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**MANAGEMENT OF PROBLEM DEBT IN LENDING IN THE BANKING SYSTEM OF UKRAINE****KHRUSHCH Nila<sup>1</sup>, GORDEEVA Tetyana<sup>2</sup>, ZHERLITSYN Dmytro<sup>3</sup>**<sup>1</sup> Khmelnytskyi National University  
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*The article substantiates theoretical and methodological approaches and applied aspects of managing problem debt in bank lending under martial law and the transformation of the banking system of Ukraine. The concept of 'problem debt in bank lending' is examined, along with its interpretation in the legislative framework and by domestic and foreign scholars. A set of reasons that cause a borrower to default on their obligations is structured. It has been proven that considering the strengths and weaknesses of problem debt management methods is a key factor in selecting the best approach for a specific loan agreement under which problem debt arises. Based on the analysis of indicators of the state and quality of lending processes in the banking system, trends in the volume, structure, and coverage of NPLs by reserves have been identified, as have the most problematic banking institutions. A sequence of stages for managing problem debt on loans has been proposed, with the implementation of a monitoring and early response system for the emergence of problem credit debt already in the first two stages. This will allow for a timely response to deteriorating performance, determine the direction of work on the problem credit debt of each borrower-debtor, and promptly identify negative trends arising in the banking institution's operations in the credit market.*

*Keywords: non-performing loan, debt problem, reserve coverage, banking system of Ukraine.*

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### **STATEMENT OF THE PROBLEM IN GENERAL AND ITS CONNECTION WITH IMPORTANT SCIENTIFIC OR PRACTICAL TASKS**

In the context of financial market globalisation, and political, security, and economic instability, banking institutions are facing an increase in problem loans, with the risks of non-repayment of funds and customers' refusal to service their debt obligations becoming a reality. Accordingly, the negative impact of non-performing loan accumulation is reflected in a reduction in this type of income for the bank. The increase in non-performing loan debt also reduces liquidity, leading to the bank's insolvency, especially in repaying customer deposits, and potentially threatening the institution with bankruptcy. The emergence of non-performing assets, or so-called non-performing loans, creates the need for banks to establish appropriate reserves, which, in turn, reduces liquidity and narrows the range of opportunities for conducting active operations. Therefore, managing problem debt is an important factor in ensuring the effectiveness of a bank's market activities, becomes critical in conditions of economic instability, and requires comprehensive research.

### **ANALYSIS OF THE LATEST RESEARCH AND PUBLICATIONS**

Many scientific works are devoted to the problem of non-performing loans and customer debt obligations. Research in this area has gained particular momentum during the pandemic, as the crisis of loan defaults has been critically exacerbated. Research on general trends in non-performing loans can be found in the works of Sánchez Serrano A. [1], Vyshnevskiy Ie. and Sohn W. [2], Salas M., Lamothe P. and Delgado E. [3], Plikas J.H., Kenourgios D. Savvakis, G.A. [4] etc.

Domestic and foreign economists study the fundamental aspects of organising work with problem loan debt. For example, Ata Can Bertay, Asli Demirgüç-Kunt, and Harry P. Huizinga view working with problem loans as a continuous process, from the moment the loan is issued to its repayment or write-off from the bank's balance sheet [5]. Robert DeYoung, Anne Gron, Gökhan Torna, and Andrew Winton emphasise that large volumes of NPLs lead to lower profitability and, due to capital adequacy requirements, limit the scale of new lending [6].

Frolov S. M., Oliynyk V. M. and Girenko I. S. identify two main groups of methods for managing problem loans: “restructuring of credit debt and liquidation of problem loans (including voluntary sale of collateral, transfer of loans to third parties and litigation)” [7].

Mostovenko N. A. and Korobchuk T. I. believe that “the main methods of managing problem loans are reorganisation and liquidation. Among the methods of liquidating problem loans, the researcher mentions only litigation and foreclosure” [8].

Narizhna N.V. proposes the following main directions in the organisation of work with problem debt: “1) the bank’s involvement of subordinated debt; 2) relieving the banks’ balance sheets of the burden of problem assets by assigning loan debt rights (taking into account existing overdue assets) to other institutions; 3) restructuring loans” [9].

Andros S. and Gerasymchuk V. emphasise the need to coordinate policy measures within the framework of nationwide strategies for resolving non-performing loans, because “in times of crisis, loan defaults are rapidly increasing, and the problem is becoming systemic” [10].

Makarenko Y. P. substantiates the following principles of working with problem loans: “efficiency, cost-effectiveness, consistency and comprehensiveness, competitiveness and transparency” [11].

Thus, the review of the academic literature demonstrates the lack of a single, universally accepted approach to organising work with non-performing loan debt. At the same time, the majority of scholars emphasise its complex, multi-stage and systemic nature. The analysed studies show that effective management of problem loans requires a balanced combination of preventive measures, restructuring instruments and liquidation mechanisms, implemented in line with prudential regulation and the principles of efficiency, transparency, and consistency. Moreover, several authors stress the growing importance of coordinated policy actions and nationwide strategies for resolving non-performing loans, particularly during periods of economic and financial instability. This underscores the need for further research to refine methodological approaches and practical tools for managing problem loan debt in contemporary banking systems.

### **PURPOSE AND MAIN TASKS OF THE PAPER**

The purpose of the article is to substantiate the theoretical and methodological foundations of problem debt management in bank lending and to develop proposals for their improvement in the context of ensuring financial stability and sustainable development.

