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**Viktoriia Kostiuk, Oleksii Muravskyi,
Olga Faychuk, Nataliia Shvets, Viktoriia Rudevska**

BANKING SYSTEM

Study guide

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Рецензенти:

Iryna Boyarko - Doctor of Economics, Professor, Vice-Rector for Scientific and Educational-Methodological Work of the International European University.

Igor Okhrimenko - Doctor of Economics, Professor of the Department of Entrepreneurship, Trade and Exchange Activities of the Kyiv Cooperative Institute of Business and Law.

Zoya Titenko - Doctor of Economics, Associate Professor of the Department of Finance of the National University of Life and Environmental Sciences of Ukraine.

Lyudmila Klymenko - Senior Lecturer, Head of the Department of English Philology of the NUBiP of Ukraine.

Viktoriia Kostiuk, Oleksii Muravskyi, Olga Faychuk,
Nataliia Shvets, Viktoriia Rudevska

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The textbook reveals the essence of the banking system and its peculiarities in the context of market relations. The historical stages of formation and development of the banking system of Ukraine are studied. Areas of activity and organizational structure of central banks are considered. The theoretical and practical foundations of the activity of commercial banks are outlined: the formation of banking resources; organization of money circulation in banks; credit activities of banks; operations of banks in foreign currency; activity of banks on the securities market; non-traditional banking operations and services. Attention is paid to regulating banking activity in the context of ensuring the financial stability of banks and the stable development of the banking system. Modern information technologies and innovative services of commercial banks, as well as foreign banking experience, are taken into consideration.

The manual contains basic lecture material and educational and methodological support for each topic, which includes the following components: plans for seminar classes; test tasks; solutions of typical problems; tasks for independent work of students; a list of questions for final control of knowledge; procedure and criteria for evaluating students' knowledge; glossary and list of recommended literature. The appendices contain samples of documents that are used in modern banking practice.

The study guide is intended for students, postgraduates, and teachers of economic specialties of higher educational institutions, as well as for economists, bankers, and clients of banking institutions.

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INTRODUCTION

In the context of global economic processes and Ukraine's integration into the world economy, the issue of forming an effective banking system that meets the requirements and needs of the modern financial market is of great importance. Dynamic changes in the business environment and growing competition in the banking sector necessitate a review of traditional approaches to both the strategy for developing the banking system and the range of banking operations and services.

In recent years, the Ukrainian banking system, like the country as a whole, has been operating under challenging conditions of financial and economic crisis, necessitating urgent and effective reforms. A reduction in production, devaluation of the national currency, inflationary pressure on the economy, and a decrease in investment activity have complicated the functioning of the banking sector of the economy. The lack of modern development strategies aimed at stabilizing the banking system's functioning and increasing its role in ensuring the sustainable development of the real sector of the economy and the social sphere negatively affects banks' ability to provide the economy with financial resources.

Among the causes of negative phenomena in the financial and credit sector of the Ukrainian economy, the unsatisfactory state of bank management occupies a significant place. Under such conditions, the constant increase in requirements for the training of banking specialists with a high level of knowledge in the field of banking information technologies and financial innovations becomes of primary importance. The quality of bank management is a key factor in determining the competitiveness and financial stability of individual banks, as well as the efficiency and stability of the banking system as a whole.

The study guide "Modern banking: theory and practice" is designed to form students' theoretical knowledge system about the functioning of the banking system, the principles of organizing the central bank’s work, and the essence and methodology of commercial bank operations. An important task is to equip students with practical work skills in various

areas of banking, including operational activities, banking management, marketing, banking risk management, and the application of the latest banking technologies. The training manual was developed in accordance with current Ukrainian legislation and the National Bank of Ukraine's regulations, taking into account modern banking practices and standards. The manual can be helpful for students, postgraduates, and teachers of economic specialties of higher educational institutions, as well as for economists, bankers, and clients of banking institutions.

CHAPTER 1. THEORETICAL BASICS OF BANKING

TOPIC 1. THEORETICAL FOUNDATIONS OF THE FUNCTIONING OF THE BANKING SYSTEM

1.1. The essence and functions of the banking system

The level of development of market relations in the country largely depends on the level of development of its financial system, which plays a crucial role in providing the economy with financial resources and creating the prerequisites for social reproduction. An essential component of the financial system is the credit system, which includes the banking system (central bank and commercial banks) and specialized credit and financial institutions (insurance companies, credit unions, pension funds, investment funds, financial companies, leasing companies, etc.). This division of credit institutions is caused by different methods of activity, as well as other ways of participating in capital redistribution processes and ensuring the flow of funds between various subjects of market relations.

Specialized credit and financial institutions focus their activities on specific segments of the financial market, serve a limited range of clients, or perform a narrow range of operations. Therefore, the basis of the credit system is the banking system, which plays a key role in the credit and financial services of the economy:

— cash accounts and payments of business entities and the population pass through the banking system;

— the banking system performs a vital function of mobilizing temporarily idle funds and converting them into loan capital, carrying out various credit, investment, and other operations, and thus providing the economy with the additional resources it needs.

The development of banking is historically associated with the market's need for intermediary activities that facilitate the exchange and transfer of value, serving as a medium of exchange and trade. Banking emerged simultaneously with the advent of money and evolved in response

to the level of societal development. It is known that as early as the 3rd century to n. In ancient Egypt and Greece, temples served as a form of banking institution, handling transactions such as saving and exchanging money, accepting deposits, and granting loans. In the territory of modern Ukraine, "moneylenders" were engaged in banking business even in the days of Kyivan Rus, through which the famous trade route "from the Varangians to the Greeks" passed, which greatly stimulated the development of trade, money circulation, and the formation of banking operations in the modern sense.

Thus, banking and banks, as a specialized type of business activity, emerged at a particular stage of commodity-money relations, when there was a need for institutions that would regulate the circulation of money and conduct credit operations. At the same time, banks mustn't lend their own funds, but those of others, which they have borrowed under specific conditions from their owners —a defining feature of banking that remains unchanged.

According to etymological dictionaries, the word **"bank"** originates from the Italian **banco**, meaning "the table" on which medieval money changers spread their coins. The French word "bangue" means "chest"; that is, it indicates the function of keeping something valuable. In many languages of the world, the word "bank" is derived from a single root and has a similar meaning: bank (English, German), banco (Italian, Spanish), banque (French), bank (Ukrainian). Money changers were representatives of monetary and trading capital, accepting cash deposits from merchants and exchanging money from different cities and countries. Over time, money changers began to use these deposits and their funds to provide loans, receiving interest in return, which led to the transformation of money changers into bankers. Money changers in Genoa (Italy) were called bankers as early as the 12th century. According to several scientists, the first banks emerged in the 14th–15th centuries. In Italy, the first bank, in its modern sense, was established in Genoa in 1407.

Objective economic prerequisites, namely, cause the formation and development of banking activity:

— at a particular stage of social development, there was a need for a specific form of entrepreneurial activity, which is associated with the accumulation and distribution of temporarily free funds of market subjects;

— the development of commodity production and the expansion of trade caused the growth of cash flows, which necessitated their organization and technical maintenance.

Thus, ***banks are institutions that carry out a special type of business activity related to the movement of loan funds, their mobilization and distribution; they arose during the development of commodity-money relations, when a network of special institutions was needed to regulate money circulation and carry out credit transactions.***

The banking system is not merely a collection of banks operating within the country's economy. It is built according to a predetermined concept, with its own purpose and specific functions.

The banking system is a legally defined, clearly structured, and subordinated set of financial intermediaries that carry out banking activities on a permanent and professional basis, and are functionally interconnected within an independent economic structure.

The goals and functions of the banking system and individual banks differ fundamentally. If the primary goal of individual banks is to generate a profit, this objective is secondary to the overall goal of the banking system as a whole. The main goals of the creation and functioning of the banking system are as follows:

— provision of public supervision and regulation of banking activities to harmonize the interests of individual banks with the interests of society as a whole;

— ensuring the reliability and stability of the functioning of the banking system in general, to stabilize money and the uninterrupted service of the economy.

The implementation of the banking system's goals is carried out through the performance of the following functions: transformation, emission, and stabilization (Fig. 1.1).

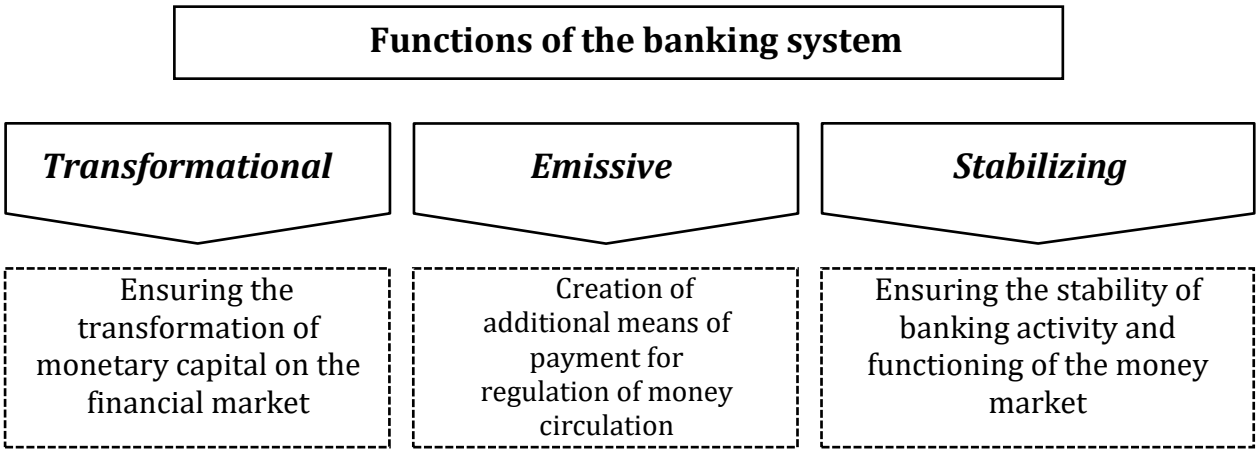


Fig. 1.1. Functions of the banking system

The **transformational function** is due to the intermediary activity of banks. It consists of the fact that banks, by mobilizing the unrestricted funds of some economic entities and transferring them to others, have the opportunity to alter the amount and terms of monetary capital and financial risks. Therefore, the transformation function of the banking system is based on the similar function of individual banks. However, at the scale of the system, a qualitatively new function of transformation appears — more large-scale and effective. This is due to the following circumstances:

— the central bank is actively involved in the transformation process. As a bank of banks, it actively undertakes various transformational processes at the interbank level. Through refinancing mechanisms, the central bank transforms money market resources in terms of terms, sizes, and risks on a larger scale than individual commercial banks. It completes transformational processes within the entire money market;

— the system significantly increases the transformational potential of highly specialized banks. As components of the system, they have the opportunity to perform this function in cooperation with universal banks and provide the entire complex of monetary capital transformation in the market.

The **emission function**, as a key component of the banking system, involves creating additional means of payment and regulating the circulation of money. The banking system rapidly adjusts the amount of

money in circulation, increasing or decreasing it in response to changes in demand for money. In other words, the banking system regulates the money supply. All links of the system — the central bank and second-level banks — participate in the performance of the emission function. It applies to all areas of banking activity, primarily credit operations. This function of the banking system is qualitatively different from the similar function of an individual bank. Each bank is potentially able to participate in the formation of the money supply and is interested in expanding this activity, as it gives it additional income. However, only the system can determine the limits of this activity, which are adequate to the demand for money, and introduce the emission function of each bank into these limits. This is achieved through the methods and tools employed by the central bank in its monetary and credit policy.

The stabilization function, which ensures the stability of banking activity and the money market, is associated with a high risk of bank activity. Banks, in contrast to other economic sectors, pose an increased threat of destabilizing their own activities, disrupting the entire money market, and potentially provoking a general economic crisis. As intermediaries in the money market, banks primarily function at the expense of other people's capital, including equity capital, depositors' borrowed funds, and loans from different banks. When carrying out credit and investment activities, banks must assume full responsibility for the economic risks of their borrowers to depositors. Due to the vast scale of their activities, banks can diversify these risks and mitigate them as much as possible for investors. However, real success in this can be achieved only if the efforts of the entire banking system solve this task. Only the banking system, in general, can create an effective mechanism for insuring bank risks and bank deposits.

The implementation of the stabilization function by the banking system is reflected in the adoption of several laws and other normative acts that regulate the activities of all its branches, as well as in the creation of an effective mechanism for state control and supervision of banks' compliance with these laws and their overall activities.

The mechanism for ensuring the stability of banking activity includes:

— insurance of banking risks, primarily credit risks;
— insurance of bank deposits, primarily deposits of individuals;
— creation of intrabank reserves to cover losses from credit risks;
— creation of a mechanism for mandatory reservation of bank deposits;
— centralized establishment of economic standards for those areas of banking activity that are associated with the most significant risks;
— creation of centralized supervision and control over banking activities;
— creation of a mechanism for centralized refinancing of commercial banks;
— legalization of various mechanisms of centralization of bank capital (creation of consortia, cartels, trusts, concerns, holdings).

These measures demonstrate the organizational and legal support of the stabilization function of the banking system. Each of them is implemented within the system and constitutes a specific infrastructural element that transforms the totality of banks into a qualitatively new phenomenon: the banking system.

1.2. The structure of the banking system and the principles of its functioning

The structure of the banking system depends on specific socio-economic conditions. It develops differently in various countries, depending on the level of market economy development and the historical factors that shaped the formation of the banking business. The banking system, as an independent component of the state's economic system, interacts with other system structures, such as the budget system, tax system, and currency system. Comparing the banking subsystem with others, it is possible to identify features that are common to all of them, which confirms its systemic nature, as well as purely specific features that emphasize its banking specificity.

General features of the banking system include the following:

— a combination of many elements of the same type that are subject to the same goals. In the banking system, such elements are individual banks, the primary purpose of each of them, except the central bank, is to make a profit;
— dynamism, which characterizes the development of the banking system, which, adapting to changes in the economic situation in the country, improves in line with new requirements of the economy, in particular, when the methods and tools of banking activity change, the range of banking operations expands;
— the closedness of the banking system is determined by the concentration of attention of its subjects, mainly on specific activities related to the monetary sphere, such as the performance of purely banking operations. A significant amount of information, according to national legislation, is bank secret and cannot be disclosed or transferred to other systems;
— The self-regulation of the banking system consists in the fact that, in the event of a bank's bankruptcy, other banking institutions fill its niche. If the economic situation in the country changes, banks adjust their methods of operation accordingly; for example, they transition from specialized to universal banking.

The specific features of the banking system include the following:

— a two-level structure characteristic of a modern market economy;
— centralized regulation of the activity of each bank separately and banking activity in general;
— a flexible combination of a high level of centralized management of the banking system with the preservation of full economic independence and responsibility for the performance of each bank;
— the presence of a system-wide infrastructure that ensures the effective functioning of a separate banking institution, as well as the interaction of banks. An example is the system of correspondent relations between banks that utilizes the latest technologies.

The two-level structure is a key principle of building a banking system in a market economy and a decisive quality feature that distinguishes it from other systems.

The first level of such a structure represents one bank (or several banks united by common goals and objectives). Such a bank is granted the status of a central bank. He is responsible for solving macroeconomic tasks in the monetary sphere and, above all, ensuring the stability of national money and ensuring the efficient functioning of the banking system. The Central Bank is legally empowered to do so. It implements monetary and credit policy, issues money, serves as the bank of the state, and regulates all other credit institutions.

At the second level are commercial banks of various forms of ownership, specialization, and field of activity, which directly provide the process of credit and settlement, as well as financial services, to the economy. They accumulate a significant portion of financial resources and provide their clients with a full range of financial services, including lending, deposit attraction, settlement services, and the issuance and placement of securities. Commercial banks operate their activities on a commercial basis to generate a profit.

The two-level principle of building a banking system is based on the organization of relations between banking institutions both horizontally and vertically. **Horizontal relations** refer to partnerships between commercial banks that are economically independent and compete with each other in the money market. **The vertical relationship** refers to the relationship between the central bank, serving as a command and control center, and commercial banks.

A single-level banking system, unlike a two-level one, involves horizontal connections between banks. When performing unified operations, all banks are on the same hierarchical line. A single-level structure is possible under the conditions of an administrative-command economy, provided the country does not have a central bank or all banking operations are performed by a single bank. There may also be no central bank in transitional economies when a full-fledged banking system has not yet been formed.

In Ukraine, the banking system has a classic two-level structure, the foundations of which were laid by the Law of Ukraine "On Banks and

Banking Activities", adopted in 1991. At the first level is the central bank of the state — the National Bank of Ukraine, at the second level — commercial banks of various forms of ownership, specialization, and territorial status (Fig. 1.2).

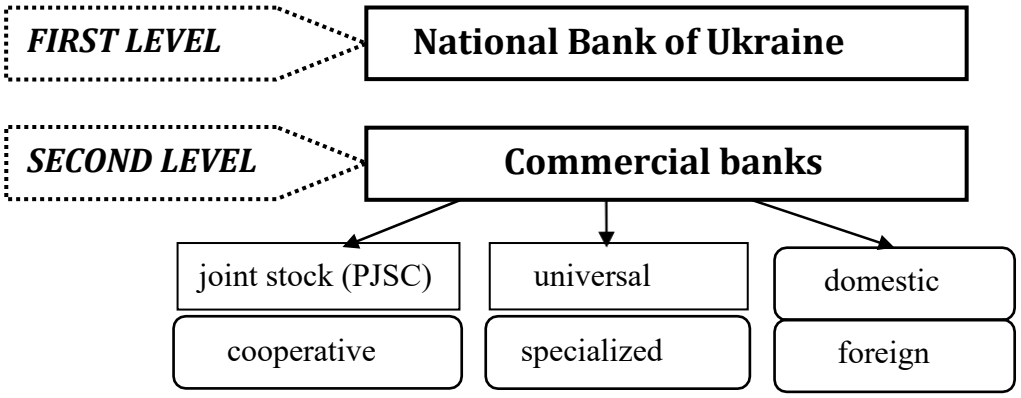


Fig. 1.2. The structure of the banking system of Ukraine

The functioning of the modern banking system is based on principles generally recognized in world practice, the main ones of which are the following:

— the principle of a two-level structure, which is implemented through a clear legislative separation of the functions of the central bank and commercial banks;

— the principle of commercial orientation of second-tier banks, which is expressed in the fact that the primary purpose of banks' activities is to make a profit;

— the principle of banking regulation and supervision by the central bank;

— the principle of competition in the financial market;

— the principle of segmentation, when banking activities are limited to a particular type of operations or sector of the money market;

— the principle of universality, when any restrictions on the activities of banks in the money market are removed;

— the independence of the central bank from state executive bodies;

— the implementation of banks' activities within the limits of actually available resources, when banks must ensure quantitative and

qualitative correspondence between their resources and credit and investment investments;

— complete economic independence, which implies the economic responsibility of the bank for the results of its activities.

The effective functioning of the banking system on these principles enables it to ensure the growth of its competitiveness in both domestic and foreign banking markets and to address one of the most pressing problems: promoting the development of the real sector of the economy.

1.3. Formation and development of the banking system of Ukraine

The banking system of Ukraine began its existence, formation, and development long before the declaration of independence of the modern Ukrainian state. Even during the times of Kyivan Rus, through whose territory the famous trade route “from the Varangians to the Greeks” passed, the activity of moneylenders developed, which to a large extent stimulated the development of trade, the circulation of money, and the formation, in the modern sense, of banking operations. As a result, at different stages of societal development, the banking system gradually evolved and improved, a modernized form of which has survived to this day.

The formation of the banking system in independent Ukraine dates back to March 20, 1991, when the Law of Ukraine “On Banks and Banking Activities” was adopted. This law established the legal basis for the creation of a two-tier banking system, headed by the National Bank of Ukraine (NBU), which was formed on the basis of the Ukrainian Republican Bank of the State Bank of the USSR. This Law declared the liquidation of the state monopoly on banking, and state control and supervision of banking activities were entrusted to the National Bank of Ukraine, which was recognized as entirely independent of the state’s executive authorities.

The formation of the modern banking system of Ukraine took place in several stages (Table 1.1)

Table 1.1 Stages of formation and development of the banking system of Ukraine

Period	Characteristic features of the stages of formation and development of the banking system of Ukraine
1	***2***
Stage 1 ***1988–1990***	The beginning of the reorganization of the administrative-command type banking system in the USSR. Creation and registration of Ukrainian banks as part of the banking system of the Soviet Union.
Stage 2 ***1991–1993.***	Adoption of the Law of Ukraine "On Banks and Banking Activities" № 873–XII dated 20.03.1991. Creation of the National Bank of Ukraine. Re-registration and reorganization of commercial banks. The emergence of second-wave banks.
Stage 3 ***1994–1997***	The stage of active formation and qualitative development of the banking system. Introduction of the national currency - the hryvnia. Overcoming inflation. Registration in Ukraine of representative offices of foreign banks and banks with foreign capital. Creation of the NBU payment system (SEP).
Stage 4 ***1998–2000***	Financial crisis in Ukraine, devaluation of the hryvnia. Significant decrease in the level of bank capitalization, increase in the level of credit and currency risks. Failure of banks to comply with liquidity and solvency standards. Implementation of state stabilization measures in the banking sector. Reform of bank accounting and reporting. Adoption of the Law of Ukraine "On the National Bank of Ukraine" No. 679–XIV of 05/20/1999. Adoption of a new version of the Law of Ukraine "On Banks and Banking Activities" No. 2121–III of 12/07/2000.
Stage 5 ***2001–2007.***	Organizational strengthening of the banking system. Expansion of the resource base of banks and the banking services sector. Adaptation of banking legislation to the standards and requirements of the European Union. Activation of activities in the banking services market of banks with foreign capital. Introduction of the latest methods of regulating banking activities.
Stage 6 ***2008–2010.***	Global financial and economic crisis. Devaluation of the national currency, significant reduction in the resource base of banks, temporary cessation of lending to individuals and legal entities, growth in problem customer debt, decline in bank liquidity and profitability. Bankruptcy and liquidation of banks, mergers and acquisitions, recapitalization and nationalization of banks, exit from the market of banks with foreign capital. Loss of confidence in the banking system. Introduction of NBU measures to support banking stability and protect depositors' rights.
Stage 7 ***2011–2013***	Restoration of bank activity. Increase in the resource base of banks due to term deposits of the population. Activation of bank lending, reduction of interest rates on loans. Restoration of liquidity and capitalization indicators of banks to regulatory values, return of banks to a profitable level of activity, restoration of confidence in the banking system.

1	2
Stage 8 ***2014–2016.***	Systemic crisis in Ukraine. The functioning of the banking system in conditions of political and economic instability due to the annexation of Crimea and hostilities in eastern Ukraine. Devaluation of the national currency, outflow of client funds, reduction of the resource base and low credit activity of banks. Low level of liquidity and solvency of banks, bankruptcy and withdrawal from the market of a large number of problem banks.
Stage 9 ***2017 – Present***	Cleansing the banking system from problem banks, transition of the systemic PJSC CB "Privatbank" into 100% state ownership. Restoration of the deposit base of banks, activation of lending to individuals, reduction of interest rates on loans. Growth of net commission and interest income, return of the banking sector to profitable activity. Development of the Strategy for the Development of the Banking System 2016–2020 "Synergy of Bank Development and Industrialization of the Economy".

The first stage (1988–1990) in the history of the formation of the banking system of Ukraine is associated with an attempt at state (directive) reform of the banking system of the Soviet Union in the implementation of the course of economic restructuring proclaimed by the government. During the USSR, the banking system was formed from all-Union banks, and their branches were located in each of the republics. The system was managed centrally according to the principles of a planned economy. The emergence of the banking system of Ukraine occurred through the creation of market-type banks alongside the existence of state-owned banks.

At this stage, Ukrainian banks were registered in Moscow as commercial banks, which were created on the basis of institutions of the State Bank of the USSR and continued to operate with the status of state banks; sectoral and departmental commercial banks; branches of large Russian commercial banks; state and cooperative commercial institutions that had the right to carry out financial and credit activities. During 1989–1991, about 60 Ukrainian banks were registered in Moscow.

The special features of this period of the formation of the banking system of Ukraine include the dependence of Ukrainian state banks on the all-Union financial bureaucracy and the beginning of the creation of commercial banks as purely Ukrainian banking institutions.

The second stage (1991–1993) began with the adoption of the Law of

Ukraine "On Banks and Banking" No. 873–XII dated March 20, 1991, according to which a two-tier banking system was created in Ukraine and the National Bank of Ukraine as the central bank of the state. After the declaration of independence of Ukraine, the re-registration of commercial banks in the Ukrainian Republican Register of Registration of Banks, Currency Exchanges and Other Financial and Credit Institutions began. At the same time, significant changes occurred in the composition of their participants in most commercial banks. Thus, state commercial banks (Prominvestbank, APB "Ukraine", Ukrsotsbank, Agroprombank) were corporatized by clients and bank personnel. The so-called "ministerial" capital, i.e. investments in commercial banks of various government institutions, is gradually being supplanted by the market capital of joint and small enterprises, joint-stock companies. As of January 1, 1993, 134 commercial banks were registered.

During this period, against the background of the development of hyperinflation and a critical reduction in production volumes and the size of the gross domestic product, a significant number of small commercial banks were created in Ukraine, focused on servicing the demand for short-term loans for trade and intermediary activities, and capable of making profits from inflationary processes in the economy. During 1993, about 100 more small, so-called "pocket" commercial banks of this type were created in Ukraine.

The high level of inflation caused the population to distrust the banking system in general and the newly created banks in particular. Due to the limitation of working capital, mass non-payments began. The period 1991–1993 is characterized by the concentration of 80% of banking operations in only a few banks, such as Bank "Ukraine", Oschadbank, Prominvestbank and Ukrsotsbank.

The third stage (1994–1997) in the history of the development of the banking system of Ukraine is associated with the creation of new banks that attracted significant private capital, capital of joint and small enterprises, joint-stock companies, as well as funds from state budgetary and extra-budgetary funds. During 1994–1997, 14 representative offices of

foreign banks and banks with foreign capital were registered in Ukraine, as well as 5 new Ukrainian commercial banks. The National Bank of Ukraine established and put into practice uniform rules for the activities of Ukrainian banks. The active construction of a clear system of regulation for commercial bank activities coincided in time with the introduction of the national currency, the hryvnia. Thanks to the efforts of the NBU and its monetary policy, hyperinflation was overcome, and inflationary processes became manageable.

Some banks, not ready for strict control by the NBU, due to changes in the financial market situation and the need to manage banking processes internally, found themselves on the verge of bankruptcy. During 1994–1997, 76 banks were liquidated, including large ones ("Inco", "Vidrodzhennia", Econombank, Lisbank), and more than 60 banks found themselves in a state of hidden bankruptcy. An essential aspect of the banking system at this stage was the change in the composition of shareholders, who owned many commercial banks and individual branches through sales and resales. About 70 banks underwent such changes.

The fourth stage (1998–2000). The beginning of this period was marked by a financial crisis in the country, characterized by the depreciation of the national currency against foreign currencies, the outflow of portfolio investments by non-residents, and a crisis in the domestic government borrowing market. The devaluation of the hryvnia in 1998 was approximately 80%, resulting in a collective loss of about $ 1 billion in capital for banks. Negative factors include a significant state budget deficit, growth in receivables and payables in settlements between economic entities, external and internal debt obligations, and bond issuance, as well as internal state loans, and the actual inability of the state to make payments on them.

The ongoing economic, financial and payment crisis, the slowdown in the process of market transformations of the economy and investment processes, serious shortcomings and miscalculations of commercial banks in the field of lending and payments, violations of economic standards by many of them, disorder and instability of regulatory and legal regulation,

imperfection of tax and financial legislation required the reform of banking activities. During this period, the state began introducing measures to improve the budget sector's situation. In 1998, the IMF management decided to lend Ukraine $ 2.2 billion, which made it possible to restore the country's foreign exchange reserves. As a result, it was possible to stabilize the country's situation and implement measures for the overall economic development, particularly in the banking sector.

In 1999, the Law of Ukraine “On the National Bank of Ukraine” (No. 679–XIV, dated May 20, 1999) was adopted. The NBU has developed a regulatory framework for implementing monetary policy and banking supervision, and has enhanced the instruments for regulating the banking system. To regulate the activities of banks and ensure financial stability, the NBU has established a requirement for banks to maintain a capital level of at least 3 million euros as of January 1, 2000. The priority area in the activities of banks has become the mandatory fulfillment of the regulator's requirements for increasing capital, aimed at supporting financial stability, as well as the need to reserve funds from profits to cover possible losses that could arise in the lending process. The measures taken have had a positive impact on strengthening the stability and controllability of the banking system, contributing to the restoration of public confidence in domestic banking institutions.

The fifth stage (2001–2007) of Ukraine's banking system development was characterized by the intensification of globalization processes, the introduction of new methods for regulating banking activities, and the adaptation of banking legislation to the European Union's standards and requirements. This resulted in an increase in the number of commercial banks with foreign capital in Ukraine, indicating the expansion of business markets for foreign banks. In 2000, 15 banks with foreign capital were registered in Ukraine, and by the beginning of 2008, the number had increased to 47.

The period 2001–2008 was characterized by the expansion of banking activities through the expansion of work with different customer segments, diversification of active operations, an increase in the number of bank

representative offices, improvement of technological processes and communications, improvement of personnel qualifications, development and implementation of new products, an active advertising campaign, etc.

The political processes of 2004 (“orange revolution”) provoked the devaluation of the national currency and deposit fever (early withdrawal of deposits by depositors, introduction of restrictions on the issuance of bank deposits). Due to the NBU’s currency interventions to maintain the exchange rate, the national currency was able to halt its collapse. The measures taken also ensured the sale of cash currency through commercial banks to meet the population's needs, thereby reducing demand for it.

The development of the banking business in Ukraine was positively affected by the significant increase in foreign banks, which meant the appearance of additional resources and world experience in banking practice, the introduction of the latest technologies and innovations in the banking industry, which ultimately contributed to an increase in the level of competition and an increase in the efficiency of banking activities.

The sixth stage (2008–2010). At the beginning of this stage, the development of Ukraine's banking system occurred against the backdrop of the global financial and economic crisis, which was characterized by a decline in industrial production, GDP levels, rising inflation, and exchange rate fluctuations. Instability in the economy and the rapid depreciation of the national currency led to an increase in the portfolio of problem loans of commercial banks. For all active banking operations, the risk of counterparties failing to fulfill their obligations increased. This resulted in a significant deterioration in the liquidity and profitability of commercial banks. During the period 2008–2009, temporary administration was introduced in 24 banks, while 21 banks were in the process of liquidation. The total profitability of banks' assets decreased significantly, and the share of problem loans increased substantially. An outflow of funds from the deposit accounts of individuals was also observed. The domestic banking sector suffered significant financial and structural losses, which were reflected in the results of its activities and the specifics of conducting banking business.

The state's anti-crisis measures since the beginning of the crisis have aimed at containing significant fluctuations in the exchange rate and balancing the foreign exchange market, providing the economy with means of payment, stimulating the restoration of lending processes, and introducing prudential measures to enhance the reliability of the banking system's functioning. The main measures to stabilize the situation in the foreign exchange market include the intervention policy, the introduction of a currency auction mechanism, and the replacement of the risk ratio of the total open foreign exchange position of banks with threshold limits on the open foreign exchange position. To ensure an adequate level of liquidity, increase lending to the economy, and support banks, the NBU pursued a flexible refinancing policy, improving relevant mechanisms, reducing the discount rate, and determining the procedure for recapitalizing banks with state participation, which began to be implemented.

The seventh stage (2011–2013) of Ukraine's banking system development was characterized by positive trends. The functioning of the banking sector during this period was influenced primarily by the state’s monetary and fiscal policies, the state of the economy, changes in banking legislation, the level of investor confidence, and the state of global financial markets.

The global financial and economic crisis, as well as the first years of the post-crisis recovery of the domestic economy, once again raised the issues of reducing the number of banks in Ukraine, their consolidation and optimization of activities, as well as the problem of underdevelopment of the financial and stock markets. According to the NBU, as of January 1, 2014, there were 180 banks in Ukraine. During the specified period, the regulator implemented a strategy to withdraw insolvent banks from the market by gradually increasing the minimum authorized capital.

The characteristic features of this stage of development of the domestic banking system include an increase in the resource base of banks and the volume of active operations, as well as the return of confidence in the banking system. It is positive that the growth in active bank operations

occurred mainly in the national currency. Commercial banks gradually increased their lending volume to the real sector of the economy. The development of the client loan portfolio of banks was facilitated by a significant attraction of term deposits from the population and a decrease in the cost of hryvnia resources for deposits, which, in turn, led to a decline in interest rates on credit operations. According to the NBU, after three years of loss-making operations, the domestic banking sector has achieved a profitable level and restored liquidity and capitalization indicators to a suitable level.

Eighth stage (2014–2016). Since 2014, Ukraine has faced the most severe crisis, which, according to the International Monetary Fund, is systemic, characterized by signs of a triple financial crisis — simultaneously involving banking, currency, and debt. The most significant risk for both the banking sector and all sectors of the country's economy was the annexation of Crimea and the military conflict in the East of the country. The country's political and socio-economic situation has negatively impacted the development of its economy, led to unbalanced financial markets, and eroded public confidence in the banking sector. The latter is explained by a significant devaluation of the national currency and large-scale bank bankruptcies. Political and macroeconomic instability have led to widespread panic among the population, a substantial outflow of deposits and contributions, and a decline in the quality of bank loan portfolios.

The main problems affecting the functioning of the domestic banking system during this period were low asset quality, high risk, low capitalization, and mass bank bankruptcies, resulting in the unprofitability of the banking system, which necessitated its restructuring. Between 2014 and 2016, 63 commercial banks were declared insolvent and subsequently withdrawn from the market. Thus, the functioning of the banking system of Ukraine at the eighth stage of its development was accompanied by crisis phenomena in the socio-economic sphere and systemic risks, among which the following should be highlighted:

— military, internal, and external political risks;

— high level of credit risks;
— devaluation of the hryvnia and the NBU’s tight currency policy;
— decline in confidence in banks and panic among depositors;
— bankruptcy and liquidation of banks;
— difficulties in reforming and restoring the banking system.

The ninth stage (2017 - present) of the development of the banking system of Ukraine as a result of its cleansing from problem banks and the implementation of other anti-crisis measures was marked by the restoration of the resource base, by increasing lending to individuals, reducing interest rates on loans, returning the banking sector to profitable activity, and restoring confidence in the banking system.

Through the efforts of the National Bank of Ukraine, the Deposit Guarantee Fund for Individuals, and other state structures authorized to regulate banking activities, measures were taken to stabilize the banking sector, restore financial stability, and enhance the solvency of the banking system. As of January 1, 2017, 96 banking institutions (including 38 banks with foreign capital) had a license from the National Bank of Ukraine to operate. As a result of the transfer of the systemic PJSC CB "Privatbank" to 100% state ownership, the share of state-owned banks in the structure of the banking system's assets in Ukraine as of January 1, 2017, was 52%. The share of banks with private Ukrainian capital was approximately 13%, while banks of foreign banking groups accounted for 35%. In accordance with the decision of the National Security and Defense Council of Ukraine dated March 15, 2017, the National Bank proposed to impose sanctions on Ukrainian banks with Russian state capital, which will further lead to an even greater reduction in the share of foreign banks in the domestic banking system.

To increase the level of capitalization of existing Ukrainian banks, the NBU Board's Resolution No. 242, dated April 7, 2016, established a minimum amount of regulatory capital of UAH 200 million (as of July 11, 2017). By July 11, 2018, banks are required to increase it to UAH 300 million. The increase in the minimum amount of regulatory capital of banks will continue annually until July 11, 2024, and will amount to UAH

500 million. Such a phased schedule for increasing the capitalization of domestic banks will contribute to their competitiveness and ensure the financial stability of the national economy.

A system of strategic and tactical measures to overcome the banking crisis and increase the efficiency of monetary, currency, and banking regulation is presented in the Banking System Development Strategy for 2016–2020 “Synergy of Bank Development and Industrialization of the Economy”.

The main objectives of the implementation of the Strategy for the Development of the Banking System are:

— building a financially strong and stable banking system that will effectively perform its primary function — optimal redistribution of capital to financially support the accelerated development of the economy through industrialization, innovation, the creation of clusters of high-tech industries of goods and services production, the development of science, education, and the well-being of the population in general;

— ensuring the stability of the national currency both in the external dimension (exchange rate) and in the internal (inflation level), which is a constitutional function of the National Bank of Ukraine. Stable national currency is the fundamental institution of a country's monetary and economic sovereignty, which serves as the basis for implementing its economic growth strategy.

The conceptual approach of the Strategy is that the banking sector should become a financially stable and profitable system that optimally redistributes capital in the economy and serves as the primary creditor for its intensive development. That is, the banking system should become an effective tool for achieving the state’s macroeconomic priorities.

To do this, it is necessary:

— on the one hand, "treating" the outdated structural disease through the implementation of a new economic course and industrial policy, which will create a healthy economic basis (client base) for the functioning of the banking system;

— on the other hand, correcting errors in monetary, currency and banking regulation and transitioning to a new concept of central banking - stimulating bank lending for innovative industrial development of the economy.

1.4. International standards of banking business

One of the most important and dynamic areas of international processes in the modern world is financial globalization, which is understood as the free and effective movement of capital between countries and regions, the functioning of the global financial market, and the formation of a system of supranational regulation of international finance.

Globalization and increasing instability, which characterize the development of the world economy in recent decades, are especially clearly manifested in the banking sector, which is most sensitive to external factors. Therefore, international and regional financial organizations, as well as the central banks of countries, have the responsibility of developing and applying anti-crisis regulatory tools and enhancing supervision over the activities of financial and credit institutions to strengthen the stability of national banking systems and the global banking sector as a whole.

The main international financial institution that plays a key role in developing and implementing uniform standards in the field of banking regulation and supervision is ***the Basel Committee on Banking Supervision. This organization unites national supervisory institutions that regulate banking activities.***

The Basel Committee on Banking Supervision was founded in 1974 at the Bank for International Settlements by the governing central banks of Belgium, the United Kingdom, Italy, Canada, Luxembourg, the Netherlands, Germany, the USA, Switzerland, Sweden, France, and Japan. In the mid-1980s. the countries of Central and Eastern Europe formed their

regional group within the framework of the Basel Committee. The National Bank of Ukraine became a member of the Central and Eastern European Banking Supervision Group in 1996. Currently, the Basel Committee comprises representatives from the supervisory authorities and central banks of 27 countries worldwide. As an observer in the committee's work, the European Commission also participates. In the European Union, the Basel Committee's recommendations are used to integrate the banking systems of EU member states.

The main task of the Basel Committee is to develop directives and recommendations on banking regulation and supervision. Although the Basel Committee is not a policy-making body and its recommendations are not binding, in many countries worldwide, they are reflected in national legislation. *The purpose of the Basel Committee's activities is to enable each country to utilize its experience and recommendations in the field of banking regulation and supervision, taking into account the specific characteristics of its national economy.* In its activities, the Committee is guided by two fundamental principles: first, no banking system should be exempt from banking supervision, and second, supervision must be reliable.

The main documents of the Basel Committee on Banking Supervision are:

— **Core Principles for Effective Banking Supervision** (1997);
— **Basel I —** Capital Accord (1988);
— **Basel II —** Capital Adequacy Accord (2004);
— **Basel III** — Revised Basel II Accord (2010).

The Core Principles for Effective Banking Supervision are minimum standards for sound prudential regulation and supervision of banks and banking systems. These principles are used by various countries as a benchmark to assess the quality of their supervisory systems and to identify measures aimed at achieving a basic level of sound supervisory practices. The Core Principles are also utilized by the International Monetary Fund and the World Bank within the context of the Financial Sector Assessment Program to evaluate the effectiveness of banking supervisory systems and practices in various countries.

The Basel Committee periodically reviews the Principles for Banking Supervision to account for changes in global markets and the regulatory environment resulting from financial crises. In undertaking this review, the Committee aims to strike a balance between increasing the requirements for sound supervision and maintaining the flexibility of the principles and their applicability to all countries worldwide. By strengthening the concept of proportionality, the principles of banking supervision and their assessment criteria are adapted to different banking systems. The proportional approach also allows for the assessment of compliance with the core principles, taking into account the risk profile and systemic importance of a wide range of banks (from large banks to small banking institutions).

Updated in 2011, the Core Principles for Effective Banking Supervision contain 29 provisions necessary for an effective supervisory system, namely:

1. Responsibilities, objectives, and powers.
2. Independence, accountability, resources, and legal protection of supervisors.
3. Cooperation and teamwork.
4. Permitted activities.
5. Licensing criteria.
6. Transfer of significant ownership.
7. Major acquisitions (takeovers).
8. Supervisory approach.
9. Supervisory methods and tools.
10. Supervisory reporting.
11. Powers of the supervisory authority to apply sanctions and enforcement measures.
12. Consolidated supervision.
13. Relations between home and host country supervisory authorities.
14. Corporate governance.
15. Risk management process.
16. Capital adequacy.

17. Credit risk.
18. Problem assets and reserves.
19. Concentration risk and maximum risk limits.
20. Related party transactions.
21. Country risk and risk of restrictions on the transfer of funds (transfer risk).
22. Market risk.
23. Interest rate risk in the banking portfolio.
24. Liquidity risk.
25. Operational risk.
26. Internal control and audit.
27. Financial reporting and external audit.
28. Disclosure and transparency.
29. Financial services abuse.

The Core Principles are neutral with respect to different supervisory approaches, as long as they achieve their objectives. They were not designed to meet the needs and circumstances of every banking system. National authorities should apply the principles in supervising all banking organizations within their jurisdiction. Individual countries, particularly those with developed markets and banking systems, may expand the Core Principles to achieve the best supervisory practices. A high degree of compliance with the Core Principles should contribute to the overall stability of the financial system. Still, compliance with the Principles does not guarantee this, nor can it prevent bank failures from occurring. Banking supervision cannot and should not ensure that banks will not fail. In a market economy, failure is one of the risks that financial institutions take on.

The most critical documents developed by the Basel Committee are the Capital Accords: Basel I, Basel II, and Basel III.

The adoption of the International Convergence of Capital Measurement and Requirements, also known as **Basel I**, in July 1988 was a significant event for global banking, as national banking regulators and supervisors received the first international standard for banking. Although initially the Agreement was mandatory only for member countries of the

Basel Committee, it later became used by almost all countries worldwide.

However, due to the complexity of banking activities, the globalization of financial markets, and the emergence of new banking products and technologies, it became necessary to improve the Capital Accord and adopt more advanced banking standards, which were subsequently introduced as **Basel II.** This agreement aims to determine the adequacy of bank capital, ensuring the effective and stable operation of banking institutions and their regulation. It was adopted by the Basel Committee on Banking Supervision in 2004. The main objectives of Basel II are as follows: to eliminate the shortcomings of Basel I and reduce the possibility of subjective random judgments and interpretations; to ensure greater sensitivity to risks, a better ratio of capital and main risks, in particular credit; to stimulate the improvement of risk management in banks; to ensure the necessary level of capitalization of the banking system. The new capital standards framework aims to achieve these goals through the application of three complementary conceptual components: minimum capital adequacy requirements, improving the risk-based supervisory process, and enhancing disclosure to maintain market discipline.

The global financial crisis of 2008 revealed that the Basel II standards were insufficient to prevent or at least minimize the consequences of international financial turmoil. The consequences of the crisis showed that banking regulators and supervisors needed to address issues related to the quality and structure of capital, diversify loan portfolios, improve liquidity management standards, and reform other areas of bank activity. In 2010, the Basel Committee approved a new document, **Basel III**, which addressed the shortcomings of the previous Basel II agreement and introduced measures to enhance the stability of the global financial system and prevent future international financial crises. Thus, Basel II, which had not yet been fully implemented, was supplemented with new provisions that became the basis of Basel III. The new standards represent a reform of capital and liquidity regulation at the international level, aimed at strengthening the banking sector, enhancing its ability to withstand crisis phenomena, and enhancing banking regulation and supervision.

One of the primary objectives of implementing the Basel Committee on Banking Supervision's principles and recommendations in Ukraine is to align banking regulation and supervision with international standards, thereby ensuring the stability of the domestic banking system and enhancing its competitiveness in global financial markets. At the same time, the process of implementing the Basel Capital Accords' standards is quite lengthy. It involves significant, thorough, and comprehensive preparatory work on the part of state bodies, and, first and foremost, on the part of the National Bank of Ukraine, which is responsible for the state regulation of banking activities.

Interesting to know

How many banks should operate in a country's economy? Economists have repeatedly raised this question, but no definitive answer has been found. No socio-economic or geographical indicator (population, GDP, or country area) is related to the number of banks and does not determine the need for them. The number of banking institutions in a particular country is determined by historical, cultural, institutional, and macroeconomic factors. Often, the reasons for the significant concentration of banks in small countries stem from their political systems. For example, Germany is a federal state, so the so-called state and cooperative banks have become widespread throughout the country. They are small in size and operate only in a specific district. Of the total number of banks in Germany (1990 institutions), almost 1500 are just such. In Hungary, the practice of widespread regional savings banks, known as savings banks, has evolved. Out of 140 banks, more than 90 institutions are small savings banks. The specifics of banking regulation and supervision (in particular, the difficulty of opening branches) also affect the number of banks in a given country. For example, in the USA, it is easier to open a new bank than to create a branch of an existing bank. Thus, according to the laws of some states, a bank established in one state is prohibited from opening branches in another. That is why there are over 5,300 banking institutions in the USA.

Number of banks and population of some countries in the world

Country	Number of banks	Population, million people
Belarus	32	9
Bulgaria	28	7
Great Britain	303	65
Italy	658	61
Canada	76	35
China	4 089	1 373
Germany	1 990	81
Poland	60	38
Russian Federation	757	146
United States	5 381	321
Turkey	51	78
Hungary	140	9
Ukraine	96	42
Japan	198	127

TOPIC 2. STATUS AND MAIN DIRECTIONS OF ACTIVITY OF CENTRAL BANKS

2.1. Prerequisites for the emergence of central banks

In a market economy, the central bank holds a unique position, serving as the primary link in the country's monetary and credit system. Its role and significance for the functioning of the economic system were formed historically. The emergence of central banks is associated with the need to centralize the issuance of banknotes. Until the 19th century, almost any commercial bank had the opportunity to issue its own banknotes; there was no universal means of payment that circulated throughout the country and enjoyed the general trust of the population. The monopolization of money issuance became an objective need for economic development and the need to control and regulate cash flows from the state. Thus, by the end of the 19th century and the beginning of the 20th century, in most countries worldwide, the issuance of banknotes was concentrated in a single issuing bank, which began to be referred to as a central bank. In addition to their monopoly right to issue banknotes, central banks began to assume other essential functions, including regulating the circulation of money, conducting monetary policy, and supervising commercial banks.

In the history of central bank emergence, two paths to their creation are distinguished: evolutionary and directive.

Evolutionary path — gradual transformation of the country's bank of issue into a central bank. This path is typical for countries in which, at the beginning of the 20th century. Banks of issue already existed (France, Great Britain, Sweden). The powers of the bank of issue as a central bank evolved gradually as it assumed (or was delegated) certain functions, such as storing commercial banks' reserves, providing credit support to banks, and managing public debt, among others.

Directive path — creation of a central bank based on a special law, which provides for a special status of the bank from the moment of its foundation. This path is typical for developed countries, in which, for one

reason or another, it began at the beginning of the 20th century. There was no single bank of issue (for example, the USA), as well as for former colonies and post-socialist countries that emerged in the 20th century, which created national banking systems based on the principle of a two-tier structure.

The creation of central banks is closely related to the demonetization of gold. Demonetization of gold refers to the official removal of the gold content from national currencies. The process of demonetizing gold began during the First World War (1914–1918), when the exchange of paper money for gold was halted in almost all countries. In the 30s of the 20th century, all forms of the gold standard in the internal circulation of countries were eliminated. In the sphere of international economic relations, gold played the role of money until the end of the 70s of the 20th century. Legally, the demonetization of gold was enshrined in the second amendment to the IMF Charter. Changes to the IMF Charter were made based on an agreement between the IMF member countries, signed in 1976 in Kingston (Jamaica) and ratified in 1978.

The demonetization of gold objectively caused the following processes in the development of monetary systems:

— the transition from a system of circulation of full-value money to a system of circulation of credit (inferior) money, which does not have its own real value and is not exchanged for gold;
— the creation of a special state administration body - the central bank, the main purpose of which was not only the emission of banknotes, but also ensuring the regulation of their circulation;
— the introduction of a special emission mechanism (monetary policy), which makes it possible to coordinate the emission of money with the changing needs of the economy in means of payment, and thanks to which the state, represented by the central bank, has the opportunity to actively influence not only the monetary sphere, but also the real sector of the economy.

In modern world practice, central banks have one of the following forms of ownership: state, joint-stock, or mixed (Fig. 2.1).

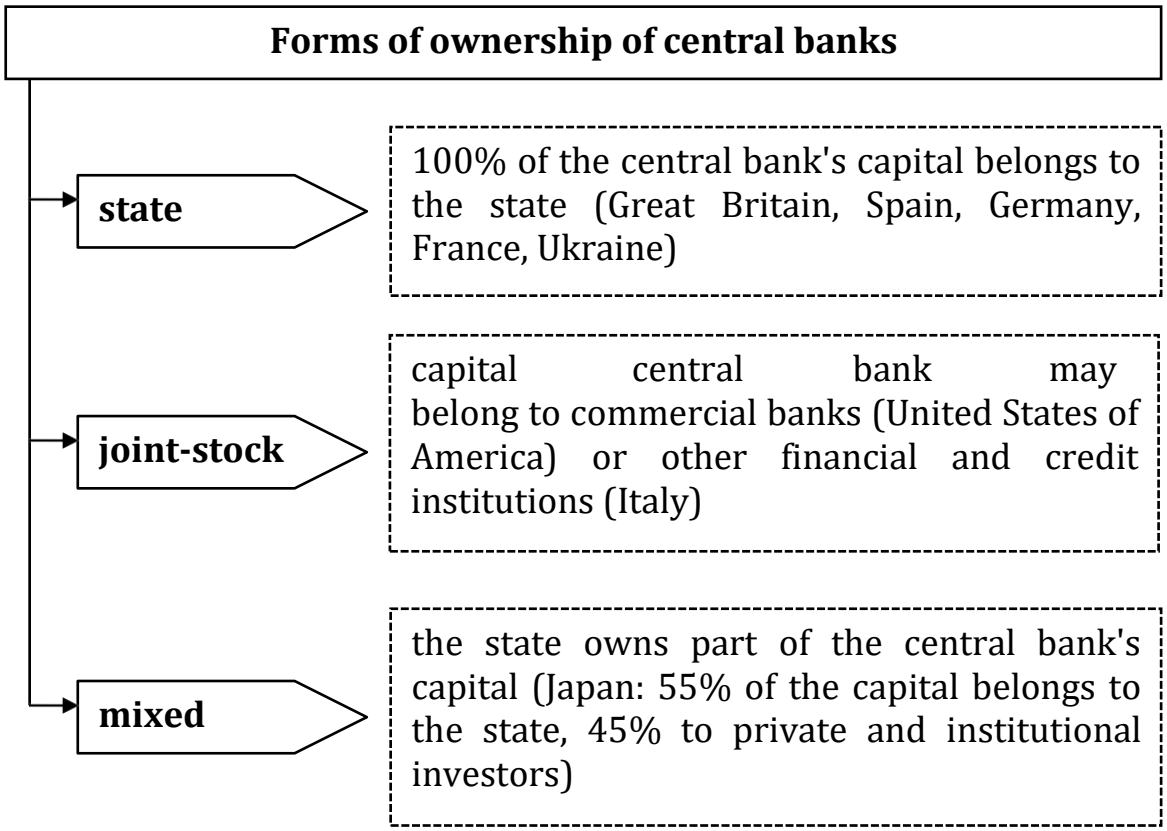


Fig. 2.1. Forms of ownership of central banks

It is worth noting that the form of ownership of the central bank is not of fundamental importance for its functioning, since the target orientation of the central bank's activities is determined not by the interests of its owners, but by the interests of the entire society. During the development process, the volume of capital and the scope of operations of central banks decreased compared to commercial banks, and their functions and methods of influencing the monetary sphere were modified. At the same time, the essence of commercial and central banks remains unchanged, consisting of financial intermediation between the state and the economy. Whatever functions are assigned to the central bank, it is always a regulatory body that combines the features of a bank and a state management body.

2.2. Status and principles of organization of central banks

The legal status of the central bank is understood in terms of its role and place within the system of other state bodies, as enshrined at the constitutional and legislative levels. The following introductory provisions determine the status of the central bank:

— the procedure for determining the main tasks of the central bank;
— the nature of the central bank's relations with state authorities;
— the level of economic independence of the central bank;
— the procedure for appointing the central bank's management.

The main tasks of the central bank in most countries are defined in a special law regulating its activities. These include:

— ensuring the stability of the national currency (price stability in the country) and contributing to maintaining stable rates of economic growth;
— contributing to the effective development of the banking system and its reliability;
— ensuring the smooth and effective functioning of the country's payment system.

The relationship between central banks and government bodies varies across different countries. There are two models of such relationships:

1. The central bank acts as an agent of the government (Ministry of Finance) and carries out its monetary policy.

2. The central bank is independent of the government, ensuring its autonomy in conducting monetary policy without interference from government bodies.

In practice, such models do not exist in their pure form. Most countries in the world use mixed models, which provide for the definition of the principles of the relationship between government bodies and the central bank. In most countries with a market economy, central banks are accountable to the legislative bodies of the state and are completely independent from the executive. Thus, the statute of the European Central Bank (ECB) stipulates that the Bank cannot receive instructions from the political bodies of the European Union (EU) or national governments, and

the latter are obligated not to violate the principle of the ECB's independence. The exact requirements regarding the relationship between central banks and executive bodies of state power are included in the laws regulating the activities of central banks in European Union countries.

The independence of the central bank as a mandatory element of its functioning implies independence in determining and implementing monetary policy. In this case, the independence of the central bank is considered a guarantee that the bank will conduct a balanced monetary policy aimed at ensuring the stability of the national currency and oriented towards the future. However, it should be noted that the independence of the central bank is relative, it is not absolute. Thus, the central bank cannot conduct monetary policy in isolation from the government, because it is only one of the components of the national economic policy, and for monetary policy to be successful, the central bank must interact with the government, which determines fiscal, budgetary, price, and investment policy, etc.

A critical aspect characterizing the relationship between central banks and state authorities, particularly with the government, is the one regarding the financing of the state budget deficit. To prevent possible pressure from the government on the central bank regarding additional money emission to address the budget deficit, in the vast majority of countries, a legislative distinction is made between state finances and central bank funds. Such a distinction takes the form of a ban on the central bank from providing direct loans to the government to finance the budget deficit, as well as from purchasing government securities on the primary market.

Central banks are typically economically independent state bodies with their own independent budget. They finance their expenditures from their own revenues, and the excess of revenues over expenditures is transferred to the state budget without paying taxes. Economic independence highlights the unique status of the central bank compared to other government agencies, which are financed through budget appropriations and thus depend on the allocation of funds by parliament and the government.

The procedure for appointing the central bank leadership is also an

important factor determining its status. In the vast majority of developed countries, central bank leaders are appointed to the position by the head of state or are elected by the legislative body of the state from candidates proposed by the head of state. The terms for which central bank leaders are appointed usually exceed the term of the executive branch, which makes it possible, firstly, to eliminate the element of political instability in the activities of the central bank during the period of change of government, and, secondly, to conduct a monetary policy oriented towards the long-term perspective.

The organizational structure of each country's central bank has its own characteristics and model of construction, reflecting the historical and national aspects that shaped its monetary system. Below are the features and principles of the organization of the central banks of the world's most developed countries.

The Bank of England is one of the oldest and most influential central banks in the world. It was founded in 1694. Since 1844, the capital of the Bank of England has been a fixed amount - £ 14.5 million sterling. The Bank of England has 12 agencies in the territory of Great Britain, including in Northern Ireland, Scotland, and Wales. The Bank of England is managed by the Board of Directors, who are appointed by the Governor of the Bank of England and approved by the Parliament of the United Kingdom. The Board of Directors meets at least once a month. The Board is responsible for all matters of bank management, except for monetary policy, which is dealt with by a special Monetary Policy Committee. The Committee comprises well-known economists and specialists who do not work at the central bank.

The Bank of England is formally independent of the government, and the term of office of the Governor of the central bank does not depend on the change of government. However, the Bank of England Act provides for the bordinate toBank of England to be su the Ministry of Finance. The specifics of the relationship between the state, its central bank, and private banks allow the Bank of England to be described as both "the right hand in the City of London and the City's representative in the government". This

dual role of the Bank of England allows the government to conduct a free monetary policy by more flexible means, and the City's financial structures the confidence that their interests will be defended under any government and any economic course.

The Federal Reserve System (FRS) is the central bank of the United States of America, which has the most unusual structure of all the central banks in the world. The functions of the US central bank are performed by:
— 12 Federal Reserve Banks;
— Board of Governors;
— Federal Open Market Committee;
— Advisory Councils.

Federal Reserve Banks are not government entities; their capital belongs to the member banks of the Fed. However, in their activities, banks are guided by the Basic Principles of Monetary Policy, defined by the Board of Governors of the Fed, and not by the principle of profit maximization. Federal Reserve Banks are responsible for implementing monetary policy, issuing and withdrawing banknotes from circulation, servicing commercial banks in their district, supervising them, maintaining Treasury accounts, placing government securities, collecting checks, organizing the clearing and payment of checks, and participating in interbank settlements.

The highest administrative body of the Fed is the Board of Governors, which determines the strategy of monetary policy and performs regulatory and supervisory functions in relation to the Federal Reserve Banks and other banks. The Board of Governors is accountable to the US Congress; its duty is to regularly report to the Congress and its committees on the state of the economy, the money market, and the banking system.

The Bank of Japan is the central bank of Japan, established in 1882 with an authorized capital of 100 million yen, which has remained unchanged to this day. The Bank of Japan is a joint-stock company: 55% of its capital belongs to the government, 45% to private and institutional shareholders. Shareholders are guaranteed dividends of 4% of the bank's

profit, and in the event of high profits, these can be increased to 5%. The remainder of the profit is allocated to the state budget. Unlike the central banks of many countries, the Bank of Japan was subordinate to the Ministry of Finance of Japan until 1997, and the government had strict regulatory oversight of its financial activities. In 1998, a law came into force, according to which the Bank of Japan became independent of the government. The Bank of Japan is headed by a governor, who serves as the chairman of the Bank's Board of Directors.

The Board of Directors of the Bank of Japan, through the Minister of Finance, submits an annual report to Parliament, which assesses the financial condition of financial and credit institutions, reports on changes in the central bank's supervisory policy, and provides comments on its policies and actions. The main collegial body of the Bank of Japan is the Executive Committee, headed by the governor.

Other structural divisions of the Bank of Japan include:

— Auditors' Office;
— Monetary Policy Department;
— Financial System and Banking Expertise Department;
— Financial Market Department;
— Research and Statistics Department, and others.

The European System of Central Banks (ESCB) comprises the European Central Bank (ECB) and the central banks of the European Union (EU) member countries. The European Central Bank manages the European System of Central Banks.

The authorized capital of the European Central Bank is € 5 billion. The shareholders of the ECB are the national central banks of the European Monetary Union. The quotas of participating countries depend on the size of their GDP and population. The largest share of the ECB's capital from Eurozone countries is held by Germany (24.5%), followed by France (16.8%). The smallest quotas fall on Finland (1.4%), Ireland (0.85%), and Luxembourg (0.15%).

Additionally, national central banks must maintain foreign currency reserves with the ECB in a total amount equivalent to € 50 billion. The size

of the reserve of an individual national central bank is determined by its share in the authorized capital of the ECB. The European Central Bank, in turn, has full rights to hold and manage the reserves presented and must use them exclusively for the purposes specified in the Statute of the ESCB.

The activities of the European System of Central Banks are based on the principles of self-regulation and state and supranational regulation of the economy. The ESCB reports on the results of its activities to the European Commission, the Council of the European Union, and the European Parliament.

2.3. Main directions of activity of central banks

The directions of activity of central banks are determined by their status, purpose, and main tasks. In general, the central bank is the issuing center of the state, the bank of banks, the banking regulatory authority, the banker and financial agent of the government, the conductor of monetary policy, the body of currency regulation and control, the information, statistical, and analytical center of the monetary and banking systems (Fig. 2.2).

Cash issuance and organization of cash circulation.

As the issuing center of the state, the central bank issues banknotes and coins on a monopoly basis. Cash issued by the central bank is the only legal tender in the country, mandatory for acceptance for all types of payments. In addition to cash issuance, central banks also carry out non-cash issuance, resulting in an increase in the volume of reserves of commercial banks, which serves as the basis for the growth of the money supply in circulation. Central banks regulate cash circulation. In addition, they withdraw unfit-for-circulation and non-payable banknotes and dispose of them.

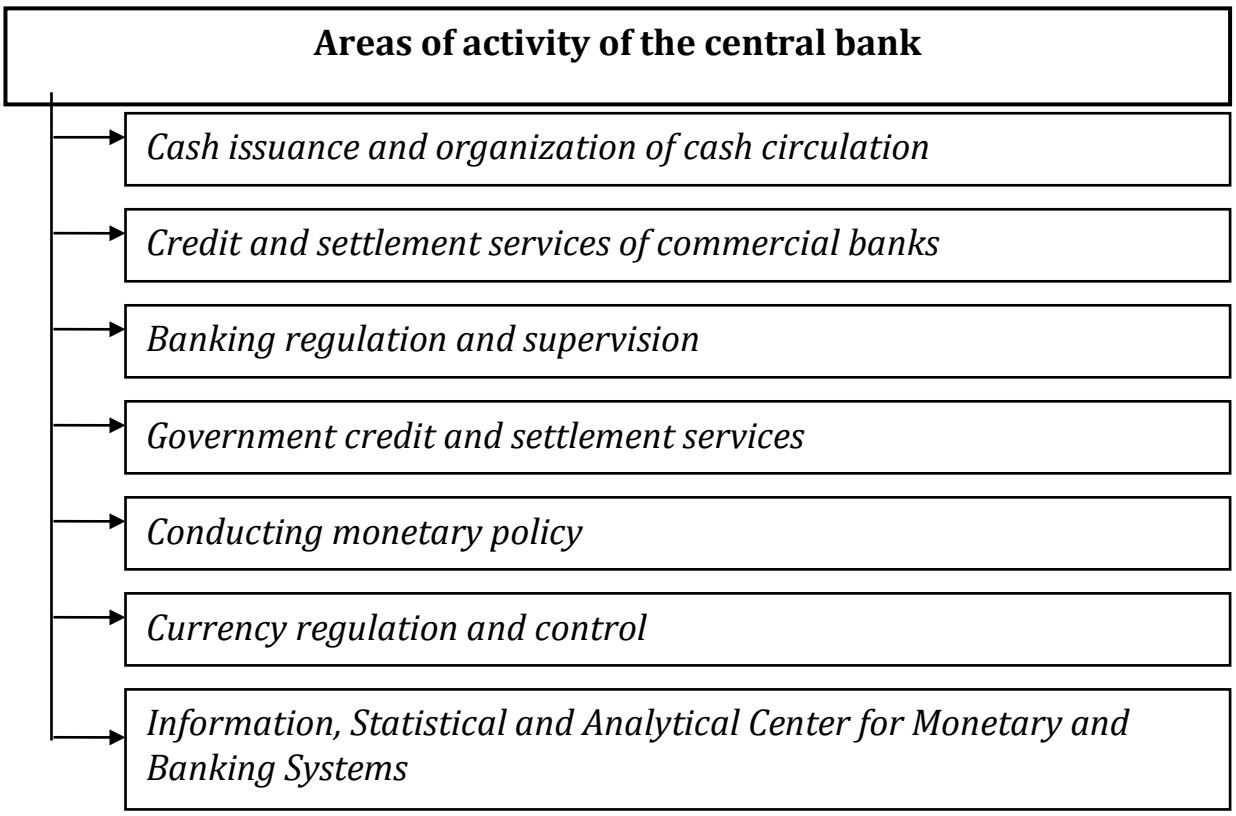


Fig. 2.2. Main areas of activity of the central bank

Credit and settlement services of commercial banks.

The Central Bank provides cash and settlement services to commercial banks. In the process of cash services to banks, it provides them with cash in exchange for their reserves stored in accounts with the central bank. During the settlement process, the Central Bank serves as an intermediary in facilitating interbank transactions. The Central Bank plays a leading role in the functioning of the state's payment system. It creates electronic systems for interbank settlements, develops regulatory documents that determine the rules of operation for payment systems, standards for payment documents, and the rights and obligations of the parties. In the process of providing credit services to commercial banks, the Central Bank provides them with additional funds to maintain their liquidity. Additionally, as the leader of monetary policy, the Central Bank uses lending (or refinancing) to commercial banks as an instrument of monetary policy.

Banking Regulation and Supervision.

As a banking regulatory and supervisory authority, the central bank sets

specific rules and regulations governing the activities of commercial banks. By providing cash, credit, and settlement services to commercial banks, the central bank can monitor banks' compliance with established regulatory requirements. In many countries, not only central banks but also specialized regulatory and supervisory authorities established by the state are involved in regulating banking.

Credit and settlement services for the government.

The Central Bank serves as a banker and financial agent for the government. It performs settlement and cash services for the government, and participates in ensuring the cash execution of the state budget. The Central Bank plays a significant role in managing the state's debt, particularly in placing government securities and servicing them on behalf of the government. The Central Bank serves as an advisor and consultant to the government on monetary policy matters.

Conducting monetary policy.

The Central Bank conducts monetary policy aimed, on the one hand, at controlling the rate of inflation, the annual value of which should not exceed the established indicator, and on the other hand, at creating monetary conditions that foster economic growth. This is the most critical area of activity for the Central Bank, as it is in this area that the Central Bank's purpose is most fully realized: regulating monetary circulation to ensure the stability of the national currency and promote stable economic development.

Currency regulation and control.

The Central Bank is the primary body responsible for conducting currency policy, which is closely related to monetary policy. It regulates the currency relations of economic entities and their activities in the foreign exchange market; conducts an exchange rate policy aimed at maintaining the exchange rate of the national currency; manages international liquid reserves (gold and foreign exchange reserves); ensures the currency liquidity of the state; monitors compliance by economic entities with the laws, norms and rules for conducting currency transactions established by the state.

Information, statistical, and analytical center of the monetary and banking systems.

To increase the efficiency of its activities, the Central Bank analyzes and forecasts the state of the country's economy, primarily focusing on monetary, currency, and price relations. Macroeconomic analysis and forecasting enable the Central Bank to link the monetary policy it develops with other measures of the state's overall economic policy, including structural, fiscal, budgetary, and foreign economic policy. Macroeconomic analysis and forecasting cannot be carried out without statistical information; therefore, central banks develop monetary and banking statistics, publish statistical data, analytical materials, and information.

2.4. National Bank of Ukraine — the central bank of the state

The National Bank of Ukraine (NBU), with the status of the central bank of issue, was established in accordance with the Law of Ukraine "On Banks and Banking Activities" No. 873–XII dated March 20, 1991, based on the Ukrainian Republican Office of the State Bank of the USSR, which was declared the property of Ukraine. At the present stage, the legal status of the National Bank of Ukraine is determined at two levels: constitutional and special legislative.

According to the Constitution of Ukraine, ***the National Bank of Ukraine is the central bank of the state, the main function of which is to ensure the stability of the monetary unit.***

At the legislative level, the legal status of the NBU is regulated by the Law of Ukraine "On the National Bank of Ukraine" No. 679–XIV dated May 20, 1999. In accordance with this law***, the National Bank of Ukraine is the central bank of Ukraine, a special central body of state administration, the legal status, tasks, functions, powers, and principles of organization of which are determined by the Constitution of Ukraine, special laws, and other laws of Ukraine.***

No interference by state authorities, other state bodies, their officials,

or service personnel, or any legal entities or individuals is allowed in the performance of the functions and powers of the National Bank, except within the limits specified by the Constitution of Ukraine and the relevant law. The National Bank submits reports and provides information to state authorities and other state structures in cases stipulated by the Constitution of Ukraine and current legislation. The Constitution of Ukraine, which determines the special status of the National Bank, defines the powers of the Verkhovna Rada and the President of Ukraine regarding the formation of the Council of the National Bank and the appointment to and dismissal from the position of the Governor of the National Bank.

The National Bank of Ukraine is accountable to the President of Ukraine and the Verkhovna Rada of Ukraine within the limits of their constitutional powers.

The accountability of the National Bank means:

— appointment to and dismissal from the position of the Governor of the National Bank by the Verkhovna Rada upon the proposal of the President;
— appointment and dismissal by the President of half of the members of the National Bank Council;
— appointment and dismissal by the Verkhovna Rada of half of the members of the National Bank Council;
— report of the Governor of the National Bank of Ukraine to the Verkhovna Rada on the activities of the NBU;
— provision of information to the President of Ukraine and the Verkhovna Rada twice a year on the state of the monetary and credit market in the country.

The relations of the National Bank of Ukraine with the Cabinet of Ministers of Ukraine provide for mutual consultations on monetary policy, development, and implementation of a national program of economic and

social development. The National Bank, at the request of the Cabinet of Ministers, provides information on monetary processes and the monetary market. The Cabinet of Ministers, ministries and other central executive bodies, at the request of the National Bank, provide information that has an impact on the balance of payments, monetary processes, and the monetary market, including monthly information on income, expenditure, and deficit indicators of the state and consolidated budgets, the state of the state debt, and the schedule of payments under it.

The National Bank supports the economic policy of the Cabinet of Ministers, provided it does not contradict the need to ensure the stability of the monetary unit of Ukraine. The Chairman of the NBU or, upon his authorization, one of his deputies may participate in meetings of the Cabinet of Ministers with the right to an advisory vote. Members of the Cabinet of Ministers may attend meetings of the NBU Board with the right to an advisory vote. The National Bank, in accordance with established procedures, has the right to submit proposals to the Cabinet of Ministers on legislative regulation of issues related to performing the functions of the NBU.

The National Bank of Ukraine shall not have the right to directly or indirectly provide loans in national and foreign currencies to finance the expenditures of the State Budget of Ukraine through a state institution or other legal entity whose property is in state ownership. The National Bank shall not have the right to purchase securities issued by the Cabinet of Ministers of Ukraine, a state institution, or another legal entity whose property is in state ownership on the primary market.

The Verkhovna Rada appoints the Governor of the National Bank of Ukraine for a term of five years upon the President's proposal.

The status, powers, duties, and grounds for dismissal from the position of the Governor of the National Bank are provided for by law. The Governor of the National Bank oversees the activities of the NBU, ensuring the implementation of the functions assigned to the bank. He acts on behalf of the National Bank of Ukraine and represents its interests without a mandate in relations with state authorities, banks, international

organizations, and other institutions and organizations. The law assigns the sole responsibility of the Governor of the National Bank of Ukraine to the Verkhovna Rada of Ukraine and the President of Ukraine for the activities of the NBU.

In accordance with the legislation, the National Bank of Ukraine has a two-tier system of management bodies, comprising the Council of the National Bank of Ukraine and the Board of the National Bank of Ukraine.

The structure of the National Bank of Ukraine is built on the principle of centralization with vertical subordination (Fig. 2.3).

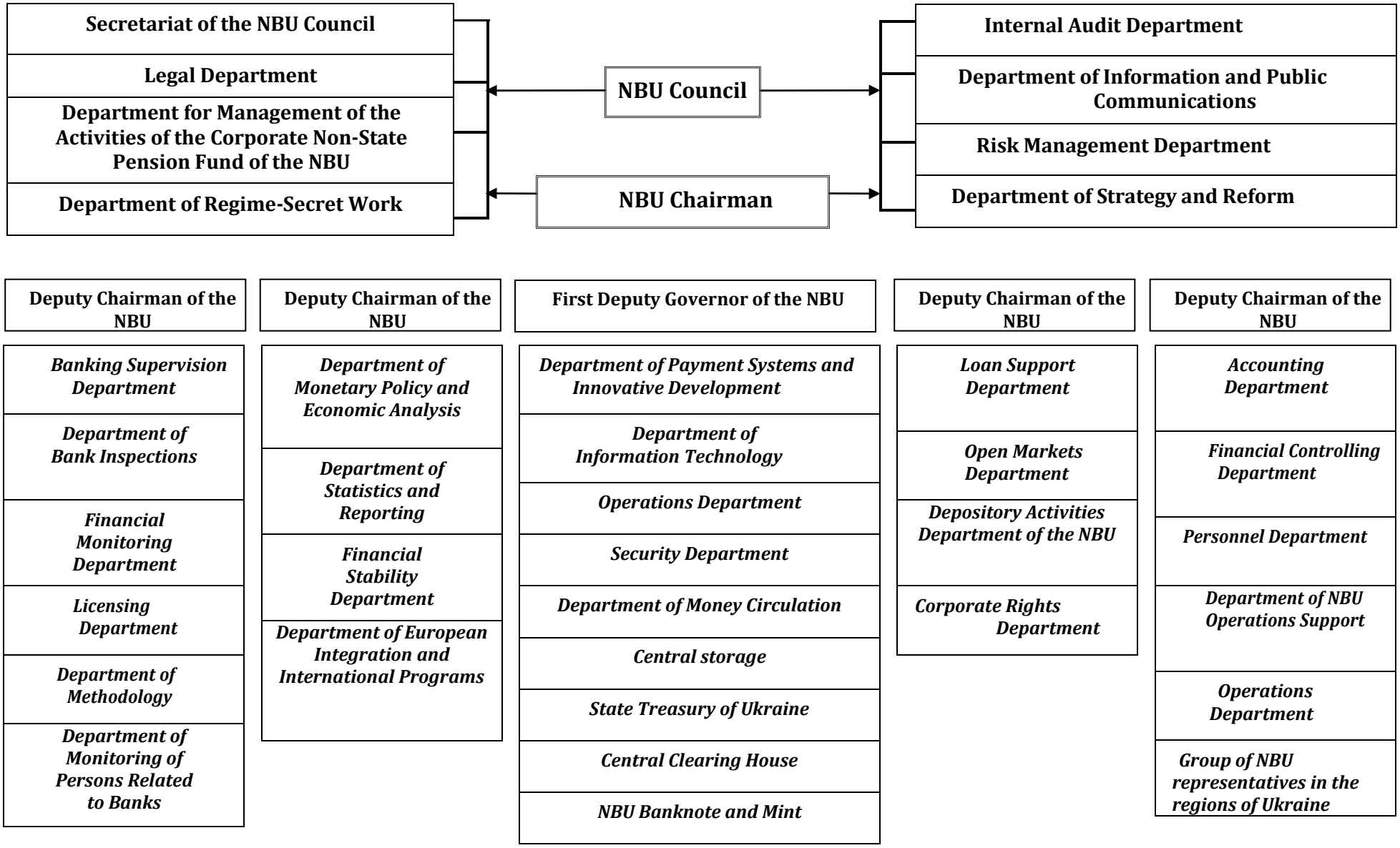


Fig. 2.3. Governing bodies and structure of the National Bank of Ukraine

The highest governing body of the National Bank of Ukraine is the Council of the National Bank of Ukraine, which consists of the Governor of the National Bank and fourteen members. The Governor of the NBU is a member of the NBU Council ex officio. Members of the NBU Council carry out their activities on a voluntary basis. Seven members of the NBU Council are appointed by the President of Ukraine, and another seven members by the Verkhovna Rada of Ukraine. The Governor of the NBU Council and his deputy are elected by the National Bank Council for a term of three years. Members of the NBU Council are appointed to office for seven years. The powers of the appointed members of the Council are terminated early in the event of a vote of no confidence in it by the President of Ukraine or the Verkhovna Rada of Ukraine. In the event that the implementation of the Basic Principles of Monetary Policy at the end of the year has not ensured the stability of the currency of Ukraine, each of them is obliged to dismiss their representatives and appoint a new member of the National Bank Council.

