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## THE ROLE AND IMPORTANCE OF BANKING SUPERVISION FOR THE DEVELOPMENT OF THE BANKING SYSTEM OF UKRAINE

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The Article reviews the essence of banking supervision. The definition of this concept is provided by various scholars. Based on the materials analyzed, the own definition of banking supervision was formulated. In banking, all financial institutions must adhere to banking supervision, as the outcome of banking activity depends on the quality of the bank itself, the correct task and the achievement of certain goals. Protecting the interests of depositors, creditors, preventing bankruptcy and financial difficulties, forced the NBU to introduce a number of certain economic standards in the activities of banks, which are a means of monitoring the financial condition of the banking institution and are mandatory. Data on the implementation of NBU economic standards in accordance with the Law of Ukraine "On Banks and Banking" are provided. The analysis of economic standards fulfillment by the main commercial and state banks of Ukraine for 2018–2020 is carried out. The total amount of regulatory capital of banks for 2019–2021 is analyzed. In the banking activity of Ukraine there is a need to develop measures and instruments for banking supervision in order to improve and enhance it. In order to strengthen the role and importance of banking supervision, reduce the likelihood of banks liquidation in Ukraine, it is recommended to separate the banking supervision authority from the NBU and create a State Banking Supervision Service accordingly, which should independently regulate the activities of state banks and commercial banks. The organizational structure of the State Banking Supervision Service has been developed. It is recommended to add to annual reporting a list of indicators that would provide possibilities of additional control to the NBU banking supervision and eliminate the submission of incorrect data by banks on their activities.

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## РОЛЬ ТА ЗНАЧЕННЯ БАНКІВСЬКОГО НАГЛЯДУ ДЛЯ РОЗВИТКУ БАНКІВСЬКОЇ СИСТЕМИ УКРАЇНИ

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**Ключові слова:**

банківський нагляд, НБУ,  
економічні нормативи,  
аналіз, закон, регулювання,  
вдосконалення,  
фінансова установа

В статті розглянуто сутність банківського нагляду, наведено визначення зазначеного поняття різними науковцями. Відповідно до проаналізованого сформульовано власне визначення банківського нагляду. У банківській діяльності всі фінансові установи повинні дотримуватися банківського нагляду, оскільки результат роботи банків залежить від якості роботи самого банку, коректної поставленої задачі та досягнення певних цілей. Захист інтересів вкладників, кредиторів, попередження банкрутства та скрутного фінансового становища, змусили НБУ впровадити в діяльність банків ряд певних економічних нормативів, які є засобом моніторингу фінансового становища банківської установи та є обов'язковими до виконання. Наведені дані щодо виконання економічних нормативів НБУ відповідно до Закону України «Про банки та банківську діяльність». Проведено аналіз виконання економічних нормативів основними комерційними та державними банками України за 2018–2020 роки. Проаналізовано загальна сума регулятивного капіталу банків за 2019–2021 роки. У банківській діяльності України є необхідність розробки заходів та інструментів банківського нагляду з метою його вдосконалення та підвищення. Для посилення ролі і значення

банківського нагляду, зниження вірогідності ліквідації банків в Україні, рекомендовано здійснити відокремлення органу банківського нагляду від НБУ та відповідно створити Державну службу нагляду банківської діяльності, яка повинна самостійно регулювати діяльність державних банків та комерційних банків. Розроблено організаційну структуру Державної служби нагляду банківської діяльності. Рекомендовано додати до річної звітності перелік показників, які надавали б можливість додаткового контролю банківському нагляду НБУ та усували представлення банками некоректних даних про свою діяльність.

### Formulation of the problem

Modern conditions of banking institutions' operation require them to make great efforts to ensure the overall stability and stability of their financial condition. However, the recent global financial crises show that the domestic banking supervision system needs to be improved and its role strengthened, as the NBU's policy of achieving and maintaining price and financial stability in the country has been demonstrated to be inefficient.