### **RESULTS AND DISCUSSIONS**

Lending occupies a central place in the list of banking operations, accounting for a significant share of interest income and constituting the main component of banks’ intermediary function in the financial market. The standard principles of lending are: “repayability (the borrower repays the funds), timeliness (there is a specified repayment period), payment (the borrower pays interest for use), security (the existence of collateral or guarantees of repayment) and purpose (use of funds for a specific purpose)” [12]. If a client fails to comply with any of these principles, in particular, payment, term and repayment, the client’s debt is formed in respect of the accrued interest on the loan and the loan amount itself. Since compliance with the principles of security and purpose is ensured in close cooperation with the bank – collateral is assessed and approved by the bank itself before the loan is granted, and transfers for non-targeted purposes are also subject to control by the banking institution – it is more difficult for the client to violate these principles. Compliance with the principles of payment, timeliness, and returnability depends to a greater extent on the “goodwill” of the client and is more susceptible to unpredictable circumstances, i.e., not all defaulting clients are deliberate non-payers; some lose the ability to service their loans due to various external risks. Accordingly, the bank’s balance sheet shows problem debt on loans granted, and the loans themselves are classified as “problem” or, more negatively, “non-performing”.

In carrying out lending operations, the bank is guided by the quality standards set out in its credit policy and strives to lend exclusively to reliable borrowers. All procedures for assessing the creditworthiness of loan applicants are aimed at identifying them. However, due to the influence of several difficult-to-predict external and internal factors, each loan is potentially problematic, with varying probabilities of default or of violating the repayment schedule.

Literature on problem loan debt primarily focuses on macroeconomic and banking factors that determine non-performing loans. The interpretation of the concepts of “problem debt” and “problem loan” in legislation can be found in the regulatory acts of the NBU and the Deposit Guarantee Fund for Individuals. At the same time, foreign literature mainly uses the term “non-performing loan” (NPL).

In domestic scientific literature, many works by economists address the issue of problem debt on loans and its management, aimed at reducing the share of non-performing loans in banks' loan portfolios.

Table 1 systematises the approaches to interpreting the concepts of “problem debt” and “problem loan”.

Considering the significant differences in existing theoretical studies on the nature of problem debt in bank lending necessitates the systematisation and unification of the approach to interpreting the economic nature of the category of “problem debt in bank lending”, as well as to study the accumulated experience of managing problem loans of banks in order to develop directions for improving the management of problem loans of banks in Ukraine.

Table 1

**Approaches to defining the essence of the concepts of ‘problem debt’ and ‘problem loan’**

Authors	Interpretation
Legislative and regulatory framework	
National Bank of Ukraine	“Non-performing assets are defined as assets for which a default event has occurred. Default is defined as a payment on an asset being more than 90 days past due (30 days for debtor banks) or the borrower being unlikely to repay the debt on time without enforcement of collateral” [13]
On approval of the Regulations on the organisation of the process of managing problem assets in Ukrainian banks	“Non-performing exposure (NPE) is an asset that meets one or more of the following criteria: an impaired financial asset that has been acquired or originated; an asset that has been designated as defaulted in accordance with legal requirements; an asset designated as defaulted for which the bank has not formed an opinion on the absence of the need for the non-performing assets department/person responsible for non-performing assets to take measures to settle the debtor's/counterparty's debt; a restructured asset for which, after the date of the decision to terminate recognition of the asset as non-performing and before the date of removal of the debtor/counterparty from the watch list, the bank has carried out a repeat/subsequent restructuring and/or the debt is more than 30 calendar days past due” [14]
On approval of the Regulations on the regulation of the activities of the Partial Credit Guarantee Fund in agriculture	“Non-performing loan – a loan for which a financial institution has submitted a written request to the Fund for payment of a sum of money in accordance with the guarantee provided, and which the financial institution (bank) has recognised as non-performing in accordance with the regulatory act of the National Bank of Ukraine (hereinafter – the National Bank) and/or the internal regulatory documents of the financial institution (bank)” [15]
Foreign publications	
International Monetary Fund	“Loans are considered non-performing (problematic) if the principal and interest payments on them are overdue: 1) for three months (90 days) or more; 2) for less than 90 days, but in accordance with national supervisory standards, the servicing of such a loan is considered weak or unsatisfactory” [16].
Basel Committee on Banking Supervision	“A problem loan is a loan product characterised by significant violations of the terms of obligations to the bank, signs of deterioration in the debtor's financial condition, a significant decline in quality or loss of collateral” [17].
Ozili P. K., Peterson K.	“Non-performing loans are an indicator of the quality of banks' assets, and asset quality is an important indicator of the efficiency of a country's banking sector among other performance indicators” [18].
Domestic publications	
Bolgar T. M.	“A problem loan is a loan for which one or more payments have not been made on time, or circumstances have arisen that cast doubt on the timely and full repayment of the loan due to the borrower's financial instability, insufficient collateral or unsecured loan, or other reasons affecting the borrower's ability to repay the loan and interest on its use” [12].
Klooba V. L.	“A problem loan is a loan for which the bank sees a risk of timely and full repayment due to various factors (economic, legal, social, etc.)” [19].
Krupka M. I., Baran O. B.	“Problem debt is the total amount of overdue debt on loans, as well as part of the term and restructured debt, for which there are signs of problems with repayment related to insufficient or lack of collateral for the loan and the presence of negative information about the debtor's ability to fulfil their obligations under the loan agreement” [20].
Mostovenko N. A., Korobchuk T. I.	“Problem loans are loans that show signs of repayment violations, namely non-compliance with lending terms and significant violations of the terms of obligations to the bank, with one or more payments not made on time” [21].