The main powers of the Council of the National Bank of Ukraine:

— determines the Basic Principles of Monetary Policy, informs the Verkhovna Rada about them and monitors their implementation;
— analyzes the impact of monetary policy on the state of socio-economic development of Ukraine and develops proposals for policy changes;
— approves the budget of income and expenditure of the NBU, the bank's balance sheet, the report on the implementation of the budget and the distribution of profit for the reporting year;
— determines the audit company to conduct an audit of the National Bank and considers the audit report;
— makes recommendations to the NBU Board regarding individual measures of monetary regulation, currency policy, development of the banking system, improvement of the payment system, etc. The NBU Board is obliged to consider the recommendations within five days and send a reasoned response to the NBU Council;
— has the right to apply a suspensive veto to individual decisions of the NBU Board, for example, regarding the formation of reserves to cover

financial risks, the minimum size of gold and foreign exchange reserves. The veto does not take effect if the NBU Board confirms its decision within five days by two-thirds of the total number of members of the NBU Board.

The main governing body of the National Bank of Ukraine is the Board of the National Bank of Ukraine. The quantitative and personal composition of the Board of the NBU is formed by the Chairman of the National Bank and approved by the Council of the National Bank. The Board of the NBU is headed by the Chairman of the National Bank. The Board of the NBU includes the Deputy Chairmen of the National Bank, directors of the most important departments of the NBU and heads of the main territorial departments of the National Bank of Ukraine.

The main tasks of the Board of the National Bank of Ukraine:

— ensuring the implementation of the Basic Principles of Monetary Policy through appropriate monetary instruments. In particular, the Board of the NBU makes decisions on changes in the interest rates of the National Bank, the size and procedure for forming mandatory reserves for banks, establishing economic standards for them, issuing banknotes, determining the minimum size of the National Bank's gold and foreign exchange reserves, setting limits for open market operations;
— determining the organizational foundations and structure of the National Bank;
— approving the staffing list of the National Bank and the form of remuneration;
— issuing regulatory legal acts of the National Bank of Ukraine;
— submitting for approval to the NBU Council the annual report of the National Bank of Ukraine, the draft estimate of income and expenses for the next year, accounting, statistical and other information on the activities of the NBU and the banking system.

According to the law, the NBU Council does not have the right to interfere in the operational activities of the NBU Board. The NBU structure includes the central office, separate divisions and legal entities created by the National Bank to ensure its functioning, which carry out

activities exclusively within the framework of the tasks and functions of the National Bank of Ukraine established by law.

In accordance with the current legislation, the National Bank of Ukraine performs the following functions:

— ensures the stability of the national currency;
— determines and implements the monetary and credit policy of the state;
— monopolizes the issue of the national currency and organizes cash circulation;
— acts as a lender of last resort for banks and organizes the refinancing system;
— establishes rules for banks for conducting banking operations, accounting and reporting, protection of information, funds and property;
— organizes the creation and methodologically provides a system of monetary and credit and banking statistical information and balance of payments statistics;
— regulates the activities of payment systems and settlement systems in the country, determines the procedure and forms of payments, including between banks;
— determines the directions of development of modern electronic banking technologies, creates and ensures the continuous, reliable and effective functioning of payment and accounting systems, controls the creation of payment instruments, banking automation systems and means of protecting banking information;
— carries out banking regulation and supervision on an individual and consolidated basis;
— carries out approval of bank charters and amendments thereto, licensing of banking activities and operations in cases provided for by law, maintains the State Register of Banks, the Register of Audit Firms entitled to conduct audits of banks;
— maintains the official register of identification numbers of payment card issuers of domestic payment systems;
— represents the interests of Ukraine in the central banks of other states, international banks and other credit institutions, where cooperation is carried out at the level of central banks;

— carries out currency regulation in accordance with the powers specified by a special law, determines the procedure for conducting transactions in foreign currency, organizes and exercises currency control over banks and other financial institutions that have received a license from the National Bank to conduct currency transactions;
— ensures the accumulation and storage of gold and foreign exchange reserves and conducts transactions with them;
— analyzes and forecasts the dynamics of macroeconomic, monetary, currency and financial indicators, including compiling the balance of payments;
— organizes the collection and transportation of banknotes and coins and other valuables, issues licenses for the right to collect and transport banknotes and coins and other valuables;
— implements state policy on the protection of state secrets in the National Bank system;
— participates in the training of personnel for the banking system of Ukraine;
— determines the features of the functioning of the banking system of Ukraine in the event of the introduction of martial law or a special period, carries out mobilization preparation of the National Bank system;
— submits, in accordance with the established procedure, proposals for the legislative regulation of issues aimed at performing the functions of the National Bank of Ukraine;
— provides methodological support for the storage, protection, use and disclosure of information constituting banking secrecy;
— exercises, in accordance with its competence, powers in the field of depository accounting;
— ensures the accounting and storage of securities and other valuables transferred to it that are confiscated (arrested) in favor of the state, and/or those that are recognized as ownerless, for which it may open securities accounts in depository institutions;

— performs other functions in the financial and credit sector within the limits of its competence determined by law;
— determines the procedure for routing, clearing and mutual settlements between payment system participants in Ukraine for transactions carried out within Ukraine using payment cards issued by resident banks;
— creates a Certification Center to ensure registration, certification of the validity of public keys and accreditation of key certification centers, determines the procedure for using electronic signatures, including electronic digital signatures, in the banking system of Ukraine, as well as by entities transferring funds;
— issues licenses to non-bank financial institutions that intend to become participants in payment systems for transferring funds without opening accounts and revokes them in accordance with the legislation;
— maintains a register of payment systems, settlement systems, participants in these systems and operators of payment infrastructure services;
— supervises payment systems and settlement systems;
— carries out state regulation and supervision in the field of preventing and combating the legalization (laundering) of proceeds from crime, terrorist financing and financing of the proliferation of weapons of mass destruction over non-bank financial institutions-residents that are payment organizations and/or members/participants of payment systems in terms of their provision of financial services for transferring funds on the basis of relevant licenses, in particular the National Bank of Ukraine (except for postal operators in terms of their transfer of funds);
— analyzes the state of the financial system in terms of financial stability.

Among the large list of functions of the National Bank of Ukraine in the context of globalization processes of the world economy and the European integration direction of Ukraine's development, one of the most important areas of activity of the central bank at the present stage is ensuring the stability of the national currency and effective work in the field of monetary policy and currency regulation.

To ensure the internal and external stability of the monetary unit, the National Bank creates a gold and foreign exchange reserve, consisting of the following assets: monetary gold; special drawing rights; reserve position in the IMF; foreign currency in the form of banknotes and coins or funds in accounts abroad; securities (except shares) paid in foreign currency; any other internationally recognized reserve assets, provided that their reliability and liquidity are ensured.

The National Bank replenishes gold and foreign exchange reserves by purchasing monetary gold and foreign currency; receiving income from transactions with foreign currency, banking metals and other internationally recognized reserve assets; attraction of foreign currency funds by the National Bank from international financial organizations, central banks of foreign countries and other creditors.

The use of the gold and foreign exchange reserve is carried out by the National Bank of Ukraine for the following purposes:

— sale of currency on financial markets to conduct monetary policy, including exchange rate policy;
— expenses for transactions with foreign currency, monetary metals, as well as other internationally recognized reserve assets and operations to support the activities of the NBU within the amounts provided for in the estimate of administrative expenses of the National Bank;
— return of foreign exchange funds to the NBU to international financial organizations, foreign central banks and other creditors, including interest for the use of such funds and other mandatory charges;
— participation in the formation of capital and activities of international organizations in accordance with current legislation.

The National Bank establishes the official exchange rate of the hryvnia against foreign currencies and publishes it. To regulate the exchange rate of the hryvnia against foreign currencies, the National Bank uses the gold and foreign exchange reserve, buys and sells securities, sets and changes the refinancing rate and applies other instruments for regulating the money supply in circulation. The National Bank acts as an authorized state institution in the application of the legislation of Ukraine on currency regulation and currency control.

The competence of the National Bank in the field of currency regulation and control includes:

— issuing regulatory legal acts on conducting foreign exchange transactions;
— issuing and revoking licenses, exercising control, including by conducting scheduled and unscheduled inspections of the activities of banks, legal entities and individuals (residents and non-residents) that have received a license from the National Bank to conduct foreign exchange transactions, regarding their compliance with foreign exchange legislation;
— establishing limits on the open foreign exchange position for banks and other institutions that buy and sell foreign currency;
— establishing the procedure for mandatory sales and the amount of foreign exchange proceeds subject to mandatory sales;
— changing the terms of settlements for operations on the export and import of goods;
— applying liability measures to banks, legal entities and individuals (residents and non-residents) for violating the rules of currency regulation and currency control.

The National Bank determines the structure of the foreign exchange market of Ukraine and organizes trade in foreign exchange values on it in accordance with the legislation of Ukraine on currency regulation, conducts a discount and foreign exchange policy and, if necessary, applies currency restrictions.

In modern conditions, the activities of the National Bank of Ukraine have a decisive impact on the stability of the national currency, the reliability of banking institutions, the effectiveness of the payment and settlement mechanism, which generally determines the efficiency of the functioning of the entire economy of the country. Given the relevance of the above tasks, the National Bank has developed a system of measures to bring its activities into line with European norms and standards. The transformation of the central bank is underway - restructuring of functions, implementation of project and process approaches, reduction of expenses. All this will allow the National Bank of Ukraine to successfully integrate into the European and world community of central banks.

2.5. Strategy for reforming the activities of the National Bank of Ukraine

The modern development of society is characterized by a global trend of intensive implementation of economic and monetary strategies aimed at actively stimulating national economies, state support innovative activity, support for lending to the real sector of the economy with monetary and structural policy instruments. In developed countries of the world, due to the need to overcome the impact of the global financial and economic crisis, fundamental changes are taking place in the strategy and tactics of central banks, which is called **the new era of monetary policy**. *Its essence lies in the intensive implementation of productive money emission (i.e., emission used by the real production sector of goods) and the reorientation of emission channels to stimulate lending to the real sector, in particular high technologies, small and medium-sized businesses.*

In view of global trends, there is an increasing need to reorient the policy of the National Bank of Ukraine in order to overcome the consequences of the systemic crisis, integrate into the global financial space and achieve international standards of banking regulation and supervision. Reforming the activities of the NBU, increasing the efficiency of monetary, currency and banking regulation is carried out in accordance with *the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2020* and is part of the strategy for the development of the banking system of Ukraine, presented in the draft *Strategy for the Development of the Banking System 2016–2020 "Synergy of Bank Development and Industrialization of the Economy".*

The main problem of monetary and foreign exchange regulation is the violation of the fundamental principles of optimal management of bank liquidity, aimed at the fulfillment by the central bank of its constitutional function - ensuring the stability of the national currency both in its external dimension (exchange rate stability) and in the internal (inflation rate stability). The operations and regulatory actions of the National Bank affect the level of inflation, economic growth and employment through the

transmission mechanism of monetary policy, i.e. a system of channels through which the actions of the central bank are transmitted to the economy.

The key problem of monetary policy is not an excessive amount of money, but improper management of the process of money emission, i.e. the wrong choice of its channels, instruments and quantitative parameters of regulation. In Ukraine, this system includes five main channels - credit, interest, foreign exchange, asset prices and the expectations channel. They should ensure the unhindered transmission of monetary impulses created by the National Bank through the banking system and financial markets to the real sector of the economy in order to achieve internal equilibrium (optimal ratio of price dynamics and economic growth) and the target inflation rate. However, the transmission mechanism in the Ukrainian economy has significant flaws, which, combined with errors in monetary regulation, create significant inflationary surges and simultaneously hinder the processes of lending to the real sector, and therefore economic growth. The general problem of these channels is the inadequate functioning of all segments of the financial market, especially the interbank foreign exchange and credit markets, which are in the area of direct responsibility of the central bank.

Taking into account the above, *the following are identified among the main strategic goals of reforming the activities of the National Bank of Ukraine:*

1. Increasing public confidence in the National Bank, the banking system and the national currency.
2. Developing the banking system of Ukraine as a complex of equal banks of different sizes, specializations and business models that are financially sound, competitive, stable, aimed at long-term development prospects, lending to the real sector of the economy, innovative and investment development.
3. Developing a civilized competitive market for banking services based on modern market infrastructure, new technologies, compliance with antitrust legislation, and preventing raiding.

4. Developing bank lending processes to the real sector, in particular high-tech production, small and medium-sized businesses, and microfinancing to promote economic growth and increase employment.
5. Developing state-owned banks as banks for development and structural restructuring of the economy.
6. Attracting foreign capital only within the framework of national economic policy with the construction of a clear system for protecting the national interests of Ukraine.
7. Increasing the efficiency of using targeted international financial assistance and lending, publicly publishing reports on their use.
8. Improving the quality of the policy of the National Bank of Ukraine by:

— implementation of monetary policy reform through the development of its operating system to level accumulated monetary imbalances, optimal liquidity management, and optimization of interest rate policy;
— optimization of currency regulation and exchange rate policy to ensure currency stability;
— improvement of banking regulation and banking supervision;
— functioning of an effective and efficient NBU Council and an expert and analytical center under the NBU Council to develop and monitor the implementation of monetary policy.

The transition to a monetary policy aimed at the optimal level of bank liquidity and stimulating lending to the real sector of the economy requires the National Bank of Ukraine to perform the following tasks:

— develop the use of REPO operations and other open market operations as the main operations for managing the liquidity of the banking system;
— optimize the instrumental structure, interest rates, and volumes of monetary policy operations for currency stabilization and the simultaneous gradual development of market exchange rate formation mechanisms;
— optimize the determination of the key monetary policy rate, the level of which should be a target for interbank market rates;

— to accompany the development of open market operations with a balanced, professional communication policy to explain the content of the transition to a more developed monetary policy and discretionary liquidity management;
— to develop and implement mandatory reserve policy measures from the standpoint of optimizing its parameters and creating a moderate structural liquidity deficit in the banking system to ensure the controllability of interest rates by the monetary regulator and the restoration of lending to the economy;
— to introduce monetary policy instruments and operations to stimulate bank lending to the real sector of the economy, especially high-tech industry, small and medium-sized businesses;
— to introduce monetary policy instruments and operations that will reorient the funds involved in unwinding the liquidity surplus spiral to lending to the real sector of the economy.

Effective implementation of the main provisions of the Banking System Development Strategy will ensure the achievement of the goals set by it, namely:

— ensuring currency stability and reducing inflation through increased inflow of export earnings and development of import substitution in the domestic market;
— strengthening confidence in the national currency;
— reducing devaluation and inflationary expectations of market participants;
— creating a financially strong, stable, profitable banking system as a basis for ensuring financial stability;
— increasing the efficiency of the transmission mechanism of the National Bank's monetary policy;
— activating the processes of productive bank lending to the economy, in particular the real sector;
— effective performance by the National Bank of its constitutional functions, increasing the authority of the NBU and its leaders in society and in the international arena.

An important component of the National Bank of Ukraine's reform strategy is its functional and organizational transformation, which began in 2014. The main goal of the National Bank reform is to increase its institutional capacity as a regulator and optimize the organizational structure. The NBU's organizational reform is carried out in the following main areas:

— simplification of the organizational structure;
— concentration on key functions;
— optimization of supporting and non-core functions;
— centralization of management;
— reduction of hierarchy;
— introduction of a matrix management structure;
— increasing the efficiency of internal processes in the bank.

The objectives of the organizational structure reform are to reduce the hierarchical structure of the regulator to four levels - the board, departments, divisions, divisions, as well as to completely review the functions and number of personnel, optimize the network of territorial departments and remove functions not inherent to a central bank from the National Bank. The transformation of the regulatory function provides that the structure of the National Bank will focus on such main functional areas as monetary policy, prudential supervision, financial stability, money circulation and settlement operations.

The Basic Principles of Monetary Policy for 2018 and the Medium-Term Perspective stipulate that when performing its main function, the National Bank of Ukraine should proceed from the priority of achieving and maintaining price stability in the country. Other objectives of the National Bank are to promote, within its powers, financial stability, including the stability of the banking system, as well as to maintain sustainable economic growth rates and to support the economic policy of the Government of Ukraine, provided that this does not impede the achievement of the objectives of price and financial stability. To achieve these objectives in a balanced manner, the National Bank will continue to use the monetary regime of inflation targeting and adhere to the main

principles of monetary policy implementation, namely:

— the priority of achieving and maintaining price stability in the country;
— adherence to a floating exchange rate regime. As the situation on the foreign exchange market improves, the NBU will reduce its presence on it and weaken administrative regulation measures;
— the forward-looking nature of decision-making, which should be based on a macroeconomic basis and promote economic growth. Decisions on monetary policy parameters will be based on a comprehensive macroeconomic analysis and forecast;
— transparency of the activities of the National Bank of Ukraine. Detailed explanations of the NBU's actions and the reasons that led to them will be provided to market participants on a regular basis;
— institutional, financial and operational independence in the performance of its functions.

Since ensuring sustainable economic development in Ukraine is impossible without continuous progress in implementing reforms, the priority areas of activity of the National Bank and the government are the implementation of measures to reform the economy and the financial system, primarily envisaged in cooperation with the International Monetary Fund and other international financial organizations.

Interesting to know

Some countries in the world do not have a classic two-tier banking system due to the lack of their own central bank. These are mostly small countries in terms of territory and population, the issuing center of which is the central bank of another state or a supranational financial body. For example, the European Central Bank is the main regulator of the banking systems of Andorra and Monaco. The central bank of the Principality of Liechtenstein is the Swiss National Bank, and its currency is the Swiss franc. The Reserve Bank of Australia is the central bank for countries such as Kiribati, Nauru, Tuvalu, Christmas Island, and the Cocos Islands. Accordingly, Australian dollars are in circulation in these states. And in the Marshall Islands, Palau, and the Federated States of Micronesia, the central banking regulator is the US Federal Reserve, and accordingly, their national currency is the US dollar.

Several overseas territories of continental states have specific banking system structures. For example, New Caledonia, French Polynesia, and the Wallis and Futuna Islands are special administrative-territorial entities of France located in the Pacific Ocean. Their banking system is subordinate to a special body, the French Overseas Department. This is a state financial organization with headquarters in Paris, authorized to issue the French Pacific franc for the countries that are part of France's overseas possessions.

TOPIC 3. ORGANIZATION OF COMMERCIAL BANKS

3.1. Essence, functions and types of commercial banks

In the system of financial intermediaries, the main role belongs to commercial banks, which connect all spheres of the economy with cash flows - industry and trade, agriculture and households. Banking institutions are the basis of the country's economic mechanism, which is due to their purpose and specifics of their activities. Banks not only serve the payment turnover of the state, but also perform the important function of mobilizing temporarily free monetary resources and transforming them into loan capital. The organization of effective activities of commercial banks, first of all, involves understanding their content and organizational foundations of functioning.

Generalization of scientific approaches to the essence of a bank allows us to determine that ***a commercial bank is a financial intermediary that has the status of a legal entity and, on the basis of a license, has the exclusive right to carry out operations classified by law as banking activities.***

The procedure for the creation, organization and operation of banking institutions in Ukraine is regulated by the Law of Ukraine "On Banks and Banking" No. 2121–III dated 07.12.2000, which states that ***a bank is a legal entity that, on the basis of a banking license, has the exclusive right to provide banking services, information about which is entered in the State Register of Banks.***

According to the law, banking activities include attracting deposits of funds from individuals and legal entities and placing these funds on one's own behalf, on one's own terms and at one's own risk, opening and maintaining bank accounts of individuals and legal entities.

In economic literature, there are different approaches to the classification of banking institutions. As a rule, commercial banks are distinguished by the following features:

1. **By form of ownership:**

— state;
— joint-stock (public joint-stock companies);
— cooperative.

A state bank is a bank, one hundred percent of the authorized capital of which belongs to the state.

A joint-stock bank forms its capital by combining the individual capitals of the founders through the issue and placement of bank shares.

A cooperative bank is created on the principle of territoriality. The minimum number of participants of a local (within the region) cooperative bank, according to current legislation, must be at least 50 people.

2. By volume and variety of operations:

— *universal banks*, which perform a wide range of operations and provide various services to their clients;
— *specialized banks,* which in their activities are focused on performing a narrow range of specialized operations.

3. Banks are divided into the following by functional specialization:

— investment;
— savings;
— mortgage.

Investment banks accumulate temporarily free funds of clients for long periods (including by issuing bonds) and provide long-term loans, as well as provide services for the issuance and placement of securities of various issuers.

Savings banks specialize in attracting savings from the population in the form of deposits and lending to individuals. In addition, savings banks can perform settlement and cash services for organizations. A bank acquires the status of a specialized savings bank if more than 50% of its liabilities are deposits from individuals.

Mortgage banks provide long-term lending for housing construction secured by land plots (mortgages), other long-term loans secured by real estate. A significant share of their liabilities is formed at the expense of equity and capital mobilized by issuing mortgage bonds. Despite their specialization, banks can perform operations typical of universal banks.

4. By ownership of the bank's capital:

— domestic;

— foreign;

— joint with capital participation.

5. According to the NBU classification for presenting the results of banking activities:

— *banks with state shareholdings* — banks in which the state directly or indirectly owns a share of more than 75% of the bank's authorized capital;

— *banks of foreign banking groups* — banks whose controlling stakes belong to foreign banks or foreign financial and banking groups;

— *banks with private capital* — banks in which one or more private investors are among the ultimate owners of a significant stake, who directly and/or indirectly own at least 50% of the bank's authorized capital.

In the course of their activities, banks also have the right to create **banking groups** — groups of legal entities that have a common controller consisting of the parent bank, its one or more Ukrainian and/or foreign subsidiaries and/or associated companies that are financial institutions or for which the provision of financial services is the predominant type of activity.

The effective functioning of the banking system involves, first of all, ensuring competition. Banks are prohibited from entering into agreements with the aim of restricting competition and monopolizing the terms of providing loans and other banking services, setting interest rates and commissions at a level below the cost of banking services in this bank.

A systematic classification of commercial banks is presented in Fig. 3.1.

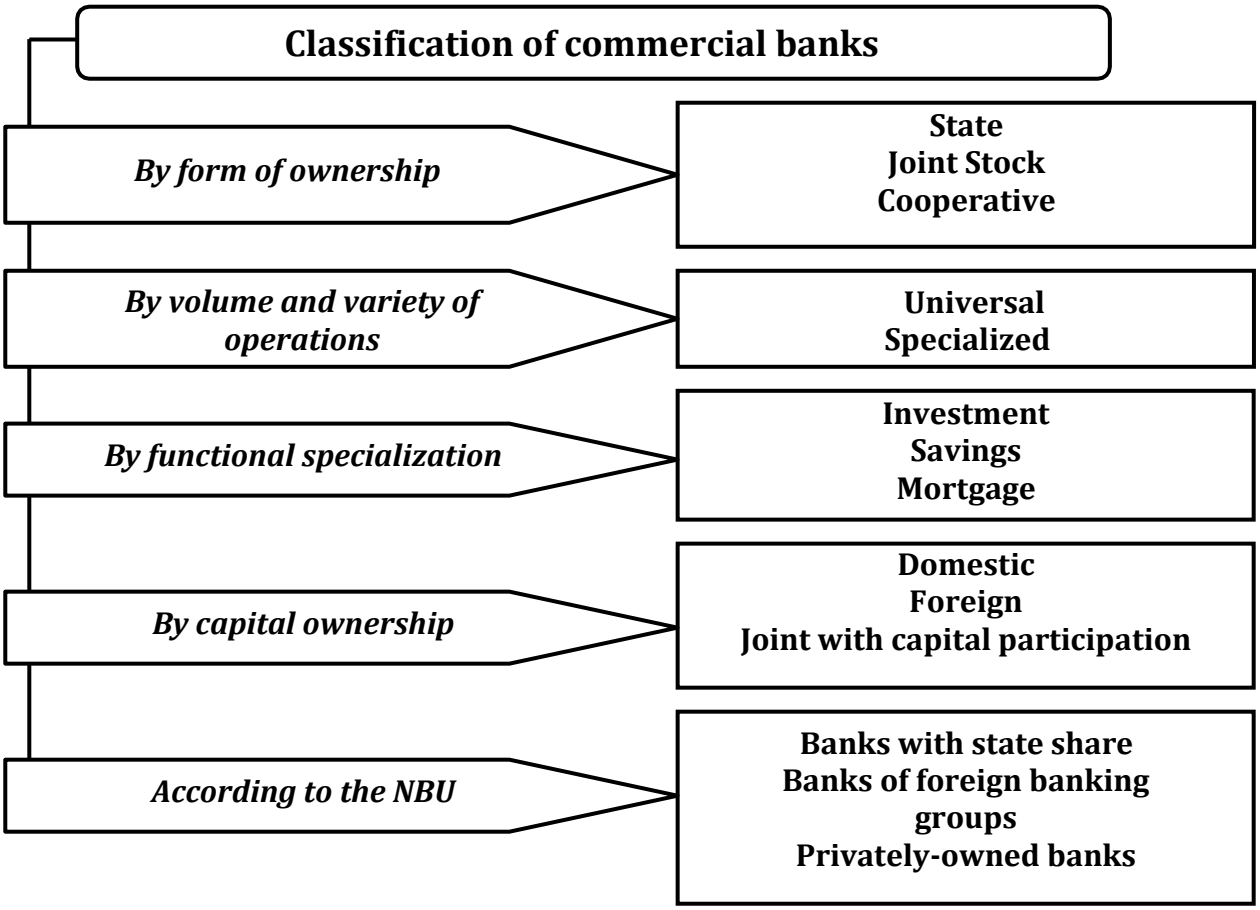


Fig. 3.1. Classification of commercial banks

A modern commercial bank is an autonomous, economically independent, commercial structure, the activities of which are controlled by state banking supervision bodies. Therefore, banks independently determine the areas of their activity and specialization by types of operations. Banking institutions are intermediaries between the owners of funds and their users, and the status of a bank serves as a kind of guarantee of the preservation and return of funds to the owners within a certain period.

3.2. Procedure for the creation, registration and licensing of banks

The procedure for the creation of banks in Ukraine is determined by the provisions of the Law of Ukraine “On Banks and Banking Activities” No. 2121–III dated 07.12.2000 (as amended) and the Resolution of the NBU Board “On Approval of the Regulation on the Procedure for Registration and Licensing of Banks, Opening of Separate Subdivisions” No. 306 dated 08.09.2011 (as amended). In accordance with the legislation, commercial banks in Ukraine are created with the permission of the National Bank of Ukraine. A bank is considered established and acquires the status of a legal entity from the moment of its registration in the State Register of Banks.

The participants of the bank may be legal entities and individuals, residents and non-residents, as well as the state represented by the Cabinet of Ministers of Ukraine. Holders of a significant stake in the bank must have an impeccable business reputation and satisfactory financial condition. Requirements for the business reputation and satisfactory financial condition of the founders and persons acquiring a significant stake in the bank are established by the National Bank of Ukraine. Citizen associations, religious and charitable organizations cannot be participants of the bank.

According to the Law of Ukraine “On Banks and Banking”, business entities without their registration with the NBU do not have the right to use the term “bank” and its derivatives in their names. It is not allowed to use a name for the name of the bank that repeats the existing name of another bank or is misleading regarding the types of activities carried out by the bank. The use of the words "Ukraine", "state", "central", "national" and derivatives thereof in the name of a bank is possible only with the consent of the National Bank of Ukraine.

For registration, the bank's management body shall submit to the National Bank of Ukraine, together with an application for approval of the charter, the following documents:

1) minutes of the meetings of the founders and the constituent assembly, the agreement on the establishment of the bank or the decision on the establishment of a state bank;
2) the charter of the bank;
3) copies of documents determined by the National Bank of Ukraine, necessary for the identification of the founder himself and all persons through whom indirect ownership of a significant stake in the bank will be carried out;
4) documents determined by the National Bank of Ukraine, which allow drawing a conclusion about:

— the business reputation of the founder himself, and for the founder-legal entity, also the members of the executive body and/or supervisory board and all persons through whom indirect ownership of a significant stake in the person intending to carry out banking activities will be carried out;
— financial condition of the founder-legal entity, as well as the property status of the founder-individual;
— the presence of the founder of sufficient own funds to make the declared contribution to the authorized capital, the source of origin of such funds;

5) documents certifying the full payment by the founders of contributions to the authorized capital;
6) information on the ownership structure of the legal entity itself, which intends to carry out banking activities, and the founder, which acquires a significant stake in it, in accordance with the requirements of the National Bank of Ukraine;
7) information in the form established by the National Bank of Ukraine, about the associates of the founder-individual;
8) information in the form established by the National Bank of Ukraine, about legal entities in which the founder-individual is a manager and/or controller;
9) a copy of the temporary certificate of registration of the issue of shares;
10) the conclusion of the Antimonopoly Committee of Ukraine in cases provided for by the legislation of Ukraine;

11) a copy of the payment document on the payment of the fee for approval of the bank's charter, the amount of which is established by the National Bank of Ukraine.

The National Bank of Ukraine makes a decision on approval of the charter or on refusal to approve the charter no later than three months from the date of submission of the full package of documents.

The statutory fund of a commercial bank is formed only at the expense of the founders' own funds in cash. It is prohibited to use budget funds and funds received on credit to form the statutory fund. Contributions of the founders of the bank to the statutory fund are made only in national currency. Contributions of foreign founders are converted into the national currency of Ukraine at the official exchange rate of the NBU on the date of signing the constituent agreement.

The size of the statutory fund is determined by the founders of the bank, but cannot be less than the regulatory requirements of the National Bank of Ukraine. According to current legislation, the minimum amount of authorized capital at the time of state registration of a legal entity that intends to carry out banking activities cannot be less than 500 million hryvnias. To form the authorized capital, an accumulation account is opened in the NBU, to which each founder transfers the share of the authorized capital determined by the constituent documents. Until the time of depositing funds for the formation of the authorized capital into the accumulation account opened in the National Bank, these funds can be accumulated on an account in any bank of Ukraine based on the relevant decision of the founders' meeting. Funds can be transferred only from their own current accounts by legal entities and individuals in non-cash form and deposited by individuals in cash form.

State registration of a bank is not the only factor in obtaining the opportunity to carry out banking activities, for the start of which it is also necessary to obtain a banking license.

A legal entity that intends to carry out banking activities, in order to obtain a banking license within one year after its state registration as a legal entity, must submit the following documents to the National Bank of Ukraine:

1) a copy of the charter with a mark from the state registrar on the state registration of the legal entity;
2) copies of the report on the results of the closed (private) placement of shares registered by the National Securities and Stock Market Commission and the certificate of registration of the issue of shares (for a bank established in the form of a public joint-stock company);
3) information on the quantitative composition of the supervisory board, management board, and audit committee;
4) information in the form determined by the National Bank, allowing to draw a conclusion about:

— the presence of at least three persons appointed as members of the board, including the chairman of the board, their professional suitability and business reputation;
— the professional suitability of the chief accountant and the head of the internal audit unit;
— the business reputation of the members of the supervisory board, the chief accountant and the head of the internal audit unit;
— the presence of an organizational structure and relevant specialists necessary to ensure the provision of banking and other financial services, banking equipment, computer equipment, software, premises that meet the requirements established by the NBU;

5) copies of the bank's internal regulations regulating the provision of banking and other financial services, determining the procedure for implementing internal control and the risk management procedure;
6) a three-year business plan drawn up in accordance with the requirements established by the National Bank;
7) a copy of the payment document on the payment of the fee for issuing a banking license, the amount of which is established by the National Bank of Ukraine.

The National Bank of Ukraine shall make a decision on granting a banking license or on refusing to grant it within two months from the date of receipt of the complete package of documents. The NBU shall enter information about the legal entity into the State Register of Banks

simultaneously with the decision on granting a banking license.

A bank shall have the right to open separate divisions (branches, offices, representative offices) on the territory of Ukraine. The bank shall notify the National Bank of the opening of a separate division. The National Bank shall include information about the bank's separate divisions in the State Register of Banks on the basis of a written notification from the bank.

In the notification on the opening of a separate division that will carry out activities on its behalf, the bank shall indicate:

1) the intra-bank registration code of the separate division;
2) the full name of the separate division;
3) the location of the separate division;
4) the surname, first name and patronymic of the head of the separate division;
5) the scope and types of activities to be performed by the separate unit;
6) information on the relevant decision of the authorized body of the bank on the opening of such a unit;
7) number and date of approval of the regulation on the separate unit of the bank;
8) confirmation of the separate unit's compliance with the requirements established by the NBU, including regarding the premises, equipment of the separate unit of the bank and the professional suitability and business reputation of the heads of the separate unit.

A separate unit of the bank has the right to begin its activities 10 days after the bank notifies the National Bank of Ukraine about the opening of such a separate unit.

3.3. Organizational and functional structure of commercial banks

The prerequisite for the effective functioning of a bank is the choice of the optimal organizational structure for the successful implementation of management functions, maximum satisfaction of the interests of clients in various banking services in order for the bank to achieve its main strategic goals.

The organizational structure of a commercial bank is formed taking into account generally accepted principles, the main ones of which are the following:

— the structure of the bank is subordinated to the bank's development strategy;
— the structure of the bank provides for the delimitation of the functional competence of the divisions;
— the structure of the bank is determined taking into account the possibilities of developing its network and the prospects for activity in certain segments of the financial market;
— the structure of the bank determines the presence of a system of qualification requirements for bank employees, which must correspond to the level of the tasks assigned to them.

Among the factors influencing the choice of the organizational structure of a bank, the size of the bank, types of operations, their scale and form of ownership should be highlighted. Banks operate in different market conditions, specialize in providing different types of services, set themselves different goals, and therefore their organizational structures are not the same. Each of the existing types of organizational structures has its own advantages and disadvantages, which must be taken into account when choosing an organization method. The chosen method should contribute to the rational organization of the work of bank employees of all levels, the successful establishment and implementation of all management functions, maximum satisfaction of customer needs and, finally, the achievement of the goal facing the bank.

In modern scientific literature, most authors distinguish between functional, divisional and matrix structures of the bank.

With a functional structure, bank divisions are formed in strict accordance with their functional purposes and types of tasks to be solved. Within this structure, each of the directions of the bank's work is represented by a separate division. If the bank is large, then the selected functional directions can be represented by departments consisting of a number of departments, or departments consisting of departments. The

functional and linear-functional organization of departments is formed when grouping divisions around the bank's resources *(Appendix 1)*.

In countries with developed market economies, *the divisional structure* of commercial bank management is widely used. The divisional structure is based on the organization of sales directed to a certain category of clients, to a certain geographical region, or on the management of all operations within a certain banking product within one "division". The most common is the consumer divisional structure, its essence lies in the grouping of divisions according to the classes of bank clients, namely: legal entities, individuals, especially important clients, strategic partners, etc. In some large banks, "divisions" are not departments, but businesses consisting of departments (for example, corporate business, individual business). Unlike the functional structure, the formation of divisions does not occur around resources, but around the result or end user of the product *(Appendix 2)*.

The most complex structure, from an organizational point of view, is *the matrix structure of the bank.* Its feature is that it combines the divisional and functional structures, and each performer has a double subordination: on the one hand, he is part of the corresponding functional unit, and on the other - a participant in the implementation of a certain project. According to this structure, employees of the consulting service, accounting and automation department are subordinate to their direct managers of current work and managers of certain projects within the framework of their implementation. The matrix structure model is quite complex, but it is the most effective *(Appendix 3)*.

In banking practice, there are so-called mixed structures, the need for which arises due to their ability to reflect the individual characteristics of the bank's work. The choice of a particular model depends entirely on the specifics of the bank, its goals and capabilities. In general, the organizational structure of a commercial bank is determined by the structure of the bank's management bodies, functional units and services.

The composition of the bank's management bodies includes:

— general meeting of shareholders (participants) — the highest management body;

— the bank's supervisory board — the supervisory body;
— the board (bank's board of directors) — the executive body;
— the audit committee — the control body;
— the internal audit service — the control body.

A variant of a typical organizational and management structure of a commercial bank is shown in Fig. 3.2.

The competence of the general meeting of the bank includes making decisions on:

— determining the main areas of the bank's activity;
— making amendments and additions to the bank's charter;
— changing the size of the bank's authorized capital;
— approving the annual results of the bank's activities;
— distributing profits;
— terminating the bank's activities, etc.

The bank's executive body, which carries out current management, is the bank's board. It is headed by the Chairman of the Board, who is personally responsible for the bank's activities.

The competence of the bank's Board includes the following functions:

— implementation of the bank's development strategy and business plan;
— implementation of the risk management strategy and policy;
— formation of the bank's organizational structure determined by the bank's board;
— development of regulations regulating the activities of structural and separate divisions of the bank in accordance with the bank's development strategy;
— resolution of issues related to the management of the bank's current activities.

In addition, each commercial bank is obliged to create a body that exercises control over the activities of the board, protects the rights of depositors, other creditors and bank participants. This body, according to the constituent documents, may have one of the following names: “bank board”, or “bank supervisory board”, or “bank supervisory board”.

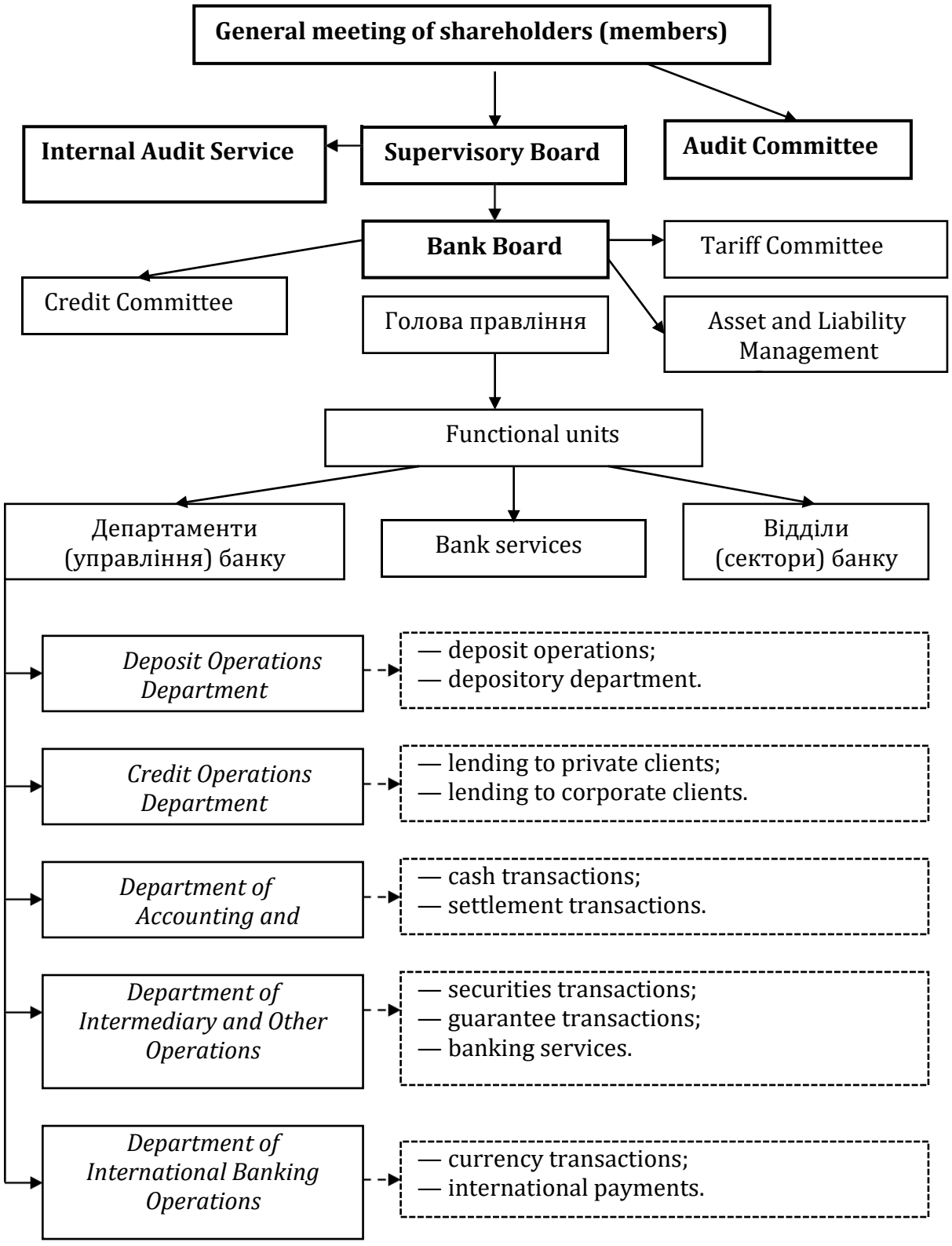


Fig. 3.2. Typical organizational and management structure of a bank

The bank council is elected by the general meeting from among the bank participants, their representatives and independent members in the amount of at least five people.

The exclusive competence of the bank council includes the following functions:

— approval of the bank's development strategy;
— approval of the budget and business plan for the bank's development;
— control over the effectiveness of the risk management system;
— determination of sources of capitalization and other financing of the bank;
— determination of the bank's credit policy;
— appointment and dismissal of the chairman and members of the bank's board, head of the internal audit unit;
— control over the activities of the bank's board;
— determination of an audit firm for conducting an external audit;
— decision-making on the creation of subsidiaries and participation in them, their reorganization and liquidation, the creation of separate divisions of the bank, approval of their charters and regulations;
— ensuring the timely publication by the bank of reliable information on its activities in accordance with the legislation, etc.

In order to organize internal control over the activities of banks, **a permanent internal audit unit** is created. *Its main functions are:*

— checking the availability and assessing the effectiveness of risk management systems;
— monitoring compliance by bank managers and employees with the requirements of the legislation and internal regulations of the bank approved by the bank's board;
— assessing the information and technical support for management and operations;
— checking the correctness and reliability of accounting and financial reporting;
— checking the financial and economic activities of the bank;
— checking compliance with qualification requirements and the performance of professional duties by bank employees.

To ensure additional measures for the purpose of risk management, banks create permanent committees: a credit committee and an asset and liability management committee.

The Credit Committee is a collegial body of the bank authorized to make decisions on the possibility and conditions of conducting credit operations within the limits of the relevant right granted to it, to assess the quality of the bank's assets and prepare proposals for the formation of reserves to cover possible losses from their depreciation, as well as to resolve other issues of credit relations with borrowers and perform functions in accordance with the powers specified in the internal bank regulation on the Credit Committee.

The Assets and Liabilities Management Committee considers the cost of liabilities and the profitability of assets and makes decisions on the interest margin policy, considers the issue of compliance with the maturity of assets and liabilities and provides recommendations to the relevant divisions of the bank on eliminating discrepancies in time that arise.

In addition to the above services, depending on the level of complexity and volume of operations in commercial banks, other divisions are created, in particular: departments of forecasting bank activity, marketing and communications, deposit operations, settlement and cash services, securities operations, currency department, accounting department and others.

All functional divisions of commercial banks carry out their activities independently of each other, but at the same time they ensure the achievement of a single goal. The profitability of banking operations and the financial stability of the bank as a whole depend on the effective interaction between management bodies and functional divisions, as well as on the organization of the management system for individual areas of banking business.

3.4. General characteristics of commercial bank operations

When organizing banking activities, different concepts are used to define the actions of banking institutions. First of all, certain contradictions arise when using the concepts of “banking product”, “banking service” and “banking operation”. In practice, these concepts are often identified, although there are significant differences in defining their essence.

A banking product is the result of a bank's activities in the market, developed by it taking into account the needs of potential and real customers of the bank, which is embodied in the form of a service. A banking service, in turn, is a form of meeting the needs of bank customers, which is implemented through the performance of an interconnected set of banking operations. Fig. 3.3 presents the relationship between the concepts of "banking product", "banking service" and "banking operation" on the example of attracting deposits from the population.

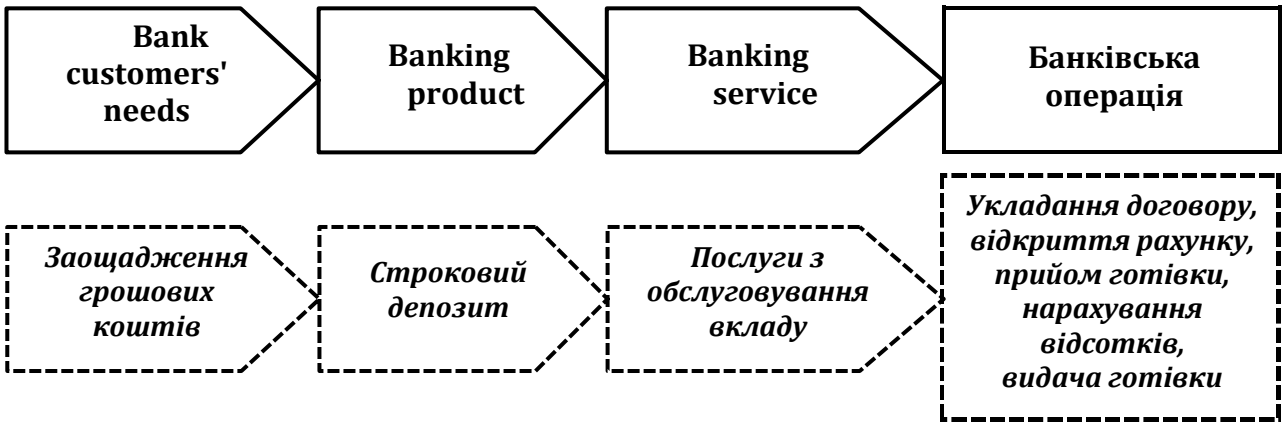


Fig. 3.3. The relationship between basic banking concepts

Thus, the specifics of the functioning of banking institutions is that their products are embodied in the form of services by conducting banking operations in order to meet the needs of bank customers.

Banking operations are a set of interrelated actions aimed at implementing the economic objectives of the bank as a subject of market relations, the subject of which is the movement of funds, securities, precious metals or obligations to move them, which is carried out on the basis of concluded contracts in accordance with current legislation.

The essence of banking operations is determined by the principles of their implementation, in particular:

— legal nature and legality of operations;
— independent execution of operations within the limits of actually attracted (available) resources;
— independent establishment of interest rates and commission fees;
— conducting operations in the interests of the client and the bank on mutually beneficial terms;
— placement of bank resources is carried out taking into account the creditworthiness and solvency of counterparties;
— when carrying out operations, the client's right to freely choose the bank to serve him is used.

Banking operations are classified according to the criteria of their economic essence and functional purpose.

By economic essence, bank operations are divided into:

1. Basic operations:

— attracting funds and bank metals from legal entities and individuals into deposits;
— opening and maintaining current (correspondent) accounts of clients, including in bank metals;
— placing funds and bank metals attracted into deposits, including in current accounts, on their own behalf, on their own terms and at their own risk.

2. Other operations and actions aimed at meeting the needs of clients and making a profit:

— emission operations;
— operations with currency values;
— investment operations;
— operations with securities;
— factoring operations;
— leasing operations;
— trust services;
— services for the storage of values and documents;
— provision of guarantees and sureties;
— provision of consulting and information services;
— issuance of payment instruments (cheques, bills of exchange, etc.);
— founding transactions;
— collection, etc.

By functional purpose, the following are distinguished:

— passive operations;
— active operations;
— commission and intermediary operations.

Passive operations are operations by which banks form their own capital and resource base for conducting active operations.

These include:

— formation of authorized capital;
— raising funds on the accounts of legal entities and individuals;
— issuance of own debt securities;
— obtaining loans from other banks.

Active operations are operations in which banks place available resources in order to generate income and ensure their liquidity.

Active operations of banks include:

— credit operations;
— investment operations;
— founding operations;
— investing funds in deposit accounts in other banks.

Commission and intermediary operations are operations of banks on behalf of clients for a certain fee in the form of a commission.

These operations are not accompanied by the formation or placement of resources, but by the movement of clients' funds already available in the bank at their disposal. They also include all other banking transactions for clients that are not related to the movement of money.

The main types of commission and intermediary transactions are as follows:

— settlement and cash services;

— trust services;

— consulting and information services, etc.

The growth of competition in the banking business, the mastery of modern technologies and the creation of new banking products lead to a constant expansion of the spectrum of commercial banks' operations and an increase in their total volume in the financial markets. However, with all the current diversity and universality of the set of banking transactions, any of them can be attributed to one of three main groups: passive, active or commission and intermediary.

3.5. Modern information technologies in the banking sector

The future of the banking system is the widespread use of digital services. Banking business in Ukraine is at the stage of qualitative transformation and transition to the era of digital technologies. Various electronic communications have become an integral part of the lives and activities of bank clients. Therefore, the interaction of banking institutions with clients should be based not only on a wide range of services, but also on the implementation of computer technologies. They reduce information processing time, and make it possible to carry out comprehensive automation of activities and develop mechanisms for remote customer service. After all, all other things being equal, the bank with which the client will be more comfortable interacting is guaranteed to win.

The main trend of modern times in the banking sector is remote customer service (RCS) in the form of Internet banking and mobile banking. The level and pace of penetration of mobile devices and the

Internet into people's everyday and professional lives leave no other alternative, so those banks that are unable to provide high-quality remote service will certainly lose their positions. Remote banking not only increases the intensity of banking operations, but also significantly reduces the load on bank branches, and even the need for some of them, which leads to a reduction in costs. In addition, increasing convenience for customers and reducing costs allows the transformation of ATM and terminal networks into the main element of the banking self-service system for customers.

Internet banking or web banking is a type of remote banking service for customers, which provides access to accounts and account transactions at any time and from any computer via the Internet. In banking institutions that have implemented this type of remote service, such Internet services as checking account balances and generating statements, making a deposit, repaying a loan, purchasing bus, train and airline tickets, exchanging currency, any type of payment, recharging a mobile phone, transferring funds, ordering additional payment cards, money transfers, online consultations with bank specialists, etc. The main advantage of Internet banking is the ability to control your accounts from anywhere in the world with Internet access. Important characteristics of Internet banking are also speed and convenience, which guarantee saving time and money. The Internet is an open environment that actualizes the problem of maintaining banking secrecy, and that is why another important advantage of Internet banking services is the security of transactions. In particular, domestic banks use three types of protection: using an electronic digital signature, using passwords and SMS confirmations. The advantages of Internet banking also include an increase in the number of banks implementing this service, expanding its basic capabilities and low cost (up to 5 UAH per payment).

The leader in the implementation of Internet technologies in Ukraine is PJSC "PrivatBank", which owns the Internet banking system "Privat24". The top five innovative banks also include the following banks: JSC "Oschadbank" ("Oschad 24/7"), JSC "Ukreximbank" ("Enter EXIM"),

PJSC "Ukrsibbank" ("Star24") and PJSC "Ukrsotsbank" ("Ukrsotsbank Online"). However, the use of Internet banking in Ukraine has certain problems, namely: low use of Internet banking, the need to maintain secure operation in the system, the possibility of payment delays, system failures, and the lack of the necessary legislative and regulatory framework.

Mobile banking is a type of remote banking service that provides access to accounts and account transactions at any time using the client's mobile phone number registered with the bank. This is a service for card account holders that allows you to control the movement of funds using a mobile phone. SMS messages are used to perform operations. As a rule, mobile banking includes the following services: receiving information about crediting, debiting or blocking funds; requesting information about the account balance and recent account transactions; blocking/unblocking a payment card; reminders about the expiration date of the card; reminders about the client's mandatory payments (for example, repayment of loan debt); receiving information about new bank services, etc.

The problems of implementing and using mobile banking in Ukraine most often include system security problems, the need to participate in the process not only by banking institutions, but also by mobile operators, which creates the need to develop integration schemes between banks and mobile service providers, as well as the psychological unpreparedness of clients to use the latest banking services. However, the advantages of using mobile banking are obvious, because the services within such a system save the effort and time of bank customers, allow them to make payments and receive the necessary information around the clock. Operations in the mobile banking system are carried out online, so the information received is as up-to-date as possible. In addition, mobile banking systems are quite easy to use. The capabilities of mobile banking have increased significantly with the spread of smartphones. It is assumed that in the near future a mobile phone will replace a plastic card as a means of payment. Client identification will be carried out thanks to special chips built into the phone. At the same time, such transactions will be more secure than modern card operations, because operators have the ability to track a mobile phone.

The combination of Internet banking and mobile banking functions gave impetus to the development of such "know-how" as QR-banking. ***QR-banking is an electronic contactless payment system that allows you to pay for purchases and access banking services by reading a QR code with a smartphone camera.*** A QR code (Quick Response Code) is a readable optical label containing information about the object to which it is attached. QR codes have begun to be actively used in the domestic banking sector. All that is needed for this is the simplest smartphone with a camera and a built-in banking application. You need to take a picture of the code, which is immediately recognized via the mobile Internet and directs the client directly to the payment page, where he will only have to enter his personal password. The advantage of such an operation is the absence of the need to use not only cash, but also payment cards when making payments. Today, thousands of Ukrainian retail establishments provide the opportunity to pay for purchases by scanning a QR code. The pioneer in this area is PJSC "PrivatBank", which uses QR- code for entering the Privat24 system. When reading a QR code (from a computer screen, advertising brochure, etc.), you enter the system if you have previously authorized yourself in the bank's application. In addition, many bank advertising materials contain information about services and products in encoded form. It is enough to point the smartphone camera at the QR code and all the necessary information will be displayed on the screen.

The latest trend in optimizing the work of institutions, including banks, is bot technologies. The popularity of messengers in various areas of life dictates new trends in the financial market. **A messenger** is an application for a mobile device or a computer program designed for instant messaging between users. Many foreign banks are gradually moving away from using an automatic voice menu on a telephone line. Banking institutions have begun to actively use so-called chatbots to process customer requests. **A chatbot** (from the English. - virtual robot-interlocutor) is a specialized online robot that can communicate with clients and provide the necessary information upon request. Bots are designed to significantly reduce the workload on call center operators and

facilitate access to information for clients. The introduction of chatbots in the banking sector can be used in the field of consulting, for example, in such simple issues as card authorization for use abroad. A bank can create its own chatbot in any messenger program. The most popular messenger is Telegram, in which hundreds of bots from various financial institutions are registered.

The first among Ukrainian banks to introduce bot technology was PJSC "Privatbank". The principle of operation of the bank's chatbot is as follows. A "smart" interface is created on the messenger platform, which has access to the server's functionality and responds to user requests. To start interacting, you need to download the Telegram application to your smartphone, tablet or computer, find the desired chat bot and start a conversation as with a regular user. For example, to transfer money via Telegram using a bank chat bot, you need to type the name of the bank bot in which the client has a card account (for example, @PrivatBankBot) and the payment amount in a chat with your counterparty. But before that, you need to be authorized by providing the bank chat bot with your phone number and confirming the payment card details. The main functions of chat bots of banking institutions are to provide current financial information (exchange rates, interest rates, bank services and products), update bank news, information about the nearest branches, ATMs, bank terminals, etc. It is worth noting that most domestic banks do not use bot technologies, since chat bots, although relevant, are still untested channels of communication with customers. However, in the near future, robot-responders or robot-advisors using elements of artificial intelligence may become an alternative to traditional channels of telephone communication with clients.

Modern information technologies in the banking sector are aimed not only at the development and implementation of new services and products, but also at reducing financial costs of the bank. One of such innovations is the so-called **cloud technologies** (from the English. — cloud technologies). ***The essence of cloud technologies is to rent servers from supplier companies instead of purchasing their own in order to launch***

programs. That is, the provider provides the customer bank with a ready-made technological product via the Internet. Server management is carried out via the Internet, while the tenant company pays only for the actual time of their use for processing and storing data. Thus, the “cloud” opens a new approach to computing, in which neither the equipment nor the software belongs to the bank. Using cloud technologies, banks can abandon the need to create and maintain their own computing infrastructure. The emergence of cloud technologies is, first of all, relevant for small banks with a limited budget for information and technical support of their activities.

The main advantages of cloud technologies are:

— reducing the bank's costs for the purchase of server equipment, hardware and software, and maintaining IT personnel;
— no need to update the software, since the provider constantly provides the tenant bank with its latest versions;
— cloud infrastructure guarantees data security, so bank employees do not need to back up information;
— changes in the “cloud” are reflected in user accounts, that is, the problem with the adaptation stage and integration of software applications disappears;
— the risks associated with information protection are assumed by the provider.

Along with the advantages, *cloud technologies also have certain disadvantages that are significant for banking institutions.* Among them are the following:

— the risk of an attack on the servers of the supplier company and its management system;
— deterioration (or lack) of Internet connection in order to access the bank’s programs and data in the “cloud”;
— bankruptcy of the provider and termination of the provision of “cloud” services;
— the risk of data loss and leakage of information that is a banking secret;
— hacking of the cloud technology management interface.

It is worth noting that, taking into account all the advantages and disadvantages, the interest in cloud technologies on the part of banks is a stimulating factor for providers to form offers that meet the requirements for banking activities and ensure the reliability and confidentiality of their work. Thus, the development and implementation of modern information technologies in the activities of banks makes it possible to realize the main goals of banking management: increasing the efficiency and quality of customer service, reducing the cost of services, optimizing information flows and increasing competitiveness in the financial services market, which in turn will ensure transparency and efficiency of bank management.

Interesting to know

The global banking system operates in conditions of rapid and irreversible development of information technologies. As a result of the development of financial products based on innovative IT solutions, banking services are constantly being updated and improved.

One of the most popular new terms used by financial players around the world today is “fintech.” Financial technology, or FinTech, is a financial services project that uses cutting-edge technology and innovation to compete with traditional financial institutions in the financial services market.

One of the most promising and popular areas of fintech startups is the creation of new types of banks, the implementation of which became possible thanks to the development and commercialization of the Internet.

Neobanks or online banks are actually regular banks, but they use exclusively mobile applications to provide their services. Neobanks are characterized by a high level of customer service and low or no commissions. Traditional banks have virtually no room for maneuver in this matter, since they cover their high operating costs through commission income.

A pioneer in the field of fintech startups is the British *Atom Bank*, which in 2016 received a license from the British central bank to conduct banking activities via a mobile application. A client of this bank needs to download the appropriate application, register in it, select the type of account, take a photo of his ID in the application and fill out a questionnaire. Login to the application is carried out using facial and voice recognition. The bank allows you to open deposits and apply for loans remotely. By the beginning of 2017, Atom Bank had already attracted deposits worth 110 million pounds sterling.

According to the latest data, there are 70 neobanks in the world, 40 of which operate in the UK. The creation and operation of neobanks depend on the economic and technological development of the country, the appropriate legislative framework and the availability of an effective banking system.

TOPIC 4. FORMATION OF THE RESOURCE BASE OF COMMERCIAL BANKS

4.1. General characteristics of banking resources

The banking system concentrates a significant part of the resources of the country's financial system. One of the main functions of commercial banks as financial intermediaries in the money market is to ensure the combination of the interests of investors with counterparties. The role of banks is to mobilize the free funds of economic entities and provide them to those market participants who need them. The main goal of banking management in the field of resource mobilization policy is to create an optimal resource base, which, given the lowest costs for resource formation, contributes to maintaining a stable level of income.

The current state of the national economy, competition in the banking services market, and the expansion of the scope of banking institutions require the latter to form their own effective policy, apply new forms and methods of managing banking resources to ensure financial stability, stability and profitability.

Banking resources are the basis for the functioning of commercial banks. They determine the main areas and directions of their activities, the level of income and financial stability. The formation and management of banking resources is considered one of the most important and complex areas of banking management. In market conditions, it is the volume and quality of resources that banks possess that determine their competitiveness in the financial market. In view of this, the issues of forming the resource base of banks, optimizing its structure and ensuring stability are of particular importance for the effective organization of the work of banking institutions.

The resources of a commercial bank as an entrepreneurial structure include labor, material, financial and information resources. Given the specifics of the bank's activities as a financial intermediary, banking resources are identified with financial resources, since it is their

sufficiency and volumes that determine the scale of active operations of banks and, accordingly, their income and profitability.

Bank resources are a set of own, attracted and borrowed funds of the bank, which are at its disposal and are used to carry out banking activities by conducting active operations and providing services for the purpose of making a profit.

The operations by which commercial banks form their resources are called passive. The composition and structure of bank resources are individual for each bank and depend on the level of its specialization, the state of the credit resources market and the peculiarities of the organization of the bank's activities. However, the main criterion by which bank resources are classified is the sources of their formation.

The classification of bank resources according to the sources of their formation is shown in Fig. 4.1.

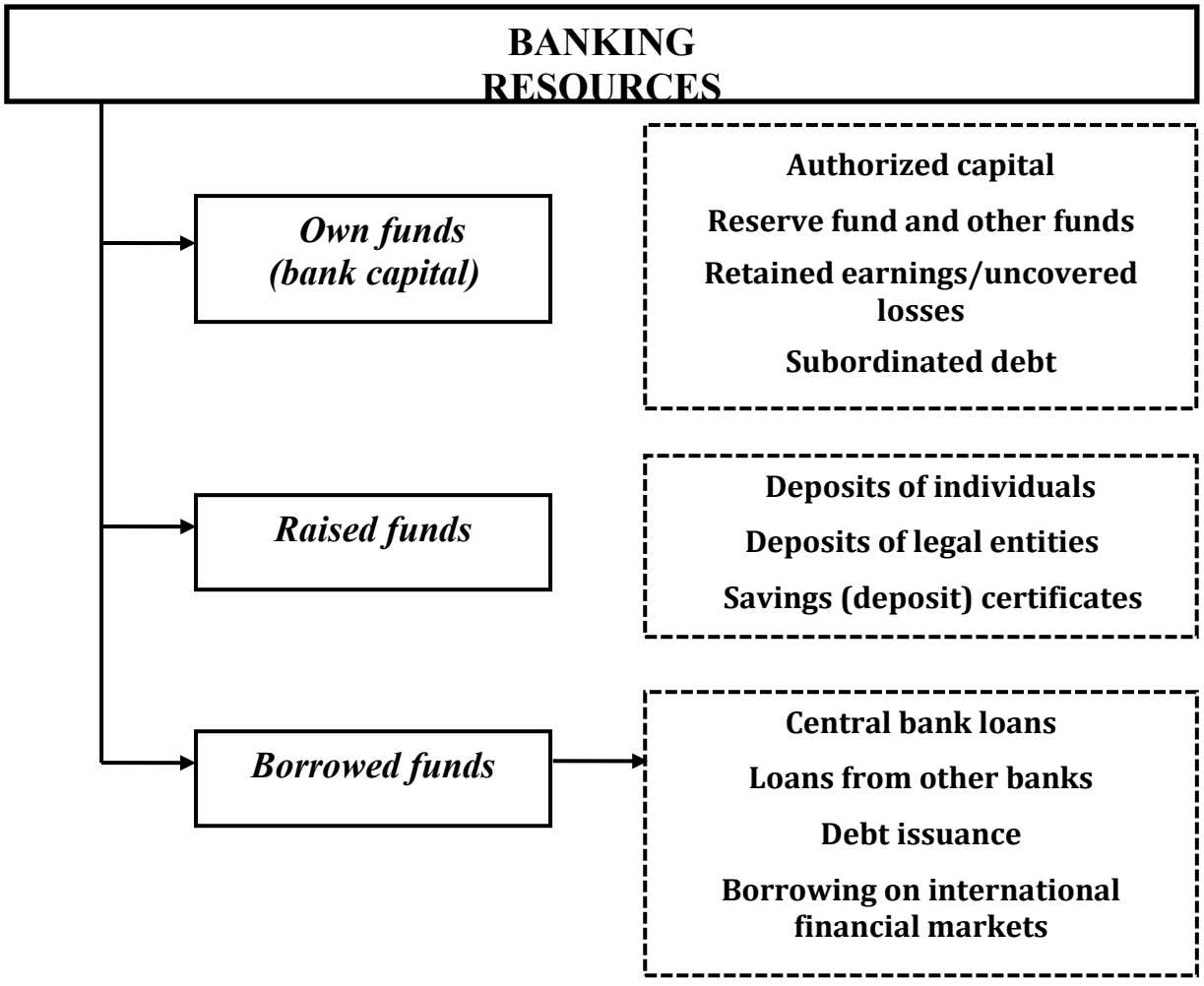


Fig. 4.1. Classification of banking resources

A bank's own funds (bank capital) are funds contributed by the founders of the bank and funds of funds created by banks to ensure financial stability and effective operation of the bank.

Attracted bank funds are the totality of funds on current, deposit and other accounts of legal entities and individuals, on accounts of public organizations, public funds, which are used in active operations in order to generate profit or ensure the liquidity of the bank.

Borrowed bank funds are loans from other banks, including the central bank, receiving funds from the issue of debt obligations, as well as loans on international financial markets.

All components of bank resources play their special role in the resource provision of the bank's effective operation. Therefore, the task of bank management is to form the optimal structure of the resource base and create an effective mechanism for mobilizing funds. The importance of banking resources, the need for their formation and effective use is determined both at the level of an individual commercial bank and at the level of the banking system as a whole.

From a macroeconomic point of view, the importance of banking resources is that they are a prerequisite for the growth of the money supply, a source of investments in the real sector of the economy and a tool for increasing confidence in the country's banking system.

From a microeconomic point of view, the resource base of banks is a source of financing for banking activities and a prerequisite for making a profit, contributes to the capitalization of the bank, improving the image and trust in the bank.

In banking, financial resources play a decisive role. The volume and types of its active operations depend on the resource potential of the bank, and, accordingly, the size of its income. Improving the quality of management and marketing of passive banking operations helps to strengthen the financial stability of both individual banks and the banking system as a whole.

4.2. Bank equity, its structure and formation

One of the most important issues of the bank's resource policy is the formation of sufficient amounts of the bank's equity as the main factor of stable development, as well as trust from its clients, depositors and creditors.

Bank equity is the funds contributed by the founders of the bank and the funds of funds created by banks to ensure financial stability and effective operation of the bank.

Given the specifics of banking activities, a bank's own funds constitute a small share of the total volume of its resources and, as a rule, do not exceed 10–15%. These funds are the starting point for organizing banking activities, the basis for attracting funds from market entities and a necessary condition for ensuring financial stability. The purpose of the equity capital of banks and the equity capital of business entities differ significantly. If for the latter it is to ensure solvency and financing of most active operations, then in commercial banks equity capital performs, first of all, protective and regulatory functions, as well as an operational function at the stage of creating a bank.

The protective function of a bank's equity capital consists in insuring the interests of depositors and creditors, as well as covering losses or bankruptcy of the bank.

The regulatory function of a bank's equity capital is associated with certain standards for the size of equity capital established by the central bank for commercial banks in order to guarantee their stable functioning.

The operational function of a bank's equity capital consists in ensuring the financial basis of its activities. Equity performs an operational function at the initial stage of the bank's activity, until the accumulation of attracted and borrowed funds. The bank's own funds are also intended for expanding its activities, creating branches, introducing new services, purchasing furniture, computer equipment, construction, etc. The purpose and functions of the equity capital of a commercial bank determine its composition and sources of formation (Fig. 4.2).

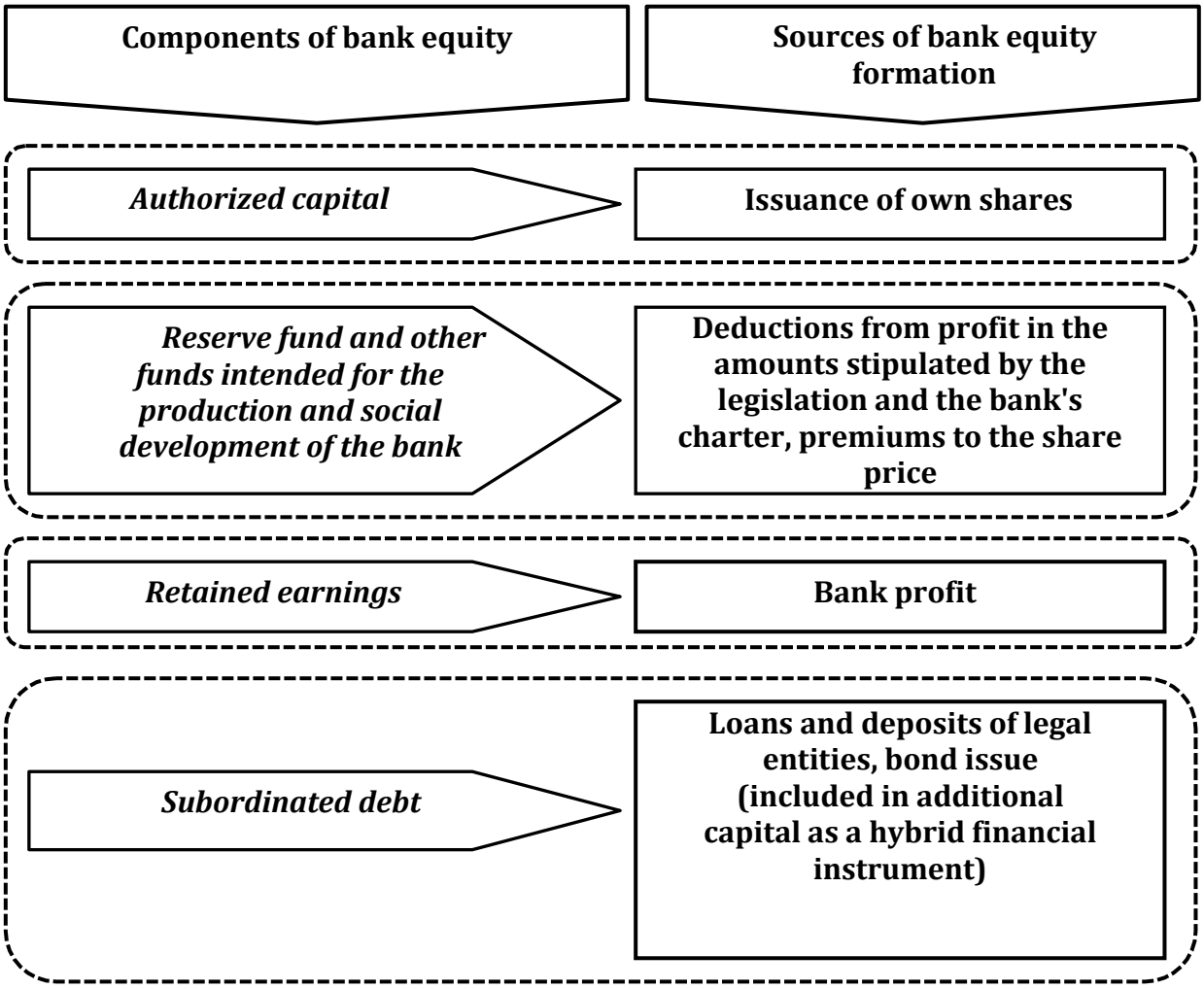


Fig. 4.2. Composition and sources of formation of the bank's own funds

The authorized capital of a commercial bank is the value of shares, shares of the bank paid by cash contributions of the bank's participants in the amount determined by the charter.

The authorized capital occupies a major place in the bank's equity, because through it the rights of the owners of a commercial bank are realized - the right to income and the right to manage the bank. The authorized capital of a bank is formed by issuing and placing shares. The minimum size of the authorized capital of commercial banks is established by the National Bank of Ukraine.

In the process of forming the authorized capital, the following legally established restrictions should be taken into account:

— the authorized capital of a bank should not be formed from unconfirmed sources;

— it is prohibited to use budget funds to form the bank's capital if such funds have a different purpose.

The reserve capital of a bank or disclosed reserves are funds that are reserved by the bank to cover unforeseen expenses, special needs and cover losses.

Banking legislation stipulates that the amount of reserve capital must be at least 25% of the authorized capital. The source of formation of the reserve fund is deductions from the net profit of the reporting year. The amount of deductions is established by the bank's Board of Directors, but must not be less than the legally established 5% of the bank's net profit. If during or after the creation of the reserve fund, payments are made from it to cover losses, then deductions from profit continue until the established amount is restored.

In addition to the reserve fund, commercial banks create ***special funds intended for industrial and social development.*** Their formation is also carried out at the expense of profit. The procedure for the formation and use of these funds is determined by the bank's statutory documents.

Retained earnings are temporarily free funds of the bank that remain after the distribution of profit for payment of taxes, formation of reserves and payment of dividends to owners, intended for reinvestment in the bank's activities.

Retained earnings are a source of replenishment of the bank's own capital of internal origin. On the one hand, increasing equity through retained earnings is more profitable than issuing new shares, since there are no costs for their issuance. On the other hand, if retained earnings are constantly directed to increasing the authorized capital, rather than to increasing dividends, this may lead to a decrease in the market value of the bank's shares. Therefore, it is necessary to maintain a balance between reinvesting profits in the development of the bank and paying dividends to shareholders in order to maintain the share price at a sufficient level.

Subordinated debt is ordinary debt capital instruments not secured by the bank, which, under the terms of the contract, cannot be withdrawn from the bank earlier than after 5 years, and in the event of

bankruptcy or liquidation are returned to the investor after the claims of all other creditors have been settled.

By economic nature, subordinated debt should be attributed to the liabilities of banks. However, since these liabilities are subordinated in nature, that is, second-tier liabilities, banks can use them to replenish their equity capital. That is why subordinated debt is defined as a capital instrument that has the characteristics of both equity and liabilities.

Banks can raise funds on the terms of subordinated debt in the form of loans and deposits of legal entities and by issuing bonds. The minimum amount of funds raised on the terms of subordinated debt by issuing bonds for inclusion of these funds in the bank's capital is UAH 100 thousand. For an amount exceeding UAH 2 million. funds are raised by concluding direct agreements. The legislation establishes that the amount of subordinated debt included in the bank's equity should not exceed 50% of the fixed capital with an annual decrease of 20% of its initial value.

Thus, the main sources of formation of equity capital of a commercial bank are statutory and reserve funds, as well as retained earnings. The main difference between them lies in the bank's capabilities use the specified funds to cover expenses and losses. If the undistributed profit remaining at the bank's disposal is used practically without restrictions, then the funds of the reserve fund can be used only for clearly defined purposes, and the funds of the authorized capital - exclusively in the event of liquidation of the banking institution.

4.3. Formation of attracted funds of the bank

Attracted bank funds are a set of funds on current, deposit and other accounts of legal entities and individuals, on accounts of public organizations, various public funds, which are used in active operations in order to make a profit or ensure the liquidity of the bank.

In modern economic literature, several classifications of attracted bank funds are given, depending on various criteria: on the category of depositors; on the term and procedure for returning funds; on the type of

currency in which the funds are attracted; on the method of deposit registration; on the nature of interest payment, etc. However, the most significant features of attracted bank resources are reflected in their distribution by economic content (Fig. 4.3).

