

**ASSESSMENT OF THE BANKING SYSTEM AND REALITIES OF UKRAINE****Volodymyr Kotkovskyy**

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**Abstract.** Article shows the results of the research of current state of Ukrainian banking system at the context of key criteria, drawing attention to the feasibility of implementing a systematic approach to analytical evaluation of its behavior. Factors which have affected performance indicators have been analyzed, indicating possible ways to overcome the crisis.

**Keywords:** bank, banking, analytical assessment, evaluation criteria, analytical segment, the bank's assets, deposit portfolio, the loan portfolio, the income of the bank, bank costs, return on assets, return on equity, advisory segment.

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**Introduction**

The banking system of Ukraine is under the influence of negative factors caused by unstable phenomena in the economy as a whole. Key representatives of the banking system of Ukraine are the banks that suffer from unstable macroeconomic policy level, quite a significant loss of public confidence, significant currency fluctuations, and inflation burden on the business sector, the low efficiency of the stock market and a lack of investment inflows in leading sectors.

In connection with this, there is an urgent need for constant monitoring of the state of the banking system of Ukraine, and, on this basis, decisions on its future behavior in significant economic challenges. That is the question the analytical assessment of basic criteria that characterize the behavior of banks from the perspective of competitiveness and development in the future. The theme study is quite relevant and modern as gives an information resource in the context of the prospects of the banking sector of Ukraine.

The problem of studying the state of the banking system of Ukraine is not new, but the fluidity of time requires more in-depth study. This argument stems from the need to obtain a more realistic picture of the behavior of the key criteria of banks in Ukraine and possible directions of development. We believe the first stage; analysts are required to clearly defined steps for research. This refers to the preservation of traditional approach to analytical cycles with the establishment of the preparatory consistency, work and final stage of the procedure.

The study of the banking system in general and banks in particular, on the basis of analytical procedures rather subject covered in the writings of such scholars as T. D. Kosova (2008), O. P. Zharkovska (2010), A. M. Gerasymovych, M. D. Alekseienco, I. M. Parasii-

Verhunenکو (2005), O. V. Vasiurenko, K. O. Volokhata (2006), Z. I. Shchybyvolok (2006), F. F. Butynets, A. V. Golovach, G. V. Mytrofanov, K. Ye. Raiewskyi (2001), V. M. Kochetkov (2003), S. T. Piletska, O. A. Saplina (2009) and others. Scientists highlight different approaches to analytical evaluation, but they all agree that reducing the lag between analytic periods is appropriate. Said above shows that criteria analysis study of banks' behavior has to be based on principles of organizing, continuity, science, transparency and, above all, on the principles of consistency and effectiveness.

Research has shown that the basis for the analysis of key criteria for assessing banks laid the theoretical aspects of economic analysis that quite objectively described in the writings of such scholars as G. I. Kupalova (2008), A. G. Zagorodnyi, G. I. Kindratska, Z. O. Koval, O. I. Tyvonchuk (2012), V. M. Ivakhnenko (2006), B. Ye. Grabovetskyi (2009), L. O. Boiko, R. M. Volchek, N. A. Volkov, O. M. Haidaienko (2012). Proceedings of these scholars reveal the methods and techniques of economic analysis and justifying his by staging.

It should be noted that in recent years, narrowing the areas of research, most scientists consider the analytical aspect of banking positions with clearly defined problems in this cycle. Following scientists consider such approach accurate: V. V. Hrapkina (2015), T. V. Pogorelova (2012), O. A. Cricklii, O. Kruhmal (2012), V. V. Onischenko (2012), O. V. Lysenok, O. M. Petruk (2013). The value of these works of scientists lies in the detailed study of certain aspects of banks in Ukraine.

