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V.N. KARAZIN KHARKIV NATIONAL UNIVERSITY**

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Educational program	Financial technologies and banking management
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QUALIFYING MASTER'S THESIS

on the topic:

**STRATEGIC DEVELOPMENT OF THE REGION'S
BANKING SECTOR IN THE CONTEXT OF ENSURING
FINANCIAL STABILITY**

higher education student **Ding Shiyun**

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

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TASK FOR THE QUALIFYING MASTER'S THESIS

of Ding Shiyun

1. Topic of the work "STRATEGIC DEVELOPMENT OF THE REGION'S BANKING SECTOR IN THE CONTEXT OF ENSURING FINANCIAL STABILITY"

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2. Deadline for the student to submit the work November 18, 2024

3. List of issues to be developed:

In Chapter 1: to explore technical characteristics of the concept of "financial stability of the bank"; to determine the strategic goal, tactical goals and objectives of the development of the banking system; to learn from the development strategy of state banks as a necessity for the effective functioning of the banking market.

In Chapter 2: to analyze the current state of the banking sector and its strategic development; to find out indicators of financial stability and strategic development of JSC CB "PrivatBank"; to assess the adequacy of banks' capital as a factor in the stability of the banking sector.

In Chapter 3: to characterize threats to the stability of the banking system of Ukraine in the conditions of modern economic processes and develop ways of improving strategic development in the context of ensuring financial stability; to

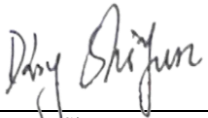
characterize threats to the stability of the banking system of Ukraine in the conditions of modern economic processes and develop ways of improving strategic development in the context of ensuring financial stability.

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


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ABSTRACT
ON THE QUALIFYING MASTER'S THESIS
"STRATEGIC DEVELOPMENT OF THE REGION'S BANKING SECTOR IN
THE CONTEXT OF ENSURING FINANCIAL STABILITY"

of Ding Shiyun

The qualifying master's thesis comprises 67 pages, 3 tables, 2 figures, 1 formula, and a list of 69 references.

The **object of research** is the processes of ensuring the strategic development of the banking sector in the context of financial stability.

The **subject of research** includes scientific and methodological approaches to analyzing, assessing, and improving strategic development processes, with a focus on evaluating and maintaining financial stability in banks under modern economic conditions in Ukraine.

The **purpose of the qualifying master's thesis** is to summarize the theoretical foundations of strategic development, analyze current practices in ensuring financial stability as part of this process, and propose directions for improvement based on a systematization of existing proposals.

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

- to determine the strategic goal, tactical objectives, and tasks necessary for the development of the banking system;
- to investigate the strategic development of state banks as a necessity for the effective functioning of the banking market;
- to analyze capital adequacy as a key factor in the stability of the banking sector to ensure strategic development;
- to identify threats to the stability of Ukraine's banking system under modern economic conditions;
- to propose priority directions for improving the process of developing a strategy for the banking sector in Ukraine.

According to the results of the study, theoretical and practical provisions were formulated. These have been transformed by the author into specific proposals for the

further development of the banking sector in Ukraine.

The obtained results can be applied to developing methodological principles for improving the strategic development processes of Ukraine's banking sector.

Keywords: economic capital, financial stability, banking institution, banking supervision, development strategy.

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INTRODUCTION

Relevance of the research topic. The economic crisis, the devaluation of the national currency, and the systemic banking crisis occurring in Ukraine are the source of further instability and inhibition of economic development, the growth of unemployment, the deepening of poverty, and the exacerbation of social and political risks. In these conditions, neither the Government nor the National Bank has presented a systematic strategic vision and a coherent set of actions aimed at exiting the crisis and accelerating economic growth, which would unite society, increase trust in the authorities and determine the way to consolidate efforts.

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, issues of strategic development of the region's banking sector in the context of ensuring financial stability are becoming particularly relevant in today's economic conditions.

Many questions remain unresolved, because the banking sector must become a financially stable, profitable system that performs the function of optimal redistribution of capital in the economy and is the main creditor of its intensive development. That is, the banking system should become an effective tool for achieving the macroeconomic priorities of the state.

The object of research is the processes of ensuring the strategic development of the banking sector in the context of ensuring financial stability.

The subject of research is scientific and methodological approaches to the analysis, assessment and improvement of strategic development, ensuring the assessment and maintenance of financial stability of banks in modern conditions of development of Ukraine.

The purpose of the work is the generalization of the theoretical foundations of the organization, the disclosure of current practice on issues of strategic development as a component of the system of ensuring financial stability, as well as the search for directions for improving this work based on the systematization of existing proposals on this issue.

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

- determine the strategic goal, tactical goals and objectives of the development of the banking system;
- to investigate the strategic development of state banks as a necessity for the effective functioning of the banking market;
- to analyze capital adequacy as a factor in the stability of the banking sector to ensure strategic development;
- detect threats to the stability of the banking system of Ukraine in the conditions of modern economic processes;
- to determine the priority directions for improving the process of developing a strategy for the development of the banking sector of Ukraine.

The degree of study of the problem. The theoretical basis of the work is the scientific works of domestic and foreign scientists and experts on financial stability. The researches of O.B. Vasylchyshyn, L.O. Vdovenko, O.D. Vovchak, I.I. Grubinka, Y.V. Grudzevych, O.V. Dzyublyuk, L.B. Yevtukh, and T. Zhukova are aimed at solving this problem.

Research information base there are data from the State Committee of Statistics of Ukraine, the National Bank of Ukraine, the Association of Ukrainian Banks, the Ministry of Finance of Ukraine and other statistical sources.

CHAPTER 1

THEORETICAL BASIS OF THE STRATEGIC DEVELOPMENT OF THE REGION BANKING SECTOR IN THE CONTEXT OF ENSURING FINANCIAL STABILITY

1.1. Essential characteristics of the concept of "financial stability of the bank", the purpose and tasks of its assessment

The key to effective functioning and sustainable development of the economy of any country or regional association is its stable and reliable banking system. The banking system is one of the main parts of the economic system of Ukraine, and therefore, its dynamic development contributes to the growth of the Ukrainian economy and its entry to the international level. A very important category responsible for the stability of the banking sector is the financial stability of commercial banks. This is an indicator of the financial condition of banking institutions, which determines their development. This is precisely the relevance of studying the problem of ensuring the financial stability of commercial banks in Ukraine.

Over the last decade, ensuring financial stability has become one of the key tasks of most of the world's central banks. The Law of Ukraine "On the National Bank of Ukraine" also defines the promotion of financial stability as one of the main functions of the National Bank. The National Bank of Ukraine is building a system for ensuring financial stability, taking into account rich foreign experience. The National Bank partially shares the responsibility for maintaining financial stability with the Ministry of Finance, the National Commission for Securities and the Stock Market, the National Commission for Financial Services, and the Federal Financial Supervisory Service. By decree of the President of Ukraine in March 2015, a high-level interdepartmental Financial Stability Council was created with the participation of the heads of key financial market regulators.

The National Bank of Ukraine defines financial stability as the state of the financial system in which it is able to correctly perform its main functions: payments, financial intermediation, and withstand crisis phenomena. A financial system is considered stable if it effectively redistributes resources from depositors to investors, financial risks are carefully assessed and properly managed, and the system is able to absorb shocks that can have significant negative consequences [21].

The Law of Ukraine "On the National Bank of Ukraine" defines financial stability as follows: the state of the financial system in which it is able to adequately ensure the ability to effectively perform its key functions, such as financial intermediation and payment provision, and thus contribute to sustainable economic growth, as well as resist the negative impact of the crisis on the economy [37].

In accordance with the law, the National Bank promotes financial stability, including the stability of the banking system, within its powers. Article 7-1 defines the peculiarities of ensuring the stability of the banking system: the National Bank of Ukraine, in the presence of signs of an unstable financial state of the banking system, the occurrence of circumstances that threaten the stability of banking activity and / or the financial system of the country, has the right to determine temporary peculiarities of regulation and supervision of the activities of banks , or other persons who may be subject to transfer to the NBU, including peculiarities of maintaining banks' liquidity, application of economic standards, creation and use of reserves to compensate for possible losses from active operations of banks, imposition of restrictions on their activities, including restrictions or prohibition of withdrawal of funds from current and deposit accounts of individuals. and law persons, as well as to limit or temporarily prohibit currency operations on the territory of Ukraine, in particular, operations with the export of funds, transfer and forwarding of currency values outside the borders of Ukraine. The presence of signs of an unstable financial state of the banking system, as well as circumstances threatening the stability of the country's banking and/or financial system, is

confirmed by the relevant decision of the Financial Stability Council, whose powers are determined by the decree of the President of Ukraine [37].

First, the term "financial instability" appeared in economic literature. A detailed functional definition of the category "financial stability" was proposed by the IMF specialist G. Shinasi, who devoted several fundamental studies to this problem. In his work "Preserving Financial Stability", he calls the financial system sustainable if it promotes the efficient allocation of resources, is able to assess, quote, allocate and manage financial risks and is able to perform basic functions even when there are external shocks or increasing imbalances [43].

Stability in economic theory is a complex, cumulative, multidimensional concept that has deep historical roots. Thus, mercantilists defined trade as a guarantee of economic stability, which they associated with the general well-being of citizens; the Physiocrats believed that the key to stability was production and natural wealth. This opinion was expanded and deepened by technocrats. Modern financial science considers the stability of the economy from the point of view of the theory of economic equilibrium and economic cycles. Since the end of the 20th century, the focus of the entire world community is the issue of ensuring financial stability, which is a dominant factor in the economic system of any order [52].

Let's consider approaches to defining the concept of "stability" in domestic and foreign dictionaries (Table 1.1). It is known that financial stability is a stable state of the country's financial system, which allows for uninterrupted calculations in the economy, a high level of trust in financial and credit institutions, the absence of excessive volatility in financial markets, the effective distribution of financial resources and the ability to manage financial risks, as well as reserve potential in the financial system, which allows us to withstand negative economic shocks in the future and prevent their negative impact on the economy [47].

The generalization of scientific opinion regarding the interpretation of the term "financial stability" by foreign researchers is presented in the work of P. Thirst (P. Smaga). The scientist singled out six characteristics that are used by most scientists to reveal the economic content of financial stability, namely:

performance of the main functions of the financial system; impact resistance; impact on the real economy; effective redistribution of resources, performing the function of financial intermediation; stability of prices for financial assets; close connection of the structural elements of the financial system.

For domestic communities (table 1.2), a direct approach to revealing the concept of financial stability is more characteristic. The most frequently used characteristics of the concept of financial stability are: resistance to shocks; effective performance of their functions; preventing the spread of negative manifestations to the real economy; stability of components of the financial system; dynamic state of the financial balance

The perception of financial stability as an absolute characteristic of a credit organization is debatable, that is, one that concerns "all financial indicators." Based on the fact that financial stability—this is, first of all, the ability of the economic system (both at the macro- and micro-level) to perform its main functions, therefore, the main task is to ensure an equilibrium state according to these financial parameters, which make it possible to implement the above in conditions of shocks.

