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FINANCIAL FLOWS IN THE MECHANISM OF BANK'S FUNCTIONING

Despite the rapid spread of the practice of asset, liability and cash flow management, to date there is no single definition of "financial flow". Almost all existing its interpretation is reasonable because, somehow, reflect different expectations of bank managers and regulatory authorities. However, a variety of definitions of financial flows complicates development of common standards and rules management.

An analysis of publications in economics to determine financial flows, there are two opposing concepts. Under the first approach, financial flows are identified with cash flows. In our view, the term "financial flow" is broader than "cash flow" because financial flow can be both equivalent and non-equivalent. An example of unequal financial flows are the tax payments and dividends. This position followed by representatives of the second concept, so the second approach is based on separate financial and cash flow.

Thus, in our opinion, ***financial flow*** *– the movement, change or transformation volumes, shapes, forms and types of financial resources of the entity based on time factors, risk and liquidity.* This bank financial flows have different nature and can be differentiated by economic meaning, value, structure, and limited in scope and timing. Since financial flow is continuous in time, it is advisable to consider each flow at a certain time interval. After this interval, flow persists and converted from one form to another, changes the direction or divides into separate parts. Financial flow element is determined by two main parameters – value (cost) and time. The absolute value of financial flow element corresponds to the amount of funds that are in motion. Therefore, any banking operation can be represented as a sequence of elements of financial flows.

Bank financial flows have different nature. Therefore, the problem of effective management of financial flows is closely related to the problem of their classification. In our opinion, bank financial flows can be classified according to the following criteria:

- by the economic content: streams of passive and active flow of operations;
- by the direction of travel: the incoming and outgoing;
- by the form of receipt: cash and non-cash;
- by the sphere of circulation: external and internal;
- by the term of existence: the short, medium and long term;
- by monetary components: flows in national and foreign currency;
- by adequacy in terms of volume: excess and deficient flows;
- by continuity of forming: discrete and continuous flows.

Incoming bank financial flows form passive part of bank balance, namely resource base and income from its activities. To incoming bank financial flows belong receipts on correspondent accounts, current and deposit accounts of customers, interest payments and repayment of principal on credit transactions. *Outgoing bank financial flows* form an active part of bank balance, they form its loan and investment portfolios. An example of output streams are payments from the correspondent bank account, payments on behalf of customers, real lending and purchase of securities, interest expense, return of deposits and interbank loans.

Thus, the bank's activities can be represented as a model of incoming and outgoing financial flows. Financial resources in this model, coming to the bank as an input financial flow from the external business environment, during the operation of the bank are transformed from category to category, from one group to another, changing direction and breaking the bank in the macroenvironment in another form. Therefore, financial flows reflect the movement of funds through the prism of transactions made by the bank.

Financial flows can be seen as a system of principles and methods for the development and implementation of management decisions related to the formation, distribution and use of financial resources of the bank. Effective management of bank financial flows provided by implementation of the following principles:

1. *Promptness of the management*. The variability of environmental factors, such as fluctuations of financial markets and regulatory framework, as well as bank internal operating conditions require from bank managers operational management decisions related to the formation and use of financial resources.

2. *Integrity with total management system.* Regardless of the scope of management decision, it directly or indirectly affects the formation of bank financial flows and results of bank operations. Financial flows are closely connected with all other areas of financial management, which creates the need for organic integration of bank financial flow management with other functional systems of the bank.

3. *Information support.* Management decisions in the formation and use of financial resources requires reliable information base. The information system of the bank should ensure constant updating of information, its systematization, analytical processing and timely receipt by the relevant departments.

4. *Ensuring appropriate liquidity level.* Inconsistency incoming and outgoing financial flows by volume and terms, leads to a deficiency or excess liquidity. Implementation of this principle is provided by synchronizing and balancing incoming and outgoing financial flows for each of the analyzed time interval.

5. *Minimizing risks.* Managing financial flows is one of the tools of modern risk management, providing minimization of banking risks through the optimization of financial flows.

Thus, the main purpose of managing incoming and outgoing financial flows should be to minimize the risks in conjunction with the achievement of maximum profitability of operations and ensure the necessary liquidity and financial stability of the bank.

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