

Kyiv National University of Trade and Economics

Banking department

FINAL QUALIFYING PAPER

on the topic:

The formation strategy for financial institution securities portfolio

Student of the 2nd year, group 5am,
specialty 072 «Finance, banking and
insurance»
specialization «Financial
intermediation»

Kovalenko Maksym

(student's signature)

Scientific adviser
PhD in Economics,
Associate Professor

*(signature of a
scientific adviser)*

Serazhym Y.V.

Manager of the educational program
PhD in Economics,
Associate Professor

*(signature of the
Manager of the
educational program)*

Avanesova I.A.

Kyiv, 2020

Kyiv National University of Trade and Economics

Faculty of Finance and Accounting
Department of Banking
Specialty 072 Finance, Banking and Insurance
Specialization Financial Intermediation

Approved by
Head of the Department of Banking
Nataliia P. Shulha,
Doctor of Sciences in Economics, Professor
on _____, ____, 20__

Task for a final qualifying paper

Kovalenko Maksym
(student's last name, first name)

1. Topic of a final qualifying paper

The formation strategy for financial institution securities portfolio

Approved by the Rector's order from November 15 2019, No. 3893.

2. Term of submitting by a student his/her terminated paper (project) to 20.11.2020

3. Initial data of the final qualifying paper (project)

Purpose of the paper (project) is to study the theoretical, methodological and practical principles of investment management strategy as for securities of banking institution, assess the success of investment activities and develop a set of measures aimed at improving the bank's portfolio investment.

Object of the research is the economic relations of the investment process of the bank and the development and implementation of an effective portfolio investment strategy.

Subject of the research of research is the mechanism of portfolio investment of a banking institution in order to ensure its effective functioning.

4. Consultants of the research and titles of subsections which were consulted:

Section	Consultant (last name and initials)	Date and signature	
		The task given	The task fulfilled

5. Contents of a final qualifying paper (list of all the sections and subsections)

INTRODUCTION

SECTION 1. THEORETICAL FUNDAMENTALS OF PORTFOLIO INVESTMENT

SECTION 2. PRACTICAL PRINCIPLES OF PORTAL INVESTMENT OF JSC CB

«FUIB» («PUMB»)

2.1. Organizational and economic characteristics of the studied banking institution

2.2. Analytics of the investment sphere of operation of JSC CB «FUIB» («PUMB»)

2.3. Research of portfolio investment of the commercial Bank under study

SECTION 3. SECURITIES PORTFOLIO MANAGEMENT IN FINANCIAL

INSTITUTION

3.1. The process of managing securities portfolio of a financial institution

3.2. Forms of securities management of a financial institution

3.3. Optimization of the securities portfolio of a financial institution

CONCLUSIONS AND RECOMMENDATIONS

REFERENCES

APPENDIX

6. Time schedule of the paper

No.	Stages of a final qualifying paper	Terms of a final qualifying paper	
		de jure	de facto
1	2	3	4
1.	Approval of the Task of the FQP (Ukrainian)	23.12.2019	
	Approval of the Task of the FQP (English)	03.02.3020	
2.	Submission of an article to the Banking department (English), paper and electronic versions	30.03.2020	
3.	Part I. List of sources used (references)	27.04.2020	
4.	Production (diploma) practice, review (Ukraine)	11.05.-19.06.2020	
5.	Part II. List of sources used (references)	22.06.2020	
6.	Part III, Introduction, Conclusions, References	05.10.2020	
7.	Submission of the FQP to the Banking department (all Parts, appendices), resume of a scientific adviser	26.10.2020	
8.	Preliminary FQP' protection at the Banking department, review (KNUTE, Ukraine), review (KNUTE, English)	09.11.2020	
9.	Submission of completed (intertwined) the FQP to the Banking department, supporting documents (summary, supporting data, three reviews)	23.11.2020	
10.	Public FQP' protection in the examination commission		

7. Date of receiving the task _____, _____, 20_____.

8. Scientific adviser of the final qualifying paper

_____ (last name, initials, signature)

9. Head of the project team

(Manager of the educational program) Iryna A.AvanesoVA, PhD in Economics,
Associate Professor of the Department of Banking

_____ (last name, initials, signature)

10. The task received by the student

_____ (last name, initials, signature)

11. Resume of a scientific adviser of a final qualifying paper

The final qualifying work is devoted to the study of theoretical, practical and methodological aspects of the development of the strategy of forming a portfolio of securities of a financial institution.

The work is mainly theoretical in nature, in particular there is no direct analysis in 2 sections, most of the graphic material, which is based on the analysis, is included in the Appendices.

The work can be admitted to the defense and deserves a positive assessment.

Scientific adviser of a final qualifying paper _____

(last name, initials, signature)

Note about preliminary paper defence _____

(last name, initials, signature)

12. Resume about a final qualifying paper

A final qualifying paper of the student _____

(last name, initials)

can be admitted to defence in the Examination Board.

Head of the project team

(Manager of the educational program) Iryna A. Avanesova _____

(last name, initials, signature)

Head of the Department Nataliia P. Shulha _____

(last name, initials, signature)

_____. _____. 2020.

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INTRODUCTION

Relevance of the topic. Key characteristic feature on improvement of the bank's activities is the expansion of vectors of its operations, among which the investment sector bears quite an important function.

The investment activity of the institutions of the banking system plays an important role both for the economic development of the state in the whole and for its own activity in particular.

Within the economic development of the state, the role of the investment sphere of banking institutions is determined by the mobilization of capital of the population and economic entities, as well as its placement into effective activities, stimulating the expansion of the real sector of the economy and living standards in general.

Effective investment activity of banking institutions is determined only by the optimally chosen investment policy and investment strategy. Therefore, we may determine that investigation and improvement of portfolio investment in the field of commercial banks, which in its turn contributes to the activation and success of the investment sector, is extremely important aspect of economic development in the whole.

Analysis of recent research and publications. The following foreign scientists have made a significant contribution into the field of banking and investment: Abramov R. I., Lviv D. S., McConnell K., Reed E., Rostow V., Rose P. S., Usoskin V. M., Fabrichnov S. A. and others.

Domestic scientists have also made a great contribution into the theory of portfolio investment in the field of banking and investment activities. B. V. Gubskiy, V. Kirichenko O. A., Lysytsky V. I., Makogon Y. V., Moroz A. M, Plotnikova O. V., Rogach O. I., Savluk M. I., Yushchenko V. A. and many others.

However, it should be noted that in domestic economics there is no profoundly researched and determined optimal method of choosing an investment strategy and building an investment portfolio, taking into account the peculiarities of the national economy.

The purpose of the work is to study the theoretical, methodological and practical principles of investment management strategy as for securities of banking institution, assess the success of investment activities and develop a set of measures aimed at improving the bank's portfolio investment.

The object of the study is the economic relations of the investment process of the bank and the development and implementation of an effective portfolio investment strategy.

The subject of research is the mechanism of portfolio investment of a banking institution in order to ensure its effective functioning.

According to the set goal the following tasks are defined:

- 1) study of the essence and types of investment activities and investment policy of banking institutions;
- 2) definition of the essence and types of portfolio investment of banks;
- 3) analysis of the portfolio investment strategy, its content, types and stages of development;
- 4) organizational and economic characteristics of the studied banking institution;
- 5) analytical research of investment activity of the Joint Stock Company Commercial Bank “FIRST UKRAINIAN INTERNATIONAL BANK” (hereinafter – the Bank);
- 6) analysis of portfolio investment strategies of the studied bank;
- 7) development of the ways to increase the level of success of investment activities of JSC CB "FUIB" (“PUMB”) – the Bank, and searching for the ways of the optimal strategy and model of portfolio investment;
- 8) study of the process of managing the securities portfolio of a financial institution;
- 9) characteristics of the management forms of the securities portfolio of the financial institution.

Information base: the theoretical foundation of the study are the monographic materials; domestic and foreign publications in the field of banking; analytical, methodical materials for assessing the effectiveness of credit policy.

Research methods:

- 1) abstract-logical and analytical-comparative methods;
- 2) graphic methods;
- 3) comparative and structural analysis;
- 4) methods of system analysis.

Information base of the research: laws and regulations on the regulation of credit activities of banks; official data of the National Bank of Ukraine; analytical reviews of rating agencies Standard & Poor's, IBI-Rating, Credit-Rating; recommendations of the Basel Committee, financial statements of banks; monographic research and scientific publications on the researched problem.

Approbation of research results. The results of scientific research became the basis for a report at a scientific conference "Modern aspects of science modernization in Ukraine: state, problem, development tendencies" (Madrid Spain, December 7, 2020) on "The formation of investment portfolio of banks".

Publications. Some results of the study were reflected in a scientific article: Kovalenko M. The formation of investment portfolio of banks: theoretical principles. *Business processes in credit and financial institutions: Coll. Science. Art. stud. full-time and part-time study / resp. ed. N.P. Shulga.* - Kyiv: Kyiv. nat. auction. - econ. University, 2020. - 426 p.

Structure of the work: introduction, 3 sections, 5 subsections, conclusions, references; includes 13 tables, 21 figures, 14 appendix.

SECTION 1

THEORETICAL FUNDAMENTALS OF PORTFOLIO INVESTMENT

The investment activity of a commercial bank is the practical functioning of the bank in relation to the implementation of investments of various kinds in order to obtain profit, positive social result, maintaining appropriate level of solvency or goals of some other kind.

The purpose of the bank's investment activities is to preserve its own resources, diversify the bank's own assets in terms of various investment objects to reduce the risk of probable loss of resources or profits from them to reduce the risk of possible loss of capital or income, profitability and liquidity [8].

According to B. L. Lutsiv, there are two sides of the investment sector of a commercial bank: 1) the first is the investment branch of the bank's operation, which is focused on increasing level of the bank's income; 2) the second is the investment sphere of activity for improvement of the state of economy, focused on maintaining the continuity of renewal of fixed assets and, therefore on social reproduction in general.

Investment activity is implemented on the basis of several basic reasons: 1) development of profitable and beneficial customer base; 2) banks' investments provision with the maximum degree of profitability, liquidity and solvency; 3) high level of riskiness of crediting operations and the desire to form a rational structure of income taxation of the banking institution [11].

The conducted research of scientific works allows to summarize that in economic science the list of key directions for functioning of bank on the investment market has been defined (fig. 1.1).

Figure 1.1 shows that the basic vectors of the investment sector of the banking institution are classified into two groups: 1) investment activity of a commercial bank; 2) investment services of a banking institution.

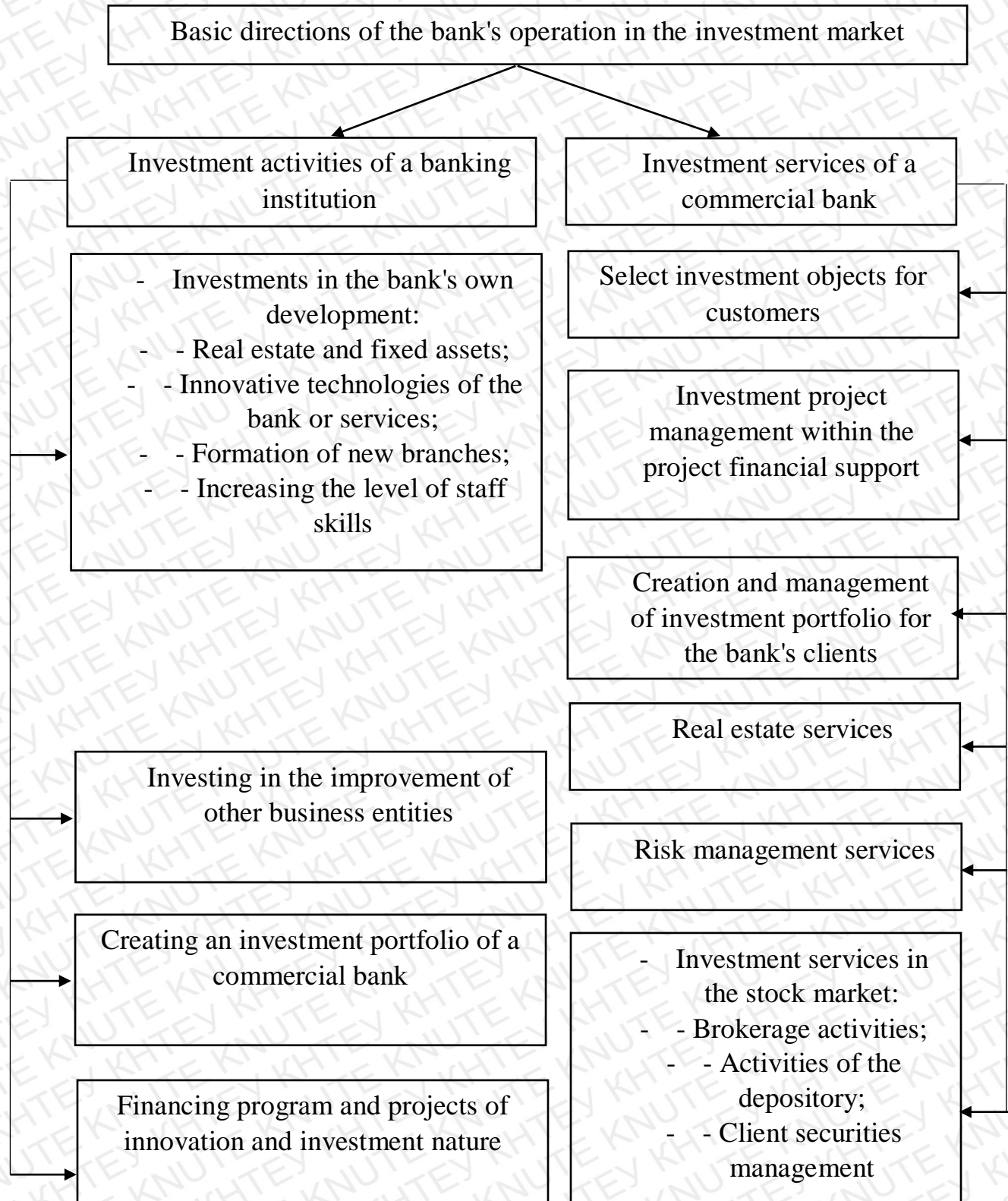


Fig.1.1 Basic directions of the bank's operation on the investment market [11].

Thus, we may summarize that the economic content of the investment activities of a commercial bank is the financial investment (i. e. investment for long-term securities,

equity shares, etc.) and real investment (i. e. investment into tangible and intangible assets) [18].

The basic prerequisite for successful investment activity of a commercial bank we consider the formation and implementation of optimal and effective investment policy. Currently, there is no harmonized approach to the interpretation of the category "investment policy of the bank".

The first approach is organizational, which is based on the definition of what investment policy is, for example, the set of measures and tools to ensure effective investment sphere for commercial bank.

In particular, the supporter of this approach E. Palyga, includes the following components to the investment policy: 1) areas of activity of a commercial bank; 2) calculation of the optimal size of investment resources and determination of sources of their mobilization; 3) development of ways to accelerate the implementation of investment measures; 4) determination of the relevant directions of the investment sphere of the bank's activity in accordance with the general strategy of its development; 5) study of the conditions within macroenvironment of the investment market; 6) identification of investment objects and study as for their compliance with the developed areas of investment; 7) ensuring a high level of investment efficiency; 8) assistance in ensuring effective investment risk management; 9) ensuring a high degree of liquidity of investments [34].

Thus, within the first approach, investment policy is defined as a set of measures in the organization and management of the investment sphere, focused on the formation of optimal size and structure of investment assets, increasing their profitability, taking into account the optimal level of risk.

The second approach is characterized by the fact that its representatives consider the investment policy of the bank as an integral part of its overall economic strategy.

According to the second approach, the investment policy of the bank is a component of commercial bank in the whole, which characterizes the definition and tools for implementing optimal areas on renewal and expansion of self-financing of its

investment and successful forms of resource mobilization from various sources for investment.

Within the third approach, the investment policy of a banking institution is the formation of optimal investment directions in accordance with the projected profits and the level of risk, and the selection on this basis of appropriate investment programs and projects;

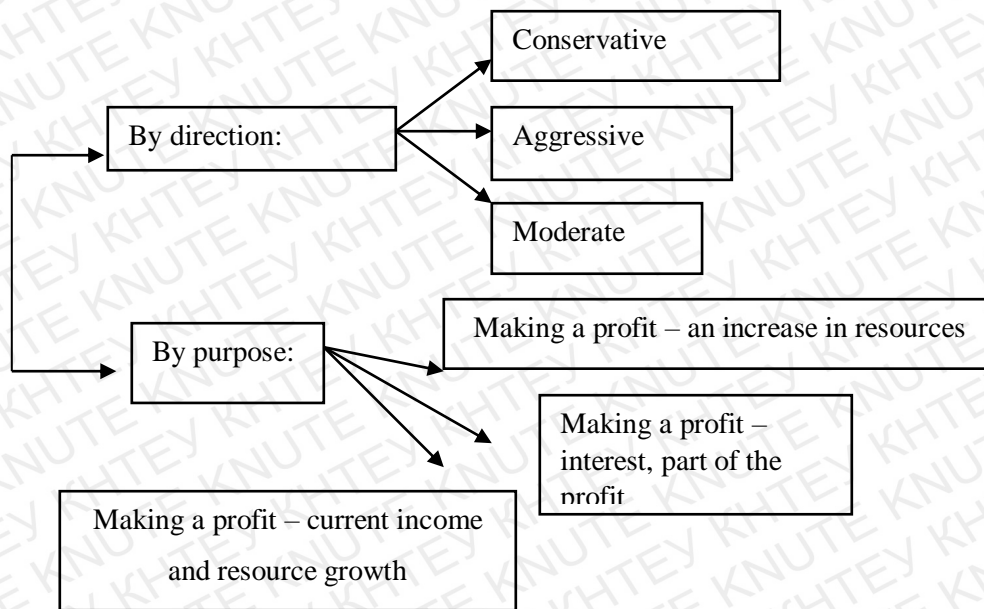


Fig.1.2 Types of investment policy of a commercial bank [35].