In turn, L. O. Primostka draws attention to such a sign of financial stability of any economic system as "the conformity of the results of its current activities with the long-term goals of strategic development." At the same time, the scientist clarifies that the results of activity must also correspond to the strategic goal of the higher-level system (Fig. 1.1).

M. Bilyk defines this concept with a slightly different emphasis, interpreting it as "... the ability of an enterprise to achieve a state of financial equilibrium while maintaining a sufficient degree of financial stability and to maintain this state in the long term with effective financial management."

In this definition, the concept of financial stability appears, which, according to many scientists, has a somewhat narrower scope than financial stability. This, in particular, is emphasized by L. Korolishuk as follows: "Financial stability as an economic category is a broader concept (than sustainability), it includes many

factors that ensure their absolute and normative financial stability with a controlled financial balance and the ability to sustainable development" [102].

Today, there are many interpretations of financial stability, but it is widely explained in such a way that financial stability is a qualitative characteristic of the financial condition of banks, which is determined by the sufficiency, balance and optimal ratio of assets and financial resources, subject to maintaining the appropriate level of liquidity and solvency, increasing profits and reducing risks and which is able to bear unforeseen expenses, as well as maintain a state of effective functioning [27].

Some authors believe that stability is a broader concept, and stability is the basis of stability. Thus, A.V. Krukmal notes that stability and stability as characteristics of the quality of the financial and banking system are quite close concepts. But unlike stability, which implies the ability of the system to resist the force of influence, the semantics of the concept of stability implies an emphasis on the ability to continuously reproduce

In his works, A.V. Dzyublyuk Stryzhen considers the sustainability and stability of an individual bank. Reliability—this is a broader concept that combines the concepts of stability and stable development and characterizes the bank as a financial institution, a monetary institution in general; stability—the ability for constant dynamic development; stability—this is its internal state (Fig. 1.2).

However, at the same time, he believes that it is appropriate to consider financial stability as a part of the overall stability of the bank and provides a rationale for defining the concept of general economic stability, which he understands as "a systemic qualitative characteristic of the state of a commercial bank, which is due to the observance of balance, interrelationship and sequence of constituent elements: financial and organizational components, which reflects the ability to withstand unforeseen losses and ensures the achievement of tactical and strategic goals and high socio-economic results of functioning"[27].

Thus, we note that the stability of the banking system—it is the ability to resist obstacles in its functioning so that it plays the role of a financial intermediary

in the economy, it is a situation in which the banking system is able to function effectively and constantly even in conditions of shocks. This is the ratio of assets and liabilities, as well as income and expenses, which allows you to increase income and carry out calculations with obligations.

The main task of ensuring financial stability is to characterize the bank's ability to effectively perform its functions, to ensure purposeful development by transforming resources and minimizing risks, withstanding the influence of environmental factors.

The goal includes determining the current level of financial stability, tracking and forecasting changes in the financial stability of competitors, preventing the occurrence of crisis phenomena [11].

Financial stability as an economic process—it is an organic process of clear interaction of internal mechanisms of financial stability—operational, tactical and strategic in order to bring the entity out of a crisis state or ensure its economic growth (Fig. 1.3). These mechanisms are aimed at solving specific problems and correspond to the stage of financial stability. Stability and sustainability of commercial banks largely determines the stability of the economy as a whole and its development.

Thus, the primary task of the monetary authority at the macro level and the management of credit institutions at the micro level is to ensure this stability by conducting a rational monetary policy, analyzing and monitoring the state of the real and financial sectors of the economy, reducing all types of risks and obtaining income that exceeds total costs, which will cause entails the improvement and improvement of the quality of banking services for individuals and legal entities.

1.2. The strategic goal, tactical goals and objectives of the development of the banking system

The experience of previous years clearly shows: you cannot manage the state's finances without having clearly defined strategies for their development based on factual data. Since the banking system is a part of the financial system, the definition of the development strategy of the banking system is extremely important, and the concept of development is the main pillar, which will give an understanding of the main goal and ways of its implementation.

Within the framework of this concept, the basic principles of system functioning should be defined. These are: the same working conditions of each commercial bank; openness, openness; the same competitive environment [39].

Equal conditions are the conditions under which the economic standards set by the NBU are established, however, for all commercial banks - small, medium-sized system banks, as well as under which reserve requirements must still be fulfilled by all banks.

Publicity and openness are the principles according to which any of the banks can become a bank to serve certain programs of the government, certain funds, provided that this bank meets certain requirements, parameters, and these requirements are publicly announced to all banks, and not to some in the power of individual officials in the corridors.

A level playing field is the principle by which the customer chooses the bank in which he wants to be served, and not at the direction of a ministry, fund or individual official. This is when a client takes a foreign currency loan from a bank and buys equipment in the West in order to have equal conditions, the same as if he took a loan from the Ukrainian-German fund (VAT).

A decrease in inflation and the economic stability of the national currency contribute to a decrease in interest rates on loans. Additional resources for lending appeared, and banks are interested in lending to the real sector of the economy, since only its development will provide additional jobs, increase the purchasing

power of the population, which, in turn, will work to accumulate capital. And through the accumulation of capital in the economy, it will be possible to proceed to increase the capital of commercial banks.

The main goal of the implementation of the Strategy for the Development of the Banking System of Ukraine is the development of a financially powerful, profitable and stable banking system that effectively fulfills its main function - the optimal redistribution of capital in the economy to finance intensive sustainable economic development, growth based on high-tech industrialization, infrastructure development, science, education and social welfare of the population.

Achieving this goal involves the following strategic goals [3]:

1. determination of the policy quality of the National Bank of Ukraine, in particular:
 - implementation of monetary policy reform by developing its operational system to equalize accumulated monetary imbalances, optimal liquidity management and optimization of interest rate policy;
 - optimization of currency regulation and currency policy for safe heating of currency stability;
 - improvement of banking regulation and banking supervision;
 - the creation of an efficient and effective Council of the NBU and the development of a powerful research and expert-analytical center under the Council of the NBU for the development and monitoring of the implementation of the Monetary Policy Strategy aimed at ensuring currency stability and moderate rates of inflation and creating miniature prerequisites for the transition from the appendix model raw materials to a high-tech industrial economy.
2. ensuring public trust in the National Bank of Ukraine, the banking system and the national currency;
3. development of the banking system as a complex of equal banks, different in size, specialization and business models, which are financially sound, competitive, stable, aimed at the long-term perspective of development in Ukraine, lending to the real sector of the economy, innovative and investment development;

4. development of a civilized competitive market of banking services based on modern market infrastructure, new technologies, compliance with antimonopoly legislation and prevention of raiding;
5. development of bank lending processes for the real sector, in particular high-tech production, small and medium-sized businesses, microfinancing to promote economic growth and increase employment;
6. the development of state banks as banks of development and structural restructuring of the economy.

The development of the banking system in Ukraine takes place in conditions of growing competition from both financial institutions, especially banks with 100% foreign capital, and non-financial organizations, such as credit unions, pension funds, trusts. Increasing pressure on the banking sector is provided by companies with the latest technologies.

The situation is complicated by the instability of socio-economic conditions and the inadequacy of the current legislation, as well as regulatory measures of the NBU, to the requirements of the successful development of both individual commercial banks and the banking system as a whole. As a result, in the course of their activities, Ukrainian banks are solving serious problems, the most urgent of which are the preservation of their capital, the protection of the rights of banks as creditors, and the provision of favorable conditions for the successful development of promising areas of banking business.

The main condition for the successful functioning of banks is their financial stability, which should be understood, first of all, as a bank's liquidity and its protection against any risks. Financial stability is ensured by the availability of sufficient capital in banks performing the following important functions [39]: creation of a bank as a financial institution based on authorized capital; ensuring clients' trust in the bank; satisfaction of customers' demand for credit resources: coverage of losses from inefficient current bank operations until the bank's management solves the relevant problems.

To implement strategic goals, it is necessary to perform tactical tasks [3]:

1. attract the attention of the public and stimulate the immediate appointment by the President and the Verkhovna Rada of members of the NBU Council for the development and approval of the medium-term strategy of monetary and credit policy, the Basic Principles of monetary and credit policy, approval of the NBU budget, stimulation of the Management Board to implement effective monetary policy reforms in accordance with the Monetary Policy Strategy ;

2. prepare amendments to the Law "On the National Bank of Ukraine";

3. develop Programs to stimulate bank lending to the real sector of the economy, in particular high-tech enterprises, export-oriented industries with high added value, small and medium-sized businesses. Development of the draft law "On bank lending to the economy";

4. develop strategies for the development of small and medium-sized banks as financial factors for the intensive development of small and medium-sized businesses;

5. draft a draft law "On currency regulation" instead of the Decree of the Cabinet of Ministers of Ukraine "On the system of currency regulation and currency control";

6. to effectively resolve the issue of restructuring problematic debts for loans granted in foreign currency.

Priority steps to reduce systemic risks for the banking system, economy and society as a whole [3]:

- the appointment of professional and independent members of the NBU Council, which ensure increased transparency of the NBU's actions and accountability to society;

- introduction of legislative norms that will make it impossible for the Board of the NBU to make a decision on issues within the competence and powers of the NBU Council, in the absence of the NBU Council;

- introduction of norms regarding giving members of the NBU Council the right to attend meetings of the Board with advisory voting;

- introduction of norms regarding mandatory consequences of the NBU Council's appeals to the President and the Verkhovna Rada of Ukraine regarding the unsatisfactory performance of the Board, non-fulfillment of the NBU Council's recommendations regarding the implementation of the Basic Principles of Monetary Policy;
- introduction of norms on the early dismissal of the Chairman of the NBU in the event of a vote of no confidence by the President or the Verkhovna Rada of Ukraine;
- prohibition of the NBU to change the requirements for the formation of regulatory capital and other basic rules of bank activity more often than once a year;
- limiting the powers of the NBU to classify a bank as insolvent only in cases of real financial insolvency;
- the introduction of a rule that obliges the NBU to publicly publish the official "Financial Stability Report" quarterly, and in the event of a financial crisis, monthly, in which it provides objective information about the state of the banking system;
- establishment of the obligation of the NBU to ensure the publication of information on the grounds for making decisions on bank insolvency and on the revocation of a banking license, as well as on the measures taken by the NBU to prevent this;
- restoration of the canceled practice of conducting a legal examination of normative legal acts of the NBU by the Ministry of Justice of Ukraine;
- repeal of the norms prohibiting the provision of a legal claim by suspending NBU decisions.

The adoption of appropriate measures will make it possible to fully use the potential laid down in the Law of Ukraine "On the National Bank of Ukraine", to promote a purposeful and balanced policy of the NBU, to ensure its independence from politicians and private business interests, and to return the central bank to state control.

