

PRACTICAL APPROACH TO THE VISION OVER CREDIT RISK AT THE LEVEL OF A COMMERCIAL BANK IN ROMANIA. IDENTIFICATION OF CREDIT RISK IN A CREDIT PORTFOLIO GRANTED FOR AGRICULTURE

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Abstract:

The activity of the commercial banks in Romania, in terms of managing credit risk is guided by rules and regulations imposed by the National Bank of Romania, but is also customized through the existence of some personal risk management policies, determined by the nature and scale of each bank. This paper aims to highlight these features in terms of credit risk management and to identify some risks in the credit portfolio granted to customers that engage in agriculture. After the analysis, we have identified a number of proposals that could improve the management of credit risk in agriculture.

Keywords: credit risk, agricultural credit, warranties.

JEL Classification: E58; G21; Q14.

1. Introduction

This paper is part of a wider scientific approach in which I analyzed and showed characteristics and risks of agricultural lending. To achieve this goal, besides a theoretical analysis of the way the credit risk is being managed, a practical analysis was needed at the level of a commercial bank of the vision over the credit risk and of the way which the credit risk is being managed, completed by identifying the risks in a credits portfolio and formulating improvement proposals for lending in agriculture. The bank under review, called conventionally Sigma Bank works in the Romanian banking system for over 10 years and currently has a number of 171 operational unit network branches. To reflect the credit risk, we chose to analyze a credit portfolio of 30,000,000 lei, granted by the analyzed bank during the Farmer Program, developed in 2006, 2007 and 2008. This program was developed only by a few banks in Romania, and the credits granted were with interest subsidized by the Government, the purpose of these loans is to boost the absorption of the

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European Funds for agriculture development pre and post accession (Law no. 231 13.07 / 2005 on investment incentives in agriculture).

2. General overview of the bank's view regarding credit risk

In acceptance of the bank, *risk* is defined as representing the probability that the internal or external factors are likely to affect adversely the activity, manifesting by failure of the planned objectives, the occurrence of production losses or any other negative effects, and *the credit risk* - the risk of recording losses or failure to achieve estimated profits due to a failure by the counterparty in fulfilling the contractual obligations.

The main objectives of risk management within the Sigma Bank are:

- 1) ensuring the financial health of the bank;
- 2) ensuring business continuity;
- 3) protecting shareholders' wealth;
- 4) protect the interests of clients.

Sigma Bank operates both following the NBR regulations on the principles of prudence, and following their own rules designed to render the possibility of prevention and mitigation of credit risk.

Bank defines exposure as being any risk, actual or potential, that must be highlighted on the balance sheet and / or off-balance and which results from the following, but is not limited to them: loans, investment in shares or other securities, other equities of financial assets nature, bills discounted or endorsed, guarantees issued, letters of credit opened or confirmed.

Credit risk assessment is done through:

A. credit analysis - to determine the *current risk individual profile*

B. credit portfolio analysis - to determine the *bank's aggregate risk profile*.

Regarding determining the current risk individual profile, approaches that are being used by the bank differ according to the counterparty as follows:

✓ *for individual customers*, the analysis involves a scoring calculation that determines the eligibility of the customer, plus an analysis of the income source, the employer, the permanence of income, and then an analysis of the security offered;

✓ *for legal entities customers* things are more complicated, the analysis begins by calculating a rating credit based on some qualitative and quantitative indicators that allow assigning to a financial performance category (A, B, C, D or E), but this rating offers only an overview over a company's activity, the next steps consist of a detailed analysis of the company, which, in my view, can not be achieved following a "recipe" known to all analysts, in the case of legal persons knowing the activity is very important for understanding the levels

recorded by the main financial indicators, which doesn't reflect at all companies the optimum reflected by the theory, and are influenced by the specifics of each activity.

Thus, I believe, that the correct and complete analysis of a legal entity client, depends heavily on the experience of the lending credit analyst, experience that can allow understanding the company's activity.

In terms of organizing the lending activity, the bank operates on the principle that a risk mitigation method is represented by performing the credit analysis at one of the bank's levels (branches / agents) and the approval to be achieved by the competent bodies from higher levels (regional or central bank centers).

At the bank level several *organs for loan approval* are operating, from the Credit Review Committee, to the Board of Directors, which approve the requests based on the level of responsibility assigned, representing the maximum level to which each committee may approve loans or commitments. (*the deployment phases regarding the analysis and promoting credits* are summarized in chart no. 1). As required by the National Bank of Romania, loans that exceed a certain percentage of equity and / or require a higher credit risk, or those that do not fall in lending policy will be approved by the Board.