### Analysis of recent research and publications

The role and importance of banking supervision for the development of Ukraine's banking system has always aroused the interest of both domestic and foreign scholars, as effective banking supervision is one of the most important tasks of any country's central bank. The following scholars should be distinguished among those who considered the role and importance of banking supervision in view of banking system development: N. Yu. Hladynets, M.M. Husteï, T.P. Hudz, M.M. Kovalenko, T.A. Latkovska, S.H. Mamedov, A.V. Nikitin, I.B. Okhrymenko, L.O. Prymostka, O.M. Rats, O.B. Bus, H.P. Tabachuk, Yu.M. Umantsiv.

### Highlighting previously unresolved parts of the overall problem

In recent years, a big part of banks in Ukraine has been liquidated, in other words, the instruments of banking supervision used have been ineffective and inefficient, or used untimely or incorrectly. At present, there is a need to develop measures and instruments for banking supervision in order to improve it and increase the role of banking supervision for banking system development in Ukraine. This will enhance its influence on the banking sector, ensure dynamic, sustainable development of the banking sector, as well as increase its competitiveness in the international market.

### Purpose of the Article

Consider theoretical and practical aspects of banking supervision in Ukraine and to develop ways to improve it.

### Presentation of major research material

Banking supervision is an integral part of the country's banking activities and an important component of ensuring the stable functioning of its economy.

Bodies of banking supervision in Ukraine provide proper and reliable supervision over the activities of banking institutions, check their compliance with

regulatory legal acts governing banks, the legality of their operations, and compliance with regulations.

V.V. Kostenko views banking supervision as a set of procedures for constant monitoring by special state bodies or other bodies of activities carried out by legal entities (banks) not subordinated to it in order to identify violations in banking legislation [1, p. 705].

I.M. Panaseiko and M.O. Huba sees banking supervision as an important component that should support stable functioning of the banking system and market relations of the state [2, p. 518].

The Law of Ukraine «On the National Bank of Ukraine» defines banking supervision as a certain system of control and active orderly actions taken by the National Bank of Ukraine and aimed at ensuring compliance by banks and other persons with Ukrainian legislation and established standards in order to ensure stability of the banking system, as well as protect the interests of depositors and creditors of the bank [4].

Protecting the interests of depositors, creditors, preventing bankruptcy and financial difficulties, forced the NBU to implement into banking activity compliance with certain economic standards, which are the means of monitoring the banking institution's financial condition and are mandatory. We will illustrate the data on economic standards in general in the banking system of Ukraine for 2018–2020 in Fig. 1.

The statutory ratio of capital adequacy (H3) should be at least 7%, on 01.01.2020 it was 13.5%, and on 01.01.2021 it was 15.67%, i. e. there was an increase, which indicates a positive activity of the bank, because it indicates an increase in financial stability.

In addition, an increase in the statutory ratio of capital adequacy allows banking institutions to offset the negative financial consequences of their own funds.

The short-term liquidity ratio should be at least 60%. Based on the presented data we can see that in the banking system of Ukraine the ratio reached a high value during 2018–2020, exceeded the statutory one, namely 93.52% on 01.01.2019, 94.35% on 01.01.2020, i. e. it increased by 0.8%. But on 01.01.2021 it decreased by 7.5% and amounted to 86.82%.

The short-term liquidity ratio for the period 01.01.2019–01.01.2021 did not fall below 86% and corresponded to the regulatory value. The ratio is set to control the bank's ability in terms of its ability to fulfill the short-term liabilities at the expense of liquid assets. We also observe the implementation of the statutory ratio H7 for the period 01.01.2019–01.01.2021 in the range of 17.61–19.83%, which does not exceed the statutory ratio of 25%.

