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BANKING SYSTEM OF UKRAINE: THE CREATION AND FURTHER DEVELOPMENT

Since the country became independent great changes occurred in the economy of Ukraine. It also refers to the banking system. However after disintegration (decomposition) of the USSR and its common financial system, it was necessary to build financial relations not just from the start but to transform them in the direction of market reforms. Taking into account the existing situation, it is necessary to stress that considerable changes took place exactly in the banking system of Ukraine, which is an integral part of market infrastructure, where the mechanisms of cash flows redistribution between the business entities are formed. The banking system development on one hand greatly influences the increase of country's economic

potential, and on the other hand the country's development directly connected with the banking system functioning.

In consequence with the global tendencies the banking system development was forming from stage to stage. As a fact till 1991 the banking system of Ukraine was a state property. From this moment on the privatization process was actively increasing. At the same time the basis for this process was prepared in advance.

At the end of 80s the government of the USSR made the decision about the decentralization of the country's economy management. It was envisaged to change of the banking system organizing structure, banks role increase, strengthening of their influence on the national economy development, transformation of credit into a real economical lever. Till 1987 the banking system consisted of three banks, in particular, the State Bank of the USSR, the Construction Bank of the USSR, the Bank of External Trade of the USSR, The State Labor Savings-Banks of the USSR.

In the process of banking system reorganization the following chances should be made:

- the creation of two-level banking system (the central emission bank and state specialized banks which will directly serve the national economy);
- the transfer of specialized banks on complete cost accounting and self-financing;
- forms and methods improvement of credit relations between companies of different national economy branches [1].

This reorganization was made with the help of directive methods and it hasn't led to great changes in the process of forming credit relation. At the same time "new economical course" which started in the country, objectively required the prolongation of banking system reformation. During 1989-1991 nearly sixty Ukrainian banks were registered in Moscow. They were created on the principle of companies branch service as corporations or cooperative banks (the "Montazhspetsbank" – the Ministry of Assemblage and Specialized Building Works of the Ukrainian SSR, the "Ukrbudbank" – the Ministry of Construction of the Ukrainian SSR, the "Shlyahbank" – the Ministry of Road Building and Operation of the Ukrainian SSR, the "Lisbank" – the Ministry of the Timber Industry of the Ukrainian SSR etc.).

To some extent it assisted the dependence reduction of some economy branches from the state credit policy. The branch offices of Moscow banks were also working: the Incombank, the East Investment Bank. All new formed banks were established according to branch or regional characteristics and they were registered in the Soviet Union registration book of the State Bank of the USSR.

In Moscow also were registered banks created on the basis of the State Bank of the USSR institutions as Ukrainian commercial banks. They

continued to work with the status of state banks (on the basis of the Republican ZhitloCotsBank was created the UkrSotsBank, the AgroPromBank – Joint-stock Industrial bank “Ukraine”, out of PromBudBank – the PromInvestBank was formed).

During 1991-1995 the independent banking and monetary systems of Ukraine have been maintained. On the basis of the Ukrainian Republican Bank of the State Bank of the USSR by the resolution of Verkhovna Rada’s of Ukraine from 20.03.91 “On the procedure of enabling the Law of Ukraine “On Banks and Banking Activity”, the National Bank of Ukraine with the net of regional departments has been created.

We should stress that in October the re-registration of commercial banks, which have been registered by the State Bank of the USSR has begun. The most important innovations, which were introduced by the Law “On banks and bank activity”, became:

- the declaration of two-level organization as the main principle of banking system establishment;
- the declaration of the independent status of the National Bank of Ukraine under direct subordination to the Verkhovna Rada;
- giving the right to create commercial banks on the incorporated basis and the right for privatization and commercialization of operating state banks, except Savings Bank;
- granting to commercial banks the wide range of rights in order to serve legal and physical entities on the principles of competition, equal access to credit resources, mutual partnership relations with clients;
- giving the National Bank the right to carry out the control and supervision over the commercial banks activity on behalf of the state;
- releasing the state from the responsibility of banks obligations, and banks – from the responsibility of state obligations.

Accepting the Law “On banks and bank activity” played a crucial role in the own Ukrainian new, market type banking system establishment.

In 1991 only the foundation of the National Bank of Ukraine functioning as the central bank of the state has been made. This time the bank did not have a proper structure. The banking system was at the very beginning of its development. The National Bank did not also have its own legislative base.

Exactly on this stage begins the work on the organization of the external and internal calculations, credit support of economy, creation of the mechanism of monetary regulation and banking supervision, implementation the practice of interbank calculations on the correspondent base, the organization of the cooperation with international and european financial-credit institutes such as the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development.

In 1992 the reformation of the monetary system of Ukraine started. According to the reform the only legal way of payment on the territory of Ukraine was ukrainian karbovanets, which was represented in the turnover by the coupon of the National Bank of Ukraine.

It is necessary to emphasize that in this period serious inflationary processes occurred in the country. The inflation in 1993 was more than 10 000 %. Many experts believe that the main reasons of this situation were the imbalance in the banking system and legal entities of real sector of economy development, the delay with the introduction into the turnover of a strong national currency, and also sufficient credit amounts directed to financing the governmental needs.

In 1992 the work under the official currency reserve of the National Bank of Ukraine started and in 1993 the first intervention on the currency market was carried out.

The process of the banking system formation was characterized by the extremely rapid growth of banks net and reduction of their assets and capital in dollar equivalent as a result of money devaluation.

During 1996-1999 the monetary reform was completed and the implementation of market principles of monetary-credit market regulation of the country was finalized.

In spring of 1996 the strong national monetary unit – grivna was introduced by means of non-confiscate type of monetary reform.

The improvement of macroeconomic situation in the country preceded the *carrying* of this reform. Appreciably it has been achieved owing to the more consecutive steps use in the direction of market mechanisms, including the use of the non inflationary sources of the state budget deficit covering on the basis of the state securities sale and the currency market liberalization.

The main tasks of monetary reform were:

- the substitution of the temporary monetary unit, the ukrainian karbovanets for the national currency – grivna;
- changing of the prices scale;
- the creation of the stable monetary system and transforming money into crucial stimulating factor of economic and social development.

This envisaged the strengthening of financial stability *forth* before the monetary reform, the calculation acceleration, the withdrawal of excessive cash in banking system, providing the stability of national currency, rate regarding the foreign currencies and price stability as the basis of economic development [5].

On this stage we observe the registration of foreign banks offices and banks with a share of foreign capital, the selling and re-selling of commercial banks took place and also the new bank registration continued.

Among the peculiarities of banking sector development in 1998 there should be mentioned:

- the influence of the deformed structure and direction of financial flows on the character of income which banks received;
- the concentration of banks capital;
- diversification of banking activity aiming at the extending of attendant services spectrum in all spheres;
- strengthening of competition in the banking sphere, in the first place between national and foreign banks;
- the segmentation of the banking services devided according to the branch, functional and regional characteristics;
- the orientation on the active participation of banks in the process of substitution on the basis of the merger of banking, industrial and financial capitals [1].

At the same time during 1998-1999 great efforts in the banking system regulation were directed to the prevention of destabilization on the monetary-credit market in consequence with Asian financial crisis and crisis spread in the Russian Federation, having saved the banking system of Ukraine and assisted of its further development. In particular, the National Bank of Ukraine set the lower capital limit at the level of 3 million euros. But the majority of banks were not able to carry out the mentioned requirements. The main direction of banks activity in this period became the support of their financial stability.

During the period from 2000 till 2007 in banking sector as well as in the economy of the country on the whole an essential economic increase occurred, the price stability grew, the level of inflation gradually reduced. The policy of maintenance and increasing the currency amount reserves was actively introduced. Owing to the National Bank's of Ukraine activity in 2004 the banking crisis was prevented, which could appear as a result of the political and economical situation in the country, connected with the Presidential Elections of Ukraine.

During this period the National Bank of Ukraine worked out legislative documents regulating its relations with banks during monetary – credit market regulation in all segments – credit, currency and stock. These documents included the resolutions on formation the compulsory reserves by banks, on interest policy, on the liquidity regulation of the banks of Ukraine, on the activity regulation of the banks of Ukraine, the Plan of accounting account of the National Bank and commercial banks etc [5].

On this stage the foreign capital activity in financial sector on the whole and banking sector, in particular, essentially increased. The number of banks with the participation of foreign capital grew noticeably. At this time powerful international financial conglomerates appeared. Gradually

they commence their activity in the insurance sector as well as in the investment sphere. It is necessary to mention that banking institutions in comparison with non-banking institutions developed with more rapid rates and excelled them in the assets amount.

On the modern stage, beginning from the second part of 2008, the banking sector as well as the economy of Ukraine are in crisis. The global financial crises made a sufficient impact on the banking system of Ukraine and demonstrated those serious problems and structural imbalance which were not noticeable in the conditions of the economic growth.

Before the crisis in the conditions of fast-moving growth, banks credited actively. But, as a result, the amount of credits given by Ukrainian banks exceeded money accumulated on the deposits in 2,24 times, besides the dollar credits were given in 2,8 times more than the amount currency resources on deposits.

The disproportion between assets and liabilities occurred in predominance of short-term obligations in the structure of resources base and long-term obligations in the assets structure [6].

Obviously, the two-level banking system has been formed in Ukraine. The first level of it includes the central bank, which is the National Bank of Ukraine and the second level – commercial banks.

The main indexes of banking system development of Ukraine

In Ukraine the banking system plays the main role in the enterprises activity financing. More experts claim that on the modern stage the bank-centred model of financial market is forming. It means that the role of banking system in the economy of the country is really prominent. It is confirmed by the amount of banking institutions assets in more than 10 times exceed the total assets of non-banking financial-credit institutions (insurance companies, non-state pension funds, institutions of mutual investment, credit unions etc).

Analyzing the peculiarities of national banking system development during the period from 2000 till 2008, we can summarize the positive quantitative and qualitative changes on the whole.

The quantity of banks was not essentially changing during analyzed period. Besides the amount of total assets grew substantial, in more than 24 times. Eventually the banking system is considered exceptionally as the credit oriented as far as during the analyzed period the amount of credit portfolio constantly extended and its specific weight increased from 60 % in 2000 to 81 % in 2008. During analyzed period the obligations considerably grew, in more than 26 times. At the same time banks also increased the amount of equity capital.

Table 1

The main indexes of banking system development of Ukraine during the period from 2000 till 2008 (on the information of the National bank of Ukraine)

Indexes	2000	2001	2002	2003	2004	2005	2006	2007	2008
Quantity of registered banks	195	189	182	179	181	186	193	198	198
Gross assets, bln. UAH	39,9	50,9	67,8	105,5	141,5	223,0	353,1	619,0	973,3
Credit portfolio, bln. UAH	23,6	32,1	46,7	73,4	97,2	156,4	269,7	485,5	792,4
Specific weight of credit portfolio in assets, %	59	63	69	70	69	70	76	78	81
Equity capital of banks, bln. UAH	6,5	7,9	10,0	12,9	18,4	25,4	42,6	69,6	119,3
Obligations of banks, bln. UAH	30,6	39,7	53,9	87,3	115,9	188,4	297,6	529,8	806,8
Net profit, bln. UAH	-0,03	0,5	0,7	0,8	1,3	2,2	4,1	6,6	7,3

The key indexes of banking system development of the country, which in some way characterize its competitiveness in the global financial system, are the correlation of main indexes of banking system activity with the amount of the gross domestic product (diagram 1). During the period from 2000 to 2007 the banking system of Ukraine demonstrated the stable growth practically in all indexes.

