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## **MASTER THESIS**

ON THE TOPIC

# **Management of the financial resources formation for commercial banks**

Master's degree  
Specialty 072 – «Finance, Banking and Insurance»

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## ABSTRACT

Master's thesis: 34 p.; 10 tables, 7 figures, 20 sources.

The relevance of the topic of work. Banking resources affect liquidity, solvency, and, accordingly, the level of bank income. Improving the efficiency of the bank's resources is an important and urgent problem in the banking system's functioning.

This work aims to study the system of formation and management of banks' financial resources.

The research object is the formation of bank financial resources at the macro and micro levels (on the example of First Ukrainian international bank (FUIB)).

The study's subject is the economic relations that arise in the formation and management of banks' financial resources.

In the first section of the master's thesis, the theoretical and methodological bases of banks' resource base formation are analyzed and generalized. The second section analyzes the structural and dynamic analysis of Ukrainian banks' resource base during 01.01.2012-01.01.2020 and the structural and dynamic analysis of the resource base of First Ukrainian international bank (FUIB) during 2016-2020. the third section summarizes the positive experience of implementing modified tools for the formation of financial resources of banks and directions for the development of the bank's customer base.

Materials of periodicals, monographic literature, analytical and statistical materials of the NBU and FUIB financial statements were used in writing the work.

**BANK, FINANCIAL RESOURCES, PASSIVE OPERATIONS OF BANKS, DEPOSITS, RESOURCE BASE.**

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## INTRODUCTION

**The relevance of the topic of work.** Banking resources affect liquidity, solvency, and, accordingly, the level of bank income. Improving the efficiency of the bank's resources is an important and urgent problem in the banking system's functioning.

**This work aims** to study the system of formation and management of banks' financial resources. **Tasks of this work:** 1) to generalize the theoretical and methodological bases of formation of the resource base of banks; 2) to conduct a structural and dynamic analysis of the resource base of Ukrainian banks during 2012-2020; 3) perform structural and dynamic analysis of the resource base of First Ukrainian International Bank (FUIB) during 2016-2020; 4) to suggest directions of improvement of processes of formation of bank financial resources.

**The research object** is the processes of formation of bank financial resources at the macro and micro levels (on the example of First Ukrainian International Bank (FUIB)). **The study's subject** is the economic relations that arise in the formation and management of banks' financial resources.

**Work structure.** In the first section, the theoretical and methodological bases of the formation of banks' resource base are analyzed and generalized. The second section analyzes the structural and dynamic analysis of the resource base of Ukrainian banks during 01.01.2012-01.01.2020 and the structural and dynamic analysis of the resource base of First Ukrainian International Bank (FUIB) during 2016-2020. The third section summarizes the positive experience introduction of modified tools for the formation of banks' financial resources and the directions of development of the bank's customer base.

**The factual basis of the work.** Materials of periodicals, monographs, analytical and statistical materials of the NBU, and financial statements of FUIB were used in writing the work.

# 1 THEORETICAL AND METHODOLOGICAL PRINCIPLES OF FORMATION OF BANK RESOURCE BASE

## 1.1 Analysis of approaches to defining the concept of financial resources of banks

Modern scientific thought has a different approach to the bank's financial resources and its content. For example, D. Boyko, O. Kokovikhina, O. Tsebenko, based on the analysis, define the financial resources of banks as:

N. Chyzh, M. Dzyamulych, O. Potemkina note that: "... resources of a commercial bank are a set of funds from various sources of formation, which are available and used in the process of banking operations and services to maintain liquidity, profitability, and profitability at a sufficient level. It should be noted that bank resources are the bank's own funds and funds raised and borrowed in the financial market, which are used to carry out active operations and provide services for profit. At the same time, the amount of profit should ensure the payment of dividends, the creation of reserves, and the expansion of banking activities ». [17].

Yu. Onoprienko interprets the concept of "financial resources of banks" as: «... part of bank resources formed as a result of mobilization of funds of economic agents by attracting and borrowing, transformed by terms, amounts and risks in accordance with the parameters of placement in bank assets by adapting them, and equity (contributed by shareholders, created as a result of activities and accumulated as a result of revaluation of assets), the use of which is expected to increase the bank's economic benefits in the future [3]».

The list of definitions of the concept of financial resources of the bank is far from exhaustive. More and more scientists from different angles are analyzing and supplementing it. Significant interest of modern scientists in the management of financial resources of commercial banks is confirmed by the results of the analysis of the frequency of search queries on the Internet on this topic. This analysis was

performed using the Google Trends software product. It allows you to analyze the frequency of information searches for the use of certain terms and categories. Such search terms should include various definitions and constituent concepts of financial resources of banks (Fig. 1.1)

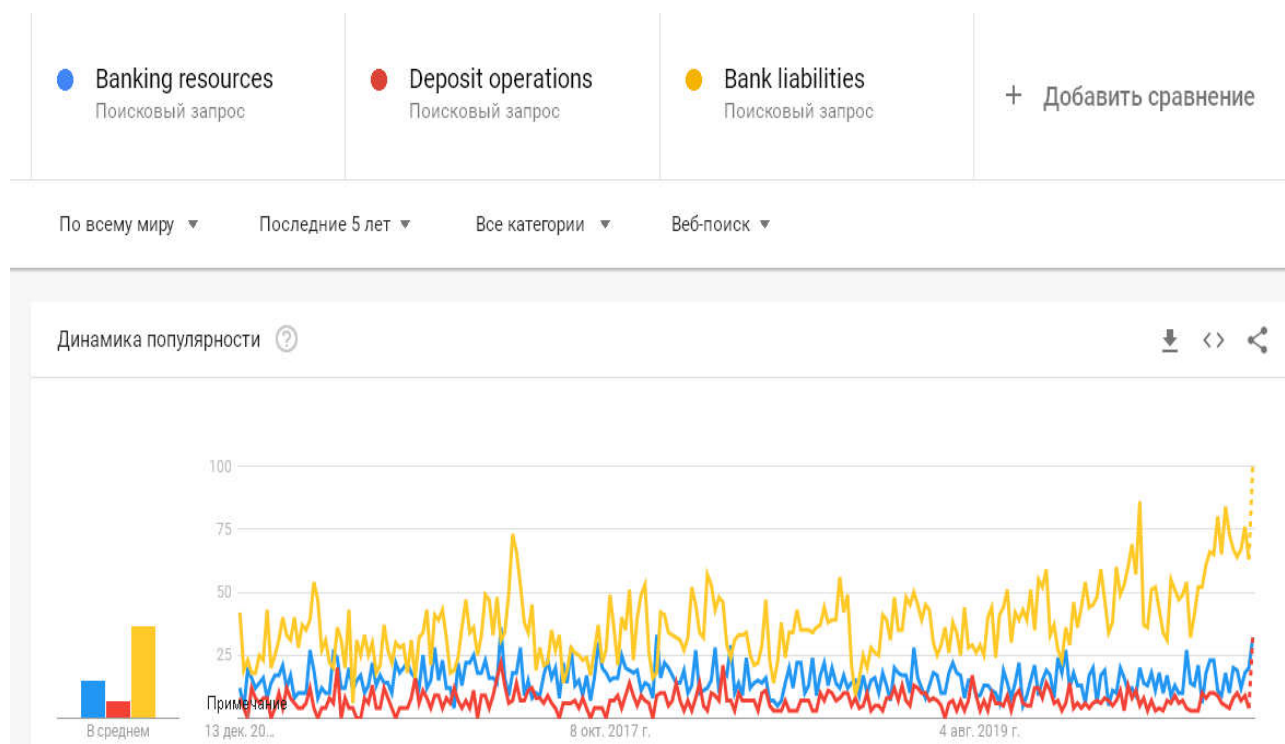


Figure 1.1 – Frequency of use of terms related to the management of financial resources of banks (composed by the author)

## 1.2 The value of financial banking resources in modern economic processes

Important conditions for the functioning of an effective domestic banking system are the possibility and practical implementation of the redistribution of financial resources between economic entities and providing consumers of banking services with a choice between different options for placing monetary resources and providing equal conditions to all who need credit.