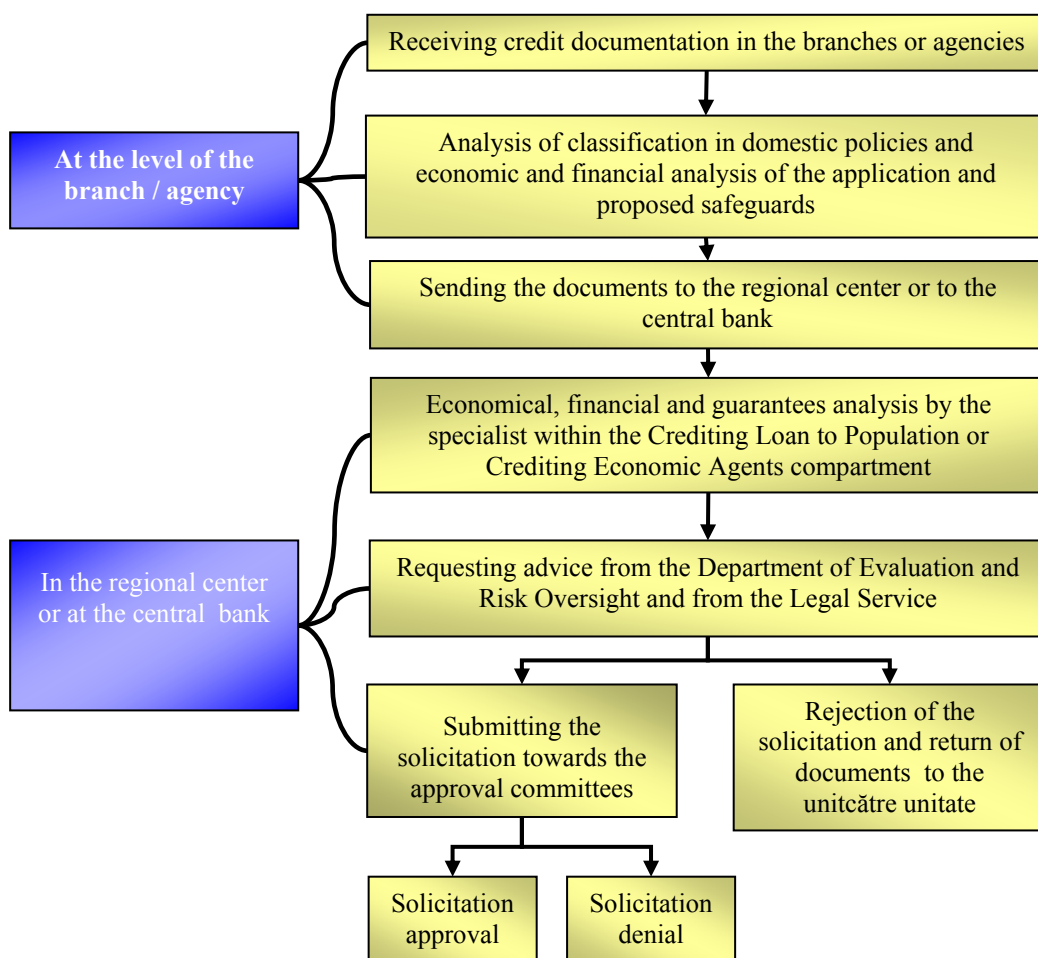
The credit portfolio management across all operating units is performed by the Central Bank, where it works:

✓ *The Population Lending Service*, structured in two departments: The Crediting Population Department and the Population Tracking and Recovery Credit, which manages loans granted to individuals.

✓ *The Service for crediting economical agents*, structured in four sections: Section for Lending Economical Agents, Section for Intensive Tracking, Restructuring and Recovery Credit Section and the Risk Assessment and Surveillance Section, which manages loans granted to legal entities (companies, authorized individuals, family associations etc.).

For evaluating the global credit risk it aims at the quality of the credit portfolio and of the credit risk management quality. These analyses are performed by each branch of the bank (for its own portfolio), by the Service for Crediting Economical Agents, by the Service for Crediting Population for the entire portfolio of the Bank and independently by the Department of Risk Assessment and Monitoring.

Chart no. 1 - Deployment phases of the analysis process and credit promotion



Also, according to the analyzed bank, an important rule in managing credit risk is represented by the **constant pursuit of the quantitative and qualitative evolution of credits**, which includes:

- *standard monitoring*: monthly monitoring of compliance maturity, field visits to view business and guarantees, injunctions, notices to debtors who record outstanding;
- *specific monitoring*: detecting high risk credits with default loans and their intense monitoring, restructuring loans;
- *tracking credit guarantees*;
- *tracking overdue and bad loans*.

Credit risk issues should be **reported** in due time to the *Directorate for Supervision of the National Bank of Romania*. The information system used should allow:

- registration on time of non-performing loans;
- identifying non-compliances with the established exposure limits;
- credit risk assessment afferent to the balance sheet and off-balance sheet;
- providing adequate information concerning the composition of the loan portfolio;
- providing information that would allow the identification of any risk concentrations.