### **Analysis of the main indicators of development of the Ukrainian banking sector**

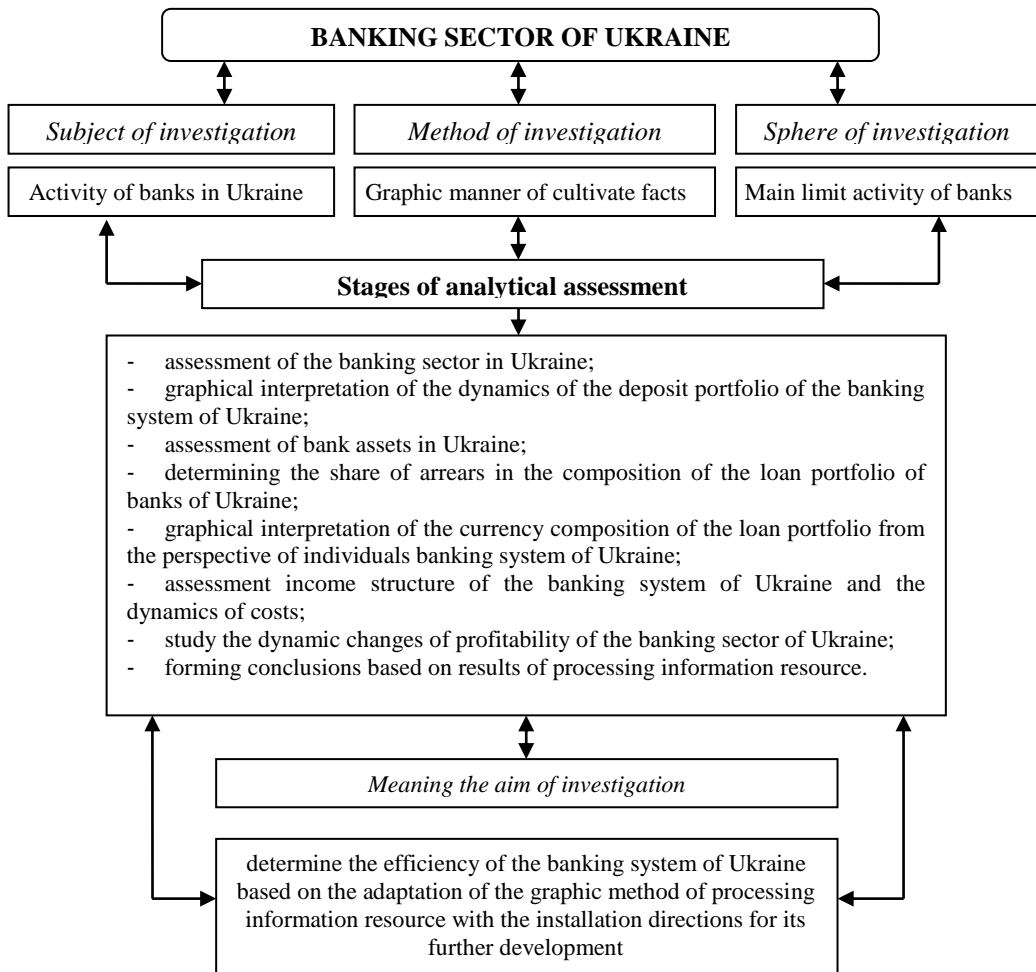
Most experts believe that any phenomenon analysis should be based on the system approach, obligatory displaying the effect of conducted operations. For analytics we would suggest the following algorithm of actions for investigation (Fig. 1).

To assess the state of the banking system of Ukraine was chosen graphical and tabular methods of processing statistical information. This approach was based on expediency visual presentation of research results. Before turning to the study of evaluation criteria specific direction of the banks, is to focus on the study of changes that occurred to the structure of the banking sector of Ukraine in the last period of activity (Table. 1).

Table 1

### **Dynamics of the main components of the banking sector of Ukraine for 2010-2015** (The National Bank of Ukraine)

Indexes	2010	2011	2012	2013	2014	2015
The number of registered banks	194	198	176	180	163	120
The number of active banks	176	176	176	180	147	117
including foreign capital	55	53	53	49	51	41
including with 100% foreign capital	20	20	22	19	19	17
The share of foreign capital in banks,%	40,6	41,9	39,5	34,0	32,5	43,3
Banks in liquidation	18	21	22	17	22	62
Banks with temporary administration	4	4	4	10	8	4



