

## Features and problems of lending to agricultural enterprises

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**Abstract.** The agro-industrial complex (AIC) is considered a high-risk area, since the activities of agricultural producers are influenced by natural and climatic conditions, the seasonal nature of revenue from sales of products. Features of the reproduction process in the agro-industrial complex affect the sources of financing the production activities of agricultural enterprises, among which bank loans play a significant role. The article discusses the features of credit risk management of JSC “Russian Agricultural Bank”, reveals the features of Bank lending in this area. Lending plays an important role in the development of agriculture. For agribusiness enterprises, it is the main source of updating production and working capital. Loans are provided for the purpose of improving production assets, increasing capacity, and other aspects. Therefore, risk management is becoming increasingly important and is becoming one of the most important conditions for ensuring the economic security of credit institutions. Implementing targeted and consistent risk management requires significant organizational effort, time, and other resources. An effective risk management system, in particular credit risk, is one of the necessary conditions for the sustainable development of JSC “Russian Agricultural Bank”.

### 1. Introduction

The activity of commercial banks in a market economy is inevitably associated with risks. The main type of banking risk, based on the nature of credit institutions, is credit risk. Lending to agriculture should take into account the specifics of the industry and require increased attention to risk assessment and management. In modern banking, a wide range of risk management methods and tools are used, but the degree of their development in relation to Russian conditions does not meet the modern needs of banks. The applied methods and methods of risk assessment do not take into account the full variety of reasons for the occurrence of risk situations and objective conditions for the functioning of industries. This led to the need to develop new approaches to the study of credit risk management and defined the purpose of the work and the range of issues addressed in it.

The focus on ensuring the stability of the country's banking sector is not in doubt, given that the banking sector is the foundation of the financial system and the financial market [1-3]. Banking institutions try to ensure stability, liquidity and reliability of their operations in the current post-crisis conditions of economic development in order to increase their financial results in the future [4-7].

It is important to say that the Russian commercial banks operate under conditions of uncertainty and sanctions restrictions, which have led to limited access to resources, deterioration in the quality of borrowers, and an increase in the overall level of counteragent risks throughout the economy.

The strategy developed and currently being implemented for the development of the Russian financial market in the direction of banking sector functioning is one of the most important directions



for increasing the capitalization of the banking sector. In view of these facts, it is necessary to rethink methods and approaches to managing bank risks, in particular, credit risks [8-11].

For commercial banks, the problems of credit risk management are relevant. The study of the problem of credit risk management in a commercial bank is important not only in theory, but also in practice. To solve this problem, it is necessary to form a complete concept of credit risk management.

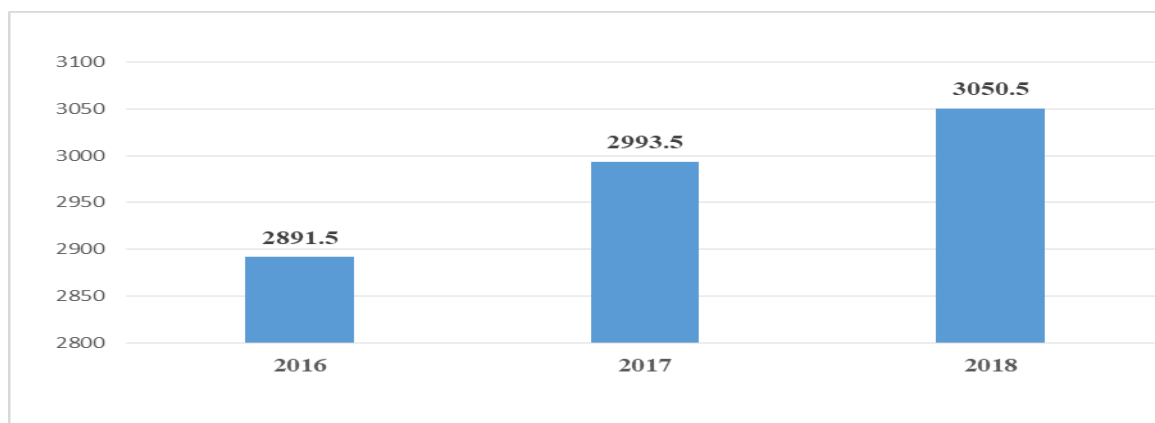
The purpose of the study is to develop measures to improve the credit risk of management process based on the assessment of credit risks of a commercial bank based on the example of JSC “Russian Agricultural Bank”.

