MANAGEMENT OF THE COMMERCIAL BANK'S FINANCIAL STABILITY AS A COMPONENT OF DEVELOPMENT AND COMPETITIVENESS STRATEGY

Abstract. The research examines effective strategies for managing financial stability. Building a comprehensive information base and robust sustainability indicators empowers banks to proactively identify risks and make data-driven decisions. Continuous monitoring allows for real-time assessment and adjustments to strategies as economic conditions shift.

Stress testing, a vital tool, simulates a bank's performance under various stress scenarios, gauging its resilience and identifying potential vulnerabilities. Banks can then develop contingency plans to mitigate potential crises. Finally, by leveraging insights from analysis and monitoring, banks can refine their development policies, strengthening financial stability through strategic adjustments and proactive measures to minimize financial crises.

This study introduces a multi-criteria classification system for factors influencing financial stability. This framework analyzes both internal and external factors impacting a bank's well-being. By proactively addressing both current and potential future threats, banks can develop effective strategies. The system also enhances risk management through early threat identification and prevention. It fosters a swift response to emerging challenges and creates a robust mechanism for managing all aspects of financial stability. Ultimately, long-term stability and
effective risk management, achieved through this system, solidify a bank's competitive edge.

The research concludes by outlining promising avenues for further exploration. Refining classification systems to consider emerging factors and integrating various systems for a holistic view are important areas for future research. Examining the influence of regulatory frameworks and developing optimal regulatory approaches are also crucial for building a more robust and sustainable financial system that fosters economic growth.

**Keywords:** bank financial stability, financial sustainability, risk management, competitiveness, multi-criteria classification system.

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**УПРАВЛІННЯ ФІНАНСОВОЮ СТІЙКІСТЮ КОМЕРЦІЙНОГО БАНКУ ЯК СКЛАДОВА СТРАТЕГІЇ РОЗВИТКУ ТА КОНКУРЕНТОСПРОМОЖНІСТІ**

Анотація. У дослідженні розглядаються ефективні стратегії управління фінансовою стійкістю. Створення комплексної інформаційної бази та надійних індикаторів стійкості дозволяє банкам проактивно виявляти ризики та приймати рішення на основі даних. Безперервний моніторинг дозволяє в режимі реального часу оцінювати та коригувати стратегії відповідно до зміни економічних умов.

Стрес-тестування, життєво важливий інструмент, моделює роботу банку за різних стресових сценаріїв, оцінюючи його стійкість та визначаючи потенційні вразливості. Після цього банки можуть розробити плани на випадок непередбачуваних ситуацій для пом'якшення потенційних криз. Нарешті, використовуючи результати аналізу та моніторингу, банки можуть вдосконалити свою політику розвитку, зміцнюючи фінансову стабільність шляхом стратегічних коригувань та проактивних заходів для мінімізації фінансових криз.

У цьому дослідженні представлено багатокритеріальну систему класифікації факторів, що впливають на фінансову стабільність. Ця система...
аналізує як внутрішні, так і зовнішні фактори, що впливають на доброчут банку. Проактивно реагуючи на поточні та потенційні майбутні загрози, банки можуть розробляти ефективні стратегії. Система також покращує управління ризиками завдяки ранньому виявленню та запобіганню загрозам. Вона сприяє швидкому реагуванню на нові виклики та створює надійний механізм управління всіма аспектами фінансової стабільності. Зрештою, довгострокова стабільність та ефективне управління ризиками, досягнуті завдяки цій системі, зміцнюють конкурентні переваги банку.

Дослідження завершується окресленням перспективних напрямків для подальших досліджень. Удосконалення систем класифікації для врахування нових факторів та інтеграція різних систем для отримання цілісного уявлення є важливими сферами для майбутніх досліджень. Вивчення впливу регуляторної бази та розробка оптимальних регуляторних підходів також мають вирішальне значення для побудови більш надійної та стійкої фінансової системи, що сприяє економічному зростанню.