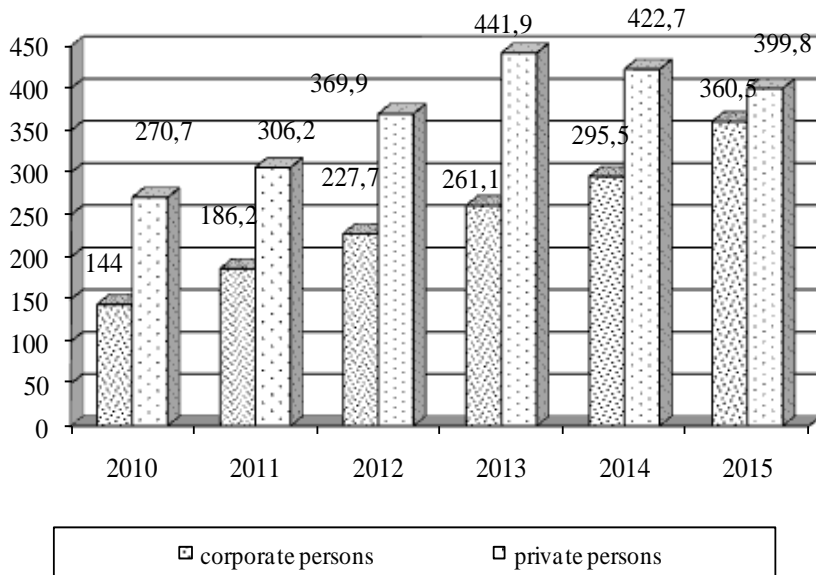
**Fig. 1. Recommendation aspect evaluation stage performance of the banking system of Ukraine (offer authors)**

Studying the dynamics of the main components of the banking sector Ukraine for the years 2010-2015 provided the opportunity to establish that on 01.01.2016 g. In the country, there were 120 registered banks, of which 117 are active banks. The number of banks with foreign capital Ukraine in 2010 amounted to 55 institutions, but the 2016 figure represented 41 institutions. From the perspective of the specific share of banks with foreign capital in the overall composition of banks in Ukraine, significant changes were observed. Since 2012, there has been a steady downward trend in the share of banks with foreign capital in the total stock. On 01.01.2016 the share index was 17%. In the context of the share of foreign capital in the authorized capital of banks in Ukraine over the past six years of operation are traced some changes. Thus, in 2010 the figure was 40.6%, and in 2015 represented the size of 4303%, so growth was at 2.7 percentage points.

The negative trend in the functioning of the banking sector of Ukraine is a significant

increase in the banks in 2015, which are in liquidation, while the number of banks with the interim administration from 2013 is reduced and as of 01.01.2016 g. Was 4 institutions.

One of the key criteria for evaluation of banks in Ukraine is considered a deposit portfolio of size from the perspective of deposits of legal entities in 2015 amounted to 360.5 billion UAH and in terms of the Deposit largest represented 399.8 billion UAH in general graphical interpretation of the dynamics of the deposit portfolio of the banking system of Ukraine for 2010-2016 years Fig. 2.



**Fig. 2. There is graphical interpretation of the dynamics of the deposit portfolio of the banking system of Ukraine for 2010-2016 years, billion UAH (The National Bank of Ukraine)**

Investigation results show that deposit portfolio of legal entities has the largest total value in 2015. Since 2010, the deposit portfolio of legal entities Ukraine's banking system increased by 216.5 billion UAH. However, for the period the deposit portfolio of the banking system of Ukraine in terms of individuals' deposits reached a maximum in 2013 at 441.9 billion UAH, but in 2015 the figure fell by 42.1 billion UAH, that is 9.53%.

We should pay special attention to the state of Ukrainian banking system assets including loan portfolio. Priority assets of banks lie in the ability to accumulate financial strength of banking institutions. From one side, practice shows that the goal of analyzing banks' assets and operations with them is to assess the rationality of the actual structure of assets in terms of ensuring the profitability and stability of the bank. From the other side – to identify ways of optimizing and generalizing prognosis of future results of operations and financial capacity of the banks. Dynamics of assets of the banking system of Ukraine for the years 2010-2015 is presented in Table. 2.

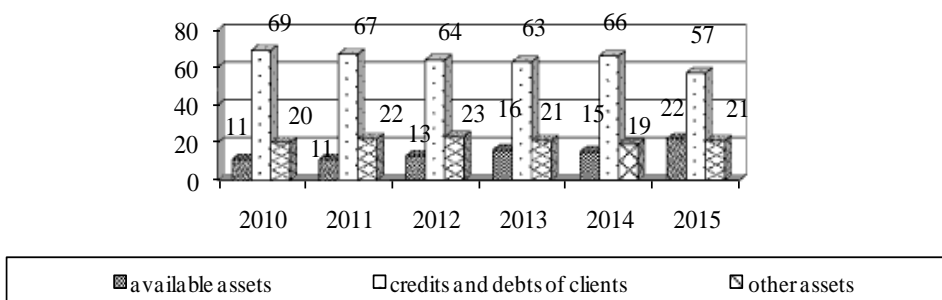
Table 2

**Dynamics of the assets of the banking system of Ukraine for 2010-2015, billion UAH**  
(The National Bank of Ukraine)

Indexes	2010	2011	2012	2013	2014	2015
The banks' assets, including	942,1	1054,3	1127,2	1278,1	1316,9	1254,4
credits granted	755,0	825,3	815,3	911,4	1006,4	965,1
Reserves under active operations	148,9	157,9	141,3	131,3	204,9	321,3
The share of overdue loans in total loans,%	11,2	9,6	8,9	7,7	13,5	22,1