Source: compiled from materials [12 - 21]

In the context of problem debt in bank lending, it is also important to consider the circumstances that led to the borrower's failure to fulfil their obligations. During its supervision, the bank may see certain signs that a given loan may become non-performing, such as a significant decline in the value of collateral,

a significant deterioration in the borrower's financial condition, which creates a potential threat of loss of funds and, accordingly, economic losses for the bank.

In general terms, we can present a set of reasons for the emergence of problematic credit debt in Figure 1.

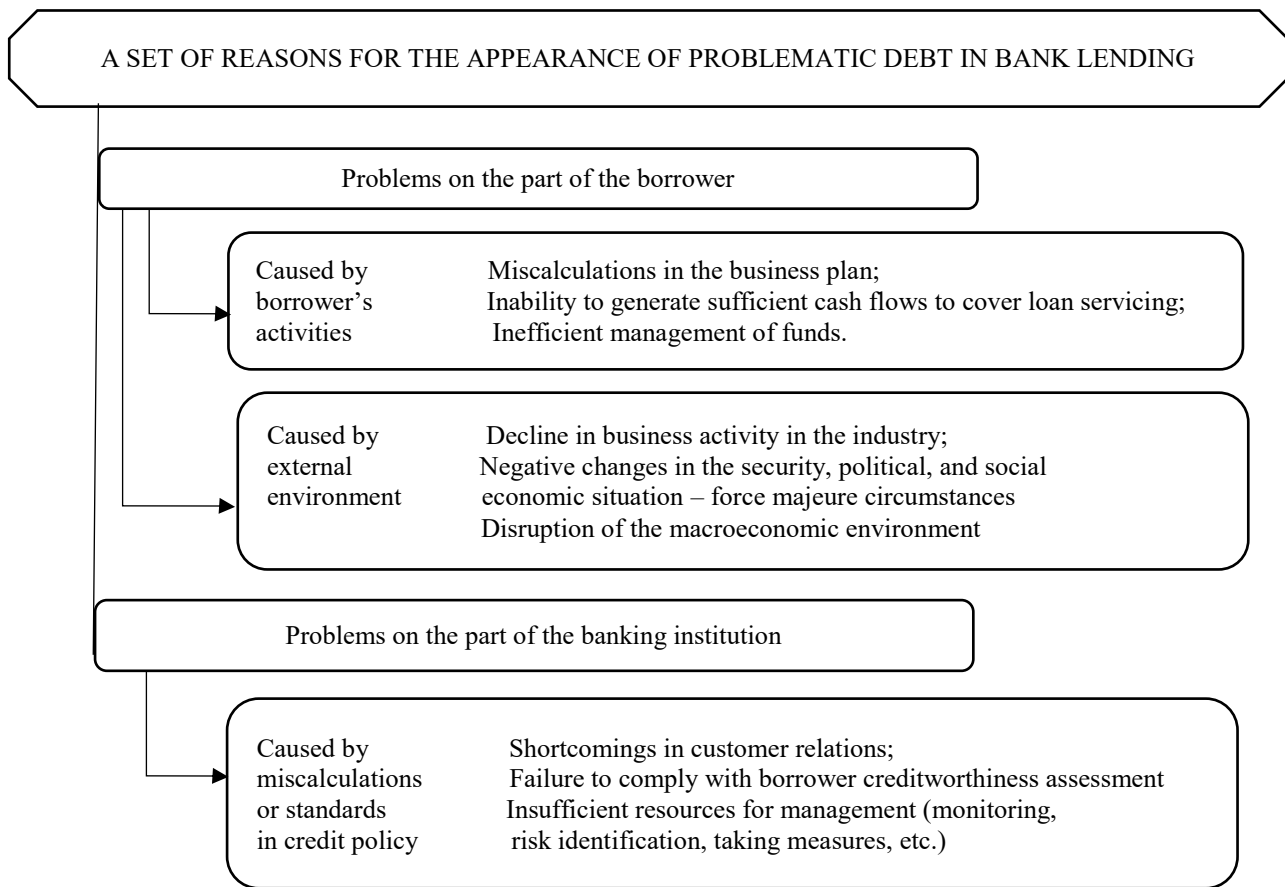


Fig. 1. The complex set of reasons for the emergence of problem debt in bank lending (based on [ 12, 19, 20, 21])

Therefore, while assessing the impact of borrower-related factors is primarily the bank's responsibility before making a loan decision, and most external environment issues are common to both the bank and the borrower, eliminating internal bank factors is a critical task for bank management.

The impact of problem debt on banking lending processes is significant and challenging to predict, and it also has a double effect. First, it negatively affects the debtor's performance and its ability to meet future obligations. Secondly, it determines the effectiveness of banks' settlement of problem loans, i.e., its volume is used to assess the level of protection for the interests of lending participants. Identifying problem loans is part of a bank's risk management system. However, given the importance and complexity of problem loans, their management should be separated into a separate subsystem of credit risk management.

