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THE NEED FOR CREATING AN EFFECTIVE RISK MANAGEMENT IN COMMERCIAL BANKS OF UKRAINE

This article is devoted to the peculiarities of risk management in commercial banks of Ukraine. The authors have examined current approaches to the definition of the concept of "risk management" and also have defined the approaches of the National Bank of Ukraine to its understanding. For the purpose of the organization and functioning of risk management systems in commercial banks and in order to ensure that the banks carry out their transactions within acceptable risk parameters and use a method which will protect the interests of depositors, creditors and owners of the banks, the National Bank of Ukraine has developed and approved "Methodical guidelines for the organization and operation of risk management systems in the banks of Ukraine". The advantages of risk management in banks and its main task have been considered. The content of the principles underlying risk management in banks has been defined. Six stages of bank risks have been substantiated. The role of the organizational structure in the process of bank risk management has been defined. The necessity of developing a program of assessment and management of risks has been justified, which should include the possibility of preventing their occurrence and the introduction of the system of early response to risks.

This article contains an introduction, four chapters and conclusions. The introduction substantiates the necessity of bank risk management. The first chapter reveals the economic essence of the concept of "risk management" and its peculiarities in the banking sector. The second chapter identifies the principles of bank risk management. The third chapter is devoted to the characteristics of the stages of risk management process. The fourth chapter reveals the organizational and functional provision of risk management in banks. The conclusions contain the main findings of the research.

Keywords: risk management, bank risk management, stages of risk management, risk management process, bank risks.

1. INTRODUCTION

The category of risk is dominant in the banking business, based on the specifics of the activity of the banks as intermediaries on the financial market. The level of bank risk largely influences the efficiency of banking business, the potential of financial institutions

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in the maintaining of economic processes, the market value of capital and confidence in the bank by the regulators, partners and customers. For the successful operation of the bank it is necessary to have the understanding of the huge number of risks threatening its operations. The realization of this fact is the key to the stable operation of the banking institution. Banks are successful when the risks they have taken are rational, controlled, and are within the scope of their competence and control. Therefore, the priority task in banking activities should be to identify, assess and competently manage risks, as well as the pursuit to minimize them.

2. ECONOMIC ESSENCE OF THE CONCEPT OF "RISK MANAGEMENT" AND ITS PECULIARITIES IN THE BANKING SECTOR

Different types of risks in bank activities are caused by different factors, have different effects on bank activities and are determined and controlled in different ways. For this reason it is necessary to develop different methods of their assessment as well as their management mechanisms. It should be noted that among the scientists there are disagreements over the understanding of the concept of "risk management", therefore several approaches to its definition have been defined (Table 1).

The National Bank of Ukraine (the NBU) does not give a definition of the concept "risk management", but it notes that any risk management system should include the following elements:

- risk identification. A proper identification of risk is, first of all, the recognition and understanding of existing risks or risks that may arise from new business initiatives. Risk identification should be an ongoing process carried out both at the level of individual transactions and portfolio level;
- risk measurement. An accurate and timely measurement of risk is an essential component of effective risk management. The bank, which has no system of risk measurement has a limited ability to control risks or monitor them. In addition, the development of risk management instruments, used by the bank, should be adequate to the complexity and the level of risks that it has undertaken. The bank has to check periodically the reliability of measurement instruments that it uses. An appropriate risk measurement system includes the evaluation of individual operations and portfolios;
- risk control. The bank has to set limits and bring them to the executors using regulations, standards and / or procedures that define the duties and powers of employees. These control limits should be effective management tools that can be specified in the case of changes in conditions or the level of risk tolerance. The bank shall determine the sequence of the process of granting permits for the exclusion or change of risk limitations if it is reasonable;
- risk monitoring. Banks should monitor risks in order to ensure a timely tracking of risk levels and exceptions to certain rules. Monitoring reports should be regular, timely, accurate and informative and provided to corresponding officials for taking necessary measures.

