

ДЕРЖАВНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД
“УКРАЇНСЬКА АКАДЕМІЯ БАНКІВСЬКОЇ СПРАВИ
НАЦІОНАЛЬНОГО БАНКУ УКРАЇНИ”

МІЖНАРОДНА БАНКІВСЬКА КОНКУРЕНЦІЯ: ТЕОРІЯ І ПРАКТИКА

Збірник тез доповідей
VIII Міжнародної науково-практичної конференції
(23–24 травня 2013 р.)

Суми
ДВНЗ “УАБС НБУ”
2013

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INVESTIGATION OF INFLUENCE OF QUALITY OF BANK CAPITAL ON ACTIVITY RISKS

The question of publishing real financial statements is extremely urgent problem for Ukraine. Intentional concealment of real financial situation in bank becomes systemic disturbance. And if reporting to supervisory bodies in many countries provides serious sanctions on banks and in certain cases leads to liquidation of bank and criminal responsibility of managers, in Ukraine there is an absence of effective system of control and appropriate responsibility of violators. It should be noted that distorted information about financial performance of bank not only decreases effectiveness of taking measures of influence and does not allow supervisory bodies to react on these problems in time, but also leads to continuation of dangerous bank activity and in future – to bankruptcy and liquidation of bank.

In previous studies we have already given consideration to the question of quality of bank assets. In fact, such studies prove that banks widely use manipulation with statements to “correct thoughts” about its financial performance particularly in quality of assets, creation of resources and expenses et al. Our research is devoted to analysis of situation with quality of bank capital. The appropriate capitalization is one of the most important tasks for banks in the post-crisis period. As is known regulatory capital consists of many elements including capital stock, subordinated debt, reserves of reappraisal et al. It is clear that subject to correlation of these elements we can consider about different quality of bank capital. Thus, the best variant is that capital stock has the biggest share in regulatory capital. In comparison with pre-crisis situation there were substantial changes in the structure of regulatory capital. But it was difficult to estimate them by a wide range of users after 2008 because the NBU held up publication of some reports about activity of bank supervision, which allowed doing this before.

Increasing of correlation between actually paid registered share capital and regulatory capital from 59 to 98 % is an extremely positive change. It was made possible owing to substantial efforts of the NBU in establishing tough conditions concerning capitalization and further monitoring of realization of such conditions. But new tendency, which arose during the crisis, is a

considerable unprofitability of activity. There is no doubt that it has influence on the size of regulatory capital.

Subordinated debt-share capital ratio had tendency to grow up from 14 % in 2006 to 21,5 % in 2010 when the maximum was reached. But share capital has grown up too. Actually paid registered share capital increased from 25,9 bln. grn. as of 01.01.2006 to 175,4 bln. grn. as of 01.01.2013 (in 6,8 times in seven years). During recent year the indicator has been growing up only by 2 % against 71 % in 2010. The subordinated debt increased significantly too. In crisis banks used increasing regulatory capital with the help of subordinated debt to enhance the level of bank capitalization. Also in 2009 up to the 01.01.2012 new legislative requirements were held. They concerned limiting sum of money that involved on terms of subordinated debt, which are included in regulatory capital of bank, to no more than 100 % of share capital.

In quarterly reports of the NBU the indicator of “Subordinated debt” appeared from 01.04.2009 that was actually in height of crisis. As of the 01.04.2009 subordinated debt in the banking system was 19,52 bln. grn. The share of first group of banks was 75,5 % (14,74 bln. grn.). Impact analysis of subordinated debt of the largest banks of Ukraine over 2009–2012 showed that banks were increasing debt during the height of crisis, but from 2011 there have been paying off debts. Unfortunately, today the subordinated debt is still more than it was before crisis. Besides the terms of paying off debts are coming soon and expire in 2015–2016. That is soon there will be repayment of sums that can have impact on financial performance of banks and level of their capitalization. The biggest debts are concentrated in banks of first group. Even to reach per-crisis level, banks of first group need to pay off 4,7 bln. grn. of subordinated debts and totally in banking system – nearly 11,0 bln. grn. At present “Alfa Bank”, “UkrSibbank” and “Ukrsotsbank” are repaying a debt. These banks reduced volumes of activity that can be seen from their assets` dynamic. In two years assets of “Ukrsotsbank” decreased by 6,7 %, “UkrSibbank” – by 43,9 %, “Alfa Bank” – by 3,8 %. Other banks have not started repaying a debt yet. Thereby all mentioned banks actually will have high risk of reducing their activity if they start to repay debts.

Reserves of reappraisal are another part of regulatory capital that can rarely argue for its quality. Sometimes the sum of reserves can be compared with share capital and actually can be even equal or more than 100 %. The biggest ratio of reserves of reappraisal to share capital is in “Poltava-Bank” and “Ukrsotsbank”.

Thereby, in addition to the above, we can consider that there are banks which use for increasing their capitalization both large volumes of subordinated debt and reappraisal. For example, these banks are “Raiffeisen Bank Aval”, “Prominvestbank”, “Ukrsotsbank”, “Credit Dnepr Bank”, “Bank

Kyivska Rus”, “Ukrbusinessbank”. Banks, which have ratio of subordinated debt and reappraisal to share capital more than 50 %, include 42 banks of 175 as of 01.01.2013. Among 42 banks there are 14 of them which have ratio that is equal or more than 100 %, 16 banks – from 70 to 100 %. That is actually there is a question to the quarter of existing banks about quality of their capital and substantial risks for future.