Characteristics of investment policy: 1) displayed as a documented summary of the rules governing the investment process and focused on the key objectives of a commercial bank; 2) complied with general policy of a commercial bank and harmonized with the deposit, credit, interest, communication and information, and other policies of the banking institution; 3) regulated by priorities for determining clients and investment instruments; a set of norms and rules that determine practical scope for bank's personnel functioning, implementing these priorities [35].

Therefore, the following basic types of investment policy of banks are determined (Fig. 1.2): conservative – the basic goal is to ensure minimum degree of risk of

investment processes, moderate, focused on the choice of these investment objects, the level of current profitability, the rate of investment and the degree of risk which, are optimally being quite close to the market average ones, aggressive, focused on the maximum possible return from investment within the possibly shortest time.

Securities with a high degree of risk and a high level of profitability are selected.

This policy is the most risky one, that requires a clear study of risk and optimal forecasting dynamics of the situation from the investor [36].

In the process of formation of investment policy, commercial banks rely on the classic features: liquidity; profitability; riskiness; the level of bank interest rates.

Thus, banking institutions must successfully research and master the key aspects and tools that ensure the organization and management of investment activities.

Therefore, the formation and implementation of optimal investment policy is considered to be the basic aspect of any bank in the field of investment, which provides an increase in its investment attractiveness and profitability within current conditions of economic development and lack of adequate financial security.

As for the current conditions of development, the investment activity of both individual and corporate investors is marked by the placement of temporarily free resources into significant number of investment objects, thus ensuring the diversification of the investment portfolio. This approach is called "portfolio investment".

So, the targeted selection of such investment objects is the procedure for forming an investment portfolio.

Investment portfolio is optimally designed set of financial or real-world investment objects aimed at achieving certain planned strategy that reflects the purpose of the investment.

Classification of investment portfolios:

1. By types: 1) real investment portfolio is formed from investments of a banking institution within the frame-work of investment programs on enterprises of various types; 2) portfolio of securities consists of various kinds of documents or some certain types (in its turn, this portfolio can be classified as portfolio of equity instruments and

portfolio of debt securities, the latter of which can be divided depending on the types of debt securities and the like); 3) the portfolio of other investment objects usually complements the investment portfolio of the banking institution (other investment objects include real estate, precious metals, collectibles, antiques, etc.).

Investments into such objects in most cases are typical for large banking institutions, because in this case the investor does not aim to make a profit in the nearest future.

The purpose of investing into these assets, on one hand is the desire for prestige, high image, etc., so that the purchase of art pieces, numismatic rarities and the like, but on the other hand, the fact that those objects are not marked by a loss of price over time, conversely, its growth being the insurance reserve for a commercial bank.

2. For the main purposes of investment: 1) growth portfolio consists of investment objects that are characterized by the ability to achieve significant dynamics of capital on increase given by the high degree of risk; 2) income portfolio includes investment objects that are characterized by a high level of return and at the same time a high level of risk; 3) conservative portfolio includes investment objects that are characterized by medium or low level of risk and at the same time a low degree of return benefit and slow dynamics of capital growth.

These types of portfolios are marked by a wide range of varieties. In particular, development and income portfolios are considered aggressive portfolios in the case of the maximum level of targets. Within one portfolio, as a rule, the only feature of the portfolio is chosen for the priority objectives of the investment.

3. According to the obtained compliance with the objectives of investments: 1) balanced portfolio, which is characterized by the full implementation of the objectives of its formation by selecting investment projects or investment financial instruments that best meet these objectives; 2) unbalanced portfolio does not meet the objectives of its formation. A type of unbalanced portfolio is an unbalanced one, which has been previously optimized portfolio that is no longer satisfying the investor due to significant changes within external investment conditions or internal factors.

An example of this change out on the external environment of the investment market, which leads to dissatisfaction of the investor with the formed portfolio, may be the change in tax conditions; internal factors like significant delay as for implementation of individual investment projects, significant violations of the dividend policy of the issuing company, etc. This feature of typification is used to characterize certain types of investment portfolios or the investment portfolio of a commercial bank in the whole.

4. In terms of investment (investment strategy):

1) the policy of "ladder" or equal distribution involves the choice of certain, maximum possible term and subsequent investment into securities evenly over several periods within the selected time.

This strategy does not provide for the maximization of return on investment, but has favorable aspect – narrowing the boundaries of deviation in direction of decrease or increase, and its implementation does not require significant management efforts;

2) policy of short-term acceptance involves the purchase of only short-term securities and the distribution of the entire set of investments within a short period of time. This approach involves defining the investment portfolio as a source of liquidity, but not profit;

3) long-term acceptance policy determines the role of the investment portfolio as a source of profit, but does not provide an appropriate level of liquidity;

4) the strategy of the "balance-bar". In this case, the banking institution, on one hand, invests most of its resources into short-term highly liquid securities, and on the other hand, into long-term one, but being quite profitable. This strategy requires research and calculation of the optimal ratio of components of investing regarding short-term and long-term securities;

5) the approach of interest rate forecasts. It is considered to be the most aggressive of all investment boundary strategies. According to this approach, the set of purchased and held-over securities is constantly updated as for taking into account rapid forecasting of interest rates and financial conditions.

5. According to the rationality of the structure of the formed portfolio:

1) optimal, taking into account the defined purposes of investments; 2) suboptimal, in accordance with the objectives of the investment. The key problem that arises when creating an investment portfolio is the problem of rationally ensuring the structure of investment portfolio or the formation of rational investment portfolio.

The structure of the investment portfolio is the ratio of the components of the placement of temporarily free monetary resources in different types of investment objects.

The management system in the field of investment portfolio requires optimal approach being the most successful in the case of a detailed study as for the needs and requirements of investors, as well as the tools selected for the formation of investment portfolio.

Optimization of the investment portfolio structure depends on the defined goals of the investor, i. e. signs of optimality.

The issue for the forming of optimal portfolio of securities is given considerable attention by foreign scientists and scholar [18].

The first model of the optimal portfolio of securities is considered to be the model of G. Markovitz, which is formed exclusively from risky securities. But but later on it was transformed by scientist D. Tobin, who determined that if the portfolio, in addition to risky securities bears risky-free one, so it is going to be rational regardless of the risk appetite of investors [2].

Markovitz's approach begins with the hypothesis that the investor in a certain period of time has a certain amount of resources for investment activities.

These resources are planned to be invested within a certain period of time, which was chosen to be named as the "period of ownership". By the end of this time period of possession, the investor would sell securities that were purchased in the beginning of this period.

Thus, Markovitz's approach can be considered discrete. In the initial period of time which is the period of portfolio development the investor has to determine the

structure of the investment portfolio, where such a definition is righteous to the choice of a rational investment portfolio from the list of possible ones.

The mathematical model of securities portfolio rationalization, defined by Markovitz [18], involves the search for optimal share of investments in different types of securities within the portfolio of the entity.

1. Development of set of goals, functions and tasks for strategic management in the field of investment.
2. Formation of investment strategy.
3. Implementation of macro- and micro-environment research in the field of investment.
4. Development of strategy for positioning the bank on the investment market.
5. Development of strategy to ensure high level of security of the bank during its activity on the investment market.
6. Formation of the strategic orientation of the bank to interact with other participants of the investment market.
7. Development of set of strategic investment risk management.
8. Choosing strategy that are to allow successful usage of the resource base.
9. Direct management of the investment portfolio: research and regulation of the structure, level of liquidity and expenditure.
10. Motivation and monitoring of the investment sphere of operation.
11. The implementation of investment strategy control.

Fig.1.3 Stages of formation and management of investment strategy [11].

So, we may summarize that the use of the analyzed model of building an optimal portfolio of securities in Ukraine is complicated, because its implementation requires awareness of the level of expected income in general and in terms of investment, which requires significant amount of statistical information, and whereas the collecting of it is painstaking procedure even in developed countries with the highest degree of stock market development.

An important component of successful management of modern banking institutions is the ensure of effective investment operation, which determines the priority choice of successful investment strategy.

Investment strategy in a broad sense is a set of measures in the field of formation and implementation of actions in relation to investment portfolio management, as well as ensuring a optimal ratio of real and financial investments for optimal performance,

increasing profitability, ensuring acceptable jeopardy and liquidity of investment assets [22].

The vast majority of scientists, for example, Blank I. O. [7], Borsch L. M. [3], define "investment strategy" like more narrowly system of long-term goals of investment activities and determine the most successful areas for their achievement.

On the other hand, the investment strategy is seen not only as a tool used to fix and improve their market position, but also as an important instrument of investment policy being structural part of investment functioning, which, in its turn, is the basic lever for regulating businesses [11].

The development of investment strategy is most fully reflected in the works of Gryshchenko O. [6]. He defines strategic system of bank investment management as a system that should be aimed at the successful operation of the bank in the long run, taking into account the growing competitive pressure.

The procedure of investment strategy management is formed of structural parts, which are the stages of formation of the investment strategy, presented in Figure 1.3.

The classification of investment strategies is shown in Figure 1.4.

We describe the main strategies for managing a portfolio of securities. Banking institutions use equity and bond portfolio management based on active and passive management.

Passive bond portfolio management is based on indexation strategies and immunization ones as well. Indexation is the construction of a bank's debt portfolio, the characteristic features of which repeat a certain bond index completely.

The disadvantage of this strategy is the necessity for periodical rebalance of the portfolio to ensure the effectiveness of immunization of banking institutions in order to meet the conditions of equality of duration, as it changes with changing market incomes, and may change the flow of liabilities (early withdrawal of deposits).

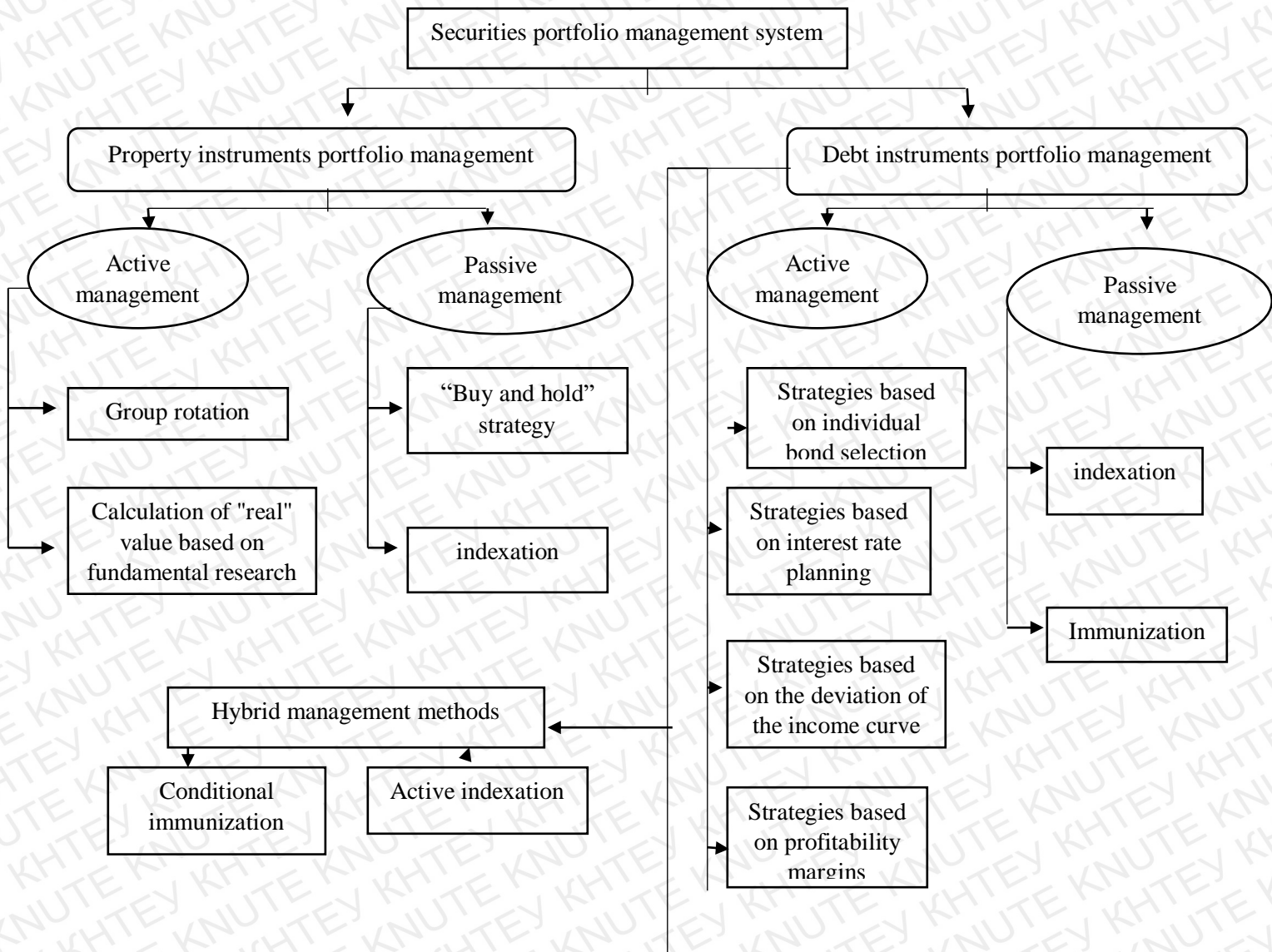


Fig.1.4 Securities portfolio management strategies [14].

Active bond portfolio management includes the following strategies:

- 1) strategies based on forecasting interest rates (the essence is related to the duration as an indicator that shows the sensitivity of bonds to changes in interest rates);
- 2) strategies based on the shift of the income curve line (the essence is to build a banking portfolio of fixed income instruments based on expected changes in the shape of the income curve line, which reflects the relationship between bond income and their repayment terms);
- 3) "descending" strategy (repayment of portfolio bonds are evenly distributed over possible range of terms);

4) strategies based on income spreads or sector strategies (strategies involve formation of a portfolio of debt securities in accordance with changes in the spread of bond incomes of different sectors);

5) the strategy of individual choice of bonds (the search for undervalued securities by determining the true value of bonds and compare it with the market price).

It is also possible to identify hybrid methods of bond portfolio management, namely: conditional immunization (use as a fundamental active strategy, which is changed into immunization, if the implementation of the first full return income is reduced to the minimum allowable level) and active indexation (full profitability of the index is only the minimum level of profitability that must be provided by the manager).

Passive management of the bank's stock portfolio is based on the following types of strategies the strategy of "buy and hold" is the purchase of shares and their retention in order to generate current dividends and sales to obtain income from capitalization and indexation involves the formation of portfolio, which in its characteristics is to repeat the dynamics of a particular stock index.

Active methods of stock portfolio management involve the use of the following strategies: group rotation strategy is the choice of shares owned by companies in those industries, where higher growth is projected compared to others and GDP growth in general, management strategy based on forecasting stock prices using technical analysis.

Thus, the analysis of literature sources showed that: there are no methods that can comprehensively assess potential investment objects, existing methods allow one-way analysis only of alternative investment objects, there are no assessment methods aimed at studying specifics of the Ukrainian economy, there are no universal approaches to the evaluation of investment objects, leading to reduction of time for investment decisions, there are no investment portfolio models designed specifically to optimize the portfolio structure of different types of investors; models have not been developed to take into account the risks associated with investment activities.

The investment portfolio, as it has been mentioned above, involves the possibility of including variety of investment objects.

Such objects can be: 1) shares (registered, preferred, ordinary); 2) corporate bonds; 3) government bonds; 4) promissory notes, investment projects, etc.

Thus, we determine that any banking institution must diversify its investments to reduce investment risk.

The structure of commercial bank is to meet certain requirements imposed on the bank's activities to ensure a certain level of liquidity, profitability, reliability.

So, we may determine that the success of the investment sector of the banking institution in the whole is an important element of positive impact on the activity of a commercial bank in general on one hand, and on the other it is an important source of resources for the economy.

The investment activity of the bank is going to be effective only when optimal investment policy development and implementation are applied, and primarily, rationally formed and implemented into practice of investment strategy.

Thus, we can conclude that the development of the investment sphere of banks is an important prerequisite for high level of economic development of the state in general and high standard of living, since in Ukraine they are manifested as the most developed and secure financial institutions.

SECTION 2

PRACTICAL PRINCIPLES OF PORTAL INVESTMENT OF JSC CB «FUIB» («PUMB»)

2.1. Organizational and economic characteristics of the studied banking institution

The Public Joint Stock Company First Ukrainian International Bank (hereinafter – Bank) was established on November 20, 1991.

The Bank provides full range of banking services, including: 1) attracting deposits and granting loans; 2) investing in securities; 3) payment service in Ukraine and transfer of funds abroad; 4) currency exchange operations; 5) issuance and processing of payment cards [42].

The Bank is in the TOP-10 of Ukrainian banks in key financial indicators, such as: 1) volumes of assets; 2) the amount of equity; 3) the amount of funds of corporate clients; 4) loan portfolio; 5) volumes of funds of private clients.

The study of the state of assets of a banking institution involves the use of analytical approaches focused on calculating the total amount of resources concentrated in the use of the bank, their composition and dynamics in the study period.

