

**Grydzhuk D. M.**

*Doctor of Economics, Associate Professor,  
Kyiv National Economic University named after Vadym Hetman, Ukraine;  
e-mail: dgrydzhuk@gmail.com; ORCID ID: 0000-0002-5367-3941*

**Shvets N. R.**

*Doctor of Economics, Professor,  
SHEI «Banking University», Ukraine;  
e-mail: shvetzn@ubs.edu.ua; ORCID ID: 0000-0003-0915-9918*

**INCREASING EFFICIENCY  
OF BANKING ACTIVITY IN UKRAINE  
BY GOVERNING PRICING CENTERS  
OF PROFIT OF THE BANK**

**Abstract.** The article substantiates the need to increase the efficiency of banking activities in the context of transformational processes which take place in the world in general, and in particular in Ukraine. In today's environment, when banking business becomes more risky, the efficiency of bank activity becomes the basis for making management decisions in banking institutions and establishing mutually beneficial relations between banks and their clients.

The author emphasizes the effectiveness of the distribution of banking business to profit centers, which allows to determine the financial result of certain areas of banking business and effectively redistribute bank resources inside the bank. They claim that one of the most risky areas of banking is the purchase and sale of monetary resources, as the financial result of the business and its direct effectiveness depend on the correct pricing of resources. To this end, the article proposes a method for determining the profit centers of the bank and assessing the effectiveness of their activities.

The necessity of using transfer pricing in the conditions of the division of banking business to profit centers to improve the method of determining the financial result from banking activity is also grounded in this research. The principle of conditional purchase and sale of resources is used to determine the financial result of the activity of the profit center of the bank. It is an integral part of the methodology for assessing the activity of related business units in the risk-return system. The essence of this principle is that all resources that are attracted to the bank by one unit are conditionally sold to other units of the bank. The author presents his vision for managing the transfer pricing process in Ukrainian banks, which will positively affect the dynamics of banking business performance indicators. It is shown that transfer pricing systems play a significant role in calculation profitability and effectiveness of profit centers on active and passive operations, which makes it possible to consider transfer pricing as a tool for managing the interest rate risk of a bank. The main terms for constructing resources transfer price are defined: transfer price BID, transfer price offer, stimulation margin.

**Keywords:** bank, banking, profit center, transfer pricing, banking efficiency, bank risks, banking management, stimulating margin, interest rate.

**JEL Classification** G21, G32

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**Гриджук Д. М.**

*доктор економічних наук, доцент,  
Київський національний економічний університет імені Вадима Гетьмана, Україна;  
e-mail: dgrydzhuk@gmail.com; ORCID ID: 0000-0002-5367-3941*

**Швец Н. Р.**

*доктор економічних наук, професор,  
ДВНЗ «Університет банківської справи», Україна;  
e-mail: shvetzn@ubs.edu.ua; ORCID ID: 0000-0003-0915-9918*

## **ПІДВИЩЕННЯ ЕФЕКТИВНОСТІ БАНКІВСЬКОЇ ДІЯЛЬНОСТІ В УКРАЇНІ ШЛЯХОМ УПРАВЛІННЯ ЦІНОУТВОРЕННЯМ ЦЕНТРІВ ПРИБУТКУ БАНКУ**

**Анотація.** Обґрунтовується необхідність підвищення ефективності банківської діяльності в умовах трансформаційних процесів, що відбуваються загалом у світі та в Україні зокрема. У сучасних умовах, коли банківський бізнес стає все ризикованішим, основою ухвалення управлінських рішень у банківських установах і встановлення взаємовигідних відносин між банками та їхніми клієнтами стає ефективність діяльності банку.

Зроблено акцент на ефективності розподілу банківського бізнесу на центри прибутку, що дозволяє визначити фінансовий результат окремих напрямів банківського бізнесу та ефективно перерозподіляти банківські ресурси всередині банку. Вони стверджують, що однією з найбільш ризикових ділянок банківського бізнесу є купівля і продаж грошових ресурсів, оскільки від фахового формування ціни на ресурси залежить фінансовий результат бізнесу і його безпосередня ефективність. Запропоновано методикау визначення центрів прибутку банку та оцінки ефективності їхньої діяльності.

