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DETERMINATION OF ECONOMIC CAPITAL VALUE AS A METHOD OF BANKING INTEGRATED FINANCIAL RISK MANAGEMENT

The banking risk management is the most important task of any bank, because choosing the right method of risk management will enhance the reliability, stability and competitiveness of the banking system. The problem of choosing risk management method arises because of the existence of a large number of bank risks. In banking practice applies a variety of risk management method, but still has not determined an effective one. This research is to determine the most effective methods to manage the integrated financial risk of the banking institution.

Today, scientists highlight the various methods of banking risk management, which are realized in two main areas: methods of risk avoidance and acceptance of risk.

A variety of components of the integrated financial risk and the specificity of their occurrence and implementation necessitates the adoption of new approaches in risk management, which ultimately leads to the improvement of existing systems in banks risk management.

The problem of evaluating and measuring the various risks is included in the integrated financial risk associated with the using of various techniques and methods of analysis of each individual risk and the absence of an integrated risk management system.

A solution to this problem is the concept of economic capital, which is applied in foreign financial institutions and recommended for evaluating the measure of the bank riskiness. This concept gives an opportunity to quantify the risks, to calculate the amount of capital required to protect against these risks and to measure the return on risk-based capital.

Economic capital is the amount of capital that a bank needs to ensure that the company stays solvent. Economic capital is calculated internally and is the amount of capital the bank should have to support any risks it takes on. The measurement process involves converting a given risk to the amount of capital that is required to support it. The calculations are based on the institution's financial strength (e.g., credit rating) and expected losses.

Economic capital plays a crucial role in the management of integrated financial risk. The introduction of the economic capital concept will lead to avoiding various kinds of threat in the banking system.