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## **Improving Bank Capitalization in Terms of Increasing the Competitiveness of the Banking System**

In terms of crisis economy, increasing banking competition, growing requirements of the Basel Accord to ensure the bank capital adequacy, bank capitalization is an objective condition for increasing the banking system stability and reliability. The crisis of the real economy, financial and banking sectors lead to reducing creditworthiness of most borrowers, thus affecting the return of bank loans, and hence the possible development of the real sector of economy. It should be noted that the process of the Ukrainian banks' capitalization significantly lags behind the real needs of the country's economy and does not meet the bank regulator requirements. Increasing bank capital is the main task of Ukraine's banking system because the formation of the financial foundation, the creation of the necessary conditions for the sustainable development of the banking sector, as well as the creation of prerequisites for economic growth in the state depends on its implementation.

Due to its importance and relevance, the issue of bank capitalization was researched by domestic and foreign scientists such as M. Alekseenko, V. Vladychin, O. Dziubliuk, A. Moroz, P. Matvienko, L. Pristostka, N. Sheludko, R. Kotter, E. Reed, P.S. Rose, A. G. Sarkisants and others. At the same time, despite the depth of scientific research in this area, the existing findings and recommendations do not give a holistic view of the need and ways of improving bank capitalization; the problem of equity capital growth in terms of increasing the competitiveness of the Ukrainian banking system is not fully covered.

The objective of the paper is to develop ways of improving bank capitalization and means of their implementation, aimed at increasing the bank's equity to enhance the competitiveness of the banking system.

Methods and theoretical foundations of the research. Methodologically, the paper is based on the scientific works by domestic and foreign scientists, the fundamental theoretical foundations of economics in relation to bank capitalization. In the process of research, the following general scientific methods have been used: the systematic approach – to work out the proposals for the growth of the equity capital of the Ukraine's banking system; formal and dialectical logic, synthesis, logical generalization – to characterize modern approaches to determining the bank's capital adequacy; grouping and factor analysis – to identify the internal and external factors influencing the process of bank capitalization and to determine the features of its manifestation in modern conditions. The comparative method was used to analyze the quantitative indicators in the banking system regarding the

implementation of minimum authorized capital requirements and the development of a scientific and methodical approach to the selection of tools to increase bank capitalization to support the competitive potential of the banking system; using the method of statistical, comparative analysis of economic indicators we revealed features of the capitalization of Ukraine's banking institutions.

**Results.** A critical review of economic literature and own research has proven that a sufficient amount of bank capital enables to expand active operations and provides an appropriate level of competitiveness as an indicator of the sustainability and capacity of each bank, in particular, and of the banking system as a whole.

It has been established that the connection between high competitiveness of the banking system and the mentioned factors is bilateral. Indeed, a high level of stability and reliability of the banking system contributes to increasing its competitiveness and, accordingly, attractiveness for investors and clients. This, in turn, leads to an increase in the efficiency of the activities capitalization of commercial and to the stable and reliable development of the entire banking system.

The commercial banks' capital is the basis of their operation and development of the entire banking system. The inadequate capital of the domestic banking system holds back the country's economic development.

It should be noted that the bank's equity capital consists of the stock pulled by shareholders and formed due to the bank's further activities. Like any other business entity, the bank has its equity capital. However, the equity capital of the bank has a number of specific features, including:

- its share in the bank resources is much less than that of industrial enterprises and other branches of economy;
- equity capital does not form the basis for operational activities of the bank on the market.

The equity capital of the bank performs protective, regulatory and operational functions. But in their activity, banks use outside funds and borrowed capital, which account for a fairly large share in the capital structure of each bank. The bank capital adequacy is the ability of the bank capital to implement its inherent functions fully and effectively, provide the bank's financial stability, profitability, reliability, investors', creditors' and depositors' trust throughout its operation. Consequently, the bank's capital adequacy is an integral characteristic of the bank's level of reliability that is based on understanding the nature and functional purpose of capital as a source of losses and risks. In determining the capital adequacy a number of conditions, the existence of which is conditioned by the functions of the equity of the bank, should be considered. In case of insufficient capital, the bank may:

1) change the structure of its assets, which should reduce the proportion of risk assets or increase the proportion of non-risky and low-risk assets;

2) increase the equity capital at the expense of internal and external sources.