Modern approaches to the development of banking and identifying the main ways to improve commercial banks' work are key issues of the economic community. The cost of borrowed resources, terms, and methods of raising, as well as the amount of equity of a commercial bank, the composition of its liabilities in general, depend on the efficiency and success of the commercial bank, as well as opportunities for investment in the national economy provided to customers.

The instruments of the policy of attracting financial resources are directly related to its objects (equity, deposit resources, resources raised through the issuance of securities, and through loans and borrowings), correspond to the methods and techniques of financial support of banking. In practice, there are three methods of creating financial resources. The first is based on attracting equity investment, resulting from which investors become owners of the funded organization. The second method involves creating debt, i.e., attracting resources on a temporary, repayable, paid basis. The third method is based on the idea of self-financing when the organization, as a result of the profitable placement of borrowed resources, increases equity from such a source as profit. In financial management, these methods are considered alternatives and can be used simultaneously, but with some restrictions. For example, you cannot issue stocks and bonds at the same time. Shares are a tool for investing in equity from the external environment, the functioning of the organization. Bonds are debt creation instruments. Legislation and regulations in the field of securities market limit the ability to issue bonds until the placement of shares is completed.

Methods of financial support reflect the specifics of the organization. The Bank has access to credit, deposit, and debt securities financing methods.

In addition to dividing the bank's resources into deposit and non-deposit, many classifications help consider the set of resources into groups while allowing it to be structured for further effective management. The most important issue informing the involved resource base is to determine the value of sources of attraction. Therefore, if you consider the funds raised at their cost, you can select

cheap and expensive. With such a division, demand deposits will be cheap resources. As for more expensive funds, it is customary to consider time deposits and interbank loans.

Differentiation of the bank's attracted resource base based on value, of course, is necessary because conducting activities should pay attention not only to the amount of borrowed funds but also to the amounts spent on their accumulation. It is also important to divide the funds depending on the degree of liquidity, i.e., the degree of turnover in cash. This feature is fundamental in determining the volume and type of active operations of a commercial bank. In this case, rather, the potential possibility of a bank customer's request for immediate repayment is considered. Thus, more liquid will be funded on-demand accounts, short-term deposits. Securities will form the low-liquid part of the borrowed funds.

The term for which the bank's clients' funds are mobilized is also one of the classification criteria. For the most part, banks should choose medium- and long-term instruments to raise resources, as there is a known period during which the organization can use the funds. It also eliminates the possibility of reducing the liquidity of a commercial bank due to the client's lack of risk of withdrawal of funds at the "wrong" time. The main task of managing the bank's attracted resource base can be reduced to achieving consistency between the qualitative and quantitative parameters of the attracted resources and the volume and nature of active operations.

The problem of financial support of banking in modern conditions is particularly acute. It is a reflection of changes in the saving behavior of the population, which against the background of falling real disposable income is replaced by consumer behavior, but also the transformation of the structure and volume of accumulation, reducing its rate, loss of depreciation funds by organizations. Banks' classic threat is the probable outflow of funds raised on a debt basis due to the lack of financial resources of economic entities - bank



customers, low customer loyalty, the differentiated structure of banking market participants, and other factors.

For a bank operating on its own behalf and at its own expense based on temporarily borrowed liabilities, the priority is not to solve the problem of outflow of resources but to prevent or minimize it. Accordingly, the key issue should be the use of such financing instruments that will interest the owners of resources and ensure stable liabilities of the bank's statutory activities in the long run. These are primarily the requirements for the risk and capital management system. Obviously, the loss of financial security refers to the risk factors of liquidity loss and the negative impact on bank capital, which acts as a buffer of accepted risks. However, the cost of financial security of banking determines the efficiency of use of resources raised from the owners of the bank, and the bank's ability to obtain and accumulate margin.

## 2 RESEARCH OF PROBLEMS OF BANK RESOURCE BASE FORMATION IN UKRAINE

### 2.1 Structural and dynamic analysis of the resource base of Ukrainian banks

Analysis of the number of banks during 01.01.2012-01.01.2020 (Fig. 2.1) shows a stable trend of decreasing the number of banks in Ukraine from 176 on 01.01.2012 to 75 on 01.01.2020 (falling amounted to 57.4% compared to 2012).

Detailed analysis of data of fig. 2.1 shows that banks with foreign capital are more financially stable than banks with only domestic capital, so the decline in such banks' number was less sharp and amounted to only 33, 96% (from 53 units on 01.01.2012). To the 35th on 01.01.2020). The most stable are banks with 100% foreign capital. Thus, their number was more or less stable over the analyzed years and even increased by 4.55% (from 22 units on 01.01.2012 to 23 on 01.01.2020-2021).

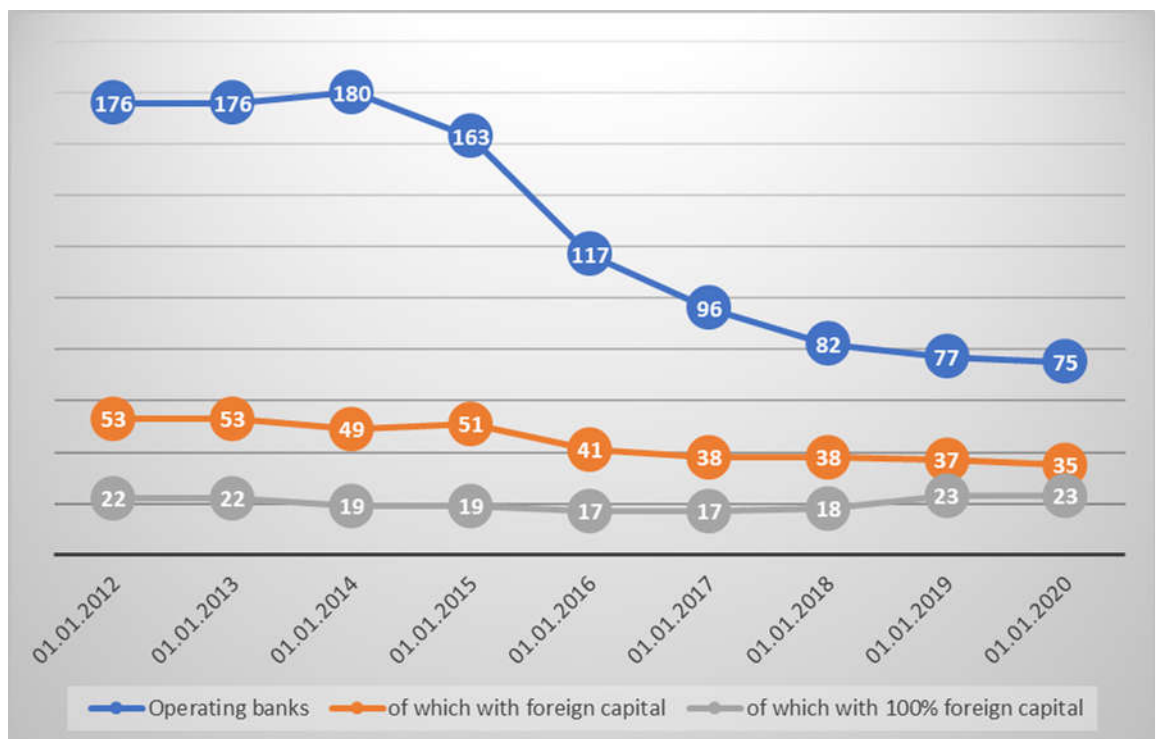


Figure 2.1 – Structural and dynamic analysis of the number of banks in Ukraine in 01.01.2012-01.01.2020 (composed by the author on the basis of [19])

This analysis shows that banks' resource base with foreign capital is more balanced and therefore more reliable, which allows this bank to be more resistant to various stresses: market challenges, changes in market conditions, pandemic crises, and more.

