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FINANCIAL SELF-RECOVERY OF THE BANK UNDER MARITAL LAW

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ФІНАНСОВЕ САМООЗДОРОВЛЕННЯ БАНКУ В УМОВАХ ВОЄННОГО СТАНУ

The purpose of this study is to improve the development of directions for self-healing of a bank under martial law. To achieve this goal, the author analyzes the main areas of recovery of a bank's activities in crisis conditions, namely: increasing the level of equity capital; additional financing; sale of assets; restructuring of liabilities.

It is established that during the period of martial law, it is necessary to implement the Plan for Restoring Financial Stability in a Crisis, which was developed by the bank in advance. The purpose of this Plan is to develop measures in advance to support the bank's continuing operations in the event of a significant deterioration in its financial condition due to changes in internal and external environment factors. This plan should define in advance a set of options and tools for actions in various stressful situations, including martial law. In combination with other anti-crisis banking instruments, the areas of self-healing should be diverse and varied.

It is noted that the assessment of the effectiveness of the bank's recovery areas should be carried out through the procedure of stress testing of the main banking risks: credit, liquidity and market.

The authors identify the main criteria for successful self-healing of a bank under martial law: compliance by the bank with economic standards and internal restrictions; stopping the outflow of customer funds; creating a sufficient stock of liquid resources; achieving an optimal balance between assets and liabilities by maturity; no bank debt in fulfilling customer payment documents; full repayment of debt or reaching an agreement on debt restructuring to stakeholders; an increase in the share of standard loans; a steady trend toward improved financial results; the closure of unprofitable business lines.

It is concluded that in 2022, the banking sector operated smoothly, maintained liquidity, and provided loans, although with due regard to the peculiarities of wartime. This was made possible by identifying areas of self-healing for banks, as well as sector reforms carried out in previous years by the national regulator.

Метою даного дослідження є удосконалення розробці напрямів самооздоровлення банку в умовах воєнного стану. Для досягнення поставленої мети було проаналізовано основні напрями відновлення діяльності банку в кризових умовах, а саме: підвищення рівня власного капіталу; додаткове фінансування; продаж активів; реструктуризація зобов'язань.

Встановлено, що в період воєнного стану необхідно впроваджувати заздалегідь сформований банком План відновлення фінансової стійкості в умовах кризи. Мета цього Плану полягає у завчасній розробці заходів щодо підтримки безперервної діяльності банку у разі суттєвого погіршення його фінансового стану через зміну чинників внутрішнього та зовнішнього середовища. Цей план повинен заздалегідь визначити набір варіантів та інструментів щодо дій у різних стресових ситуаціях, у тому числі у випадку воєнного стану. У поєднанні з іншими антикризовими банківськими інструментами напрямки самооздоровлення повинні бути різноманітними та різноплановими

Зазначено, що оцінка ефективності напрямів відновлення діяльності банку має здійснюватися за допомогою процедури стрес-тестування основних банківських ризиків: кредитний, ліквідності та ринковий.

Авторами виокремлено основні критерії успішного самооздоровлення банку в умовах воєнного стану: дотримання банком економічних нормативів і внутрішніх обмежень; припинення відтоку коштів клієнтів; створення достатнього запасу ліквідних ресурсів; досягнення оптимального балансу між активами і зобов'язаннями за строками; відсутність заборгованості банку у виконанні платіжних документів клієнтів; повне погашення боргу або досягнення домовленості про реструктуризацію заборгованості перед стейкхолдерами; збільшення частки стандартних кредитів; стійка тенденція до покращення фінансового результату; закриття нерентабельних бізнес-напрямів.

Зроблено висновок, що упродовж 2022 року банківський сектор працював безперебійно, зберігав ліквідність та здійснював кредитування, хоча і з урахуванням особливостей воєнного часу. Це стало можливим завдяки визначенню напрямків самооздоровлення банків, а також реформам сектору, проведеним у попередні роки національним регулятором.

Keywords: *banks, risks, martial law, anti-crisis management, crisis.*

Ключові слова: *банки, ризики, воєнний стан, антикризове управління, криза.*

Relevance of the study and its relation with important scientific and practical tasks. Since the beginning of the war, banks have continued their activities almost without interruption in regions where it was safe for employees and customers. Online services were continuously provided. The work of branches was rapidly resumed in the liberated regions of the country. At the same time, for 2022, domestic banks reduced every fifth branch, primarily in regions where active hostilities were taking place. Accordingly, significant financial and operational risks were held there, and the demand for banking services was significantly lower than in the rest of the regions.

