BANK PROFITABILITY AS A BASIS FOR FINANCIAL STABILITY OF THE COUNTRY

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An integral part of the banking institution's activity is its resistance to internal and external shocks. Undoubtedly, its timeliness is facilitated by the timeliness of settlements between business entities, a balanced management policy of the financial institution and the NBU, as the main regulator that ensures confidence in the banking system. Assessment of financial stability is a complex process that involves the calculation of a large number of indicators. One of the important factors influencing the stability of the banking system is the return on assets and capital.

In turn, the high level of profitability provides the bank with the following advantages:

- provides the bank with high competitiveness among other banks;
- opportunity to develop new technologies and services;
- protection against the impact of risk on the financial position of the bank;
- expansion of the bank's activities in order to increase revenues, etc.

If the bank does not receive income, serious problems may arise in the bank's activities, if no measures are taken to improve the situation, it may lead to the bankruptcy of the economic agent, which will generally negatively affect the activities of the entire banking sector and jeopardize its financial stability.

Thus, banks face the difficult task of ensuring a high level of profit, ensuring an appropriate level of liquidity, and minimizing the risks inherent in the banking system [3].

Thus, profitability is a relative indicator that reflects its efficiency, and reflects the level of efficiency of use of assets and capital of banks, is of great importance in monitoring the reporting to assess the financial stability of the bank [4]. Therefore, to understand the trends inherent in the banking system of Ukraine and its analysis, it is necessary to analyze the following indicators:

1) ROA (Return on assets of the bank). It is calculated as the ratio of the bank's profit after tax on the reporting date to the average value of assets used by the bank for the relevant period and is expressed as a percentage.
2) ROE (Return on capital of the bank) Calculated as the ratio of the bank's profit after tax at the reporting date to the average value of balance sheet capital for the relevant period and is expressed as a percentage [2].

An acceptable level of return on assets in banking practice is 1-4%, and return on capital at 14-20%.

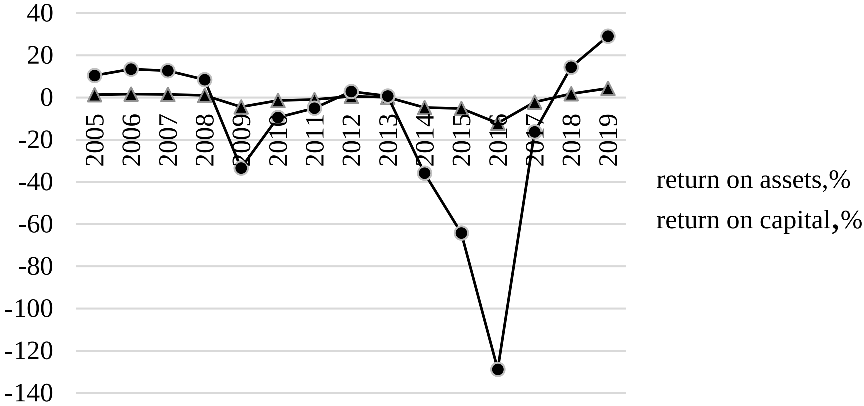

Figure – ROA and ROE indicators for the period from 2005 to 2019 [6]

Analyzing these indicators, we can conclude that for the period from 2005 to 2008 there were positive values, but compared with foreign practice, where the optimal level of these indicators is 1.7% for return on assets and 15% for return on capital, their level in Ukraine is low, but in 2018-2019 the situation stabilized. The global financial crisis has negatively affected the state of the banking sector, leading to financial losses in the banking system.

After the temporary recovery of 2010-2013, the unstable political, economic situation and the military conflict in 2014 had a negative impact on development, so in 2016, return on assets was -12% and return on capital -122%. This situation is explained by the low quality of assets, which has become the main reason for the decline in profitability of banking, especially for state-owned banks. The main way out of this situation was to reduce allocations to reserves for distressed assets, which allowed in late 2017 and early 2018 to get out of the negative ROA and ROE. Thus, the return on capital is from 10 to 20%, and in times of crisis it reached negative values, 2016, as already mentioned, was difficult for the banking system. During the entire analyzed period, the domestic banking system was unprofitable in terms of assets, and unprofitable in times of crisis, but the last two years, the positive dynamics signaling an increase in the stability of the banking system.

Thus, the profitability of the bank is one of the main indicators that characterizes the efficiency of the institution and ensuring financial stability. Thus, profitability primarily depends on such factors as: efficiency of asset and liability management of the bank, clearly defined strategy and high level of management, recognition of risks inherent in banking and organized risk management, maintaining the required level of liquidity in the bank.

Thereby, based on the analysis, it becomes clear that the domestic banking system operated in an unstable economic situation, which can negatively affect not only a particular bank, but also the entire banking system as a whole.

It should also be noted that a single methodology for assessing financial stability in our country is not defined, so this issue remains relevant and is constantly being modified. One of the effective methods is Z-score, which is actively used abroad, especially this methodology is inherent in the National Bank of Kazakhstan, which actively uses it. Thus, this indicator is based on the assessment of the probability of insolvency of the bank, and is based on the indicators of ROA and ROE [1].

It is worth noting that there are a large number of models for rating and ranking of the bank, so some methods, such as the method of O.B. Shirinskaya includes ROA and ROE indicators in her calculation, which was an innovation for the banking system [5].

Surrounding the range of significant performances, a methodology is given that includes a large number of indicators from a given systematization in a given group. In a small skin group, there is a gross indicator of the multiplication of the aim of the efficiency at the establishment for them of the empirical vagi and of the other generation.

So in the future due to the use of ROA and ROE indicators in this methodology in grouping with other indicators allows to take into account a significant number of factors, and due to the adjustment provides increased rating accuracy.

Thus, return on assets and capital can be used as indicators to analyze the banking system of a particular country, and then used to determine the financial stability of an individual bank, and make appropriate decisions to improve the situation of an individual entity.

Thus, the return on assets and capital is an important indicator that significantly affects the provision of financial stability. Therefore, it is important to analyze ways to increase the profitability of a banking institution:

1) Increasing the percentage of assets. Since interest income is the basis for receiving income from a commercial bank, the increase in their share provides the bank with growth in profitability;

2) Development and improvement of marketing policy that will attract new customers;

3) High level of training of employees of the institution;

4) Increase of own funds, which will increase the bank's resources and investment potential;

5) Rational and efficient placement of bank funds to ensure its further financial stability.

It should be noted that the above ways to increase the profitability of a banking institution are one of the main, however, each bank develops its own strategy to increase profitability, based on its strategy and existing problems.

In the conditions in which modern banks operate, management and the regulator should pay considerable attention to: ensuring financial stability, risk analysis inherent in the banking system, reducing costs: staff costs, administrative costs, reducing NPLs, improving asset and liability management strategy. effective management of the bank's profitability and its analysis contributes to ensuring the achievement of strategic and tactical financial goals of the bank, which in turn will have a positive impact on the financial stability of both a single unit and the entire banking system.

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