IMPACT OF CREDIT RISK MANAGEMENT ON FINANCIAL PERFORMANCE OF BANKS- A STUDY OF CANARA BANK

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ABSTRACT Indian Banking Sector faces different types of risk like market risk, operational risk, credit risk, interest rate risk etc. but credit risk are the burning issue as this risk is increasing day by day. Non-Performing Assets of the Indian banks are increasing at a rapid pace. So it becomes highly important to design and use an innovative Credit Risk Management strategies and techniques to control this credit risk. The main of the aim of the study is to examine the impact of Credit Risk Management and its indicators on the financial performance of Canara Bank. Explanatory Research design is used in the study to find the cause and effect relationship between credit risk management indicators and financial performance indicators. To study the impact of Credit Risk Management on Financial performance data regarding various ratios was collected from the annual reports published on Canara Bank website for the period 2014-2015 to 2017-2018. The variables used in the study i.e. Return on Equity and Return on Asset (as financial performance indicators) and Capital Adequacy Ratio and Non-Performing Assets ratio (as Credit Risk Management indicators) were analysed using multiple regression and correlation analysis. The findings of the study revealed that the credit risk management has an impact on financial performance of Canara bank. It was found that nonperforming assets have inverse relationship with both the financial performance indicators i.e. ROA and ROE.

Keywords: Credit risk, Credit risk management, financial performance

I. INTRODUCTION

Banking sector of any country plays an important role in the growth and development of the country same is the case with Indian banking sector. Indian banking sector is the backbone of Indian economy. Every sector in the economy faces one or the other kind of risk. Risk is inevitable due to changes in the economy. Every change in the economy is accompanied with the corresponding risk, but successful business is that which manages that risk to turn it into opportunity providing profit same is the case with Indian banking sector.Risk refers to the situation in which there is a possibility of undesirable result which is predetermined or quantifiable and such risk can be insured. Risk is the chance of occurrence of undesirable events the happening of which results in losses.

Indian banking sector faces numerous kinds of risks that are liquidity risk, interest rate risk, market risk, credit risk, operational risk etc, but credit risk is the main risk out of these faced by banks. It is of much importance requiring attention of top management of bank. Credit Risk Management can be described as risk of default on the part of the borrower in meeting its liabilities towards bank. When the borrower fails to meets its obligations it results in credit risk. The management of this risk is of utmost importance in today's time as number of Nonperforming assets is increasing at a rapid pace. Nonperforming loans are those loans on which borrower fail to pay back the sum borrowed or interest thereon over a period of ninety days.

Credit risk management is of much importance as credit risk is increasing day by day so there is a dire need to control such risk. Credit risk management is an important tool, strategy or technique to handle the credit risk. Credit risk management refers to the process of mitigating or handling credit risk. It is the technique used to mitigate the risk of loan defaults by the borrowers. It is a strategy to control the bank's exposure to credit risk by understanding the adequacy of capital of bank and loan loss reserves.

II. REVIEW OF LITERATURE

Annor and Obeng (2017), examined the impact of credit risk on the profitability of selected commercial banks listed on the Ghana Stock Exchange. The study attempted to find out the relationship between credit risk indicators (non-performing loans, loans loss provisions ratio, loan to asset ratio and capital adequacy ratio) and return on equityusing the secondary data gathered from the annual reports of the six selected banks and Ghana Banking Survey. The study adopted the Random Effect Model within Panel estimation technique framework. The results showed that credit risk management have significant impact on

profitability. While CAR had positive relationship while non-performing loans, loan loss provisions ratio, loan to asset ratio have significantly negative relationship with profitability of a bank.

Embayeet. al. (2017), examined the quantitative effect of credit risk management on the performance of commercial banks in Eritrea over the period of 18 years (1998-2015) on quarterly basis using financial data gathered from the records of Commercial Bank of Eritrea(CBE) and Housing and Commerce Bank of Eritrea(HCBE). The main indicators used were return on assets, non-performing loans ratio, capital adequacy ratio, loans and advances ratio and loan loss provision ratio. The findings showed that there is a negative relationship between credit risk management and banks financial performance. The non-performing loan, loans and advances ratio significantly and negatively affected the performance of commercial bank. There is a positive relationship between capital adequacy ratio and return on assets. Loan loss provision ratio has a positive effect on return on profitability measured by return on assets.