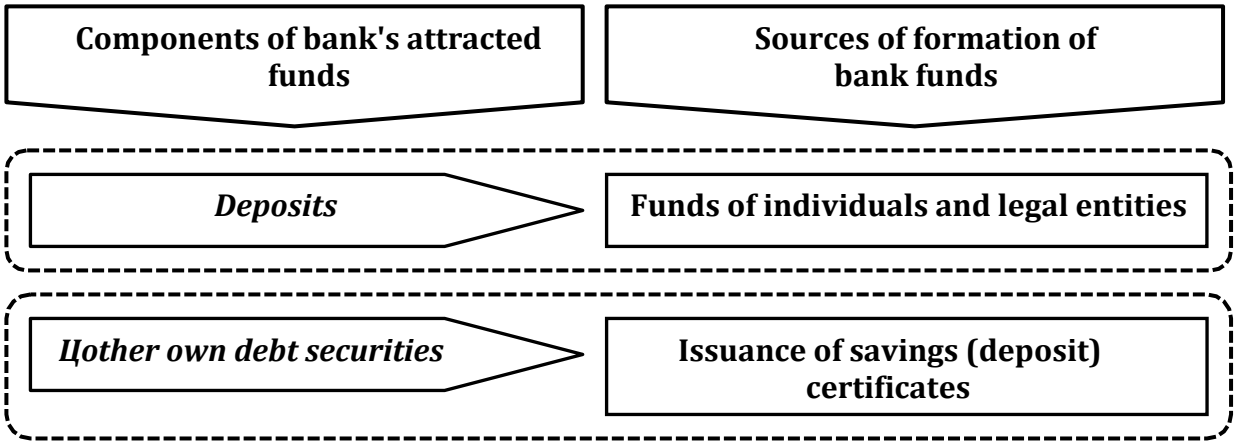


Fig. 4.3. Composition and sources of formation of the bank's attracted funds

There are two legal forms of attracted funds:

— deposits (funds of individuals and legal entities);

— own debt securities (savings (deposit) certificates).

In banking practice, attracted funds are often called deposit liabilities, because both deposits and own debt securities have the same deposit nature. The main part of attracted funds is made up of deposits. This is explained by their volume, relative stability and lower cost compared to other sources of the resource base of banks. According to various expert estimates, deposit deposits provide 70–80% of all banking resources. Bank operations, through which banks attract temporarily free funds of economic entities, are usually called deposit.

Deposit operations of a commercial bank are operations related to the attraction of funds or bank metals from depositors to their accounts with the bank on a contractual basis or the deposit of funds by depositors with their registration in savings (deposit) certificates.

In Ukraine, the attraction of funds by banks is regulated by the Regulation on the procedure for the implementation of deposit (deposit)

operations by banks of Ukraine with legal entities and individuals No. 1256/8577 dated 12/29/2003. According to this document, ***a deposit is cash or non-cash funds in the currency of Ukraine or in foreign currency or bank metals that the bank has accepted from the depositor, or which have been received by the depositor on a contractual basis for a specified storage period or without specifying such a period (at interest or income in another form), and are subject to payment to the depositor in accordance with the legislation of Ukraine and the terms of the contract.***

The classification of deposits involves their division depending on the following characteristics:

— client type: deposits of individuals, deposits of legal entities, interbank deposits;
— residency: deposits of residents, deposits of non-residents;
— type of currency: deposits in national currency, deposits in foreign currency, multi-currency deposits;
— economic entity: active (placed by the bank), passive (attracted by the bank);
— method of registration: registered deposit, bearer deposit;
— form of deposit: cash, metal;
— method of interest accrual: deposits with a fixed interest rate; deposits with a floating interest rate; deposits on which "simple" interest is accrued; deposits on which "compound" interest is accrued.

The most common classification of deposits is by the form of account use, according to which deposits are divided into:

— demand deposits;
— term deposits.

A demand deposit is money placed by depositors in a bank on the terms of their return at the first demand of the depositor or making payments at the request of the account holder. Such deposits are placed in the bank on the client's current account. They can be withdrawn at the depositor's request by issuing cash, executing a payment order, paying checks or bills. Therefore, such funds are considered unstable, as they

significantly limit the scope of their use in active bank operations.

A term deposit is money placed by their owners in a bank for storage, which is credited to the corresponding deposit accounts for a specified period with the payment of agreed interest. Resources attracted to term deposits remain at the bank's disposal within a clearly defined time interval, and therefore can be used to finance longer-term, and therefore more profitable, active operations. Accordingly, the fee for term deposits is much higher compared to demand deposits, it directly depends on the size and term of storage of money on these deposits.

In modern practice, most commercial banks provide their clients with the opportunity to withdraw funds from their term accounts if necessary before the expiration of the deposit agreement. This is a fairly significant factor in increasing the attractiveness of this type of bank deposit operations, although the amount of interest payment in the event of early withdrawal of funds or closing the deposit is significantly reduced.

Banks can also attract deposits by issuing their own debt securities - savings (deposit) certificates.

A savings (deposit) certificate is a written certificate of a bank on the deposit of funds, which certifies the right of the certificate owner or his successor to receive, after the expiration of the established term, the amount of the deposit and the interest established by the certificate of the bank that issued it.

Deposit certificates are provided to legal entities, and savings - to individuals. In essence, they are similar to term deposits, because they contain invested funds of individuals or legal entities and are issued for a certain period at interest. However, there are also significant differences. Savings (deposit) certificates are deposits in content, and in form they are securities that can be traded on the stock market. Compared to deposit accounts, certificates are more universal and convenient for both the bank and its clients. They can be transferred, donated, inherited, sold, etc. However, when considering deposit certificates as securities, it is worth noting their main drawback - the bank's costs for the issue.

In the process of attracting funds, banks play a passive role, because

they cannot directly influence the volume of investments. In this case, when forming the deposit base, it is important to take into account factors that indirectly affect the deposit potential of commercial banks.

Depending on the nature of their origin, factors influencing the formation of a bank's deposit base are divided into economic and non-economic. The most influential economic factors include: the general state of the economy, the level of development of market infrastructure, the banking system, the situation and trends in the development of national and international financial markets, the state of the potential depositor market, the level of inflation, exchange rate fluctuations, real incomes of the population, the financial potential of legal entities.

Among the non-economic factors influencing the formation of the bank's deposit potential, the following should be highlighted: the political situation in the country, the state of the legislative framework, the state's social policy, the standard of living of the population, the expansion of foreign banking capital, the NBU's bank refinancing system, the legislative and regulatory framework for regulating bank activities.

The formation of an effective bank deposit policy requires taking into account factors from the perspective of their external and internal influence. The external factors that most significantly affect the bank's deposit potential include the following: demand for banking services, trust in banks, interbank competition, bank competitiveness, bank rating, financial condition of potential clients and depositors, customer reliability. Internal factors represent a set of potential bank opportunities to attract funds. Among them, the following deserve special attention: the level of bank management, the bank's interest rate policy, incentives for attracting deposits, the range and cost of banking products and services, the level of professionalism of bank employees, the general service culture, incentive programs for bank employees, and the bank's technical equipment.

One of the determining factors that affects the process of forming and implementing a deposit policy is trust in the bank. In the absence of trust in banks, savings of economic entities are stored by them in cash or sent to the shadow economy, which leads to a decrease in the resource provision

capabilities of banks and inhibits the economic growth of the state. Under such conditions, banks must encourage the population to form organized savings. The prerequisites for this are the stability of banking institutions, reliability and profitability of bank deposits.

All the factors listed above interact with each other and have a complex impact on the formation of an effective bank deposit policy. However, their impact in different situations and for different banks is not the same, so each bank must independently analyze the impact of factors, selecting those criteria that meet the existing goals and objectives. Therefore, raising funds by banks through deposit operations is the main and, at the same time, the most convenient and relatively cheap source of forming the resource base of banks.

4.4. Formation of borrowed funds of a bank

Borrowed funds of a bank are funds received from other banks, including the central bank on credit terms, receiving funds from the issue of debt obligations, as well as loans on international financial markets.

A feature of borrowed funds is that the bank independently determines the volume of necessary resources and the period of their use. Funds received in a non-deposit way are of exceptional importance for maintaining the current liquidity of the bank.

The borrowed funds of a bank include:

— interbank loans;

— funds received from the issuance of debt obligations;

— loans on international financial markets.

The main sources of borrowing by banks are shown in Fig. 4.4.

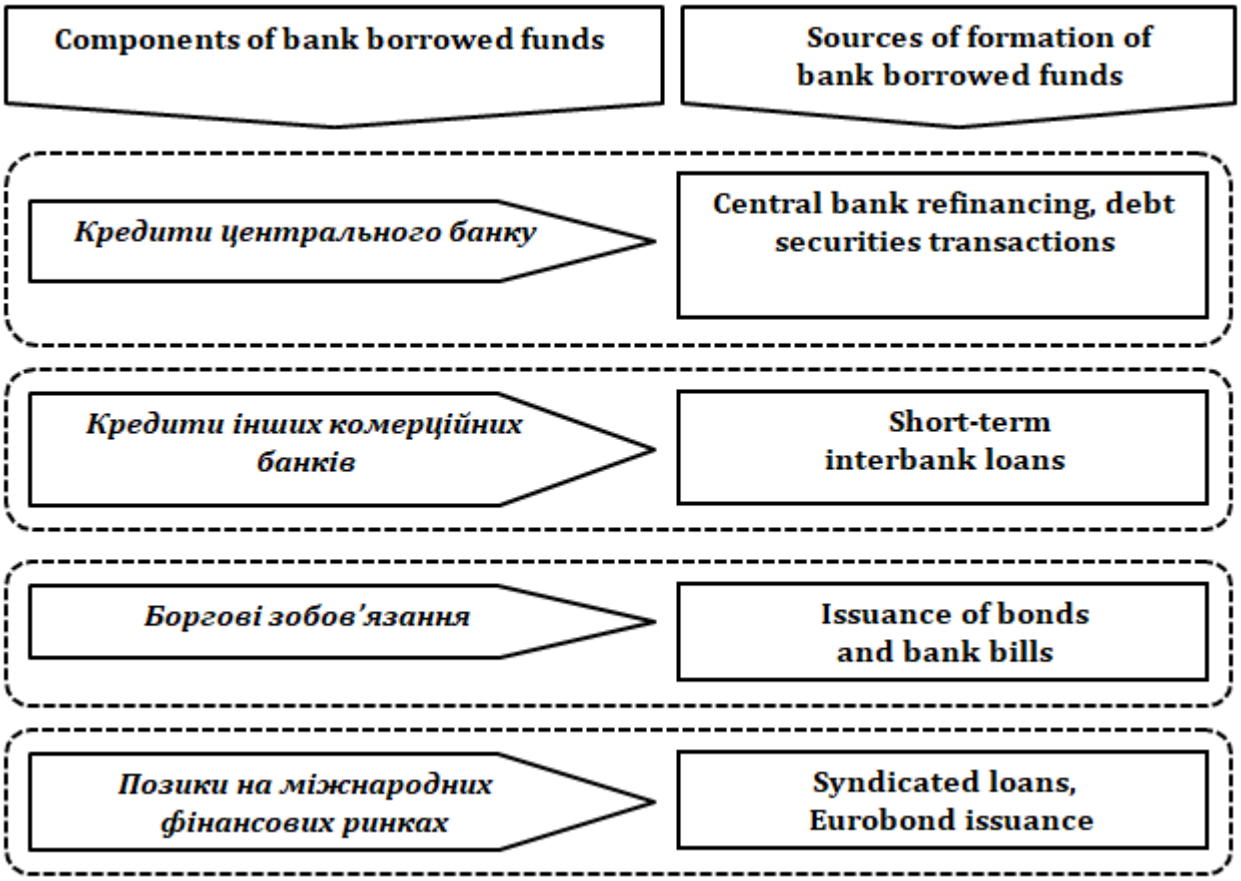


Fig. 4.4. Composition and sources of formation of the bank's borrowed funds

The main area of activity of commercial banks in terms of accumulating borrowed resources is the interbank credit market, which is a system that ensures the purchase and sale of free credit resources between commercial and central banks.

An interbank loan is a loan provided on the interbank market by one bank to another. Credit relations between banks are determined on a contractual basis by concluding credit agreements that provide for the conditions for placing temporarily free funds, the rights and obligations of the parties with proper registration of cases. The source of interbank loans is temporarily free funds of banks and interbank deposits that banks keep on correspondent accounts with each other and with the central bank.

Depending on the term of provision, interbank loans are divided into:

— *overnight loans,* which are used to maintain current liquidity;

— *term loans*, which are provided for a period from 1 day to 3–6 months;
— *loans on demand (on call)* — the term of the agreement is automatically extended daily until one of the parties decides to terminate the agreement.

The following main types of interbank loans are distinguished by the method of lending:

— *overdraft on a correspondent account*, in which the amounts of debit (credit) balances on correspondent accounts of banks at the end of the operating day are recorded on the corresponding account;
— *overnight loans* granted to other banks for a period of no more than one business day, which are used by borrowing banks to complete the current day's settlements;
— *funds granted to other banks under repo transactions.* These transactions involve the purchase of securities for a certain period with the condition of their repurchase at a pre-determined price.

The total amount of interbank loans received by banks is limited to 2 times the amount of the bank's own funds. It is prohibited to grant and receive interbank loans by institutions that are not legal entities (branches, offices, etc.). Banks set interest rates on interbank loans independently, depending on supply and demand in the interbank market and the level of the central bank's discount rate.

If commercial banks have used all the opportunities to increase their resource base by raising funds or in the interbank lending market, they turn to the central bank. In Ukraine, this process is regulated by the Law of Ukraine “On the National Bank of Ukraine” № 679–XIV dated 05/20/1999 and the Regulation on the Application by the National Bank of Ukraine of Standard Instruments for Regulating the Banking System’s Liquidity No. 615 dated 09/17/2015.

The Central Bank is the bank of commercial banks, the lender of last resort. In accordance with the domestic regulatory framework, the regulation of the liquidity of the banking system is carried out by the NBU within the limits of certain monetary parameters and in the volumes required for their balancing and management of the monetary market, by

applying the following instruments:
— refinancing operations (overnight loans, refinancing loans);
— direct repo operations;
— operations with own debt obligations;
— operations with government bonds of Ukraine.

Bank refinancing is operations in which the central bank provides loans to commercial banks. The main purpose of refinancing is to regulate the liquidity of banks. The NBU carries out bank refinancing operations by providing banks with loans until the next business day (overnight loans) and refinancing loans for a period of up to 14 days and up to 90 days by conducting quantitative or interest rate tenders.

A quantitative tender is a tender at which the NBU sets in advance the price (interest rate) at which banks can obtain loans through refinancing.

An interest rate tender is a tender at which banks, in their applications to the NBU, offer a price (interest rate) at which they agree to obtain loans through refinancing.

Direct repo operations are credit operations between the NBU and commercial banks regarding the purchase by the National Bank of Ukrainian government bonds from banks' portfolios (the first part of the repo operation) with a simultaneous obligation banks to repurchase these government bonds (the second part of the repo transaction) at a specified price on a specified date.

Operations with own debt obligations — operations of the National Bank of Ukraine on the placement, circulation and redemption of deposit certificates (overnight, for a period of up to 14 days and up to 90 days).

Operations with government bonds of Ukraine are carried out with the aim of regulating the monetary market by buying/selling government bonds of Ukraine by the NBU on the exchange and over-the-counter markets.

Commercial banks can also borrow funds by issuing their own debt obligations — bonds and bills of exchange.

A bond is a security that certifies the deposit of money by its owner, determines the loan relationship between the bond owner and the issuer,

confirms the issuer's obligation to return its nominal value to the bond owner within the specified period and pay income.

The main advantage of bonds compared to other sources of borrowed resources is that they are issued for a sufficiently long period, and their maturity is clearly defined, which is convenient for planning active bank operations. However, the issue of bonds also has its drawbacks. Thus, according to the current legislation of Ukraine, bank bonds can be issued for an amount not exceeding 25% of the authorized capital of the bank and only after full payment of all previously issued shares.

A bank bill is a security that certifies the unconditional obligation of a banking institution to pay a certain amount to the owner of the bill after the maturity date.

A bill can be used by the owner as a means of payment for goods and services. In addition, it can change its owner by means of an endorsement, that is, making a transfer inscription on the back. To purchase a bank bill, the buyer must transfer funds to the account of the bank-seller, after which the latter issues a bank bill in the name of the buyer and indicates the date of crediting the money. Bank bills are repaid by redeeming them after the expiration of the circulation period or by early redemption. Bank bills indicate the amount of profit in the form of a percentage of the nominal value received by the owner of the bill.

Among the main modern methods of external borrowing by banks are the issuance and sale of Eurobonds on international financial markets and obtaining syndicated loans.

Eurobonds are international debt securities denominated in a currency other than the currency of the issuing country, which are issued by borrowers to obtain a long-term loan and placed among foreign investors.

The advantages of borrowing through the Eurobond market include the following:

— a significant loan size (usually over $100 million);
— long-term attraction (on average 4–5 years, and long-term ones — over 20 years);

— high reliability (they have the opportunity to attract funds through the issue of Eurobonds only institutions that have received a high credit rating);
— large market volume;
— lack of collateral;
— dissemination of information about the issuer on international markets, formation of credit history (enables a simpler and faster process of issuing Eurobonds for borrowers who carry out subsequent issues).

At the same time, the most significant drawback of the Eurobond market is its inaccessibility for most Ukrainian banks. This is due to the low efficiency of domestic banks, which does not allow them to obtain high credit ratings. That is why only a few of the operating Ukrainian banks have the opportunity to use Eurobonds as a source of external borrowing. It is also worth noting that the costs of obtaining a rating, obtaining permission to issue, issuing bonds, as well as the costs of legal procedures are very significant for domestic banks. In general, they can amount to up to $ 500 thousand, so the issue of such securities is considered profitable under conditions of significant issue volumes.

Another method of bank borrowing in international financial markets is syndicated lending.

A syndicated loan is a loan provided by several lenders to one borrower.

The essence of such lending is that the loan is provided by a bank syndicate, in which one of the banks takes on the role of manager, collects the amount of funds necessary for the client from the participating banks, concludes a loan agreement with them and issues a loan.

The main advantages of such borrowings are access to significant cash resources, their relatively low cost and longer (compared to domestic) terms of attraction. Banks are able to mobilize large amounts for a longer period, because the lender is not a single bank, but a syndicate of banks. For lenders, the advantage of providing syndicated loans is the minimization of credit risk due to its diversification between the syndicate members. The convenience of a syndicated loan is also obvious for the

borrower, because he receives a significant amount of resources at his disposal and at the same time actually deals with only one investor - the organizer of the transaction. The disadvantage of syndicated loans compared to the issue of Eurobonds is the short term of using the loan. The average term of attracting syndicated loans by domestic banks is 25–30 months.

The numerous advantages of bank external borrowings largely offset the risk of increasing the dependence of the national banking system on external sources of resource provision due to an increase in the share of debt of banking institutions in the structure of the state's external debt. This circumstance can become a significant problem, because sharp changes in the situation of the world financial market can cause the threat of a financial crisis both on a global scale and within a separate state. Given this, when forming a resource base, it is important for Ukrainian banks to adhere to the optimal combination of internal and external resource sources.

4.5. Risks of resource provision of banking activities

Risk is an objective phenomenon of business existence, it cannot be avoided in any type of business activity. Even inaction is a risk of unused opportunities. For a bank as a commercial institution, risk is also an integral part of its activities. Identification and monitoring of resource provision risks occupies a special place in the banking risk management system due to their significant impact on the credit potential of banks.

Bank resource provision risks are risks associated with the formation of bank resources intended for active operations, as well as maintaining the liquidity and financial stability of the bank.

Each of the components of bank resources plays its own special role in ensuring the effective operation of the bank. Fig. 4.5 groups the risks of bank resource formation according to their sources, namely: deposit risk (attracted funds), risk of non-fulfillment of obligations on borrowed funds (borrowed funds) and risk of insufficiency of equity (own funds).

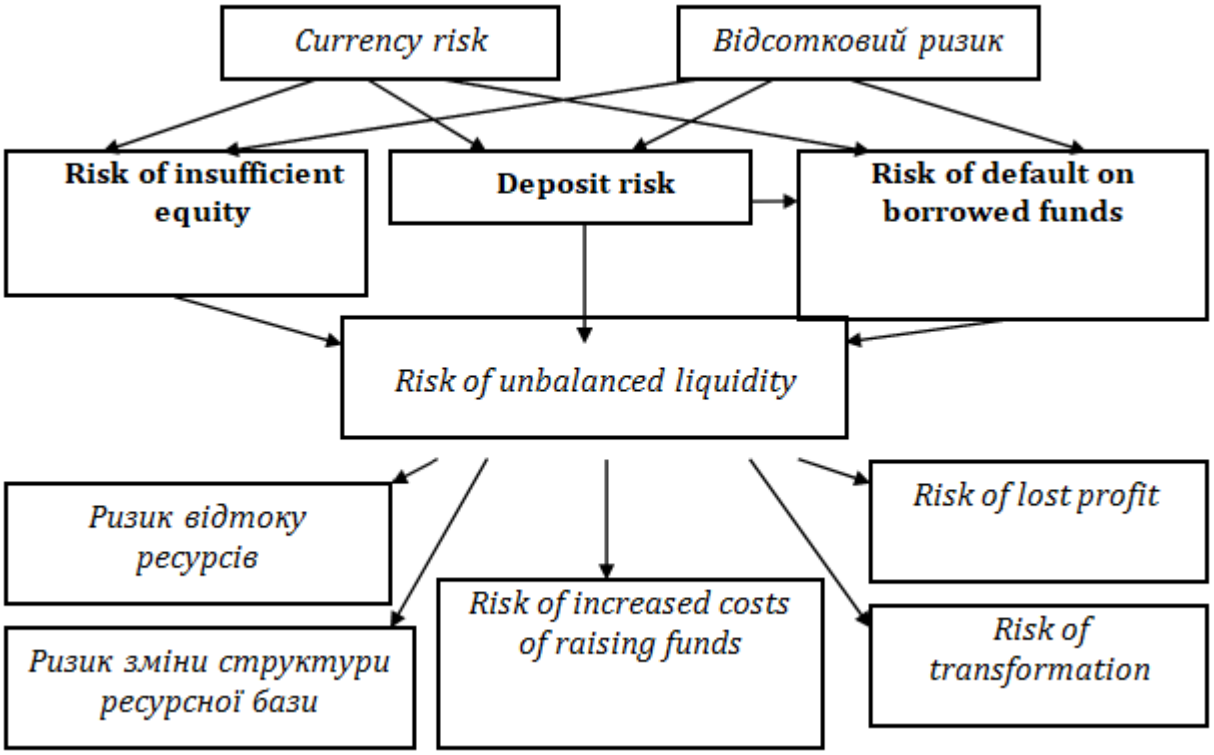


Fig. 4.5. Classification of risks of resource provision of banking activities and cause-and-effect relationships between them

Given that the main source of bank resources is deposit funds, the greatest importance is the risks associated with the implementation of deposit operations. In a broad sense, **deposit risk** is an unpredictable decrease in the volume of attracted resources. The risk is manifested in the probability of not receiving the expected level of deposit funds due to the negative impact of external or internal factors that provoke the emergence of adverse situations in the formation of the bank's deposit base.

The risk of non-fulfillment of obligations on borrowed funds is that the bank cannot fulfill its obligations to counterparties due to lack of funds. The risk arises due to untimely receipt of funds for payments. That is, the main factor affecting this type of risk is the inability of the bank to raise funds in the necessary volumes to fulfill obligations and conduct active activities.

The risk of insufficient capital of the bank is manifested in the probability of inadequacy of equity capital to banking risks. Capital

adequacy is a key factor in the financial stability and competitiveness of the bank. An insufficient level of capital may arise due to problems with subscription for shares, use of reserves, return of previously attracted subordinated funds and losses.

Interest risk from the point of view of the bank's resource provision is manifested in an increase in the cost of paying interest to the bank's depositors and its creditors. It arises due to an unfavorable situation in the financial markets (an increase in the cost of attracted or borrowed funds).

Currency risk of a bank is the loss incurred by the bank due to fluctuations in exchange rates. It is associated with the uncertainty of changes in the price of the national currency in relation to foreign currencies. Currency risk affects the bank's resource provision in the case of passive operations in foreign currency and is manifested in changes in the value and volume of bank resources due to changes in the exchange rate.

In the event of resource risks, the balance in the structure of the bank's resource base is disturbed. This means that the risks of the bank's resource provision can lead to **the risk of unbalanced liquidity**, which is determined by the bank's inability to fulfill its obligations within the established deadlines.

The emergence of a liquidity problem in a bank requires urgent replenishment of its resources, which leads to additional costs. **The risk of increased costs** is manifested in the need to find new resources. If the deficit in the bank's resource base cannot be covered, problems arise with the repayment of obligations, which can lead to the withdrawal of funds by customers. In this context, there is a possibility of **a risk of outflow of resources**, which is manifested in mass withdrawal of deposits by bank clients, closing of accounts, which can significantly affect the level of financial stability of the bank.

Another form of manifestation of the risk of unbalanced liquidity is **the risk of lost profit**, which is determined by the bank's losses in the form of unearned income due to the need to keep a certain part of the funds

in cash to provide settlement and cash services to customers. For a bank, these are assets that do not bring income. Their size depends on external factors of influence, clientele, and the level of trust in the bank. The risk of unbalanced liquidity of a bank also manifests itself when changing the structure of its resource base. For example, long-term deposits can be transferred to the category of short-term, and short-term deposits to demand deposits. As a result, on the one hand, the total volume of the resource base is preserved, but, on the other hand, the bank's credit potential for conducting long-term credit and investment activities. In this case, there is a risk of under-receiving income due to incomplete use of attracted resources.

Transformation risk arises in cases where the funds attracted by the bank in terms of volume and maturity do not correspond to calculations and expectations. Transformation of bank resources consists in transforming funds mobilized by the bank, which differ in structure and composition, into resources that meet the requirements for their placement in assets. By determining the possible level of resource placement in long-term assets, banks assume the risk of a situation in which the level of resources will be insufficient in relation to the level of assets, which will lead to liquidity problems and the need for prompt replenishment of funds. Therefore, the effective formation of the bank's resource base involves the diversification of accumulated funds and their balancing in terms of stability, price and terms.

It is also advisable to consider the risks of resource provision of banking activities from the perspective of external and internal factors of influence.

Internal factors of influence may be the following:

— change in interest rates on attracting funds;
— inability to manage unplanned outflows of funds;
— unfavorable fluctuations in foreign currency exchange rates and prices for banking metals;
— unbalanced strategy for attracting and placing funds;
— ineffective deposit policy of the bank;

— lack of a clearly defined strategy in the deposit resources market;
— insufficient level of marketing research;
— insufficient level of qualification of bank personnel;
— imperfection of the policy of attracting and retaining customers;
— shortcomings of corporate governance and internal control system;
— violation or non-compliance by the bank with the requirements of regulatory legal acts, agreements, accepted practices or ethical norms, their ambiguous interpretation;
— imperfection of the organizational structure of the banking institution.

Most of the causes of resource risks are non-financial in nature. In such circumstances, the risk arises due to inadequate reaction of bank management to changes in the external environment, incorrect management decisions or their improper implementation. It is worth noting that this group of factors is controllable, because at the level of each bank there is an opportunity to prevent or minimize the impact of internal causes of such risks.

External factors of influence that provoke the emergence of risk situations in the formation of the bank's resource base have a more extensive structure:
— macroenvironmental factors that are formed within the country;
— microenvironmental factors that are formed within the country;
— factors that are formed outside the country.

The first category includes the following:
— change in the central bank's discount rate;
— introduction of new types of taxes, increase in tax rates or introduction of tax benefits or "tax holidays", change in the procedure and deadlines for making tax payments;
— inflationary fluctuations, accompanied by depreciation of money or growth in its purchasing power (probability of outflow of deposits);
— depreciation or appreciation of currencies, accompanied by a change in the cost of banking products;
— political situation, accompanied by possible danger or failure of political activity;

— socio-economic situation, accompanied by a deterioration in the economic situation in the state, a decline in the standard of living of the population, bankruptcy of business entities;
— changes in the legislative framework or inconsistency of legislative acts;
— emergency situations (accidents, natural disasters, fires, robberies, wars).

Factors formed by the microenvironment are associated with the behavior of competitors and counterparties of the bank, caused by subjective motives based on a certain situation in the macroenvironment. These include the following:
— early withdrawal of deposits by bank clients or their prolongation;
— loss of trust by the bank from clients as a result of cases of failure by the bank to fulfill its obligations;
— unfavorable perception of the bank's image by state regulatory authorities;
— psychological state of clients associated with the socio-economic situation in the country, which is accompanied by a negative attitude towards the banking system;
— competition between banking institutions;
— possibility of mergers, acquisitions, restructuring of banks.

In modern conditions of banking activities, factors of external risks of resource provision of banks deserve special attention. These risks are associated with the following aspects:
— increase or decrease in the share of foreign capital in the equity of domestic banks;
— change in interest rates on funds that banks can attract on external capital markets;
— conditions of international markets of banking resources;
— level of openness of the national economy;
— the emergence of legislative restrictions on the part of the state on the participation of domestic banks in international financial markets;
— the emergence of legislative restrictions on the part of other states on

the participation of foreign banks in their financial markets.

In contrast to internal risk factors, external ones are uncontrollable from the point of view of an individual bank. However, banks can monitor such factors and take into account the possible impact on their activities, making changes to the policy of resource formation. Thus, in order to form an optimal resource base, banks need to create an effective resource risk management system that will ensure their identification, analysis, assessment and methods of regulation.

Interesting to know

Can the interest rate on deposits be negative? It turns out that this phenomenon is quite common in the financial practice of some countries. In recent years, negative interest rates have been introduced in Denmark (-0.75%), Sweden (-0.5%), Switzerland (-0.75%) and Japan (-0.1%). So, instead of receiving interest on deposits, clients are forced to pay for storing money in the bank. This is how Swiss banks protect their economy from the inflow of capital, which can lead to its destabilization. After all, just as the outflow of capital from a country negatively affects its economy, a sharp influx of "idle" money leads to undesirable consequences in the form of deflation, which slows down economic development. The transition of interest rates to negative is a manifestation of a decline in the value of money. If money “worked,” that is, performed the function of a medium of circulation, then there would be no negative interest. Thus, money in this case turns into a treasure, performing the function of a means of accumulation, and ceases to serve the real economy.

One of the first commercial banks to undertake such an experiment was the Swedish Riksbank. During the years 2008-2009, which were marked by the global financial crisis, many Swedish investors stopped investing in the country's economy, choosing safer bank deposits as an alternative. Almost zero inflation in Sweden turned into deflation and reached a level of -0.9%, which slowed down the development of the economy: the number of jobs, demand for goods and services, and wages stopped growing. As a result, the demand for loans decreased significantly, as potential borrowers feared that the crisis would prevent them from paying off their obligations. In turn, excess liquidity accumulated in banks, which almost ceased to work and make a profit. Under such circumstances, measures were needed to stimulate economic growth. Ultimately, the introduction of negative deposit rates forced the population and businesses to withdraw capital from bank deposits and invest in the real economy, which in turn contributed to the development of inflation to an optimal level, increased corporate sector income, and increased value added.

The same relationship is promoted between the central and commercial banks. With negative deposit rates, keeping money in the central bank becomes ineffective. Thus, by introducing negative interest rates, regulators are trying to force banks to lend more actively, and to provide loans at minimal interest rates. In the long term, such a policy of “cheap loans” should have a stimulating effect on the economy. However, it is worth noting that the central banks of the world consider the policy of negative interest rates as an extraordinary and short-term measure.

TOPIC 5. ORGANIZATION OF MONEY CIRCULATION IN COMMERCIAL BANKS

5.1. Characteristics of money circulation and payment system

In modern conditions, money is an indispensable attribute of economic activity. All operations related to the supply of goods, performance of work and provision of services are completed by cash settlements. Payments are also made during the distribution and redistribution of monetary funds. The activities of banking institutions in making monetary settlements and payments in the economy determine their decisive role in the organization of monetary turnover.

Monetary turnover is the totality of all monetary payments and settlements taking place in the economy.

Monetary turnover is divided into non-cash and cash turnover by structure, depending on the form of money.

Non-cash monetary turnover is the totality of payments without the use of cash, which are made in the form of transfers of amounts through accounts in banking institutions.

Cash monetary turnover is the totality of payments made using cash.

The main part of the total monetary turnover is the payment turnover.

Payment turnover is a part of monetary turnover in which money functions as a means of payment and is used to repay debt obligations.

Payment turnover can be carried out using cash, non-cash money and payment instruments that business entities accept when settling economic transactions.

Money as a means of payment serves most of the entire economic turnover, therefore the scope of its application is very wide, it covers:

— non-cash payments between business entities for goods, works, services;
— payments related to remuneration;
— payments by legal entities and individuals to centralized financial funds and receipt of funds from these funds;
— depositing their money by legal entities and individuals into banking

institutions and obtaining money loans from banking institutions and repaying them within the established deadlines;

— payments related to insurance of the activities and property of legal entities and individuals;

— payments related to administrative and judicial obligations, etc.

Ensuring the effective functioning of the country's economy requires timely cash payments, which necessitates the creation of special payment systems capable of providing all economic entities (individuals and legal entities) the opportunity to fulfill their payment obligations.

A payment system is a set of organizational, economic, technical and financial procedures, as well as legally regulated mechanisms that ensure the execution of payments between counterparties in the process of fulfilling their obligations.

The concept of "payment system" includes:

— a set of payment instruments for initiating and transferring funds;

— a payment infrastructure for processing and transmitting payment information from the payer to the recipient of money;

— financial institutions that make money settlements and provide payment instruments and services, as well as other organizations that are operators of operational and clearing networks;

— a system of market agreements for the creation of payment instruments and services and the formation of prices for them;

— laws, standards, rules and various procedures established by legislative and regulatory authorities in order to ensure settlement mechanisms.

The main function performed by a payment system is to transfer funds. *The subjects of relations arising when transferring funds are payment organizations, participants and users of payment systems.*

A payment organization is a legal entity that determines the rules for the operation of the payment system, and also performs functions to ensure its operation.

Participants of the payment system are legal entities that, on the basis of an agreement with a payment organization, provide services to users of the payment system to transfer funds.

Users of the payment system are legal entities and individuals who are provided with the service of the payment system to transfer funds by participants of the payment system.

Processing and transmission of electronic and paper documents for transferring funds can be carried out using domestic and international payment systems. Domestic banking and non-banking payment systems can be created in Ukraine.

Domestic banking systems include interbank settlement systems and intrabank payment systems.

Interbank settlement systems are designed to transfer funds within Ukraine between banks to fulfill the obligations of their clients, as well as their own obligations. Examples of Ukrainian intrastate banking payment systems are "PrivatMoney" (organizer — PJSC CB "Privatbank"), "SOFT" (organizer — PJSC "Ukrsotsbank") and "Urgent Transfer System "Shvydka Kopiyka" (organizer — PJSC "Oschadbank").

An intrabank payment system is created by a bank in order to provide the most favorable conditions for transferring funds between its divisions. For example, EximCash (PJSC "Ukreximbank"), FREESEND (PJSC "Bank Credit Dnipro") and Aval-Express (PJSC "Raiffeisen Bank Aval").

Domestic non-bank payment systems have the right to carry out activities related to the transfer of funds only after registering with the National Bank of Ukraine and obtaining its appropriate permission. For example, the most socially important domestic non-bank payment system in Ukraine is the "Postal Transfer" system of the Ukrposhta payment organization.

International payment systems operate in the territory of two or more countries and provide for the transfer of funds within their borders. The organizers of international payment systems can be both residents and non-residents. The most popular international card payment systems operating in Ukraine are Master Card, Visa and American Express. And among the international money transfer systems, the most widespread are MoneyGram and Western Union.

In addition, two payment systems operate in Ukraine, the payment organization of which is the National Bank of Ukraine:

1) *The Electronic Payment System (EPS)* is a state banking payment system that provides interbank transfers through accounts opened with the National Bank of Ukraine.
2) *The National Payment System "Ukrainian Payment SPACE"* is a retail payment system in which payments for goods and services, cash withdrawals and other operations with the national currency are carried out using electronic payment instruments, namely SPACE payment cards.

5.2. The essence and principles of organizing non-cash payments

A necessary condition for the effective organization of payment turnover between market entities is the implementation of non-cash payments.

Non-cash payments are payments made by banks by transferring a certain amount of funds from payers' accounts to the accounts of recipients of funds, as well as transfers by banks on behalf of enterprises and individuals of funds deposited in cash by them to bank cash desks to the accounts of recipients of funds.

The elements of the non-cash payment system are:

— principles of non-cash payments;
— requirements for the organization of non-cash payments;
— payment methods;
— forms of non-cash payments.

Non-cash payments are organized according to the following principles:

1. Cash funds of all business entities are subject to mandatory storage in current and other accounts in banking institutions.

2. Non-cash payments between enterprises and individuals are made through banks by transferring funds from the current accounts of payers to the current accounts of recipients of funds.
3. Banks write off funds from accounts only at the instructions of their owners, except for cases in which the undisputed write-off (collection) of funds is provided for by the law of Ukraine.
4. Orders of enterprises to transfer funds are accepted by banks for execution only within the limits of the available funds in their accounts.
5. The priority of payments from the account is determined by the client at his discretion (unless otherwise provided for by law).
6. The bank provides settlement and cash services to its clients on a contractual basis and executes their orders regarding the transfer of funds from accounts.
7. Enterprises independently choose the forms of payments and indicate them when concluding agreements between themselves.

The organization of non-cash payments must meet the requirements:

— ensure the timeliness of payment for goods, works, services and other financial obligations;
— create conditions for mutual control of payers and recipients of funds in compliance with settlement and contractual discipline;
— non-cash payments must be carried out in such a way that payments are made in the shortest possible time.

The payment method characterizes the procedure for debiting funds from payers' accounts. The following main payment methods are used:

— transfer of funds from the payer's account to the recipient's account;
— mutual offsetting of debts, in which the mutual claims of counterparties are credited, and the difference is transferred by entries in the accounts;
— provision of credit by the bank by transferring money from the payer's credit account to the recipient's current account.

The form of non-cash payments is the procedure for making non-cash payments, which is characteristic of a certain type of payment instrument.

Payment instruments are documents drawn up in a prescribed form that are submitted to banks by legal entities and individuals with an order (or a request) to transfer a certain amount of money from their accounts (or to credit their accounts).

Payment instruments are strictly unified, have a single standard form and a certain set of details. In Ukraine, the process of making non-cash payments is regulated by the Instruction on Non-cash Payments in Ukraine in the National Currency No. 22 dated 01.21.2004, approved by the resolution of the Board of the National Bank of Ukraine. According to this document, when making non-cash payments, the following types of payment instruments are used:

— memorial order;
— payment order;
— payment request;
— payment request-order;
— settlement check;
— letter of credit;
— collection order.

Bank clients independently choose payment instruments for making payments (with the exception of a memorial order) and indicate them when concluding contracts.

A memorial order is a settlement document drawn up at the initiative of the bank to process transactions to debit funds from the payer's account, i.e. a memorial order is an intra-bank document *(Appendix 4).*

A payment order is a settlement document containing a written instruction from the payer to the servicing bank to debit the specified amount of funds from his account and transfer it to the recipient's account *(Appendix 5)*

Settlements by payment orders are one of the most common forms of settlements in Ukraine. When paying for goods and services, payment orders are used in the following cases:

— to repay accounts payable for commodity transactions;
— when paying for goods and services according to court and arbitration decisions;

— when paying rent for premises;
— when paying transport, utility, household enterprises for operational services;
— when paying for received goods/services if the order contains the number and date of the goods and transport document;
— for payments for advance payment for goods and services (provided that the order refers to the number of the agreement, transaction, contract, which provides for advance payment).

In payments for non-commodity transactions, payment orders are used for:

— payments to the budget;
— repayment of bank loans and interest on loans;
— transfer of funds to state and social insurance bodies;
— contributions of funds to statutory funds;
— purchase of shares, bonds, certificates of deposit, bank bills;
— payment of fines, penalties.

The advantage of payments by payment orders is a simple organizational scheme, cheapness and speed of payments, the disadvantage is the lack of a payment guarantee for the supplier.

Payment request - a settlement document containing the collector's request to the bank serving the payer to transfer a certain amount of funds from the payer's account to the recipient's account without the payer's consent *(Appendix 6).*

This form of settlement is used mainly in cases of undisputed collection and debiting of funds from an account without the consent of its owner by court decisions. Forced debiting of funds from payers' accounts is initiated by collectors (a state enforcement agency) on the basis of enforcement documents. A feature of settlements by payment demands is that the payer's bank accepts the collector's payment demand for execution regardless of the presence of a sufficient amount of funds in the payer's account. In the event of insufficient funds in the payer's account, the bank executes the payment demand within the limits of the actual balance of funds. The bank issues a partial payment of the payment demand with a memorial order.

A payment demand-order is a combined settlement document containing a request from the payer directly to the payer to pay the amount of funds and an order from the payer to the bank servicing it to transfer the amount of funds specified by the payer from its account to the payer's account *(Appendix 7).*

The order is drawn up by the recipient of funds and transferred directly to the payer. The delivery of demands-orders to the payer can be carried out by the recipient's bank through the payer's bank on contractual terms. In case of agreement to pay the demand-order, the payer fills out the part with the demand and submits it to the bank servicing it. The advantage of settlements by payment demands-orders is the ability to make payment against documents, and not against goods, which speeds up settlements. Accordingly, the disadvantage is the inability to pre-check the quality of the goods in the event of payment against documents.

A settlement check is a settlement document that contains an unconditional written order of the account holder (check drawer) to the issuing bank in which his account is opened, to pay the check holder the amount of funds specified in the check.

The subjects of settlements by checks are:

— check drawer — a legal or natural person who makes a payment using a check and signs it;

— check holder — a person who is the recipient of funds under a check;

— issuing bank — a bank that issues a settlement check (checkbook) to an enterprise or an individual.

In Ukraine, settlement checks are made to order by the bank at the NBU Banknote and Mint on special paper and are bookleted with 10, 20 and 25 sheets. The validity period of a checkbook made for legal entities is one year, and a settlement check issued to an individual for a one-time payment is three months *(Appendices 8-9).*

Settlements by checks are used mainly in payments for goods received, work performed, services provided, as well as in some non-commodity payments in non-cash form between legal entities, as well as between individuals and legal entities. In Ukraine, settlements by checks

between individuals are not allowed. The advantage of the check form of payment is that the supplier has a guarantee of payment, since the buyer deposits the funds in advance in a separate account. However, the withdrawal of funds from the payer's circulation due to the need to deposit them is a disadvantage of this form of payment.

A letter of credit is an agreement containing the obligations of the issuing bank, under which the bank, on behalf of the client (applicant of the letter of credit) or on its own behalf, against documents that meet the terms of the letter of credit, is obliged to make a payment in favor of the beneficiary or instructs another (executing) bank to make this payment *(Appendix 10).*

In the case of a letter of credit form of payment, the bank, on behalf of its client or on its own behalf, is obliged to make a payment to a third party for goods, works, services or authorize another bank to make this payment against documents in compliance with the terms of the letter of credit. The following parties participate in the implementation of transactions under a letter of credit:

— applicant of the letter of credit — a person on whose behalf the issuing bank opens a letter of credit;
— beneficiary — a person in whose favor the letter of credit is opened;
— Issuing bank — the payer’s bank that opens a letter of credit on behalf of its client;
— Executing bank — the beneficiary’s bank that executes the letter of credit on behalf of the issuing bank.

The letter of credit form is used mainly in long-distance and international settlements when the supplier wants to secure a guarantee of payment for the delivered products. The advantage of using a letter of credit is the supplier’s confidence that the shipped goods will be paid for on time. Therefore, for the recipient of funds, this form is reliable and relatively simple, since it guarantees payment. However, when using a letter of credit form of payment, the supplier is required to flawlessly execute all documents in accordance with the terms of the letter of credit, otherwise the buyer’s bank may refuse to make the payment.

A collection order is a settlement document containing a request from the collector (state tax service body) to the bank serving the payer to transfer a certain amount of funds from the payer's account to the recipient's account without the payer's consent *(Appendix 11).*

The body for debt collection using collection orders, in accordance with the Tax Code of Ukraine and the Budget Code of Ukraine, are the state tax service bodies. In case of insufficient funds on the payer's account, the bank executes the collection order within their balance. If there are no funds on the payer's account and during the operating hours the funds were not received on his account, then after the end of the operating hours the collection orders are returned to the collector without execution.

An important role in the effective organization of settlements with payment instruments is played by the order of payments, that is, the sequence of debiting funds from the payers' current accounts.

If the bank receives several settlement documents at the same time, on the basis of which the funds are debited, then they are executed in the following sequence:

— first of all, funds are written off based on a court decision to satisfy claims for compensation for damage caused by injury, other damage to health or death, as well as claims for the collection of alimony;
— secondly, funds are written off based on a court decision for calculations regarding the payment of severance pay and wages to persons working under an employment contract (contract);
— thirdly, funds are written off based on other court decisions;
— fourthly, funds are written off based on settlement documents that provide for payments to the budget;
— fifthly, funds are written off based on other settlement documents in the order of their sequential receipt.

The execution of payment documents is regulated by the appendix to the Instruction on non-cash settlements in Ukraine in the national currency No. 22 dated 01.21.2004. "Instructions for filling in the details of settlement documents on paper carriers, their registers and applications for opening a letter of credit" *(Appendix 12).*

In accordance with the Law of Ukraine "On Banks and Banking Activities" No. 2121–III dated 07.12.2000 and the Regulation on financial monitoring by banks No. 417 dated 26.06.2015, *banks are obliged to identify and verify:*

— clients (except for banks registered in Ukraine) opening accounts with the bank;
— clients carrying out financial transactions subject to financial monitoring;
— clients (individuals) in case of suspicion that their financial transactions may be related to terrorist financing;
— clients who make transfers without opening an account for an amount equal to or exceeding UAH 15,000, or an amount equivalent to the specified amount, including in foreign currency, bank metals, other assets;
— clients who carry out financial transactions with cash without opening an account for an amount equal to or exceeding UAH 150,000, or an amount equivalent to the specified amount, including in foreign currency, bank metals, other assets;
— persons authorized to act on behalf of clients.

5.3. Cash operations of commercial banks

Cash operations of a commercial bank are banking operations related to servicing cash circulation.

In Ukraine, the implementation of cash transactions by banks is regulated by the Regulations on conducting cash transactions in the national currency in Ukraine, approved by NBU Resolution No. 637 of 12/15/2004, and the Instructions on conducting cash transactions by banks in Ukraine, approved by NBU Resolution No. 174 of 01/06/2011.

In accordance with the current banking legislation, cash operations of commercial banks include:

— acceptance of cash in national and foreign currency from clients for crediting to their own accounts and accounts of other legal entities and individuals or to the corresponding bank account;

— issuance of cash in national and foreign currency to clients from their accounts according to cash disbursement documents through the bank's cash desk or using payment cards or the corresponding bank account through its cash desk or ATM;
— acceptance of cash in national and foreign currency from individuals and legal entities for transfer and payment to the recipient of the transfer amount in cash;
— withdrawal of questionable banknotes (coins) from circulation and sending them for examination;
— exchange of unfit for circulation banknotes (coins) of one denomination for banknotes (coins) of another denomination for clients;
— currency exchange operations;
— operations with banking metals.

When performing cash transactions, banks must ensure:
— determination of the authenticity and solvency of banknotes (coins);
— timely full crediting of cash received at the bank's cash desks to the accounts specified by the clients in accordance with the requirements of regulatory legal acts;
— timely issuance to clients of banknotes (coins) suitable for circulation in national and foreign currency;
— documentation of cash movements in national and foreign currency in the operating cash desk;
— timely reflection of cash transactions in accounting;
— proper internal control over cash transactions;
— delivery of cash in national currency to the territorial departments of the NBU in accordance with the rules established by the relevant agreement;
— creation of safe conditions for working with cash and its storage;
— systematic analysis of the state of receipts and issuance of cash in national currency.

To provide cash services to clients, the bank creates an operating cash desk. It includes cash and cashiers, money exchange offices, evening cashiers, cash transfer offices and storage facilities. Bank cashiers are designed to receive cash from customers, and cashiers are designed to

issue cash to customers. Banks with small volumes of cash transactions may organize combined cash and cashiers. Cash transfer offices transfer, sort and pack cash received from enterprises, organizations and banks. Banks may also organize evening cashiers to receive cash received from customers after the end of the bank's operating day. Evening cashiers do not perform cash transactions.

Cash banking transactions are recorded in special cash receipt and expenditure documents. Cash documents must contain the following mandatory details: the name of the bank that performs the cash transaction, the date of the transaction, the name of the payer and the recipient, the amount of the cash transaction, the purpose of the payment, the signatures of the payer or recipient and bank employees authorized to perform the cash transaction.

Cash is accepted from customers through bank cash desks using the following cash receipt documents:

— by application for cash transfer — from legal entities for crediting to their own current accounts, from individuals — to current, deposit accounts, as well as from legal entities and individuals — to the accounts of other legal entities or individuals;
— by accounts for payment of payments — from individuals in favor of legal entities;
— by cash receipt order — from bank employees for intra-bank transactions;
— according to the documents established by the relevant payment system, from individuals and legal entities - for sending a transfer and paying it to the recipient in cash in the national currency.

Forms of cash receipt documents are presented in *Appendices 13-14.*

A bank employee is obliged to check the completeness of the details and the presence of signatures in the cash receipt documents. After completing the cash receipt, a bank employee must issue a receipt or other document confirming the cash deposit in the relevant payment system. The receipt must contain the name of the bank that performed the cash transaction, the date of the cash transaction, as well as the signature of the bank employee who accepted the cash and an imprint of the seal.

Cash is issued from the bank's cash desk according to the following expenditure documents:

— according to cash checks - to legal entities, as well as to entrepreneurs;
— upon application for cash withdrawal — to individuals from current, deposit accounts and individuals and legal entities — transfer without opening an account;
— upon a document for receiving cash transfer in the national currency, established by the relevant payment system, — to individuals and legal entities;
— upon an expenditure cash order — to bank employees for intra-bank transactions.

Forms of expenditure cash documents are presented in *Appendices 15-16.*

Before issuing cash on expenditure cash documents, a bank employee checks the completeness of the details; the belonging of the presented passport of a citizen of Ukraine (or other identity document) to the recipient; the correspondence of his data to those specified in the cash document; in the case of receiving cash by power of attorney — the correspondence of the execution of the power of attorney for receiving cash to the requirements of the legislation of Ukraine; the presence of the recipient's signature.

After the cash disbursement is completed, the bank employee is obliged to issue the client with one copy of the cash disbursement document with the bank seal imprint. If the cash recipient expressed a desire to transfer funds at the bank premises, then in this case the cash transfer is carried out in the premises designated for this purpose under the control of a bank employee. The bank compensates the amount of the shortfall identified by the client during the cash transfer from the operating cash register, and accepts the excess in accordance with the drawn up act of discrepancies. If the cash was not transferred by the client at the bank premises, then the client's claims for compensation for the shortfall are not accepted.

After the end of customer service, the bank employee calculates the amounts according to the documents on which cash transactions were carried out, and reconciles them with the accounting data and the cash balance at the cash register.

5.4. Procedure for opening and servicing bank accounts

The procedure for opening, maintaining and closing accounts in commercial banks is regulated by the Law of Ukraine "On Payment Systems and Funds Transfer in Ukraine" No. 2346–III dated 05.04.2001 and the Instruction on the procedure for opening, using and closing accounts in national and foreign currencies, approved by the Resolution of the NBU No. 492 dated 12.11.2003.

Banks have the right to open accounts for residents of Ukraine (legal entities, their separate divisions, individuals), non-residents of Ukraine (legal entities-investors, representative offices of legal entities in Ukraine and individuals). The procedure for opening accounts by banks and their regimes are determined by the National Bank of Ukraine. The terms of opening an account and the features of its functioning are specified in the agreement concluded between the bank and its client - the account holder.

Bank clients' accounts are divided into current, deposit (deposit) and correspondent.

A current account is an account opened by a bank for a client on a contractual basis for storing funds and performing settlement and cash transactions using payment instruments in accordance with the terms of the contract and the requirements of the law.

A deposit (deposit) account is an account opened by a bank for a client on a contractual basis for storing funds transferred by the client to the bank for management for a specified period and at a specified interest rate in accordance with the terms of the contract.

A correspondent account is an account of one bank opened in another bank, which reflects payments made by the latter on behalf of and at the expense of the first bank on the basis of a correspondent agreement concluded between them.

The main document certifying the legal relationship between the bank and the client regarding the opening of an account is the agreement.

A bank account agreement is a bank agreement under which one

party (a bank or other financial institution) undertakes to accept and to credit the funds received by the client (account owner) to the account opened for him (the account owner), to execute the client's orders to transfer and withdraw the corresponding amounts from the account and to conduct other operations on the account.

A bank deposit agreement is a specific type of bank account agreement, according to which one party (the bank), having accepted a sum of money (deposit) from the other party (the depositor), undertakes to pay the depositor interest on it.

The form of any agreement is written. The absence of a written form of the agreement indicates its invalidity. *Appendices 17-18* contain samples of forms of bank account and bank deposit (deposit) agreements.

Opening a current account for a legal entity is carried out by a person who opens a current account on behalf of a business entity, for which he must present a passport or other document certifying him and submit the following documents:

— an application for opening a current account, signed by the head of the legal entity;
— a copy of the registered constituent document;
— a card with specimen signatures and a seal impression *(Appendices 19-20).*

A current account for an individual entrepreneur is opened by the bank on the basis of a submitted application for opening a current account and a card with specimen signatures *(Appendices 21-22).*

Based on the specified documents, an authorized bank employee identifies and verifies the person authorized to open a current account. As a result, a bank account agreement is concluded between the bank and the client in writing.

Opening a current account with a bank by an individual is carried out in the following order:

— an individual presents a passport or other identity document to an authorized bank employee;
— an individual fills out an application for opening a current account and a card with specimen signatures *(Appendices 22-23).*

Specimen signatures are certified by the signature of an authorized bank employee. Based on these documents, an authorized employee of the bank identifies and verifies the individual who opens the account. A bank account agreement is concluded between the individual and the bank. Expense transactions on current accounts of individuals are carried out at the owner's request or on his behalf on the basis of a power of attorney (copy of the power of attorney) certified by a notary.

To open a deposit account by a legal entity or an individual entrepreneur, a package of documents similar to the package of documents for opening a current account is submitted to the bank institution, and a bank deposit agreement is concluded between the bank and the business entity in writing. It is prohibited to conduct settlement transactions on the deposit account of the business entity and cash withdrawal. Funds to the deposit account of a business entity are transferred from its current account. Accrued interest (income in another form) on the deposit of a business entity in accordance with the terms of the bank deposit agreement may be transferred to the current account or credited to the deposit.

In the case of opening a deposit account between a bank and an individual, a bank deposit agreement is concluded in writing. Funds to the deposit account of an individual may be deposited in cash or transferred from his or her other own deposit or current account. Transactions related to the realization of property rights to the amount of funds stored in the deposit account may be carried out on the deposit account of an individual. Accrued interest (income in another form) on a deposit (deposit) of an individual in accordance with the terms of the bank deposit agreement may be transferred to his current account or credited to replenish the deposit (deposit), or paid to the individual in cash.

Current accounts in the name of minors (children under 14 years of age) are opened by their legal representatives - parents (adoptive parents) or guardians. Opening a current account is carried out in accordance with the established procedure, provided that the legal representative of the minor presents documents that allow the bank to

identify this minor and his legal representative - a birth certificate of the minor or another document identifying the minor - non-resident and a passport or other document identifying the legal representative. Additionally, documents issued by the relevant regulatory authorities certifying registration in the State Register of Individual Taxpayers are submitted. The funds in the current account opened in the name of a minor are managed by his/her parents (adoptive parents) or guardians after identification and verification by the bank of these persons.

Opening a deposit account in the name of a minor by his/her legal representative is carried out in accordance with the procedure established for opening current accounts in the name of minors. The funds deposited in the deposit account opened in the name of a minor are managed by his/her legal representatives - parents (adoptive parents) or guardians.

Opening a current account for a minor aged 14 to 16 is carried out in the following procedure. A minor must present the following documents to an authorized bank employee:

— a birth certificate and a document issued by a regulatory authority confirming his/her registration in the State Register of Individual Taxpayers;
— a certificate with a specimen of his/her signature issued by the educational institution where the minor studies;
— a document that allows the bank to determine the place of residence or stay of the minor;
— an application for opening a current account.

Minors aged 16 to 18 years open current accounts in the general procedure, and a bank account agreement is concluded between them and the bank. A minor has the right to independently dispose of the funds deposited into the account, as well as the salary, scholarship or other income received into his or her account.

Opening a deposit account for a minor is carried out in the general procedure and is certified by a bank deposit agreement. The funds in a deposit account opened in the name of a minor are managed by the minor with the consent of the guardianship and trusteeship body and his or her parents (adoptive parents) or guardians.

Opening a current account by one individual for another individual on the basis of a power of attorney is carried out in the general procedure, provided that the authorized person presents a passport or other identity document and submits a power of attorney certified by a notary.

A legal entity has the right to open current accounts for individuals for the purpose of making certain types of payments (salaries, dividends, scholarships, pensions, social assistance, etc.) by concluding an agreement with the bank on opening current accounts for the benefit of individuals.

A legal entity, in order to open accounts for individuals through its representative, submits the following documents to the bank:

— an application for opening current accounts for the benefit of individuals;
— a list of individuals for whose benefit the accounts are opened;
— copies of documents of individuals for whose benefit the accounts are opened, which allow the bank to identify these individuals.

It is prohibited to use current accounts of individuals for conducting transactions related to entrepreneurial activity.

Banks are prohibited from opening and maintaining anonymous accounts, establishing correspondent relations with shell banks, and entering into contractual relations with clients (legal entities or individuals) if there is any doubt that the person is not acting on his or her own behalf, if they are included in the list of persons associated with terrorist activities or subject to international sanctions.

Closing bank clients' accounts is carried out on the basis of a client's application, on the basis of a decision of the relevant body entrusted with the functions of terminating the activities of a legal entity or terminating the entrepreneurial activities of an individual entrepreneur, as well as in the event of the death of the account holder (individual) upon the request of the heir.

The bank may refuse the bank account agreement and close the client's current account if transactions on this account are not carried out for three consecutive years and there is no balance on this account.

The Bank closes the current account of a legal entity on the basis of a document issued by the state registrar in accordance with the procedure

established by the legislation of Ukraine, which confirms the state registration of the termination of the legal entity. The closing of a current account at the request of the client is carried out on the basis of his application for closing the current account, drawn up in an arbitrary form with indicating the name of the bank, the name of the account holder, the number of the account being closed, and the date of the application.

The application for closing a current account of a legal entity is signed by the head of the legal entity or another authorized person and is certified by the seal of the legal entity. The application for closing a current account of an individual, including an individual entrepreneur, is signed by the account holder.

In the application for closing a current account, the bank's chief accountant or another authorized person of the bank indicates the date and time of receipt of the application, the date of closing the account, and certifies this with his or her signature. If there are funds in the current account that is being closed based on the client's application, the bank performs final operations on the account. The date of closing a current account is considered to be the day following the last operation on this account. On the day of closing the current account, the bank is obliged to issue the client a certificate of account closure.

Deposit accounts of clients in case of attracting term deposits are closed after the expiration of the deposit storage period and the return of funds to the depositor. In case of attracting a deposit on the terms of its issuance on demand, the deposit account is closed after the return of funds to the depositor. For early termination of the bank deposit agreement or return of part of the deposit at the request of the depositor, he is obliged to notify the bank about this by submitting an application. In the application, which is drawn up in an arbitrary form, the depositor must indicate the number and date of conclusion of the bank deposit agreement, the amount of the deposit or its part, and also indicate the date when the bank is obliged to return the funds to the depositor. The depositor submits such an application to the bank in two copies no later than two business days before the date of receipt of funds specified in the application. One copy of

the application with the bank's note of receipt is returned to the depositor-individual. The second copy of the application after the return of funds to the depositor is stored in the file on the legal registration of the account.

5.5. Interbank settlements. Electronic Payment System of the NBU

The implementation of non-cash payments between legal entities and individuals generates mutual settlements between banks. Interbank settlements arise when the payer and the recipient of funds are served by different banks, as well as during mutual lending of banks and cash transfers.

Interbank settlements are a system of organization, implementation and regulation of payments for monetary claims and obligations that arise between banking institutions in the course of their activities.

Interbank settlements are intended for the implementation of payment transactions between banks, conditioned by the execution of payments by their clients, or one bank's own obligations to another. On the basis of interbank settlements:

— settlements between economic entities for the purchase and sale of goods (services), securities, etc. are completed;
— settlements are made with state financial authorities regarding the payment of taxes and other mandatory payments;
— financial and economic relations are implemented between the banks themselves regarding the fulfillment of mutual obligations.

The main role in the organization of interbank settlements is played by the system of correspondent relations.

Correspondent relations are contractual relations between banking institutions, the purpose of which is to make payments on behalf of each other.

Correspondent relations arise between banks located both within the same country and abroad. In modern conditions, each bank is connected by correspondent relations with many banks, including foreign ones. An

important component of correspondent relations between banks is maintaining correspondent accounts.

A correspondent account is an account of one bank opened in another bank. Correspondent accounts are opened in commercial banks and are divided into "nostro", "loro" and "vostro" accounts.

A Nostro account (from the Italian *nostro conto* - "our account with you") is an account opened by a given bank in another commercial bank to reflect mutual settlements between banks and their clients. For a bank that has a nostro account, it is active, since it reflects the placement of funds in the form of a bank deposit. For another bank, this account is passive, since it reflects the attracted resources.

A Loro account (from the Italian *loro conto* - "your account with us") is an account opened by a given bank in another commercial bank, to which all funds received or issued on its behalf are credited. For a serving correspondent bank, loro is reflected in the liabilities of the balance sheet, and for a bank-owner - in the assets of the balance sheet. Therefore, the same account for the bank-owner will be a nostro account, and for the serving bank - a loro account.

Vostro account (from Italian *vostro conto* - "your account") is an account opened by a given bank for a foreign correspondent bank.

Special payment systems are created to ensure interbank settlements. Their organization in different countries is different, which is due to traditions, the level of development of banking, the scale of introduction of computer technologies into banking practice, etc.

Currently, in Ukraine, all settlements between banks are carried out through the Electronic Payment System of the National Bank of Ukraine. Its functioning is regulated by the Instruction on interbank transfer of funds in Ukraine in the national currency, approved by the Resolution of the NBU No. 320 dated 16.08.2006.

The electronic payment system of the National Bank of Ukraine is a state banking payment system that provides interbank transfers through correspondent accounts of resident banks at the National Bank using

electronic means of receiving, processing, transmitting and protecting information in file mode or real-time mode.

The National Bank of Ukraine is the owner and operator of the Electronic Payment System, it ensures the development, improvement and operation of the system's software and hardware complexes and information protection tools, develops the relevant regulatory framework. The NBU guarantees the reliability and security of the EES and is responsible for supervising the payment system.

The participants of the NBU EES are commercial banks of Ukraine, the National Bank of Ukraine and the State Treasury of Ukraine.

The NBU Electronic Payment System performs the following functions:

— making settlements between banks of Ukraine in the national currency and in a number of foreign currencies;
— effective use of temporarily free resources of banks;
— ensuring the control functions of the National Bank of Ukraine over the status of correspondent accounts of commercial banks;
— providing information services to settlement participants;
— exchanging emergency information regarding settlement operations;
— ensuring the reliability of settlements;
— multi-stage control of data reliability at all stages of settlements;
— multi-level protection of information from unauthorized access, use, distortion and falsification at all stages of processing;
— creation of a mechanism for the National Bank of Ukraine to influence violators of current legislation and banking regulations by restricting their service in the NBU’s SEP.

A necessary condition for making a transfer through the NBU’s SEP is the establishment of correspondent relations with the National Bank of Ukraine by opening a correspondent account with the NBU. The National Bank of Ukraine opens a correspondent account for a bank on the basis of a concluded correspondent account agreement and subject to the submission of an application for opening a correspondent account with the NBU and a card with samples of signatures and the bank’s seal, notarized.

The NBU receives information on the registration of a commercial bank as a legal entity in electronic form from the Unified State Register of Legal Entities and Individual Entrepreneurs through the official website of the central executive body that implements state policy in the field of state registration of legal entities and individual entrepreneurs. The basis for closing a bank correspondent account is the termination of the contract, which is carried out at the request of the correspondent account holder or at the initiative of the National Bank or an authorized person of the Deposit Guarantee Fund for Individuals.

Using the Electronic Payment System of the National Bank of Ukraine, commercial banks make interbank transfers in non-cash form according to interbank electronic settlement documents formed by them on the basis of paper settlement documents of clients or the bank and electronic settlement documents received by means of automated systems. An interbank electronic settlement document must contain the details of the document on the basis of which it is formed, namely: name and number; date of compilation; date of receipt by the payer's bank; debit/credit sign; amount; payer code, payer name, payer account; payer bank code; beneficiary code, beneficiary name, beneficiary account; beneficiary bank code; payment purpose.

All interbank settlements are carried out taking into account the main **principles of the NBU Electronic Payment System,** namely:

— NBU Electronic Payment System provides settlements between banks in the national currency of Ukraine and in the most common foreign currencies;
— NBU Electronic Payment System is a closed system, i.e. funds circulate in a closed financial space and are under strict emission control by the NBU;
— NBU Electronic Payment System is completely based on paperless technology. The main mode of operation is the exchange of electronic payment documents and service messages;
— payment transactions in the NBU SEP are irrevocable, that is, no one can cancel a transaction initiated by the sender of the payment

document and accepted for execution in the system;

— the initiative for conducting transactions belongs to the commercial bank, which debits (reduces) its own account;

— transactions are reflected in real time, which makes it possible to complete settlements between banks during the operating day.

5.6. Organization of non-cash settlements using payment cards and risks of their use

The banking services market is developing under the significant influence of information and communication technologies. Over the past decades, due to their accelerated development and intensive involvement in the financial and credit sphere, settlements using bank payment cards have become significantly more widespread. The use of payment cards when making settlements has become a kind of revolution in servicing bank customers. Today, the range of payment cards is being actively developed and improved in accordance with the financial market situation and customer needs. The increase in the number, efficiency and reliability of payments using bank cards has a significant positive impact on the socio-economic development of society.

The organization of non-cash payments using payment cards in Ukraine is regulated by the Law of Ukraine "On Payment Systems and Funds Transfer in Ukraine" No. 2346-III dated 05.04.2001. According to current legislation***, a payment card is an electronic payment instrument in the form of a plastic or other type of card issued in accordance with the procedure established by law, which is used to initiate the transfer of funds from the payer's account or from the corresponding bank account in order to pay for the cost of goods and services, transfer funds to the accounts of other persons, receive funds in cash at bank cash desks through ATMs, as well as perform other operations stipulated by the relevant agreement.***

The entire set of payment cards issued in Ukraine can be classified according to the following features:

1. By type of information carrier:

— **cards with a magnetic stripe.** They are characterized by the fact that the information necessary for use in ATMs and electronic payment terminals is recorded on a magnetic stripe located on the back of the card. An important element of this information is the personal identification number (PIN code). This number is known only to the cardholder, who enters it into the ATM or terminal using a special keyboard. When the card is inserted into the reader of the ATM or terminal, the entered combination of digits is compared with the PIN code on the magnetic stripe. If they match, access to the communication network is opened for transmitting commands to perform operations;

— **cards with a chip or smart cards.** They are characterized by the fact that they have a built-in microprocessor that is able to independently process and remember changes in information, in particular, determine the free balance of funds on the current account or the balance of the credit line limit on the payer's loan account;

— **hybrid cards**. Such payment cards contain a microprocessor and a magnetic stripe at the same time;

— **virtual cards**. Such cards do not have a physical medium and are intended for making payments exclusively on the Internet, which is the main purpose of their introduction. The client himself sets the maximum limit of money on the card and can, if desired, block or close it at any time.

2. By payment scheme:

— **cards with a debit function.** A debit card is a bank payment card designed to receive cash, perform other operations available in the ATM or bank institution menu, pay for the purchase of goods and services, including using electronic terminals;

— **cards with a credit function.** A credit card is a bank card on the basis of which its holder is granted a credit line, at the expense and within the limits of which payments or cash withdrawals are made. Separate loan

accounts are opened for credit card holders. The terms of granting credit and the procedure for making payments on credit cards are determined by the issuing banks.

3. By type of holder:

— **corporate cards.** Corporate payment cards are issued by the bank for business entities - legal entities or individual entrepreneurs. The peculiarity of a corporate card is that it is personal, that is, it is issued to an authorized person of the business entity and gives him the opportunity to manage funds;

— **personal cards.** Such payment cards are issued in the name of a client - an individual who is not a business entity.

4. By type of financial transactions:

— **cards with a cash withdrawal function.** Such cards are characterized by the absence of a payment function. They are used exclusively for receiving cash through bank cash desks and a network of ATMs;

— **cards with a payment and cash withdrawal function.** This is the most popular and universal type of bank plastic cards. Their holders have the opportunity to both pay with such cards non-cash and withdraw cash.

Recently, the use of contactless payment cards for payments has become widespread in Ukraine.

Contactless payment cards are high-tech cards with innovative contactless payment technology, which allows you to instantly pay for purchases by applying the payment card to the display of a contactless reader at the cash register or payment terminal.

Interesting to know

Contactless payment technology has begun to be actively implemented not only in payment cards, but also in various accessories. In particular, among jewelry, the first contactless payment accessory is the Kerv ring, which has a built-in chip. The technology allows you to make payments by holding the ring up to a contactless reader. In addition to paying for goods, it can be used to pay for public transport and open electronic door locks.

British financial corporation Barclays has joined forces with the Topshop chain of stores to launch a collection of payment accessories. The range includes bracelets, smartphone cases, stickers and key chains. All devices have a contactless bPay chip built into them. In 2015, Topshop signed a partnership with clothing manufacturers. The goal of the collaboration is to introduce a jacket with a contactless payment chip built into the cuff of the right sleeve. The trend of contactless clothing items has also been picked up by Barclays, which offers its customers wool gloves with a built-in microprocessor.

A separate class of payment accessories is an elastic body sticker with a chip. A similar solution called WiSP *(Wearable Interactive Stamp Platform)* was introduced by the American medical technology company MC10.

Payment functions have also begun to be built into fitness bracelets, which, in addition to recording physical activity characteristics, are linked to a mobile application in which users enter their payment card details.

According to expert forecasts, the payment accessories industry will develop actively and by 2020 will amount to more than 55 billion USD.

Cards of the world's largest payment systems MasterCard and Visa are based on contactless payment technologies PayPass and PayWave, respectively, within the framework of which cardholders have the opportunity to pay for purchases without confirming the PIN code and signature. Such modern technologies reduce the number of fraudulent actions. Thus, in both PayWave and PayPass, data transmission is carried out using NFC technology *(Near Field Communication - a technology of wireless high-frequency communication of a short range)*, which ensures transactions at a short distance. Therefore, in order to read data from the card, you must be in close proximity to the object, which eliminates the possibility of the transaction being intercepted from afar. In addition, the amounts of transactions using this technology are limited. Thus, when using a MasterCard PayPass payment card, you can pay for purchases contactlessly for an amount not exceeding UAH 100, and for Visa PayWave cards - UAH 500. If the check amount is larger, the cardholder can also pay with it, but on condition of entering the PIN code. Setting such limits makes potential fraud and interception of the signal from contactless payment cards unprofitable.

Competition between banks, the introduction of new information technologies have led to the development of transactions using payment cards. By economic nature, bank transactions with payment cards can be classified into financial and non-financial (Fig. 5.1).

Financial transactions with payment cards include:

— crediting (replenishing) funds to customers' card accounts;
— cashless payment for goods (services);
— payment of wages to employees of enterprises, organizations and institutions;
— transfer of funds by the client from his card accounts;
— receipt of cash at bank cash desks and through ATMs, including emergency receipt of cash in case of loss of the payment card by the holder.

Non-financial transactions with payment cards include:

— setting and updating (changing) the validity period of a payment card;

— setting and changing payment card limits;
— obtaining additional cards for authorized persons by the client;
— changing the PIN code for making transactions;
— blocking card transactions;
— obtaining a statement of the balance of funds on the card account. For banks, issuing payment cards has the following advantages:
— the volume of funds attracted increases, banks' credit resources and, accordingly, their income increase;
— banks' income increases due to fees for card transactions;
— the image of banks increases, and the competitiveness of those banking institutions that use electronic means of payment increases.

At the same time, the transition to card payments requires banks to incur significant initial costs for hardware and software, staff training, communication lines, etc.

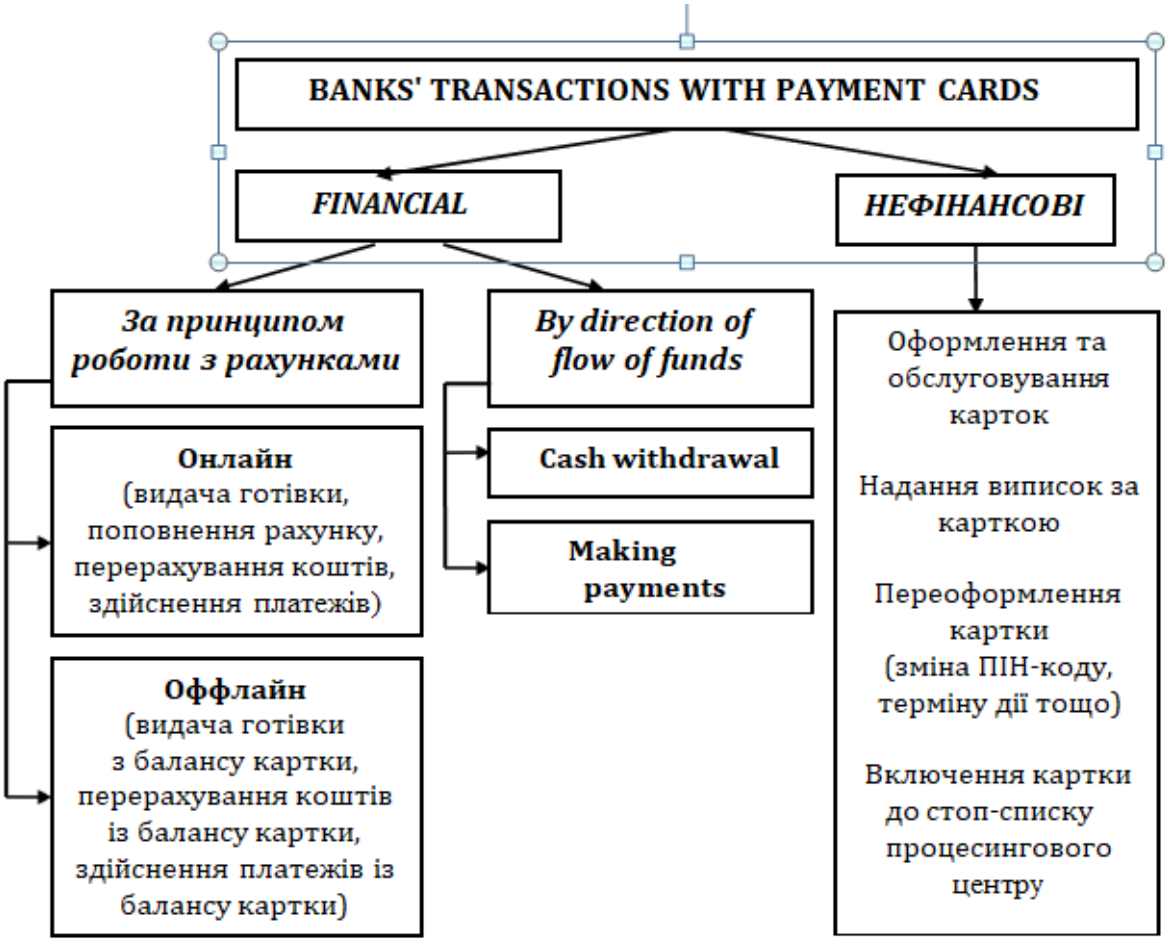


Fig. 5.1. Classification of banking transactions with payment cards

The increase in the share of non-cash payments made using payment cards has led to the emergence of cybercrimes using payment cards, the losses from which are not only financial, but also social in nature. Cyberfraud in the field of payment instruments is a pressing problem for Ukraine. According to the Department of Financial Investigations of the State Financial Monitoring Service of Ukraine, the following **types of cybercrimes in the field of card business** are the most common:

1. ATM fraud:

— **skimming** (from the English. *skimming* - "to skim") - is the manufacture, sale and installation on ATMs of devices for reading/copying information from the magnetic stripe of a payment card and obtaining a PIN code for it;
— the use of "white plastic" for "cloning" (forgery) of a payment card and withdrawing cash at ATMs;
— **transaction reversal fraud,** which means interference with the operation of an ATM during cash withdrawal operations, which leaves the card account balance unchanged when the attacker actually receives the cash;
— **cash trapping** — is the sealing of an ATM dispenser to allow the attacker to appropriate cash that was debited from the card account of the legitimate cardholder.

