THEORY FOR EVALUATING A BANK'S FINANCIAL STABILITY: APPLIED TO RUSSIA

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Abstract. *The article talks about how to understand if a bank is doing well with its money and staying safe. It looks at different ways to check how strong a bank is with its money and finds the best methods to use. It also suggests a new way to look at both the good and bad parts of a bank's money situation and how they relate to costs.*
Key words: *economics, financial security, banks, assessment methods, security criteria, risks.*

Banking institutions are crucial as financial middlemen that facilitate the process of "savings investment" in the economy. Banks draw in temporarily available money from individuals and businesses by offering to hold it in accounts at a set interest rate, thus preserving the value of the deposited funds. Banks lend money to people and businesses who temporarily need extra funds. The money is provided under specific terms for repayment, interest, and timelines.
In this respect, the importance of analyzing the operations of banks is growing. The findings of the study are useful for the banks and the Central Bank. Many banks have departments for studying and managing risks, but other parts of analyzing banks' activities are ignored by analysts. Hence, a comprehensive strategy and carefully planned methods are necessary to enhance the financial stability of a business bank, along with an adaptable monitoring system.
The issue of financial stability of banks is one of the key concerns for the national economy right now.
The financial security of a credit institution lies in its ability to independently develop and implement a financial strategy in accordance with the objectives of its activities, in an uncertain external environment, which necessarily entails in this figure.

The issue of guaranteeing the financial stability of a commercial bank is being researched by numerous scientists. Think about how the word "financial security of a credit institution" is defined nowadays. According to Kucherov I.I., a credit institution's financial security is a safeguard against the detrimental effects of both internal and external threats to maintain operational stability and the sustainability of the key interests' implementation. According to Chudaikina T.N., a bank's financial security is an economic category that encompasses the idea of financial stability. In other words, a commercial bank's financial stability is a crucial prerequisite for guaranteeing its financial security.

From the position of the bank, financial security is the protection of the bank from internal and external threats, ensuring management, assets and liabilities in accordance with the marginal conditions of security indicators, taking into account the risks of maintaining the bank's own capital, its effective use, the bank's ability to fulfill its obligations to customers and the state while the condition of legitimacy of operations and compliance of its financial documents with the requirements of supervisory authorities.

Thus, the financial security of a credit institution is a system of measures that contributes to the stable functioning of the bank, the prevention of internal and external threats. The financial security system should be unique in each bank, as it depends on the direction of the bank's activities, the sale of relevant banking products and services to individual consumers. Only the complexity and consistency of the bank's financial security system can ensure the reliability of its security.

The scientific and economic community has formed a system of principles that includes methods and methods for determining the stability of financial institutions

by comparing many factors with the stability of the financial aspects of the activities of credit institutions.

Methods for assessing the financial stability and reliability of commercial organizations and financial institutions are widely used and quite thoroughly studied by both international researchers and domestic scientists. Among the most widely used methods for assessing financial institutions, the following assessment systems are distinguished:

- Instruction of the Bank of Russia No. 4336-U
- Instruction of the Bank of Russia No. 3277-U
- V. Kromonov's technique
- Methodology of the agency "Expert"
- ACFI Methodology
- Methodology "Kommersant"
- Methodology "Ogrbank"
- CAMELS, RATE, FIMS, SAABA, BAKIS, etc.

Consider some of them.[5]

The meaning of the approach used by the Central Bank of Russia is to apply a set of methods for assessing the financial condition of an object, calculating a large number of indicators that allow an expert assessment of most of the bank's activities.

Guidelines for the analysis of the financial stability of commercial banks were compiled by the Central Bank of the Russian Federation, based on:

a) Instructions of the Bank of Russia dated June 11, 2014 No. 3277. U “On methods assessment of the financial stability of the bank in order to recognize it as sufficient for participation in the deposit insurance system”.

b) Bank of Russia Instruction No. 199-I dated November 29, 2019 (as amended on December 24, 2021) "On Mandatory Ratios and Add-Ons to Capital Adequacy Ratios for Banks with a Universal License".[3]

This document is the main regulatory document,
used as an instrument of supervision over the activities of commercial banks in the territory of the Russian Federation. This act establishes the procedure for calculating all economic indicators included in the calculation of mandatory economic standards, as well as the limit values of the standards.

The list of mandatory bank ratios is given in Table 1.

