant level of hidden credit risk.

Taking into account the reduction in lending, banks mainly invested free funds in certificates of deposit of the National Bank. The balance of funds placed in certificates of deposit for 2015 almost doubled to 89.8 billion. UAH as of the end of the year.

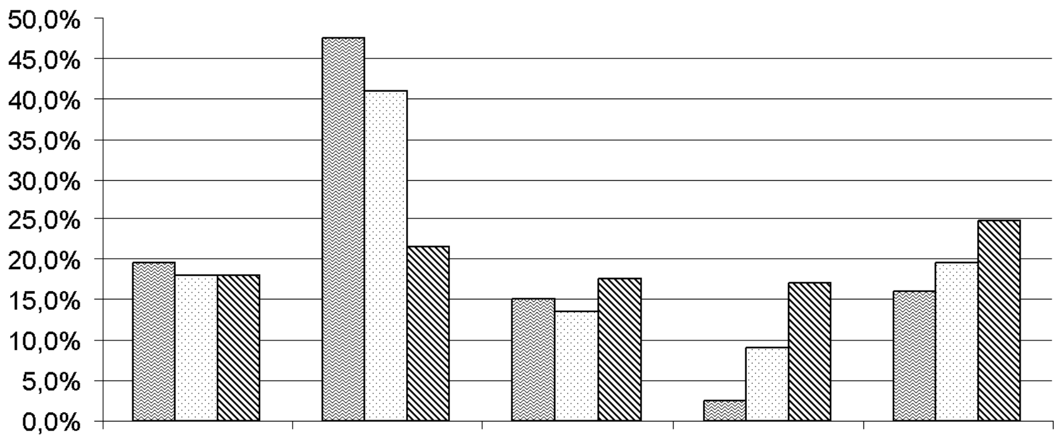

Fig. 2.2. Loans by quality categories in the following 40 banks

Source: built by the author based on [23,44]

According to the results of diagnostics of 40 banks, the assessment of the level of non-performing loans (NPL) increased from the 19% declared by the banks to 43%. The detected level in 40 banks is still lower than in the twenty largest banks (53%). The largest discrepancies between the declared level of NPL and the assessment of the diagnostic survey were found in the portfolio of loans to business entities in the national currency - the increase is 31 percentage points.

According to the estimates of the National Bank of Ukraine, the peak values of the share of problem loans in the portfolios of banks have already been passed. Macroeconomic stabilization and the gradual restoration of the incomes and profits of enterprises lay the prerequisites for the gradual restoration of the quality of the banks' credit portfolio.

However, the majority of NPLs will most likely not be returned to the category of quality loans and the level of their recovery in the future will be symbolic. Nevertheless, in most of the banks that have passed the diagnosis, problem loans are already adequately reserved or capital has already been fully mobilized to cover losses. In the future, such loans will be subject to write-off from the balance sheets.

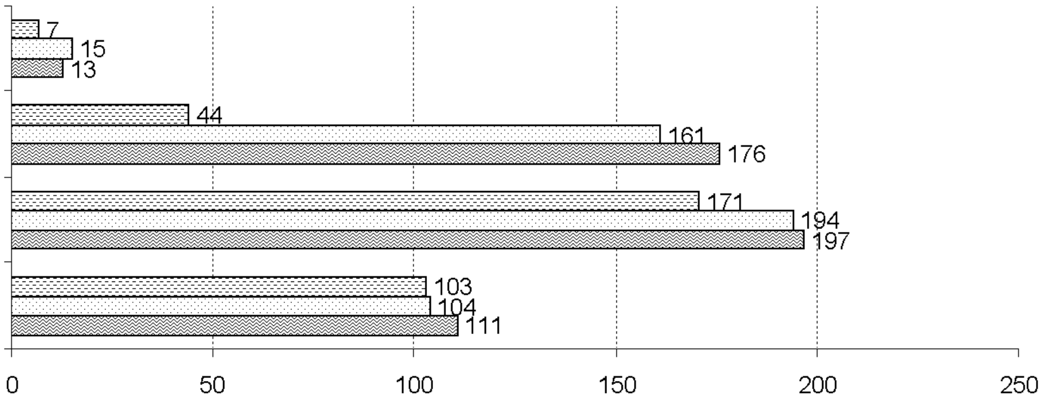

Fig. 2.3. Estimated credit risk for groups of banks, bln. UAH (as of 01.10.2016 for banks that have passed diagnostics)

Source: built by the author based on [23,44]

The Law of Ukraine "On Financial Restructuring", which enables banks and borrowers to restructure monetary liabilities in a short period of time, can give a moderate impetus to the improvement of the quality of the corporate credit portfolio.

Client funds remain the main source of the banks' resource base: the client deposit portfolio accounted for 64% of liabilities, including the funds of individuals - 33.8% (389 billion UAH), the funds of legal entities - 30.2% (348 billion UAH). UAH.). Such a high level of the specific weight of the funds of legal entities and individuals is due to the limited access of banks to other sources of financing - in particular, external debt markets. It is expected that the share of deposits in the liabilities of banks will grow (Fig. 2.3).

In 2015, the aggregate amount of client funds (funds of legal entities and individuals), cleared of changes due to the revaluation of currency funds, increased by 9.6%. After a long period of panic, deposits of individuals in the national currency resumed growth from April 2015 (excluding insolvent banks) and by the end of the year their volume exceeded the pre-crisis level. At the same time, the population's investments in foreign currency decreased until December 2015, and their total outflow during the year amounted to 2.3 billion. dollars equivalent (excluding banks declared insolvent).

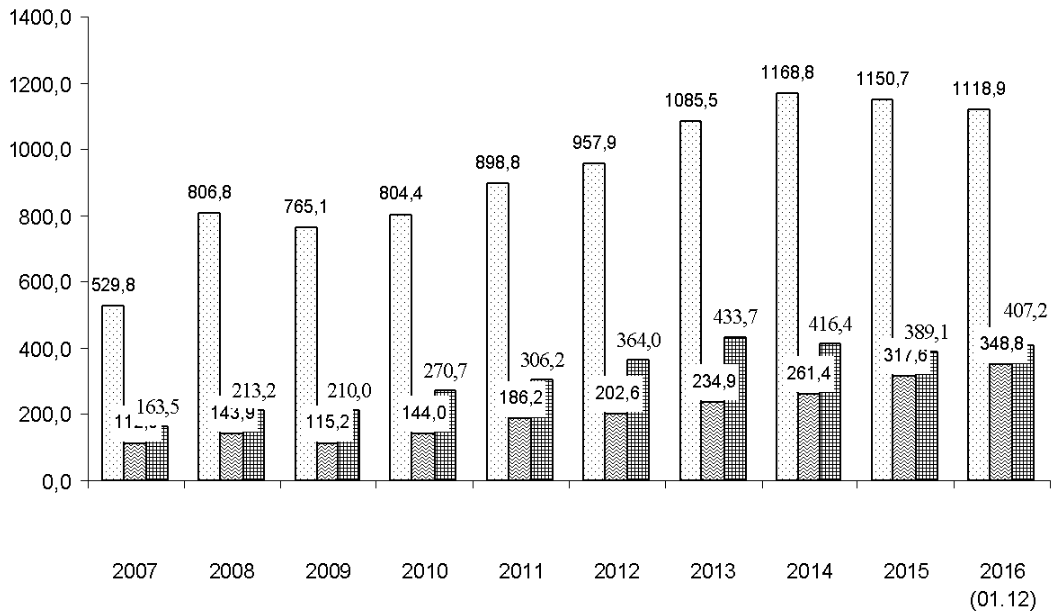

Fig. 2.4. Liabilities of banks in 2017-2016, bln. UAH

Source: built by the author based on [23,44]

In 2015, the banking system received 199.2 bln. UAH income, which is 33.2 bln. UAH more than in 2014.

Interest income remains the main item of income (67.8%). In 2015, in the conditions of restricted lending, banks expanded the range of services and intensified the implementation of banking operations that generate commission income. In 2015, commission income increased by 30.3%, and their share in total income was 14.3%. Compared to 2014, income from trade operations increased by 70.5% to 21.5 billion. UAH., which occurred at the expense of profit from trading operations with derivative financial instruments (increase by UAH 15.7 billion)

According to the results of 2015, the operating banks of Ukraine received a total loss of 66.6 billion. UAH The main reason for the losses was a significant increase in deductions to reserves, which, compared to 2014, increased by one and a half times and amounted to 114.5 billion. UAH (43.1% of all expenses) during 2015. At the same time, the net operating income of banks for 2015 was positive and amounted to 81.5 billion. hryvnias, which indicates the ability of most banks to generate positive net operating cash flows in the future.

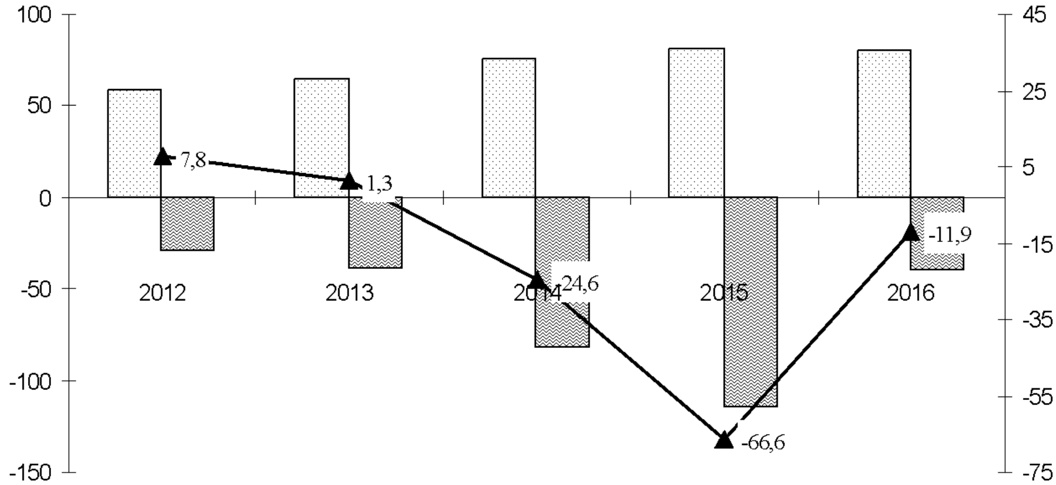

Fig. 2.5. Financial results of solvent banks in 2012-2016

Source: built by the author based on [44]

Since 2014, the National Bank, taking into account world practice, has introduced a regular diagnostic examination of banks to determine additional capital needs of banks. The diagnostic survey consists of two stages - analysis of the quality of bank assets and stress testing. An increase in the capital of banks based on the results of a diagnostic survey strengthens the financial stability of the banking system and creates the necessary basis for the recovery of lending. In

2015, a survey of the largest 20 banks by asset size was conducted. As a result, it was found that 16 of the 20 largest banks needed additional capital. Most of them completed the capitalization and restructuring program agreed with the National Bank ahead of schedule. In 2016, the National Bank will conduct a diagnostic examination of the following 40 banks. Thus, the assets of 60 banks, which collectively account for more than 98% of the banking sector, will be analyzed in detail.

2.2. Analysis of capitalization and results of bank activity as the basis of the stability of the banking sector of Ukraine

Today, in conditions of unstable economic development, one of the problems of the domestic banking system is maintaining its stability and reliability, thanks to which banks can perform their functions of providing the economy with a sufficient amount of financial resources. The experience of countries with a market economy shows that the creation of a stable and efficient economy is possible only if the banking sector is functioning adequately to market relations.

Capitalization is one of the important factors that ensure the possibility of our banking system to have a significant positive impact on the economy, to expand banking services, while avoiding significant risks and, accordingly, maintaining the reliability of the system.

Under such conditions, an unquestionably important task is the further research of the necessary amount of own capital to ensure the reliability, stability and efficiency of the domestic banking system and the substantiation of the main directions for increasing its level of efficiency.

In view of the significant amounts of recapitalization of a number of banking institutions and the exclusion from the procedure of calculating the statistical indicators of banks that have been recognized as insolvent, the amount of equity capital of the banking system of Ukraine during the first half of the year. In 2016, it increased by 27.0 billion. UAH and as of July 1, 2016 is 142.3 billion UAH

Adequacy of regulatory capital as of July 1, 2016. slightly differs from the marginally established minimum (10%) and amounts to 11% (Fig. 2.6).