Iftikhar (2016), conducted a study to determine the relationship between credit risk management and financial performance of commercial banks of Pakistan that are listed in KSE. For this purpose ten banks were selected. Data for a period of 2005-2014was analysed using panel regression model. On the basis of regression results it was found that both capital adequacy ratio and non -performing loan ratio has significant impact on performance (ROA, ROE) of commercial banks in Pakistan.

Ishaket. al. (2016), evaluated the impact of the credit risk management on profitability of banks listed on Bursa Malaysia using data for the period 1998-2015 for three banks with the help of ratios : return on assets and return on equity indicating profitability and total loan to total assets (TLTA), total loan to total deposits(TLTD) and non-performing loans to total loans (NPLTL) indicating credit risk. It was found that TLTD and NPLTL have a negative effect on return on equity while TLTA has a positive effect on ROE and ROA.

Ndokaet. al. (2016), examined the relationship between credit risk management and profitability of commercial banks in Albania using various indicators that were: Return on Equity, Return on Assets, Nonperforming Loans ratio and Capital Adequacy ratio by collecting data from the 16 banks operating in Albanian banking system for the period 2005-2015. The econometric results indicated that there exist a relationship between the credit risk management and the profitability of commercial banks. It was found through regression analysis that the relationship between CAR and ROA and CAR and ROE is not statistically significant. It was found that there exist a negative correlation between NPLR and ROA and NPLR and ROE.

Almekhlafiet. al. (2016), investigated empirically the determinants of credit risk and its impact on bank performance in Yemen for a period of 1998-2013 using panel data. A cluster sample of six banks was selected. The study showed that non-performing loans negatively affect profitability. It was also found that Credit risk management effect on banks performance is similar across banks in Yemen.

Karugu and Ntoiti (2015), analysed the effect of credit risk management practices on profitability of listed commercial banks at Nairobi Security Exchange in Kenya using descriptive research design. A sample of 55 employees from 11 commercial banks was selected for research purposes. Primary data was collected using structured questionnaire. The study revealed that credit appraisal practices had a significant positive effect on profitability and that it explained 47.8% of the variance in profitability. It also showed that debt collection practices had a significant positive effect on profitability. It also showed that debt collection practices had a significant positive effect on profitability.

Singh (2015), conducted a study on the Performance of Credit Risk Management in Indian Banks. The objective of the study was to understand credit risk management and its impact on their performance and to make a comparison of the performance of public sector banks and private sector banks in India. Using the data from both public and private sector banks he examined the relationship between return on assets (performance indicator), capital adequacy ratio and non-performing assets. The study revealed that there is a significant relationship between bank performance (in terms of return on asset) and credit risk management (in terms of non-performing assets). The study also revealed that banks with higher profit potential could better absorb credit losses whenever they cropped up and therefore recorded better performance. It also showed that there was a direct but inverse relationship between return on asset and the ratio of non-performing assets.

Alshatti (2015), examined the effect of the credit risk management indicators (particularly: Capital adequacy, Credit interest/Credit facilities, Leverage ratio, Non-performing loans/Gross loans) on the financial performance (ROA and ROE) of the Jordanian commercial banks during the period 2005-2013 using secondary data (annual reports). The study revealed that there is a positive effect of the credit risk indicators of non-performing loans/gross loans ratio on financial performance, and a negative effect of provision for facilities loss/net facilities ratio and leverage ratio on financial performance and no effect of

the capital adequacy ratio and the credit interest/credit facilities ratio on banks financial performance when measured by ROA and ROE.

Abiolaet. al. (2014), analysed the impact of credit risk management on the financial performance of commercial banks in Nigeria using financial reports of seven commercial banks for period of seven years (2005-2011). The main indicators used in the analysiswere ROA and ROE as the performance indicators while NPL and CAR as credit risk management indicators. The results of the study showed that there exist positive association between non-performing loans and commercial banks performance indicating poor institutional measures to deal with credit risk management. It also showed that there exists insignificant impact of the level of capital adequacy ratio on commercial banks performance.