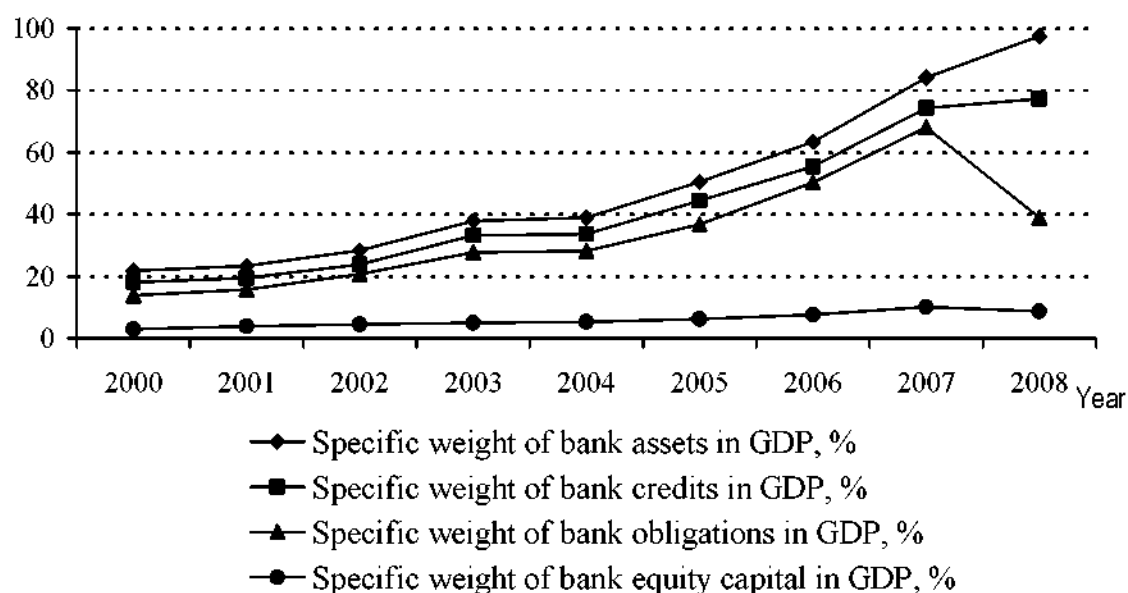


Figure 1. The dynamics of specific weight of main indexes of banks activity in GDP during 2000-2008 (according to the National banks of Ukraine)

The global financial crisis made a considerable impact on the condition of the banking system, specifically a noticeable decrease of active operations was observed. Taking into account the indexes mentioned above, in particular the specific weight of credit portfolio in total assets, their reduction had negative consequences for the economy development of the country on the whole. The specific weight of bank credits in gross domestic product abruptly declined, other indexes also reduced.

Thus, in such a case the temporary free financial resources accumulate on deposits and transform into credit resources for business entities. During 2000-2008 the dynamics of credit and deposit amounts were essentially increasing (Figure 2).

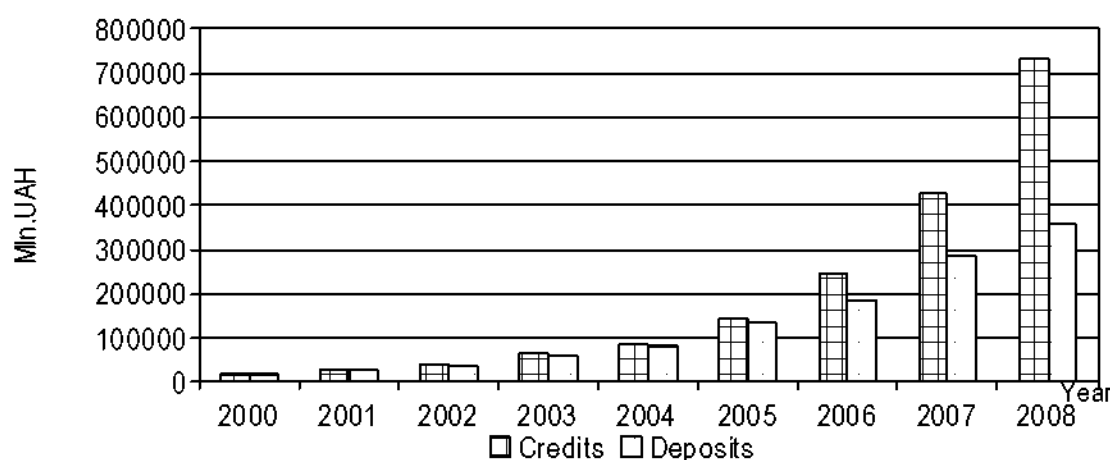


Figure 2. The dynamics of credit and deposit amounts of banks of Ukraine

The noticeable fact is that amounts of deposits are lower than the amounts of credits. It means that temporary free financial recourses are not sufficient to cover the requirements of the economy of the country. Thus, if during the period from 2000 to 2005 this deference was within the figures of 4,3 to 10,3 % , then in 2006 the deference between deposit and credit amounts constituted 25 %, in 2007 the amount of credits exceeded the amount of deposits in 1,5 times, and in 2008 the discrepancy was more than in two times.

Speaking about the structure of deposits, it is necessary to emphasize that during the analyzed period the specific weight of time deposits was gradually increasing from 40 % in 2000 to 67 % in 2007. Taking into consideration the data given on the diagram 3, during analyzed period the specific weight of time deposits in national currency as well as in foreign currency was gradually rising. It meant that banking institutions had a strong basis for the realization of credit operations at a longer period of time.

Speaking about the correlation of deposits in national and foreign currency, the specific weight of deposits in national currency exceeded the specific weight of deposits in foreign currency during all the period. At the same time there is no stability in the dynamics of this correlation, as long as during the period from 2000 till 2003 the specific gravity of national currency was noticeable growing, in 2004 the specific weight of foreign currency greatly increased and than in 2006 the same situation was observed.

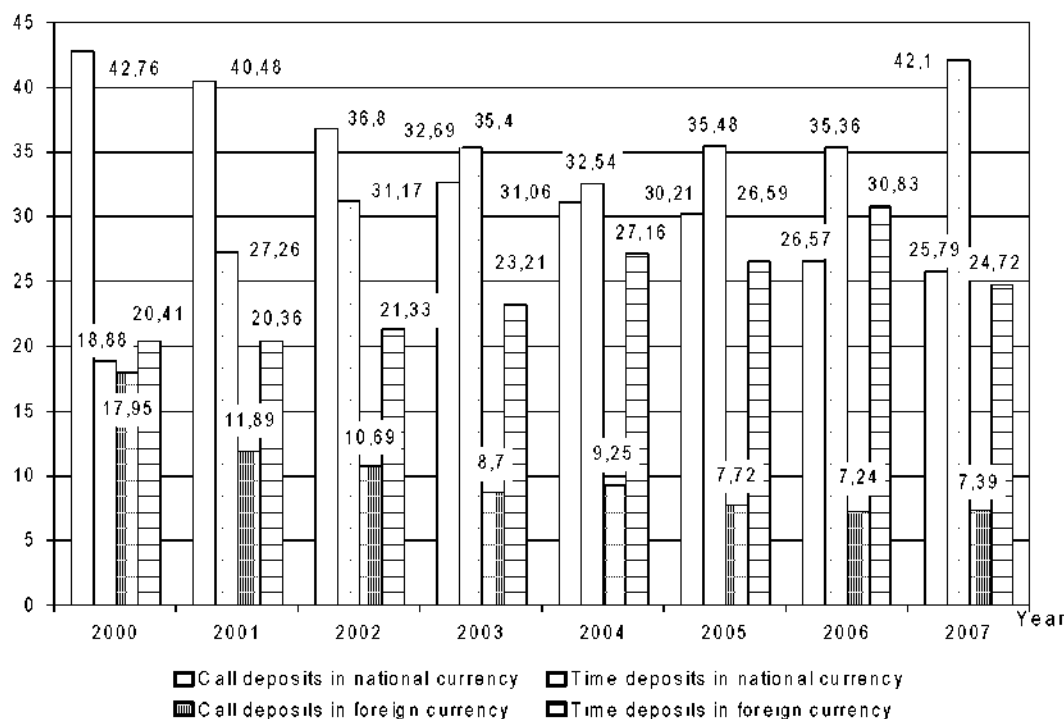


Figure 3. The structure of deposits on times of repayment and on kinds of currencies

It is necessary to stress the existence of connection between political events, taking place in the country, and the level of distrust to the national currency. In 2004 the Presidential elections occurred in the country and in 2006 the elections to the Verkhovna Rada took place. It means that the political situation has a great influence on the economy.

In general, in 2008 the deposit market demonstrated positive tendencies in its development, compared with 2007 it had the growth in 27 %, but it was considerably less than in previous period (table 2). The increase was observed in the first part of 2008, but in the second part of this year the abrupt reduction started under the influence of the global financial crisis. It is also necessary to mention the significant growth of the specific weight of deposits in foreign currency in this period. If in 2007 this index made 32,1 %, then in 2008 it was – 43,9 %.

Table 2

**The main indexes of deposit market development in 2008
(according to the National Bank of Ukraine)**

Indexes	Billion UAH	Specific weight, %	Increase, billion UAH
Deposits, total including	359,7	100,0	75,8
On the kinds of currencies			
In national currency	201,8	56,1	9,5
In foreign currency	157,9	43,9	66,3
On times of repayment			
Call deposits	107,6	29,9	14,2
Short-term deposits	92,9	25,8	32,3
Long-term deposits	159,2	44,3	29,3

During last time the deposits of physical entities exceed the deposits of business entities and form the considerably positive dynamics (diagram 4). If in 2000-2001 the deposits of business entities were prevailing accordingly for 76,4 and 26,4 %, but beginning from 2002 deposits of physical entities gradually began to surpass. Gradually the difference between the amounts of physical entities' deposits and business entities noticeably increased and by the end of 2008 it makes more than 1,5 times.

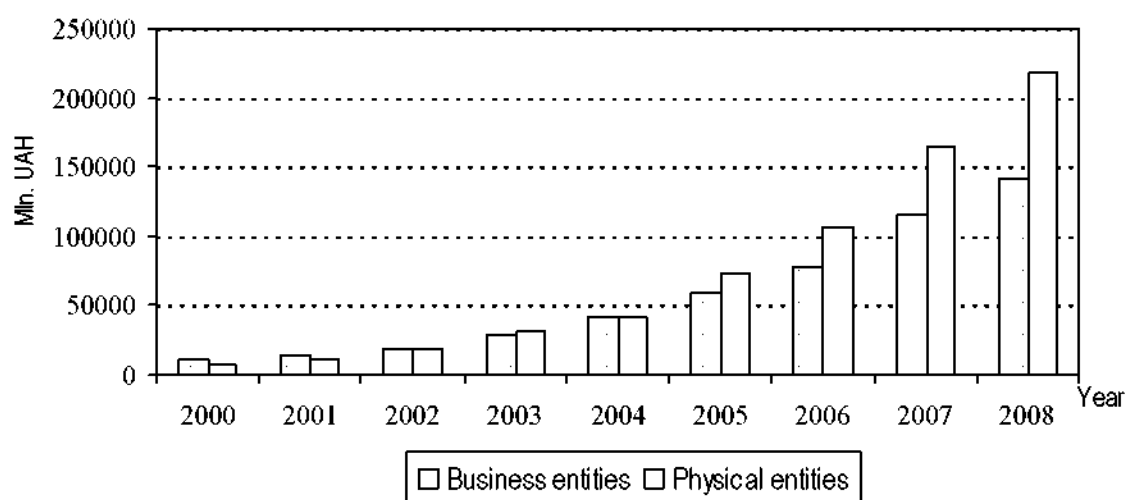


Figure 4. Dynamics of deposits of business entities and physical entities

As a matter of fact, on the monetary market a normal situation from the point of view of financial resources re-distribution began to be formed, in particular the financial resources are directed by physical entities – householders into the economy of the country. The vital importance for

insuring of liquidity and profitability of banking institutions has the correlation between deposit and credit portfolios of commercial banks. The positive changes in recourse base forming, price decrease on credit money of commercial banks made a considerable influence on the credit market of Ukraine.

The amounts of crediting were sufficiently growing from year to year, more over beginning from 2004, the total amount of long-term credits exceeded the amount of short-term ones. First of all, the long-term credits raised due to natural persons crediting, that is explained considerable by rates of mortgage credit increase during last years. But at the same time the crediting amounts of investment activity of business entities grew [5]. In some way it testifies that gradually business entities paid more attention to the process of reconstruction and modernization of fixed assets, as long as the special purpose of long-term crediting is first of all the considerable renewal of fixed assets and extended reproduction of activity.