In order to maintain a quality credit portfolio, Sigma Bank respects the limits imposed by the central bank to limit exposure (according to NBR Regulation no. 16 from 14.dec.2006), but it has also created its **own policy for managing risk**, through which it has established:

- measures or policies concerning the approval competences for the bank's commitments;
- measures or policies meant to limit or reduce credit risk;
- measures or policies on credit classification;
- measures or policies on provisioning.

Sigma Bank permanently monitors the compliance with the **global system of internal limits**. These limits are not as stringent as those imposed by the NBR, and their levels were reached following the analyses made by experts in the field of risk within the Bank, analyses that considered both the history of lending and the field practice regarding the levels that can be recorded by certain indicators. Furthermore, failure to comply with these indicators entails an analysis of the reasons behind this situation, and if it is considered that the registered levels do not generate a very high risk for the bank, or assuming these levels causes significant gains for the bank, then these limits can be revised, and if not, measures are required for admission to the established levels. These limits relate mainly to:

✓ *total value of the credits granted to customers in total assets* - the importance of this limit is very high, because this limit indicates how much of the total assets, represents assets with a risk degree of 100, that is loans (according to Basel II regulations). Furthermore, failure to comply with this limit can determine an additional capital need, so that is why it is carefully monitored.

✓ *the value of the credits in total attracted sources* - bank realizes a plan of use which is then given to the attracted resources trying to achieve both high-risk

investments, but that are income generating and investments with a lower degree of risk, but which ensures their reimbursement;

✓ *focusing on the activity sectors* provides a system of limits that are often revised, according to the general economic context, the bank imposing more restrictive values for the sectors that are most vulnerable at times, thus trying to mitigate the credit risk exposure determined by problems caused by a particular industry;

✓ the bank imposes certain *limits of exposure on the types of credit* on the grounds that an excessive exposure to a particular type of credit may cause risk occurrence, but these limits are also reviewed in order to take full advantage of the opportunities within the market;

✓ also, the bank, through its lending policies establishes *the exposure level towards the counterparty*, respectively towards the granted loans to individuals and businesses, the bank in question is a bank directed mainly to crediting the economical agents;

✓ the bank permanently monitors the *quality of the portfolio for granted loans*, managing a set of limits that would alert in case of its potential problems (the value of the outstanding loans and of those highlighted off the balance sheet, the volume of the specific credit risk provisions (including from interests) expressed as a percentage of the credits balance sheet sold, including claims attached); failure to comply with these limits determines establishing some measures for a closer monitoring of the credit portfolio of bad loans and for recovering outstanding amounts.

In addition to these internal rules of Sigma Bank with direct impact on credit risk management, the focus is set on the Bank's activity and on the internal control and as an element that can reduce risks in the lending activity.

Thus, analyzing the approach of the practiced risk by Sigma Bank, it can be seen that the bank is trying to continuously adapt to the requirements of NBR regarding prudentiality and also it has created its own system for permanent monitoring of each credit, and of the global credit portfolio, that would enable an early notification of the credits that may generate risks to its business.

3. The analyzed bank's approaches in terms of covering the credit risk

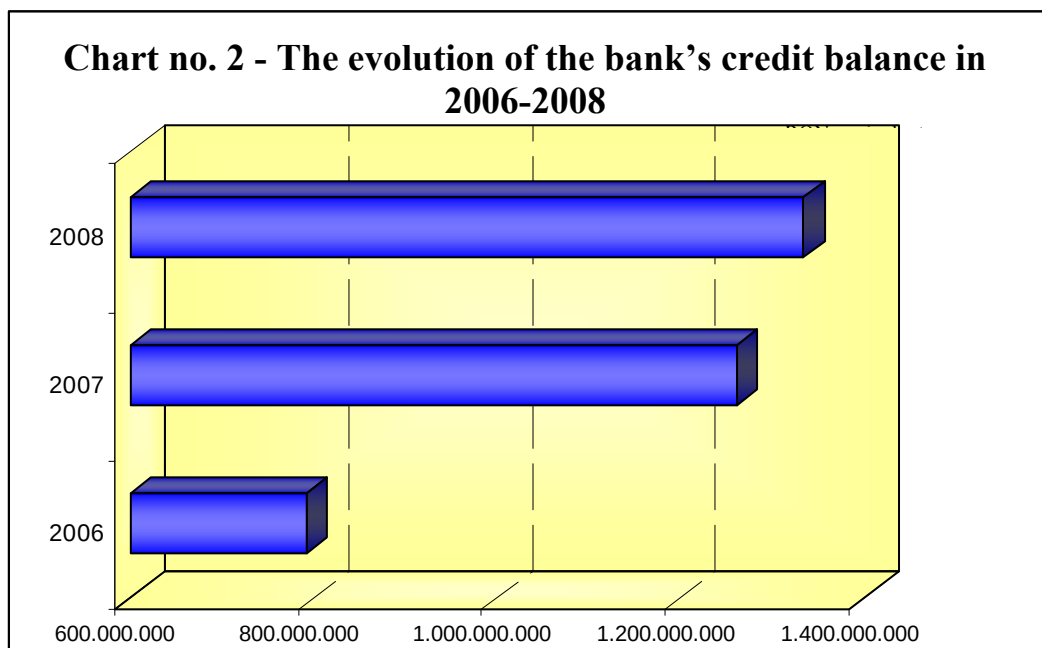
The analyzed bank continuously aims to prevent and mitigate the effects that the credit risk occurrence may have on its business. Next, I will present the main ways of covering the credit risk, which the bank uses for all credits, regardless of the debtors provenience.

