



KAPITEL 1 / CHAPTER 1¹

THEORETICAL FOUNDATIONS OF THE FORMATION OF A BANK'S CREDIT PORTFOLIO TAKING INTO ACCOUNT RISKS

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Introduction

The development of the banking sector today largely depends on the end of the war in Ukraine and the rapid overcoming of crisis phenomena, as well as the introduction of modern qualitative approaches to the management of credit banking activities, modeling of the loan portfolio, its volume and structure. Current conditions require banking institutions to maximize the efficiency of their activities, competitiveness, and the formation of a high-quality loan portfolio, taking into account possible risks.

The urgency of the need to solve the identified problems is also explained by the fact that the activation of post-war economic growth is impossible without expanding investments in the real sector of the economy of our country. This, undoubtedly, determines the increasingly important role of bank lending as the basis for performing the most effective banking function as the main financial intermediary in the functioning financial space. It is also important to take into account the fact that the process of expansion of foreign capital creates additional risks for the national banking system. The post-war success of the domestic banking system depends on rapid adaptation to the new conditions for conducting such business. During the period of deepening of the domestic financial crisis and the negative consequences of the war on the national economy, issues related to the search for new approaches to increasing the efficiency of bank management in terms of minimizing credit risks and creating the prerequisites for their sustainable development are of particular importance.

Analysis of the formation of a bank's credit portfolio provides a clear idea of the effectiveness of its work and is one of the important stages of a comprehensive analysis.

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The relevance of the issue of implementing an effective mechanism for placing bank portfolio assets and areas for minimizing credit risks is quite high and requires theoretical research. Minimizing risks, ensuring the required rate of return on the loan portfolio are issues that require attention from both theorists and practitioners. Every modern bank faces the following tasks: developing a strategy and tactics for managing credit activities, qualitatively assessing the borrower's creditworthiness, and building an effective system for managing the formation of a credit portfolio.

The issues of determining the borrower's creditworthiness and minimizing credit risks have always received sufficient attention from theorists, in particular: Yu. Garkusha, N. Gladynets, V. Vitlinsky, N. Vnukova, O. Vovchak, I. Yepifanova, Yu. Kolomiyets, V. Kochorba, O. Kyrychenko, N. Andrushkevych, O. Dzyublyuk, I. Khoma., Zh. Shylo, N. Moroz and others. However, it is worth noting that the issues of assessing the ability of borrowers to receive loans, determining risks during lending in general do not lose their relevance and require periodic monitoring and improvement.

1.1 Lending as the most important function of the banking system

Lending is one of the key functions of the banking system, which plays an important role in providing financing for both consumer needs and investment projects of legal entities, individuals and state institutions. The effectiveness of banks' implementation of their lending functions directly affects the economic situation in the regions where they operate. Providing loans stimulates the creation of new enterprises, contributes to employment growth and supports the overall economic activity of regions, creating conditions for their sustainable development. In the context of the post-war development of the economy in Ukraine, the strengthening of the role of bank lending will become particularly relevant.

The loan portfolio is one of the main components of bank assets. It traditionally provides a significant part of bank income, but at the same time is a source of high risks, especially in conditions of economic instability. Therefore, loan portfolio



management requires special attention from financial institutions.

The term «credit» comes from the Latin «credитum», which means «trusted», «debt» or «loan», and reflects the essence of economic relations that arise between the creditor and the borrower on the basis of the return of the provided financial resources within the established time limits. The foundations of the organization of credit activities, types and forms of loans, as well as the principles on which bank lending in Ukraine is based, are determined by current regulatory legal acts regulated by the NBU.

Thus, according to the Law of Ukraine «On Consumer Lending» [1], consumer credit (or loan) is «money provided to a consumer (borrower) for the purchase of goods (works, services) to meet needs not related to entrepreneurial, independent professional activities or the performance of the duties of an employee».

The weakening of the banking system of Ukraine due to the growing negative impact of the war and the financial crisis prompts a constant review of the risks associated with credit activities. The deepening of the crisis has become a kind of catalyst for identifying hidden threats that have accumulated in the banking sector, which, in turn, has highlighted the need for a thorough study of the factors that cause these threats and their manifestations. The purpose of such analysis is to develop balanced approaches to the organization and implementation of credit policy by domestic banking structures.

Credit as a tool of economic relations has much in common with other basic categories of social production - such as money, finance, trade, capital, etc. All these categories are forms of expression of value and play an important role in ensuring the processes of value movement within the reproductive cycle. They closely interact and are interdependent from a functional point of view. For example, the function of money as a means of payment arose as a result of the formation of credit relations and continues to effectively serve them in the modern economy. In turn, credit performs the function of redistributing value, ensures the movement of capital, supports the formation of financial resources and promotes the development of trade operations [2]. The closest connection is observed between credit and money, which becomes increasingly stronger with the growth of the scale of production and the complexity of



the economic system. At the same time, despite the functional interaction with other categories, credit remains an independent economic category that performs its own unique functions and does not replace any of the other forms of economic relations.

