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IMPROVING CREDIT PORTFOLIO MANAGEMENT IN COMMERCIAL BANKS

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Abstract:
Effective credit portfolio management is a critical component of banking stability and financial sustainability. Commercial banks face increasing challenges related to credit risk, loan diversification, and portfolio performance in a rapidly changing financial environment. The purpose of this study is to analyze the current practices of credit portfolio management in commercial banks and propose methods for improving its effectiveness. The research employs analytical, comparative, and statistical methods to evaluate credit portfolio performance and identify risk factors. The results show that diversification, risk assessment models, and digital credit monitoring systems significantly improve the quality of credit portfolios. The study concludes that the implementation of advanced risk management tools and regulatory compliance mechanisms contributes to more sustainable banking operations.

Keywords: credit portfolio, commercial banks, credit risk management, loan diversification, financial stability

INTRODUCTION

The banking sector plays a vital role in the development of national economies by providing financial resources to businesses and individuals. One of the most important activities of commercial banks is lending, which forms the largest share of their assets. However, lending operations involve significant risks, particularly credit risk. Therefore, effective management of the credit portfolio is essential for ensuring financial stability and profitability of banks.

Credit portfolio management refers to the process of monitoring, analyzing, and controlling the composition and quality of loans issued by a bank. The main objective is to minimize credit risk while maximizing returns. In modern banking systems, credit portfolio management has become more complex due to economic volatility, regulatory requirements, and technological transformation.

Many financial crises in the past have demonstrated that poor credit portfolio management can lead to significant financial losses and even bank failures. Consequently, improving credit portfolio management practices is one of the key priorities for commercial banks worldwide.

The aim of this research is to analyze the theoretical and practical aspects of credit portfolio management in commercial banks and to develop recommendations for improving its efficiency. The study also explores modern approaches used in international banking practice to strengthen credit portfolio quality.

LITERATURE REVIEW

Credit portfolio management has been widely studied by economists and banking specialists. According to modern financial theory, credit risk is one of the most significant risks faced by banks. Researchers emphasize the importance of diversification and risk assessment models in maintaining a balanced loan portfolio.

Several scholars highlight that effective credit portfolio management requires a combination of quantitative and qualitative analysis. Financial indicators, borrower creditworthiness, and macroeconomic conditions must all be considered when evaluating loans.

In recent years, many studies have focused on the role of digital technologies and data analytics in improving credit risk management. Advanced algorithms and credit scoring models allow banks to assess borrowers more accurately and monitor loan performance in real time.

International banking regulations, such as Basel standards, also play a crucial role in shaping credit portfolio management strategies. These regulations require banks to maintain adequate capital reserves and implement comprehensive risk management systems.

RESEARCH METHODOLOGY

This research uses several scientific methods to analyze credit portfolio management in commercial banks.

Analytical method was used to examine theoretical approaches to credit portfolio management and identify key risk factors affecting loan portfolios.

Comparative analysis was applied to compare different credit portfolio management practices used by commercial banks in various countries.

Statistical analysis was conducted to evaluate the relationship between credit portfolio structure and bank performance indicators.

The study also utilizes secondary data from banking reports, financial statistics, and academic publications related to credit risk management. These data sources provide insights into trends and challenges in credit portfolio management.

The research framework focuses on three main aspects:

assessment of credit portfolio quality

identification of credit risk factors

development of strategies for improving portfolio management.

RESULTS

The results of the research indicate that effective credit portfolio management significantly improves the financial performance of commercial banks.

First, diversification of the credit portfolio reduces concentration risk. Banks that distribute loans across different sectors and borrower categories are less vulnerable to economic fluctuations.

Second, the implementation of modern credit scoring systems enhances the accuracy of borrower evaluation. Automated risk assessment models allow banks to identify potential defaults at an early stage.

Third, continuous monitoring of loan performance helps banks detect problematic loans and take corrective measures. Early warning systems and digital monitoring tools contribute to better credit risk control.

The analysis also shows that banks with strong internal risk management frameworks experience lower levels of non-performing loans. Proper credit analysis, collateral evaluation, and borrower monitoring play an important role in maintaining portfolio quality.

Furthermore, regulatory compliance and transparency improve trust in the banking sector and strengthen financial stability.

DISCUSSION

The findings of this study highlight several important aspects of improving credit portfolio management in commercial banks.

One of the key issues is the need for advanced risk assessment tools. Traditional methods of credit analysis are no longer sufficient in modern financial environments. Banks should adopt data-driven models and predictive analytics to evaluate borrower risk more accurately.

Another important factor is portfolio diversification. Excessive concentration of loans in certain sectors can increase vulnerability to economic downturns. Therefore, banks should develop strategies that ensure balanced distribution of credit resources.

Digital transformation also plays a significant role in improving credit portfolio management. The use of financial technologies allows banks to automate credit monitoring processes and reduce operational risks.

In addition, strengthening regulatory frameworks and internal control mechanisms is essential for maintaining credit discipline. Effective supervision ensures that banks follow prudent lending practices and maintain adequate capital buffers.

