SECTION 2. METHODOLOGICAL APPROACHES TO THE FORMATION OF FINANCIAL, ACCOUNTING AND ANALYTICAL INFORMATION IN THE MANAGEMENT SYSTEM OF ENTITIES OF DIFFERENT LEVELS OF MANAGEMENT

THEORETICAL ASPECTS OF IMPLEMENTATION OF INVESTMENT ACTIVITIES BY A COMMERCIAL BANK

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Abstract. Approaches to defining the concept of "bank investments" are given. The role of banking institutions in the country's financial system is studied. The main aspects and forms of banking investment are considered. The types of investment policies of banks during the implementation of financial activities are disclosed. Stages of investment management at the bank level are presented. The priority directions of management of banking investment activities have been determined. It was found that researchers of the issue of investment activities agree that the purpose of such activities is to generate income or achieve a social effect. The role and significance of investment activity for the development of the border region is substantiated.

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The priority directions for activation of investment processes at the regional level have been determined.

Keywords: investment, foreign investment, investment activity of banks, investment process, investment resources.

1. Introduction

A condition for the successful development of Ukrainian banks is active investment activity. As a rule, the mechanism of implementation of investment activities is closely related to the investment process in modern conditions of economic transformation and development. Participating in the investment process, banks serve the movement of funds belonging to investor-clients and intended for investment. One of the main investment functions of banks is the mobilization of public savings and their direct investment through the securities market. The function of investing own and borrowed resources in investment projects is also important. But, as experts note, the investment activity of Ukrainian commercial banks takes place only according to the first function – maintenance of the flow of funds.

Investment activity is always in the center of attention of economic thought, as it causes a tangible impact on the country's macroeconomic development. Investment is a determining factor of economic growth as a whole. In modern conditions, investments are the most important means of ensuring the conditions for stabilization of the economy, structural changes in the national economy, activation of technical progress, and improvement of quality indicators of economic activity at the micro and macro levels.

Border territories play an important role in the process of international, including cross-border, cooperation and have a specific status. Activation of the country's investment activities at the level of border territories corresponds not only to regional interests, but also to the interests of the entire state, because such connections can be an additional source of improving the level of socio-economic development not only of the region, but also of the country as a whole. It is investment activity that plays an important role in this process, especially for those border regions that experience a shortage of foreign investment.

The ability to solve these tasks, first of all, depends on the mechanisms of bank capital management, which characterizes their solvency, liquidity and promotes further development. As modern practice shows, the main focus of commercial banks is on lending to economic entities. However, when lending, banks face certain problems, namely: the presence of a part of loans that cannot be returned in the event of the need to obtain additional funds, and a high probability of non-return of funds by the borrower. Therefore, taking into account the mentioned lending risks, banking institutions are interested in carrying out investment activities. This line of activity is able to provide the desired level of liquidity, increase in profitability and preservation of funds with minimal risks. However, it is impractical and impossible for the bank to focus on one of the areas of activity. Therefore, an important task for each bank is the choice of a priority direction of activity in order to achieve current goals. Despite the existence of a positive trend of intensification of banking investment, today there are a number of problems that require immediate resolution in order to improve the activity of banks and the development of the banking system as a whole.

2. Theoretical aspects of investment activities

The implementation of modern banking activities involves the implementation of investment activities by banks. Investment is a complex debatable economic category characterized by a number of features. The types and forms of investments are diverse and capable of transformation, taking into account the peculiarities of the state of the economy and the level of development of industrial relations.

Investment is one of the most discussed concepts both in scientific literature and in modern economic practice. Various aspects of investments and investment activity were studied in the writings of: J. M. Keynes, J. Sachs, G. N. Mankiw, K. R. McConnell, U. Sharp, I. Schumpeter, P. Samuelson, L. Mises, J. Clarke, M. Porter and others.

Many researchers rightly believe that investments play an important role in activating economic processes and achieving sustainable economic growth (E. Domar, R. Harrod, U. Solow, J. M. Keynes, L. Erhard, U. Sharp, I. Lipsyts, A. Bulatov, A. Shakhnazarov, A. Andrianov, E. Rumyantseva, etc.).

In modern economic literature, there are different definitions of the concept of “investment”, which reflects the ambiguity of interpretations and understanding of their economic essence. To a large extent, this is due to the difference in the methodological approaches of various authors and economic evolution, the specificity of specific stages of historical and economic development, prevailing forms and methods of management.

The goals of the commercial bank’s investment activity are to maintain the safety of bank funds, ensure their diversification, income and liquidity. The economic essence of the bank’s investment activities is reduced to financial investments (long-term securities, units, shares, investments in authorized capital, etc.) and real investments (tangible and intangible assets). In the economic literature, a number of main areas of activity of banks in the investment market are highlighted (Figure 1).