It is established that today in European countries the term “economic capital of a bank”, which a bank should have to cover such main types of bank risk as credit, market, operational, etc., is often used. There are two approaches to determining the size of economic capital, and according to the first one, it is the amount of the capital needed to cover a certain set of risks. In this case, the economic capital may be larger or smaller than the volume of regulatory capital, and if the economic capital is greater than the regulatory one, the bank carries out risk activities. The second approach implies that economic capital is only a part of the regulatory capital able to cover a certain set of specific risks and the result of their complex interaction [William L., Figgins B., Hedengren D., and Daniel B. Klein, 2011, 126 -146].

The Basel Committee that operates with the Bank for International Settlements in Basel made the largest contribution to the development of regulation of banking activities and banking risks.

It should be noted that the Basel I provisions became the basis for the formation of the Ukraine’s banking regulation system. They are still up to date and are enshrined in the Law of Ukraine “On Banks and Banking Activities”, and their application is in the NBU Instruction “On the Procedure for Regulating the Activities of Banks in Ukraine” of 28.08.2001 № 368. In particular, determined is the essence of the concept of “regulatory capital”, its purpose and components [the National Bank of Ukraine, 2001].

Subsequently, the National Bank of Ukraine worked towards the approximation of the Ukrainian banking system to international standards. Thus, the implementation of a new Basel Committee document on Banking Supervision “International Approximation of Capital and Capital Standards: Revised Conceptual Framework” (Basel II) was done. Its main objectives are the transition from the procedure for capital assessment to a more accurate and risk-sensitive process and promoting best practices in managing bank risks.

New banking standards for capital and liquidity (Basel III) were adopted in November 2010 at the G20 Summit in Seoul. Their main objective was to enhance the quality, transparency and improvement of the bank capital structure, expanding capital risk coverage and stimulating measures to create its reserve stocks. These requirements include: a general increase in the level of bank capitalization, capital buffers, short- and medium-term liquidity ratios and leverage ratio, counter-cyclical regulation. Basel III is a supplement to previous documents and improves them, not cancellation.

The standards will be introduced gradually and in an evolutionary way from 2013 to 2019. It should be noted that one of the key distinctions of Basel III is the transition from the recommendatory nature of the previous standards criteria to the more stringent binding requirements. If banks do not meet the updated requirements, central banks are empowered (even obliged)

to impose sanctions on banking institutions in the form of deprivation of the right to pay dividends to shareholders, bonuses and other premiums to managers, etc. [Basel III: international regulatory framework].

Innovative is toughening the requirements for the Tier 1 capital (fixed capital), which is recommended to credit shares and retained earnings only. By 2015 all banks must increase the minimum share capital up to 4.5% of risk-weighted assets. In the case of a significant increase in credit risk due to a significant increase in lending operations, banks will be obliged to form a countercyclical capital buffer based on the model of expected rather than actual losses in the amount of 0 to 2.5% depending on national characteristics [Briginska, L.G]. Moreover, the minimum total capital requirements remain unchanged at 8%, but taking into account buffer capital, they will amount to 10.5% of risk weighted assets.

It is worth mentioning that the activities of system-building banks will be subject to special macro-prudential supervision, which will be determined by 41 primary and secondary indicators [Bank for International Settlements, 2006] or additional supervision measures.

The protection of banks from excessive risks in the Basel Committee updated requirements is provided by establishing a new leverage ratio of 3%, calculated as the ratio of the bank's borrowed funds to its own ones [Tirkalo R.I., 2010, 328].