In 2022, banks were able to maintain the depositors' trust, which contributed to the public funds inflow and the maintenance of a high level of the sector liquidity. At the same time, the demand for loans was insignificant, and banks' appetite for risk was low. The loan portfolio has reduced, and its quality deteriorated because of the Russian aggression consequences.

Under martial law, banking risks increased significantly, which became the main reason for determining an effective mechanism for the restoration of banks' activities in this period.

Recent researches and publications review. The problem of anti-crisis management of bank financial risks is given attention in the studies of such scholars as Bobyl V. [1,2], Hirnyak V., Putkivskyi T. [3], Kovalenko D. [4], Zveryakov M., Zveryakov A. [5], V. Mishchenko, S. Shulga [6], V. Vovk, and Yu Dmytryk [7].

At the same time, such an issue as maintaining the effective operation of the bank under martial law remains insufficiently covered.

The research paper's objective is to develop directions for self-recovering of the bank under martial law.

Discussion. To preserve financial sustainability of banking institutions during martial law, the National Bank of Ukraine (hereinafter – NBU) has made the following decisions:

- restriction of cross-border movement of capital and fixation of the exchange rate;

- expanding access to refinancing;
- prohibition to apply sanctions for violations by banks of economic regulations established by the NBU;
- prohibition to distribute capital, in particular, to pay dividends;
- introduction of full guarantee of individuals' deposits;
- delaying the implementation of certain regulatory requirements;
- introduction of "credit holidays" for borrowers.

In addition, during martial law, the financial institution begins to use the bank's self-recovering mechanism, which includes specific directions for solving problems with capital and liquidity.

The National Regulator recommends that in the course of resuming the bank's activities, the use of the Plan for the restoration of financial stability in crisis conditions (hereinafter – Plan) formed in advance.

The Plan's objective is the in-time development of measures to support the bank continuous operation in the event of a significant deterioration of its financial condition due to changes in internal and external environmental factors. This Plan should determine in advance a set of options and tools for actions in various stressful situations, including martial law.

The Plan should include:

- 1) the procedures for identifying a liquidity crisis and informing the bank's management about it;
- 2) the procedure for actions of bank managers, responsible collegial bodies and bank employees under martial law;
- 3) a clear list of measures to be taken by each of the units responsible for banking risk management;
- 4) the order of communication between bank employees and market participants, which should ensure timely, clear and consistent information about the bank's actions under martial law. The target addressees of information are: regulatory bodies; other market participants; bank employees; bank clients; bank securities owners; correspondent banks; payment systems [8].

Examples of directions for bank self-recovering under martial law are displayed in Table 1.

Table 1. Directions of bank self-recovering under martial law

Direction	Description
Increase in the level of equity	<ul style="list-style-type: none"> - attraction of existing or new shareholders' funds to the bank's equity capital; - suspension of dividend payments to shareholders, limitation or suspension of bonus payments to top managers; - conversion of obligations into the bank's equity
Additional funding	<ul style="list-style-type: none"> - receiving stabilization funding from the national regulator; - flexible redistribution of liquidity within the banking group to preserve systemically important functions of the bank; - additional security to attract resources (analysis of the bank's assets from the point of view of the possibility of their use as security in the course of obtaining loans); - formation of an additional reserve taking into account the crisis situation
Sale of assets	<ul style="list-style-type: none"> - sale of non-core assets; - sale of subsidiaries; - selection for sale of individual structural units or entire business areas; - sale of assets together with obligations
Restructuring of obligations	Full or partial obligations write-off, revision of their terms or conversion of obligations into bank capital tools

**Source: made by the authors*

According to Table 1, the bank has the right to consider such radical ways of self-recovering as the sale of part of the business or assets. Due to the fact that it is quite difficult to determine the effectiveness of such options under martial law, banks are recommended to submit approximate estimates. In the course of determining options for the sale of part of the business or assets, special attention should be paid to the long-term financial viability of the bank after the completion of these transactions.

In addition, it is recommended to assess the effectiveness and potential risks of each area of self-recovering, including the potential impact on creditors, counterparties, the bank's credit rating and the stability of the banking system.

At the same time, it is necessary to determine the sequence and real terms that will be required for the implementation of each direction of self-recovering.