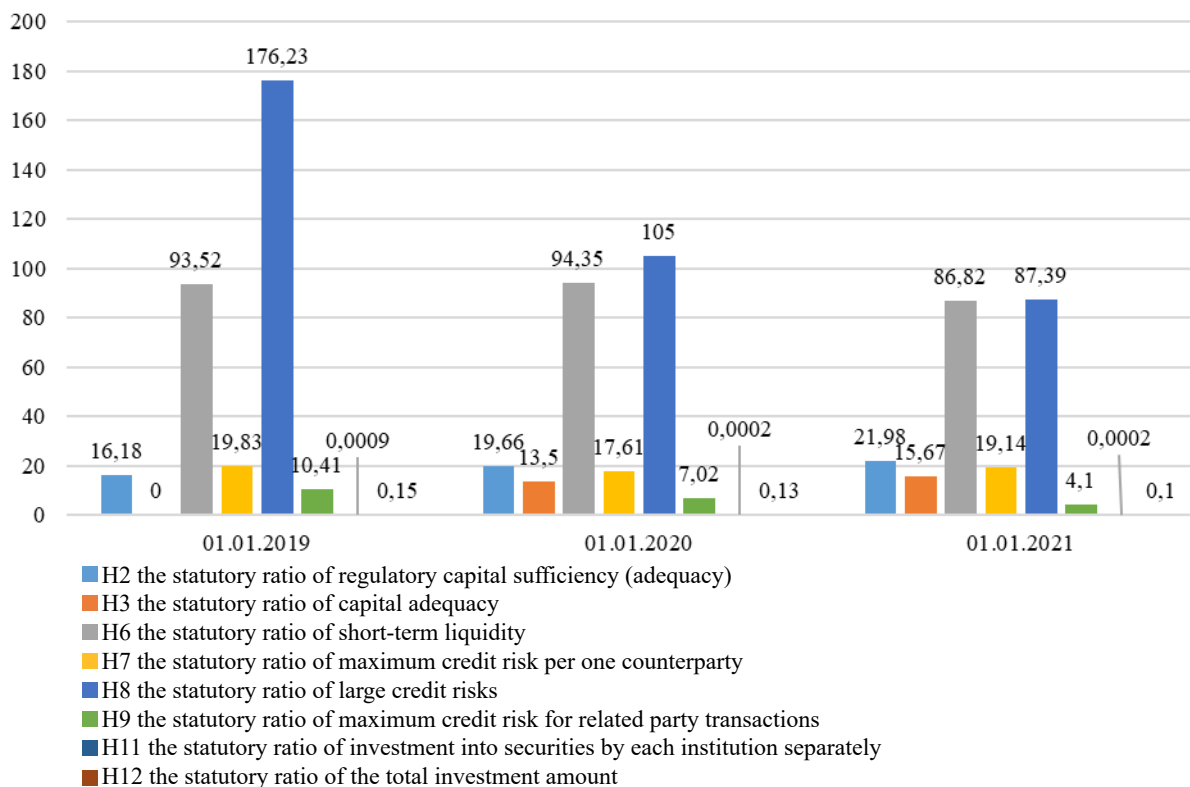


Fig. 1 – Economic Standards in General in the Banking System of Ukraine for 2018–2020 [3]

The statutory ratio of the maximum amount of credit risk per one counterparty in the banking system of Ukraine fluctuated, so on 01.01.2020 it fell by 2.2%, and on 01.01.2021 on the contrary increased by 1.5%.

The economic statutory ratio H8 for the analyzed period tends to decrease by 71.2% from 176.23% to 105% on 01.01.2020. The statutory value of this indicator should not exceed 8 times the size of regulatory capital. During the analyzed period, this statutory ratio does not exceed 8 times the size of regulatory capital. We should also note the decrease in the statutory ratio of large credit risks by 17.6% on 01.01.2021 to 87.39%.

The credit risk ratio as an element of bank economic standards aims to prevent excessive concentration of credit risk in the bank, as the insolvency of one or more counterparties can significantly destabilize the bank and even lead to its bankruptcy. With the optimal H9 value of 25% at most, the statutory ratio of the maximum amount of credit risk for transactions with related parties in 2018 was 10.41%, in 2019–7.02%, and in 2020–4.1%. The decrease in this indicator by 3.4% in 2019 and by 2.9% in 2020 indicates a decline in credit risk in the banking system of Ukraine. The level of credit risk of the banking system is optimal and does not have a negative impact on the stability of the entire banking system.