Ключові слова: фінансова стабільність банку, фінансова стійкість, управління ризиками, конкурентоспроможність, багатокритеріальна система класифікації.

Problem Statement and its Relevance to Key Objectives. Commercial banks, particularly international ones, perform a crucial function in promoting economic growth and development. Their ability to efficiently allocate resources, manage risks, and maintain financial stability is essential for a healthy and functioning economy. Nevertheless, effectively managing the ever-evolving and intricate economic landscape poses considerable obstacles in maintaining the stability of banks’ financial status.

This research focuses on the issue of efficiently overseeing the financial stability of commercial banks as a crucial element of their growth and competitiveness strategy. The fundamental problem is in the identification and execution of optimal strategies that enable banks to strategically manage the trade-off between risk and return: attain profitability by preserving a robust capital foundation and minimizing possible losses; and enhance asset and liability management.

Relevance to Scientific Objectives. This study adds to the continuous scientific investigation of the stability of banks’ financial status by examining the impact of strategic management strategies on a bank's resilience to economic shocks; analyzing the relationship between the robustness of financial resources, frameworks for managing risks, and the process of making strategic decisions to attain financial stability.

Analysis of the latest research and publications. The issue of bank financial stability has garnered significant attention from both domestic and international
scholars, recognizing its crucial role in maintaining a sound financial system and fostering economic growth. Researchers have delved into various aspects of this multifaceted topic, employing diverse methodologies to gain insights into the factors that contribute to and influence a bank's financial stability.

Ukrainian researchers have made notable contributions to the understanding of bank financial stability. Prokopenko V.V., Viklyuk A.D., Dobryk V.M., and Zaporozhets V.M. have examined the role of financial flow management, asset risk assessment, and modern management tools in enhancing bank stability. Their work highlights the significance of adopting comprehensive risk management strategies and employing effective asset allocation techniques to safeguard a bank's financial health.

International scholars have also extensively explored the intricacies of bank financial stability. Rose P., Eugene S., Matz L., Deets M., and Havavas A., among others, have conducted in-depth studies on various aspects of this topic. Their research has shed light on the impact of regulatory frameworks, macroeconomic conditions, and technological advancements on bank stability.

The diverse approaches employed by researchers in this field reflect the complexity of the issue and the need for multifaceted perspectives. By examining various aspects of bank operations, such as financial flow management, asset risk assessment, and modern management tools, researchers have gained a deeper understanding of the factors that contribute to bank financial stability.

Despite the extensive research conducted in this area, several unresolved aspects remain. One challenge lies in developing a comprehensive framework that effectively integrates various factors influencing bank financial stability. Additionally, there is a need for more empirical studies that examine the effectiveness of different strategies in achieving and maintaining bank stability.

The purpose of the research. This article aims to contribute to addressing these unresolved issues by providing a thorough analysis of existing research and identifying effective strategies for commercial banks to manage their financial stability, ultimately contributing to a more robust and sustainable financial system that fosters economic growth and development. By delving into the complexities of bank financial stability, this article seeks to advance the understanding of this critical topic and inform future research endeavors.

Research Findings and Discussion. The issue of bank financial security and stability is a complex and multifaceted one that has attracted the attention of numerous researchers worldwide. By analyzing existing research, identifying unresolved aspects, and contributing new insights, this article aims to further the understanding of this critical topic and contribute to a more stable and resilient financial system.

The concept of "sustainability" is increasingly shaping the discourse surrounding the banking sector's issues and trends. Both Ukrainian and international
researchers often associate "sustainability" with "stability," "resilience," and "balance" when discussing financial institutions.

Daniel Thomas Mollenkamp defines sustainability “as the ability to maintain or support a process continuously over time. In business and policy context, sustainability seeks to prevent the depletion of natural or physical resources, so that they will remain available for the long term”.

