

quality assets and liabilities from the balance that impedes the restoration of bank solvency and accelerates bankruptcy.

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FINANCIAL COMPONENTS OF CORPORATE GOVERNANCE DURING THE CRISIS

The financial and economic crisis that has had a significant impact on the banking system of Ukraine has exacerbated the problems, which need a solution and which include the deterioration of asset quality, insufficient reserves, and consequently – the reduction in the level of bank capitalization.

Due to the insufficient amount of the ownership capital and the limited resource base of banks, the issues of capitalization management of the banking system of Ukraine are becoming particularly important.

The increase in the ownership capital can be achieved from the internal and external sources, the choice of which should take into account the whole set of factors that determine the possibility and expediency of their use by banks under certain conditions.

The main internal source of the ownership capital growth is its profit. The main form of the profit use is the formation of reserves for credit operations of a bank and allocations to the reserve fund of a bank. The use of profit as an internal source of increasing a bank’s ownership capital is in many ways determined by its dividend policy. To solve the problem of increasing capitalization of the banking institutions in Ukraine, banks should direct most of their income towards increasing the ownership capital, that is, to pay minimal dividends. However, today a significant number of banks get either losses or insignificant profits. Therefore, these banks have limited opportunities of increasing their ownership capital through earnings.

Another source of increasing the ownership capital by bank is the revaluation of its capital assets. However, this source is not very reliable, because the cost of tangible assets is subject to significant fluctuations, especially in the unstable economy.

In the present financial crisis, banks tend to increase their ownership capital not from internal sources, but by increasing the contributions to authorized capital.

In the last two years, the increase in the authorized capital of Ukrainian banks was ensured by the investments of domestic, foreign investors and the state. The increase in the authorized capital of banks at the expense of domestic investors deserves considerable praise. In this case the level of capi-

talization will increase the interest of investors in the effective use of resources of banking institutions to strengthen their financial positions and the quality of assets, and provide an opportunity to expand the lending of the national economy. The participation of foreign investors in solving the problem of capitalization of Ukrainian banks, along with positive, may also have negative consequences. Regarding the participation of foreign state banks in the capitalization of Ukrainian banks, there is a growing risk of an increased foreign influence on the national economic policy. The participation of state in the capitalization of banks could have very contradictory results, particularly after the “infusion” of 17 billion Hryvnas in the capitals of three troubled banks: one year later, these credit institutions required additional 12.5 billion Hryvnas in order to meet their capital adequacy requirements. At the moment the government is considering to sell these banks.

The negative experience of bank capitalization from the state budget leads to the search of alternative ways to increase the capital base, one of which can be the consolidation of capital through mergers and acquisitions.

The international experience confirms that the process of mergers and acquisitions contributes to the growth of profits through the diversification of products, reduction in the cost of banking services, increase in the competitiveness of the banking system, helping carry out the restructuring of insolvent financial institutions and promoting the growth of capitalization of banking institutions.

At the moment Ukraine has preconditions that indicate a possible new wave of mergers and acquisitions. Given this situation, the Ukrainian state must develop an effective strategy for an effective implementation of mergers and acquisitions of banking institutions as an important factor in increasing their capitalization.

Bank management should take into account the relative costs and risks associated with each source as well as methods of state regulation, and to assess the long-term prospects and consequences.