The result of the analysis of the influence of external and internal factors on the capital of banks indicates that the problem of preserving the capital of domestic banks should be solved comprehensively:

- at the state level through the legislative regulation of these problems through the implementation of the mechanism of equality of all forms of ownership;
- within the banking system through the interaction of banks with the NBU and among themselves in various spheres of activity;
- within each specific bank by improving the management system, especially from the point of view of capital management.

In our opinion, problem solving is possible by:

1. at the level of the Verkhovna Rada: creation of equal conditions for the activity and protection of banks as creditors; adoption of a number of legislative acts to protect the interests of domestic banks from the expansion of foreign banks;
2. at the level of the NBU: establishment of normative requirements of the NBU, including license and capital, only in national currency; allowing commercial banks to issue their own shares in foreign currency, as banks with foreign capital are allowed and as promised to others; introduction of a capital hedging mechanism by opening a foreign currency position in SKV for the total amount (or part) of the paid-up and registered statutory fund; division of the bank's currency position into two parts for its calculation and control: the first part is excluded from the calculation of the volume of the currency position and is opened for the purpose of hedging the bank's capital (transformation of part or the entire amount of the paid-up and registered authorized capital in foreign currency), as well as for the payment of expenses and receiving profit in foreign currency, taking into account accrued interest; the second part is a position that is opened in all other cases; placement of currency funds received as a result of conversion of part or the full amount of paid-up and registered authorized capital in foreign banks of countries of group "A" (the list of these banks is determined by the NBU);

development of documents to ensure protection of information about insiders and shareholders (as the most solvent customers);

3. at the level of the banking system: development of joint positions on the preservation of banks' capital and conveying these positions to the deputies in order to make appropriate changes to the current legislation; providing methodological support for the most relevant areas of banking activity; Creation of a group of highly qualified experts within the LUB to quickly respond to problematic situations of a particular bank that may arise tomorrow in another bank;

4. at the level of a commercial bank: the use of complex measures to actively increase the bank's economic potential by increasing its own capital, freeing its balance sheet from problem assets; planning the size and structure of capital, carrying out systematic monitoring of its real state; ensuring the growth of the bank's profit, its rational use for the purpose of further capitalization.

1.3. The strategy of the development of state banks as a necessity for the effective functioning of the banking market

The development of the banking system at the current stage is accompanied by significant disparities in the economic and political life of the country, and has a significant impact on the effectiveness of its functioning. The experience of previous years clearly shows that it is impossible to manage public finances without a clearly defined, scientifically based strategy for their development. Since the banking system is a part of the financial system, the definition of the development strategy of the banking system is extremely important, and the concept of development is the main pillar, which will give an understanding of the main goal and ways of its implementation.

The main purpose of state banks is to be an instrument of the government's general economic policy for: - maintaining trust in the entire financial system of the state by fully guaranteeing the population's deposits; - stimulating the

development of the technological level of the economy as a result of a significant reduction in the cost of financial resources for priority industries, industries and clusters of industry and the agro-industrial complex and accelerating the development of infrastructure; - stimulating the export of goods with high added value and the import of technologies (licenses); - stimulating the development of small and medium-sized businesses by reducing the cost of credit resources, technical / organizational assistance and consulting support.

State banks should be organizers of financing priority national projects and programs (for example, improving energy efficiency in industry and utilities or informatization).

The main functions of state banks and their executives:

- savings bank (for the public) - secured by JSC "Oschadbank";
- settlement and social (for strategic enterprises, regardless of the form of ownership, as well as authorities and local self-government bodies, implementation of social payments and pensions) - JSC "Oschadbank";
- export and import support - JSC "Ukreximbank" (jointly with the Export Credit Agency);
- financing of economic development taking into account priority tasks (Development Bank);
- financing of small and medium-sized businesses (JSC "Oschadbank", as well as small, medium-sized and other banks).

The credit policy of state banks is part of the economic policy of Ukraine, it is developed by the Ministry of Economic Development and Trade, the Ministry of Finance together with the NBU and is approved by law.

The main condition for the effectiveness of state banks as instruments of economic policy in Ukraine should be a significant reduction in the level of corruption at the state level, as well as in the state banks themselves. In order to adequately fulfill the described tasks, it is necessary to radically improve the quality of corporate management of state banks. As a result, they must become transparent to the public and accountable to the government. Management boards

and supervisory boards of state-owned banks should be formed through transparent public tenders based on strict, including professional, criteria.

The first reports of intentions to develop a strategy for the development of the banking sector appeared in April 2014, after the arrival of radical reformers in key positions in the central bank. In fact, the tasks were expanded, and with the joint efforts of the interested departments, the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2020, adopted in June 2015, was prepared and almost completed. Today, the corresponding program until 2025 is currently being developed and is being prepared for implementation. In addition, a Memorandum of Understanding and Cooperation was signed between regulatory bodies, international financial institutions, and the Federal Financial Supervisory Service on the preparation and implementation of the strategy for the development of the financial sector of Ukraine for the period until 2025 [18].

The year 2020 became decisive in the development of the program for the development of the financial sector of Ukraine until 2025. The global pandemic of the coronavirus disease COVID-19 has introduced new global trends in the financial sector. The rapid growth of e-commerce volumes and demand for online goods from the financial market, the increase in the number of mobile device users is contributing to the rapid adoption of digital payments worldwide. In this regard, the priority of the first task of the program was work in the field of financial innovations (FinTech).

The government's strategy in the banking sector is based both on the goals of economic growth and on the tasks of the government as a shareholder in commercial banks. Among the main tasks are promotion of economic growth, support of financial stability, increase of loans and availability of banking services. At the same time, as a shareholder, the state must create financial value and compensate for invested budget funds, including through the full or partial sale of public sector banks [36].

The presence of the state in the banking sector should decrease to 24% in 2022. Reducing the state's share will bring the Ukrainian market of banking

services closer to neighboring European countries, improve its investment attractiveness and make it more efficient. In particular, Ukrgasbank and PrivatBank should be completely sold in 2020 and 2022, respectively.

In order to streamline the process of anti-crisis programming and develop action plans for the development of the banking sector in Ukraine, it is advisable [13]:

1. at the level of such an authoritative body as the Financial Stability Council, to formulate technical tasks for the development of political documents regarding the development of the financial sector in Ukraine as a whole;

2. distinguish the strategic planning of the central bank, which is within the competence of the latter and its authorized body, from the planning of anti-crisis measures and actions to increase the financial stability of banks in the form of national programs by the Financial Stability Council, providing for the coordination of these processes;

3. entrust the preparation of the Strategic Plan of the NBU to a working group, consisting of local and international experts, bank specialists, and submit it for approval to the authorized body after review and support by the Strategic Planning Committee and the Council of the NBU (requires creation);

4. publish drafts of national anti-crisis programs on the websites of the National Bank of Ukraine, the Ministry of Finance of Ukraine, the Cabinet of Ministers of Ukraine, the Verkhovna Rada of Ukraine and the Financial Stability Board for public discussion for at least three months.

The development strategy of the banking sector of Ukraine should be limited to the adoption of a strategic plan at the level of central and state banks. The procedure for developing such a plan must be approved by the authorized bodies. Strategic plans of state-owned banks may be published in an abbreviated form for the information of all interested parties. This will undoubtedly increase the confidence of depositors and other clients in the NBU and the banking sector in general.

CHAPTER 2

ANALYSIS OF THE CURRENT STATE OF THE BANKING SECTOR AND ITS STRATEGIC DEVELOPMENT

2.1. Assessment of banks' capital adequacy as a factor in the stability of the banking sector

Bank capital plays a dominant role in ensuring the stable development of Ukrainian banks. Depending on its level of sufficiency, banks' ability to cover risks from banking operations and their capital stability is determined. The adequacy of banks' capital can be assessed through its ability to perform its main functions, which, according to the Law of Ukraine "On Banks and Banking Activity", are defined as protective, operative and regulatory [7].

The development of the banking system during 2014-2020 took place under the tangible influence of the political and economic crisis and difficult macroeconomic conditions. However, against the general background of the worsening situation in the banking system, at the moment almost all indicators of the bank's development have a positive upward trend. 2019 was a successful year for the banking system: it became more stable and better capitalized. Banks have become profitable again, have stable funding, continue to actively lend to the population and businesses since 2017.

The bank's capital is the basis of the financial potential on which its functioning is based. The financial stability of a banking institution and the rate of growth of the banking system as a whole depend on the formation, functioning and assignment of bank capital. To achieve this stability, banks should try to increase their own capital, especially in the conditions of the transformation stage of economic development.

The modern domestic practice of assessing and regulating the adequacy of banks' own capital is primarily determined by regulatory requirements for it. In accordance with Basel I requirements, the National Bank of Ukraine (NBU)

establishes capital adequacy standards, which must be followed by banks under any conditions. The principles of calculating NBU standards and their normative values are regulated by the Instruction "On the procedure for regulating the activity of banks of Ukraine" [8].

Comparing Basel III capital requirements with domestic prudential requirements, it is possible to determine the main trends in their implementation, in particular: the main capital of domestic banks is capital of the highest quality; requirements regarding banks' capital buffers were not applied, but the regulatory framework of the NBU provided for its implementation starting from January 2020: from 01.01.2020 – in the amount of 0.625%; 01.01.2021 – in the amount of 1.25%; 01.01.2022 – in the amount of 1.875%; 01.01.2023 - in the amount of 2.5%.

The banking sector operated in the first half of 2019 without noticeable upheavals, the macroeconomic situation was favorable thanks to higher rates of economic growth, the absence of shocks on the foreign exchange market and the further slowdown of inflation. According to the estimates of the National Bank, the credit risk and profitability risk of the banking sector have decreased over the past six months. Liquidity risk remains low.

The NBU continues to improve the regulatory framework, capital and liquidity requirements, and risk management systems. Banks have started a test calculation of the liquidity coverage ratio (LCR), which became a mandatory prudential standard from December 2018. Implementation of this standard significantly reduced the probability of a liquidity crisis in the banking sector in the event of a negative economic shock.

The National Bank, together with the banking community, started discussions on a new capital instrument - long-term subordinated debt, which will become part of the core capital. The terms of its issuance will be that if the level of capital adequacy falls below a certain level, this instrument will be subject to write-off or conversion into ordinary shares of the bank. It meets the criteria of belonging to the additional capital of the first level in accordance with Basel III

and European legislation and takes into account the norms of the legislation of Ukraine. The introduction of such a component of core capital expands the possibilities for recapitalization of banks and will be the first step towards changing the structure of regulatory capital in the direction of Basel III and EU norms.

In the first quarter of 2020, the banking sector made a high profit thanks to a small deduction to reserves, which amounted to only UAH 4.7 billion - one of the lowest quarterly values since 2013. The net profit of the banking sector amounted to UAH 16.1 billion (the figure for the whole of 2018 was only UAH 22.3 billion). The ratio of deductions to reserves to the gross loan portfolio was only 0.5%. This is due to the fact that several banks liquidated reserves for restructured loans, which borrowers began to service again.