Table 1 - List of mandatory standards calculated
Russian banks

No. Indicators of mandatory standards Standard
1 Basic capital adequacy ratio of the Bank (N1.1) >=4.5%

2 Capital adequacy ratio of the Bank (Sh.2) >=6%
3 Capital adequacy ratio of the Bank (N1.0) >=8%
4 Instant liquidity ratio of the Bank (N2) >=15%
5 Current liquidity ratio of the Bank (N3) >=50%
6 Long-term liquidity ratio of the Bank (I4) >=120%
7 Maximum risk limit per borrower or group of related borrowers (H6) (maximum) >=25%
8 Maximum size of large credit risks (N7) >=800%
9 Ratio of the maximum amount of loans, bank guarantees and guarantees provided by the Bank to its participants (shareholders) (H19.1) >=50%
10 Total risk ratio for the Bank's insiders (N10.1) >=3%
11 Normative use of the Bank's own funds (capital) for the acquisition of shares (stakes) of other legal entities (Sh2) >=25%
No. Indicators of mandatory standards Standard
12 Normal ratio of the size of mortgage coverage and the volume of mortgage-backed bonds issue (N18) >=100.0%

So, in the methodology proposed by the Bank of Russia, it determines a generalizing result that reveals the degree of stability of a commercial bank as a whole, new analysis criteria are constantly added, which allows us to draw a reliable conclusion. The main disadvantages of this technique are that the evaluation is static. Within the framework of this methodology, there are no calculations of predictive indicators. The revealed result according to this technique may be late in relation to the occurrence of problems.

By V. Kromonov's technique is to calculate 5 groups of indicators and compare these indicators with an ideal bank. The initial information for the calculations are balances, the data of which are grouped into economically homogeneous groups.[4]

Compiled and grouped such indicators as the authorized capital (UF), equity (SC), demand liabilities (OS), total liabilities (CO). liquid assets (LA), working assets (risk) (RA), capital protection (PC).

Based on these guidelines, six coefficients are calculated. According to Kromonov's method, the optimally reliable bank is a bank with the following coefficients: K1=1, K2=1, K3=3, K4=1, K5=1, K6=3. This means that such an ideal "bank: [7]

- invests in operating assets in the amount of equity capital;
- contains funds in liquid form in the amount equal to demand liabilities;
- has three times more liabilities than working assets;
- contains funds in liquid form and in the form of capital investments in an amount equal to total liabilities;

- has capital assets in the amount equal to the size of equity capital;
- has a capital three times greater than the authorized capital.[2]

Thus, the concept of V. Kromonov's methodology lies in the fact that in it the analyzed bank is compared with the ideal bank, the value of which is taken as 100%, the closer the real analyzed bank is to the ideal one, the higher its reliability. The reliability of the bank according to this technique characterizes it as an object of break-even or safe investments for depositors. The disadvantages of this technique are the controversy of the normalization of the coefficients and the ambiguity of the reliability criteria, as well as how the weight values were determined.

The CAMELS valuation methodology is a system for analyzing the state of financial instruments, which is a comprehensive assessment based on data received by the control authorities. The methodology for analyzing bank performance was introduced in 1978 after the decision of the US supervisory authorities to standardize their systems for analyzing the financial condition of a commercial bank.[8]

The abbreviation stands for the first letters of the analyzed indicators.

C - capital adequacy ratio: is the amount of capital sufficient to protect deposits;

A - asset quality indicator: assessment of the return potential of assets, taking into account problem loans;

M - indicator of the quality of management institutions, analysis of the qualitative characteristics of banking management based on the results of work;

E - indicator of profitability (profitability) of organizations: the efficiency of activities and the sufficiency of profit for long-term development are determined;

b - an indicator of the organization's liquidity: liquidity is determined in terms of the timely fulfillment of obligations.

B - an indicator of the organization's sensitivity to risks assesses the impact of external factors on banking activities: interest rate, currency risks, the risk of loss of profitability.[6]

The advantages of this technique are that the rating for each indicator shows directions for improving the efficiency of the bank. The overall score reflects the degree of need for intervention in relation to the bank. The disadvantage of this technique is that it is based on subjective assessments, therefore, the overall result of this technique depends on the professionalism of the analyst.

The approach of the "Expert" magazine is divided into two parts. The first part examines profitability and dependability, while the second part examines changes in dynamics. Profitability within this approach refers to the proportion of earnings to total assets, while the reliability indicator is calculated based on the bank's capital ratio to the funds it has attracted. The primary benefits of this method are the use of

statistical analysis based on two criteria. The downside of this method is that it doesn't consider non-numeric factors.

In summary, all methods have measurable indicators, but not all include qualitative indicators. In order to fully evaluate the bank, it is important to analyze both the numbers and the quality of its operations. Additionally, upon examining the pros and cons of the methods at hand, we can determine that all the methods effectively evaluate only the present status of the bank, without predicting the future. Therefore, to accurately assess the financial strength of a bank, it is insufficient to rely on just one approach. In order to analyze the quality, it is important to utilize a method for coefficients and ratings, as well as employ economic and mathematical approaches that will enable the prediction of values and identification of opportunities to enhance financial stability within a commercial bank.

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