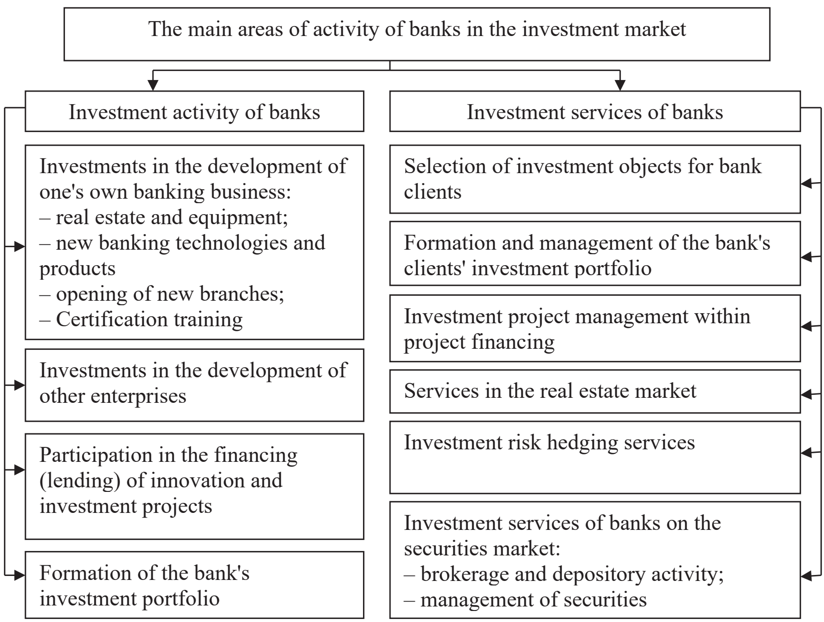

Figure 1. The main areas of activity of banks in the investment market

Source: compiled by the authors

Involvement of banks in investment policy is carried out in two directions:

– as a result of the mechanisms of the medium and long-term lending process;

– through stock market mechanisms.

In the classical sense, if a bank provides funds to an enterprise and receives its securities in return, it can participate in the rehabilitation of the enterprise. Also, the bank undertakes to invest a certain amount of funds in this enterprise, if it is possible to transfer the state share of the capital of the enterprise to the bank's trust management.

In their investment activities, commercial banks must maintain close contact with enterprises. Start-up in case of creation of a new enterprise is possible both within the framework of financial and industrial groups, and outside them, by means of bank capital. Financial and industrial groups are those organizations and structures formed by combining industrial and financial capital.

A commercial bank can participate in the rehabilitation of an enterprise: it gives funds to the enterprise, and in return receives its securities. It is also possible to transfer the state share of the capital of the enterprise to the trust management of the bank, instead of which the bank undertakes to invest a certain amount of funds in this enterprise.

In recent years, our government has paid a lot of attention to the importance of strengthening the participation of commercial banks in the domestic securities market, increasing the level of their capitalization and stability, assets and the total capital of the country in order to further increase the capitalization and stability of the commercial banks of our country serve to activate the participation of banks in the securities market. In particular, the laws and regulations issued by the state administration lead to the further improvement of operations related to securities.

It is also worth noting that banks kept the largest share in the stock market every two years. The share of banks in stock exchange turnover in 2019 was 50.6%, and in 2020 it was 86.3%. This shows that our banks have a strong position on the securities market. The share of the remaining sectors is very low and tends to decrease from year to year. Only in the agro-industrial complex will be 5.3 percent in 2019 and 9.2 percent in 2020.

The development and liberalization of the economy, the implementation of large-scale reforms, and the radical transformation of all sectors of society have defined new tasks that need to be introduced into the country's banking system in order to carry out investment activities on the securities market.

Similarly, the investment activity of commercial banks in the securities market has opened prospects for banks to expand their capabilities and obtain stable profits and ensure bank liquidity.

Investment operations of commercial banks generally mean the transfer of cash and other bank reserves to securities, statutory funds, real estate, precious stones and other items. In addition, it can be understood that investments are made in the form of interest and dividends in the form of an income-generating market.

The investment portfolio of commercial banks (securities portfolio) is an investment in securities that are managed as a whole and combine different types and types of securities. When forming a portfolio of securities, the investor focuses on securities with a high level of security, high liquidity and profitability. The Bank's investment portfolio receives profit in the form of an increase in the market price or interest income. The larger the investment portfolio, the greater the cost.

The development and complication of economic relations give rise to a variety of forms of investment activity, types of investments, each of which has any specific features and nuances. The review and systematization of the definitions of "investment" by various authors allow us to identify the characteristic features of investment as an economic category:

1) Expensive nature – any form and type of investment involves spending, placement, investment of capital.

2) Target nature – investments as a special form of capital investment always have a specific purpose: making a profit and (or) achieving another beneficial effect. [2].

3) Urgency, urgent nature – investments always involve some term of placement, investment of capital.

It should be noted that, unlike loans and credit relations, the term of investments may not be determined in advance, but "to invest" means "to part with money today in order to receive a larger amount of it in the future" [1].

