ANALYSIS OF RAIFFEISEN BANK'S CREDIT PORTFOLIO AND ITS ASSOCIATED RISKS

HARANGUȘ DANIELA*[1], RACZ RAMONA[1]
[1] "Aurel Vlaicu" University of Arad, Faculty of Economic Sciences, Romania
*Corresponding author's e-mail: d_harangus@yahoo.com

Abstract: *This research aims to make a dynamic comparative analysis of Raiffeisen Bank's credit portfolio and its associated risks over the years 2017-2019. Diversifying the structure of Raiffeisen Bank's credit portfolio, depending on the lending currency, areas of activity and maturity, allows the bank to reduce its risk exposure and to manage the risks efficiently. All seven risk categories managed by Raiffeisen Bank were identified and analyzed. The paper also presents the main categories of credits in the bank's portfolio, as well as their particularities. Banks are constantly looking to diversify the structure of their credit portfolio and improve its quality, in order to avoid systemic risk and the risk of contagion.*

Key words: *credit portfolio, banking risks, fields of activity, maturity terms, commercial banks*

INTRODUCTION

The market economy necessarily includes the existence of a modern and efficient banking system, which guarantees the mobilization of all monetary availabilities of the economy and that they are targeted for efficient economic activities [7].

Commercial banks carry out activities of accumulating temporarily available financial resources, simultaneously with their distribution to economic entities that need these additional financial resources. From this perspective, banks have an important role to play in banking intermediation. For commercial banks, a loan represents an active tool in the development of the economy, through which the action of distinct phenomena is encouraged, depending on the aims pursued and the objectives to be achieved [1].

It can be appreciated that a low-quality credit portfolio is the main cause for the bankruptcy of many banking institutions. In the circumstances of the current development of the credit system, lending operations reveal two perspectives. They are as profitable as they are risky. So, the two elements of the lending process, namely profitability and risk, are directly proportional [6].

The bank is exposed to many risks by granting loans, these being represented either by the quality and financial performance of the borrower (customer), or by the general economic growth, as well as by the general structure of the bank.

It is known that banking performance has two dimensions: profitability and risk. Banking management aims to maximize banking performance by harmonizing the following objectives:

- maximizing the bank's profitability;
- minimizing risk exposure;
- compliance with quality standards and prudential behavior.

This research dynamically analyzes, according to different criteria, the structure of the credit portfolio managed by Raiffeisen Bank, as well as the risks related to this portfolio.

MATERIALS AND METHODS

The indicators reported by Raiffeisen Bank were used in the analysis of banking regulation and prudential supervision in the Romanian banking system.

The following scientific research methods were used for this analysis: data collection, classification, systematization, comparison, analysis and synthesis, induction and deduction, generalization, scientific abstraction, and the development and testing of hypotheses.

The structure of the credit portfolio is analyzed in dynamics, during the years 2017-2019, according to the following criteria:

- the currency for granting loans, respectively in lei or foreign currency;
- the credited field of activity (industry, trade, services, etc.);
- maturity term (short, medium or long);
- the legal status of the credited customer, of the credit beneficiary, respectively individual or legal entity.

In this research, the seven categories of significant risks operating within the banking system were identified. The risks specific to Raiffeisen Bank's credit portfolio were also identified and analyzed. Concepts, strategies for risk management and ways to mitigate bank risk exposures have also been defined.

RESEARCH RESULTS

The structure of the credit portfolio granted by Raiffeisen Bank is highlighted and managed by the bank according to the existing credit products in its portfolio [11].

Products intended for lending can be structured according to several criteria, namely:

- the credit reimbursement period, depending on which are identified; short, medium, or long-term credits;
- the nature of the debtor or the beneficiary customer, which may be an individual, legal entity, another bank or the state;
- the destination of the credit, respectively: credit for the current activity, credit for investments, or credit for consumption;
- the quality of the credit covering two aspects, high-performing credits or non-performing credits.

Individuals or legal entities, before granting the credit, are included in a risk category. The classification of the customer into non-reimbursement risk categories is performed according to the credit history provided by the Bank's Credit Office, together with the points obtained following the scoring.

The Raiffeisen Bank portfolio includes the following main categories of credits:

1. *Loans for individuals*

Most of the lending activity is allocated to individuals. Following the evaluation of the size of the credit market granted to individuals, several banks on the Romanian market found that the profits are quite generous in the context in which the lending process was well directed and carefully managed.

The analysis procedure is relatively simple in terms of granting credits to individuals. It is based on estimating the security of current income, mostly from salaries, and at the same time classifying the existing payment obligations following the requested loan, in an amount of income provided in the banking regulations.

2. *Loans for legal entities*

Financing the current activity for small and medium-sized enterprises is a permanent concern in which the bank can support them by providing them with a wide range of financing solutions and products. These can be in the form of credit lines, or in the form of installment facilities, specialized products depending on the field in which the economic entities operate [9].

3. Credit Line – Overdraft for Small and medium-sized enterprises

In order to streamline cash flow or prevent current capital needs, most enterprises need a line of credit at a given time of their existence on the market. In addition, the credit facility offers enterprises the opportunity to issue letters of bank guarantee for participation in tenders or letters of good execution.

