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## **ESTABLISHMENT OF BAD- AND BRIDGE-BANKS AS AN EFFECTIVE WAY OF BANK NON-PERFORMING ASSET MANAGEMENT IN UKRAINE**

There is no doubt that the problem of deterioration of bank asset quality during the global financial crisis requires immediate resolution. The way to solve this problem, which is widely used in foreign practice of crisis regulation, is the establishment of special institutions to manage distressed bank assets. The primary aim of such institutions is to buy bad loans from the insolvent banks to restore their effective operation by selling these assets at a maximum price.

There is no such an institution in Ukraine yet. In October 2009 the National Bank of Ukraine worked out the plan of remedial bank establishment on the base of individual bank. It provided the transfer of non-performing assets on its balance in exchange for securities. According to the project only two of domestic banks could have an opportunity of selling toxic assets to so-called “bad-bank”. These are “Ukrigasbank” and “Kyiv” that were recapitalized by the state. In the second half of 2010 the IMF recommended the NBU to create bridge-bank instead of remedial bank focused on buying toxic assets. The main purpose of such an institution is the accumulation of "quality" assets and liabilities of troubled banks.

The analysis of peculiarities of bad- and bridge-banks functioning as the instruments of crisis regulation of banking activity focused on solving the problem of bank nonperforming assets growth. The mechanism of assets and liabilities transfer into these institutions in Ukraine is worked out in the thesis. Decision concerning trouble banks' asset transfer to one of mentioned asset management organizations is taking in case if the level of problem liabilities reaches its critical level. Thus, NBU as the subject of crisis regulation of banking system have to take a decision about further actions regarding the troubled bank.

On the base of bank stress-testing results the NBU should take a decision about expediency of bank solvation. If the stress-test results indicate that in the medium term troubled bank would be able to recover and restore its profitability, transfer of its non-performing assets to bad-bank can have a positive effect. However, obtaining positive results stress tests the following criteria must be met: 1) bank has to submit a restructuring plan; 2) bank should be systemic; 3) bank should obtain a significant amount of toxic assets.

In case if bank has positive stress-test result, but doesn't meet mentioned criteria it gets trial period (about 1 year) during which the bank itself has to implement crisis instruments aimed to reduce the amount of non-performing assets in the balance. After the trial period, NBU again conducts stress-testing of such bank and take decisions according to its results. If, vice versa, stress-test shows that the bank would not return to normal profitability level, the transfer of its toxic assets to hospital bank has no economic sense. In that case bank gets the option to transfer its quality assets and liabilities to state bridge-bank.

To assign the extra-time to stabilize banking activity or to find bank's buyers it is reasonable to transfer quality assets and liabilities to bridge-bank. The bank quality assets and quality liabilities of which were transferred to a bridge bank, the 1-2 years trial term is given. If the bank doesn't succeed it obtain the extra time to find the buyer of its assets by , along with the bank receives the term as an additional opportunity to find a buyer of its assets on beneficial conditions.

The necessity of forming of two organizations – hospital and bridge bank – at the same time is explained as follows. In case when all troubled banks get the opportunity to transfer non-performing assets to hospital bank they can lose their incentive to improve the quality of risk management. Moreover, such an option can trigger the spreading of "shady" transaction concerning capital withdrawal from banks and other frauds. Accordingly, the existence of such organization as bridge-bank creates menace of quality assets and liabilities withdrawal from the balance that impedes the restoration of bank solvency and accelerates bankruptcy.

Afanasieva, O.V. Establishment of bad- and bridge-banks as an effective way of bank non-performing asset management in Ukraine [Текст] / В.О. Afanasieva // Міжнародна банківська конкуренція: теорія і практика : збірник тез доповідей VII Міжнародної науково-практичної конференції (24–25 травня 2012 р.) : у 2 т. – Суми : УАБС НБУ, 2012. – Т. 1. – 105 с.