The analysis of the current state of Ukraine's banking system has shown a low level of commercial banks capitalization. According to this indicator, Ukrainian banks lag behind the foreign ones significantly due to the fact that a major part of banks was created to solve the problems of financial industrial groups. The objective of other banks is to provide trade and intermediary services and currency exchange operations with a rapid turnover of funds. It takes a long time to revive the banking sector, as the system has to re-undergo approbation. Restoration of the enterprises' trust in the banking system is possible only if the NBU will change its approaches to understanding the function of protecting depositors' and creditors' interests, which involves restructuring the ideology, condemning the erroneous technology of "purification" and developing restructuring tools, and professional management.

Let us analyze the main indicators of the Ukraine's banking system. In 2017, the National Bank of Ukraine changed the criteria for the distribution of banks, and the number of bank groups decreased from four to three, and in 2018 the NBU retained 3 bank groups. As is known, 5 financial institutions comprise a group of banks with a state interest: PrivatBank, Ukreximbank, Oschadbank, Ukrgasbank and Settlement Center. The first group comprises banks, over 75% of authorized capital of which directly or indirectly belongs to the state.

In the second group there are 23 banks of foreign banking groups whose controlling interest belongs to foreign banks or foreign financial-banking



groups: Prominvestbank, UkrSotsbank, Raiffeisen Bank Aval, VTB Bank, Kredobank, BTA Bank, UkrSibbank, Idea Bank, Pravex-Bank, Credit Agricole Bank, Piraeus Bank ICB, Alfa-Bank, ING Bank Ukraine, OTP Bank, Citibank, ProCredit Bank, Sberbank, BM Bank, Forward, Credit Europe Bank, Deutsche Bank DBU, SEB Corporate Bank, Kreditvest Bank.

NBU consolidated other 54 banks with equity capital into a bank group, among the ultimate owners of substantial participation of which is one or more private investors, which directly and indirectly hold at least 50% of the bank's authorized capital.

Ukraine suffered from massive bankruptcies in the banking sector in terms of hostilities, the fall in GDP, which resulted in high inflation during 2014-2017. First of all, zombie banks that did not have any assets, and «scheme» banks that existed at the expense of money-laundering left the financial market. Also insolvent banks which lost their liquidity and were unable to serve customers were gradually eliminated.

According to the information on the licensed banks, from 2013 to 2017 their amount fell by 2.25 times. The main reason for this decline was the IMF demands. But, according to specialists, there are other reasons for reducing the number of banks:

- 1) the Ukrainian economy continues to decline, so banks' troubled loan portfolios grow;
- 2) there is a redistribution of property, and people withdraw their assets in favour of foreign banks;
- 3) when banks generate solid losses, their liquidation becomes profitable for the owners themselves, because after that they are actually exempted from obligations to legal entities and have obligations only to the FLVFU.

Owing to significant pre-capitalization of state-owned banks during the year the restructuring of ownership Ukraine's banking system took place. As of January 1, 2018, ownership structure of Ukraine's banking system assets was as follows: banks with private Ukrainian capital account for about 13%, banks of foreign bank groups – 32%, state-owned banks – 55%. The distribution of UAH 163,597 million of total capital of Ukraine's banking system by groups of banks as of the date was as follows: the capital of banks with a state share of property amounted to UAH 77,483 million or 47.36% of the capital base of Ukraine's banking system, foreign bank groups capital – UAH 58,530 million which amounted to 35.78% of the banking system capital, and banks with private capital had UAH 27,584 million or 15.07% respectively [Analytical review of the banking system of Ukraine, 2017].

On February 4, 2016, the Board of the National Bank of Ukraine adopted resolution № 58 “On increase in capital of Ukrainian banks” which have brought changes to the schedules of reducing the statutory and regulatory capital to the minimum size, which is provided by the banking legislation [On increase in capital of Ukrainian banks, 2016]. According to the Law of

Ukraine “On Banks and Banking”, the minimum amount of authorized capital at the bank’s state registration cannot be less than UAH 500 mln. The National Bank of Ukraine has developed a schedule gradual reduction of its size to meet the requirements for already working banks the share capital of which does not meet this requirement. According to the law, the share capital of banks should be not less than 120 million UAH by June 17, 2016 and gradually increase up to 500 million UAH by July 11, 2024. By this decision National Bank had revised the schedule of increasing the share capital of banks within the statutory deadline.