The bank independently evaluates the effectiveness of self-recovering directions under martial law. It's important to meet the following criteria:

- the provided measures must be implemented within an reasonable time frame and meet the goals of self-recovering and restoration of the bank's financial stability;
- in combination with other anti-crisis banking tools, the directions of self-recovering should be diverse and multifaceted;
- they must be effective in solving problems that may arise in the bank's activities under martial law.

The Plan must be coordinated with the bank's risk management strategy. In addition, it should reflect the bank's general management processes, business lines and stress test results.

At the same time, the stress testing procedure is recommended to be carried out according to the following principles:

- stress testing parameters should be regularly updated, and the results should be regularly checked and monitored by the bank's management;
- to make stress testing for all financial risks of the bank (credit, liquidity, market). Additional stress testing should be made for critical responsibility centers;
- scenarios should be based on the most conservative forecast of possible changes in macroeconomic and financial indicators: GDP, exchange rates, market interest rates, stock indices, etc.;
- stress testing should take into account the bank's business strategies, its segmental position in the market of banking services, the structure of assets and liabilities, the level of capital, the quality of management, etc.

The stress tests results are: assessment of the bank's potential losses; assessment of a possible deficit of economic capital; identification of risk factors (decomposition of potential losses) that pose the greatest threat to the bank stability.

The main stress scenarios are listed in Table 2.

Table 2. Stress scenarios of the bank's financial risks under martial law

Type of risk	Stress scenarios
Credit	<ul style="list-style-type: none"> - assumptions regarding a shock change in the main macroeconomic indicators; - assumptions regarding changes in financial classes or credit ratings of the bank's debtors and the corresponding probability of their default (PD); - assumptions regarding changes in the market (fair) value of collateral and, accordingly, the LGD indicator; - assumptions related to the bank's business model
Liquidity	<ul style="list-style-type: none"> - assumptions regarding the outflow of clients' funds; - assumptions regarding the impossibility of using the bank's assets; - assumptions regarding a significant reduction in the ability to attract funds from depositors and other creditors of the bank; - assumptions regarding the closing of interbank limits by counterparty banks, the parent bank, etc.; - assumptions about the need to use an additional volume of bank assets as collateral to prevent the outflow of available funding; - assumptions regarding the additional raising of funds in connection with unforeseen use by clients of the right to receive funds within the framework of lending obligations provided by the bank; - assumptions regarding a significant reduction in the possibility of redistributing liquidity from one currency to another; - assumptions about problems in working with payment systems used by the bank
Market	<ul style="list-style-type: none"> - assumptions about the shock value of changes in interest rates and market indices in crisis conditions; - assumptions regarding changes in the behavior of clients' accounts that do not have a specific date for changing the interest rate (balances on clients' current and card accounts); - assumptions about the volatility of foreign exchange rates, the value of shares and other securities, the value of goods, including precious metals; - assumptions related to the implementation of the bank's business model

** Source: made by the authors based on [8]*

It is recommended to define in the Plan the main centers of responsibility, which perform particularly important functions regarding the support of internal operational processes, i.e. structural units, the disruption of which may prevent the implementation of the bank self-recovering. It is appropriate to describe the scheme

of ties of such centers of responsibility with the main areas of the bank's activities, as well as to determine possible measures to support the functioning of such centers of responsibility under martial law.

The bank must ensure the preservation of access to the infrastructure of financial markets, payment systems and the continuation of internal operational processes.

The criteria for successful self-recovering of the bank under martial law can be considered: compliance by the bank with economic standards and internal restrictions; termination of outflow of clients' funds; creating a sufficient supply of liquid resources); achieving an optimal balance between assets and obligations by terms; lack of debt to the bank in the execution of clients payment documents; full repayment of the debt or reaching an agreement on debt restructuring to stakeholders; increasing the share of standard loans; a stable tendency to improve the financial result; increasing capitalization with a sufficient capital buffer in case of a crisis situation; closing unprofitable business lines.

Conclusions and prospects of further studies in this area. In 2022, after the first shock caused by the full-scale invasion of russia, the banking sector survived and quickly adapted to work in new crisis conditions. During the year, it worked without interruption, maintained liquidity and carried out lending, although taking into account the peculiarities of wartime. This became possible thanks to the determination of the directions of banks self-recovering, as well as reforms of the sector carried out in previous years by the national regulator.

The problems considered in this paper and the issues of the implementation of the self-recovering mechanism of banks under martial law are the subject of authors' current interest, the research results of which will be implemented in subsequent publications.

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