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MANAGEMENT OF THE BANK'S CREDIT PORTFOLIO UNDER THE CONDITIONS OF THE STATE OF MARTIAL

The article analyzes the peculiarities of the formation of credit portfolios of banks taking into account the influence of new global challenges, reveals the specifics of credit activity of banks in the conditions of the new reality, defines the main stages of credit portfolio management and the corresponding set of measures of the bank in the conditions of martial law with the aim of optimizing the credit portfolio and minimizing its risks. The main goal of the study is to identify peculiarities in the formation of the bank's credit portfolios, taking into account the impact of new threats, and to determine the main actions of the bank at various stages of credit portfolio management in order to optimize it and minimize risk under martial law.

The systematization of literary sources and approaches to solving this problem showed that the issue of maintaining the appropriate level of quality of the loan portfolio in banks from the point of view of risks is constantly under the control of specialists and experts of the National Bank of Ukraine and is periodically studied by domestic and foreign scientists. However, there are still relevant issues that, in our opinion, require further research, in particular, the problem of increasing the efficiency of loan portfolio management under martial law conditions.

The urgency of solving this scientific problem lies in the fact that with the beginning of full-scale military aggression, there is a deterioration in the quality of credit portfolios of banks from a risk perspective, which may further lead to an increase in systemic risks and the development of crisis phenomena in the banking sector and other areas of the economy. The study of the problem was carried out in the following logical sequence: first, the state of credit development in Ukraine was analyzed, taking into account the impact of such global challenges as the coronavirus pandemic and full-scale military aggression on the territory of our country; the influence of the economic and political situation in the country on the specifics of the formation of credit portfolios of banks is revealed, the main stages of credit portfolio management are determined, and a set of bank measures aimed at optimizing the credit portfolio and minimizing its risks under martial law conditions is summarized.

The methodological tools of the research were: systematic approach, methods of analysis and synthesis, logical generalization, comparison, etc. The banking sector of Ukraine was chosen as the object of research, and the subject – indicators of credit activity of banks.

The results of the study can be used in the analysis of banks' credit risk management strategy. Summarizing and defining the necessary set of measures of the bank at various stages of managing the credit portfolio in the conditions of the introduction of martial law is aimed at minimizing credit risks and increasing the profitability of the credit portfolio.

Keywords: bank, martial law, loan portfolio; credit risk; non-performing loans, credit portfolio management.

УПРАВЛІННЯ КРЕДИТНИМ ПОРТФЕЛЕМ БАНКУ В УМОВАХ ВОЄННОГО СТАНУ

У статті проаналізовано особливості формування кредитних портфелів банків з урахуванням впливу нових глобальних викликів, виявлено специфіку кредитної діяльності банків в умовах нової реальності, визначено основні етапи управління кредитним портфелем та комплекс заходів банку в умовах воєнного стану з метою оптимізації портфеля кредитів та мінімізації його ризиків.

Ключові слова: банк, воєнний стан, кредитний портфель; кредитний ризик; непрацюючі кредити, управління кредитним портфелем.

Statement of the problem in a general form and its connection with important scientific and practical tasks. In the conditions of long-term financial instability, caused first by the coronavirus pandemic and quarantine restrictions, and then by full-scale military aggression by the Russian Federation, commercial banks are forced to work in conditions of risks of significant credit losses. During the first year of the war, despite the preservation of operational efficiency and the increase of active operations by banks, there was a reduction in the volume of the loan portfolio in banks, in which the share of problem loans gradually increased. In turn, the deterioration of the quality of banks' credit portfolios from a risk perspective can lead to an increase in systemic risks and the development of crisis phenomena in the banking sector, which can negatively affect other areas of the economy. Therefore, the issue of managing the bank's credit portfolio is becoming more and more relevant in today's reality.

Analysis of the latest studies, in which the solution to the problem was initiated. The issue of maintaining the appropriate level

of quality of the loan portfolio in banks is constantly under the control of specialists and experts of the National Bank of Ukraine, as this problem directly affects financial stability in the banking sector. Theoretical and applied aspects of bank credit operations, improving the efficiency of credit portfolio management and minimizing credit risks are considered in the works of many domestic scientists, such as Yu. Buhel, V. Vovk, O. Dziubliuk, V. Kovalenko, O. Lysenok, L. Prymostka, V. Soliar, K. Stepanenko and foreign scientists, in particular, T. Kokh, D. Mak Naughton, P. Rose, J. Sinki, J. Tobin, U. Sharp, and others.