4. Factoring for Small and medium-sized enterprises

In order to increase the capital availability necessary for the developed business, by using the factoring for Small and medium-sized enterprises, companies can collect in advance the equivalent value of the invoices with term payment, which express the amounts owed by the company's clients. This process is a short-term financing process, as it turns receivables into liquidity.

5. Credit for working capital

This type of credit is intended to finance the needs of some companies over a short period of time. The needs covered by this type of credit can be stock purchases, payment of debts to the state budget, payment of suppliers and other types of payments. The major benefit of accessing this credit is to take advantage of seasonal opportunities by having better control over financial flows [10].

6. Investment loan

This type of credit allows companies to expand and develop their business by purchasing goods, cars, equipment or refinancing investments previously made in the application for credit and made from own or attracted sources.

7. Mortgage loan for Small and medium-sized enterprises

This credit is intended for companies that have proposed to purchase a building or land and do not have the necessary funds. Through this credit, the company can pay for works contracted from construction companies or can finance its real estate assets that are vital for running the business. These real estate assets can be office buildings, warehouses, commercial spaces and production halls.

Raiffeisen Bank's credit portfolio

At the end of 2019, the volume of net loans granted by the bank increased by 20% compared to previous years, respectively: for large and medium-sized enterprises the increase was 23%, for SMEs 13%, and net loans granted to individuals increased by 10%[15]. The structure of the credit portfolio depending on the legal quality of the borrower, respectively individual or legal entity, is presented at the end of 2019, as shown in the Figure 1.

At the same time, in the context of the prosperous evolution of the economy and the improvement of the payment behavior of the bank's customers, the cost of risk decreased by half in 2019 compared to 2018.

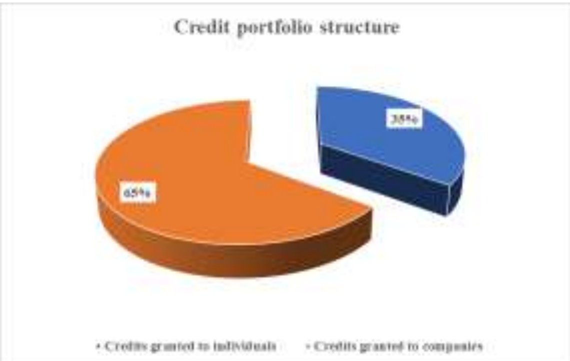

Figure 1. Structure of the credit portfolio

Source: http://www.raiffeisen.ro/ [15]

Raiffeisen Bank has enhanced its loan portfolio from year to year, increasing its presence in the lending market by diversifying its portfolio so that the bank does not have a major exposure to a certain specific credit risk.

The structure of Raiffeisen Bank's credit portfolio, analyzed according to the following selection criteria, is as follows:

- The share of credits granted by currency, in Lei or foreign currency, during the years 2017-2019, is presented in the Table 1.

Table 1.

Structure of the credit portfolio by currency

Types of currency	2017	2018	2019
Credits in Lei	65.99%	67.39%	71.53%
Credits in foreign currency	34.01%	32.61%	28.47%

Source: https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/transparenta-si-publicare [15]

The table above shows that over the last three years, the bank's customers have opted more for credits in Lei, compared to credits in foreign currency. In 2019, the volume of credits in Lei is 43% higher than the volume of credits in foreign currency. During the analyzed period, it is found that the share of credits in Lei in the total credit portfolio increased from 65,99% in 2017 to 71,53% in 2019, so by 5,54%. Also, during this period, the share of foreign currency credits in the total credit portfolio decreased from 34,01% in 2017, to 28,47% in 2019, so by 2,54%.

The bank's customers have opted more for credits in Lei, in order to protect themselves from currency risk.

- The share of loans granted by fields of activity (trade, industry, services, population, etc.), during the years 2017-2019, is presented as in the Table 2.

Table 2.

Structure of the credit portfolio by fields of activity

Fields of activity	2017	2018	2019
Trade	16.41%	15.72%	15.01%
Industry	28.70%	30.90%	30.80%
Services	15.85%	15.72%	14.86%
Population	36,18%	35.47%	37.30%
Others	2.86%	2.19%	2.03%
TOTAL	100%	100%	100%

Source: https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/transparenta-si-publicare [15]

Regarding the share of credits according to the fields of activity, it is found that during the analyzed period, most credits were granted to the population and the industry sector. In 2019, the share of credits granted to the population is 37,30%, and those granted in the field of industry is 30,80%. The volume of credits granted to the trade and services is about 15% in the year 2019.

The share of credits granted according to maturity terms, during the years 2017-2019, is presented as in the Table 3.

Table 3.

Structure of the credit portfolio according to maturity terms

Maturity terms	2017	2018	2019
Short-term	35.44%	39.42%	37.34%
Medium-term	18.21%	14.64%	20.33%
Long-term	46.35%	45.94%	42.33%

Source: https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/transparenta-si-publicare/ [15]

Throughout the analyzed period, the highest share is held by long term credits, which at the end of 2019 represented 42,33% of the total credit portfolio managed by Raiffeisen Bank. This high share of long-term credits shows an acute need for financing over longer periods of time. At the end of 2019, short term credits represented 37,34% of the total credits granted by the bank.