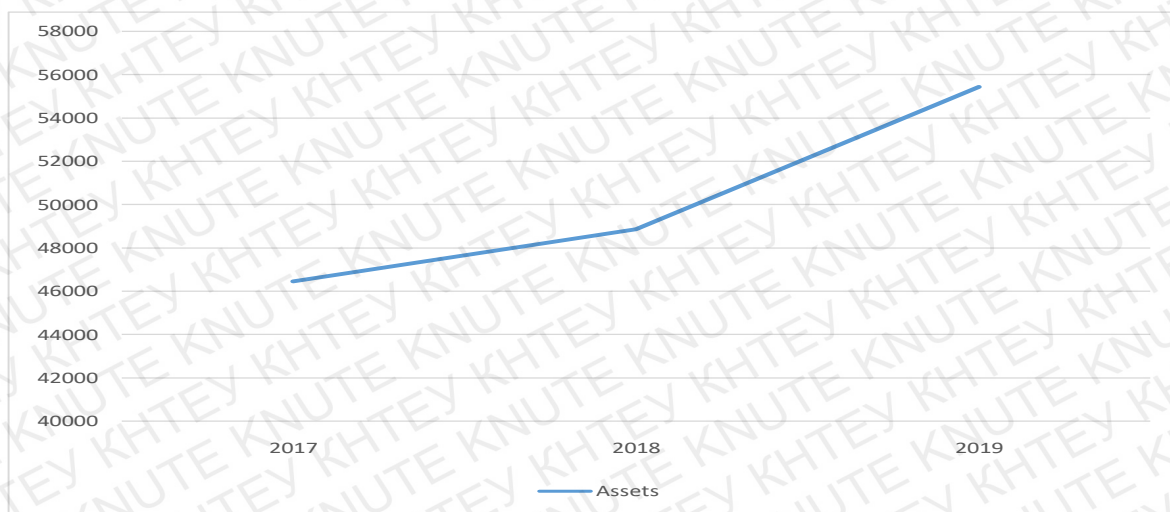


Fig.2.1 Dynamics of the Bank's assets for the period 2017-2019

* Developed by the author based on [42]

Analysis of the dynamics of assets of the Bank and its assessment are given in table. 2.1.

Based on Table 2.1 (Appendix A) we summarize the dynamics of the assets of the studied Bank in 2018 compared to 2017:

- 1) Cash, bank metals and NBU balances increased almost 6.7 times;
- 2) Securities at fair value through profit or loss decreased by 49.04%;
- 3) Securities measured at fair value through other comprehensive income decreased by 8.44% as a result of issuers' debt securities;
- 4) Loans to customers increased by 7.15%, due to the development of main lending activities;
- 5) Other assets decreased by 9.41%;
- 6) Fixed assets increased by 12.91% as a result of their modernization
- 7) Investment property decreased by 51.87% as a result of its significant sales;
- 8) Intangible assets increased by 6.88% due to the purchase of innovative software.

Based on Fig. 2.1, we summarize the dynamics of the assets of the studied Bank in 2019 relative to 2018: cash, bank metals and NBU balances increased by 6.98% in order to ensure a high level of liquidity of the Bank's activities, securities at fair value through profit or loss decreased by 57.82%, securities measured at fair value through other comprehensive income decreased by 5.02% as a result of issuers' debt securities, loans to customers increased by 20.71%, due to the development of the main lending activity, other assets increased by 4.27%, fixed assets increased by 11.89% as a result of their expanded renewal, investment property increased by 31.20% as a result of increasing the level of investments into inner development, intangible assets decreased by 12.78% due to the disposal of obsolete software.

Thus, in general, the assets of the studied Bank during the period 2017-2019 continued tendency to grow as follows: in 2018 compared to 2017 increased by 5.17% and in 2019 compared to 2018 increased by 13.45%.

This trend indicates improvement in the financial condition of JSC CB "FUIB" (PUMB) during the researched period.

In 2019, the highest growth rates being the characteristics of the following specifications like investment property, loans to customers, fixed assets.

Let us show the dynamics of assets of the Bank in Fig.2.1 (Appendix A).

Table 2.2 analyzes the structure of the bank's assets for the period of 2017-2019.

Based on Table 2.2 (Appendix B) we may summarize the structure of assets in 2017-2019 as follows:

1) The largest share in the structure of assets are loans to customers – this trend is the peculiarity found throughout the study period; and it is marked by increase in the share: in 2018 by 1.03%, and in 2019 by 3.57%;

2) The second place take securities that are measured at fair value through other comprehensive income, but receive third place in the structure of assets in 2019; the dynamics of the structure decreased: in 2018 the share decreased by 2.85%, and in 2019 the share decreased by 3.12%;

3) Third place are taken by, cash, bank metals and their equivalents, however, they have been raising to second place in the structure of assets in 2019; the dynamics of the structure is diverse: in 2018 by 15.96%, and in 2019 by a decrease of 1.05%;

The dynamics of assets for the study period is shown in Fig.2.2. (Appendix B).

Analysis of the dynamics of liabilities of the Bank and its assessment are given in table. 2.3 (Appendix C).

Let's show the dynamics of liabilities of the Bank in Fig.2.3. (Appendix C)

Based on table 2.3. we may summarize the dynamics of the studied Bank in 2018 relatively to 2017:

1) Debts to other banks decreased by 19.37% due to the reorientation to financial resources of customers;

2) Customer funds increased by 27.52% due to the expansion of the customer base;

3) Issued certificates of deposit increased by 344.71%;

- 4) Other liabilities decreased by 73.17%;
- 5) Subordinated debt decreased by 0.31%;
- 6) Total liabilities increased by 4.53%;
- 7) Share capital remained unchanged;
- 8) Issue income also remained stable;
- 9) The reserve for revaluation of fixed assets decreased by 1.94%;
- 10) Securities revaluation reserve decreased by 135.72%;
- 11) The reserve fund remained stable;
- 12) Retained earnings increased by 260.63%
- 13) Total equity increased by 31.49%.

Based on Table 2.3, we summarize the dynamics of the studied Bank in 2019 relatively to 2018:

- 1) Debts to other banks increased by 33.96%, which is due to the establishment of partnerships with several banks;
- 2) Customer funds increased by 7.47% due to the continuation of the policy of expanding the customer base;
- 3) Issued certificates of deposit in 2019 were absent due to the liquidation of the process of their issuance by the Bank;
- 4) Other liabilities increased by 10.18%;
- 5) Subordinated debt in 2019 was absent;
- 6) Total liabilities increased by 6.48%;
- 7) Share capital remained unchanged;
- 8) Emission income also remained stable;
- 9) The reserve for revaluation of fixed assets decreased by 3.75%;
- 10) The reserve for revaluation of securities increased almost 6 times;
- 11) The reserve fund remained stable;
- 12) Retained earnings increased by 263.00%
- 13) Total equity increased by 43.52%.

Thus, in general, the liabilities of the studied Bank during the period of 2017-2019 continued to grow in 2018 compared to 2017 increased by 7.32% and in 2019 compared to 2018 increased by 11.17%;

Thus, in general, the liabilities of the studied bank during the period 2017-2019 continued to grow in 2018 compared to 2017 increased by 7.32% and in 2019 compared to 2018 increased by 11.17%;

In 2019, the highest growth rates are characteristic features of such species like securities revaluation reserve, retained earnings, debts to other banks [53].

Using Table 2.4 we are going to analyze the structure of the Bank's assets for the period of 2017-2019.

Based on Table 2.4. (Appendix D) we may summarize the structure of liabilities in 2017-2019:

1) The largest share in the structure of liabilities is occupied by customer funds; this trend is characterising throughout all the study period; the dynamics of the structure is diverse: in 2018 the share increased by 12.64%, and in 2019 the share decreased by 2.66%;

2) Second place - joint-stock - the dynamics of the structure is stable;

3) Third place debt to other banks; the dynamics of the structure is diverse: in 2018 there is a decrease of 0.46%, and in 2019 there is an increase of 0.29%.

The structure of liabilities in 2019 is shown in Fig.2.4. (Appendix D).

In order to analyze financial results of the first stage we choose to study dynamics and structure of income of the Bank for the period of 2017-2019.

Based on Table 2.5 (Appendix E), we draw the following conclusions regarding the dynamics of the Bank's income:

1) interest income in 2018 increased by 22.93% due to the expansion of lending activities; in 2019 they continued to grow by 22.25%;

2) commission income in 2018 increased by 22.93% and in 2019 by 14.77%, which is due to the development of settlement and cash services;

3) results from trading operations showing dynamics during the study period is diverse: in 2017 increased by 3.84%, and in 2019 decreased by 14.32%;

4) the results from exchange rate differences were characterized by negative dynamics during the studied years: in 2018 by 381.11%, and in 2019 by 256.52%;

5) other incomes that are characterized by their decrease in 2018 by 65.38%; and in 2019 increased by 34.70%;

Thus, we can draw attention that in general, the Bank's income in 2018 increased by 16.68% compared to 2017, while 2019 showed their growth by 21% [53].

This dynamics of income makes it possible to affirm about the sufficiently successful operation of the studied Bank in 2017-2019.

The dynamics of the Bank's income is shown in Fig.2.5. (Appendix E).

The structure of the Bank's income we investigate on the basis of the data of the Table 2.6. (Appendix F).

Let us display the structure of income of the studied Bank in the Fig.2.6. (Appendix F).

Regarding the structure of income, we can note that in 2017-2019 invariably: 1) the first place is occupied by interest income; 2) the second place belongs to commission income; 3) the third place is occupied by the results of trade operations.

So, basing on the analysis of the structure of the Bank, we can state consistent leading position in the structure occupied by interest income throughout the researched period.

In order to analyze financial results of the next stage, we are going investigate dynamics and cost structure of the Bank for the period of 2017-2019.

Basing on the Table 2.7 (Appendix G), we draw the following conclusions regarding the dynamics of the Bank:

1) interest expenses in 2017 increased by 13.84%, which is due to the corresponding increase in revenues of this type; in 2019 it is also marked by an increase, but insignificant, just by 1.62%;

2) commission expenses in 2018 increased by 5.12%, and in 2019 the dynamics shows increase by 10.93%, i. e. the dynamics of commission expenses indicates faster growth of income of this type, which determines profitable work-out;

3) income tax is marked by positive trend: 2018 was characterized by a significant increase by 93.67%, and 2017 was marked by positive dynamics, and increase of 72.58%. This situation has completed due to the growth of the Bank's profit.

Thus, we can note that in general, the Bank's expenses in 2018 increased by 17.19% compared to 2017, and in 2019 which is 10.03% [34].

This dynamics of expenditure corresponds to the dynamics of income, while the growth rate of income is higher than the growth rate of expenses, that is reflection of profitable and efficient operation of the studied Bank.

The dynamics of the Bank's income is shown in Fig. 2.7 (Appendix G).

The structure of the Bank's expenses is investigated using data indicated in the Table 2.8 (Appendix I).

Regarding the expenditure structure, we can note that in 2017-2019 the first place is occupied by interest expenses, the second place belongs to interest expenses.

Based on the analysis of the Bank's expenditure structure, we can confirm significant dynamics of its structure, where leading position within the structure is occupied by interest expenses.

Let us display the expenditure structure of the studied Bank in Fig.2.8.

The purpose of each organization or institution is to make a profit, so we determine the main indicators of the Bank's profit using the following Table 2.9 (Appendix H) [52].

Let us reflect the dynamics of the final indicators of the Bank in Fig.2.9.

Let us display the dynamics of profitability of the studied Bank in Fig.2.10. (Appendix H).

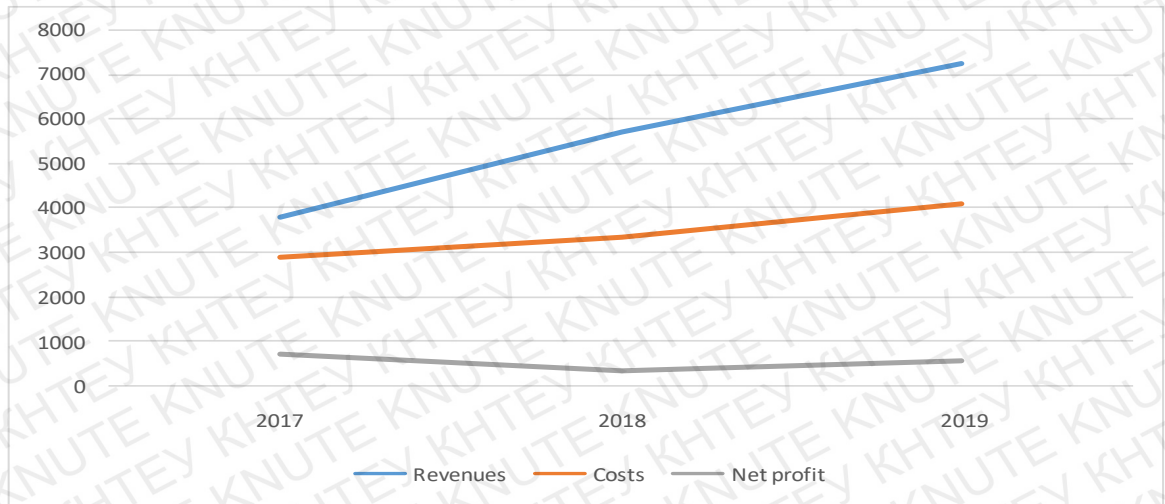


Fig.2.9 Final performance indicators of JSC CB "FUIB"

* Developed by the author based on [34]

According to the Table 2.9. (Appendix H) we may come to conclusion:

- 1) In 2017-2019, the Bank was characterized by the excess of income over the amount of expenses, which led to the profitable activities of the banking institution, and, accordingly, the profitability of operations;
- 2) Profitability of banking services in 2018 decreased by 70.06%, and in 2019 increased by 35.55%, which is mainly due to the dynamics of net profit;
- 3) the level of profitability of the Bank is average, but there is a positive trend in 2019 compared to 2018.

2.2. Analytics of the investment sphere of operation of JSC CB «FUIB» («PUMB»)

The investment policy of the studied bank is mainly focused on the financial sector or on its own development.

The main form of bank investment is financial investment and capital investment into the procurement of intangible assets. At the same time, the studied Bank does not invest enough into real sector of Ukraine's economy, due to their unwillingness to

provide significant and long-term loans, instability of industrial enterprises, lack of real structural changes in the domestic economy, and thus high level of jeopardy [6].

The volume of loans for investment activities was insignificant, their share was just 9.7% of the total loan and investment portfolio.

The bank's investment activity is characterized by two directions – real investment in their own development and financial investments.

However, we can note that the investment activity of this Bank is quite active in the field of real investment as for the development of its own operation.

The state of this sphere of investment is shown in the Table 2.10. (Appendix H).

According to the Table 2.10 (Appendix 10), we summarize that 2017 compared to 2015 is characterized by significant intensification of the investment sphere of its own business: IT infrastructure – investments increased 4.5 times; Network infrastructure – investments increased 4.6 times; Collection – investments increased 4.8 times; Support for ATMs and PIC terminals – investments increased 5.6 times.

Let us display the dynamics of investment in Fig.2.10.

As it shown, in general, investments as for the development of Bank's activities increased 4.7 times, which led to the development of it in general and also led to improvement regarding the level of profitability.

The structure of investment into its development is analyzed in the Table 2.11. (Appendix M).

According to it table 2.11. (Appendix M) we also may summarize:

1) in 2017 the first place among the areas of investment activity belongs to IT infrastructure; the second – to network infrastructure, and the third – to collection;

2) This structure remains stable in 2018-2019.



Fig. 2.10 The level of profitability of JSC CB "FUIB" for the period 2017-2019

* Developed by the author based on [52]

The structure of investment activity of the Bank is shown in Fig.2.12-2.14. (Appendix N). Also, in 2019 we can point-out to significant real investments into the development of human resources and conditions of their activities, in particular investments into improving the customer experience – UAH 8.1 million, investments into labor protection and safety of employees – UAH 7.1 million, investments into employee development and training – UAH 29 million, investments into motivating and team-building programs and projects for employees – UAH 2.7 million, investments into support of volunteer projects – UAH 201.8 thousand;

The main reasons for the low efficiency of the investment component of the study include lack of resources for investment operations, the desire to maximize the return by raising interest rates on loans, high requirements for investment loans, opacity of the capital market, distrust of customers, imperfection of legislation, low liquidity of the secondary securities market, insufficient number of solvent borrowers [52].

To overcome the problems mentioned above it is necessary:

1) to support the development of the banking services market, including investment services that bring together financial and real sectors of the economy,

facilitate the entry of free financial resources to entrepreneurs, and for banks expand their sources of income;

2) to study the practice of investment services on the experience of particular banks and non-bank financial companies in Ukraine;

3) to promote the development of investment management services (trust management of assets of professional financial market participants and assets of individuals), which is a powerful tool for attracting resources. The capabilities of these measures cannot be equal only to the profitability of brokerage operations, but also be able to revive demand for other financial services;

4) intensify and stimulate State support for the establishment of investment banks and investment banking institutions in Ukraine;

5) merging the researched Bank with others into consortia with the participation of foreign banks, recognized as professionals in the field of investment-banking into the international financial market for more successful operation [8].

2.3. Research of portfolio investment of the commercial Bank under study

The main goal of the formation of the investment portfolio for JSC CB "FUIB" ("PUMB") is to achieve optimal combination of risk and return for the investor.

The main tasks of forming the investment portfolio of the Bank are as follows ensuring high level of profitability in given periods of time, avoidance of high investment risks, achieving the planned level of liquidity of assets.

Important element in formation of the investment portfolio is the selection of specific investment objects for inclusion into the portfolio based on the assessment of investment qualities.