Table 1. Modern approaches to defining the concept of "Risk Management"

Approach		A typical definition of the concept
Title	Authors	
The set of methods of influence on the risk level	A. Asambayev, T. Kokh, S. Illyashenko, S. Yegorova, V. Granaturov	- the development and implementation of economically based recommendations for the enterprise aimed at reducing the initial level of risk to an acceptable one; - the management of the probability of occurrence of adverse events and a set of actions aimed at minimizing the losses caused by risks; - a set of actions regarding the reduction of costs associated with risks
The process of reducing financial losses	Z. Bodi, R. Merton, V. Artemenko, Y. Zhuravlev, I. Serdyukova , S. Buz'ko, V. Vitlinskiy	- the actions to reduce the costs associated with risks; - an activity that allows to provide, with the lowest costs, the financial resources necessary and sufficient to reduce the probability of occurrence of negative results and to localize the negative consequences of made decisions; - the process of finding a compromise, which aims to achieve a balance between the benefits of reducing the risks and the needed expenditures for that, as well as making a decision regarding which actions should be used for this purpose and which should be rejected.
A process which is composed of the ordered sequence of stages	I. Blank, S. Babaskin, I. Volkov, N. Balashova	- a complex multistage process of identifying, assessing, managing, monitoring and controlling risks, which covers the entire internal organizational process of decision making and execution, as well as control over their implementation; - the process of foreseeing and neutralizing the negative financial consequences of risks associated with their identification, assessment, prevention and insurance; - the process of identifying, assessing and monitoring the effect of internal and external factors that can negatively influence the value of the company
A systematic view on the risk management problem	K. Redhead, S. Hughes, J. Sinkey, L. Tepman, N. Adamchuk, D. Aleshyn, V. Zhovanikov, E. Egorova, Y. Tronin	- strategic management of an enterprise which, on one hand, allows for the possibility of crises and disasters and, on the other hand, works with specific risks and implements such stages of risk management such as risk identification, decision-making and implementation of measures; - a set of methods, techniques and measures that make it possible, to some extent, to predict the occurrence of risk situations and take action on the elimination or reduction of the negative effects of such events; - a support system for decision approval, the main task of which is to minimize the uncertainty that exists whenever an economic entity makes a decision.

Source: Epifanov A.O., Vasylyeva T.A., The Risk Management of Banks: Monograph in 2 Volumes. Volume 1: Risk Management of Basic Bank Transactions. Sumy, DVNZ "UABS NBU", 2012, [in Ukrainian].

As market conditions and bank structure are different, there is no single risk management system acceptable for all banks. Each institution should develop its own program and system of risk management, according to its needs and circumstances. For example, a larger bank with more complex transactions and which has offices in different geographical areas should have a more developed and more advanced risk management system.

Most often in order to refer to the activity of business entities, including that of banks, aimed at resolving crisis and risk situations, the term "risk management" is also used. On this occasion V. Klyoba[3] notes: "Risk management of a commercial bank can be defined as one of the main trends of modern bank management, which studies the management problems of a bank establishment as a whole or of its individual units, taking into account risk factors, and which includes the creation of an effective risk management system, the elements of which interact according to approved rules and in an agreed sequence, based on some of the concepts, laws, principles and methods".

For the purpose of the organization and functioning of risk management systems in commercial banks and in order to ensure that the banks carry out their transactions within acceptable risk parameters and use a method which will protect the interests of depositors, creditors and owners of the banks, the National Bank of Ukraine has developed and approved "Methodical guidelines for the organization and operation of risk management systems in the banks of Ukraine"[4].

These guidelines have been developed on the basis of the Laws of Ukraine "On the National Bank of Ukraine"[5], "On banks and banking activity"[6], as well as taking into account the leading international documents that regulate the principles of corporate governance and risk management in banks. This will allow to avoid irrational decisions and mistakes, as well as to use the resources of the bank more efficiently. According to the guidelines of the National Bank of Ukraine risk management is determined "as the risk management system, which includes the strategy and tactics of management, aimed at achieving the key business objectives of the bank. Effective risk management includes: management system, identification system, measurement system and maintenance system (monitoring and control)"[7].

Bank risk management can be viewed from different perspectives: as a branch of scientific knowledge, as an economic phenomenon, as a management system, as a management process, as the art of management and as the management body (Figure 1).

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[3] Klyoba V., The Improvement of Risk Management in Commercial Bank. Scientific Bulletin of NLTU of Ukraine, 2009, 19, p. 187-196 [in Ukrainian].

[4] Methodical Guidelines on the Organization and Operation of Risk Management Systems in the Banks of Ukraine. The Resolution of the NBU №361 from 02.08.2004, [online]. Available at: https://bank.gov.ua/doccatalog/document [in Ukrainian].

[5] On the National Bank of Ukraine [online]. Available at: http://zakon3.rada.gov.ua/laws/show/2121-14 [in Ukrainian].

[6] On banks and banking activity [online]. Available at: http:// zakon.rada.gov.ua/laws/show/679-14 [in Ukrainian].