To achieve this goal, the main tasks are set:

- consider methods of managing bank credit risks in accordance with the requirements of international management standards;
- identify the features of internal control organization in the framework of credit risk management;
- develop recommendations to reduce the level of credit risks;
- evaluate the effectiveness of the proposed measures to reduce the level of credit risks.

## 2. Materials and methods

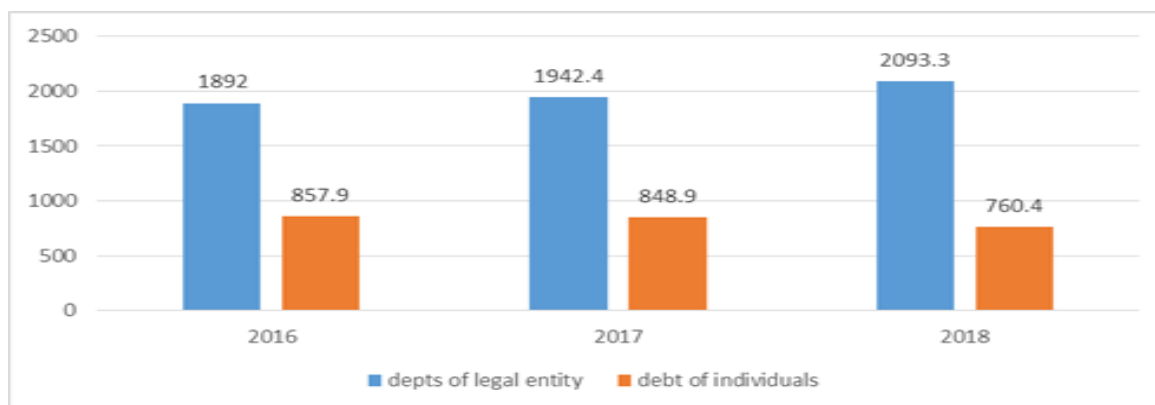
Updating of risk management in commercial banks is caused by a decrease in the quality of lending, an increase in problem loan debt. The dynamics of the total overdue loan debt in the country as a whole is shown in the figure 1. The dynamics is shown for the period 2016-2018, because there is no information for 2019 at the official websites of Rosstat and the Bank of Russia by the time of writing [12,13].



**Figure 1.** Dynamics of the total overdue loan debt in the whole country in 2016-2018, in million rubles.

According to the figure 1, we can trace an increase in loan debt in 2018 compared to previous periods, its increase compared to 2017 amounted to 57 million rubles or 1.9%.

The dynamics of the formed loan debt of legal entities and individuals in 2016-2018 is shown in the figure 2.



**Figure 2.** Dynamics of formed loan debt of legal entities and individuals in 2016-2018, in millions of rubles.

However, due to the increase in total loan debt, it is important to focus on the formation of an effective credit risk in management system.

Therefore, the definition of credit risk is that commercial banks will have financial losses due to borrowing or lending operations. The extent of credit risk will depend on the nature and volume of transactions, as well as on the possibility of taking preventive measures to compensate for the negative impact. Both the lender and the borrower are exposed to credit risk.

### 3. Results

As an example, the credit risk was assessed on the example of JSC "Russian Agricultural Bank". According to the analysis of the bank's financial statements, the bank's ambiguous position in the market of JSC "Russian Agricultural Bank" was noted [14-18].