"Sustainability" can be determined also as the ability to maintain a privileged, relatively less vulnerable position during crises and the ability to overcome them. This perspective emphasizes the bank's capacity to withstand and recover from disruptions. While similar to "stability," which refers to the system's resistance to negative influences, "resilience" focuses on the bank's ability to adapt and bounce back during operations. Therefore, a bank's "sustainability" can be understood as a combination of these two aspects: a constant characteristic of stability and a dynamic capacity for resilience.

Kovalenko V.V. takes a goal-oriented approach, defining financial sustainability as "a measure of the completeness and quality of solving the task set for the banking system, fulfillment of its mission, which ensures the achievement of a positive financial result" [2]. Here, sustainability hinges on the bank's ability to effectively fulfill its purpose and achieve financial success.

Shinazi G. emphasizes the role of financial stability within a sustainable system [3]. He posits a stable system fulfills three key functions:

1) Efficient resource allocation, i.e., the financial system effectively facilitates the allocation and redistribution of resources across time.

2) Manageable risk assessment: future financial risks are accurately assessed and manageable within acceptable parameters.

3) Shock absorption capacity: the system can absorb unexpected financial and real economic events and shocks without significant disruption.

Thus, we conclude that sustainability in the banking sector goes beyond a static notion of stability. It encompasses the bank's ability to withstand challenges, adapt to changing circumstances, and achieve its goals while maintaining financial health. As the financial landscape evolves, understanding the multifaceted nature of sustainability remains crucial for both researchers and banking institutions.

The concept of financial stability continues to evolve, incorporating additional aspects beyond a bank's ability to withstand challenges. Some scholars have expanded the definition. Michael Foote, a representative of the UK Financial Services Authority, broadens the definition to encompass broader economic stability [4]. He suggests financial stability is characterized by: 1) Monetary stability: controlled inflation and stable currency value; 2) Full employment: low unemployment rates reflecting efficient resource allocation; 3) Confidence in the system: public trust in financial institutions and markets; 4) Asset price stability: minimizing excessive
fluctuations in asset prices. This perspective highlights the interconnectedness between the stability of a single bank and the overall health of the economy.

K. Mstoyan defines bank reliability as the ability to consistently deliver on its promises [5]. This includes: 1) Effective operations: smooth and efficient functioning of banking activities; 2) Resilience: withstanding both internal and external disruptions; 3) Timely fulfillment: meeting financial obligations towards clients and creditors on time and in full. Mstanian suggests that a reliable bank exhibits characteristics like liquidity, solvency, financial stability, and competitiveness, all of which contribute to sustainability.

Scholars often link the sustainability of a banking institution to the safety and efficiency of its operations. Vaskovych I. M. defines the financial security of the banking system as "a state characterized by balance and resistance to internal and external threats" [6]. This includes: 1) Balance: maintaining a healthy equilibrium between assets and liabilities. 2) Internal/External resilience: withstanding both internal operational challenges and external economic shocks. 3) Preventing risks: mitigating external financial risks and ensuring the overall health of the national economic system. 4) Economic growth: contributing to its economic growth through efficient operations.

This definition emphasizes the importance of proactive measures to prevent threats and ensure the long-term security and sustainability of the banking system.

By incorporating these additional perspectives, we gain a more comprehensive understanding of financial stability and its connection to sustainability. Banks need to consider not only their resilience but also the broader economic and financial environment to achieve long-term stability and contribute to the overall health of the financial system.

N. F. Efremova emphasizes the importance of safeguarding financial interests at all levels within the banking system [7]. Financial security, in her view, involves:
- Protection: shielding the system from financial threats and ensuring its financial interests are protected.
- Resource adequacy: providing sufficient financial resources to meet obligations and fulfill the system's needs.

Lesyk V.O. echoes this emphasis on protection by defining financial security as establishing conditions that minimize the misuse of financial resources and prevent their diversion to unauthorized activities [8]. This highlights the role of regulations and sound governance practices in maintaining security.