[7] Methodical Guidelines for Bank Inspection "System of Risk Assessment", [online]. The Resolution of the Board of NBU from 15.03.2004 number 104 / the National Bank of Ukraine. Available at: http:// http://zakon3.rada.gov.ua/laws/show/v0104500-04 [in Ukrainian].

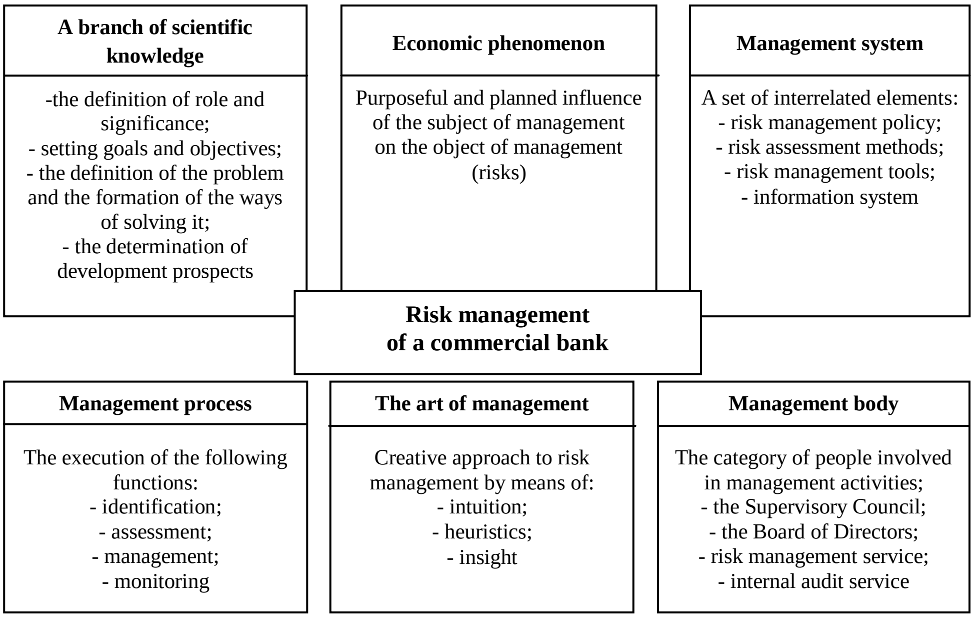

Figure 1. The components of the concept of "risk management of commercial bank"

Source: The Bank for International Settlements (BIS), Basel Committee on Banking Supervision (BCBS), Financial Stability Institute (FSI) [online]. Available at: http//:www.bis.org

As the international practice proves, an effective risk management system brings to the bank a number of advantages, namely[8]:

- improves the quality of strategic planning;
- allows to avoid sudden changes in value;
- increases the efficiency of the bank activity;
- enables the optimal use of the resources of the bank;
- contributes to greater transparency of management activities and improves communication;
- provides the senior management with information on main risks as well as regarding the resources that are allocated for the influence of the risks of high level;
- provides the managers with an efficient and coherent methodology for the study of the risks;
- improves accounting in banks;
- directs the top management towards the use of factors of risk opportunities in order to improve the value of the bank.

[8] Klyoba V., The Improvement…, op. cit.

The generalization of the study of domestic and foreign economists allows to determine the range of tasks of risk management:

- the reduction of uncertainty in decision-making;
- the reduction of the initial level of risk to an acceptable one;
- the reduction of the costs associated with the risk;
- the definition and monitoring of the status of different spheres of activities or situations that arise as a result of possible undesirable changes;
- the achievement of a balance between the benefits of reducing the risks and the expenses necessary for that;
- the prediction of occurrence of risky situations.

Thus, the successful activity of the bank as a whole depends largely on the chosen risk management concept. The purpose of the risk management process is to limit or minimize the risks since it is impossible to avoid them completely. Risks can and should be consciously controlled, while being guided by the following rules[9]:

1. all kinds of risks are interrelated;

2. the level of risk is constantly changing under the influence of dynamic environment;

3. the risks that banks undertake are directly related to their clients;

4. bankers should try to avoid risks even more than other businesses since they work with other people's money and not with their own.