In the current conditions of the coronavirus pandemic crisis, the adequacy of the resource base and effective management of these resources in Ukraine are becoming even more relevant. Thus, the data from the NBU report "On Financial Stability" (as of June 2020) show that the pandemic crisis and its consequences have provoked and continue to provoke an increase in the level of capital adequacy risks and credit risk. These two risks increased the most compared to other risks for Ukrainian banks. Thus, the level of capital adequacy risk according to the NBU rating scale increased from 4 points in December 2019 to 7 points in June 2020 (Fig. 2.2). Note that 10 points is the highest level of risk, and 0 is the lowest.

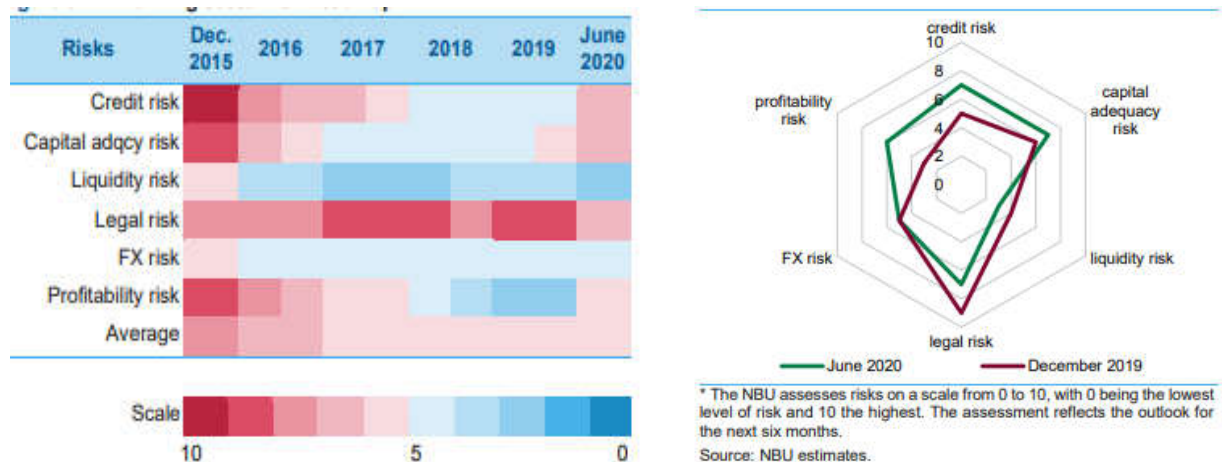


Figure 2.2 - Banking sector risk heat map\* [18, p. 20]

From Fig. 2.3 shows that in absolute terms, the liabilities of Ukrainian banks in 2016-2020 are growing, but the growth rate is slow. So for 5 years and 10 months, their value increased only by 36% (from 1254385 UAH on 01.01.2016 to 1707732 UAH on 01.10.2020).

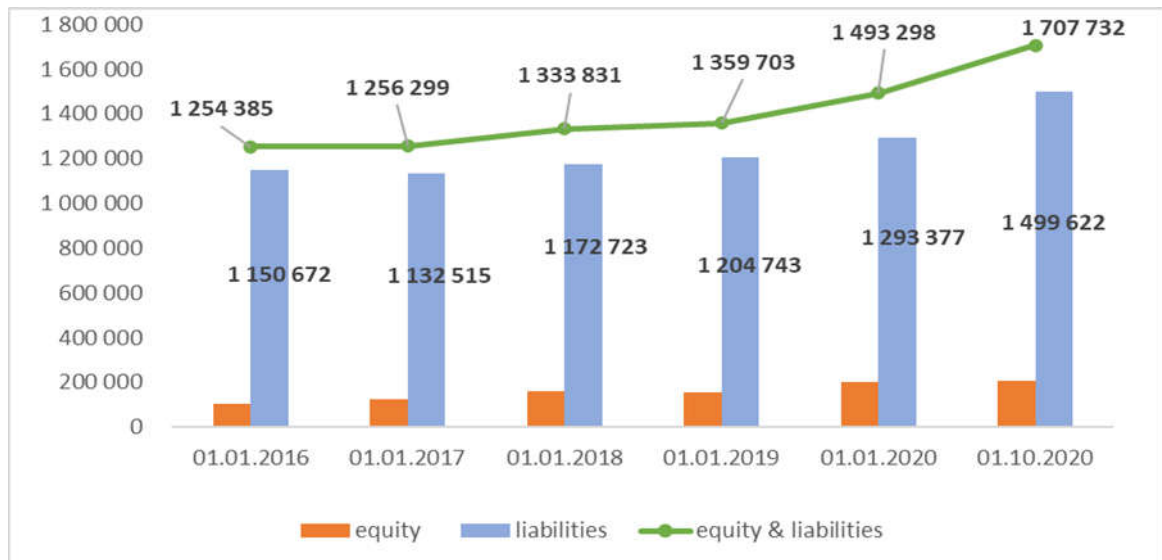


Figure 2.3- Structural and dynamic analysis of banks' liabilities, UAN  
(composed by the author on the basis of [19], [20])

Simultaneously, the structure of liabilities of Ukrainian banks in 2016-2020 (Table 2.1) is more or less stable with positive growth trends, the share of banks' capital compared to banks' liabilities. Thus, as of October 1, 2020, the share of capital in banks' liabilities amounted to 12.2%, which is 47% more than January 1, 2016 (8.3%).

Table 2.1 - Structural and dynamic analysis of banks' liabilities, %  
(own calculations on the basis of [19], [20])

	01.01.2016	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.10.2020
<b>Equity, %</b>	8,3	9,9	12,1	11,4	13,4	12,2
<b>Liabilities, %</b>	91,7	90,1	87,9	88,6	86,6	87,8

Table 2.2 and Table 2.3 present the Structure of banks' liabilities 2016-2020. The data in the tables clearly show that in the Structure of banks' liabilities, Funds (deposits) of individuals (with savings (deposit) certificates) and Funds of business entities consistently prevail. These commitments are fundamental to the overall structure of the commitments. Funds (deposits) of individuals (with savings

(deposit) certificates) account for 43% of total liabilities as of October 1, 2020, Funds of business entities - 40%.