1.2 Creditworthiness of a bank borrower

The creditworthiness of a bank borrower is its ability to timely and fully fulfill its obligations to the bank under the loan received, that is, to repay the principal amount of the debt together with accrued interest. Creditworthiness is a key criterion when making a decision to grant a loan, as it allows the bank to assess the level of risk associated with a credit transaction.

The assessment of creditworthiness is carried out on the basis of a thorough analysis of the borrower's financial condition, which includes studying its solvency, asset liquidity, debt level, capital structure, income stability, profitability and efficiency of economic activity. In addition, the bank considers the client's credit history, business reputation, quality of enterprise management and business development prospects [3].

It is also important to analyze external factors, in particular, the market environment, industry risks and the economic situation in the country, which may affect the borrower's ability to service the debt. Taken together, these parameters form a comprehensive picture of the client's financial reliability.

Thus, creditworthiness is an integrated characteristic that allows the bank to make a reasoned conclusion about the expediency of issuing a loan and determine its conditions, including the amount, term, rate and collateral. A high level of creditworthiness reduces the risks of non-repayment and ensures the stability of bank lending.

Overcoming crisis phenomena in our economy, ensuring post-war macroeconomic stability and stimulating economic growth in Ukraine is impossible without effective use of the credit potential and widespread activation of the national credit market.

Thus, credit is a special form of economic relations that arises between two



parties: the creditor and the borrower. The essence of credit is the temporary transfer of value - monetary or material - with the conditions of its mandatory return in the future. Its main features include voluntariness, reversibility, maturity, payment, security and risk. Credit ensures the redistribution of financial resources in society, supports the continuity of the production process, stimulates investment activity, and also performs the functions of emission, control and redistribution of value.

The borrower's creditworthiness is the ability of an individual or legal entity to timely and fully fulfill its obligations under a loan agreement. It is a key criterion that influences the bank's decision to grant a loan. Its assessment includes an analysis of the borrower's solvency, income level, financial stability, credit history, current debt obligations, availability of collateral and reputation. High creditworthiness reduces risks for the bank and increases the client's chances of obtaining favorable lending conditions.

Thus, the effective functioning of credit relations is possible only under the condition of mutual responsibility of both parties — the lender and the borrower — and proper assessment of credit risk.

Lending to customers is one of the key economic functions of banks. The economic situation of the regions served by banking institutions largely depends on the effectiveness of this function. Providing loans contributes to the creation of new enterprises, increasing employment, developing social and cultural infrastructure, and maintaining overall economic stability.

1.3 Portfolio approach to lending in the risk management system

Loans account for approximately half of the total amount of bank assets and provide up to two-thirds of all bank profits. They are not only the most profitable, but also the riskiest part of assets. In banking practice, it is important to consider not individual loans, but the entire array of issued loans as an interconnected system in which the mutual influence of individual components is observed [4].

By the concept of loan portfolio [2] we mean the totality of all loans issued by a



bank for profit. The volume of the loan portfolio is determined by the book value of all loans, including those that are overdue, prolonged or doubtful. In the bank balance sheet, the loan portfolio is considered as a single asset element that has its own level of profitability and is accompanied by a corresponding level of financial risk.

The key characteristics of managing a banking institution's loan portfolio are its profitability and risk level. The formation of a high-quality and balanced loan portfolio directly depends on the efficiency of the organization of credit activities in the bank. The management structure of this function has individual characteristics in each bank - it is determined by the scale of the institution, its capabilities, as well as the requests of the client base. The credit strategy should cover the key principles and elements of the organization of the lending process. It is advisable to document these provisions in the form of a bank's credit policy and approve it at the level of the Credit Committee and the Credit Supervision Committee, which ensures proper control and transparency of decision-making [5].

The structure of the loan portfolio is also formed under the influence of the bank's market specialization. Thus, in the case of servicing a certain segment of the economy, the loan portfolio of a specialized bank is focused on individual industries. Mortgage institutions mainly work with long-term loans focused on housing construction. At the same time, consumer loans and financing of individuals prevail in the portfolios of banks with a savings orientation.

According to the Resolution of 30.06.2016 No. 351 «On approval of the Regulation on determining the amount of credit risk by banks of Ukraine for active banking operations» [6]: «credit risk (CR) is the amount of expected losses (losses) (EL) for an asset due to the default of the debtor/counterparty».

According to the Resolution [6], banks assess credit risk on the 1st of each month following the reporting month and by the established deadline for submitting the bank's balance sheet, which is determined by the regulatory legal act of the NBU on statistical reporting to be sent to the NBU. Banking institutions determine the amount of credit risk for all active operations as the total amount of credit risk as of the 1st of each month in the national unit (taking into account the credit risk for all active operations



in foreign currency in the hryvnia equivalent at the hryvnia exchange rate to foreign currencies established by the NBU).