3. THE PRINCIPLES OF BANK RISK MANAGEMENT

Risk management of the bank is based on certain principles, the main ones of which are the following[10]:

1) *The awareness of risk-taking.* Bank manager must consciously take the risk if he hopes to get the corresponding income from bank transaction. The awareness of taking on certain types of bank risks is an essential condition for neutralizing their negative consequences in the process of their management.
2) *The manageability of taken risks.* The bank portfolio of risks should include mainly those risks which are amenable to neutralization in the process of management, regardless of their objective or subjective nature. The risks that cannot be managed, for example, the risks of force majeure group can only be transferred to an external insurer.
3) *The independence of management of individual risks.* One of the most important tenets of risk management theory states that risks are independent from each other and bank losses on one of the portfolio risks do not necessarily increase the probability of risk event for other bank risks. In other words, bank losses on different types of risk are independent of each other and in the management process they must be neutralized individually.
4) *The comparability of the level of taken risks to the level of profitability of bank transactions.* This principle is fundamental to risk management theory. It means that the bank in the course of its activities has to take on only those types of bank

9 Prymostka L.O., Financial Management of a Bank. Kyiv 2004, KNEU [in Ukrainian].

10 Ioda E.V., Meshkova L.L., Bolotina E.N., Classification of Bank Risks and Their Optimization. 2nd ed. Tambov, Izdatelstvo Tambovskoho gos. tekhn.ynivers, 2002 [in Russian].

risks, the level of which does not exceed the corresponding level of profitability on the scale of "profitability - risk." The correlation of profitability with considerations of security and liquidity in the process of bank portfolio management, that is the assets and liabilities of the bank, is the main objective of risk management.

5) *The comparability of the level of taken risk with the financial capabilities of the bank*. The expected size of the bank's losses, corresponding to a particular level of bank risk, shall correspond to the share of capital, which provides an internal insurance of risks. The size of the risk capital, including the appropriate internal reserve funds, shall be determined by the bank in advance and serve as the border line of accepting the types of bank risks, which cannot be transferred to transaction partner or to an external insurer.
6) *The efficiency of risk management.* The basis of the bank risk management is the neutralization of the negative consequences of the risks for the bank's activities at the possible occurrence of the risk event. At the same time, the bank expenses for the neutralization of the corresponding bank risk should not exceed the amount of possible bank losses on this risk even at the highest degree of probability of occurrence of the risk event.
7) *The consideration of time factor in risk management.* The longer the period of carrying out the bank transaction, the wider the range of risks related to it, the fewer opportunities to ensure the neutralization of their negative effects on the bank by the criterion of the efficiency of risk management.
8) *The consideration of the general strategy of the bank in the process of risk management.* The bank's risk management system must be based on the general criteria of the chosen strategy of the bank (reflecting its ideology in relation to the acceptable risk level) and bank policies in certain areas of activity.
9) *The consideration of the possibility of risk transfer.* The adoption of a number of bank risks is not comparable with the financial capabilities of the bank regarding the neutralization of their negative effects in case of a probable occurrence of the risk event. At the same time, the implementation of the relevant bank transaction may be dictated by the requirements of the strategy and the direction of the bank activity. The inclusion of such risks in the aggregate portfolio of bank risks is allowed only if their partial or total transfer to transaction partners or external insurers is possible.
10) *Continuity and consistency.* Risk management is done gradually and continuously, because the condition of the bank, its customers and partners is constantly changing; and price changes occur on commodity and financial markets. Therefore, it is necessary to monitor constantly the level of potential risks and their impact on the expected results of the bank activity

4. RISK MANAGEMENT PROCESS AND THE CHARACTERISTICS OF ITS STAGES

In terms of risk management, banking activity comes down to risk taking and receiving appropriate compensation for it, that is, economic gain. In other words, risk management is generally not intended to eliminate the risk, but instead it aims to ensure that the bank will receive the appropriate compensation for taking the risk. The exceptions are some risks for which there is no relationship between their level and the size of the compensation for the bank (for example, in Methodological guidelines for inspection of banks "System of Risk Assessment" [11] of the NBU, such risks include legal risk, reputation risk, strategic and operational-technological risk). The purpose of risk management is to enhance the value of the bank equity capital, while ensuring the achievement of the objectives of many stakeholders, namely:

- clients and counterparties;
- managers;
- employees;
- Supervisory Board and shareholders (owners);
- bank supervisory authorities;
- rating agencies, investors and creditors;
- other parties.

Risk management is an iterative, sequential process with clearly defined stages through which managers can clearly imagine the risks that commercial banks are faced with.

The process of risk management is a systematic use of available techniques, ways and methods of solving problems related to risks.

In world practice it is accepted to distinguish four interrelated stages of risk management:

- identification (detection) of the risk;
- quantitative and qualitative evaluation (measurement) of the risk;
- risk control;
- monitoring of the risk.