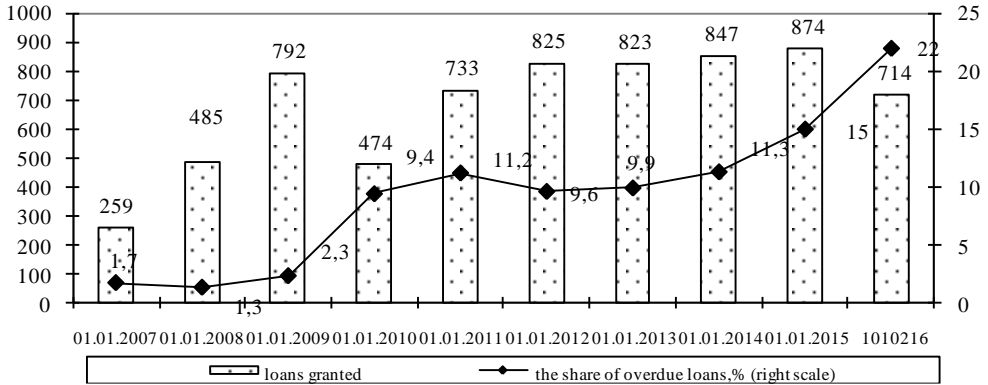
Studying the dynamics of assets of the banking system of Ukraine showed that as of 01/01/2016 p. Their value amounted to 1.25438 trillion UAH. In comparison with 2010 the value of assets of banks in Ukraine grew by 312.29 billion UAH that is 33.15%. In relation to the previous period, the assets of banks in Ukraine decreased by 62.47 billion UAH. In the assets of the banking system of Ukraine the value of loans in 2015 amounted to 965.09 billion UAH, which is 41.27 billion UAH, it is less than in 2014. However, compared with 2010, loans granted rose by 210.06 billion UAH. Significantly it increased the reserves for active operations to a level of 321.3 billion UAH in 2015. In addition, each year changing the share of overdue loans in the total loans of the banking system of Ukraine to the value of 22.1% in 2015. The structure of the banking assets in Ukraine presented in Fig. 3.

As seen in Figure 3, the share of loans in total assets during 2015 decreased to 17.14% from 66.35% to 57.21%. A large proportion of the assets of the banking system continue to be in cash and cash equivalents (12.30% as of 01.01.2016 g.). The volume of outstanding credit debt in 2015 is increased by 30.3 billion UAH. (Up to 157.8 billion USD), its share was 22.1% of the total loan portfolio (Fig. 4).



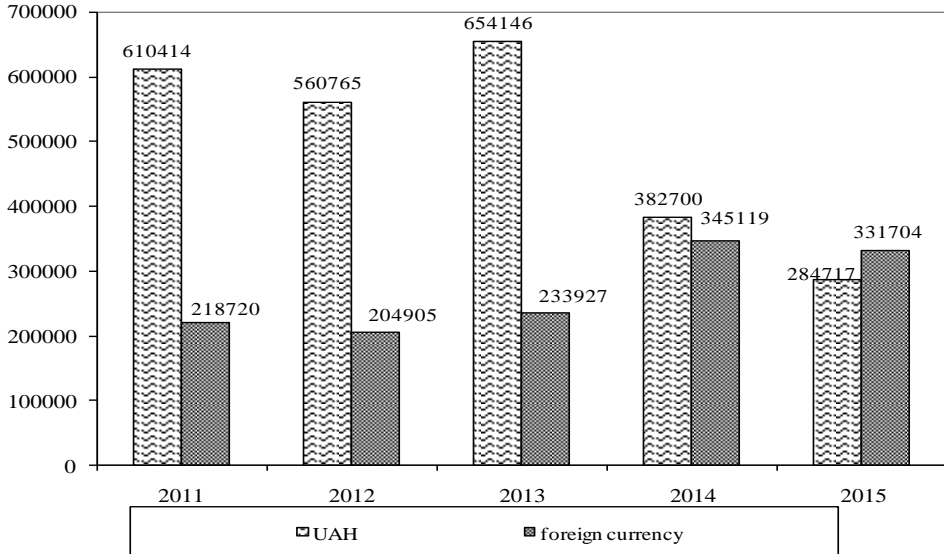
**Fig. 3. Graphical interpretation of the structure of banking assets in Ukraine for 2010-2015., % (The National Bank of Ukraine)**

Consequently, the banking system of Ukraine continues to be characterized by low lending, due to the relatively high requirements for potential borrowers, as well as worsening the main industrial markets offset activity of banks in the placement of funds in government bonds, interbank loans and other alternative assets.