Також обґрунтовується необхідність використання трансфертного ціноутворення в умовах поділу банківського бізнесу на центри прибутку з метою вдосконалення методики визначення фінансового результату від банківської діяльності. Для визначення фінансового результату діяльності центру прибутку банку використовується принцип умовної купівлі і продажу ресурсів. Він є невід'ємним елементом методології оцінки діяльності пов'язаних бізнес-одиниць у системі координат «ризик — дохідність». Сутність цього принципу полягає в тому, що всі ресурси, які залучають до банку одні підрозділи, умовно продають іншим підрозділам банку. Наведено власне бачення на управління процесом трансфертного ціноутворення в банках України, яке позитивно впливатиме на динаміку показників ефективності банківського бізнесу.

**Ключові слова:** банк, банківська діяльність, центр прибутку, трансфертне ціноутворення, ефективність банківської діяльності, банківські ризики, управління банківською діяльністю.

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**Гриджук Д. Н.**

*доктор економічних наук, доцент,*

*Київський національний економічний університет імені Вадима Гетьмана, Україна;*

*e-mail: dgrydzhuk@gmail.com; ORCID ID: 0000-0002-5367-3941*

**Швец Н. Р.**

*доктор економічних наук, професор,*

*ГВУЗ «Університет банківського дела», Україна;*

*e-mail: shvetzn@ubs.edu.ua; ORCID ID: 0000-0003-0915-9918*

## **ПОВЫШЕНИЕ ЭФФЕКТИВНОСТИ БАНКОВСКОЙ ДЕЯТЕЛЬНОСТИ В УКРАИНЕ ПУТЕМ УПРАВЛЕНИЯ ЦЕНООБРАЗОВАНИЕМ ЦЕНТРОВ ПРИБЫЛИ БАНКА**

**Аннотация.** Обосновывается необходимость повышения эффективности банковской деятельности в условиях трансформационных процессов, происходящих в целом в мире и в Украине в частности. В современных условиях, когда банковский бизнес становится все более рискованным, основой принятия управленческих решений в банковских учреждениях и установления взаимовыгодных отношений между банками и их клиентами становится эффективность деятельности банка.

Сделан акцент на эффективности распределения банковского бизнеса на центры прибыли, что позволяет определить финансовый результат отдельных направлений банковского бизнеса и эффективно перераспределять банковские ресурсы внутри банка. Они утверждают, что одной из наиболее рискованных участков банковского бизнеса является покупка и продажа денежных ресурсов, поскольку от верного формирования цены на ресурсы зависят финансовый результат бизнеса и его непосредственная эффективность. С этой целью предложена методика определения центров прибыли банка и оценки эффективности их деятельности.

Также обосновывается необходимость использования трансфертного ценообразования в условиях разделения банковского бизнеса на центры прибыли с целью совершенствования методики определения финансового результата от банковской деятельности. Для определения финансового результата деятельности центра прибыли банка используется принцип условной покупки и продажи ресурсов. Он является неотъемлемым элементом методологии оценки деятельности связанных бизнес-единиц в системе координат «риск — доходность». Суть этого принципа заключается в том, что все ресурсы, привлекаемые в банк одними подразделениями, условно продаются другим подразделениям банка. Подается собственное видение на управление процессом трансфертного ценообразования в банках Украины, которое может положительно повлиять на динамику показателей эффективности банковского бизнеса.

**Ключевые слова:** банк, банковская деятельность, центр прибыли, трансфертное ценообразование, эффективность банковской деятельности, банковские риски, управление деятельностью.

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**Introduction.** In current conditions when banking business gets more and more signs of risk the bank's efficiency becomes the basis for making managerial decisions in banking institutions and establishing strong and mutually beneficial relationships between banks and their clients. Today, when the economic situation in the country and the conditions of functioning of banks are changing, the achievement of their goals and tasks becomes possible mainly due to their financial stability and efficiency of their business.