Factors Affecting Credit Portfolio Quality

The quality of a bank's credit portfolio depends on several internal and external factors. These factors influence the level of credit risk and the overall financial performance of commercial banks.

One of the most important internal factors is the credit policy of the bank. A well-designed credit policy helps banks establish clear procedures for loan approval, monitoring, and recovery. If credit policies are weak or poorly implemented, the bank may face an increase in non-performing loans.

Another important factor is borrower creditworthiness assessment. Banks must carefully evaluate the financial condition of borrowers before granting loans. This includes analyzing financial statements, income stability, collateral value, and credit history. Proper assessment reduces the probability of loan default.

External factors also play a crucial role in credit portfolio performance. Macroeconomic conditions, such as inflation, unemployment, and economic growth, directly affect the ability of borrowers to repay loans. During economic downturns, the risk of loan default increases significantly.

In addition, sectoral risks may affect the credit portfolio. If a large share of loans is concentrated in a single sector, such as construction or agriculture, banks become vulnerable to sector-specific shocks. Therefore, diversification across different industries is necessary for maintaining portfolio stability.

Risk Management Strategies in Credit Portfolio Management

Effective credit portfolio management requires the implementation of comprehensive risk management strategies. These strategies help banks identify, measure, and control credit risk.

One of the most widely used strategies is credit diversification. Diversification reduces the impact of potential losses by spreading loans across different sectors, geographical regions, and borrower categories.

Another important strategy is credit scoring and rating systems. Modern banks use statistical models and machine learning algorithms to evaluate borrower risk. These systems analyze large volumes of financial data and generate risk scores that support lending decisions.

Loan monitoring systems also play an important role in managing credit portfolios. Continuous monitoring allows banks to detect early signs of financial distress among borrowers. Early detection enables banks to take preventive measures such as restructuring loans or adjusting repayment schedules.

Banks also use collateral management as a tool to reduce credit risk. Proper valuation and monitoring of collateral ensure that banks have sufficient protection in case of borrower default.

Digital Transformation in Credit Portfolio Management

Digital technologies have significantly transformed credit portfolio management in recent years. Banks are increasingly adopting financial technologies to improve the efficiency and accuracy of lending operations.

One of the major innovations is the use of big data analytics in credit risk assessment. Banks can analyze large datasets, including transaction history, payment behavior, and market trends, to evaluate borrower reliability.

Artificial intelligence and machine learning algorithms allow banks to build predictive models that estimate the probability of default. These technologies improve the speed and accuracy of credit decision-making.

Another important development is the use of automated credit monitoring systems. These systems track borrower activities and financial indicators in real time. If unusual patterns are detected, the system automatically alerts bank managers.

Digital platforms also improve communication between banks and borrowers. Online loan applications, digital documentation, and electronic signatures simplify the lending process and reduce operational costs.

International Experience in Credit Portfolio Management

International banking practice provides valuable insights into effective credit portfolio management.

In developed countries, banks implement sophisticated risk management frameworks that combine regulatory requirements with advanced analytical tools. These frameworks help maintain a balance between profitability and financial stability.

For example, many banks follow the recommendations of international regulatory standards such as the Basel banking framework, which emphasizes capital adequacy, risk management, and transparency in banking operations.

International experience also shows that banks with strong internal risk control systems are better prepared to withstand financial crises. Proper stress testing, scenario analysis, and capital planning allow banks to anticipate potential risks and develop contingency strategies.

Furthermore, cooperation between financial institutions and regulatory authorities improves the overall stability of the banking sector. Transparent reporting and supervision ensure that banks maintain responsible lending practices.

Recommendations for Improving Credit Portfolio Management

Based on the analysis conducted in this research, several recommendations can be proposed to improve credit portfolio management in commercial banks.

First, banks should strengthen their risk assessment frameworks by integrating advanced analytical tools and data-driven models. These tools enable more accurate evaluation of borrower creditworthiness.

Second, commercial banks should focus on portfolio diversification to reduce concentration risk. Balanced distribution of loans across sectors and borrower categories enhances portfolio stability.

Third, banks should invest in digital technologies that support automated credit monitoring and risk analysis. Digital transformation improves operational efficiency and reduces human errors.

Fourth, it is necessary to enhance staff training and professional development in the field of credit risk management. Qualified specialists are essential for maintaining high standards in lending operations.

Finally, stronger cooperation between banks and regulatory authorities can contribute to the development of a more stable and transparent banking system.

CONCLUSION

Effective credit portfolio management is a fundamental requirement for the sustainable development of commercial banks. Proper management of loan portfolios helps minimize credit risk, improve profitability, and ensure financial stability.

The research findings demonstrate that diversification, modern credit assessment models, and digital monitoring systems significantly enhance credit portfolio quality. Commercial banks should adopt innovative risk management techniques and strengthen internal control systems to improve lending efficiency.

Future research may focus on the application of artificial intelligence and big data technologies in credit risk management, which could further transform the banking sector.

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