The statutory ratio H11 is also met, however it has almost zero value during the analyzed period at a threshold level of 15%. Commercial banks adhere to the value of the H12 statutory ratio of 60%, but during the analyzed period the indicator is low, and there is a tendency of its reduction by 0.02% from 0.13% to 0.15% in 2019 and by 0.03% from

0.13% to 0.1%. This was influenced by the instability of Ukraine’s financial system, which discourages commercial banks from pursuing investment policies. Comparing the actual investment standards with the marginal ones allows us to make a conclusion about the low investment activity of the banking system of Ukraine. Banks are not interested in making direct investments in Ukrainian companies.

Let’s present data on the regulatory capital of the most well-known commercial and state banks of Ukraine for 2018–2020 in the analytical Table 1, taking into account the reduction of their regulatory capital according to data on 01.01.2021.

The presented data show changes in the regulatory capital of the main banks of Ukraine in recent years. Thus, JSC CB «PrivatBank» had the highest level of regulatory capital, namely UAH 19,555,682 THS on 01.01.2019. On 01.01.2021 there was a positive trend, because it has almost doubled. JSC «Ukreximbank» also had one of the largest levels of regulatory capital of UAH 11,147,236.6 THS on 01.01.2019, which grew annually and amounted to UAH 15,049,595.4 THS 01.01.2021

Thus, such positive changes in regulatory capital in most commercial banks of Ukraine during 2018–2020, led to the fact that the regulatory capital adequacy ratio was higher than the statutory value by 10% throughout the study period. On 01.01.2019 it was 16.18%, on 01.01.2020 it increased to 19.66%, i. e. by 3.5%. As of 01.01.2021, it was 21.98%, which also indicates a positive upward trend in this indicator.

We will illustrate the data on the statutory capital adequacy ratio (H3) for certain banking institutions in Ukraine for the period 01.01.2019–01.01.2021 in Fig. 2.

Table 1 – The total amount of regulatory capital of the main commercial and state banks of Ukraine, UAH THS [3]

Bank Name	01.01.2019	01.01.2020	±	01.01.2021	±
JSC CB “PrivatBank”	19,555,682.7	19,223,588.3	-332,094.4	35,256,911	16,033,322.7
JSC “Oschadbank”	13,200,548	12,355,512	-845,035.9	18,132,364	5,776,852
JSC “Ukreximbank”	11,147,236.6	13,691,472.8	2,544,236.3	15,049,595.4	1,358,122.6
JSC “Raiffeisen Bank Aval”	10,480,006	10,674,030.4	194,024.4	10,474,032.6	-199,997.8
JSC “PUMB”	5,282,255.4	7,914,882.2	2,632,626.9	8,589,500.3	674,618
JSC “CREDIT AGRICOLE BANK”	4,746,765.3	5,245,262.1	498,496.8	6,220,308.1	975,046