Both Efremova and Lesyk emphasize that financial security serves as the foundation for a stable and sustainable banking system. A robust security framework protects resources and mitigates risks, allowing the system to function effectively.

Financial security and stability ultimately contribute to the efficiency of the banking system. This concept, often measured by the profitability-to-cost ratio, signifies the system's ability to:
- Reduce risks: implement strategies to minimize financial risks and promote overall system stability.
- Ensure profitability: operate profitably to generate resources for growth and investment.
- Maintain competitiveness: compete effectively in the financial market while delivering sustainable value.

We should mention that Rysin V. V. distinguishes financial stability from simple "stability" and "reliability," defining it as a bank's ability to ensure its purposeful development [9]. This perspective emphasizes that stability goes beyond merely surviving challenges; it involves using those challenges as stepping stones for advancement.

Kholodna Y.E. highlights the importance of balancing internal capabilities with external influences for a bank to achieve true sustainability [10]. While maintaining a stable position is crucial, a bank must also adapt to the dynamic external environment to achieve a state that facilitates long-term progress.

Sklepovyi E.V. defines financial stability as the bank's ability to optimize resource utilization while minimizing risk [11]. This encompasses efficiently managing personnel, financial resources, assets, and information technology. By doing so, the bank can effectively fulfill its functions despite internal and external challenges.

Dziublyuk O. V. offers a contrasting viewpoint on financial sustainability, defining it as "a related excess of income over expenses" [12]. While profitability is an important indicator, the author cautions against equating financial stability solely with the level of profit or dividends. Sustainability encompasses a broader range of factors beyond immediate financial gains.

These diverse perspectives enrich our understanding of financial security and stability within the banking system. While both concepts are central to a healthy banking sector, they encompass more than just protection and resilience. Financial security establishes the foundation, while stability and efficiency allow the system to operate effectively and progress toward long-term, sustainable growth. The classification of banks' financial strength is shown in Fig. 1.1.
### Types of Banks’ financial stability

#### In terms of Essence:
- economic
- political
- moral

#### Considering the overall assessment:
- real
- virtual

#### In terms of Balance:
- balanced
- with an unstable balance

#### In terms of Structure:
- financial
- organizational
- personnel
- operational
- business

#### In terms of operational stability:
- Standard FS
- Unstable FS
- Crisis FS

#### According to the Source of formation:
- internal
- external

#### In terms of the possibility of adjustment:
- open
- closed

#### According to the Conditions of formation:
- formal
- real

#### By the Provisional period:
- current (short-term, static)
- strategic (long-term, dynamic)

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**Fig. 1.1. Classification of types of bank financial stability. Sources for compiling [22, 11].**
The Ukrainian economist Afanasieva O. states that the National Bank of Ukraine (NBU) plays a vital role in defining and regulating financial stability within the banking sector [13; 17; 18]. Here's how the NBU approaches these concepts:

The NBU defines the financial stability of a bank as a multi-faceted state characterized by:

- Balanced financial flows: maintaining a healthy equilibrium between incoming and outgoing funds.
- Solvency and liquidity: possessing sufficient resources to meet financial obligations and maintain daily operations.
- Profitability: generating enough profit to sustain normal functioning and compete effectively.
- Meeting obligations on time: fulfilling all financial commitments consistently [13].

This definition emphasizes the interconnectedness of these factors, where each element contributes to the overall stability of the bank.

Building upon the NBU's definition, the text proposes a broader concept of "financial sustainability." This concept encompasses all the aspects of NBU's definition while adding a long-term perspective: sustainable development and growth: the bank's ability to ensure its financial health and viability over the long term, fostering continuous growth and development. This expanded definition highlights the importance of considering the bank's prospects alongside its current financial well-being [17; 18].

The text acknowledges the complexity of bank sustainability, emphasizing the need for a multi-level approach to managing it. Figure 1.2 presumably illustrates these levels.

