Abstract
The financial institutions are faced with both the specific risks arising from activities conducted on the financial market and common risk for all businesses and individuals. In the current financial markets we see the increasing use of derivative products (swaps, futures, options). Given this, the paper treats the bank risk management, focusing on market risk management. In order to determine the correct capital requirements for market risk is taken into account banking book and trading book. Bank managers must know the appropriate tools to accurately assess risk and to take the best decisions in order to increase the bank's income from investments, while maintaining an acceptable level of risk and low cost of attracted resources.

1. The global financial situation
Traditionally, banking and financial institutions have considered that the financial risk is reduced to an efficient management of credit risk. This is not consistent with the current banking system, characterized by complexity and volatility. The risk department of a bank must include a global vision, with all risks that affect the bank, not just credit risk. The financial crisis which started in 2007, has affected the economies first, but starting with Lehman bankruptcy, has been extended to countries in Central and Eastern Europe. Confidence in financial markets fell sharply between the various participants which led to higher risk premiums applied to transactions, and then reflected in prices. Lack of confidence also affected, the mechanism of transfer of liquidity, the cash holding are not interested in placing this liquidity.
In this context the intervention of central banks focused on getting a thawing financial markets by taking measures such as:
- reduced rates of intervention for relaxation of financial policies;
- extended eligibility of the guarantees for loan;
- increased the system liquidity through market operations.
In parallel with the efforts of the central banks, the governments need to take additional measures to cut taxes, increase government investment and stimulate consumption.
In a global frame of financial crisis, increasing the taxes should be used sparingly, in certain periods, because this operation can become ineffective if not accompanied by a reform of public spending. In this case, the economic decrease can be stronger, due to decreasing of consumption and discouraging of the investments.
2. Market Risk Management
A financial institution is confronted with specific risks arising from financial market activities and common risks for all businesses and individuals.

In the current financial markets there is a growing use of derivative products (swaps, futures, options) and therefore stands growing importance that assumes market risk management. Many assets of the banks are not liquid, such as loans, which determine banks to expose to the market risk to obtain profit. The most important source of market risk is the volatility of asset prices kept in trading and investment portfolios. Volatility problem arises not only for new or illiquid markets but also in mature markets.

The factors that cause market risk are:
- systematic and specific market risks;
- primary directional risks and secondary risks;
- volatilities and correlations.

In this context, to achieve as realistic estimates of future values of these factors, it is necessary to choose the most appropriate models to describe these uncertainties.

The most important method of managing market risk is value at risk technique VaR (Value at Risk). Banks must estimate the maximum level of market losses without exceeding a probability greater than 1% of a static portfolio of trading the next 10 days. This number is then tested (back test) to meet minimum capital requirements for market risk, under Basel II. Capital requirements for market risk requirements are gathered for other types of risk resulting in minimum regulatory capital MRC [6]. Each bank can choose parameters that best fit their own internal purposes.

It is very important for the banks to make difference between banking book portfolio and trading book portfolio, in the context of correct determination of capital requirements for market risk. Banking book portfolio refers to all assets of the bank and off-balance sheet positions that are not listed as trading book positions. Trading book portfolio refers to the sum of positions of financial instruments and assets held by the bank for insurance purposes to hedge other elements of the trading book or for trading.

3. Market risk management for banking book portfolio
Market risk management for banking book is managing assets and liabilities, in order to attract new funding in the financial market.
The management activity for the banking book is developed in two directions: liquidity management and interest rate management.
For proper management of bank liquidity may use such a strategy gap. GAP analysis to achieve all assets and liabilities are grouped into two categories: - assets / liabilities sensitive to changes in market interest rates; - active / passive insensitive to changes in market interest rates.

It shall draw up a timetable, depending on the time remaining until maturity, which will be distributed based on assets and liabilities. Maturity value will be given the actual balance of that element in that period. A negative liquidity gap means lack of resources related to investments within a period [3]. It also required the bank to prepare a management plan liquidity crisis.

In the gap analysis will not take into account that part of the assets and liabilities that are indexed to a floating rate, but only those that are indexed at a fixed rate throughout the period. The sensitivity value (assets - liabilities) shows the influence of achievement or failure of a coating when interest rates change by 1% resulting in a surplus not distributed, favoring a gain or an unfunded deficit, which imply a loss.

4. Market risk management for trading book portfolio
Due to the fact that in Romania there are no quotes in the money market, the reference rates published by the NBR (BUBOR, BUBID) and some bonds traded on the interbank market are used to determine the the yield curve for RON.
RON exchange rates and foreign currencies exchange rates are determined from the BNR exchange rates quoted by the day reassessment. Forward rates are calculated based on yield curves, obtained by Reuters collection system yields for public bonds and the coupon 0 exchange rates used in the review. The methods used to evaluate trading positions are:
- marking to market, using market prices to determine temporary profit or loss of operation;
- marking to model, based on theoretical price (marking to model strategy is used when it can not be used marking to market).

5. Weaknesses of market risk management
Although Basel II regulations were designed to streamline the management and risk control and to ensure appropriate allocation of capital of a bank, actually these regulations implement the provisions of this agreement could not prevent financial crisis from 2007-2008. European banks have started to implement Basel II in 2008 and Japanese banks have already applied the rules of the agreement in 2007. Among the main disadvantages of Basel II regulations include the following:
- occurrence of inadequate provisioning situations following a pro-cyclical evolution of volatile capital;
- inadequate development of internal risk measurement systems due to an inhomogeneous application of Basel II regulations in the world or even within the same financial markets, which lead to different risk weights for identical assets.
Basel Committee for Banking Supervision issued in January 2009 a package of consultative documents to strengthen the original agreement [1].

Table 1: Measures to strengthen the Basel agreements

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6. Conclusions
One of the main objectives of the management of bank assets and liabilities is to increase the bank's income from investments, while maintaining an acceptable level of risk and a low cost of attracted resources. Analysis of bank risk-based, should include in addition to quantitative and qualitative factors, such as the effectiveness of internal controls, management quality and accuracy of management information systems. Ability to anticipate and to manage the risks of banking and financial institutions enable them to take advantage of opportunities, to meet customer requirements and produce return for the shareholders, in a financial frame in continuous change

References:

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