2. Fraudulent operations in trade and service networks:

— conclusion of fictitious trade acquiring agreements for servicing counterfeit payment cards;
— theft of payment card details, including using technical means of their “cloning”.

3. Fraud using telecommunications and the Internet:

— **vishing** (from the English *words voice* - voice, *fishing* - fishing) - telephone fraud with the extraction of bank card details and the transfer of funds to the thieves' card.
— **phishing** (from the English *phishing*) - a type of Internet fraud, the purpose of which is to gain access to confidential user data: logins and passwords, as well as payment card details.

— **fitting** (from the English. *fitting* — adaptation) — activity related to the creation of software tools for stealing payment card details (creation of fictitious sites, carrying out falsified information mailings, distribution of computer viruses).

4. Fraudulent schemes in remote banking systems (RBS):

— introduction of computer viruses for covert interception of management of the client's PC with installed RBS software;
— opening accounts, conducting unauthorized operations and receiving cash as a result of illegal operations in RBS systems;
— illegal receipt of payments from foreign senders through the international SWIFT system as a result of interference in the operation of computers and client RBS systems of foreign banks.

Banks can reduce the number of fraudulent transactions with payment cards and the total card risk by implementing the following measures:

— widely using informative screen savers in ATMs with an image of an ATM (terminal) without third-party devices and elements;
— conducting explanatory work among bank employees on the manifestations of card fraud and methods of combating it;
— conducting regular inspections of ATMs for the presence of foreign objects or traces of their installation;
— installing video surveillance cameras on ATMs;
— using software methods to detect overlays on ATMs at the time of their installation and/or use;
— conducting explanatory work with bank clients on compliance with security rules when using payment cards.

Banking institutions must properly assess the level of risk and the likelihood of threats, and constantly monitor the possibility of any losses when making all types of payments. Understanding the risks of payment card fraud and implementing an effective management policy will not only ensure the financial stability and stable operation of banks, but also increase public confidence in the banking system in general and all forms of card payments in particular.

Interesting to know

In recent years, the financial sector has increasingly entered the digital dimension. Payment systems and services that use a person's biometric data (fingerprints, finger vein patterns, voice, iris) to access accounts, transfer funds, or make payments are gaining popularity. For example, in 2013, Apple added TouchID technology to its mobile devices — fingerprint recognition. Since then, banks have increasingly begun to use this program to authenticate customers for the purpose of making payments. For example, 33% of customers of one of the largest commercial banks in the United States — *Bank of America* — use TouchID to log in to mobile banking.

The use of voice technology in payments is also gaining momentum. In particular, *the Royal Bank of Canada* has added such a function to its mobile application. Voice biometric authentication is activated as follows: the client calls the bank's contact center, where the operator records his "voiceprint". The voice is encrypted and stored on the bank's secure server. The new function allows clients to pay bills on their iPhone or iPad via Apple's voice assistant, *Siri*. After the user utters a payment command in a special banking application, the program debits the account and makes the payment.

In 2016, the American bank Wells Fargo offered eye-recognition technology as a security measure for its customers. A special scanner app reads the pattern of capillaries on the customer's retina and compares it with an image previously uploaded to the user's app. If the images match, the customer can check their bank balance, transfer money, or pay bills.

Another biometric-based way to access bank accounts identifies people through their unique finger vein patterns. When opening an account, bank customers use a special scanner to "enter" their finger vein patterns into their personal information and link them to a payment card, allowing them to pay for goods without carrying a card or cash. Vein scanners, developed by technology giant *Hitachi*, are used by the British bank *Barclays* to identify customers, and have also been successfully implemented in ATMs of commercial banks in Poland and Japan.

Biometric technologies in banking are considered highly secure because of the uniqueness of each individual. Experts believe that in the long term, the banking industry will introduce multi-layered security for customer accounts. The idea is that customers will be able to create multiple forms of biometric protection to access account information.

TOPIC 6. CREDIT ACTIVITIES OF COMMERCIAL BANKS

6.1. The essence, principles and functions of credit

Bank credit as the main source of financial resources for economic activity of enterprises plays a decisive role in stimulating reproductive processes in the economy. The need for credit is conditioned by commodity-money relations. Its prerequisite is the availability of current or future income of the borrower, and the reasons that determine the need for a loan are fluctuations in the need for funds and the sources of their formation in both legal entities and individuals. When funds are released for some market subjects, others lack them. This contradiction is resolved with the help of a loan, which is necessary for the borrower to expand production, current activities and fully meet his own needs. Mobilization of temporarily free funds and their transformation into credit resources is the main function of commercial banks.

Credit is one of the most complex economic categories, both in terms of its essence and the mechanism of influence on the process of social reproduction. In the economic literature, there are several approaches to the definition of credit, among which the following are the most common:

— identifying credit with value that is transferred by one economic entity to another as a loan. With this approach, the focus is on the loan itself;

— identification of credit with a certain type of economic relations that are formed in society. This approach makes it possible to explore more deeply the economic aspects of credit, the factors of its formation and patterns of movement. Therefore, the most common is the interpretation of credit, which takes into account the second approach to determining its essence.

Credit is a social relationship that arises between economic subjects in connection with the transfer of free funds to each other for temporary use on the basis of return, term, payment, targeted use and real security.

The object of the loan is the value that is transferred by one subject

to another under certain conditions. Such a transfer is formalized by an appropriate agreement in compliance with the requirements of current legislation and is called a loan. The granting of a loan creates a credit relationship between the lender and the borrower. Therefore, the concept of a loan is broader than the concept of a loan, because it includes not only the fact of its provision, but also the relations between the parties that arise in connection with the further repayment of the loan and the regulation of mutual claims.

Creditors and borrowers are the subjects of credit relations.

Creditors are participants in credit relations who have free funds in their possession (or at their disposal) and transfer them to other entities for temporary use.

Borrowers are participants in credit relations who need additional funds and receive them as a loan from creditors. Characteristic the sign of the borrower is that he does not become the owner of the borrowed funds, but only a temporary administrator.

Lenders and borrowers can be individuals or legal entities, as well as the state. Banks occupy a special place among them. They first accumulate temporarily free funds of market subjects, and then lend them to their clients themselves. Credit relations have a number of characteristic features that form a separate independent economic category — credit.

The main features of the loan are as follows:

— participants in credit relations must be legally and economically independent, function on the basis of self-sufficiency and self-sufficiency, bear economic responsibility for their obligations. In order to become a creditor, an economic entity must accumulate a certain amount of free funds that it can dispose of freely. And in order to become a borrower, the subject must have prerequisites for accumulating in the future in his property a sufficient amount of free funds to repay the debt;

— credit relations are voluntary and equal. This gives lenders and borrowers the opportunity to fully satisfy their needs and protect the

interests of each of the parties to the loan. Economic independence of subjects, voluntariness, equality and mutual benefit make credit relations adequate to market principles;

— credit relations do not change the owner of the values for which they arise. The creditor remains the owner of the loaned value, and the borrower receives it only for temporary disposal, after which he must return it to the owner;

— credit relations are non-equivalent. The borrower returns to the creditor a larger amount of funds than he receives from him. This amount includes a fee for using credit funds. Such a fee is called interest and has a dual purpose:

- • compensate the creditor for the loss of income in connection with the transfer of the corresponding amount of funds to someone else's disposal and possible losses in case of non-repayment of the loan;
- • to stimulate the borrower to improve the efficiency of the use of borrowed funds.

Credit relations at the microeconomic level are intermittent, that is, they are interrupted after the loaned value is returned and interest is paid. However, at the macroeconomic level, credit relations are constantly maintained as a continuous movement of value in the process of social reproduction. Ending credit relations for one amount of value or with one counterparty, economic entities constantly enter into credit relations with other counterparties or with the same ones, but for other amounts of value. Therefore, credit relations go beyond the relations of two economic subjects and have the character of general society. A direct manifestation of the essence of credit is its functions.

The main functions of the loan are as follows: redistribution, emission, control.

The redistributive function of credit consists in the redistribution of temporarily free monetary and material values from some market subjects to others to meet production and consumer needs.

The emission function of credit consists in replacing the circulation of

cash money with credit transactions. This function determines the role of credit in the development of non-cash payments, which accelerates the speed of money movement, and therefore reduces the overall costs of circulation in the economy.

The control function of the loan consists in the fact that in the process of credit redistribution of funds, bank control over the borrower's activities is ensured, while the bank carries out both previous and current control over his activities.

The main principles of credit relations organization are as follows:

1. *The principle of return means* the need for the borrower to return the value received for temporary use. The creditor grants a loan only because he expects the transferred funds to be returned. For the borrower, this principle means the need to organize his activities in such a way as to ensure the release of the value received for temporary use and its return to the creditor.

2. *The principle of term lending* provides for the establishment of the period of use of the borrowed funds and the deadline for their return to the creditor.

3. *The principle of payment* is that the loan is granted to the borrower for a certain fee, which is determined in the form of interest. Compliance with this principle is a decisive factor in the creditor's economic interest in transferring funds for temporary use to the borrower.

4. *The principle of credit security* consists in the fact that the creditor, when granting a loan, takes additional measures to guarantee the return of borrowed funds within the specified time. The security of the loan can be property (real estate, movable, securities, currency values) taken as a pledge, as well as the obligation of a third party to repay the debt to the creditor (guarantees, sureties). The principle of security plays an important role in protecting against credit risks

5. *The principle of the targeted* nature of the loan is that subjects who have expressed their intention to enter into credit relations must determine

in advance for what purpose the funds will be used. Compliance with this principle is ensured by the creditor's control over the transactions carried out by the borrower.

The most widespread form of credit is a bank loan, which can be granted only in cash. A bank loan has its own characteristics, which are as follows.

First, the bank, first of all, operates with the resources involved. That is, having borrowed money from some subjects, he redistributes it, granting loans to others.

Secondly, the bank lends funds invested in the bank by economic entities on current or deposit accounts.

Thirdly, the funds that the bank lends are not just money, but money as capital. That is, the borrower must invest them in such a way as not only to return the borrowed amount to the lender and pay interest on the loan, but also to receive a profit from the investment of funds.

Credit operations constitute the main part of the active operations of commercial banks and are one of the most effective ways of allocating bank resources, but at the same time, they are also the most risky type of banking activity. The term "credit transaction" can be used in both a narrow and a broad sense. In a narrow sense, a bank credit operation is a direct provision by the bank of a certain amount of funds to the borrower on the basis of a credit agreement. In a broad sense, a credit operation should be understood as any of the bank's active operations.

Credit operations of banks are a type of active operations related to providing clients with funds for temporary use or accepting obligations to provide funds for temporary use under certain conditions, as well as providing guarantees, sureties, guarantees, placing deposits, conducting factoring operations, financial leasing, issuing loans in the form of accounting for bills, in the form of repo transactions, any extension of the debt repayment term.

According to the Law of Ukraine "On Banks and Banking Activities",

the following are included in the bank's credit operations:

— placement of funds and bank metals involved in deposits (deposits), including current accounts, on one's own behalf, on one's own terms and at one's own risk;
— carrying out operations on the securities market on one's own behalf;
— provision of guarantees and sureties and other obligations from third parties, which provide for their fulfillment in monetary form;
— acquisition of the right to demand the fulfillment of obligations in monetary form for delivered goods or rendered services, assuming the risk of fulfilling such demands and accepting payments (factoring);
— leasing.

Understanding the essence of bank credit operations makes it possible to identify the peculiarities of their implementation, as well as the legal status of the bank and its differences from other financial institutions, since it is the execution of certain types of operations in the aggregate that makes it possible to call a financial institution a bank.

6.2. Classification of bank loans

Bank lending is a complex and multifaceted process, which in the conditions of the development of the market economy takes on new forms and varieties. Loans of commercial banks can be classified according to various features and criteria, the most common of which are shown in fig. 6.1.

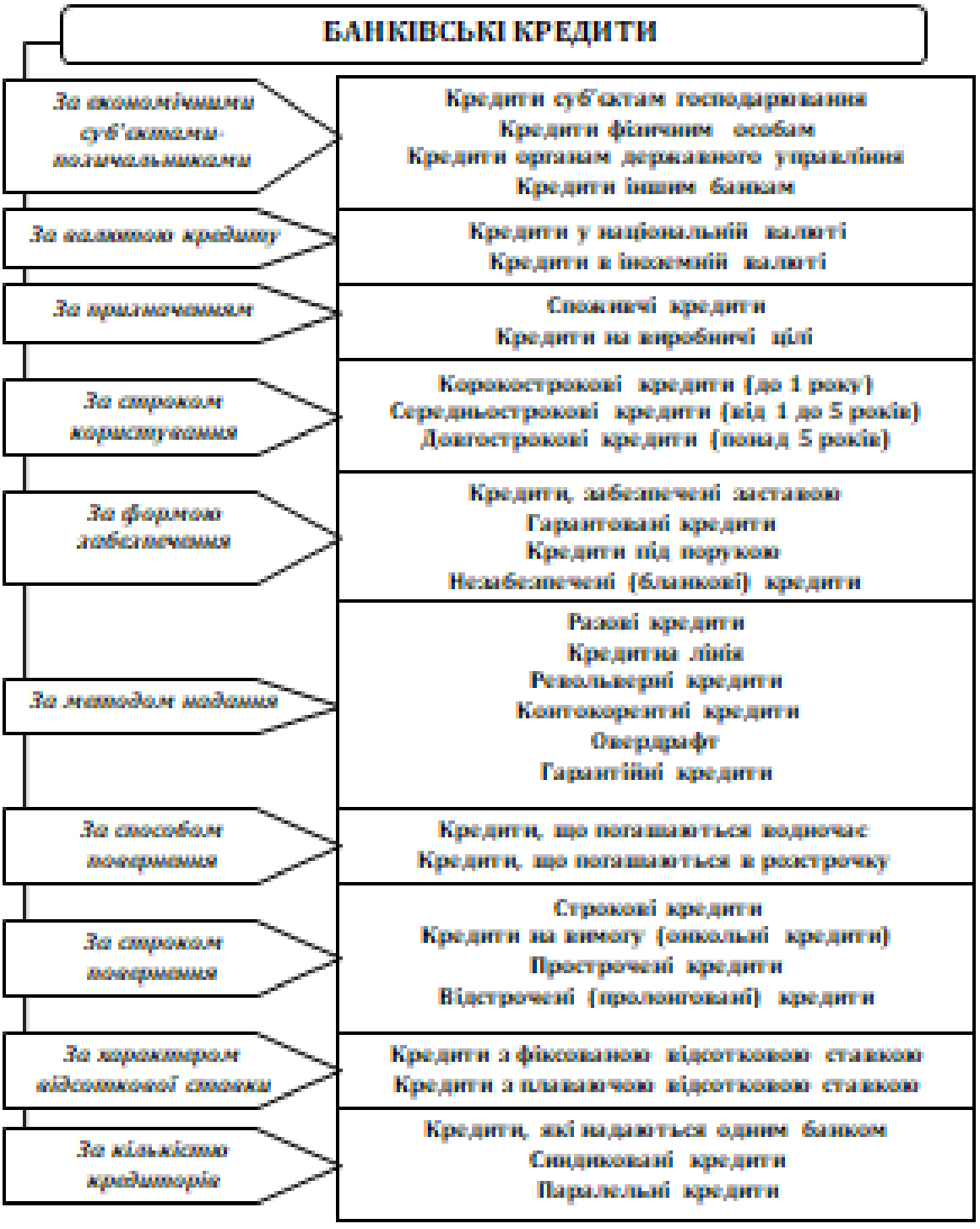


Fig. 6.1. Classification of bank loans

By economic subjects-borrowers, the following are distinguished:

— loans to state administration bodies;
— loans to business entities;
— loans to individuals;
— loans to other banks.

According to the currency of the loan, the following are distinguished:

— loans in national currency;
— loans in foreign currency.

Loans are allocated by purpose:

— loans for consumer purposes;
— loans for production purposes.

According to terms of use, loans are distinguished:

— short-term (up to 1 year);
— medium-term (from 1 to 5 years);
— long-term (more than 5 years).

The term of a bank loan and interest for its use, unless otherwise stipulated in the loan agreement, are calculated from the moment of receipt (crediting to the borrower's account or payment of payment documents from the borrower's loan account) until full repayment of the loan and interest for its use.

According to the form of security, loans are divided into:

— secured by collateral (property, securities);
— guaranteed (by banks, other financial intermediaries);
— with other security (guarantee);
— unsecured (form).

Most bank loans are provided against certain security. Unsecured loans make up a small share of banks' loan portfolios. They can be provided if the bank has a high level of trust in the borrower.

According to the method of provision, the following are distinguished:

— one-time loans — loans, the decision on granting of which the bank

makes separately for each type of loan on the basis of relevant documents;

— credit line — a credit agreement, according to which the bank provides the borrower with a loan within the agreed amount (credit limit) during the term stipulated in the contract. Lending on such terms is used when the borrower periodically needs significant funds or cannot accurately determine the required loan amount in advance;

— revolving loans — an automatically renewed loan that is widely granted without additional agreements between the borrower and the bank, if the loan amount does not exceed the established limit and repayment terms. Such loans, as a rule, are granted to borrowers who have a permanent relationship with the bank, a high-quality credit history or under reliable guarantees. Revolving loans are similar to lending based on a line of credit, although they have significant differences. The parties to the agreement on the provision of a revolver borrowers can be governments, international organizations, groups of banks, enterprises and individuals;

— overdraft loans — loans granted through a special overdraft account, on which the bank displays all the borrower's transactions according to current requirements and obligations. Provided to customers with high credit standing who have a regular need for loans;

— overdraft is a form of short-term credit within the limit set by the bank, which allows for calculations when the client's current account does not have enough funds. The bank debits funds from the client's account in full, i.e. automatically grants the client credit for an amount that exceeds the remaining funds. An overdraft differs from a regular loan in that all funds received into the client's account are directed to pay off the debt;

— guaranteed loans are loans that are only obligations to repay the borrower's debt in the event of his insolvency within a certain period with the mandatory collection of a commission.

According to the method of return, the following are distinguished:

— repayment of loans at the same time, which involves payment of the loan amount and interest on it at the end of the term;

— repayment of loans in installments, when the borrower repays the loan in certain parts during the loan term.

According to the repayment period, bank loans are divided into:

— fixed-term;
— on demand (on-site);
— overdue;
— postponed or prolonged.

Term loans are granted by the bank for the term fixed in the loan agreement. The vast majority of bank loans belong to term loans.

Loans on demand are provided by banks for an indefinite period. The client is obliged to return such a loan at the first demand of the bank. If the bank does not demand repayment, the loan is paid at the discretion of the client.

Loans for which the repayment period established in the loan agreement between the bank and the borrower has expired, and the bank's funds have not been returned, are considered overdue.

Loans for which the bank has postponed the repayment period to a later date are considered deferred (prolonged). The extension of the loan is formalized by an additional credit agreement and is accompanied by the establishment of a higher interest rate.

According to the nature of the interest rate, the following are distinguished:

— loans with a fixed interest rate — loans for which the interest rate is set once for the entire lending period;
— loans with a floating interest rate - loans, the terms of the contract of which provide for the revision of the interest rate during the term lending with the aim of reducing the risk of not receiving a profit or eliminating losses, especially in conditions of an unstable economy.

According to the number of creditors, bank loans are divided into:

— loans provided by one bank;
— syndicated;
— parallel loans.

Syndicated loans are provided by a bank consortium, in which one of

the banks acts as a manager, collects the amount required for the client from participating banks, concludes a loan agreement with the borrower and grants the loan. The manager bank also distributes the interest income from the credit operation among the banks participating in the consortium. For operations related to such lending, the bank-manager receives an appropriate monetary reward.

Parallel loans involve the participation of several banks in their provision, but at the same time, each bank separately draws up a credit agreement with the client on the same conditions agreed by the creditor banks.

In Ukraine, with the aim of harmonizing domestic banking legislation with international standards, the Resolution of the National Bank of Ukraine on approval of the Regulation on determination of credit risk by banks of Ukraine for active banking operations No. 351 of 06.30.2016 the category of non-performing (default) loans is singled out. Non-performing loans are loans with a payment delay of more than 90 days (borrowing banks — 30 days), or for which repayment of the debt is unlikely without collection of collateral.

It is worth noting that the determination of the appropriate type of loan is carried out taking into account the financial condition of the borrower, the state of service of credit debt by the borrower and taking into account the level of collateral for the loan operation.

6.3. Bank lending process

The instructions on the procedure for regulating the activities of banks in Ukraine, approved by Resolution of the National Bank of Ukraine No. 368 of August 28, 2001, define the following requirements for lending by banks to borrowers:

1. The aggregate debt for loans granted to one borrower cannot exceed 25% of the regulatory capital of a commercial bank.
2. The total amount of loans granted by the bank to all borrowers cannot exceed 8 times the amount of the bank's regulatory capital.

3. Aggregate debt for loans granted to persons related to the bank may not exceed 25% of the regulatory capital.
4. It is prohibited to provide credit for the following purposes:

— coverage of losses of the borrower's economic activity;
— formation and increase of the client's statutory fund;
— payment by the client to the budget and extrabudgetary funds;
— repayment of previously received loans.

The process of bank lending is presented in fig. 6.2.

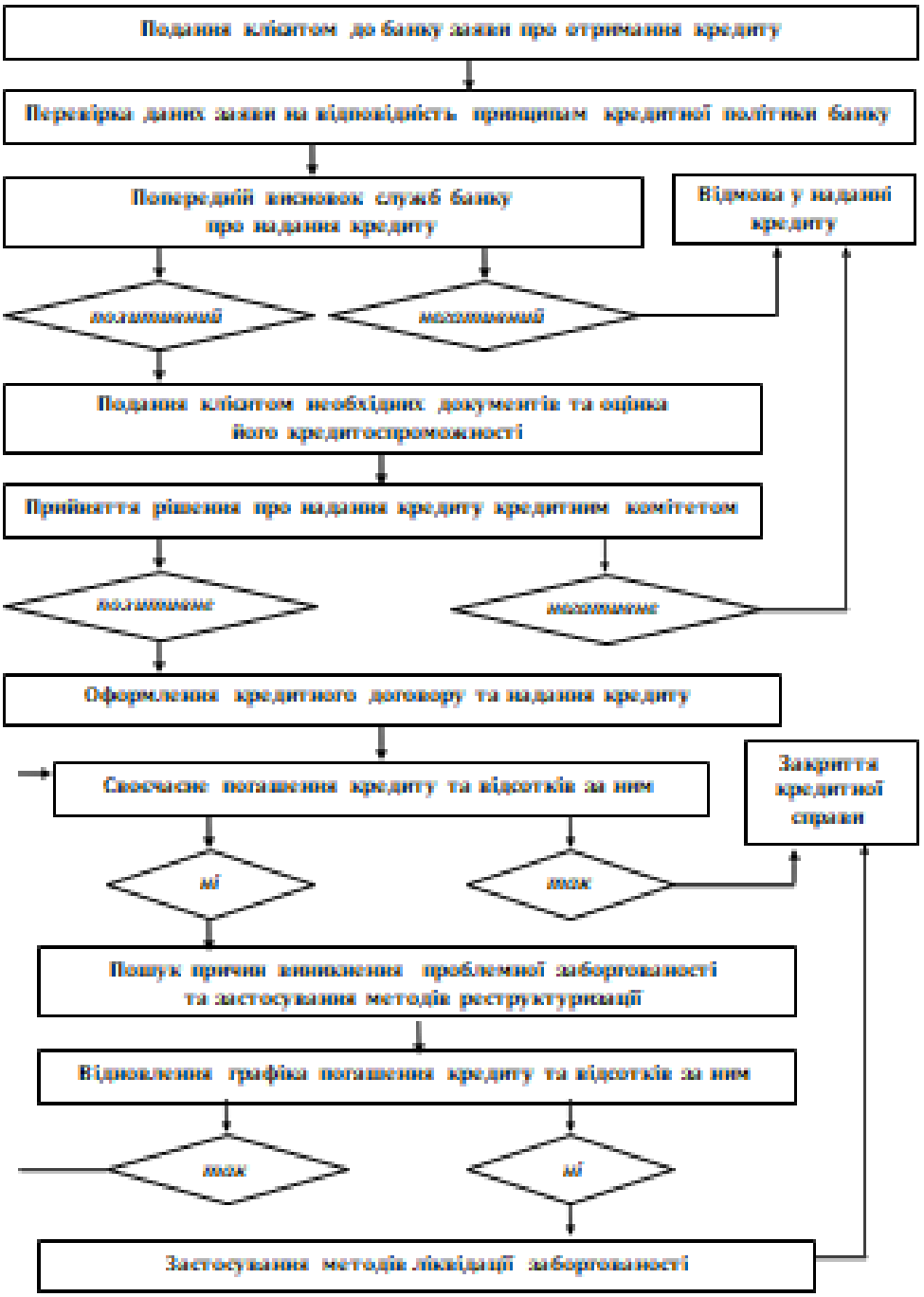


Fig. 6.2. Bank lending process

Banking practice has developed an organizational and economic mechanism for the implementation of credit activities, which includes the following stages: acceptance and review of documentation regarding the granting of a loan; analysis of financial information and collateral; making a credit decision; operational procedures; debt collection; working with problem loans, including ensuring proper accounting of loans.

Each commercial bank develops and implements its own credit policy and has the right to organize credit activities in accordance with its goals and capabilities, subject to compliance with the requirements of current banking legislation. Each of the stages of the bank lending process ensures the solution of specific tasks, and together the main goal of credit operations is achieved — their reliability and profitability.

The first stage. At this stage, the possibilities of cooperation with a potential borrower are evaluated. An application (petition) for obtaining a loan is submitted to the bank in the form specified by the bank. The application states the purpose of lending, the amount of the loan, the term of use, collateral and the desired interest rate *(Appendix 24).*

An application for a loan is submitted to an employee of the credit department for consideration of the borrower's approval or refusal. In addition to the application, a package of documents is provided for identification of the person and confirmation of his financial, material and social status. Its composition depends on the nature of the credit transaction and it may be different for different categories of clients.

For legal entities, such documents can be:

— copies of founding documents, documents on state registration, as well as confirmation of the authority of managers;
— copies of passports of managers who have the right to sign;
— business plan or technical and economic justification of the project;
— balance sheets, reports on financial results, reports on the financial and property status of the enterprise;
— copies of premises and transport lease agreements;
— statement of the flow of funds on the current account for the relevant period;

— a certificate from the servicing bank about the absence of debt on loans;
— copies of permits and licenses for the types of activities necessary for the implementation of the project;
— documents confirming the right of ownership or use of a possible subject of pledge;
— any other documents that may contribute to the decision to grant a loan.

Individual entrepreneurs submit the following documents to the bank to obtain a loan:

— a copy of the state registration certificate;
— a copy of the document on registration with the tax authority
— copies of patents, licenses and other permission documents for engaging in certain types of activities (if available), etc.;
— copies of income declarations for the last reporting periods;
— other documents confirming receipt of additional income.

Individuals submit to the bank documents confirming the borrower's identity and income, namely:

— a copy of the passport and a copy of the certificate of assignment of the identification number of the taxpayer, certified by the owner's signature;
— a certificate from the place of work indicating the position and the amount of income actually received for the last 6 months (with monthly distribution). The certificate must be certified by the signature of the director and the accountant of the enterprise, with the seal of the enterprise, indicating the address, telephone number, EDRPOU of the enterprise.

In addition to the specified documents, potential borrowers submit to the bank documents related to securing the loan, namely:

— in the case of a pledge of movable property (except for motor vehicles) — a description of the pledged property, an agreement for the purchase of tangible goods transferred as a pledge, invoices and other documents confirming the right of ownership;
— in case of pledge of vehicles - certificate of ownership of the vehicle, insurance policy of the vehicle;

— in the case of a real estate pledge - purchase and sale contracts, a certificate of privatization, certificates from the Bureau of Technical Inventory, a valuation report and an insurance policy of the immovable property transferred as a pledge;
— in the case of guarantee (surety) - guarantee (surety) contracts, as well as relevant documents for the guarantor or guarantor (documents confirming legal and legal capacity, as well as financial capabilities);
— in the case of insurance, the insurance policy and, if necessary, the documents of the insurance company.

When considering the application and the package of documents regarding the granting of the loan, the possibility of cooperation with the client is determined, taking into account the main provisions of the bank's credit policy. The application review procedure may be different for different categories of clients. At the same time, the choice of potential borrowers depends on the information about customers that the bank has at its disposal, or data provided by the bank's security service.

At this stage, a preliminary conversation is held with the future borrower, verification of the authenticity of documents and information, on the basis of which a decision on issuing a loan will be made. Copies of all documents require the provision of originals for their reconciliation.

The second stage involves assessing the borrower's financial condition, determining his creditworthiness, solvency, and credit risk.

Creditworthiness is the presence of the borrower's prerequisites for carrying out a credit transaction and his ability to repay the loan and interest on it in full and within the terms specified in the contract.

The bank determines the creditworthiness of the borrower before making a decision on granting a loan and in the event of a change in the initial terms of the contract, which related to the debtor's financial difficulties. The analysis of creditworthiness involves the study of various factors that can lead to both untimely repayment of debt and the fulfillment of obligations by the borrower.

Sources of information for assessing creditworthiness can be the following:

— information received from the borrower;
— internal information database of the bank;
— external sources of information (creditors, suppliers, customers, employees, as well as credit bureaus).

In Ukraine, in order to determine the financial condition of the borrower, commercial banks are governed by the Regulations on determining the amount of credit risk in active banking operations by banks of Ukraine, approved by NBU Resolution No. 351 dated 06/30/2016. In addition, each bank must have intra-bank regulations that establish optimal, economically justified values of indicators for assessing the financial condition of debtors, which are able to ensure a timely and adequate assessment of the amount of credit risk for active banking operations *(Appendix 25)*.

Since the bank as a creditor can have different customers-borrowers (legal entities and individuals, banks and budgetary institutions), the assessment of their creditworthiness is carried out according to different methods.

The bank evaluates the financial condition of a legal entity by calculating the integral indicator of the borrower's financial condition in order to determine the value of the default probability ratio. The integral indicator is calculated on the basis of financial ratios of the borrower's activity, which are determined on the basis of financial reporting data (liquidity ratios, debt coverage, turnover, profitability, etc.).

When calculating the integral indicator, the parameters are also taken into account, which are determined taking into account the importance and the number of digits of the financial coefficients and are updated annually by the National Bank of Ukraine. Depending on the value of the integral indicator, the bank determines the class of the borrower – a legal entity based on the industry principle and the size of the enterprise. Current banking legislation defines 9 classes of debtors-legal entities, each of which corresponds to a certain range of values of the default ratio. With the help of the determined default ratio and the size of the loan, the reserve for the compensation of possible losses in the bank's credit operations is calculated.

To determine the value of the default probability ratio of a debtor – an individual, including an individual who is a business entity, the bank assesses its financial condition based on quantitative and qualitative indicators. Quantitative indicators include the following:

— total net income (monthly total income, reduced by monthly total expenses and liabilities);
— savings in bank accounts;
— coefficients characterizing the current solvency of the natural person-borrower and his financial capabilities to fulfill the loan obligations, in particular:
  • the ratio of total income and expenses of the debtor;
  • the ratio of the amount of debt under the loan to the value of the lending object;
  • the ratio of the debtor's monthly expenses for debt service to the amount of his monthly income.

The optimal values of these coefficients are set by the bank independently, taking into account the type of loan, depending on the form of its provision, purpose, term of use, availability of security and method of repayment.

The qualitative indicators, on the basis of which the value of the coefficient of probability of default of a debtor-individual person is determined, include the following:

— the client's general financial condition (possession of property);
— social stability of the client (availability of a permanent job, business reputation, marital status);
— age of the client;
— credit history of the debtor;
— information about the debtor obtained from state registers, tax declaration, etc.

Current banking legislation defines 5 classes of debtors-individuals with a corresponding range of default probability coefficient values. The bank determines the class of the debtor based on the results of the assessment of his financial condition in accordance with the above

characteristics, including taking into account the factor of timeliness of debt payment in order to determine the amount of funds reserved for the credit transaction.

The third stage. At this stage, the bank considers the issue of making a decision on granting a loan and determines the conditions of lending, in particular, the type and amount of the loan, the amount of the interest rate, the term and order of repayment, security and additional conditions, the purpose of which is to minimize risks.

The loan structuring process follows the principle of a differentiated approach and depends on the borrower's category, assessment of his debt repayment capabilities, etc. The correct definition of the type of loan is important for establishing real sources of loan repayment. If the loan is granted for the formation of the borrower's working capital and is short-term, the source of its repayment will be current cash receipts. The loan granted for the reproduction of the borrower's fixed capital is, as a rule, long-term and must be returned at the expense of income from the operation of the loaned object.

Timely repayment of the loan depends on the correct determination of the crediting period. To make the optimal decision, the bank must take into account its own capabilities regarding the use of the resources involved (their cost and terms of involvement) and the borrowers' ability to effectively use the borrowed funds and repay the loan within the term proposed by the bank.

Most bank loans are provided against collateral. When determining this element of the loan structure, the bank's management should proceed from the provisions of the credit policy regarding the use of appropriate forms of collateral to minimize risks, as well as take into account trends in the market of a particular property (when using property forms of collateral).

After completing the structuring of the loan, the bank negotiates with the borrower regarding the conclusion of a credit agreement. At the same time, the potential borrower may be offered terms that are significantly different from the terms contained in the client's credit application. The

final goal of the negotiations is to reach a compromise regarding the rapprochement of the positions of the bank and the client. After determining and agreeing on all the parameters of the future loan agreement, a corresponding conclusion is drawn up regarding the granting of a loan. This document is submitted for review by the credit committee. In the case of a positive decision, the loan agreement is signed by a representative of the management of the banking institution and the borrower, which is the content of the next stage.

The fourth stage of the credit process consists in drawing up credit documentation, which involves concluding a credit agreement and forming the borrower's credit file. Pledge, guarantee, guarantee or insurance contracts are also concluded as appendices to the credit agreement.

Credit relations between banks and borrowers are regulated in credit agreements concluded in writing.

The content of the credit agreement consists of the following sections:

1. Subject of the contract (purpose, amount, maturity, interest, etc.).
2. Terms of loan security (form of security, reference to additional documents, for example, a pledge agreement).
3. Obligations of the bank (opening an account, providing advice, checking the security and intended use of the loan, etc.).
4. Obligations of the borrower (use of funds for the specified purposes, collection of fines by the bank, repayment of the loan on time, information on the progress of the agreement, submission of reports, etc.).
5. The bank's rights (deferral of repayment, verification of use and security, possibility of terminating the agreement, etc.).
6. Borrower's rights (early repayment, possibility of postponement, etc.).
7. Special terms of the contract (recalculation of the loan amount, change of interest, change of contract terms, disputed issues, change of legal address).
8. Details of the parties.

Appendix 26 presents a sample loan agreement form.

The bank prepares credit documentation for each borrower's loan.

Credit documentation (file) of the debtor must contain data that are mandatory and minimally necessary for a proper assessment of credit risk. Credit documentation is created by the bank on paper and must contain data grouped chronologically according to certain sections:

1. Establishment and registration documents of the debtor.
2. Documents on making a decision on granting a loan.
3. Documents regarding the pledge (including its monitoring).
4. Documents regarding monitoring and follow-up of the loan.
5. Other documents.

The given list is not exhaustive and may be supplemented with other documents at the bank's discretion *(Appendix 27).*

At the fifth stage, the loan is granted, as well as monitoring of the fulfillment of the terms of the credit agreement. After signing the credit agreement, the employee of the credit department draws up accounting documents that contain instructions for opening a loan account.

Bank lending is carried out using the following loan accounts: simple, special, current account, current account with overdraft.

A simple loan account is the most common form of bank term lending. It can only have an active (debit) balance, each fact of issuing and repaying a loan is documented by relevant documents from the client or the bank (payment order, order from the bank's credit department to the operating department).

A special loan account is used by the bank in certain cases, for example, when lending to a borrower secured by promissory notes.

A current account is an active-passive account on which all transactions of the bank with the client are recorded. It shows the bank's debt and all payments from the account on behalf of the client as a debit, and the receipt of funds from the payer to the bank in the form of deposits, loan repayments, etc. as a credit. A current account combines a loan account and a current account, it can have a debit or credit balance.

A current account with an overdraft is an account on which, based on an agreement between the bank and the client, the amount of debiting from

the account is allowed to exceed the amount of the remaining funds, which means granting a loan.

During the term of the agreement, the bank maintains business contacts with the borrower and periodically checks the financial status and security provided for in the loan agreement. In particular, it is possible to monitor the intended use of the loan, the state of repayment of interest and arrears on the loan, the state and value of collateral, tracking changes in the borrower's financial condition, etc.

If the borrower does not fulfill the terms of the loan agreement, the bank has the right to use certain sanctions (penalties, fines) or to terminate the agreement early and demand repayment of the loan debt. As a rule, the precondition for such bank actions may be:

— untimely submission or refusal to submit financial status documents to the bank;
— establishing the fact of sale of pledged property without the bank's consent;
— establishment of the facts of storage of pledged property in improper conditions;
— untimely repayment of loan debt and interest.

Repayment of debt and interest on the loan is carried out by borrowers, as a rule, every month, according to the chosen repayment scheme of the loan body: annuity or classic (standard).

The classic loan repayment scheme involves the monthly repayment of the loan in equal parts and the accrual of interest on the balance of the debt. That is, there is a monthly decrease in the amount of the loan to be paid.

The annuity loan repayment scheme provides for the payment of equal amounts every month, regardless of the amount owed on the loan. This amount consists of part of the repayment of the loan body and interest for using the loan.

6.4. The price of a bank loan. Loan interest

In the market of financial services, banks operate in conditions of fierce competition, therefore, determining the optimal fee for their operations and services and, first of all, for providing credit, is a necessary condition for ensuring their stability. The principle of payment of a bank loan means that funds are provided to the borrower for a certain fee, which is determined in the form of interest, the rate of which is the price of the loan.

Interest on a loan or interest on a loan is the fee that the lender receives from the borrower for the use of borrowed funds.

Quantitative expression of interest is its rate or rate. The interest rate on the loan represents the relative amount of payments for the use of loan funds for a certain period.

The following types of interest rates are used in financial calculations:

1. Depending on the interest calculation base:

— simple interest rate — interest calculated only on the amount of the issued loan (initial amount of the debt);

— the compound interest rate is the interest charged on the initial amount of the debt and the interest accrued for the previous period (the accrued amount of the previous period is taken as a basis).

With simple interest payments for the use of credit are made periodically (for example, every year). With compound interest, the fee for using the loan is paid at the end of the specified term. As a result, the amount will be greater than with simple interest. However, additional funds for interest payments are not diverted during the loan period. In banking practice, it is customary to provide loans for a term of 1 year at simple interest rates, and for a term of more than 1 year - at compound interest rates.

2. According to the calculation principle:

— decursive interest rate — interest is calculated at the end of the period of use of the funds;

— discount interest rate — interest is calculated at the beginning of the crediting period from the final amount of the debt and is charged by the

bank at the time of issuing the loan by deducting the accrued interest from the total amount of the debt;

3. **According to the constancy of the value of the interest rate during the term of the contract:**

— the fixed interest rate is specified in the credit agreement at the time of its conclusion and remains unchanged throughout the term of the agreement;

4. the floating interest rate can be changed by the bank in accordance with the terms of the credit agreement with mandatory notification of the borrower. Depending on taking into account inflationary processes:

— nominal interest rate — annual interest rate announced by the bank;
— the real interest rate is the annual interest rate that takes into account the inflationary effect.

The interest rate on loans is set by each individual bank independently. It must meet the following conditions:

— be high enough to generate profit and compensate for the bank's risks;
— be low enough for the borrower to be able to repay the loan and not look for another creditor;
— to be competitive compared to the rates of other creditors;
— fully cover the cost of the funds involved.

The process of forming the value of the bank's credit resources depends on various internal and external factors that directly and indirectly affect the level of interest rates on loans. The entire set of factors can be divided into macro- and microeconomic factors of influence (Fig. 6.3).

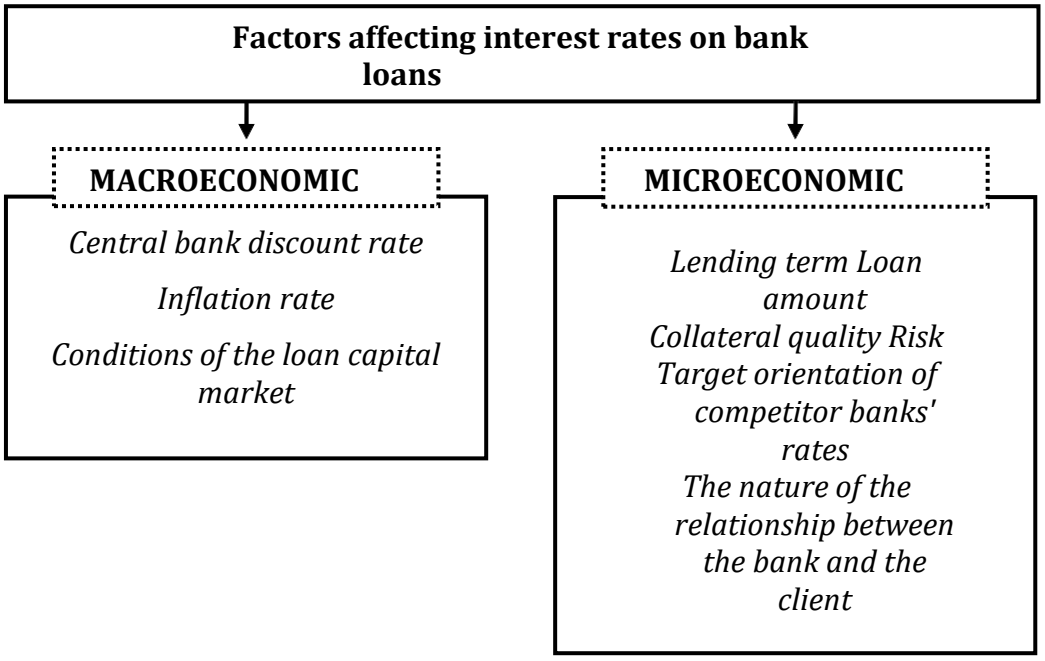


Fig. 6.3. Factors influencing the level of interest rates on loans from commercial banks

The base interest rate for loans from commercial banks is the discount rate of the central bank, at which the latter refinances commercial banks. The discount rate of the central bank depends on the nature of its monetary policy, interest rates on the international market of loan capital, the state of the country's balance of payments and the exchange rate of the national currency.

The inflation rate affects both the discount rate of the central bank and interest rates on loans from commercial banks. Despite the fact that the central bank sets a positive interest rate, commercial banks also take into account the inflation factor. This is explained by the fact that accounting the rate of the central bank does not change often, therefore, in the periods between its changes, it is necessary to take into account the inflation that is not covered by the discount rate.

The demand for loans directly affects the level of the interest rate. But in the conditions of competition between credit institutions and the struggle for the expansion of the services market, banks may ignore this market rule. They may not raise the level of interest rates when the demand for credit increases, being guided by the fact that a lower level of interest on loans will allow them to attract a larger number of customers and gain competitive advantages.

An inherent attribute of lending is risk. Credit and interest risks are considered key. Their level depends on the type of loan and the method of interest payment. The degree of risk of secured loans depends on the completeness and quality of the collateral. The higher it is, the more likely it is for the bank to experience losses from the borrower's failure to repay principal and interest. Therefore, riskier loans are issued at a higher interest rate in order to compensate the lender for the costs of risky placement of funds.

The size of the loan inversely affects the level of the interest rate. Its level is usually lower for larger loans, as the relative costs associated with the loan service are lower here. In addition, large amounts of credit are provided to large customers, who are generally less exposed to the risk of bankruptcy. But there may be exceptions to this rule. The bank may not reduce the interest rate on large loans when, according to its calculations, this may lead to an increase in risk due to the deterioration of the structure of the loan portfolio due to a violation of the asset diversification rule.

The term of the loan directly affects the level of the interest rate. The longer the term, the higher the interest rate for the loan, because there is a greater risk of losses from non-repayment of the loan or devaluation of borrowed funds due to inflation inherent in the market economy.

The quality of collateral inversely affects the level of the interest rate on loans. The higher it is, the lower the loan interest rate can be, other things being equal. This is due to the fact that higher-quality collateral reduces the risk of costs in the event of forced repayment of the loan due to its realization.

The influence of all factors on the level of the interest rate on bank loans is interrelated, therefore it is difficult to determine the quantitative value of each of them, it is advisable to consider them in aggregate.

6.5. Methods of managing problematic bank loans

The effectiveness of banking activity in the field of lending is determined by the profitability of bank credit operations and the acceptable level of credit risk, the underestimation of which can lead to the deterioration of the quality of the credit portfolio due to the emergence of problem debt. Problematic credit debt is the main factor in the growth of credit risk, and its sharp increase can negatively affect the financial results of the bank's activities and its solvency and financial stability. The quality of the loan portfolio is a determining factor in the financial stability of both individual banks and the banking system as a whole.

A problem loan is a loan for which there are significant violations of the terms of the borrower's obligations to the bank, a significant deterioration of the debtor's financial condition, a deterioration in quality or a complete loss of security.

Problem loans under enhanced control include those that have already been overdue for more than 30 days and have a negative tendency to increase both the overdue period and the probability of full non-payment:

— *substandard loans*. Loans for which the probability of untimely repayment of the debt in the full amount and within the terms stipulated by the credit agreement is less than 50%, but greater than 20% of the net credit risk. The number of calendar days overdue is 31-90 days. The loan is in the transition stage between standard and doubtful and requires increased control and intervention by the bank's management;

— *doubtful loans*. Loans under which the fulfillment of obligations by the borrower/counterparty of the bank in full amount, taking into account the financial condition of the borrower and the level of collateral, is at risk. The probability of full repayment of credit debt is low and amounts to 50% of the net credit risk. The number of calendar days overdue is 91–180 days;

— *bad loans.* Loans, the probability of fulfillment of obligations by the

borrower/counterparty of the bank, taking into account the financial condition of the borrower and the level of security, is practically absent. The risk for such operations is equal to the amount owed on them. The number of calendar days overdue is more than 180 days.

Renewed problem loans include those problem loans to which leverage tools have already been applied and loan agreements have been redrafted:

— *extended loans* — loans for which the repayment term of the principal debt has been extended due to a delay in the receipt of funds, at the expense of which the borrower makes payments;

— *restructured loans* — loans for which the terms of return have been changed, according to which the borrower is temporarily provided with preferential repayment terms;

— *refinanced loans* — repayment of previously taken credit obligations by issuing a new loan.

The main causes of problem loans and the consequences of banks' problem debt are given in Table 6.1.

Table 6.1

Causes and consequences of problematic debt of banks

ПРИЧИНИ			CONSEQUENCES
External	**Internal**	**Factors related to the activity of the borrower**	
зміни у законодавстві конкуренція між банками підвищення рівня безробіття підвищення рівня інфляції падіння обсягу ВВП девальвація національної валюти підвищення рівня споживання та зниження купівельної спроможності населення погіршення політичної та економічної ситуації у державі скорочення обсягів і відсутність зовнішніх джерел фінансування форс-мажорні обставини відсутність доступу на міжнародні ринку капіталів електронне шахрайство та кібератаки на установи фінансово-кредитного сектора	неефективна кредитна політика банку відсутність чи недостатність досвіду роботи працівників кредитного відділу ліберальне ставлення до позичальника недостатність та неточність інформації про позичальника прагнення отримати прибуток при кредитуванні ризикованих проектів помилки в оцінюванні забезпечення за кредитом неналежний моніторинг наявності або зміни якості чи вартості забезпечення неналежний контроль виконання умов кредитного договору зловживання працівників кредитного відділу	неочікувані обставини, пов'язані зі втратою чи погіршенням якості об'єкту забезпечення погіршення фінансового стану позичальника відсутність досвіду ведення бізнесу зниження якості продукції позичальника морально-етичні якості позичальника неефективність реалізації та неокупність кредитного проекту відсутність стратегії маркетингового просування продукту/послуги неефективні та застарілі технології реалізації продукту/послуги та ведення бізнесу відсутність можливості здійснення електронної комерції	загроза неплатоспроможності та зниження репутації банку фінансові збитки від недоотримання суми кредиту та від недоотримання відсотків за ним погіршення якості активів банку та потреба у формуванні нових резервів загроза відпливу із банку висококваліфікованих працівників через зниження можливостей матеріального стимулювання зменшення власного капіталу банку внаслідок падіння ринкової вартості його акцій зменшення кількості клієнтів банку через відсутність новітніх технологій загроза фінансовій та інформаційній безпеці банку

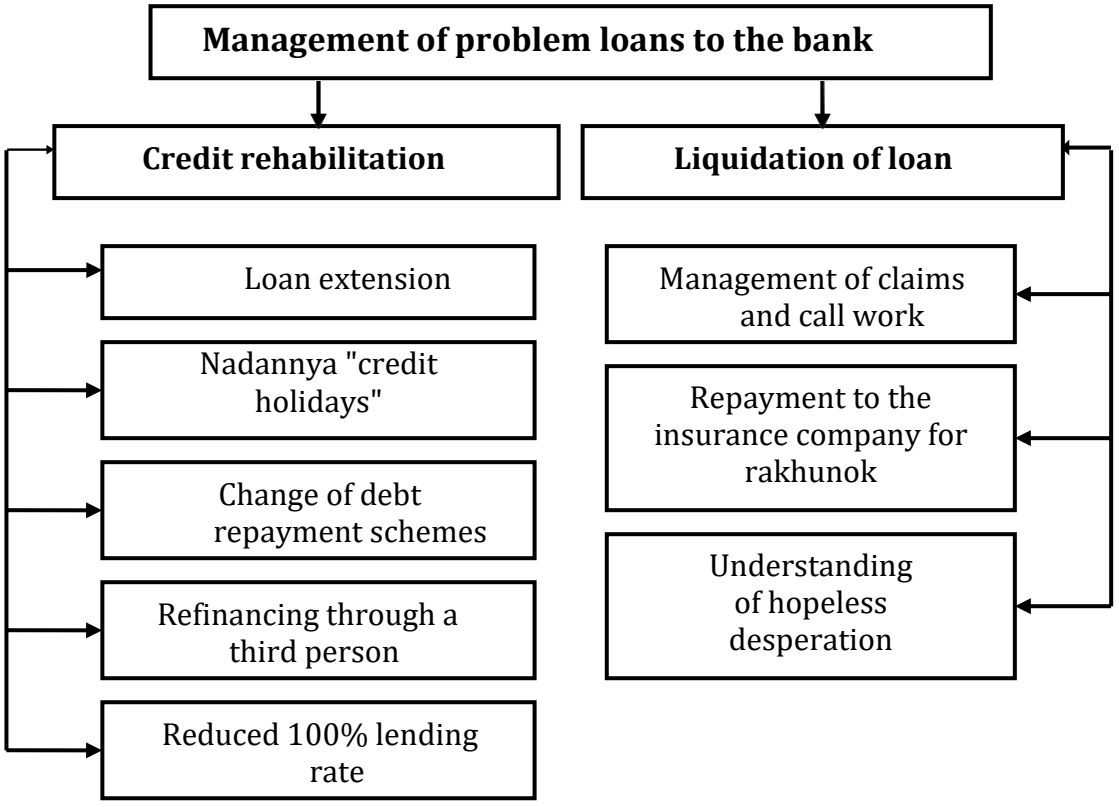
The problem of non-repayment of bank loans and the growing number of problems with problematic credit debts are important for bank management to develop a complex of approaches to each category of problem loans.

To the main methods that can be used by banks to revert their credit sums, please note:

— *rehabilitation of problematic debts* — development of a plan with the employer to repay the loan;

— *liquidation of problematic debt* — repayment of the loan for additional legal approaches, such as reduction of debt through filing before the court, elimination of a court decision on the bank's gain, or bankruptcy of the principal.

The process of managing problematic obstruction with the use of different methods is presented in Fig. 6.4.



Rice. 6.4. The process of managing problem loans to a bank

Rehabilitation of credit debts banks can offer to clients at the same time, both the employer and the bank are responsible for the financial difficulties of the client - this is a timely phenomenon, in which banks can deal with the problem the client and look at the lines and the procedure for repaying the debt. In this situation, the principal is required to provide the bank with documentary evidence of the situation that made it impossible to repay the loan. In any case of nutritional restructuring, problematic problems for the skin are determined individually.

Restructuring of the loan is the change of the original minds behind the original loan agreement to the arrangement of additional deposits, in connection with the financial difficulties of the debtor (for the assigned bank) and the need for the creation of friendly minds to deal with it liability for the asset: change in the monthly rate; skasuvannya (totally or partially) of damaged items i unpaid financial sanctions (fines, penalties, penalties) by the debtor; change of repayment schedule for Borg Toscho.

Banking authorities have established the following restructuring options: loan extension; granting credit holidays by the bank; change in loan repayment schemes; refinancing through a third person; There will be a temporary reduction in the 100% lending rate.

Extension of a loan is a continuation of the line in the loan agreement. A positive moment for the depositary is a change in the amount of the monthly payment, and a negative moment is an increase in the price of the final amount of the loan.

The granting of credit holidays to the employee results in a change in credit requirements throughout the new period. Credit holidays mean the payment by the employer of only a hundred thousand rubles for the loan during the current period (the total amount of the loan is not paid).

The change in repayment schemes for problem loans means a transition from classic repayment schemes to an annuity scheme (fixed monthly payment). With this method of loan restructuring, the total amount of overpayment on the loan will be greater than with the classic repayment scheme.

Refinancing through a third person is actually the purchase of the outpost of a problem owner with the immediate issuance of a new loan for the third person. Transferring the bank to another accountant is a complicated procedure and the bank has it in its arsenal of methods for repaying problem loans.

Hourly reduction in the multi-month lending rate - by reducing the size of the multi-hundred rate (within the range of 1–3 pp.) by term values (calculated for a number of months) for the month, so that the lender repays the majority of the loan before the due date or Danishly provides

liquid security. This method of restructuring is not beneficial for the bank, even though it spends its hundreds of dollars in income, so it will only stagnate to certain categories of depository clients (VIP clients).

Banks resort to methods of liquidating problem loans in these situations, unless the alternative methods of restructuring lead to tangible results. Elimination of problematic clutter involves the following methods: preparation and management of claims work; repayment for rakhunok insurance company; write-off of an asset because it has become hopeless.

The claim-call work is subject to a contracted liability for the implementation of the outpost lane or other lane of the principal in the event of security for the loan. The heavy burden on the official is implemented at the presentation of the decision to the court.

The repayment to the insurance company for the insurance premium is determined by the way of repayment of the insurance claim to the subject of the outpost, resulting in an insurance claim.

The recognition of the debt is hopeless in the event that such a debt can no longer be reversed and its withdrawal from the bank is required for the use of a specially created reserve.

Hopeless debt - debt, as indicated by any of the following symbols:

— debt, which was unpaid due to the lack of a personal or legal entity, bankrupt om the order established by law, or the legal entity that is being liquidated;

— the constraint, which has become impossible due to the situation of uncontrollable force, natural disaster (force majeure), confirmed by the order transferred by law;

— the restriction of deceased physical persons, as well as those who were registered with the court order without any delay, death or incapacity, has been completed, as well as the restriction of physical persons, condemned to the release of liberty.

Methods of rehabilitation and elimination of the problematic debt burden of banks can become expensive in terms of financial and labor costs, and legal fees. Therefore, the best policy for managing problem loans is unique in the way of timely analysis and correct selection of

clients, as well as the identification of potential problems and the elimination of necessary proactive approaches.

6.6. Risks of credit and investment activities of banks

The banking system is closely connected with all spheres of the state's government and economic life, therefore the lack of importance, the risks inherent in these spheres, will soon take place in the current banking activity. In this case, by and large, the specificity of the functioning of banks determines the risks associated with active operations, including the initial risks of the implementation of banking credit and investment activities And even though there is no investment, there is no risk of loss.

Credit and investment risks to the bank - ceremonies that are associated with the allocation of resources in credit and investment banking operations and that are manifested in the likelihood of changes in certain and many characteristics investments under the influence of external and internal factors, which may lead to a shortfall in the recovery of income or to consumption, to a decrease or to the extent of the socio-economic effect investments in the real sector of the economy.

In connection with the rapid changes in financial markets, it is practically impossible to identify all the risks that banks are exposed to during current credit and investment activities, so we emphasize the main risks, such as ïï chew (Fig. 6.5).

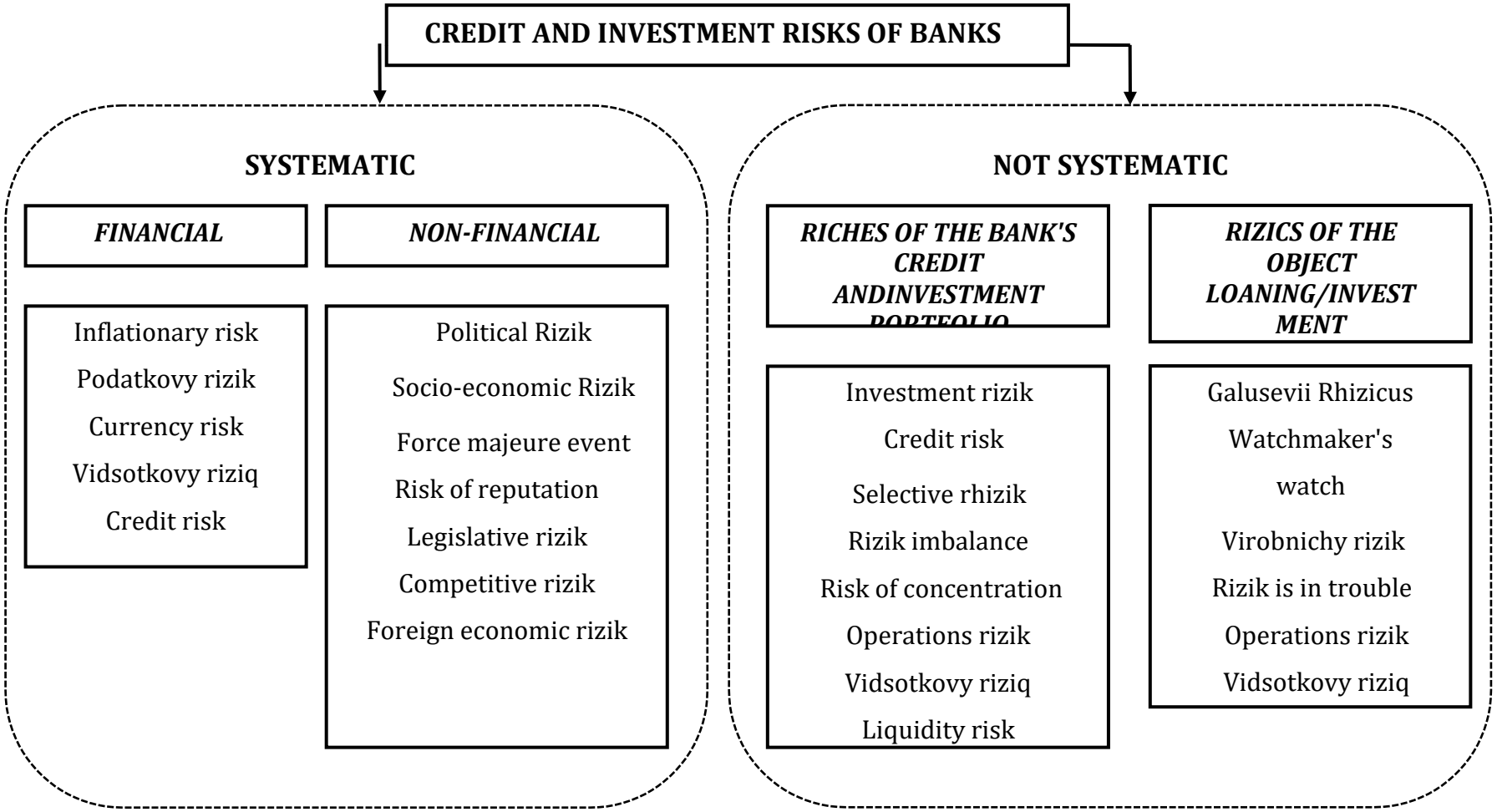


Fig. 6.5. Classification of risks of credit and investment activities of banks

The proposed classification is based on dividing the entire aggregate of credit and investment risks into systematic and unsystematic ones. The rest can be both unique, from the point of view of the adjacent variety of risks, and integral, creating a unique multiplicity of risks.

Systematic (non-diversified) risks are illegal, but the same for all participants in credit and investment activities. Such risks can be of a financial or non-financial nature.

The group of financial systematic risks of credit and investment activity of banks is determined, first of all, by changes in legislation in the field of finance and lending, by the policy of the central bank, by changes in exchange rates and inflation rates. Designated changes are subject to the Kalkis virus. **The group of non-financial systematic risks** is determined by the political situation in the country, the social mood of the population, the current economic situation, the stage of the economic cycle, the presence of competitors too. This group of risks is immeasurable and extremely untransferable, and therefore the influx of such risks is practically impossible to calculate when planning credit and investment activities.

Unsystematic (diversified) risks are specific, characteristic for a particular bank or for a specific investment facility. Therefore, the risks can be completely divided into those that are powerful for the bank’s credit and investment portfolio, and those that affect the lending/investment object itself. **The risks of a bank's credit and investment portfolio** are associated with its warehouse, balance, equal diversification, consistency between investment deposits and the means of its financing, nevykonannyam pozhalnikom goiter for credit transactions then. **Specific risks, such as those associated with lending/investment objects,** the impact of the reorientation of the economy, the cyclical development of the economy, the depletion of resources of a particular type, the change in supply on the markets, the nature manufacturing processes, competition etc.

In addition, there are a number of unsystematic credit and investment risks that affect all participants in the process. Before them lie the operating

risk, the capital risk and the liquidity risk. The essence of the operational risk lies in the culpable expenses through malfunctions of information, electronic and other systems or through damages associated with the technology of operations, as well as inheritance of operations or inactivity of staff. This situation is typical both for the creditor bank and for the lending facility. The change in the bank's multi-hundred rate and the possibility of expenses when implementing an investment project are factors that contribute to the multi-hundredth risk, and therefore, the liquidity risk for all participants credit and investment process.

The distinction between systematic and unsystematic credit and investment risks allows us to formulate the principles of risk management of credit and investment activities of banks:

— in the process of forming a strategy for managing the credit and investment portfolio of the bank, first of all, it is necessary to analyze the systematic risk, since it is impossible to solve it; for a bank's diversified credit and investment portfolio, the level of unsystematic risk is likely to approach zero.

All credit and investment risks are closely related to one another, and they can arise independently, either as a cause or as a consequence of another risk. *Detailing the strategy for risk management of credit and investment activities of the bank, it is necessary to recognize the features that characterize the risks of conducting such activities:*

— integration character. The risk of skin-related operations while investing costs concentrates a number of types of credit and investment risks that require elimination in the process of their assessment. Based on the assessment of these specific types of risks, the aggregate value of the risk and other active operations of the bank can be calculated;

— a high level of connection with the changing conditions of the financial market and factors of the external environment. The effectiveness and profitability of credit and investment activity is largely determined by the minds of the current economic environment, not least the profitability of the surrounding project. For such minds, the market risk of various investment transactions is of an inexorable nature, and this

requires special respect from the process of credit and investment activity of the bank;

— a high level of connection with the results of the activity of the investment facility and the change in its financial status. The risks of credit and investment activity are mainly formed not by the bank, but by lending objects. This aspect individualizes the risks, and the severity of its consequences and possible threats lie in the financial sector, payability, customer affiliation, region of activity and other parameters. who contributes the funds? At the same time, the bank as a creditor and investor has the opportunity to accept or not accept this type of risk through an alternative choice of clients, financial instruments and investment projects;

— high level of variability for other types of banking credit and investment activities. The risk of other active operations varies over a wide range of values. The high level of variability of credit and investment risks of the authorities is not only related to certain types of operations for deposits, but also to their specific types across lending and investment objects. The designated feature also means, obviously, the level of profitability of banking activity;

— a broad information base for assessing credit and investment risks. Changes in the financial market conditions, as well as changes in the activity and financial status of investment assets, may be observed over the course of the third period. This information comes from stock exchanges, financial analytical centers, rating agencies, etc. The availability of an accessible information base allows for the widespread use of economic-statistical and economic-mathematical methods for assessing the risk of conducting credit and investment activities;

— risk management of the aggregate banking credit and investment portfolio. Assessment of the level of risk of an active operation to serve the important

a tool for forming a bank's credit and investment portfolio. Only based on the assessment of individual risks for each project, it is possible to arrive at the specific parameters for the formation of a credit and investment portfolio beyond the global level of its risk.

The expansion of the types of risks in the credit and investment activities of banks indicates the complexity of the banking sector as an object of analysis, which requires a steady improvement in the process of banking risk management. It should be noted that the establishment of banking risks cannot be viewed as a negative phenomenon. However, the obvious risk is that banking institutions are pursuing their goals, exploring new avenues and the possibilities of effective banking activities for all minds.

Interesting to know

Unique principles of banking business operate in Muslim countries, where a special approach to banking is applied, which is based on the doctrines of the Koran. In particular, the Islamic financial system prohibits "riba" (capital gain, usury), which means any unjustified increase in capital, in particular when lending. In other words, it is an activity in which one party receives a profit (in the form of loan interest) without spending any labor and without creating a new product. Sharia prohibits earning money through money transactions. The prohibition of usurious interest is fundamental in Islam, because receiving income in the form of

"Riba" is considered a grave sin.

However, it is possible to borrow money from a Muslim bank. The most widespread type of Islamic lending is called "murabahah". This is the sale of goods with deferred payment, the price of which includes the profit agreed by the parties and the costs incurred by the bank. Such a scheme involves the allocation of funds by the bank for a specific property, which it buys on its own at the customer's order, and then sells in installments at a pre-arranged markup. Its size is determined by the expenses incurred by the bank when purchasing this property. The bank is the owner of the goods until the client repays the entire borrowed amount. In fact, the bank acts as a sales intermediary. The difference from the transaction remains with the bank in the form of revenue.

In general, according to the canons of Islam, when money is borrowed at interest, its amount increases regardless of the effort applied. Growth must occur through the exploitation of labor, goods or property. The Qur'an calls its followers to selflessly help each other, and "riba" harms the borrower and thus violates one of the main commandments of Islam.

TOPIC 7. OPERATIONS OF COMMERCIAL BANKS IN FOREIGN CURRENCIES

7.1. Organizational basis for bank operations in foreign currency

Commercial banks of Ukraine have the right to carry out banking activities only after the withdrawal of the banking license. However, for this transaction with foreign currency, an additional permit from the National Bank of Ukraine is required, which transfers a general license, which is subject to additional approval for transactions with foreign currency. values that a bank can hold.

Including a wide range of foreign exchange transactions and various approaches to their classification, we will refer to the concepts of "transactions in foreign currency" and "foreign exchange transactions".

Transactions in foreign currency mean that this operation is also carried out using penny notes of other powers, or foreign currency.

Currency transactions are operations related to the transfer of ownership of currency values, from the exchange of foreign currency values in international circulation as a means of payment, with the transfer of debt obligations and other obligations, the subject of which є currency values, as well as imported, imported, transfers and transfers of currency values to the territory of the country and beyond its borders.

The objects of foreign exchange transactions are the currency values that are subject to:

— foreign currency - foreign penny notes in the form of banknotes, treasury bills, coins that are in circulation and are legal means of payment in the territory ii a major foreign power;

— payment documents and valuable papers in foreign currency (shares, bonds, bills, checks, certificates of deposit) — bank metals - gold, silver, platinum, platinum group metals, bath) until the latest samples are consistent with light standards, in cereals and powders that produce a certificate of yoke, as well as coins made from precious metals.

The subjects of currency transactions are established banks, residents and non-residents. Renewal Bank is a bank registered on the territory of Ukraine that holds a general license from the National Bank of Ukraine for operations with currency values.

Residents are informed of:

— individuals (Ukrainian citizens, foreign communities, individuals without community) who may permanently reside in the territory of Ukraine, including those who are temporarily don;

— legal entities, subjects of business activity that do not imply the status of a legal entity (filials, representative offices, etc.), with localities in the territory of Ukraine, which carry out their activities flattery on the basis of the laws of Ukraine diplomatic, consular, trade and other official representatives of Ukraine outside the border, which have immunity and diplomatic privileges, as well as branches and representatives of enterprises and organizations This is Ukraine behind the cordon, so that no business activity can take place.

Non-residents include:

— individuals (foreign residents, Ukrainian residents, individuals without population) who may permanently reside outside of Ukraine, including those who are currently on the territory ï Ukraine;

— legal entities, subjects of business activity that do not impair the status of a legal entity (filials, representative offices), with locations outside Ukraine, such as creations and divisions The bottom is up to the legislation of a foreign power, including legal entities and other subjects of business activity with the participation of legal entities and other subjects of entrepreneurial activity in Ukraine;

— foreign diplomatic, consular, trade and other official representations, international organizations and their branches, which are located on the territory of Ukraine and may be immune There are diplomatic benefits, as well as representatives of other organizations and firms, rather than engaging in diplomatic activities on the basis of the laws of Ukraine.

Banking transactions with foreign currencies and foreign exchange

values are classified under a number of classifications.

1. The term of conduct is divided into:

— *exact trading operations in foreign currencies:*

- charges for export and import of goods;
- changes in foreign currency on the territory of Ukraine between residents - subjects of government;

— *exact non-trade transactions in foreign currencies:*

- transfers from payment of wages, scholarships, pensions, material assistance, payments and compensation;
- payments to the court authorities;
- payment for personal expenses and expenses for medical care in another country;
- payment for personal expenses and expenses for entry and internship in the initial positions of another country;
- payment by individuals for participation in international conferences, cultural and sports events that take place in the territories of foreign countries, etc.;

— *currency transactions related to the capital flow:*

- granting and withdrawal of loans by residents;
- development of foreign investments in Ukraine;
- making investments by residents outside Ukraine;
- payment of income and other costs withdrawn from investment activity.

2. In addition to the term of payment for the purchase and sale of currency, the following are divided:

— cash currency transactions that involve the purchase and sale of currency values in the minds of their deliveries no later than another working day day after day laying down the course;

— line currency transactions that involve the purchase and sale of currency values with a delivery period for a term that lasts two business days.

3. For the form of construction:

— unprepared;

— ready.

4. The scale of operations:

— wholesale (transactions between banks);
— divisions (to be negotiated between banks and their clients).

Coming from various types of operations with currency values and insurance specialties of commercial banks in the financial market, **to the key functions of banks in the field of foreign exchange transactions, the following are included:**

— *mediation in currency conversions.* The function of mediation in currency conversions is related to the satisfaction of the needs of bank clients in the purchase and sale of both foreign currencies. A positive effect from the implementation of this function is the provision of stable activity of subjects of modern economic investments, important supplies and propositions foreign currencies, the formation of a market exchange rate mechanism, as well as the promotion of integration in the international financial environment.

— *mediation of Russian currency capitals.* The function of intermediation in Russian currency capitals lies in the fact that commercial banks accumulate the current free currency assets of those entities that have them in excess, and transfer them to the current market. (on a credit basis) to other economic entities that meet the need for additional foreign exchange capital. As a result of the expansion of this function, a separate segment is being established on the national penny market - the foreign exchange capital market. The implementation of this function has a significant positive effect. On the one hand, the holders of the timely free currency sums are able to create a manual and reliable form of savings, effectively generate income, bank deposits, and on the other hand, the holders of the currency quotations for the minds of an effective This company will be able to intensify its commercial activity, expand production, increase capital turnover, etc. Moreover, there is an important international aspect of this function: it forms the basis of the international flow of capital and allows for its effective movement between different countries.

— *mediation in international disputes.* The function of mediation in international divisions lies in the existing banks of divisions between the

subjects of modern economic transactions based on the variety of different forms of such divisions. This function assumes special significance in the minds of the open economy, given the stability and reliability discrepancies between domestic and foreign business partners often result from the general nature of commercial interests. The effective implementation of this function lies, on the one hand, in the ability of payers to quickly pay their financial requirements, and on the other hand, in the creation of banks reliably and promptly to reinsure the capital of foreign partners and ensure clarity in the mechanism of the chosen form of international distribution.

7.2. Coverage and servicing of accounts in foreign currencies

The opening of current and deposit accounts in foreign currency in Ukraine proceeds in a similar way until the opening of accounts in the national currency. The current exchange rate in foreign currency is maintained by the subject of government to save pennies and carry out decommissioning of unprepared and ready-made foreign currency within the limits of the legislation of Ukraine: for development of process operations; for the development of investments beyond the border; charges for the purchase and sale of bonds of Ukraine's foreign sovereign power; for securing, borrowing and repaying loans (positions, financial assistance) in foreign currency; for the entry of foreign investments into Ukraine is subject to the laws of Ukraine; to carry out operations that have been issued a general license to the National Bank for foreign exchange transactions.

On the current market in foreign currency, legal entities will insure funds through the current bank and through the intermediary of a separate bank.

A wide range of purposes for the further protection of funds in foreign currency that were found at the address of a resident legal entity. The Bank enforces such regulations using the method of implementing currency control.

The bank insures the funds through various accounts that have been found:

— in a prepared form, a non-resident must register with the bank;
— for payment documents sent from abroad to the Vlasnik Rakhanka;
— for payment documents in the name of the Vlasnik Rakhanka, imported into the territory of Ukraine and declared to the military authority at the time of entry into Ukraine;
— overinsurance from abroad by non-residents for foreign economic contracts;
— reinsurance due to the border by non-residents as a reversal of positions in foreign currency taken away from residents;
— reinsurance due to the cordon by non-residents in the form of loans (position, financial assistance);

The following currency currencies are insured directly at the current exchange:

— purchased, exchanged by a reputable bank of Ukraine with the authority of the authority for national or other foreign currencies;
— re-insurance from a bank account (deposit) in a designated bank, in accordance with the bank deposit agreement;
— hundreds of dollars, accumulated for excess funds on the cash flow and deposit (deposit) accounts;
— refurbished from a wet in-line rack.

