

JEL classification: G21, G24

## FORMATION OF RESERVES FOR CREDIT OPERATIONS OF DOMESTIC BANKS

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**Abstract.** *The article deals with the economic essence of reserves for bank credit operations. The author has researched the changes, which took place in the domestic legislation during the period of independence of Ukraine in the process of creation of the legal basis for the formation of reserves for credit operations. The international experience of forming reserves under active banking operations has been considered. The study of the order of reserves formation has been conducted and the approach to the calculation of reserves on credit operations on the group and individual basis with consideration of signs of financial asset materiality has been proposed. An analysis of the quality of the loan portfolio of domestic banks has been carried out.*

**Keywords:** *credit operations, credit risk, reserves for credit operations, provision, debtor class, non-performing loans.*

The article deals with the economic essence of reserves for bank credit operations. It has been found that an adequate assessment of credit risks and formation of appropriate reserves contribute to increasing trust in banks by creditors and depositors, and are the basis for maintaining liquidity, stability and profitability of banking activities.

The international experience of forming reserves under active banking operations has been considered.

The author has made conclusions on the significant differences in methodological approaches to determining the volume of reserves for credit operations, namely based on estimating probable losses, estimating the probability of default, estimating losses in the event of default.

The author has researched the changes, which took place in the domestic legislation during the period of independence of Ukraine in the process

of creation of the legal basis for the formation of reserves for credit operations. It has been revealed that the main goal of such changes was to harmonize domestic requirements with the generally accepted international practice of forming reserves for bank credit operations, to display more reliable and complete information about the financial state and results of their activities.

The study of the order of reserves formation has been conducted and the approach to the calculation of reserves on credit operations on the group and individual basis with consideration of signs of financial asset materiality has been proposed.

An analysis of the quality of the loan portfolio of domestic banks has been carried out. It has shown an increase in the riskiness of credit activities of banks, which led to the need to form large volumes of reserves for credit operations of domestic banks and negatively affected their financial results.

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