4) Risky nature – like any effective activity, investments are associated with risk, that is, the possibility (probability) of not achieving the goal and instead of making a profit, incur losses or receive a negative effect. However, it should be emphasized that risk is a probable characteristic, and not every investment brings losses or negative results (effect) to the investor.

5) Innovative nature – the opportunity to develop and improve one's activity, to form new qualities, technologies, products as a result of the investor obtaining profit or other beneficial effects from investment activities.

Investments are divided into two key types: direct and portfolio. Direct investment aims at direct investment of funds in production, acquisition of real assets. Portfolio investments are made in the form of buying securities (securities portfolio) or providing funds for a long-term loan (loan portfolio) in national or foreign currency (currency portfolio).

Since bank investments definitely mean the investment of funds for a certain period with the aim of obtaining income or profit, thus almost all active operations of banks can be viewed as investments.

In this regard, in order to avoid misunderstandings in terms, investment banking operations are understood as those in which banks act as "initiators of the investment of funds" (in contrast to credit operations, where the initiative in obtaining funds comes from the borrower's side) . Therefore, in investment transactions, the bank is one of many creditors, while in credit transactions, the bank usually, although not always, acts as the only creditor.

Characterizing the investment activity of commercial banks, we highlight the following distinctive features of investing and lending (Table 1).

Table 1

Distinctive features of investing and lending

Excellent features	Lending	Investment
Period of use of funds	The use of the bank's funds within a relatively short period of time, provided that they are returned by the set deadline with the payment of the loan amount percent	Using funds for a long time (although not always)
The initiator of the agreement	The initiator is the borrower	The initiator is a bank that aims to purchase investment properties Assets
Number of participants	Usually, the bank acts as the only creditor (except for parallel and syndicated lending)	The bank is one of many creditors
Contact between the creditor and the borrower	Provides close contact between the borrower and creditor	Investing is an impersonal transaction

Source: compiled by the authors

The objects of a commercial bank in the field of investment activity in the classical sense are common and preferred shares, promissory notes, government bonds, certificates of deposits and others.

Banks participate in the investment process and their main directions are mostly the following:

– investing funds in shares, shares and various securities;

– loans that are investment in nature;

– activation and/or raising of funds by banking institutions for investment-related purposes.

These directions are often related to each other. By mobilizing capital, population savings and other free funds, banks form their resource base with the aim of its further profitable use. The structure and volume of operations for the accumulation of funds are the main factors influencing the environment of investment and credit portfolios of banks, the possibilities of their investment functioning.

The investment activity of banks is considered as a business of providing two types of services: a combination of sellers and buyers of existing securities on the secondary market while performing the functions of brokers and/or dealers; increasing the available financial resources by issuing issuance or placement of securities on their primary market.

Bank investments have an economic meaning. The investment activity of the bank in the microeconomic aspect – from the point of view of the bank as an economic entity – can be considered as an activity in the process of which the bank acts as an investor, investing its resources for a period in the creation or acquisition of real assets, as well as with the aim of obtaining direct and of indirect income carries out the purchase of financial assets.

At the same time, the investment activity of banks has another so-called aspect related to the implementation of their macroeconomic role as financial intermediaries. In this position, banks contribute to the implementation and activation of investment demand of business entities. In addition, banks contribute to the transformation of savings and savings into investment resources. In the macroeconomic aspect, investment activity of banks is understood as activity aimed at meeting the investment needs of the economy.

So, in the classical sense, banks that carry out investment activities have a dual interpretation. Investment activity, considered from the point of view of the economic entity (bank), is aimed at increasing the bank's income.

At the same time, the effect of investment activity in the macroeconomic aspect is to achieve an increase in social capital.

In the investment activities of the bank, three main directions can be distinguished:

– investment (corporate) lending;

– the bank's activity on the securities market;

– project lending.

An investment loan is a loan granted to legal entities, it is aimed at the modernization of the enterprise and production processes. The source of repayment of obligations under it is the entire economic activity of the borrower, including income generated by the investment project. At the same time, the bank controls the intended use of the provided funds.

Project financing is a bank loan, the return of which is carried out from the flow of cash generated by the project itself at the stage of project operation. The Bank not only carries out current monitoring, but is also a direct participant in the project, and can make certain decisions during its implementation at any phase of the project's life cycle.

The activity of commercial banks in the securities market is divided into four directions, such as:

– issuers that issue their own securities and carry out their initial placement for the purpose of forming authorized capital (shares), making loans (bonds), accumulating clients' funds (bank certificates) and creating means of payment (checks, promissory notes);

– investors who carry out operations on the purchase and sale of securities in order to participate in the management of any joint-stock company in the role of a business co-owner and other operations in order to receive direct investment income in the form of dividends, interest or profit from resale and indirect income that are generated due to the expansion of the market share;

– banks that carry out traditional banking operations for servicing the securities market: providing loans, bank guarantees, settlement operations, etc.

