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AN INVESTIGATION INTO THE EFFECTIVENESS OF LOAN PORTFOLIO MANAGEMENT MODELS USED BY LENDING INSTITUTIONS IN ZIMBABWE.

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ABSTRACT

Loan portfolio management is the heart of a commercial lending institution, hence this study seeks to find out the importance of management models that can or are aiding financial institutions in constructing a sound portfolio in Zimbabwe. Risk in loan portfolio is the fundamental element that drives financial behavior. Without risk, the financial system would be vastly simplified. However, risk is omnipresent in the real world.

Financial Institutions, therefore, should manage the risk in their lending through use of management models efficiently to survive in this highly uncertain world. The future of banking will undoubtedly rest on risk management dynamics and proper use of management models to solicit the proper credit rating of a client. Only those banks that have efficient risk management models and systems will survive in the market in the long run. The effective management of model risk and credit risk is a critical component of comprehensive loan portfolio management for long-term success of a banking institution. Credit risk is the oldest and biggest risk that bank, by virtue of its very nature of business, inherits.

The banking sector in Zimbabwe follows a similar formula in its lending and credit assessment, which calls for renovations in this economic sector. It has been revealed that the banks use a similar model that is non-statistical in nature as their way of assessing the credit worthiness of a client. Local banks should continue to tighten lending rules and policies to safeguard the stability of the financial services sector in Zimbabwe. Critical appraisal information like financial statements and management accounts should continue to be emphasized upon as this gives comfort to the lender and these are essential for Central Bank audits. However liquidity remains a major challenge to this sector to fully support the activities of the economy of the country as a whole.