When banks are mobilizing temporarily free funds in the market, they provide the needs of the economy in working capital, facilitate the transformation of money into capital, provide the needs of the population and business in various loans. The effectiveness of both the banking system as a whole and the Ukrainian economy depends on this, which contributes to the country's economic growth and the improvement of the quality of life of people. Therefore, the development of an effective mechanism of banks' activity is significant for the financial and social stability of our state, its security, and development. At the same time, the impact of digital technologies, changing global trends in banking regulation, and the power of advanced analysts determine innovation in the banking sector. There is a full extension beyond traditional products, services, and channels, as open APIs, artificial intelligence, Internet access, etc. apply. Therefore, the analysis and implementation of the world's innovative practices in improving the efficiency of banking activities are relevant. In this context, the problem of accurate pricing on bank resources is of particular importance, as it serves as a guarantee of the bank's optimal profit, and hence the efficient operation and financial stability of the banking institution.

Some issues of the problems that are mentioned above were studied by Ukrainian scientists such as P. Garmidarov, A. Gerasimovich, T. Kozenkova [1], I. Krasnov, T. Savchenko, O. Sukach, N. Shulga etc. [2] in their works. The field of transfer pricing in banks was also studied in the works of foreign scholars such as J. Coffey, D.Gray. At the same time, the study of these works allows us to conclude that there is a lack of scientific and practical research aimed at optimizing the pricing process in domestic banks to increase the efficiency of their activities in modern realities. That is why we set the goal in the presented methodological and practical work to analyze the existing

methodological basis for establishing prices for bank resources. Especially in the process of shifting them within the bank, and based on this, provide practical recommendations for improving the management of the pricing process in domestic banking institutions in those socially-economic conditions prevailing in Ukraine today.

**Presentation of the primary research material.** One of the most hazardous areas of the banking business is the purchase and sale of cash resources, since the financial result of the market and its direct efficiency depends on the correct formation of the price of funds. With this purpose, the authors proposed a method for determining the centers of profit of the bank and assessing the effectiveness of their activities. Two criteria are used to select the profit centers: the business direction and the type of financial risk from the transaction.

As a result of the application of these criteria, we select the center of administrative responsibility (or service centers), that provide the functioning of other units. That is, they carry out legal, accounting, methodological, informational, logistical support of other centers; Center for operational support of business (or processing centers) , that provide technical support for banking products and profit centers that are directly involved in the sale of banking products and services and management of the resource base (this method received a certificate of copyright No. 77176 dated February 27, 2018, issued by the Ministry of Economic Development and Trade of Ukraine).

All types of income and expenses are calculated to assess the financial performance of the Bank's profit center with each transfer of resources determined its transfer price for hryvnia and foreign exchange resources. Transfer prices are set by the asset management and liability management committee for a certain period and may vary depending on the fluctuation in the level of interest rates on the market. The financial result of the activity of the profit center is determined to take into account all income and expenses of the profit center.

The results of the activity of the centers allow determining the financial responsibility of each profit center for its share of the financial result. This result is the basis for the assessment, analysis, planning, control and management of the efficiency and risk of the bank, which in turn provides management with timely and complete information for the adoption of strategic, tactical and operational management decisions.

The principle of conditional purchase and sale of resources is used to determine the financial performance of the Bank's profit center. It is an integral part of the methodology for assessing the activities of related business units in the «risk-return» coordinate system. The essence of this principle lies in the fact that all resources, which are attracted to the bank by some units, are conditionally sold to other groups of the bank. A conditional fee is charged to the units that have drawn all the resources involved. Also, for all the allocated funds to the units that have placed them, there are qualified expenses for the use of these resources. Conditional fee and costs are charged on so-called transfer prices (or rates) that reflect the market situation, the reserve norm, etc. This mechanism allows you to enter incomes and expenses for each center (direct or conditional), which will enable you to determine the final financial result of its activities [3].

The transfer fund methodology is based on the principle of distribution of assets and liabilities between the centers of financial responsibility. That is, for each center of fiscal responsibility, a balance of assets and liabilities is compiled in terms of national and foreign currencies [4]. Note that the calculation of the net interest margin for active and passive operations in each of the centers of profit due to transfer pricing allows you to determine the effect of banking operations correctly. Such calculation contributes to the immutability of the transfer price over a specified period (except for floating rates, when the transfer price is reviewed every time).