In the first quarter, the regulatory capital of the sector increased by UAH 7.6 billion, or by 6.2%, due to net profit. Contributions to the authorized capital amounted to UAH 0.2 billion. Capital adequacy of the sector as a whole exceeds the minimum required volume. At the end of March, 64 banks out of 74 had a capital adequacy ratio of over 15%.

Analyzing the issue of capitalization of the banking system of Ukraine, first of all it is worth focusing on the dynamics of indicators of equity, statutory and regulatory capital, comparing the rates of growth of capital and assets and studying banks' compliance with the standard of adequacy of regulatory capital (Table 2.3). It should be noted that in 2016, the rate of decrease in equity and assets was quite significant. In 2017, the growth rate of own capital was about 65%. For 2018 the growth rate of equity decreased and amounted to -15.33%, not related to the increase in deductions to reserves. As of November 2018 the growth rates of both assets and equity fell and amounted to 101.57% and 84.67%, respectively, which is explained by a sharp reduction in the active operations of banks, in particular credit operations, as a result of the outflow of resources from the banking system of Ukraine. Growth rates of regulatory capital and authorized capital are uneven.

In addition, it should be noted the growing importance of authorized capital in the formation of equity capital. So, according to data as of 2019, this indicator was -7.24%, which is explained by changes in the structure of equity capital in the banking system of Ukraine. As of mid-2020, the authorized capital is almost a third less than the amount of equity, which is due to the record losses of Ukrainian banks.

Regulatory capital tended to decrease until 2017, then in 2018-2020 it increased, almost reaching the value of 2015. The decrease in regulatory capital is due to both a significant decrease in the number of banking institutions and insufficient capitalization of banks.

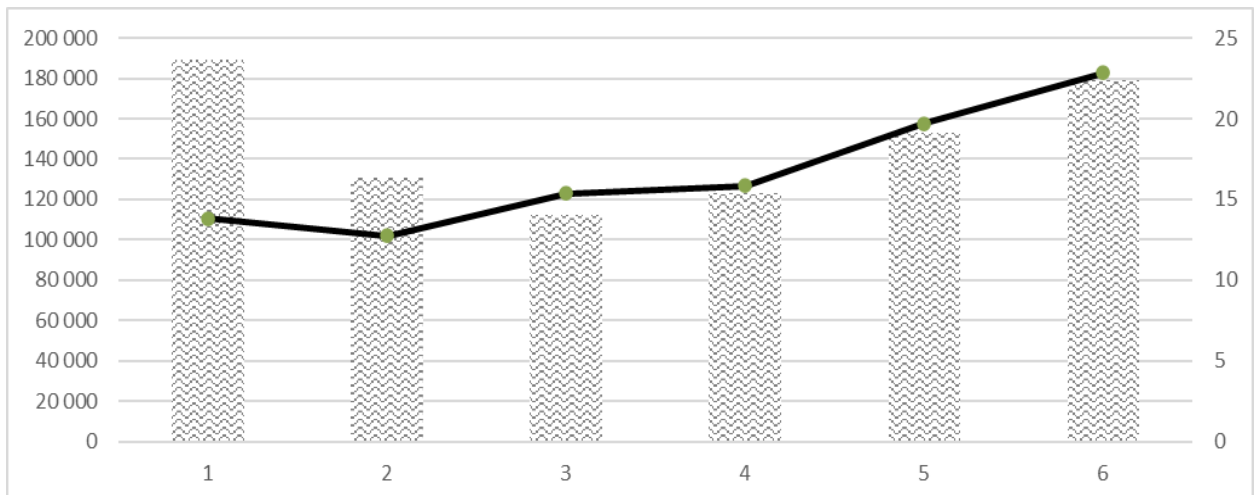


Fig. 2.1. The dynamics of changes in regulatory capital and standard H2

Source: built by the author based on data [18]

Next, we will evaluate the standard of regulatory capital adequacy (H2), the standard value of which should not be lower than 10%. According to the changes introduced in accordance with the Resolution of the National Bank No. 986 dated 29.12.2015, the standard is defined as the ratio of regulatory capital to total assets and certain off-balance sheet instruments weighted by the degree of credit risk, and to total assets and certain off-balance sheet instruments weighted by the degree of credit risk risk, the aggregate amount of the bank's open currency position for all foreign currencies and bank metals is added.

The actual indicator of H2 is higher than the normative value in solvent banks, and there is a tendency towards a confident increase. This is due to an increase in regulatory capital. In 2014-2016, this standard decreased in solvent banks from 18.9% to 12.31%, i.e. by 6.49%, but during 2016-2020 it increased to the level of 19.71%. As of September 1, 2020, H2 was 19.12%.

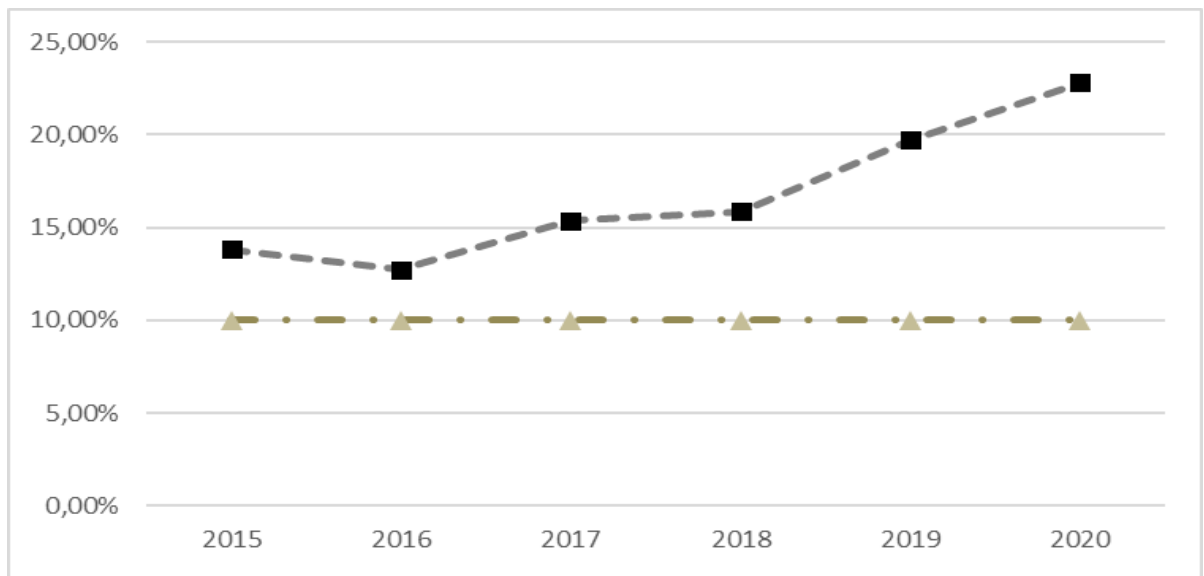


Fig. 2.2. Norm of regulatory capital adequacy of Ukrainian banks [42]

Therefore, the capital adequacy of the sector in general was significantly higher than the minimum required level. In 6 months of 2020, it is already more important than in 12 months of 2019 and has an increase of 0.63%, regulatory - by 16.66%.

The main macroeconomic indicator for assessing the capitalization of the banking system is the dynamics of the ratio of the capital of banking institutions to GDP. It is believed that in order to maintain the efficiency of the banking system, the amount of bank capital should be at least 5–7% of GDP (Table 2.4) [15]. Until 2014 the rate of capital growth of the banking system of Ukraine consistently exceeded the rate of GDP growth, although this trend did not continue in 2015–2017. (the growth rate of capital is 14.62% and 25.17%. In addition, the value of the ratio of bank capital to GDP in 2018 decreased to 3.36% against 12% in 2012–2014. The ratio of bank capital to GDP in 2020 is still 35.31%.

As for the financial results of domestic banks, it should be clarified that along with their capitalization, they also significantly influence the stability of the banking system of Ukraine. In the 1st quarter of 2018, the banking sector made a high profit thanks to a significant reduction in deductions to reserves. It compensated for the decrease in equity caused by the transition to IFRS 9. The sector's operating profit decreased: the increase in net interest and commission income was offset by the increase in operating expenses and a negative trading result. Reserve withdrawals are expected to remain low in the absence of significant shocks. This will increase the return on equity in the sector to over 10% in 2018.

The profitability of the banking sector is growing. In the first quarter of 2018, the net profit of the banking sector increased by 2.7 times and amounted to UAH 8.7 billion. This happened thanks to the decrease in deductions to reserves, which amounted to only UAH 1.1 billion - the lowest quarterly value since 2013. Operating income of the sector increased by 6% thanks to an increase in net interest and commission income. But this increase was offset by the rapid growth of operating expenses (+25.2%), as well as the trading result, which became negative due to the revaluation of indexed government bonds in the portfolio of state banks.

In 2019, the total income of banks increased by 19.5%, while the total expenses increased by 1.4%, which determined the growth of the net profit of operating banks by 2.7 times compared to last year's indicator, up to UAH 59.6 billion. Income from revaluation and from purchase and sale operations, as well as from the return of written-off assets grew at the highest rate in the income of banks in 2019 - by 8.8 times and by 70.9%, respectively. The growth of commission income was 21.8%, and interest income was only 9.59%. As a result, the share of interest income in the total income of banks in 2019 decreased by 5.7 percentage points, to 63.1%, and the share of commissions increased by 0.5 percentage points, to 25.4%. In the structure of expenses, commission expenses grew the most in

2019 - by 37.5%. Interest expenses increased by only 9.2%. At the same time, deductions to reserves decreased by more than 50% compared to the previous year.

2020 turned out to be less positive than previous years due to the impact of the global COVID-19 pandemic and deductions to reserves.

In the II quarter, there was an increase in deposits of the population and businesses in banks. Business hryvnia funds in bank accounts increased by 9% for the quarter (+24.6% y/y), and the population—by 10.9% (+24.1% y/y) for the II quarter, mainly due to demand deposits. This increase contrasts positively with the crises of the past years, when depositors actively withdrew funds from banks. Due to the reduction of the discount rate and the stability of the deposit base, the rates on household hryvnia deposits continue to decrease (9.6% per annum at the end of June and less than 9% at the end of July), which contributes to the reduction of the cost of loans in the national currency. The cost of foreign currency deposits and loans continues to be at low levels. And thanks to the strengthening of the hryvnia, the level of dollarization of deposits in the II quarter decreased by 3.8 percentage points, to 40.7%.

The profit of banks for April-June decreased to UAH 7.7 billion, and for the first half of 2020 it was 23.4% less than the result for the same period last year, and amounted to UAH 23.8 billion. The decrease in profit is related to deductions to reserves, as well as a decrease in demand for banking services, which led to a decrease in commission income.