The following operations are carried out for the current exchange in foreign currency of resident legal entities following the orders of the Vlasnik:

— payment to non-resident workers who work in Ukraine in accordance with established employment agreements (contracts);
— re-insurance for the benefit of a non-resident outside Ukraine under foreign economic agreements;
— re-insurance for the cordon for physical persons, who are currently traveling outside the borders of Ukraine for long-term military personnel or begin, as payment for work;
— reinsurance to repay the debt for the withdrawn loan in foreign

currency (including interest, commissions, penalties);

— re-insurance of positions in foreign currency;

— re-insurance for the deposit account;

— re-arrangement for a powerful flowing rack.

The official legislation of Ukraine has established the possibility of mandatory sales on the interbank foreign exchange market of Ukraine in foreign currency due to the cordon on the costs of legal entities, physical entities - entrepreneurs, foreign representatives in the amount of 50% of the amount required. The decision must be insured for the account of valued persons in foreign currency and is deprived of its regulations.

On the current account in foreign currency, resident individuals must be insured:

— ready currency deposited/transferred by the official of the account;

— currency behind payment documents sent from abroad to the Vlasnik Rakhanka;

— currency transferred from behind the border;

— currency for payment documents imported from behind the border by the Vlasnik Rakhunka and declared to the military authority at the time of entry into Ukraine;

— currency, won in order of decline;

— currency re-insurance from the cash flow or bank deposit (deposit) account in foreign currency;

— currency re-insurance within Ukraine by another individual (resident or non-resident) from the current cash flow in foreign currency.

From the current account in foreign currency for the orders of a resident individual or on his behalf the following operations are carried out:

— *in foreign currency:*

- reinsurance across Ukraine, in particular for current foreign exchange non-trade transactions;
- payment in preparation;
- payment using payment documents;
- re-insurance within Ukraine for the protection of another individual resident;

- re-insurance on government current or government investment (deposit) accounts in foreign currency;
- sales on the interbank foreign exchange market of Ukraine for further registration with the national currency;

— *from the penny unit of Ukraine:*

- payment in cash from the penny unit of Ukraine (purchase of foreign currency is subject to the bank exchange rate on the day of the transaction).

On the account (deposit) account in foreign currency, the following is insured:

— ready currency deposited/transferred by the official of the account;
— currency re-insurance from the cash flow or bank deposit (deposit) account in foreign currency;
— currency from the authorized bank for the approval of the official for the handling of currency exchange transactions;
— funds reinsured from the current storage of another individual, which is transferred to a bank deposit agreement;
— accrued sums (income in another form) for the deposit.

From the deposit account in foreign currency, for the depositor's orders or for his entrusted funds, the money turns around:

— pay in cash;
— pay with payment documents;
— re-insurance on government current or government investment (deposit) accounts in foreign currency.

Costs from a deposit account in a foreign currency can be reversed by exchanging foreign currency for another foreign currency with the exchanged currency instantly secured on the official current or deposit account price. ï individuals.

Subject to the strict legislation of Ukraine, individuals can withdraw money in foreign currency or bank metals from cash and deposit accounts through cash registers and ATMs without having to exchange money.

7.3. Non-trade operations of banks in foreign currencies

Non-trading operations of banks in foreign currency are operations that are associated with the movement of currency values between the subjects of currency exchanges that take place in non-commercial ambushes, then they are not related to trade, investment and enterprise activities of residents and non-residents.

On an economical basis, the current non-trade transactions of banks in foreign currencies are divided into:

— transactions with prepared foreign currency;
— transactions with traveler's checks;
— transfer of operations.

Transactions with prepared foreign currency include:

— currency exchange transactions;
— depositing ready-made funds for registration on accounts in foreign currency;
— payment of the ready-made or deposit account in foreign currency.

Transactions with ready foreign currency are carried out through the bank's cash desk or currency exchange offices for various currency exchange operations. The work of banks in the exchange of foreign currency in Ukraine is regulated by the Instruction on the procedure for organizing currency exchange transactions in the territory of Ukraine No. 502, version 12.1 2.2002 r.

Before currency exchange operations there are:

— purchase from resident and non-resident individuals of ready-made foreign currency for ready-made hryvnia;
— sales to resident individuals of ready-made foreign currency for ready-made hryvnias;
— return exchange for non-resident individuals of non-renewable ready-made hryvnias for ready-made foreign currency;
— conversion (exchange) of the ready-made foreign currency of one foreign power into the ready-made foreign currency of another foreign power.

These operations are carried out through exchange offices, which are important structural units of commercial banks and as such form the basis for the functioning of the foreign exchange market of the country. The organization of the work of exchange offices is carried out in order to ensure a reliable level of foreign exchange services for individuals – residents and non-residents.

In accordance with the law, *the bank develops internal regulations on the organization of work in foreign exchange transactions,* in order to:

— the procedure for conducting currency exchange transactions;
— the procedure for setting exchange rates for the purchase and sale of ready-made foreign currencies for hryvnia;
— the procedure for maintaining documents for currency exchange transactions;
— the procedure for backing up banks, currency exchange points, financial institutions with ready-made foreign currency and ready-made hryvnias;
— description of the accounting model of foreign exchange transactions;
— transfer of secondary practitioners who may have the right to conduct foreign exchange transactions;
— a description of the procedure for internal control over foreign exchange transactions.

On the basis of this document, the bank can ensure the documentation of currency exchange transactions, the current presentation of currency exchange transactions to the accounting department, reliable internal control over currency exchange transactions, as well as the creation of careless minds for work with cooking and saving.

At any bank or currency exchange office, such information is posted in a place accessible to clients:

— a copy of the bank order about the establishment of rates for the purchase and sale of foreign currencies, certified with a stamp;
— transfer of operations that involve the bank (Ukrainian and English language);
— a claim from the order about the establishment of tariffs of the commission winery for this operation with the conversion of ready-

made foreign currency, which is confirmed by the signature of the banker and the bank account. signets;

— information about those data about a person, collected in the process of servicing clients during the course of currency exchange transactions, and the banking secretariat with a special regime saving;

— nickname, initials of a cashier who carries out currency exchange operations;

— a copy of the general license for conducting foreign exchange transactions.

As a result of this currency exchange transaction, *a receipt* is written in two samples: the first sample is visible to the individual, the other is saved in a paper form at the bank.

Transactions involving the purchase of domestic foreign currency from individuals for Ukrainian hryvnia are displayed in the *register of purchased foreign currency*, and transactions involving sales to resident individuals ready foreign currency for ready hryvnia - at the *register of sold foreign currency*. Maintaining these registry data, banks have the right to use additional software and technical features, but the bank must ensure the preservation of the distributed registries.

At the time of purchase by the bank of ready-made foreign currency from a non-resident individual, a *confirmation certificate* is visible along with the receipt of this currency exchange transaction. After the client's year, this operation can be completed without issuing a confirmation certificate. Carrying out a currency exchange transaction without issuing a confirmation certificate does not provide a basis for a return exchange. The return exchange for non-resident individuals of non-resident Ukrainian hryvnias for the current foreign currency takes place on the basis of the first example of a certificate-certificate only for that foreign currency and within that amount, what is assigned to the widower.

Forms of receipts, certificates and registers of sold and purchased foreign currency can be found in *Addendums 28-31.*

Issued until NBU Resolution No. 30 dated April 4, 2017. It is allowed to carry out transactions with the sale of ready-made foreign currency or

bank metals of one person in one transaction (working) day in an amount that does not exceed the equivalent of 150,000 hryvnia between one bank .

Transactions with traveler's checks involve the purchase and sale of traveler's checks for foreign currency.

A traveler's check is a paper document that expresses foreign currency and is processed as a means of international transactions of a non-commercial nature and the penny obligation of the check drawer to pay the amount indicated on the check. to the check holder (holder), whose signature is affixed at the designated place at the time of sale of the check.

Traveler's checks are a convenient alternative to ready-made bills. Stinks are accepted throughout the world for detoxification in hotels and restaurants, travel agencies. Traveler's checks can also be exchanged for cash at banks and currency exchange offices. The term for traveler's checks is not limited. The traveler's check form was submitted at *Addendum 32.*

Transactions for the sale of traveler's checks are carried out by each bank in the following order:

— sales of foreign currency for national currency with the issuance of a receipt for this currency exchange operation;
— sales of traveler's checks for purchased foreign currency with registration of notifications about the sale of traveler's checks and receipts for the purchase/sale of traveler's checks.

Operations for the sale of traveler's checks in Ukraine throughout the day take place between the sums, as established by the Instruction on the movement of cooking and bank metals through the border cordon of Ukraine, approved by the NBU Resolution No. 148 dated 05/27/2008 Obviously, individuals may have the right to import into Ukraine and export abroad in an amount that does not exceed the equivalent of 10,000 euros, without a written declaration to the mitigation authority.

Ready foreign currency for traveler's checks is paid only to the holder of the check, the signature of the person on the check, and only the full amount assigned to the check.

One of the important services of foreign exchange services for private

clients is international transfers of personal values, in addition to which payments for non-trade transactions are supported.

Before penny transfers in foreign currencies, the following are due on behalf of private clients:

— transfers from payment of wages, scholarships, pensions, alimony, material assistance, assistance to relatives, payments and compensation;
— pay the decision of the court authorities;
— payment of expenses for treatment in medical deposits of another country;
— payment of expenses for initial internship in the mortgages of another state;
— payment for participation in international scientific, cultural and sports events that take place in the territories of foreign countries;
— payment of labor costs associated with military duties outside the border;
— transfers for payment of royalties, premiums;
— re-arrangement of physical persons once they leave the border at a permanent place of residence.

Ukrainian banking practice transfers the current international transfers of personal assets both from and without their approval. Depending on the orderly manner in which these operations are carried out, an individual for this transfer must submit the following documents to the bank:

— a payment order or an application for the transfer of preparation, or a document from a consistent payment system for the transfer (Addendum 33);
— passport or document that will replace it;
— documents that confirm the presence of bases for the transaction outside Ukraine.

Non-resident individuals make such transfers on the basis of documents that confirm the exchange of funds.

Resolution of the NBU Board “On introducing changes to certain regulatory and legal acts of the National Bank of Ukraine” No. 44 dated May 30, 2017. The exchange for the transfer of pennies for the cordon for physical persons has been accepted.

7.4. Trading operations of banks in foreign currencies

The development of the world economy is characterized by a widening and deepening of interconnections between national states, which transfers the current international developments to the active participation of commercial banks

Trading operations of banks in foreign currencies are operations that are associated with the services of foreign economic activities through intermediary international transactions for exports and imports between subjects of government - residents and non-residents.

Commercial banks carry out international settlements on behalf of their clients in non-cash form using the following payment documents:

— bank transfer,
— documentary collection;
— a documentary letter of credit.

A bank transfer is an order from a commercial bank to its correspondent bank to pay the appropriate amount of money at the request and at the expense of the transferor to a foreign recipient.

Bank transfers are carried out in non-cash form through the intermediary of a payment order addressed by one bank to another.

Participants of this form of calculations are:

— importer (transferor);
— exporter (transfer recipient);
— the bank of the importer that accepted the order;
— the bank that credits the amount of the transfer to the exporter (Fig. 7.1).

Fig. 7.1. The mechanism for carrying out calculations using a bank transfer

Settlements using a bank transfer include the following stages:

1. Delivery of goods to the importer.
2. Bank payment order to transfer funds to the exporter's account.
3. Transfer of funds.
4. Notification of the exporter about crediting funds to his account.

Advantages of bank transfer: quick payment (from one to five banking days), low transaction cost.

Disadvantages of bank transfer: the presence of risks of non-delivery of goods when payment has already been made or non-receipt of money when delivery has already been made. To compensate for deficiencies, partial advance payment or full payment only after the delivery of the goods is often used in foreign economic agreements (contracts).

Documentary collection is a form of international settlements, according to which the seller (exporter) instructs his bank to receive payment from the buyer (importer) through his bank against the transfer of documents certifying the shipment of goods, performance of works or provision of services.

The following parties participate in documentary collection operations:

— the principal is an exporter, a seller who submits documents to his bank with a corresponding collection order and instructs him to receive a certain amount;
— the payer is an importer, a buyer to whom collection documents are provided;
— remitter bank - the principal's bank, to which the client instructs to receive a certain amount and which sends the documents, in accordance with the collection order, to the bank in the buyer's country;
— the collecting bank is the bank that provides the documents to the payer (the importer's bank or in the importer's country). He is engaged in collecting the payment amount or receiving acceptance of the bill, in accordance with the orders of the collection order received from the remitting bank (Fig. 7.2).

Fig. 7.2. The settlement mechanism using documentary collection

Settlements using documentary collection involve the following actions:

1. The importer enters into a contract with the exporter for the sale of goods on the terms of settlement by documentary collection.
2. The exporter transfers the goods to the buyer-importer for shipment.
3. The exporter sends a collection order and commercial documents to his bank.
4. The exporter's bank, which is instructed to carry out the collection operation, forwards the collection order and commercial documents to the collecting bank.
5. The collecting bank presents the collection order and documents to the importer to receive payment.
6. The importer pays the documents to the collecting bank.
7. The collecting bank transfers the payment to the remitting bank.
8. The remitting bank credits the transferred amount to the exporter's account.

A sample of documentary collection is provided in *Appendix 34.*

Settlements in the form of collection give certain advantages to the importer, whose main obligation is to make a payment under the commercial documents that give him the right to the goods, while there is

no need to divert funds from his turnover in advance.

At the same time, the direct debit form of payments has significant drawbacks. First, there is the exporter's risk, which is associated with the importer's possible refusal to pay in the event of a deterioration in the economic situation or the payer's financial condition. Therefore, the condition of cash-on-delivery payments is the exporter's trust in the importer's solvency and integrity. Secondly, there is a significant gap in time between the receipt of foreign exchange proceeds for collection and the shipment of goods, especially in the case of long-term transportation of goods.

Documentary letter of credit is an obligation of the bank, which opened the letter of credit at the order of the buyer (importer), to pay to the seller (exporter) the amount provided for in the terms of the letter of credit after the seller provides, within the specified period, documents that meet the terms of the letter of credit and confirm the shipment of goods, the provision of services or performance of works.

The main participants of the letter of credit transaction are:

— the importer is the buyer who applies to the bank with an order to open a letter of credit;
— the beneficiary is the seller, exporter, to whom the letter of credit is addressed and in whose favor the payment will be made;
— Issuing bank — the buyer's bank that opens a letter of credit;
— the advising bank is the seller’s bank, which is instructed to inform the beneficiary about the opening of a letter of credit in his name (Fig. 7.3).

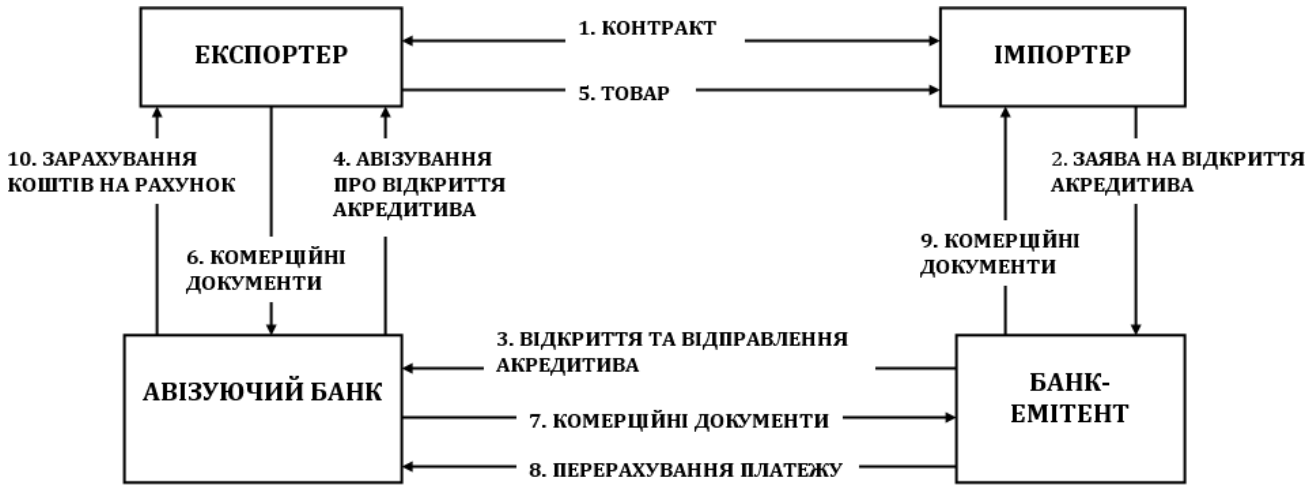


Fig. 7.3. Calculation mechanism using a documentary letter of credit

Settlements using a documentary letter of credit include the following stages:

1. The importer concludes a contract with the exporter for the sale of goods on the terms of settlement under a documentary letter of credit.
2. Submission of an application for opening a letter of credit.
3. Opening of the letter of credit by the issuing bank and forwarding of the letter of credit to the beneficiary through the advising bank.
4. Notification (notification) of the beneficiary about the opening of a letter of credit in his favor.
5. Shipment of goods for export.
6. Completion and submission by the beneficiary to the bank of a set of documents for receiving payment under a letter of credit.
7. Forwarding of documents by the advising bank to the issuing bank.
8. Payment against commercial documents (if all terms of the letter of credit are met).
9. Issue of paid documents by the issuing bank to the applicant of the letter of credit.
10. Enrollment of the beneficiary's export proceeds by the advising bank.

A sample documentary letter of credit is provided in *Appendix 35.*

The main disadvantage of the letter of credit form of international settlements is that it is the most complicated and expensive. Banks charge a high commission for performing letter of credit operations (verification

of documents, notification, payment, confirmation), which is about 3% of the payment amount. However, this form of settlement has its advantages — it enables the importer to monitor the execution of transactions by the exporter through banks, and for the exporter, it is the only form of settlement that guarantees payment.

7.5. Operations of commercial banks on the foreign exchange market

Operations of commercial banks on the foreign exchange market are the purchase and sale of foreign currency on the interbank foreign exchange market.

According to Ukrainian legislation, the central bank, authorized banks and authorized financial institutions (institutions that have the appropriate NBU license to carry out operations with currency values) are allowed to trade in foreign currency on foreign exchange markets. In Ukraine, market subjects have the right to buy and sell foreign currency exclusively on the national interbank foreign exchange market, and they can carry out foreign currency exchange operations both on the national foreign exchange market and on the international one. Subjects of the interbank foreign exchange market have the right to buy foreign currency for their own needs and on behalf of clients.

The interbank foreign exchange market is a set of relations in the field of foreign currency trade between market entities.

The purchase and sale of foreign currency on the domestic interbank foreign exchange market is carried out using the means of the Transaction Confirmation System of the National Bank of Ukraine.

The system for confirming transactions on the interbank foreign exchange market is a set of organizational and technical means that ensures confirmation of contracts for the purchase and sale of foreign currency and bank metals for hryvnias.

The activity of banks in foreign exchange markets, which consists in the management of assets and liabilities in foreign currency, is associated with currency risks that arise in connection with the use of different

currencies during banking operations. The currency position is an indicator of the bank's currency risk.

Currency position is the ratio of the bank's claims and liabilities in each foreign currency and in each bank metal. If the bank's requirements and obligations are equal, the currency position is considered closed, and if there is an inequality, it is considered open. An open currency position is short if the amount of liabilities in foreign currencies and bankable metals exceeds the amount of claims, and long if the amount of claims in foreign currencies and bankable metals exceeds the amount of liabilities.

Bank operations on the foreign exchange market are divided into cash and term foreign exchange operations.

Cash currency transactions are transactions that consist in the purchase and sale of currency values on the terms of their delivery no later than the second working day from the date of conclusion of the agreement at the exchange rate agreed upon at the time of its signing.

Depending on the conditions of conducting cash currency transactions, they are divided into the following:

— currency transaction on the terms of "tod" - currency transaction under a contract, the terms of which provide for the execution of this transaction on the day of the conclusion of the contract;

— currency transaction on the terms of "volume" - currency transaction under a contract, the terms of which provide for the execution of this transaction on the first working day after the day of conclusion of the contract;

— currency transaction on "spot" terms - currency transaction under a contract, the terms of which provide for the execution of this transaction on the second working day after the day of conclusion of the contract.

Among cash foreign exchange operations, "spot" operations make up more than 60% of the total volume of the interbank market, and therefore have the most important importance in the foreign exchange market. The main purpose of carrying out cash foreign exchange operations is to meet the needs of the bank's clients in foreign currency for servicing foreign trade settlements, the conversion of foreign currencies, as well as the

purchase and sale of currency with the aim of obtaining profit due to the difference in the exchange rates of these currencies.

Forward currency operations are operations that consist in the purchase and sale of currency values with a delay in their delivery for a period exceeding two working days.

Forward operations on currency markets appeared relatively recently (in the 1970s and 1980s) and are developing very quickly. This is primarily due to frequent and significant exchange rate fluctuations and associated significant currency risks. Future transactions provide an opportunity, on the one hand, to insure against currency risks, and on the other hand, to receive additional income thanks to speculative actions.

Two key features of forward currency operations can be singled out:

1. The time interval between the moment of conclusion and execution of the agreement, i.e. supply of currency.
2. The exchange rate for forward exchange transactions is fixed at the time of conclusion of the agreement, although it is executed after a certain period.

Depending on the implementation mechanism, term currency transactions are divided into the following:

— operations on "forward" terms;
— transactions on the terms of "swap";
— futures;
— optional.

At the same time, forward and swap operations are carried out on the interbank foreign exchange market, and operations with options and futures are carried out on currency exchanges.

A foreign exchange transaction on "forward" terms is a foreign exchange transaction under a forward contract, the terms of which provide for the execution of this transaction (with the delivery of currency under the contract) later than on the second business day after the day of concluding the contract. The forward currency contract is binding.

Forward transactions are agreements for the purchase and sale of currencies at a pre-agreed rate, concluded today, but the value date

(fulfillment of the contract) is postponed for the period specified in the agreement. Forward transactions are concluded for up to 1 year and have standard periods in 1, 2, 3, 6 months and 1 year with direct exchange dates. For example, if an agreement for 1 month is concluded on April 12, then the value date will be May 12 (provided that these dates do not fall on weekends and holidays).

Currency transactions on the terms of "swap" - currency transactions under a contract, the terms of which provide for the purchase (sale) of foreign currency with its reverse sale (purchase) on a certain date in the future with the fixation of the conditions of these transactions (rates, volumes, exchange dates) at the time of conclusion contract.

A currency swap is a combination of two operations with currencies on spot and forward terms, which are carried out simultaneously and calculated for the same currency. For example, under spot conditions, US dollars are sold immediately, and under forward conditions, dollars are purchased from the same counterparty with delivery after a certain period and at an agreed rate. The currency swap ensures the reverse movement of the currency flow, which makes it possible to effectively use it for speculative purposes, to hedge currency risks and manage the bank's currency position.

Futures transactions are term currency transactions regarding the purchase and sale of a certain amount of foreign currency at an agreed rate in an agreed period, which are executed by a standardized contract.

Futures operations are carried out only on exchanges and under their control. They are characterized by a high degree of standardization of futures contracts, a limited range of currencies that can be exchanged for each other, as well as high liquidity of such contracts and the reliability of concluded agreements.

A currency option is an agreement under which the buyer (the option holder) receives the right (but not the obligation) to buy or sell a certain amount of currency at a pre-fixed price on the day the option contract expires.

Depending on which right the buyer of the option wants to acquire

(buy or sell the currency), they are divided into "call" options or "put" options, respectively. *The "call" option* entitles its buyer to purchase the currency at a certain price, and *the "put" option* entitles its buyer to sell. In this operation, it is important to distinguish between the seller and the buyer (owner), since the buyer has the right to exercise the option. If, when the option expires, it will be profitable for the owner to exercise it, then he will require the option seller to buy or sell the corresponding amount of currency, and the latter is obliged to do so. If it is not profitable for the owner of the option to exercise it (for example, the current spot rate on the market is higher than the one stipulated in the option), then he will refuse to exercise the option, which he must notify the seller, and the latter must agree to this decision. However, when buying an option, the buyer (owner) pays the seller a premium (the value of the option), which is determined by agreement of the parties as a percentage of the transaction amount or the absolute amount. This premium is a guaranteed income for the seller of the option, which he receives regardless of whether the option is exercised

Table 7.1

General characteristics of fixed-term currency transactions

Comparative signs	**Forward**	**Futures**	**Option**	**Swap**
Trade	OTC	Birzhova	Birzhova	OTC
Contract amount	Any	Standard	Standard	Significantly
Term of validity of the contract	Any from 3 to 24 months	Standard	Standard	Any from 1 to 10 years
The possibility of early termination of the contract	Absent	There is	There is	Absent
Accessibility	Not publicly available	Free access	Free access	Not publicly available
Making calculations	On the date of expiry of the contract	Daily	Daily	Periodically on specific dates
Costs	Missing	Exchange, brokerage, commission payments	Option premium	Commission payments
Liquidity	low	High	High	low
Risk non-fulfillment of the order	There is	Missing	Missing	There is

A characteristic feature of term transactions is that they are drawn up by standardized documents that have legal force for a certain period of time and themselves become the object of purchase and sale. These documents are called derivatives.

A currency derivative is a standardized document certifying the right and/or obligation to buy, sell or exchange a foreign currency under specified conditions in the future. These include forwards, futures, options and swaps. In countries with a developed economy, operations using currency derivatives are widespread and are actively carried out by banks and other market participants both for the purpose of risk management and for obtaining profits of a speculative nature.

7.6. The concept of a new model of currency regulation in Ukraine

At the end of 2016, the National Bank of Ukraine presented the concept of a new model of currency regulation that complies with international practice — EU Directive 88/361/EEC on the free movement of capital and the Association Agreement between Ukraine and the European Union. Until now, the currency regulation system in Ukraine is based on outdated documents — the Decree of the CMU "On the System of Currency Regulation and Currency Control" No. 15-93 dated February 19, 1993, the Law of Ukraine "On the Procedure for Making Settlements in Foreign Currency" No. 185/94 - VR from 23.09.1994 and more than one hundred other normative legal acts and is characterized by excessive regulation, complexity and unjustified bureaucracy.

Effective implementation of the reform of the currency regulation system requires amendments to the current legislation, the main goals of which are as follows:

— transparency, simplification and comprehensibility of currency regulation;
— bringing restrictions and regulations to the sub-legal level, i.e. the possibility for the NBU to quickly apply the available tools in accordance with the state of the balance of payments and market conditions;
— a clear division of powers of central authorities in the legislation of Ukraine;
— elimination of inconsistencies (contradictions) in legislation;
— conformity of legislation with modern realities.

The main legislative act that will regulate the activity of the currency market in Ukraine will be the Law "On Currency", the draft of which was presented by the National Bank in August 2017.

This law establishes general legal principles in the field of currency operations and currency regulation and supervision, as well as defines the rights and obligations of subjects of currency operations and responsibility for their violation of currency regulation norms. The purpose of the law is to introduce the free conduct of currency transactions, legal support of a unified

state policy in the sphere of currency transactions on the territory of Ukraine. This approach will make currency regulation transparent, simple and understandable for the population, businesses and banks. The law is a framework document, so many relations will be regulated by the by-laws of the National Bank, which will enable the regulator to respond more quickly and effectively to changes in the balance of payments and market conditions.

The new approach to currency liberalization is based on the principle of gradualism. The gradual transition to the new currency regulation system is due to the fact that liberalization should not lead to disruption of macroeconomic and financial stability in Ukraine. Anti-crisis measures in the field of currency relations introduced in 2014-2015 were necessary in order to stabilize the situation and buy time for systemic reforms and structural changes in the economy, although today they are already having a negative impact on the business climate in the country. However, at the same time, it is important to consider what is simultaneous the removal of all administrative restrictions may lead to destabilization of the currency market, subsequent devaluation trends, and a possible spin-off of inflation. That is why the liberalization of the currency regulation system on the way to the target model will take place in several stages.

At the first stage, restrictions on export-import operations and direct foreign investments aimed at increasing the country's export potential will be abolished.

At the second stage, restrictions on portfolio investments and debt capital flows will be removed.

At the third stage, all obstacles to financial transactions of natural persons abroad will be abolished.

According to the presented concept of currency regulation, at the initial stage of the reform, the maximum term for the return of revenue under export-import contracts will be increased to 120 days, and later - its gradual cancellation. The mandatory sale of export proceeds will also be gradually abolished. Ukrainian companies will be allowed to make investments abroad, provided that these investments are really productive. First of all, this step is necessary to support Ukrainian exports.

The main condition for carrying out the measures of the first stage of currency liberalization is the achievement of a relatively stable macroeconomic situation, which means low inflation, fiscal discipline, economic growth, the absence of significant gaps in the balance of payments, effective monetary policy, stabilization of the financial system, and an effective program of cooperation with the International Monetary Fund.

The next stage of the reform of the currency regulation system, which concerns the liberalization of portfolio investments and credit operations of legal entities, envisages a stable macroeconomic situation (stable economic growth, low and stable inflation, a stable external position), a stable financial system, an effective system of macro- and micro-prudential regulation and supervision, risk management in the private sector, integration of the Ukrainian financial market into the European infrastructure of the capital market, protection of investors' rights, as well as the current program of cooperation with the IMF, etc.

At the last stage, which involves the liberalization of financial transactions of individuals, it is planned to gradually abolish the requirements for licensing investments abroad. To date, the requirements for carrying out some foreign exchange transactions are determined by law only under the condition of their licensing, so they can be canceled only in the presence of new currency legislation.

The liberalization of the currency regulation system was started with the relaxation of temporary anti-crisis restrictions in accordance with the Resolution of the Board of the NBU "On Amendments to Certain Regulatory Acts of the National Bank of Ukraine" No. 41 of May 25, 2017. In particular, the settlement period for export-import operations has been extended, foreign investors are allowed to buy foreign currency with funds received from the sale of corporate rights, reduction of authorized capital, exit from companies and transferring this currency abroad. At the same time, the volume of purchase/transfer of currency abroad is limited to the amount of 5 million. dollars per month The investor can carry out the corresponding transaction only through one authorized bank.

In addition, the National Bank allowed the early repayment of external

credits and loans, if the obligations of international financial organizations were provided to ensure the settlement of such transactions (with the use of guarantees, standby letters of credit through authorized banks and/or foreign banks). In addition, the NBU lifted restrictions on the opening of correspondent accounts in foreign currency of the 1st classifier group by an authorized bank in non-resident banks of countries whose national currency is included by the NBU in the 2nd or 3rd classifier group. This innovation will contribute to simplifying the conditions for Ukrainian banks to establish new correspondent relations with foreign banks.

At the same time, in order to prevent unproductive outflow of capital, the National Bank establishes requirements for disclosure of information about the ultimate beneficial owners of non-resident creditors. The requirements will apply in all cases where registration of a credit agreement or loan agreement concluded by a resident borrower who is not a bank is required. In addition, the procedure for monitoring compliance with the maximum interest rate under the contract in case of payment of commissions and fees in the period before obtaining the loan and/or during the first annual period of the contract has been improved. This procedure provides that in such cases the control will be carried out not on the date of the payment transaction, but on the end of the first annual period. This approach will provide an opportunity for resident borrowers to draw up the terms of credit agreements more freely.

For a complete transition to a new model of currency regulation in Ukraine, the place of strict currency regulation must be replaced by effective tax regulation. At the initiative of the National Bank of Ukraine, the Verkhovna Rada Committee on Tax and Customs Policy has prepared two draft laws for consideration in the parliament, which are to implement 5 key and most urgent of the 15 recommendations of the Organization for Economic Cooperation and Development (OECD) on countering the reduction of the tax base and the transfer of profits to border. These bills also provide for Ukraine to join the mechanism of automatic exchange of information with fiscal authorities of other countries.

Interesting to know

One of the innovations in the monetary sphere was the appearance of a special type of currency, which was called "cryptocurrency". Cryptocurrency is a type of digital currency, the emission and accounting of which is based on the use of cryptographic protection methods. The first currency of the new generation was bitcoin (from the English bit — a bit (a unit of measurement of the amount of information) and coin — a coin), which was created in 2009. Satoshi Nakamoto is considered the creator of Bitcoin. What is interesting is the fact that until now it is not known for certain who is hiding behind this pseudonym: one person or a group of anonymous people.

The appearance and growing popularity of Bitcoin contributed to the spread of blockchain technology, on which the cryptocurrency system is built and functions. Blockchain (from the English block — block, chain — chain) is a chain of transaction blocks in which each block contains a time stamp and a link to the previous one. New bitcoins enter circulation as a reward for those who perform computational operations that ensure the transfer of transactions, that is, the creation of new blocks in the chain. The calculations were called "mining" (from the English mining — extraction of minerals). Those who do calculations are called "miners". Their task is to record in one block all the transactions that have taken place in the network since the release of the previous block, and to encrypt it with a complex cryptographic signature. The next block is calculated based on the signature of the previous one. In this way, the blocks are connected to each other, forming a chain. Previously, users could “mine” cryptocurrency using personal computers, using available processor power. Now, in order for the process to be less energy-consuming, miners are united in pools, which can number hundreds of people. The reward in this case is shared equally. There are also mining farms — complexes with computers equipped with powerful processors, video cards and cooling systems.

It is known that approximately 3,600 new bitcoins are created every day. However, cryptocurrency has a limited supply. The algorithm is created in such a way that a maximum of 21 million can exist in the system. bitcoins The emission schedule is programmed and known in advance. It is estimated that the last Bitcoin will be mined in 2034. Once the last coins are generated, their amount will not change. However, such a relatively small amount is quite enough for everyday calculations, since 1 bitcoin is divided by 100 thousand. parts called "satoshi" after the creator of the system. In addition, since 2012 to December 2017 the bitcoin rate increased 2,000 times — from $10 to $20,000. USA.

The legal status of cryptocurrencies in the world, including in Ukraine, is still uncertain, but in a number of countries transactions with bitcoins are officially allowed. For example, Switzerland is one of the most favorable countries for the implementation of bitcoin startups, and transactions with bitcoins are classified as payment transactions with foreign currency.

TOPIC 8. ACTIVITIES OF COMMERCIAL BANKS ON THE SECURITIES MARKET

8.1. Characteristics of the stock market and securities

Banking activity on the securities market is multifaceted, since commercial banks are not only intermediaries that connect the interests and funds of issuers and investors, but also actively use financial instruments to form their own resource base, placing funds in highly liquid and profitable securities . Effective implementation of transactions with securities contributes to the diversification of banking activities and strengthening of competition in the financial and credit sphere. Securities are an important tool for managing liquidity, profitability and risk of banking operations.

The functioning of the stock market in Ukraine is regulated by the Law of Ukraine

"On securities and the stock market" No. 3480-IV dated February 23, 2006.

The securities market is a set of stock market participants and legal relations between them regarding placement, circulation and accounting of securities and derivatives.

By its structure, the securities market is multi-level. To understand the essence and mechanism of its functioning, it is necessary to distinguish:

— the primary securities market;

— the secondary securities market:

- stock market;
- OTC market.

In the primary market, the emission and initial placement of securities is carried out.

In the secondary market, the purchase and sale (circulation) of previously issued securities takes place.

The stock market is a regulated (organizationally formalized) stock market that operates permanently on the basis of a corresponding license issued by the National Commission for Securities and the Stock Market in

accordance with the procedure established by it, and ensures regular trading of securities and other financial instruments according to established rules, as well as organizes the centralized conclusion and execution of contracts regarding securities and other financial instruments.

The over-the-counter market covers transactions with securities that are concluded and carried out outside the stock exchange.

According to the current legislation, the following subjects are included in the securities market participants:

— issuers or persons who issued non-issuable securities;
— investors in securities, institutional investors;
— professional market participants, associations of professional stock market participants, including self-regulatory organizations of professional stock market participants.

Issuers on the securities market can be legal entities, including the Individual Deposit Guarantee Fund, the Autonomous Republic of Crimea or the city council, as well as the state in the form of state authorities authorized by it or an international financial organization, which place emission securities on their behalf and assume obligations for them to their owners.

Investors in securities are individuals and legal entities, residents and non-residents, who have acquired ownership rights to securities for the purpose of receiving income from invested funds and/or acquiring the corresponding rights granted to the owner of securities in accordance with the law.

Institutional investors are joint investment institutes (equity and corporate investment funds), investment funds, mutual funds of investment companies, non-state pension funds, bank management funds, insurance companies, other financial institutions that carry out operations with financial assets in the interests of third parties at their own expense or at the expense of these persons, and in cases provided for by law, also at the expense of financial assets raised from other persons for the purpose of obtaining profit or preserving real value of financial assets. Peculiarities of investing by institutional investors are determined by law.

Professional market participants are legal entities formed in the organizational and legal form of joint-stock companies or limited liability companies, which, on the basis of a license issued by the National Securities and Stock Market Commission, conduct professional activities on the stock market, the types of which are defined by the laws of Ukraine.

The association of professional stock market participants is a non-profit association of professional stock market participants who carry out professional activities on the securities market, namely: securities trading, depository activities and asset management of institutional investors.

The self-regulatory organization of professional participants of the stock market is a non-profit association of participants of the stock market who conduct professional activity on the stock market in securities trading, asset management of institutional investors, depository activities, except for depositories, formed in accordance with the criteria and requirements established by the National Commission for securities and the stock market.

Objects on the stock market are securities.

A security is a document of a prescribed form with appropriate details, which certifies a monetary or other property right, defines the relationship between the issuer of the security and the person who has rights to the security, and provides for the fulfillment of obligations under such a security, as well as the possibility of transferring rights on securities.

Securities can be classified according to various characteristics (Fig. 8.1).

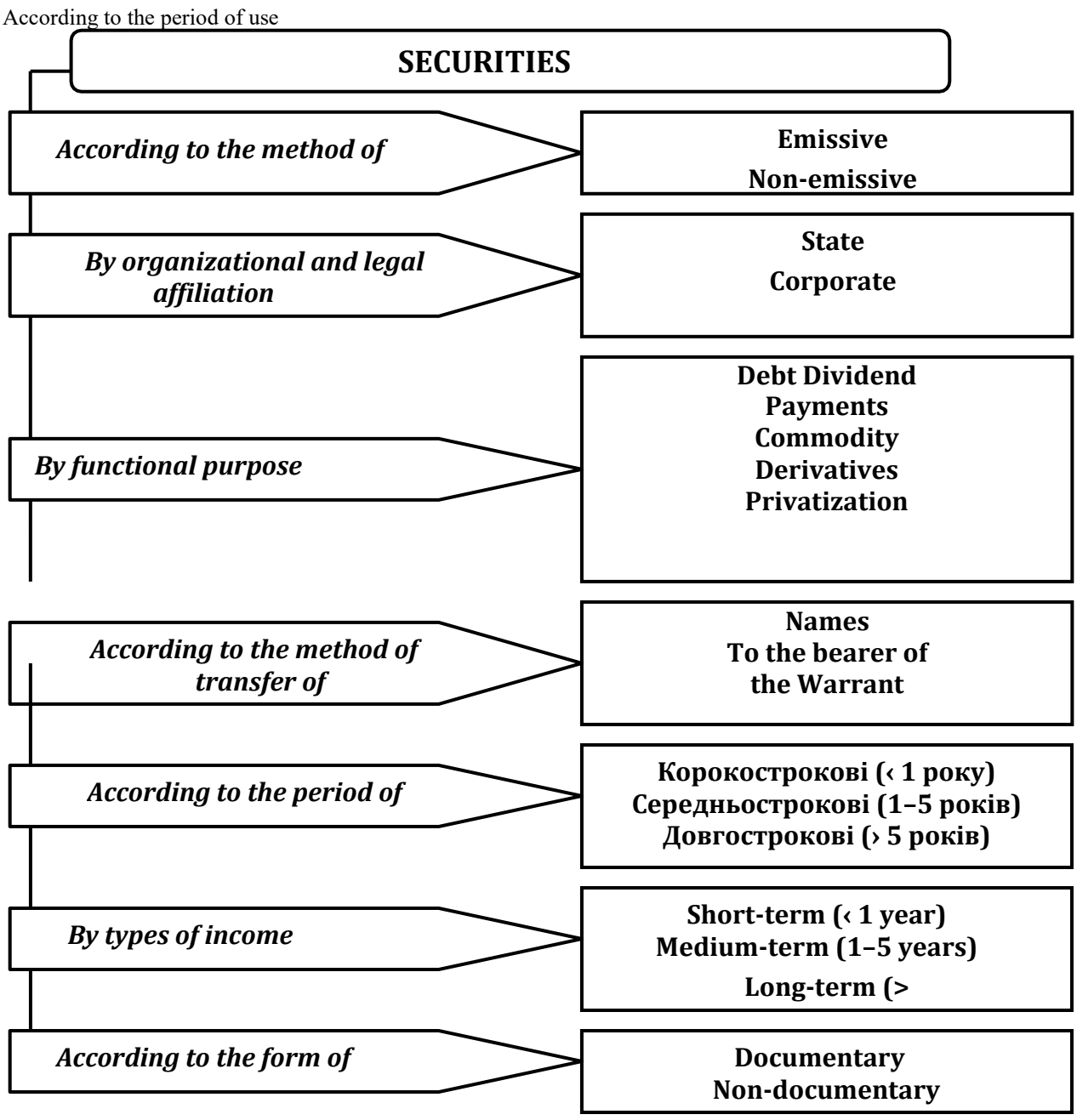


Fig. 8.1. Classification of securities

According to the economic nature of financial assets, securities are divided into the following:

— share securities;

— debt securities;

— mortgage securities;

— privatization securities;
— derivative securities;
— commercial securities.

Equity securities are securities that certify their owner's participation in the authorized capital (except for investment certificates and certificates of the Real Estate Operations Fund (FON), give the owner the right to participation in the management of the issuer (except for investment certificates and FON certificates) and receiving part of the profit, in particular in the form of dividends, and part of the property in the event of the issuer's liquidation (except for FON certificates).

Equity securities include shares, investment certificates, FON certificates, corporate investment fund shares, etc.

Debt securities are securities evidencing a loan relationship and implying the obligation of the issuer or the person who issued the non-issued security to pay funds within a specified period, transfer goods or provide services in accordance with the obligation.

Debt securities include corporate bonds, government bonds of Ukraine, local loan bonds, treasury bonds of Ukraine, savings (deposit) certificates, promissory notes, bonds of international financial organizations, bonds of the Individual Deposit Guarantee Fund.

Mortgage securities are securities, the issue of which is secured by mortgage coverage (mortgage pool) and which certify the right of the owners to receive from the issuer the funds due to them. Mortgage securities include mortgage bonds and mortgage certificates.

Privatization securities are securities that certify the right of the owner to receive a share of the property of state-owned enterprises, the state housing fund, and the land fund free of charge in the process of privatization.

Derivative securities are securities, the mechanism of issue and circulation of which is associated with the right to purchase or sell securities, other financial and/or commodity resources within the term established by the contract.

Commodity securities are securities that give their holder the right to

dispose of the property specified in these documents.

According to the form of existence, securities are divided into non-documentary securities and documentary securities, and according to the form of issue, into bearer, registered or warrant.

The following securities have the largest circulation on the securities market of Ukraine: shares, bonds and treasury bills.

A share is a registered security that certifies the property rights of its owner (shareholder) relating to a joint-stock company, including the right to receive part of the joint-stock company's profit in the form of dividends and the right to receive part of the joint-stock company's property in the event of its liquidation, the right to manage the joint-stock company society

Shares exist exclusively in undocumented form. A joint-stock company issues two types of shares — common and preferred. Ordinary shares give their owners the right to receive part of the profit of the joint-stock company in the form of dividends, to participate in the management of the joint-stock company, to receive part of the property of the joint-stock company in the event of its liquidation. Preference shares guarantee the owners fixed dividends regardless of the results of the bank's activities, give a priority right, compared to the owners of ordinary shares, to participate in the distribution of the bank's property in the event of its liquidation, but do not give the owner the right to participate in management.

A bond is a security that certifies the deposit of money by its owner, defines the loan relationship between the bond owner and the issuer, confirms the issuer's obligation to return the nominal value to the bond owner within the stipulated period and to pay the bond income.

Bonds can exist exclusively in undocumented form. Issuers can place interest, target and discount bonds. Interest-bearing bonds are bonds that are expected to pay interest income. Target bonds are bonds, the fulfillment of obligations under which is carried out by transferring goods and/or providing services, as well as by paying funds to the owner of such bonds. Discount bonds are bonds issued at a price lower than their face

value. The difference between the purchase price and the face value of the bond, which is paid to the bondholder at maturity, is the yield (discount) on the bond.

A Treasury bond of Ukraine is a government security that is placed exclusively among natural persons on a voluntary basis, certifies the fact that the State Budget of Ukraine is indebted to the owner of the Treasury bond of Ukraine, gives the owner the right to receive monetary income and is repaid in accordance with the terms of placement of Treasury bonds "Yazan of Ukraine".

Treasury obligations of Ukraine can be:

— long-term — more than five years;
— medium-term — from one to five years;
— short-term - up to one year.

The issuer of treasury bonds of Ukraine is the state represented by the Ministry of Finance of Ukraine on behalf of the Cabinet of Ministers of Ukraine. Treasury obligations of Ukraine can be registered or bearer and are placed in documentary or non-documentary form. In case of placement of treasury obligations in documentary form, a certificate is issued.

8.2. Goals and functions of commercial banks in the securities market

Commercial banks are active participants in all segments of the stock market. They work with various types of securities and perform the functions of both main participants (issuers, investors, traders) and infrastructure (registrars, custodians, settlement and information institutions).

The following are among the main objectives of banks' activities on the securities market:

— attraction of additional monetary resources for traditional credit and settlement activities based on the issue of securities;
— receiving income from own investments in securities at the expense of paid bank interest and dividends, as well as an increase in the exchange rate value of securities;

— receiving income from providing services to clients for transactions with securities
— expanding the sphere of influence of banks and attracting new clientele through participation in the capital of enterprises and organizations (through participation in their portfolios of securities);
— access to scarce resources through those securities that provide such a right and which banks become the owner of;
— maintenance of the necessary reserve of liquidity.

In the securities market, banks perform the following functions:

— ensuring the combination of interests of depositors and investors. Banks are a mandatory element of any financial transaction scheme in the conditions of a centralized securities market. They are the ones who accumulate depositors' funds and ensure the channeling of saved capital into investments;
— formation of own secondary reserve. Bank investments include securities with a maturity of more than one year. As is known, the bank's solvency at the level of its primary reserve is determined by cash assets, but there is also the so-called secondary reserve - these are promissory notes, bank acceptances, certificates of deposit, as well as government and corporate securities;
— management of clients' securities portfolios within the framework of trust activities. The bank carries out securities management activities as a professional market participant on its own behalf for a fee in relation to the trust management of securities owned by another person and transferred to him in possession. The subject of management can be not only securities, but also funds intended for investment in securities, as well as funds and securities obtained in the process of securities management;
— custodian functions and active management of securities, which should include: analysis of the state of the securities portfolio; providing recommendations and developing capital investment proposals; storage of stock values; organization of purchase and sale and receipt of income from securities.

According to the Law of Ukraine "On Banks and Banking Activity" No. 2121-III dated 07.12. 2000, banks, subject to obtaining the written permission of the NBU, have the right to perform the following **operations with securities:**

— issue of own securities;
— organization of purchase and sale of securities on behalf of clients;
— transactions on the securities market on one's own behalf;
— investing in statutory funds and shares of other legal entities;
— operations on behalf of clients or on their own behalf with money market instruments and with financial futures and options;
— trust management of securities under contracts with legal entities and individuals;
— depository activity and activity of keeping registers of owners of registered securities;
— provision of consulting and information services regarding banking operations.

In accordance with the goals and functions, commercial banks carry out the following types of activities on the securities market: emission, investment and intermediary (Fig. 8.2).

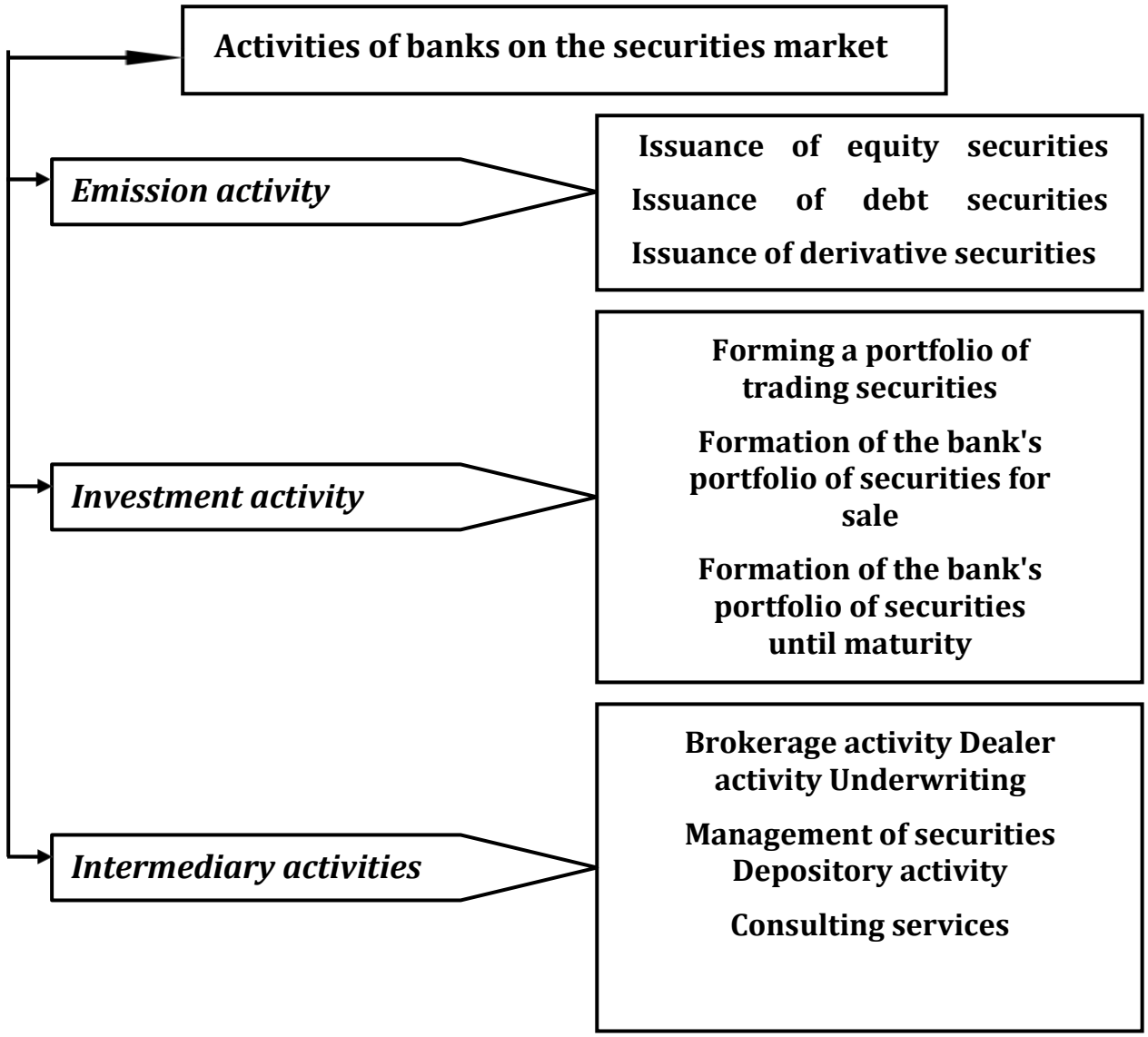


Fig. 8.2. Types of activities of banks on the securities market

In accordance with the Regulation on the organization of the activities of banks and their separate divisions when they carry out professional activities on the stock market, approved by the decision of the National Commission for Securities and the Stock Market No. 1708 dated 12.16.2014 regarding professional activities on the stock market that can be carried out by banks, belong to:

— securities trading activity (dealer activity, brokerage activity, securities management activity, underwriting);

— depository activity (depository activity of a depository institution, activity of keeping assets of joint investment institutes;
— activities related to the storage of pension fund assets).

The bank (its separate division) must organize its professional activities on the stock market as part of specialized structural divisions, which are organizationally separated from other divisions of the bank (its separate divisions) that carry out other types of activities.

8.3. Issue activity of banks on the securities market

The activities of banks as issuers include operations on the emission (issuance) of their own securities and their placement, as well as operations on the realization of investors' rights evidenced by the issued securities.

Banks use the issue of securities both for the purpose of raising funds for the formation and replenishment of authorized capital, that is, the formation of equity capital, and for the purpose of temporarily attracting resources for conducting active operations, that is, the formation of bank liabilities.

The main component of the policy of a commercial bank regarding the issue of securities is the formulation of the goals of the issue, the main ones of which are:

— initial issue of shares for the creation and registration of a bank;
— increase in authorized capital in order to fulfill the requirements of the central bank (shares);
— diversification of sources of mobilization of banking resources (certificates of deposit, bonds);
— liquidity management;
— attracting funds to expand the range of active operations;
— access to international capital markets (Eurobonds).

Depending on the type of securities issued into circulation, emission operations of banks on the securities market can be systematized as follows:

— operations on the issue of equity (founding) securities (shares);

— debt issuance operations (bonds, deposit (savings) certificates);
— operations on the issue of derivative securities.

Transactions on the issue of share securities. The decision on the initial issue of shares is made by the general meeting of the bank's shareholders and is drawn up in a protocol. The issue prospectus is developed by the bank's board, signed by the chairman of the board (for the initial issue, the prospectus is prepared by the bank's participants). The prospectus contains all the data about the bank, its financial condition, general data about the conditions for issuing shares, their placement and payment of income.

Placement of shares can be carried out by direct subscription (public open placement) by legal entities and individuals of shares or through the stock exchange. Shares are placed at the exchange value, which is defined as the sum of the nominal value and the exchange rate premium with the conclusion of the purchase and sale agreement between the bank and the client-shareholder. Funds for purchased shares are paid in cash to the bank's cash register or transferred to its correspondent account. A personal bank account is opened for each shareholder, and after the funds for the shares are credited to the bank account, the shareholder is issued a certificate of the number and nominal value of the shares.

In accordance with the requirements of the current legislation of Ukraine, additional issuance of shares is allowed only on the condition that all previously issued shares are fully paid. Shares can be issued both ordinary and preferred. Preferred shares may be issued for an amount not exceeding 10% of the bank's authorized capital.

Debt issue operations. To borrow resources for a long period of time, banks resort to issuing bonds. Bonds may be issued for an amount not exceeding 25% of the authorized capital, and only after full payment of all previously issued shares. The decision to issue bonds is made by the board of the issuing bank and is formalized in a protocol that contains information about the bank, as well as the conditions for issuing and redeeming bonds and paying income from them. The procedure for issuing and registering bonds is similar to the procedure for issuing shares.

Replenishing the resource base of a banking institution by issuing bonds has many advantages, namely:

— unlike shares, does not entitle their owners to participate in the bank's capital;
— unlike a loan, it does not require collateral;
— testifies to the transparency of the activity of the issuing bank;
— forms a positive image of the bank by creating an information drive (the issue itself and its results);
— creates a credit history on the stock market.

The main disadvantages of bond issuance by commercial banks are as follows:

— in order to successfully place a bond loan, the issuer must have an appropriate rating that provides it with access to the financial market;
— the issue of bonds is associated with significant costs caused by the preparation, issuance, servicing and repayment of the bond loan;
— since bondholders are creditors of the issuer of this type of securities, their interests must be protected, first of all, by the issuer's property base, at the expense of which creditors' claims can be satisfied.

Another type of bank debt securities is a certificate of deposit.

A deposit (savings) certificate is a type of security that certifies the amount of the deposit made to the bank and the right of the depositor (certificate holder) to receive the amount of the deposit and the interest stipulated in the certificate after the expiration of the established term. The main difference between a certificate of deposit and a savings certificate is who they are for. Banks issue low-denomination savings certificates aimed at individual depositors (investors), that is, they are "retail" certificates. Certificates of deposit with a large denomination are aimed at institutional depositors (investors), large businesses, that is, they are "wholesale" certificates. Thanks to the issuance of deposit certificates, banks have the opportunity to flexibly manage the process of attracting funds, since they independently determine:

— denomination of certificates, volume and order of their issuance;
— the term of the certificates, that is, the duration of attracting funds, which

allows banks to reduce the risk of unbalanced liquidity and plan active operations;

— cost of attracting funds, i.e. discount rate or interest rate (fixed or floating).

According to the legislation of Ukraine and regulations of the NBU, the right to issue savings (deposit) certificates is granted only to banks. The conditions and procedure for their issuance and circulation are regulated by the internal regulations of banks. Certificates can be registered or bearer; nominated both in national currency and in foreign currency; can be issued one-time or in series, on demand or for a term.

The denomination, terms of circulation of certificates, deposit interest rates are not regulated by law and are determined by banks. Registered certificates are not subject to circulation, and their sale (alienation) to other persons is invalid. The certificate must also contain the conditions of issuance, payment and circulation of the certificate. The bank must provide for the possibility of early submission of a term certificate for payment. In this case, the bank pays the owner of the certificate its amount and interest at a reduced rate, which is determined when the certificate is issued.

Transactions on the issue of derivative securities. Banks on the securities market have the right to issue derivative securities (derivatives) — options, futures, forwards, swaps. They are important financial instruments for speculative play on commodity prices, currency and securities rates, interest rates, and risk hedging. Derivatives trading in Ukraine was established in 1995. However, it is still at the initial stage of development: the volumes of derivatives trade are insignificant, and the range of these instruments is extremely limited.

8.4. Investment activity of banks on the securities market

The investment activity of banks on the stock market involves the implementation of transactions on the purchase and sale of securities for the purpose of forming an investment portfolio, attracting loans against the security of purchased securities, and participating in the management of the issuing joint-stock company.

The bank as an investor is the main subject of investment activity, which invests its own, borrowed and/or borrowed funds in the form of investments. Modern financial investing is based on the fact that most investors choose more than one financial instrument for investing, that is, they form a certain combination of them. Targeted selection of such instruments is the process of forming a portfolio of securities, which is the most important area of work of banks on the stock market. The purpose of forming the bank's securities portfolio is to expand the income base, maintain liquidity, expand the client base, and participate in the management and income of other economic entities.

The bank's securities portfolio is a set of certain types of securities that are held by the bank and are recorded on its account depending on the purpose of acquisition, characteristics and terms of storage.

Portfolio management consists in maintaining a balance between liquidity and profitability. *The main principles of the formation of a bank portfolio of securities include:*

— return on investments;
— security of investments;
— investment growth;
— the principle of ensuring the implementation of the investment policy;
— ensuring compliance of the portfolio with investment resources;
— optimization of the ratio of profitability and risk;
— optimization of the ratio of profitability and liquidity;
— ensuring portfolio manageability.

Return on investments means obtaining the maximum possible dividends on shares and income on bonds and other debt obligations.

Commercial banks, like other investors, constantly face the problem of profitability and security. The optimal ratio of profitability and security is achieved by periodic careful checking and selection of securities for the bank portfolio.

The safety of investments means their invulnerability to shocks on the stock market and stability in receiving income. Security, as a rule, comes at the expense of profitability and the expansion of deposits, since the safest are investments in government loan bonds, which are ensured by the economic weight and solvency of the state.

Liquidity of investments is a quick and cost-effective conversion of securities from the bank portfolio into cash or non-cash funds for their owners. Liquidity does not necessarily have to be related to other banking investment objectives. It means that when a certain price is set for a certain security, there will always be a buyer who will be willing and able to purchase this security.

The growth of investments is typical for stock owners. Capital increase is achieved mainly through ordinary shares of joint-stock companies operating in the leading sectors of the economy. Such shares, as a rule, bring low dividends, but provide rapid capital appreciation.

It is worth noting that no type of securities meets all investment goals at the same time, so the investor must make a compromise when choosing the goals of his investments. Depending on the set of investment goals, each commercial bank determines its financial investment strategy. The choice of strategy is determined by the investment properties of fund instruments, the level of profitability of investment operations, the time of investment and the level of risk. If the securities are reliable, then their yield is low, because banks, preferring reliability, buy them at a higher price compared to the face value, which, in turn, reduces the yield. If the forecasts indicate capital growth, then the demand for such securities increases, their prices therefore increase, and the yield decreases accordingly.

The concept of forming the bank's investment portfolio reflects the following main stages:

1. Determination of the purpose of the investment policy, necessity and expediency of portfolio investments.
2. Determination of terms of purchase and storage of securities in the portfolio. At this stage, the investor determines his investment horizon, that is, the time period over which his strategy is spread and against which the results of the investment process are evaluated.
3. Determination of types of securities from which it is planned to form a portfolio and criteria for selecting financial instruments. At this stage, the investor analyzes information about the stock market, evaluates the economic situation and forecasts for the future. The purpose of such an investment analysis — in the preliminary selection of investment assets that the bank considers appropriate.
4. Determination of the structure of the investment portfolio and investment limits used for effective investments in financial market segments.
5. Determination of the classification and principles of creating an investment portfolio (aggressive, moderate, conservative). An assessment of the ratio of dividend and exchange rate returns of the securities that make up the portfolio is carried out.
6. Diversification of the portfolio of securities. Definition of principles of diversification and quantitative characteristics.
7. Formation of risk insurance mechanisms. Peculiarities of working with derivative securities.
8. Investment portfolio management methods.
9. Assessment of profitability, risk and liquidity of the investment portfolio being designed.
10. Optimizing the structure of the investment portfolio according to the established criteria of profitability, risk and liquidity.

When forming an investment portfolio, the bank must clearly formulate its management strategy and determine the future type of portfolio.

According to the legislation of Ukraine, the following types of bank securities portfolios are distinguished:

— a portfolio of trading securities;

— securities in the bank's portfolio for sale;
— securities in the bank's portfolio until maturity;
— investments in associated and subsidiary companies.

The trading portfolio of securities is the securities purchased by the bank for resale and primarily for the purpose of profiting from short-term fluctuations in their price. Only highly liquid securities can be included in the securities trading portfolio.

Securities in the portfolio for sale are securities that the bank is ready to sell in connection with changes in market interest rates, liquidity needs, availability of alternative investments, as well as debt securities and shares, for which it is impossible to reliably determine the fair value, debt securities with a fixed maturity date that the bank does not intend to hold until their maturity date. Such securities are risky, because in the absence of an active stock market in Ukraine, it is quite difficult to determine their fair (market) value.

Maturity portfolio securities are debt securities that the bank has the intention and ability to hold until maturity. Such securities are accounted for at amortized cost and are subject to monthly review for impairment and, accordingly, provision.

Investments in associates and subsidiaries are equity securities of issuers that meet the definition of an associate or subsidiary of a bank. Associated companies are a group of economic entities (legal entities) linked by economic and/or organizational dependence in the form of participation in the statutory fund and/or management. The NBU uses this term for companies in which the investor bank owns 20% or more of the capital. A subsidiary is an enterprise whose majority stake is owned by another (controlling) enterprise. Investing in associates and subsidiaries is very risky and can lead to significant problems, since in these cases the assessment of the solvency of the counterparty is not always carried out objectively. In addition, if the subsidiary of the bank finds itself in a state of insolvency and is declared bankrupt, then the subsidiary liability to the creditors of the subsidiary will be borne by the bank.

In accordance with the goals of the bank's investment activity, which

are to preserve funds, ensure profitability and liquidity of investments, the investment policy should provide for the following main aspects:

— determination of priority areas of investment taking into account expected income and risk and selection of appropriate investment projects;
— determination of the total volume of long-term investments for all bank assets;
— determining the maximum amount of a loan or other type of investment per borrower;
— determination of the mechanism of realization (implementation) of investments, including the possibilities of combining funds and the system of participation in financial and industrial groups;
— determination of methods of control over the implementation of investments and sanctions in respect of them.

The investment activity of a commercial bank in the securities market ensures the improvement of the financial condition of the balance sheet in connection with the increase in the profitability of operations and the maintenance of liquidity indicators at the required level. This type of activity of commercial banks is closely related to their credit activities. Securities can be used by banks as collateral for obtaining a loan on the interbank market, for refinancing through the central bank, as well as for conducting repo operations.

8.5. Intermediary activity of banks on the stock market

Intermediary operations of banks, which they carry out in the role of infrastructural participants of the securities market, are classified as professional activities on the stock market.

Intermediary activity of banks is a complex of operations carried out by the bank to meet the needs of its customers in terms of buying or selling securities on behalf of customers.

The bank's mediation operations are based on the following principles:

— profitability, that is, the bank must receive income for each transaction;

— universality — the maximum possible list of operations performed by the bank and orientation to a wide range of clients.
— weighting of risks, i.e. the application of reasonable caution when conducting operations, taking into account all positive and negative factors when making decisions;
— a compromise of interests. When conducting operations, the bank proceeds from the need to ensure an optimal compromise between the interests of the bank, its depositors, shareholders, and customers.

The activity of banks as professional participants in the securities market involves the following types of activities:

— brokerage activity;
— dealer activity;
— underwriting;
— management of securities;
— depository activity.

All types of professional activity on the securities market in Ukraine are carried out on the basis of a special permit - a license issued by the National Commission for Securities and the Stock Market (NCSCFR).

Brokerage is the conclusion by a securities trader of civil law contracts regarding securities and other financial instruments on his own behalf, on behalf of and at the expense of another person.

Brokerage activity consists in providing services to clients in the purchase and sale of securities at the expense of clients on the basis of commission or commission agreements. Brokerage activities are carried out by banks both on the exchange and over-the-counter markets. Brokerage operations of banks can be carried out on the basis of a commission agreement or an assignment agreement. In the first case, the bank acts on its own behalf, in the second - on behalf of the client.

The parties can conclude both contracts for the execution of a one-time order and contracts for service within a specified period. The contract for the execution of a one-time order provides for the execution of operations of a certain type with specific securities. The service contract provides that the bank fulfills the client's order within a specified period.

Dealer activity is the conclusion by a securities trader of civil law contracts regarding securities and other financial instruments on his own behalf and at his own expense for the purpose of resale.

The source of income for the bank-dealer is the difference between the sale price of a certain security and its purchase price. A dealer bank must be prepared for the fact that clients may approach it with an offer to buy or sell the securities it trades. At the same time, the bank does not have the right to refuse if the customers agree with the prices set by the dealer bank. As a rule, each dealer specializes in the purchase and sale of securities of a certain type, so the dealer must have a sufficient number of the necessary securities and funds for their purchase.

Underwriting is the conclusion by a securities trader of contracts for the alienation of securities and/or the performance of actions or the provision of services related to such alienation on behalf of and at the expense of the issuer on the basis of the relevant agreement with the issuer.

Underwriting activity is the bank's activity of providing services to various issuers, which consists in issuing securities and their initial placement on behalf of, on behalf of, and at the expense of, the issuer. Underwriting activity also involves the implementation of the following measures by banking institutions:

— economic justification of securities issuance (calculation of profitability index, payback period, internal rate of return, break-even level);
— market analysis regarding the demand for the main types of securities;
— preparation and submission of documents for registration with the NKCPFR;
— ensuring the liquidity of stock instruments.

Payment for the services of banks-underwriters is carried out by the issuer, as a rule, at the expense of the difference between the issue price and the nominal value of the securities. In the event of a public placement of securities, the underwriter may assume obligations by agreement with the issuer to guarantee the sale of all or part of the issuer's securities to be placed. If the issue of securities is not publicly placed in full, the underwriter may make a full or partial repurchase of unrealized securities

at a fixed price specified in the contract on the basis of commercial representation in accordance with the assumed obligations.

Securities management is the activity of a bank (manager) on its own behalf for a fee during a specified period based on a contract on the management of securities and funds transferred to it by the client (the management founder) and funds intended for investment in securities in the interests of the founder.

According to the contract, one party (the management installer) transfers the management objects to the other party (the manager) for a certain period of time. *The founder of management* is the owner who transfers management objects to the manager. *The manager* is a bank, a securities trader, which has received a license to carry out professional activities in the field of securities trading. Money for securities management activities of the client are credited to a separate current account at the bank. The managing bank reports to clients on the use of their funds.

Depository activity is an activity related to the provision of securities storage and accounting services, maintenance of processes of acquisition, termination and transfer of rights to securities.

The depository activity of the custodian of securities involves the performance by banks of the functions of safekeeping of securities and accounting of ownership rights to securities. Banks in possession of a license of the NCCPFR to carry out the depository activity of a custodian of securities have the right to be custodians, to carry out transactions with deposited securities on behalf of the owner, and to carry out other depository activities related to the circulation of securities, with the exception of clearing and settlement of securities agreements.

The object of depository activities of the custodian of securities can be securities issued in both documentary and non-documentary form. Servicing of operations with securities is carried out by the custodian bank exclusively at the depositor's order.

Banks as depository institutions perform administrative, accounting and information operations.

Administrative operations — depository operations for opening and closing securities accounts.

Accounting operations — depository operations for maintaining accounts in securities and displaying transactions with securities, the consequence of which is a change in the number of securities in the accounts.

Information operations — depository operations, the consequence of which is the issuance of securities account statements and other information regarding depositors' (clients') transactions with securities accounts.

In addition to basic services in the securities market, banks can provide consulting services, performing the function of an investment advisor. Given the specificity of their activity, banks are entities that generate a significant amount of economic and other information that is not available to other companies and individuals. This privileged status makes banking institutions one of the main sellers of information and requires the development of mechanisms for bringing it to consumers.

In Ukraine, banks can provide consulting on operations related to securities for both issuers and investors. For issuers, banks provide a full range of consultations on market analysis and prospects for the issuer to attract funds from the issue of securities. For investors, banking institutions can:

— analysis of the stock market and forecasting of its dynamics;
— valuation of securities;
— determination and quantitative measurement of probable investment risks;
— analysis of the investor's risk appetite;
— formulation of an investment strategy based on defined goals and attitude to risk;
— assessment of expected efficiency of investments.

Interesting to know

One of the biggest national crises in the securities market was the banking crisis in Israel in 1983. High inflation in the early 1980s, combined with an imperfect regulatory framework, forced Israeli banks to constantly increase the amount of their own funds in order to maintain the necessary capitalization ratios. It was the manipulation of the shares of commercial banks of Israel in 1981-1983. became a prerequisite for the crisis in the state. The management of the country's largest banking institutions (Bank Hapoalim, Bank Leumi, Bank Igud, Bank HaMizrachi, Bank Clali) began to actively recommend clients to invest in the shares of their banks, creating hype around them and thus receiving additional capital from investors. Raised funds were directed mainly to banks' repurchase of their own shares, which increased the artificial demand for them. In addition, Israeli banks began to provide loans to customers so that they would continue to buy shares with borrowed funds. In this way, the "financial bubble" on the banking market grew. Banks opened branches, hired staff, and paid high salaries at the expense of the capital raised. In general, during that period, 90% of shares listed on the Israeli stock market belonged to banking institutions. Excess capital in banks led to the fact that loans began to be granted without sufficient verification of the borrower, thereby reducing the quality of the loan portfolio.

For a certain period, the Israeli government did not pay attention to such manipulations, as the banks invested part of the funds received in government bonds, which financed the annual budget deficit in the total amount of 6-8% of GDP. However, the real growth of the banking sector became less and less, which subsequently led to a decrease in the population's interest in bank securities and to an increase in the attractiveness of the dollar as an investment tool. This provoked a sharp collapse in the prices of bank shares on the Israeli stock exchanges and the devaluation of the national currency, the shekel. On October 6, 1983, the Tel Aviv Stock Exchange was closed for 18 days after several weeks of active sales of the shares of seven banks representing practically the entire banking sector in Israel. The result of the crisis was the forced nationalization of many banking institutions by the country's government. Since then, the state has remained the shareholder of most commercial banks in Israel.

TOPIC 9. NON-TRADITIONAL BANKING OPERATIONS AND SERVICES

Intensification of competition in the financial market forces commercial banks to expand the range of their operations, resorting to non-traditional services for banks. The emergence and further development of non-traditional banking operations and services is caused by a decrease in the level of profitability of banking operations; the need to increase the bank's liquidity and solvency; reducing the risks associated with the implementation of traditional operations; the need to attract new clients in order to expand and improve the structure of the banks' resource base.

Non-traditional banking operations and services include: leasing, factoring, trust (trust) services, transactions with precious metals, guarantee, intermediary, consulting and information services.

9.1. Leasing operations of banks

The legal basis for the implementation of leasing operations by Ukrainian banks is laid down in the Law of Ukraine "On Banks and Banking Activity" No. 2121-III dated 07.12.2000, the Law of Ukraine "On Financial Leasing" No. 723/97-BP dated 16.12.1997, Civil Code of Ukraine No. 435-IV dated 16.01.2003 and Economic Code of Ukraine No. 436-IV dated 16.01.2003.

Leasing (eng. *leasing* — rent, property rental) ***is a business activity aimed at investing own or borrowed financial funds, which consists in the provision by the lessor of certain property to the lessee for the exclusive use for a specified period.***

The subject of a leasing contract can be a specified non-consumable item

individual characteristics and is classified as fixed assets in accordance with the legislation. Land plots and other natural objects, single property complexes of enterprises and their separate structural subdivisions (branches, shops, divisions) cannot be the subject of leasing. Property that is in state or communal ownership and in respect of which

there is no prohibition of transfer for use and/or ownership may be leased in accordance with the procedure established by law.

Leasing entities:

— the lessor is a legal entity, including a banking or non-banking institution, which transfers the right of ownership and use of the leased object to the lessee;

— the lessee is a natural or legal person who receives the right to own and use the leased object from the lessor;

— the seller of the leased property (supplier) is a natural or legal person from whom the lessor acquires an item that will subsequently be transferred to the lessee as the object of the lease.

— other legal entities or individuals who are parties to a multilateral leasing agreement.

Leasing is essentially similar to renting, but there are some key differences, which are listed in the table. 9.1.

Table 9.1

Differences between leasing and renting

Оренда	Лізинг
Суб'єкти:	
Орендодавець — юридична особа, яка передає право користування майном на визначений термін за певну плату. Орендар — фізична або юридична особа, яка отримує право користування предметом оренди.	Лізингодавець — юридична особа, яка передає право володіння та користування предметом лізингу лізингоодержувачу. Лізингоодержувач — фізична або юридична особа, яка отримує право володіння та користування предметом лізингу від лізингодавця. Продавець — фізична або юридична особа, від якої лізингодавець отримує майно, що надалі буде передано як предмет лізингу лізингоодержувачу.
Об'єкти:	
Цілісні майнові комплекси підприємств, їхні структурні підрозділи, нерухоме майно (будівлі, споруди, приміщення), майно, яке не увійшло у статутні фонди господарюючих суб'єктів.	Будь-яке рухоме і нерухоме майно, яке може бути віднесено до основних фондів підприємства згідно із законодавством, у тому числі продукція, виготовлена державними підприємствами. У лізинг не можуть передаватися земельні ділянки та природні комплекси.
Цілі використання об'єктів:	
Комерційні та некомерційні.	Виключно комерційні.

There are two types of leasing transactions: operational leasing and financial leasing.

Operational leasing is a leasing agreement under which the lessee, upon his order, receives the leased object for paid use from the lessor for a period shorter than the term for which 90% of the value of the leased object is amortized, determined on the day of the conclusion of the agreement.

Operational leasing is characterized by the following features:

— crediting the leased object to the off-balance sheet account of the lessee with an indication that it has been leased;

— placing all costs related to the insurance of the leased object on the lessor (unless otherwise expressly stated in the lease agreement);

— after the expiration of the term of operational leasing, it can either be extended, or the leased object is subject to return to the lessor and can be re-provided for use by another lessee under the lease agreement.

Operational leasing involves the conclusion of leasing contracts for short and medium terms. Usually, the leasing company undertakes the maintenance of the leased object — scheduled repairs, insurance, etc. After the expiration of the leasing contract, the object of the contract can be returned to the owner or leased again.