The analyzed bank continuously aims to cover the risk related to the credit portfolio. Table no. 1 shows the situation of the credit portfolio granted to legal entities in the period 2006-2008.

Table no. 1 - Situation of the credit portfolio granted to legal entities in the period 2006-2008.

	31.12.2006	31.12.2007	31.12.2008
Credit balance	792.565.936	1.261.371.700	1.334.738.766
Increasing percentage	-	+59,15%	+5,8%

It can be noticed a sharp increase in credit portfolio in 2007 (chart no. 2) as a result of increasing the bank's units from 214 at the end of 2006 to 246 at the end of 2007 and of the increased appetite for loans expressed by the banks customers.



Given this intensive increase of the credit balance, **the bank is exposed to a higher credit risk**. Given these elements, Sigma Bank develops a policy for managing the credit risk, that can be reviewed annually and which aims to:

- *Limit or reduce credit risk*, which aims to monitor and limit exposure to credit risk by imposing certain maximum values, towards which the bank may expose itself to a client or to an activity field. Based on this policy sit on the one side the NBR regulations regarding limiting the exposure towards a single

borrower and on the other hand its own regulations regarding limiting the exposure.

- *Credits classification* - these measures are designed to use a standardized classification of loans, which should reflect the associated credit risk of the counterparty. Loan classification is an instrument of credit risk management through which to each credit is assigned a risk level to measure the probability of compliance with the contract. Aggregating all risk degrees associated with them establishes a risk degree at the level of the bank's portfolio. Sigma Bank uses the *classification criteria established by the NBR regulations*, which take into account the financial performance, the duty service, initiation of legal proceedings, the financial performance being in its turn calculated based on an algorithm that takes into consideration numerous aspects of the economic and financial situation of the client ;

- *Creating provisions* - provisions, along with other types of capital are used to cover credit losses, therefore they represent a direct instrument of credit risk management. The method of establishing provisions is made in compliance with the regulations imposed by the NBR.

The method of credit classification and provisioning is established by Sigma Bank through an *assessment of evaluating the financial performances*.

Thus, *determining the financial performance category* is made in order to identify and analyze the credit risk, by considering the non-financial and financial aspects that have impact on the client, on his business, on his profit and on his repayment capacity. Classifying in one of the five financial performance categories has the following meaning:

Performan ce category	Meaning
A	the financial performances are very good; it is envisaged maintaining into perspective the financial performances at a high level
B	the financial performances are good; the client is stable on a short period of time;
C	the financial performances are satisfying; the impact of the credit can lead to improved performance;
D	the financial performances are low; stable performances on a short period of time;
E	the financial performances are reduced; granting the credit is very risky;

Allocating a client in a particular category of financial performance is done based on *its financial performance analysis*, based on a score obtained from the *quantitative and qualitative indicators*.

The quantitative indicators used in calculating the financial performance are:

- current liquidity;
- patrimonial solvency;
- financial return;
- indebtedness degree;
- the coverage degree of exploitation expenses with the incomes from exploitation;
- the turnover sensitivity at the exchange rate.

These indicators are calculated based on the last financial situations available, elaborated according to the regulations issued by the Ministry of Public Finances.

The financial performance analysis completes itself with the analysis of the **qualitative indicators**:

- management quality;
- the current business history;
- relationship with the bank;
- history concerning crediting;
- payment behavior;
- quality guarantees;
- quality of shareholders;
- market conditions.

The share of the indicators for determining the financial performance category is 70% - *quantitative factors* and 30% - *qualitative factors*.

Depending on the financial performance, the debt service and initiating legal proceedings, a classification of the company in one of the classification categories takes place: standard, in observation, substandard, doubtful, loss (according to regulation no. 3 of 19 March 2009).

In establishing how the provisions are made, an important role is represented by guarantees constituted at credits, that, depending on their quality, are able to reduce the provisioning calculation base.

In the case of Sigma Bank, a **wide range of guarantees** are accepted, including: mortgages on real estate properties (apartments, houses, production halls, livestock farms, lands outside and inside the city), pledges on movable property (machinery, production lines, collateral deposits, goods stocks), assignment of receivables on invoices or contracts, letters of bank guarantee. In

order for a guarantee to be established it must be acquired legally, it has to be in the property of the one who is going to pledge it, he has to have proof of full payment of the property (for movable and immovable properties). The Bank also offers the possibility of pledging future assets (buildings that are going to be build or movable goods that are purchased from the credit), but these are not used to offset the exposure at the time of calculating the base allowance. The situation of the existing guarantees in the bank during the analyzed period is presented in Table no. 2 and 3.