The main challenge for the profitability of banks in the future will be losses from the deterioration of the quality of the loan portfolio, which will lead to an increase in deductions to reserves in the next two quarters. At the same time, interest and commission income will continue to grow, so the sector will remain profitable until the end of the year. In order to promote effective restructuring for debtors affected by quarantine measures, the NBU extended the simplified credit risk assessment rules until the end of November. In this way, the National Bank seeks to create favorable conditions that will allow both banks and borrowers to comfortably pass the crisis. At the same time, the focus of attention will remain on

proper assessment of risks by banks. The quality of restructuring carried out by banks will be analyzed by the NBU at the beginning of next year as part of the annual assessment of the stability of banks.

On the part of the NBU, taking into account the needs of ensuring the stability of the banking system and principles and standards generally accepted in international practice, the regulator determines the minimum size of the bank's regulatory capital, the minimum value and the procedure for calculating the regulatory capital adequacy standard, the core capital adequacy standard, the ratio of regulatory capital to total assets and ratio of regulatory capital to bank liabilities [36].

Banks, in accordance with the next amendments to the Instruction on the procedure for regulating banks' activities, must form capital buffers (from 01.2020), namely: capital reserve (conservation) buffer, countercyclical buffer above the normative value of the standard of capital adequacy (H3).

During the crisis years, the NBU was focused on normalizing the work of the banking sector. The main focus is now shifting to implementing more effective capital and liquidity requirements to limit the impact on banks of crisis events in the future. Starting in 2018, the NBU began intensively harmonizing the requirements for the work of banks with the Basel recommendations and European directives. In particular, the LCR standard is a new liquidity standard that will strengthen banks' resistance to outflows of funds. The NBU will also familiarize banks with the draft regulation that will determine the new structure of regulatory capital and the criteria for the acceptance of its components.

An important step in increasing the capitalization of the banking sector of Ukraine should be the improvement of the risk management system in banks. Banks should be guided by the following principles of the risk management system [7]:

- existence of a risk management strategy;
- availability of an appropriate organizational structure;

- principle of collegiality, separation of conflicts of interest. 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.

An open dialogue between parliamentarians and experts recognized in academic circles and the banking community, on the one hand, and the NBU and the Government, on the other, can contribute to the development of a full-fledged strategy for the development of the banking sector. In its turn, the NBU should intensify communication with domestic scientists, authoritative academic institutions, involving them in the preparation and consulting of relevant programs, in particular by creating an Expert Council. Strategic planning is an integral part of corporate management [1].

In its policy, the NBU is guided by the need to maximally reduce risks in banks' activities, create legal conditions for increasing their financial and competitive capacity. That is why one of the most important tasks of the development of the banking system should be to increase the level of capitalization in accordance with the volume of banking operations and the risks inherent in the bank's activities.

Since 2018, the NBU has introduced an annual assessment of the stability of banks and the banking system. A key objective is to ensure that the system is ready to absorb losses caused by the consequences of possible macroeconomic shocks. The NBU will evaluate each bank separately as of January 1. The assessment will consist of three stages [38]:

1. verification by audit companies of the quality of the bank's assets and the acceptability of collateral for credit transactions;

2. extrapolation by the National Bank of the results of the first stage and assessment of the adequacy of the bank's capital as of the assessment date;
3. assessment by the NBU of the adequacy of the bank's capital based on the results of stress testing under basic and adverse macroeconomic scenarios on a 3-year forecasting horizon.

Therefore, the main directions of increasing the level of capitalization of the banking system at the current stage should be [54]:

- attracting additional equity capital to banks based on additional share issues or contributions from bank owners or founders;
- development by banks of plans to increase the level of capitalization using additional sources of attracting funds both on the domestic and external financial and money markets;
- attraction of strategic investors by banks, including foreign ones;
- improving the quality of capital and ensuring a sufficient level of capital coverage of the risks assumed by banks, including improving the capital structure;
- stimulation of profit capitalization in banks, in particular by improving taxation and dividend policy; improvement of the regulatory capital calculation methodology.

2.2. Analysis of the financial stability and strategic development of JSC CB "PrivatBank"

At the current stage of the development of the banking system of Ukraine, the evaluation of the financial stability of the bank is of particular relevance. Existing approaches to assessing the financial stability of banks differ in the composition of factors, the system of indicators, threshold values of indicators, etc. The most famous among banking analysts is the rating assessment method developed by economists under the leadership of V.S. Kromonov, which is based on the application of the index method and most fully reflects the financial and

economic aspects of banks' activities. The rating assessment of banks' activities is made in stages. Formulas for calculating these indicators are given in table. 2.1.

Table 2.31

Formulas for calculating coefficients and their characteristics

Indicator	Calculation algorithm	Characteristic	Critical limit	Validity
General coefficient of stability	$K1=K/AR$	Shows the level of coverage of the bank's risky investments with its own capital, at the expense of which possible losses will be repaid in case of non-return of any asset	1	45
Instant liquidity ratio	$K2=LA/OV$	Indicates whether the bank uses customer funds as its own credit resources	1	20
Cross-coefficient	$K3=CO/AP$	Shows the level of transformation of total liabilities to savers, creditors and investors into loans, investments and intermediary services	3	10
General liquidity ratio	$K4=(LA+ZK)/SO$	It shows the security of funds entrusted to the bank by clients, liquid assets, real estate, valuables, that is, it characterizes the ability of the bank to satisfy the demands of creditors in the shortest possible time in case of non-return of issued loans	1	15
Capital protection factor	$K5=ZK/K$	Shows how the bank takes into account inflationary processes and what part of assets it places in real estate, valuables and equipment	1	5
Stock capitalization ratio of profit	$K6=K/SK$	It characterizes the efficiency of activity and independence from individual founders	3	5
K	- own capital	CO	- total liabilities	
AR	- working assets	ZK	- protected capital in the form of buildings, inventory, capital investments, precious metals	
LA	- liquid assets			
OV	- commitment to the question	SK	- authorized capital	

Source: compiled by the author based on data [64]

The final bank stability score is determined according to formula 2.1 [18]:

$$N = 45 * \frac{K1}{1} + 20 * \frac{K2}{2} + 10 * \frac{K3}{3} + 15 * \frac{K4}{1} + 5 * \frac{K5}{1} + 5 * \frac{K6}{3} \quad (2.1)$$

The performance indicators of JSC CB "PrivatBank", taken to calculate the financial stability of the bank, are presented in table 2.2.

Table 2.2

Indicators of the financial condition of JSC CB "PrivatBank" as of June 30, 2020. (million hryvnias)

Indicators	Value
Cash and cash equivalents	42,698
Funds in the NBU	7 105
Funds in other banks	4,566
Loans and debts of customers	56,250
Investment Securities	191,872
CPU until maturity	91,572
Basic means	5 150
Investments in real estate	3 192
Funds of legal entities on demand	46,934
Funds of natural persons on demand	105,654
Total liabilities	282,047
Authorized capital	206,060
Own capital	43105

Source: calculated by the author based on data [72]

Results of calculations of parametric coefficients JSC CB "PrivatBank" II quarter of 2020 given in the table 2.3.

Table 2.3

Parametric coefficients JSC CB "PrivatBank" for the II quarter of 2020

Coefficient	Indicator	Weight factor
K1	0.14192	45
K2	2.2139	20
K3	0.503657	10
K4	1.2090	15
K5	0.193527	5
K6	0.209187	5
N	49.65596538	-

Source: calculated by the author based on data [72].

If the obtained value is higher than 40–50 points, then the bank is considered sufficiently stable, if it is lower than 25–39 points, then the stability of the bank is questionable.

According to the Consolidated Interim Condensed Financial Statements for the six months ended 2020. JSC CB "PrivatBank" is considered stable. In the table a generalized assessment of financial stability is presented JSC CB "PrivatBank". Thus, the financial stability of the bank is 49.6, the value of the indicator is within the normal range, the bank is working stably.

Therefore, JSC CB "PrivatBank" very well secured with liquidity and regulatory capital. The financial result of PrivatBank after taxation for the II quarters of 2020 reached UAH 14,100 million, which is 23.2% lower than the comparative period last year. Due to the drop in business activity, the demand for lending and banking services decreases, and the number of loan defaults increases. This affects banks' interest and commission income - their growth rates are the lowest since 2016. In the National Bank, weak financial indicators are associated with reserves for expected losses, which are formed by banks. For the first half of 2020, the amount of reserves is 20.9 billion, for the corresponding period of 2019 - 8.3 billion, that is, more than half less. Also, in comparison with last year's period, the cash receipts of the bank decreased by 9.5%.

At the end of July 2020, the deposit portfolio of PrivatBank amounted to UAH 267,386 million, which is 11% or + UAH 29.9 million more than in the comparable period of 2019. Deposits increased in all business lines, but primarily in corporate business. Customer deposits provide the bank with a comfortable level of liquidity both in hryvnia and in foreign currency.

The portfolio of working loans (excluding reserves) showed a slight decrease of -5% or - UAH 3.2 billion compared to the same period last year. At the same time, the quality of the loan portfolio remains at a rather low level, so loan reserves increased by 4% or UAH 10 million compared to the comparable period last year. The level of problem loans is the highest among all Ukrainian banks and is 79.2% as of November 3, 2020. The coverage ratio of problem loans has increased to over

95%. The bank continues to demonstrate a strong capital position: the capital adequacy ratio (H2) was 27.96% at the end of October 2020.

According to the results of the II quarters of 2020, net banking income amounted to UAH 20,660 million, which is -23% or less than the result of the same period last year. The bank's operating expenses increased by +21% or by +1,719 million UAH compared to the expenses for 6 months of 2019. Personnel maintenance costs increased by +18%.

Thus, PrivatBank's cost-to-income ratio still remains one of the lowest among Ukrainian universal banks and is relatively unimpaired under conditions of growth in total costs and investments. Net banking income has been growing since 2017, a loss-making year, while overall costs have remained relatively stable, resulting in one of the highest net results. The bank demonstrated the growth of all components of net banking income before the onset of the "coronacrisis", which confirms the effectiveness of the bank's business model and the consistency of strategy implementation.

CHAPTER 3

WAYS OF IMPROVING STRATEGIC DEVELOPMENT IN THE CONTEXT OF ENSURING FINANCIAL STABILITY

3.1. Threats to the stability of the banking system of Ukraine in the conditions of modern economic processes

COVID-19 has dramatically changed the world we live in, with devastating economic and financial consequences, accompanied by a public health emergency. In the midst of the outbreak of the coronavirus disease, banks around the world are playing an important role, supporting businesses and families, providing public loans, providing additional liquidity, and quickly applying containment measures.

In many respects, trust in banks is high. Customers and companies see them in a new positive light. The key now is to maintain these gains and build on them as we transition from response to resilience, recovery, and then a new reality.

There are many problems. Tough economic times are ahead and customer defaults may increase. But those who reimagine their businesses to take advantage of the increasingly digital economy and manage their costs and risks may also be offered opportunities for growth.