So, since 2017, banks should accelerate the schedule for increasing the minimum capital. The NBU has argued this step as it will give an opportunity to increase their financial stability, ability to withstand risks, an increasing of capital will give an opportunity to begin the restoration of lending to the economy which is one from the factors of accelerating the country’s economic growth. The National Bank of Ukraine has subsequently canceled mentioned resolution № 58 «On increase in capital of Ukrainian banks». The appropriate decision was approved on January 11, 2017, by the same decision of the NBU board № 2 «On increase in capital of Ukrainian banks» [On increase in capital of Ukrainian banks, 2017]. Under the influence of professional participants in the financial market, the National Bank withdrew too late from the forced schedule of bank capitalization softening their demands. After all, the law adopted in 2014 about raising the minimum share capital of banks demanded the developing (for 10 years) of a step-by-step plan which was fixed by the decision of the Board of the National Bank of Ukraine № 464 “On reducing the authorized capital of banks to the minimum size” dated August 6, 2014, in particular: UAH 120 million – by June 17, 2016; UAH 150 million – by July 11, 2017 and so on [On reducing the authorized capital of banks to the minimum size, 2014]. However, the NBU canceled – on unclear grounds – the feasible schedule for increasing the authorized capital of banks, dramatically reducing the terms of capitalization according to a completely disloyal to small banks schedule, and blocked the possibility of capitalization with using the profit of previous periods. In the terms of the country’s economic crisis and insignificant government-planned GDP growth, it was virtually impossible to fulfill the NBU’s demand for Ukrainian shareholders, which would lead to the elimination of most banks with Ukrainian capital in early 2017.

In the end, the NBU relaxed its requirements for capitalization by the resolution № 242 «On Amending Certain Legislative Acts of the National Bank of Ukraine» dated April 07, 2016 [On Amending Certain Legislative Acts of the National Bank of Ukraine, 2016]. The version of Paragraph 1 of the Resolution of the Board of the National Bank of Ukraine dated August 6, 2014 № 464 “On reducing the authorized capital of banks to the minimum size” (with amendments) is as follows: “1. Banks whose authorized capital does not meet the requirements of part one of Article 31 of the Law of Ukraine

“On Banks and Banking”, are obliged to bring its amount into compliance with the requirements of this law, namely to the size not less than:

UAH 120 million - by June 17, 2016;

UAH 200 million - by July 11, 2017;

UAH 300 million - by July 11, 2018;

UAH 400 million - by July 11, 2019;

UAH 450 million - by July 11, 2020;

UAH 500 million - by July 11, 2024”.

We suggest analyzing the quantitative indicators in the banking system regarding the implementation of the minimum size of the authorized capital (Table 1).

**Table 1 - Distribution of banks for paid-up authorized capital in 2015-2017**

<b>The size of the authorized capital</b>	<b>01.01.2015</b>	<b>01.01.2016</b>	<b>01.01.2017</b>	<b>01.01.2018</b>
number of banks that had a banking license, including:	163	120	100	82
the authorized capital less than UAH 120 million.	30	28	1	0
the authorized capital from UAH 120 to 200 million.	46	30	42	1
the authorized capital from UAH 201 to 300 million.	25	18	16	39
the authorized capital from UAH 301 to 500 million.	21	13	11	12
the authorized capital from UAH 501 million and more	41	31	30	30

\* calculated by the authors on the basis of the data [Materials of the official site of the Association of Ukrainian Banks]

As Table 1 shows, in 2015, there were 41 banks that met the norm for over UAH 500 million but in 2017 there were 30 such banks. That is, the difference was 10 banks that met the H1 norms and would be quite powerful competitors in the future. A mirrorlike trend is observed in the group of implementation of the norm for UAH 301-500 million. Thus, in 2015 there were 21 such banks, and 11 in 2017. As for small banks that “survived” on the credit market during 2014-2017, a large group of small banks, including a lion’s share of banks with national private capital, needs overcapitalizing. Under analysis is a group of banks which should increase their capital to UAH 200 million in 2017 and up to UAH 300 million in 2018.