During the first half. In 2016, 35 banking institutions increased their authorized capital by a total of 65.2 billion. UAH (Table 2.2). It should be noted that the shareholders of all groups increased the authorized capital mainly for the purpose of supporting their own business.

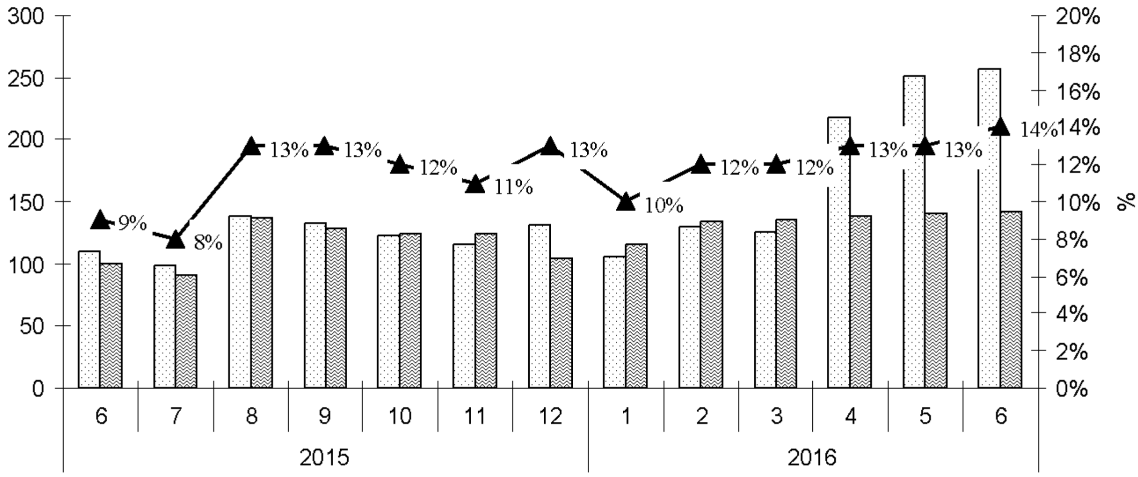

Fig. 2.6. Dynamics of the main indicators of the equity capital of Ukrainian banks in 2015-2016

Source: built by the author based on [44]

In accordance with the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Prevention of Negative Impact on the Stability of the Banking System" dated July 4, 2014. No. 1586-VII, the minimum amount of authorized capital at the time of state registration of a legal entity intending to carry out banking activities was increased from 120 million UAH up to 500 million UAH

In order to fulfill the provisions of the Law, the National Bank of Ukraine has developed a schedule for gradually bringing the authorized capital into compliance with the requirements, namely to an amount not less than:

120 million hryvnias - until June 17, 2016;

200 million hryvnias - until July 11, 2017;

300 million hryvnias - until July 11, 2018;

400 million hryvnias - until July 11, 2019;

450 million hryvnias - until July 11, 2020;

500 million hryvnias - until July 11, 2024.

According to the regulator's reports, as of the beginning of 2016, 19 banking institutions operated in Ukraine, the amount of which was less than 120 million authorized capital. UAH As a result of the first half of In 2016, the number of such institutions decreased to six.

According to the approved schedule for increasing the minimum authorized capital, by July 11, 2017, Ukrainian banks must register authorized capital of at least 200 million. UAH According to the results of the first half of 2016, the number of banks whose authorized capital is less than this mark is 51.

Given that not all banking institutions will be able to fulfill the schedule for increasing the amount of authorized capital, it is worth expecting that some of the institutions will decide to merge with other players on the market, or to cease operations and liquidation.

Listed in the table. 2.2 data indicate that since the beginning of 2016, the total amount of recapitalization of banks in Ukraine amounted to more than 65 billion. hryvnias, which, according to domestic legislation, is evidence of an increase in the level of stability of the banking system of Ukraine.

Table 2.2

Banks that changed the amount of authorized capital within 6 months. 2016, mln. UAH

No	Name of the bank	01.01.2016	07/01/2016	Change in 6 months. of 2016
1	2	3	4	5
Banks with a state share				
1	AT "Oschadbank"	29,901	34,857	4,956
2	AT "Ukreximbank"	21,689	31 008	9,319
Banks with foreign capital				
3	PJSC "Prominvestbank"	19011	39,011	20,000
4	PJSC "VTB Bank"	25,316	34,216	8,900
5	PJSC "Sberbank"	8 172	12465	4,293

6	PJSC "Ukrsotsbank"	7,866	11,666	3,800
7	Alfa-Bank PJSC	4,639	7 401	2,761
8	JSC "OTP Bank"	3,668	6186	2,518
9	AT "Raiffeisen Bank Aval"	3 003	6 155	3152
10	AT "UkrSybbank"	1 774	5,069	3,295
11	PJSC "Kredobank"	1 919	2 249	330
12	JSC "ProCredit Bank"	419	752	333
13	Citibank PJSC	67	120	54
Banks with private Ukrainian capital				
14	Bank Credit Dnipro PJSC	835	1 521	686
15	AT "Fortuna-Bank"	365	465	100
16	PJSC "Transitional Bank "RVS Bank"	122	300	179
17	PJSC "AKB" Lviv"	258	273	15
18	Bank Avangard PJSC	137	162	26
19	PJSC "MIB"	136	162	25
20	Poltava Bank PJSC	120	155	35
21	PJSC "AKB Trust-Capital" PJSC	63	150	87
22	"EUROPROMBANK"	120	145	25
23	PJSC "Creditvest BANK"	103	136	33
24	Radabank AB PJSC	120	131	11
25	Bank Alliance PJSC	65	130	65
26	JSC "KIB"	112	129	16
27	PJSC "AGROKOMBANK"	102	122	20
28	PJSC BANK UKRAINE CAPITAL	81	121	40
29	Policombank	80	120	40
30	AT "MetaBank"	110	120	10
31	PJSC CB "Accordbank"	96	120	24
32	JSC "Artem-Bank"	86	120	34
33	Bank Trust PJSC	69	120	51
34	PJSC "MOTOR-BANK"	120	81	-39
35	AT "Region Bank"	56	65	8
	In total	-	-	65,200

Source: calculated by the author based on [44]

At the same time, it is worth noting that despite the requirements of the National Bank of Ukraine regarding the recapitalization of equity capital, some domestic banks have still not fulfilled the regulator's requirements regarding the recapitalization of equity capital to the legally established level of at least 120 million. UAH

Table 2.3 contains a list of 8 banking institutions that are officially considered solvent (they have not been placed under temporary administration), but have the smallest equity capital in the system, which also does not meet the requirements for the minimum amount of equity capital.

Table 2.3

Banks with own capital ≤ UAH 120 million as of October 1, 2016

Banks with the smallest amount of equity capital (< UAH 120 million)	The value of the indicator, million hryvnias
PJSC "APEX-BANK"	84.667
JSC "ARTEM-BANK"	-179.3
JSC "REGION-BANK"	98.885
PJSC "BANK FAMILY"	81.409
AKB "NOVY"	88.926
PJSC "PtB"	-162.539
Ukrainian Bank for Reconstruction and Development	61.174

Source: summarized by the author based on [44]

In fig. 2.7 provides comparative data of the IMF by country regarding indicators of financial stability according to the indicator "Ratio of regulatory capital to risk-weighted assets" as of the end of 2015. The highest indicators of regulatory capital adequacy are observed in Estonia, Ireland, Lithuania, Sweden and Luxembourg.

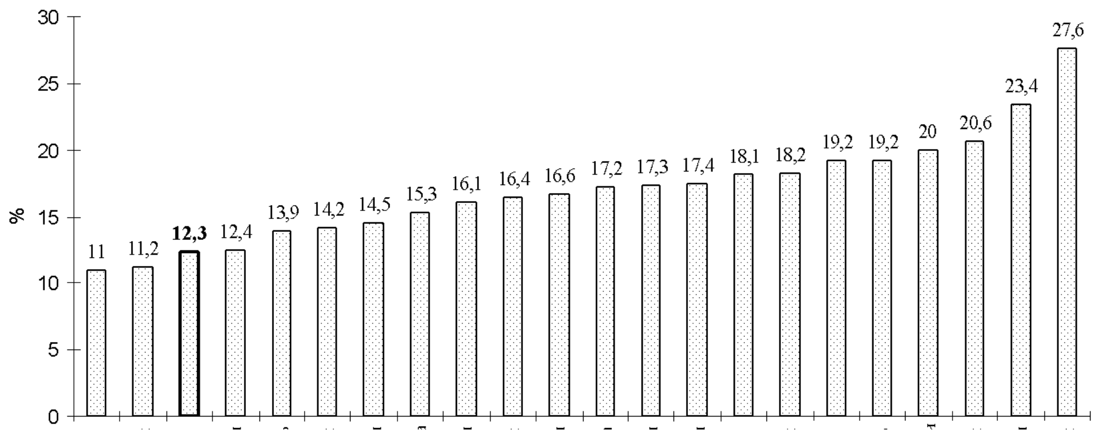

Fig. 2.7. Norm of sufficiency (adequacy) of regulatory capital by European countries at the end of 2015, % [65]

The group of small banks is the most stable element of the banking system in terms of capital adequacy. The analysis of the dynamics of the capital adequacy ratio in the banking system of Ukraine by bank groups showed that the H2 ratio in most small and medium-sized banks, for which demands are made to increase capitalization, is higher than the legally established minimum level of 10%. Therefore, there is an illogical need to recapitalize banks that already have a significant capital buffer.

Analysis of compliance with standard H2 as of January 1, 2016. indicates that none of the banks of the IV group did not violate the standard H2, moreover, the value of the capital adequacy indicator of this group is 2-4 times higher than its value for the group of large banks. As for medium-sized banks, only one bank of the III group (PJSC "PtB") had a sufficiency rate lower than the standard (6.81%). An analysis of the financial results of small banks shows that only banks of the IV group were able to obtain more than 800 million in extremely difficult conditions. UAH profit (all other groups of banks had losses).

Analysis of compliance with the H2 standard by banks of the I and II groups, which have a large authorized capital, indicates significant problems with the ability of individual banks to settle their obligations in a timely manner and in full. On 01.01.2016 the following banks of these groups had problems with compliance with the H2 standard:

PJSC "Prominvestbank" - 7.05%

PJSC "Sberbank" - 6.79%

PJSC "Alfa Bank" - 5.75%

PJSC "Fidobank" - 8.71% and others

So, as a result of the analysis of capitalization indicators of domestic banks, the following can be noted: according to the results of 9 months of the current year, 35 out of 100 solvent banks were unprofitable. In 2015, there were 46 such banks out of 117. The number of banks that suffered an operating loss before the formation of reserves halved. The number of banks that showed negative net interest income decreased from 7 to 4 during the year.

During 2016, according to the results of the diagnostic survey, the banks had a capital deficit, they carried out capitalization in accordance with the programs agreed with the National Bank. The authorized capital has increased by almost a quarter since the beginning of the year, in particular as a result of the conversion of subordinated debt. The volume of the latter, which is taken into account in the regulatory capital, decreased by 46% in 9 months of 2016, and its specific weight was halved from 38% to 19%.

The capital adequacy ratio began to grow. Capital is currently unevenly distributed: there are banks in the market that need additional capital, and those that have a surplus of it. Most likely, the capital adequacy ratio for the system will decrease slightly in the first half of 2017 after the banks of the second and third twenties bring the reserves in line with the results of the diagnostic examination, and the credit risk assessment - with the requirements of the new Regulation.

As for the financial results of domestic banks, which, along with their capitalization, also significantly affect the stability of the banking system of Ukraine, according to the results of the first half. In 2016, the revenues of Ukrainian banks decreased by 56.4% and amounted to 88.0 billion. UAH, expenses increased by 18.6% to UAH 97.2 billion. UAH The financial result of the banking system of Ukraine at the end of the year was negative and as of July 1, 2016 amounted to (-)9.2 billion. UAH (-)82.0 billion UAH according to the results of the first half of 2015) (table 2.4).