– professional participants of the securities market who carry out intermediary activities for a fee;

By investing money in securities, banking and credit organizations pursue several goals:

– receiving income (profit) from investments in securities at the expense of interest and dividends paid from securities, as well as receiving speculative income in conditions of an increase in the exchange rate value of securities (speculation with securities);

– ensuring and maintaining the bank's liquidity by purchasing high-quality securities accepted as collateral for NBU loans and repo transactions;

– diversification of assets, risk management, which is carried out by purchasing highly reliable securities, which the NBU considers to be risk-free assets;

– obtaining control over the issuing organization or significant influence on the activities of the issuer – joint stock company, by forming a portfolio of participation in subsidiary and dependent joint stock companies.

Thus, it can be concluded that investment activity is an important area of activity of every commercial bank along with lending. In Ukraine, unfortunately, the volumes of investment operations carried out by banks are much smaller than in many developed countries, which is primarily due to the underdevelopment of the Ukrainian stock market and the lack of a sufficient number of reliable financial instruments for investment. In this regard, banks in Ukraine are forced to invest in government securities, which limits the potential investment income for banks. In the last 20-30 years, financial investments, i.e. investing capital in financial instruments, mainly in securities (making financial investments), have become the most widespread in the world economy.

These goals are achieved through the use of various securities as investment instruments (Table 2).

Table 2

Correspondence of the bank's investment goals to the investment instruments of the stock market

Investment objective	Investment instruments
Obtaining profit (income)	Stock market instruments traded on an organized exchange
Maintaining and increasing the bank's liquidity	Securities accepted as collateral for interbank loans and accepted by the NBU as collateral for repo transactions
Diversification (risk anagement)	Securities accepted as collateral for interbank loans
Obtaining the opportunity to manage the financial and economic activities of the enterprise	Shares in the bank's investment portfolios until maturity

Source: compiled by the authors

When attracting funds from the population and business organizations, commercial banks must allocate resources on the basis of profit, maintaining liquidity, reducing risks and diversifying assets. Investments of commercial banks, including investments in securities, meet these requirements.

3. Formation of resources of commercial banks

Determining the optimal forms of investment by commercial banks, taking into account various factors affecting investment activity, involves the development and implementation of an investment policy.

The main types of participation of banks in investment policy include:

1) carrying out operations related to investment in state securities;
2) participation in investments as part of industrial and financial groups;
3) attraction of foreign investment resources;
4) making investments at the expense of own funds;
5) trust management of investment resources;

The bank makes investments in order to make a profit. First, it maintains primary and secondary reserves to meet its liquidity needs. It is important to meet the credit needs of society by providing short-term loans to its customers. Whatever is left in the bank after the advances is invested for a long period to improve its earning capacity.

Before discussing the investment policy of a commercial bank, it is useful to distinguish between a loan and an investment, as it is common practice to treat them as synonymous. The bank issues a loan to the client for a short term on the condition of repayment.

A customer requests a loan, by granting a loan, the bank creates a loan, which is a temporary source of funding for the bank. On the other hand, the bank's investment is the expenditure of its funds for a long period without creating a loan. The bank makes investments in government securities and shares of large industrial concerns, and in the case of loans, the bank advances money against recognized securities and promissory notes. However, the goal of both is to increase income.

The bank's investment policy consists of obtaining a high return on its non-borrowed resources. But he must keep in mind the safety and liquidity of his resources to meet the potential demand of his consumers.

Since the objective of return is at odds with the objectives of safety and liquidity, a sound investment policy is to strike a reasonable balance between the two. Therefore, the bank should form its investment policy in such a way as to ensure the safety and liquidity of its funds and at the same time maximize its profit. This requires compliance with certain principles.

Commercial banks are the main financial institutions that play an important role in any economy. Commercial banks provide numerous services to their clients in order to facilitate their economic and social life. The commercial banking activity of this country greatly affects the entire economic activity of each country. Commercial banks, playing an active role, changed the economic structure of the world. Thus, commercial banks have become the heart of the financial system.

A commercial bank deals with people's money. They must find ways to keep their assets liquid so they can meet the demand of their customers. Wanting to make a profit, banks cannot afford to lock up their funds in assets that are not easily realized.

The trust of the depositor can be ensured only if the bank can quickly and completely satisfy the demand for cash. For this, the banker must keep a sufficient amount of cash. Cash is a non-performing asset, and therefore a banker cannot afford to keep a significant portion of his assets in the bank. Therefore, the banker must allocate his assets in such a way that he can have sufficient profit without sacrificing liquidity.

The investment policy of banks in Ukraine is constantly being improved and developed, and new legal acts are being improved and are entering into force, which carry out the transition to a new system, adequate to the market economy. There are three main types of investment activities of the bank, depicted in Figure 2, which are also subject to state regulation.

Real investments – investments in productive assets (fixed and circulating). Basically, this is an investment in material assets – houses, buildings, equipment and other commodity and material values. Financial investments – characterize the investment of capital in various financial instruments (mainly in securities) with the aim of obtaining profit in the future. Intellectual investments are investments in objects of intellectual property, which come from copyright, invention and patent rights, the right to industrial designs and utility models.