By the end of 2017, the number of banking institutions, the authorized capital of which was less than UAH 200 million was 2. In one of them the amount of the authorized capital, including unregistered, exceeds UAH 200 million. In comparison with the previous year, this group decreased by 40 banking institutions. As of 01.01.2018, 39 banks had the authorized capital less than UAH 300 million. Probably, not all of these banking institutions will be able to stick to the schedule for increasing the authorized capital; some of them are expected to merge with other players on the market, or discontinue their activities and liquidate. At the same time, the key factor in changing the structure of the authorized capital of the banking system as a whole is the overcapitalization of state-owned banks. PJSC Oschadbank and PJSC Ukreximbank, as well as JSC CB PRIVATBANK, were overcapitalized by issuing domestic government bonds and exchanging them for shares of new emissions.

The ability of a bank to maintain a stable competitive position on the market for a long time is determined by its competitive potential, which “reflects the opportunities available to the enterprise’s internal and external environment for its operation and development” [O. V. Krukhmal, O. A., 2014, 168]. Scientists note that competitive potential is a prerequisite for the preservation and development of competitive advantages of the subject of competition; the presence of the necessary components of the competitive potential guarantees the company to achieve high competitive positions. The concept “potential” comes from the Latin “potentia” – ability, concealed possibility that can be manifested in certain conditions [Medvedev M.V., 2013, 38 – 39]. Usually, the potential of an enterprise is understood as the totality of various resources that are at the disposal of this company and are used in business activity. The authors of the paper note that “the competitive potential of an organization is determined by a set of parameters that characterize the potential and the ability of an organization to function effectively on the market in the future”. Competitive potential is a necessary prerequisite for ensuring the competitiveness of the enterprise. So, the competitive potential of the bank can be characterized as the ability to attract and deploy banking resources as a result of the implementation of a wide range of banking products and services on the market that are adequate to the needs of consumers of these services. The existing competitive potential allows the bank to maintain a stable competitive position and increase it due to the implementation of an effective competitive strategy over a specified period of time.

So, increasing competition on the banking market, which has been observed in recent years due to the globalization of financial markets and the expansion of foreign capital into the domestic banking sector, calls for solving a number of tasks aimed at increasing the competitiveness of domestic banks.

The development of conceptual approaches to improving capitalization of banks is the basis for strengthening stability within the framework of a

general strategy for building a stable and efficient financial intermediary, which provides a wide range of services that can satisfy as many clients as possible and maximize its profitability (fig. 1).