Financial leasing is a leasing contract, as a result of which the lessee, upon his order, receives the leased object from the lessor for paid use for a period not less than the term for which 75% of the value of the leased object, determined on the day of the conclusion of the contract, is amortized.

The following features are characteristic of financial leasing:

— the leased object is credited to the balance sheet of the lessee with the indication that it is taken under financial leasing;

— the risk of accidental destruction or damage to the leased object is borne by the lessee (unless otherwise expressly stated in the lease agreement);

— after the end of the term of the financial leasing contract, the leased object becomes the property of the lessee or is purchased by him at the residual value.

Financial leasing is characterized by a long term of the contract — from five to ten years. In fact, financial leasing is a form of long-term purchase credit. After the expiration of the term, the lessee can return the leased object, extend or enter into a new agreement, and also buy the object at the residual value.

Commercial banks mainly use financial leasing, in which the role of the bank is reduced to paying the supplier the cost of the equipment ordered by the lessee and leasing it.

Bank leasing is a leasing that involves a combination of two contracts - a sales contract (between the seller and the bank - a leasing company) and a lease contract (between the lessee and the bank). The leasing company (bank) buys the equipment to the order of the lessee (companies, firms) and leases it to them.

Regardless of the organizational and legal form, the most acceptable option for banks to participate in the leasing business is the creation of a subsidiary leasing company. This form ensures high efficiency, as lessors are much less subject to regulation than banks and are able to respond more flexibly to market conditions. Leading companies on the Ukrainian leasing market are subsidiaries of banks, in particular: Privat Leasing, Raiffeisen Leasing Aval, OTP Leasing, UniCredit Leasing, VAB Leasing.

The main document of the leasing agreement is the leasing agreement, which is concluded in writing.

The main terms of the leasing contract are as follows:

— subject of leasing;
— the term for which the lessee is granted the right to use the leased object;
— amount of leasing payments;
— other conditions on which an agreement must be reached at the request of at least one of the parties.

For the use of the leased object, the lessor charges the user leasing payments, the amount of which is determined by the contract.

Lease payments include:

— the amount amortized over the period for which the leasing payment is made;

— the amount paid to the lessor as interest for the loan obtained by him for the purchase of property under the leasing agreement;
— a commission fee to the lessor for the leased property.

The leasing service involves several stages.

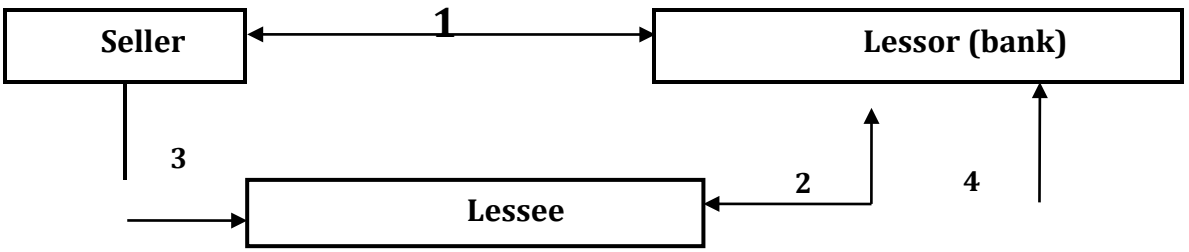
1 stage. The financial, technical and organizational capabilities of all potential participants are analyzed, documents are prepared for concluding contracts;

2 stage. Legal registration of the leasing service and signing of the necessary contractual documents:

— contract of purchase and sale of the leased object;
— an act of taking the leased object into operation;
— leasing contract;
— maintenance contract for the leased object;
— bank loan agreement;
— an insurance contract for the leased object;

3 stage Use of the leased item related to the implementation of the lessee's project. At this stage, leasing payments are paid, transactions are reflected in accounting, the bank loan is returned and interest is paid for its use, and after the end of the lease term, relations are established regarding the further use of the leased object.

The sequence of the leasing transaction is shown in fig. 9.1.



Rice. 9.1. Scheme of the leasing operation

The bank's leasing operation includes the following stages:

1. Conclusion of a sales contract between the seller and the lessor (bank).

2. Conclusion of a leasing contract between the lessee and the lessor (bank).
3. Delivery of the leased object.
4. Receipt of leasing payments.

Bank leasing is an alternative to lending. Accordingly, a number of advantages and disadvantages of leasing operations are distinguished.

The advantages of leasing include the following:

— it is easier for small and medium-sized enterprises to issue a lease than to take a loan. Leasing companies do not require additional guarantees from the lessee, since the leased object itself is the collateral for the agreement;
— leasing involves 100% crediting and does not require immediate payment of payments;
— the lessor bears the risk of equipment obsolescence. The lessee has the opportunity to gradually update his equipment;
— lease payments are included in expenses (including in tax accounting). The amount of lease payments is fixed at the conclusion of the contract and does not depend on exchange rate fluctuations and changes in bank interest for long-term lending.

At the same time, leasing operations also have disadvantages:

— in the case of financial leasing, despite the moral obsolescence of the equipment, lease payments do not stop until the end of the contract;
— the cost of the lease is greater than the loan, since the risk of equipment obsolescence falls on the lessor, a higher fee is charged to compensate for such losses.

9.2. Factoring operations of banks

The implementation of factoring operations by banks of Ukraine is regulated by the Law of Ukraine "On Banks and Banking Activity" No. 2121-III dated 07.12.2000, the Civil Code of Ukraine No. 435-IV dated 16.01.2003 and the Economic Code of Ukraine No. 436-IV dated 16.01. 2003.

Factoring (from the English *factoring* — mediator, agent***) is an operation that consists in the acquisition by the bank-factor from the supplier (seller) of the right to demand the buyer's debt in monetary form for the shipped goods (work performed, services provided) with acceptance of the risk of fulfilling such a demand through the purchase by the bank of the settlement documents of the supplier.***

In other words, factoring is a type of intermediary activity, with the help of which the intermediary (factoring department of the bank) for a certain fee receives from the enterprise the right to collect and credit to its account the sums of money due to it from buyers (the right to collect receivables). Classic factoring involves the availability of commercial credit, which is provided in the form of merchandise by sellers to buyers in the form of deferred payment for the sold goods, which are processed through an open account.

The object of factoring is the right to demand debt in monetary form.

The subjects of factoring are the following:

— a seller (supplier) of products, also a direct client of the bank, who sells his own goods on the terms of deferred payment. According to the current legislation, the creditor can be an individual or a legal entity that is the subject of entrepreneurial activity;

— a buyer of products (debtor) who wants to purchase a specific product, but temporarily does not have free funds to pay for the product or services provided. At the same time, an important condition is the stability, profitability and efficiency of the buyer's business and confidence that in the short term he will have the necessary funds to pay the debt and interest on it;

— factor bank or factoring company to which the supplier assigns a monetary claim on receivables. According to the Civil Code of Ukraine, the role of a factor can also be performed by a natural person-subject of entrepreneurial activity, which, according to the law, has the right to carry out factoring operations.

The terms of factoring transactions are determined by the general factoring agreement concluded between the bank and the supplier. Such an

agreement specifies the share of payment amounts from the amount for factoring operations, the amount of compensation, the terms of termination of the factoring agreement, the responsibility of each of the parties in case of non-fulfillment or improper fulfillment of the obligations assumed and other conditions agreed upon by the parties.

The main purpose of factoring operations is:

— ensuring timely payment of shipped goods to the supplier;
— management of the borrower's payment discipline;
— increasing the efficiency of settlements between clients;
— liquidation of the borrower's receivables.

A typical factoring mechanism is shown in fig. 9.2.

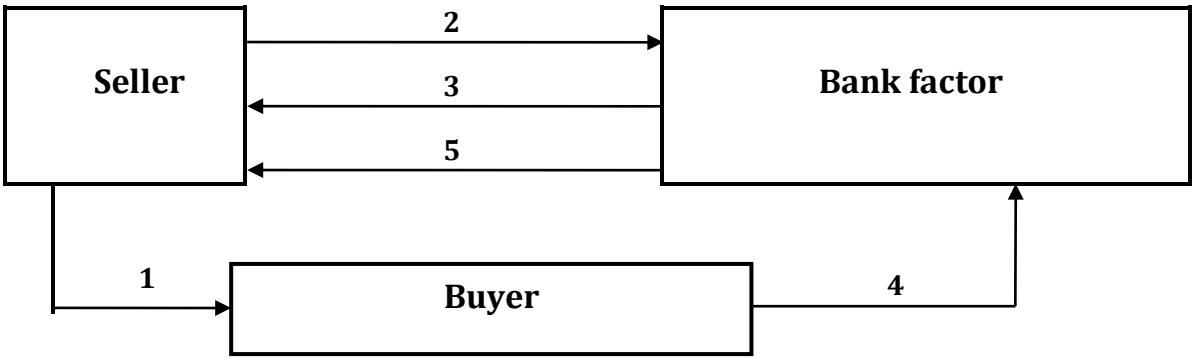


Fig.. 9.2. Factoring operation mechanism

The bank's factoring operation includes the following stages:

1. Supply of goods or provision of services.
2. Transfer to the bank of documents confirming the supply of goods or the provision of services.
3. Advance payment to the supplier: up to 90% of the amount of delivery/services.
4. Receipt of payment from the buyer.
5. Payment of the remaining amount upon delivery to the supplier.

The factoring operation mechanism assumes that the factoring department of the bank buys the customer's debt claims (invoices) on the condition of immediate payment of 70-90% of the value of the invoiced supplies, and the payment of the other part of the amount, after deducting the interest on the loan and commissions payments are made within strictly

stipulated terms, regardless of receipt of extortion from debtors. 10–30% of the debt amount retained by the bank is compensation for the risk until the debt is repaid, as well as a measure to encourage the client to properly fulfill delivery obligations.

Factoring is a type of trade-commission operation and contains elements of bank lending, but it also has certain differences (Table 9.2).

Table 9.2

Differences between factoring and bank credit

Критерій порівняння	Факторинг	Банківський кредит
1. Особливості визначення суми позики	Розмір авансування за факторингом збільшується у міру зростання обсягів поставок постачальника у межах встановленого ліміту	Розмір кредиту за конкретним кредитним проектом прямо не пов'язаний зі зростанням обсягів продаж
2. Відображення у балансі клієнта	При користуванні факторингом клієнт фактично не стає позичальником, оскільки у його балансі не виникає кредиторської заборгованості	При користуванні кредитом клієнт є позичальником банку. Заборгованість за кредитом відображається у його балансі
3. Термін надання послуги	Факторинг надається на строк відстрочення платежу (товарного кредиту) за договором поставки	Кредит надається на строк окупності кредитного проекту
4. Умови виплати коштів	Фінансування за факторингом сплачується не пізніше наступного дня після поставки та надання банку рахунків-фактур	Кредит надається у строки надання позичальником платіжних документів
5. Наявність забезпечення	Як правило, факторинг надається бланково (без забезпечення)	Кредит, як правило, надається під ліквідну заставу
6. Супроводжуючі послуги	Невід'ємною додатковою функцією факторингу є адміністрування дебіторської заборгованості	За класичного кредитування банк не здійснює ніяких додаткових функцій з адміністрування дебіторської заборгованості
7. Джерело погашення	Факторинг сплачується з коштів, які надходять від дебіторів. За факторингом із регресом — за платіж відповідає постачальник	Кредит погашається безпосередньо позичальником. Погашення простроченої заборгованості також може бути за рахунок гаранта, поручителя
8. Умови закінчення дії договору	Факторинг закривається не пізніше наступного дня після отримання платежів від дебіторів	Кредит погашається у термін, обумовлений договором кредиту

The advantages of factoring for suppliers are as follows:

1. The possibility of increasing the volume of deliveries as a result of providing buyers with competitive market advantages, such as: increasing the volume of deliveries with deferred payment (on the terms of a commodity credit); an increase in the payment deferral period (commodity credit); decrease in the price of goods (works, services).
2. Obtaining additional profits due to an increase in the volume of deliveries.
3. The possibility of maintaining stable relations with buyers who have a permanent opportunity to purchase goods with deferred payment (on the terms of a commodity credit).
4. The possibility of planning your financial flows without taking into account the payment discipline of buyers (debtors).
5. The possibility of making wholesale purchases in connection with the availability of funds (at favorable prices) and, accordingly, maintaining an expanded assortment of goods to instantly satisfy the requirements of buyers.
6. Improvement of business image and solvency due to the possibility of timely settlements with creditors.
7. Coverage by the bank of trade risks that arise in connection with the sale of products with deferred payment.

The advantages of factoring for buyers are as follows:

1. More favorable terms of payment, which does not require the diversion of significant funds from turnover, as in the case of prepayment or payment after the fact.
2. Planning the debt repayment schedule.
3. Increase in purchasing power.

For banks, the following can be considered the advantages of factoring operations:

1. Improvement of business relations between clients and the bank by providing them with additional competitive services.
2. Reduction of credit risk due to the diversification of credit risk between buyers and the availability of the bank's right of recourse to the supplier

in case of non-payment by the debtor of the goods shipped to him (work performed, services provided), regardless of the reasons for such non-payment.

3. An increase in the resource base as a result of additional cash receipts on the current accounts of suppliers.
4. An additional opportunity to increase the client base by attracting the supplier's solvent debtors to service.
5. The possibility of obtaining additional sources of income by the bank.

The main disadvantages of factoring services include the following:

1. The document flow between the bank and the client during factoring at the financing stage is more complicated. In addition to financial statements, which are provided quarterly to the bank, the client must provide the bank with documents confirming the right to claim, for the bank to finance and administer the receivables.
2. Cost of factoring services. The commission fee for the use of factoring consists of a fixed fee for processing documentation, commissions for factoring services and commissions for use money. Therefore, due to the high cost of factoring, some enterprises are unable to use it in the management of bad and overdue debts.

It should be noted that in Ukraine factoring is not yet considered as an independent field of activity. Banks prefer factoring as a service, only expanding the range of credit products.

9.3. Forfaiting operations of banks

Forfeiting by commercial banks of Ukraine is regulated by the Law of Ukraine "On Banks and Banking Activity" No. 2121-III dated 07.12.2000, the Law of Ukraine "On Circulation of Bills of Exchange in Ukraine" No. 2374-III dated 04.05.2001, the Civil Code of Ukraine No. 435-IV dated 16.01.2003 and the Economic Code of Ukraine No. 436-IV dated 16.01.2003.

Forfaiting (from the French a *forfait* **-** in full, in total***) is a financial transaction for refinancing receivables under export commodity***

(commercial) credit through the transfer (endorsement) of a bill of exchange in favor of a bank (factoring company) with the payment of a commission fee to the latter.

Forfaiting is a specific form of crediting of foreign economic transactions through the purchase by a commercial forfaiting bank from the exporter of debt obligations accepted by the importer, when the exporter assigns to the bank its claims to buyers. As a result of forfeiture, the buyer's debt for a commodity (commercial) credit is transformed into a financial debt (in favor of the bank). By its essence, forfeiting combines the elements of factoring (which exporters use in case of high credit risk) and consideration of promissory notes (with their endorsement only in favor of the bank).

The objects of the forfeiture operation are mainly promissory notes (promissory notes or bills of exchange).

The subjects of the forfeiture operation are the exporter (seller); importer (buyer); forfeit bank; guarantor (importer's bank).

The goals of forfeiting for the subjects of the agreement are as follows:

— for the buyer - purchase of goods on credit, while he pays interest for the loan in addition to the price of the goods;
— for the seller - receiving, taking into account the bills, an amount equal to the price of the goods;
— for the bank, receiving income in the form of a discount from consideration of promissory notes.

Forfaiting has the following properties:

— relationship with foreign trade operations;
— lending is carried out by purchasing promissory notes;
— in most cases, forfeiture is connected with the sale of machines, equipment and other investment goods.

Forfaiting in its content is similar to factoring, but there are a number of significant differences between them (Table 9.3).

Table 9.3

Comparative characteristics of factoring and forfeiting

Факторинг	Форфейтинг
Об'єкт операції — переважно рахунок-фактура	Об'єкт операції — переважно вексель (простий або переказний)
Короткострокове кредитування (до 180 днів)	Середньострокове кредитування (від 180 днів до 10 років)
Сума кредиту обмежена можливостями фактора	Сума кредиту може бути досить високою внаслідок можливості синдикації
Фактор авансує оборотний капітал кредитора у розмірі 70–90 % суми боргу. Решта 10–30 % надходять на рахунок кредитора тільки після погашення боргу покупцем продукції за вирахуванням комісії та відсотків	Форфейтер виплачує суму боргу повністю за вирахуванням дисконту
Фактор або залишає за собою право регресу до експортера або відмовляється від цього права, але навіть у цьому випадку при експорті товарів політичні та валютні ризики несе експортер	Форфейтер несе всі ризики несплати боргу, включаючи політичні та валютні ризики при експорті товарів
Операція може бути доповнена елементами бухгалтерського, інформаційного, рекламного, збутового, юридичного, страхового та іншого обслуговування кредитора (клієнта)	Не передбачає будь-якого додаткового обслуговування
Можливість перепродажу факторингового активу фактором не передбачена	Передбачається можливість перепродажу форфейтером форфейтингового активу на вторинному ринку
Не потрібні гарантії від третьої особи	Вимагається гарантія третьої особи або аваль

The scheme of the forfeiture operation is shown in fig. 9.3.

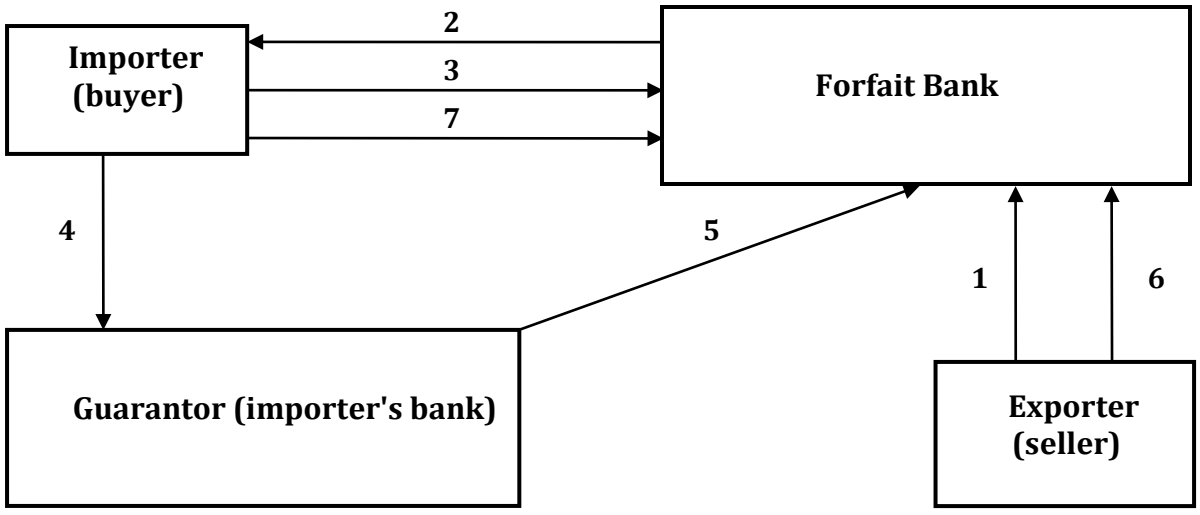


Fig. 9.3. Scheme of forfeiting operation

The sequence of operations for forfeiting is as follows:

1. Issuance of an invoice by the exporter for the payment of goods.
2. Requirement of the forfeiture bank to the importer regarding the acceptance of payment documents and the guarantee of payment of the debt by the bank of the importer's country.
3. Acceptance of payment documents by the importer.
4. The importer's request to the bank to provide guarantees for debt payment.
5. Guarantee of the bank of the importing country to the forfeiture bank regarding the payment of the debt by the importer.
6. Purchase by a forfeiture bank of promissory notes or other debt claims without the right of recourse for their payment.
7. Repayment by the importer of the debt to the forfeiture bank.

The main advantages of forfeiting for the exporter (seller) include the following:

— provision of forfeiture services based on a fixed interest rate;
— financing at the expense of forfeiture without the right of recourse to the exporter;
— the possibility of receiving cash immediately after the delivery of products or the provision of services, which has a positive effect on overall liquidity, reduces the amount of bank loans, makes it possible to reinvest funds;
— lack of spending time and money on debt management or organizing its repayment;
— absence of risks (all currency risks, risks of interest rate changes, as well as the risk of bankruptcy of the guarantor are borne by the forfeiter);
— simplicity of documentation and the possibility of quick execution of promissory note debt instruments;
— confidential nature of operations;
— the possibility of prompt approval of the terms of the agreement;
— the possibility to receive in advance from the forfeiter an option to finance the agreement at a fixed rate, which allows the exporter to determine his costs in advance and include them in the contract price, calculate other final figures.

Among the disadvantages of forfeiting for the exporter, the following should be mentioned:

— the need to prepare documents in such a way that there is no recourse to the exporter himself in the event of bankruptcy of the guarantor, as well as the need to know the legislation of the importing country, which determines the form of promissory notes, guarantees and avala;
— the possibility of complications if the importer offers a guarantor who does not agree with the forfeiter.

For the importer (buyer), the following are the positive aspects of using forfeiture:

— simplicity and speed of documentation;
— the possibility of obtaining a loan at a fixed interest rate;
— the possibility to use a credit line at the bank.

The negative aspects of forfeiting for the buyer can be called the following:

— reduction of the possibility of obtaining a bank loan when using a bank guarantee;
— the need to pay a guarantee fee;
— a higher forfeiture margin;
— the possibility of difficulties with the payment of the promissory note in case of non-fulfillment of any terms of the contract by the exporter.

Carrying out forfeiture operations for the bank has the following advantages:

— the ability to easily sell purchased assets on the secondary market;
— a higher margin than for credit operations;
— simplicity and speed of documentation.

Disadvantages for the forfeiter bank in performing such operations may be as follows:

— lack of right of recourse in case of non-payment of debt;
— the need to know the bills of exchange legislation of the importing country;
— responsibility for checking the guarantor's creditworthiness;
— the need to bear all interest risks before the maturity of the promissory notes;
— inability to make a payment before the due date;
— transfer risk;
— the risk of exchange rate fluctuations.

9.4. Trust services. Services of banks for the storage of valuables

In Ukraine, the legal basis for the provision of trust services and valuables storage services by banks is laid down in the Law of Ukraine "On Banks and Banking Activity" No. 2121-III dated 07.12.2000, Civil Code of Ukraine No. 435-IV dated 16.01.2003. and the Rules for the organization of protection of bank premises in Ukraine, approved by Resolution of the NBU No. 63 dated February 10, 2016.

Trust (trust) services (eng. *trust* — trust***) are services of banks for managing property and stock values, performing other services in the interests and on behalf of clients as a trustee.***

Trust services are based on a fiduciary relationship, when one person (the founder) entrusts his property to another person (the trustee) for management in the interests of a third person (the beneficiary).

Three parties participate in the trust transaction:

— — trustee of property (founder of the trust) — a legal entity or individual who established the trust and/or transferred to the trust owner the authority of the owner of the property belonging to it in accordance with the terms of the contract concluded between them;

— — fiduciary owner (trust) — the party that manages the property.
It can be specialized trust companies (trust societies) or commercial banks;

— — beneficiary - a person for whose benefit and in whose interests trust services are provided.
It can be the trustee of the property or a third party.

Trust property can arise in three cases:

— as a result of the will of the trustee of the property;

— as a result of concluding an agreement;

— in accordance with the law or a court decision.

Trust services can be provided to legal entities and individuals (personal trust services).

Trust services for the benefit of individuals, as a rule, include the following services:

1. Management of inheritance, i.e. management of the client's property after his death. It can be carried out in accordance with the written will left by the deceased, in which the executor of the will is specified, or by a court decision, when the will was not drawn up. Property management includes: obtaining a court decision; collection and inventory of property; ensuring the preservation of heritage; payment of administrative costs and taxes; settlement with creditors; sale of property that is not subject to long-term storage; control over the implementation of commercial operations; distribution of property between heirs.
2. According to the property management agreement, it is assumed that the principal transfers certain property to the bank for management. The bank keeps it, invests it, disposes of the income received from the property in the manner determined by the contract. In cases defined by the contract, the principal retains the right to intervene in the property management process. The right to manage property can be transferred to the bank not only by will, but also through the conclusion of prenuptial agreements. This is due to the fact that the trustor of the property either does not want to transfer it to the heirs immediately, or is unable or unwilling to do his own business, etc. Property management involves decision-making regarding its placement, registration of insurance and making insurance payments, deposit operations with cash, accounting operations, payment of income to the beneficiary, analysis of the efficiency of property use.
3. Guardianship and ensuring the safekeeping of property involves a set of operations similar to property management. The specified type of trust services applies mainly to minors who are considered incapable of managing and owning property. If a minor has inherited property, in this case, a guardian is appointed who disposes of this property in the interests of the heir. Guardianship and ensuring the safekeeping of property exists in two forms: guardianship of an individual (minor, incapacitated) and guardianship of property — in the event that the owner of the property is physically unable to manage it on his own.

4. Agency services are characterized by the fact that one person (agent) performs both legal and actual actions on behalf of and at the expense of another person (principal). The ultimate goal of agency services is to establish contractual obligations between the principal and a third party. The agent, which can be a trust department of the bank, acts, as a rule, on behalf of the principal, and accordingly, the contracts concluded by him or with his assistance create rights and obligations directly for the principal. In some cases, entering into relations with third parties on behalf of the principal, the agent has the right to act on his own behalf without disclosing the existence of the principal to the third party, or may indicate that he is acting on behalf and at the expense of the principal without disclosing his name . Regardless of how agent y acts relations with third parties, the result of the agreements concluded by him falls on the principal. Agency services include: custody of assets, for example, securities; receiving income from them and notifying the client; purchase and sale of securities and their delivery to the client; exchange of securities; redemption of bonds; payment of taxes; registration of insurance policies; payment of bills; conclusion of contracts on behalf of the client; receiving loans; purchase and sale of foreign currency and precious metals, etc.

Trust services provided to legal entities include:

— service of a bond loan, which is accompanied by the transfer to a trustee of the right to dispose of property, which is the security of the loan;
— agency services;
— creation of debt repayment funds, from which, in accordance with the terms of the contract, debt repayment, interest payments, and bond redemption can be carried out; payment of dividends to shareholders, etc.;
— temporary management of the company's affairs in case of its reorganization or liquidation;
— depository services (storage of shares for which shareholders have transferred voting rights to authorized representatives);

— asset management, including real estate management both within the country and abroad;
— service of the company's employees. In this case, trust departments provide services in the interests of employees, managing company funds intended for the payment of pensions, various rewards and benefits;
— investment of the client's funds in the types of assets determined by him;
— management of funds of charitable funds.

For the provision of trust services, the bank charges a fee, the amount of which is set in the contract between the bank and the client, depending on the type of trust services and the value of the property.

One of the trust services that commercial banks provide to individuals and legal entities is services related to the storage of valuables.

Objects of storage can be documents, money and valuables of individuals and legal entities.

Subjects of valuables storage services are the custodian (bank) and the depositor (individual or legal entity).

The bank's confidentiality rules do not provide for checking what the client puts in the safe. However, in the contract, the depositor undertakes not to keep anything illegal in the bank safe. The following are included in the list of substances, materials, and objects that are prohibited to be kept in the safe:

— weapons, ammunition for them, explosives, gunpowder, fuel;
— combat poisonous substances;
— uranium, other fissile materials and their products;
— X-ray equipment, devices and equipment using radioactive substances, isotopes, as well as radioactive substances themselves;
— experimental samples of research works, as well as research materials for the creation of weapons and military equipment;
— poisons and narcotic substances;
— ethyl alcohol and other flammable liquids;

— explosive waste;
— food products, materials and substances that perish quickly;
— other substances that can cause a harmful effect on the human body and/or on the environment, and/or on the integrity of the safe.

Valuables are stored in a specially designated room equipped with individual safes.

A storage room for individual safes is a special room of the bank, equipped with individual safes for storing valuables and documents of clients, the technical fortification of which must meet the security parameters provided for by the current regulatory and legal acts.

Services of banks for safekeeping of valuables are formalized by the following contracts:

— an agreement to store valuables in a bank;
— an agreement on the provision of an individual bank safe guarded by the bank;
— a contract on the provision of an individual bank safe that is not guarded by the bank.

The peculiarity of the contract on the provision of an individual bank safe, which is guarded by the bank, is that the bank directly accepts valuables from the depositor according to their description, controls their placement in the safe and their removal from it. The bank carries out the specified description of valuables and is responsible for damage to valuables due to the bank's fault.

The contract for the provision of an individual bank safe is paid and fixed-term. The term is determined by the client from 1 day to 1 year with the possibility of extension. The payment is determined by the bank depending on the term, the size of the safe and the costs of providing banking services.

After the expiry of the storage period and the non-claiming of the valuables by the client, the commercial bank continues to store them until they are taken by another party. In this case, the bank has the right to demand reimbursement of additional costs for storing valuables.

9.5. Activities of banks in the market of precious metals

In Ukraine, banks' operations with precious metals are regulated by the Law of Ukraine "On Banks and Banking Activity" No. 2121- III of 07.12.2000, the Law of Ukraine "On State Regulation of Mining, Production and Use of Precious Metals and Precious Stones and control over transactions with them" No. 637/97-BP dated November 18, 1997 and the Regulation of the National Bank of Ukraine "On the implementation of operations with banking metals by authorized banks" No. 325 dated August 6, 2003.

Bank metals are gold, silver, platinum, metals of the platinum group, brought (refined) to the highest tests in accordance with the world standards in ingots and powders that have a quality certificate, as well as coins made from precious metals.

Transactions with bankable metals are carried out separately for each type of bankable metals, namely:

— gold in standard ingots;
— gold in measured ingots and powders;
— silver, platinum and palladium in standard and measured ingots and powders;
— gold, silver, platinum and palladium in coins, the assays of which correspond to or exceed the assays established for measuring ingots of the corresponding banking metal, and the assays of which are lower than those established for measuring ingots of the corresponding banking metal.

The bank has the right to carry out operations with bank metals on the basis of a general license for foreign exchange operations. Bank metals must have an appropriate quality certificate, i.e. pass an examination that certifies the bank metal sample and identifies the name of the manufacturer.

The operations of banks with precious metals include:

— opening metal accounts in the central bank, in other authorized banks and carrying out operations on them;
— opening and maintaining metal accounts of other authorized banks,

metal accounts of legal entities and individuals;

— purchase and sale of precious metals for hryvnias;
— conversion of one bank metal into another;
— attraction of precious metals for customer deposits;
— attraction and placement of interbank deposits in precious metals;
— provision and receipt of interbank loans in precious metals;
— provision of loans in precious metals to residents-legal entities and natural persons-subjects of entrepreneurial activity;
— provision and receipt of precious metals as collateral;
— responsible storage of precious metals in the central bank, in other authorized banks, in own storage;
— transportation of precious metals.

Opening and closing of metal accounts by authorized banks is carried out in accordance with the procedure established by legal acts regulating the opening and closing of accounts in foreign currency. Such accounts are opened to both legal entities and natural persons who are residents.

Bank metals are credited to the current account:

— entered with physical delivery in the presence of documents confirming the legality of ownership of this bank metal. An authorized bank must have an expert during operations with bank metals with physical delivery;
— purchased on behalf of the account holder; transferred from one's own current account at the bank or from one's own deposit account at the bank, in accordance with the deposit agreement;
— listed as a loan in bank metals, in accordance with the loan agreement;
— by the operation of conversion of one bank metal into another;
— calculated as interest on the balance of funds on one's own current account.

The bank may carry out the following operations from the current account at the direction of the account holder:

— issuance of bank metals;
— transfer to one's own current account at the bank or to one's own deposit account at the bank, in accordance with the deposit agreement;

— sale of bank metals on behalf of the account holder;
— transfer for the purpose of conversion of one bank metal to another.

Depositing of bank metals into a deposit (deposit) metal account, issuance and repayment of credit in bank metals and debiting from a deposit (deposit) metal account are carried out exclusively through current metal accounts of clients and correspondent metal accounts of authorized banks. Interest on a metal deposit is paid both in bank metals and in hryvnias at the official exchange rate of bank metals on the payment date provided for in the settlement and cash service agreement concluded between the bank and the client. The commission fee for transactions with bank metals is charged by banks exclusively in hryvnias.

Transactions on the purchase and sale of bank metals can be carried out on the interbank foreign exchange market of Ukraine and on international markets in person or through the mediation of the central bank. Banks carry out operations on the purchase and sale of bank metals on their behalf on behalf of and at the expense of clients' funds based on the client's submission of an application for the purchase of foreign currency or bank metals.

Loan operations in bank metals can be carried out both by their delivery in physical form and by crediting to impersonal accounts in exchange for the obligation to return the corresponding metal within the term specified in the contract. Repayment of loans in precious metals can be carried out in the form of physical delivery, by transferring precious metals from the borrower's metal accounts or by the bank purchasing the metal for the borrower's money.

Authorized banks do not have the right to:
— to use bank metals as a means of payment, except for the payment of interest in bank metals;
— to place bank metals accepted for safekeeping or as a pledge on one's behalf;
— issue savings (deposit) certificates in bankable metals;
— transfer bank metals from the metal accounts of legal entities to the metal accounts of other legal entities and individuals, from the metal

accounts of individuals to the metal accounts of legal entities, as well as from the metal accounts of resident individuals to the metal accounts of non-resident individuals.

9.6. Bank insurance (bancassurance) as a perspective direction of banking services

An important direction for the development and stable functioning of commercial banks in modern conditions is the expansion of the range of their services on the financial market, diversification of sources of income and conducting operations that are not traditional for banks. Today, the most undeveloped and promising segment of the financial market for the development of new types of banking services is the insurance market. In global banking practice, the services of banks in the market of insurance products are called *"bancassurance"*. This term is of French origin and means the sale of insurance products through a network of banking institutions and is translated as "bank insurance".

Modern economic science interprets ***bancassurance as the integration of banks and insurance companies for the purpose of coordinating sales and combining insurance and banking products, establishing common channels for their distribution, and using a common customer database for the purpose of making a profit.***

It is believed that bancassurance as a type of business originated in Great Britain in 1967, when Lloyds bank first started cooperation with an insurance company, implementing a new product at that time — life insurance for its customers. Today, in the leading countries of the world, this area of banking activity has developed significantly. World experience shows that there are prerequisites for the development of the integration of banks and insurance companies. The richest in examples of successful bancassurance projects is the experience of France, Great Britain, Spain, Portugal, Italy and Belgium and Switzerland. Bancassurance in various forms has also developed in the USA, countries of Latin America and Asia, in particular in Japan and South Korea.

Foreign practice has shown that both the bank and the insurance company are equally interested in the effective organization of bancassurance programs. Thus, bancassurance programs give banks the opportunity to diversify standard services, provide additional income in the form of commissions from the sale of insurance services, and contribute to maximizing the loading of the already established banking network. As for the insurance company, the introduction of bancassurance helps them to attract additional customers, reduces the cost of marketing insurance services, expands the company's range of access to new areas of the financial market and increases the efficiency of the network in general.

The most common forms of cooperation between insurance companies and banks in the financial market include the following:

1. The initial form of cooperation, which is limited to the insurance company providing its services to the bank's clients and the bank itself on a contractual basis. In its essence, this form is not bancassurance, since in this case there are no common channels of sales and products.
2. The form of agency relations, which allows the distribution of insurance services by the bank through its agency network if there is an appropriate agreement.
3. A form of relationship in which banks and insurance companies cooperate on terms of close cooperation both at the stage of product development and at the stage of their placement. This is a higher degree of cooperation that requires coordination of joint business on a long-term, ongoing basis.
4. A form of cooperation that allows the application of the merger and acquisition mechanism by purchasing a block of shares sufficient to participate in the management of an insurance company or bank, which allows for effective use of sales channels, expansion and diversification of the product line and client base. This form is the most common and effective strategy for the implementation of bancassurance, which is implemented by world leaders of financial services markets.
5. The form of a financial supermarket, which is the highest phase of the integration of a bank and an insurance company. In this option, the

structures of the bank and the insurance company must be closely integrated with each other not only at the level of front-office structural divisions that ensure the joint use of financial services sales channels, but also at the level of the general back office.

In global practice, the integration of a bank and an insurance company is preceded by a partner selection procedure. The bank's corporate culture sets a high bar for the technological readiness of an insurance company that intends to successfully participate in the bancassurance project. The corporate culture of the insurer and the technological level of the promotion of insurance services should be close to the banking technology of servicing transactions with clients. A similar requirement for the insurer's technological readiness is the starting point for the development of evaluation criteria for a potential bank partner in the bancassurance project. The main goal of the integration of banking and insurance business is to obtain additional business value, which becomes possible due to more effective use of potentials and opportunities of both the bank and the insurance company as a result of synergy.

In Ukraine, bancassurance was introduced for the first time in 2005 by the commercial bank PJSC Raiffeisenbank together with PJSC OJSC Ingo-Ukraine. Today, Ukrainian banking institutions actively cooperate with insurance companies, which, according to experts, provide more than 50% of the total assets of banks, assuming insurance obligations for the property interests of the banking system. Mortgages, consumer credit and banking risks prevail among accepted liabilities. And although insurance companies are ready to offer a wider range of bancassurance products, the rapidly developing domestic financial market has acquired products typical for cooperation between banking institutions and insurers in the field of compulsory and conditional insurance. A significant number of Ukrainian banks have their captive insurance companies (subsidiaries or

companies as part of a holding association), which were created to insure the bank's risks related to its activities and insure the risks of the bank's clients. However, at present, there is a tendency for the market selection of an insurance company by the bank based on financial

reliability, position in the rating of the insurer, business reputation, quality of insurance services and technologies of their provision.

The specificity of the development of bancassurance in Ukraine is caused by the lack of widespread insurance, clients' distrust of insurance companies, the lack of transparency of insurance services, as well as non-competitive actions on the part of banks and insurance companies. The main difference between the organization of bancassurance in developed countries and in Ukraine is that Ukrainian banks mainly distribute insurance products related to the insurance of collateral and the borrower himself against an accident. Instead, the foreign bancassurance model provides for the borrower's life insurance. In Europe, every third life insurance policy is sold this way. Unlike Ukrainian institutions in Baku, foreign banks receive a significant share of their profits from the sale of insurance products.

For successful cooperation of the banking and insurance sectors in Ukraine, a specific, targeted policy of integration of banking capital into the insurance sector should be developed and its effective implementation should be ensured. Today, the most acceptable for Ukrainian realities is the introduction of the bancassurance scheme on the basis of agency relations and targeting the mass consumer. *The effectiveness of the implementation and widespread use of bancassurance technologies depends on the following factors:*

— joint interest and coordination of efforts of banks and insurance companies;
— active development of the insurance services market;
— existence of population demand for insurance services;
— dynamic growth of consumer lending to the population;
— the development of the mortgage lending market;
— settlement of legal issues regarding relations in the banking and insurance spheres, etc.

In the legal field of Ukraine, the real form of the highest stage of development of bancassurance is the creation or joint ownership of a large systemic bank and a large universal insurance company, which are part of

the same financial and industrial group, a specialized bancassurance company that realizes the convergence of sales channels and bancassurance products. The greatest chances of successful implementation of the bancassurance model appear in the event that a global task is solved within the financial and industrial group — the creation of a financial supermarket with the participation of universal and investment banks, pension and investment funds, as well as a universal insurance company and a specialized bancassurance company, whose strategy and business lines complement each other.

The creation and development of specialized bancassurance companies is justified given the weak competition in this new segment of the insurance market. The introduction of bancassurance programs into Ukrainian banking practice will contribute to increasing the efficiency of formation and management of the resource potential of banks and will ensure stable and profitable functioning of the banking system.

Interesting to know

Among non-traditional banking services, the "concierge service" is increasingly popular - a program of informational support and organizational assistance to bank clients in solving a wide range of issues in all spheres of life, which is available 24/7 anywhere in the world. Banks provide such non-traditional services exclusively to their VIP clients. Concierge service is usually included in the service fee of premium payment cards. The range of services depends on the tariff package to which the card user is connected: from information help and consultations to planning and organization of personal time.

As part of the concierge service program, the client is accompanied by a personal manager. In the list of services provided by the concierge, the following are the most popular:

1. Home: organization of apartment, house cleaning; organizing repair of office equipment, summoning a master; information about the services of landscape designers, construction companies; selection of home security services.

2. Family: selection of a governess, domestic worker; help in choosing a kindergarten, school, tutors; ordering and delivery of food, medical drugs; support and protection services for family members.

3. Rest: tips on planning leisure time, suggestions on organizing holidays; information about repertoires of theaters, cinemas, concert halls and ordering tickets; reservation of tables in restaurants.

4. Travel: booking and delivery of air and railway tickets, ordering hotel rooms, organizing transfers, ordering tour guide services.

5. Car: selection of car dealerships and car service; calling a tow truck; consultations in the event of an insurance event; call the technical assistance service.

6. Business: selection of conference halls; organization of services of lawyers, auditors, translators; information about investment companies and funds, etc. Today, many Ukrainian banks provide concierge services,

in particular: JSC "Oschadbank", JSC "Ukreximbank", PJSC "Privatbank", PJSC

Raiffeisen Bank Aval, PJSC Bank Credit Dnipro, PJSC Credit Agricole Bank, PJSC UkrSybbank, PJSC Ukrgasbank, PJSC PUMB, PJSC

"Cominvestbank", PJSC "OTP Bank" and others

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TOPIC 10. ENSURING THE FINANCIAL STABILITY OF THE BANK

10.1. Financial stability of the bank: essence and influencing factors

The globalization of financial markets, the dynamic growth of the offer of banking operations and services, the use of new technologies contribute to the emergence of new risks to banking activity. Accordingly, there is a need to review approaches to the assessment and analysis of the bank's financial condition, the qualitative characteristic of which is its financial stability.

The financial stability of a commercial bank is the state of a bank characterized by balanced financial flows, sufficient funds to support its solvency and liquidity, and profitable operations.

A stable financial condition ensures the ability of banks to work effectively against various risks inherent in the financial services market, as well as to maintain and restore viability in crisis situations. An important role in ensuring the stable financial condition of a commercial bank is played by its liquidity and solvency.

The bank's liquidity is the bank's ability to ensure the timely fulfillment of its monetary obligations, which is determined by the balance between the terms and amounts of the repayment of placed assets and the terms and amounts of the fulfillment of the bank's obligations, as well as the terms and amounts of other sources and directions of the use of funds.

Solvency reflects the bank's ability to timely and fully settle its obligations arising from trade, credit or other monetary transactions.

The concept of bank liquidity is broader than the concept of solvency. It includes the bank's ability to fulfill not only debt and off-balance sheet obligations, but also to provide cash to its clients. In other words, the bank's liquidity necessarily implies solvency, but, in addition to it, also the ability to conduct certain categories of active operations.

There are three main types of financial stability of the bank, depending on the stability of its functioning:

— normal stability, which is characterized by stable activity, absence of non-payments or delays in fulfilling one's obligations, stable profitability;
— unstable financial condition, characterized by delayed payments, inability to fulfill obligations in a timely manner, low level of profitability;
— a financial crisis situation, which is characterized by regular non-payments, the presence of overdue debts.

A financial crisis can lead to a bank's inability to finance current operations, make payments, meet its obligations, and eventually go bankrupt.

The factors of financial stability of commercial banks are certain driving forces that contribute to the safety of the bank and its stable development or, on the contrary, are the causes of their problems. They are divided into external and internal factors of influence. Conditionally, the factors influencing the financial stability of the bank can be grouped into economic, legal, social, political, and technical-technological ones (Table 10.1).

Table 10.1

The main factors affecting the financial stability of the bank

Factors of influence on financial stability of the bank	**External factors**	**Internal factors**
1	***2***	***3***
Economical	– the general economic condition of the country (GDP, inflation rate, production development, investments, state of payment discipline); – the state and dynamics of money, stock and currency markets; – the state of the credit and deposit market	– structure of assets, financial condition of the bank; – dynamics of financial indicators; – availability of strategic development programs (development of new markets, new types of products, services); – the state of marketing and advertising

1	*2*	*3*
Legal	– legislation, his consistency, sufficiency, completeness, effectiveness; – effectiveness of the judicial system in defending the interests of banks; – availability, competence, and effectiveness of state regulatory and control bodies according to the activity of banks	– completeness of the founding and internal documents of the bank, their compliance with current legislation; – legality of operations carried out by the bank; – abuse of bank owners, – management, staff, customers; – the status of the claim work
Social	– public trust in banks; – image of the bank; – state of education; – demographic situation	– leadership style (authoritarian, collegial, partnership); – level of corporate culture; – relations with clients, government bodies, business partners
Political	– the country's political system; – corruption of officials; – the level of internal political stability of the country; – the level of political stability on a global scale; – the country's image on the world stage	– personnel policy; – development policy; – policy of relations with customers and business partners
1	*2*	*3*
technical technological	– innovations and discoveries; – priority areas of development of science and technology; – man-made disasters	– technical and technological support of banking operations and processes modern equipment; – issuing technologies and repaying loans and ensuring their return; – methods of assessing creditworthiness customers, analysis of the financial condition of enterprises

The influence of factors on the bank's financial condition depends on the effectiveness of its management, the bank's policy priorities, its strategic and tactical goals, criteria and principles of activity. Management of the bank's financial stability involves an objective determination of its

current and desired state, coordinated management of the financial resources of the banking institution, and the selection of such management decisions that would contribute to ensuring financial stability.

Compliance with the latter is an important condition for the effective functioning of the financial stability management mechanism of banks set of principles, which include the following:

— *the principle of satisfactory financial condition.* The satisfaction of the bank's financial condition requires: first, compliance by the bank with current economic standards and reserve requirements established by the central bank and other authorities and management bodies; secondly, compliance of financial indicators, not included in the normative ones, to the recommended level according to domestic and international experience; thirdly, compliance of the financial condition of the bank with the general economic condition of the country in general and the peculiarities of money, stock, currency, insurance and other markets, in particular;

— *the principle of having a goal, policy and strategy that ensure the effective development of the bank.* The successful functioning of the bank is closely related to the existing strategy, since the formulated priorities of the bank, its main purpose and goals should ensure the direction of the bank to guarantee its stable functioning on the financial market;

— *the principle of legal perfection.* The bank's activities must be carried out in accordance with current legal norms. A bank that systematically or periodically violates the law should not be classified as financially stable due to the presence of legal risk factors, remedial and penal sanctions of the central bank and other regulatory and supervisory bodies;

— *the principle of balanced social and personnel policy* assumes the competence of the management and staff, high professionalism, work experience, and the availability of education in the relevant professional field. Personnel policy should include an adequate system of incentives and responsibility to stimulate the proper performance of one's duties, to prevent negligent treatment of them;

— *the principle of structural and functional mobility.* Modern business

conditions are characterized by permanent instability. For an adequate response to the transformation of the external environment, the internal structure of the bank should be characterized by high flexibility and adaptability;

— *the principle of technical armament* involves the use of the latest information technologies and technical innovations to increase the efficiency of the bank's work. Modern business standards require banks to ensure speed, reliability, accuracy of calculations, use of an individual approach to clients, reduction of operational and transaction costs;

— *the principle of favorability of the external environment.* Since commercial banks serve redistributive processes in the economy, it is traditionally believed that a country characterized by political upheavals and economic instability is unable to provide favorable conditions for the functioning of financially stable banks. It is known that the ratings of leading agencies contain restrictions when the bank's rating cannot exceed the rating of its own country.

Financial stability of banks is managed at two levels:

— at the macro level, mainly through the influence of the National Bank of Ukraine on the activities of commercial banks;

— at the micro level - through self-regulation of its own financial stability by a commercial bank.

The financial stability of a commercial bank is determined by the following characteristics:

— level of capitalization;

— asset quality;

— quality of obligations;

— the level of solvency and liquidity;

— profitability level;

— the quality of capital management, assets and liabilities, solvency, liquidity and profitability;

— the level of sensitivity of the bank to risks and the quality of their management.

In global banking practice, the following are the most common approaches to assessing the financial stability of the banking system:

— systems of coefficient analysis and analysis of homogeneous groups;
— rating evaluation systems - "insider" and "remote";
— system of comprehensive assessment of banking risk;
— statistical models: calculation of ratings and rating downgrades;
— macro- and microprudential analysis.

In domestic banking practice, various methods of evaluating the activity of commercial banks are used, depending on the goal set by the researchers. There is no single universal method, because all banks differ in their functional purpose, in the set of performed operations and services, in the composition of clients, as well as depending on the type of policy implemented in the financial market. The most common approaches to assessing the financial condition of banking institutions are based on ratio analysis, rating assessments, a system of financial stability indicators, the integral method, etc.

Each of these methods has its own conditions of application, advantages and limitations regarding the reliability of assessing the state and prospects of the banking institution.

Ratio analysis consists in calculating financial ratios that characterize the bank's financial condition, followed by comparison of the obtained results with normative (recommended) values. With a high level of detail in the articles of bank reporting, there is an opportunity to calculate a significant number of financial ratios, which provides depth of analysis, and makes it possible to identify specific features of the bank's functioning. According to this method, information about the financial condition of a commercial bank is provided by those financial ratios that are selected and included in the analysis.

Methods built on the basis of coefficient analysis provide:

— structural analysis to identify risks caused by the peculiarities of the structure of assets, liabilities, the bank's off-balance sheet position;
— assessment of the bank's profitability, as well as its individual operations;

— assessment of the adequacy of own capital;
— analysis of credit risk, market risk, liquidity risk.

For each of the coefficients, a range of values beyond which is an alarm signal is empirically determined. In particular, a coefficient analysis of official economic standards of the NBU was built on the basis of this approach. The coefficient method requires the formation of a final conclusion based on a set of numerical values.

When calculating a single parameter that characterizes the financial condition of a bank and the level of its financial stability, in global practice, integral and point-rating methods are used.

Assessment of the financial stability of banks according to the **integral method** is carried out by weighting the basic financial coefficients by the corresponding weighting coefficients that characterize the significance of each basic coefficient, and then determining the general assessment by adding or multiplying the obtained components. The positive features of the method are the slight complexity of calculations and obtaining a single quantitative characteristic of the financial stability of banks. This opens up wide opportunities for evaluating the entire banking system, comparing and comparing banks. The integral method is based on the calculation of a limited number of financial ratios, which does not create problems with the use of confidential information. This method is most suitable for remote analysis that does not involve a high level of detail.

A common approach to assessing the financial condition of commercial banks is the practice of using **point-rating assessment systems**, in particular systems CAMELSO. The CAMELSO system is based on a combination of quantitative and qualitative assessment, accounting approach and professional judgment. Supervision of banks, which is based on risk assessments according to this rating system, consists in determining the general state of the bank based on standardized criteria covering all areas of its activity. The purpose of evaluating banks according to the CAMELSO rating system is to determine their financial condition, the quality of management and corporate governance, the transparency of operations and the effectiveness of internal control, risk

management; identification of problems that may lead to the bank's bankruptcy and require increased control by banking supervision bodies, as well as taking appropriate measures to correct deficiencies and stabilize the bank's financial condition.

The CAMELSO system is a bank rating system, which consists in determining the general state of the bank based on unified criteria that cover all areas of banking activity. The assessment of the work of banks according to this system in Ukraine is regulated by the Procedure for determining and approving a bank's rating assessment according to the CAMELSO rating system, approved by the NBU Board's decision No. 393-rsh dated November 1, 2016.

The basis of the CAMELSO rating system is the assessment of risks and the determination of rating estimates according to the following main components:

1. Capital — *Capital Adequacy (C)* — assessment of the size of the bank's capital from the point of view of its sufficiency to protect the interests of depositors and maintain solvency.
2. Asset quality — *Asset Quality (A)* — the ability to ensure the return of assets, the impact of problem loans on the overall financial condition of the bank.
3. Management and corporate governance — *Management (M)* — assessment of bank management methods from the point of view of corporate governance principles, operational efficiency, management and control methods.
4. Income — *Earnings (E)* — the sufficiency of the bank's income for prospective development and growth.
5. Liquidity — *Liquidity (L)* — the bank's ability to ensure timely and full fulfillment of its obligations.
6. Sensitivity to *Risk (S)* — the degree of responsiveness of the bank to changes in the market situation.
7. Operational risk — *Operational Risk (O)* — the bank's ability to effectively manage operational and information risks in order to prevent or minimize financial losses due to the realization of risks.

According to the CAMELSO system, a digital rating is established for each bank based on seven components, and a comprehensive rating assessment is determined on the basis of rating assessments for each of these components, taking into account their weight. At the same time, the comprehensive assessment can exceed the lowest of the assessments by components by no more than one point. Each component of the rating system is rated on a 4-point scale, where a rating of "1" is the highest and the rating "4" is the lowest.

In order to assess the banking system in the context of its interaction with international financial institutions, the National Bank of Ukraine carries out macroprudential analysis in accordance with indicators of financial stability developed by the International Monetary Fund.

Indicators of financial stability are indicators of the current financial condition and stability of the country's banking institutions. Financial stability indicators are calculated and disseminated for use in macroprudential analysis. Such an analysis includes an assessment and control of the strengths and weaknesses of financial systems in order to increase their financial stability. The IMF provides for the compilation and dissemination by countries of 40 indicators of financial stability: 25 indicators for the sector of deposit corporations (of which 12 are the main ones) and 15 indicators for clients of the sector of deposit corporations. In Ukraine, the National Bank, in agreement with the State Statistics Service and the National Commission for State Regulation of Financial Services Markets, is the coordinator of the compilation of financial stability indicators. In accordance with the methodology of the International Monetary Fund, the National Bank calculates and disseminates data on 12 main and 12 recommended indicators of the financial stability of the banking sector.

It is worth noting that in modern banking practice, as a rule, not one of the listed methods is used, and most often a mixed approach is used to determine the financial stability of commercial banks.

10.2. Income and expenses of the bank. Financial reporting of banks

Analysis of the bank's income, expenses and profitability makes it possible to assess the effectiveness of its activities as a commercial enterprise. The structure of income and expenses largely determines the financial condition of the bank, its profitability, scale of operations, main areas of activity, quality of the loan portfolio. Analysis of the components of banking income and expenses is a necessary prerequisite for determining the feasibility of cooperation with potential clients, depositors and investors.

The bank's income is the total amount of money received by the bank as a result of active operations and provision of other banking services.

The bank's income should be sufficient not only to cover operating costs, but also to increase equity capital and pay out income to shareholders, which ultimately increases the bank's reputation and improves its competitive position on the market.

The bank's expenses are the total amount of money spent by the bank in the process of fundraising activities and other types of activities.

The bank's income and expenses are considered as arising from operational, investment and financial activities.

As a result of the bank's operational activities, the following revenues and expenses arise:

— interest income and expenses — operating income and expenses received (paid) by the bank for the use of cash, their equivalents or amounts owed to the bank (raised by the bank), the amounts of which are calculated in proportion to the time and amount of the asset or liability using the effective interest rates;

— commission income and expenses — operating income and expenses for the provided (received) services, the amount of which is calculated in proportion to the amount of the asset or liability or is fixed;

— profits (losses) from trading operations — the result of transactions on the purchase and sale of various financial instruments, including

transactions with securities, foreign currency and banking metals;

— deductions to reserves are expenses to cover possible losses from the impairment of the bank's assets and the write-off of bad assets;

— general administrative expenses — operating expenses related to ensuring the activity of a banking institution. They include:

- staff maintenance costs (wages, social security costs, mandatory contributions, insurance, additional payments, bonuses, training, etc.);
- expenses for maintenance and operation of fixed assets and intangible assets (repairs, insurance);
- other operational costs (utilities, security, etc.);
- fees for professional services (legal, medical, etc.);
- communication costs (postal, telephone, fax, etc.);
- payment of taxes and other mandatory payments, except for income tax, and other expenses aimed at servicing and managing the bank;

— other operating income and expenses — income and expenses from operations not related to investment and financial activities, as well as those not included in the above groups of operating income and expenses, in particular:

- income (expenses) from operational leasing;
- income (expenses) from provided (received) consulting services of a financial nature;
- dividend income;
- collection costs;
- fines, penalties received (paid) for bank transactions.

— unexpected income and expenses. They have a random, one-time nature and therefore have a special impact on the financial result obtained by the bank. They are the result of extraordinary events that can significantly affect the bank's income, but do not relate to its normal activities. Contingencies include income (expenses), the appearance of which is associated with changes in tax legislation, accounting rules, losses from natural disasters, etc.

As a result of the bank's investment activity, the following income and expenses arise:

— income (expenses) from operations to increase (decrease) investments in associated companies;
— income (expenses) from operations to increase (decrease) investments in subsidiary institutions;
— income (expenses) from the sale (purchase) of fixed assets and intangible assets.

Based on the results of operations related to the bank's financial activities, the following income and expenses arise:

— income (expenses) from transactions with own debt securities;
— revenues (expenses) under subordinated debt;
— dividends paid during the reporting period;
— income arising from the issuance of equity instruments.

One of the most important indicators of the efficiency of the bank's functioning and its stability is profit. All participants of the economic process are interested in it. The amount of bank profit is important for shareholders, because it is an indicator of the income received on the capital invested by them. For the depositors of the bank, the profit guarantees a stable income and confidence in the future, since the increase in reserves and own funds of the bank indicates its stability. Bank borrowers are also interested in the bank's profits, because in this way their own savings grow. Bank profit is formed as a result of active operations and other types of bank activity. It is the source of paying dividends to shareholders, creating bank funds, and the basis for improving the welfare of bank employees.

A bank's profit is the difference between the bank's gross revenues and expenses.

The bank's profit consists of:

— profit from the main activity;
— gross profit, which, in addition to the profit from the main activity, includes non-bank operating income and expenses, deductions to reserves, unforeseen income and expenses;
— net profit that remains at the bank's disposal after paying income tax.

The bank's profit is distributed as follows:

— payment of income tax;
— deduction to the bank's reserve fund;
— deduction to the material incentive fund;
— deduction to the industrial and social development fund;
— deduction to other bank funds;
— payment of dividends to shareholders.

The bank's profitability depends on the efficiency of using its own and borrowed funds. The bank can increase the level of profitability by changing the structure of active operations and the ratio between loan and investment operations in favor of more profitable ones, as well as through regulation of short-term debt and deposit accounts. Rational and effective allocation of bank funds largely ensures its financial stability, allows to achieve the optimal ratio between liquidity, reliability and profitability of the bank.

The results of the banking institution's activities, expenses and received income in the reporting period are reflected in the bank's financial statements.

The bank's financial statements are a system of interrelated generalized indicators that reflect the financial condition and results of the bank's activities for the reporting period.

The purpose of bank reporting is to provide information about the financial condition of the bank, its activities on the money, currency and stock markets. On the one hand, reporting is the main source of obtaining information for business entities, and on the other hand, it is a communication channel through which the entity transmits information about its activities to the market environment.

According to international standards, the financial statements of a commercial bank must have qualitative characteristics, that is, contain information that is important and necessary for users.

Users of bank reporting are the following entities:

— *investors.* They are interested in information about the risk accompanying investments and income from them; the value of the shares, and therefore the reliability and profitability of the issuer;

— *shareholders.* Those interested in information that would make it possible to assess the bank's ability to pay dividends, namely: the list and justification of expenses, the bank's total profitability, the amount of profit received;
— *management.* Interested in the analysis of all reporting based on the developed indicator system. This makes it possible to forecast cash inflows to the bank and make decisions about the efficiency with which the bank could use additional resources, determine its position in relation to other banks;
— *employees.* Interested in information about the stability and profitability of their bank, its ability to provide them with wages;
— *creditors.* They are interested in information about the bank's liquidity and solvency in order to forecast its ability to fulfill its financial obligations on time;
— *counterparties.* Interested in the optimal choice of a partner and optimization of the volume, nature and level of riskiness of transactions with the counterparty bank.
The source of information is the balance sheet;
— *authorities.* They are interested in information about the distribution of resources and the results of banks' activities;
— *the public.* Receives information on the activities of individual banks and the stability of the banking system;
— *international financial and credit institutions.* They are interested in the information published in the collection "International Financial Statistics": data on exchange rates, international liquidity, money and banking operations, interest rates, international transactions, public sector accounts, government accounts;
— *the central bank.* Controls the reliability of information and accounting. The source of information is the balance sheets of banks with different frequency and levels of interpretations. Collects information that makes it possible to give a general assessment of the risks of each bank, as well as to determine the degree of compliance by the bank with economic standards.

The reporting of commercial banks is classified according to several features:

1. **According to the economic content:**

— financial reporting;
— statistical reporting;
— tax reporting;
— management reporting.

2. **According to the term of provision:**

— daily reporting;
— annual reporting;
— monthly reporting;
— quarterly reporting;
— annual reporting.

3. **According to the method of aggregating information:**

— non-consolidated reporting;
— consolidated reporting.

An important requirement for financial and statistical reporting of banks is the presence of the following quality characteristics:

— *comprehensibility and adequacy.* It is assumed that users have relevant knowledge of business, economic activity and accounting;
— *appropriateness.* Information that affects users' economic decision-making, enables them to assess events or adjust their assessments made in the past;
— *materiality.* The absence or distortion of information may affect the economic decisions of reporting users. All material information must be reflected in the financial reports;
— *credibility.* Absence of significant errors and reflection of the actual state of affairs of the bank;
— *neutrality.* Absence of bias in the information. Financial statements are not neutral if, as a result of the selection or presentation of information, they influence decision-making or judgment in order to achieve a predetermined result;
— *comparability.* The ability to compare financial statements for different

periods in order to determine the trends of changes in the financial condition and results of the bank's activities. The prerequisite for comparability is the provision of relevant information from the previous period and the disclosure of information about the accounting policy and its changes;

— *timeliness.* Late submission of financial statements can lead to loss of relevance and reliability of information.

Commercial banks in Ukraine prepare and submit the following forms of annual financial statements:

1. The statement of financial position (Balance sheet) reflects the bank's assets, liabilities and equity as of the end of the reporting period.
2. The statement of profit and loss and other comprehensive income (Statement of financial results) reflects the main types of income and expenses grouped by their nature.
3. The statement of changes in equity (Statement of equity) reflects the movement of capital during the reporting period.
4. The cash flow statement reflects the cash flows arising from bank transactions.
5. Notes to the financial statements provide general information about the bank, the main principles of the bank's accounting policy, changes that occurred in it during the reporting period, their impact on the bank's financial condition and performance.

Annexes 36-39 show forms of financial statements of commercial banks.

10.3. Regulation of banking activity

Ensuring the reliable and sustainable functioning of commercial banks as the most important elements of the financial infrastructure of a market economy requires state regulation of their activities in the interests of society and constant, uninterrupted supervision of banking activities by the state or authorized bodies.

Bank regulation is a system of measures by which the state, through

the central bank, ensures the stable and safe operation of banks and prevents destabilizing processes in the banking sector.

The main tasks of bank regulation:

— maintaining the stability and reliability of the banking system in order to promote economic growth;

— protecting the interests of depositors who place their funds in banks against inefficient bank management and fraud;

— creation of a competitive environment in the banking sector. Thanks to banking competition, interest rates on loans are reduced, interest rates on deposits are increased, the range of banking services is expanded, and the latest banking technologies are introduced;

— ensuring the openness (transparency) of the policy and activity of the banking sector in general and of each bank in particular;

— maintaining the necessary level of standardization and professionalism in the banking sector, ensuring the efficient operation of banks and introducing technological innovations in the interests of consumers of banking services. In Ukraine according to the Laws of Ukraine "On the National Bank of Ukraine"

No. 679–XIV dated 05/20/1999. and "On banks and banking activity" No. 2121-III dated 07.12.2000 The National Bank of Ukraine regulates the activities of banks.

The main powers of the central bank as a banking regulatory body include:

— establishment of mandatory economic standards for banks;

— requirements for the formation of reserves to cover risks from conducting active and passive operations;

— creation of a bank deposit guarantee system;

— establishment of accounting principles and standards for banks, reporting rules and internal audit procedures;

— implementation of on-site remote monitoring of banks' activities;

— carrying out field inspections of banks;

— application of measures of coercive influence on problem banks.

In order to regulate banking activity on the basis of on-site supervision

in order to monitor the work of individual banks and the banking system in general, the National Bank of Ukraine has established indicators — **economic norms of bank activity**, which are mandatory for all banks.

In accordance with the Instruction "On the procedure for regulating the activities of banks in Ukraine", approved by Resolution of the Board of the NBU No. 368 dated August 28, 2001, and

"Methods for calculating economic standards for the regulation of banks in Ukraine", approved by Resolution of the Board of the NBU No. 315 dated 02.06.2009, the mandatory economic standards are grouped by direction of regulation as follows:

group 1 — capital standards;
group 2 — liquidity standards;
group 3 — credit risk
standards;
group 4 — investment
standards.

The group of standards regulating the capital base of banks includes the standard of the minimum size of regulatory capital (H1), the standard of sufficiency (adequacy) of regulatory capital (H2) and the standard of adequacy of core capital (H3).

Regulation of banking activity with the help of economic standards involves taking into account when calculating standards the most stable part of financial capital, which is the least subject to changes and can guarantee coverage of the negative consequences of various risks and ensure the protection of the interests of depositors, financial sustainability and stability of banks. Such an indicator is the size of the bank's regulatory capital.

The bank's regulatory capital consists of primary and additional capital (H1).

The core capital, or capital of the first level, is the most stable part of the bank's financial capital, which is not subject to transfer and redistribution.

Fixed capital consists of the following elements:

— actually paid registered authorized capital;
— additional contributions of shareholders to the authorized capital;
— financial assistance of the bank's shareholders;
— profit aimed at increasing the authorized capital;
— disclosed reserves — reserves and funds created or increased at the expense of retained earnings and disclosed in the bank's financial statements.

The disclosed reserves include:

— emission differences. Issuance differences (issuance income) — the amount of the excess of proceeds received by the issuer from the emission (issuance) of own shares (other corporate rights) over the nominal value of such shares (other corporate rights) at the time of their initial placement;
— reserve funds created in accordance with banking legislation;
— general reserves created under uncertain risk during banking activities;
— other bank funds.

The amount of all listed components of financial capital can be changed only based on the results of the financial year.

Additional capital, or capital of the second level, is a part of the bank's financial capital, the volume of which is subject to change.

Additional capital includes:

— reserves for indebtedness for credit operations (except for reserves for financial obligations provided by the bank) and for operations for placement of funds on correspondent accounts in other banks, which is assigned to the I-th (highest) quality category;
— the result of revaluation of fixed assets, which was included in the amount of banks' regulatory capital as of 12/31/2010;
— the result of the current and reporting year (profit), reduced by the amount of:

- accrued income, not received for more than 30 days from the date of their accrual, the payment term of which has not come (except for income from securities, which are assigned to the 1st group of assets

with a degree of risk of 0%), reduced by the amount of the formed reserves for these incomes;

- overdue accrued income, reduced by the amount of formed reserves for these incomes.

If the profit of the current year and the reporting year is less than the total amount of the adjustment, then the amount of the bank's core capital is reduced by the amount of this difference. Profits and losses from operations with shareholders received before 04.06.2016 are included in the regulatory capital of the bank as part of the result of the current and reporting years;

— subordinated debt, which is included in the capital (subordinated capital);

— retained earnings of previous years.

The regulatory capital of the bank is calculated according to the following formula:

$$РК = ОК + ДК - В,$$

where RK is the regulatory capital of the bank;

OK — basic capital (capital of the 1st level);

DC — additional capital (2nd level capital);

B — diversion (investment of the bank in shares and debt obligations of other banks both for the purpose of sale and for the purpose of investment, as well as reserves formed to cover losses from depreciated securities and debt obligations; investments in associated and subsidiary company).

The minimum amount of regulatory capital (H1) of a bank that received a banking license after July 11, 2014 should be 500 million. UAH

The minimum amount of regulatory capital (H1) of a bank that received a banking license before July 11, 2014 should be:

120 million hryvnias — until June 17, 2016;

200 million hryvnias — from July 11, 2017;

300 million hryvnias — from July 11, 2018;

400 million hryvnias — from July 11, 2019;

450 million hryvnias — from July 11, 2020;

500 million hryvnias — from July 11, 2024.

The standard of adequacy (adequacy) of regulatory capital H2 reflects the bank's ability to settle its obligations arising from trade, credit or other monetary transactions in a timely manner and in full.

This standard is defined as the ratio of regulatory capital to total assets and certain off-balance sheet instruments, weighted by the degree of credit risk.

The standard of sufficiency (adequacy) of regulatory capital is calculated according to the formula:

$$H2 = \frac{РК}{Ар + Свп - НКР} * 100\%,$$

where RK is the regulatory capital of the bank;

Ap — assets reduced by the amount of the created corresponding reserves for active operations;

SVP — the aggregate amount of the bank's open currency position for all foreign currencies and bank metals;

NKR is the amount of uncovered credit risk.

The regulatory value of the standard H2 of operating banks should not be less than 10%. The higher the value of the regulatory capital adequacy (adequacy) indicator, the greater the share of risk assumed by bank owners, and vice versa — the lower the value of the indicator, the greater the share of risk assumed by bank creditors/depositors.

The standard of capital adequacy (H3) is defined as the ratio of capital to the sum of assets and off-balance sheet liabilities weighted by the appropriate credit risk factors.

The standard of capital adequacy for banks will be introduced at the level of 7%, starting from January 1, 2019.

In addition to the specified standards, banks are required to form

capital buffers, namely: capital reserve (conservation) buffer and countercyclical buffer. Banks form capital buffers above the normative value of the standard of capital adequacy (H3).

The capital conservation buffer is used to cover losses during periods of financial and economic instability, and is formed exclusively at the expense of base capital. Banks that do not maintain the required level of this buffer are subject to restrictions on the payment of dividends, the purchase of own shares and bonuses.

The buffer of capital conservation is accumulated by banks during the period of economic growth to compensate for possible losses that occur in conditions of economic recession. Banks form capital conservation buffers:

— from January 1, 2020 — in the amount of 0.625%;
— from January 1, 2021 — in the amount of 1.25%;
— from January 1, 2022 — in the amount of 1.875%;
— from January 1, 2023 - in the amount of 2.5%.

The capital conservation buffer is calculated from the total amount of risk.

The countercyclical capital buffer is introduced in addition to the capital conservation buffer depending on the economic situation in the country and is formed at the expense of the basic or other type of capital used to cover losses. The countercyclical capital buffer is calculated from the total amount of risk in the amount of 0–2.5%. The size of the countercyclical capital buffer is established by the decision of the Board of the National Bank of Ukraine in case of significant credit activity of banks, taking into account the risks associated with excessive growth of lending. Capital buffers are planned to be introduced from January 1, 2020.

Banking activity is subject to **liquidity risk** — the risk of insufficient cash inflows to cover their outflows, i.e. the risk that the bank will not be able to settle its own obligations on time due to the impossibility of quick conversion of financial assets into means of payment without significant losses under certain conditions.

In this regard, banks must constantly maintain their liquidity at a

sufficient level for the timely fulfillment of all assumed obligations, taking into account their volumes, term and currency of payments; ensure the required ratio between own and borrowed funds; to form an optimal structure of assets with an increase in the share of high-quality assets with an acceptable level of credit risk to meet the legitimate requirements of depositors, creditors and other customers.

In order to monitor the state of banks' liquidity, the NBU established the following liquidity standards: instant liquidity (H4), current liquidity (H5) and short-term liquidity (H6).

The standard of instant liquidity (H4) is established to monitor the bank's ability to ensure the timely fulfillment of its monetary obligations at the expense of highly liquid assets within one operating day. The norm of instant liquidity is defined as the ratio of highly liquid assets to the bank's current liabilities.

The standard of instant liquidity is calculated according to the following formula:

$$Н4 = \frac{Ккр + Ка + Дс}{Рп + Ск} * 100\%,$$

where Kkr - funds on the correspondent account;
Ka – funds in the cash register;
Ds — unencumbered certificates of deposit of the National Bank of Ukraine; Pp — current accounts for calculating the instant liquidity ratio;
Sk — fixed-term funds of business entities, individuals and non-bank financial institutions, the final maturity of which has come.

The standard value of standard H4 should be at least 20%.

The current liquidity standard (H5) characterizes the bank's ability to repay its current liabilities at the expense of assets with repayment periods of up to one month. This standard establishes the minimum required volume of bank assets to ensure the fulfillment of the current volume of obligations within 1 calendar month.

The current liquidity norm is calculated according to the following formula:

$$H5 = \frac{A}{Зп} * 100\%,$$

where A is the bank's assets with a final maturity of up to 31 days;

Zp is a bank obligation with a final maturity of up to 31 days.

The standard value of standard H5 should be at least 40%.

The norm of short-term liquidity (H6) characterizes the ability of the bank to repay its obligations at the expense of assets with repayment periods of up to one year. This standard establishes the minimum required amount of assets to ensure the fulfillment of its obligations within 1 year.

The short-term liquidity ratio is calculated according to the following formula:

$$H6 = \frac{Ал}{31} * 100\%,$$

where Al is liquid assets with a final maturity of up to one year;

31 — the bank's obligations with a final maturity of up to one year

The standard value of standard H6 is set at a level of at least 60%.

Active operations related to credit risk include the bank's operations related to providing customers with borrowed funds for temporary use (granting loans in cash or non-cash form, taking into account promissory notes, placing deposits, carrying out factoring operations, financial leasing, etc.) or accepting obligations to provide funds for temporary use (providing guarantees, sureties, guarantees, etc.). The indicated operations also include transactions on the purchase and sale of securities on behalf of clients and on their own behalf (including underwriting) and any extension of the debt repayment period, which is granted in exchange for the debtor's obligation to return the owed amount.

Banks are required to have effective policies and procedures for timely identification, calculation, assessment, monitoring, control and

management of credit risk, including transactions with persons related to the bank, as well as large risks in relation to one counterparty or a group of related counterparties , persons connected with the bank. Such policy and relevant procedures should cover the entire crediting cycle, which includes credit issuance, credit evaluation, as well as credit and investment portfolio management.

Credit risk is the risk of non-payment or late or incomplete payment by the borrower of the principal debt and interest on it.

The NBU regulates banks' credit risks with the help of the following standards: standard of the maximum amount of credit risk per counterparty (H7); standard of large credit risks (H8); standard of the maximum amount of credit risk for transactions with persons related to the bank (H9).

The norm of the maximum amount of credit risk per counterparty (or group of related counterparties) (H7) is established in order to limit the credit risk arising as a result of default individual counterparties of their obligations.

The standard H7 is calculated according to the following formula:

$$H7 = \frac{Зс}{РК} * 100\%,$$

where Zs is the total debt for time and overdue deposits, loans, factoring, financial leasing, accounted promissory notes, securities, other active banking operations and the bank's financial obligations to one counterparty;

RK is the bank's regulatory capital.

The normative value of H7 is no more than 25%, i.e. the granting of loans to one borrower or a group of related borrowers should not exceed a quarter of the bank's regulatory capital.

The norm of large credit risks (H8) is established in order to limit the concentration of credit risk for a single counterparty or a group of related counterparties. Credit risk assumed by the bank for one counterparty or a group of related counterparties is considered large if the

sum of all the bank's claims on such borrowers is more than 10% of the bank's regulatory capital. Therefore, the decision of the bank's credit committee on the possibility of carrying out active transactions with the counterparty/borrower in the amount of 10% or more of the bank's regulatory capital is approved by the bank's board.

The norm of large credit risks is calculated according to the formula:

$$H8 = \frac{З_В}{РК} * 100\%,$$

where Zv is the total debt for time and overdue deposits, loans, factoring, financial leasing, accounted promissory notes, securities, receivables, other active banking operations and the bank's financial obligations for all major credit risks provided by the bank to all counterparties (or groups of related counterparties), all persons related to the bank;

RK is the bank's regulatory capital.