An advanced transfer pricing technique in the bank, previously proposed by one of the authors, is based on the concept of transfer pricing of bank resources and capital cost at risk. In our opinion, the transfer price of bank resources is the internal cost of transferable assets sold and purchased by the centers of financial responsibility of the banking institution. Bank's risk capital (economic capital) is a part of the bank's equity, which it may lose as a result of the implementation of bank risk factors [5].

The transfer price is determined based on the actual cost of resources at the time when they are engaged in the center of financial responsibility. Parameters needed to calculate the transfer price are the volume of resources involved, currency, cost, and time. Also, the internal cost of transferable funds (transfer price) includes the value added in the form of a premium for risk (credit, interest, liquidity, etc.); regulatory costs (deductions to the mandatory reserve fund, the Guarantee Fund for individuals' deposits, etc.). Using a transfer pricing method by commercial banks will enable you to manage bank risks (liquidity, interest, and currency risks) with given profitability, that is, to manage both risk and cost-effectiveness [6]. Thus, the establishment of a transfer price, which involves transfer funds, will ensure the interest of financial responsibility centers in the balanced allocation of their assets to their resources to obtain a specified interest rate (interest spread, margin) that affects their efficiency. In turn, the establishment of a transfer price for allocated transfer funds will increase the interest of financial responsibility centers in obtaining transfer income, which simultaneously will contribute to improving the volume of attracted resources and liquidity of the bank as a whole [7].

We will emphasize that the system of transfer pricing enables to evaluate the efficiency of formation, distribution of interest margins, and ensure management of interest rate risk of the bank. [8] Note that interest risk is a probability of financial loss due to a change in the dynamics of market interest rates on assets and liabilities over a certain period, which affects the profitability and financial stability of the bank [9].

Fig. 1 shows the scheme of different types of interest rate in the conditions of the transfer pricing of a commercial bank.

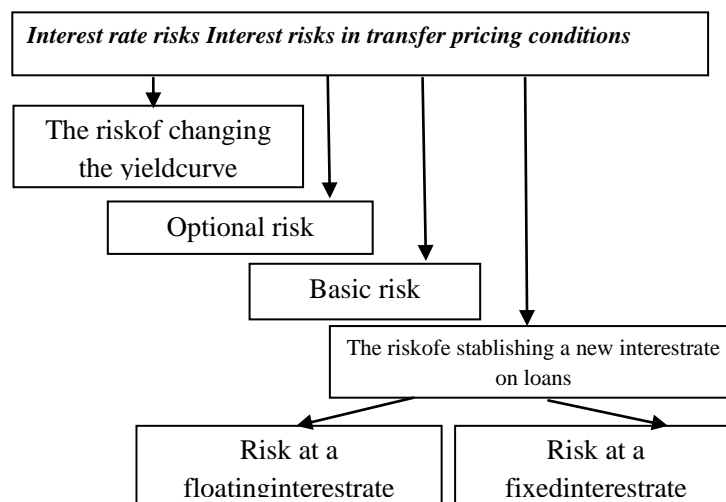


Fig. 1. Distribution of types of interest risk under transfer pricing conditions  
Source: developed by the author.

The methodological aspects of the effectiveness of managing the interest rate risk of the bank are closely linked to the issues of its organizational structure, which should outline the stages of passing information from the bottom levels of the bank to the governing bodies, and in the opposite direction. In this context, the paper proposes the organizational structure of the bank, consisting of liability centers and their units in a commercial bank, which is crucial for the effective management of interest risk of the bank as a whole. It should be noted that the search for optimal methods for measuring and minimizing interest risks taking into account organizational aspects is presented in the work of one of the authors of the article [10].

Fig. 2 shows the structural pattern of the emergence of interest rate risk under transfer pricing conditions.