Table 2.2 – Structure of banks' liabilities 2016-2020, UAN (own calculations on the basis of [19], [20])

A	B	C	D	E	F	G
<b>LIABILITIES</b>	01.01.2016	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.10.2020
Time deposits (deposits) of other banks and loans received from other banks	122 592	73 938	50 240	42 178	23 912	25 107
Funds of business entities	318 568	369 913	403 955	406 367	498 157	592 459
Funds (deposits) of individuals (with savings (deposit) certificates)	402 137	437 152	478 100	508 457	552 115	649 223
Funds of non-bank financial institutions	30 474	42 813	22 907	23 794	26 885	33 630

From the data in Table 2.3 it is clear that Funds (deposits) of individuals (with savings (deposit) certificates) and Funds of business entities tend to grow annually.

Table 2.3 – Structure of banks' liabilities 2016-2020, % (own calculations on the basis of [19], [20])

	01.01.2016	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.10.2020
Time deposits (deposits) of other banks and loans received from other banks	11	7	4	4	2	2
Funds of business entities	28	33	34	34	39	40
Funds (deposits) of individuals (with savings (deposit) certificates)	35	39	41	42	43	43
Funds of non-bank financial institutions	3	4	2	2	2	2

Such a structure, on the one hand, indicates the restoration of confidence in the banking system, but on the other hand, with such a structure of borrowing and a constant reduction in deposit rates, there is a risk of stable attraction of deposits in the future in sufficient quantities.

## **2.2 Structural and dynamic analysis of the resource base of the First Ukrainian International Bank (FUIB)**

First Ukrainian International Bank (FUIB) is one of the top ten safest and most stable Ukrainian banks. The bank's clients are both individuals and corporate clients.

The financial institution began conducting banking operations in April 1992; the bank's financial statements are prepared exclusively according to international accounting standards, as evidenced by global audit companies' conclusions. Investment banking and commercial and retail operations are the basis of the bank's operations. As of October 2020, FUIB's total assets amounted to over UAH 73 billion. SCM Finance LLC is the main shareholder of the bank, whose share is 92.24%, and one of the industrial groups that support the stable development of the economy of Ukraine and Eastern Europe [14], [15].

First Ukrainian International Bank is characterized by an all-Ukrainian network of 200 branches and has 800 outlets. The bank has built effective cooperation with 30,000 corporate and 1.5 million private clients. According to the rating of the most profitable banks as of October 2020, FUIB is on the fourth step, where the net profit is over UAH 2 billion. The bank is also in the top ten in public confidence, namely received deposits and loans [14], [15].

Let's analyze the implementation of capital ratios in FUIB (Table 2.4 and Fig. 2.4).

Table 2.4 – Compliance with the FUIB's capital ratios during 1.04.2018-1.10.2020 (composed by the author on the basis of [14], [20])

	Total amount of regulatory capital (RC) H1	Total core capital (CC)	The total amount of additional capital	Regulatory capital adequacy (sufficiency) ratio R2 (no less than 10 percent)	Core capital adequacy ratio R3 (no less than 7 percent)	Standard of the ratio of regulatory capital to liabilities R3-1 (not less than 10%)
01.04.2018	3 923 410,3	3 065 919,1	864 547,2	13,09%	6,17%	8,82%
01.07.2018	4 631 556,5	3 837 151,8	801 460,7	14,91%	7,24%	9,80%
01.10.2018	5 648 156,6	3 836 559,8	1 818 652,8	16,51%	7,37%	12,28%
01.01.2019	5 282 255,4	3 759 198,2	1 530 113,2	16,34%	7,54%	11,88%
01.04.2019	5 912 759,0	3 560 458,2	2 359 356,8	17,78%	7,61%	14,90%
01.07.2019	6 309 944,5	4 581 036,8	1 735 963,8	17,91%	9,11%	14,79%
01.10.2019	7 483 184,1	4 602 376,2	2 887 863,9	20,39%	8,95%	17,39%
01.01.2020	7 914 882,2	4 590 896,2	3 331 042,0	21,21%	8,28%	16,82%
01.04.2020	8 801 525,5	4 616 486,9	4 192 094,6	22,15%	7,69%	17,42%
01.07.2020	7 327 868,0	6 239 110,2	1 095 813,8	19,38%	10,48%	14,32%
01.10.2020	8 056 066,6	6 256 820,1	1 806 302,4	18,65%	8,56%	12,60%

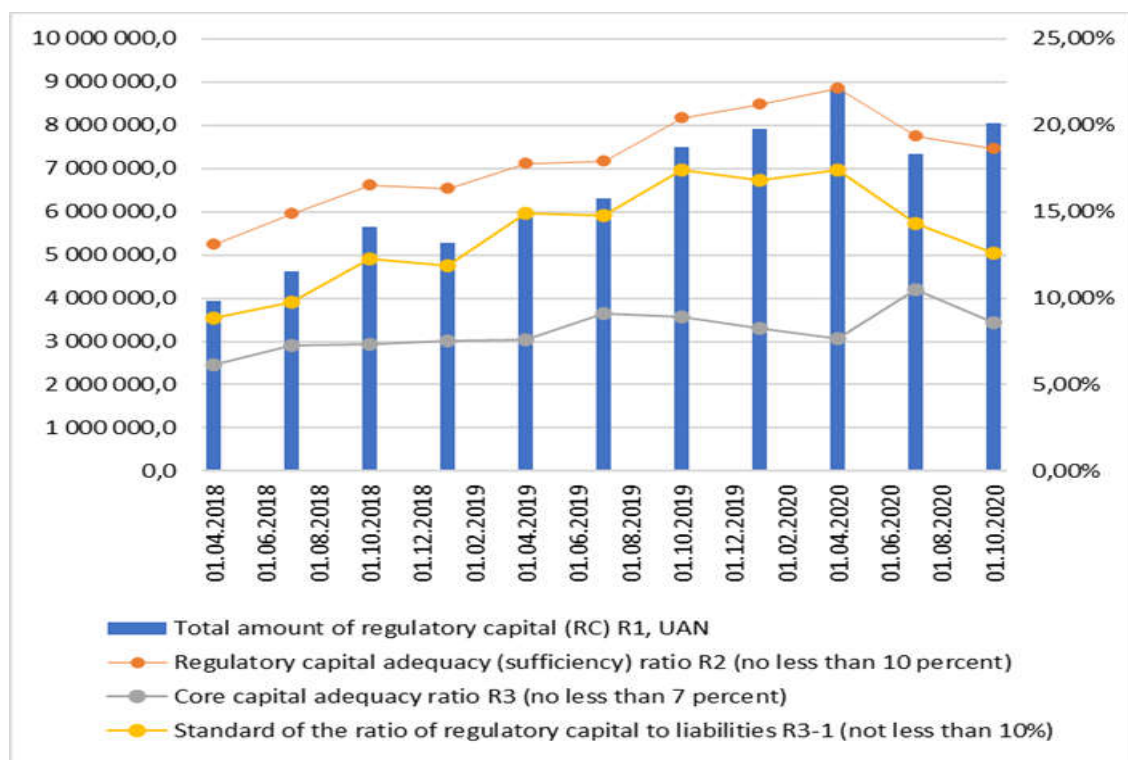


Figure 2.4 - Dynamics of fulfillment of the FUIB's standards during April 1, 2018 - October 1, 2020 (composed by the author on the basis of [14], [20])

The regulatory capital adequacy ratio H2 is maintained at the appropriate level; the maximum value of compliance is observed at the end of the first quarter of 2020 and is 22.15%. As the standard's value has growing dynamics and significantly exceeds the allowable threshold, the bank's level of risk for owners is growing. The Bank can settle its liabilities in full.