In the market economy, the investment process is of great importance. When engaging in investments, one should ensure and guarantee a defined policy of one's actions and determine the main investment goals, the

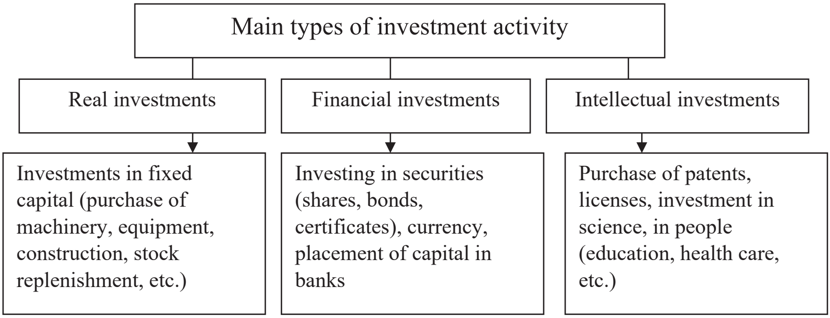

Figure 2. Types of investment activity

Source: compiled by the authors

type of securities, the composition of the investment portfolio, portfolio diversification.

Banks' investment operations are conditioned by the investment of funds in investment securities. Investing in securities involves achieving liquidity, increasing income and investments, preserving funds and minimizing banking risks. It is impossible for banks to achieve all goals at the same time, so it is necessary to find a compromise solution, to find out what is more important for the bank at the moment.

The function of banks participating in the investment process requires a systematic risk analysis of the securities that the bank will purchase, an assessment of the quality of these securities, and determination of the bank's ability to make investments. This requires continuous and qualified supervision and study of the securities market. The function of investments is to replenish the reserve capital based on the staggered terms of the obligations of the investment portfolio, as well as to satisfy the unforeseen need for funds arising in connection with the withdrawal of funds by clients or applications for loans that exceed available resources.

Depending on a certain level of risk, each commercial bank chooses its own investment policy. If a commercial bank wants to achieve high rates of profit growth, funds are invested in ordinary shares of young companies, which, with a good coincidence of circumstances, give a high profit. Funds are invested in ordinary shares of sustainable companies, while a commercial bank aims to ensure the safety of investments.

In the classical sense, the main goals of banks conducting investment activities on the securities market are:

1) receiving income and ensuring liquidity;
2) asset diversification;
3) preservation of monetary resources.

Bank investments are classified by various types, which are presented below in Figure 3.

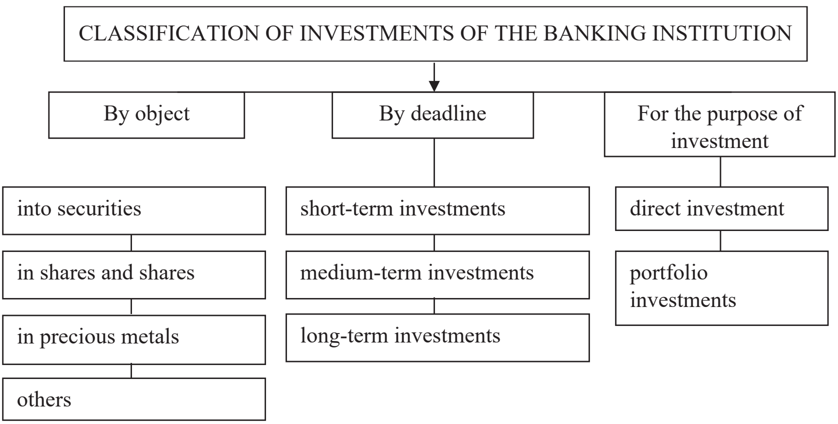

Figure 3. Classification of banking institution investments

Source: compiled by the authors

Short-term investments – investment of free capital (savings) for up to one year (short-term deposits, purchase of short-term savings certificates, loans to replenish working capital, etc.).

The quantitative limit for dividing investments into long-, medium-, and short-term is to a certain extent conditional and constantly changing. According to the methodology of the National Bank of Ukraine, short-term investments of up to 1 year, medium-term investments of up to 3 years, and long-term investments of more than 3 years are considered short-term investments.

The saturated equity capital of the bank performs an insurance function in case of losses from various types of risk, including from lending. Therefore, the state should be interested in the fact that banks have the opportunity to form their own capital in amounts that allow them to actively participate in investment processes. Banks carry out investment operations at the expense of their own, borrowed resources, and privileged funds. The size of own capital is one of the important points that determine the bank's activity in the field of investment participation. Banking investments are also characterized by risk (credit, interest and market). The activity of banks implementing an investment policy aims to protect against the risk of losses and loss of liquidity. In the usual sense, one of the methods of risk reduction is the creation and implementation of the investment portfolio itself at the expense of many types of securities with different quality levels and different maturity dates.