The methodological basis for managing problem debt in bank loans is as follows: a clear distinction between the subject and object of management, with two types of subjects involved in managing problem credit debt: external, represented by state regulatory bodies, namely the NBU, and internal, which are the bank's top management, credit committee and risk and financial resources management department; the object of management is problem debt and problem loans; selection of tools and formation of a strategy for managing problem debt in bank lending; assessment of the impact on the selection of a management strategy of the bank's organisational structure and the level of communication with the bank's customers and shareholders; taking into account dynamic changes in the management of problem credit debt, since the bank's credit portfolio is influenced by external and internal factors, and in accordance with changes in which it is necessary to make adjustments to the methodological tools for managing problem credit debt and implement adaptation measures.

Therefore, the effectiveness of managing problem debt in bank lending depends on improving practical methods of working with problem borrowers and restructuring problem loans, which requires, first and foremost, a precise classification of these methods and an understanding of their advantages and disadvantages.

The management decision on what actions the bank should take and what path to follow, as well as which methods are best to use for managing problem debt, should be made taking into account the specifics of each transaction that has become problematic, and should be consistent with the bank's chosen development strategy – for example, aggressive, moderate, compromise, etc. The ability to attract additional liquidity to maintain the bank's solvency, the availability of additional temporarily free funds, qualified personnel, and time to develop its own department to work with problem debt instead of outsourcing the management of these assets or, in general, selling them to a third party, in particular, collection agencies, also have an impact.

Therefore, it is necessary to comprehensively weigh the advantages and disadvantages, and the strengths and weaknesses, of the methods of managing problem debt analysed by us in Table 2.

Table 2

<b>Strengths and weaknesses of problem debt management methods</b>	
<b>Strengths</b>	<b>weaknesses</b>
1. Internal bank methods	
1.1 Method of rehabilitation of problematic debt	
Repayment of the full amount owed if the updated terms are met. Potential for continued cooperation with the borrower.	Decline in loan portfolio quality; complications in asset management; wasted time and staff effort if the updated conditions are not met
1.2 Method of eliminating problem debt	
"Easing" the bank's balance sheet without problematic debt. Reducing costs associated with the formation of reserves.	Potential negative impact on the bank's reputation. Additional financial costs incurred.
2. External market-based methods	
2.1 Asset securitisation method	
Improvement of the balance sheet structure and an increase in liquidity	Costs of servicing the "conversion" of credit debt into securities, their initial placement
2.2 Method of selling problem debt to a third party (collection agency)	
There is no need to increase the bank's staff. Partial repayment of loan debt will improve liquidity.	Payment for the services of a collection agency – incomplete reimbursement of problem debt. Problem loans remain on the bank's balance sheet, are reflected in the financial statements, and worsen the bank's financial condition, liquidity, and solvency.
2.3 The method of selling problem debt to unrelated financial companies (factoring)	
Improvement of the loan portfolio structure. Return of resources from the bank's established reserves. Increase in liquidity. By eliminating the costs of servicing problem loans, the bank's operating expenses are reduced.	Payment for the services of a factoring company – incomplete reimbursement of problem debt. Problem debt of individuals cannot be sold; sales are only possible between financial institutions, in particular, when a bank is liquidated at auction.
2.4 Sale of distressed assets to an affiliated financial company based on balance sheet optimisation	
The balance sheet structure is being optimised. Resources are being returned from the bank's established reserves. Pressure on regulatory capital is decreasing.	Liquidity does not increase. Significant losses when selling distressed debt at a discount.

Source: grouped based on [9, 14, 19, 20, 21]

Problem debt in bank lending remains a pressing issue in modern global business. It is impossible to prevent it entirely, as unpredictable circumstances affect borrowers chaotically, especially in conditions of political, security, and financial-economic turbulence, which has already become permanent in international relations. A significant accumulation of non-performing loans is a very negative situation for a bank, as it reduces liquidity, increases costs associated with working with debtors, and slows business activity as an intermediary, which can result in a deterioration of solvency and increase the risk of bankruptcy. The presence of non-performing loans on a bank's balance sheet requires the formation of significant reserves to cover their repayment.

There is a reasonably large NPL segment in the Ukrainian credit market, which emerged in the early 2000s during the implementation of an aggressive expansionary credit policy characterised by low standards for assessing borrower creditworthiness – clients could obtain loans even without proof of income. The 2008 global financial crisis led to a liquidity outflow. It exacerbated the problem of unreliable

borrowers at domestic banks. At the same time, military actions on the territory of our country since 2014 have had a destructive impact on the national economy, particularly the banking system.

Thus, socio-economic, and security-political factors exert intense pressure on the loan portfolios of Ukrainian banks, namely on their quality and growth trends. The dynamics of the banking system's loan portfolio during 2015-2025 are shown in Table 3.