Table 2.4

The main indicators of the results of the banking system of Ukraine for 2014-2016, mln. UAH

Indicator	01.01. 2014	01.01. 2015	01.04. 2015	01.07. 2015	01.10. 2015	01.01. 2016	01.04. 2016	01.07. 2016
Net interest income	49,051	54,086	13,037	28,027	38,840	39,066	10,217	21,490
Net commission income	20,999	23,387	7,292	12,405	16,996	22,568	5,668	11,348
Result from trading operations	3 304	15,511	20,831	13 005	10,680	21,490	-3 769	-1 837
Net operating income from core activities	73,354	92,984	41 160	53 437	66,516	83 124	12 116	31 001

Net other operating income	-7 207	-5 486	731	-322	-1 704	-3 424	266	-1 799
Net operating income	66 147	87,498	41,891	53 115	64,812	79,700	12,382	29,202
Another income	5,566	5,064	1 204	2,871	3,516	4,577	880	2 129
General administrative expenses	40,672	44,614	9,819	19,309	27,212	36,742	9 170	18,453
Deduction to reserves	27,975	103,297	114,312	118,450	92,995	114,541	11,335	783
Income tax	1,630	-2 383	-144	-201	-349	-406	309	20,432
Financial result of the current year	1 436	-52,966	-80,892	-81,572	-51,530	-66,600	-7,552	-8 337
Activity efficiency factor	138.43 %	154.48 %	312.81 %	202.87 %	183.54%	167.14 %	102.18 %	129.95%
General administrative expenses/gross income	24.08%	21.22%	12.67%	16.11%	17.73%	18.45%	21.43%	2181.21 %
ROA	0.12%	-4.07%	-22.29%	-11.74%	-11.74%	-5.46%	-2.48%	-2.48%
ROE	0.81%	-30.46%	-285.94 %	-157.93 %	-157.93 %	-51.91%	-26.56%	-26.56%

Source: built by the author based on [44]

The decrease in income in the first half of 2016 compared to the corresponding period last year is primarily related to the receipt of losses from trade operations (at the expense of losses from trading in foreign currency and bank metals) and the reduction of interest income, the volume of which compared to the corresponding period last year decreased by 12.5 billion. UAH and as of July 1, 2016 corresponded to 69.5 bln. UAH

In the first half of 2016, compared to the same period of 2015, the amount of deductions to reserves decreased significantly, the amount of which decreased by 102.7 times and amounted to 783 million. UAH (according to the results of the first half of 2015 – UAH 118.5 billion)

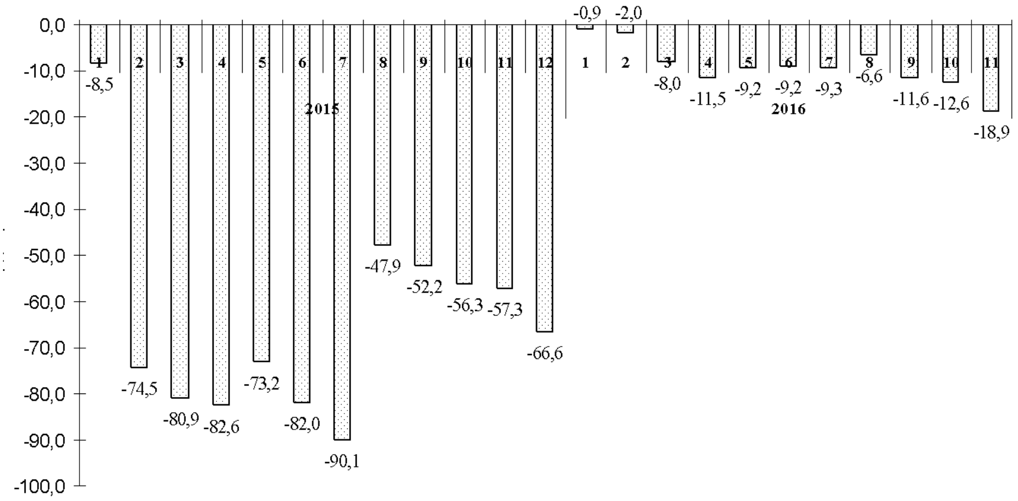

Fig. 2.8. The result of the banking system of Ukraine in 2015-2016, billion UAH

Source: built by the author based on [44]

It is worth noting that the volume of losses of the banking system of Ukraine in the first half of 2016 is significantly lower than the indicators of the same months of 2015, mainly due to the reduction of costs for the formation of reserves and the withdrawal of a significant number of banking institutions, especially large ones, from the market (Fig. 2.8).

According to the results of the first half of 2016 30 out of 101 functioning banks suffered losses totaling 15.9 billion. UAH

Other banking institutions that ended the reporting period with a positive result received a total of 6.7 billion. UAH profit.

The most unprofitable according to the results of the first half. 2016 were Russian VTB BANK, Prominvestbank and SBERBANK (Fig. 2.8). On the top 3 most unprofitable banking institutions as a result of 6 months. 2016 accounted for 69% of the total loss received by the banking system of Ukraine.

Among the most profitable banks last year were exclusively foreign financial institutions - Citibank, ING Bank Ukraine and Credit Agricole. According to the results of the first half. 2016 banking institutions of foreign banking groups - Raiffeisen Bank Aval, ALFA-BANK and CITIBANK - also received the biggest profits. The top 3 most profitable banks in the last 6 months. 2016 accounted for 53% of the total profit received by the banking system of Ukraine.

In 2017, the banking sector reached a profitable level. Formation of reserves by the largest banks is almost complete. Therefore, the vast majority of negative effects of the current crisis are already reflected in financial statements. Gradual growth of loan portfolios will increase net interest income. Individual banks will still have problems with operational efficiency, and their deductions to reserves may at times exceed operating profit. Nevertheless, the sector as a whole should become profitable in 2017.

2.3. Research of modern methods of maintaining the financial stability of banks

The stability of the banking system is of particular interest to the National Bank of Ukraine, which is due to its main function. According to the Law of Ukraine "On the National Bank of Ukraine", the regulator promotes financial stability, including the stability of the banking system, within the limits of its powers, provided that this does not prevent the achievement and maintenance of price stability in the state.

Financial stability is closely related to the National Bank's priority task of maintaining price stability. The banking system plays a key role in transmitting monetary impulses to the real sector of the economy, thereby making a significant contribution to ensuring sustainable economic growth.

In Ukraine, in order to ensure the stability of the banking system, the Decree of the President of Ukraine "On the Financial Stability Council" dated March 24, 2015 No. 170/2015 established the Financial Stability Council. The creation of the Financial Stability Council (hereinafter referred to as the Financial Stability Board) was preceded by a long period of careful study of the global experience of the formation and functioning of similar bodies in developed countries, discussion and consultation with experts from the World Bank and other international institutions.

In the process of creating the Financial Stability Board in Ukraine, the key recommendations of the European Systemic Risk Board (ESRB) were taken into account, according to which:

the main tasks include the analysis, monitoring and prevention of systemic risks that threaten the stability of the financial system;

the interdepartmental body should not interfere with the powers of member institutions;

it is necessary to ensure proper exchange of information (data) between participants;

the central bank should play a leading role given its experience and existing powers in the field of financial stability.

During the creation of the Council, the experience of the practical work of interdepartmental bodies of other countries was taken into account, including such procedural aspects as the principles of chairmanship and powers of participants, frequency of meetings, quorum and voting rules, disclosure of information, etc. The vast majority of financial stability bodies publish press releases based on meeting results and annual reports on their activities.

The main tasks, powers, composition and principles of the organization of the RFS are defined in the Regulation on the Council, approved by the Presidential Decree; specific procedural issues are in the Regulations of the Council.

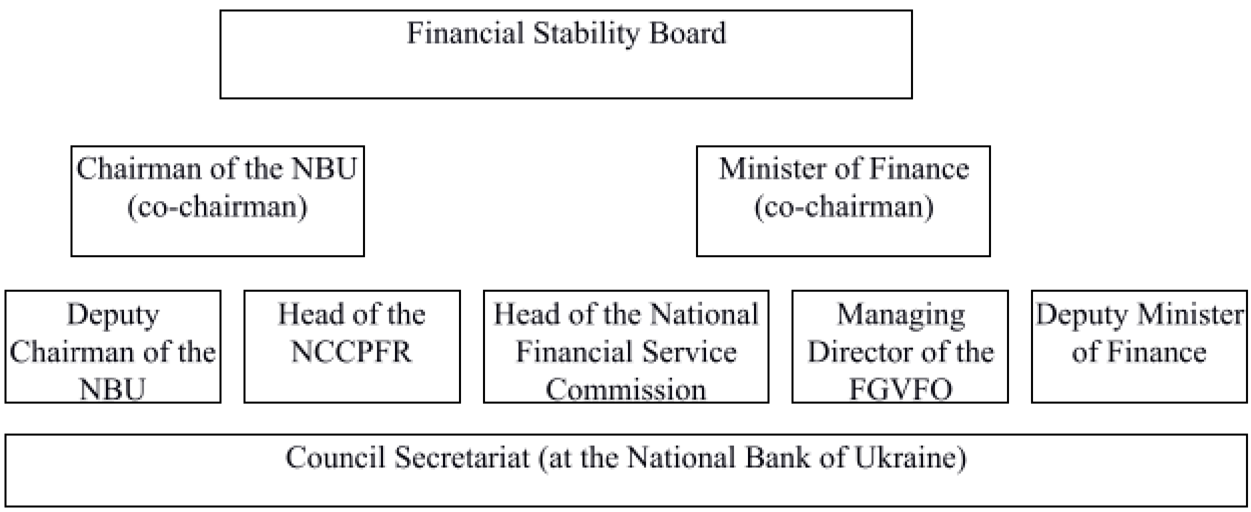

Fig. 2.9. Structure of the Financial Stability Board [24]

The Council functions on the same basis as similar interdepartmental bodies for the financial stability of European countries:

it includes heads of all regulators of the financial sector, which ensures a holistic understanding of the processes and systemic risks that threaten it. Such a high level of representation makes it possible to quickly make effective decisions if necessary. The absence of political figures in the composition of the Council promotes professional discussion and minimizes political influence in the process of discussions and decision-making;

the work of the Council is built on the principles of a platform for discussions, where everyone shares available information, as well as their own vision of threats and ways to neutralize them;

all decisions/arrangements are advisory in nature. The principle of "perform or explain" applies;

press releases are published based on the results of Council meetings. This Report is another step in communications with society about the tasks and results of the Council's activities;

meetings are held quarterly or out of turn if necessary;

informational, analytical and administrative support for the activities of the Council is provided by the secretariat within the Department of Financial Stability of the National Bank of Ukraine.

The Council, in accordance with the functions assigned to it:

identifies, analyzes, evaluates and monitors current and potential threats and systemic risks to the financial system of the state;

prepares recommendations for minimizing systemic risks that threaten financial stability;

develops effective mechanisms of cooperation and coordination of actions to ensure the financial stability of the state, etc.

In addition, the Council's powers include confirmation of the presence of signs of an unstable financial state of the banking system, as well as circumstances that threaten the stability of the financial system of Ukraine.

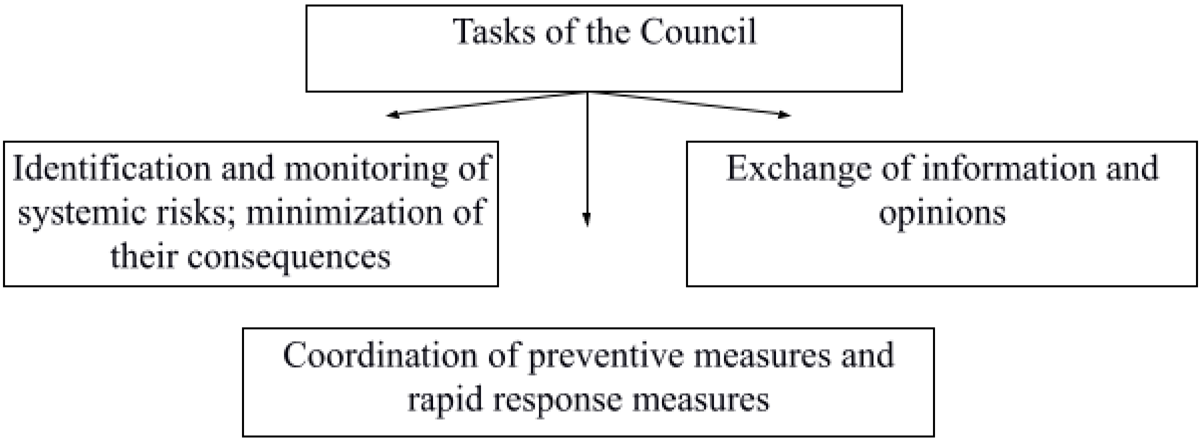

Fig. 2.10. The main tasks of the Financial Stability Board [24]

Such a decision gives the National Bank the right, if necessary, to determine temporary features of regulation and supervision of banks, including introducing restrictions on their activities, extending the effect of other anti-crisis measures, etc.