The analysis of the credit portfolio structure according to the credit maturity terms, also highlights the degree of risk exposure of the bank. It is higher in the case of long-term credits and lower in the case of short-term credits, due to the cost of lending resources and the evolution of the financial performance of customers credited by the bank.

Non-performing credits, which have delays of more than 90 days, represent 10,87% of the total credit portfolio existing on December 31, 2019, compared to 12,57% in 2018 and 11,31% in 2017, still being below the average registered by the Romanian banking system.

At the end of 2019, Raiffeisen Bank achieved very good financial results, which continue to grow significantly, in a balanced and sustainable manner.

The banking risks managed by Raiffeisen Bank

Risk management is an integral part of all decision-making and business processes within Raiffeisen Bank. The bank's management permanently estimates the risks to which the bank's activity is or may be exposed, which may affect the achievement of its objectives and adopts measures specific to the conditions and rules under which the bank operates [12]. The bank's management ensures the existence of an adequate framework for managing the bank's activity, corresponding to the structure, specificity of the activity and related risks by:

- Own regulatory system (through strategies, policies, norms, procedures, regulations);
- Own control system (through persons, departments, committees);
- Operational flows;
- The method of determining the specific costs;
- Banking-specific risk assessment system.

Within the banking system there are seven categories of significant risks, respectively:

- credit risk;
- liquidity risk;
- operational risk;
  - payment risk;
  - interest rate risk from activities outside the trading portfolio;
  - reputational risk;
  - strategic risk.

1. Credit risk is based on an administrative framework that is regularly updated and improved and is designed to cover all credit risk exposures in banking activities. It consists of the following components: a transaction risk assessment system, an individual counterparty rating system, focus limits on customer/ customer groups/ products, a risk-based pricing methodology, a methodology for calculating prudential adjustments for the credit portfolio [8].

2. Liquidity risk is a major risk for the bank. In order to manage liquidity risk, the bank constantly examines obtaining liquidity through treasury operations, external financing, capital markets [4].

3. Operational risk represents the risk of loss from the failed conduct of some processes, errors generated by the computer system, losses resulting from improper activity of employees and other external events.

4. Payment risk is the risk for the coverage of which the bank has taken a cautious approach in order to protect the its profit from market fluctuations in prices, interest rates, exchange rates [5].

5. Interest rate risk from activities outside the bank's trading portfolio, is the risk profile adopted as a "low" type, the bank having established a set of strict principles for managing and monitoring this type of risk.

6. Reputational risk expresses the risk of recording losses or not realizing the estimated profits, due to the lack of public confidence in the integrity of the bank. Reputational risk management is performed by [14]:

- attracting the best partners, both in terms of customers and suppliers;
- recruiting and retaining the best employees;
- minimizing litigation;
- rigorous regulation of the activity;
- reducing crisis situations and strengthening the bank's credibility;
- improving relations with shareholders;
- creating a more favorable environment for investment and access to capital.

7. Strategic risk is the current or future risk of a negative impact on profits and capital, caused by changes in the business environment or unfavorable business decisions, inadequate implementation of decisions or a lack of reaction to changes in the business environment.

All these seven risk categories identified and managed by Raiffeisen Bank are influenced and can be enhanced by the structure and specificities of the bank's credit portfolio.

CONCLUSIONS

Starting from the fact that the banking performance targets two dimensions, namely profitability and risk, it is interesting to analyze how the structure of a bank's credit portfolio influences its risk exposure.

Banks constantly aim to maximize the profitability of banking activities and minimize risk exposure, under the conditions of strict compliance with the norms of quality and banking prudence. Banks are considered the most disciplined financial institutions in the economy, their entire activity being regulated by banking rules, instructions and regulations. The National Bank of Romania is the regulatory and prudential supervisory authority of the entire Romanian banking system [13]. It monitors the credit portfolios of commercial banks and their risk exposures.

In these circumstances, banks are constantly seeking to diversify the structure of their credit portfolio and improve its quality, in order to avoid systemic risk and the risk of contagion.

Banking activity involves taking specific risks. Any intervention aimed at the internal control or audit of the bank's activity should be based on an assessment of the risks and the ways of their efficient management. Risk in the banking system is a phenomenon that occurs throughout the bank's operations and activities. Banking risk can have negative effects that are reflected on the entire activity, by degrading the quality of business, reducing profit or even recording losses and affecting the functioning and image of the bank [3].

The diversification of the credit portfolio structure of Raiffeisen Bank, depending on the currency for granting credits, areas of activity and maturity terms, allows the bank to reduce its risk exposure and to manage the risks efficiently. Given the fact that credit risk is a major risk for the bank, a permanent analysis of the structure and quality of the credit portfolio managed by it is required.

The main pillar of economic stability, taken as a whole, is largely the stability of the banking system, respectively the normal functioning of the banks which form this banking system [2]. Dysfunctions in a bank's activity can be a danger of contagion for other banks operating in the national economy.

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