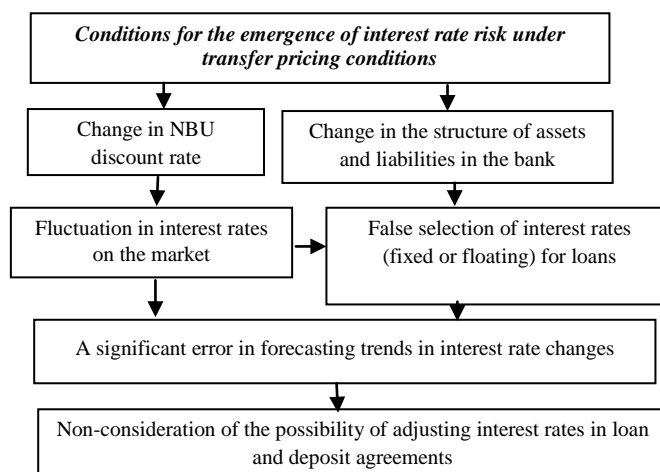


Fig. 2. The sequence of conditions for the emergence of interest rate risk under transfer pricing conditions

Source: developed by the author based on [11].

Transfer pricing systems play a significant role in calculating the profitability and efficiency of the Bank's profit center in transactions with assets and liabilities. The analysis of break-even is applied in these systems.

Fig. 3 shows the logical-structural scheme of the process of modeling interest rates in the profit centers of a commercial bank

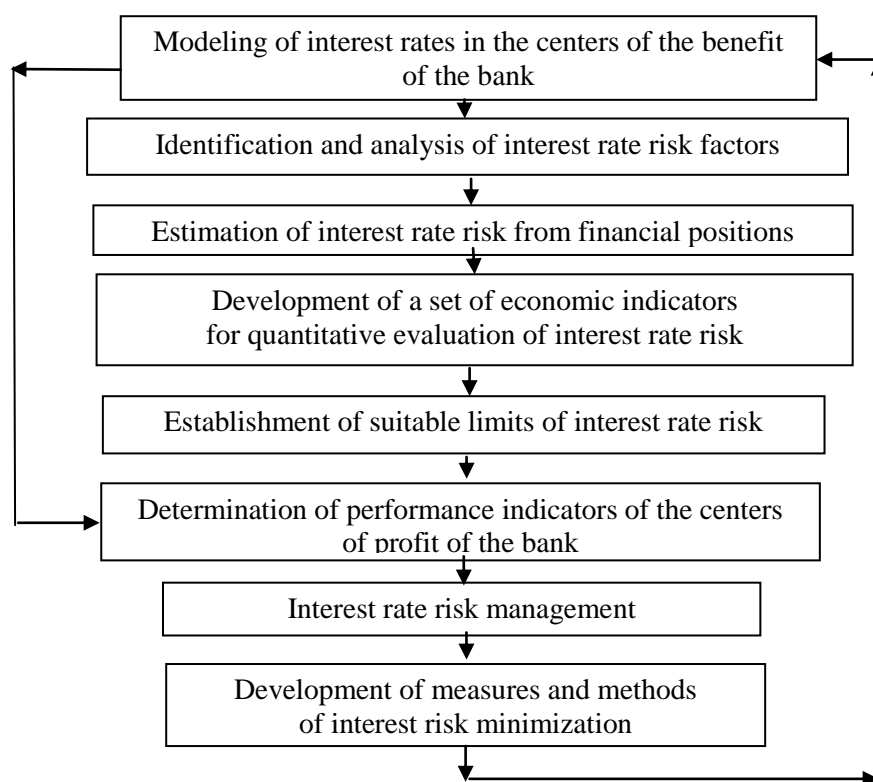


Fig. 3. Scheme of interest rate risk modeling in bank profit centers

Source: developed by the author based on [12—14].

Note that the process of modeling interest rates in the profit centers of a commercial bank relies on market rates, which are indicators of the cost of financial resources. This process allows them to take into account trends in their dynamics, which is an essential factor in the process of managing interest rate risk. The most often used market indicators for short-term liabilities and assets are interbank rates, refinancing rates, and NBU discount rate.

The mechanism for allocating the interest margin using the transfer pricing system is presented in Fig. 4. The D.O. and A.S. curves reflect the actual weighted average yield of the bank's interest assets

and the actual weighted average interest expense of the bank. Curves B.R. and C.P. reflect the value of the transfer pricing of Treasury sales to the responsible centers that have attracted them and the purchase of resources from the Treasury by the liability centers engaged in active operations [15].