The first meeting of the Council was held on April 27, 2015. During the year of work, the Council held 6 meetings, including two extraordinary meetings, as there was a need to urgently discuss issues that created risks for the financial sector.

At each meeting of the Council, the National Bank provided an overview of the risks that threatened the stability of the financial system of Ukraine.

Table 2.5

Evolution of systemic risks in Ukraine [23]

	II quarter 2015	III quarter 2015	IV quarter 2015	1 sq. 2016
World economy	↑	↑	↑	→
External demand	↑	↑	↑	→
Economic conditions	→	↓	↓	→
State finances	→	↑	↑	↑
Foreign exchange market	→	↓	↑	↑
Geopolitics	→	↓	→	↑

Note: An assessment of the main sources of risk that have changed in the last quarter and the outlook for the next quarter. Arrows up - increased risk; down arrows - risk reduction.

Global economy: during the year, global financial markets experienced turbulence - there were several episodes of falling stock markets, devaluation of currencies of new market economies. The global economic recovery is slow primarily due to the slowdown in China's economy.

External demand: the slowdown in global economic growth caused a drop in demand and prices for raw materials and semi-finished products, including on the main export products of Ukraine. Obstacles to trade from Russia became an additional negative factor for Ukrainian exports. In February-March 2016, external conditions became more favorable.

State finances: the estimates were dominated by uncertainty regarding the prospects of public debt restructuring (the first half of the year), the adoption of the budget for 2016 and the budget reform, as well as their consequences.

Economic conditions: risks decreased against the background of the gradual cessation of the fall and the beginning of a positive trend in GDP; inhibition of inflationary processes. However, the first manifestations of general macroeconomic stabilization are still fragile.

Foreign exchange market: the market was under the pressure of low export earnings. Episodes of stability were primarily explained by administrative measures of the National Bank of Ukraine. The pause in cooperation with the IMF since August 2015 added to negative expectations.

Geopolitics: after a period of relative stabilization thanks to the Minsk agreements, the situation in eastern Ukraine escalated again at the beginning of the new year. The continuation of Russian aggression conditions the atmosphere of uncertainty and creates negative expectations of business and the population.

As part of the first stage of the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2020, the regulators' efforts were aimed at solving the problems that have accumulated in the financial system over the years, primarily at cleaning the sector from insolvent institutions, the stock market - from "junk" assets; establishing uniform rules of the game and increasing transparency for all participants.

Market clearing takes place:

from insolvent participants - by strengthening supervision of compliance and/or improvement of prudential standards, declaring market participants insolvent; revocation of licenses and/or permits to carry out relevant activities;

from inefficient financial instruments on the stock market - by introducing new requirements for listing and more balanced and strict criteria for fictitiousness of issuers of securities;

from "dubious" participants - by increasing the requirements for the ownership structure and its disclosure; manipulators - through increased responsibility and granting of powers regarding investigation (proof).

The 2016 banking sector cleanup phase has been completed. The stage of restarting and laying the foundation for the future growth of the financial market is beginning, which will require further strengthening of the coordination of the actions of the regulators.

The members of the Financial Stability Council supported the cooperation of financial regulators in the context of cleaning up various segments of the financial sector, in particular, the withdrawal from the market of scheme, captive, insolvent banks and "junk" securities.

Therefore, during 2016, the systemic risks of the Ukrainian financial sector decreased. The situation in the banking sector stabilized thanks to the restoration of the funding base, the recognition of the real quality of assets and the implementation of recapitalization programs by almost all large banks. Most of the problems of the past, which prevented the healthy development of the banking system, have been overcome, and banks have enough capital and liquidity to resume lending to the economy.

The main risk for financial stability in the short term is the failure of individual large banks to implement capitalization programs based on the results of a diagnostic survey. Realization of this risk will require immediate, tough, coordinated actions by the National Bank of Ukraine and the government. Solving the capital shortage problems of large banks is necessary to ensure the stability of the financial sector in the long term.

The macroeconomic environment outside and inside the country has been favorable for the financial sector over the past year. GDP growth has resumed, inflation is under control, and is within the target guideline set by the National Bank of Ukraine. In the fiscal sector, the deficit of public finances has been significantly reduced, primarily thanks to a smaller quasi-fiscal component.

The key medium-term risks remain the possibility of escalation of Russian aggression in the east of Ukraine, the slow pace of structural reforms, the slow growth rates of the economies of trading partners, and delays in cooperation with international financial organizations, primarily with the IMF.

Continuing cooperation with international financial organizations is a critical prerequisite for financial stability. Attempts to replace financing from official sources with funds from private capital markets through the sale of Eurobonds already in 2017 will indicate a decrease in the authorities' interest in reforms. Experience shows that the termination of cooperation with MFIs inevitably leads to long interruptions in economic transformations. Full implementation of the IMF program should be a key task for all authorities. Delays in the provision of tranches will inevitably lead to a reduction in the gold and foreign exchange reserves of the

National Bank of Ukraine and will reduce the confidence of the population and businesses in the stability of the foreign exchange market and price stability.

This year, the National Bank of Ukraine completed a diagnostic survey of 60 largest banks and determined recapitalization schedules. The diagnosis of the state of lending by banks to related parties is coming to an end. Thus, in the near future, the National Bank of Ukraine will complete the largest and most detailed audit of the state of bank assets in the entire history of independent Ukraine. It lays the foundation for the development of a well-capitalized and liquid sector that will effectively perform the functions of financial intermediation.

Funding of the banking sector was stable due to the return of deposits of the population and the inflow of business funds. Businesses are increasing their account balances due to the revival of economic activity and rising profits. Growth rates of household deposits were moderate due to the low propensity to save in the crisis and post-crisis period. According to the expectations of the National Bank of Ukraine, the growth of deposits in 2017 will accelerate slightly compared to the pace of the current year.

The restoration of lending is the key task of the banking sector for 2017. Thanks to the growing economy, many businesses have increased sales and improved profitability. It is expected that most companies will be able to normalize their debt load over the next year and start raising new loans. The most attractive for lending are industries focused on domestic demand, as well as small, medium and micro businesses that have a moderate debt load. Competition for quality borrowers will remain fierce both in terms of price and quality. The cost of credit resources will decrease: in the absence of significant risks to price stability, the National Bank of Ukraine will reduce the key interest rate in 2017.

In order to improve the credit risk assessment methodology of the National Bank of Ukraine, a new resolution on credit risk assessment No. 351 was adopted, which will enter into force at the beginning of 2017. It introduces a number of innovations.

An approach to credit risk assessment based on the concept of expected losses over a 12-month period was introduced. The key criterion for assessing expected losses will be the financial condition of borrowers. Previously, the assessment of the Kyrgyz Republic was mainly based on the current state of debt service, which enabled some banks to lend to financially insolvent and non-independent companies, secretly accumulating significant credit risks. A change in the approach will help timely identify the counterparty's CR and force banks to reflect it through capital;

the "Basel" formula for calculating the size of the KR was introduced:

$$CR = PD \cdot [EAD - (ColVAdj + RC)], \quad (2.1)$$

where PD is the probability of debtor default,

EAD - borrower's debt,

ColVAdj – collateral value adjusted for liquidity factors,

RC - other income.

This formula is equivalent to the classical formula $EL = PD \cdot LGD \cdot EAD$.

Previously, the formula was used: $CR = PD \cdot EAD - ColVAdj$, which led to an underestimation of the CR, since in case of exceeding the value of the collateral over the debt, weighted by the probability of default, the reserve was not formed at all.

revised model for assessing the financial condition of the debtor - a legal entity for calculating the KR on an individual basis. Such loans account for about 99% of the total loan portfolio of legal entities. Model10 took into account the financial statements of borrowers for the period 2012-2014, that is, it included both crisis and pre-crisis periods;

the concept of a default event is introduced and the signs of its occurrence are defined, which requires the bank to determine the counterparty's credit risk with a level of PD = 100%. The PD curve was also re-estimated based on the average PD value over the past five years;

the list of signs of high credit risk of the borrower has been expanded. The presence of such signs obliges banks to lower the borrower's financial class, regardless of the assessment based on the scoring model;

changes were made to the list of acceptable collateral. For example, property rights to other property, in particular to future revenue, may no longer be acceptable security;

it is allowed to adjust the financial class of an individual borrower taking into account the financial condition of the group to which he belongs, which will encourage banks to more fully disclose information about enterprise groups that include individual borrower companies;

banks are given the right to use their own judgment when assessing the level of credit risk. This will make it impossible for banks not to recognize the level of credit risk based on formal requirements.

In Ukraine, there is a Law of Ukraine "On Financial Restructuring", which provides for the use, among other things, of voluntary extrajudicial debt restructuring, in the process of which credit terms are changed so that a viable borrower can restore solvency. This makes it possible to avoid the inevitable expenditure of time and resources on litigation if the debt is restructured according to general rules.

The instrument of extrajudicial voluntary restructuring provides an opportunity for banks and borrowers to agree on new terms of the loan, which will enable the enterprise to resume full-fledged activities. A similar practice was common in Asian countries after the crisis of the 1990s. It combined the principles of the London Approach and INSOL. As of 2003, Thailand had restructured 48% of corporate debt, South Korea 95%, Indonesia 56% and Malaysia 77%. In Turkey, after the currency crisis of 2001, the Istanbul Approach was implemented, within the framework of which the main attention was paid to the debts of large companies. As a result, as of August 2003, the debts of 220 Turkish companies in the amount of 5 billion dollars were restructured. USA. In the countries of Southeast Europe (Romania, Serbia, Slovenia, Croatia), similar voluntary restructuring mechanisms were introduced in 2010-2015.

In Ukraine, the need to restructure loans arose due to the 2008 crisis, and during the last two years it has become particularly acute. According to the diagnostics carried out by the National Bank of Ukraine, the share of problem loans in the portfolio of banks is about 53%. Law of Ukraine No. 1414-VIII "On Financial Restructuring", which entered into force on October 19, 2016, created mechanisms to meet this need. It is the result of a consensus of financial market participants and experts of the World Bank, EBRD, and IMF and incorporates the best global practices. The law does not define the parameters of restructuring plans, the size of interest rates, or the amount of liabilities to be restructured, leaving these issues entirely at the discretion of creditors and borrowers.

The law has the following advantages and creates the following opportunities:

helps bona fide corporate borrowers who are viable and may become solvent in the future, but have temporary debt service difficulties, to restructure their obligations within a few months. Debtors in a critical financial situation can reduce bankruptcy risks and restore solvency;

obliges all creditors who have agreed to restructure the debts of a certain borrower to coordinate their actions. This eliminates competition between creditors to be the first to recover their funds, even if the borrower is subsequently declared bankrupt. At the beginning of the restructuring procedure, a moratorium is introduced on the debtor's fulfillment of creditors' demands;

determines that both state banks and the FSVFO can restructure loans (on behalf of banks with temporary administration or those in the process of liquidation). The Law "On Financial Restructuring" actually establishes an exception to Article 53 of the Law of Ukraine "On Banks and Banking Activities", which prohibits setting interest rates lower than the cost of banking services in this bank. This allows banks to change the terms of the loan in the restructuring process so that the debtor becomes able to fulfill them during the crisis. This opportunity is especially important for state-owned banks and FGVFO, which could not carry out restructuring on realistic terms.

The body that coordinates the organization and implementation of the restructuring is the Supervisory Board, which creates the secretariat and the arbitration committee. It also supervises and provides methodological support for the restructuring process. The role of these bodies in promoting the process is extremely important, considering the fact that there is no restructuring culture in Ukraine, and between borrowers and creditors there is often a lack of trust and movement towards each other. Therefore, without the full-fledged work of the mentioned bodies, free from the influence of the political situation and narrow corporate interests, financial restructuring will not be effective.