However, despite the constant attention of experts and scientists to crediting processes in the economy and credit policy of banks, there are still questions that, in our opinion, require further research, in particular, the problem of increasing the efficiency of loan portfolio management in conditions of martial law, etc.

Whole articles. The purpose of a scientific publication is the identification of peculiarities in the formation of the bank's loan portfolios, taking into account the impact of new threats and the determination of the main actions of the bank at various stages of the management of the loan portfolio with the aim of optimizing it and minimizing risk in the conditions of martial law.

Presentation of the main material of the study with a full justification of the obtained scientific results. One of the main tasks facing the bank's management today, especially in the conditions of financial instability in the country, is the effective management of the loan portfolio. In order to avoid possible negative consequences for the country's economy, it is important for banks to ensure the conditions for the formation of a high-quality loan portfolio. Its increase should not be carried out at the expense of high-risk unsecured loans, and for this, the formation of such a quality management system of the credit portfolio is required, which would provide for control not only of the available assets in the portfolio, but also of the risk acceptance process.

The bank's credit portfolio management system is a set of measures aimed at maximizing the level of profitability of credit operations under the conditions of compliance with acceptable values of credit risk.

We will analyze the state of development of bank lending in Ukraine and the peculiarities of banks' lending activities in wartime conditions. As experts note, despite the harsh realities of the warring country's economy, banks were able to adapt to crisis conditions. Most of the banks maintain their operational efficiency and quickly restore the work of their branches in the liberated regions. As of September 1, 2023, there are 64 banks operating in Ukraine, 28 of them with foreign capital (*Main performance indicators of banks of Ukraine, 2023*). With regard to the main function of banks - lending, it should be noted the tendency of the decrease in the total volume of loans granted with the beginning of a full-scale war (Fig. 1).

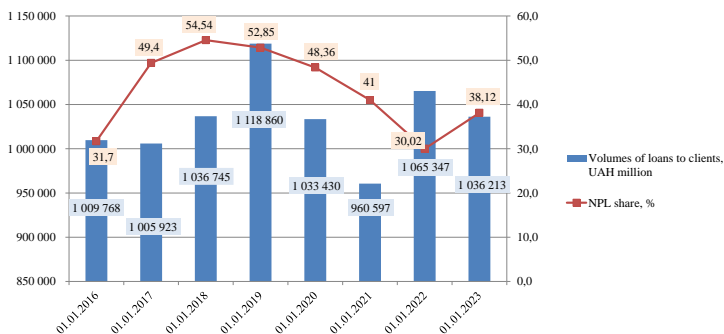


Fig. 1. Dynamics of the volume of bank loans granted to clients and the share of non-performing loans*

* Compiled by the author based on sources (*Main performance indicators of banks of Ukraine, 2023; Supervisory statistics data, 2023*).

As the research shows, the volume of loans provided by banks is significantly influenced by the political and economic situation in the country. Thus, over the past five years, the largest volumes of loans issued by banks were observed as of the beginning of 2019, before the spread of the coronavirus epidemic in the world. The size of the total loan portfolio of banks in Ukraine was 1118860 million hryvnias.

In 2020-2021, the period of quarantine restrictions during the COVID-19 pandemic had a negative impact on banks' credit activity and led to a reduction in lending compared to the beginning of 2019

by UAH 158,263 million or by 14.1%. The credit portfolio of banks decreased to UAH 960,597 million at the beginning of 2021. This was mainly due to a reduction in corporate lending, especially in 2020, when there was a drop in business activity across industries due to quarantine restrictions due to the COVID-19 pandemic.

With the beginning of a full-scale war on the territory of Ukraine, the demand for loans began to weaken, credit risks increased, and the net loan portfolio of banks decreased. According to NBU statistics, during 2022 the volume of loans issued decreased by 2.7%, and in eight months of 2023, the loan portfolio of banks decreased by another 3.7% to UAH 997,379 million (*Main performance indicators of banks of Ukraine, 2023*).