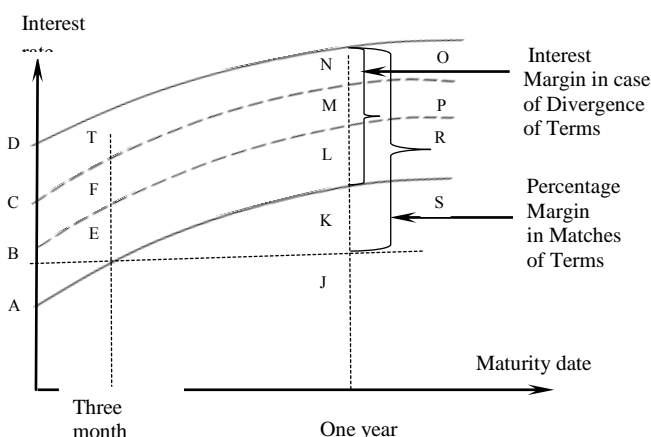


Fig. 4. Distribution of interest margin using transfer prices

Source: [15; 16].

When constructing these curves, the assumption is that there is a direct relationship between the term assets (liabilities) and the size of the actual (transfer) interest rate. Assume that in the time horizon for one year, there is a complete overlap between the number of interest obligations involved and working assets. In this case, the actual interest margin on interest transactions with a maturity of 1 year will be the size of the N.K. This margin through transfer pricing will be distributed among the liability centers: N.M. receives the active operations department, the L.K. is the department that attracted the resources, and the M.L. is the Treasury of the Bank for risk management. Even in case of coincidence in time horizons, the Treasury manages liquidity risk, which manifests itself in the possibility of early termination of transactions, as well as an interest rate risk [16].

Let us define the main conceptual categories for building the transfer price of resources:

1. Transfer price BID is the interest rate at which the profitability management of a bank buys supplies at profit centers.
2. Transfer price OFFER is the interest rate at which a bank's profitability management sells resources to profit centers to finance their assets.
3. Incentive Margin is a rate that is set separately for each type of asset (asset) by time group and each currency to financially enhance the interest of profit centers in attracting resources with priority terms.
4. Particular bank product management revenue is a deposit for which special conditions for raising funds for further placement in the financial markets of the treasury of the bank are set.
5. Time group — a specified period for which an obligation is engaged or an asset is placed.

We emphasize that for creating a system of transfer prices, it is necessary to construct a model of the balance of the bank. Such order may form of macro-balance sheet items of assets and liabilities, allocating 3 macro-groups of debts (declarative-zero, declarative-settlement, settlement) and, accordingly, similar 3 macro-groups of assets, with transfer prices (set in percent per annum) that are generally determined by the bank's system in the following currencies: Ukrainian hryvnia, US dollar, euro, other currencies.

Table 1 shows liabilities grouped into a declarative-zero macrogroup and its corresponding BID1 rate, which involves the conditional purchase of resources from affiliates and businesses.

Table 1

The declarative-zero macro group and its corresponding bid BID1

Liabilities grouped into macrogroups	Determination procedure
Reserves	0 %
Currency position	0 %

Source: developed by the author.

Table 2 lists the responsibilities grouped into the declarative-settlement macro group and the corresponding BID2 bid for which the conditional purchase of resources from branches and businesses is performed. «MSM» terms mean «stimulating margin».

Table 2

Declared-calculated macro group and its corresponding bid BID2

<b>Liabilities grouped into macro groups</b>	<b>Determination procedure</b>
Payables	to the requirement
Accrued expenses	to the condition
Registered authorized capital of the bank	The level of payment for dividends (at least 25% of net profit for the current year) and the actual approved money plus MSM.
Positive financial result for the month preceding the reporting period	The average rate for the previous month for active operations in general on the bank
Other liabilities	to the condition

Source: developed by the author.

Table 3 lists liabilities that are grouped into a calculated macro group and its corresponding BID3 bid, which involves the conditional purchase of resources from affiliates and businesses.