Poudel (2012), investigated the impact of credit risk management on the financial performance of banks and the impact of default rate, cost per loan assets on bank financial performance using financial reports of 31 banks for the period 2001-2011. The study revealed that all the parameters (Profitability ratio to default rate, cost of per loan assets and capital adequacy ratio)have an inverse impact on banks' financial performance.

III. RESEARCH METHODOLGY

OBJECTIVES OF THE STUDY

The main aim of the study is to examine the impact of Credit Risk Management (indicators: Capital Adequacy Ratio, Non-Performing Assets Ratio, Credit-Deposit Ratio, Total Loan to Total Assets Ratio) on the Financial Performance (indicators: Return on Equity and Return on Assets) of Canara Bank.

HYPOTHESIS

- <u>Hypothesis 1</u>: Capital Adequacy Ratio, Non-performing Assets Ratio, Credit-Deposit Ratio and Total Loans to Total Assets have Significant Impact on Return on Equity of Canara Bank.
- <u>Hypothesis 2</u>: Capital Adequacy Ratio, Non-performing Assets Ratio, Credit-Deposit Ratio and Total Loans to Total Assets have Significant Impact on Return on Assets of Canara Bank.

RESEARCH DESIGN

The main aim of the study is to find the impact of credit risk management on the financial performance of Canara Bank so explanatory research design is used to find the cause and effect relationship between credit risk management indicators and financial performance indicators.

DATA COLLECTION

Secondary data has been used for the purpose of the study and is collected annual reports published on the bank's website for the period 2014-15 to 2017-2018.

TOOLS AND SOFTWARE USED

Multiple regression and correlation analysis have been used to study the impact of credit risk management on the financial performance of Canara Bank. SPSS software has been used to conduct the analysis.

VARIABLES UNDER STUDY

For this research Return on Equity (ROE) and Return on Assets (ROA) are used as the indicator of financial performance and Capital Adequacy Ratio (CAR), Nonperforming Assets Ratio (NPAR), Credit-Deposit Ratio

(CDR), Total Loans to Total Assets Ratio (TLTA) are used as the indicators of Credit Risk Management. **Figure 1** below shows the diagrammatical presentation of the variables used under the study.



- Capital Adequacy Ratio is defined as the ratio of banks tier 1 + tier 2 capital to the risk weighted assets. It is expressed as percentage.
- Non-Performing Assets ratio is the ratio of non- performing assets to advances and it is expressed as a percentage.

- Credit-Deposit Ratio is the ratio expressed in a percentage of total loans (credit) to total deposits of the bank.
- Total Loans to Total Assets is the ratio of total advances to total assets of the bank and it is also calculated as percentage.
- Return on Equity is the ratio of net profit to equity, it shows the net profit generated by the equity of the bank.
- Return on Assets is the ratio of net profit to total assets, it shows how well the bank's assets are used to generate profits.

MODEL SPECIFICATION

The following mathematical model represent the impact of credit risk management on financial performance, as follows:

 $ROE = \beta 0 + \beta 1CAR + \beta 2NPAR + \beta 3CDR + \beta 4TLTA + e \qquad (1)$

 $ROA = \beta 0 + \beta 1CAR + \beta 2NPAR + \beta 3CDR + \beta 4TLTA + e \dots (2)$

Where, $\beta 0$ - Constant term, *i* = 1,2,3,4 is the coefficient of the independent variables, e - Error term

Equation 1 measures the impact credit risk management indicators on the financial performance of Canara Bank measured by ROE.

Equation 2 measures the impact credit risk management indicators on the financial performance of Canara Bank measured by ROA.