In particular, the above classification is followed by O. Prosovych and K. Protsak[12]. However, other researchers, such as V. Klyoba[13], O. Ivanylova[14], define six stages of risk management in the bank:

- setting up the context of risks;
- risk identification (detection and identification of risks and their sources);
- risk measurement (analysis and evaluation);
- impact on risk (the choice of methods and strategies);
- risk monitoring (daily monitoring of risk limits, control of the size of the main risks and risks that cannot be quantified);
- communication and consultation: regular provision of information about risks.

In our opinion, the classification of the stages of risk management suggested by Ioda E., Meshkova L. and Bolotyna E.[15] in the monograph "The Classification of Bank Risks and Their Optimization" is the most precise and detailed. Researchers distinguish the following stages of bank risk management:

- the identification of bank risks;

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[11] Methodical Guidelines…, op. cit.

[12] Prosovych O.P., Protsak K.V., Risk Management of Commercial Banks, [online]. Availbale at: http://www.nbuv.gov.ua/old_jrn/natural/Vnulp/Ekonomika/2010_684/41.pdf [in Ukrainian].

[13] Klyoba V., The Improvement…, op. cit.

[14] Ivanylova O.A., The Introduction of Risk Management System in the Activity of Commercial Banks. Investments: Practice and Experience, 2011, 7, p. 33-36 [in Ukrainian].

[15] Ioda, E.V., Meshkova L.L., Bolotina E.N., Classification of Bank…, op. cit.

- risk analysis;
- risk assessment;
- ways to prevent or reduce risks;
- monitoring and control of bank risks;
- the assessment of the results.

On the first stage of risk identification the risks with which a certain bank transaction can be faced with are detected, with a view to further prediction of the degree of damage and the adoption of measures for its compensation. The process of identification of individual bank risks includes the following activities:

- the definition of the list of external bank risks in the context of each area of bank activities or individual bank transactions;
- the definition of the list of internal bank risks inherent to certain types of activities or planned bank transactions;
- the creation of a common bank risk portfolio related to the upcoming activities of the bank.

The examination of documents, the interviews of bank staff with customers or contractors, as well as obtaining information from other banks, firms and specialized information services, is used in the process of solving this problem.

The second stage - risk analysis, begins with the revelation of its sources and causes that determine the events that can contain risks. It is important to determine which sources are predominant. It is also necessary to compare the possible costs and benefits. Risk analysis can include a variety of approaches related to the problems caused by uncertainty in the outcome of transactions. This analysis should be linked with the understanding of what can happen and what should happen. Risk analysis helps to choose, in a timely manner, the best option from a set of alternatives.

In modern conditions of transition to a market economy, in the banking sector increases the importance of the accuracy of risk assessment, which the bank takes on in the course of implementation of various transactions. Each subject of market relations operates by its own rules, while adhering to the law. Banks, in the conditions of unstable economic situation in the country, are forced to take into account all the possible actions of competitors and customers, as well as to foresee the changes in the legislation. The choice of specific methods of assessment is determined by the following factors[16]:

- the type of bank risk;
- the fullness and reliability of the information base formed to assess the level of probability of different bank risks.

In the process of assessing the quality of the information base the following aspects are checked:

- its completeness for the characteristics of certain types of risks;
- the possibility of building the necessary series of dynamics (to assess the level of risk, manifested in the dynamics - inflation, currency, interest rate, etc.) and required groups (in the assessment of static types of risks, such as credit risk);
- the possibility of comparable assessment of the amounts of bank losses on the same price level;

[16] Ioda E.V., Meshkova L.L., Bolotina E.N., Classification of Bank…, op. cit.

- the reliability of information sources (proper information base, published statistical data, etc.).

It should be kept in mind that an inadequate or poor-quality information base, used in the process of assessing the level of financial risks, increases the subjectivity of such an assessment and, consequently, reduces the efficiency of the further process of risk management:

- by the qualification level of bank managers (risk managers) engaged in assessment, the degree of their preparedness to use modern mathematical and statistical tools for such assessment;
- technical and software equipment of financial managers (risk managers), the ability to use modern computer technologies for such assessment;
- the possibility of involving qualified experts in the assessment of complex bank risks.

The mere understanding of the economic nature of bank risks and its quantitative assessment do not allow managers to manage the bank effectively. It is necessary to apply the techniques and methods of a direct impact on the level of risk with the aim of its maximal reduction, the increase of security and financial stability of the commercial bank. Herein lies the essence of the fourth stage of risk management.