Table 3

**Dynamics of the banking system's loan portfolio during 2015-2025**

Indicators	Years, UAH billion										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Loans and receivables from customers (net value)	698	567	561	594	562	596	767	687	687	824	1070
including loans and receivables from legal entities	600	479	469	480	420	447	567	553	527	602	780
loan impairment provisions	(220)	(394)	(427)	(464)	(407)	(314)	(256)	(274)	(275)	(262)	(256)
including loans and receivables from individuals	97	87	92	114	143	149	200	134	159	222	290
loan impairment provisions	(77)	(74)	(79)	(83)	(64)	(51)	(42)	(76)	(63)	(52)	(54)
Non-performing loans (NPL)	364	539	595	631	531	430	345	432	422	393	372

Source: compiled based on [12, 22]

The system's loan portfolio began to shrink in 2016, but the trend reversed in 2022, with the devaluation of the hryvnia making a significant contribution. We see a peak in NPL growth based on results of operations in 2016-2017, when PrivatBank, the largest bank in the system by market share, was nationalised and several insolvent banks were removed from the market. Starting in 2018, when the peak amount of non-performing loans was recorded (UAH 631 billion), a trend of recovery in the banking system and the withdrawal of insolvent banks from the market began to form.

The full-scale military attack on Ukraine reversed the trend of reducing non-performing loans, which had been ongoing since 2019, during which the amount of NPLs decreased by almost a third: from UAH 631 billion to UAH 345 billion.

In 2022, banks' lending activities were frozen, and a significant portion of borrowers were unable to service their loans, resulting in the banking system's most significant losses from loan defaults this year. The increase in NPLs in 2022 amounted to UAH 87 billion, or 25.2%.

In contrast to the crisis year of 2022, in 2023 the banking system adapted somewhat to the conditions of martial law and, accordingly, lending picked up, the quality of the new loan portfolio improved slightly, thus starting a new trend of gradual reduction in the volume of NPLs: by UAH 20 billion – give or take – annually in 2023-2025 (Table 3).

According to the NBU Financial Stability Report: "The quality of the performing portfolio remains high: the migration rates of hryvnia loans to households and businesses to non-performing loans are comparable to pre-war levels. An analysis of the financial condition of corporate debtors shows that banks' portfolios are dominated by high-quality loans, and non-performing loans are adequately reserved" [23].

Let us dwell in more detail on the latter fact, namely, provisioning for non-performing loans. Provisioning for non-performing loans is a process whereby a bank creates special financial reserves to cover potential losses from loans that borrowers may not repay. It is an insurance buffer that allows the bank to remain financially stable even in the event of customer default. Such reserves are formed in accordance with risk assessment: the higher the probability of loan default, the larger the reserve should

be. This is an important element of the credit risk management system that ensures the banking sector's reliability and protects depositors.

Table 3

### Dynamics of non-performing loans (NPL) by banking groups in 2016-2025

Groups of banks	Years, %										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total for the system	31.8	49.5	52.2	48.9	45.8	37.8	27.3	38.2	37.3	30.3	23.9
Banks with state ownership (excluding PrivatBank)	43.2	49.0	51.0	49.8	47.3	41.0	25.1	39.6	42.4	34.8	28.8
PrivatBank	14.6	76.7	87.6	84.3	78.4	74.0	69.9	69.2	63.0	55.1	44.7
Banks belonging to foreign banking groups	40.0	32.7	17.7	11.6	8.4	5.9	2.9	15.0	15.9	10.9	6.7
Banks with private capital	24.1	24.3	24.5	23.8	19.4	15.2	10.4	23.6	15.9	12.5	8.9
Coverage of NPLs by reserves	84.1	87.2	85.2	90.3	95.2	97.7	102.1	94.6	94.0	95.1	96.9

Source: compiled based on [22]

The percentage of NPL coverage by reserves reflects the share of reserves formed relative to the amounts of non-performing loans to compensate for potential losses when NPLs are eventually written off the balance sheet. The coverage ratio has been growing, which means, on the one hand, that banks have formed sufficient reserves to cover most of the losses from NPLs. However, significant funds are immobilised in these reserves and are withdrawn from circulation.

Next, to identify the most problematic banks in terms of NPLs, we will examine the structure of problem debt across the largest banks by share of non-performing loans (Table 4).

State-owned banks remain in the lead for the five years studied, including Sense Bank, which was nationalised in 2023 and has an even higher NPL ratio than UkrGasBank. Next come both foreign banking groups and banks with private domestic capital. Among foreign banking groups, Raiffeisen Bank, OTP Bank, Credit Agricole Bank, UkrSibbank, Procredit Bank and Kredobank have accumulated the largest share of NPLs. Domestic banks with private capital are also among the top 15 banks with the most problem debt on loans granted, namely FUIB, Tascombank, Universal Bank, and A-Bank.

Table 4

### Problem debt in the loan portfolio of the TOP 15 banks by NPL volume in 2021-2025

Banking institutions	Indicators	Years				
		2021	2022	2023	2024	2025
1	2	3	4	5	6	7
PrivatBank	loan portfolio, UAH million	245 013	258 532	285 836	309 185	377 658
	NPL, UAH million	181 207	178 929	179 934	170 319	168 831
	NPL y %	74.0	69.2	63.0	55.1	44.7
Oschadbank	loan portfolio, UAH million	119 537	142 161	149 163	173 774	194 269
	NPL, UAH million	56 893	65 903	68 664	65 531	61 983
	NPL y %	47.6	47.0	46.0	37.7	31.9
Ukreximbank	loan portfolio, UAH million	119 240	129 119	115 245	131 093	142 978
	NPL, UAH million	64 491	55 949	50 497	45 931	39 178
	NPL y %	53.9	40.5	43.8	35.0	27.4
Sense Bank	loan portfolio, UAH million	65 757	70 031	64 881	73 078	84 129
	NPL, UAH million	19 258	22 396	28 817	25 024	28 019
	NPL y %	29.3	36.1	44.4	34.2	33.3
UkrGasBank	loan portfolio, UAH million	56 536	79 320	78 090	82 133	103 064
	NPL, UAH million	7 908	22 353	24 721	23 727	21 891
	NPL y %	14.0	28.3	31.7	28.9	21.2