The fixed capital adequacy ratio H3 also reaches and slightly exceeds the minimum allowable value (7%), which is observed in mid-2019 with a rate of 9.11% and 10.48% as of July 1, 2020. The Bank has sufficient free funds to conduct active operations. As of October 1, 2020, the level of compliance with the H3 standard is 8.56%.

The ratio of regulatory capital to liabilities H3-1 during the period from April 1, 2018, to October 1, 2020, is consistently met from October 1, 2018, which means that the debt to depositors and creditors is repaid on time and in full. The maximum value of the standard H3-I is observed as of 01.04.2020, with an indicator of 17.42%.

Analysis of the structure of liabilities shows (Fig. 2.5) that during 1.01.2016-1.10.2020, the vast majority of borrowed funds consists of deposits. In 2015, they accounted for 78.08% of the total, 13.42% of liabilities consist of issued Eurobonds, which is more than 90% of borrowed funds. As of October 1, 2020, the share of deposits increased to 91.77%; the bank also had debts to the NBU of 2.97% of the total value.



Table 2.5 – Analysis of the structure of the FUIB's liabilities 1.01.2016-1.10.2020. (own calculations on the basis of [14], [20])

Structure of liabilities	2015		2016		2017		2018		2019		2020 (III)	
	Sum	%	Sum	%	Sum	%	Sum	%	Sum	%	Sum	%
<b>Liabilities</b>												
Debt to the National Bank of Ukraine	485426	1,4%	-	-	-	-	1002	0,0%	-	-	1900264	3,0%
Debt to other banks	224827	0,6%	1147889	2,8%	865004	2,0%	697452	1,6%	934276	2,0%	1360614	2,1%
Customer funds	27473577	78,1%	33082769	79,9%	37139478	87,3%	39759308	89,4%	42716934	90,8%	58656196	91,8%
Certificates of deposit issued	-	-	691371	1,7%	187194	0,4%	832460	1,9%	-	-	-	-
Eurobonds issued	4722461	13,4%	4290540	10,4%	1915014	4,5%	-	-	-	-	-	-
Other borrowed funds	40312	0,1%	19144	0,0%	11193	0,0%	-	-	-	-	-	-
Lease obligations	-	-	-	-	-	-	267402	0,6%	294619	0,6%	385007	0,6%
Other liabilities	1719345	4,9%	1656385	4,0%	1887992	4,4%	2303523	5,2%	2910726	6,2%	1398151	2,2%
Subordinated debt	492174	1,4%	490750	1,2%	489656	1,2%	488145	1,1%	-	-	-	-
Current liabilities for income tax	26651	0,1%	5227	0,0%	12360	0,0%	83199	0,2%	153485	0,3%	176151	0,3%
Deferred tax liability	2768	0,0%	21266	0,1%	23100	0,1%	25302	0,1%	38240	0,1%	40852	0,1%
<b>Total liabilities</b>	<b>35187541</b>	<b>100</b>	<b>41405341</b>	<b>100</b>	<b>42530991</b>	<b>100</b>	<b>44457793</b>	<b>100</b>	<b>47048280</b>	<b>100</b>	<b>63917235</b>	<b>100</b>

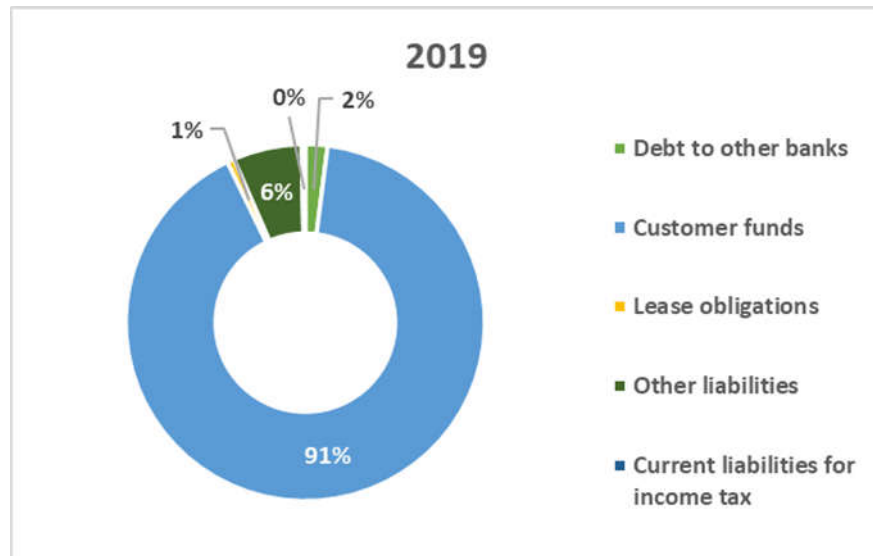
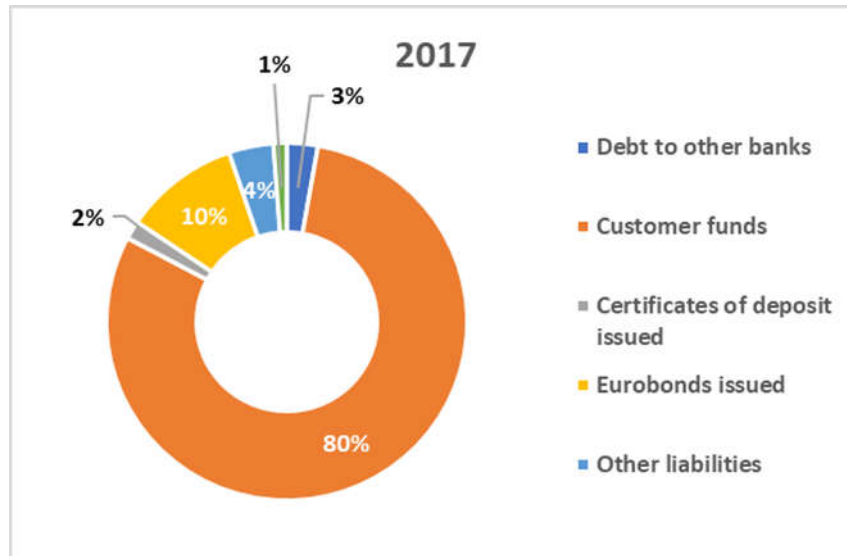
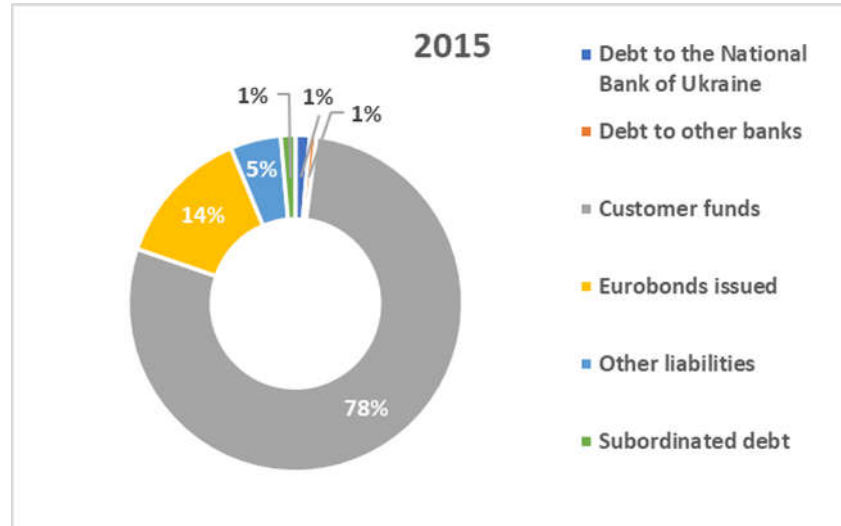


Figure 2.5 – Structure of the FUIB's liabilities in 2015, 2017, 2019 (own calculations on the basis of [14], [20])

Horizontal analysis of the bank's liabilities (Table 2.6) during 1.01.2017-1.10.2020 shows an increase in debt to other banks from 1147889 thousand UAH to 1360614 thousand UAH. At the beginning of 2019, we see a decrease in the amount of borrowed funds by 39.24% - up to 697452 thousand UAH. At the beginning of October 2020 - an increase of 95.08% compared to the previous calculation period. The Bank improves its reputation among customers, as the number of received deposits increased from UAH 33082769 thousand. Up to 58656196 thousand UAH. As of January 1, 2019, the bank has a lease obligation, which indicates expanding the bank's activities to provide services to customers. The bank's liabilities' total value as of January 1, 2019, increases by 7.37%. At the end of the third quarter of 2020, the growth with the previous period was 43.77%.