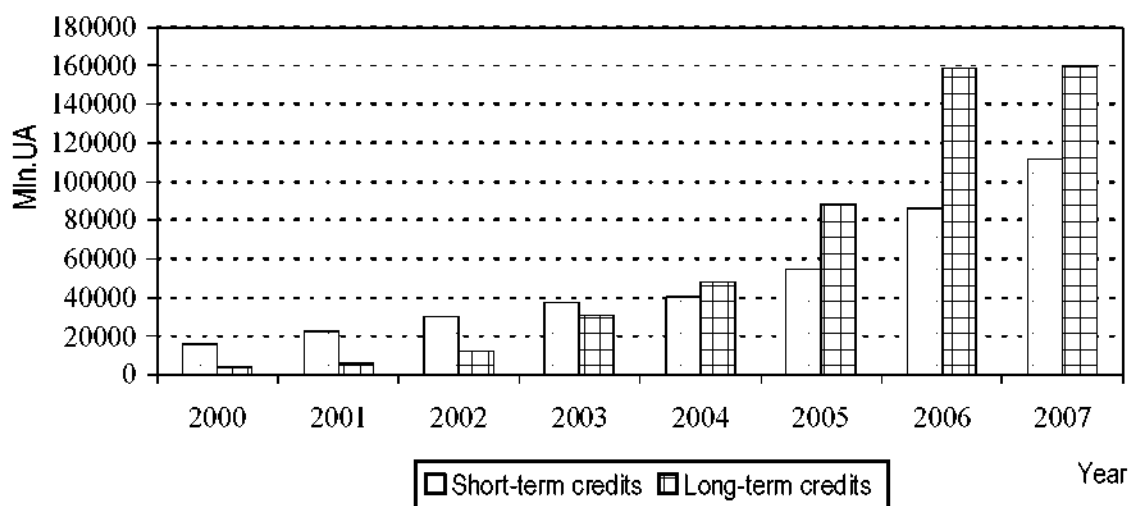


Figure 5. The dynamics of short-term and long-term crediting of business entities

If we take into consideration the structure of credits according to different classification characteristics, we will have such a situation (table 3). During 2000-2006 according to the National Bank of Ukraine the biggest part of credits given in national currency, but in 2006 the correlation between credits given in national currency and credits, given in foreign currency became nearly 1 to 1. The indexes change during 2007 and 2008 was unstable, as long as the specific weight of credits in national currency rapidly extended, but in 2008 it sank down noticeably and made the lowest exponent during all analyzed period.

Table 3

The structure of credits, given for the economy of Ukraine, %

Index	Year								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Credits, in total	100	100	100	100	100	100	100	100	100
– in national currency	53,5	55,5	58	58,3	57,8	56,7	50,5	58,5	40,9
– in foreign currency	46,5	44,5	42	41,7	42,2	43,3	49,5	41,5	59,1
Short-term credits, in total	82,1	78,3	71,7	55	45,8	38,2	35,1	41,2	30,2
– in national currency	45,1	45,8	44,3	36,5	30,3	27,5	24,5	29,5	–
– in foreign currency	37	32,6	27,3	18,5	15,5	10,7	10,6	11,7	–
Long-term credits, in total	17,9	21,7	28,3	45	54,2	61,8	64,9	58,8	69,8
– in national currency	8,4	9,8	13,7	21,9	27,5	29,1	26	29,0	–
– in foreign currency	9,5	11,9	14,6	23,2	26,7	32,6	38,9	29,8	–

The redistribution of credit investments in favour of credits in foreign currency was caused, firstly, by the lower level of interest rates for credits in foreign currency compared with the credits in national currency in the condition of stability of exchange rate UAH to USD, secondly, by the acceleration of deposits increase in foreign currency in the internal market and active money borrowing of banks on the international financial market and also by the activation of importers, which formed the demand for credits in foreign currency, thirdly, the existence of inflationary expectations and fourthly, the growth of banks with the share of foreign capital. It is necessary to stress that first of all credits were given for solving problems connected with current activity of business entities but not for investment needs.

The considerable wear of fixed assets practically in all sectors of economy demonstrates that in the near future great changes will not occurred in recourse and energy saving in the manufacture process and this will further promote the decrease of the level of competitiveness of national economy on the global market. But if the enterprises of real sector use more effectively the possibilities of capital market, the situation will considerably improve.

In the condition of the evident increase of deposit amounts as well as amounts of credits, given to the economy of the country, during 2000-2007 a gradual reduction of interest rates was observed. It means that grivna becomes cheaper and business entities receive more opportunities to use inexpensive capital for financing of their activity (figure 6).

In 2008 under the influence of the global financial crisis first during the last 10 years there was a growth of all indexes. Firstly, the discount rate of the National Bank of Ukraine was risen from 8 to 12 %, secondly, the credit rate in national currency grew from 14,4 to 17,8 %, the rate in foreign currency slightly increased. It is necessary to mention that banks also raised the deposit rate in national currency.

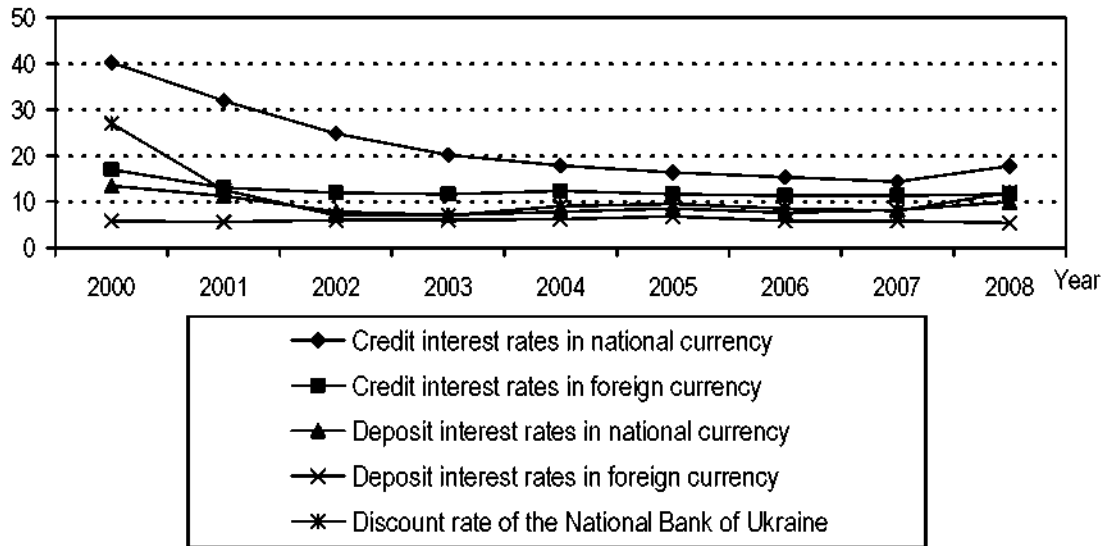


Figure 6. The dynamics of interest rates for credits, deposits and the discount rate of the National bank of Ukraine

During the analyzed period the effectiveness of the banking system functioning in the years before crisis considerably grew and practically approached to the level of industry developed countries. Yearly the increase of banks profit during 2001-2007 was characterised with rapid rates. At the same time the growth of the return on assets index was observed till 2006, in 2007 this index sank down to some extend and in 2008 approached to nearly zero in banking system on the whole. As a matter of fact a lot of banks finished the year with a loss.

Taking into account the situation when during the first part of 2008 the economy of Ukraine still worked with growth indexes and rapid decrease in economy and the crisis in banking system showed up at the end of the third quarter, that is why the indexes of 2008 did not demonstrate completely the negative consequences, they reflected more vividly during 2009, though the increase rates of main indexes considerably became slower. We should stress that an important reason for growth rates reduction of banks liabilities is the decrease of UAH exchange rate compared with the main currencies and also mass withdrawal of deposits by natural persons in autumn 2008, not taking into consideration the resolution of the National Bank of Ukraine concerning the prohibition of deposits withdraw ahead of time.

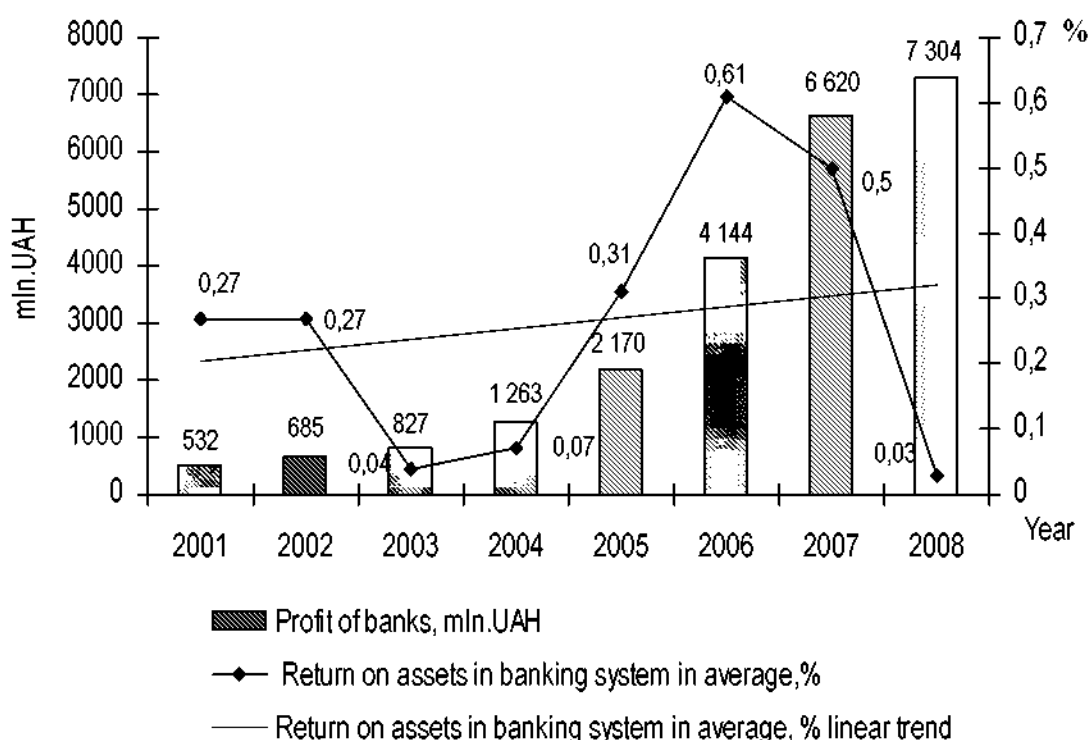


Figure 7. Dynamics of profitability indexes of banking system of Ukraine

It is necessary to emphasize that after the spreading of crisis in the economy of the country, the position of Ukrainian banking system became worse in the international ratings. Then, in June 2008 the international agency Standard & Poor's reduced the credit rating of our country, which has not been changed from May 2005, from (BB-) to (B+), and in October 2008 – to (B). In July 2008 this agency appraised the part of problem total assets of banks of Ukraine as 35-50 % , although according to the National Bank of Ukraine the amount of problem credits was 1,5 % [7].

Table 4

Dynamics of main capitalization indexes of banking system of Ukraine

Index	Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Total assets of banking system, mln. UAH	50 785	67 773,5	100 234,4	134 347,9	213 878	340 179,3	599 396,1	926 086,5
Pace of assets increase	1,2739	1,3345	1,4790	1,3403	1,5920	1,5905	1,7620	1,5450
Core capital, mln. UAH	4 575,0	5 998,1	8 116,1	11 648,3	16 144,4	26 266,2	42, 872,6	82 454,2

Table 4 continued

Index	Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Race of core capital increase	1,2483	1,3111	1,3531	1,4352	1,3860	1,6270	1,6322	1,9232
Equity capital, mln. UAH	7 915,0	9 983,4	12 881,9	18 421,4	25 450,9	42 566,1	69 578,3	119 263,1
Pace of equity capital increase	1,2164	1,2613	1,2903	1,4300	1,3816	1,6725	1,6346	1,7141
Regulatory capital, mln. UAH	8 025	10 099	13 274	18 188	26 373	41 148	72 265	123 066
Pace of regulatory capital increase	1,5589	1,2584	1,3144	1,3702	1,4500	1,5602	1,7562	1,7030
Standard of regulatory capital adequacy (not less 8 %)	20,69	18,39	15,11	16,81	14,95	14,19	13,92	14,01

During analyzed period till 2007 the pace of credits amount increase was the similar to the pace of problem credits growth (diagram 8). Besides the specific weight of problem credits in the total credit amount demonstrated another tendency, till 2007 it gradually decreased. Needless to say that the year of 2008 became the most important when on one hand the pace of credit giving out became slower and on the other hand the pace of problem credits forming rapidly increased. The specific weight of problem credits began to grow in the total amount of credits, more over this index increased approximately in two times during the year. We should mention that this tendency was intensified in some extend also in 2009.