**Fig. 4.** There is graphical interpretation of the dynamics of the loan portfolio and the share of overdue debt in the banking system of Ukraine for 2006-2015 (The National Bank of Ukraine)

Statistical data banks of Ukraine show that by 2016 observed a steady trend towards increasing the share of problem loans in the loan portfolio and there was a significant deterioration in the structure of the loan portfolio of domestic banks (Fig. 5)



**Fig. 5.** There is graphical interpretation currency structure of loan portfolios of private clients banking system of Ukraine for 2011-2015., million UAH (The National Bank of Ukraine)

In 2015, the amount of foreign currency loans represented value of 331.704 billion UAH, in comparison with the previous period less than 13.415 billion UAH. Thus the period of study, marked by constant fluctuations in the amount of foreign currency loans. The largest share of foreign currency loans was recorded in the banking system of Ukraine in 2014 at 345.119 billion UAH. In addition, in 2012 the structure of credit portfolio of banks Ukraine can be considered the worst since the value of loans in foreign currency amounted to only 204.905 billion UAH.

It should be noted that the impact of the banking system of Ukraine, to some extent, depend on the income level (Table. 3).

Table 3

**Analysis of the structure of income of the banking system of Ukraine for 2011-2015, %**  
(The National Bank of Ukraine)

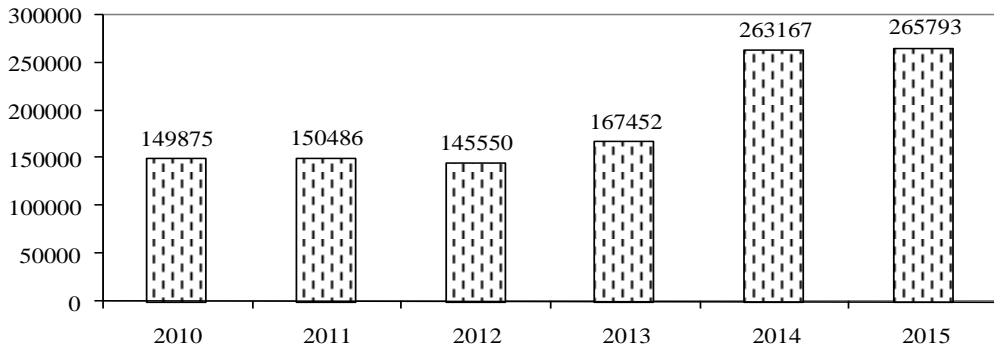
Indexes	Relative share, %					Variance, % (+;-)			
	2011	2012	2013	2014	2015	2012-2011	2013-2012	2014-2013	2015-2014
Interest on profit	79,39	78,13	76,93	71,96	67,85	-1,26	-1,2	-4,98	-4,11
Fee-based income	12,94	14,07	14,79	13,45	14,26	+1,13	+0,72	-1,34	+0,81
Result from trading operations	2,8	2,15	1,96	7,38	10,79	-0,65	-0,19	+5,42	+3,41
Other operating income	4,01	3,85	3,03	4,8	4,8	-0,16	-0,83	+1,77	0
Other income	0,87	1,8	3,29	1,41	2,3	+0,93	+1,49	-0,88	-0,11
All together	100,00	100,00	100,00	100,00	100,00	×	×	×	×

Table 3 presents an analysis of income structure of the banking system in 2011-2015. There is an analysis of the income of the banking system during 2011-2015. Helps identify the following key trends:

- occupy the largest share, interest income, 79.39% of total revenues in 2011, 78.13% in 2012, 76.93% in 2013, 71.96% in 2014, and 67.85% in 2015. This suggests that interest income tend to decrease in 2015 compared to the year 2014, their share in the structure fell by 4.11 percentage points, and in 2014 compared to 2013 - to 4.98 p. p. Interest income (at 80 to 85%), traditionally the dominant component of gross revenues. This is because the loans in various forms has been and remains the main focus of the banking activities;

- commission income is the second largest proportion of bank income source. The share of fee income to total income of the banking system over the period also increased from 12.94% to 14.26%, or 1.32 percentage points increasing the proportion of fee income shows that the banks had difficulty obtaining basic interest income and their management is likely trying to increase revenues from paid services and commissions, providing customers with innovative services. Still, the share of fee income can grow not only due to problems in the work, but also by expanding the list of banking operations, introduction of new products and technologies, increasing the number of customers and consumers of banking services.