Thus, in 2018, it received a total profit of 2.194 million rubles. Primarily, the bank managed to achieve a positive financial result (an increase of 24.2 % compared to the previous period) by increasing its net interest income, commission and operating income. The negative aspect is the decrease in the bank's interest income in 2018 compared to the previous period by 5.6 %.

In the financial management system of JSC "Russian Agricultural Bank", one of the strategically important areas is the bank's capital and risk management system [19].

In the structure of banking operations, the largest share is occupied by lending operations and operations with securities, attracting funds to deposits, which increases the risk of the bank's exposure to credit risk, interest rate risk, and liquidity risk.

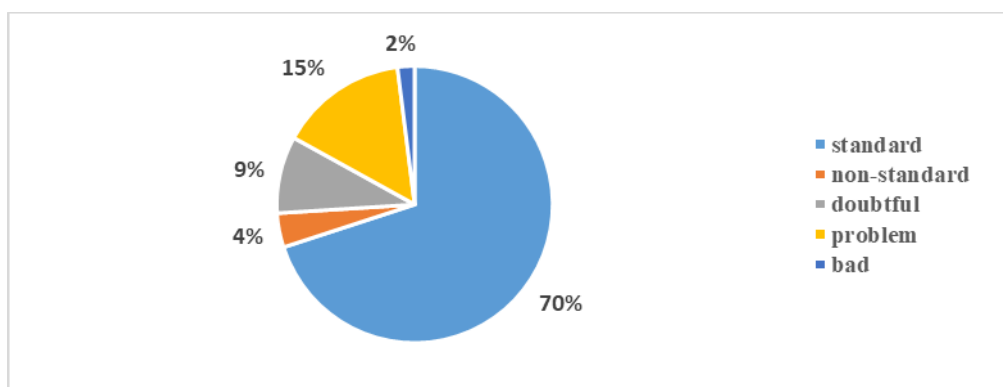
Credit assessment in JSC "Russian Agricultural Bank" was conducted in relation to loans issued to agricultural enterprises.

The analysis showed that the share of non-standard, doubtful, problematic and bad loans of the bank of JSC "Russian Agricultural Bank" to agricultural enterprises in 2018 was formed for 30.0 % of the total loan debt. The increase in the risk of loss or reduction of liquidity and credit risk of the bank allowed us to judge that the share of non-standard loans to agribusiness enterprises in the loan portfolio increased in 2018 compared to 2016. This fact undermines the liquidity of the commercial bank's activities, since the occurrence or growth of loan debts in the commercial bank leads to the need to form reserves for possible loan losses [20-23].

In the 4th quarter of 2019, in accordance with the risk and capital management strategy of JSC "Russian Agricultural Bank", the most significant risks were identified, which are subject to regular monitoring and management.

The bank's income from interest operations decreased in 2018 by 5.6 % compared to last year, as well as due to an increase in loan debt to the bank's agricultural enterprises by 10.9 % in 2018 compared to 2017, it is possible to formulate a lack of effectiveness of the credit risk in management system in the bank.

The structure of the bank's loan portfolio for 2018 is shown in figure 3.



**Figure 3.** The structure of the loan portfolio quality in JSC "Russian Agricultural Bank" in relation to lending to agricultural enterprises for 2018, % [Compiled by author].

The share of problem loans in the bank's loans receivable agricultural enterprises amounted to 15.0 % (for comparison, in 2016 – 11.0 %), bad loans to 2% (in 2016 – 1.0 %), that is, the tendency to growth of bad debts. An increase in doubtful, problem, and bad loans increases the liquidity risk, as the bank's risk of not receiving its funds increases [24-29].

Managing "problem" assets is one of the most important aspects of banking practice. The management of distressed assets in JSC "Russian Agricultural Bank" is assigned to the department for dealing with distressed debt as part of the Credit Committee.

The main sources of repayment of loans of JSC "Russian agricultural Bank" are:

- deposit;
- forfeit;
- guarantee;
- bank guarantee;
- working with problem debt.