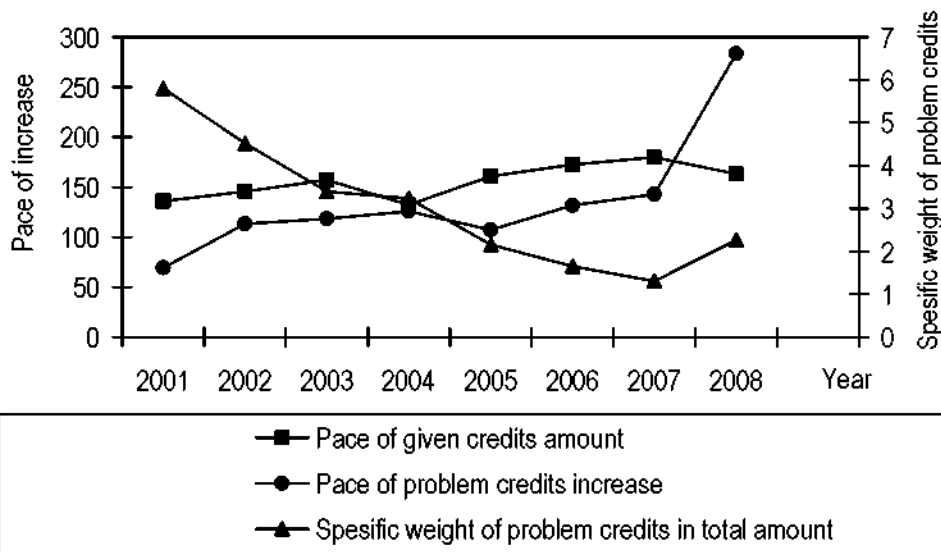


Figure 8. Dynamics of problem credits indexes in Ukraine, %

Many experts believe that the main macro indicator, which is used in order to measure of banks capitalization on macro level, is the correlation of regulatory capital to GDP. The minimum level of this correlation, which allows to ensure the ability (efficiency) of banking system, is within 5-6 % to GDP. The made analyze of the level of banking system of Ukraine capitalization during the period 2000-2008, the result of which is given in the table 5, proves (demonstrates) that according to this criterion the banking sector capitalization exceeded the minimum level. The mentioned indicator began to exceed minimum level only beginning from 2004. It was stipulated by following factors:

- mass inflow of the foreign banking capital in Ukraine with the international requirements (demands) to the level of capitalization;
- active increase (accumulation) of capital by Ukrainian banks, which did not have external recourses;
- forecasting of credit expansion in further years.

Table 5

**Macroeconomic indicators of capitalization level of banking system
of Ukraine in 2000-2008**

Index		Year								
		2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP, mln. UAH		170 070	204 190	225 810	267 344	345 113	441 452	544 153	720 731	949 864
Regulatory capital of banking system	mln. UAH	5 148	8 025	10 099	13 274	18 188	26 373	41 148	72 265	123 066
	% to GDP	3,03	3,93	4,47	4,97	5,27	5,97	7,56	10,03	12,96
Adequacy of regulatory capital (H2), %		15,53	20,69	18,01	15,11	16,81	14,95	14,19	13,92	14,01

Rather high profitability of banking business in Ukraine became one of the main reasons of impetuous penetration (spread) of foreign capital on national banking market, which is necessary to admit as the most important tendency of last years in the dynamic development of modern banking system of Ukraine. It is one of the reflections of the economic processes globalization, which has positive aspects as well as negative ones.

Table 6

The indexes of foreign capital presence in banking system of Ukraine

Index	Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Quantity of operating banks	152	157	158	160	165	170	175	178
Including with the share of foreign capital	21	20	19	19	23	35	47	53
Among them with 100 % foreign capital	6	7	7	7	9	13	17	17
Specific weight of foreign capital in banks core capital, %	12,5	13,7	11,3	9,6	19,5	27,6	35,0	41,1

The inflow of foreign capital in the banking system of Ukraine began from the middle of 90th years of XX century. But the active development of this process was observed from 2005. During last 4 years the specific weight of foreign capital in banks core capital grew in two times. The increase of specific weight of banks with foreign capital in Ukraine enhanced the competitiveness in banking sector, increased the banking system capitalization, made national banks to reduce the unproductive expenses, and improved the level of corporative management in the banking sector. At the same time it should be mentioned that the expected growth of price competitiveness in consequence with considerable inflow of foreign capital, which is associated with inexpensive and long-term financial recourses, in the national banking system did not occur (has not occurred). The foreign financial groups, working on the market of Ukraine, do not sink down interest rates, as long as there is no sense to decrease their own profits. More over taking into account that the penetration (spread) of foreign banks in Ukraine occurred through buying of regional (local) banks and high interest rates give an opportunity to return investments in short period [9].

The main countries of foreign capital origin in banking system of Ukraine are, first of all, Cyprus, Austria, the Russian Federation, which in 2008 took (held) consequently first, second and third position. As for the last country, it is necessary to emphasize that in 2008 compared with 2007 its specific weight increased in more than 1,5 times. Besides, the capital of following countries as Kazakhstan, Ireland, United Kingdom, Luxembourg, the USA, Georgia, Turkey, Canada, Switzerland, Virgin Islands, Latvia, Finland, Iceland, Bahamas, Slovakia, Cayman Islands, Lithuania and Slovenia is represented in the banking system of Ukraine.

Table 7

**The foreign capital origin of the banking system of Ukraine, %
(according to the National Bank of Ukraine)**

Country origin of proprietor	Year	
	2007	2008
Cyprus	7,15	7,10
Austria	7,15	5,97
Russian Federation	3,42	5,45
France	4,41	3,77
Hungary	1,53	2,95
Netherlands	2,90	2,78
Greek	0,12	2,2
Sweden	2,14	2,17
Poland	2,78	1,88
Germany	0,21	1,51
Italy	–	1,41
Others	3,39	2,88
Total	35,2	41,14

We should mentioned that among banks with the share of foreign capital, are also represented the integrated financial intermediaries, which the international financial conglomerates are. In consequence with this fact the foreign capital inflow considerably (evidently) increased not only in the banking sector but also in insurance and investment spheres. The specific weight, controlling in the banking sector by the international financial conglomerates, is also gradually rising. It is necessary to stress that on the national financial market came not only powerful financial conglomerates – the international financial leaders, but strong regional financial conglomerates, first of all from the countries of the European Union.

Under the direct control of the financial conglomerates are banks with different amounts of assets, among them the most powerful banks of first group “Raiffeisen Bank AVAL” and “UkrSibbank” as well as medium-size banks and even small. From the point of view of their proprietors functioning – financial conglomerates, the amounts of their activity are not very significant, as far as if to compare the assets amount of the largest national bank, which is under their control, it makes less than 1 % from total assets of financial conglomerate and as for other banking institutes this index is considerably less.

As a matter of fact all banks are under sole (exclusive) control of their proprietors and their part in core capital makes approximately 100 %. More

over during the financial crisis, for example the proprietor of the “UkrSibbank” financial conglomerate “BNP Paribas S.A” increased its part in core capital from 51 to 81,4 %. To determine the real quantity of banks, which are included in the composition (compound) of financial conglomerates, is difficult as long as to check the structure of conglomerates is rather problematical. Sometimes the reason is rather complete structure of existing (existent) relations but sometimes groups conceal the information specially from regulative bodies (authorities), being anxious only about their commercial interests.

Entering internationally active (operated) banks in the banking system of Ukraine demands to bring the banking regulation and supervision in correspondence with international standards as quick as possible.

Establishment and development of banking supervision in Ukraine

Actually, the implementation of banking supervision took place concurrently with the establishment of the National Bank of Ukraine. With the adoption of the Law of Ukraine “On banks and banking” of 20.03.91 No 827-XII the regulatory basis for banking regulation and supervision was established, specifically, banks’ activities legislative basis was determined, as well as the main regulations of their establishment.

The first document that laid the foundation of the prudential regulation was the Regulation “On economic norms of commercial banks’ activities regulation” of 21.12.93 No 114. The Regulation establishes economic norms, binding for all commercial banks: minimal statutory capital; balance liquidity indexes; the bank’s solvency; binding reserve assets in the NBU; maximum risk rate per one borrower. Obviously, from today’s point of view these indexes are not enough to execute effective banking regulation and supervision, and correspondingly, in 1995 it lost force. It was succeeded by more detailed document the Instruction No 10 “On the regulation procedure and commercial banks’ activities analysis” (The Resolution of the NBU of 30.12.96 No 343, lost force), that in contradistinction to the previous one, introduced the new procedure of binding economic norms (their list was enlarged to 21 indexes) and assessment activity indexes’ estimation. But in 1997 the specified Instruction No 10 was submitted in a new wording that took into consideration international accounting and reporting norms. But in 1998 the Instruction No 10 lost force and was succeeded by the following document with the similar title but in a new wording (the Resolution of the NBU No 14 of 14.04.98). It should be mentioned that the first documents that had been elaborated to implement banking regulation and supervision lost force nowadays. Changes of the economic situation in the country in general, the intensive development of the banking system, its gradual integration into the world economic community contributed to it. But from the very beginning while establishing

norms they tried to take into consideration the Basel Committee on Banking Supervision requirements at most.

In 1997 the Regulation “On the banking supervisory system structure of the National Bank of Ukraine and its powers as to the adequate reaction to breaches of commercial banks’ activities” (the Resolution of the NBU of 17.11.97 No 380) was adopted. It established the structural basis of banking supervisory system of the NBU and it was defined that banking supervisory system is vertically coordinated, it functions as an integrated part of central apparatus and regional directorates of the NBU. The system of banking supervision at a corresponding department level of banking supervision of the NBU consists of departments and the Board (according to the sphere of activity), namely:

- the Department of Banks’ Registration and Licensing – banks’ registration and licensing of banking activity;
- Off-Site Banking Supervision Department – economic analysis, working out of banking regulation standards;
- Bank On-Site Examination Department – banks’ examination;
- the Department on Problem Banks – supervision over problem banks which in the established procedure got the total rating “boundary” (4) or “unsatisfactory” (5);
- Banking Regulation and Supervision Directorate – coordination of information as regards banking supervision.

To take measures as regards the future development, stabilization and improvement of Ukrainian banking system reliability, implementation of coordinated, adjusted and consistent policy of banking supervision, timely respond to the changes in banking system, the improved Regulation on the Commission on banks’ activities supervision and regulation of the National Bank of Ukraine was passed (the Resolution of the NBU of 09.11.98 No 470).

The Commission on banks’ activities supervision and regulation of the National Bank of Ukraine is the body established to implement coordinated, adjusted and consistent policy as to the banking supervision in Ukraine, that will facilitate Ukrainian banks’ successful operations, reliable protection of investors’ and creditors’ interests, forecast and timely respond to the changes in banking system of Ukraine.

Realizing that to provide banking system stability it is necessary to implement complex assessment of banking institutions’ activities, in 1998 the National Bank of Ukraine passed the corresponding resolutions “The Resolution on bank on-site examination planning” and “The Resolution on the procedure of commercial banks’ assessment and application of complex rating assessment according to the CAMEL system”, which regulated bank on-site examination procedure and allowed the banking supervision department specialists to perform the analysis under the CAMEL system.