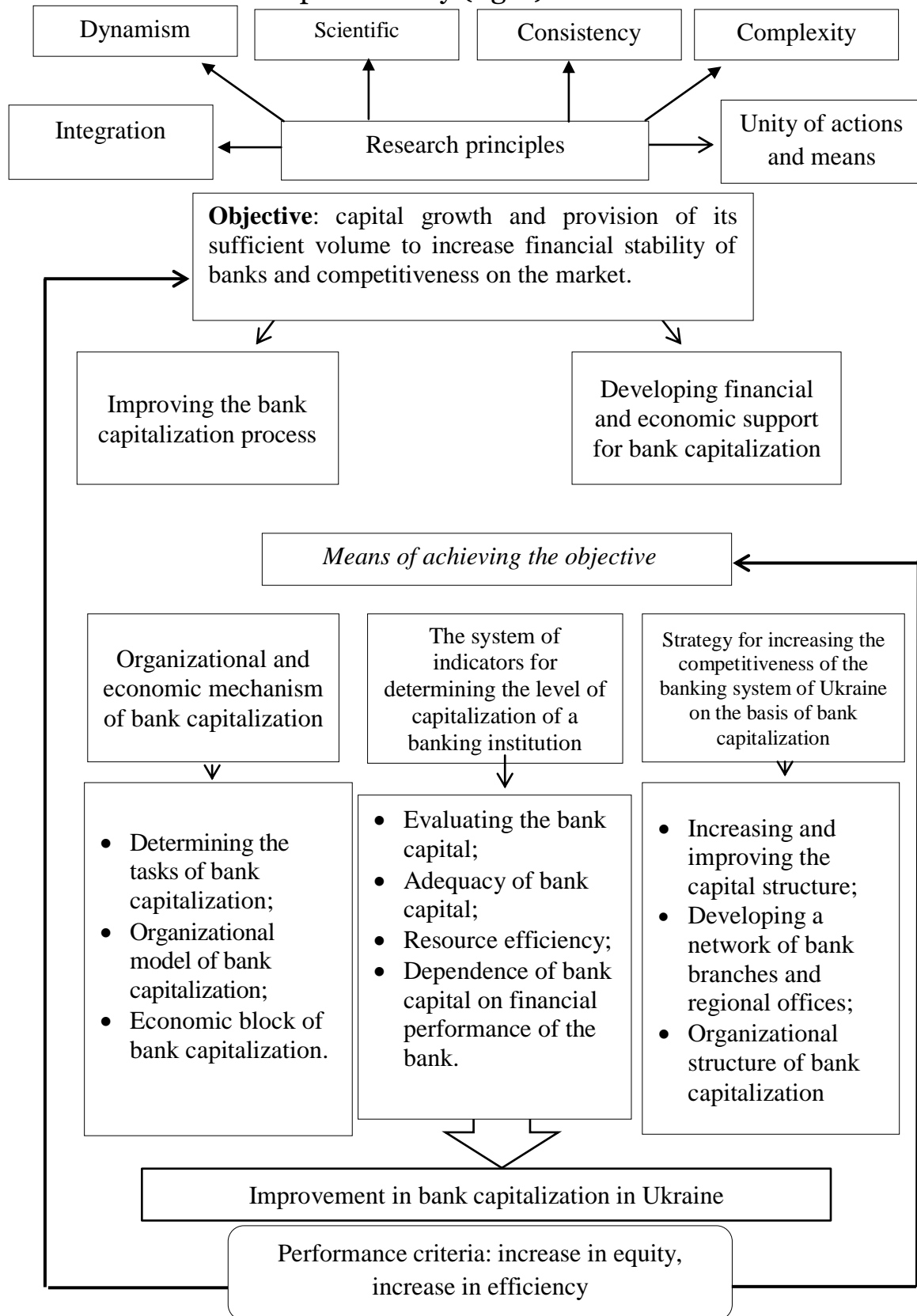


Figure 1 – Conceptual approach to improving bank capitalization in Ukraine

The success of the process of capitalization of banks is based on the following principles:

1. The scientific validity of bank capitalization, which is based on the provisions of the dialectical theory of cognition, requirements of economic laws, using the achievements of scientific and technological progress and the latest methods for economic research.

2. The complexity of bank capitalization means a detailed study of the directions, functions and mechanisms of this process.

3. The dynamism of bank capitalization, which is aimed at continuous accounting of internal and external factors influencing this process.

4. The integration of bank capitalization with the general managerial system indicates that when developed, the main provisions of bank activity for capitalization management should be based on the main objectives and tasks of the bank.

5. The final result-oriented system of bank capitalization, which shows the degree of conformity of the quantitative and qualitative parameters of this process that meet the requirements of the market and reflect the efficiency of managing bank capitalization.

6. The principle of unity of actions and means of achieving the objectives of the subjects of bank's management within the framework of the implementation of this process. This principle also implies the unity of tactics and strategy in the process of capitalization to ensure its continuity.

The objectives and tasks are developed proceeding from the principles of the process of bank capitalization. The objective of bank capitalization is to increase its capital and ensure its sufficiency to enhance the competitiveness of the banking system. To achieve the objective the following tasks of bank capitalization are offered:

- To improve the organization of bank capitalization. The aforementioned objective includes defining the bank's structural units involved in its capitalization; planning the bank's capital stock; applying the methods for assessing the quality of the bank's capital; defining the methods of bank capital regulation.