The basic objects of the investment portfolio of the Bank are government debt securities, USA government debt securities, NBU certificates of deposit, shares.

The dynamics of the investment portfolio is analyzed in the Table 2.12. (Appendix O).

Based on Table 2.12 (Appendix O), we determine that financial investments are realized into government debt securities, NBU certificates of deposit, USA government debt securities and shares.

Investments into government debt securities, which are measured at fair value through other comprehensive income, are the most significant and being characterized by positive growth dynamics in 2019 by 8.34%.

The purchase of shares in 2018-2019 was not postponed, so investments in shares are marked by constant dynamics. The highest growth dynamics was noted in 2019, relatively to certificates of deposit on the level of 19.63%.

Herewith, we can conclude that the securities portfolio in 2019 was marked by general decrease in its size, due to significant reduction in government debt securities, i. e. domestic bonds on the level of 57.82%.

Let us show the dynamics of investment in Fig.2.15. (Appendix O).

The structure of the investment portfolio is analyzed in table 2.13.

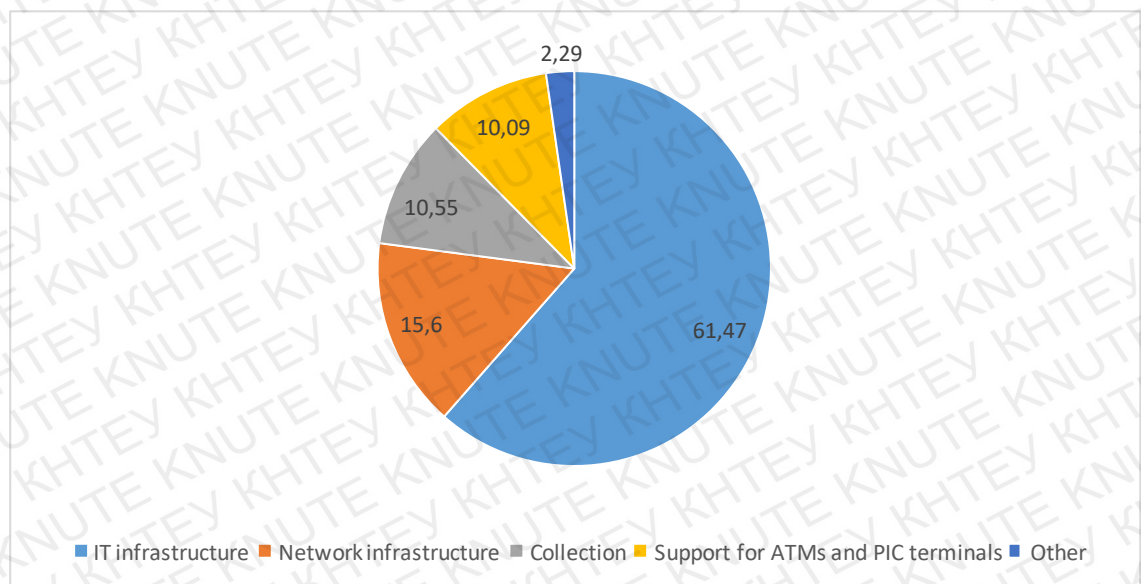


Fig.2.13 Structure of investments of the Bank's own development in 2018

* Developed by the author based on [5]

Portfolio investment is focused mainly on debt securities, while the development of investment in equity instruments is absent and it rests at a stable level, i.e. the search and sale of shares of various types of the Bank in recent years has not been traced upon.

So, we may summarize that the “lion's share” of the portfolio of the studied Bank consists of government debt securities, which in 2018 amounted up to 88.17%, and in 2019 was 87.32%.

Consequently, in the investment portfolio of the Bank there is a focus on loan instruments, while equity instruments in 2018 are only 0.08%, and in 2019 are just 0.07%.

Bearing in mind the above-mentioned, we determine that the investment portfolio of the Bank consists of various investment objects, that is, the studied Bank has a complex structure of the investment portfolio.

In general, the Bank is characterized by passive management of bonds and shares. Passive debt securities management is based on indexation strategy.

This strategy involves the formation of such a portfolio of debt securities, which is fully consistent with the dynamics of the bond index.

Passive management of equity instruments is based on a “buy and hold” strategy, which in its turn rests upon acquisition of equity instruments and their retention in order to receive dividends and the amount of capital gains in case of their implementation.

The Bank does not provide rational strategy for investment portfolio management, so we propose to optimize the structure of the investment portfolio of the studied Commercial Bank considering portfolio investment strategy that corresponds to the following model:

$$Z = \sum R \times a \text{ max}$$

$$\sum a = K, a > 0$$

$$\sum l_i \times a / K > l_p$$

$$\times r_i \times a / K < r_p,$$

where R is the average return on investment;

a - the amount of invested funds

K - temporarily free monetary resources allocated for investment;

l_i - liquidity of the investment portfolio;

l_p - regulatory liquidity of the bank's investment portfolio;

r_i - the degree of the investment riskiness;

r_p - regulatory degree of investments riskiness.

The above model is to ensure rational distribution of temporarily free funds allocated for investment and will provide the optimal portfolio investment strategy.

Also, along with the problem of allocation of investment resources, we propose to ensure and to improve the direction of investment funds in such a way that should guarantee maximum operating income with a minimum frequency of attraction and use of resources.

At the same time, it is necessary to determine the most profitable sources of financial support for investments. It is also necessary to comply with the NBU regulations on liquidity and investment.

We suggest that the distribution of sources of financial support for investment should be implemented, taking into account the norms of mandatory reserves, the speed of their circulation, and mobilization expenses.

We also offer to choose Bank's inner resources as the basic source of financial support for investments, as they are not subject to obligatory reservation being characterized by long circulation period.

In addition to the implementation of the proposed investment model, we propose for the Bank to focus on active management of the investment portfolio: to choose a strategy based on the dynamics of interest rates in the field of debt securities, in the field of property instruments, where the investment activity of which is proposed to be intensified, we recommend to choose strategy of group rotation with a focus on such sectors of the economy like tourism business, agricultural-industrial sector of the economy, services.

As for investment activity of the Bank, as well as for the entire banking system of Ukraine there is a list of external obstacles:

1) the increase in scale is marked by the investment sphere of foreign banks functioning operating in the countries that are marked by direct limitation of activity with securities, which are being strong competitors for domestic commercial banks;

2) the presence of a steady trend of non-fulfillment for obligations to its investors from the state, in particular, the banks;

3) the growing dynamics of average interest rates on the market causing the process of revaluation, which is easier to implement on liabilities than on long-term assets, because they are clearly fixed. This situation leads to increase the level of interest rate risk, which is reduced through the diversification of securities;

4) the need for licenses, in particular for intermediary activities as a dealer or broker, for trust activities in the field of securities, custodian activities, clearing sphere of operation;

5) technical ability to access the relevant trading system, as well as the price of "entry" into the trading system [18].

Having based on the studied obstacles within the investment sector, we may determine that the activities of commercial banks in the field of securities are noted by both favorable and unfavorable results.

In order to successful getting rid of these obstacles in the way of investment regarding function of domestic banking institutions, also including the studied Bank, it is necessary to take the following set of measures [29]:

1) increase the degree of confidence in government-type securities from the part of society, increase the volume of issues in circulation of government bonds, government treasury obligations;

2) development and establishment the system of standards for degree of liquidity of securities by reducing the minimum degree of contributions to the insurance reserves of the issuer;

- 3) increasing the degree of control over the staff professionalism of investment entities;
- 4) launching of mechanism for forecasting the possibility of mobilization of new securities;
- 5) study the prospects of securities and ensure the establishment and strengthening of relations with their issuers;

In order to develop a system of monitoring and state regulation of the investment activity of banking institutions on the market, which is the component of financial market, we recommend comprehensive development of the current regulators in the form of increasing level of their independence, formation of separate mega-regulator, formation of mega-regulator under protection of the National Bank of Ukraine, establishment of two separate monitoring and regulation bodies.

Ukraine aims to reach the level of the European Union, so in order to develop the operations of banking institutions that sell securities, it is necessary to focus on the European model of securities market management.

Taking into account strategic documentation, this model should be stipulated by the following features [31; 32]:

- 1) high level of capitalization, including universal type of banking institution, which provides significant advantages among competitors for it;
- 2) one state central body for monitoring the activities with securities for both banking and non-banking institutions: mega-regulator like the NBU;
- 3) initial public release of securities with the participation of banks as intermediaries;
- 4) high degree of development of non-banking financial institutions;

Therefore, we determine that, in addition to the impact of internal obstacles within activities of the banking institution, a significant role is played by adverse macro-factors, leveling of which with these recommendations should provide favorable conditions within investment sector for the banking institution in the whole and for the “PUMB” Bank in particular.

SECTION 3

SECURITIES PORTFOLIO MANAGEMENT IN FINANCIAL INSTITUTION

3.1. The process of managing securities portfolio of a financial institution

Securities portfolio management is being implemented continuously, and its content is characterized by the implementation of transactions for purchase and sale of financial assets, i. e. the constantly functioning dynamics of content and size, as well as the level of quality of financial instruments that are elements of the financial institution's investment portfolio.

According to Danilov O. D., the success of the targeted development of real and financial type set of objects for the implementation of investment activities, i. e. management in the field of investment portfolio is determined by the initially chosen strategy [9].

Basic stages of the securities portfolio management process:

1. defining investment goals
2. development of investment policy
3. choosing a portfolio investment strategy
4. definition of measuring assets
5. investment performance research

Fig.3.1 The process of managing portfolio investments.

* Developed by the author based on [5].

We may determine that basic factors influencing the final degree of quality of the investment portfolio are the level of quality of securities transactions and the optimal direction of investment resources.

The traditional implementation of the investment process involves the definition and allocation of five basic stages of management in the field of investment by F. Fabozzi, which is shown in Figure 3.1 [10].

We should also point out that these stages form a closed process of cyclical type, which involves adjusting the goal, policy development strategy, structure and composition of the portfolio based on calculations and performance analysis [10].

According to the development of the portfolio during the management of the investment portfolio of financial institutions the first four stages are about to start.

It should be noted that the development of the investment portfolio is implemented during the first four stages, and its development in the context of direct formation is the selection of its asset's elements, i. e. the fourth stage of the management process.

In this way we cannot fully affirm that portfolio development is a static process but management is dynamic.

The first stage of the investment portfolio management process involves development of investment goals and depends on the forecasted development goals of the banking institution as it is.

The basic purpose of investment in this case is the condition, under which the profitability on investment is to exceed the cost of mobilized resources. Taking into account the defined goals, the development of basic directions of investment policy is implemented, being the second stage of the management process [16].

According to Bocharova V. V., the bank's investment policy is the operation of a commercial bank based on active operations in the field of securities and focused on ensuring profitability and liquidity of the capital base of banks with a certain degree of jeopardy [12].

Klioba L. G. interprets investment policy as a system of measures for the organization and management of investments, focused on the rational size of the composition and structure, as well as the profitability on investment assets [13].

The most versatile interpretation is the interpretation expressed by Lutsiv B. L., who indicates that the investment policy of a commercial bank in terms of its own content is a system of measures aimed at forming and implementing strategies in the

field of investment portfolio management, taking into account the condition of rational integration of various types of investments to ensure successful operation, increase the profitability of operations and maintain the appropriate degree of risk and liquidity of the balance sheet [14].

The choice of portfolio investment strategy, in regards with investment objectives is the stage of the investment management process. Grounding on the practical features of the banking institutions functioning in the field of portfolio investment strategies Peresada A. A., Mayorova T. V. define two basic approaches to the management of financial investment portfolio [15]: active investment strategies and passive investment strategies.

The next stage of management in the field of investment portfolio of a banking institution after the choice of investment strategy is the development of the investment portfolio, which involves the selection of assets that are part of the portfolio with the formation of their quantitative characteristics.

Basic principles for construction of securities portfolio

Ensurance for implementation of investment strategy
Compliance of the portfolio with resource provision
The optimal correspondence of the risk level to the degree of profitability
Ensuring portfolio manageability

Fig.3.2 Set of basic principles of the managing portfolio investments process of the financial type of the studied Bank.

* Developed by the author based on [39].

We have proposed the basic principles of investment portfolio formation for the Bank, which are shown in the Figure 3.2. The basic aspect in the field of development and subsequent management of the investment portfolio is to determine the relationship between assets of the financial type with different characteristics.

Taking into account the goals and objectives defined in the process of investment portfolio development, the percentage ratio between assets of different types that are going to be part of the investor's portfolio is determined and is to reduce financial risk in the operation of banks on the stock market.

As we have already mentioned, the investor in the process of forming an investment portfolio aims to ensure maximum level of projected profitability on its own investments, taking into account jeopardy identified at this level.

Conversely, it aims to ensure minimum level of jeopardy at the projected level of profitability. Portfolio that meets these conditions is considered to be successful one [13].

This hypothesis is confirmed in the work of Vovchak O. D., Rushishko P.M., Andreykiv T. Ya. [11], who indicate that the management of portfolio investment is determined by ensuring the stability of balanced level of liquidity and profitability, but it is necessary to emphasize, that an acceptable portfolio is the one that can form depositor from possible assets [45].

We have to summarize the views available in economic literature on the interpretation of the optimal investment portfolio concluding that the main features of the object of banking in the field of investment are out of proper attention paid, like structure, purpose, term.

Taking into account the requirements of the National Bank of Ukraine, national banking institutions determine [9] trade investment portfolio, investment portfolio for sale, investment portfolio to maturity (repayment), investments into associates and subsidiaries.

The regulatory and legal framework should ensure open reporting and simplify accounting and monitoring.

However, this conclusion cannot be applied to the current domestic regulatory and legal framework, which determines the classification of the investment portfolio of banking institutions into four basic components.

In practice, in particular for the studied Bank it is typical that the main component of the investment portfolio is the one for selling of 70%.

At the same time, it is impossible to determine what type of underlying assets is the “lion's share” in the portfolio of investments to be sold and the type of transactions carried out by banking institutions [14] speculative, investing.

This situation is stipulated by the fact that some banking institutions purchase securities to save them for repayment, also enrolling them into the portfolio for sale, which is to ensure in case of accidental loss of liquidity to sell them as soon as possible, without performing additional accounting, transferring them from repayment portfolio into the portfolio for sale.

So, let us conclude that such a classification of investment portfolios is irrational and one that leads to non-compliance with the principle of transparency and openness.

The composition of the financial investment portfolio	
Speculative	Investment

Fig. 3.3 The composition of the securities portfolio of the studied bank.

* Developed by the author based on [19].

Due to the fact that the *Regulations on the Procedure for Determining Fair Value and Impairment of Securities* was the next step in bringing the financial statements into line with international standards: it is impractical to propose a return to previous legislation.

Thus, it is optimal to classify investments into securities for the studied bank, and for all domestic banking institutions into a speculative portfolio and investment one (Fig. 3.3).

At the same time, when examining the size of investment activities, banking institutions should take into account securities that are being the part of portfolios for

selling and repayment for more than one year, also bearing in mind investments into associates and subsidiaries.

Assessing the effectiveness of investments is the last stage of the investment management process, in fact it is not quite like this, because management process, as we noted before, is a continuous process that being constantly updated [7].

Accordingly, on the grounds of the above-mentioned, after the completion of this stage, the probable return to any of the previous ones basing on the obtained results, the dynamics of macro- and micro-conditions, it should be noted, at this stage is realized by the calculation of the obtained result with the selected main indicator. In this case, there is a certain quantitative sign of the behavior, firstly, by the selected list of securities [15].

Having investigated fundamental stages of investment management, it should be noted that the first important adverse aspect of their components is the need to mobilize potential investments with resources, which is extremely important for banking institutions in terms of their functioning.

We consider, that primarily it is caused due to the focus of portfolio investment theory on the "risk-profitability" dilemma, which is not entirely appropriate for banking institutions.

Therefore, it is necessary to find an agreement between first and second stages of investment portfolio management in the form of integration of a new stage, that is "ensuring compliance of investment objectives with the investor's resources", which in its essence is a combination of investment resources of commercial banks. to implement certain goals while maintaining the optimal degree of profitability, jeopardy and expenditure in the case of the banking institution's investment activities implementation on the stock market.

The definition of this stage is determined by the fact that investment goals cannot always be realized with the available resources of a commercial bank and may cause adverse consequences for the banking institution resulting its operation due to customer resources placed in the bank for a certain period of time.

Such features increase the degree of liquidity risk and interest rate risk in such a way that it is necessary to take into account this very factor within the process of investment goals formulation to ensure minimum level of certain type of jeopardy inherent in the functioning of banks [4].

Another disadvantage in the field of investment portfolio distribution is the lack of the object of management for the investment sector of a commercial bank, i. e. the investment portfolio.

In order to manage jeopardy, banking institutions while in the process of implementing investment operations must determine [30] common boundaries, boundaries in the field of speculative portfolio and investment portfolio.

We believe that restrictions on investment operations should be determined by the management of any banking institution on particular level in the form of limiting indicators of qualitative and quantitative type in the field of conditions and the process of implementation of securities transactions.

Limits of quality type include [25] investment object, type of securities, relevant issuer, liquidity of mortgaged property, schemes for the implementation of investment operations, selection of counterparties in the process of purchasing securities;

Secondary indicators of the quantitative type of limitation are [9] rate of profitability, turnover period and nominal price of the security, the amount of collateral real estate under the obligation to repay securities etc.

The study of the basic stages of management in the sphere of investment portfolio allows us to identify the next important negative aspect of the process – the lack of consideration for macro- and micro-environmental factors, which is utterly substantive drawback either in terms of commercial banks on the stock market or in the sphere of activity performing role of basic participants on the market of financial assets of different type, being also the result of which is the attraction and distribution of a large component of financial flows of the country.