An important moment in the development of the banking system of Ukraine and banking supervision was the adoption of the new Laws of Ukraine in 1999 “On the National Bank of Ukraine” (of 20.05.99 No 679-XIV) “On banks and banking” (of 07.12.2000 No 2121-III) which facilitated sorting out some issues as to compliance of domestic banking legislation with European standards including banking regulation and supervision. Having passed above-mentioned acts a number of regulations regarding banking supervision were passed during 2001. They are: the regulation “On the procedure of issue to banks banking licenses, written permissions and licenses to carry out separate operations” (of 17.07.2001 No 275) (instead of the resolution No 181); The Regulation on bank on-site examination (the Resolution of the NBU of 17.07.2001 No 276); The instruction on banking regulation procedure in Ukraine (the Resolution of 28.08.2001 No 368), that in contradistinction to the previous instruction of 1998 included 13 binding norms of commercial banks’ activities, the analysis of which enabled to comprise main aspects of banking; regulations “On application of influential measures by the National Bank of Ukraine for breach of banking legislation” of 28.08.2001 No 369.

In 2002 the National Bank of Ukraine introduced the regulation “On the procedure of rating assessment according to the rating system CAMELS” (of 08.05.2002 No 171) that allowed to carry out banking supervision based upon the system of risk assessment on all main activities.

In 2003 the International Monetary Fund and the World Bank inspected the state of banking supervision in Ukraine in conformity with the core principles of the effective banking supervision. Specifically it was assessed that from 30 principles (the 1st is divided into 6 partials) 22 principles are observed in Ukraine, the rest 8 are declared not to meet the requirements.

It was stated in the letter of the NBU of 30.12.2004 No 42-412/4010-13749 that to bring the banking system of Ukraine closer to international standards and to increase stability of the banking system every effort is made to introduce Basel I. Correspondingly, for that period of time the regulatory basis of banking regulation in Ukraine on capital assessment was based on Basel I as regards the restrictions as to the components of regulatory capital and the process of assets weighing on weight ratios according to their basic potential credit risk. Moreover, this document stated that as far as the banking system of Ukraine is the part of international banking community and it strives to attain transparency and openness, the National Bank of Ukraine considers it to be essential to start the preparatory procedure on Basel II implementation. By the decision of the NBU and taking into account the condition of the national banking system, complete implementation of the requirements of Basel II system will have to be fulfilled by 2016.

Basel Capital Accord is a powerful and complex project the successful implementation of which requires special preparation of both supervisory bodies and banking institutions. The implementation of Basel II into the banking practice is connected with large expenditures. Experts estimate the expenditures related to the implementation of Basel II into the activity of banking institutions in the limits from €60 mln to €130 mln. That's why the Basel Committee permitted national supervisory bodies to determine the necessity and to set the terms of Basel II implementation, to choose approaches to risk assessment according to the real readiness of the banking system. The implementation of the Basel Committee recommendations in Ukraine is one of the success factors, the element of competitiveness and recognition of the banking system, as far as Basel Capital Accord contains modern approaches to banking regulation and supervision, the core objective of which is to provide the bank's capital adequacy and to improve risk management system that will contribute to the stability of the banking system. An effective use of the approaches recommended by Basel Capital Accord is the necessary condition to improve banking regulation quality. Together with the indisputable advantages of the core principles of Basel Capital Accord there are some problems connected with the provision for implementation of its conditions. Even the use of the simplified Basel II approaches in domestic banking practice requires thorough and prolonged preparation, since:

- there are not enough rating agencies in Ukraine which could rate all borrowers. Moreover, customers have to be ready to disclose the information on their financial condition and to bear some extra expenses to pay for these agencies' services;
- because of the application of the new methodology on bank capital adequacy assessment, decrease of banks' capital volume and adequacy can take place, and as a consequence, the restriction for banks as to active increase of assets. Because of this enterprises-borrowers for whom stringent demands on solvency are brought in will be damaged first;
- the necessity for the banks to get international rating, that also requires considerable expenses;
- to provide risk assessment banks have to use complex economic and mathematical models, taken as a basis for estimation recommended by the Basel Committee and, correspondingly, have at their disposal adequate software and hardware to develop which one needs time and should be ready to bear expenses;
- strengthening of the requirements on risk assessment, the necessity of internal risk management system development will lead to the expenditures on staff qualifications improvement, attraction of external specialized establishments' services, reorganization of papers circulation;
- there is not enough data necessary for credit risk assessment;

- the third component-basis “Market discipline” requires free access of all participants of the market to the qualitative and quantitative information on capital volume, structure, risks taken, system of risk management;
- the necessity to work out at the national level methodological documents which will regulate the process of Ukraine’s entering “Basel II” system.

According to Anatoliy Shapoval’s, the first deputy of the Head of the NBU, point of view, it is reasonable to implement the system “Basel II” in three stages which can be characterized as the strengthening of banking supervisory structure; implementation and strengthening of the 3 components; transition from the Agreement 1988 to the system “Basel II”.

The implementation of Basel II requirements is closely connected with the necessity to reform the structure of national banking supervision authorities as it envisages banking regulation and supervision quality increase, and the improvement of risk management.

The second stage of implementation of Basel II envisages the improvement of capital base. The task of banking supervision is in the transition to new principles orientated towards maximum risk estimation that needs the bank’s skills in risk management quality assessment and its ability to assess risk rate tendency. At the same time banks should be reminded about their responsibility for the development of their own methods of assessment of their demand for capital and the strategy of capital rate maintenance according to the principles of the second component.

As regards the principles of the market discipline according to the third Basel II component, banking supervisory authorities have to advantage to provide the basic level of information disclosure based on negotiations with banks, investors and other users of financial information, their information demands [12].

In 2007 a Joint Mission of the International Monetary Fund and the World Bank performed an assessment of Ukraine’s compliance with the Core Principles of Effective Banking Supervision, elaborated by the Basel Committee on Banking Supervision in the framework of the Financial Sector Assessment Programme. According to the results of their work it was ascertained that Ukraine completely or predominantly complies with 25 out of 30 principles of the Basel Committee (considering that the first principle has 6 constituents to be assessed separately). Moreover, it was stated that some positive changes in the organization of banking supervision were taking place:

- strengthening of the regulatory basis for the prudential regulation, namely (increase of the regulatory capital adequacy norm, establishment of more stringent economic norms that regulate credit transactions with related persons, more demanding requirements for the formation of provisions for credit transactions (principles 6-17);

- informing banks about the detailed requirements for the risk management system, and incorporation of the risk management system during supervision (principles 7-16, 19, 20);
- establishment of the legislative and regulatory basis pursuant to the counteraction to money laundering and terrorism financing, which meets the international standards (principle 18) [13].

At the beginning of 2008 the structure of the Supervisory Board of the NBU was improved. It consists of Bank On-Site Examination Department, Off-Site Banking Supervision Department, Department of Methodology and Regulatory Basis for Banking Regulation and Supervision, Restructuring and Banks' Activities Revocation Department, and Legal Provision for Banking Supervision Administration and Supervision Quality Control Department. It enabled to concentrate all necessary departments in one Board to centralize regulatory and supervisory functions and to avoid authority duplication.

The NBU gradually carries out the implementation of individual Basel II Agreement regulations. In 2004 the NBU passed Methodic Instructions on banks' examination "Risk assessment system". In 2007 the NBU passed Methodic Recommendations as to the improvement of corporate management in the banks of Ukraine. At the end of 2007 the NBU made amendments to the structure of regulatory capital adequacy norms assessment that envisages market risk estimation.

If we have a look at the norms' conduct during 2008, it becomes obvious that the crisis that developed in Ukraine in the middle of 2008 reflected in economic norms (table 8). Specifically, growth of the norm H8 – large credit risks norm is obvious. Norms H11 (securities investment norm, separately for every institution) and H12 (total investment norm) decreased dramatically, especially the last one, which in comparison with the beginning of the year reduced nearly twice.

At the same time the considerable growth of the norm H13 (general open currency position norm) took place, which at the beginning of the period was 7 %, but at the end rose up to 10,5 %. Such conduct was, first of all, connected with currency rates sharp fluctuations exactly during the second part of 2008.

According to the decision of the Commission on Banking Supervision and Regulation of the National Bank of Ukraine of 21 December 2007, for 2008 margins of regulatory capital and assets for some separate groups of banks were established: group I (regulatory capital is more than 1 000 mln. UAH, assets are more than 10 000 mln. UAH), group II (regulatory capital is more than 300 mln. UAH, assets are more than 3 000 mln. UAH), group III (regulatory capital is more than 100 mln. UAH, assets are more than 1 000 mln. UAH), group IV (regulatory capital is less than 100 mln. UAH, assets are less than 1 000 mln. UAH).

Table 8

Dynamics of economic norms' adherence by Ukrainian banks during 2008 (according to the NBU data)

Norm	By the state on											
	01.01	01.02	01.03	01.04	01.05	01.06	01.07	01.08	01.09	01.10	01.11	01.12
H1 Minimum regulatory capital norm (ths. UAH)	72 264 704	74 001 013	78 345 993	82 479 630	824 057 264	85 981 443	88 965 422	92 675 064	95 853 930	96 954 523	1 000 987 992	107 362 256
H2 Regulatory capital adequacy norm (not less than 10 %)	13.92	13.97	13.25	13.29	13.34	13.49	13.40	13.67	13.74	13.61	13.16	13.08
H4 Instant liquidity norm (not less than 20 %)	53.60	57.80	52.67	51.57	51.32	51.60	54.25	54.93	55.14	54.06	50.20	58.38
H5 Current liquidity norm (not less than 40 %)	75.31	74.22	72.10	71.39	72.00	73.10	71.41	77.81	79.27	79.34	72.41	76.99
H6 Short-term liquidity norm (not less than 20 %)	39.93	39.67	37.06	36.32	36.41	37.38	38.03	38.04	38 072	37.58	32.38	32.73
H7 Maximum credit risk per one contractor norm (not more than 25 %)	22.56	22.75	22.35	22.61	22.03	21.77	21.86	21.86	21.82	22.18	22.41	23.33
H8 Large credit risks norm (not more than 8-times amount of regulatory capital)	171.06	161.01	158.59	151.33	155.03	146.97	154.15	148.56	150.51	162.36	169.87	170.69

Table 8 continued

Norm	By the state on											
	01.01	01.02	01.03	01.04	01.05	01.06	01.07	01.08	01.09	01.10	01.11	01.12
H9 Norm of maximum credit volume and guarantees granted to one insider (not more than 5 %)	2.01	2.01	1.96	1.98	2.11	2.22	2.19	1.83	1.84	1.81	1.81	1.55
H10 Norm of maximum total credit volume, guarantees granted to insiders (not more than 30 %)	6.84	6.59	6.25	6.26	6.96	6.89	7.10	6.16	6.14	6.14	7.09	6.79
H11 Securities investment norm, individually for each institution (not more than 15 %)	0.58	0.53	0.44	0.38	0.40	0.41	0.42	0.42	0.45	0.40	0.30	0.23
H12 Total investment norm (not more than 60 %)	9.05	8.00	7.97	7.44	7.72	7.58	7.38	7.51	7.42	7.24	6.87	5.91
H13 General open currency position norm (not more than 30 %)	7.0297	7.4082	6.7835	7.6930	8.3136	8.1802	7.7191	7.6844	7.8524	7.0912	8.3292	10.4398
H13-1 General long-term open currency position norm (not more than 20 %)	4.2474	4.8686	4.7655	5.6300	6.3313	6.5022	6.1280	6.0739	6.7511	5.6259	6.5309	8.2593
H13-2 General short-term open currency position norm (not more than 10 %)	2.7953	2.5755	2.0800	2.0672	1.9773	1.6945	1.6533	1.6301	1.1516	1.5099	1.8345	2.2400

According to the data from the table 9 we can draw the conclusion that assets, capital and liabilities are concentrated in banks of group I to the utmost, that covers 18 out of 182 banks operating by the state on the end of 2008.

Table 9

Group	Assets		Own capital		Liabilities	
	2007	2008	2007	2008	2007	2008
Group I	67,8	68,0	57,2	62,9	65,8	68,7
Group II	17,2	16,6	16,8	16,3	17,2	16,7
Group III	10,2	7,3	12,9	9,3	9,9	7,1
Group IV	7,8	8,1	13,1	11,5	7,1	7,5

According to the Constitution and the Article 6 of the Law “On the National Bank of Ukraine” [14] the main function of the NBU is to ensure the stability of the monetary unit of Ukraine. It is also stated in this article that to perform its main function the National Bank contributes to the provision for banking system stability. Stability of the national currency and the banking system can be reached only under the condition of formation of effective mechanisms of banking risks’ assessment, monitoring and minimization. So, it is reasonable to consider the majority of the functions of the National Bank of Ukraine defined by the Article 7 of the Law of Ukraine “On the National Bank of Ukraine” from the point of view of risk management.

