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Credit Risk Management Process and Loan Portfolio Quality in Post Bank Uganda Limited

This study investigates the effect of the credit risk management process on loan portfolio quality taking post bank as a case study. Though there has been progress in the area of credit risk management in financial institutions, a lot still remains to be done. The recent credit crunch that has affected many economies in the world is enough proof that things need to be done better. The lending financial institutions today are faced with numerous challenges regarding maintaining good quality portfolio which include; high default rates resulting from poor appraisals by officers, multiple borrowing by customers, reduced capacity to pay back due to economic conditions in the economy and fraudsters who borrow with intentions of defrauding financial institutions and others. Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominant source of revenue. As such, it is one of the greatest sources of risk 110
to a bank"s safety and soundness and, therefore, banks need to pay a lot of attention to credit risk management The objectives of this research are; to identify the major factors affecting the bank"s portfolio quality, determine the changes that have taken place in the bank"s credit risk management process and how they effect on portfolio quality, and examine the adequacy of the bank"s credit risk management process. The study was conducted at Post Bank"s head office and in twenty two (22) branches located in the western, northern, eastern and central parts of Uganda, covering a period from 2004 to July 2010. This researcher used both quantitative and qualitative research techniques. Primary and secondary data were collected. Primary data were collected through interviews with the bank staff and questionnaires that were circulated and filled in by the credit staff. More data were collected by reviewing customer files and conducting interviews with staff. Secondary data were collected from bank credit reports, audit reports, compliance reports and bank annual reports. Purposive and random sampling techniques were used at selected branches and pick respondents who included credit officers and credit supervisors. The interviewees included credit managers and head of risk and other credit administration staff. Credit risk Management in Post Bank has been changing over time. A number of changes have taken place in the management process reflected in the policies and procedures and have had a positive impact on the portfolio quality of the bank. When good credit risk management processes are applied, there is a positive effect on the portfolio quality and the reverse is also true that when bad credit risk management processes are applied the portfolio quality is negatively affected. As the bank introduced new changes in the credit risk management there was an obvious impact on the portfolio quality. However, this change in quality is attributed to a combination of factors and not a single factor in the credit risk management process. Recommendations for improvement have been made at the end.

Key Words: Credit, Risk Management, Loan Portfolio, Quality, Post Bank