The conclusions of the analysis confirm specificity of the banking functioning of the stock market monitoring both by the NBU and by the National Commission on Securities and Stock Market, which forms peculiarities of transactions and factors of influence.

This opinion is fully consistent with the statement of M. Matovnikov, who points out that the bilateral specifics of the commercial banks functioning as microeconomic intermediaries and as an important component in the state financial system causing analysis of their functioning simultaneously from the side of operations research and position of banking institutions data, as well as from the side of macroeconomic assessment [19].

Accordingly, taking into account vivid expression of the investment functioning of commercial banks specificity, in general, the process of investing into the functioning of a bank can be reflected as a functional element, according to which being in the role of influential indicators on the management of investment activities of a commercial bank there are the factors of the macroenvironment that affect the state conditions the stock market and the degree of liquidity of the respective investments as follows [23]: the official exchange rate of the national currency; GDP; industrial production index; income of the population; inflation rate; investment into fixed capital; foreign direct investments; direct investments into the development of foreign economies; the number of contracts with securities on organized markets.

In the field of factors of internal functioning of commercial banks, the priority positions belong to the following ones [45] balance resources, resources of the enterprise, company or organization, resources of the population, resources of banking institutions, securities of own liabilities, assets, loan portfolio, authorized capital, reserves for investment operations with securities.

Thus, we conclude that the portfolio of bank investments reflects the operational status of bank investments, i. e. bank assets that cannot be realized without relationship to the resource provision of the bank, due to the specificity of its operation.

Important concentration is required, in particular, when accounting regulatory limitations of the National Bank of Ukraine, which provides acceptable level of investment being supporting link in the process of minimal level of jeopardizing.

Therefore, the process of investment management in the field of the bank's securities portfolio is a priority taking into account the influence of factors and limits on the implementation of banking operations in the stock market, in particular, norms within the regulatory capital of commercial banks, which indicates the level of financial stability, and investment standards aimed at ensuring minimal level of jeopardy of investment transactions in terms of securities transactions.

3.2. Forms of securities management of a financial institution

Domestic and foreign scholars in the field of economics define two basic forms of management regarding security portfolios active passive.

Passive form is used by managers on efficient market. In this case, there is no need for continuous review of the portfolio, because this market is characterized by lack of significant dynamics, and the degree of changes in profitability and jeopardy is relatively low.

Functioning, when using passive form of it, a passive portfolio is formed, which includes risk-free securities for safekeeping them for a long period of time.

The content of the passive form is determined by the construction of portfolios of a high level of diversification with the planned risk limit and long-term storage on a constant position.

The passive form is marked by the following features [1] almost overall lack of circulation, the minimum degree of overhead costs, low level of jeopardy.

The active form is applied by managers in conditions of market inefficiency and its significant dynamics. Thus, the structure of the portfolio should be periodically

reviewed in order to obtain higher level of profitability with a certain degree of jeopardy and liquidity during significant dynamics and low market performance.

The basic task of active management is to plan the volume of probable investments. Also important is the accuracy of assessment and qualification of the manager, who directly determines the success of management in the field of securities portfolio.

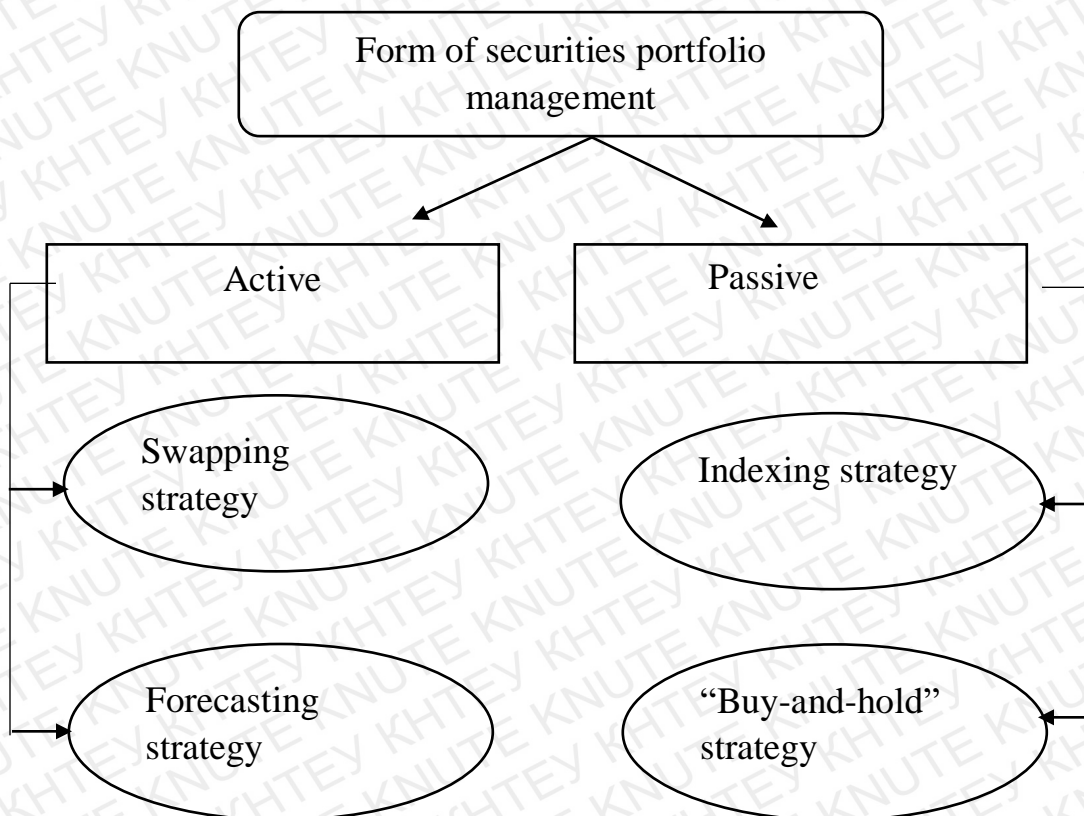


Fig. 3.4 Forms of securities portfolio management.

* Developed by the author based on [14].

The potential investor in the management process is to use various kinds of certain methods and opportunities of a technological nature within the set of securities, which provide [20] preservation of investment funds, maximizing the degree of profitability, ensuring investment orientation and liquidity of the portfolio.

The key goal of the active form of management is to make a profit, the degree of which is to exceed average level of profitability on the market, while maintaining stable level of jeopardy.

Investigating the active form of management, we define two basic directions (fig. 3.4) forecasting strategy, swapping strategy.

The forecasting strategy is based on the investors' formation of plans for directions, volumes and aspects of market interest rate dynamics; the portfolio is to be constructed as well as the dynamics of its composition basing on the forecast data.

We determine that this type of strategy can be used quite effectively by investors in the case of additional information support, which is not available to other market participants.

The swapping strategy involves continuous circulation, change of securities on the market. The investor is constantly investigating dynamics of the securities market structure. In the case of entering the market of more profitable securities, they are purchased, and the securities available in the portfolio are being sold when there is the decrease in their success.

Arbitrage can be applied as part of the active form of management, in the case of its use to obtain income from minor temporary exchange rate differences on different markets or in their components [19].

The second probable option is to search for securities that are undervalued, in particular, per unit of output produced by the issuer in comparison with the securities for similar field of operation issuers.

Profit is obtained not only in the case of a high level of portfolio diversification, but through purchasing securities at a lower rate of operating dynamics and selling them at a higher rate.

The key idea of passive management is the assumption of market success, within which there is no possibility of obtaining additional profit in case of waiver of additional risk, i. e. the basic idea of active type management is determined by additional costs.

The main goal of passive management is to minimize the degree of jeopardy level in the form of its diversification. This form of management marks the construction of highly diversified securities portfolios.

This type of management is the formation of a portfolio of securities that is diversified with clearly planned jeopardy level.

Therefore, the investor should focus on market ratio and build a portfolio based on analytical calculations. Its main characteristics are: liquidity, jeopardy and profitability of securities must meet average market conditions and are to be determined by them [15].

The content of the portfolio remains stable for a significant period of time or it is subject to change in a certain period under the influence of market dynamics.

Within the passive form of management, the strategy of "buy and hold" has been determined, which presumably is the result of portfolio construction and filling, and the securities involved into it are to be held for a significant period of time, without mentioning current market structure.

The passive form is also reflected in the construction of index-type portfolios (portfolios formed of securities that are fundamental data for calculating a certain type of stock index).

In this case, the market price of the portfolio is identical to the dynamics of the stock index, the expense for its analytical support is minimal, and the expense for brokerage services determine their desire to purchase and sell securities actively, ensuring price maximum increase.

Favorable aspects of the passive form of management provide low level of expenditure for management of the investment portfolio, since the investor does not need to conduct incidental expensive analytical research of the security market, as well as some particular ones [54].

Thus, the passive form of management can be applied by investors who are characterized by small amounts of investment.

Figure 3.5 presents a detailed description of the forms of portfolio management of securities of passive and active nature, which we recommend for practical use by the studied PJSC "FUIB".

Passive form of management

- Purchase of securities, the dynamics of which corresponds to the dynamics of the market;
- Investments into long- and medium-term securities;
- Ensuring the diversification of the securities portfolio;
- Use of hedging in the field of jeopardy level management;
- Lack of movement on securities owned by highly profitable enterprises

Active form of management

- Purchase and sale of undervalued securities with a profit in the form of undervalued margin;
- Speculation on securities in the form of arbitrage transactions;
- Purchase and sale of short-term transactions on the basis of detailed study of fluctuations in their value;
- Activities in the field of debt securities;

Fig.3.5 Recommended areas of securities portfolio management for the Bank

* Developed by the author based on [54].

Having studied active and passive forms of investment, we propose for the studied PJSC "FUIB" ("PUMB") in uncertain and risky market conditions to choose a consolidated form of management, which includes active form in the management of securities portfolio that is swapping strategy, and active application of arbitrage transactions.

Also, the passive form of management for a certain part of the portfolio (stock portfolio), namely the form of the index method, choosing securities owned by small and medium-sized businesses, but in promising sectors of the economy agriculture, forestry, tourism.

At the same time, we determine that the basic aspect should be the provision of highly qualified analytical staff, as well as high-quality and large-scale information

support in the field of dynamics and forecasting on the stock market and in the functioning of major investment objects.

3.3. Optimization of the securities portfolio of a financial institution

Carrying out the optimization of the securities portfolio, the manager of the researched Bank must solve two key tasks: to determine the degree of risk; to investigate probable profitability of the portfolio.

Regarding this goal, he needs to implement an analysis of the main aspects, which are shown in Figure 3.6.

We consider the introduction of strategic planning of investment activity to be the primary direction for optimization of the securities portfolio of the researched Bank.

Strategic planning of investment activities on the stock market should include methods of insurance and methods of investment guarantee.

Prevention of expenditure from investments into securities is carried out on the basis of the measures shown in the Figure 3.7.

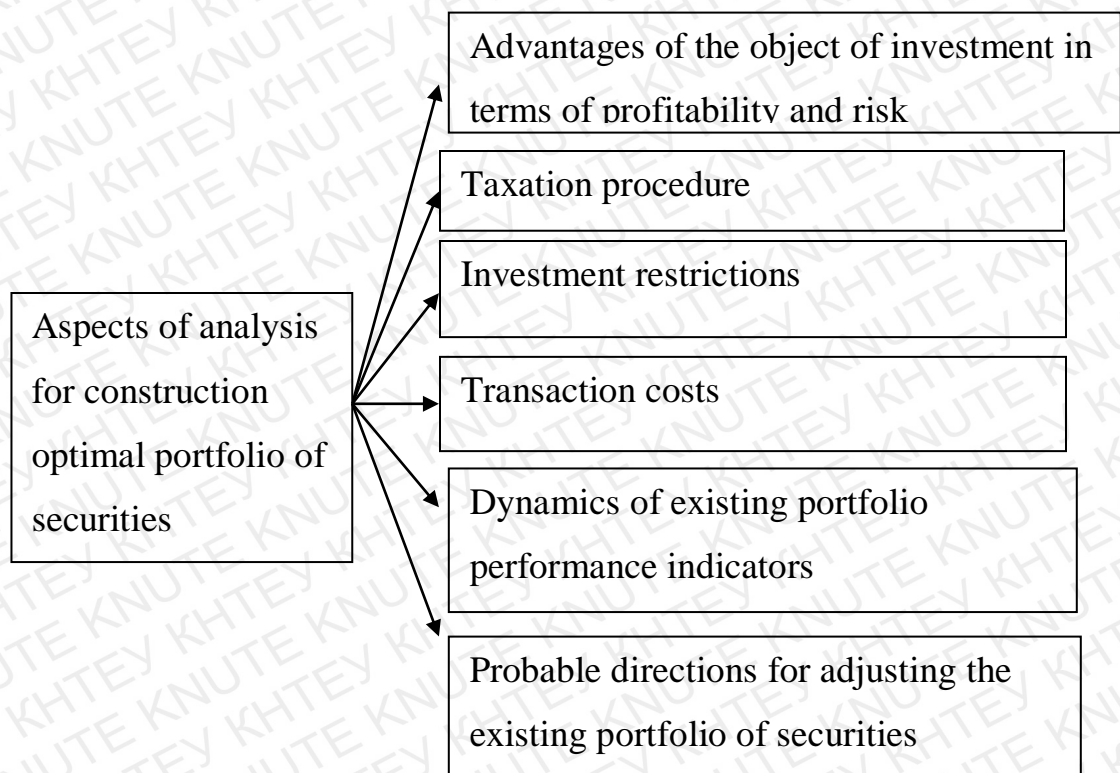


Fig. 3.6 Aspects of research in the process of constructing optimal portfolio of securities

* Developed by the author based on [23].

Basing on the Figure 3.7, we analyze the main measure of reducing investment costs for PJSC "FUIB" ("PUMB"):

Hedging is the signing of contract on the organized securities market that is the opposite of the usual primal contract. The benefit is obtained in the case of realization of risks in the basic contract and the occurrence of costs covered by income due to the hedge contract.

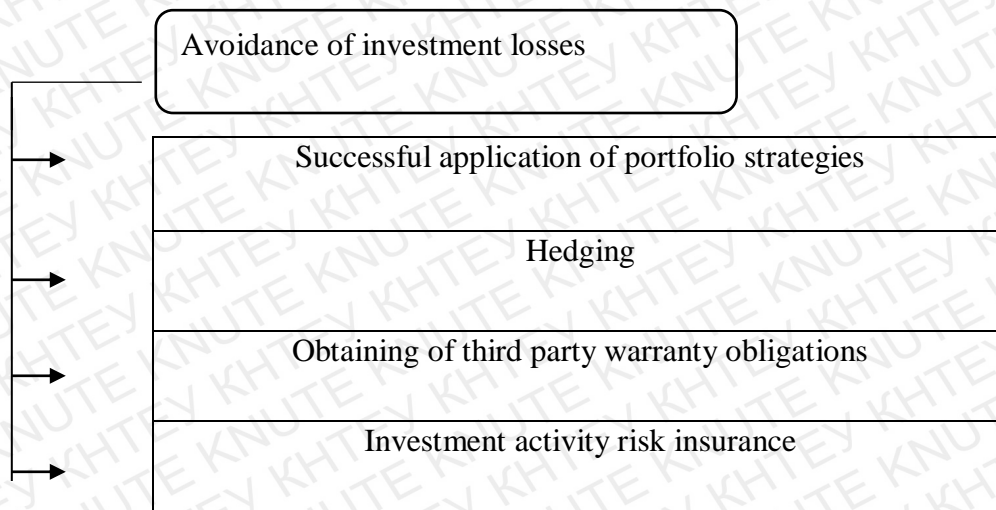


Fig.3.7 System of measures proposed to the studied Bank to prevent unprofitable portfolio investment

* Source: developed by the author based on [19]

It means, that we actively offer the researched Bank to use options in portfolio investment and futures contracts, since they will probably increase the liquidity of securities portfolio.

Securities portfolio management requires mandatory research of the security market. This assessment by the surveyed banking institution is quite generalized and has negative effect on profitability of the securities portfolio.

We propose to introduce [14] study of the dynamics of market rates, assessment of real capital, value of securities, forecasting their value for the future, implementation of fundamental and technical analysis of the stock market.

We also suggest that the focus should be directed onto three main criteria of the securities portfolio [49]:

1. Liquidity of the securities portfolio.

The content of the liquidity of the securities portfolio is interpreted in two aspects:

- 1) the ability to quick transformation of portfolio entirely or of its components into funds, with insignificant implementation expenses without significant losses in exchange rate value;

- 2) the ability to timely repayment of obligations to creditors, return to them borrowed funds, due to which the portfolio or part of it was formed.

In this aspect, we propose to provide 25% of the securities portfolio in the form of short-term securities and to conduct arbitrage transactions with them.

2. Security. As an object of investment in this case, we propose to choose primarily government bonds and some corporate bonds, as well as a limited range of preferred shares of companies, forming them in 40% and applying to them the strategy of «buy and hold».

3. Profitability of deposits is the main goal. The object of investment in this case is [5]: securities of medium quality; corporate bonds; preferred shares; shares of monopolies and large, well-known companies.

At the expense of these shares, we propose to form 35% of the securities portfolio. They are to differ from the previous component in the securities of promising, but little-known and developing companies of low and medium risk, and are going to be marked by the inclusion of highly profitable, but high-risk securities.

Thus, we propose to optimize the management of the investment portfolio of securities of the Bank in the form of redistribution of investments in between the set of financial assets.

