

R. Kornyliuk

*Candidate of Economic Sciences,
Associate Professor at the Department of Banking,
Kyiv National Economic University named after Vadym Hetman*

LOAN PORTFOLIO QUALITY OF UKRAINIAN BANKS UNDER SYSTEMIC DISTRESS

Low quality of bank loan portfolio remains one of the main fault lines in the Ukrainian banking system. We investigate the reduction of quality of top Ukrainian banks' loan portfolios as a source of systemic risk. A range of general and individual negative factors of loan quality deterioration during systemic banking crisis 2014 was revealed. They are hryvnia devaluation, annexation of the Crimea, military conflict in Donbas and connected lending.

The main goal of the article is defining top financial institutions characterized by bad loan portfolio quality indicators calculated on the basis of 3Q-2014 official financial data. The results of survey show us a range of main banks generating systemic risk through the deprivation of quality of loan channels.

Rating methodology for ranking financial institutions for loan portfolios quality indicators was developed. The key chosen factors of loan quality were:

1) bad loans volume (V category loans), UAH mln;

2) the share of bad loans among client loans, %;

3) the amount of non-performing loans (V+IV category loans), UAH mln;

4) the share of non-performing loans among client loans (NPL ratio), %;

5) the growth of bad loans since 1.01.2014, UAH mln;

6) the growth of non-performing loans since 1.01.2014, %;

7) the ratio of loan risks reserves to bad loans, %.

General rating score is defined as a simple mean of bank ranks calculated on aforementioned factors. The worst asset quality was found in banks, which followed the strategies of aggressive mortgage lending in the pre-crisis period, active consumer lending between crises and in the state banks that finance quasi-public enterprises of high public interest.