On the other hand, all three “pillars” (components) envisaged by Basel II are based on the assessment and taking into consideration different risks during banking. Within the framework of the first component “Minimum capital requirements” the bank’s capital adequacy is considered in the aspect of its meeting the requirements of market risk, operational risk and credit risk. The second component “Supervisory review” establishes the requirements as to capital adequacy provision for all bank’s risks, and the set of approaches to stimulate the elaboration and implementation of improved methods of monitoring and risk management. The third component “Market discipline” supplements the first two components in the aspect of requirements elaboration as to information disclosure which will enable market participants to assess main data on bank capital use and its risk rate.

Taking into account above-mentioned ideas, we can make the following conclusions. Firstly, it is reasonable to consider banking regulation and supervision as one of the most important functions of the NBU from the point of view of banking system risk management. The formation of effective

banking regulation and supervision based on risks is envisaged by the second Basel II component. Secondly, the observance of market discipline (the third Basel II component) is stimulated by information disclosure as to processes and the risk assessment results in banking report.

The effective realization of the NBU functions can be organized only on conditions of adequate software system formation. This system is based on banking reporting submitted to the NBU. It is necessary to underline that a part of this reporting has to be disclosed for market participants who can enter into the economic relationship with the bank. The Law of Ukraine “On the National Bank of Ukraine” and “On banks and banking” can be named as the core legislative documents specifying the conceptual basis of banking reporting formation.

Powers of the NBU as to the regulation of the procedure for drafting and disclosing the banking reporting is defined by the articles 7, 41, 57, 67, and 68 of the Law “On the National Bank of Ukraine”. Specifically, this law defines that the NBU establishes binding for all banks norms and rules of accounting and reporting, organizes the formation and methodologically provides monetary and banking statistical information system. To execute its functions the National Bank of Ukraine has the right to get free of charge from banks and other legal entities as to which the NBU executes the supervision, the information about their activity and the clarification as far as the received information and transactions performed. The National Bank of Ukraine is also entitled to get free of charge all the necessary information from state bodies, local authorities and entities of all forms of property.

To execute regulatory and supervisory functions the NBU defines reporting forms (including a consolidated reporting) and establishes drafting and reporting procedures which are binding for carrying out by all entities, including:

- 1) banks located on the territory of Ukraine (residents and non-residents), banking associations – to draft monetary and banking statistics;
- 2) all entities (residents and non-residents) – to draft the balance and to execute currency control.

The information given by banks and other entities is not a subject for divulgence with the exceptions envisaged by the legislation of Ukraine. To provide publicity on banking the National Bank of Ukraine publishes in official printed editions and offers in electronic form on the official site:

- 1) annual and quarterly balance sheets of the National Bank of Ukraine;
- 2) monthly statistical bulletin;
- 3) current banking information, information on monetary statistics that does not belong to state or banking secrecy.

The requirements as to banking reporting are also given in the articles 68-70 of the Law of Ukraine “On banks and banking” [15]. The article 69 records the bank’s duties as to financial and statistical reporting to the NBU regarding the bank’s activities, transactions, liquidity, solvency, profitability and the information of the bank’s affiliated individuals to assess the bank’s financial condition. For banks the National Bank of Ukraine establishes:

- 1) reporting forms and drafting methods;
- 2) regularity and reporting terms;
- 3) explanatory note structure;
- 4) minimum information to be disclosed;
- 5) consolidated reporting drafting methods.

In some cases the National Bank of Ukraine is entitled to demand single or temporary reporting. Every owner of a significant participation in a bank, who is a legal entity, must submit to the National Bank of Ukraine an annual reporting on their activities. The National Bank of Ukraine has the right to demand from the owners of significant participation in a bank other periodical reporting or information to exercise the supervision over safety and stability of the bank financial condition.

Banks’ financial reporting submitted to the National Bank of Ukraine have to be checked by the auditor who has the certificate of the National Bank of Ukraine for bank audit. The details of the law standards as to the annual banks’ financial reporting audit are provided in the regulation “On the procedure of banks’ submission to the National Bank of Ukraine audit reports on the results of the annual financial reporting audit” [16].

The article 70 of the Law of Ukraine “On banks and banking” regulates the procedure of financial reporting publication. The bank has to publish quarterly and annual financial reporting in official printed editions of the higher legislative and executive bodies of Ukraine. The bank has to publish quarterly reporting within a month following a reporting quarter, and an annual (confirmed by an external auditor) not later than 1 June following the reporting year.

According to above-analysed legislation norms, the core types of banks’ reporting which can be used by the NBU to implement banking supervision based on risks, are banks’ statistical, financial and operating reporting. The comparative analysis of mentioned types of reporting is given in the table 10. It is necessary to underline that from the point of view of practical implementation of the recommendations, envisaged by the third Basel II component, the most important is commercial banks’ reporting publicity level. In this aspect the financial reporting gets special weight as it is fully public.

Let's analyse in more details types of reporting given in the table 1. If there is a necessity to get additional data to ensure the effectiveness of operating decision making, the NBU introduces forms of operating reporting. In the majority of cases such necessity arises on the formation of non-standard circumstances of the banking system functioning, which in the majority of cases are stipulated by exogenous factors: public and political strain, the development of the microeconomic crisis phenomenon, etc. The procedure for drafting and submission of operating reporting forms is regulated by separate letters of the National Bank.

Table 10

The comparative analysis of commercial bank's types of reporting

Classification feature	Type of reporting		
	Financial	Statistical	Operating
Aim of drafting	The reflection of the bank's financial condition and the results of its activities	The formation of proper statistical indexes and the NBU regulatory and supervisory functions performance	Receiving of the operating information as to current bank's and (or) banking system condition
Regularity of reporting	Quarterly; annual	Daily; weekly; decadal; fortnightly; monthly; quarterly; six monthly; annual	On inquiry
Users' main categories	Shareholders, the NBU, contractors and the bank's customers, other users	As to banking transactions – the NBU, the IMF and other users. As to the economic transactions – State Committee on Statistics	Subdivisions of the NBU
Rate of publicity	Fully public	Partly public in the aggregated condition	Not public
The way of submission	By E-mail and on paper carriers	Chiefly by E-mail, on paper carriers in particular cases	Not regulated
Reporting subjects	The bank's balance subdivisions; legal entities; mother bank	The bank's balance subdivisions; banks-corporate bodies	Bank's subdivisions; banks-corporate bodies

The methods of financial reporting formation are defined by the instruction “On the procedure of drafting and disclosing the financial reporting by the banks of Ukraine” [17]. This instruction is elaborated according to accounting and financial reporting (ISA and ISFR) international standards. More than 40 international standards on accounting and reporting have been elaborated by the Committee on International Accounting Standards. The procedure for the banks' financial reporting is regulated directly by ISA 1, ISA 32, ISA 39, and ISFR 7.

From the point of view of formation of methodological basis of banking supervision on risks, the most important is the regulation ISFR 7 “Financial instruments: disclosure of information” (is used since 2007). This document defines the requirements as to the disclosure of quantitative and qualitative information as to risk management on financial instruments [18]. The norm envisages the disclosure of the information in financial reporting as to the following types of risks: credit risk, market risk (includes currency risk, interest rate risk and other price risk) and liquidity risk. Mentioned risk classification complies with the approaches defined in Basel II to a considerable extent.

In Appendix I the structure of the financial reporting of the commercial banks of Ukraine is given and the possibility of its use for the bank risk analysis is specified. Any information given in quarterly, annual or consolidated financial reporting can be used for banks’ risk assessment, specifically, capital adequacy assessment according to Basel II requirements. But, for banks’ activities risks assessment on quarterly basis core elements of financial reporting are a quarterly balance sheet and a note “separate indexes of the bank’s activities”.

A quarterly balance sheet comprises more detailed articles in comparison with an annual balance sheet. The main sectors of information detailed elaboration in a quarterly balance sheet are the disclosure of the information as to the reserves on active transactions, the characteristics of currency transactions, detailed elaboration of credit and deposit portfolio structure. Mentioned directions of information disclosure enable to assess the bank’s credit and currency risks. In the note “Separate indexes of the bank’s activities” the bank gives capital economic norms, liquidity, credit risk, methods and norm indexes of which are established by the instruction “On the procedure of banking regulation in Ukraine” [19]. The structure of the credit portfolio according to the risk rate is defined and owners of the significant participation (legal entities or individuals, having participation in the authorized capital of the bank which is more than 10 %) are named.

In the Appendix 2 a note is given “The bank’s activities separate indexes” of one of the Ukrainian banks that belongs to group of the biggest. Analysing its content we can make a conclusion that the bank performs all economic norms set by the NBU, but it has serious problems with the quality of the credit portfolio: “standard” credit operations (characterized by minimum credit risk) account for nearly 3 milliard UAH or 15,8 % of the credit portfolio, on the other hand, credit operations classified as “desperate” (that is the possibility of their redemption by the borrower approaches zero) make up more than 6 milliard UAH or 32,5 % of credit portfolio. As a result the bank had to form a reserve for credit risks in the amount

of 6,2 milliard UAH that is nearly one third of the credit portfolio. Large amount of reserves caused unprofitability of that banking institution's activity according to the results of the IV quarter 2009.

In an annual bank financial reporting for risk assessment the information from notes and the chapter "the general information on the bank's activity" is usually used. The general information on the bank's activity discloses mostly the qualitative aspects of risk management:

- 1) the structure of the bank's risk management system;
- 2) functions and accountability of risk management service;
- 3) the list of risks (risk subgroups) identified by the bank in its activity and the bank's strategy as to such risks management;
- 4) availability of plans in case of crisis.

The characteristics of the bank's solvency is also given based on the ratio use established by the instruction "On the procedure of banks' activities regulation in Ukraine". Banks also have to give some other information as to risk management, disclosure of which is envisaged by international standards of financial reporting.

As it was mentioned above, the core information as to the risk management is given in notes to the bank's annual financial reporting (appendix 3). The largest group (from 4 to 27) is represented by notes which give the content of the bank's annual balance sheet items in details. Notes from 5 to 10 inclusively and the note 15 characterize banks' monetary funds investments into diverse financial assets (first of all credits and securities). These notes disclose the information as to the credit quality of financial assets and the amount of reserves formed to provide credit risk. Notes from 18 to 25 give the structure of bank's financial asset sources in details and can be used during the bank's liquidity analysis. The notes 26 and 27 characterize the structure and the sources of bank's equity formation. It is reasonable to use the last two notes for the assessment of the bank's capital adequacy according to Basel II requirements.

Notes 28-35 give in details the content of items of annual reporting on financial results. Specifically the note 28 characterizes the structure of interest rate profit and loss and must be taken into consideration during the bank's interest rate risk analysis.

Notes 36-46 disclose the information (first of all as to risk) that is not given in financial reporting but is binding for disclosure. From the point of view of completeness and the level of elaboration of the information as to the bank's risk assessment, the most important is the content of the note 37 "Financial risk management". In this note the bank describes objectives, policy, methods and the results on core risk management: credit risk, currency risk, interest rate risk, geographical risk, liquidity risk.

Let's consider in details the peculiarities of analytical data presented in this note as to risks, assessment of which is envisaged by Basel II. In the aspect of market risk analysis the bank's currency and interest rate risk assessment is chiefly done. In the framework of currency risk analysis the structure of the bank's assets and liabilities taken from the aspect of main currencies is specified and the bank's currency position is given. The assessment of possible changes of financial result and own capital as a result of exchange rates potential changes is also envisaged.

In the aspect of interest rate risk analysis assets and liabilities are shown on balance value according to the dates of interest rate revision. The analysis of the bank's responsivity to interest rate risk is also given: it is estimated how the potential changes of market rates will influence the bank's profit. Moreover, average-weighted interest rates taken from the aspect of the bank's main assets constituents and liabilities are also given.

Some indexes from the note 37 of one of Ukrainian banks that belongs to the group of the largest are given in the table 11 and the appendix 4. They illustrate the possibility of this note's use for the assessment of currency and interest rate risk influence on the bank's financial result and equity.