1	2	3	4	5	6	7
Raiffeisen Bank	loan portfolio, UAH million	53 095	85 365	72 947	99 416	98 988
	NPL, UAH million	1 711	10 916	11 170	9 707	8 395
	NPL y %	3.2	13.2	15.3	9.8	8.5
FUIB	loan portfolio, UAH million	42 690	60 911	66 393	80 470	104 298
	NPL, UAH million	4 611	14 880	7 678	7 601	5 113
	NPL y %	10.8	24.3	11.6	9.4	4.9
OTP Bank	loan portfolio, UAH million	31 799	39 458	34 948	37 748	51 447
	NPL, UAH million	4 213	7 292	7 567	5 606	3 222
	NPL y %	13.2	19.6	21.7	14.9	6.3
Universal Bank	loan portfolio, UAH million	20 292	32 585	45 380	58 114	80 109
	NPL, UAH million	3 527	4 657	2 384	2 474	3 051
	NPL y %	17.4	15.4	5.3	4.3	3.8
Credit Agricole Bank	loan portfolio, UAH million	29 352	33 714	28 138	28 386	38 127
	NPL, UAH million	576	4 682	3 989	3 301	2 562
	NPL y %	2.0	14.0	14.2	11.6	6.7
Tascombank	loan portfolio, UAH million	14 420	17 249	17 478	21 448	25 145
	NPL, UAH million	1 599	4 191	4 017	4 541	4 243
	NPL y %	11.1	25.3	23.0	21.2	16.9
A-Bank	loan portfolio, UAH million	8 570	10 240	13 175	19 909	21 302
	NPL, UAH million	1 225	3 989	2 307	1 852	2 602
	NPL y %	14.2	39.6	17.5	9.3	12.2
Kredobank	loan portfolio, UAH million	14 237	16 632	15 823	15 570	18 674
	NPL, UAH million	1 307	3 958	2 767	2 038	1 620
	NPL y %	9.2	24.6	17.5	13.1	8.7
UkrSibbank	loan portfolio, UAH million	34 669	20 803	15 592	15 766	23 651
	NPL, UAH million	1 866	3 085	2 982	1 971	1 321
	NPL y %	5.4	14.9	19.1	12.5	5.6
ProCredit Bank	loan portfolio, UAH million	20 346	23 014	21 104	22 487	29 204
	NPL, UAH million	905	3 142	2 617	1 809	1 078
	NPL y %	4.5	13.9	12.4	8.0	3.7

Source: compiled based on [22]

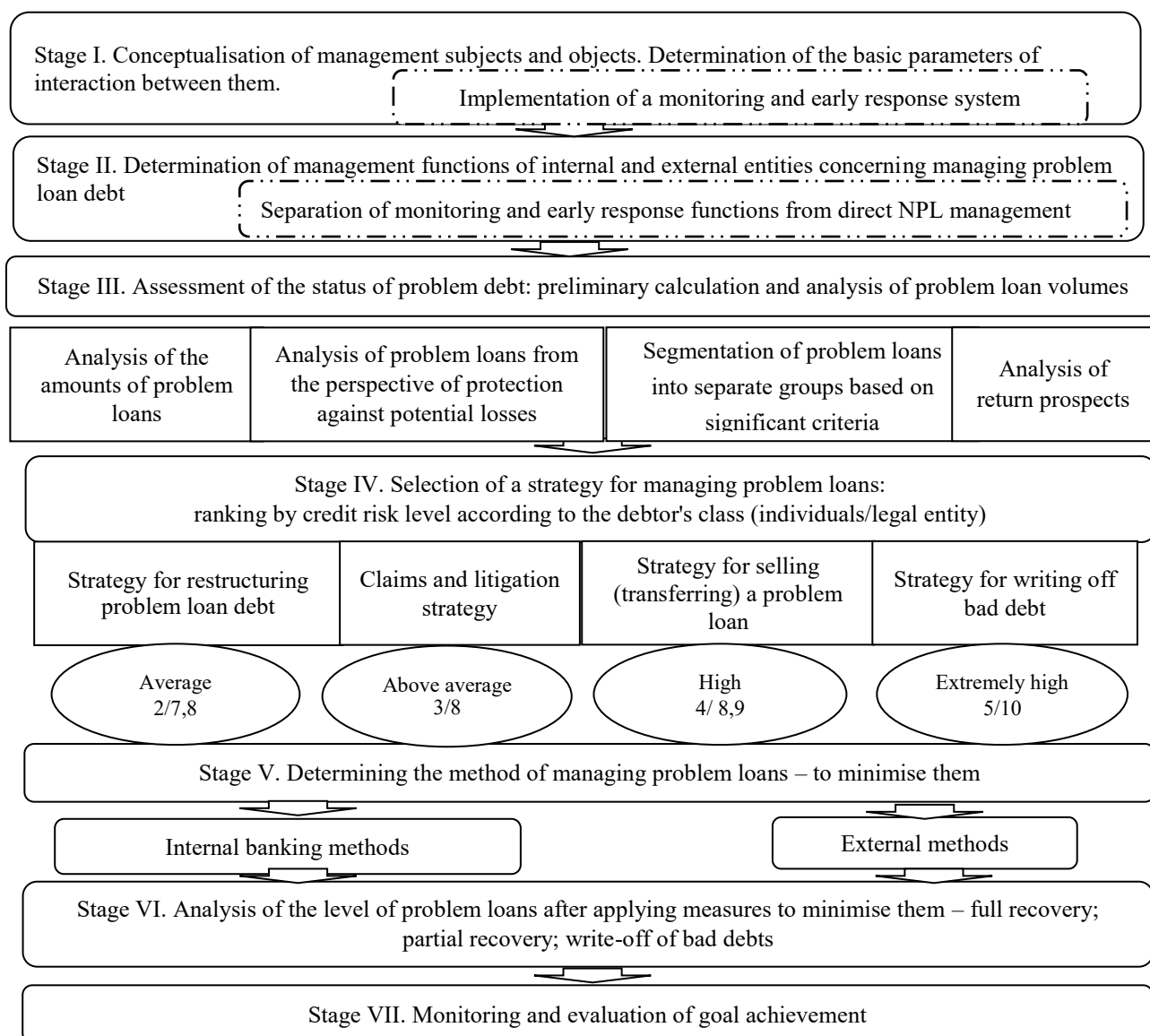
The vast majority of current problem bank loans arose from the full-scale invasion. At the same time, more than half of debtor clients already have positive income dynamics and satisfactory profitability. In the absence of new “shock events”, this confirms the potential for these borrowers to resume loan servicing through payment restructuring.