DECODEDTIVE CATICATO

IV. ANALYSIS AND INTERPRETATION

A. DESCREPTIVE SATISTICS									
Table 1 Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Dev.				
ReturnonAssets	9	75	1.42	.3578	.69195				
ReturnonEquity	9	-16.74	29.47	6.8911	14.30758				
CapitalAdequacyRatio	9	10.56	15.38	12.4211	1.58591				
Non-PerformingAssetsRatio	9	1.10	7.48	3.8856	2.48072				
CreditDepositRatio	9	67.68	72.74	70.3878	1.84047				
LoantoTotalAssetsRatio	9	58.61	62.89	60.6622	1.64428				
Valid N (listwise)	9								

Table 1 presents the descriptive statistics for the variable used in this study. The mean Return on assets is .3578%. The minimum and maximum value of ROA is -.75% and 1.42% respectively. On an average the return on equity is 6.89%, the minimum return on equity is -16.74% and maximum return on equity of Canara Bank for the period under study is 29.74%. Regarding the capital adequacy ratio the average is 12.42% whereas the minimum and maximum value is 10.56% and 15.38% respectively. On an average the non-performing assets ratio is 3.88%, the minimum non- performing assets ratio is 1.10% and maximum was 7.48%. Average of credit-deposit ratio is 70.3878% for the period under study and the minimum and maximum value is 67.68% and 72.74% respectively. On an average Total Loan to Total Assets ratio is 60.662%, the minimum and maximum value of it is 58.61% and 62.89%.

B. THE IMPACT OF CREDIT RISK MANAGEMENT ON FINANCIAL PERFORMANCE

B.1 CHECKING HYPOTHESIS 1 USING PEARSON CORRELATION AND MULTIPLE REGRESSION

<u>Hypothesis 1</u>: Capital Adequacy Ratio, Non-performing Assets Ratio, Credit-Deposit Ratio and Total Loans to Total Assets have Significant Impact on Return on Equity of Canara Bank

B.1.a. CORRELATION ANALYSIS FINDINGS

Table 2 Correlations								
	RETURN	CAPITAL ADEQUACY	NON	CREDIT	LOAN			
	ON	RATIO	PERFORMING	DEPOSIT	ТО			
	EQUITY		ASSETS	RATIO	TOTAL			
			RATIO		ASSETS			
					RATIO			
RETURNONEQUITY	1	.410	917**	.121	.320			
CAPITALADEQUACYRATIO	.410	1	190	.438	.511			
NONPERFORMING	917**	190	1	122	344			
ASSETSRATIO								
CREDITDEPOSITRATIO	.121	.438	122	1	.928**			

LOANTOTOTALASSETSRATIO	.320	.511	344	.928**	1
**. Correlation is significant at th	-tailed).				

Table 2 presents the data regarding correlation between dependentvariable i.e. return on equity (ROE) and independent variables which are capital adequacy ratio (CAR), non-performing assets ratio (NPAR), credit-deposit ratio (CDR), total loans to total assets ratio (TLTA). Since the test for significance is done at 95% confidence interval level, the significant values has to be less than 0.05 for the significant impact of credit risk management on the financial performance. Capital adequacy ratio has a significance level of 0.136 which is greater than 0.05, so capital adequacy ratio does not have significant impact on return on equity. Same is the case with credit-deposit ratio and total loans to total assets ratio as they have significance level of 0.378 and 0.200 respectively which is greater than 0.05 (significance level), so the impact of capital adequacy ratio, credit-deposit ratio and total loans to total assets ratio on return on equity is not statistically significant. Only non-performing asset ratio have statistically significant relationship with return on equity as its significance level is 0.000 less than 0.05 and correlation coefficient is -0.917 which implies that non-performing asset ratio have negative and significant impact on return on equity. It means if non-performing asset ratio increases by one unit it will decrease return on equity by 0.917 units.

B.1. b MULTIPLE REGRESSION ANALYSIS FINDINGS

Table 3 Model Summary								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate				
		_						
1	.958ª	.917	.835	5.81619				
a. Predictors	: (Constant)	, LOANTOTO	DTALASSETSRATIO, I	NONPERFORMINGASSETSRATIO,				
CAPITALADEQUACYRATIO, CREDITDEPOSITRATIO								

In table 3 R denotes Correlation Coefficient between the dependent variable return on equity and independent variables which are capital adequacy ratio, non-performing assets ratio, credit-deposit ratio, total loan to total assets ratio. R value of 0.958 expresses there is strong linear positive relationship between dependent variable (ROE) and independent variables (CAR, NPAR, CDR, TLTA). So it can be said that credit risk management affect banks financial performance. R Square is called Coefficient of Determination , gives the contribution made by regression in explaining the variation in the dependent variable, R Square value is 0.917 which means 91.7% of variation in dependent variable return on equity is explained by the independent variables capital adequacy ratio, non-performing assets ratio, credit-deposit ratio, total loans to total assets ratio. About 8.3% of variations in return on equity is accounted by error or residual term, so the model is fairly fitted.