Commercial banks must mobilize their deposits and other funds in the profitable, secured, stable and commodity sector. Then only it can earn more profit and must also be secured and can turn into cash when needed. But commercial banks should pay due attention when formulating investment policy regarding loans and investments. Investment policy is one aspect of the overall range of policies that govern the bank's investment operations. The healthy development of any bank largely depends on its investment policy. A reasonable and viable investment policy attracts both borrowers and lenders, which contributes to increasing the volume and quality of deposits, loans and investments. A commercial bank must be careful when performing the function of creating loans. Banks should never invest their funds in these securities that suffer too much too much depreciation and fluctuation, as a small difference can cause large losses. She should not invest her funds in a speculative businessman who can be bankrupt immediately and who can make millions in a minute. Therefore, they should invest their funds where they get the maximum profit.

Commercial banks have to follow the rules and regulations as well as various guidelines issued by the central bank, finance ministry, law ministry and other regulatory authorities while mobilizing their funds.

Therefore, the bank should invest its funds only in legal securities. Thus, commercial banks should include several elements when forming an investment policy. A loan provided by a commercial bank is governed by several principles, such as duration, purpose, profitability, security, etc. These basic principles of commercial bank investments are fully taken into account when making investment decisions.

Commercial banks follow certain principles in investing which are very important for banks to remain competitive in modern days. There are 9 principles defined in Figure 4, which are followed by commercial banks

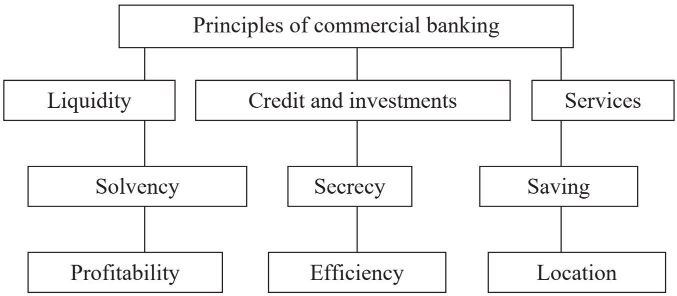

Figure 4. Commercial bank standards

Source: compiled by the authors

The bank's investment activity is closely related to risks, which are an integral part of the market form of business. Investment risk is the possibility of specific investment decisions or actions of the bank deviating from the planned ones, the probability of receiving losses or not receiving the expected income as a result of the bank investing money in securities.

These deviations can be associated with both additional income and additional costs, since the obtained values are random, that is, unknown at the time of making the investment decision.

As an economic category, risk is an event with a certain probability of occurrence. Therefore, risk management processes are focused not only on possible forecasting strategies, but also on the most effective methods of avoiding or accepting certain risks in order to minimize their further negative consequences.

At the current stage of development of the market economy of Ukraine, through the use of project financing schemes, interest in the issues of banks engaged in investment activities is growing. In a broad sense, project financing means financing investment costs of an economic unit that begins economic activity in one form or another. One way or another, the expected costs of the borrower and his possible profits are the main criteria for the expediency of the creditor's provision of funds.

Compared to other forms of financing, the advantages of project financing are that it has the ability to:

– to most accurately assess the borrower's solvency;

– review the entire investment project from the point of view of its effectiveness, viability, implementation possibilities, availability of resources, risks;

– to provide the future result of the implementation of the investment project. However, the distribution of risks among all project financing participants is the most important advantage for banks.

In banking practice, the following forms of project financing are distinguished:

– financing without the right of any recourse against the borrower – the lending bank assumes all the risks associated with the implementation of the project, analyzing only the cash flows generated by the project and directed to repayment of the loan;

– financing with full recourse to the borrower – the lender cannot assume any risks related to the project, limiting its participation in the implementation of the project only to the provision of funds in exchange for the guarantees of the project organizers or third parties.

– financing with a limited right of recourse to the borrower – the distribution of project risks among its participants in such a way that each participant assumes only those risks that depend on him;

At the same time, it should be noted that in Ukraine, a simplified view of project financing as bank long-term lending, with the use of a project financing scheme with limited recourse of the bank to the borrower, has mostly developed. Whereas in industrially developed countries, the use of the entire range of sources and methods of financing investment projects is the dominant trend in the development of project financing.

A convincing analysis of the scientific works of domestic and foreign scientists devoted to investment and banking theory, namely the study of investment risks, aims to systematize the investment risks of banks in project financing characterized in Figure 5. At the same time, we will pay attention to the fact that the classification we have provided will allow us to more clearly understand what types of investment risks banks face as a result of investment activities through the use of project financing schemes.