The profitability of Ukrainian banking system is being highly affected by expenses. During the years 2010-2015 Ukraine's banking system expenses can be characterized by variable trend (Fig. 6).



**Fig. 6. Graphical interpretation of the dynamics of the cost of the banking system of Ukraine for 2010-2015 (The National Bank of Ukraine)**

Therefore, as of 01/01/2016 p. Ukraine's banking system costs are the sum of 265.793 billion UAH. In comparison with 2010 the value of the cost of the banking system Ukraine increased by 1.8 times (149.875 billion UAH. in 2010). The lowest cost banking system of Ukraine celebrated in 2012 in the amount of 145.55 billion UAH. It should be noted income of the period amounted to 150.449 billion UAH, thereby obtaining profit in the amount of 4.899 billion UAH. Profitable activity banking system of Ukraine as demonstrated in 2013, which represented revenues of UAH 168.888 billion UAH, at a cost of 167.452 billion UAH.

The final stage of investigation of the banking system of Ukraine is an indicator of profitability, which significantly changed and describes the lack of stability in the banking sector of the country (Table. 4).

Table 4

**Dynamics of the main indicators of profitability of the banking system of Ukraine for 2011-2015, % (The National Bank of Ukraine)**

Indexes	Relative share, %					Variance, % (+;-)			
	2011	2012	2013	2014	2015	2012-2011	2013-2012	2014-2013	2015-2014
Return on assets, <i>ROA</i>	-0,76	0,45	0,12	-4,07	-5,12	+1,21	-0,33	-4,19	-1,05
Return on equity, <i>ROE</i>	-5,27	3,03	0,81	-30,46	-47,78	+8,30	-2,22	-31,27	-17,32

Results of the analysis indicate the general deterioration of the efficiency of the banking system of Ukraine, as return on equity and assets declined during 2011-2015, while capital increased multiplier. In this regard it should be noted that the negative values of the return on equity indicates a lack of equity banks in Ukraine. From table 4 shows that the return on assets and equity of the banking system of Ukraine for the period decreased respectively by 4,36% (ROA) and 42,51% (ROE). The above declined in performance mainly due to a significant decrease in net interest margin of the banking system of Ukraine.

Most scientists and experts from banking believe that the banking system of Ukraine should intensify the accumulation of equity and increase the quality of management as capital



growth is accompanied by an increase of its effective use. According to S.O. Kushnir and M.Yu.Vernyudub the success of the banking system of our country largely depends on banks selected by the methods and techniques of money management. However, M.D. Alekseienko notes the fact that the severe demands on the quality, adequacy and transparency of the capital of banks Ukraine pose obvious need to rethink the entire long-term development strategy of the national banking system and sending the efforts to create in our country is really big stable financial institutions.

It is clear that the crisis in the banking system of Ukraine are caused by factors such as frequent changes in government regulation of the banking system; insufficient removal of entry barriers to the market of banking services; changing consumer behavior banking services; serious difficulties domestic banks related to the return of significant external borrowings that are actively involved in previous years; volatility in the foreign exchange market; fluctuations in interest rates on loans. From the studies follows the need to adapt the measures aimed at ensuring the financial stability of the banking system of Ukraine.

### Conclusions and suggestions

The research status and realities of the banking system of Ukraine gives grounds to determine that the existing problems considerably reduced the efficiency of the banking institutions. It becomes clear that the banking system of Ukraine requires immediate effective measures that can stabilize somewhat current fluctuations. We believe in order to ensure financial stability of the modern banking system of Ukraine should: substantially improved legislative platform to improve the quality of sanitation procedures, reorganization and liquidation of banks; based on attraction of additional share capital increase the capitalization of the banking sector; increase transparency of domestic banks; incentives for those local banks that lend to innovative projects; adopt measures in balance and stabilize the dividend policy.

Of course, the proposed measures are closely intertwined, and as a result, can provide an effective impact on the banking system of Ukraine in the future, taking into account existing realities.

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