Let us describe four schemes of possible management of portfolio of securities.

The first scheme involves investing into securities of constant amount through pre-planned and stable periods of time. Since the rates of the security market are characterized by their dynamism, we propose to purchase greater number of securities in case of their decrease, and lesser number in case of their increase.

Applying this strategy, the investor receives income in the form of raising exchange rate due to the cyclical dynamics of exchange rates. Development and management of the securities portfolio in accordance with this scheme is carried out in the form of the use of securities with the highest degree of liquidity.

This scheme is characterized by its passive nature, but allows to save money for the implementation of basic research of stock assets [5].

The second scheme, according to which the portfolio is classified into two components: speculative; conservative.

Speculative pre-assumes inclusion of corporate securities with high degree of jeopardy, which are projected to be marked by increase in the exchange rate and high level of profitability.

Conservative is to include government securities, which is characterized by low level of jeopardy.

The speculative component of the portfolio is consistently marked by its constant position. In case of increase in its price by the appropriate value determined by the depositor, securities for the convertible component is to be purchased for this value.

In the case of decrease in price of speculative securities, it is covered by the sale of securities that form the second component [22].

The third scheme of investment portfolio management is also characterized by the classification of portfolio into two components: speculative and conservative.

However, the only difference that distinguishes it from the previous scheme is the definition of non-fixed component, but the establishment of certain ratio, in the case of which operations are to be implemented to establish primary proportion within speculative and conservative component of the portfolio.

It should be noted that this proportion is set as prescribed ratio and therefore this scheme can be referred to as a "scheme of fixed proportion" [30].

The fourth scheme is defined as «floating proportions scheme». According to this scheme, the investor determines *interdependent proportions* in order to adjust the value of speculative and conservative components.

This scheme provides detailed study of the dynamics of cyclical courses. Management of the portfolio of investments in securities involves determination of dynamic proportions when applying this scheme.

The studied investment portfolio management schemes include operations with both equity instruments and debt securities, but not in every case the investor shows a desire to build his own portfolio of shares [4].

This happens due to the risk of obtaining lower level of actual profitability compared to the accounted one.

Therefore, these strategies are used by investors choosing active form of portfolio management, although in the current situation we offer the Bank to apply forecasting strategy using the Ukrainian PFTS index consolidated with technical and fundamental research in order to obtain the highest level of securities portfolio management.

The necessity to diversify investments and develop a mechanism to reduce the level of jeopardy are the basic means to overcome crisis on securities market.

The above-mentioned gives us grounds to offer the studied Bank to build a portfolio of securities as follows [27]:

1) in the case of corporate securities purchase, the key emphasis should be put on export-oriented areas of activity. We also offer the researched Bank to include

investments into the forestry and woodworking industries being profitable and promising sectors of the economy.

2) in the field of increasing importance of the state when regulating economy, it is possible to focus on the ownership instruments of Oschad Bank of Ukraine.

3) taking into account devaluation of the national currency and dynamics of legislative and regulatory framework, we may confirm that the most problematic one is going to be the activities of import-oriented businesses.

Therefore, we offer the studied banking institution to be quite careful to invest into these companies, which are dependent on raw materials and materials from foreign countries.

We also note another important feature: the task of the manager responsible for investment policy is the implementation of large-scale study of resource prices and the development of mechanisms for rational investment of temporarily free resources to maximize profits with minimum possible reduction in their liquidity.

Management in the field of investment functioning of banking institutions must be developed systematically, evenly in terms of organizational and economic areas, which should be harmonized with a single strategic goal [10].

In conclusion, it should be noted that the operations of commercial banks with securities have both positive and negative consequences.

From the standpoint of particular bank, investment activities are carried out in order to obtain profits from securities transactions and to ensure participation in the authorized capital of other enterprises and strategic control over their ownership and activities.

In addition, banks, through investment activities in the real sector are trying to create financial-industrial groups, corporations, holdings, where the main actors are banking institutions that provide financial resources to real sector enterprises, which are constantly lacking in Ukrainian economy.

Thus, among the main problems within investment activities run by banks there may be identified the following [54]:

1) low level and insufficient quality of Ukrainian banks capital, deterioration of the structure of bank capital, which leads to weakness of the banking system and inability to implement large-scale investment programs due to limited resource base. 2) imperfection of stock market, short period of its existence. This results in insignificant volumes of operations and low liquidity on it. 3) significant regulatory influence from the state and additional regulatory requirements from the NBU. 4) underdeveloped domestic market of governmental securities [21].

Mentioning the above, we can conclude that commercial banks in Ukraine are one of the leading investors into Ukrainian economy, also playing significant role on the securities market.

At the same time, banks do not fully use their investment potential. The trends identified in the study indicate the growth of their total investment portfolio.

The management of this portfolio is a complex and continuous process, which is carried out in several successive stages, linking the goals and objectives of the relevant activities of banks with determining optimal amount and structure of financial and real investments, their liquidity and jeopardy.

To revive investment activity, it is necessary to provide legislative and organizational support for banks by the state and its institutions.

Further development of the securities market will contribute to [16] creation of a mega-regulator, concentration of bank capital in holdings, formation of a developed government securities market, introduction of preferential taxation of income on securities, restoring public confidence in the stock market, etc.

Basing on this, we may confirm that the mechanism is substantiated and recommendations are worked out to minimize the negative impact of external and internal factors upon the value of the investment portfolio of commercial banks, for example [39]:

- 1) introduction of tax and reserve benefits depending on the composition of the securities portfolio and thus encouragement of commercial banks to engage long-term investments into the country's economy;
- 2) NBU's review of the jeopardy level of securities issuers in which the state has significant stakes in order to prevent diversion of significant part of resources of commercial banks to form reserves;
- 3) facilitating mechanism of providing refinanced loans saved by securities of commercial bank investment portfolio to give banks confidence that they are ever be able to obtain a loan from the NBU and to increase the volume of their investment portfolio;
- 4) establishment of stock market analysis unit within the structure of regional institutions of the National Bank of Ukraine;
- 5) adaptation of classic provisions on investment risk minimization to the peculiarities of dynamic activity of modern commercial banks;
- 6) monitoring, at least twice a week, of real liabilities with different time stability to prevent liquidity risk;
- 7) creation of a subdivision in the structure of the bank, which would mobilize long-term assets and manage them;
- 8) setting own limits on investments securities in accordance with the worked-out development strategy of the bank;
- 9) increase the capitalization of banking institutions by reducing the number of uncompetitive ones by merge and acquisition.

It should also be noted that the development of investment activities is to be worked-out not only through the efforts of banking institutions, in particular one under study, but the state is also to support them.

According to strategic documents, this model should be characterized by the following features [20; 21]:

- 1) high level of capitalization is consolidated with the universal type of banks activity, which is to increase the degree of their competitiveness;
- 2) availability for a single central body of state power in the field of activities regulation directed onto securities for banking and non-banking organizations – mega-regulator;
- 3) initial placement of securities with mobilization of banking institutions being intermediaries;
- 4) ensuring high level of complexity of the listing process, especially for the initial public offering of securities on organized markets;
- 5) increased requirements for securities market participants regarding jeopardy of stock transactions;
- 6) performance of brokerage functions mainly by banks.

Therefore, we may conclude, that to optimize the securities portfolio for the Bank by developing operations with ownership instruments of corporate enterprises within promising sectors of agriculture and forestry, tourism, export-oriented enterprises, applying to them passive form of «buy and hold».

At the same time, we recommend consolidating passive form of management with active one in the form of arbitrage operations with debt securities. And for the management of the securities portfolio, we propose to choose the third management scheme, which involves determining dynamic proportions between speculative and conservative components.

CONCLUSIONS AND RECOMMENDATIONS

The study of theoretical, methodological and practical principles of investment management strategy concerning securities of a banking institution allows to estimate the success of investment activities and proposes a set of measures aimed at improving the portfolio investment of the bank. Based on this, the following conclusions have been formulated.

1. Investment activity is the placement of financial resources in the form of securities, and investment of resources taken into the development of the real sector of the economy in order to obtain commercial effect.

Investment activity is considered a powerful financial source of economic development and efficient use of resources of economic entities. At the same time, the key institutions are banking institutions, which are characterized by the presence of a significant amount of temporarily free resources that can be transformed into investments.

The success of investment activities is determined by the optimally developed and effectively implemented investment policy of a commercial bank.

2. The bank's investment policy is a structural part of the bank's policy in the whole and is defined as a system of documented rules, principles, processes that form optimal directions of the investment sphere of the banking institution, regulate the bank's resources, develop successful investment portfolio to achieve strategic goals in accordance with the general policy of the commercial bank.

The development of investment policy should be applied to certain order of stages, taking into account the impact of macro- and micro-environment, as well as comply with the overall strategy of the bank being implemented into practice in accordance with continuous monitoring and timely adjustment.

3. In the current conditions of activity, investors, in order to comply with the principle of diversification and reduction of the level of risk, try to place their own

temporarily free resources into various investment objects, which was named portfolio investment.

As a result, an investment portfolio is formed as a set of investment objects and investment instruments of various types. The classification of investment portfolios is broad and put into action depending on the purpose of investments, compliance with the set of goals, term of investments, rationality of the formed investment portfolio, etc.

4. In order to consolidate and implement it practically the acquired theoretical knowledge, we undergo practice on the basis of JSC CB «FUIB» («PUMB») – the object of banking sector activity.

JSC CB «FUIB» is universal bank, which has been operating on the Ukrainian financial market for almost twenty-seven years and it has been serving large and medium-sized enterprises, small and medium-sized enterprises, and individuals.

The Bank is included into the group of the largest banking institutions of the country according to the classification of the National Bank of Ukraine. The Bank is in the TOP-10 of Ukrainian banks in terms of key financial indicators.

Grounding on the analysis of the financial condition of the Bank, we determine that in general the assets of the surveyed bank during the period 2017-2019 has continued to grow: in 2018 compared to 2017 increased by 5.17%; in 2019 compared to 2017 increased by 13.45%;

This tendency indicates about improvement in the financial condition of the Bank during the researched period. At the same time, in 2019 the highest growth rates are typical for such types like investment property, loans to customers and fixed assets.

5. In general, the liabilities of the studied Bank during the period 2017-2019 maintained an upward trend: in 2018 compared to 2017 increased by 7.32%; in 2019 compared to 2018 increased by 11.17%;

At the same time, in 2019 the highest growth rates are typical for such types like securities revaluation reserve, indebtedness to other banks.

During the analysis of the final indicators, we may affirm that the total amount of the Bank's income in 2018 increased by 16.68% compared to 2017, while in 2019 it increased by 21.00%.

This dynamics of income makes it possible to argue about the sufficiently successful operation of the studied banking institution.

In general, the Bank's expenses in 2018 increased by 17.19% compared to 2017, while in 2019 they increased by 10.03%.

The positive dynamics of expenditures in 2017 is due to the corresponding increase in revenues, which is due to the intensification of activities in general.

2017-2019 the Bank was characterized by the excess of income over the amount of expenses, which led to the profitable activities of the banking institution, and accordingly the profitability of operation;

2019 for the Bank was characterized by the following indicators of activity of the period under study: the level of profitability of banking services increased by 35.55% compared to 2018 and amounted to 7.68%, and the level of banking services increased by 13.60% and amounted to 11.40%, the level of profitability remains average, but again there is a positive trend of its growth.

6. The Bank's investment activities are focused exclusively on the development of its own business. In this area of investment, 2017 compared to 2015 is characterized by significant intensification of the investment sector of its own business IT infrastructure – investments increased 4.5 times, Network infrastructure – investments increased 4.6 times, Collection – investments increased 4.8 times, Support for ATMs and PIC terminals – investments increased 5.6 times.

In general, investments in the development of inner activities increased 4.7 times, which led to the development of the Bank in general and to improvement in the level of profitability.

The investment portfolio of the Bank is constructed on such investment objects like government debt securities, NBU certificates of deposit, USA government debt securities and shares.

The dynamics of the investment portfolio is negative, due to significant decrease in the amount of debt securities as a result of the government's default.

The «lion's share» of the investment portfolio consists of debt instruments, while equity instruments do not form even 1%.

The Bank is also characterized by passive management of both the portfolio of debt securities and shares, and it is characterized by strategies of indexation and «buy and hold», respectively.

The main reasons for the low efficiency of the investment component of the Bank include lack of resources for investment operations, the desire to maximize the return by raising interest rates on loans, high requirements for investment loans, opacity of the capital market, distrust of customers, imperfection of legislation, low liquidity of the secondary securities market, insufficient number of solvent borrowers.

7. In order to develop the investment activities of JSC CB «FUIB» («PUMB») we propose to study the experience of investment activities of foreign banking institutions, to ensure the development of investment management services, to develop strategy and program of merging with strong domestic banks into investment concerns, implement it in practice and mobilize state support.

In particular, we propose to the studied commercial bank to refocus on active management of the investment portfolio and concentrate on: strategy based on the study of the dynamics of interest rates in the field of debt instruments; group rotation strategies with a focus on the agricultural-industrial sector of the economy, as well as and services, in particular the tourism business.

8. The process of investment management in the field of securities of the bank is a priority to take into account the influence of factors and limits on implementation of banking operations on the stock market, in particular, administration within the

regulatory capital of commercial banks, which indicates the level of financial stability and investor protection; investment standards should be aimed at ensuring the minimum level of investment transactions jeopardy in terms of securities transactions.

9. Having studied the active and passive forms of investment, we propose for the studied Bank to choose a consolidated form of management within uncertain and risky market conditions, which includes active form of securities portfolio management, that is swapping strategy and applying arbitrage transactions actively.

The passive form of management should be also applied for a certain part of the portfolio (stock portfolio), being the form of the index method, choosing securities owned by small and medium-sized businesses, but in promising sectors of the economy: agriculture, forestry, tourism.

At the same time, we determine that the basic aspect should be the provision of highly qualified analytical staff, as well as high-quality and large-scale information support in the field of dynamics and forecasting on the stock market and through the functioning of major investment objects.

We propose to optimize the securities portfolio for the Bank by developing operations with instruments of ownership of corporate enterprises within promising sectors of agriculture, forestry, tourism, export-oriented enterprises, applying to them a passive form of the «buy and hold» method.

At the same time, we recommend consolidating the passive form of management with the active one in the form of arbitrage operations with debt securities. And for the management of the securities portfolio, we propose to choose the third management scheme, which involves determining the dynamic proportions between the speculative and conservative components.

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APPENDIX

Appendix A

Table. 2.1

Dynamics of assets of JSC CB "FUIB" for 2017 - 2019 (UAH million)

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Assets	46463,79	48865,19	55437,22	5,17	13,45
Cash, bank metals and balances with the NBU	1178,80	9040,61	9671,65	666,93	6,98
Securities measured at fair value through profit or loss	182,89	93,20	39,31	-49,04	-57,82
Securities measured at fair value through other comprehensive income	10223,49	9360,51	8890,82	-8,44	-5,02
Loans to customers	25427,06	27244,30	32886,48	7,15	20,71
Other assets	697,10	631,51	658,45	-9,41	4,27
Fixed assets	1253,80	1415,62	1583,99	12,91	11,89
Investment property	149,35	71,88	94,31	-51,87	31,20
Intangible assets	300,00	320,63	279,64	6,88	-12,78
The right to use assets	-	246,48	264,71	-	7,40

Appendix B

Table. 2.2

The structure of assets of JSC CB "FUIB" in the study period, %

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Assets	100	100	100	-	-
Cash, bank metals and balances with the NBU	2,54	18,50	17,45	15,96	-1,05
Securities measured at fair value through profit or loss	0,39	0,19	0,07	-0,20	-0,12
Securities measured at fair value through other comprehensive income	22,00	19,16	16,04	-2,85	-3,12
Loans to customers	54,72	55,75	59,32	1,03	3,57
Other assets	1,50	1,29	1,19	-0,21	-0,10
Fixed assets	2,70	2,90	2,86	0,20	-0,04
Investment property	0,32	0,15	0,17	-0,17	0,02
Indexes	0,65	0,66	0,50	0,01	-0,15
Intangible assets	-	0,50	0,48	-	-0,03

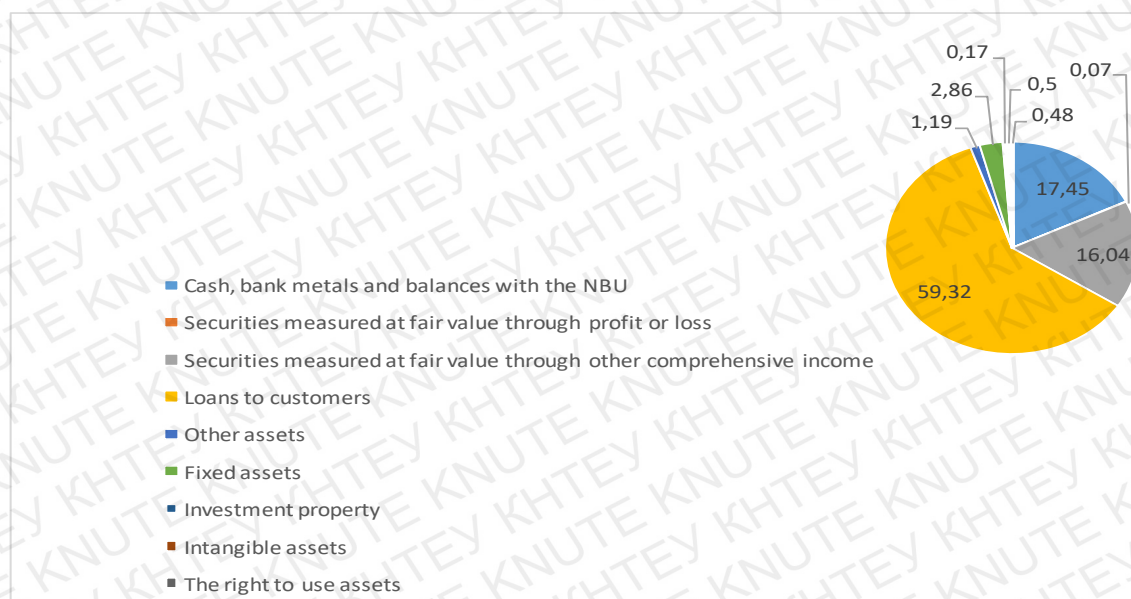


Fig.2.2 Asset structure in 2019

Appendix C

Table. 2.3

Dynamics of liabilities of JSC CB "FUIB" for 2017 - 2019 (UAH million)