Table 2.6 - Analysis of the dynamics of the FUIB's liabilities during 1.01.2017-1.10.2020 p. (own calculations on the basis of [14], [20])

Liabilities	2016	2018	2020 (III)	Change (+/-) (2016-2018)		Change (+/-) (2018-2020(III))	
	UAN	UAN	UAN	UAN	%	UAN	%
Debt to the National Bank of Ukraine	-	1 002	1 900 264	1 002	-	1 899 262	189547,11%
Debt to other banks	1 147 889	697 452	1 360 614	-450 437	-39,24%	663 162	95,08%
Customer funds	33 082 769	39 759 308	58 656 196	6 676 539	20,18%	18 896 888	47,53%
Certificates of deposit issued	691 371	832 460	-	141 089	20,41%	-	-
Eurobonds issued	4 290 540	-	-	-	-	-	-
Other borrowed funds	19 144	-	-	-	-	-	-
Lease obligations	-	267 402	385 007	-	-	117 605	43,98%
Other liabilities	1 656 385	2 303 523	1 398 151	647 138	39,07%	-905 372	-39,30%
Subordinated debt	490 750	488 145	-	-2 605	-0,53%	-	-
Current liabilities for income tax	5 227	83 199	176 151	77 972	1491,72%	92 952	111,72%
Deferred tax liability	21 266	25 302	40 852	4 036	18,98%	15 550	61,46%
<b>Total liabilities</b>	<b>41 405 341</b>	<b>44 457 793</b>	<b>63 917 235</b>	<b>3 052 452</b>	<b>7,37%</b>	<b>19 459 442</b>	<b>43,77%</b>

In the structure of equity (Table 2.7), for the period 1.01.2016-1.10.2020, the share of share capital decreased significantly from 89.26% to 51.93%. The share of the revaluation reserve decreased from 17.96% to 4.96% on October 1, 2020. The share of the reserve fund also recorded a decrease from 37.05% to 17.44%. One of the reasons for this trend is the bank's return to profitable activities, which confirms the share of retained earnings from -46.76% to 22.39% at the end of the third quarter. 2020 During 1.01.2016-1.10.2020, the amount of the bank's share capital increased from UAH 3542211 thousand to 4780595 thousand UAH, the growth rate during 2016-2018 is -0.06%, during 1.01.2019-1.10.2020 - 35.05%. The reserve fund, as of October 1, 2020, increased by 8.52%. The bank's retained earnings increased from a negative value to -1 591 630 thousand UAH. to 2,061,517 thousand UAH, the growth rate of which during 01.01.2017-1.01.2019 is -162.06% and 108.72% during 1.01.2019-1.10.2020. In general, the bank's equity increased during 1.01.2017-1.01.2019 by 56.2% and by 37.4% during the 2018-III quarter. 2020 It is worth noting that the bank is reliable and provides a sufficient amount of capitalization.

Table 2.8 – Analysis of FUIB's equity dynamics during 1.01.2017-1.10.2020. (own calculations on the basis of [14], [20])

	1.01.2017	1.01.2019	1.10.2020	Change (+/-) (1.01.2017-1.01.2019)		Change (+/-) (1.01.2019-1.10.2020)	
	UAN	UAN	UAN	UAN	%	UAN	%
<b>Equity</b>							
<b>Share capital</b>	3 542 211	3 539 953	4 780 595	-2 258	-0,06%	1 240 642	35,05%
Issue income	101 660	101 660	101 660	0	0,00%	0	0,00%
Fixed assets revaluation reserve	667 410	634 386	456 914	-33 024	-4,95%	-177 472	-27,98%
Reserve for revaluation of available-for-sale investment securities	91 470	-41 188	200 132	-132 658	-145,03%	241 320	-585,90%
Reserve fund	1 479 799	1 479 799	1 605 862	0	0,00%	126 063	8,52%
(Uncovered loss) / retained earnings	-1 591 630	987 712	2 061 517	2 579 342	162,06%	1 073 805	108,72%
<b>Total equity</b>	<b>4 290 920</b>	<b>6 702 322</b>	<b>9 206 680</b>	<b>2 411 402</b>	<b>56,20%</b>	<b>2 504 358</b>	<b>37,37%</b>

Table 2.7 – Analysis of FUIB's equity structure of the bank 1.01.2016-1.10.2020. (own calculations on the basis of [14], [20])

	1.01.2016	%	1.01.2017	%	1.01.2018	%	1.01.2019	%	1.01.2020	%	1.10.2020	%
<b>Equity</b>												
<b>Share capital</b>	3 572 211	89,26%	3 542 211	82,55%	3 542 211	69,50%	3 539 953	52,82%	3 294 492	36,33%	4 780 595	51,93%
Issue income	101 660	2,54%	101 660	2,37%	101 660	1,99%	101 660	1,52%	101 660	1,12%	101 660	1,10%
Fixed assets revaluation reserve	718 647	17,96%	667 410	15,55%	650 640	12,77%	634 386	9,47%	456 914	5,04%	456 914	4,96%
Reserve for revaluation of available-for-sale investment securities	-2 153	-0,05%	91 470	2,13%	128 726	2,53%	-41 188	-0,61%	122 303	1,35%	200 132	2,17%
Reserve fund	1 482 826	37,05%	1 479 799	34,49%	1 480 247	29,04%	1 479 799	22,08%	1 475 430	16,27%	1 605 862	17,44%
(Uncovered loss) / retained earnings	-1 871 237	-46,76%	-1 591 630	-37,09%	-806 805	-15,83%	987 712	14,74%	3 616 578	39,89%	2 061 517	22,39%
<b>Total equity</b>	<b>4 001 954</b>	<b>100</b>	<b>4 290 920</b>	<b>100</b>	<b>5 096 679</b>	<b>100</b>	<b>6 702 322</b>	<b>100</b>	<b>9 067 377</b>	<b>100</b>	<b>9 206 680</b>	<b>100</b>

Analysis of the main balance sheet indicators of the bank (Fig. 2.6) shows stable growth. During 01.01.2016-1.10.2020, the bank's equity increased from UAH 4001954 thousand. Up to 9206680 thousand UAH. Assets and liabilities show approximately similar growth dynamics, especially during the first three quarters of 2020. The value of assets increased from UAH 39189495 thousand. Up to 73123915 thousand UAH. The number of liabilities during 1.01.2016-1.10.2020 increased from 35187541 thousand UAH. up to 63917235 thousand UAH.