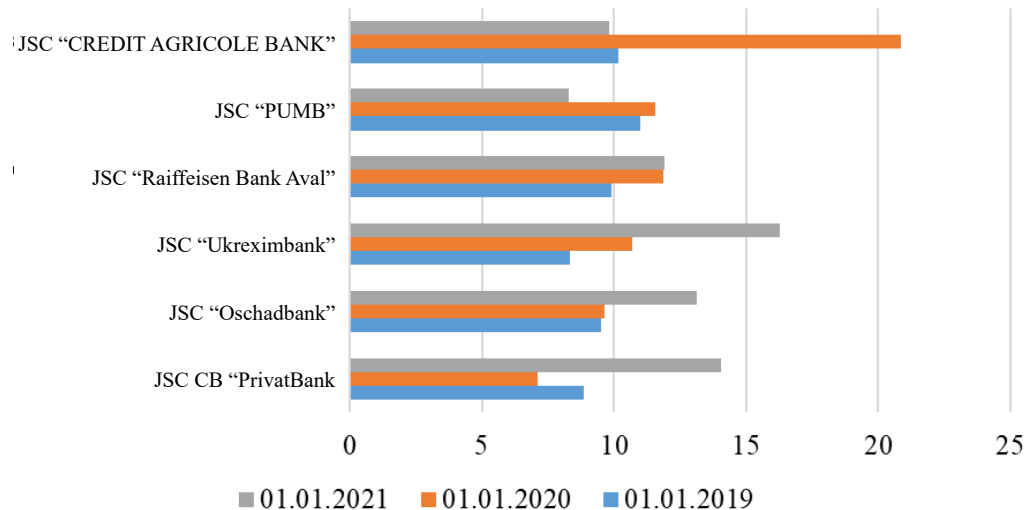


Fig. 2 – The statutory capital adequacy ratio (H3) for certain banking institutions in Ukraine for the period 01.01.2019–01.01.2021 [3]

The presented data show that all banks reached the statutory value of capital adequacy ratio (H3) for the period 01.01.2019–01.01.2021. In addition, there was a positive trend towards the growth of this indicator.

Let's analyze the implementation of economic standards by the main commercial and state banks of Ukraine in Table 2.

The short-term liquidity ratio should be at least 60%. Based on the presented data we can see that all banking institutions under analysis complied with this standard, in fact it was higher on 01.01.2021.

The ratio of the maximum amount of credit risk per counterparty should not exceed 25%, i. e. all banking institutions have complied with the NBU requirements on the maximum amount of credit risk per counterparty.

The statutory ratio H11 is also met, but has almost zero value during the analyzed period at a limit of 15%. Banking institutions also complied with the statutory ratio on the total amount of investment, but it should be noted that as of 01.01.2021 this figure was very low.

Daily and rapid changes are forcing any evolutionary system to constantly improve, to change, including banking supervision in Ukraine. This becomes especially important because the banking system is one of the central in the country.

The National Bank of Ukraine should create a regulatory framework for effective banking activities of all financial institutions and issue regulations governing the establishment and operation of banks, the relationship of the banking institution with depositors, investors, creditors, and borrowers.

In order to strengthen the role and importance of banking supervision in Ukraine, we recommend to separate the banking supervision authority from the NBU and establish the State Banking Supervision Service.

We consider it necessary to distinguish two main components in the structure of the State Banking Supervision Service:

- supervision of commercial banks;
- supervision of state-owned banks.

Table 2 – Analysis of meeting economic standards by the main commercial and state banks of Ukraine, UAH THS [3]

Bank Name	H2	H6	H7	H8	H9	H11	H12	J13-1	J13-2	LCRBB	LCRiB
JSC CB “PrivatBank”	28,09	92,92	9,62	0,00	0,16	0,06	0,07	92,69	0,7120	278,23	218,18
JSC “Oschadbank”	19,00	64,84	20,35	156,57	0,40	0,05	0,14	119,93	0,0265	360,03	232,97
JSC “Ukreximbank”	23,27	84,32	19,97	153,85	0,33	0,02	0,19	2,55	0,0600	342,83	370,85
JSC “Raiffeisen Bank Aval”	18,04	88,40	15,12	64,82	7,20	0,80	0,84	3,29	0,0014	286,15	467,56
JSC “PUMB”	18,39	98,28	9,86	0,00	6,06	0,12	0,15	2,0	0,0035	182,36	261,03
JSC “CREDIT AGRICOLE BANK”	17,80	94,28	19,79	60,76	0,35	0,07	0,07	1,12	0,0000	218,31	206,01

In addition, given the crisis operating conditions of state banking institutions, a large proportion of troubled banks and credit and financial institutions, we consider it appropriate to introduce a certain organizational department that would constantly monitor and pay special attention to troubled banks, looking for measures to improve the situation, strengthen such a banking institution, increase its profitability, profitability of assets and capital of the bank.

The developed organizational structure of the State Banking Supervision Service is presented in Figure 3.

Implementation of the developed organizational structure of the State Banking Supervision Service will allow for banking supervision in various areas, which in turn will allow faster tracking of problematic, illegal, shadow transactions that negatively affect the activities of banking institutions and the banking sector in general.