So, in particular, banks in Ukraine support positive expectations regarding crediting prospects for the next year. About 80% of banks expect an increase in the volume of their loan portfolio during the next 12 months.

In addition, banks maintain positive expectations regarding credit prospects in 2021. Estimates of credit growth have reached the pre-crisis level - about 80% of banks expect an increase in the loan portfolio next year.

In the third quarter, banks slightly relaxed the requirements for borrowers regarding consumer loans against the background of competition with other banks (including from the non-banking financial sector). At the same time, the further easing of requirements for the population is currently hindered by fears about the deterioration of the solvency of consumers.

In July-September, the demand of enterprises, mainly small and medium, for short-term loans and hryvnia loans increased. Demand was stimulated by debt restructuring, the need for working capital and investments. The decrease in the cost of loans also contributed to the growth of demand for loans: 74% of banks noted a significant easing of price conditions for approved applications - interest rates were reduced.

In the third quarter, banks noted the key risk - currency risk. Almost 40% of banks believe that domestic risk is increasing. The currency risk acquired such a high value only at the time of the introduction of the quarantine and in the crisis year of 2014. Only about 30% of Ukrainian banks reported an increase in credit risk.

Despite the fact that due to the "corona crisis" and a noticeable decrease in interest rates, the growth rate of household deposits this year is higher than last year. Since the beginning of 2020, due to the "corona crisis", deposits in the banking system of Ukraine have increased by 18.4%, and the main component of this growth was demand deposits, which increased to 25.4%. As for the ratio to GDP, within a few months, deposits in the banking system have recovered to the level at the beginning of 2017.

Deposit growth factors:

1. spending the previously accumulated savings of the population for consumption purposes and depositing them on the current accounts of other legal entities or individuals;
2. devaluation of the hryvnia and related revaluation of the currency component of the money supply;
3. sale of warehouse balances of goods without the origin of similar costs for their replenishment from imports;
4. the results of detinization in the field of combating "scrolls" when paying VAT;
5. economic uncertainty prevented individual business entities from spending excessively.

In the "Report on Financial Stability" of the NBU, it is stated that all external and internal threats are manifested in practice by the action of specific risks specified in the Risk Map of the banking sector, and have a tendency to decrease [38].

1. Credit risk has increased. The decrease in economic activity due to the quarantine hit the incomes of the population and worsened the financial condition of enterprises. The decline in income will be long-lasting. This will complicate the servicing of loans, therefore, will lead to a significant deterioration in the quality of the banks' loan portfolio.

2. The risk of capital adequacy has increased mainly due to the implementation of credit risk, and the threats to capital adequacy of a number of banks will increase significantly. Noticeable - for two statesmen. To contain risks, the margin of safety that banks have increased in previous years can be used by banks to cover losses and increase lending.

3. Liquidity risk has decreased. Banks entered into a crisis with liquidity reserves, the value of LCR significantly exceeded the minimum requirements. The banks' ability to easily meet withdrawal demands quickly quelled the panic. Therefore, the first months of the crisis showed the stability of the resource base. After a temporary decrease, the volume of highly liquid assets increased to the pre-crisis level. The banking sector passed the real liquidity stress test very well. Expanding access to liquidity by the NBU mitigates this risk even more.

4. Legal risk has decreased. This happened thanks to the adoption of a law that made the withdrawal of banks from the market irreversible. Also, a number of decisions were made that strengthen the protection of the rights of mortgage companies. At the same time, the general level of protection of creditors' rights still remains low, especially at the stage of judicial settlement of disputes.

5. The currency risk has not changed. The foreign exchange market successfully passed the test of the crisis, the risk of significant devaluation did not materialize. The situation normalized within a month after the beginning of the crisis.

6. The yield risk has increased. Large allocations to reserves, a slowdown in lending and a fall in demand for banking services, including a decrease in commission income, will reduce the profitability of the banking system. At the same time, a number of large banks will continue to generate significant profits thanks to their strong operational efficiency. Therefore, the decline in profitability will not have a significant impact on their long-term financial sustainability.

A high share of non-performing loans (48.4% of the total number) is a heavy burden for the banking system. The introduction of Resolution No. 351 from the National Bank and the transition of the banking system to the international practice of identifying non-performing exposures/loans (NPE/NPL) made it possible to assess the real level of problem loans in Ukraine. Their share turned out to be the largest in world practice in the entire history of observations. The share of loans overdue for more than 90 days has increased, and today it makes up almost 80% of all non-performing loans. Financial institutions should be more active in restructuring loans for conscientious borrowers whose financial condition is recovering. Servicing of other problem loans will no longer be resumed, so it is advisable to completely reserve and write them off. For this, it is necessary to make changes to the tax legislation in order to eliminate the negative consequences of such a step on the tax obligations of banks.

The key macroeconomic risk for financial stability in the coming years is the termination of cooperation with the IMF. The lack of financial support from international institutions significantly complicates the maintenance of macroeconomic and financial stability in areas such as fiscal policy; Monetary and credit policy; Financial sector policy, etc. KSU decision No. 13-r/2020 of October 27, 2020, on E-declaration, jeopardizes cooperation with the IMF and the World Bank for Reconstruction and Development. Ukraine should start negotiations to prevent negative consequences or cancel this decision altogether.

On June 9, 2020, the Board of Directors of the IMF adopted an 18-month Stand-by program for a total amount of financing equivalent to 5 billion dollars.

USA. To date, the country has received one tranche equivalent to \$2.1 billion. dollars USA.

A delay in continuing cooperation with the IMF may have the following consequences [38]:

- deterioration of macroeconomic and financial stability in the short- and medium-term perspective,
- suspension of cooperation with other international financial organizations and governments of countries: programs of different MFIs are often interconnected and require Ukraine to fulfill similar or identical conditions;
- deterioration of investors' assessments of the government's financial condition and, as a result, an increase in the risk premium for the public debt of Ukraine. This can lead to a significant increase in profitability when placing new issues of sovereign bonds or in fact to the complete closure of capital markets for Ukraine, if the situation on world markets deteriorates;
- actual closure of access to foreign capital markets for quasi-sovereign issuers - state banks and enterprises;
- decrease in the interest of foreign investors in investments in the private sector, as a result - a decrease in the inflow of private debt capital and direct foreign investments.

The lack of lending from the IMF can significantly change the macroeconomic scenario for Ukraine. If funds from the IMF are not received, the probability of a reduction in the NBU's international reserves, a devaluation of the hryvnia, an acceleration of inflation and a decrease in medium-term economic growth will increase significantly. This will have a direct negative impact on the financial condition of the banking sector. Therefore, in the absence of cooperation with the IMF, the NBU may be forced to resort to decisive measures: to implement a strict monetary policy to maintain macro-financial stability, as well as to establish new administrative restrictions on the foreign exchange market. More negative scenarios are possible if the lack of a program with the IMF is accompanied by a worsening of the external situation or the situation in eastern Ukraine.

During periods of instability caused by both external and internal factors, foreign bank capital can pose an additional threat. The level of trust in banks with foreign capital in Ukraine is higher than in domestic banking institutions and the banking system of Ukraine as a whole. This is evidenced by the constant growth of the volume of assets and the share of foreign capital in the financial market of Ukraine. Currently, banks of foreign banking groups own a significant share of the banking system of Ukraine. Large players in the banking market pose a greater threat to the stability of the national banking system than smaller ones.

The presence of foreign banks in the banking system of Ukraine ensures a certain level of dependence on other countries (countries of origin of capital), which creates additional threats to the domestic banking system. In addition, despite the number of positive consequences of the presence of member banks of foreign groups, they still cause a number of specific risks for the national banking system: the threat of partial loss of control by the National Bank of Ukraine, the lack of interest of foreign banks in lending to long-term projects due to the instability of the political situation in the country, the possibility of a sharp outflow of capital due to economic and political upheavals, lobbying of the interests of global multinational companies [58].

Analyzing the credit risk, it should be noted that in the next few years, according to the forecasts of the NBU, the rate of credit growth will be very high, which may become a source of risks for banks and have undesirable macroeconomic effects. Today, the contribution of public lending to private consumption is insignificant, so bank loans do not pose a significant risk of accelerating inflation or increasing the deficit of the current account balance of payments. Thus, in the coming years, retail lending will be the focus of the NBU.

The NBU sees no reason to immediately restrict consumer lending. But given the pace of its growth, it may soon begin to pose systemic risks to the financial sector. Consumer lending will remain the focus of the NBU, twice a year the regulator will assess the state of the market and the risks associated with it. If necessary, the NBU will strengthen the rules for assessing banks' credit risk for

such loans or introduce macroprudential measures to limit the growth of consumer loans. Banks will know about the relevant changes in advance. The NBU takes into account that strict restrictions in the banking segment will provoke the rapid development of poorly regulated non-bank consumer lending (so-called shadow banking).

It should also be noted that the Financial Stability Board and its secretariat monitored which risks and threats were considered by international (primarily European) financial stability bodies (Table 3.1). The risks considered by foreign colleagues can be conditionally divided into three categories: global financial, economic and political challenges to financial stability; risks characteristic of developed economies; industry risks. The global risks of the reporting period include the uncertainty of the prospects for the development of the world economy, instability in international financial markets, the global pandemic and the coming "corona crisis". The risks characteristic of the financial systems of developed countries are mainly caused by interest rates that have been kept close to zero for a long time [34].

Systemic problems of banks of Ukrainian banks include: Problems with state banks. In 2020, they still have more than 50% of the market and have poor performance and more NPLs. They have the largest portfolio of government bonds, so they keep their income from the government budget instead of paying customers. In order to reduce this risk, it is necessary to intensify the privatization of state banks, to modernize corporate management banks in order to reduce the level of problem loans, to cancel artificial preferences, to resolve the legal situation regarding the recently nationalized Privatbank in the courts, etc.;

Problem loan portfolio. Although the number of problem loans is decreasing, it is happening quite slowly. At the same time, there is a risk of the appearance of new such loans due to the non-conservative policy of banks in the consumer lending segment, which will increase due to a decrease in real income as a result of anti-epidemic measures from COVID-19;

Risks of outflow of term deposits. Banks are vulnerable to a sudden outflow of deposits. Demand deposits grow much faster than customer term deposits. Although the current crisis is somewhat unique from the point of view of public deposits: today there is no panic or immediate withdrawal of all funds from their accounts.

Poor operational efficiency. Banks remaining on the Ukrainian market must be ready for changes. Now the CIR (cost to income ratio) indicator is at a fairly good level (47.4%), but due to the reduction of the discount rate, macro stabilization and a decrease in business and consumer activity, there is a decrease in income. Therefore, banks will have to immediately reduce deposit and operating costs.

The strategy for the development of the state banking sector should be finalized as soon as possible, since the delay in its implementation will lead to additional budgetary losses to cover the losses of state banks in the future. The strategy should clearly define the time frame for reducing the state's share in the banking sector. At the same time, banks are actively solving problem loans, using restructuring and write-off mechanisms. The National Bank of Ukraine is working on the creation of a legislative framework for the introduction of a full-fledged secondary market of problem loans in Ukraine.