In the system of bank risk management techniques the main role belongs to internal mechanisms of their neutralization.

Internal mechanisms of neutralization of bank risks represent the system of methods of the minimization of their negative effects, elected and implemented within the proper bank. The system of internal neutralizing mechanisms of bank risks provides for the use of the following basic methods:

1. *Risk avoidance.* This direction of risk neutralization is the most radical one. It lies in the development of such activities of an internal character, which completely exclude a particular kind of bank risk. Therefore, in the system of internal neutralizing mechanisms their avoidance should be carried out very carefully and under the following basic conditions:
   - if the refusal from one bank risk does not lead to the occurrence of another risk of the same or higher level;
   - if the risk level is not comparable with the level of profitability of bank transaction on the scale of "profitability - risk";
   - if the bank losses from this risk exceed the capacity of their compensation from the proper funds of the bank;
   - if the amount of income from the transaction, generating certain types of risks, is insignificant, that is, it occupies the imperceptible proportion in the generated positive cash flow of the bank;
   - if bank transactions are not typical for the bank activities, are innovative or there is a lack of information base needed in order to determine the level of bank risks and to make appropriate management decisions.
2. *Risk limitation.* The mechanism of limiting bank risks is usually used for those types which go beyond their acceptable level, that is, regarding bank transactions carried out in the area of critical or catastrophic risk.
3. *Hedging.* This mechanism represents a balancing transaction aimed at minimizing risk. The transactions hedging individual balance sheet items are called micro-

hedging, and those that immunize the entire bank balance are called macro-hedging. In the cases where the selection of hedging instruments is carried out in the framework of the balance sheet items (for example, the selection of assets and liabilities in terms of duration) the hedging method is considered to be natural.

4. *Diversification.* Diversification mechanism is used, primarily, to neutralize the negative bank effects of non-systematic (internal) types of risks. The principle of the operation of diversification mechanism is based on risk-sharing that prevents its concentration. Diversification is a dispersion of bank risk.
5. *Risk allocation.* This mechanism is based on their partial transmission to partners of individual bank transactions in such a manner that each participant's losses are relatively small.
6. *Self-insurance.* The mechanism of this direction of bank risk neutralization is based on the bank reserving a part of its resources, which allows to overcome the negative effects from certain bank transactions. The main forms of this direction are the formation of the reserve, insurance and other funds. The main objective of self-insurance is to overcome temporary difficulties of bank activity in efficient manner.

The basic internal mechanisms of neutralization of bank risks mentioned above can be significantly supplemented by taking into account the specifics of bank activity and the particular composition of its risk portfolio.

External sources of neutralization of bank risks imply insurance. The insurance of bank risks represents the protection of the property interests of the bank in case of insured event by the special insurance companies (insurers) through money funds generated by them by receiving insurance premiums from insurers. The essence of insurance is expressed in the fact that the bank is ready to give up part of its income to avoid the risk, that is, it is willing to pay for the reduction of risk degree to zero.

The next stage of the bank risk management is risk control. In order to coordinate bank objectives and control the risk level it is advisable to prepare a written memorandum of risk control policy and set up a committee consisting of senior staff from concerned departments. In most banks an effective risk control program includes the following provisions:

- the protection of the bank and general safety issues;
- ensuring the safety of people - protection against accidents, kidnapping and hostage-taking, the development of procedures for various cases of force majeure circumstances;
- the preservation of property - measures to protect the bank property from physical damage;
- control of information processing and operational center - ensuring the confidentiality, speed and error-free operation;
- prevention and detection of potential losses from internal and external crimes;
- control of contractual and agreement obligations - legal advice on the terms of the contract (including changing conditions), systematic monitoring of contracts;
- development of procedures for overcoming all kinds of crisis situations, including the area of information processing;
- control of other risks.

The implementation of systematic monitoring of the effectiveness of various risk control programs, in addition to the development of standards for these programs, should also include the collection and analysis of information about the cases of their unsatisfactory efficiency. The system of performance indicators of neutralization of the negative effects of certain types of bank risks includes:

- the level of potential bank losses that are being neutralized;
- the efficiency of neutralization (the ratio of the costs of its implementation to the size of potential losses);
- the assessment of the overall risk of the bank activities taking into account the measures to neutralize them, and others.