Table 11

**The change of the financial result and equity as a result
of possible exchange rates changes**

(thd. UAH)

Line	Title of the item	On the reporting date, 2008		On the reporting date, 2007	
		influence on profit/(loss)	influence on equity	influence on profit/(loss)	influence on equity
1	Strengthening of the US dollar by 5 %	(923)	(923)	(1 694)	(1 694)
2	Weakening of the US dollar by 5 %	923	923	1 694	1 694
3	Strengthening of the euro by 5 %	41	41	(31)	(31)
4	Weakening of the euro by 5 %	(41)	(41)	31	31
5	Strengthening of the pound sterling by 5 %	10	10	14	14
6	Weakening of the pound sterling by 5 %	(10)	(10)	(14)	(14)
7	Strengthening of other currencies	69	69	248	248
8	Weakening of other currencies	(69)	(69)	(248)	(248)

Taking into consideration data presented in the table 11 we can draw a conclusion that by the state on 31.12.2008 this bank had a short currency position on the US dollar and a long position on other currencies. In an absolute value the largest was currency position on US dollar. As a result, if there is a scenario of US dollar strengthening relative to hryvna by 5 %, the bank will get loss in the amount of 923 thd. UAH that will also lead to decrease of its capital. If there is strengthening of other currencies relative to hryvna, insignificant positive influence on the financial result and bank capital will be observed. If there is a realization of the opposite scenario (currency weakening relative to hryvna) the reverse consequences will be observed. The table also presents the assessment of currency risk influence on the bank's financial condition by the state on the previous reporting date.

The appendix 4 gives the assessment of interest rate risk based on the analysis of responsivity to interest rate changes: instruments' and portfolios' market value changes as a result of general change of the profit curve on a certain quantity of basic points. According to the methods of this bank, scenarios are considered that envisage the shift of the curve by 1 per cent point (+/-100 basic points). Assessments include interest rate risk on all bank's positions for instruments with fixed and floating interest rate. Separate analysis of financial instruments in hryvna, euro and US dollars is provided for during the calculation process.

If there is a realization of market interest rate increase by 1 per cent point (+100 basic points) scenario, negative influence on income and capital on instruments within 1 year (appendix 4, table 4.1) will be observed. But this negative influence will be compensated by the profit gained by the bank on instruments within the term of more than 1 year. As a result, the bank will get the profit of 3,516,0 thd. UAH, if there is a realization of this scenario. Positive influence of rate increase is caused by the superiority of interest rate assets over interest rate liabilities. If there is a realization of an opposite scenario (-100 basic points), the bank will get loss of 3 516 thd. UAH, that will lead to the corresponding equity decrease (appendix 4, table 4.2). So users of the financial reporting can assess directly the influence of currency and interest rate risk on the bank capital, that corresponds to Basel II approaches.

We have considered the peculiarities of information disclosure as to risks in the bank's financial reporting. Further on we will analyse forms of banks' statistical reporting which are used by the NBU for supervision based on risks that is envisaged by the second component of Basel II. Analysed above law norms as to banks' statistical reporting are specified by rules "Organization of statistical reporting submitted to the National Bank

of Ukraine” [20]. This document specifies forms of statistical reporting and the order of its filling in and regulates drafting periodicity and ways of submitting of statistical reporting forms to the National Bank of Ukraine.

The developers of statistical reporting forms are structural subdivisions (departments chiefly) of the central body of the National Bank of Ukraine, which annually by 1 March and 1 September submit to the Department on Statistics and Reporting propositions on the introduction of new forms and the change of the operating forms of statistical reporting. According to the organizational structure of the NBU, the issues on banking regulation and supervision are dealt by: the Department of Regulatory and Methodological Provision for Banking Regulation and Supervision; the Department of Off-Site Banking Supervision and Bank On-Site Examination Department.

By the Regulation “On the department of regulatory and methodological provision for banking regulation and supervision of the NBU” [21] three main tasks of this department are specified. Firstly, the development and improvement of the methodological base on banking regulation and supervision according to the international standards of banking, the Basel Committee on Banking Supervision requirements and the European banking legislation. Secondly, planning of banking supervision development and improvement that is aimed at the provision for effective cooperation of off-site banking supervision, bank on-site examination, banks’ activities risk decrease as the basis of their stable operating. Thirdly, determination of the list and the content of statistical reporting forms on banking supervision and carrying out complex analysis of the activity of the banking system of Ukraine based on the generalized statistical information. So, the representatives of this department have direct possibility to take into account the requirements of Basel II while developing forms of banks’ statistical reporting.

The main forms of statistical reporting submitted by the commercial banks and used for the formation of information provision for banking supervision are given in the appendix 5. Moreover, for banking supervision forms of statistical reporting submitted by territorial directorates of the NBU and the bank’s liquidation commissions are used (appendix 6). It is necessary to point out that the absolute majority of the mentioned forms are developed by the representatives of the Department of Regulatory and Methodological Provision for Banking Regulation and Supervision. The information from these forms is chiefly used by the clerks of this subdivision. In the mentioned appendixes except forms’ number, title and periodicity of submitting, main directions of their use are also determined.

As it follows from the appendixes 5 and 6 forms of statistical reporting that provide information basis for banking supervision are chiefly used for data base formation in the information system “Banks’ files” or for the calculation of “Uniform Report” indexes. The information system “Banks’ files” is worked out for information accumulation and systematization in the aspect of every bank, registered at the territory of Ukraine (table 12).

As we can see from the table 12, this system consists of 23 modules which reflect the information about owners, office holders, the bank’s main contractors, audit and examination results. The information about separate bank’s financial indexes is also given.

In contradistinction to the system “Banks’ files”, that chiefly contains organizational and legal information as to the bank’s activities, indexes of the “Uniform Report” have the financial character (appendix 7). “Uniform Report” indexes are given both in absolute form (are directly formed from the statistical reporting forms) and have the calculated character. From the point of view of the analysis of the correspondence of the bank’s capital to risks according to the approaches provided for by Basel II, it is reasonable to use the following tables of the “Uniform Report”: №5 “Structure of assets, liabilities, capital”, № 10 “Main indexes of banks’ activities”, № 11 “Economic norms and their components”.

Table 12

List of modules of the information system “Banks’ files”

№	Title of the Module	Source of information
1	Active bank operations	Forms of statistical reporting № 613, 614
2	Owners’ forms	Entered manually
3	Bank audit	Entered manually
4	Affiliated persons of the bank	Forms of statistical reporting № 643
5	Remaining assets in banks	Forms of statistical reporting № 618
6	Measures of influence on heads	Separate data of the module “Banks’ registration” is used, other information is entered manually
7	Measures of influence by the NBU	Forms of statistical reporting № 682
8	Banks’ examination	Entered manually
9	Credits’ files	Forms of statistical reporting № 617
10	Correspondence relationship	Forms of statistical reporting № 619
11	The bank’s creditors	Forms of statistical reporting № 627
12	Banks’ liquidation	Is formed from module “Banks’ registration” and form № 621
13	Licensing of the banks	Entered manually
14	Interbanking credits	Data of the software complex “Interbanking credits” is used

Table 12 continued

№	Title of the Module	Source of information
15	Monitoring of the bank-entity	Entered manually
16	Bank passport	The information is formed from other modules
17	Revaluation of fixed assets	Entered manually
18	Regional examination	Main data on examination is entered into the module
19	Banks' registration	Entered manually
20	Registration of breaches	Entered manually
21	Banks' restructuring	Entered manually
22	Generalized information	Entered manually
23	Uniform report	Entered manually

According to the appendix 7, the main information source for the formation of the majority of “Uniform report” indexes is a daily form No 1D “Balance sheet” and monthly form No 10 “Circulating assets balance sheet”. Mentioned forms provide for submission of the information according to all balance accounts, profit and loss accounts and extrabalance accounts in the aspect of currency and contractors residence. Daily form No 1D contains residues on all synthetical accounts by the state on the reporting date and is used to carry out the bank’s activities operating analysis and to execute banking supervisory functions. Form No 10 has a similar structure, but except residues on the reporting date, the information as to the circulation on the reporting month is additionally given.

So, we have analysed banking reporting in the aspect of the possibility of its use for the implementation of the approaches provided for by Basel II. According to the results of our research the following conclusions have been done. Firstly, the reform of the financial reporting system of the banks of Ukraine as to its compliance with international standards’ requirements contributed to the improvement of information disclosure as to the bank’s risks in quarterly and annual financial reporting. Taking into consideration the publicity of banks’ financial reporting, the improvement of information disclosure process as to risks can be considered in the context of execution of the third Basel II component requirements. A detailed public information as to the bank’s risks will allow the participants of the market to assess the scope of use and adequacy of the bank’s capital and to assess its risk rate.

Secondly, the National Bank of Ukraine has implemented the qualitative bank’s statistical reporting collection system. This system allows getting full information on the results of the bank’s activities in good time, particularly to analyse its risks. Using forms of statistical reporting, the

NBU can execute an effective supervision based on risks according to the requirements of the second component of Basel II.

Thirdly, under the circumstances of aggravation of the world economic crisis and its influence on the national banking system, the significance of operating banking reporting has increased. The National Bank of Ukraine has actively used this type of reporting in the process of development and the realization of anti-crisis measures.

So, the banking system of Ukraine shows quite high rate of its development that makes it interesting for foreign investors. At the same time the regulatory basis does not fully meet the requirements of the European and world standards of doing business in this sphere including banking regulation and supervision. Now the measures are being taken to bring the regulatory documents in compliance with the requirements of Basel II.

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Appendix 1

Structure of the banks' financial reporting and the disclosure of the information as to risks

Type of the financial reporting	Financial reporting content	Disclosure of the information as to risks of banking activities	Where it is specified in the Instruction № 480
Quarterly	Balance sheet	Reserves on active transactions and liabilities, currency transactions characteristics, the structure of credit and deposit portfolio in details	Chapter 3, Appendix 2, amendments to the Regulation of the NBU № 141 of 17.03.2009
	The report on financial results		Chapter 3, Appendix 4
	Notes	In the note "Separate indexes of the bank's activities" the majority of the economic norms (capital, liquidity, credit risk) are disclosed, profitability of the activity and the structure of credit portfolio in the aspect of credit class are determined, the owners of the significant participation are given	Chapter 3, Appendix 11, amendments to the Regulation of the NBU № 141 of 17.03.2009
Annual	General information on the bank's activities	The bank's solvency (established by the Instruction № 368 ratios are used), risk management and the structure of owners	Chapter 2, item 2.2
	Balance Sheet		Chapter 4, Appendix 3
	The report on financial results		Chapter 4, Appendix 5
	The report on funds traffic		Chapter 4, Appendix 6,7
	The report on equity		Chapter 4, Appendix 8
	Notes to reports	Note 37 "Financial risks management (currency risk, interest rate risk, liquidity risk, risk of geographical concentration)"	Chapter 4, item 4.5, Appendix 14
Consolidated	The structure is similar to annual reporting	Risk supervision on the consolidated base	Chapter 4, item 4.4, Chapter 5
With allowance for inflation influence	Annual (consolidated) with allowance for inflation influence	Risk analysis under the conditions of inflation process increase	Chapter 6

Appendix 2
Note “Separate indexes of the bank’s activities” OJSC “Bank1”
for the IV quarter of 2009

Line	Title of the line	On reporting date	Norm indexes
1	The bank’s regulative capital (thd. UAH)	4 215 653	not less than 74 194
2	Regulative capital adequacy ¹ (%)	26,22 %	not less than 10 %
3	Asset-to-regulatory capital ratio (%)	20,74 %	not less than 9 %
4.	Current liquidity ² (%)	53,14 %	not less than 40 %
5	Maximum credit risk per one contractor (%)	14,49 %	not more than 25 %
6	Large credit risks (%)	36,28 %	not more than 800 %
7	Maximum amount of credits, guarantees given to one insider (%)	0,83 %	not more than 5 %
8	Maximum total amount of credits, guarantees given to insiders (%)	1,63 %	not more than 30 %
9	Assets profitability ³ (%)	0	x
10	Credit operations classified as “standard” (thd. UAH)	2 965 600	x
10.1	Reserve formed on such transactions (thd. UAH)	20 687	x
11	Credit operations classified as “under control” (thd. UAH)	4 837 955	x
11.1	Reserve formed on such operations (thd. UAH)	55 851	x
12	Credit operations classified as “substandard” (thd. UAH)	3 246 842	x
12.1	Reserve formed on such operations (thd. UAH)	333 332	x
13	Credit operations classified as “doubtful” (thd. UAH)	1 584 092	x
13.1	Reserve formed on such operations (thd. UAH)	491 136	x
14	Credit operations classified as “desperate” (thd. UAH)	6 088 001	x
14.1	Reserve formed on such operations (thd. UAH)	5 306 431	x
15	Net proceeds per ordinary share (thd. UAH)	(2,01)	x
16	The amount of dividends paid for ____ year per:	–	x
16.1	Ordinary share	–	x
16.2	Preference share	–	x
17	List of the bank's participants (shareholders) who directly or indirectly own 10 and more per cent of the bank’s authorized capital	Swedbank AB (publ); Sweden – 752; direct participation 99,9995 %	x

Regulatory capital adequacy reflects the ability of the bank in good time and in full volume.