### CONCLUSIONS FROM THIS RESEARCH AND PROSPECTS FOR FURTHER EXPLORATION IN THIS DIRECTION

Dealing with non-performing debt in bank lending is an important part of a bank's credit management, as the funds provided to these debtors are raised from the bank's deposit-holding customers, i.e., collection in the course of such work stabilises the balance between active and passive operations. However, the best policy for dealing with non-performing debt in bank lending is not to seek ways to eliminate it, but to prevent it from arising in the first place. In the aforementioned provision, one key part of the process for managing problem assets is the introduction of an early response system that promptly identifies assets that may become problematic and ensures their effective management at an early stage. The implementation of such a system for monitoring and identifying warning signs at an early stage of lending is a promising direction for improving the system of managing problem debt in bank lending.

We propose introducing it at the first stage of problem debt management for loans and, at the second stage, defining the management entity's functions in terms of monitoring and early response, as shown in Figure 2.





**Fig. 2. Sequence of stages in managing problem debt in bank lending**

Source: proposed by the authors

A structural and logical diagram of the functioning of such a monitoring and early response system is shown in Figure 3.

Monitoring data on the borrower's activities are aggregated into the following groups of indicators:

- financial indicators (indicators of the borrower's financial condition);
- macroeconomic indicators (external factors affecting the borrower's activities regardless of its internal management);
- operational indicators (demonstrating the extent to which the business is capable of generating stable income and maintaining operational stability);
- behavioural indicators (help identify potential risks even before formal default occurs – the borrower's behaviour when interacting with the bank and counterparties).

Signal facts for each group of indicators that may indicate that a loan is becoming potentially problematic include:

- financial indicators – a sharp drop in revenue over several periods; a decrease in profitability; insufficient funds in accounts, growth in short-term liabilities; negative cash flow; increase in debt burden; growth in accounts receivable without a corresponding increase in sales, etc;
- macroeconomic indicators – a drop in demand in the borrower's industry; significant currency fluctuations; a jump in inflation; increased competition in the borrower's industry; a decline in investment activity, etc;

- operational indicators – deterioration in the quality of goods/services (complaints, returns); logistical complications; problems with the supply of raw materials; disruption of key contracts or loss of major customers; increase in production costs without a corresponding increase in sales prices, etc;
- behavioural indicators – the way the borrower interacts with the bank is often the first “signal”: delays in providing financial statements or refusal to provide documents; avoidance of contact with the bank, avoidance of negotiations; unusual, incomprehensible transactions on accounts; frequent changes of ownership or top management; transfer of assets to other companies without economic justification; violation of payment schedules or previously agreed restructuring terms, etc.