3.2. Improving the process of developing a strategy for the development of the banking sector of Ukraine

In connection with the strengthening and frequency of systemic banking crises in Ukraine, there is an urgent need to ensure the exit of the banking sector from the crisis state and increase the resilience of banks to shocks, as well as to determine the effectiveness of the influence of monetary policy on the development of the national economy.

Our monitoring of strategic documents, which determine the development of the banking sector in different countries of the world, proved the existence of

several approaches. Only one Arab country has a national financial sector strategy developed with the participation of a central bank. At the same time, it should be taken into account that a number of central banks have only published a summary of the strategy in the form of a mission and key tasks. The absolute majority of central banks do not formulate a strategy for the development of the banking sector at all. The period of strategic planning at the level of central banks ranges from three to five years, with an annual update and adoption of the strategy for a new time period at the end of its completion.

Such strategies are approved by a decision of the board or a higher-level body - the board of the central bank, and in Kazakhstan - the administration of the president of the country. Thus, the Strategic Plan of the Reserve Bank of Australia was developed and adopted in accordance with the requirements of the Public Governance, Performance and Accountability Act 2013. In Ireland, the Strategic Plan has been approved under the Central Bank Act. If there is only one council as a governing body, the strategic plan is adopted by this body alone. In our opinion, the strategy of the central bank under the current system of corporate governance should be approved by the Council of the NBU, and the Board should only submit it for its consideration.

To be more precise, Ukraine does not have a strategy for the development of the financial sector, but only an action program for its reform. In addition, the latter was approved not by the Cabinet of Ministers of Ukraine and not by the Financial Stability Board, but by the NBU, which currently regulates exclusively the banking sector.

The strategy for the development of fintech in Ukraine until 2025 "Synergy of the development of banks and industrialization of the economy" (hereinafter - SRBSU) is unique in its structure and the desire of its authors to comprehensively cover the problems of the decline of the national economy, to strengthen the role of the financial sector in its development.

The approaches of central banks of other countries deserve attention. For example, the structure of the strategic plan of the National Bank of Tajikistan

corresponds to the performance of its functions of supervision over non-banking financial institutions [33]. The Strategic Plan is accompanied by a 53-page Action Plan in the Banking Sector [27], which includes the following sections: “Current Situation”, “Action/Reform for Implementation”, “Responsible Ministry, Agency, etc.”, “Terms of Implementation”, “Technical Assistance donor”, “Status”. Many points of this Plan provide for receiving technical assistance from USAID and the World Bank (FIRST TA project).

In the strategic plan of the National Bank of the Republic of Kazakhstan, which in terms of volume is one of the largest among the strategic plans reviewed by us (56 pages) [32], the second section "Analysis of the current situation and development trends of the relevant spheres of activity" includes the following tasks: development and implementation of monetary credit policy of the state, implementation of effective currency regulation and currency control, ensuring the functioning of payment systems, increasing the financial stability and competitiveness of the banking sector. The fulfillment of these tasks involves, in particular, consideration of internal factors inherent in the Ukrainian banking sector in particular (a high level of overdue loans in the banking system, a deficit of long-term liquidity, active growth of consumer lending, an insufficient level of development of risk management and corporate governance), and external (export-oriented economy and its negative consequences, sectoral imbalances in the structure of the economy, high debt burden of the corporate sector, weak market discipline in the non-financial sector and its low transparency). The following tasks that need to be solved are: increasing financial stability and creating the necessary conditions for the development of the insurance market, as well as improving insurance supervision; ensuring the evolution of the securities market; increasing financial stability and creating conditions for the development of the accumulative pension system; ensuring proper protection of the rights and legitimate interests of consumers of financial services; conducting statistical activities in the field of monetary and credit statistics and foreign sector statistics [69].

We also compared the structure of the strategic plans of the central banks of the more developed countries of the world. Their plans are much more concise than in less developed countries. Note that the Reserve Bank of Australia (RBA) does not supervise banks (this function is transferred to the specialized agency APRA). In the strategic plan of the RBA, the purpose (goal), environment, performance and opportunities are briefly outlined (1-1.5 pages) for each direction.

The Bank of England has a slightly different position regarding the publication of the Strategic Plan: it provided a detailed summary of it in its press release [20]. The Bank of England's mission is an open, transparent and flexible culture, joint policy decision-making, for which it will stimulate the interaction of the Monetary Policy Committee (MPC), the Financial Policy Committee (FPC) and the Council of the Administration of Prudential Regulation (Prudential Regulation Authority) through the exchange of information and analysis, as well as more frequent joint meetings, while respecting the legal rights of external committees and the head of the bank to making decisions on bank policy issues.

The Strategic Plan states that a reward system will be created that will attract and retain talented people, stimulate the dissemination of best practices and teamwork, and encourage the best people to join the public service.

The bank's strategic plan defines internal opportunities for the successful execution of mandates. The most important factors to be managed at the strategic level are: people and knowledge, information and resources; communication and accountability.

The above allows you to form an idea of the style in which such a document should be drawn up. We propose to include the following components in the structure of the Strategic Plan of the National Bank of Ukraine: strategic vision and mission of the NBU; macroeconomic trends, interrelationships of financial and real sectors; the state of the banking sector and problems of its development; characteristics of the systemic banking crisis; critical self-analysis of key achievements over the past three years in certain areas (monetary policy, financial stability, operations on financial markets, payment systems, banking business,

national currency, banking supervision, financial condition and capital of the NBU, risk management in the NBU), strategic tasks, expected results and key measures of the NBU in specific directions [19].

The total volume of such a document should not exceed 30 pages, but the most important or most difficult aspects should be accompanied by analytical notes with the justification of the proposals submitted for consideration by the body that decides on the approval of the plan.

It seems appropriate to make a number of my own comments regarding the considerations and proposals outlined in the draft Strategy, namely [3]:

- it is necessary to pay attention to the identification of the systemic banking crisis and the creation of a mechanism of macroprudential regulation to monitor financial stability and prevent deep financial crises;
- the SRBSU did not adequately reflect the issue of protecting the rights of investors and bank clients, in particular by creating and improving the work of the bank ombudsman institute;
- it was not necessary to ignore such obvious achievements of the regulator as the implementation of the internal transformation of the NBU, the withdrawal of unviable banks from the market, the improvement of stress testing of financial institutions, the identification of related persons and transactions with them, the transparency of participation in the capital of banks, the introduction of IFRS, active prevention of money laundering, increasing the transparency of the central bank's activities, improving the credit risk assessment procedure;
- in the analysis of the policy of the NBU regarding inflation, namely the course towards the transition to inflation targeting, stronger arguments should have been given regarding the inadmissibility of such a mechanism for Ukraine in the conditions of exiting the crisis;
- the policy of a high discount rate, subject to justified criticism, does not take into account the NBU's steps in the direction of its reduction;
- the SRBSU project lacks factor analysis and proposals for measures to reduce problem assets;

- the disproportions of bank balance sheets by the "maturity periods" of liabilities and assets and by currencies specified in the SRBSU project, which create systemic vulnerability of the banking sector and its clients to currency shocks, are actually a component of the daily activities of banks as financial intermediaries;
- the characteristics of the problems given in the SRBSU project relate mainly to the situation that arose during the financial and economic crisis of 2008-2009, that is, they are of more academic interest, so they should not be included in the statement;
- the problem of capitalization of banks is not disclosed in terms of reasons and ways of its solution;;
- the comments and proposals of the authors of the SRBSU project regarding the activities of the NBU Council are, in fact, reduced to the procedure for appointing members of the Council, however, according to the Law on the National Bank of Ukraine, this is the competence of the President and the Parliament (within the established quotas) and cannot represent the sphere of strategic planning;
- in a full-fledged version, the SRBSU should take into account an important reform - the division of functions of the National Commission, which carries out state regulation in the field of financial services markets (NCFP) between the NBU and the National Commission for Securities and the Stock Market (NKCPFR);
- the SRBSU project repeatedly mentions the threat of a decrease in the number of banks, while its authors recognize the need to rehabilitate the banking sector in order to get rid of weak and unsustainable institutions.

The events of recent years have aggravated the key aspects of the functioning of state-owned banks by forming real threats due to existing problems related to the presence of distortions in their management and the generation of systemic risk, which they assumed after the nationalization of JSC CB "Privatbank".

The threat, in fact, does not consist in the appearance of risk - but in the "price" of the jump, which the state had to pay for this event. Prior to that, the share of state-owned banks grew gradually, through issue-debt coverage of large losses of these banks by the state. After the transfer of JSC KB Privatbank to the "family" of state-owned banks, there was an explosive growth of this share - 16 through the state's "purchase" of the bank with the simultaneous obligation to recapitalize it in the amount of approximately 150 billion. hryvnias, thereby increasing the burden on Ukrainian taxpayers (according to experts, it is 9 billion hryvnias per year, assuming a stable exchange rate of the hryvnia against the dollar). The state was forced to find sources for investments in one bank, the volume of which was equivalent to 81% of the equity capital of the entire banking system as of December 1, 2016.

This event marked an unprecedented fact: the state suddenly turned into a monopolist in the banking market of Ukraine, which adopted the features of the "Asian" model. It began to account for 52% of assets, 60% of deposits of individuals, 49% of deposits of legal entities, and 74% of payment cards serviced by state banks. State banks have become market shapers. The National Bank of Ukraine recognized this problem and called on the Antimonopoly Committee of Ukraine to join the preparation and implementation of a corresponding strategy for the development of state-owned banks. The development of this Strategy began back in 2016, when the Ministry of Finance of Ukraine presented it on February 11, 2016, and the Cabinet of Ministers of Ukraine supported it as a key document that laid the conceptual provisions for the functioning and development of Ukrainian state banks under entitled "Principles of Strategic Reform of the State Banking Sector" on September 2, 2020, a document entitled "Principles of Strategic Reform of State Banks" was signed [5].

The strategy for reforming the public banking sector includes four key priorities:

1. implement strategies for each state bank;

2. to reduce the state's share in the banking sector from 60% to 25% by 2025;
3. reduce the share of non-performing assets on the balance sheets of state banks;
4. defend and support the implementation of the corporate governance reform with a majority of independent members of the supervisory board, while ensuring the necessary level of accountability.

The purpose of the functioning of the state banking sector was formulated as obtaining the maximum income, weighted by risk, and managing investments from the position of increasing their value.

It took almost two years for the Ukrainian Ministry of Finance, which was assisted by international consultants - McKinsey employees in 2019 - to submit an updated version of the document. A comparison of its components indicates that a wide range of issues addressed at the beginning of 2018 remained relevant at the end of 2020. The principles and goals on which the strategy is based - reducing the state's share in the banking sector - remain unchanged.

It is planned that the result of the implementation of this Strategy will not only solve the problem of returning non-performing loans of these banks, but also increase the efficiency of the investment market as a whole.