The main change in banking regulation next year will be the transition to new rules for assessing credit risks in accordance with Resolution of the National Bank of Ukraine No. 351. The new approach introduces risk assessment based on losses expected over the next 12 months, and also eliminates a number of loopholes in the current regulation that gave banks the possibility to avoid recognition of credit risk, adequate quality of assets. According to the calculations of the National Bank of Ukraine, credit risk assessment according to the new rules will give results very close to those obtained in the diagnostic examination process. The new rules will help prepare banks for the timely and full implementation of the new financial reporting standard IFRS 9 (financial instruments) from the beginning of 2018.

During the first half of 2017, the National Bank of Ukraine plans to publish a macroprudential strategy and a roadmap for the harmonization of banking regulation rules with the recommendations of the Basel Committee and EU directives. A new tool for emergency liquidity support (ELA) of banks will also be introduced to replace the current mechanism of stabilization loans. In addition, the National Bank of Ukraine will also complete the development of a new LCR (liquidity coverage ratio) liquidity standard in accordance with the Basel III recommendation and implement it.

CHAPTER 3
WAYS TO ENSURE THE FINANCIAL STABILITY OF BANKS IN UKRAINE

3.1. Priority directions for ensuring the financial stability of the banking system of Ukraine

At the current stage of development, the financial sector is gaining more and more importance, as it acts not only as a sphere through which financial resources are redistributed between donor and recipient entities, but also acts as the epicenter of the expansion of destructive processes to other sectors of the economy. In this regard, the problem of ensuring the stability of the financial system and, above all, the financial stability of the banking sector is one of the most urgent problems of our time, which makes it necessary to study the world experience of ways and directions of ensuring the financial stability of banks in order to identify the most optimal of them.

Looking back at the problems of ensuring the stability of the financial sector, it is worth noting that at the end of the 90s of the 20th century. in foreign and domestic scientific publications, a rather heated discussion began regarding the principles, evaluation indicators and indicators of the stability of the financial sector, as well as its individual components - the banking system and capital markets. Financial and economic crises, which were observed throughout the 20th century in various countries of the world, led to the need for comprehensive research and development of appropriate measures and methods of forecasting, crisis prevention, as well as ways out of them [60, p. 245].

So, after the Asian crisis in 1999. At a meeting in Bonn, the Financial Stability Forum (FSF) was created by finance ministers and heads of central banks of the G7 countries. The Financial Stability Forum focused on financial and prudential supervision, coordination of actions and exchange of information in this area [52, p. 172-175].

The Financial Stability Forum brought together: national bodies responsible for the financial stability of major international financial centers; international associations of regulatory and supervisory bodies engaged in the development of standards and codes of good practice, international financial institutions entrusted with the supervision of domestic and international financial monitoring systems; expert committees of central banks [80, p. 18].

The tasks of the Financial Stability Forum were to increase the efficiency of the functioning of financial markets and reduce systemic risk by intensifying the exchange of information and international cooperation between institutions and state bodies responsible for supporting financial stability.

In April 2009, the Financial Stability Council was created as a successor to the Financial Stability Forum (FSF), with the aim of developing international standards and coordinating the work of the financial authorities of states at the international level [45].

The main goals of the Financial Stability Council were to develop and promote the implementation of effective methods of regulation, supervision and other strategies for the development of the financial sector; promoting coordination and information exchange between authorities responsible for financial stability; advising and monitoring best practices in achieving regulatory standards.

At the moment, programs to ensure the financial stability of the financial and banking sectors are implemented in almost all countries of the world. Considering the global experience of ensuring the financial stability of the banking system, it should be divided into the following directions (Fig. 3.1).

The study of the institutional structure of the state provision of financial stability of the financial sector and banks is an important area of study of world experience. Analysis of the construction of the system of macroprudential regulation with the selection of the main structures, models of the organization of relationships between authorities, a list of indicators and tools that, in the end, ensure the financial stability of the banking system will allow to highlight key aspects that can be useful for Ukraine in the process of institutional development of the system ensuring the financial stability of the banking system.

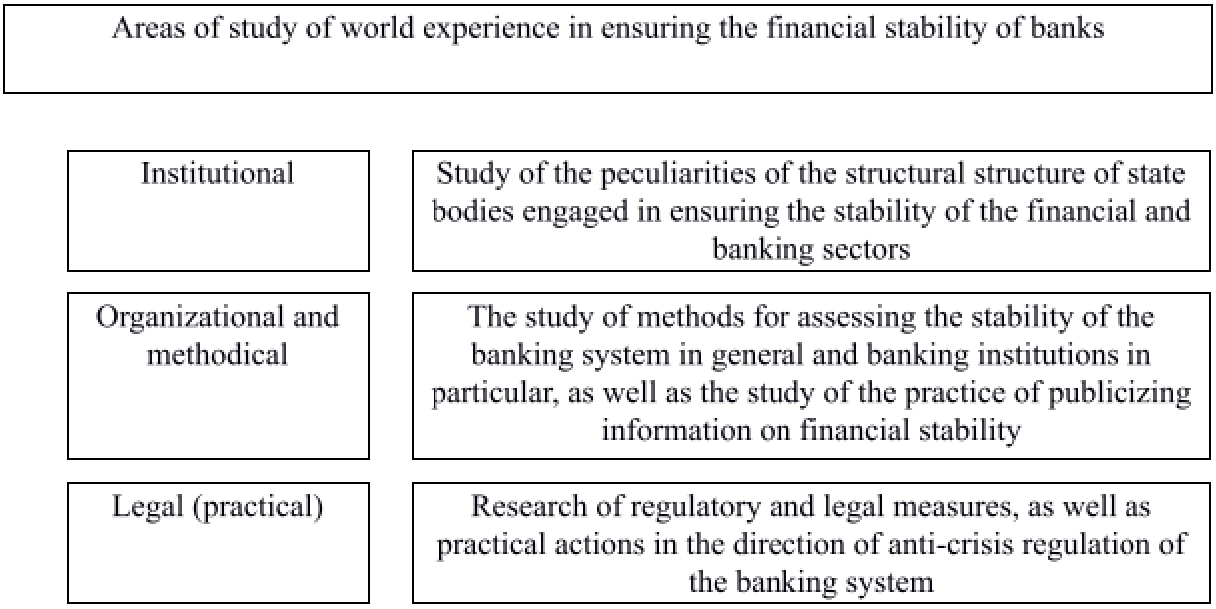

Fig. 3.1. Areas of study of world experience in ensuring the financial stability of banks

Source: developed by the author based on [33,54,52,53,67]

In global practice, one of the key elements of reforming the system of banking regulation and supervision in response to the latest financial crisis is the focus on a macroprudential approach [47, p. 125-129].

International organizations often use the following definition of macroprudential regulation: "this is the concept of the policy of state bodies in relation to the prevention and overcoming of financial instability and the prevention of negative consequences" [76].

Depending on the specific goals of macroprudential regulation, a set of indicators is selected. The European Central Bank distinguishes three categories:

indicators of stability (sustainability) of the banking system (borrowing dynamics, competitive conditions, liquidity indicators, risk concentration, asset quality, profitability, availability of capital buffers, market assessment);

macroeconomic factors affecting the banking system (income level, leverage, debt ratios, asset prices, monetary policy and external position of the country and/or the EU);

factors of sensitivity to shocks in other sectors, countries, regions [81, c. 23].

Although the level of harmonization of standards within the EU is quite high, the possibility of comparing indicators among members of the union is complicated by the difference in accounting and reservation norms.

Since 2011 The European Union is building the European system of financial supervision, which includes regulators of individual segments of the financial sector (Fig. 3.2).

The last of the created bodies was the European Council of Systemic Risks, which is entrusted with the following functions: detection, assessment and reduction of vulnerabilities arising from the interdependence of financial market elements, as well as macroeconomic and structural changes. It is believed that the main advantage of the new regulatory body will be the possibility of quick adaptation and flexibility of response.

The Dodd-Frank Act, signed on July 21, 2010, is the legislative basis of macroprudential regulation in the USA at the current stage. According to this regulatory act, a macroprudential body was created - the Financial Stability Oversight Board, which is endowed with broad powers to identify and monitor excessive risks in the US financial system that may be caused by the deterioration of the financial condition or bankruptcy of large banks, holdings of banking and/or non-banking institutions , or external factors, and responding to threats to US financial stability.

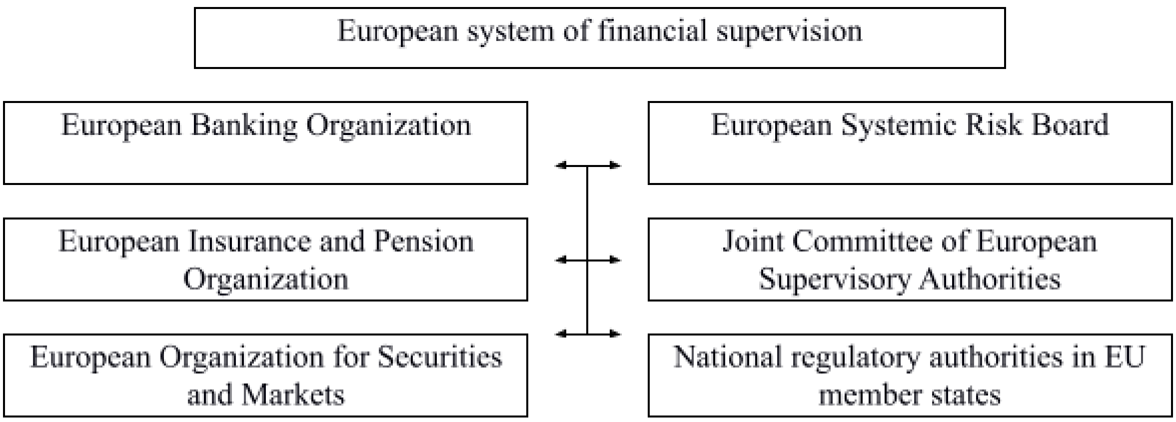

Fig. 3.2. The model of building macroprudential regulation in the EU [47]

Special attention is paid to systemically important financial institutions. The Financial Stability Oversight Board deals with issues of identifying systemically significant institutions, developing stricter standards for them, strengthening control, restructuring and liquidation of those that carry risks for the entire system [84].

At the same time, the strengthening of the macroprudential concept is taking place in other regulatory bodies of the financial sector. The main bodies of US macroprudential regulation are shown in fig. 3.3.

The Financial Stability Board has not implemented a single set of macroprudential indicators. Yes, the Federal Reserve System uses indicators of the CAMEL system, the volume of loans overdue for 30-89 days and separately for loans for which payments are overdue for 90 days or more, the ratio of net income to assets, the size of reserves, etc. And the Federal Deposit Insurance Corporation uses components of the GMS (Growth Monitoring System) model for monitoring, which is based on the assumption that the rapid growth of assets can cause an increase in investments with an increased degree of risk and a decrease in the quality of bank management.

The model uses five indicators: asset growth; loan portfolio growth; the share of credit investments in securities with a term of more than 5 years as part of assets; share of liabilities in liabilities; the rate of growth of assets and loans, the ratio of loans/assets, etc. [47, p. 127].

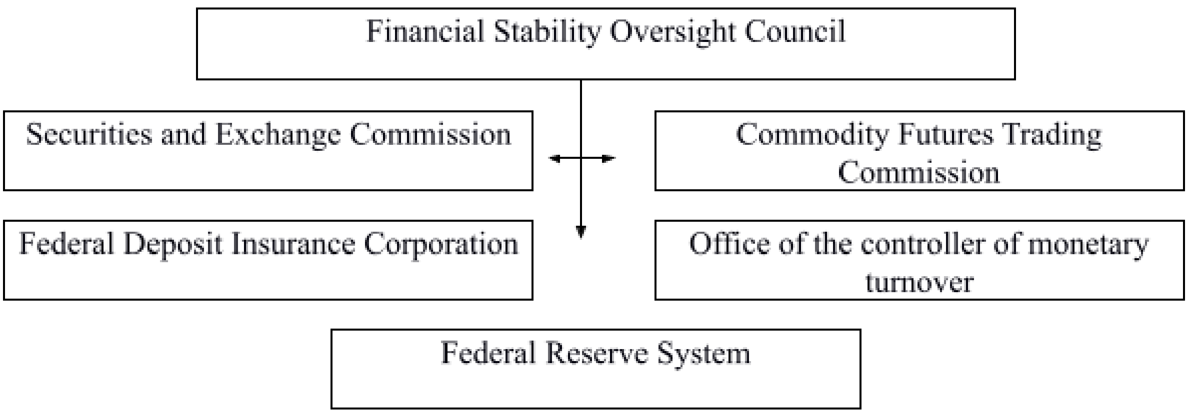

Fig. 3.3. The model of construction of macroprudential regulation in the USA

The Treasury of the United Kingdom, the Bank of England and the newly created Committee on Financial Policy are dealing with issues of stability of the financial system at the macro level. Two new financial sector regulatory institutions were also formed (Fig. 3.4).