According to the requirements of the NBU, the total amount of large credit risks should not exceed the bank's regulatory capital by more than 8 times, that is, the normative value of H8 should not exceed 800%. If the standard of large credit risks exceeds 8 times the amount of regulatory capital, then the requirements for the standard of adequacy (adequacy) of regulatory capital (H2) are automatically increased:

— if the excess is less than 50%, then the requirements for standard H2 are doubled;
— if the excess is more than 50%, then the requirements for standard H2 are tripled.

The norm of the maximum amount of credit risk for transactions with persons related to the bank (H9) is established to limit the risk that arises during transactions with insiders, which may lead to direct and indirect influence on the bank's activities.

The norm of the maximum amount of credit risk for transactions with persons related to the bank is calculated according to the formula:

$$Н9 = \frac{Зін}{РК} * 100\%,$$

de Zin — total debt for time and overdue deposits, loans, factoring, financial leasing, accounted promissory notes, securities, other active banking operations and the bank's financial obligations to persons related to the bank;

RK is the bank's regulatory capital.

The normative value of H9 is set at a level of no more than 25%.

The National Bank of Ukraine supervises the acquisition by the bank of corporate rights (shares, units, shares) in exchange for funds or property for the purpose of obtaining income/profit or the right to participate in the management of a legal person, including by direct investment. A bank whose regulatory capital meets all requirements has the right to invest without written permission if:

— the investment in a financial institution is generally no more than 1% of the authorized capital of the bank;

— the investment is made to the authorized capital of the credit history bureau, which has a license of the national commission, which invests funds based on the written permission of the NBU.

The National Bank of Ukraine, in order to limit the investment risk associated with investments and transactions with securities by banks, establishes the following investment standards: the standard for investing in securities separately for each institution (H11), the standard for the total amount of investment (H12).

The standard for investing in securities separately for each institution (H11) is established to limit the risk associated with investing in shares, units, shares and investment certificates of a separate legal entity.

The norm of investing in securities separately for each institution is calculated according to the formula:

$$Н11 = \frac{Кін}{СТ} * 100\%,$$

where Kin — bank funds invested in the purchase of shares (parts/shares) and investment certificates separately for each institution;

ST — authorized capital of the bank.

Funds invested also include investments in associated and subsidiary institutions. *The normative value of H11 is set at a level of no more than 15%.* Therefore, a commercial bank can invest no more than 15% of the authorized capital in the securities of one individual institution.

The norm of the total amount of investment (H12) is established to limit the risk associated with the implementation of investment activities by the bank in general.

The norm of the total amount of investment is calculated according to the formula:

$$Н12 = \frac{СКін}{СТ} * 100\%,$$

where SKin is the bank's funds invested for the purpose of purchasing shares (shares) and investment certificates of any legal entities;

ST — authorized capital of the bank.

The normative value of H12 is set at a level of no more than 60%, that is, all investments of the bank cannot exceed 60% of its authorized capital.

An important tool of bank management in ensuring financial stability is the creation of a **system of reserves to cover banking risks**. Requirements for the formation of reserves to cover risks from carrying out active operations are set out in the Regulation on determination by banks of Ukraine of the amount of credit risk for active banking operations, approved by Resolution of the Board of the National Bank of Ukraine No. 351 dated 06/30/2016.

In banking, mandatory, general and special reserves are distinguished.

Mandatory reserves are funds accumulated by a commercial bank, which are kept in a reserve account at the central bank for the purpose of

ensuring liquidity, deposit liabilities or other passive operations of banks.

General reserves are funds mobilized by the bank at the expense of the bank's profit after tax to compensate for unforeseen losses from various types of uncertain risks. To cover losses from banking activities in general, based on the results of the financial year, commercial banks create a reserve fund, which, in fact, is a general reserve, that is, a reserve of funds to cover losses from statutory activities.

Special reserves are funds mobilized by a commercial bank to cover doubtful debts, unforeseen expenses, and losses from active operations. The formation of special reserves is carried out at the expense of the bank.

For each type of financial assets, group of financial assets, receivables from the bank's business activities and financial obligations provided, the bank develops intra-bank regulations regarding the assessment of the asset and the calculation of the amount of credit risk for such an asset and approves it by the decision of the authorized body.

Internal banking regulations establish optimal, economically justified values of indicators for assessing the financial condition of debtors/counterparts, which ensure a timely and adequate assessment of the amount of credit risk for active banking operations, taking into account the legislation of Ukraine.

The Bank determines credit risk based on the following types of active operations:

— loans granted to legal entities and individuals;
— loans and claims to banks (including reverse repo operations, placement of funds on correspondent accounts, funds in settlements);
— financial receivables;
— accounts receivable for economic activity;
— debt securities.

All specified reserves are formed by banks by assigning them to expenses. Each of them has its own way of using accumulated funds. First of all, it covers losses from a specific active operation. A reserve for one type of active operations cannot be used by the bank to cover losses for other types of active operations. That is why reserves for active operations

are often called corresponding reserves. In fact, reserves created under active operations are not used for coverage losses from banking activities in general. Transfers of funds to reserves are made before the established deadline for submission of the monthly balance sheet.

The NBU monitors commercial banks' compliance with mandatory reserve standards by comparing the amount determined on the basis of the established standard with the actual arithmetic mean of the balance of funds in the bank's correspondent account. Appropriate measures of influence may be applied to a commercial bank for non-compliance with the provisioning standard by a commercial bank.

In order to protect the rights and legitimate interests of depositors of commercial banks, to strengthen trust in the banking system, to stimulate the attraction of funds into the banking system, to ensure an effective procedure for the withdrawal of insolvent banks from the market, a **system of guaranteeing deposits of individuals** was created in Ukraine, which is regulated by the Law of Ukraine "On the System of Guaranteeing Deposits natural persons" No. 4452-VI dated February 23, 2012.

The law establishes the legal, financial and organizational principles of the functioning of the system of guaranteeing deposits of individuals, the powers of the Fund for guaranteeing deposits of individuals, the procedure for payment of compensation for deposits by the Fund, as well as regulates relations between the Fund, banks, and the National Bank of Ukraine, and determines the powers and functions of the Fund with regard to the withdrawal of insolvent banks from the financial market and liquidation of banks.

The Deposit Guarantee Fund of Individuals in Ukraine was established in 1998. in accordance with the Presidential Decree "On Measures to Protect the Rights of Individual Depositors of Commercial Banks" No. 996/98 dated September 10, 1998. September 20, 2001 The Verkhovna Rada of Ukraine adopted the Law "On the Deposit Guarantee Fund of Individuals". The Fund is a state specialized institution. It functions as an economically independent institution that does not aim to make a profit. The participants of the Fund are all commercial banks,

except PJSC "State Savings Bank of Ukraine", deposits in which are guaranteed by the state at the expense of budget funds. Participation of banks in the Fund is mandatory. The bank becomes a member of the Fund on the day it receives a banking license. The Fund excludes a bank from the Fund's participants in the event that the National Bank of Ukraine decides to revoke the banking license and liquidate the bank. The Fund is accountable to the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine and the National Bank of Ukraine.

According to the law, commercial banks are obliged to insure only the deposits of individuals. Deposits of legal entities are not covered by the guarantee system. The deposit guarantee fund reimburses the balance of deposits only in case of their unavailability through designated agent banks and only within the limits of the amount established by law (200,000 hryvnias). The amount of compensation includes accrued interest on the deposit.

Supervision and control over the financial stability of banks by the National Bank of Ukraine is also carried out through the establishment of accounting principles and standards, reporting rules and the procedure for conducting internal audits, conducting inspection checks of banks on places and applying measures of coercive influence on problem banks. The main task of all levels of the banking supervision system of the NBU is to regulate the activities of commercial banks with the aim of bringing them into compliance with the norms and requirements of current banking legislation, as well as with the aim of ensuring the liquidity, solvency and stability of the banking system, protecting the interests of depositors and creditors.

10.4. Methods of ensuring financial security of banks

The banking system is the main element of the financial and credit system of the state, as it not only ensures the effective and safe redistribution of monetary capital, but is also a key link of the payment mechanism. Increasing the security of the banking system is necessary

primarily because banking activity, firstly, concerns the property interests of an unlimited number of subjects, and, secondly, due to its specificity, it is able to influence economic processes in the country in general.

The main goal of the bank's security is to exclude the possibility of causing it losses or loss of profit, as well as ensuring its efficient operation and quality implementation of banking operations.

The financial security of an individual bank is closely related to the security of the banking system as a whole. Problems arising in one bank can lead to a systemic banking crisis. This is explained by the nature of banks' activities, because, unlike other commercial institutions, they work with other people's money. That is why any mistrust of even one bank can lead to a massive outflow of deposits from the banking system. The essence of the financial security of banking activity is the protection of the bank's financial interests, its financial stability, as well as from the environment in which it operates.

Financial security of a bank is a set of conditions under which potentially dangerous actions or circumstances for the financial condition of a banking institution are purposefully eliminated or reduced to such a level that they cannot cause losses during the operation of the bank, prevent the preservation and reproduction of its property, infrastructure and, most importantly , — the bank's achievement of its statutory goals.

Threats to the financial security of banks can be divided into two groups: internal and external.

The main types of **internal threats** include the low quality of the bank's credit portfolio (the presence of problem loans, an increase in overdue debts), insufficient management level (incorrect management decisions, errors in strategic planning), an unbalanced structure of assets and liabilities (low level of liquidity), inefficient bank operations (weak marketing research of the market, insufficient level of diversification of banking operations), criminal actions of personnel (fraud, transfer to competitors, insufficient level of qualification), the presence of channels of leakage of banking information.

External threats to the financial security of banks are imperfect regulatory regulation of banking activity, inconsistent monetary and credit policy of the central bank, instability of the external environment, distrust of the banking system on the part of creditors and depositors, the presence of a powerful competitive environment, criminal activity of third parties, negative macroeconomic conditions, hacker viruses attacks.

Table 10.2 groups the most common methods of eliminating threats to the financial security of banks, as well as the current practice of domestic banks regarding their application.

Table 10.2

Methods of eliminating typical threats to the financial security of banks

Threat	Methods of elimination	Practice domestic banks
1	*2*	*3*
	MANAGEMENT	
Low quality management Low level of banking service	– regulation of requirements for bank management; – hiring – highly qualified employees; – reengineering of business processes; – revision of the organizational structure; – development and implementation of internal provisions regulating work – subdivisions	– deficit – highly qualified personnel; – banks operate in conditions of low competition; – focus on achieving quantitative indicators – growth; – low corporate culture
	LIQUIDITY	
Inability of the bank to fulfill its current obligations	– forecasting; – sufficient volume – highly liquid assets; – balance of assets and liabilities; – use of managed liabilities	– banks comply – liquidity standards; – mainly the market of managed liabilities – presented – interbank loans

LENDING		
Growth is problematic debts	– revision of the credit policy; – formation of reserves for credit operations; – diversification of the credit portfolio; – consideration in methods – assessment of creditworthiness of industry specifics – borrowers; – control over borrowers and their financial condition	– reserves are formed in full volumes; – orientation mainly – for the rapid expansion of credit portfolios; – excessively liberal – procedures for crediting individuals; – weak control – the use of credit funds and the condition of the collateral
1	***2***	***3***
INTERBANK LENDING		
The risk of changes in the value of the loan Presence of dependence between conditions lending and bank reputation	– maintaining the necessary image of the bank on the market; – use of mathematical models to compare the dynamics of costs for – service of loans and placement income – received funds	– the market of interbank loans is most often used to cover the need – in liquid funds; – funds are mainly provided – on a short-term basis
CURRENCY TRANSACTIONS		
The possibility of changing the exchange rate Significant international borrowing financial markets World financial crises	– management of currency position; – limitation of speculative operations with currency – values; – equalization of the structure of assets and liabilities in foreign currency; – hedging.	– there are no tools for hedging risks; – currency risks – are limited by the regulations of the NBU, which banks – adhere to
TRANSACTIONS WITH SECURITIES		
A fall in the market rate of valuables papers located owned by the bank	– setting limits on – operations with securities; – diversification of trade and investment portfolios; – carrying out operations only with high-class papers	– limited activity of banks in the securities market, which is connected with – underdevelopment of the stock market of Ukraine; – Banks comply with the standards established by the NBU

EFFICIENCY OF ACTIVITIES		
low profitability of banks	– revision of the credit policy; – expanding the scope of activities; – finding a market niche; – attraction of new customers; – improving the quality of management	– there is no diversification of operations in small banks; – low quality of management; – significant dependence – from major shareholders
CRIMINAL ACTS		
Illegal actions by third parties (attacks on cash registers, branches, hacking of information systems)	– physical protection of premises and cargo to be collected; – use of special premises; – construction of secure computer networks	– recommendations are observed in full
Criminal actions employees	– financial control; – fair wages; – effective work of the internal security service	– the average salary in the banking sector is – one of the highest in the fields of economy; – availability of security service and internal audit

Banks, like any other business entities, have economic independence in terms of taking measures aimed at achieving financial security. At the same time, their activities are subject to intervention by the state, which has tools to influence the work of banking institutions.

Intrabank methods of ensuring the bank's financial security include: financial planning, financial analysis, financial management and financial control.

Financial planning consists in the formation of a forecast balance of resources, the calculation of forecast financial results, the preparation of a capital movement plan, a plan of banking operations, a plan for the development and implementation of new banking products and services, and the formation of the bank's budget for the year.

The main tasks of **financial analysis** are the definition and analysis of indicators that characterize the process of managing the bank's assets and liabilities, the process of managing bank commissions and trade operations; analysis of bank profitability indicators and analysis of factors affecting performance indicators.

Financial management consists in the operational management of the bank's profitability, the bank's financial risks and funds in order to maintain the required level of liquidity.

Financial control is reduced to the verification of compliance of the results of the bank's activities with the specified parameters and includes control over compliance with the bank's liquidity standards, limits and indicators established taking into account various financial risks, as well as control over the implementation of planned tasks.

One of the basic elements of influence on the financial security of banks by state bodies is banking regulation. External methods of banking regulation are implemented through a system of measures, which are conditionally divided into preventive, which are used to prevent possible negative consequences from one or another economic situation, and protective, which are used to protect against already existing risks.

Preventive measures of banking regulation include requirements for the size and structure of the bank's own capital, requirements for liquidity, licensing of certain banking operations.

The protective measures of banking regulation include such as the creation of a deposit guarantee system; formation of reserves by banks to cover credit and other risks; refinancing of commercial banks by the central bank.

Awareness of internal and external threats to banking activity is the first step towards the formation of a reliable system for ensuring the bank's financial security. The system itself must be in constant development and adapt to changes in the external and internal environment. The completeness, timeliness and effectiveness of management measures to eliminate, prevent and prevent existing and potential threats to the banking system, and therefore to the socio-economic sphere of the state, depend on the assessment of the level of banking security and the effective tools for its provision.

Interesting to know

An effective instrument of state control and regulation of banking activity in countries with a developed market economy is the system of special taxation. It began to be worked out especially carefully after the global financial and economic crisis of 2008-2009. In the post-crisis period, various countries introduced systems for the administration of special banking taxes and fees.

The main purpose of special taxation of banks is to create a stabilization fund of the banking system with the aim of compensating the costs of overcoming the consequences of crises and reducing the bankruptcy risks of systemically important banks.

Funds received from the payment of special taxes and fees are allocated for various purposes. For example, in Argentina, Brazil, and Great Britain, they are directed to the state budget, and in Sweden and Germany, funds are accumulated in a special stabilization fund, which helps to minimize the risks of bank bankruptcy in conditions of a financial crisis. Both options make it possible to settle a number of important state tasks. Thus, the first scenario allows solving the problem of the budget deficit, and the second allows to restore public confidence in the banking system.

Special taxes on banking activities in different countries of the world

Country	Name Tax/fee	Tax base	Rate tax/fee
Belgium	Stabilization financial contribution	The total amount of liabilities less capital and deposits	0,245 %
Great Britain	Bank fee	Balance sheet minus insurance liabilities, protected deposits, sovereign obligations, repo	0,088 %
Greece	Bank fee	Annual amount of banks' liabilities	0,6 %
Portugal	Bank fee	General obligations for minus certain articles	0,05 %
United States	Fee for responsibility for the financial crisis	Balance sheet liabilities minus deposits, insured by the Federal Insurance Corporation deposits	0,15 %
Hungary	Bank fee	Summary of the balance minus interbank loans and receivables	0,15 % — at the base to 50 billion forints; 0,53 % — when exceeding
France	Tax on systemic risks	The amount of the bank's own capital exceeding 500 mln. euro	0,25 %

CHAPTER 2. EDUCATIONAL AND METHODOLOGICAL PROVISION
2.1. RECOMMENDED WORKSHOP LESSON PLANS AND TASKS FOR TESTING KNOWLEDGE

Topic 1. Theoretical foundations of the functioning of the banking system

1. ***Evolution of banking activity, origin of commercial banks.***
2. ***The essence of the banking system, its goals and functions.***
3. ***Structure of the banking system and principles of its functioning.***
4. ***Features of the formation and development of the banking system of Ukraine.***

Recommended reading

Regulatory documents:

1. Constitution of Ukraine [Electronic resource] / Law of Ukraine No. 254k/96-BP of June 28, 1996 – Access mode: http://zakon2.rada.gov.ua.
2. About banks and banking [Electronic resource] / Law of Ukraine
3. On the approval of the Instructions on the procedure for regulating the activities of banks in Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 368 dated 08.28.2001 - Access mode: http://zakon1.rada.gov.ua.
4. On making changes to some regulatory acts of the National Bank of Ukraine [Electronic resource] / NBU Board Resolution No. 242 dated 04/07/2016 - Access mode: http://zakon1.rada.gov.ua.

Textbooks:

1. Banking system: textbook / [M. I. Krupka, E. M. Andrushchak, N. G. Paytra, etc.]; under the editorship Doctor of Economics, Prof. M. I. Krupky. - Lviv: LNU named after Ivan Franko, 2013. - 556 p.
2. Banking system: study guide / Yu. E. Kholodna, O. M. Rats. - H.: Ed. HNEU, 2013. – 316 p.
3. The banking system: in diagrams and tables (under the general editorship of S. A. Kuznetsova // S. A. Kuznetsova, T. M. Bolgar, Z. S. Pestovska), K.: "Center for educational literature", 2012. – 320 p.
4. Banking system: workshop // Kuznetsova S. A., Pestovska Z. S. – K.: "Center for Educational Literature", 2014. - 348 p.
5. Banking operations: textbook / A. M. Moroz [etc.]; general ed. A. M. Moroza; - 3rd ed., revised. and additional - K.: KNEU, 2008. - 608 p.
6. Banking operations: a textbook / Ed. Doctor of Economics, Prof. O. V. Dzyublyuk. – Ternopil: TNEU Publishing House "Economic Thought", 2009. – 696 p.
7. Vovchak O. D. Credit and banking: a textbook / O. Vovchak, N. Rushchyshyn, T. Andreiniv. - K.: Znannia, 2008. - 564 p.

8. Money and credit: textbook / M. AND. Savluk, A. M. Moroz, M. F. Pukhovkina and others; in general ed. M. AND. Savluka - K.: KNEU, 2011. - 602 p.
9. Epifanov A. AT. Operations of commercial banks: training. manual / A. Epifanov, N. Maslak, I. Fat. - Sumy: VTD "University Book", 2007. - 523 p.
10. Kuznetsova S. AND. Banking system: education. manual / (S. A. Kuznetsova, T. M. Bolgar, Z. S. Pestovska); under the editorship WITH. AND. Kuznetsova. - K.: "Center for Educational Literature", 2014. - 400 p.
11. National Bank and Monetary Policy: Textbook / Ed. AND. M. Frost, M. F Pukhovkina. - K.: KNEU, 2005. - 556 p.
12. Prasolova S. P. Banking operations: Education. manual and practice / S. P. Prasolova, O. WITH. Vovchenko - K.: "Center for Educational Literature", 2013. - 568 p.
13. Ryabinina L. M., Nyanchuk N. Yu., Ukhlicheva L. AND. Banking operations: a study guide / edited by Ryabinina L. M. – Odesa: ODEU, 2011. – 536 p.

Information resources:

1. Scientific and practical magazine "Banking".
2. Analytical and statistical publication of the NBU "Bulletin of the National Bank of Ukraine".
3. Scientific and practical magazine of the NBU "Bulletin of the National Bank of Ukraine".
4. Supplement to the magazine "Bulletin of the National Bank of Ukraine" "Legislative and normative acts on banking activity".
5. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Individual Deposit Guarantee Fund [Electronic resource]. – Access mode: http://www.fg.org.ua.

Tasks for testing knowledge

Questions for self-control

1. Name the historical prerequisites for the development of banking.
2. Reveal the essence of the concepts "banking", "banking institution".
3. Where and when did the first banking institutions appear?
4. What economic prerequisites caused the formation of the banking system?
5. Describe the general and specific features of the banking system.
6. Name the main principles of the functioning of the banking system.
7. What functions does the banking system perform in the country's economy?
8. Describe the main periods of development of the banking system of Ukraine.
9. Describe the modern structure of the banking system of Ukraine.
10. What are the main laws regulating the activity of banking institutions in Ukraine?

Test tasks

1. Financial intermediation is:

a) banking transactions for granting loans;
b) banking operations for investment financing;
c) accumulation of free funds and their placement on the money market;
d) operations to create the bank's deposit base.

2. The essence of the credit system can be expressed as:

a) a legally fixed set of elements of monetary circulation in their unity;
b) a legally structured and subordinated set of financial intermediaries that carry out banking activities;
c) a set of credit relations, forms, lending methods and credit institutions;
d) institutional form of banking in the country.

3. A bank is considered to be:

a) any intermediary on the money market;
b) a financial intermediary on the money market that provides credit to economic entities;
c) a financial institution that mobilizes temporarily free funds of economic entities;
d) financial intermediary of the money market, which performs a set of basic banking operations.

4. The banking system is:

a) a legally fixed set of elements of monetary circulation in their unity;
b) a legally structured and subordinated set of financial intermediaries that carry out banking activities;
c) a set of credit relations, forms, lending methods and credit institutions;
d) institutional form of banking in the country.

5. Define the purpose of a commercial bank:

a) attraction of deposits;
b) provision of loans;
c) making a profit;
d) organization of monetary settlements in the state.

6. What is the structural construction of the market-type banking system:

a) one-level;
b) two-level;
c) three-level;
d) multi-level.

7. When was the Law of Ukraine "On Banks and Banking Activity" adopted:

a) in 1991;
b) in 1996;
c) in 2000;
d) in 1999.

8. Banking system:
a) is part of the credit system;
b) is part of the monetary system;
c) includes the credit system;
d) is part of the currency system.

9. The banking system includes:
a) credit unions;
b) non-bank financial and credit institutions;
c) insurance companies;
d) commercial banks.

10. What function do banks perform in the economy:
a) credit;
b) settlement and cash register;
c) transformational;
d) regulatory.

Practical tasks

Task 1. Determine the main stages of the origin and development of banking business.

Task 2. Determine the place of the banking system in the economic system of the country (in the form of a scheme).

Task 3. Compile a list of the main searchable electronic sources of indicators of the banking system of Ukraine.

Topic 2. Status and main activities of central banks

1. ***Prerequisites for the emergence and principles of the organization of central banks.***
2. ***Main areas of activity of central banks.***
3. ***Features of the functioning of the central banks of foreign countries.***
4. ***Status and principles of organization of the National Bank of Ukraine.***
5. ***Functions of the National Bank of Ukraine.***

Recommended reading

Regulatory documents:

1. 1. Constitution of Ukraine [Electronic resource] / Law of Ukraine No. 254k/96-BP of 06.28.1996 – Access mode: http://zakon2.rada.gov.ua.
2. About the National Bank of Ukraine [Electronic resource] / Law of Ukraine № 679-XIV dated 05/20/1999 – Access mode: http://zakon2.rada.gov.ua.
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2. Analytical and statistical publication of the NBU "Bulletin of the National Bank of Ukraine".
3. Scientific and practical magazine of the NBU "Bulletin of the National Bank of Ukraine".
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6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Individual Deposit Guarantee Fund [Electronic resource]. – Access mode: http://www.fg.org.ua.

Tasks for testing knowledge

Questions for self-control

1. Explain what caused the need to create central banks?
2. What forms of ownership of central banks are accepted in world practice?
3. How do the functions of the central bank differ from the functions of commercial banks?
4. Describe the main activities of the central bank.
5. Define the models of relations between central banks and state authorities.
6. Describe the main aspects that determine the status of a central bank.
7. What functions did the central banks of the Eurozone countries delegate to the European Central Bank?
8. Define the principles of functioning of the National Bank of Ukraine.
9. What is the main purpose of the National Bank of Ukraine?
10. What structures are the governing bodies of the NBU?

Test tasks

1. What is the form of ownership of the Central Bank of Ukraine:
a) state;
b) joint-stock;
c) cooperative;
d) private.
2. The Central Bank issues cash into circulation through:
a) commercial banks;
b) state treasury;
c) insurance companies;
d) pension funds.
3. The right of monopoly issuance of banknotes belongs to:
a) commercial banks;
b) insurance companies;
c) central banks;
d) pension funds.
4. The head of the National Bank of Ukraine is appointed by:
a) Cabinet of Ministers of Ukraine;
b) Verkhovna Rada of Ukraine;
c) President of Ukraine;
d) Council of the NBU.

5. According to the current legislation of the NBU, it is allowed to carry out transactions with securities:

a) on the primary market;
b) on the secondary market;
c) on the primary and secondary markets;
d) on the over-the-counter market.

6. In the process of performing the function of the financial agent of the government, the central bank:

a) provides cash management of the budget;
b) provides loans to banks;
c) serves the state debt;
d) issues banknotes.

7. The Central Bank performs the following functions (main areas of activity):

a) lending to the government;
b) regulation of banking activity and credit servicing of banks;
c) lending to individuals and legal entities;
d) cash management of the budget.

8. What is the form of ownership of the US central bank:

a) state;
b) joint-stock;
c) cooperative;
d) private.

9. When was the Law of Ukraine "On the National Bank of Ukraine" adopted:

a) in 1991;
b) in 1996;
c) in 1999;
d) in 1992.

10. The main goal of the currency policy of the NBU is:

a) determination of the exchange rate regime of the national currency;
b) formation of gold and currency reserves of the state;
c) regulation of the interbank exchange rate;
d) stabilization of the exchange rate of the national currency and balancing of the country's balance of payments.

Practical tasks

Task 1. The territorial administration of the NBU received the following documents for the registration of a commercial bank:

1) application for approval of the statute of a legal entity;
2) minutes of meetings of founders and constituent meetings;
3) founding agreement on the creation of a bank;
4) bank charter;
5) a copy of the temporary certificate of registration of the issue of shares;
6) documents certifying the full payment by the founders of contributions to the authorized capital;

7) information on the ownership structure of a legal entity intending to carry out banking activities and the founder acquiring a significant stake in it;
8) a copy of the payment document on the payment of the fee for approval of the bank's charter.

Determine the sufficiency of documents for the registration of a commercial bank. What decision will the territorial administration of the NBU make after considering the submitted package of documents?

Task 2. The territorial administration of the NBU received a complete package of documents for registration of a regional commercial bank. Copies of payment documents on the payment of contributions to the statutory fund show that payments were made in the amount of 200 million. UAH

To determine what decision can be taken by the territorial administration of the NBU. In what cases can the NBU refuse state registration of a bank.

Task 3. The commercial bank issued shares with a nominal value of UAH 1,000. a total of 500,000 pieces. Of the total number of issued shares, 200,000 were sold at a price of UAH 1,200. for one share.

To determine the size of the authorized capital of a commercial bank and its compliance with the standard established by the National Bank. Calculate the issue income of the bank from the issue of shares.

Topic 3. Organization of commercial banks

1. ***The essence and types of commercial banks.***
2. ***Creation and registration of commercial banks.***
3. ***Licensing of banking activities.***
4. ***Organizational and functional structure of commercial banks.***
5. ***Classification of operations of commercial banks.***

Recommended reading

Regulatory documents:

1. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 - Access mode: http://zakon2.rada.gov.ua.
2. About the National Bank of Ukraine [Electronic resource] / Law of Ukraine No. 679-XIV dated 05/20/1999 - Access mode: http://zakon2.rada.gov.ua
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5. On making changes to some normative legal acts of the National Bank of Ukraine [Electronic resource] / Resolution of the Board of the NBU No. 242 of 04/07/2016 – Access mode: http://zakon1.rada.gov.ua.

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6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Individual Deposit Guarantee Fund [Electronic resource]. – Access mode: http://www.fg.org.ua.

Tasks for testing knowledge

Questions for self-control

1. Reveal the nature and types of commercial banks.
2. Reveal the advantages and disadvantages of universal and specialized banks.
3. Describe the organizational and functional structure of a modern commercial bank.
4. What groups are banking operations divided into by purpose?
5. What are passive operations of a commercial bank?
6. What are the bank's goals when conducting active operations?
7. Which operations of the bank belong to commission-intermediary operations and how do they differ from active and passive operations?
8. What is the content of the division of bank operations into basic and additional?
9. What documents must be submitted for state registration of a bank?
10. What is a banking license and what is the content of the licensing procedure?

Test tasks

1. Which of the operations of commercial banks is considered basic:
a) operations with foreign currency;
b) provision of information services;
c) purchase of securities;
d) acceptance of contributions and deposits.

2. The minimum amount of authorized capital for newly established banks in Ukraine is:
a) 120 mln. UAH.;
b) 500 thousand UAH.;
c) 10 million UAH.;
d) 500 mln. UAH

3. Which of the following bank operations is active:
a) formation of the statutory fund;
b) deposit operations;
c) providing loans to other banks;
d) issuance of bank debtobligations.

4. The main function of commercial banks is:
a) mobilization of temporarily free funds and their transformation into capital;
b) obtaining the maximum profit;
c) issue of money;
d) monetary and credit regulation of the economy.

5. 5Active operations of commercial banks are operations:
a) from the placement of bank resources for the purpose of obtaining profit;
b) on the creation of credit resources;
c) from the formation of the statutory fund;
d) from making interbank settlements.

6. Which of the operations belong to commission-intermediary operations?

a) investment of bank funds in securities;
b) issuance of own debt securities;
c) founding operations;
d) mediation in placement of clients' securities.

7. Which of these banks are specialized?
a) cooperative;
b) investment;
c) state;
d) foreign.

8. The bank has the right to carry out banking activities on the condition of receiving:
a) banking license;
b) registration certificates;
c) written permission;
d) licenses for the performance of individual operations.

9. According to the legislation, commercial banks in Ukraine can be established in the form of:
a) public joint-stock company and cooperative bank;
b) limited liability company and closed joint-stock company;
c) open joint-stock company and closed joint-stock company;
d) a closed joint-stock company and a cooperative bank.

10. Passive operations of commercial banks are operations:
a) on the creation of banking resources;
b) from placement of free credit funds;
c) investment operations;
d) factoring operations.

Practical tasks

Task 1. The activity of a commercial bank for the quarter is characterized by the following indicators:

1. Funds in the current accounts of legal entities — UAH 63,986 million.
2. Deposits of individuals — UAH 80,910 million.
3. Interbank loans — UAH 66,705 million.
4. Loans granted to business entities — UAH 124,340 million.
5. Loans granted to other banks — UAH 17,618 million.
6. Funds in the correspondent account at the National Bank of Ukraine — UAH 33,531 million.
7. Authorized capital — UAH 17,869 million.
8. Retained earnings — UAH 10,259 million.
9. Consumer loans — UAH 45,098 million.
10. Investment in securities — UAH 19,142 million.

Group indicators according to the nature of the transaction into passive and active and calculate the balance.

Task 2. *Group operations by nature into passive, active and commission-intermediary.*

1. The bank purchased government securities.

2. The bank received a loan from the central bank.
3. The bank paid the money to the client based on the presented check.
4. The bank transferred funds to the account of KP "Vodokanal" according to the client's receipt.
5. The bank issued a savings certificate to the client.
6. The bank bought bonds on behalf of the client.
7. The bank formed a special development fund.
8. The bank formed a reserve for customer debts.
9. The bank placed funds on deposit in another bank.

Task 3. *On the basis of the bank's simplified balance sheet, draw up effective balance sheets A, B, C, D after each transaction.*

At the same time, the initial balance sheet precedes each transaction:

A. Money under a settlement check in the amount of UAH 50,000 received by one of the bank's depositors and deposited by him in another bank.

B. The depositor withdrew UAH 50,000 in cash from his account. The bank recovered the loss of its cash, receiving it in the amount of UAH 50,000. at the NBU

A. A settlement check for the amount of UAH 60,000, provided by another bank, is placed in this bank.

G. Bank sold government securities (OVDP) in the amount of UAH 100,000. Output data:

<table>
<tr><th>Assets (thousand UAH)</th><th>Liabilities (thousand UAH)</th></tr>
<tr><td>Bank cash register - 100</td><td rowspan="2">Balances on current accounts and deposits - 900</td></tr>
<tr><td>Reserves - 200</td></tr>
<tr><td>Credits - 500</td><td rowspan="2">Equity - 100</td></tr>
<tr><td>Securities - 200.</td></tr>
<tr><td>The balance is 1000</td><td>The balance is 1000</td></tr>
</table>

Topic 4. Formation of the resource base of commercial banks

1. ***The essence and peculiarities of the formation of commercial bank resources.***
2. ***Composition and structure of banking resources.***
3. ***Functions and value of the bank's own capital.***
4. ***Involved bank resources.***
5. ***Borrowed funds from the bank.***

Recommended reading

Regulatory documents:

1. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 – Access mode: http://zakon2.rada.gov.ua.
2. On the approval of the Regulation on the procedure for the implementation of deposit operations by banks of Ukraine with legal entities and individuals [Electronic resource] / Resolution of the NBU No. 1256/8577 dated 12.29.2003 – Access mode: http://zakon.rada.gov.ua.

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No. 259 dated 04/30/2009 – Access mode: http://zakon.rada.gov.ua.
4. On making changes to some regulatory acts of the National Bank of Ukraine [Electronic resource] / Resolution of the Board of the NBU No. 242 dated 04.07.2016 - Access mode: http://zakon1.rada.gov.ua.
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6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Individual Deposit Guarantee Fund [Electronic resource]. – Access mode: http://www.fg.org.ua.

Tasks for testing knowledge

Questions for self-control

1. Clarity of the essence and meaning of banking resources.
2. Describe the sources of formation of banking resources.
3. What is the structure and what are the sources of formation of the bank's own capital?
4. Describe the main forms and types of bank resources involved.
5. What is the essence of deposit operations of banking institutions?
6. What funds are part of the resources of commercial banks involved?
7. What are the features of interbank lending?
8. What types of loans does the National Bank of Ukraine provide to commercial banks?
9. What securities belong to banks' own debt obligations?
10. What types of bonds can a commercial bank issue?

Test tasks

1. Which funds of the bank belong to the involved:
a) time deposit of the firm;
b) funds invested in another commercial bank;
c) funds received as a result of bond issuance;
d) funds on a correspondent account in the central bank.
2. The authorized capital of a joint-stock bank can be created at the expense of:
a) budget funds;
b) founders' own funds;
c) received loans;
d) all answers are correct.
3. Borrowed funds from banks include:
a) deposits of legal entities;
b) proceeds from bond issuance;
c) proceeds from the issuance of deposit certificates;
d) deposits of individuals.
4. The purpose of issuing bonds by commercial banks is:
a) loss coverage;
b) replenishment of authorized capital;
c) formation of the funds involved;
d) formation of borrowed funds.
5. The bank's equity includes:
a) proceeds from bond issuance;
b) refinancing funds;
c) interbank loans;
d) retained earnings.
6. The source of the formation of the reserve fund of a commercial bank:
a) authorized capital;
b) profit;
c) subordinated debt;

d) loans from other banks.

7. Subordinated debt includes:

a) own capital;
b) authorized capital;
c) borrowed funds;
d) bank loans.

8. Securities of the bank's own debt include:

a) shares;
b) bonds;
c) deposit certificates;
d) promissory notes.

9. Lending by the central bank to commercial banks is:

a) refinancing;
b) restructuring;
c) restriction;
d) reserve requirements policy.

10. The operation between the central and commercial banks regarding the purchase of government securities with the obligation to buy them back is:

a) transaction with government bonds;
b) refinancing operation;
c) direct repo operation;
d) tender operation.

Practical tasks

Task 1. A commercial bank issued ordinary shares in the total amount of 10 million. piece in the denomination of 35 hryvnias. and 4.5 million piece of preferred shares with a nominal value of UAH 40. per share Out of the total number of issued shares, 2.5 mln. piece ordinary shares were sold at UAH 38 each, and UAH 1.2 mln. piece preferred shares — at the price of UAH 45. per share

To determine the size of the authorized capital of the bank and the size of its emission income. Which component of the bank's equity does the issue income include?

Task 2. The client opened a deposit in the bank in the amount of UAH 15,000. at 22% per annum for a period of 3 years.

Determine the amount of interest accrued on the deposit, if the bank accrues: a) simple interest; b) compound interest.

Task 3. Company A opened a bank deposit account with a deposit of UAH 50,000. for a period of 3 months for the period from March 10 to June 10 at an annual interest rate of 20%. Interest is accrued and paid on the 1st of each month.

Determine the monthly interest payments and the deposit return amount upon expiration of the deposit agreement.

Topic 5. Organization of monetary turnover in commercial banks

1. Characteristics of money circulation and payment system.

2. ***Opening and maintenance of bank accounts.***
3. ***Cashless inter-household settlements.***
4. ***Organization of cash payments.***
5. ***Types and characteristics of bank payment cards.***
6. ***NBU electronic payments system.***

Recommended reading

Regulatory documents:

1. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 – Access mode: http://zakon2.rada.gov.ua.
2. On payment systems and money transfer in Ukraine [Electronic resource] / Law of Ukraine No. 2346-III dated 04/05/2001 – Access mode: http://zakon2.rada.gov.ua.
3. On the approval of the Instructions on non-cash payments in Ukraine in the national currency [Electronic resource] / Resolution of the National Bank of Ukraine No. 22 dated January 21, 2004. – Access mode: http://zakon1.rada.gov.ua.
4. On the approval of the Instructions on conducting cash operations by banks of Ukraine [Electronic resource] / Resolution of the NBU No. 174 dated 01.06.2011 – Access mode: http://zakon1.rada.gov.ua.
5. On the approval of the Instruction on interbank transfer of funds in Ukraine in the national currency [Electronic resource] / Resolution of the NBU No. 320 dated 16.08.2006 – Access mode: http://zakon1.rada.gov.ua.
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7. On carrying out operations using electronic means of payment [Electronic resource] / Resolution of the NBU No. 705 dated November 5, 2014. – Access mode: http://zakon1.rada.gov.ua.

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7. Official website of the Ukrainian Interbank Association of Payment System Members [Electronic resource]. – Access mode: https://ema.com.ua.

Tasks for testing knowledge

Questions for self-control

1. Describe the structure of monetary turnover.
2. Reveal the essence of the payment system and name the main types of payment instruments.
3. Define the principles of organization of non-cash payments.
4. What accounts do banks open for their clients?
5. Describe the advantages and disadvantages of forms of non-cash payments.
6. What are interbank settlements?
7. What is a correspondent account?
8. Explain the functioning mechanism of the NBU electronic payments system.
9. Name the main principles of organizing cash settlements.
10. Describe the main types of bank payment cards.

Test tasks

1. The cash documents of the bank include:

a) collection order;
b) disbursement cash order;
c) application for cash transfer;
d) memorial order.

2. The initiator of making calculations when using payment requirements:

a) payer;
b) debt collector;
c) payer's bank;
d) bank of the debt collector.

3. A bank account opened in this bank for another bank is called:

a) "Nostro";
b) current;
c) deposit;

d) "Loro".

4. Instruments based on credit transfer of funds include:

a) payment order;
b) credit card;
c) check;
d) debit card.

5. What is the document for accepting cash from customers through the bank's cash desk:

a) application for cash transfer;
b) notification of cash acceptance;
c) payment order;
d) settlement check.

6. The bank's payment instruments include:

a) debit card;
b) receipt;
c) cash order;
d) collection order.

7. A correspondent account is an account opened:

a) one bank in another bank;
b) individuals in the bank;
c) state institutions in the central bank;
d) legal entities in a foreign bank.

8. Cash operations of the bank include:

a) issuance of letters of credit;
b) currency exchange transactions;
c) operations with banking metals;
d) opening accounts for clients.

9. The document containing the payer's written instruction to the servicing bank to debit the specified amount of funds from his account and transfer it to the recipient's account is:

a) payment guarantee;
b) payment order;
c) payment statement;
d) payment request-order.

10. Participants of the NBU Electronic Payments System are:

a) clients of banks;
b) Ministry of Finance;
c) insurance companies;
d) commercial banks.

Practical tasks

Task 1. *Display the document flow scheme for payments by payment orders for the following transactions:*

1. Company A (seller) ships the goods and sends Company B (buyer) an invoice and commercial documents in accordance with the contract.

2. Company B, upon receiving the goods, issues a payment order and sends it to the bank where its current account is opened.
3. The buyer's bank accepts the payment order and debits the funds from the client's current account.
4. The buyer's bank informs the supplier's bank about the withdrawal of funds.
5. The supplier's bank credits funds to his current account.

Task 2. *Display the document flow scheme for check payments for such transactions.*

1. Company A (buyer) submits an application to its bank to receive a check book and a payment order for depositing funds in the amount of the check book limit.
2. Company A's bank debits the funds from its current account and credits them to the checking account in accordance with the payment order.
3. The bank issues a checkbook to the client.
4. Company B (seller) ships goods to Company A.
5. The buyer issues a check to the seller confirming receipt of the goods.
6. After checking the check, the seller hands it over to the bank serving it.
7. The seller's bank cashes the check to the buyer's bank.
8. The buyer's bank checks the check and debits the corresponding amount from the account of Company A, where the funds for check payments are deposited.
9. The buyer's bank informs the seller's bank about the withdrawal of funds.
10. Company B's bank credits funds to its current account.

Task 3. As of September 1, 2017, the balance of funds on the current account of Enterprise A is UAH 65,000. During the day, the bank of Company A received payment documents in the following sequence:

1. Payment order for the payment of interest on a bank loan — 10.4 thousand. UAH
2. Application for the opening of a letter of credit for the payment of raw materials to a foreign supplier — 35.8 thousand. UAH
3. The payment claim for the recovery of funds for compensation for damage caused to the employee's health, issued on the basis of a court decision, — 2.8 thousand. UAH
4. Payment order for the payment of communal services — 5.3 thousand. UAH
5. Payment order for repair work — 15.7 thousand. UAH
6. Collection order for collection of VAT arrears — 6.7 thousand. UAH
7. The bank's commission for the execution of each payment document within Ukraine is 25 hryvnias, outside - 0.1% of the payment amount.

Determine which settlement documents, in what volume and in what sequence the bank will accept for execution during the operating day.

Topic 6. Credit activity of commercial banks

1. ***Classification of bank loans.***
2. ***Forms of loan accounts.***
3. ***Bank lending process.***
4. ***Loan fee and its differentiation.***
5. ***Methods of providing and repaying bank loans.***
6. ***Credit risk and methods of working with problem loans.***

Recommended reading

Regulatory documents:

1. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 - Access mode: http://zakon2.rada.gov.ua.
2. On Amendments to Some Legislative Acts of Ukraine Regarding Regulation of Relations between Creditors and Consumers of Financial Services [Electronic Resource] / Law of Ukraine No. 3795-VI dated 09/22/2011 - Access mode: http://rada.gov.ua.
3. On the approval of Methodological recommendations regarding the organization and functioning of risk management systems in banks of Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 361 dated August 2, 2004 - Access mode: http://www.bank.gov.ua.
4. On the approval of the Regulation on the procedure for the formation and use of reserves by banks of Ukraine for compensation of possible losses in active banking operations [Electronic resource] / Resolution of the National Bank of Ukraine No. 23 of January 25, 2012 - Access mode: http://rada.gov.ua.
5. On securing creditors' claims and registration of encumbrances [Electronic resource] / Law of Ukraine No. 1255-IV of November 18, 2003 - Access mode: http://zakon2.rada.gov.ua.
6. On the organization of the formation and circulation of credit histories [Electronic resource] / Law of Ukraine No. 2404-IV of June 23, 2005 - Access mode: http://zakon2.rada.gov.ua.
7. On the approval of the Instruction on the procedure for regulating the activities of banks in Ukraine [Electronic resource] / Resolution of the NBU No. 368 of 08/28/2001 — Access mode: http://zakon1.rada.gov.ua.

Textbooks:

1. Banking system: textbook / [M. AND. Krupka, E. M. Andrushchak, N. G. Paitra and others]; under the editorship Doctor of Economics, Prof. M. AND. Crumbs - Lviv: LNU named after Ivan Franko, 2013. - 556 p.
2. Banking operations: textbook / A. M. Frost [etc.]; general ed. AND. M. Frost; - 3rd ed., revised. and additional - K.: KNEU, 2008. - 608 p.
3. Banking operations: a textbook / edited by Doctor of Economics, Prof. AT. IN. Dzyublyuk – Ternopil: TNEU Publishing House "Economic Thought", 2009. – 696 p.
4. Vovk, V. I. Lending and control: training. manual / V. I. Vovk, O. IN. Khmelinko - K.: Znannia, 2008. - 463 p.
5. Vovchak O. D. Credit and banking: a textbook / O. Vovchak, N. Rushchyshyn, T. Andreynov - K.: Znannia, 2008. - 564 p.
6. Epifanov A. AT. Operations of commercial banks: training. manual / A. Epifanov, N. Maslak, I. Fat. - Sumy: VTD "University Book", 2007. - 523 p.
7. Kuznetsova, L. IN. Credit management: education. manual / L. IN. Kuznetsova. - O.: ORIDU NADU, 2007. - 322 p.
8. Prasolova S. P. Banking operations: education. manual and practice / S. P. Prasolova, O. WITH. Vovchenko - K.: "Center for Educational Literature", 2013. - 568 p.

Information resources:

1. Scientific and practical magazine "Banking".
2. Analytical and statistical publication of the NBU "Bulletin of the National Bank of Ukraine".
3. Scientific and practical magazine of the NBU "Bulletin of the National Bank of Ukraine".
4. Supplement to the magazine "Bulletin of the National Bank of Ukraine" "Legislative and normative acts on banking activity".
5. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the State Treasury Service of Ukraine [Electronic resource]. – Access mode: http://treasury.gov.ua.
8. Official site of the rating agency "Rurik" [Electronic resource]. – Access mode: http://rurik.com.ua.

Tasks for testing knowledge

Questions for self-control

1. What are the main principles and conditions of bank lending?
2. What is the content and significance of the credit agreement for the organization of credit relations?
3. How are the terms and procedure of loan repayment determined?
4. What is a loan fee and what factors affect it?
5. What are the methods of credit risk management at the micro level and at the macro level?
6. Describe the forms of ensuring the timeliness of loan repayment.
7. What is the procedure for forming reserves to cover losses from credit activity?
8. Explain the classification of borrowers regarding the assessment of their financial condition?
9. What are the quantitative and qualitative characteristics of the borrower when assessing his creditworthiness?
10. Describe the working methods of banks with problem loans.

Test tasks

1. Which of the following factors affects the level of interest on bank loans:

a) social status of the borrower;
b) the level of profitability of the bank;
c) form of ownership of the bank;
d) quality of collateral.

2. A loan secured by real estate is called:

a) overdraft;
b) mortgage;

c) overdraft;
d) blank.

3. Specify the type of loan that is repaid on the first demand of the bank:
a) blank loan;
b) overdraft;
c) cancer loan;
d) mortgage loan.

4. Provision of parallel loans involves:
a) providing a loan within the established limit;
b) provision of loans to one borrower by several banks separately;
c) providing a loan in excess of the balance on the account;
d) provision of loans by the bank to several borrowers at the same time.

5. A change in the essential conditions under the credit agreement in connection with the financial difficulties of the debtor is:
a) refinancing;
b) prolongation;
c) restructuring;
d) credit holidays.

6. Reducing the credit load during a certain period is:
a) credit holidays;
b) credit extension;
c) credit rehabilitation;
d) refinancing through a third party.

7. A loan granted to another bank for a period of no more than one operating day is called:
a) overdraft;
b) revolver;
c) overnight stay;
d) overdraft.

8. What is the name of a loan provided by a group of banks:
a) mortgage;
b) interbank;
c) overdraft;
d) consortium.

9. 9. An overdraft is:
a) credit provided in commodity form;
b) short-term credit provided to the client in excess of the balance of funds on his account;
c) a loan secured by property;
d) credit granted in foreign currency.

10. 10. An automatically renewable loan, which is granted without additional negotiations between the borrower and the bank, when its amount does not exceed the established limit and repayment terms, is:
a) revolving loan;
b) overdraft;

c) guarantee loan;
d) one-time loan.

Practical tasks

Task 1. The client received a loan from the bank in the amount of UAH 25,000. for a period of 3 months from March 1 to May 31 inclusive at the rate of 18% per annum.

Determine the amount of accrued interest.

Task 2. The client applied to the bank for a loan. The form of loan security is a pledge of 150 shares of a public joint-stock company with a nominal value of UAH 290. for one share. The amount of the loan is calculated based on 90% of the value of the securities. The annual interest rate is 17%. Credit term — 6 months.

Determine the amount of credit that the bank can offer and the amount of interest under the condition of using a discount interest rate.

Task 3. The client received a loan from the bank in the amount of UAH 200,000. for a period of 5 years. The interest rate on the loan is 16% per annum.

Calculate annual loan payments in four ways:

1) subject to the accrual of simple interest;
2) subject to compound interest;
3) on the condition of repayment of the loan with repayment of the loan body in equal parts;
4) on condition of repayment of the loan with payment of the same total amount every year.

Choose and justify the most acceptable loan repayment option for the client.

Topic 7. Operations of commercial banks in foreign currency

1. ***The essence of currency and currency transactions.***
2. ***Characteristics of bank operations in foreign currency.***
3. ***The procedure for opening and maintaining foreign currency accounts of clients.***
4. ***Non-trading operations of banks with foreign currency.***
5. ***Operations according to international trade settlements.***
6. ***Foreign currency trading operations on the interbank market.***

Recommended reading

Regulatory documents:

1. On regulation of the situation in the money and currency markets of Ukraine [Electronic resource] / Law of Ukraine No. 354 dated 06/03/2015 – Access mode: http://zakon.nau.ua.
2. On the approval of the Instructions on the procedure for regulating the activities of banks in Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 368 dated August 28, 2001 – Access mode: http://zakon1.rada.gov.ua.
3. On the approval of the Instructions on the procedure for opening, using and

closing accounts in national and foreign currencies [Electronic resource] / Resolution of the NBU No. 492 dated November 12, 2003. – Access mode: http://zakon1.rada.gov.ua.
4. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 – Access mode: http://zakon2.rada.gov.ua.
5. On the system of currency regulation and currency control [Electronic resource] / Decree of the CMU No. 15-93 dated February 19, 1993. – Access mode: http://zakon2.rada.gov.ua.
6. On the approval of the Instructions on the procedure for organizing and carrying out currency exchange transactions on the territory of Ukraine [Electronic resource] / Resolution of the NBU No. 502 dated 12.12.2002 – Access mode: http://zakon1.rada.gov.ua.
7. On the approval of the Regulation on the procedure and conditions of foreign currency trading [Electronic resource] / NBU Resolution No. 281 dated August 10, 2005. – Access mode: http://zakon1.rada.gov.ua.
8. On the approval of the Rules for carrying out transfers of natural persons outside Ukraine and in Ukraine for current currency non-trading transactions and their payment in Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 496 of 12.29.2007 – Access mode: http://zakon1.rada.gov.ua.
9. On the approval of the Rules for the use of cash foreign currency on the territory of Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 200 of 05/30/2007 – Access mode: http://zakon1.rada.gov.ua.
10. On the system of currency regulation and currency control [Electronic resource] / Decree of the CMU No. 15-93 dated February 19, 1993. — Access mode: http://zakon2.rada.gov.ua.

Textbooks:

1. Banking system: a textbook / edited by Doctor of Economics, Prof. M. I. Krupky. - Lviv: LNU named after Ivan Franko, 2013. - 556 p.
2. Banking operations: textbook / A. M. Moroz [etc.]; general ed. A. M. Moroza; - 3rd ed., revised. and additional - K.: KNEU, 2008. - 608 p.
3. Ivasiv B.S. International settlements and currency operations: training. manual / B.S. Ivasiv, L.M. Priydun, V.Ya. Rudan. — Ternopil: Vector, 2013. — 572 p.
4. Kovalchuk K. F. International credit and settlement and currency operations: training. manual / K. F. Kovalchuk, D. E. Kozenkov, Yu. G. Momot. — K.: "Center for Educational Literature", 2013. — 150 p.
5. Kuznetsova S. A. Banking system: education. manual / (S. A. Kuznetsova, T. M. Bolgar, Z. S. Pestovska); under the editorship S. A. Kuznetsova. - K.: "Center for Educational Literature", 2014. - 400 p.
6. Prasolova S. P. Banking operations: training. manual and practice / S. P. Prasolova, O. S. Vovchenko. - K.: "Center for Educational Literature", 2013. -568 p.
7. Rudenko L.V. International credit and settlement and currency operations: 2nd edition, revised and supplemented. Textbook. — K.: Center of educational literature, 2007. — 632 p.

Information resources:

1. Scientific and practical magazine "Banking".
2. Analytical and statistical publication of the NBU "Bulletin of the National Bank of Ukraine".
3. Scientific and practical magazine of the NBU "Bulletin of the National Bank of Ukraine".
4. Supplement to the magazine "Bulletin of the National Bank of Ukraine" "Legislative and normative acts on banking activity".
5. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Ministry of Finance of Ukraine [Electronic resource]. – Access mode: http://www.minfin.gov.ua.
8. Official website of the National Commission, which carries out state regulation in the field of financial services markets [Electronic resource]. – Access mode: http://nfp.gov.ua.

Tasks for testing knowledge

Questions for self-control

1. Define the concept of "foreign exchange transactions".
2. According to what features are currency transactions classified?
3. Explain the essence, types and structure of the foreign exchange market.
4. Describe the forms of international trade settlements.
5. What are the NBU's powers to regulate transactions on the interbank foreign exchange market?
6. Reveal the content of international banking correspondent relations.
7. What operations do banks carry out with cash foreign currency?
8. Carry out a comparative description of forward and futures currency operations.
9. What are the types of current currency transactions?
10. Describe a bank transfer as a form of international payments.

Test tasks

1. The "swap" operation combines:

a) option agreement and "spot" agreement;
b) forward agreement and "spot" agreement;
c) futures agreement and "spot" agreement;
d) option agreement and "tod" agreement.

2. A bank that has a general license of the NBU is called:

a) currency;
b) commercial;
c) authorized;
d) licensed.

3. When performing which operation is a certificate issued?
a) purchase by the bank of cash foreign currency from a non-resident natural person;
b) purchase by the bank of cash foreign currency from a resident natural person;
c) sale of cash foreign currency by the bank to a non-resident individual;
d) sale of cash foreign currency by the bank to a resident individual.

4. The form of international settlements, according to which the initiator of the payment is the recipient of funds, is:
a) bank transfer;
b) payment order in foreign currency;
c) documentary letter of credit;
d) documentary collection.

5. Which of the following elements are currency values?
a) euro;
b) gold bars;
c) bonds in foreign currency
d) all answers are correct.

6. A "tod" foreign exchange transaction is the purchase and sale of currency on the terms of its delivery:
a) on the day of signing the contract;
b) within two working days from the date of signing the contract;
c) within five working days from the date of signing the contract;
d) within a period of more than two days from the date of conclusion of the agreement.

7. Term currency transactions include:
a) "spot" operations;
b) cash transactions;
c) conversion operations;
d) "swap" operations.

8. Objects of currency operations are:
a) national currency;
b) securities in foreign currency;
c) securities in national currency;
d) all answers are correct.

9. The Bank credits funds through distribution accounts received for legal entities:
a) transferred from another own current account;
b) transferred from abroad by non-residents in the form of loans;
c) transferred from own deposit account;
d) purchased on behalf of the account holder.

10. An agreement under which the buyer gets the right to buy or sell a certain amount of currency at a fixed price on the day the contract ends is:
a) derivative;
b) currency forward;
c) currency swap;
d) currency option.

Practical tasks

Task 1. On September 1, 2017, the bank announced the following currency quotes:

— US dollar to hryvnia: purchase — UAH 25.75; sale — UAH 26.00;

— euro to hryvnia: purchase — UAH 29.90; sale — UAH 30.45;

— pound sterling to hryvnia: purchase — 32.65 hryvnias; sale — UAH 34.35.

Determine how much a bank customer will receive when exchanging 300 euros and 100 pounds for US dollars.

Task 2. The Ukrainian enterprise concluded an agreement on the export of raw materials for the amount of 5,000 euros. On September 1, 2017, a prepayment of 20% of the contract amount was received on his current account. According to the agreement, commission costs are paid by the exporter through the cash desk of the bank in cash in the currency of the contract.

Conditions for the operation:

— the official NBU exchange rate of the euro to the hryvnia — UAH 30.28;

— the official NBU exchange rate of the dollar to the hryvnia — UAH 25.90;

— bank exchange rate of the euro to the hryvnia: purchase — 29.90 hryvnias; sale - UAH 30.45;

— bank commission for buying currency (charged in hryvnias) — 2% of the amount;

— the bank commission for making the transfer (charged in the currency of the transfer) — 1% of the amount + a fixed 30 USD (paid in the equivalent currency of the transfer).

Determine the seller's total expenses for paying the bank commission and the amount of funds that will be credited by the bank to the seller's current account, taking into account the requirements of the law.

Task 3. Bank A entered into a forward contract with Bank B for the delivery of 10,000 euros at the forward rate of UAH 28.6. for 1 euro after three months. On the date of execution of the forward contract, the euro spot rate increased by 9%. After executing the forward contract, Bank A sold the funds on the spot market.

Determine the amount of funds that Bank A is obliged to buy in three months from Bank B, and the financial results that both banks will receive.

Topic 8. Activities of commercial banks on the securities market

1. ***Characteristics of the stock market.***
2. ***Types of securities.***
3. ***Issue operations of banks on the securities market.***
4. ***Investment operations of banks on the securities market.***
5. ***Intermediary activity of banks on the stock market.***

Recommended reading

Regulatory documents:

1. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 - Access mode: http://zakon2.rada.gov.ua.

2. On the approval of the Regulation on the regulation of the liquidity of banks of Ukraine by the National Bank of Ukraine [Electronic resource] / Resolution of the NBU No. 259 dated 04/30/2009 - Access mode: http://zakon.rada.gov.ua.
3. On investment activity [Electronic resource] / Law of Ukraine No. 1560-XII dated September 18, 1991 - Access mode: http://zakon2.rada.gov.ua.
4. On securities and the stock market [Electronic resource] / Law of Ukraine
5. No. 3480-IV dated February 23, 2006 - Access mode: http://zakon1.rada.gov.ua.
6. On the approval of the Regulation on the organization of the activities of banks and their separate divisions when they carry out professional activities on the stock market [Electronic resource] / Decision of the NCCPFR No. 1708 dated 16.12.2014 – Access mode: http://zakon2.rada.gov.ua.

Textbooks:

1. Banking system: textbook / [M. AND. Krupka, E. M. Andrushchak, N. G. Paitra and others]; under the editorship Doctor of Economics, Prof. M. AND. Crumbs - Lviv: LNU named after Ivan Franko, 2013. - 556 p.
2. Banking operations: textbook / A. M. Frost [etc.]; general ed. AND. M. Frost; - 3rd ed., revised. and additional - K.: KNEU, 2008. - 608 p.
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5. Epifanov A. AT. Operations of commercial banks: training. manual / A. Epifanov, N. Maslak, I. Fat. - Sumy: VTD "University Book", 2007. - 523 p.
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7. Prasolova S. P. Banking operations: education. manual and practice / S. P. Prasolova, O. WITH. Vovchenko - K.: "Center for Educational Literature", 2013. -568 p.
8. Ryabinina L. M., Nyanchuk N. Yu., Ukhlicheva L. AND. / edited by Ryabinina L. M. Banking operations: a study guide. – Odesa: ODEU, 2011. – 536 p.

Information resources:

1. Scientific and practical magazine "Banking".
2. Analytical and statistical publication of the NBU "Bulletin of the National Bank of Ukraine".
3. Scientific and practical magazine of the NBU "Bulletin of the National Bank of Ukraine".
4. Supplement to the magazine "Bulletin of the National Bank of Ukraine" "Legislative and normative acts on banking activity".
5. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
6. Official website of the Association of Ukrainian Banks [Electronic resource]. –

Access mode: http://aub.org.ua.
7. Official website of the Ministry of Finance of Ukraine [Electronic resource]: Access mode: http://www.minfin.gov.ua.
8. Official site of the rating agency "Rurik" [Electronic resource]. – Access mode: http://rurik.com.ua.
9. Official website of the National Commission, which carries out state regulation in the field of financial services markets [Electronic resource]. – Access mode: http://nfp.gov.ua.

Tasks for testing knowledge

Questions for self-control

1. Give a general description of the stock market.
2. What securities are the objects of bank transactions on the stock market?
3. What types of activities do banks perform on the securities market?
4. Describe the procedure for issuing certificates of deposit by banks.
5. What securities are classified as debt securities?
6. Define the basic principles of forming the bank's securities portfolio.
7. Describe the types of securities portfolios of a commercial bank.
8. Describe the procedure for formation of reserves for compensation of possible losses in transactions with securities.
9. What functions does the National Bank of Ukraine perform on the government securities market?
10. Describe the activities of banks as professional participants in the securities market.

Test tasks

1. Equity securities include:
a) bonds;
b) investment certificates;
c) promissory notes;
d) derivatives.
2. Savings certificates are issued by the bank for:
a) legal entities;
b) natural persons;
c) non-resident legal entities;
d) resident legal entities;
3. Securities of the bank's own debt include:
a) shares;
b) bonds;
c) deposit certificates;
d) commercial bills.
4. The bank's operations related to the custody of clients' securities are called:
a) brokerage;
b) dealers;
c) investment;
d) depository.

5. Securities certifying their owner's participation in the authorized capital and giving him the right to participate in the issuer's management are:

a) bonds;
b) shares;
c) investment certificates;
d) depository receipts.

6. The bank's operations related to the initial issue and placement of the client's securities are called:

a) brokerage;
b) dealers;
c) depository;
d) underwriting.

7. The process of reducing risks by allocating capital between various investment objects is:

a) correlation;
b) diversification;
c) minimization;
d) restructuring.

8. Securities purchased by the bank for resale include:

a) in the bank's portfolio until maturity;
b) in the portfolio of trading securities;
c) in the bank's portfolio for sale;
d) in the portfolio of equity securities of the bank's associated company.

9. A security, in which a person who can exercise rights regarding the management of a security is indicated, is called:

a) by name;
b) a derivative;
c) warrant;
d) privatization.

10. The set of securities purchased by the bank to generate income and ensure liquidity are:

a) real investments;
b) securities;
c) portfolio of securities;
d) financial investments.

Practical tasks

Task 1. The bank bought 500 shares of the company with a nominal value of UAH 85. The share price at the time of purchase was: purchase price - UAH 88, sale price - UAH 92. After 5 years, the shares were sold. At the time of sale, the buying rate was UAH 115, and the selling rate was UAH 118.

Determine the profitability of transactions with shares bought by the bank, if the level of accrued dividends was: for the 1st year - 10% per annum; for the 2nd year – 11% per annum; for the 3rd year – 15% per annum; for the 4th year – 17% per annum; for the 5th year - 18% per annum.

Task 2. In order to borrow funds, the bank issued 100 bonds. with a total

denomination of UAH 80,000. with a maturity of 5 years. The bonds were purchased at the rate of UAH 770 per unit. Interest on the bonds will be paid annually at the rate of 12% per annum. Earnings from accrued interest were reinvested during the same period at a rate of 9%.

Determine the total income of the investor from the transaction.

Task 3. Bank promissory note in the amount of UAH 80,000. issued for a period of 180 days with payment of 13% per annum.

Determine the price at which the bank will sell the promissory note and buy it back after the maturity date.

Topic 9. Non-traditional banking operations and services

1. ***Leasing operations of banks.***
2. ***Factoring operations of banks.***
3. ***Forfaiting operations of banks.***
4. ***Trust services of banks.***
5. ***Organization of banking services for the storage of valuables.***
6. ***Activity of banks in the market of precious metals.***

Recommended reading

Regulatory documents:

1. Economic Code of Ukraine No. 436-IV dated January 16, 2003 [Electronic resource]. – Access mode: http://zakon2.rada.gov.ua.
2. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 - Access mode: http://zakon2.rada.gov.ua.
3. On the approval of the Regulation on transactions with bankable metals [Electronic resource] / Resolution of the National Bank of Ukraine No. 325 dated August 6, 2003 - Access mode: http://rada.gov.ua.
4. On the approval of the Rules for the organization of the protection of bank premises in Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 63 dated February 10, 2016 - Access mode: http://zakon2.rada.gov.ua.
5. On circulation of promissory notes in Ukraine [Electronic resource] / Law of Ukraine No. 2374- III dated 04.05.2001 - Access mode: http://zakon2.rada.gov.ua.
6. About financial leasing [Electronic resource] / Law of Ukraine No. 723/97-BP dated 16.12.1997 - Access mode: http://zakon2.rada.gov.ua.
7. On the approval of the Accounting Rules for trust management operations in banks of Ukraine [Electronic resource] / Resolution of the NBU No. 498 of 11/12/2003 - Access mode: http://rada.gov.ua.
8. Civil Code of Ukraine No. 435-IV dated January 16, 2003 [Electronic resource]. – Access mode: http://zakon2.rada.gov.ua.

Textbooks:

1. Banking system: textbook / [M. AND. Krupka, E. M. Andrushchak, N. G. Paitra and others]; under the editorship Doctor of Economics, Prof. M. AND. Crumbs - Lviv: LNU named after Ivan Franko, 2013. - 556 p.
2. Banking operations: education. manual / O. T. Levandivskyi, P. IN. Demeter. - K.: Znannia, 2012. - 463 p
3. Banking operations: textbook / A. M. Moroz [etc.]; general ed. A. M. Moroza; - 3rd ed., revised. and additional - K.: KNEU, 2008. - 608 p.
4. Banking operations: a textbook / edited by Doctor of Economics, Prof. O. V. Dzyublyuk. – Ternopil: TNEU Publishing House "Economic Thought", 2009. – 696 p.
5. Kuznetsova S. A. Banking system: education. manual / (S. A. Kuznetsova, T. M. Bolgar, Z. S. Pestovska); under the editorship S. A. Kuznetsova. - K.: "Center for Educational Literature", 2014. - 400 p.
6. V. I. Mishchenko Banking operations: textbook / V. I. Mishchenko, N. G. Slavyanska, O. G. Koreneva. - 2nd ed., revision. and additional - K.: Znannia, 2007. - 796 p.
7. Prasolova S. P. Banking operations: training. manual and practice / S. P. Prasolova, O. S. Vovchenko - K.: "Center for Educational Literature", 2013. - 568 p.

Information resources:

1. Scientific and practical magazine "Banking".
2. Analytical and statistical publication of the NBU "Bulletin of the National Bank of Ukraine".
3. Scientific and practical magazine of the NBU "Bulletin of the National Bank of Ukraine".
4. Supplement to the magazine "Bulletin of the National Bank of Ukraine" "Legislative and normative acts on banking activity".
5. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Ministry of Finance of Ukraine [Electronic resource]:– Access mode: http://www.minfin.gov.ua.
8. Official website of the National Commission, which carries out state regulation in the field of financial services markets [Electronic resource]. – Access mode: http://nfp.gov.ua.

Tasks for testing knowledge

Questions for self-control

1. What are the features of non-traditional banking operations?
2. Define the essence, types and significance of leasing in banking.
3. Explain the economic meaning of factoring services?

4. What is the essence of forfeiting and what is its scope of application?
5. Make a comparative description of factoring and forfeiting.
6. Describe the intermediary services of banks and their main types.
7. Describe the bank guarantee and surety.
8. Name the main types of consulting and information services of banks.
9. Describe bank operations with precious metals.
10. Describe the main types of bank trust services.

Test tasks

1. Bank operations that combine intermediary and commission services for lending working capital of economic entities are:
a) leasing;
b) trust;
c) factoring;
d) forfeiting.

2. The object of the bank's factoring operation is:
a) securities;
b) derivatives;
c) the right to demand a debt;
d) the right to buy and sell foreign currency.

3. What is the name of crediting exports through the bank's purchase of debt in the form of promissory notes:
a) factoring;
b) overdraft;
c) leasing;
d) forfeiting.

4. The lease contract, as a result of which the lessee receives the leased object for paid use from the lessor for a period not exceeding the period for which 60% of the value of the leased object is amortized, is called:
a) financial;
b) banking;
c) operative;
d) subleasing.

5. Trust services provided by the bank to individuals include:
a) disposal of inheritance;
b) operations with banking metals;
c) debt redemption;
d) loan guarantee.

6. Long-term lease of equipment purchased by the bank for the enterprise for the purpose of production use is called:
a) trust;
b) leasing;
c) forfeiting;
d) factoring.

7. Which type of leasing provides for the possibility of buying out the leased object after the expiration of the lease agreement:
a) operative;

b) clean;
c) financial;
d) subleasing.

8. Bank trust services provided to legal entities include:

a) temporary management of the company's affairs during its reorganization;
b) investment of the client's funds in the types of assets determined by him;
c) management of funds of charitable funds;
d) all answers are correct.

9. The bank has the right to carry out operations with precious metals on the basis of:

a) special license;
b) general license;
c) currency license;
d) banking license.

10. The type of banking services related to the assignment by the client of unpaid payment claims for delivered products, performed works, rendered services and the right to receive payment for them is called:

a) leasing;
b) factoring;
c) forfeiting;
d) trust.

Practical tasks

Task 1. The enterprise delivered goods in the amount of UAH 900,000. In order to speed up debt repayment, it was transferred to the factoring department of the bank under the following conditions:

— factoring credit – 85% of the delivery amount;
— the bank's commission – 0.5% of the amount of the factoring loan;
— interest rate – 20%;
— the term of the factoring loan is 100 days.

Determine the bank's total income from the factoring operation.

Task 2. The bank provided the company with equipment under financial leasing. Terms of the leasing agreement:

— the cost of the equipment — 50,000 UAH.;
— the term of its full amortization is 4 years;
— annual depreciation rate — 25%;
— the lease term is 4 years;
— interest rate for a leasing loan — 18%;
— the amount of the leasing commission is 4%.

Determine the amount of leasing payments.

Task 3. *Determine the value of a batch of gold* in hryvnias, if it weighs 22 kg, assay 999 (assay is calculated in parts by weight per 1000 ppm - one thousandth of the substance). The price of gold on the international market is $1,200. US per troy ounce (31.1034768 g). The official exchange rate of the US dollar is UAH 26.8.

Topic 10. Ensuring the financial stability of banks

1. ***The essence of the bank's financial stability. Liquidity and solvency of the bank.***
2. ***Evaluation of the bank's activity. CAMELSO system.***
3. ***Income and expenses of a commercial bank.***
4. ***Financial reporting of banks.***
5. ***Economic norms of regulation of banking activity.***
6. ***Formation of reserves to cover banking risks.***

Recommended reading

Regulatory documents:

1. About banks and banking [Electronic resource] / Law of Ukraine No. 2121-III dated 07.12.2000 - Access mode: http://zakon2.rada.gov.ua.
2. On making changes to some normative legal acts of the National Bank of Ukraine [Electronic resource] / Resolution of the Board of the NBU No. 242 dated 04/07/2016 - Access mode: http://zakon1.rada.gov.ua.
3. On the approval of the Instruction on the procedure for regulating the activities of banks in Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 368 dated 08/28/2001 - Access mode: http://zakon1.rada.gov.ua.
4. On the approval of the Methodology for calculating economic standards for regulating the activities of banks in Ukraine [Electronic resource] / Resolution of the National Bank of Ukraine No. 315 dated 02.06.2009 - Access mode: http://www.bank.gov.ua.
5. On the approval of Methodological recommendations regarding the organization and functioning of risk management systems in banks of Ukraine [Electronic resource] / Resolution of the NBU No. 361 dated August 2, 2004 - Access mode: http://www.bank.gov.ua.
6. On the approval of the Regulation on the determination by banks of Ukraine of the amount of credit risk for active banking operations [Electronic resource] / Resolution of the National Bank of Ukraine No. 351 dated 30.06. 2016 - Access mode: http://www.bank.gov.ua.
7. On the approval of the Regulation on the regulation of the liquidity of banks of Ukraine by the National Bank of Ukraine [Electronic resource] / Resolution of the NBU No. 259 dated 04/30/2009 - Access mode: http://zakon.rada.gov.ua.
8. On the approval of the Procedure for determining and approving the bank's rating assessment according to the SAMELSO rating system [Electronic resource] / Resolution of the NBU No. 393-rsh dated November 1, 2016 - Access mode: http://www.bank.gov.ua.
9. About the National Bank of Ukraine [Electronic resource] / Law of Ukraine No. 679-XIV dated 05/20/1999 - Access mode: http://zakon2.rada.gov.ua.
10. On the system of guaranteeing deposits of individuals / Law of Ukraine No. 4452-VI dated 23.02.2012 [Electronic resource]. – Access mode: http://zakon1.rada.gov.ua.

Textbooks:

1. Analysis of banking activity: a textbook / [A. M. Gerasimovych, I. M. Parasiy-Vergunenko, V. M. Kochetkov and others]; in general ed. Dr. Econ. Sciences,

Prof. A. M. Gerasimovych. - K.: KNEU, 2010. - 599 p.
2. Banking system: textbook / [M. I. Krupka, E. M. Andrushchak, N. G. Paytra, etc.] ; under the editorship Doctor of Economics, Prof. M. I. Krupky. - Lviv: LNU named after Ivan Franko, 2013. - 556 p.
3. Banking operations: textbook / A. M. Moroz [etc.]; general ed. A. M. Moroza; - 3rd ed., revised. and additional - K.: KNEU, 2008. - 608 p.
4. Banking operations: a textbook / edited by Doctor of Economics, Prof. O. V. Dzyublyuk. – Ternopil: TNEU Publishing House "Economic Thought", 2009. – 696 p.
5. Kosova T. D. Analysis of banking activity: training. village - K.: Center of educational literature, 2008. - 486 p.
6. Kuznetsova S. A. Banking system: education. manual / (S. A. Kuznetsova, T. M. Bolgar, Z. S. Pestovska); under the editorship S. A. Kuznetsova. - K.: "Center for Educational Literature", 2014. - 400 p.
7. Prasolova S. P. Banking operations: training. manual and practice / S. P. Prasolova, O. S. Vovchenko - K.: "Center for Educational Literature", 2013. -568 p.

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5. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
6. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
7. Official website of the Individual Deposit Guarantee Fund: [Electronic resource]. – Access mode: http://www.fg.org.ua.
8. Official website of the Ministry of Finance of Ukraine [Electronic resource]: Access mode: http://www.minfin.gov.ua.
9. Official website of the National Commission, which carries out state regulation in the field of financial services markets [Electronic resource]. – Access mode: http://nfp.gov.ua.

Tasks for testing knowledge

Questions for self-control

1. What is the content of the bank's financial stability?
2. What is liquidity and solvency of a bank? What is the difference between them?
3. On what factors does the financial stability of commercial banks depend?
4. Describe the principles of ensuring the financial stability of the bank.