Table 3

Estimated macro group and its corresponding bid BID 3

<b>Liabilities grouped into macrogroups</b>	<b>Determination procedure</b>
Short-term MBC (including NBU)	The agreement plus MSM
Long-term MBC (including NBU)	The agreement plus MSM
Funds from other financial institutions	The decision of the Management Board or the Assets and Liabilities Management Committee (ALCO) plus MSM
Long-term loans received from SMI	At the% level indicated in loan repayment agreements
Term deposits of legal entities, individuals and budgets	The decision of the Management Board or the Assets and Liabilities Management Committee (ALCO) plus MSM
Means for the demand of the second banks	Resolution of the Management Board or the Assets and Liabilities Management Committee (ALCO) plus MSM
Current budget funds	The deal plus MSM
Securities of own debt (including bonds, certificates)	The cost of a term deposit for the relevant period to the term of the off error for the time specified in the contract plus MSM
A subordinated debt of the bank	The deal plus MSM
Funds on current accounts of legal entities	- at the cost of the bank in general plus MSM - at the level of the actual price, but not more than the maximum percentage at the active individual rates for this type of liability plus MSM the price is set at the level that is approved by the ALCO
Funds on current accounts of individuals	The decision of the Management Board or the Assets and Liabilities Management Committee (ALCO) plus MSM Min% for time deposits of legal entities up to one year

Source: developed by the author.

Let us consider transfer pricing for resource allocation — OFFER.

Table 4 shows the assets grouped into a declarative-zero macro group, and the corresponding OFFER1 rate for which the conditional sale of resources from affiliates and businesses is performed.

Table 4

The declarative-zero macro group and its corresponding rate OFFER1

<b>Assets grouped in macro groups</b>	<b>Determination procedure</b>
Long-term deposits, fixed assets, and intangible assets	0 %
Accrued income for youth loans	0 %
Currency position	0 %
Funds in the NBU	0 %

Source: developed by the author.

Table 5 presents assets grouped in the declarative-payment macro group and the corresponding OFFER2 rate for which the conditional sale of resources from affiliates and businesses is carried out.

Table 5

Declared-calculation macro group and its corresponding bid OFFER2

<b>Assets grouped in macro groups</b>	<b>Determination procedure</b>
Accrued income	The average rate for the previous month for active operations in total on the bank (except for accrued income on government bonds and corporate bonds - 0%)
Cash	At the level of cost of resources «to the requirement» in the previous month. Transfer price OFFER for cash balances over the limit, approved by the ALCO — at the level of the average rate for the last month for active operations in total on the bank
Bank metals	At the level of charge of funds «to the requirement» in the previous month
Accounts receivable up to 31 days	At the level of cost of resources «to the requirement» in the previous month
Accounts receivable over 31 days	Fee for the asset for which the receivables arose
Negative financial result for the month preceding the reporting period	The average rate for the previous month for active operations in general on the bank
Non-current assets held for sale	Board decision
Other assets	to the requirement

Source: developed by the author.

At the same time, it should be noted that the transfer price of allocating resources. OFFER takes into account the transfer value of resources, which was formed in the bank as a whole, and the ownership of the asset to a particular macro group (Table 1—5).

Table 6 shows assets grouped into a calculated macro group and its corresponding OFFER3 rate, which involves the conditional sale of resources from affiliates and businesses.

Table 6

Estimated macro group and its corresponding bid OFFER3

<b>Assets grouped in macro groups</b>	<b>Determination procedure</b>
Short-term MBC (including NBU)	The agreement is minus MSM
Long-term MBC (including NBU)	The agreement is minus MSM
Treasury and other securities, which are refinanced by the NBU	The agreement is minus MSM
Money in other banks	The agreement is minus MSM
Loans to customers: individuals	
retail lending, conditions for which are defined by standards	The interest rate on a loan of a legal entity for the relevant term, approved by the Management Board or ALCO minus MSM
retail lending using payment cards	The decision of the Board or ALCO minus MSM
credit for consumer needs and other types of lending	The decision of the Board or ALCO minus MSM
mortgage loans that are not refinanced by SMI	At% level of return on the investment
mortgage loans refinanced by SMI	At the% level indicated in loan repayment agreements
Mortgage lending by the Decrees of the Management Board: dated May 15, 2006, No. 709, dated 30.09.06, No. 1499, dated 17.11.06 No. 2061 (as amended)	At the level of profitability on loan, approved by the Management Board Minus MSM
mortgage lending	The decision of the Board or ALCO minus MSM
youth lending	NBU discount rate at the time of calculation plus 5.5% per annum

Source: developed by the author.