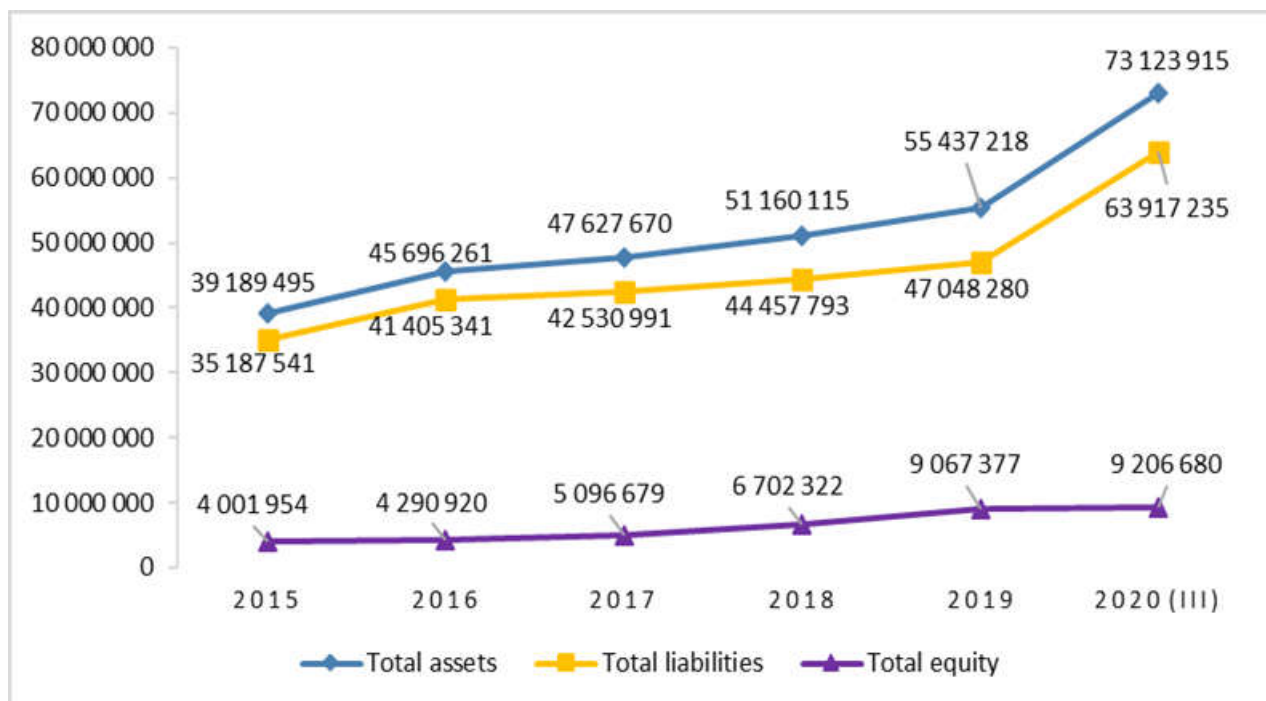


Figure 2.6 – The main FUIB's indicators during 1.01.2016-1.10.2020. (own calculations on the basis of [14], [20])

From the coefficient analysis (Table 2.9), there is a way out of the negative level; at the end of 2015, return on equity is -0.4633 to positive, starting in 2016 and its steady growth. In 2016, at the end of the third quarter of 2020, the return on equity increased from 0.0709 to 0.2239.

The efficiency of the bank's capital use is growing. The dynamics of growth of the equity multiplier show that the ability of equity to generate assets does not have a positive trend; from 2015 to III quarter of 2020, the multiplier value decreased from 9.7926 to 7.9425.

Table 2.9 – Coefficient analysis of FUIB's activity, 1.01.2016-1.10.2020 (own calculations on the basis of [14], [20])

	1.01.2016	1.01.2017	1.01.2018	1.01.2019	1.01.2020	1.10.2020
Return on equity	-0,4633	0,0709	0,1490	0,3133	0,2639	0,2239
Equity multiplier	9,7926	10,6495	9,3448	7,6332	6,1139	7,9425
The level of capital in the structure of total liabilities (equity& liabilities) (0.10-0.30)	0,1021	0,0939	0,1070	0,1310	0,1636	0,1259
Capital protection ratio	0,3643	0,3330	0,2802	0,2360	0,1747	0,1724
Indicator of the bank's dependence on the founders (shareholders, participants)	0,8926	0,8255	0,6950	0,5282	0,3633	0,5193
Coefficient of maneuverability of own means	0,5264	0,5556	0,6282	0,6681	0,7549	0,7564
Financial stability ratio	0,1137	0,1036	0,1198	0,1508	0,1927	0,1440
Debt capital concentration ratio	0,8979	0,9061	0,8930	0,8690	0,8487	0,8741
Financial leverage ratio	8,7926	9,6495	8,3448	6,6332	5,1887	6,9425

The equity hedging ratio shows a downward trend, from 0.3643 in 2015 to 0.1724 in the first third quarters of 2020, which indicates an increase in inflationary risks of investing in fixed assets or intangible assets. The bank shows an increase in the founders' level of autonomy; during the period under review, the dependence rate decreased from 0.8926 to 0.5193, mainly due to the growth of retained earnings.

According to the maneuverability ratio values, which increased from 0.5264 to 0.7564, the share of non-current assets that can be financed by equity decreases, and current assets increase. The concentration of debt capital varies from 0.8979 to 0.8741 and exceeds the allowable corridor (0.4-0.6), i.e., financial risks are excessive. The financial leverage ratio decreases from 8.7926 to 6.9425, so we can say a slight reduction in business activity.

Thus, we can draw the following conclusion: since the capital ratios at FUIB are met, the activity is profitable, the return on equity for 2016-end of the third quarter of 2020 increased from 0.0709 to 0.2239, and the overall ratio analysis is satisfactory; it can be argued that as of October 2020, this FUIB bank is reliable and

provides a sufficient amount of capitalization. However, the coronavirus pandemic's consequences are significant for this bank; in particular, there is a slight reduction in business activity and increasing risks of concentration of debt capital. Therefore, the bank must plan and implement strategic, tactical, and operational management of the resource base, using modern technologies and tools to digitize its activities, such as Internet banking, Open Banking, cloud banking, etc.

### **2.3 The impact of the quality of the resource base on the financial stability of the bank**

The quality of liabilities is traditionally characterized by the stability and stability of the resource base, the value of borrowed funds, indicators of changes in interest rates, i.e., those key elements that directly shape a particular deposit policy. The resource base's stability depends on the structure of borrowed funds, based on which the asset portfolio is determined both by the degree of risk and in terms. The quality and quantity of borrowed funds characterize the bank's ability to interest potential depositors so that they can entrust their funds to them. Considering the criterion of "capital base of the bank" in more detail, we can say that it assesses the amount of equity of the bank from the standpoint of sufficiency to meet the interests of its depositors and the ability to compensate for losses. Equity is the basis of each bank and one of the main sources of the resource base, which is also a guarantor of the bank's successful operation, designed to protect and maintain its financial stability and reliability, inspiring trust from customers. Hence the conclusion that maintaining a sufficient level of capital is one of the main conditions for the banking system's stability.

From the size of equity, liabilities of the bank, the quality, and quantity of borrowed funds depend largely on the bank's credit resources, ultimately, the size of the bank's profits, financial stability, and reliability. The volume and structure of all attracted resources, the quality of the deposit base significantly affect the level of financial stability of the bank:



- the volume of borrowed resources determines the conduct of active operations that generate income, as well as strengthen the position of the bank among its competitors;

- the value of borrowed funds affects the costs incurred by the bank, as well as the level of profit;

- compliance of the structure of borrowed resources with the structure of the bank's assets determines liquidity, i.e., the bank's ability to meet its obligations to customers.