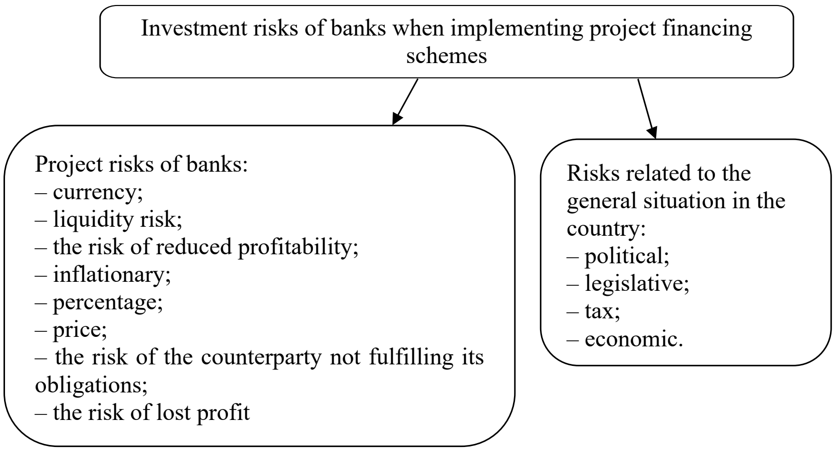

Figure 5. System of banks' investment risks in project financing

Source: compiled by the authors

Analyzing the figures shown in Figure 5 investment risks of project financing, it can be concluded that their general criterion is market uncertainty, i.e. the implementation of any activity, including investment, is always associated with the probability of adverse situations that will lead to a decrease in project efficiency or additional losses, and this, in turn, indicates that absolutely all projects are risky.

We also draw attention to the fact that the construction of an effective risk management mechanism, in addition to the factors outlined above, also depends on the stage of the project life cycle at which the risk was discovered and identified.

Taking into account the increased riskiness of investment activity, including the implementation of project financing schemes, as well as the diversity and specificity of investment risks, investment risk management is an important and mandatory component of the effective implementation of project financing. Investment risk management should be understood as:

– the probability of adverse consequences in the form of loss of expected income in a situation of uncertainty of project implementation conditions;

– a set of measures and methods of analysis and mitigation of the impact of risk factors, combined in the stages of risk identification, assessment, planning, regulation and monitoring;

– a set of processes related to the identification and analysis of risks, the development of measures to respond to risk events, which include the maximization of positive and minimization of the negative consequences of the occurrence of risk events.

In all economic participants of the financial markets, risks are not only considered the basis of any investment operation, but are often considered as the basis of the banking system itself, since “with the increased pressure on private banks in order to increase the profitability of bank shareholders, the banks had to take higher risks. Banks are most successful when they take reasonable risks that can be controlled within their financial capacity and competence, as riskier investments that promise greater benefits impose on banks greater opportunities for failure.

It is also reasonable to understand that, while banks invest more often in order to achieve better profitability results, they are constantly at risk of disturbing the fragile balance of their liquidity operations. Thus, investment risks in commercial banking relate not only to possible trends in causing losses, but also to the concept of bank solvency as a whole.

In addition to financing operations, banks should strive to increase their liquidity ratios to cover any unforeseen costs and losses while providing a reasonable amount of return to shareholders. The goal of achieving these seemingly contradictory goals lies at the heart of the bank’s investment policy and risk management strategies.

Since the main purpose of the current paragraph is to consider the theory of investment risks in commercial banking and to define various methods of risk management, I will analyze the most effective methods of risk management and describe the implementation of these methods in modern commercial banking. In addition to the above objectives, this paragraph aims to identify the issues of risk management related to commercial banking and highlight ways to improve investment banking practices.

It should already have become obvious that one of the main characteristics of investment operations in commercial banking is related to the idea of evaluating each investment decision from the point of view of several key concepts for commercial banking: profitability – liquidity and the corresponding level of risk Having defined risk as the probability of failure, it is now possible to conclude that individual investment projects are subject to different values of risk, depending on the category of profitability, the period involved and the field of activity in question.

In general, it can be confidently stated that investment risk expresses the possibility of unforeseen financial losses in the process of investment activities of commercial banks. The process of assessing the probability of investment risk allows banks to identify the key factors and consequences of each investment risk and, therefore, to find out how to deal with each potential threat.

It is a well-known fact that the successful implementation of most investment projects in any financial market is combined with the risk of losing part of the invested capital or even the total value of the initial investment. Moreover, there is a direct correlation between the level of income and the risks an investor is willing to take: the higher the level of income, the higher the risk.

This thought leads us to the crucial assumption that it is extremely important to have a clear picture of the entire system of investment risks.

The profitability of various investment activities of commercial banks depends on a number of business factors and organizational conditions, among which the leading role belongs to such decisive trends as:

– general level of economic stability in the region;

– other important participants of stock markets (investment companies, funds, etc.);

– involved financial instruments;

– current regulatory and directive approaches.

In order to get a broader view of different types of investment risks in commercial banking (Figure 6).

As can be seen from the figure, at the first and most general level, all investment risks can be divided into systematic and unsystematic depending on the sphere of their activity and subjects of influence. So what is the main function that risk management should perform to improve the effectiveness of banking investment strategies? One of the most important goals is the following dilemma: how to increase the maximum level of income at a given level of risk or how to minimize investment risks at a certain level of income.