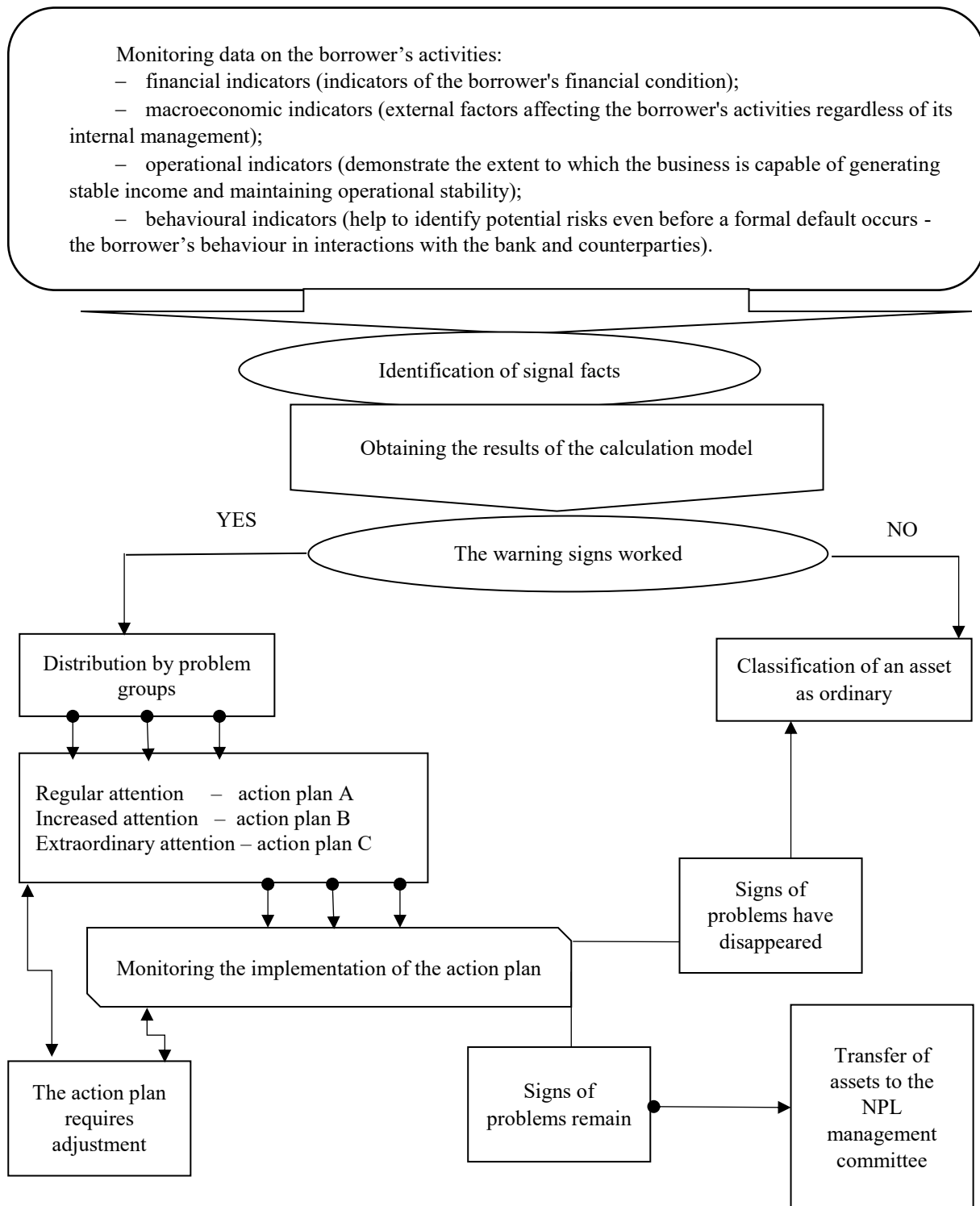


Fig. 3. Structural and logical scheme for implementing a monitoring system and early response to the emergence of problem credit debt

Source: proposed by the authors

Accordingly, implementing a monitoring and early response system for problematic loans will prevent the accumulation of NPLs in the bank's loan portfolio.

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## УПРАВЛІННЯ ПРОБЛЕМНОЮ ЗАБОРГОВАНІСТЮ У КРЕДИТУВАННІ В БАНКІВСЬКІЙ СИСТЕМІ УКРАЇНИ

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У статті досліджено теоретико-методичні засади та практичні аспекти управління проблемною заборгованістю в банківському кредитуванні в умовах воєнного стану та структурної трансформації банківської системи України. Актуальність дослідження зумовлена зростанням частки непрацюючих кредитів (non-performing loans, NPL) під впливом макроекономічної нестабільності, безпекових ризиків, зниження ділової активності та обмеження платоспроможності позичальників. Проаналізовано наукові підходи вітчизняних і зарубіжних дослідників до трактування понять «проблемна заборгованість» і «непрацюючий кредит», а також нормативно-правове регулювання процесів управління проблемними активами в Україні. Систематизовано основні причини виникнення проблемної кредитної заборгованості з боку позичальників, банківських установ і зовнішнього середовища.

На основі аналізу статистичних даних Національного банку України визначено динаміку, структуру та рівень покриття резервами проблемних кредитів у банківській системі, а також ідентифіковано найбільш проблемні банківські установи за обсягами NPL. Доведено, що значна концентрація проблемних кредитів негативно впливає на ліквідність, прибутковість і стійкість банків,

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обмежує їх кредитну активність та підвищує ризики фінансової нестабільності. Узагальнено внутрішні та зовнішні методи управління проблемною заборгованістю, визначено їх переваги та недоліки з позицій впливу на фінансові результати й баланс банку.

Запропоновано послідовність етапів управління проблемною кредитною заборгованістю з акцентом на впровадження системи моніторингу та раннього реагування вже на початкових стадіях кредитного процесу. Обґрунтовано доцільність відокремлення функцій моніторингу від безпосереднього управління NPL та використання фінансових, макроекономічних, операційних і поведінкових індикаторів для своєчасної ідентифікації потенційно проблемних кредитів. Реалізація запропонованих підходів сприятиме зменшенню накопичення непрацюючих кредитів, підвищенню ефективності кредитного ризик-менеджменту та зміцненню фінансової стабільності банківської системи України.

*Ключові слова:* непрацюючий кредит, проблема заборгованість, покриття резервами, банківська система України.