It should be noted that at present, Ukrainian banks are also required to publish their financial statements, which include certain types of reporting, but in our opinion, the set of reports is insufficient. After all, the financial statements may be slightly distorted. For example, banks may incur large expenditures in the fourth quarter, which will negatively affect the annual financial result, while the financial result for the first three quarters will be higher. Therefore, we recommend supplementing the reporting with a list of indicators of banking institutions' business activity, which must be published on the bank's website and be of informative nature (Table 3).

Analysis of the developed indicators of the bank's business activity for different periods will allow the bank to monitor the outflow of customers, growth or decrease of the deposit base, current accounts. It will also allow to perform

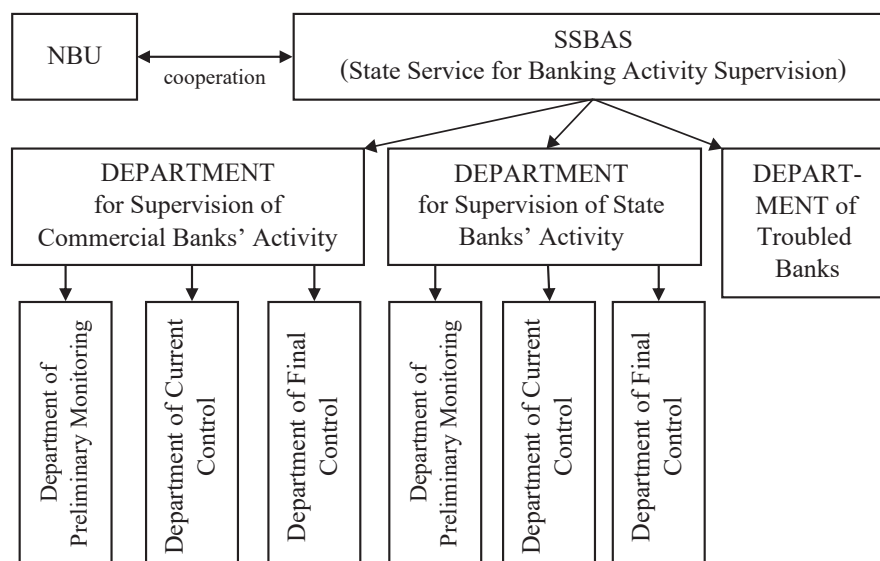


Fig. 3 – The developed organizational structure of the State Banking Supervision Service

Table 3 – Recommended Indicators of Profitability and Efficiency of the Banking Institution

No.	Indicator	Calculation Formula	Description
1	Return on Assets	$ROA = \frac{\text{ЧП}}{A} \times 100,$ where ЧП – net income; A – bank assets	The ratio of the bank's net income after taxes to the bank's assets is defined as the ratio of the amount of income to the amount of borrowed assets. The statutory ratio is between 1% and 12%
2	Return on Equity	$ROE1 = \frac{\text{ЧП}}{Ka} \times 100,$ $ROE2 = \frac{\Pi}{C\kappa} \times 100,$ where ЧП – the bank's net income, Ka – average share capital of the bank, Π – income, Cκ – authorized capital	The ratio of the bank's net income after taxes to share capital, which characterizes the efficiency of equity use. The statutory ratio constitutes at least 15%
3	EPS	$\text{ЧПa} = \frac{\text{ЧП}}{Na},$ where ЧП – net income after taxes; Na – number of outstanding shares	Net earnings per share or indicator of the level of return on share capital Allows you to estimate payments in favor of the main owners
4	Profitability	$RB = \frac{\Pi}{B},$ where Π – income; B – the bank's expenditures	An indicator of the banks' profitability level the bank's efficiency. Used to assess the effectiveness of expenditures

a detailed analysis of the bank's deposit and credit products, look for ways to improve them, and to increase profitability.

### Conclusions of prospects of research

In such a way, the introduction of a developed organizational structure of banking supervision, and

the introduction of business activity indicators in the financial statements for public disclosure would allow for improvement of the banking supervision system in Ukraine and significantly increase its importance and efficiency. The topic of further research should be the introduction of new types of banking supervision.

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