For the effective use of bank resources allocated for monitoring, risks should be categorized according to the degree of their relevance for a particular bank and only the main types of risks should be introduced to the tracking system. All those risks which are outside of the established value limits are displayed off the formulation of detailed reporting in the monitoring system. Control function is carried out selectively and detailed analysis - only in the case of receiving danger signals such as violation of terms of payment, violation of norms, limits, etc. This approach guarantees that the money will be used to identify and carefully monitor the risks that are relevant for the bank.

Risk monitoring system helps to correct the current activity in accordance with the warning signals that it generates using a feedback mechanism. The effectiveness of the risk management system as a whole strongly depends on the effectiveness of the monitoring system. Within this approach to the organization of the management process the managers of the middle level are responsible for the reliability of the local system and for implementing the strategic objectives set out at the level of the senior management[17].

5. ORGANIZATIONAL AND FUNCTIONAL PROVISION OF RISK MANAGEMENT IN BANKS

Risk management activity is carried out through the organizational structure of the bank. It is subject to periodic refinement and improvement, taking into consideration the changing situation and environment. The organizational structure is defined by the organization's culture, the size and complexity of the respective business transactions, the types of risks taken, and the significance of possible negative consequences. Thus, in different banks the practical implementation of risk management techniques may vary.

The process of risk management at the bank must cover all its structural levels - from management (Supervisory Board and Administration Board) to the level where the risks are directly received and / or generated.

The process of risk management should involve such functional and structural subdivisions of the bank as:

- Supervisory Board - within its functions and responsibilities towards the owners of the bank, investors / contractors and bank supervisory authorities;
- Administration Board - within its powers and responsibilities towards the Supervisory Board of the bank, investors / contractors and bank supervisory authorities;

[17] Prymostka L.O., Financial Management…, op. cit.

- The subdivision of risk management - within its functions of identification, quantitative and qualitative assessment, control and monitoring of risks;
- back offices - within their control functions of compliance with the set requirements;
- front offices - within their functions of the bank accepting the risks within the proven credentials.

The functions of all the aforementioned departments should be clearly defined and documented, and the bank must do everything possible in order to avoid conflicts of interest between them.

Based on the characteristics of building an organizational structure, it is recommended for the banks:

- to create individual profiled committees at the level of higher collective bodies of the bank;
- to involve independent experts and other professionals in order to build internal control systems and to assess their adequacy. Such a recommendation can be made through the involvement of internal auditors of the bank as consultants on the design of internal control systems, concluding agreements about the outsourcing of advisory or audit services, as well as by engaging external auditors to the testing of internal control systems;
- depending on the chosen organizational structure of the bank and the amount and complexity of operations to perform the allocation of subdivisions and to carry out the distribution of functions between them at various local subdivisions (branches, divisions, departments, offices, etc.).

It is recommended for each bank to develop a system of internal regulations regarding risk management. It is necessary to ensure the timely update of internal regulatory requirements of the bank in case of changes of legal, regulatory or normative character, the organizational structure of the bank and the changes in the level of bank tolerance to risk. The bank must inform all the responsible persons about the internal normative base of the bank, including through periodic training and professional development.

In order to rise the efficiency of creating internal normative base of the bank it is encouraged to involve the members of the Supervisory Council in the key stages of creating regulatory documents of the bank, those that need to be approved at the level of the Supervisory Board.

In particular, the main strategic areas of risk management are worked on through the program of risk management, which is approved by the Administration and agreed by the Board of the bank. This document contains relevant risk management policy regarding: liquidity, credit, interest, currency, market, operational, strategic, reputation risk, etc., which the bank produces (evaluates, supervises, controls) in the process of its activity[18].

The program includes the following methods of risk management:

- maintaining capital adequacy;
- identification, analysis and risk assessment;
- developing procedures for carrying out transactions;

[18] Ivanylova O.A., The Introduction…, op. cit.

- the limitation of transactions (based on the requirements of the NBU, world practice, indicators of the business plan, budget, computation);
- hedging of the risks;
- the procedures of decision making and the functions of structural subdivisions of the bank in the management of the relevant risks.

The program should meet the requirements of the effective legislation and regulatory requirements of the National Bank of Ukraine, be consistent with the internal regulatory documents of the bank, include the identification of risks, methods and the procedures of evaluation, analysis and risk management, the procedures for risk management by the Administration Board, special committees, the subdivision of risk management and structural bank units.

The program of evaluation and risk management must include the possibility of preventing their occurrence and introduction of a system of early response to risks. For this purpose, at the planning of the institution as a whole, particularly at carrying out each transaction significant in terms of volume, it is expedient to introduce the forecast system, at the project assessment stage of which the extensive research is conducted and the complex of risks that may arise is revealed. The identification of risks at the stage of forecast of transactions makes it possible to develop a set of actions for the prevention of risks and their management.