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Liabilities	46463,79	49865,19	55437,22	7,32	11,17
Debt to other banks	865,00	697,45	934,28	-19,37	33,96
Clients money	31194,28	39780,15	42752,60	27,52	7,47
Certificates of deposit issued	187,19	832,46	-	344,71	-
Another obligation	996,73	267,40	294,62	-73,17	10,18
Subordinated debt	489,66	488,15	-	-0,31	-
Total commitments	41659,07	43547,32	46369,84	4,53	6,48
Equity	3294,49	3294,49	3294,49	0,00	0,00
Issue income	101,66	101,66	101,66	0,00	0,00
Fixed assets revaluation reserve	484,12	474,74	456,92	-1,94	-3,75
Securities revaluation reserve	69,29	-24,75	122,30	-135,72	594,14
Reserve fund	1475,43	1475,43	1475,43	0,00	0,00
Undivided profit	-620,27	996,31	3616,58	260,63	263,00
Total equity	4804,73	6317,87	9067,38	31,49	43,52

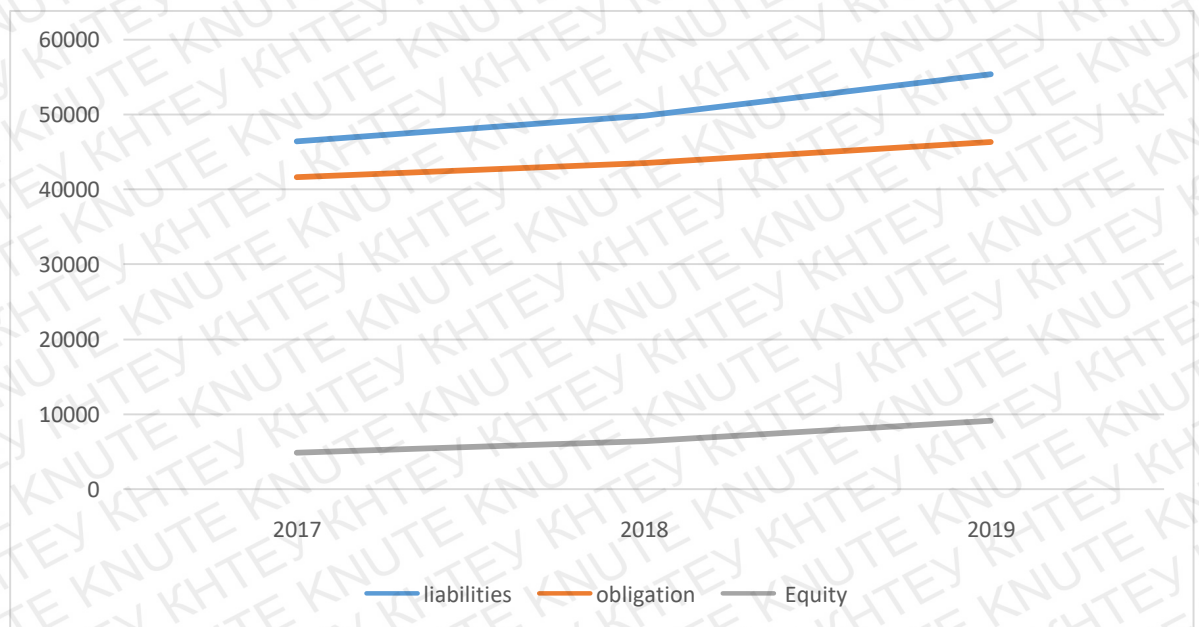


Fig. 2.3 Dynamics of the Bank's liabilities for the period 2017-2019

Appendix D

Table. 2.4

The structure of liabilities of JSC CB "FUIB" in the study period,%

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Liabilities	100	100	100	-	-
Debt to other banks	1,86	1,40	1,69	-0,46	0,29
Clients money	67,14	79,78	77,12	12,64	-2,66
Certificates of deposit issued	0,40	1,67	-	1,27	-
Another obligation	2,15	0,54	0,53	-1,61	0,00
Subordinated debt	1,05	0,98	-	-0,07	-
Total commitments	89,66	87,33	83,64	-2,33	-3,69
Equity	7,09	6,61	5,94	-0,48	-0,66
Issue income	0,22	0,20	0,18	-0,01	-0,02
Fixed assets revaluation reserve	1,04	0,95	0,82	-0,09	-0,13
Securities revaluation reserve	0,15	-0,05	0,22	-0,20	0,27
Reserve fund	3,18	2,96	2,66	-0,22	-0,30
Undivided profit	-1,33	2,00	6,52	3,33	4,53
Total equity	10,34	12,67	16,36	2,33	3,69

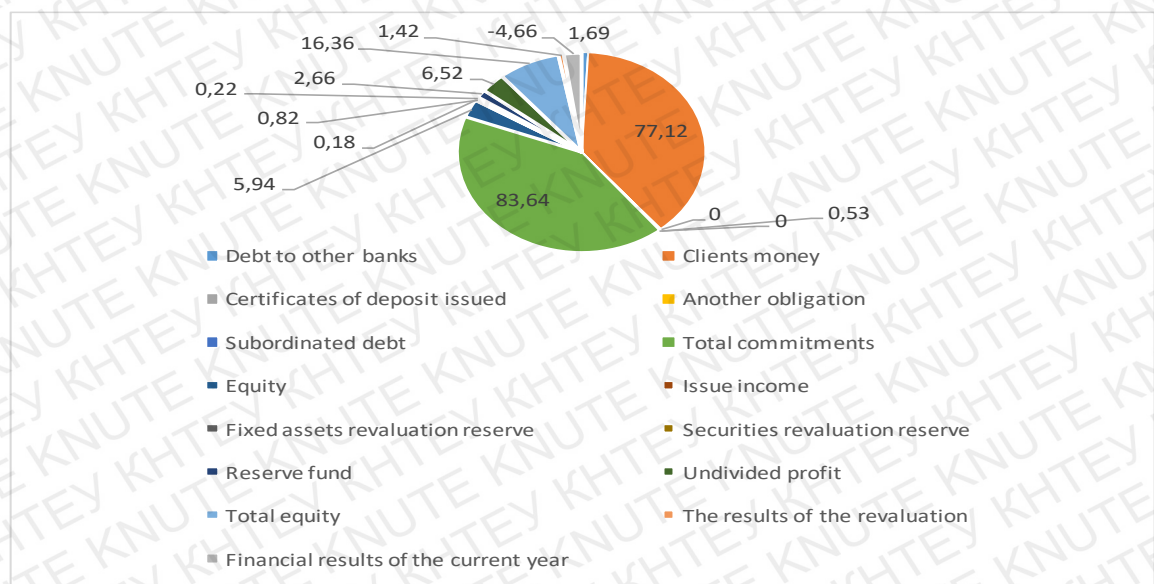


Fig.2.4 The structure of liabilities in 2019

Appendix E

Table.2.5

Analysis of the Bank's income dynamics, UAH mln

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Operating income	3790,8	5701	7258,3	50,39	27,32
Interest income	5178,1	6365,6	7782	22,93	22,25
Commission income	1643,7	1988,7	2282,4	20,99	14,77
Results from trading operations	286,45	297,45	254,85	3,84	-14,32
Results from exchange rate differences	17,05	-47,93	75,02	-381,11	-256,52
Other income	353,47	122,38	164,85	-65,38	34,70
Comprehensive income	7478,71	8726,13	10559,03	16,68	21,00

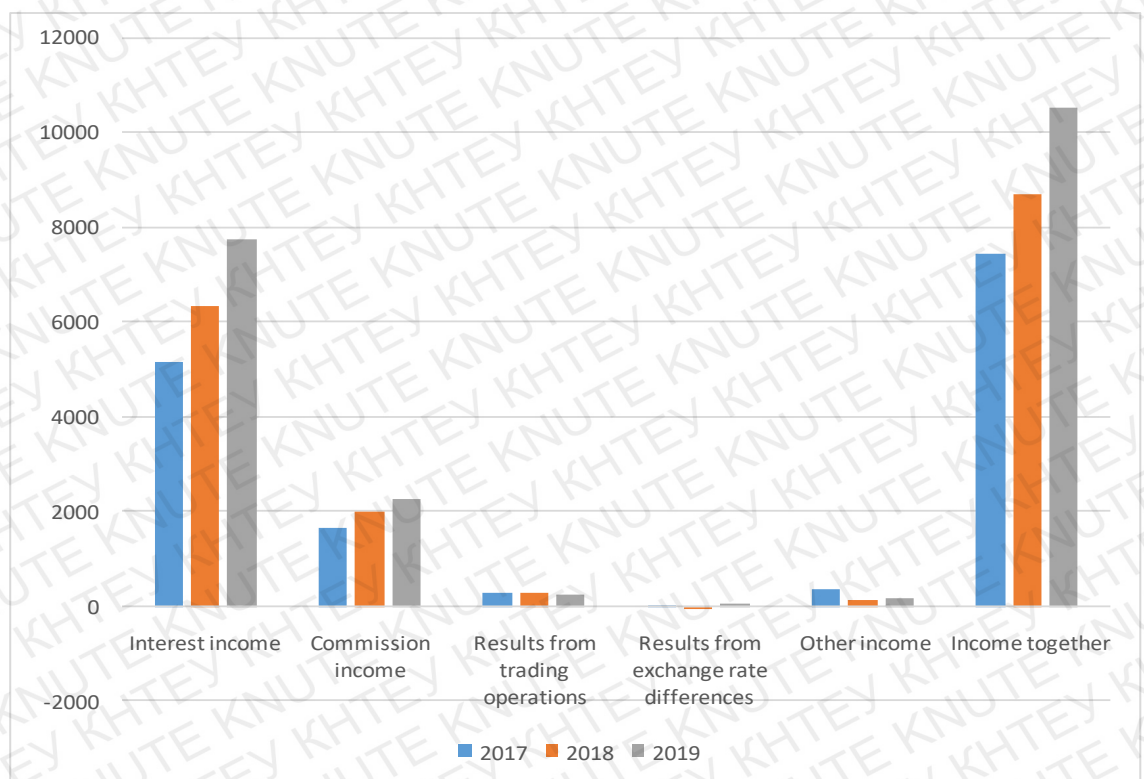


Fig. 2.5 Dynamics of the Bank's income for the period 2017-2019

Appendix F

Table. 2.6

The structure of the Bank's income in 2017-2019, %

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Total income	100	100	100	-	-
Interest income	69,24	72,95	73,70	3,71	0,75
Commission income	21,98	22,79	21,62	0,81	-1,17
Results from trading operations	3,83	3,41	2,41	-0,42	-1,00
Results from exchange rate differences	0,23	-0,55	0,71	-0,78	1,26
Other income	4,73	1,40	1,56	-3,32	0,16

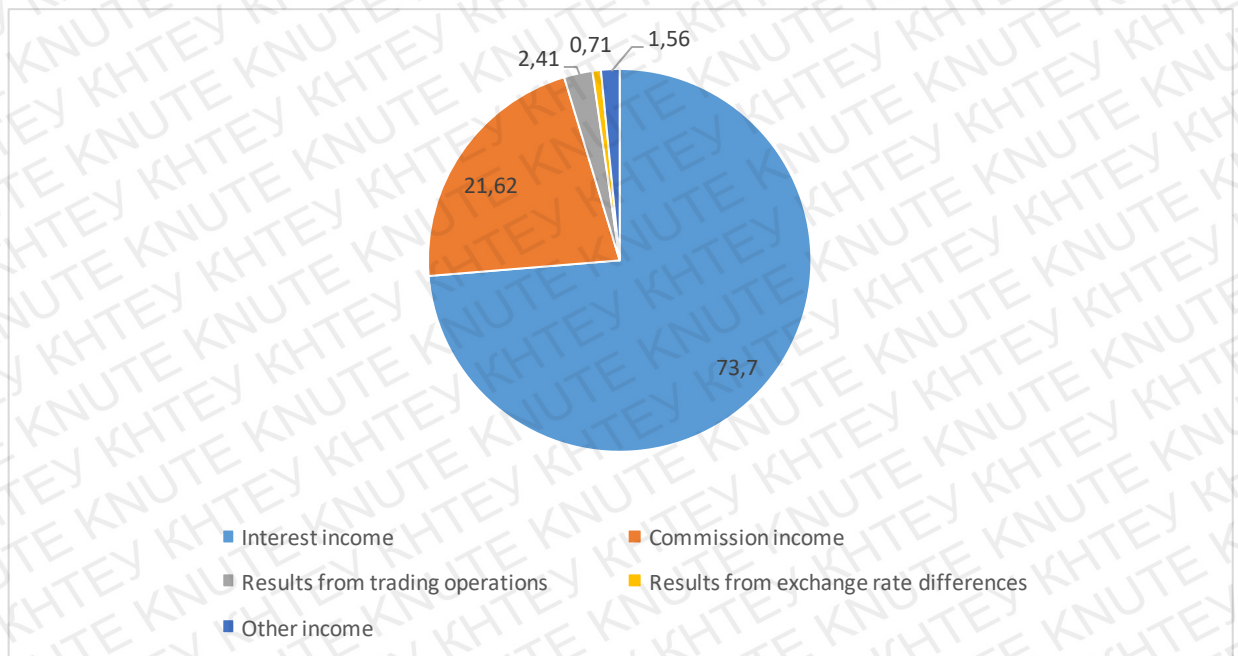


Fig.2.6 Structure of the Bank's income in 2019

Appendix G

Table. 2.7

Analysis of the Bank's cost dynamics, UAH mln

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Operating costs	2906,8	3369,6	4097,3	15,92	21,60
Interest expenses	2153,5	2451,5	2491,2	13,84	1,62
Commission expenses	459,65	483,18	536	5,12	10,93
Income tax	166,74	322,92	557,28	93,67	72,58
The cost of everything	2779,84	3257,58	3584,47	17,19	10,03

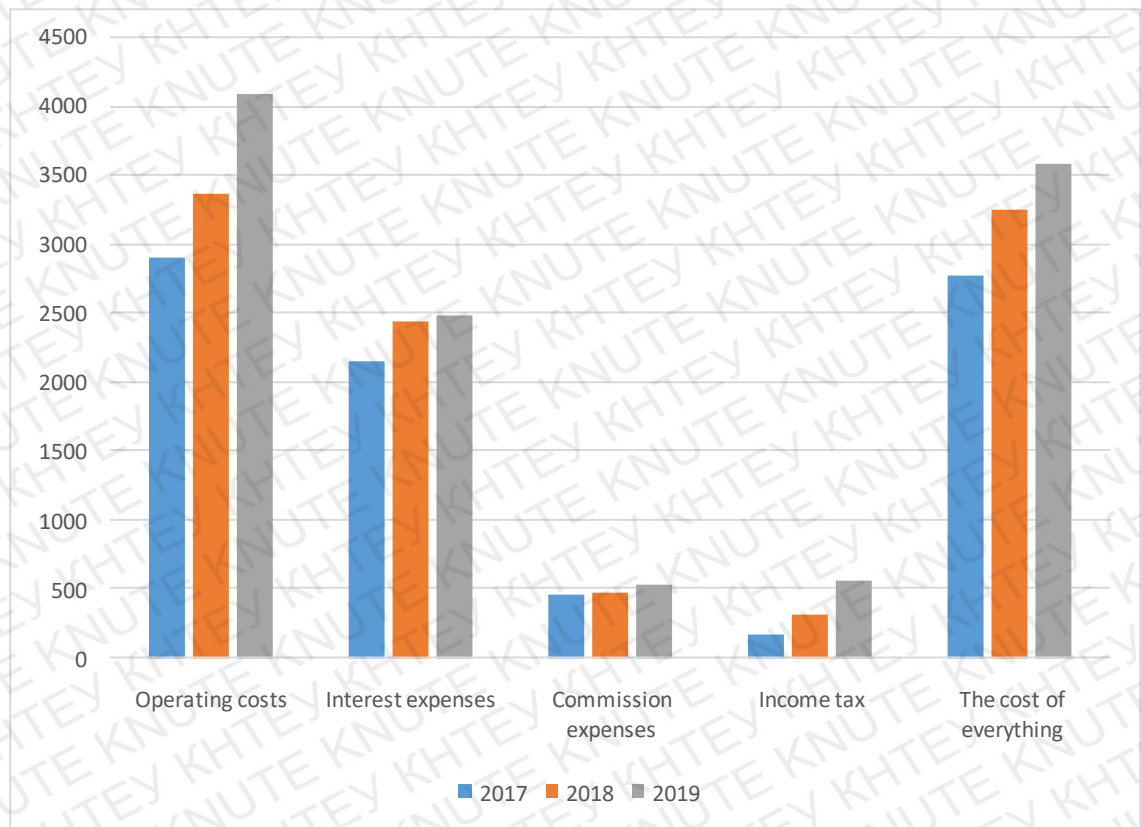


Fig. 2.7 Dynamics of the Bank's expenses for the period 2017-2019

Appendix I

Table. 2.8

Structure of the Bank's expenses for 2017-2019, %

Indexes	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
The cost of everything	100	100	100	-	-
Interest expenses	77,47	75,25	69,50	-2,21	-5,76
Commission expenses	16,54	14,83	14,95	-1,70	0,12
Income tax	6,00	9,91	15,55	3,91	5,63