As practice shows, more than 70% of the credit portfolio of bank clients consists of corporate loans. As noted in the NBU's analytical reports on financial stability, on the eve of the war, there was significant business demand for loans, which was due to favorable price conditions, high domestic demand and a general decrease in the level of interest rates (*Report on financial stability, December 2021*). As a result, in 2021, the amount of hryvnia corporate loan portfolio of banks increased. In 2022, the military year, despite the general reduction in the size of the net loan portfolio, there was an increase in the volume of corporate lending mainly in state banks due to the support of the state program. The same trend continued during the I-III quarters of 2023. According to NBU experts, in the conditions of suppression of the demand for loans in the conditions of martial law, which is directly related to economic activity, "the key driver of hryvnia corporate lending will remain the state support program "Affordable loans 5-7-9%" (*Overview of the banking sector, August 2023*).

As for retail lending, the significant growth of the size of the retail loan portfolio in 2021 by 21.6% compared to the post-crisis years was supported by the growth in demand from the population and the attractiveness of the segment for banks due to high profitability (*Report on financial stability, December 2021*). A slowdown in consumer activity with the onset of full-scale war has led to a subdued and declining rate of retail lending at the end of 2022. However, already in 2023, an increase in the volume of consumer lending was

noted, mainly thanks to credit card overdrafts and the revival of mortgage lending under the "eOsel" program (*Overview of the banking sector, November 2023*).

Traditionally, among the spheres of the economy, the largest numbers of loans are granted to enterprises of wholesale and retail trade (the share in the loan portfolio at the end of 2021 was 37.7%). At the same time, after a year and a half of the war, the share of loans to this industry even slightly increased to 38.9% (*Statistics of the financial sector, 2023*). Agriculture remains a priority branch for lending today. The share of agricultural lending in the structure of the credit portfolio increased significantly and as of September 2023 was 16.1%, which is 1.8 times more than in 2020. Lending of these types of activities continues mainly within the framework of the "Affordable loans 5-7-9%" program. In general, "loans within the framework of the affordable loans program will continue to form about a third of the gross portfolio of hryvnia business loans" (*Overview of the banking sector, August 2023, p. 1*). On the other hand, lending to the processing industry, construction, transport, and other areas of the economy decreased, which is associated with a decrease in economic activity in wartime conditions.

Lending in wartime entails high credit risks. Full-scale military aggression reduced the ability of the population and businesses to service their loans and led to a significant loss of collateral, the volume and share of problem loans began to grow again. Thus, according to NBU reports, the share of non-performing loans increased by 8.1% to 38.12% in 2022 (see Fig. 1). Banks accelerated the recognition of credit losses due to the war. However, having passed the stabilization period, already during the three quarters of 2023, banks almost did not recognize credit losses. Thanks to the write-off of a part of non-performing loans to individuals and the reclassification of certain large business loans to the status of "working" as of September 2023, it was possible to reduce the share of non-performing loans in the banks' loan portfolio to 37.9% (*Overview of the banking sector, November 2023*).

At the same time, problem loans still remain "burden" on banks' balance sheets, which endanger their credit rating and reduce their liquidity and profitability, negatively affecting the banking system and the country's economy. Therefore, even before the full-scale war, one

of the strategic goals and priorities of the NBU was to reduce the level of non-performing loans in the banking system of Ukraine to 10% by the end of 2024, which was prescribed in the Strategy for the Development of the Financial Sector of Ukraine until 2025. However, the war made adjustments to ensure the quality of banks' loan portfolios.

During a protracted war, credit risk will continue to dominate for banks. Despite this, the NBU recommended banks to resume lending and focus on supporting their business models.

Therefore, in conditions of significant economic imbalances and geopolitical risks, especially in conditions of full-scale military aggression on the territory of the country, banks should timely change their approaches to credit portfolio management in order to optimize it and minimize risks. Based on the study of the experience of leading banks in conditions of financial instability and the features of the transformation of the credit policy of banks in relation to credit risk management during the first year of the war, we have highlighted the main stages of credit portfolio management and a set of measures of the bank in conditions of martial law with the aim of minimizing risks and optimizing the credit portfolio, which shown in Figure 2.