The basis of reforms can be considered theories of behavioral finance. As we can see, the chosen regulatory structure corresponds to the "twin peaks" model, that is, the object of supervision is distributed between two state bodies not according to the sectoral (segmental) principle, but according to the essence of the processes controlled by these institutions.

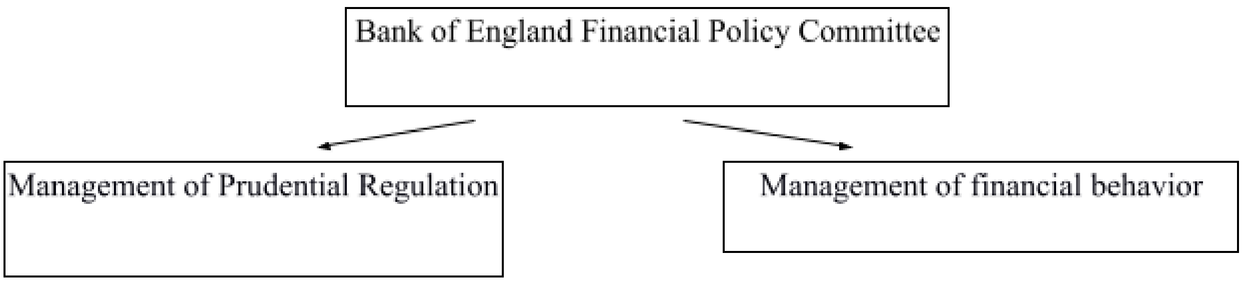

Fig. 3.4. The model of macroprudential regulation in the United Kingdom [47]

The Financial Policy Committee is empowered in the following two areas: 1) providing recommendations to microprudential authorities, the Prudential Regulation Authority and the Financial Conduct Authority; 2) management of the Offices for the adaptation of microprudential norms to macroprudential requirements, which will be enshrined in legislation on the proposal of Her Majesty's State Treasury.

The Bank of England, in contrast to the Federal Reserve System of the United States, prefers not to complex comprehensive models for assessing financial stability, but to monitoring information coming from various authorities of the United Kingdom. Aggregated microprudential indicators of bank activity and financial market data are used to a greater extent.

Comparing the macroprudential regulation construction systems of the world's three leading economies, the USA, the EU, and Great Britain, it should be noted that each of them has a number of advantages and disadvantages. In the US, in our opinion, the emergence of a macroprudential mega-regulator that can unite five sectoral authorities to solve a common task at the federal level is a positive development. However, the system remains complex and may be accompanied by the emergence of internal conflicts. The creation of the European System of Financial Supervision closed the gaps in macroprudential regulation at the EU level, but the main supervisory functions remain vested in national authorities. Great Britain is characterized by a simpler construction model, we believe that an important positive feature of the system is the ability of the macroprudential body to directly manage the process if necessary and make decisions about the use of certain tools. However, the lack of sectoral separation between regulatory authorities may result in insufficient attention being paid to financial markets compared to the banking system.

An important area of research into the world experience of ensuring the financial stability of the banking system is the comparative assessment of methods for assessing the stability (stability) of banks and the banking system.

Today, there are many different methods of assessing the level of financial stability of the banking system, the study of the features, advantages and disadvantages of which can serve as the basis for the introduction of one of them in full or a combination of several analyzed systems in Ukraine [67, p. 105]. These methods, according to Yu.V. Zhezherun, aimed at identifying the signs and nature of crisis phenomena, as well as the reasons that may lead to a crisis in the banking system in the future [18, p. 217-221].

Under these circumstances, it is appropriate to consider the systems for assessing the financial stability of banks, which have become the most widespread in countries with developed credit and financial relations, namely the United States of America, some countries that are members of the European Union. Thus, experts of the Bank for International Settlements (BIS) offer the following classification of systems for assessing the financial stability of banks, depending on the forms of research of banks' activities and the approaches based on them [18, p. 217]: rating evaluation systems; systems of coefficient analysis and analysis of homogeneous groups; system of comprehensive assessment of banking risk; statistical models of early response systems; micro- and macro-prudential analysis (Table 3.1). As a rule, banking supervision in the vast majority of countries is not limited to the use of one system for assessing the financial stability of banks.

The most widespread in foreign practice are the rating evaluation systems, the final result of which is the assignment of the investigated bank to one or another group. Rating systems are divided into expert, accounting and mixed based on evaluation methods; by method of supervision - remote and combined; according to the level of transparency - into open and closed, according to the method of construction - into ballroom and index; by scale of distribution – international and national; by type of ownership - state and non-state. The peculiarity of state ratings is their secrecy: rating data are not published in the official press, but are used by banking supervision bodies to prevent bank bankruptcy and ensure the financial stability of the entire banking system [36, p. 37-46]. The most common rating systems are points or scoring methods that allow interested parties, for example, customers and depositors, to quickly assess the level of financial stability of the bank.

Table 3.1

Systems for assessing the financial stability of banks in foreign and domestic practice

No	Country	Rating rating systems	Systems of coefficient analysis and analysis of homogeneous groups	Systems of comprehensive assessment of banking risk	Statistical models of early response systems	Micro- and macro-prudential analysis
1	USA	CAMELSO, BOPEC, ROCA,	Bank Monitoring Screens	–	SEER, SCOR, Bank Calculator -	IFS monitoring, stress testing

		CAMEO, CAEL			OSC	
2	Great Britain	–	–	RATE	–	
3	Germany	–	BAKIS	–	–	
4	France	ORA	–	–	SAABA	
5	Italy	PATROL	–	–	–	
6	Poland	CAMELS	–	–	–	
7	Czech Republic	CAMELS	–	–	–	
8	Slovakia	CAMELS	–	–	–	
9	Netherlands	–	–	RAST	–	
10	Baltic countries	CAMELS	–	–	–	
11	Ukraine	CAMELS	–	–	–	

Source: compiled by the author based on [18]

Systems of coefficient analysis and analysis of homogeneous groups allow to quickly diagnose financial problems that may pose a threat to the stability, liquidity and solvency of the bank. Ratio analysis is quite simple, accessible and easily implemented in the practical activities of both banks and supervisory authorities.

Systems of comprehensive assessment of banking risk provide for the consistent implementation of a set of procedures, starting from the initial familiarization with financial reporting and ending with the development of anti-crisis measures aimed at preventing and minimizing bank losses in the event of negative events.

The conducted study of rating systems, systems of ratio analysis and analysis of homogeneous groups, systems of comprehensive assessment of banking risk showed that various national assessment systems have certain common features: the main source of information for conducting the analysis is the bank's financial statements; most systems are used to assess both the financial stability of the bank and the reliability and risks of banks; as starting points, they use absolute indicators characterizing the scale of banks and some relative indicators: asset quality, capital adequacy, profitability, liquidity, market risk, management and control, economic and other indicators (Table 3.2).

Their disadvantage is that they provide an assessment of only the current financial stability of banks as of a certain date. Statistical models of early response systems, micro- and macro-prudential analysis are used to identify potential problems and risks that may arise in the future.

Micro- and macro-prudential analysis makes it possible to forecast trends in the development of banking processes as a result of the impact of various shocks and the spread of the "contagion effect" occurring in individual financial markets or at the macroeconomic level in general, as well as negative events in individual banks. Micro- and macro-prudential analysis are interrelated, since a higher degree of stability of an individual bank reduces the risk of a systemic banking crisis [48, p. 41-42]. In foreign practice, micro- and macro-prudential analysis is implemented on the basis of monitoring and stress testing of banks.

Table 3.2

Comparative characteristics of indicators of banks' financial stability assessment systems

Evaluation system	Total number of indicators	Asset quality	Capital adequacy	Profitability	Liquidity	Market risk	Management and control	Economical	Others
CAMELS	6	1	1	1	1	1	1	–	–
BOPEC	5	–	1	1	–	–	–	3	–
ROCA	4	1	–	–	–	1	1	–	1
CAMEO	5	1	1	1	–	–	2	–	–
CAEL	19	5	5	4	5	–	–	–	–
CAMEL	5	1	1	1	1	–	1	–	–
ORAP	14	4	2	3	1	1	3	–	–
PATROL	5	1	1	1	1	–	1	–	–
Bank Monitoring Screens	39 financial +35 capital market	21	5	5	8	–	–	–	35
BAKIS	47	18	1	10	2	16	–	–	–
RATE	9	1	1	1	1	1	3	–	1
RAST	13	1	–	–	1	3	3	–	5
SEER	11	7	1	1	2	–	–	–	–

SCOR	12	7	1	1	3	–	–	–	–
Bank Calculator - OSC	10	1	1	1	1	–	–	1	5
SAABA	5	1	1	1	1	–	1	–	–

Source: compiled by the author based on [18]

To monitor the financial stability of the banking sector, indicators of financial stability (FIS) are used, which are calculated based on the use of economic statistics methods and combine aggregated data on the activity of banks, as well as indicators characterizing the markets in which they operate. The International Monetary Fund provides for the compilation and dissemination by countries of 40 indicators of financial stability, 15 of which are for clients of the depository corporations sector and 25 indicators for this sector, including: 2 indicators for other financial corporations, 5 indicators for non-financial corporations, 4 indicators for the real estate market , 2 indicators for households, 2 indicators of market liquidity [43]. The National Bank of Ukraine compiles and disseminates quarterly data on indicators of financial stability of the sector of deposit corporations (banks), of which 12 are basic and 10 are recommended.

Financial stability indicators can be used in conjunction with stress tests aimed at identifying hidden banking risks and play an important role in preventing the spread and deepening of systemic banking crises. Central banks of different countries prefer different approaches and types of macroeconomic risk stress testing (Table 3.3).

Table 3.3

The main types and approaches of risk stress testing by Central Banks of different countries [19,66]

Type of stress testing	Method name		Approach to stress testing	
	according to the recommendations of the International Monetary Fund and the World Bank	according to the European (Basel) approach	"top-down"	"bottom-up"
Sensitivity analysis (test).	Analysis of the most likely events	Loss estimation method	Ukraine	Switzerland, Great Britain, Italy, Germany, Austria, Czech Republic and other EU countries
Scenario analysis	Analysis of probabilistically uncertain events	Method of elasticities	Republic of Belarus, Russian Federation, Ukraine	USA, Canada, Kazakhstan, Poland, leading EU countries

The current state of the domestic banking market is largely caused not only by turbulence in global financial markets, political instability, and institutional weakness of regulation, but also by microenvironmental factors, in particular, an imperfect risk management system [35, p. 132-134].

The strategic direction of Ukraine's financial policy is to ensure the stability of the banking system. Solving this task involves improving the standards of banking activity and the norms of banking regulation.

During 2014-2016 The European Banking Authority planned to conduct stress testing of 124 European banks, including: Deutsche Bank, Dexia, Danske Bank, UniCredit, Barclays, Swedbank and others. Stress testing will take into account the following risks: credit risks; market risks; sovereign risks; risks associated with asset securitization; risks associated with the cost of raising funds. The level of capital of first-tier banks in the base scenario is 8%, in the unfavorable scenario - 5.5% [18, p. 220].

A comparative analysis of foreign and domestic experience in assessing the financial stability of the banking sector made it possible to identify the following common features: consideration of banking risks in the analysis and assessment of the financial stability of banks; combination of analysis and assessment of the current financial condition of the credit organization with a forecast for the future; combination of assessment of the financial condition with the analysis of the activities of the supervisory bodies in relation to troubled banks. The differences are due to the following features: depth and frequency of inspections; nature of reporting; availability of other reliable sources of information; availability of sufficient statistical information on crises and bankruptcies in the past; level of technical support, financial and human resources.

As a rule, banking supervision in the vast majority of countries is not limited to the use of a single system for assessing the financial stability of banks, because today none allows to detect crises and predict future bankruptcies with high accuracy, even despite significant advantages in terms of the quality and depth of information of supervisory authorities before by other users.

Transparency of the results of ensuring financial stability in various countries is ensured through the publication of Financial Stability Reports.