Table no. 2 - The situation regarding the market value of guarantees in the credit portfolio granted to legal entities, during 2006-2008

Guarantee type		2006	2007	2008
1	Guarantees received from the public institutions	-	86.558.000	190.351.497
2	Mortgages on housing	435.341.516	682.330.479	697.415.781
3	Mortgages on the halls, commercial spaces, lands	1.527.668.411	2.113.029.171	3.212.534.219
4	Pledges	448.437.336	505.262.525	562.833.644
5	Payment instruments	225.307.026	363.487.190	248.117.571
6	Guarantee funds and policies of default risk	131.825.276	290.332.265	282.632.965
7	Other guarantees	47.190.741	39.286.145	24.613.249
TOTAL GUARANTEES		2.815.770.306	4.080.285.775	5.218.500.934
Legal persons credit balance		792.565.936	1.261.371.700	1.334.738.766

Analysis of the guarantees that the bank has established for credits granted to legal entities reveals that the share held by mortgages on housing in total guarantees has decreased in the period analyzed from 15.46% to 13.36% in favor of the increasing the share held by mortgages on the halls, commercial spaces, lands (Table no. 3).

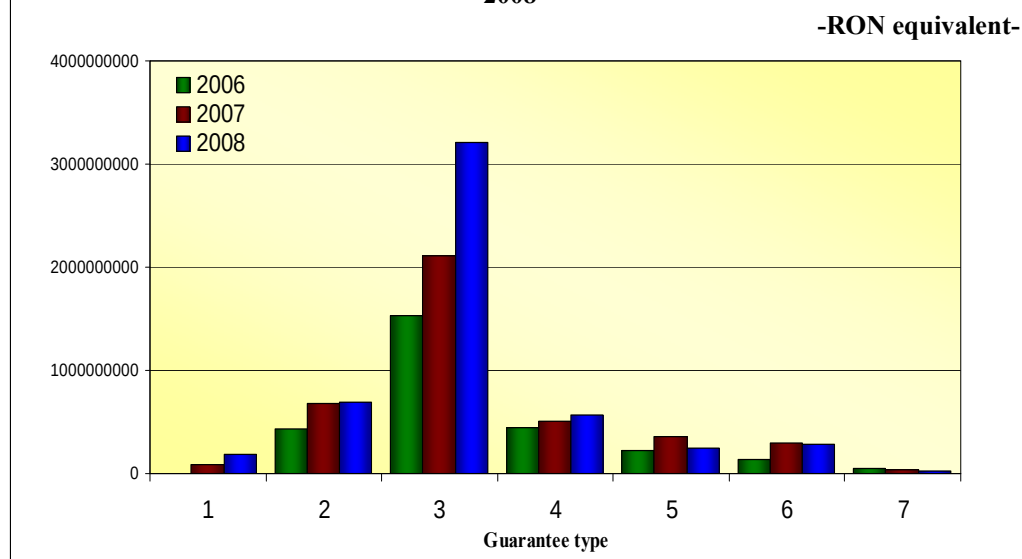
Analyzing the structure of the guarantees (chart no. 3) one can observe a dominant share, throughout the whole analysis period of the type of mortgages over halls, commercial spaces, lands in total guarantees received by the bank, followed by home mortgages.

Table. 3 - Share of various types of guarantees in total guarantees on loans granted to legal, in 2006-2008

Guarantee type		2006	2007	2008
1	Guarantees received from the public institutions	-	2,12	3,65
2	Mortgages on housing	15,46	16,72	13,36

3	Mortgages on the halls, commercial spaces, lands	54,25	51,79	61,56
4	Pledges	15,93	12,38	10,79
5	Payment instruments	8,00	8,91	4,75
6	Guarantee funds and policies of default risk	4,68	7,12	5,42
7	Other guarantees	1,68	0,96	0,47

Chart no.3 – The evolution of the main types of guarantees provided by the Bank in 2006-2008



The main change in the structure of the guarantees established at the credits granted by the Sigma bank in the analyzed period is to **increase the share of guarantees issued by the Guarantee Funds and the share of insurance policies of default risk** from 4.68% in 2006 to 7.12% in 2007, followed by a reduction up to 5.42% in 2008. In absolute size, the value of the guarantees received from the Guarantee Funds rose from 131 million RON in 2006, to 282 million RON in 2008.

From the analysis of the guarantees that the borrowers have established in favor of Sigma Bank results the fact that the bank's portfolio is covered by the credit risk in a very high proportion, also determined by the prudent policy adopted in the field of evaluating the guarantees and weighting through two coefficients categories of its value.