- To develop financial and economic support for the bank capitalization. This task is aimed at finding direct domestic or foreign investments for a business plan.

We consider it expedient to implement the proposed principles, objectives and tasks in improving the bank capitalization. It should be noted that this approach will be effective only with the full implementation of all management functions in their totality and interconnection. These functions are:

- planning the process of the bank capitalization with a high degree of compliance of the object of management and objective laws with its development, covering all the diversity of methods, forms and means of management. Planning is the process of constructing an algorithm for future

action, which leads to the realization of the set objective and contains the expected results of its implementation;

- organizing the process of the bank capitalization through its interconnected system of services and divisions, which allows analyzing, planning and taking managerial decisions regarding bank capitalization;

- keeping control over the factors influencing the level of bank capitalization. The controlling function in managing bank capitalization determines how effective the managerial influence is directed at regulating the process of bank capitalization and, as a consequence, of making changes to its mechanism;

- analysing the bank capitalization mechanism to obtain a holistic view of this process, taking into account the factors that influence the management results. This function allows carrying out a preliminary analysis of economic processes, identifying negative trends and problems in managing the bank capitalization;

- regulating the process of the bank capitalization involves forming a functional and effective legislation at the macro level, oriented to the bank's long-term objectives, which excludes contradiction between certain legislative and regulatory acts and comprehensively covers the entire legal field of banking activity;

- stimulating the bank capitalization involves improving the scientific approach to the formation of the policy of this process, as well as creating the necessary legal conditions protecting the bank against corruption. It provides an increased financial support from large banks in order to stimulate the stable operation of small banking institutions.

When choosing these functions of managing the bank capitalization we proceed from the following provisions:

- the process of bank capitalization management is a set of mechanisms for implementing the requirements for the implementation of the main functions of this process;

- the essence of the process of bank capitalization management is determined by management functions;

- the content of the functions of bank capitalization management is determined by those management actions that must be performed in order to achieve certain results in accordance with the set targets;

- management functions should reflect the specifics of the directions of management of the capitalization of the bank: increasing the equity capital of the bank; merger or takeover of a bank; bank recapitalization.

Thus, on the basis of the foregoing, we state that the main features of the bank capitalization management are:

- strengthening the impact of the principles of the bank capitalization management on the final result of this process;

- using the functional approach to the bank capitalization management, according to which the entire organization of this process is built on the basis

of the implementation of management functions in three areas: the increase in authorized capital of the bank, mergers or acquisitions of banks, recapitalization of the bank;

- recognising the need in continuous improvement of the mechanisms for managing the bank capitalization to ensure flexibility in implementing the strategy of increasing the competitive advantages of the bank, and ultimately the competitiveness of the banking system.

An important direction of the conceptual approach to improving the capitalization of banks in terms of increasing the creditworthiness of the banking system is the development of a set of means for maintaining the adequacy of the capital base of banks and assessing the effectiveness of their application. One of the most effective measures is the growth model of bank capital, as shown in Figure 2.