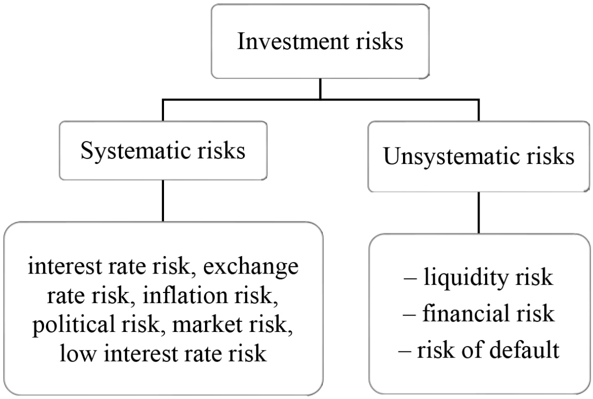

Figure 6. Systematic and unsystematic approach to investment risk management in commercial banking

Source: compiled by the authors

Unsystematic investment risks represent all possibilities of losses that may affect only individual securities or small groups of financial assets. In principle, such risks are also known as risks associated with certain types of financial instruments. It is interesting to note that the aforementioned method of diversification. The organization of the investment portfolio is often considered as a good response to minimizing the consequences of unsystematic risks. Systematic risks are often considered as risks inherent in a certain financial market, as well as a set of financial assets or instruments: the whole market or a significant part of it is exposed to them. Due to this prominent feature, systematic risks are sometimes considered as risks aimed at the investment objectives of the portfolio.

Despite the fact that they are caused by the potential economic uncertainty that dominates the financial market and the general development trends characteristic of it, systematic risks affect the securities of almost all issuers operating in this market. Due to the nature of the risks themselves, in the case of systematic risks, the diversification method cannot provide the necessary level of security, and it is much more difficult to avoid losses on investments that are more in line with this particular group.

In order to determine effective ways of managing investment risks, it is necessary to take a closer look at the way in which some of them can affect the operations of commercial banking and try to study the reasons for such an effect.

The activity of a bank that participates in investing is closely related to various types of risks. Investment banks are not able to completely eliminate risk, so they consciously take on a certain risk. Currently, banks use a variety of investment risk control methods in their practice. Both new (mathematical methods of optimization, central bank regulations on bank investment) and traditional techniques (reserving, setting limits, diversification, distribution of risks and losses, hedging, etc.) are ways of limiting them. The reduction of investment risks is facilitated by the careful elaboration and agreement of the terms of contracts and agreements between partners according to the investment project, investing in an integrated business.

Thus, in order to achieve the best possible result, banks must be able to determine the level of risk that the bank dares to take (take into account possible risks) and find ways to minimize this risk.

The right mix of investments helps control aggregate asset risks and provide liquidity to cover any liabilities that arise. The bank spends relatively less money on physical assets, and investments are another major category of assets on the bank's balance sheet. A bank may invest in some securities for speculative trading purposes, some as held-to-maturity investments for higher returns, and others as available-for-sale inventory to provide necessary liquidity.

4. Conclusion

So, at the current stage of development in Ukraine, the further development of the investment vector of the market economy in general and the banking system in particular depends on the effective activity of commercial banks in the investment direction. However, despite this, the main investment goals of Ukrainian banks are only to ensure adequate returns from financial investments with minimal risks. In order to improve the efficiency and quality of management of the bank's investment activities, it is necessary to:

– to optimally combine centralization and decentralization in relation to the management of investment activities;

– try to create new goals and objectives for improving the organization of analytical support for the process of managing investment activities;

– to support permanent information security of the investment activity management process;

improve the qualifications of managers specifically related to the management of investment activities.

Investments are the dominant factor in the socio-economic growth of the border region and the state in general. That is why conditions must be created at the state level that will contribute to the increase of investment attractiveness and, as a result, the activation of investment activity. This will ensure the active participation of the border regions of Ukraine in the processes of integration into the EU.

In the implementation of the state investment policy, an investment partnership of the state with commercial banks is necessary, which would involve the agreement by the subjects of investment relations of a purposeful state policy of stimulating the investment activity of banks, the purpose of which should be the support and activation of the investment policy to ensure financing of the mechanism of growth and development of the country's economy. The conducted studies allow us to state that the basis of stimulation of investment activities of commercial banks is state regulation, the mechanism of which provides for four main forms of investment stimulation: preferential tax policy, financial support, infrastructure support and stimulation of specific investment projects, which will be the basis for further research.

Scientifically based monitoring and assessment of investment processes indicate that Ukrainian banking investment activity is inefficient, which is largely due to the lack of structural transformations in the economy and rather high credit risks. Therefore, in order to make a profit, banks preferred not credit operations to finance the economy, but investing in securities (bonds) guaranteed by the state.

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