4. Risks identified at credits granted by the bank during the Farmer Program

On agricultural lending, the analyzed bank was opened continuously to crediting this sector, but the analysis, granting and management of these loans are not made by a department specializing in this area, and by employees responsible for lending businesses, which is why the Bank policies do not distinguish different approaches to credit risk in this sector. I consider this a weakness of the bank, that can be remedied by creating a number of specialists that would manage credits in this sector, given the peculiarities of the activities of entities in agriculture and the importance of knowledge in this field in order to take the best ideas about lending it.

Sigma Bank conducts credit to agriculture since its inception, this also determines an risk associated with the portfolio with this destinations.

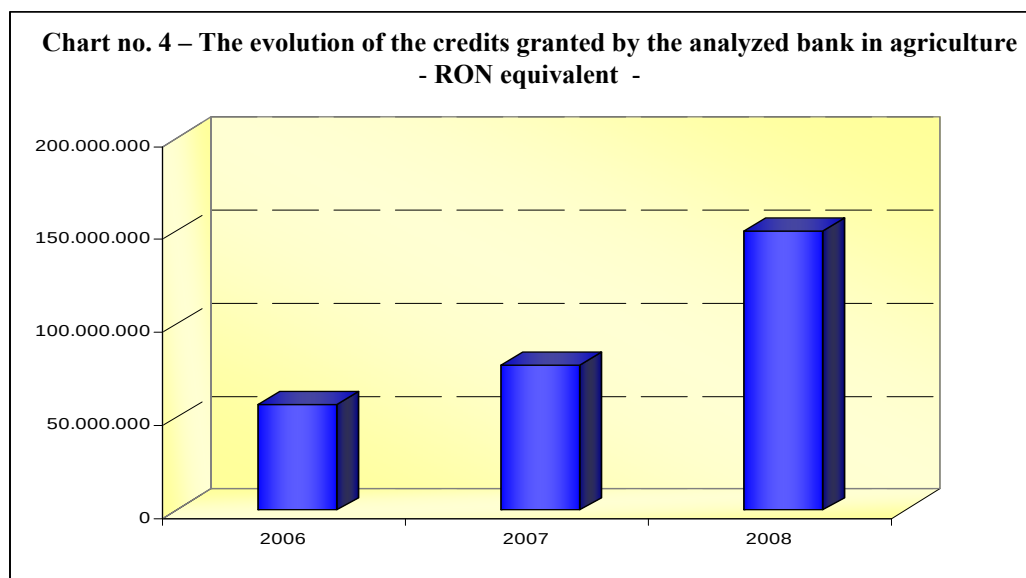
After analyzing the structure of the granted credits by the Sigma Bank on areas of activity we observed that *although the share of loans in agriculture is not very large, it can be seen an increase of it in the period 2006 - 2008, from 7% to 11% of total loans (table 4 chart 4).*

Sigma Bank offers a full range of products to these companies, meaning loans to finance the current business and investment loans and also specific loans, respectively agricultural loans and loans that finance investments in the Farmer Program.

Table no. 4 – The structure of the credits granted by the bank analyzed on activity sectors

- RON equivalent -

Sold of credit on activity sectors	2006	Total share (%)	2007	Total share (%)	2008	Total share (%)
agriculture	57.005.287	7	78.272.041	6	150.099.917	11
commerce	227.658.413	29	371.678.374	29	319.456.273	24
constructions	77.255.236	10	129.951.870	10	135.989.412	10
industry	250.426.839	31	300.392.077	24	315.546.859	24
services	80.666.878	10	192.812.635	16	289.278.595	22
transports	52.232.764	7	111.927.559	9	105.326.835	8
others	47.320.519	6	76.337.144	6	19.040.875	1
TOTAL	792.565.936	100	1.261.371.700	100	1.334.738.766	100



Sigma Bank runs credits in the Farmer Program since 2006, granting credits co-financing with the SAPARD in 2006 and 2007, and also having in progress a convention concluded for granting credits co-financing with the post-accession EU funds in 2008, but up to now under this agreement credits were not granted, given the shortcomings of this program. In order to identify the credit risks in agriculture, we have chosen a uniform loan portfolio in terms of how the analysis is developed and how are the loans being granted, respectively loans granted in the Farmer program.

The total value of loans granted under the Farmer Program, from subsidized sources, is:

- 2006 – 20.000.000 RON
- 2007 – 10.000.000 RON

The balance of loans granted for financing investments in agriculture, under the Farmer Program has recorded the following values:

- 31.12.2006 – 18.017.509 RON;
- 31.12.2007 – 25.844.274 RON;
- 31.12.2008 – 23.801.348 RON.