The first reports on financial stability began to be published from the mid-1990s in Great Britain and some Scandinavian countries. Since 1999, the International Monetary Fund and the World Bank began active work on the implementation of the Financial Sector Assessment Program jointly with national regulatory and supervisory authorities, the purpose of which was to assess its vulnerability and identify weak points. It was the countries that voluntarily participated in this program that were among the first to publish reports on financial stability. The number of countries that published reports on financial stability grew rapidly: in 2004 - up to 25, in 2005 - up to 50, in 2008 - up to 67. Today, almost 70 countries of the world publish reports on financial stability [52, p. 173].

The purpose of publishing financial stability reports by central banks is:

- improving one's own understanding of the development trends of the national (and regional/international) financial system, as well as factors that: a) interfere with its normal functioning; b) lead to the accumulation of the potential for instability in the financial system;

- informing a wide range of economic agents - participants in financial relations - about the risks and threats in the financial system to which financial institutions and markets are exposed;
- increasing the prudence of economic agents when they make economic decisions;
- informing the public about measures planned by state bodies to ensure financial stability in order to strengthen confidence in their policies;
- stimulation of public discussion on all aspects of the development of the financial system.

The structure, scope and format, as well as the titles of financial stability reports may vary to some extent. In particular, the Bank of England and the Bank of Indonesia publish documents entitled "Financial Stability Review", the Bank of Canada publishes "Financial System Review", the Hong Kong Monetary Authority - "Monetary and Financial Report", the National Bank of Croatia - "Macroprudential Analysis". However, the report on financial stability is a document of the central bank, the specificity of which is the presence of attributes inherent only to this type of report [60, p. 244-256].

The last direction of research of the world experience of ensuring the financial stability of the banking system is the assessment of the features of anti-crisis regulation and anti-crisis measures in the banking sector in different countries of the world.

The unfolding of the global financial and economic crisis raised new questions about the effectiveness of state regulation of economic processes, instruments of such regulation, and international cooperation in the field of regulatory policy.

Based on the analysis of the state anti-crisis regulation of the banking sector of different countries of the world, it is possible to single out the main anti-crisis measures that are most often used in global practice: creation of special funds; reduction of the discount rate by central banks; expansion of the list of assets accepted by central banks as collateral for a loan; reduction of standards of minimum reserve requirements for banks; increase in the amount of state guarantees for bank deposits; introduction of temporary administrations and curators of central banks in banking institutions; guaranteeing interbank loans, loans for small and medium-sized businesses, supporting companies that are unable to attract the necessary financing due to problems in the banking sector; introduction of new lending programs; nationalization of companies; subsidizing banks' interest rates on loans granted to the population for the purchase of new goods; separation of "bad" bank assets from "good" ones by creating special institutions; increasing financial discipline, etc. [54]. In fig. 3.5 summarizes measures of state anti-crisis regulation of the banking sector of EU countries.

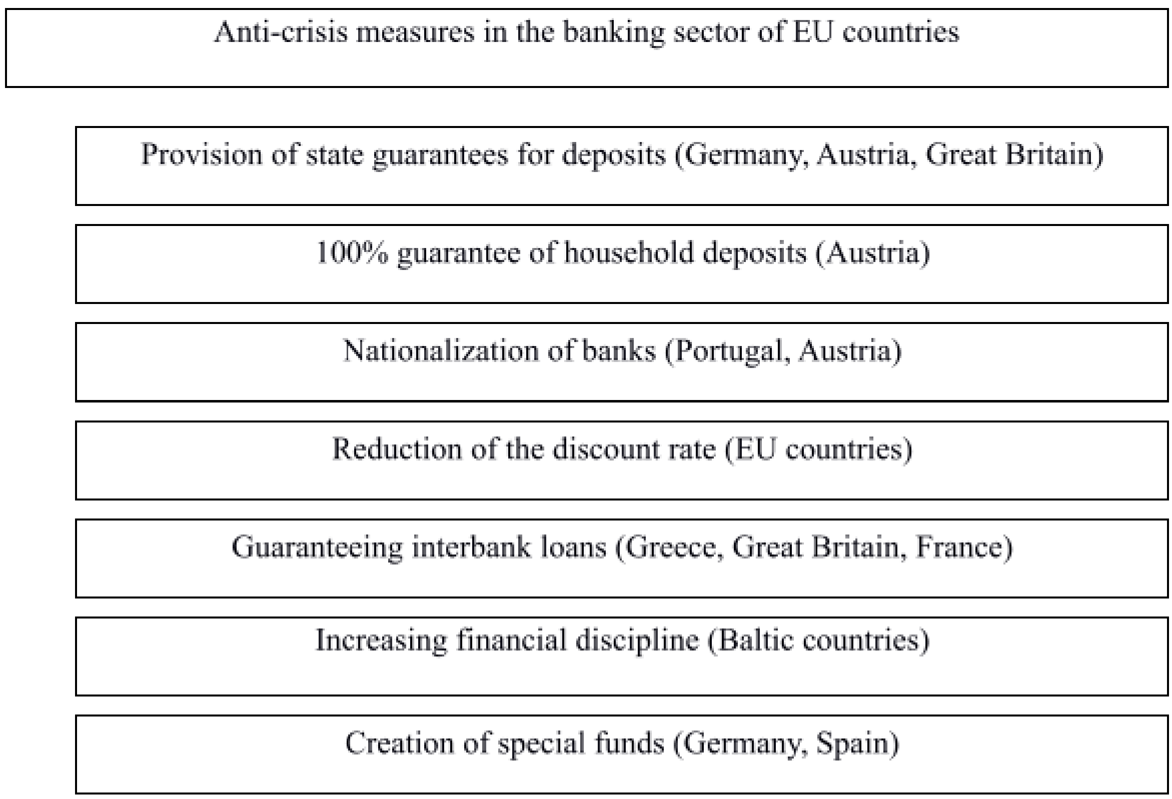

Fig. 3.5. State anti-crisis regulation of the banking sector of EU countries [54]

At present, anti-crisis aspects of state economic management in different countries are expressed in different forms. The experience of the countries of the European Union (EU) as a whole confirms that the regional policy in these countries is practically aimed at creating conditions that allow the regions to fully realize the stimulation opportunities available to them and increase their contribution to the development of the national economy. Joint financing of underdeveloped areas for their development is becoming increasingly common in the EU.

The current set of tools of the ECB, which it uses to refinance banks, generally covers the so-called permanent credit and deposit mechanisms, which make it possible to influence the liquidity of banking institutions of EU countries. They include:

- deposit operations ("window" for attracting short-term deposits - deposit facility), which allow banks to place short-term deposits in national central banks at a predetermined interest rate. As a rule, the terms of deposits are established by the ECB in one operating day (that is, they are overnight deposits), and the interest rates on them form the lower limit of one-day interbank loans of the euro market;
- credit operations ("short-term lending" window - marginal lending facility), which allow banks to obtain short-term loans to replenish their liquidity in national central banks against specified security [54].

In the USA, for example, anti-crisis regulation is manifested in the improvement of legislation in the field of employment, the increase of jobs, especially for young people, the development of regional structural programs, etc. In the USA, an anti-cyclical employment policy is enshrined in law. As part of its implementation, accelerated state financing of construction works, an increase in employment in the public sector, an increase in the size and duration of unemployment insurance payments, professional training in the private and public sectors as a measure of the general improvement of the economy and as a supplement to unemployment insurance are foreseen. This policy also includes the implementation of youth employment programs and development programs aimed at creating jobs in industries important to states, localities (including rural areas), and the country as a whole. An important area of improvement of anti-crisis public administration in the USA is a comprehensive, scientifically based coordination of the efforts of various government departments in the development and implementation of economic policy [32, p. 30-33].

Canada is an example of a country where much attention is paid to reducing disparities between provinces. In fact, Canada does not use cost standards. The main instrument of regional development in Canada is Targeted Programs (CP). As part of the social focus CP, the federal government of Canada, as state support, compensates for 50% of provincial spending on social targeted programs. The costs of the regions should be built taking into account the priority needs of this support.

The experience of Japan is interesting due to the presence of a fairly rigid vertical system of relations between the central government and local government, including the economic sphere. The complexity of this system lies in the fact that it co-exists multidirectional formal and informal, horizontal and vertical connections (for example, through national associations of heads of local authorities, which were created to strengthen horizontal connections, but at the same time became leaders of government policy).

The global financial crisis destabilized the general economic development of countries, causing the spread of high rates of inflation, the growth of unemployment, and the stagnation of investment processes. The following changes took place in the banking systems of foreign countries: an increase in the volume of problem loans, a decrease in the indicators of financial stability of leading banks, a shortage of liquid funds, the transfer of large banks to the status of "problem" or their bankruptcy, devaluation of national currencies.

In conclusion, it should be noted that the variability of instruments for ensuring financial stability and anti-crisis regulation largely depends on the state of the economy, on the conjuncture of international markets, the results of foreign economic activity and other factors of the state's development. The experience of foreign countries is in many ways indicative for Ukraine, as for a state that also found itself in a crisis situation. Therefore, taking into account directions for ensuring the financial stability of foreign countries in the future will make it possible to ensure the creation of fundamental foundations for the restoration of economic growth and financial stability in Ukraine.

3.2. Ensuring the stability of the banking sector by improving the efficiency of capitalization management of Ukrainian banks

The main task today is to restore a stable economic situation in the country. The success of this task depends on the development of the banking system of Ukraine and each bank in particular. One of the important factors that ensure the ability of the domestic banking system to have a positive impact on the economy, to expand significant banking services, while avoiding significant risks and, accordingly, maintaining the reliability of the system, is capitalization [74, p. 235-242].

The ability to solve these problems depends primarily on the capital management mechanisms of banks, which is one of the most important indicators of banking activity, which characterizes the financial solvency of banks, liquidity and forms opportunities for further development. Today, the question of increasing the level of capitalization of the banking system of Ukraine is the main requirement of regulatory bodies, since the low level of capitalization of domestic banks is unable to provide banking resources to the real sector of the economy. That is why increasing the capitalization of the banking sector of Ukraine is an urgent issue for the stabilization and development of the banking system of Ukraine.

On the one hand, the high level of capitalization of the banking system makes it possible to financially support the economic development of the country and be a guarantee of stability in the conditions of globalization and international financial integration. On the other hand, a sufficient amount of the bank's own funds ensures its stable functioning and contributes to the neutralization of risks inherent in the process of its functioning. The bank's capital absorbs possible losses and thereby creates a basis for maintaining trust in the bank on the part of depositors, and also determines the bank's creditworthiness. This conditions the importance of the mechanism of bank capital management not only in the process of the development of the national economy, but also in the international context, as evidenced by the adoption of the Basel III International Convergence, which defines the conditions for bank capital adequacy, which prompts banks to more carefully check, manage and control capital, taking into account financial risks in conditions of economic instability.

At the macroeconomic level, the amount of own capital is the basis of the credit and investment potential of the banking sector of the economy, a guarantee of its reliability and development. Highly capitalized banks have significant investment opportunities, they more effectively perform the function of redistributing financial resources in the national economy due to economies of scale, they are characterized by higher resistance to manifestations of economic instability. Conversely, the low capitalization of the banking sector of the country's economy limits opportunities for its sustainable development.

Therefore, at the macro level, it is necessary to ensure the stimulation of the increase of bank capital by establishing appropriate regulatory and fiscal levers.

Bank capital management at the microeconomic level involves forecasting its value, taking into account the volume of growth of on-balance sheet and off-balance sheet operations, the level of financial risks, compliance with standards between various structural components of capital in accordance with national regulatory provisions in order to ensure a sufficient level of capitalization. At the same time, it is necessary to take into account the selection criteria and economic characteristics of each of the methods of increasing equity capital, in the management of the bank's capital, the quality of capital components [63, p. 25-31]. The key element in this case is the concept of the mechanism of own capital management, which regulates the position on the management of the bank's own capital and defines its main components, which relate not only to ensuring a sufficient amount of capital, but also to improving the systems of organizational and economic support and incentive systems for bank personnel.

Foreign experience shows the relationship between the level of capitalization of the banking system and the level of economic development. At the beginning of 2011, the capitalization of Russian banks amounted to 90 billion. EUR, in the USA - 496 billion. EUR, in France - 390 billion. EUR, in Germany - 354 billion. EUR, in Great Britain - 350 billion. EUR, in Spain - 210 billion. EUR, in the Netherlands - 112 billion. EUR, in Switzerland - 100 billion. euro [71].