The significance of the volume and quality of the resources involved implies the following criteria for their evaluation:

- the impact of the resource base on the bank's liquidity;
- the role of resource structure in increasing profits;
- the importance of the resource base in strengthening the bank's position among competitors.

Most of the attracted resources are mainly formed in the process of the bank's deposit operations, the effective and correct implementation of which depends on the successful operation of each credit institution, which is thus a prerequisite for the development of deposit policy. The role of the deposit policy of a commercial bank is reflected in ensuring profitability and liquidity, creating conditions for stability, stability, reliability, and activities that meet customer needs.

### 3 DIRECTIONS OF IMPROVEMENT OF THE SYSTEM OF FORMATION OF FINANCIAL RESOURCES OF BANKS

#### 3.1 Introduction of modified tools for the formation of financial resources of banks

The predominance of deposit financing in the liabilities of Ukrainian banks with a low share of other financing methods is explained by the cost of borrowed funds and servicing them. Given the shortage of financial resources, the main instruments used in debt financing are being modified. There are complex hybrid tools, including those with the property of capital. (Table 3.1).

Table 3.1 – Hybrid debt financing instruments of the bank [8]

Type of tool	Benefits	
	for the investor	for the issuer
"Eternal" subordinated bond	Unlimited circulation period; may be redeemed at face value at the issuer's discretion on the date of expiration of part of the application period; are converted into ordinary shares with a significant deterioration in financial condition.	Possibility to include in the own capital; the right to unilaterally refuse to pay interest; possibility in case of deterioration of the financial condition and after the use of sources of share capital to cover the losses of the credit institution not to fulfill financial obligations; diversification of income sources
Subordinated loan, deposit, loan with additional conditions	Converted into ordinary shares with a significant deterioration in financial condition	
Convertible bond	Exchange for ordinary or preferred shares of equivalent value; in the event of the issuer's bankruptcy, the bondholders will return the investment earlier than the shareholders	Diversification of sources of financing of activity and incomes; setting lower coupon rates; possibility of independent redemption of bonds without their redemption; possibility from the term of payment of coupon income

Hybrid financial instruments that involve conversion into equity are generally less profitable than conventional bonds, which is a disadvantage for investors, which is offset by hedging. Although some hybrid instruments can be used to increase the bank's capitalization, reduce the so-called "blurring" of shareholders' shares, they are not a characteristic factor of capital growth, so they should be gradually withdrawn

from the capital calculated for regulatory purposes (setting standards, determination of the minimum amount of equity).

A variety of hybrid instruments are structural financial instruments. The emergence of structural deposits is associated with the focus of banks on well-off customers. Such deposits include bi-currency structural deposit (term bank deposit with the bank's right to choose the currency of the deposit amount return at a pre-fixed rate), combined deposit (deposit, which is attracted on the terms of simultaneous placement of funds in the investment product). Banks have the opportunity to issue bonds with the obligation to pay its nominal value and if provided by the terms of the bond - coupon income. The securities market development contributed to the emergence of perpetual bonds, structural bonds, bonds with various types of collateral, bi-currency bonds.

Possessing a feature of a hybrid instrument (a combination of primary and secondary liabilities), structural instruments, in our opinion, are characterized by a significant feature - their redemption should not lead to the issuance of equity securities that allow you to claim equity and expand the number of bank owners - issuer. Structural financial instruments are an alternative to the classic debt financing instruments (deposits, bonds), as they provide greater profitability and risk protection. A common disadvantage of structural instruments for investors, as well as hybrid ones, is the presence of restrictions, including the impossibility of early withdrawal of invested resources, limitation of expenditure obligations on the account, additional costs associated with instruments (commissions), and the actual departure from passive investment. For debtors (issuers), structural instruments' disadvantages are more expensive maintenance, expanding the risk profile, and complicating accounting procedures.

### **3.2 Development of the bank's customer base as a key source of attracting financial resources**

The main priorities for maintaining the customer base and attracting new customers are using the system of measures to enhance service quality and efficiency by improving the existing technology of operations, introducing new products, and improving the culture of service. The implementation of this task leads to increasing the bank's attractiveness in the market, increasing the number of operations carried out with the bank's help, reducing the cost of banking services and operations. As a result, all these measures contribute to developing long-term relationships with customers, strengthening the customer base, and developing customer resources. The structure of the client base development program should include several key areas:

1) maintaining the customer base (improving the quality of service in direct work with customers, detailed study of customer needs of different categories, development of banking products for specific target customers, application of a differentiated approach to the pricing system of banking services; use of modern digital technologies);

2) attraction of new clients (search of bank clients based on the system approach, use of individual planning of work of the expert on the attraction of new clients and step-by-step control over its activity, introduction of a system of stimulation of bank employees at the attraction of strategically important clients);

3) conducting marketing research (formation and implementation of marketing activities among customers on banking services, on the demand for banking products and services, regular adjustment of the bank's marketing policy);

4) work with banking staff (development and implementation of a customer-oriented approach with personal management services for significant customers).

## CONCLUSIONS

Theoretical approaches to defining the bank's financial resources and its content are generalized and systematized.

The analysis of the frequency of search queries on the Internet on banks' financial resources management is carried out.

The instruments of the policy of attracting financial resources of banks are classified. The bank's attracted resource base was differentiated according to the value and terms for which the bank's clients' funds are mobilized.

Structural and dynamic analysis of the resource base of Ukrainian banks during 01.01.2012-01.01.2020 was concluded. It is concluded that banks with foreign capital are more financially stable than banks with only domestic capital, i.e., the resource base of banks with foreign capital is more balanced, and therefore more reliable, which allows this bank to be more resistant to various stresses: market challenges, changes in market conditions, pandemic crises, etc. It is established that in absolute terms, the liabilities of Ukrainian banks are growing in 2016-2020, but the growth rate is slow. In the Structure of banks' liabilities, Funds (deposits) of individuals (with savings (deposit) certificates) and Funds of business entities stably prevail. Such a structure, on the one hand, indicates the restoration of confidence in the banking system. Still, on the other hand, with such a structure of borrowing and a constant reduction in deposit rates, there is a risk of stable attraction of deposits in the future in sufficient quantities.

Structural and dynamic analysis of First Ukrainian International Bank (FUIB) was performed. It is concluded that since the capital ratios at FUIB are met, the activity is profitable, the return on equity for 2016-end of the third quarter of 2020 increased from 0.0709 to 0.2239. The overall ratio analysis is satisfactory; it can be argued that as of October 2020, this FUIB is reliable and provides a sufficient amount of capitalization. However, the coronavirus pandemic's consequences are significant for this bank; in particular, there is a slight reduction in business activity and increasing risks of debt capital concentration. Therefore, the bank must plan and

implement strategic, tactical, and operational management of the resource base, using modern technologies and tools to digitize its activities, such as Internet banking, Open Banking, cloud banking, and more.

Theoretical aspects of the impact of the resource base's quality on the bank's financial stability are analyzed.

The positive experience of introducing modified instruments of the formation of banks' financial resources (in particular, hybrid instruments of debt financing of the bank) in the general system of management of banks' resource base is generalized.

The directions for developing the bank's client base as a key source of banks' financial resources are considered.

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