The NBU also establishes classifications for bank financial stability based on various factors, including operational stability:

- Normal stability: the ideal state with smooth operations, timely fulfillment of obligations, and healthy profitability.
- Unstable financial condition: a transitional phase marked by delays in payments, challenges meeting obligations, and declining profitability.
- Crisis financial condition: a critical state characterized by consistent defaults, overdue debts, and a high risk of bankruptcy [13].

These classifications provide a framework for assessing the financial health of a bank and identifying potential areas of concern.

By incorporating the NBU's perspective and the concept of financial sustainability, we gain a comprehensive understanding of the multifaceted nature of a bank's financial well-being. A stable and sustainable bank is crucial not only for its success but also for the overall health of the financial system.
Fig. 1.2. Main levels of bank resilience management. Sources for compiling [13; 17; 18].

The economics research extensively discusses several elements and settings that have the potential to disturb the financial stability of a bank. These factors can have both beneficial and detrimental effects, affecting both individual banks and the overall financial system.

Categorizing the Objects Causing Impact. Researchers have established many frameworks to classify the aspects that impact the stability of banks' finances. Now, we will examine two such approaches.

The classification developed by Kovalenko V.V. [2]:
1. External elements. These are elements that arise from sources beyond the bank's direct influence and encompass:
   - the economic environment includes factors such as economic growth, inflation rates, and unemployment levels;
   - the socio-political environment encompasses factors such as political stability, the legal framework, and the regulatory environment;
   - financial environment: factors include interest rates, currency rates, and credit availability.
2. Internal factors: these variables are under the bank's jurisdiction and pertain to its internal functioning:
   - financial condition refers to the state of a company's solvency, liquidity, and profitability;
   - bank management: evaluating the efficacy of leadership and risk management techniques [2].

The perspective of Dovgan J. M. emphasizes the microenvironment factors directly impacting the bank's daily operations. This viewpoint highlights the specific aspects within the immediate surroundings that directly affect the bank's day-to-day activities [14]: 1) Asset and liability management refers to the effective management
of a bank's assets and liabilities to achieve profitability and reduce risk. 2) Liquidity refers to the capacity to fulfill immediate financial responsibilities. 3) Profitability: the bank's ability to consistently earn profits that can be maintained over time. 4) Management: the efficiency of the bank's leadership and decision-making procedures [14].

It’s necessary to note that the current frameworks have some constraints. Although these categorizations offer significant perspectives, they may not encompass all possibilities. Certain frameworks, such as Kovalenko's, may fail to include important issues like technology improvements, information security, and organizational structure, which can substantially influence financial stability.

Thus, it is essential to comprehend the many elements that impact the financial stability of a bank. Banks can formulate comprehensive plans to manage risks, ensure stability, and achieve long-term sustainability by taking into account external and internal influences, as well as aspects such as technical improvements and organizational design.

The impact on a bank's financial stability stems from a complex interplay of various factors. Researchers have proposed several classification systems to categorize these factors, offering valuable insights into the multifaceted nature of financial stability.

Efremova N. F. [7] emphasizes the significance of internal factors like: 1) Strategic direction: the content and effectiveness of the bank's overall strategy. 2) Human capital: the level of staff expertise and qualifications. 3) Management effectiveness: the competence and decision-making skills of bank leadership. 4) Capital adequacy: the sufficiency of capital to absorb potential losses.


Kochetkov V.M. [16] proposes a classification encompassing both internal and external factors grouped into four categories: 1) Socio-political situation: political stability, legal framework, and regulatory environment. 2) General economic situation: economic growth, inflation, and unemployment rates. 3) Financial market conditions: interest rates, exchange rates, and access to credit. 4) Internal bank stability: factors under the bank's direct control, as described previously.