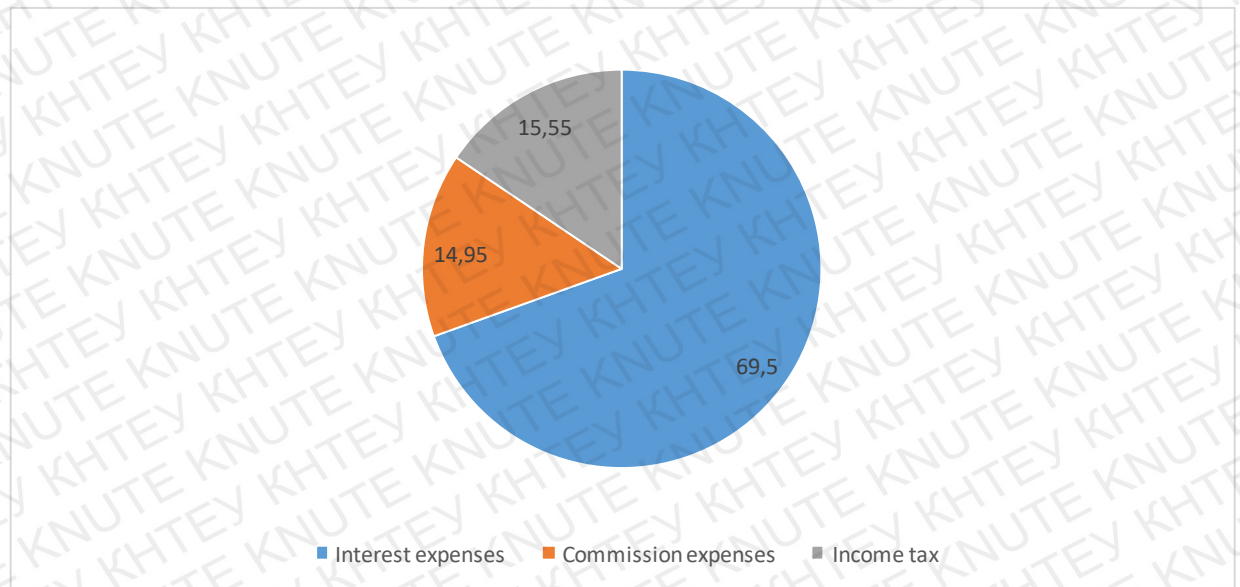


Fig.2.8 Structure of the Bank's expenses in 2019

Appendix H

Table. 2.9

Dynamics of profit and profitability of JSC CB "FUIB", 2017 - 2019 (UAH million)

Name articles	2017	2018	2019	Growth rate, %	
				2018/2017	2019/2018
Income	3790,8	5701	7258,3	50,39	27,32
Costs	2906,8	3369,6	4097,3	15,92	21,60
Net profit	717,29	322,92	557,28	-54,98	72,58
Profitability of realization banking services (PE / D) * 100,%,	18,92	5,66	7,68	-70,06	35,55
Profitability of provision banking services (PE / V) * 100,%	24,68	9,58	13,60	-61,16	41,93

Appendix M

Table. 2.10

Research of the Bank's investment activity in the field of improving its own functioning, UAH million

Sphere of investment	2017	2018	2019	Growth rate,% 2019/2017
IT infrastructure	46	134	252	547,83
Network infrastructure	12	34	67	558,33
Collection	9	23	52	577,78
Support for ATMs and PIC terminals	7	22	46	657,14
Other	1	5	8	800,00
Together	75	218	425	566,67

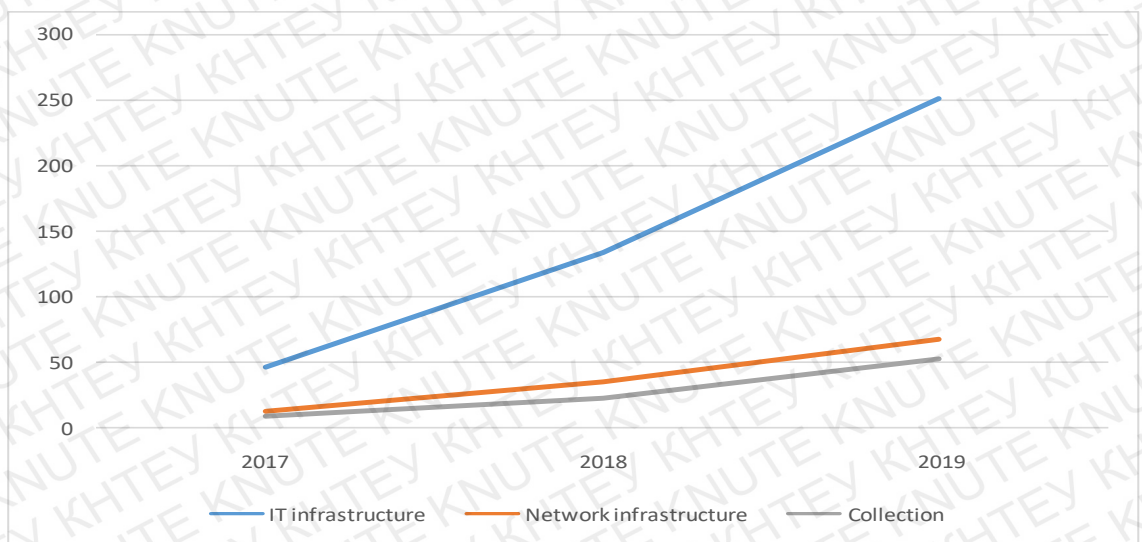


Fig.2.10 Dynamics of investment in own development

Appendix N

Table. 2.11

**Study of the structure of the Bank's investment activity in the field of
improving its own functioning**

Sphere of investment	2017	2018	2019	Growth rate, % 2019/2017
IT infrastructure	61,33	61,47	59,29	96,68
Network infrastructure	16,00	15,60	15,76	98,53
Collection	12,00	10,55	12,24	101,96
Support for ATMs and PIC terminals	9,33	10,09	10,82	115,97
Other	1,33	2,29	1,88	141,18
Together	100	100	100	-

Appendix O

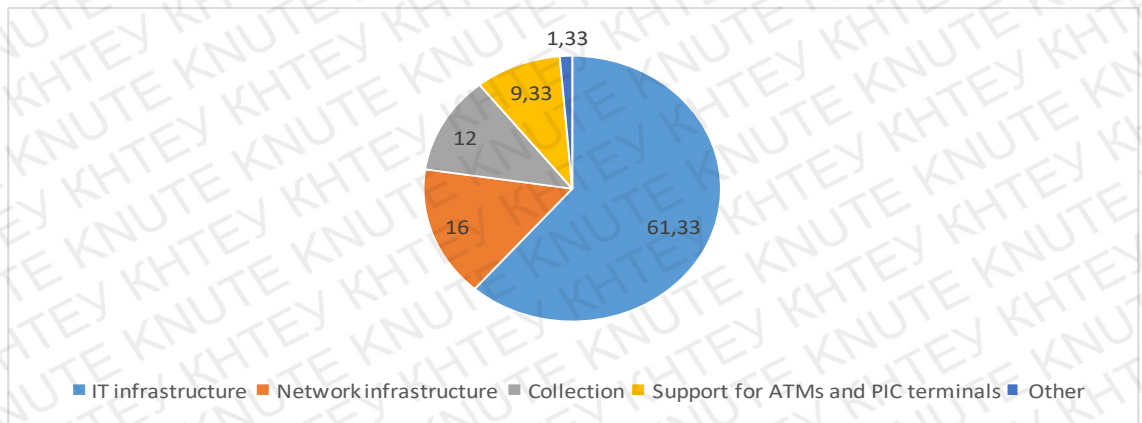


Fig.2.12 Structure of investments of the Bank's own development in 2017

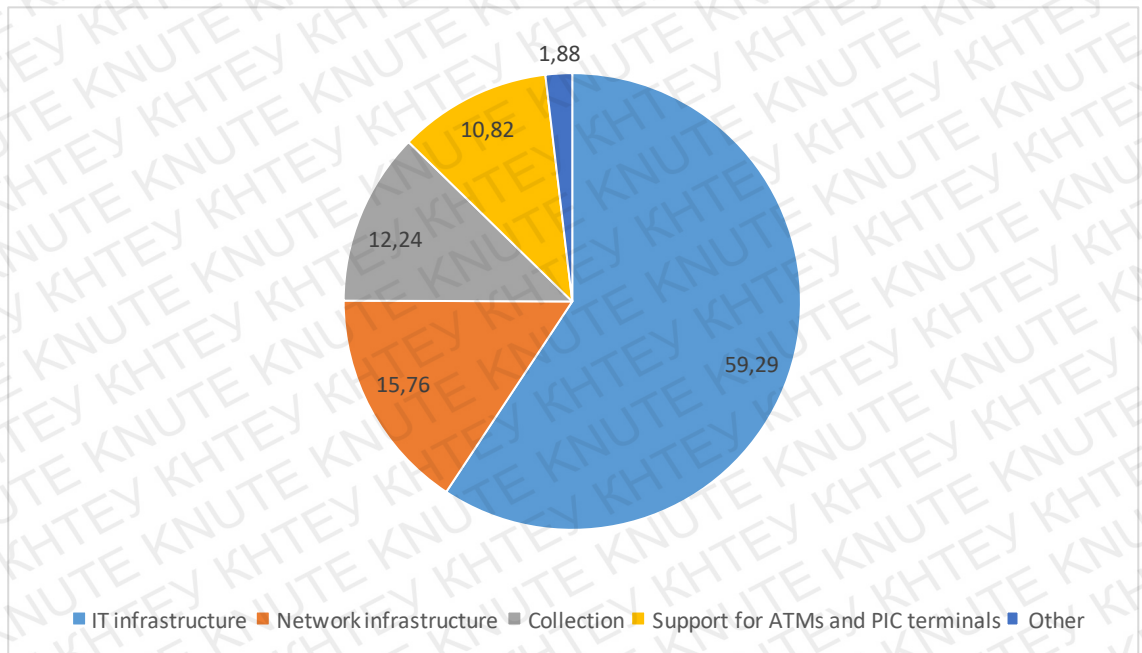


Fig.2.14 Structure of investments of the Bank's own development in 2019

Appendix P

Table. 2.12

**Study of the Bank's investment activities in the field of financial investments,
UAH million**

Sphere of investment	2018	2019	Growth rate, , % 2019/2018
Government debt securities	93,20	39,31	-57,82
NBU certificates of deposit	1008,31	1206,24	19,63
US government debt securities	27,58	-	-
Government debt securities	7677,52	8317,57	8,34
Promotions	7,06	7,06	-

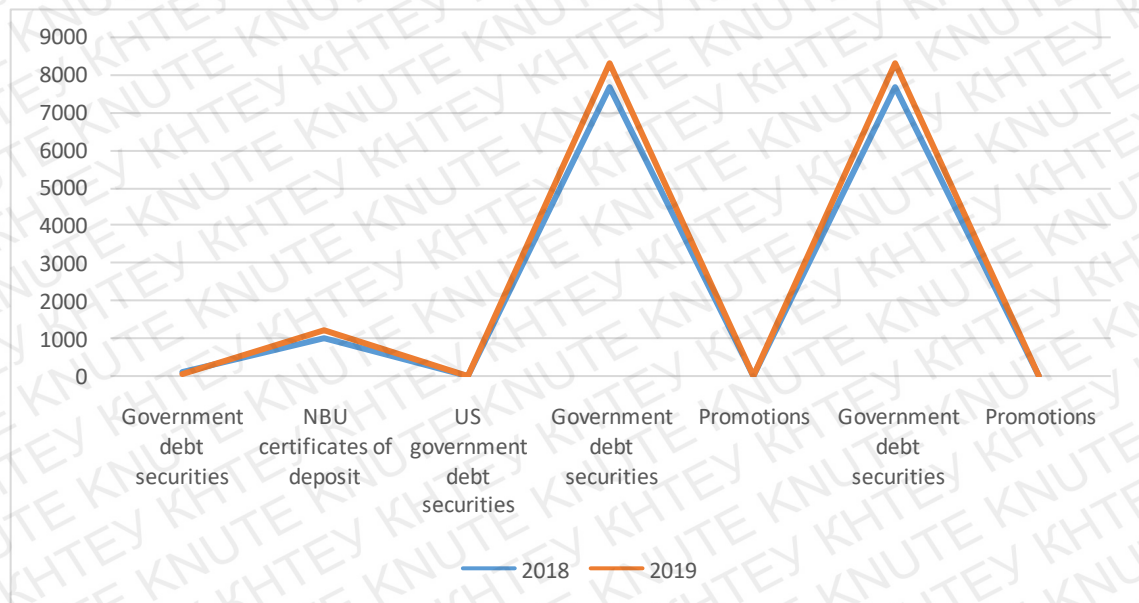


Fig.2.15 Dynamics of financial investments

Appendix R

Table. 2.13

Study of the structure of the Bank's investment activity in the field of financial investment

Sphere of investment	2018	2019	Growth rate, %
Government debt securities	1,06	0,41	-0,65
NBU certificates of deposit	11,44	12,60	1,16
US government debt securities	0,31	-	-0,31
Government debt securities	87,11	86,91	-0,20
Promotions	0,08	0,07	-0,01

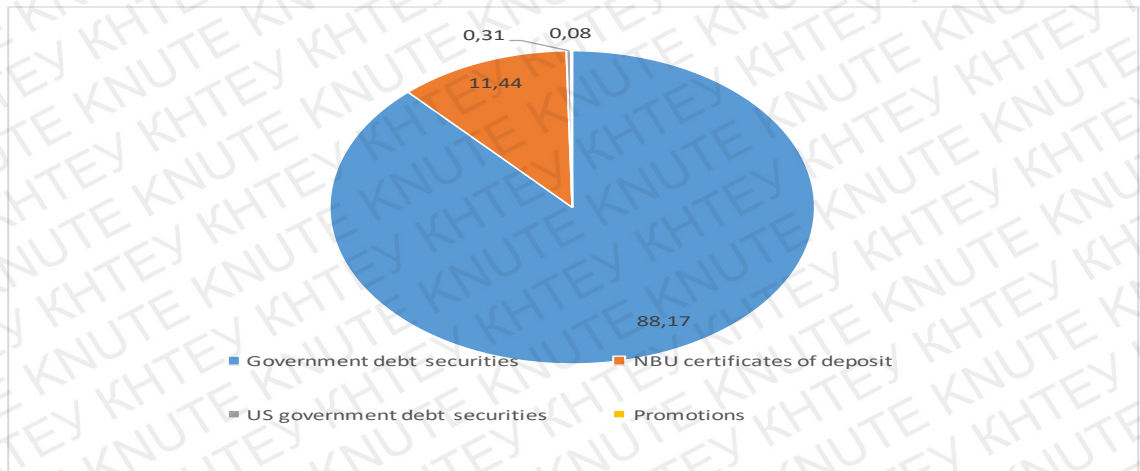


Fig.2.16 The structure of the portfolio and investment of the Bank in 2018

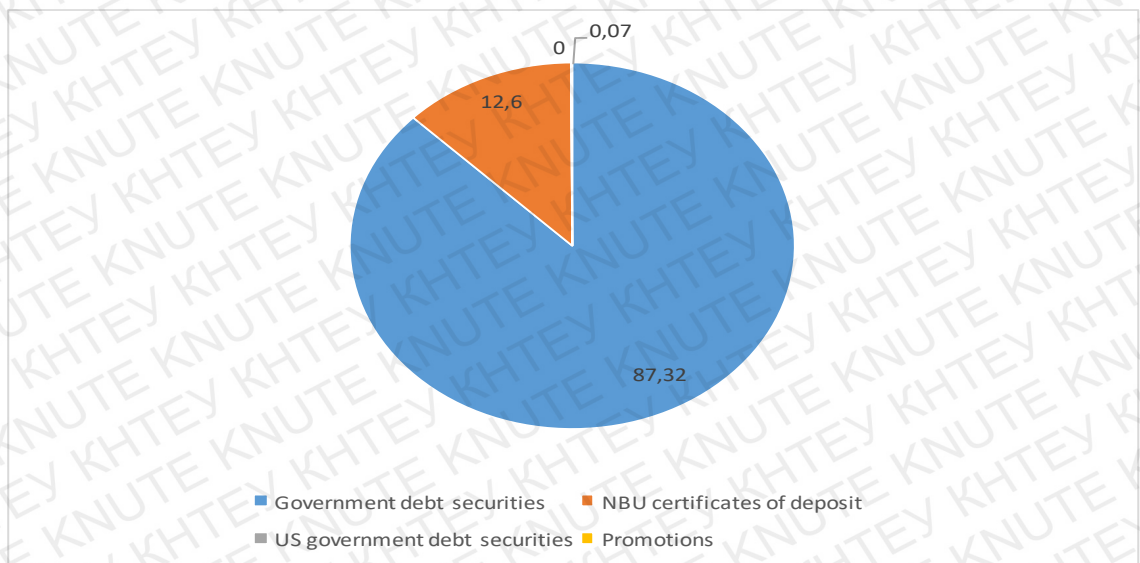


Fig.2.17 The structure of the portfolio and investment of the Bank in 2019