Therefore, at the first stage, which we called "adaptive", when there are significant threats to political, economic and financial stability in the country, it is advisable to introduce "credit holidays" for borrowers – legal entities and individuals, to give them the opportunity to adapt to adverse market conditions in new realities. This will allow the bank to avoid the uncontrolled accumulation of problematic credit debt. It is also necessary to correctly model the expected losses from credit operations and to form a sufficient volume of reserves for them.

At the next transitional stage, it is advisable to monitor the composition and structure of the credit portfolio in order to determine expected credit losses on customer loans. For sub-portfolios that are characterized by credit risk, segment them into appropriate stages in accordance with IFRS 9 "Financial Instruments". In particular, this standard provides for the division of financial assets into 5 risk levels, depending on the number of days overdue and signs of default. And

as a result, for identified borrowers, where it makes economic sense, carry out debt restructuring.

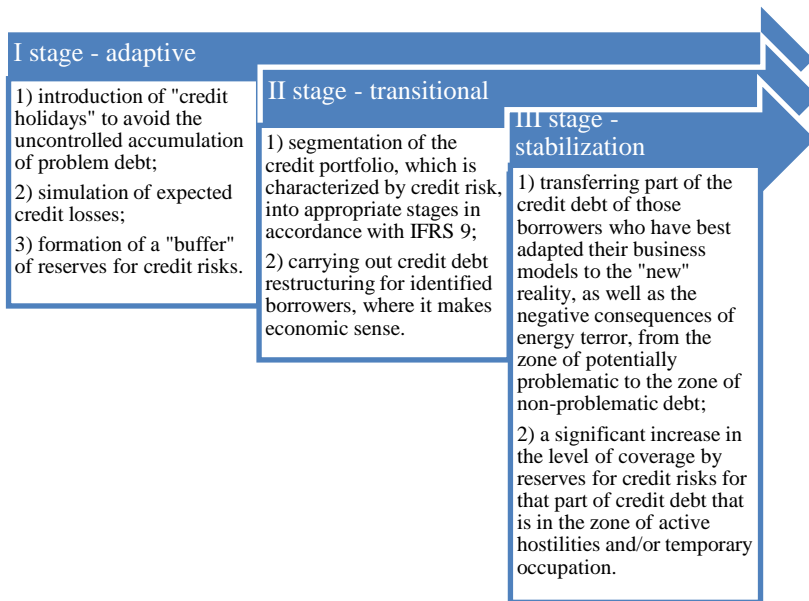


Fig. 2. Management of the bank's loan portfolio under martial law conditions*

* Developed by the author.

The third stabilization stage of the bank's credit portfolio management is characterized by certain conditions of economic and financial stabilization in the country. This stage may involve the transfer of part of the credit debt of those borrowers who have best adapted their business to the "new" reality, as well as the negative consequences of energy terror, from the zone of potentially problematic to the zone of non-problematic debt. On the other hand, for those credit debts that are in the zone of active hostilities and/or temporary occupation, a significant increase in the level of coverage by reserves for credit risks is necessary. In our opinion, depending on

the course and escalation of hostilities on the territory of Ukraine, these stages may be repeated.

Conclusions. Consequently, the escalation of Russia's military aggression against our country had a negative impact on the quality of banks' loan portfolios in terms of their riskiness. During the first year of the war, there was both a decrease in the volume of the aggregate loan portfolio of banks and an increase in the share of problem loans in its composition and, accordingly, the risk of the loan portfolio. Thanks to the timely implementation of a number of measures and restrictions by the NBU, strengthening of regulatory requirements for banks, as well as the balanced credit policy of most commercial banks, the banking system of Ukraine withstood the onset of full-scale military aggression and continues to perform its functions in full.

The summarization and definition of the necessary set of measures of the bank at various stages of credit portfolio management in the conditions of the introduction of martial law, carried out in the article, is aimed at minimizing credit risks and increasing the profitability of the credit portfolio.

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