Baranovsky O. I. [17] provides a detailed list of factors impacting bank stability, including:
- Asset quality: the risk associated with the bank's lending portfolio.
- Liquidity: the ability to meet short-term financial obligations.
- Capitalization: the level of capital reserves to withstand potential losses.
- External borrowings: the reliance on external sources of funding.
- Refinancing: the ability to manage and renew debt obligations.
- Interest rates: impact on profitability and borrowing costs.
- Credit risk: the risk of loan defaults by borrowers.

The *multi-criteria classification system of* factors influencing the financial stability of a bank will provide a thorough analysis of the internal and external environment of its functioning in the current economic environment and the future, by preventing and identifying threats and responding to them promptly, and will improve the formation of an effective mechanism for managing financial stability in the system of ensuring the bank's competitiveness.

The system allows thorough analysis for a deep dive into both internal (bank-specific) and external (environmental) factors impacting stability. By analyzing both current and potential future threats, the bank can develop proactive strategies. Besides, the system suggests enhanced risk management, i.e., identifying and preventing threats beforehand strengthens the bank's risk management capabilities.

The system facilitates a swift response to any emerging challenges to financial stability. The multi-criteria approach helps create a robust mechanism for managing all aspects of financial stability.

As for the aspect of competitiveness, the bank can enhance its competitive edge in the financial market by ensuring long-term stability and effectively managing risks.

Financial stability is considered the cornerstone of a competitive bank. Financial stability stands as a critical pillar for any bank aiming to be competitive in the modern financial landscape. Not only does it ensure smooth banking operations, but it also lays the groundwork for economic modernization and overall balance. Banks can build and sustain a robust financial stability framework considering the factors:

1. Information base and sustainability indicators, i.e., the foundation lies in establishing a comprehensive information base and a set of sustainability indicators. This empowers the bank to proactively identify risks by monitoring key metrics, the bank can anticipate potential threats and take preventive measures.

2. Continuous analysis and monitoring refers to financial stability that is not a static state; it requires constant vigilance. Ongoing analysis and monitoring of the bank's financial position allow for real-time assessment when regular evaluation helps identify any deviations from the desired financial health. Besides, the bank can adjust its strategies in response to shifting economic conditions.

3. Stress testing and building resilience. Stress testing simulates how the bank would fare under various stressful scenarios. This crucial exercise helps to gauge bank resilience when the bank can assess its capacity to withstand negative economic shocks. By identifying potential weaknesses, the bank can create effective contingency plans to mitigate potential crises.
4. Refining development policy means that based on the insights from analysis, stress testing, and monitoring, the bank can refine its development policy. This entails strengthening financial stability, strategic adjustments are made to fortify the bank's financial health.

For preventing financial crises, proactive measures are implemented to minimize the risk of financial crises. By adopting these methodological approaches, banks can create a robust system for managing financial stability. This, in turn, fosters long-term competitiveness and positions the bank for success in the ever-evolving financial environment.

By employing a multi-criteria classification system, banks can gain a deeper understanding of the various aspects that influence their financial stability. This allows for a more holistic approach to risk management and the development of effective strategies to mitigate threats and ensure long-term sustainability.

**Conclusions.** We can conclude that understanding the diverse internal and external factors impacting financial stability is crucial for banks. By leveraging these classification systems and adopting a multi-criteria approach, banks can effectively manage risks, maintain stability, and achieve sustainable growth.

The research emphasizes the significance of optimal strategic management strategies for balancing risk and return, enhancing asset and liability management, adapting to regulatory frameworks, and embracing innovation. This study contributes to the ongoing scientific investigation of bank financial stability by analyzing the impact of strategic management strategies on resilience to economic shocks, identifying optimal approaches for incorporating financial stability into growth plans, and addressing unresolved issues in the field.

**Prospects for Further Research.** Future research could focus on developing a comprehensive framework that effectively integrates various factors influencing bank financial stability. Researchers could explore the integration of additional factors such as technology improvements, information security, and organizational structure into existing classification systems.

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