Table 7 shows assets grouped in the calculated macro group and the corresponding OFFER4 rate for which the sale of resources from affiliates and businesses is performed.

Estimated macro group and its corresponding OFFER4 rate

Assets grouped in macro groups	Determination procedure
Loans to customers: legal entities:	
overnight	The choice of the Board or ALCO minus MSM
up to 3, 6, nine months, up to 1 year, more than a year (i.e., through lending to support small and medium businesses)	The choice of the Board or ALCO minus MSM
other types of loans	The choice of the Board or ALCO
Loans to customers: overdue loans	
Shares and other non-fixed income securities	The decision of the Board or ALCO minus MSM
Others	The decision of the Board or ALCO minus MSM

Source: developed by the author.

Summarizing the above, one can conclude that to make the most efficient use of resources in the bank, it is necessary to apply a pricing mechanism in which all who use the funds should pay for the right to use them to those who use these resources. This pricing mechanism determines the level of the rate at which one unit of the financial institution pays for funds attracted by others.

Thus, transfer pricing is a critical element of the management accounting system. Since its introduction, the bank receives an objective method of distribution of interest margins for all transactions. Only through such a mechanism, we can make substantiated conclusions about the results of the units, product profitability and profitability of customers, since it is possible to take into account not only the direct revenues and costs but also the cost of attracting and allocating financial resources [17].

With the help of transfer pricing, the bank can determine the contribution of individual business areas, such as different types of resources (deposits, promissory notes) and their various forms of placement (loans, interbank loans, securities) in the performance of the bank. This mechanism also helps to assess the effectiveness of the work of the branches and other segregated divisions of the bank [3]. Transfer prices serve as relative rates for the calculation of interest income from individual transactions, products, market segments, or bank divisions. They also allow you to transfer liquidity and interest rates from the functional units of the bank to the treasury.

**Conclusions.** Thus, transfer pricing is a system for evaluating the internal cost of resources in the order of the bank, according to which operations are carried out on the use of resources through their purchase-sale between the treasury and profit centers [17].

In our opinion, using the transfer pricing models, the rates on the interbank market could be the best market benchmark for Ukrainian banks. But Ukrainian banking institutions often use the weighted average price of attraction of their resources. Also, the complexity of taking on the basic rates of the interbank market is due to the absence of standards for long-term funds. Instead, domestic banks use several approaches to organizing transfer pricing. The first is based on the definition of deficits and liquidity surpluses in the profit centers of the bank and the creation of a centralized fund of funds that allows redistribution of excess free resources. The simplest solution for this system is the use of a single transfer price, but this is not an effective management mechanism since transfer prices apply only to the net balances of the bank's profit centers, which limits the effect of the transfer price.

Other systems use several sources of funds, grouping them according to maturity and setting prices depending on these terms. Before transferring funds from a bank's unit to a centralized fund, a net is determined between its assets and liabilities. Therefore, all assets and liabilities do not pass through a central fund of funds, which determines the limited transfer prices [8].

In our opinion, a more active management approach requires a different system in which the treasury buys all resources and sets the price for all their placement for the bank's divisions. Assets and liabilities are entirely carried through the centralized fund of funds, which is the Treasury. Such a system creates a domestic market of resources with internal prices. After the transfer of funds

within the bank, the Treasury decides on placing its total surplus on the foreign exchange or financing the overall deficit at the expense of external borrowings [3].

Such a system is an effective management mechanism since transfer pricing affects all attracted and allocated resources of the bank. Moreover, the decision-making process, pricing for customers, and the commercial policy of the profit center of the bank are becoming too dependent on transfer prices. When decreasing, they may promote the development of certain groups of products or market segments, while when increasing, on the contrary, may cause the termination of their development. It depends on the bank's business strategies. Due to this construction, the transfer pricing system becomes a powerful tool for influencing the financial policy of all business centers of the bank.

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