Features of financial stability management of a commercial bank: theoretical and practical aspects

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Abstract

This article defines financial stability as the ability of the Bank at any time to keep the normative parameters of its activities; to provide a full range of financial services to customers; to maintain and increase capital for shareholders and to play its role of financial intermediary in the economy so as not to violate the confidence of clients, owners, managers and the regulator in the continuity and quality of its activities.

Keywords: financial stability, commercial Bank, system approach, profit, capital.

1 Introduction

In modern conditions, financial stability is one of the main elements of the Bank's financial condition. Determining the level of stability and reliability of a Bank requires an objective assessment of its financial condition, which is of a systemic nature. A systematic approach to diagnosing the Bank's financial position includes a balanced set of indicators that reflect the level of reliability and efficiency of the Bank's operations, as well as the threat of bankruptcy [1].

2 Main part

One of the most important conditions for the development of the domestic economy is the formation of a stable banking system. The successful functioning of the banking system as a whole depends on the financial stability of each individual Bank, its ability to counteract negative factors and develop dynamically [2].

In the process of analyzing the financial stability of a commercial Bank, it is very important to take into account such cash flows that affect the Bank's performance as:

- receiving interest income on all types of Bank assets;
- changes in the value of the securities portfolio on the market;
- payment of interest on attracted resources;
- net inflow or outflow of new resources (equity and borrowed funds);
- changes in the value of assets that are caused by the need for their unscheduled sale in order to meet current obligations or transfer funds to other types of investments.

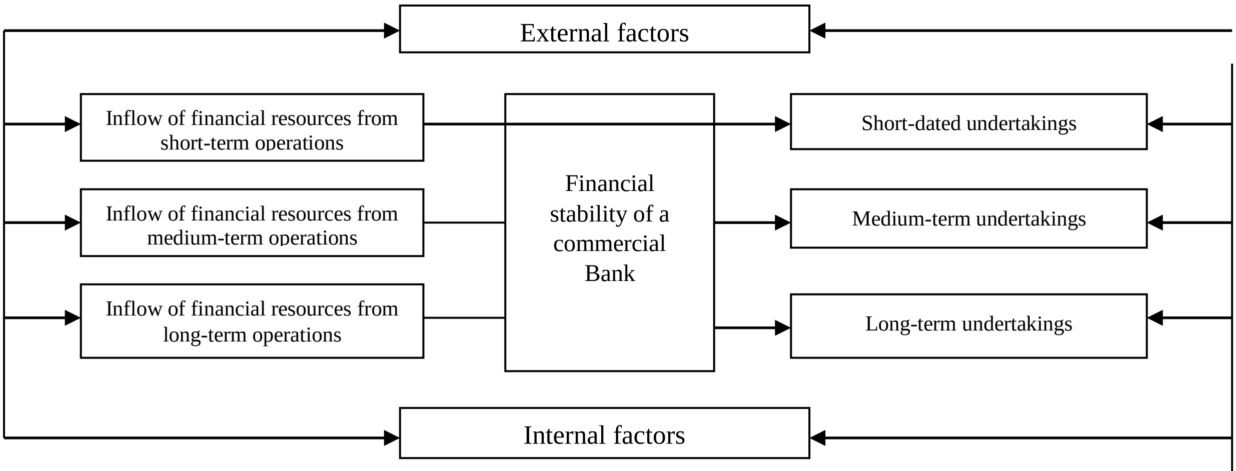

Figure 1 A mechanism to ensure the financial stability of commercial banks

The first stage, which makes it possible to determine the level of financial stability of banks, is the analysis of the structure of Bank assets and liabilities. When performing asset analysis, it is important to take into account the fact that the share of working assets in the Bank's balance sheet should be at least 50 %.

If the Bank has a significant share of “bad" assets, this leads to a decrease in asset returns and loss of liquidity. In addition, you should consider the ratio of the main types of working assets: loans and securities. At the same time, the share of loans in the Bank's asset portfolio should not exceed 60-65% of the balance sheet currency, and the share of securities should be 20-25 %. However, even if the total volume of the loan portfolio meets this restriction, but it mainly consists of loans of the same type, the assets cannot be considered sufficiently diversified.

The problems of financial stability of the banking sector in Ukraine remain insufficient capitalization of the banking system to meet the goals of economic growth and limited liquidity [3].

In addition, the reduction in the capital of commercial banks generates negative consequences, both for the banking system itself and for the economy as a whole. Taking into account the fact that equity capital should reduce the difference between assets and liabilities by terms, in the conditions of predominance of short - term liabilities and without a sufficient level of equity, banks cannot invest in medium-and long-term projects.

In this regard, it is necessary to recapitalize domestic banks, which should be carried out in accordance with the comprehensive program of recapitalization of the domestic banking system. This program should contain clear criteria of selection of banks with a view to their subsequent support and basic principles for the adoption of this kind of solutions.

In addition, it is important to understand that tactical financial tasks are individual for each commercial Bank, since they are formed on the basis of strategic objectives, tax policy, opportunities to use the organization's profits for the development of financial activities, etc.

Also, given the relative stability of the financial condition, the tactics of managing the financial stability of the organization should be characterized by flexibility and provide a prompt response to changes in state of mark.

3 Conclusions

Summing up, it is necessary to highlight the following aspects of improving the financial stability of commercial banks in Ukraine:

- strengthening cooperation with various types of enterprises, which will minimize the impact of external risks, will increase the prestige and confidence in banks. To this end, it is necessary to improve payment technologies and diversify the client base by industry;
- creating mechanisms that would protect Bank deposits from instability in the world market and from inflation, together with improving the system of money transfers and payments;
- diversification of the loan portfolio by industry sector of clients and deadlines will help to overcome liquidity risks and external risks to insure active operations;
- development of new information products, introduction of advanced technological techniques of banking management, which helps to prevent technical risks;
- increasing the transparency of the activities of domestic banking institutions for state supervision [4].

In addition, banks should develop strategies for post-crisis development, providing adequate risk management systems, profitability, liquidity, and capital. Commercial banks must constantly implement measures to increase capitalization at the expense of existing and new participants.

It should also be noted that a comprehensive approach to all these aspects of banking institutions ' activities will effectively prevent the symptoms of banking crises and increase financial stability together with competitiveness in the banking services market.

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