Following the analysis of the bank loans granted in the Farmer Program, from the sources of the Ministry of Agriculture and Rural Development (respectively the 30.000.000 RON won in the auction in 2006/2007) we drew the following elements that can generate risks for the bank :

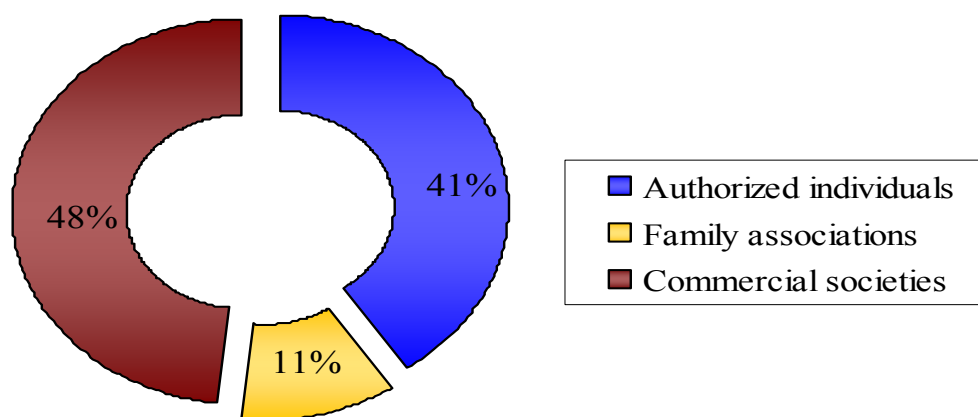
➤ a large number of clients that are recipients of credits from the Farmer Program are newly created family associations or authorized

individuals, inexperienced in managing a business or a bank loan. Thus, out of the 91 clients funded under the Farmer Program, 47 are family associations and authorized individuals, the value of the loans granted being 7,781,074 RON, from the total of 30 million RON. Customer situation according to the form of organization is as follows (table no. 5, chart no. 5)

Table no. 5 - Structure in terms of the legal organizing form of client borrowers

Clients in terms of legal organizing form	Number of clients	Value of the granted credits (lei)
Authorized individuals	37	5.827.750
Family associations	10	1.953.323
Commercial societies	44	22.218.927
TOTAL	91	30.000.000

Chart no. 5 – The structure of the number of the Farmer program credit beneficiaries according to the legal form of organization

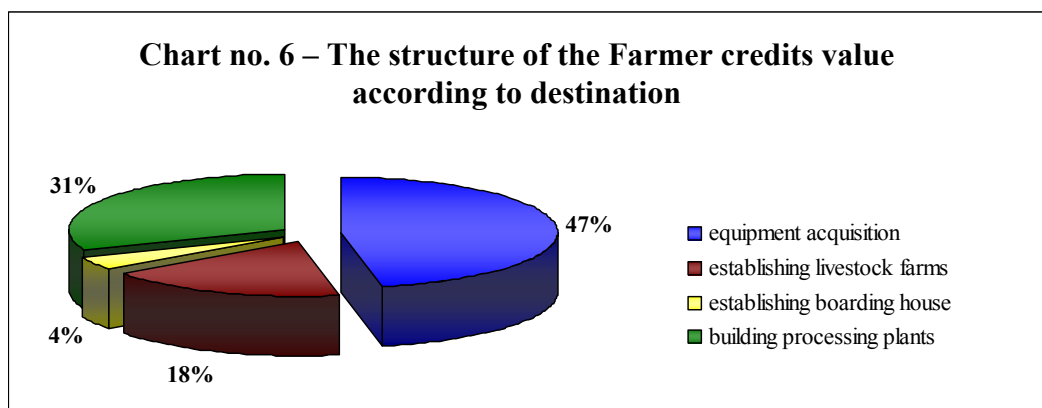


➤ a large number of loans were intended for the purchase of agricultural machinery necessary for primary agriculture, subsistence (tractors, combine harvesters, etc.). Thus, almost half of the amounts carried by Sigma Bank through the Farmer Fund had this destination (table no. 6, chart no. 6), bank granting the loans in the order of their application, without refusing to credit such projects, with a low individual value (the average value of loans granted to such projects was of 200,000 RON). Besides, the elaboration method of these financing projects was much easier and less expensive than

developing a complex project, that would ensure a sustainable development of agriculture. This element can generate the risk of default because the beneficiaries of these loans are very exposed to natural hazards, and their financial power is low. Also, there is a significant share of loans granted to financing some processing plants to the detriment of the projects that could lead to the development of agriculture and animal husbandry in Romania. Another risk posed by the structure of the credits destination from the Farmer Program *is related to the concentration of important sums on projects of high values, namely those that were used to finance the processing plants* (the average value of a loan for this purpose was of 1881. 000 RON).