It should be noted that the bank must have a scheme of actions (provisions) in case of emergencies (known as the procedures of anti-crisis management) so that the management authorities can make operative administrative decisions in the case of emergency situations and circumstances that can have potentially dangerous consequences for financial stability and profitability of the bank and the liquidity of its balance sheet. The provisions should include the procedures for anti-crisis management in the event of a systemic or close to a systemic liquidity crisis, of ultrahigh level of interest rate, market, currency risk or reputation risk, information technology, the procedures of decision making and actions of the Administration Board, special committees, structural departments of the bank, in the case of emergency situations.

6. CONCLUSIONS

A successful activity of banks as a whole is largely dependent on the bank risk management. The purpose of this process is to limit or minimize them as it is impossible to avoid risks completely. Among the scientists there is no consensus regarding the understanding of the concept of “bank risk management” but the National Bank of Ukraine stipulates that risk management system includes the following elements: risk identification, risk measurement, control and monitoring of risks.

One of the main directions of modern bank management is risk management, the main task of which is to ensure an efficient risk management system. The National Bank of Ukraine defines risk management as the risk management system, which includes the strategy and tactics of management, aimed at achieving key business objectives of the bank.

The process of risk management is a systematic use of available management techniques, ways and methods for solving problems related to risks. This process includes the following stages: identification of bank risks; risk analysis; risk assessment; ways to prevent or reduce them; monitoring and control of bank risks; evaluation of the results.

Risk management activities are carried out through organizational structure. The process of risk management at the bank must cover all its structural levels - from managerial one to the level where risks are directly received and generated.

In order to prevent risks and minimize them, a holistic system of monitoring, diagnostics and overcoming of risk should be established. The development of effective measures and the combination of management at macro-level with the effective anti-crisis management within the bank will help, as soon as possible, to minimize the threat to the banking system and the state as a whole.

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POTRZEBA STWORZWNIA SKUTECZNEGO ZARZĄDZANIA RYZYKIEM W BANKACH KOMERCYJNYCH UKRAINY

Artykuł poświęcony jest specyfice zarządzania ryzykiem w bankach komercyjnych na Ukrainie. Autorzy zbadali obecne podejście do definicji pojęcia „zarządzanie ryzykiem", a także zdefiniowaniu podejść Narodowego Banku Ukrainy do jego zrozumienia. Dla celów organizacji i funkcjonowania systemów zarządzania ryzykiem w bankach komercyjnych oraz w celu zapewnienia, że banki przeprowadzają transakcje w dopuszczalnych parametrach ryzyka i wykorzystują metodę, która będzie chronić interesy deponentów, wierzycieli i właścicieli banków, Narodowy Bank Ukrainy opracował i zatwierdził „metodyczne wytyczne dotyczące organizacji i funkcjonowania systemów zarządzania ryzykiem w bankach Ukrainy". Korzyści z zarządzania ryzykiem w bankach i jego głównym zadania zostały wzięte pod uwagę. Zawartość podstawowych zasad zarządzania ryzykiem w bankach została zdefiniowana. Sześć etapów ryzyk bankowych zostało potwierdzone. Rola struktury organizacyjnej w procesie zarządzania ryzykiem bankowym została zdefiniowana. Konieczność opracowania programu oceny i zarządzania ryzykiem została uzasadniona, i powinna ona obejmować możliwość zapobiegania ich powstawaniu oraz wprowadzenie systemu wczesnego reagowania na zagrożenia.

Artykuł zawiera wstęp, cztery rozdziały i wnioski. Wprowadzenie uzasadnia konieczność zarządzania ryzykiem bankowym. Rozdział pierwszy ukazuje istotę gospodarczą pojęcia „zarządzanie ryzykiem" i jej osobliwości w sektorze bankowym. Drugi rozdział określa zasady zarządzania ryzykiem bankowym. Trzeci rozdział poświęcony jest charakterystyce etapów procesu zarządzania ryzykiem. Czwarty rozdział ukazuje organizacyjnej i funkcjonalnej przepisu zarządzania ryzykiem w bankach. Wnioski zawierają główne wnioski z badań.

Słowa kluczowe: zarządzanie ryzykiem, zarządzanie ryzykiem banku, etapy zarządzania ryzykiem, procesu zarządzania ryzykiem, ryzyko bankowe.

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