¹ To meet its liabilities on trading, credit or other monetary operations.

² Current liquidity – the capacity of the bank to meet its current liabilities (by 31st day) for the customers.

³ Assets profitability – assets efficiency use index.

Appendix 3

The general list of notes to annual financial reporting of banks of Ukraine on the Instruction № 480

Number of the note	Title of the note	Purpose
1	Bank accounting policy	
1.1	Main activity	Submission of the general information on banking establishment
1.2	Basis of accounting policy and reporting drafting	Disclosure of the bank's accounting policy and the elaboration of accounting methods of separate transactions and types of activities
1.3	Consolidated financial reporting	
1.4	Initial definition of financial instruments	
1.5	Securities	
1.6	Customers' credits and indebtedness	
1.7	Securities in the bank's portfolio for sale	
1.8	Securities in the bank's portfolio before the maturity	
1.9	Investment realty	
1.10	Fixed assets	
1.11	Intangible assets	
1.12	Operating leasing (lease)	
1.13	Financing leasing (lease)	
1.14	Long-term assets meant for sale, and assets of quitting group	
1.15	Stopped activity	
1.16	Derivative financial instruments	
1.16	Income tax	
1.18	Own shares bought from shareholders	
1.19	Profit and loss	
1.20	Foreign currency	
1.21	Interaccount of assets items and liabilities	
1.22	Reporting on segments	
1.23	Effect of changes in accounting policy and the correction of serious mistakes	
2	The economic environment under which the bank carries out its activity	Elaborate items of an annual balance sheet
3	Transition to new and reconsidered norms and definitions that guarantee the context in which standards should be read	
4	Funds and their equivalents	
5	Marketable securities	
6	Other securities accounted on fair value with acceptance of the reevaluation in financial results	
7	Funds in other banks	

Appendix 3 continued

Number of the note	Title of the note	Purpose
8	Customers' credits and liabilities	
9	Securities in the bank's portfolio for sale	
10	Securities in the bank's portfolio before the maturity	
11	Investments into the associated companies	
12	Investment realty	
13	Goodwill	
14	Fixed assets and intangible assets	
15	Other financial assets	
16	Other assets	
17	Long-term assets meant for sale, and assets of quitting group	
18	Banks' funds	
19	Customers' funds	
20	Debt securities emitted by the bank	
21	Other funds attracted	
22	Reserves on liabilities	
23	Other financial liabilities	
24	Other liabilities	
25	Subordinated debt	
26	Authorized capital	
27	The bank's reserves and other funds	
28	Interest rate income and expenses	Elaborate items of annual report on financial results
29	Commission income and expenses	
30	Other operating income	
31	Administrative and other operating income	
32	Profit tax expenses	
33	Net profit / (loss) on sale of long-term assets meant for sale	
34	Net profit / (loss) on one ordinary share and a preferred share	
35	Dividends	
36	Reporting segments	Disclose the information (first of all as to risks), that is not given in financial reporting, but is binding for disclosure
37	Financial risk management (currency risk, interest rate risk, liquidity risk, risk of geographical concentration)	
38	Capital management	
39	Potential liabilities of the bank	
40	Accounting on hedging	
41	Fair value of financial instruments	
42	Operations with related persons	
43	Main subsidiaries and associated companies	
44	Merger	
45	Events after the balance date	
46	Information about the auditor (audit company) and an audit opinion	

Appendix 4

Assessment of interest rate risk of OJSC “Bank 1” by the state on 31.12.2008

Table 4.1

Influence on income and capital of market rate increase by 100 basic points scenario

Line	Title of the item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Nonmonetary	Total
2007							
1	Total financial assets	10 317	5 657	9 901	49 346	0	75 221
2	Total financial liabilities	18 391	29 168	15 012	9 135	0	71 705
3	Net influence on income and capital	(8 073)	(23 511)	(5 111)	40 211	0	3 516
2008							
4	Total financial assets	7 827	12 262	23 732	97 182	0	141 004
5	Total financial liabilities	37 437	40 165	36 185	12 817	0	126 604
6	Net influence on income and capital	(29 610)	(27 902)	(12 453)	84 365	0	14 400

Table 4.2

Influence on income and capital of market rate decrease by 100 basic points scenario

Line	Title of the item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Nonmonetary	Total
2007							
1	Total financial assets	(10 317)	(5 657)	(9 901)	(49 346)	0	(75 221)
2	Total financial liabilities	(18 391)	(29 168)	(15 012)	(9 135)	0	(71 705)
3	Net influence on income and capital	8 073	23 511	5 111	(40 211)	0	(3 516)
2008							
4	Total financial assets	(7 827)	(12 262)	(23 732)	(97 182)	0	(141 004)
5	Total financial liabilities	(37 437)	(40 165)	(36 185)	(12 817)	0	(126 604)
6	Net influence on income and capital	29 610	27 902	12 453	(84 365)	0	(14 400)

Appendix 5

Banks' main forms of statistical reporting used for banking supervision

№	№ of reporting form	Periodicity	Title of the reporting form	Use specialization
1	1D	Daily by 16.00 of the following working day	The bank's balance sheet	"Uniform Report" drafting
2	10	Monthly, (by 10 th)	Circulating balance	"Uniform Report" drafting
3	302	Monthly, (by 12 th)	Report on classified credit operations and reserves provided	"Uniform Report" drafting
4	321	Monthly, (by 10 th)	Report on requirements on credits granted	"Uniform Report" drafting
5	360	Monthly, (by 10 th)	Report on liabilities on attracted funds	"Uniform Report" drafting
6	410	Twice a year (by 15.02 and by 15.07)	Report on quantity of the bank's clients and the quantity of the accounts opened by clients	"Uniform Report" drafting
7	604	Monthly, (by 12 th)	Report on reserve formation on credit operations	"Uniform Report" drafting
8	605	Monthly, (by 12 th)	Report on reserve formation on debit indebtedness	"Uniform Report" drafting
9	606	Monthly, (by 12 th)	Report on banks' reserve formation on expired and doubtful credits before income receiving	"Uniform Report" drafting
10	610	Decade (dates 01,11,21)	The information on taking into consideration of the subordinated debt to the bank's capital	"Uniform Report" drafting
11	611	Monthly (by mail), by 15 th	Report on observing economic norms and limits of open currency position	"Uniform Report" drafting
12	612	Annual (by mail) by 20 th May	Report on observing economic norms on consolidated base	"Uniform Report" drafting
	File 42	Daily (by 16.00)	Data as to maximum risk per one contactor	
	File C5	Daily (by 16.00)	Additional data for economic norms calculation	
13	613	Monthly, (by 11 th)	Report on risk concentration for active bank operations with contactors and insiders	for modules "Banks' files"
14	614	Monthly, (by 11 th)	Report on the bank's biggest participants and contactors	for modules "Banks' files"

Appendix 5 continued

№	№ of reporting form	Periodicity	Title of the reporting form	Use specialization
15	618	Decade (dates 01,11,21)	Report on funds residuals, placed in banks and attracted from banks	for modules "Banks' files"
16	625	Monthly, (by 11 th)	Report on risk concentration on passive bank's operations	"Uniform Report" drafting
17	627	Monthly, (by 12 th)	Report on the bank's 20 biggest creditors	for modules "Banks' files"
18	631	Decade (dates 01,11,21)	Report on assets and liabilities structure according to terms	"Uniform Report" drafting
19	643	Quarterly (by 20 th)	Report on the bank's affiliated persons	for modules "Banks' files"
20	645	Quarterly (by mail) (by 20 th residents, by 30 th nonresidents)	Information on economic entities' activity in which the owner of significant participation in the bank has the participation that exceeds 10 %	for modules "Banks' files"
21	650	Monthly, (by 10 th)	Report on trust management operations	"Uniform Report" drafting
22	653	Monthly, (by 13 th)	Report on credit contracts quantities and indebtedness volume	"Uniform Report" drafting
23	655	Monthly, (by 13 th)	Report on restructured credit contracts quantities and indebtedness volume	"Uniform Report" drafting
24	658	Monthly, (by 13 th)	Report on indebtedness on credit transactions where the overdue payments for the main debt and /or accrued proceeds occurred	"Uniform Report" drafting
25	670	Quarterly (by 5 th)	Report on the bank's twenty biggest participants	for modules "Banks' files"
26	691	Monthly, (by 12 th)	Report on transactions with securities and reserves formed for them	"Uniform Report" drafting

Appendix 6

Main forms of statistical reporting of TD of the NBU and liquidation commission used for banking supervision

№	№ of reporting forms	Periodicity	Title of the reporting form	Use specialization
<i>List of files and reporting forms submitted to the NBU by territorial directorates</i>				
1	91	Monthly (by 3 rd)	Information on revealed by the system of banking supervision of the National Bank of Ukraine breaches of banking legislation, including those which can testify for criminal activity and measures taken as to them	for modules "Banks' files"
2	619	Weekly (every Monday)	Data on establishment of correspondent relations by banks	for modules "Banks' files"
3	682	Monthly (by 7 th)	Report on influence measures application towards banks by the National Bank of Ukraine	for modules "Banks' files"
<i>List of files and reporting forms submitted to the NBU by liquidation committees</i>				
1	621	Monthly (by 8 th)	Report on the bank liquidator's (liquidation committee) work	for modules "Banks' files"

Appendix 7

Information provision for “Uniform report” drafting

№ of the table	Title of the table	Incoming reports' forms
1	Summary statistics	Form № 10 Circulating balance and other “Uniform report” tables
2	Profit and loss analysis	Form № 1 D Balance sheet and form № 10 Circulating balance
2a	Profit and loss structure and dynamics	Form № 1 D Balance sheet
3	Assets profitability and indebtedness cost analysis	Form № 1 D Balance sheet
3a	Structure of interest assets, liabilities, profit and loss	Form № 1 D Balance sheet
4	Balance sheet data (according to the balance sheet form or in aspect of calculations)	Form № 1 D Balance sheet and form № 10 Circulating balance
5	Structure of assets, liabilities and capital (in aspect of residents and currency)	Form № 1 D Balance sheet and form № 10 Circulating balance
6	Liquidity data and other indexes	File A7, table 7 of the Uniform report
6a	Structure of assets, liabilities and extrabalance liabilities on terms	Form 631
6b	Structure of assets, liabilities without extrabalance liabilities	Form 631
7	Credit portfolio (including risk rate)	Form № 10 Circulating balance, forms 302 and 321
7a	Concentration of credit portfolio on regions (in aspect of regions)	Form 302
8	Classified assets and reserves	Forms 604, 605, 606, 650, 653, 655, 691, 302, 321, 360, data
9	Extrabalance transactions (in aspect of accounts)	Form № 1D Balance sheet
10	Main indexes of banks' activities (net assets, general assets, credits, liquid assets, liabilities, regulatory capital, adequacy capital norm)	Tables 8, 1, 6b of the “Uniform report”, Form № 10 Circulating balance
11	Economic norms and their components	Data, forms 611 and data of files 42 and C5
12	Quantity of the bank's customers and accounts opened	Forms 201,410