

DOI: <https://doi.org/10.30525/978-9934-26-377-4-15>

**TYPES OF INDUSTRIAL LOAN PORTFOLIO
AS AN IMPORTANT COMPONENT
OF THE BANK'S CORPORATE LOAN PORTFOLIO**

Bank lending to industrial enterprises plays an important role in the bank's lending activities. Bank's lending operations with industrial enterprises account for a significant share of the total corporate loan portfolio of banks: in Germany – 54.35% (on average, 2008–2022) [1], in the EU countries – 26.87% (on average, 2008–2021) [2], in the USA (commercial and industrial loans) – 21.58% (on average, 2008–2021) [3].

The experience of bank lending to industrial enterprises in Ukraine is not that long and its general development can be described as stagnating. In particular, despite the fact that banks accumulate more than 40% of the country's GDP in their assets, the share of bank lending to the industrial sector in gross value added, on average, decreased by 66.12% in 2010–2022 [4; 5]. At the same time, over the same period, on average, industrial loans accounted for at least 1/3 of banks' corporate loan portfolios [5]. The level of non-performing loans of industrial enterprises is a serious concern: on average, for the period 2014–2022, it accounted for 1/3 of the total loans of industrial enterprises, of which 40% are in foreign currency. This situation is exacerbated by the fact that banks pursued an aggressive policy of lending to industrial enterprises, as evidenced by the ratio of industrial loans to industrial deposits (%), which was up to 290% on average in 2009–2022. Modern realities, which are characterized by a multitude of socio-economic, political and military challenges, bring new obstacles to the development of this segment of bank lending.

Accordingly, this indicates the necessity of finding effective approaches to the formation of the bank's industrial loan portfolio, one of which is the selection of the optimal type of the bank's industrial loan portfolio (BILP).

Taking into account the bank's credit strategy, the type of the bank's credit policy, and its commitment to the grounds of sustainable development, we propose to consider the following types of BILP:

conservative *BILP*; aggressive *BILP*; moderate *BILP*; sustainable development-based *BILP*.

Formation of a conservative *BILP* implies maximum reduction of the risk level on lending operations with industrial enterprises, but at the same time, the bank's readiness for a possible decrease in its profitability. Methods of forming a conservative *BILP* include: lending with a high level of security (short-term loans; loans secured by deposits, etc.); limiting credit conditions (by raising interest rates on industrial loans; prohibiting foreign currency lending); focusing attention on the quality of the loan agreement (ideal business reputation and financial condition of the borrower and guarantors; sufficiency and quality of collateral; general quality of the credit project); implementation of strict procedures for liquidation of the borrower's overdue debt, etc.

We propose to form a conservative *BILP* in such cases:

- in conditions of significant fluctuations of macroeconomic indicators, forecasting and implementation of macroeconomic shocks. Under such circumstances, the risks of lending to industrial enterprises may reach their maximum level;

- in conditions of economic uncertainty and macroeconomic instability. Under such circumstances, the risk of non-performing loans increases, the share of unprofitable industrial enterprises increases, exchange rates increase, etc.;

- in case of deterioration in the quality of the *BILP*. Under such circumstances, it makes sense to significantly minimize risks, focus on reducing non-performing loans, and focus on increasing the bank's liquidity;

- in the conditions of strengthening regulatory requirements to banks;

- in the case of the need to preserve the bank's business reputation, restore public trust in the bank, etc.

The formation of an aggressive *BILP* is rational in a sustainable market and macroeconomic environment, as the bank's aggressive lending policy means that it is ready to manoeuvre a high level of risk. Methods of forming an aggressive *BILP* include: acceptance of a high level of risk by the bank; granting loans on easier terms (lower interest rates; longer loan terms; higher lending limits; minimum requirements for the quality of collateral or its absence); prolongation of loans with cases of overdue loan debt, etc.

We propose to form an aggressive *BILP* in such cases:

- in conditions of economic stability and sustainable economic growth. In such conditions, the risks of the non-performing loans decrease, and the necessity for additional financing of industrial development increases (in particular, for the expansion of production, modernization, introduction of innovations, implementation of new projects, etc.);

- in the conditions of intensifying banking competition, the appearance on the market of powerful banks with foreign capital. In this case, it makes sense to activate bank lending to industrial enterprises in order to establish stable long-term business relationships;

- in case of expansion of the credit and investment resource base of the bank;

- in case of introduction of new credit products for industrial enterprises.

The formation of a moderate *BILP* requires balancing conservative and aggressive approaches to industrial lending. Methods of forming a moderate *BILP* include: granting loans on flexible terms (in particular, moderate interest rates on loans; lower requirements for collateral / no collateral); granting loans of different risk levels, but with an average risk level of the *BILP*. Depending on market conditions and the dynamics of the macroeconomic environment, an effective moderate *BILP* provides for easy adaptation or a complete change of strategy in the lending segment.

We propose to form a moderate *BILP* in such cases:

- if necessary to balance the level of risk and profitability of lending operations with industrial enterprises;

- if necessary to maintain financial stability and soundness of the bank;

- if necessary to adapt to the dynamic conditions of the macroeconomic environment, etc.

- in case of diversification of the customer base, combination of different asset allocation strategies.

The formation of the *BILP* on the grounds of sustainable development includes: a high level of social and environmental responsibility of the bank; a code of bank ethics; rational lending to industrial enterprises, taking into account the economic, social and environmental context of its impact on society and the environment. Methods of forming a *BILP* on the grounds of sustainable development include: granting loans to industrial enterprises that comply with the standards of social and environmental responsibility; consideration of environmental and social

risks when assessing a credit / investment project of an industrial enterprise-borrower; taking into account public opinion on lending to individual projects of industrial enterprises that may affect the environment and society, etc. [6].

Given the current realities of the development of the domestic industrial sector, as well as the fact that the socio-environmental and ethical component of the responsibility of industrial enterprises in Ukraine is poorly regulated and poorly developed, we believe it is appropriate to direct the attention of banks to the formation of a symbiosis of moderate *BILP* and *BILP* based on the grounds of sustainable development. This vision is related to the necessity for modern banks to maintain an optimal risk-return ratio in lending operations with industrial enterprises, on the one hand, and, on the other hand, to follow the modern vision of the importance of implementing sustainable development grounds in all sectors of the economy.

Thus, we believe that the approach of segregating the bank's loan portfolio of industrial enterprises into an separate segment in order to develop individual tools for its formation, analysis and assessment contributes to a more precise configuration of loan products and services for industrial enterprises, reducing lending risks, increasing the bank's competitiveness, and deepening the client-oriented approach in establishing sustainable business relations between the bank and industrial enterprises.

References:

1. Deutsche Bundesbank. Available at: <https://www.bundesbank.de/>
2. European Central Bank. Available at: <https://sdw.ecb.europa.eu/>
3. Federal Deposit Insurance Corporation (USA). Available at: <https://www.fdic.gov/>
4. National Bank of Ukraine. Available at: <https://bank.gov.ua/>
5. State Statistics Service of Ukraine. Available at: <http://www.ukrstat.gov.ua>
6. UNECE. Official web-site. Available at: <https://w3.unece.org/PXWeb/en>