On the other hand, in Ukraine, the total amount of equity capital of operating banks of Ukraine as of November 1, 2016 was 15,364 million. UAH or 512 million euro [43], which is equal to the amount of equity capital of one mid-level European bank and is much lower than the amount of equity capital of the largest banks in the developed countries of the world.

At the macro level, solving the problem of bank capital management and increasing capitalization as a whole comes down mainly to defining certain tasks and standards that banks perform in accordance with the requirements of the National Bank of Ukraine, and its practical aspect at the micro level depends on individual banks, which must develop these mechanisms and find funds are needed.

That is why a comprehensive solution to the problems of choosing sources of capital increase of banks is proposed. In particular, at the macro level, it is necessary to ensure the improvement of banking legislation, the activation of the role of banking associations, the activation of the regulatory policy of the National Bank of Ukraine, the creation of a rating system and the improvement of the competitiveness of domestic banks compared to foreign ones. At the micro level - to introduce effective tools for increasing capital through the improvement of the financial management system in banks.

In this regard, attention should be focused on the participation of the National Bank of Ukraine, banks and the state in the process of increasing the capitalization of Ukrainian banks.

The process of managing the capitalization of the banking system should become a purposeful activity of the National Bank, aimed at increasing the efficiency of the functioning of banks, which will contribute to adequate coverage of risks with a gradual increase of capital, which in turn will ensure the full credit and investment potential of all spheres of the national economy and foreign economic activity.

At the current stage of the development of the banking system in conditions of economic instability, the question of increasing the competitiveness of banks compared to foreign banks while preserving the national priorities of the banking system as a whole in the conditions of the movement of foreign capital is acute. It is necessary to provide a management system that would, on the one hand, ensure the stability of domestic banks, and on the other, their efficiency and dynamic growth in connection with the intensity of the increase in the share of foreign capital in Ukrainian banks to 40.9% [13, p. 77-88].

These conditions should be based primarily on measures to support the competitiveness of banks with national capital, the use of positive structural and technological advantages of banks with foreign capital to increase the investment potential of the domestic banking system and its stimulating role in the socio-economic development of the country, the intensification of the use of modern banking technologies and bank management , optimizing the institutional structure of the domestic banking system and bringing it closer to the standards of countries with a developed market economy.

In our opinion, an important step towards the development of the domestic banking market should be the stimulation of the opening of branches of foreign banks in certain cities and special economic zones, which, on the one hand, will contribute to the development of the banking services market in all regions, and on the other hand, will allow domestic banks to compete and cooperate with foreign partners.

It is considered necessary to establish the total quota of foreign capital in the structure of the authorized capital of the banking system of Ukraine at the level of no more than 50%, and to establish limits on active and currency operations of banks with foreign capital.

The necessity of such a restriction lies in the fact that along with the development of banks with foreign capital on the territory of Ukraine, there is an opportunity to develop and increase the efficiency of the functioning of domestic banking capital. In case of unforeseen situations in the country (political or economic), when foreign banks may stop their activities on the territory of Ukraine, the domestic banking capital should be sufficient to prevent crises in the banking system and prevent the economy from declining. The general quota for the participation of foreign banking capital in Ukraine should be determined by law.

In the area of improvement of banking legislation, the amount of capital for banks, which currently do not reach the amount of capital of 120 million, needs to be clarified. hryvnias, the changes of which should be reflected in the Law of Ukraine "On Banks and Banking Activities".

For this purpose, it is envisaged to increase the requirements for the capitalization of banks. In particular, the National Bank plans to initiate an increase in the minimum regulatory capital to 500 million. UAH by 2018 and up to 750 mln. UAH until 2020. In addition, it will be proposed to increase the minimum authorized capital requirement for new banks to 750 million from 2015. UAH from 120 mln. UAH to date. Capital requirements will be higher for systemic banks, but they will be entitled to priority support. For this purpose, it is planned to create a special fund for the recapitalization of systemic banks. It is also planned to improve the mechanism for restoring the solvency of banks.

In this direction, the National Bank of Ukraine should stimulate and support the processes of real capital concentration in the banking sector. The analysis of the peculiarities of the concentration of domestic banking capital, which took place in the form of mergers or mergers of banks, gives grounds for the conclusion that potential candidates for takeovers or mergers are banks whose main activity is focused on servicing a certain group of enterprises, mainly domestic banks of the third and fourth groups. It is these banks that should be objectively united by mergers and acquisitions, which requires the National Bank of Ukraine to simplify the legal procedure for the consolidation of banks' capital.

At the current stage, an important factor in increasing the capitalization of banks is the improvement of the quality level of corporate governance. In Ukraine, the practice is quite common when the rights of small shareholders to receive a share of profits and participate in the management of banks are violated due to the presence of additional obligations of the bank to the owners of large blocks of shares. The legislative basis for solving this problem has already been created - the Law of Ukraine "On Joint Stock Companies", which stipulates the mandatory condition of listing shares on the stock exchange.

That is why it is believed that the change in the organizational form will contribute to increasing the transparency of banks and will give an opportunity to demonstrate to the market the real efficiency of their activities, which, in turn, will allow solving the problem of capitalization due to the open sale of shares on the market.

Considering the legislation, it is suggested that domestic banks comply with the requirements of the Basel Committee when disclosing information. This approach will aim to maintain and strengthen the business reputation and trust in the bank through informational openness and transparency and be presented to a wide range of the public. Professionally presented information, customer reviews, and the creation of blogs on bank websites will ensure a positive reputation for banks and enable them to successfully compete in the financial market of Ukraine.

An important step in increasing the capitalization of the banking system should be the improvement of the risk management system in banks. We believe that banks should be guided by the following principles of the risk management system:

- existence of a risk management strategy;
- availability of an appropriate organizational structure;
- principle of collegiality, separation of conflicts of interest.

It is suggested that domestic banks use those risk management models that are built not only on the basis of average statistical data, but also those that take into account critical data, which is especially relevant in conditions of economic instability. Therefore, in modern conditions, within the framework of using best international banking experience and implementing the recommendations of the Basel Committee, a new approach to building risk management models is necessary. In particular, the method of stress testing for banks will be effective, which will allow to improve and improve the risk management system of banking activity in conditions of economic instability, the system of internal ratings.

In order to increase the capitalization of the banking system of Ukraine, it is proposed to create a rating system at the National Bank of Ukraine, which will allow strengthening the control and supervision of banks in the field of bank capital management and will allow establishing a dialogue with the public, increasing public trust in banks.

Increasing the capitalization of the banking system will also contribute to the growth of its competitiveness and indirectly improve the organizational structure of the banking system through the consolidation of bank capital. The introduction of rating reporting of banks and increasing the role of banking associations will have a direct impact on certain groups of the population, will contribute to the activation of their social function, and at the same time, open dialogue between banks and society.

The proposed measures by the state, the National Bank of Ukraine and banks will make it possible to use new methods in banking practice in the process of capital management of the banking system, the result of which will be an increase in the value of bank shares, an increase in the amount of banks' equity capital and an increase in the credit and investment potential of banks, which will ensure the national economy with the necessary resources.

Thus, the proposed directions for increasing the capitalization of the banking system are closely intertwined. Thus, the improvement and stabilization of the legislative framework will directly affect the capitalization of banking systems of

Ukraine, as well as contribute to increasing the competitiveness of domestic banking institutions compared to foreign ones.

The cumulative effect of the mentioned measures will definitely contribute to restoring trust in the banking system and increasing the capitalization of the banking system of Ukraine, as well as increase the competitiveness of domestic banks on the world financial market and ensure the financial stability of the national economy on the way to integration into the world economy. This, in turn, will stimulate the development of the real sector of the economy and create conditions for the formation of a stable competitive environment in the banking sector and national security of the country as a whole.

CONCLUSIONS

The thesis provides a theoretical generalization and offers a solution to the important scientific task of deepening the theoretical and methodological principles of managing the financial stability of banks and substantiating practical recommendations for ensuring it in modern conditions of economic instability. The conducted research made it possible to formulate the following conclusions and proposals.

The lack of a single approach to defining the economic category "financial stability of the bank" was revealed. It was established that the financial stability of a bank should be understood as the ability of a banking institution to work uninterruptedly over time - to provide services and satisfy requirements, maintaining the optimal amount of liquidity, profitability and solvency at an acceptable level of risks, and at the same time withstand the negative influence of external and internal factors.

Taking into account the fact that the financial stability of the bank is affected by a significant number of internal and external factors, the paper proposed their classification and systematized all factors.

The normative and legal provision of financial stability of banks in Ukraine is summarized and the mechanism of its provision is built. The peculiarities of the state guarantee of the stability of banks in the future should be the provision of transparency and sufficiency of information in the field of assessing the financial condition of banks, since the bank management often hides information.

In the second section, the main indicators of the stability of the banking sector of Ukraine were analyzed and the analysis of capitalization and the results of the banks' activities was carried out as the basis of the stability of the banking sector of Ukraine, and the methodological toolkit for maintaining the financial stability of domestic banks was highlighted. The analysis of the main indicators of the stability of the banking sector of Ukraine showed that the majority of solvent banks managed to adapt to work in the conditions of the financial and economic crisis. The banking system as a whole shows operational profitability, the largest banks have carried out or are carrying out recapitalization to cover the losses incurred, unscrupulous and insolvent banks are being withdrawn from the market. Despite the positive aspects, the influence of external and internal factors on the stability of domestic banks remains significant.

The analysis of capitalization and the results of bank activity as a basis for the stability of the banking sector of Ukraine showed that banks that failed to recapitalize were declared insolvent and liquidated by the National Bank of Ukraine. The study of modern methods of maintaining the financial stability of domestic banks showed that the NBU uses a wide range of measures to achieve the financial stability of banks. The National Bank of Ukraine has published a macroprudential strategy and a roadmap for the harmonization of banking regulation rules with the recommendations of the Basel Committee and EU directives; introduced a new instrument of emergency liquidity support (ELA) for banks to replace the current mechanism of stabilization loans. In addition, the National Bank of Ukraine completed the development of a new LCR (liquidity coverage ratio) liquidity standard in accordance with the Basel III recommendation.

The consideration and analysis of the above issues led to the need to find ways to ensure the financial stability of banks in Ukraine. The author analyzed the existing proposals on this issue and systematized them in the following directions.

Firstly, improvement of the mechanism of financial stabilization of the banking sphere in the conditions of globalization processes and fulfillment of the set goals and priority tasks are possible under the following conditions: ensuring the sustainable development of the state economy; elimination of the disparity in the structure, pace of development of the economy of Ukraine and its banking system; implementation of effective macroeconomic policy; a moderate fiscal policy aimed at reducing tax pressure and streamlining the practice of tax benefits; consistency of actions of state authorities regarding the banking system; comprehensiveness and systematic development of legislation in order to eliminate conflicts and gaps; development of financial markets; uninterrupted and effective functioning of the payment system.

The variability of instruments for ensuring financial stability and anti-crisis regulation largely depends on the state of the economy, on the conjuncture of international markets, and the results of foreign economic activity. The experience of foreign countries is in many ways indicative for Ukraine, as for a state that also found itself in a crisis situation. Therefore, taking into account directions for ensuring the financial stability of foreign countries in the future will make it possible to ensure the creation of fundamental foundations for the restoration of economic growth and financial stability in Ukraine.

Secondly, the directions of increasing the capitalization of the banking system are closely intertwined. Thus, the improvement and stabilization of the legislative framework will directly affect the capitalization of banking systems of Ukraine, as well as contribute to increasing the competitiveness of domestic banking institutions compared to foreign ones. The cumulative effect of the mentioned measures will definitely contribute to restoring trust in the banking system and increasing the capitalization of the banking system of Ukraine, as well as increase the competitiveness of domestic banks on the world financial market and ensure the financial stability of the national economy on the way to integration into the world economy.

Therefore, financial stability is the main condition for the bank to carry out its activities and is a driving element in building the banking system of Ukraine as a whole. A financially stable bank is a bank that is progressively developing and demonstrates positive dynamics with acceptable risks and efficiency, which is characterized by a proportional and balanced growth of its system-forming components - capital, liquidity, assets, financial result, while the leading growth rates of capital and liquidity may indicate on increasing the potential of the bank's financial stability.

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