The specifics of managing credit risks faced by JSC "Russian Agricultural Bank" in its activities are shown in table 1.

Credit risk management is based on assessing the creditworthiness of borrowers, monitoring and analyzing the dynamics of the loan portfolio, problem and overdue loans.

**Table 1.** Features of credit risk management of JSC "Russian Agricultural Bank" [Compiled by the author].

Risk of JSC "Russian Agricultural Bank»	Risk profile
Credit risk	<p>To manage credit risk, the bank:</p> <ul style="list-style-type: none"> <li>-according to the assessment of the transaction structure and all available information about the credit quality of the counteragent / group of counteragents, accepts credit risk;</li> <li>- uses credit risk reduction tools (including acceptance of liquid collateral, sureties and guarantees) and pricing based on the specified credit risk;</li> <li>- sets limits on credit risk for individual counteragents and groups of counteragents United by the principle of economic and / or legal ties.</li> </ul>

Credit risk management is based on assessing the creditworthiness of borrowers (in particular, agricultural enterprises), tracking and analyzing the dynamics of the loan portfolio, overdue and problem loans.

Several options for organizing work with problem debt have been identified:

- independent work of the bank on collection of problem debts;
- joint work with collection agencies on the terms of the "Agency agreement»;
- sale of a portfolio with problem debt to third parties.

The standard procedure for repayment of overdue debt by the bank of JSC "Russian Agricultural Bank" is as follows: if the borrower does not repay the next payment on the loan in time, the bank's Credit Committee employees remind him of this by phone or SMS. A few days later, if the debt is not repaid, the borrower and the guarantor are sent letters notifying them about a violation of the loan agreement terms and warning them of the bank's right to demand repayment of the full amount of the debt (including if the full repayment period has not yet come). According to the internal regulations of JSC "Russian Agricultural Bank", the loan becomes a problem after 90 days of overdue debt. After six months after the occurrence of overdue debt, JSC "Russian Agricultural Bank" goes to court with a claim against the borrower, demanding full repayment of the loan.

To assess the creditworthiness of individuals of JSC "Russian Agricultural Bank" applies the scoring model. To determine the creditworthiness of corporate clients, in particular, agricultural enterprises, a quantitative analysis (assessment of financial condition), as well as a qualitative risk analysis is carried out. The purpose of the risk analysis is to determine the possibility, size, and terms of the loan.

Strengthening the quality of bank risk management is particularly important in the practice of JSC "Russian Agricultural Bank" in view of the emerging deterioration of financial performance (due to the increased impact of credit risk, which contributed to a reduction in the Bank's interest income) [29-34].