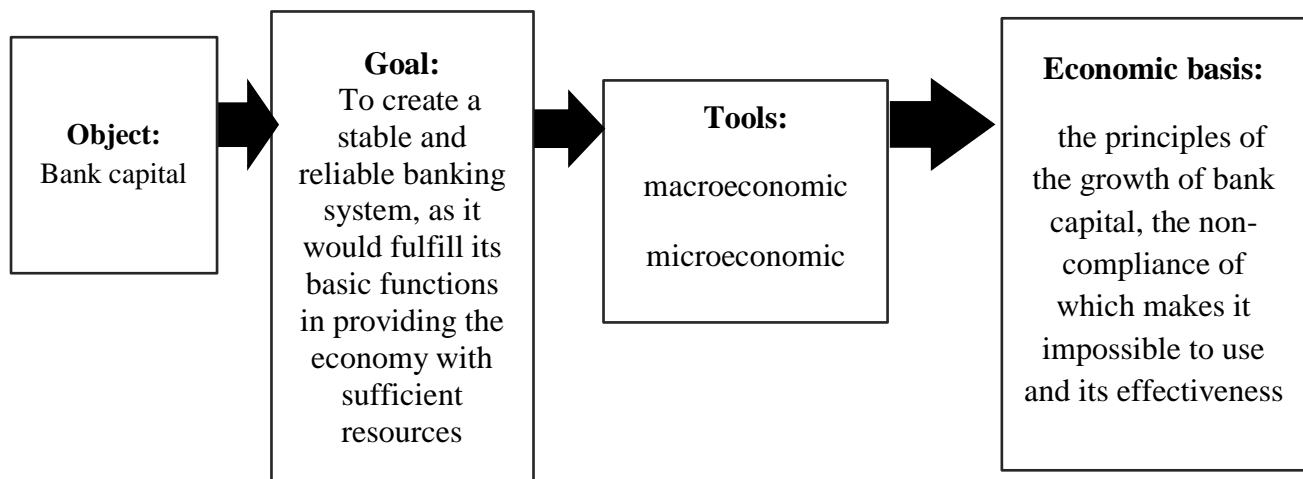


Figure 2 - Model of bank capital growth

Analyzing the proposed model, it should be noted that the object is bank capital since all actions are aimed at increasing its volume. Certain economic levers will help achieve the objective and determine the real and sufficient capital of the bank, and, on this basis, the measures to increase it. Noteworthy is the fact that there is a significant number of indicators that characterize the level of capital adequacy. Some of them are established by the National Bank of Ukraine, others characterize the efficiency of the banking system. We believe that all indicators can be divided into macroeconomic and microeconomic.

**Discussion.** The economic basis of the proposed model of bank capital growth is the principles of bank capital growth. The major ones include:

- compliance of the national banking legislation with the European one, taking into account the global integration processes in as well as the peculiarities of the development of the country's economy;
- adequate bank capital to cover the risks entailing banking activities;
- establishment of general binding conditions for all banks;



- application of strict measures against violators of the established norms;
- simultaneous individual and consolidated control over bank's activity;
- control over the reliability and transparency of information provided by banks;
- restriction of foreign expansion in the banking sector of Ukraine;
- improvement of the regulatory framework regulating the possibilities of the bank capitalization.

The calculation of macroeconomic and microeconomic indicators makes it possible to establish a general level of capitalization of the banking system of Ukraine, compare it with other countries, as well as determine the level of capital base of a separate bank. Noteworthy is the fact that the National Bank of Ukraine, by adopting the relevant regulatory acts, takes measures to increase the level of capitalization of the banking system of Ukraine through the introduction of regulatory requirements for the size and adequacy of capital. In order to increase the resilience of banks during the period of financial and economic instability, creating them a capital reserve to increase the ability to withstand the risks, the NBU sets requirements for banks to form a reserve buffer (conservation) of capital and a countercyclical buffer.

In the world and domestic banking practice, organizational and methodical principles of control over compliance with all requirements for regulatory capital have been fundamentally worked out – from the operational verification of compliance with regulatory requirements on the basis of the bank's current accounts (daily, decadelly, monthly, quarterly) to a comprehensive inspection of the bank's activities using the CAMELS system .

### **Conclusions**

Summarizing the results of the research, it should be noted that for the banking system of Ukraine, which has an acute shortage of capital, to solve this problem the priority is given to the issue of domestic banks' application of modern approaches to increasing bank capitalization in order to support the competitive potential of the banking system. The conducted studies confirmed the theoretical feasibility and practical significance of forming a conceptual view of the process of capitalization of banks, which allows increasing the efficiency of managerial decisions aimed at increasing the bank's own capital. The authors' proposals to improve the capitalization of banks are based on a functional approach that includes principles, goals, tasks implemented through a set of tools: the organizational and economic mechanism for the bank capitalization, a system of indicators for determining the level of capitalization of a banking institution, the strategy of increasing the competitiveness of the banking system of Ukraine on the basis of capitalization of banks. The proposed set of tools will be effective only in the performance of all management functions in their totality and interconnection.

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