In international banking practice, the most common forms of lending are a credit line, a revolving loan (i.e. an automatically renewable loan) and an overdraft. These instruments allow for flexibility in financing borrowers depending on their needs and solvency. One of the key factors determining a bank's lending capabilities is the size of its capital. It is the amount of resources that a bank can attract or borrow, and therefore the level of its lending activity, that depends on the size of its capital. In particular, the maximum amount that can be provided to one borrower is limited in proportion to the bank's capital.

Capital is also the basis for establishing regulatory restrictions that control the level of risk in the banking system. Thus, the National Bank of Ukraine regulates a number of lending-related standards, which are determined in relation to the bank's capital. Such standards include, for example, the maximum credit risk standard per borrower, loan portfolio concentration standards, and restrictions on lending to related parties.

The calculation of the amount of credit risk of legal entities under a loan provided is carried out by banks using one of three types of assessment, namely: on an individual basis - the debtor's class is determined based on the assessment of its financial condition; on a group basis - the formation of groups of financial assets with homogeneous characteristics in accordance with Section XI of the NBU Regulation 351 [6], by type of collateral and timeliness of debt repayment, the total amount of debt of an individual legal entity debtor does not exceed UAH 20 million, the loan overdue does not exceed 30 calendar days; under a simplified approach - the formation of certain groups of financial assets in accordance with Section XII of the NBU Regulation 351, the total amount of EAD of debtors is not more than 0.2% of the bank's Tier 1 capital.

The National Bank of Ukraine, implementing the goals set by the NBU Development Strategy and the Lending Development Strategy, is gradually restoring requirements for banks that were temporarily suspended after the introduction of



martial law. This restoration is an important step against the backdrop of economic recovery and the need to increase the resilience of the banking sector to ensure more active lending in the future [6].

In particular, the application of requirements for determining the amount of credit risk for active operations of banking institutions is being resumed. Thus, from 01.10.2025, banks will again be subject to default signs related to making significant changes to the terms of loan agreements, in particular in the case of debt restructuring. At the same time, such signs will not be applied to restructurings that took place before 30.09.2025, provided that the requirements set for banks during martial law are met. Banks will be able not to transfer loans restructured using long-term instruments during this period to structural units for processing problem assets [7].

From 1 February 2026, a requirement will be introduced to use information from the NBU Credit Register when assessing credit risks. This will allow the restructuring process to be completed, taking into account the transition to the updated version of the NBU Credit Register 2.0. Temporarily suspended requirements stipulated by other regulatory acts are also restored. In particular, by 31.12.2025, banks must update their problem asset management strategy and operational plan for its implementation, with subsequent annual updates. From February 1, 2026, banks must use data from the NBU Credit Register to identify early warning indicators. Systemically important banks and the main banks of groups must update their recovery plans annually, as well as after significant changes in the bank's activities, starting from 2025. All other banks must update their plans every two years from 2026, with mandatory updates in the event of significant changes, starting from 2025 [7].

Regarding risk management, the requirement for banks to update internal risk management documents, conduct risk stress testing, and verify property value is restored from October 1, 2025. All these changes, approved by the NBU Resolution No. 52 of May 6, 2025, entered into force from May 8, 2025 [7].

The quality of the credit portfolio significantly affects the level of risk and stability of the bank, which is why credit activity is subject to strict regulation by state supervisory authorities in many countries. Established banking restrictions and



standards, as well as requirements for regulating the activities of banking institutions, play a significant role in the process of forming a credit portfolio.

The credit policy of a banking institution determines the main areas of lending, as well as a list of loans that should not be included in the general credit portfolio. The same loan may not meet the main requirements of the policy of one bank, but be completely acceptable for another bank [8].

When forming the structure of a bank's assets, the main factor is the level of profitability of each type of asset. However, high profitability is associated with increased risk, so it is important for bank management to take into account both of these aspects. If the profitability of different assets is similar, then preference is given to less risky investment areas. In this case, the bank can reduce the volume of the credit portfolio in favor of investments in securities or other active operations.

Summary and conclusions

When creating a loan portfolio, bank management is usually guided by the rule - to provide loans that bring the highest income under equal conditions. The profitability of the operation is determined by the interest rate, the term of the loan and the selected payment accrual system.

To effectively assess the profitability of loans, the bank must create a developed accounting system not only for income, but also for expenses associated with each loan. The profitability of loan operations depends on both income and expenses, as well as on possible losses, which are determined by the level of credit risk for each loan. Assessment, minimization and control of credit risk are among the most difficult tasks that management faces when forming its loan portfolio [8].

The portfolio approach to lending allows you to systematize loans by degree of risk, as well as implement effective lending strategies, risk minimization and generalization of tools used to serve bank customers.