5. Define the main types of income and expenses of commercial banks.
6. Name the main profitability indicators of the bank.
7. Describe the assessment of financial stability of banks according to the CAMELSO system.
8. Name the main forms of financial reporting of commercial banks in Ukraine.
9. What types of reserves are formed by banks in order to ensure financial stability?
10. Describe the mandatory economic standards of banking activity.

Test tasks

1. The set of measures by means of which the state, through the central bank of the country, seeks to ensure the stable functioning of banks is:
a) banking activity licensing;
b) regulation of banking activity;
c) reorganization and prohibition of banking activities;
d) stimulating the activity of banks.

2. The ability of the bank to timely fulfill its monetary obligations at the expense of highly liquid assets reflects the standard:
a) quick liquidity;
b) instant liquidity;
c) current liquidity;
d) cash liquidity.

3. The financial report, which reflects the income and expenses of the bank, is:
a) Profit and loss statement;
b) Report on changes in equity;
c) Balance;
d) Financial statement.

4. According to the CAMELSO rating system of banks, the highest rating is:
a) 10;
b) 5;
c) 4;
d) 1.

5. The financial report, which reflects the bank's assets, liabilities and equity, is called:
a) Profit and loss statement;
b) Cash flow report;
c) Report on financial status (Balance sheet);
d) Notes to financial statements.

6. The following economic standards of banks are mandatory:
a) norms of capital, liquidity, investment, credit risk;
b) norms of crediting and attraction;
c) standards of sufficiency, liquidity and stability;
d) norms of solvency, stability and turnover of capital.

5. The system of interrelated generalized indicators reflecting the financial condition and results of the bank's activity for the reporting period is:
a) solvency of the bank;
b) economic regulations of the NBU;
c) financial statements of the bank;
d) business plan of the bank.
6. General reserves of commercial banks are created at the expense of:
a) the bank's own funds;
b) deposit funds;
c) loans from the NBU;
d) raised funds.
7. The regulatory capital of a commercial bank is calculated according to the following formula:
a) core capital + additional capital + subordinated capital;
b) authorized capital + additional capital + subordinated capital;
c) basic capital + additional capital - invested funds;
d) basic capital + additional capital - subordinated capital.
8. The bank deposit guarantee system in Ukraine applies to:
a) on legal entities;
b) on non-resident legal entities;
c) on natural persons;
d) to local self-government bodies.

Practical tasks

Task 1. *Calculate and evaluate the bank's liquidity indicators using the data given in the table.*

The name of the indicator	Million UAH
Funds in the bank's cash register	5 897
Funds on a correspondent account in the central bank	17 105
Deposits of individuals and legal entities that have reached maturity	11 356
Funds on current accounts of clients	58 974
Funds on a correspondent account in another bank	3 658
Overnight loans granted to another bank	1 677
Credit from the central bank for a period of 14 days	8 330
Credit from the central bank for a period of 90 days	27 992
Bonds purchased from the central bank for a period of 14 days	9 450
An overnight deposit placed by another bank in this bank	15 647
Household deposits for up to 1 year	44 637
Consumer loans with a term of 3-6 months	38 156
Short-term certificates of deposit of the central bank	22 620

Task 2. *To determine which of the following operations of the bank are related to operational, investment and financial activities when compiling the Bank's Cash Flow Report.*

Content of the operation	Type of activity
Sale of associated companies	
Receiving a commission	
Bank security costs	
Increase in investments in subsidiaries	
Purchase of premises for a branch	
Issue of preferred shares	
Payments to employees on business trips	
Redemption of ordinary shares from shareholders	
Changes in the bank's reserves	
Proceeds from the sale of fixed assets	
Payment of commission for services of other banks	
Receiving dividends	
Realization of US dollars	
Payment of dividends	
Payment of income tax	
Purchase of new software	
Receiving interest on loans	
Expenses for communal services	
Purchase of OVDP	
Payments to own shareholders	

Task 3. *According to the data given in the table, fill out the Profit and Loss Statement and other total income and determine the financial result of the bank's activities.*

Items of income and expenses	Thousad UAH
Interest income on term funds placed with the NBU	6 400
Interest income on loans up to 31 days granted to other banks	4 800
Interest income on consumer loans	13 200
Commission income from settlement and cash service of clients	2 900
Commission income from transactions on the foreign exchange market	1 600
The result of revaluation of foreign currency	600
Increase in reserves for impairment of receivables	850
Interest expenses on short-term deposits of other banks	4 200
Interest expenses on funds at the request of business entities	1 500
Commission costs for settlement and cash service	1 800
Commission costs for transactions on the foreign exchange market	490
Wages of bank employees	18 000
A single contribution to mandatory state social insurance	1 200
Expenses for communal services	630
Loss from participation in an associated company	300

2.2. METHODS OF TEACHING AND CONTROL OF KNOWLEDGE

The study of the educational foundations of banking involves classroom training and independent work of students.

Auditory training is carried out using classical methods: lectures, seminars and practical classes, as well as interactive training methods - work in discussion groups, the case method, game design, training classes in the educational and training bank, computer testing, multimedia presentations, etc. Interactive learning methods are used for the development of creative thinking and the formation of relevant practical abilities and skills of students. These methods stimulate and increase students' interest in classes, activate and sharpen the perception of educational material.

Students' independent work consists in preparing for seminar classes and completing individual tasks.

Preparation for seminar classes includes:

— development of lecture material;
— development of educational and educational-methodical literature;
— abstracting of literary sources and legislative and regulatory acts;
— solving practical and test tasks;
— preparation for modular control of knowledge.

Individual tasks include:

— analysis of scientific publications on a given topic;
— search and analysis of bank statistical data;
— writing essays;
— preparation of reports at the conference;
— performance of competitive scientific works, etc.

Assessment of students' knowledge and practical skills is carried out in the form of current and final knowledge control. The educational discipline contains one module, which consists of two content modules. After completing the program of each content module, it is evaluated in the range **from 0 to 100 points.**

Current assessment of knowledge by content module takes into account:

— the systematicity and activity of the student's work during classroom classes;
— individual and independent work of the student;
— performance of modular control tasks.

Assessment of activity during classroom classes and individual (independent) work of the student is carried out in the range from 0 to 40 points and includes the following:

— attending lectures, seminars and practical classes;
— activity at seminars and practical classes;
— level of assimilation of knowledge of software material;
— the level of performance of individual tasks.

Modular control of the academic discipline is carried out in the form of a written work, which includes two theoretical questions and ten

test tasks. During the semester, students complete two module tests that complete the study of content modules. The modular control work is evaluated from **0 to 60 points.**

If, for objective reasons, the student has not passed the module control within the specified period, he has the right, with the approval of the dean's office, to liquidate the debt within two weeks of its occurrence.

The total number of points from the academic discipline for the semester ranges **from 0 to 100** points and is the arithmetic average for the content modules.

A student who has certain achievements in scientific work within the academic discipline has the opportunity to receive additional points, in particular:

25 points: prize-winner of the subject Olympiad, prize-winner of the competition of scientific student works of the international and all-Ukrainian levels;

15 points: prize-winner of the subject Olympiad, prize-winner of the competition of scientific student works at the regional level, author (co-author) of articles or theses in university collections of scientific works;

10 points: prize-winner of the subject Olympiad, prize-winner of the competition of scientific student works at the university level, participant of university student scientific conferences.

The final control of the academic discipline is conducted in the form of an oral exam.

A student who, as a result of the current assessment of knowledge, received more than 60 points, has the right not to take the exam in the academic discipline. In this case, the overall final assessment of the current knowledge control for the semester is entered in the credit and examination list. If a student wants to improve the final grade in a discipline, he has the right to take an exam, while the grade for the exam cannot be lower than the final grade of the current control.

A student who, as a result of the final current assessment of knowledge in the discipline, received less than 60 points, is required to take the exam. The student's answer during the exam is evaluated **from 0 to 100 points.**

Evaluation scale: national and ECTS

The sum of points for all forms of educational activity	Assessment in ECTS	Evaluation on a national scale
90-100	A	perfectly
82-89	B	good
74-81	C	
64-73	D	satisfactorily
60-63	E	
35-59	FX	unsatisfactory with the possibility of reassembly
0-34	F	unsatisfactory with mandatory repeat studying the discipline

2.3. LIST OF QUESTIONS FOR THE FINAL CONTROL OF KNOWLEDGE

1. History of the development of banking in the world.
2. The essence and functions of the banking system.
3. Structure of the banking system and principles of its functioning.
4. The role of the banking system in the market economy.
5. Stages of formation and development of the banking system of Ukraine.
6. Structure of the banking system of Ukraine.
7. Prerequisites for the emergence of central banks.
8. Status and principles of organization of central banks.
9. Independent status of central banks and forms of its implementation.
10. Main activities of central banks.
11. Peculiarities of the organization of central banks of foreign countries.
12. Creation and development of the central bank of Ukraine.
13. Principles of activity of the National Bank of Ukraine.
14. Organizational structure and management bodies of the NBU.
15. Main functions of the National Bank of Ukraine.
16. Types and classification of commercial banks.
17. Creation and state registration of banking institutions.
18. Procedure for registration of a representative office of a foreign bank.
19. Licensing of banking activities.
20. Organizational and functional structure of a commercial bank.
21. The essence and basic principles of banking transactions.
22. Classification of operations of commercial banks.
23. Active operations of commercial banks.
24. Passive operations of commercial banks.
25. Commission and brokerage operations of commercial banks.
26. Economic characteristics of commercial bank resources.
27. The bank's own capital, its composition and formation procedure.
28. Functions of the bank's own capital.
29. Involved resources of a commercial bank, the order of their formation.
30. Types of bank deposits and their economic characteristics.
31. Borrowed resources of a commercial bank.
32. Attracting resources on the interbank market.
33. Methods of refinancing commercial banks.
34. Issue of bank bonds as a means of borrowing funds.
35. Management of banking resources at the macro and macro levels.
36. Characteristics of monetary turnover.
37. The essence and principles of the organization of the payment system.
38. Forms and areas of use of non-cash payments.
39. Procedure for opening and maintaining bank accounts.
40. Organization of cash payments.
41. Carrying out bank cash operations through ATMs.
42. Concepts, types and characteristics of bank payment cards.
43. Technology of payments using payment cards.

44. Interbank settlements.
45. System of electronic payments of the National Bank of Ukraine.
46. The essence, principles and functions of credit.
47. Classification of bank loans.
48. Organization of credit activity of the bank.
49. Forms of loan bank accounts.
50. Methods of granting and repayment of bank loans.
51. Consumer bank loans.
52. Mortgage bank loans.
53. Consortium and parallel loans.
54. Overdraft. Current account with overdraft.
55. The price of a bank loan. Loan interest.
56. Assessment of the borrower's creditworthiness.
57. The concept of the bank's loan portfolio and its qualitative characteristics.
58. Credit risk: essence and management methods.
59. Methods of managing problematic bank loans.
60. Organizational basis of bank transactions in foreign currency.
61. Opening and maintenance of accounts in foreign currency.
62. Non-commercial operations of banks in foreign currency.
63. Exchange operations of banks with cash foreign currency.
64. Electronic systems of international interbank payments.
65. Trade operations of banks in foreign currency.
66. Operations of commercial banks on the interbank currency market.
67. Cash currency transactions of banks.
68. Term currency operations of banks.
69. Forward and futures agreements on the foreign exchange market.
70. Currency options. Currency swap agreements.
71. The essence and features of the functioning of the stock market.
72. Classification of securities.
73. Equity securities.
74. Debt securities.
75. Mortgage securities.
76. Derivative securities.
77. Activities of banks on the securities market.
78. Issue activity of banks on the securities market.
79. Investment activity of banks in the securities market.
80. Brokerage operations of commercial banks with securities.
81. Formation of a bank portfolio of securities.
82. Principles and methods of managing a bank portfolio of securities.
83. General characteristics of non-traditional banking operations and services.
84. Leasing operations of banks.
85. The mechanism of factoring operations of banks.
86. Forfaiting operations of commercial banks.
87. Trust services of banks.
88. Guarantee, intermediary and information services of banks.

89. Services of banks for storage of valuables.
90. Activity of banks in the market of precious metals.
91. The essence of financial stability of commercial banks.
92. Liquidity and solvency of the bank.
93. Methods of assessing the financial condition of commercial banks.
94. Rating assessment of banks' activity according to the CAMELSO system.
95. Income and expenses of commercial banks.
96. Financial reporting of commercial banks.
97. Economic essence and necessity of regulation of banking activity.
98. Economic norms of regulation of banking activity.
99. Reserves to cover possible losses of banks from active operations.
100. The system of guaranteeing deposits of natural persons in Ukraine.

2.4. ANSWER KEYS TO THE TESTS AND SOLUTIONS OF PRACTICAL TASKS

Topic 1. Theoretical foundations of the functioning of the banking system

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct respond	c	c	d	b	c	b	a	a	d	c

The solution to problem 1:

The main stages of banking development:

I Stage - from antiquity to the establishment of the Venetian Bank in 1157.

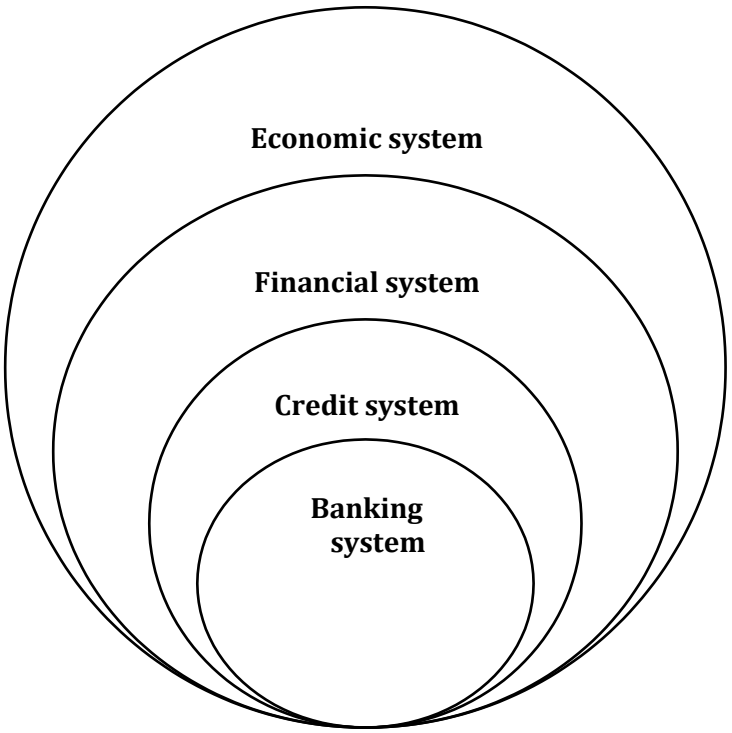
II Stage - from 1157 to the founding of the Bank of England in 1694.

III Stage - from 1694 to the emergence of specialized banks: the Paris Accounting Office (1776), the Prussian Bank for Maritime Trade (1767), the St. Petersburg Bank (1780) and others.

IV stage - from the beginning of the 19th century, when the first central banks were created: the Bank of France (1848), the Reichsbank in Germany (1874), the Federal Reserve System of the USA (1913), - to the present time.

The solution to task 2:

The place of the banking system in the economic system of the country:



The solution to problem 3:

1. Official website of the National Bank of Ukraine [Electronic resource]. – Access mode: http://www.bank.gov.ua.
2. Official website of the Association of Ukrainian Banks [Electronic resource]. – Access mode: http://aub.org.ua.
3. Official website of the Individual Deposit Guarantee Fund [Electronic resource]. – Access mode: http://www.fg.org.ua.
4. Official website of the Verkhovna Rada of Ukraine [Electronic resource]. – Access mode: http://zakon.rada.gov.ua.
5. Official website of the State Fiscal Service of Ukraine [Electronic resource]. – Access mode: http://www.ac-rada.gov.ua.
6. Official website of the State Treasury Service of Ukraine [Electronic resource]. – Access mode: http://treasury.gov.ua.
7. Official website of the State Statistics Service of Ukraine [Electronic resource]. – Access mode: http://www.ukrstat.gov.ua.
8. Official website of the Ministry of Finance of Ukraine [Electronic resource]. – Access mode: http://www.minfin.gov.ua.
9. Official website of the Accounting Chamber of Ukraine [Electronic resource]. – Access mode: http://www.ac-rada.gov.ua.
10. Official website of the rating agency "Rurik" [Electronic resource]. – Access mode: http://rurik.com.ua.
11. Official website of the National Commission, which carries out state regulation in the field of financial services markets [Electronic resource]. – Access mode: http://nfp.gov.ua.
12. Official website of the Ukrainian Interbank Association of Payment System Members [Electronic resource]. – Access mode: https://ema.com.ua.
13. Official website of the Association "Ukrainian Credit and Banking Union" [Electronic resource]. – Access mode: www.kbs.org.ua.
14. Official websites of commercial banks (for example, PJSC CB "PrivatBank" [Electronic resource]. - Access mode: http://privatbank.ua.).

Topic 2. Status and main activities of central banks

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct respond	a	a	c	b	b	c	b	b	c	d

The solution to problem 1:

The package of documents submitted to the territorial branch of the National Bank of Ukraine regarding the registration of a commercial bank is incomplete. It lacks the following documents:

1) information on persons related to the bank who meet the characteristics provided for by law;
2) conclusion of the Antimonopoly Committee of Ukraine in cases provided for by the legislation of Ukraine;
3) copies of documents necessary for the identification of the founder and all persons through whom the indirect ownership of a significant share in the bank will be carried out;
4) documents that make it possible to draw a conclusion about:

– the business reputation of the founder and all persons through whom indirect ownership of a significant share in the bank will be carried out;
– the financial condition of the founder-legal entity (individual);
– the founder has a sufficient amount of own funds to make the declared contribution to the authorized capital, the source of funds.

In accordance with the Law of Ukraine "On Banks and Banking", the National Bank of Ukraine has the right to refuse the approval of the charter to a legal entity that intends to carry out banking activities if an incomplete package of documents specified by law is submitted. The decision to approve the statute or to refuse to approve the statute is made by the NBU no later than three months from the date of submission of the complete package of documents.

The solution to task 2:

1) In this case, the territorial administration of the NBU has the right to refuse to accept documents for bank registration, because according to the Law of Ukraine "On Banks and Banking Activities", the minimum amount of authorized capital at the time of state registration of a legal entity that intends to carry out banking activities is not may be less than 500 million. UAH
2) The National Bank of Ukraine has the right to refuse a legal entity that intends to carry out banking activities if:

— an incomplete package of documents required for the approval of the charter was submitted;
— documents contain inaccurate information;
— the documents do not meet the requirements of the laws of Ukraine or the normative legal acts of the NBU;
— the business reputation of the founder does not meet the established requirements;
— the financial condition of the founder-legal entity or the property condition of the founder-natural person do not meet the requirements established by the National Bank of Ukraine;
— the founder does not have his own funds to make the declared contribution to the authorized capital;
— documents confirming the presence of paid-up authorized capital have not been submitted.

The solution to problem 3:

1. The value of shares sold at nominal price:
   300,000 * 1000 = 300,000,000 UAH.
2. The cost of shares sold at a price of UAH 1,200:
   200,000 * 1,200 = 240,000,000 UAH.
3. The size of the authorized capital of the bank is:
   300,000,000 + 240,000,000 = 540,000,000 UAH.
4. The issuance income of the bank from the issue of shares is:
   240,000,000 – (200,000 * 1000) = 40,000,000 UAH.
   The size of the authorized capital of the bank corresponds to the standard established by the NBU.

The issuance income of the bank is 40 million. UAH.

Topic 3. Organization of commercial banks

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct answer	d	b	c	a	a	d	b	a	a	a

The solution to problem 1:

Assets	**Indicator (million hryvnias)**	**Passives**	**Indicator (million hryvnias)**
Loans granted to business entities	124 340	Funds in the current accounts of legal entities	63 986
Loans granted to other banks	17 618	Deposits of individuals	80 910
Funds on correspondent account account at the NBU	33 531	Interbank loans	66 705
Consumer loans	45 098	Authorized capital	17 869
Investing in securities	19 142	Retained earnings	10 259
That's all	**239 729**	**That's all**	**239 729**

The solution to problem 2:

Active operations	**Passive operations**	**Commission and intermediary operations**
The bank purchased government securities	The bank formed a special fund development	The bank transferred funds to account of KP "Vodokanal" according to the client's receipt
The bank placed funds on deposit in another bank	The bank issued to the client savings certificate	The bank bought bonds for on behalf of the client
The bank formed a reserve for customer debt	The bank received a loan from the central bank	The bank paid the money to the client on the basis of the presented check

The solution to problem 3:

Articles of balance	**Changes in reported data, thousand UAH. (+, -)**	***Balance A,* thousand UAH**	**Changes in reported data, thousand UAH. (+, -)**	***Balance B,* thousand UAH.**	**Changes in reported data, thousand UAH. (+, -)**	***Balance ,* thousand UAH.**	**Changes in reported data, thousand UAH. (+, -)**	***Balance D,* thousand UAH**
1	***2***	***3***	***4***	***5***	***6***	***7***	***8***	***9***
Assets								
Bank cash desk	—	100	-50 +50	100	—	100	—	100
Reserves	-50	150	-50	150	+60	260	+100	300
Credits	—	500	—	500	—	500	—	500
Securities	—	200	—	200	—	200	-100	100
Balance	-50	950	-50	950	+60	1060	0	1000
1	***2***	***3***	***4***	***5***	***6***	***7***	***8***	***9***
Passives								
Current account balances accounts and deposits	-50	850	-50	850	+60	960	—	900
Own capital	—	100	—	100	—	100	—	100
Balance	-50	**950**	-50	**950**	+60	**1060**	0	**1000**

Topic 4. Formation of the resource base of commercial banks

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct respond	a	b	b	d	d	b	a	c	a	c

The solution to problem 1:

1. The size of the authorized capital of the bank is:
   10,000,000 * 35 + 4,500,000 * 40 = 530,000,000 UAH.
2. Amount of issue income from the sale of ordinary shares:
   2,500,000 * (38 – 35) = 7,500,000 UAH.
3. Amount of issue income from the sale of preferred shares:
   1,200,000 * (45 – 40) = 6,000,000 UAH.
4. The total amount of emission income:
   7,500,000 + 6,000,000 = 13,500,000 UAH.

Issue income of the bank refers to the bank's core capital.

The solution to task 2:

The following formula is used to calculate the future value of a deposit subject to simple interest accrual:

$$S = P * (1 + i * n),$$

where S is the total amount owed to the depositor; P is the base amount of the deposit;
i — interest rate;
n is the duration of the deposit in years.

$$S = 15\,000 * (1 + 0{,}22 * 3) = 24\,900 \text{ грн.}$$

1. The depositor's interest income when calculating simple interest is:

$$24900 - 15000 = 9900 \text{ UAH.}$$

To calculate the future value of the deposit, subject to compound interest, we use the formula:

$$S = P * (1 + i)^{n}$$

$$S = 15\,000 * (1 + 0{,}22)^{3} = 27\,237{,}72 \text{ UAH.}$$

2. The depositor's interest income when calculating simple interest is:

$$27237.72 - 15000 = 12237.72 \text{ UAH.}$$

The solution to problem 3:

Amounts of interest for settlement periods:

1. 1. From March 10 to March 31:

$$\frac{50000 * 20 * 22}{365 * 100} = 602{,}74 \text{ UAH.}$$

UAH 602.74 transferred by the bank to the depositor's current account on April 1;

2. From April 1 to April 30:

$$\frac{50000 * 20 * 30}{365 * 100} = 821{,}92 \text{ UAH.}$$

UAH 821.92 transferred by the bank to the depositor's current account on May 1;

3. From May 1 to May 31:

$$\frac{50000 * 20 * 31}{365 * 100} = 849{,}32 \text{ UAH.}$$

UAH 849.32 transferred by the bank to the depositor's current account on June 1;

4. From June 1 to June 10:

$$\frac{50000 * 20 * 10}{365 * 100} = 273{,}97 \text{ UAH.}$$

UAH 273.97. transferred by the bank to the depositor's current account on June 10.

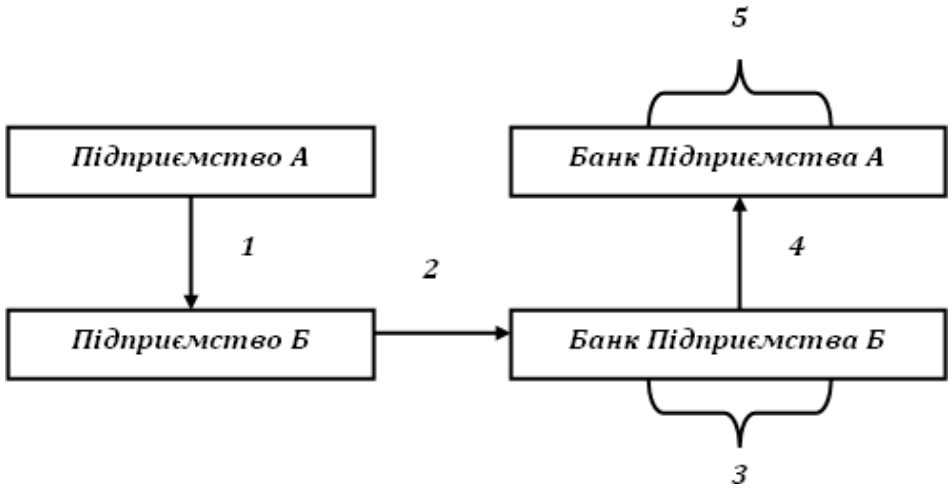
The total amount of the deposit return upon expiration of the deposit agreement is UAH 51,945.21.

Topic 5. Organization of monetary turnover in commercial banks

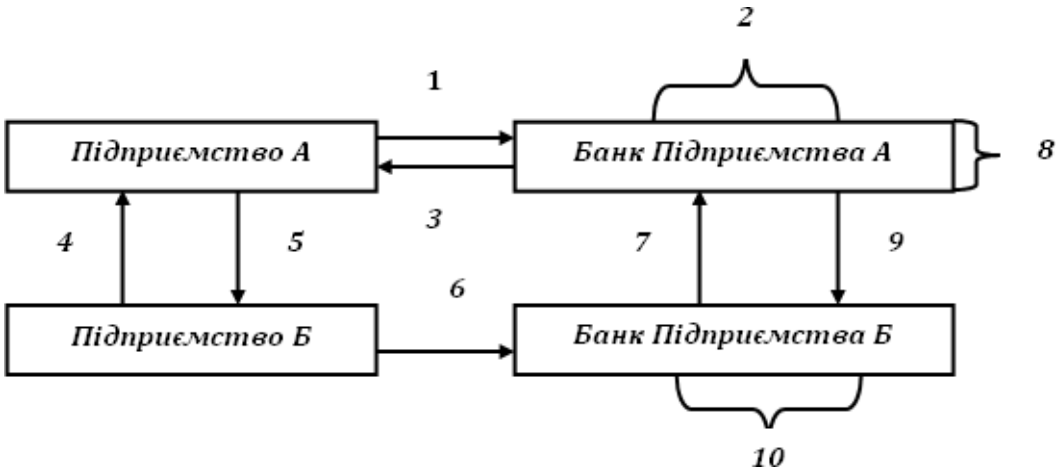
Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct answer	b	b	d	b	a	d	a	b	b	d

Solution of task 1:



The solution to task 2:



The solution to problem 3:

Procedure for payment documents:

1. The payment claim for the recovery of funds for compensation for damage caused to the employee's health, issued on the basis of a court decision - 2.8 thousand. UAH.;
2. Collection order for collection of VAT arrears - 6.7 thousand. UAH.;
3. Payment order for the payment of communal services - 5.3 thousand. UAH.;
4. Payment order for the payment of interest on a bank loan - 10.4 thousand. UAH.;
5. Application for the opening of a letter of credit for the payment of raw materials to a

foreign supplier - 35.8 thousand. UAH.;

6. Payment order for repair work - 15.7 thousand. UAH

The total amount is 61 thousand. UAH (except for the payment order for the payment of repair works). Commission - 3.68 thousand UAH

Topic 6. Credit activity of commercial banks

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct answer	d	b	c	b	b	a	c	d	b	a

Solution of task 1:

$$I = P*n*i ;$$

where I is the amount of accrued interest;
P is the loan amount;
i — annual interest rate;
n — credit term in years; t — credit term in days; K is the number of days in a year;
t = 92 days.

$$n = \frac{t}{K},$$

$$I = 25\,000 * 0{,}18* \frac{92}{365} = 1\,134{,}25 \text{ UAH.}$$

The solution to task 2:

1. The cost of securing a loan is:
$$150 * 290 = 43{,}500 \text{ UAH.}$$
2. The size of the loan is:
$$43{,}500 * 0.9 = 39{,}150 \text{ UAH.}$$
3. Discount interest rate on the loan:
$$0{,}17 * \frac{6}{12} * 100\ \% = 8{,}5\ \%$$
4. 4. Amount of discount interest rate (UAH):
$$39{,}150 * 0.085 = 3{,}327.75 \text{ UAH.}$$
5. 5. The loan amount that the bank can offer:
$$39{,}150 – 3{,}327.75 = 35{,}822.25 \text{ UAH.}$$

The solution to problem 3:

Calculation of annual loan payments with simple interest.

Прості відсотки				
Рік	**Сума непогашеного тіла кредиту на початок року (грн.)**	**Сума погашення тіла кредиту в кінці року (грн.)**	**Сума відсотків за користування кредитом за рік (грн.)**	**Загальна сума до сплати за рік (грн.)**
1	200000	0	32000	32000
2	200000	0	32000	32000
3	200000	0	32000	32000
4	200000	0	32000	32000
5	200000	200000	32000	232000
—	**Усього:**	**200000**	**160000**	**360000**

$$I = L*i*n ,$$

where I is the total amount of interest on the loan,
L is the amount of the loan,
i is the interest rate,
n is the number of periods (years).

$$I = 200\,000 * 0{,}16 * 5 = 160\,000 \text{ UAH.}$$

The total refund amount (loan and interest) is determined by the formula:

$$S = L * (1 + i * n)$$

$$S = 200\,000 * (1 + 0{,}16 * 5) = 360\,000 \text{ UAH.}$$

1. Calculation of annual loan payments under the condition of accrual of compound interest.

Compound interest				
Year	**The amount of the outstanding body of the loan at the beginning of the year (UAH)**	**Amount of repayment of the loan body at the end of the year (UAH)**	**The amount of interest for the use of credit per year (UAH)**	**Total amount to payments per year (UAH)**
1	200000	0	32000	0
2	232000	0	37120	0
3	269120	0	43059.2	0
4	312179.2	0	49948.7	0
5	362127.9	362127.9	57940.5	420068.4
—	**Total:**	**362127.9**	**220068.4**	**420068.4**

The calculation can be carried out using the compound interest formula:

$$I = L * ((1+ i)^{n} - 1)$$

$$I = 200\,000 * ((1+ 0{,}16)^{5} - 1) = 220\,068{,}4 \text{ грн.}$$

The total refund amount is calculated according to the formula:

$$S = L * (1+ i)^{n}$$

$$S = 200\,000 * (1+ 0{,}16)^{5} = 420\,068{,}4 \text{ грн.}$$

2. Calculation of annual loan payments under the condition of repayment of the loan with repayment of the loan body in equal parts.

Повернення кредиту з погашенням тіла кредиту рівними частинами				
Рік	**Сума непогашеного тіла кредиту на початок року (грн.)**	**Сума погашення тіла кредиту в кінці року (грн.)**	**Сума відсотків за користування кредитом за рік (грн.)**	**Загальна сума до сплати за рік (грн.)**
1	200000	40000	32000	72000
2	160000	40000	25600	65600
3	120000	40000	19200	59100
4	80000	40000	12800	52800
5	40000	40000	6400	46400
	Всього:	**200000**	**96000**	**296000**

The client begins to repay the loan body at the end of the first year. The amount of interest for using the loan decreases every year due to the decrease in the balance of the loan body. The calculation can be carried out by modifying the simple interest formula:

$$I = \frac{2 * L - \frac{L*(n-1)}{n}}{2} * n * i$$

$$I = \frac{2 * 200000 - \frac{200000*(5-1)}{5}}{2} * 5 * 0{,}16 = 96000 \text{ UAH.}$$

3. Calculation of annual loan payments under the condition of repayment of the loan with payment of the same total amount every year (annuity).

Повернення кредиту зі сплатою однакової загальної суми щороку (ануїтет)				
Рік	**Сума непогашеного тіла кредиту на початок року (грн.)**	**Сума погашення тіла кредиту в кінці року (грн.)**	**Сума відсотків за користування кредитом за рік (грн.)**	**Загальна сума до сплати за рік (грн.)**
1	200000	29081.87	32000	61081,87
2	170918,13	33734.97	27346,9	61081,87
3	137183,16	39132,56	21949,3	61081,87
4	98050,6	45393,78	15688,09	61081,87
5	52656,82	52656,82	8425,09	61081,87
—	**Всього:**	**200000**	**104409,35**	**305409,35**

When calculating this method of loan repayment, the key point is the calculation of the annuity coefficient:

$$K = \frac{i*(1+i)^n}{(1+i)^n - 1}$$

$$K = \frac{0.16*(1+0.16)^5}{(1+1.06)^5 - 1} = 0{,}30540938161$$

The annual payment amount A is calculated as the product of the annuity factor K and the loan amount L:

$$A = K * L$$

$$A = 0{,}30540938161 * 200\,000 = 61\,081{,}87 \text{ UAH.}$$

Total amount of interest:

$$I = L*(K* n - 1)$$

$$I = 200\,000 * (0{,}30540938161 * 5 - 1) = 105\,409{,}35 \text{ UAH.}$$

Total refund amount (credit and interest):

$$S = L * K * n$$

$$S = 200\,000 * 0{,}30540938161 * 5 = 305\,409{,}35 \text{ UAH.}$$

Topic 7. Operations of commercial banks in foreign currency

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct answer	b	c	a	d	d	a	d	b	b	a

The solution to problem 1:

1. We determine the amount in hryvnias that the client will receive from the sale of 300 euros and 100 pounds sterling:

300 * 29,90 + 100 * 32,65 = 12 235 UAH.

2. We determine the amount that the client will receive in US dollars:

12 235 / 26,00 = 471,57 dol. US.

The solution to task 2:

1. Advance payment amount:

5 000 * 0,2=1 000 euros

2. Commission: for transfer of advance payment:
   1 000 * 0,01 = 10 euros
3. Fixed fee for prepayment transfer:

1) cross rate (according to the official NBU rate): 25.90 / 30.28 = 0.85
2) 30*0.85=25.50 euros

4. General commission of the bank:

10 + 25,50 = 35,50 euro

5. Expenses for buying currency:

30,45 * 35,50 = 1 080,97 UAH.

6. Commission for the purchase of currency:

1 080,97 * 0,02 = 21,62 UAH.

7. The exporter's total expenses for paying the commission:

1 080,97 + 21,62 = 1 102,59 UAH.

8. Crediting of funds by the bank to the exporter's account (Resolution of the National Bank of Ukraine No. 410 of December 13, 2016, as amended):

1 000 * 0,5 = 500 euro

9. Sale on the interbank market (at the official exchange rate):

500 * 30,28 = 15 140 UAH.

The solution to problem 3:

1. After the deadline, Bank A is obliged to buy 10,000 euros from Bank B for UAH 28.6. for 1 euro, paying 286,000 hryvnias. In turn, Bank B is obliged to sell 10,000 euros for 286,000 hryvnias, regardless of what the market situation will be.
2. On the execution date of the forward contract, the euro spot rate:

28,6 * 1,09 = 31,17 UAH.

3. Bank A sold 10,000 euros on the spot market at UAH 31.17. for 1 euro and received income:

$$311{,}700 - 286{,}000 = 25{,}700 \text{ UAH.}$$

4. As a rule, when selling forward contracts (including forward contracts), market participants do not have the underlying asset available. To fulfill the obligation under the forward contract, Bank B bought 10,000 euros on the spot market at UAH 31.17. for euros and delivered them to Bank A for UAH 28.60 each. for euros

Thus, the execution of the forward contract brought a loss of 25,700 hryvnias to Bank B.

Topic 8. Activities of commercial banks on the securities market

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct answer	b	b	c	d	b	d	b	b	c	c

The solution to problem 1:

The bank's income from operations with shares consists of exchange rate differences and accrued dividends.

1. The cost of buying 500 shares:

$$92 * 500 = 46\,000 \text{ UAH.}$$

2. The amount received from the sale of shares:

$$115 * 500 = 57\,500 \text{ UAH.}$$

3. The amount of dividends accrued on shares for 5 years:

$$500 * 85 * (0{,}1 + 0{,}11 + 0{,}15 + 0{,}17 + 0{,}18) = 30\,175 \text{ UAH.}$$

4. The total amount of the bank's income from the transaction with shares:

$$30\,175 + (57\,500 - 46\,000) = 41\,675 \text{ UAH.}$$

5. The profitability of operations with shares is calculated according to the formula:

$$i = \frac{I(D)}{P * n} * 100\%,$$

where I(D) is the amount of accrued interest or received income; P is the amount spent on the operation;
n is the duration of the operation in years.

$$i = \frac{41675}{46000 * 5} * 100\% = 18{,}11\ \%$$

The solution to task 2:

1. The loan amount for the issued bonds is:

$$770 * 100 = 77{,}000 \text{ UAH.}$$

2. The amount of interest accrued on bonds is:

$$80\,000 * 5 * 0{,}12 = 48\,000 \text{ UAH.}$$

3. Income from reinvestment of accrued interest is determined by the formula

$$Дp = R * \frac{(1+i)^n - 1}{i},$$

where Dr is income from reinvestment of accrued interest; R
is the amount of accrued interest.

$$Др = 48000 * \frac{(1+0.09)^5 - 1}{0.09} = 287\ 266{,}1\ грн.$$

4. Income from the purchase of a bond at a price lower than the face value will be:
   80,000 – 77,000 = 3,000 UAH.
5. The total income from the bond transaction will be:
   287,266.1 + 3,000 = 290,266.1 UAH.

The solution to problem 3:

When buying a promissory note, the client will pay UAH 80,000 to the bank, and when selling it to the bank after the expiration of the term, he will receive from the bank (see the formulas for the solution of task 1 of Topic 6):

$$\frac{80000 * 0{,}13 * 180}{365} + 80000 = 85\ 128{,}76\ UAH.$$

Topic 9. Non-traditional banking operations and services

Answer keys to the tests

Test number	1	2	3	4	5	6	7	8	9	10
Correct answer	c	c	d	a	a	b	c	d	a	b

The solution to problem 1:

1. Amount of the factoring loan:
   900 000 * 0,85 = 765 000 UAH.
2. Amount of the commission fee:
   765,000 * 0.005 = 3,825 UAH.
3. The amount of accrued interest (see the formulas for solving problem 1 of Topic 6):
   $$I = 765000 * 0{,}2 * \frac{100}{365} = 41\ 917{,}81\ UAH.$$
4. Total income of the bank:
   3 825 + 41 917,81 = 45 742,81 UAH.

The solution to task 2:

1. The amount of annual depreciation is:
   50 000 * 0,25 = 12 500 UAH.

The amount of payment for credit resources, commission and VAT depends on the residual value of the equipment.

Calculation of the average annual cost of the equipment (in UAH)

Year	*Cost equipment at the beginning of the year*	*Annual amount of depreciation*	*Cost equipment at the end of the year*	*Mid-year equipment cost*
1	*50000*	*12500*	*37500*	*43750*
2	*37500*	*12500*	*25000*	*31250*
3	*25000*	*12500*	*12500*	*18750*
4	*12500*	*12500*	*0*	*6250*

2. The total amount of the leasing payment for the 1st year:

Depreciation deductions: 12,500 UAH.

Interest on a loan (*see the formula for solving problem 1 of Topic 6*):

I = 43 750 * 0,18 * 1 = 7 875 UAH.

Commission fee of the lessor:

43 750 * 0,04 =1 750 UAH.

Income of the lessor (bank) under the leasing agreement:

875 + 1 750 = 9 625 UAH.

The total amount of leasing payments for the first year:

12 500 + 9 625 = 22 125 UAH.

The total amount of leasing payments by year (in UAH)

Рік	*Амортизаційні відрахування*	*Відсоток за кредит*	*Комісія*	*Загальна сума лізингових платежів*
1	*12500*	*7875*	*1750*	*22125*
2	*12500*	*5625*	*1250*	*19375*
3	*12500*	*3375*	*750*	*16625*
4	*12500*	*1125*	*250*	*13875*
Всього	**50000**	**18000**	**4000**	**72000**

3. The total amount of leasing payments for 5 years will be UAH 72,000.

The solution to problem 3:

1. The amount of pure gold in the lot:

22 000 * 0,999 = 21 978 g

2. Number of troy ounces in the batch:

21 978 / 31,1034768 = 706,6 tr. Ounces

3. The cost of a lot of gold in hryvnias:

706,6 * 1 200 * 26,8 = 22 724 256 UAH

Topic 10. Ensuring the financial stability of banks

Answer keys to the tests

Номер тесту	1	2	3	4	5	6	7	8	9	10
Правильна відповідь	б	б	а	г	в	а	в	а	в	в

The solution to problem 1:

Нормативи ліквідності	Нормативні значення	Фактичні показники ліквідності банку
$Н4 = \frac{Ккр + Ка + Дс}{Рп + Ск} * 100\ \%$	≥ 20 %	$Н4 = \frac{17105 + 3658 + 5897}{11356 + 58974} * 100\% = 37{,}9\%$
$Н5 = \frac{А}{Зп} * 100\ \%$	≥ 40 %	$Н5 = \frac{1677 + 9450}{8330 + 15647} * 100\% = 46{,}4\%$
$Н6 = \frac{Ал}{З1} * 100\ \%$	≥ 60 %	$Н6 = \frac{48156 + 22620}{27992 + 44637} * 100\% = 97{,}4\%$

A significant excess of the bank's liquidity indicators of regulatory values indicates the presence of non-working capital, low investment activity of the bank, incomplete use of available opportunities to increase its profitability.

The solution to task 2:

Зміст операції	Вид діяльності
Продаж асоційованих компаній	інвестиційна
Отримання комісії	операційна
Витрати банку на охорону	операційна
Збільшення вкладень в дочірні компанії	фінансова
Придбання приміщення під філію	інвестиційна
Випуск привілейованих акцій	фінансова
Виплати працівникам на відрядження	операційна
Викуп простих акцій у акціонерів	фінансова
Зміни у резервах банку	операційна
Кошти від продажу основних засобів	інвестиційна
Сплата комісії за послуги інших банків	операційна
Отримання дивідендів	інвестиційна
Реалізація доларів США	операційна
Виплата дивідендів	фінансова
Сплата податку на прибуток	операційна
Купівля нового програмного забезпечення	інвестиційна
Отримання процентів за кредитами	операційна
Витрати на комунальні послуги	операційна
Придбання ОВДП	інвестиційна
Виплати власним акціонерам	фінансова

The solution to task 3:

Statement of profit and loss and other comprehensive income

Title of the article	thousand UAH
Interest income	24 400
Interest expenses	(5 700)
Net interest income/(Net interest expense)	**18 700**
Net increase (decrease) in provisions for impairment of loans and customer debts, funds in other banks	
Net interest income/(net interest expenses) after the creation of a provision for the impairment of loans and customer debts, funds in other banks	
Commission income	4 500
Commission costs	(2290)
Result from transactions with financial instruments accounted for at fair value through profit or loss	
Result from fair value hedging transactions	
The result from the sale of securities in the bank's portfolio for sale	
Result from operations with foreign currency	
The result of revaluation of foreign currency	600
The result of revaluation of investment real estate objects	
Income/(expenses) that arise during the initial recognition of financial assets at an interest rate that is higher or lower than the market	
Expenses/(income) that arise during the initial recognition of financial liabilities at an interest rate that is higher or lower than the market	
Net increase (decrease) in provisions for impairment of receivables and other financial assets	(850)
Net increase (decrease) in securities impairment reserves in bank portfolios for sale	
Net increase (decrease) in provisions for impairment of securities in the bank's portfolio until maturity	
Net increase (decrease) in provisions for liabilities	
Other operating income	
Administrative and other operating expenses	(19 830)
Share in profit/(loss) of associated companies	(300)
Profit/(loss) before tax	530
Income tax expenses	95
Profit/(loss) from continuing operations	
Profit/(loss) from discontinued operations after tax	
Profit/(loss) for the year	**435**

GLOSSARY

A letter of credit is a contract containing obligations of the issuing bank, according to which the bank, on behalf of the client (applicant of the letter of credit) or on its own behalf, against documents that meet the terms of the letter of credit, is obliged to make a payment in favor of the beneficiary or instructs another (executive) bank make this payment.

Active operations of banks - operations aimed at the placement and use of the bank's own and borrowed resources with the aim of obtaining profit with the rational distribution of risks for certain types of operations and maintaining the required level of liquidity.

Acceptance is the consent of the payer to pay settlement documents or a guarantee of payment for goods and services.

A share is a registered security that certifies the property rights of its owner related to a joint-stock company, including the right to receive part of the profit in the form of dividends and the right to receive part of the property of the joint-stock company in the event of its liquidation, the right to manage the joint-stock company, as well as non-property rights .

Underwriting is the services provided by a securities trader (bank, financial or other company) in relation to the open (public) placement of the issue of securities on behalf of, on behalf of, and at the expense of, the issuer.

An associated company is a legal entity in which another legal entity directly and/or indirectly owns 20 percent or more of the authorized capital and/or votes.

Basel agreements - agreements on determining the adequacy of bank capital to ensure the efficient and stable operation of banking institutions and their regulation.

A bank is a financial intermediary that has the status of a legal entity and, on the basis of a license, has the exclusive right to carry out transactions classified by law as banking activities.

A bank with foreign capital is a bank in which the share of authorized capital belonging to at least one non-resident exceeds 10 percent.

Banking activity is a special type of commercial activity that can be carried out exclusively by banking institutions in accordance with banking legislation after bank registration and obtaining a license from the National Bank of Ukraine.

A banking corporation is a legal entity (bank), whose founders and shareholders can only be banks. The banking corporation is created for the purpose of concentrating the capital of the member banks of the corporation, increasing their overall liquidity and solvency, as well as ensuring coordination and supervision of their activities.

A banking crisis is a sudden change in the external and internal conditions of the banking system, as a result of which it becomes unable to function stably and perform its main functions.

A banking license is a document issued by the National Bank of Ukraine in accordance with the established procedure and under the conditions specified in the law, and on the basis of which banks have the right to carry out banking activities.

The banking system is a legally defined, clearly structured and subordinated set of financial intermediaries that carry out banking activities on a permanent professional basis and are functionally interconnected in an independent economic structure.

A banking holding group is a banking association consisting exclusively of banks. The parent bank of the bank holding group must own at least 50% of the share capital or votes of each of the other members of the group, which are its subsidiary banks.

Bancassurance or bancassurance is the integration of banks and insurance companies for the purpose of coordinating sales and combining insurance and banking products, establishing common channels for their distribution, using a common customer database for profit.

Bank credit is the bank's loan capital in cash and in bankable metals, which is transferred for temporary use under the conditions of security, return, term, payment and purpose.

Banking supervision is a system of control measures and active, orderly actions of the National Bank of Ukraine, aimed at ensuring compliance by banks and other credit and financial institutions in the course of their activities with the legislation of Ukraine and the established standards in order to ensure the stability of the banking system and protect the interests of depositors.

A bank transfer is a simple instruction of the bank to its correspondent bank to pay a certain amount of money at the request and at the expense of the transferor to a foreign recipient.

A bank account is an account opened by a bank for a bank client, to which, in accordance with the contract, the bank undertakes to accept and credit funds received by the client (account owner), to carry out the client's instructions to transfer and issue the corresponding amounts from the account, and to carry out other operations on the account.

Bank metals - gold, silver, platinum, metals of the platinum group, refined (refined) to the highest tests in accordance with world standards, in ingots and powders with a quality certificate, as well as coins made from precious metals.

Banking operations are a set of interrelated actions aimed at realizing the economic tasks of the bank as a subject of market relations, the subject of which is the movement of cash, securities, precious metals or obligations for their movement, which is carried out on the basis of concluded contracts in accordance with with current legislation.

Banking resources are the totality of the bank's own, borrowed and borrowed funds, which are at its disposal and are used to carry out banking activities by conducting active operations and providing services for the purpose of making a profit.

Non-cash monetary turnover is a set of payments without the use of cash, which are carried out in the form of transfers of amounts through accounts in banking institutions.

Non-cash settlements are payments made by banks by transferring a certain amount of funds from the accounts of payers to the accounts of the recipients of funds, as well as the transfer by banks, on behalf of enterprises and individuals, of the funds deposited by them in cash into the bank's cash register, to the accounts of the recipients of funds.

Bad credit debt is the debt of the borrower under the loan agreement, not paid on time, there is a possibility of its non-repayment and recognized as such by the bank's credit committee.

Back office is an operational and accounting unit of the bank that ensures the work of units involved in asset and liability management and carries out activities related to registration, accounting and registration of transactions with securities, as well as settlements with clients.

Beneficiary - the person to whom the payment is assigned or in whose favor the letter of credit is opened.

Debt securities are securities evidencing a loan relationship and implying the issuer's obligation to pay the funds in accordance with the obligation within a specified period.

Brokerage activity - conclusion of commission agreements and commissions regarding securities on one's own behalf (on behalf of another person), on behalf of and at the expense of another person.

Currency - money signs of foreign countries, as well as credit and payment documents in foreign currency units used in international settlements.

A foreign exchange transaction on "forward" terms is a foreign exchange transaction under a forward contract, the terms of which provide for the execution of this transaction later than on the second business day after the day of concluding the contract.

Currency position is the ratio of the bank's claims and liabilities in each foreign currency and in each bank metal.

A currency derivative is a standardized document certifying the right and/or obligation to buy, sell or exchange a foreign currency under specified conditions in the future.

A currency option is an agreement under which the buyer (the option holder) receives the right (but not the obligation) to buy or sell a certain amount of currency at a pre-fixed price on the day the option contract expires.

Foreign exchange risk is the existing or potential risk to income and capital arising from adverse fluctuations in foreign exchange rates and bank metal prices.

Currency operations are operations related to the transfer of ownership of currency values, their use in international circulation as a means of payment, the transfer of debts and other obligations, the subject of which are currency values, as well as import, export, transfer and sending currency values to the territory of the country and beyond its borders.

Currency transactions on the terms of "swap" - currency transactions under a contract, the terms of which provide for the purchase (sale) of foreign currency with its reverse sale (purchase) on a certain date in the future with the fixation of the conditions of these transactions (rates, volumes, exchange dates) at the time of conclusion contract

Currency values are values in relation to which the currency legislation of the country establishes a special regime of circulation in the territory of the country and when crossing its borders. These include foreign currency, payment documents and stock values in foreign currency, precious metals and precious stones.

A promissory note is a security document that certifies an unconditional monetary obligation of the debtor to pay a certain amount of money to the owner of the promissory note after the due date.

Bank expenses are the total amount of money spent by the bank in the course of its activities.

Deposit (deposit) - funds in cash or non-cash form in the currency of Ukraine or in foreign currency, which are placed by clients in their personal bank accounts on a contractual basis for a specified period of

storage or without specifying such a period, and are subject to payment to the depositor in accordance with the legislation of Ukraine and terms of the contract.

A deposit account is an account opened by the bank to the client on a contractual basis for the storage of funds transferred by the client to the bank's management for a set period and at specified interest rates in accordance with the terms of the contract.

The bank's own capital (bank capital) is money contributed by the founders of the bank and money of funds created by the bank to ensure financial stability and efficient operation of the bank.

The intrabank payment system is a bank payment system that provides the most favorable conditions for transferring funds between its branches.

A guarantee, or surety, is an obligation of a third party to pay the borrower's debt in the event of his insolvency.

Monetary turnover is the totality of all monetary payments and settlements that take place in the economy.

Monetary and credit policy is a set of interconnected coordinated measures of the state in the sphere of monetary circulation and credit, aimed at ensuring the stability of the monetary unit of Ukraine by using the means and methods defined by the Law "On the National Bank of Ukraine".

Custodial activity - activity related to the provision of services related to the storage of securities or accounting of ownership rights to them, as well as some other operations related to the servicing of transactions with securities.

Deposit operations - operations related to the attraction of cash or bank metals from depositors to their bank accounts on a contractual basis or the deposit of cash by depositors with their savings (deposit) certificates.

A state bank is a bank whose authorized capital is 100% owned by the state.

The State Register of Banks is a register maintained by the National Bank of Ukraine and contains information on the state registration of all banks.

A derivative is a document of a certain form, which certifies the right and (or) obligation to buy or sell assets in the future at a price determined at the time of the conclusion of the agreement.

Dealer activity is the conclusion by a trader of civil law contracts regarding securities on his own behalf and at his own expense with the purpose of their resale.

A bank deposit agreement is a specific type of bank account agreement, according to which one party (the bank), having accepted a sum of money (the deposit) from the other party (the depositor), undertakes to pay the depositor's interest on it.

A bank account agreement is a banking agreement under which one party (a bank or other financial institution) undertakes to accept and credit the funds received by the client (account owner) to the account opened for the client (account owner), to carry out the client's instructions on the transfer and issuance of the corresponding amounts from the account and carrying out other operations on the account.

Documentary collection is a form of international settlements, according to which the seller (exporter) instructs his bank to receive payment from the buyer (importer) through his bank against the transfer of documents certifying the shipment of goods, performance of work or provision of services.

A documentary letter of credit is an obligation of the bank that opened the letter of credit at the order of the buyer (importer) to pay the amount stipulated in the terms of the letter of credit to the seller (exporter) after the seller has provided, within the specified period, documents that meet the terms of the letter of credit and confirm the shipment of goods, the provision of services or performance of works.

A traveler's check is a paper settlement document expressed in foreign currency and used as a means of international non-commercial settlements and is a monetary obligation of the check issuer to pay the

amount specified in the check to the check holder (owner), whose signature is affixed in the specified place during the sale of the check.

The bank's income is the total amount of money received by the bank as a result of active operations and provision of other banking services.

A subsidiary is a legal entity that is controlled by another legal entity (the parent company).

Economic standards are indicators established by the National Bank of Ukraine for the purpose of regulating banking activity on the basis of on-site supervision to monitor the activities of individual banks and the banking system as a whole.

An electronic settlement document is a document in which information is presented in the form of electronic data, including details of the settlement document, which can be created, transferred, saved and converted into a visual form of submission by electronic means.

Issuance differences (issuance income) - the excess of the amount of funds received from the initial issue or sale of own shares (other corporate rights) over their nominal value or the excess of the nominal value of shares over their redemption value.

Cash issue is the release of banknotes and coins into circulation by the central bank.

Eurobonds are international debt securities denominated in a currency other than the currency of the issuer's country, which are issued by borrowers for long-term loans and placed among foreign investors.

Indebtedness is the borrower's debt to the bank for the loan and/or accrued interest, bank fees.

A bank's general reserves are funds mobilized by the bank at the expense of the bank's after-tax profits to cover unforeseen losses from various types of unspecified risks.

Raised funds of the bank are the sum of funds in current, deposit and other accounts of legal entities and individuals, public organizations, public funds, which are used in active operations for the purpose of obtaining profit or ensuring the bank's liquidity.

Borrowed funds of the bank - funds received from other banks, including the central bank on the terms of lending, receipt of funds from the issuance of debt obligations, as well as loans on international financial markets.

Collateral - a method of ensuring the fulfillment of obligations entered into subjects of economic activity; a form of guarantee provided by the borrower to the creditor in the stipulated amount and within the specified time.

Gold and currency reserves are a set of highly liquid currency assets and monetary gold that are at the disposal of the country's central bank. It is used by central banks when servicing the country's external debt and, in some cases, to maintain exchange rate stability by conducting interventions in the foreign exchange market.

Investments in associates and subsidiaries of a bank are equity securities of issuers that meet the definition of an associate or subsidiary of a bank.

An endorsement is a transfer inscription on the reverse side of a promissory note (cheque) that certifies the transfer of the right to this security from one person to another.

A collection order is a settlement document that contains a demand of the collector (state tax service body) to the bank serving the payer to transfer a specified amount of funds from the payer's account to the recipient's account without the payer's consent.

Internet banking or web banking is a type of remote banking for customers, which provides access to accounts and account operations at any time and from any computer via the Internet.

A mortgage is a type of securing the performance of an obligation with real property that remains in the possession and use of the mortgagor, according to which the mortgagee has the right, in the event of non-fulfillment by the debtor of the obligation secured by the mortgage, to obtain satisfaction of his claims at the expense of the subject of the mortgage in the manner established by law.

A mortgage loan is a legal relationship that arises on the basis of a mortgage loan agreement between a creditor and a debtor regarding the provision of funds for use with the establishment of a mortgage. This is a special type of economic relations regarding the granting of loans secured by real estate (mortgage).

A mortgage certificate is a special type of security secured by mortgage assets or mortgages.

Mortgage securities are securities, the issue of which is secured by mortgage coverage (mortgage pool) and which certify the right of the owners to receive from the issuer the funds due to them.

Substantial participation in the bank is direct or indirect, independently or jointly with other persons, ownership of 10 or more percent of the authorized capital or voting rights of purchased shares (parts) of a legal entity, or the possibility of decisive influence on the management or activities of a legal entity independent of formal ownership.

A Treasury bond of Ukraine is a government security that is placed exclusively among natural persons on a voluntary basis, certifies the fact that the State Budget of Ukraine is indebted to the owner of the Treasury bond of Ukraine, gives the owner the right to receive monetary income and is repaid in accordance with the terms of placement of Treasury bonds.

The bank's capital is the residual value of the bank's assets after deducting all its liabilities.

Regulatory capital is the totality of the bank's core and additional capital, the components of which are determined by law and regulatory legal acts of the National Bank of Ukraine.

Statutory capital is the value of shares, units of the bank paid by cash contributions of the bank's participants in the amount determined by the charter.

Cash desk is a room or place for making cash payments, as well as receiving, issuing, and storing cash, other valuables, and cash documents.

A cash order is a primary document (income or expense cash order) that is used to register receipts (disbursement) of cash from the cash register.

Cash currency transactions are transactions that consist in the purchase and sale of currency values on the terms of their delivery no later than the second working day from the date of conclusion of the agreement at the exchange rate agreed upon at the time of its signing.

Cash documents - documents with the help of which cash transactions, reports on the use of funds, as well as appropriate journals of the established form for registration of these documents and accounting books are drawn up.

Cash operations of banks are operations related to the maintenance of cash circulation: receiving cash from customers, crediting it to accounts, keeping the received funds and issuing cash at the request of customers.

A bank client is any natural or legal person who has an account with the bank or uses the bank's services.

Clearing is a mechanism that includes collecting, sorting, reconciling and offsetting counterclaims of payment system participants, as well as calculating the total balance for each of them for a specified period of time between the total amounts of claims and obligations.

Commission fee (commission) is a fee that banks charge their clients for performing brokerage and trust operations on their behalf.

Commission-intermediary operations - operations of banks on behalf of clients for a certain fee in the form of a commission.

A syndicated loan is a loan granted by the association of several banks (a banking consortium) to one borrower for financing large investment projects that cannot be financed by a single bank.

An overdraft is a bank loan granted in national or foreign currency in accordance with the client's needs in an amount that does not exceed the established limit (credit line).

A correspondent account is an account of one bank, opened in another bank, on which payments made by the latter on behalf of and at the expense of the first bank are reflected on the basis of a correspondent agreement concluded between them.

Correspondent relations are contractual relations between banking institutions, the purpose of which is to make payments on behalf of each other.

Currency quotation - setting exchange rates.

Credit is a social relationship that arises between economic entities in connection with the transfer of free funds to each other for temporary use on the basis of return, term, payment, targeted use and real security.

Credit history - information about the borrower's past performance of obligations under credit operations.

A credit card is a personal (with the owner's ID) monetary payment and settlement bank document that is used to provide consumer credit.

A credit line is the agreement of a creditor bank to provide credit in the future in amounts that do not exceed predetermined amounts for a certain period of time without conducting additional special negotiations.

A credit bureau is a company that collects, stores and processes information that constitutes a borrower's credit history and exchanges it with business entities that provide loans or goods and services with deferred payment.

A credit agreement is a written agreement between a creditor and a borrower, which defines the mutual obligations and responsibilities of the parties and cannot be changed unilaterally without the consent of both parties.

Credit risk is the risk of non-payment or late or incomplete payment by the borrower of the principal debt and interest on it.

Credit operations of banks are a type of active operations related to providing clients with funds for temporary use or accepting obligations to provide funds for temporary use under certain

conditions, as well as providing guarantees, sureties, guarantees, placing deposits, conducting factoring operations, financial leasing, issuing credits in the form of accounting for bills, in the form of repo transactions, any extension of the debt repayment period.

Credit and investment risks of the bank are risks that are associated with the placement of resources in credit and investment banking operations and which are manifested in the probability of changes in the qualitative and quantitative characteristics of the invested funds under the influence of external and internal factors, which may lead to a failure to receive the expected income or to losses, to a decrease or to the absence of the socio-economic effect of investments in the real sector of the economy.

Creditworthiness is the presence of the bank borrower's prerequisites for obtaining a loan and his ability to repay the loan and interest on it in full and within the terms specified in the contract.

Leasing is a business activity aimed at investing own or borrowed funds, which consists in providing the lessor with the exclusive use of certain property for a specified period of time.

The bank's liquidity is the ability to ensure the timely fulfillment of its monetary obligations, which is determined by the balance between the amounts and terms of repayment of the placement of assets according to the amounts and terms of the fulfillment of the bank's obligations.

Licensing is the procedure for granting a permit by the National Bank of Ukraine to carry out individual or all banking operations to a commercial bank that has acquired the status of a legal entity from the moment of registration.

A memorial order is a settlement document drawn up at the bank's initiative to execute operations to debit funds from the payer's account, i.e. a memorial order is an intrabank document.

A metal account is an account opened by an authorized bank for accounting of operations carried out with bank metals.

Middle office is a division of the bank, which contains a collection of business processes, procedures, normative documents (regulations), directories, printed forms, organizational documents that ensure the processes of preparation and decision-making.

An interbank loan is a loan granted on the interbank market by one bank to another.

Interbank settlements are a system of organization, implementation and regulation of payments for monetary claims and obligations that arise between banking institutions in the course of their activities.

Mobile banking is a type of remote banking service that provides access to accounts and account transactions at any time using the client's mobile phone number registered with the bank.

The National System of Mass Electronic Payments (NSMEP) is an intrastate banking multi-issue payment system of mass payments in which payments for goods, services, cash receipts and other transactions are made using payment smart cards using technology developed by the National Bank of Ukraine.

The National Bank of Ukraine is the central bank of Ukraine, a special central body of state administration, the legal status, tasks, functions, powers and principles of organization of which are determined by the Constitution of Ukraine, a special law and other laws of Ukraine.

Insolvency of the bank - the inability of the bank to meet the legal demands of creditors in a timely manner and in full due to the lack of funds or a decrease in the size of the bank's capital to an amount that is less than one-third of the minimum amount of the bank's regulatory capital.

Retained earnings of the bank are temporarily free funds of the bank, which remain after the distribution of the profit for the payment of taxes, the formation of a reserve and the payment of dividends, intended for reinvestment in the bank's activities.

Non-trading operations of banks in foreign currency are operations related to the transfer of currency values between subjects of currency relations, carried out on a non-commercial basis, that is, they are not related to the trade, investment and business activities of residents and non-residents.

A bond is a security document that certifies the deposit of money by its owner, defines the loan relationship between the bond owner and the issuer, confirms the issuer's obligation to return its nominal value to the bond owner within the stipulated period and to pay income.

The discount rate of the National Bank of Ukraine is one of the monetary instruments by which the National Bank of Ukraine sets a benchmark for banks and other subjects of the money market regarding the value of the funds raised and placed.

Mandatory bank reserves are the funds of banks that they are required to keep on correspondent accounts with the central bank as a guarantee for certain areas of their activity in accordance with the standards established by the central bank.

An overdraft is a short-term loan granted by a bank to a reliable client in excess of the balance due to him on the current account within a predetermined amount by debiting his account.

Operational leasing is a leasing agreement under which the lessee, upon his order, receives the leased object for paid use from the lessor for a period shorter than the term for which 90% of the value of the leased object is amortized, determined on the day of the conclusion of the agreement.

The bank's operating day is the part of the working day of a bank or other institution that is a participant in the payment system, during which documents for transfer and documents for withdrawal are accepted from customers and, if it is technically possible, they can be processed, transferred and executed.

Repo operations are financial operations based on an agreement between the central bank and commercial banks on the sale-purchase of government securities for a certain period with an obligation to buy

back them within a certain period or at the request of one of the parties at a stipulated price.

A savings (deposit) certificate is a security that confirms the amount of the deposit made to the bank and the right of the depositor (certificate owner) to receive the amount of the deposit and the interest specified by the certificate at the end of the specified term from the bank that issued it.

Equity securities - securities that certify their owner's participation in the authorized capital, give the owner the right to participate in the issuer's management and receive part of the profit, in particular in the form of dividends, and part of the property in the event of the issuer's liquidation.

Passive operations of the bank are operations with the help of which the bank forms its resources for carrying out active operations.

A payment request is a settlement document that contains a debt collector's request to the bank serving the payer to transfer a specified amount of funds from the payer's account to the recipient's account without the payer's consent.

A payment request-order is a combined settlement document that contains a request from the payer directly to the payer to pay the amount of funds and an order from the payer to the bank that serves him, to transfer the amount of funds determined by the payer from his account to the payer's account.

A payment card is an electronic means of payment in the form of a plastic or other type of card issued in accordance with the procedure established by law, which is used to initiate the transfer of funds from the payer's account or from the corresponding bank account for the purpose of paying for the cost of goods and services, transferring funds from one's own accounts to the accounts of others persons, receiving funds in cash form at bank counters through bank machines, as well as carrying out other operations provided for in the relevant contract.

The payment system is a set of organizational, economic, technical and financial procedures, as well as legally regulated mechanisms that ensure payments between counterparties in the process of fulfilling their obligations.

Payment order - a settlement document containing a written order from the payer to the servicing bank to debit the specified amount of funds from his account and transfer it to the recipient's account.

Payment turnover is a part of monetary turnover in which money functions as a means of payment and is used to repay debt obligations.

Payment instruments are documents drawn up according to the established form, which are submitted to banks by legal entities and individuals with an order (or with a request) to transfer a certain amount of money from their accounts (or to credit them to their accounts).

Solvency - 1) the bank's ability to settle its obligations arising from trade, credit or other monetary transactions in a timely manner and in full; 2) the borrower's ability to make timely payments for all types of his obligations.

A related person is a natural person who, due to his official status, family ties or property status, is connected with the activities and management of the bank and can receive certain material advantages in the process of the bank's performance of its functions.

Borrowed funds are resources that the bank borrows on the interbank market of credit resources and from the NBU, as well as by issuing its own debt securities.

Loan interest is the fee that the lender receives from the borrower for the use of borrowed funds.

The bank's securities portfolio is a set of certain types of securities that are held by the bank and are recorded on its account depending on the purpose of acquisition, characteristics and terms of storage.

Suretyship is a form of guaranteeing the performance of an obligation under which a guarantor (individual or legal entity)

guarantees to the bank that the borrower will fulfill his obligations under the loan agreement.

A current account is an account opened by the bank to the client on a contractual basis for storing funds and carrying out settlement and cash operations using payment instruments in accordance with the terms of the contract and the requirements of the law.

Derivative securities are securities, the mechanism of issue and circulation of which is associated with the right to purchase or sell securities, other financial and/or commodity resources within the term established by the contract.

Return on equity (ROE) is an indicator that characterizes the ratio of the bank's net profit (profit after taxes) to equity capital.

Return on assets (ROA) is an indicator that characterizes the ratio of the bank's net profit (profit after taxes) to the bank's assets.

Privatization securities are securities that certify the right of the owner to receive a share of the property of state-owned enterprises, the state housing fund, and the land fund free of charge in the process of privatization.

A problem loan is a loan for which there are significant violations of the terms of the borrower's obligations to the bank, a significant deterioration of the debtor's financial condition, a deterioration in quality or a complete loss of security

Overdue debt is debt (on the loan, accrued interest, bank commissions, other payments provided for in the loan agreement), the repayment period for which, provided for in the terms of the loan agreement, has already passed.

A LORO account is an account opened by a bank to its correspondent bank, on which all transactions carried out on its behalf are displayed.

NOSTRO account is a correspondent bank account opened with a correspondent bank, on which all mutual payments are reflected.

Bank regulation is a system of measures by which the state, through the central bank, ensures the stable and safe operation of banks, prevents destabilizing processes in the banking sector.

The mode of financial rehabilitation of the bank is a system of non-coercive and compulsory measures aimed at increasing the volume of the bank's capital to the required level during the period determined by the NBU in order to restore the bank's liquidity and solvency.

Reserve capital of the bank (disclosed reserves) is money that is reserved by the bank to cover unforeseen expenses, special needs and cover losses.

The bank's reserve fund is monetary resources reserved by the bank to cover unforeseen expenses, cover losses from banking activities, as well as pay dividends on preferred shares in case of insufficient profit received by the bank.

Reorganization of a bank is a change in the organizational and legal form of a bank through merger, merger, division, separation, transformation.

Credit restructuring is a change in the essential conditions under the original credit agreement by concluding an additional agreement, in connection with the debtor's financial difficulties (as determined by the bank) and the need to create favorable conditions for him to fulfill his obligations under the asset: a change in the interest rate; cancellation (in full or in part) of financial sanctions (fines, penalties, penalties) accrued and unpaid by the debtor; changing the debt repayment schedule.

Refinancing - transactions involving the provision of loans by the central bank to commercial banks.

Liquidity risk is an existing or potential risk to income and capital that arises from the bank's inability to meet its obligations in a timely manner without incurring unacceptable losses.

Risk management is a banking risk management system that includes management strategy and tactics aimed at achieving the main business goals of the bank.

Risks of the bank's resource provision are risks associated with the formation of bank resources intended for active operations, as well as maintaining the bank's liquidity and financial stability.

The securities market is a set of stock market participants and legal relations between them regarding placement, circulation and accounting of securities and derivatives.

A settlement check is a settlement document that contains an unconditional written order of the account holder (cheque issuer) of the issuing bank in which his account is opened, to pay the check holder the amount of funds specified in the check.

A syndicated loan is a loan provided by several lenders to one borrower.

The "client-bank" system is a software and technical complex created for the purpose of operational management of the client's bank accounts and exchange of technological information.

The CAMELSO system is a bank rating system, which consists in determining the general state of the bank based on unified criteria that cover all areas of banking activity.

Electronic payment system of the National Bank of Ukraine (SEP) - a state banking payment system that ensures interbank transfers through correspondent accounts of resident banks (branches) at the National Bank, using electronic means of receiving, processing, transmitting and protecting information in file mode or real time mode.

The system for confirming transactions on the interbank foreign exchange market is a set of organizational and technical means that ensures confirmation of contracts for the purchase and sale of foreign currency and bank metals for hryvnias.

Systemic risk is the risk of disruption of the entire financial system with potential serious negative consequences for the domestic market and the real sector of the economy.

A system-forming bank is a bank whose liabilities make up at least 10% of the total liabilities of the banking system.

Special bank reserves are funds mobilized by a commercial bank to cover doubtful debts, unforeseen expenses, and losses from active operations.

Consumer credit - funds provided by a creditor (bank or other financial institution) to individuals for the purchase of consumer goods or services for temporary use, at interest, under the conditions of security, term, payment and target orientation.

Forward currency operations are operations that consist in the purchase and sale of currency values with a delay in their delivery for a period exceeding two working days.

Subordinated debt is ordinary unsecured debt capital instruments (components of capital), which, according to the contract, cannot be taken from the bank earlier than five years, and in case of bankruptcy or liquidation, they are returned to the investor after the claims of other creditors have been settled.

Subordinated capital is funds raised from resident and non-resident legal entities, both in national and foreign currency, on the terms of subordinated debt.

Commodity securities are securities that give their holder the right to dispose of the property specified in these documents.

Trade operations of banks in foreign currency are operations related to the maintenance of foreign economic activity through mediation in international settlements for export and import between business entities - residents and non-residents.

The trading portfolio of securities is the securities purchased by the bank for resale and primarily for the purpose of profiting from short-term fluctuations in their price.

Trust (trust) services - services of banks in the management of property and stock values, performance of other services in the interests and on behalf of clients as a trustee.

A troy ounce is a unit of measurement of the mass of precious metals, which is 31.1034768 grams.

An authorized bank is a bank that is officially registered on the territory of Ukraine, has a general license of the NBU to carry out currency operations, and also exercises currency control over the operations of its clients.

Factoring is an operation that consists in the purchase by the bank-factor from the supplier (seller) of the right to demand the buyer's debt in monetary form for the shipped goods (work performed, services provided) with acceptance of the risk of fulfilling such a demand by the bank's purchase of the supplier's settlement documents.

A bank branch is a separate structural subdivision of a bank that does not have the status of a legal entity and carries out banking activities on behalf of the bank.

Financial security of a bank is a set of conditions under which potentially dangerous actions or circumstances for the financial condition of a banking institution are purposefully eliminated or reduced to such a level that they cannot cause losses during the functioning of the bank, prevent the preservation and reproduction of its property, infrastructure and, most importantly , — the bank's achievement of its statutory goals.

The bank's financial statements are a system of interrelated generalized indicators that reflect the financial condition and results of the bank's activities for the reporting period.

Financial stability of a bank is a state of a bank characterized by balanced financial flows, sufficient funds to support its solvency and liquidity, as well as profitable operations.

Financial leasing is a leasing contract, as a result of which the lessee, upon his order, receives the leased object from the lessor for paid use for a period not less than the term for which 75% of the value of the leased object, determined on the day of the conclusion of the contract, is amortized.

The Deposit Guarantee Fund of individuals is an institution that performs special functions in the field of guaranteeing deposits of individuals and removing insolvent banks from the market.

Forfaiting is a financial transaction for refinancing receivables under export commodity (commercial) credit through the transfer (endorsement) of a bill of exchange in favor of a bank (factoring company) with the payment of a commission fee to the latter.

The front office is the operational division of the bank and its other structural units, which are responsible for the development and management of relations with counterparties.

Futures transactions are term currency transactions regarding the purchase and sale of a certain amount of foreign currency at an agreed rate in an agreed period, which are executed by a standardized contract.

The Central Bank is an institution that regulates the activities of banks in the country, conducts the monetary and exchange rate policy of the state or community of states.

Securities are documents of a prescribed form with the appropriate details, certifying monetary or other property rights, defining the relationship between the person who placed (issued) them and the owner, and provide for the fulfillment of obligations in accordance with the conditions of their placement, as well as the possibility of transferring rights that derived from these documents, to other persons.

Maturity portfolio securities are debt securities that the bank has the intention and ability to hold until maturity.

Securities in the portfolio for sale are securities that the bank is ready to sell in connection with changes in market interest rates, liquidity needs, the availability of alternative investments, as well as debt securities and shares for which it is impossible to reliably determine the fair value, debt securities with a fixed maturity date, which the bank does not intend to hold until their maturity date.

QR-banking is an electronic contactless payment system that allows you to pay for purchases and access banking services by reading a QR code with a smartphone camera.

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Authors:

Viktoriia Kostiuk
Oleksii Muravskyi
Olga Faychuk
Nataliia Shvets
Viktoriia Rudevska

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