Therefore, it is very difficult for the state to make a choice: either to maintain the existing functionality of state-owned banks at a certain level of competition, or to go the way of limiting competition and cutting off part of its business from banks, while significantly reducing their business value and market value.

Strategic planning is an integral part of corporate governance in state institutions. The market economy does not involve prescriptive planning and government intervention in business, however, in conditions of a systemic crisis, it is possible to adopt (as an exception) a program of measures involving the strengthening of state regulation. The NBU should officially recognize the existence of a systemic banking crisis based on such indicators as the share of bad

assets, the number of insolvent banks, the dynamics of the resource base and loan portfolio, the availability of loans, the degree of bank capitalization, their dependence on state support, etc. This recognition will serve as a kind of trigger for the launch of previously developed anti-crisis programs to improve the banking sector.

CONCLUSIONS

The thesis made theoretical generalizations and obtained solutions to scientific problems regarding strategic development as a component of the system of ensuring the financial stability of the banking system, as well as suggestions regarding the prospects for improving the mechanism for increasing the financial stability of banks in modern conditions of economic instability in Ukraine. The general conclusions and suggestions obtained as a result of the study are as follows:

In the course of determining the essence of the bank's financial stability, it was found that there is no single approach to defining this concept. Thus, summing up, we note that the stability of the banking system is the ability to withstand obstacles in its functioning so that it can perform the role of a financial intermediary in the economy, this is a situation in which the banking system is able to function efficiently and continuously even in conditions of shocks. The main task of ensuring financial stability is to characterize the bank's ability to effectively perform its functions and ensure purposeful development by transforming resources and minimizing risks, withstanding the influence of external factors.

The main goal of the implementation of the Strategy for the Development of the Banking System of Ukraine is the development of a financially powerful, profitable and stable banking system that effectively fulfills its main function - the optimal redistribution of capital in the economy to finance intensive sustainable economic growth based on high-tech industrialization, development of infrastructure, science, education and welfare population as a whole. Taking appropriate measures will make it possible to fully use the potential laid down in the Law of Ukraine "On the National Bank of Ukraine", will contribute to the implementation of a predictable and balanced policy by the NBU, ensure its independence from politicians and private business interests, and return the central bank to public control.

The events of recent years have aggravated the key aspects of the functioning of state-owned banks by forming real threats due to existing problems related to the presence of distortions in their management and the generation of systemic risk, which they assumed after the nationalization of PJSC CB "Privatbank". The National Bank of Ukraine recognized this problem and called on the Antimonopoly Committee of Ukraine to join the preparation and implementation of a corresponding strategy for the development of state-owned banks. The state is an inefficient owner, which should competently reduce its presence in the banking sector. Although the final approved version of the Strategy has not yet been presented, and the Law on State Banks developed after its withdrawal for revision has not even been submitted for reconsideration, it can be confidently said that the quality of its implementation depends entirely on what package of regulatory and analytical justification it is will be accompanied.

As a result of carrying out the technical and economic characteristics of JSC CB "PrivatBank", it can be concluded that the difficult economic situation in the country did not affect the indicators of the bank's activity. The financial result of PrivatBank for six months of 2020 reached 20,016 million hryvnias, which is +39% higher than the result for the same period last year. Moreover, the net result for nine months is UAH 9,044 million or +82.42% higher than the result for the whole of 2018. This confirms the correctness of the bank's chosen development strategy. One of the key tasks is the further maintenance of high profitability and control of the level of total expenses and the cost of risk, thanks to which today PrivatBank is one of the most efficient banks of Ukraine and has the highest ratings. The loan portfolio showed a growth of +1.04% compared to the same period last year. As of July 31, 2020, the deposit portfolio of PrivatBank amounted to UAH 219,325,263,845 million, which is 16.87% or +44,520 million UAH more than at the end of July 2019. The bank continues to demonstrate a strong capital position: the capital adequacy ratio (H2) was 29.12% at the end of July 2020 (at the minimum required level of 10%). According to the results of nine months of 2018, net banking income amounted to UAH 20,016 million, which is +8.6% or

+1,787 million UAH more than the result of the same period last year. And all these results took place under the condition of the onset of the global "coronacrisis". This testifies to the bank's carefully chosen strategy for increasing regulatory capital and its adequacy, which in general made it possible to enter the crisis year 2020 with very good parameters.

The assessment of the mechanism for ensuring financial stability determined that, at the practical level, it is a set of forms, methods and tools for ensuring financial stability in terms of monitoring its achievement of expected financial and economic, social, innovative and other results. The banking sector worked in the first half of 2020 in the conditions of the global pandemic and anti-epidemic measures and the future decrease in business and consumer activity against this background. year without noticeable upheavals, as a result of which, according to the National Bank's estimates, the credit risk and profitability risk of the banking sector have increased over the past six months. Liquidity risk remains low. The net profit of the banking sector decreased by 23.4% and amounted to UAH 23.8 billion (half of the profit belongs to PrivatBank itself). This happened due to an increase in deductions to reserves, which increased in the second quarter compared to the first by almost 3 times, namely to 13.1 billion. UAH

Analyzing the problems of capitalization of the banking system of Ukraine, we determine the growth of regulatory capital for the 2nd quarter of 2020 by 15.5 billion. hryvnias, or by 10% to cover losses from previous years. At the beginning of 2020 H2 was 20%, in July the indicator is almost 23%. Capital adequacy of the sector as a whole exceeds the minimum required volume.

Analysis of the financial stability of PrivatBank CB JSC showed that according to quarterly reporting data during the 2nd quarter of 2020, the bank is considered stable. Thus, the financial stability of the bank was the best in the II quarter of 2020, as the generalized score was 49.65, the value of the indicator is within the normal range, the bank is working stably. PrivatBank's cost-to-income ratio remains one of the lowest among Ukrainian universal banks and does not deteriorate under conditions of growth in total costs and investments. Net banking

income rises rapidly after loss in 2017 Bank. demonstrated the growth of all components of the bank's net income before the start of the "coronacrisis", which confirms the effectiveness of the bank's business model and the consistency of the strategy implementation.

Identified threats stability of the banking system of Ukraine in modern conditions include the uncertainty of the financial and banking sector to further developments in the spheres, threats in the sphere of politics, belonging to a specific country and corporate conflicts, anthropogenic threats. The NBU considers the significant presence of the state in the banking sector and a high share of non-performing loans to be key risks. The key macroeconomic risk for financial stability in the coming years is the termination of cooperation with the IMF.

Strategic planning is an integral part of corporate management of state institutions. The market economy does not involve directive planning and state intervention in business, however, in crisis conditions, it is possible to adopt (as an exception) programs of measures that involve strengthening state regulation. The NBU should officially recognize the existence of a systemic banking crisis, based on such indicators as the share of problem assets, the number of insolvent banks, the dynamics of the resource base and loan portfolio, the availability of loans, the degree of capitalization of banks, their dependence on state support, etc.

The consideration and analysis of the above issues led to the need to find ways to ensure the strategic development of the banking sector in the context of ensuring the financial stability of banks in Ukraine. One of the steps on the way to the stability of banking institutions is the implementation of the recommendations of the Basel Committee in the national banking system, which should take place gradually, taking into account the peculiarities of the domestic economy. They will contribute to expanding the capabilities of the banking sector, making it possible to withstand shocks, encourage banks to increase the level of capitalization and the quality of capital.

The next measure is the stabilization of the national currency by taking certain restrictive measures to increase the supply of foreign currency on the

domestic currency market and reduce the demand for it, as well as guaranteeing the preservation of deposits in banking institutions and providing guarantees for interbank loans, control over the targeted use of refinancing loans, improving regulatory - the legal field of activity of commercial banks, improvement of all methods of functional activity of the banking system of Ukraine taking into account the specific development of the transition period, increase the level of capitalization of commercial banks by the method of stimulating the merger and unification of small banking institutions, independence in the field of banking functioning from the country's politics, development of a strategic program for the development of banks, stimulation of banks to optimize the organizational structure, improvement of the deposit insurance system, increasing the efficiency and quality of analysis and assessment of financial stability of banking institutions, etc.

The development of the model for maintaining the financial stability of the bank on the example of JSC KB "PrivatBank" made it possible to find out the effectiveness of the plans to restore the financial stability of the bank in the future. On the basis of the performed analysis and developed models for forecasting the key indicators of the bank's financial stability, it was concluded that the existing rates of capital growth correspond to the normative values from the NBU. The growth rates of total and highly liquid assets are approximately at the same level and determine the indicator of the specific weight of highly liquid assets in assets, which is headed for an increase, which may indicate the obvious ability of the bank to meet its obligations. The bank needs to implement the correct policy of asset diversification in order to maintain liquidity standards from the NBU and ensure its own profitable activity for the forecasted period and prevent non-fulfillment of its obligations.

Therefore, the basis of the economic success of a modern country is reliable financial stability, which is ensured by the appropriate development of the banking system. At the same time, the positive characteristic of financial stability involves

achieving an optimal balance between the efficiency and stability of the banking sector, which is able to absorb the adverse effects of external factors.

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Онлайн сервіс створення та перевірки кваліфікованого та удосконаленого електронного підпису

ПРОТОКОЛ
створення та перевірки кваліфікованого та удосконаленого електронного підпису

Дата та час: 18:19:19 14.05.2025

Назва файлу з підписом: КМР_Дін_Шіюнь.docx.p7s[1].p7s
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Результат перевірки підпису: Підпис створено та перевірено успішно. Цілісність даних підтверджено

Підписувач - 1: АЗАРЕНКОВА ГАЛИНА МИХАЙЛІВНА

П.І.Б.: АЗАРЕНКОВА ГАЛИНА МИХАЙЛІВНА

Країна: Україна

РНОКПП: 2571514226

Організація (установа): ФІЗИЧНА ОСОБА

Час підпису (підтверджено кваліфікованою позначкою часу для підпису від Надавача): 14:56:04
13.12.2024

Сертифікат виданий: КНЕДП АЦСК АТ КБ "ПРИВАТБАНК"

Серійний номер: 5E984D526F82F38F04000000E4DA710112DF3D05

Тип носія особистого ключа: Незахищений

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Підписувач - 2: Омеляненко Денис Олегович

П.І.Б.: Омеляненко Денис Олегович

Країна: Україна

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Час підпису (підтверджено кваліфікованою позначкою часу для підпису від Надавача): 17:16:13
19.12.2024

Сертифікат виданий: "Дія". Кваліфікований надавач електронних довірчих послуг

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Тип носія особистого ключа: ЗНКІ криптомодуль ІІТ Гряда-301

Серійний номер носія особистого ключа: Не визначено

Алгоритм підпису: ДСТУ 4145

Тип підпису: Кваліфікований

Тип контейнера: Підпис та дані в одному файлі (CAAdES enveloped)

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Сертифікат: Кваліфікований

Версія від: 2025.01.15 13:00