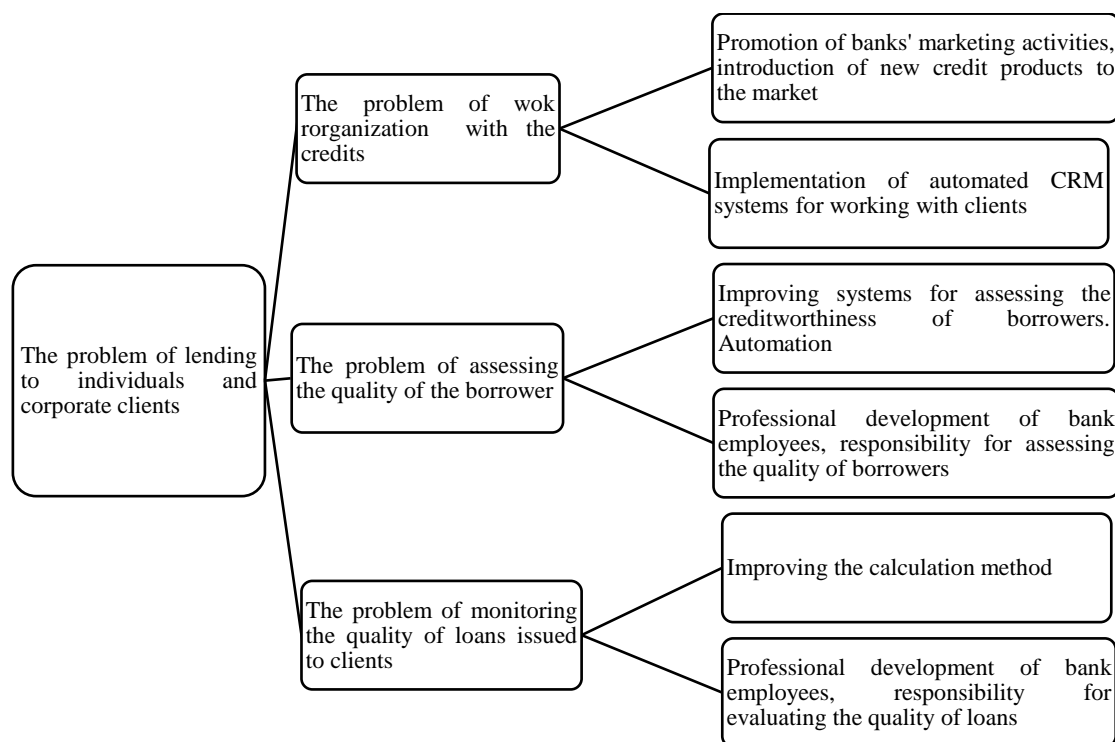


Figure 4. Options for solving problems in the credit market [Compiled by the author].

#### 4. Discussion

In view of the current situation of post-crisis impact and sanctions restrictions, it is necessary to review the models of bank risk management for commercial banks, strengthen each of the risk management areas. So it is necessary to create a comprehensive model of bank risk management (in particular, credit),

including sustainable management of business activity, financial stability, and liquidity (assets and liabilities) with a focus on the following areas in 2020-2022.

1. Due to the decline in the quality of the loan portfolio, it is advisable to increase the effectiveness of the system for assessing the creditworthiness of borrowers.

You can also suggest that banks cooperate with collection agencies to transfer their problem debt to management for a fee.

2. Strengthening the quality of management of a credit institution's securities portfolio (commercial banks have a significant share of loans and securities in their assets).

In absolute terms, securities in the assets of Russian commercial banks at the end of 2018 were formed at the level of 12310 billion rubles, which is 8.0 % more than last year. The share of securities in the assets of credit institutions in 2018 increased compared to previous periods and amounted to 14.5 %.

3. It is necessary to expand the range of loans and deposits, to ensure the search for more favorable conditions for customers in order to increase the attraction of deposits from individuals and develop lending.

4. Activation of bank insurance, which is currently insufficiently developed in our country, it is advisable to update comprehensive insurance of bank risks, which will increase the stability of the banking sector, as well as stimulate the development of the insurance market itself.

The conducted research, the main content of which is described in the article, allows us to draw the following conclusions.

The formation of market relations in the country's economy has led to uncertainty in making management decisions. All subjects of the market system, including credit organizations, are exposed to economic risks. Risk is a situational characteristic of a bank's activity that reflects the uncertainty of its outcome and possible adverse consequences in the event of a failure.

Risk is not only the undesirable results of decisions made, but also the probability of not making a profit. The diversity of the risk phenomenon is manifested in two ways. On the one hand, this is expressed by the probability of obtaining such undesirable results as loss of liquidity, loss of profit or financial losses (losses) due to non-payments on loans issued, reduction of the resource base, making payments on off-balance sheet accounts, etc. This dictates the need to choose the optimal ratio of the level of risk and the system of business activity, and profitability.

## 5. Conclusion

Thus, the priority areas of the credit risk management policy of JSC "Russian Agricultural Bank" are: improving the effectiveness of the system for assessing the creditworthiness of borrowers, updating the software in credit risk management, expanding the product line of loans.

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