Table no. 6 - Structure of loans granted under the Farmer Program according to their destination

Credit destination	Number of clients	Value (RON equivalent)
equipment acquisition	66	13.889.950
establishing livestock farms	15	5.464.484
establishing boarding house	5	1.238.180
building processing plants	5	9.407.386
TOTAL	91	30.000.000



➤ the structure of the constituted guarantees for this type of loans. Thus, from the analysis of the credits granted by Sigma Bank during the period 2006-2008 it can be seen that a significant share in total securities is owned by agricultural machinery and by mortgages on real estate type farms or processing plants. These are guarantees characterized by a low liquidity (for mortgages) and by an accelerated depreciation degree (for machinery). Thus, for these loans we can say that there is a **risk guarantee**. The situation of the

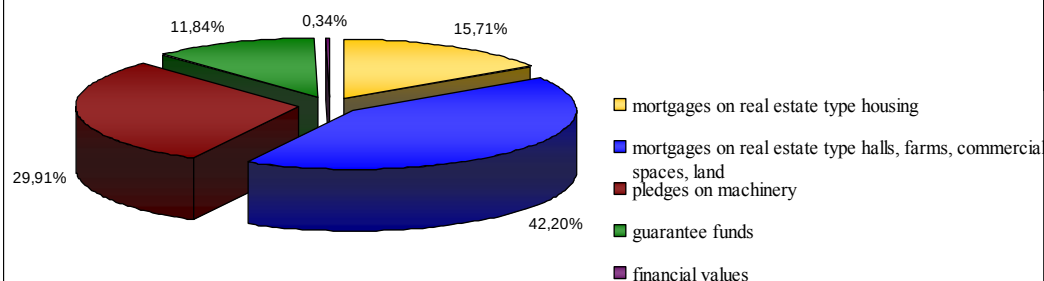
guarantees for the loans granted under the Farmer Program at 31.12.2008 (the balance of the credits 23,801,348 RON) is as follows (table no. 7, chart no. 7):

Table no. 7 – The structure of guarantees granted on loans in the Farmer Program

- RON equivalent -

Guarantee type	Guarantee value
mortgages on real estate type housing	10.345.752
mortgages on real estate type halls, farms, commercial spaces, land	27.794.015
pledges on machinery	19.699.563
guarantee funds	7.799.397
financial values	226.930
TOTAL	65.865.657

Chart no. 7 - The structure of guarantees granted on loans in the Farmer Program



Guarantees with the highest weight, given the low liquidity in the event of enforcement, can not cause a reduction in the risk associated with lending these companies.

After analyzing the conduct of loans designed to finance agriculture, from the Farmer Program 2006/2007, the risks which the bank has assumed and the methods used to cover them, *I consider that the analyzed bank could improve the way of approaching loans in agriculture* (without being limited to these measures) by:

➤ *a development from the Bank of some consulting services for potential "farmers", credit beneficiaries, services which currently are not offered by this bank. These consulting services could bring a double advantage:*

✓ *client would know at first what are the conditions under which he can benefit from non reimbursable funds, the need to turn to a loan if you he does*

not have equity, and its obligations by entering into a loan, meaning the repayment plan, the costs involved and the guarantees required;

✓ the bank, in addition to the incomes received from this service, can know the situation of the client closely, from when the investment project is an idea, respectively it knows its financing need; if the customer would only call a specialized consulting firm, at the time of the meeting with the bank he might face a refusal from it, which basically means a waste of time and money.

➤ a new approach of the guarantees used for agricultural loans, to increase the share of institutional safeguards against collateral with a lower degree of merchantability such as: mortgages on homes, on lands in rural areas and on halls and farms, pledges on agricultural machinery.

➤ *introducing compulsory insurance of crops or animals by those directly involved in agricultural production and respectively in livestock.* Currently there is no such provision in the reviewed bank's policy, something that can cause a credit risk, the more stressed because a very important part of the beneficiaries from the Farmer loans (47% of the loans contracted), for example, were intended for purchasing agricultural machinery, which means that they have lands to exploit that may be affected by natural hazards.

➤ *training, at least at the level of the central bank, of some specialists in agriculture, with crediting and analysis, evaluation, monitoring and hedging the risk abilities,* that would be able to recognize the features that are generated by this sector, namely to properly assess the risks to which the bank is exposed to through granting loans for this purpose.

5. Conclusions

The analysis of the general vision that the bank has towards credit risk showed that it complies with the industry regulations issued by the National Bank of Romania, but manages credit risk through internal rules and procedures. The credit risk management policy issued by the bank includes measures on skills regarding the approval competences of Bank's commitments, policies meant to limit or reduce the credit risk; policies regarding credit classification and provisioning policies. From the analysis of the practiced policies it has been revealed a constant prevailing concern of the bank to limit credit risk by limiting exposure towards certain customers or to certain sectors of activity, this limits system having the role to provide early warning of increased exposure to credit risk. The limits are revised periodically, in order to adapt them to the domestic context and to the existing competitive context at different times.

In terms of credit risk in agriculture the main deficiency noticed at the analyzed bank is the approach of agricultural credits without taking into account the particularities of this activity sector. This aspect made it possible to identify some significant risks in the analyzed loan portfolio and to propose some measures for improving the approach method of loans granted for agricultural development.

References

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NBR Regulation no. 3 of 19 March 2009 regarding loans and investments classification, and also the creation, adjustment and use of the risk provisions, published in the Official Gazette, Part I March 30, 2009

NBR Regulation no. 16 of 14 December 2006 published in the Official Gazette, Part I no. 1033 bis 1 27 December 2006 regarding large exposures of credit institutions and investment firms

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