Table 4 ANOVA ^a								
Mode	el	Sum of	df	Mean	F	Sig.		
		Squares		Square				
1	Regression	1502.343	4	375.586	11.103	.019 ^b		
	Residual	135.312	4	33.828				
	Total	1637.655	8					
a. Dependent Variable: RETURNONEQUITY								
b. Predictors: (Co		rs: (Cor	nstant),	LOANTOT	OTALASSE	FSRATIO,		
NON	NONPERFORMINGASSETSRATIO, CAPITALADEQUACYRATIO, CREDITDEPOSITRATIO							

The Table 4 presents the ANOVA which is used to find the significance of the model. ANOVA presents the significance value of 0.019 which is less than 0.05. Since the test of significance is done at 95% confidence level, the significance value has to be less than or equal to 0.05 for the model to be significant. From table 4, it is inferred that there is significant relationship between the dependent variable i.e. return on equity and independent variables that are capital adequacy ratio, non-performing assets ratio, credit- deposit ratio and total loans to total assets ratio. This finding therefore indicates that all the Credit Risk Management indicators have direct relationship with financial performance and the model is significant.

Table 5 Coefficients ^a								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.			
	B Std. Error		Beta					
1 (Constant)	72.492	86.048		.842	.447			

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	CAPITALADEQUACYRATIO	2.922	1.521	.324	1.921	.127		
	NONPERFORMINGASSETSRATIO	-5.451	1.071	945	-5.090	.007		
	CREDITDEPOSITRATIO	1.227	3.670	.158	.334	.755		
	LOANTOTOTALASSETSRATIO	-2.755	4.488	317	614	.573		
a. D	. Dependent Variable: RETURNONEQUITY							

Since the test of significance is done at 95% confidence level, the significance value has to be less than 0.05 for the significant impact of credit risk management indicators on the financial performance indicated by return on equity.

In the Table 5, observation of significance level indicates that non-performing assets ratio significance level is 0.007 which is less than 0.05 which means it has significant impact on return on equity. The Beta value is -5.451 which implies that non-performing ratio have negative impact on return on equity which means that a unit increase in non-performing ratio will lower return on equity by 5.451, so we can say non-performing ratio has significant negative impact on return on equity. Capital Adequacy Ratio has significance level of 0.127 which is greater than 0.05 so capital adequacy ratio does not have significant impact on return on equity. Credit-Deposit Ratio has significance level of 0.755 which is greater than 0.05 so credit-deposit ratio does not have significant impact on return on equity. Total Loan to Total Assets Ratio has significance level of 0.573 which is greater than 0.05 so total loan to total asset ratio does not have significant impact on return on equity.

B.2. CHECKING HYPOTHESIS 2 USING PEARSON CORRELATION AND MULTIPLE REGRESSION

Hypothesis 2: Capital Adequacy Ratio, Non-performing Assets Ratio, Credit-Deposit Ratio and Total Loans to Total Assets have Significant Impact on Return on Assets of Canara Bank.

Table 6 Correlations							
	CAPITAL	NON	CREDITDEPOSI	LOANTOTOTALASSE	RETURNONA		
	ADEQUACY	PERFORMINGASSE	TRATIO	TSRATIO	SSETS		
	RATIO	TSRATIO					
CapitalAdequacy	1	190	.438	.511	.412		
Ratio							
Non-	190	1	122	344	926**		
PerformingAsset							
sRatio							
CreditDepositRa	.438	122	1	.928**	.118		
tio							
LoantoTotalAsse	.511	344	.928**	1	.316		
tsRatio							
ReturnonAssets	.412	926**	.118	.316	1		
** Correlation is si	onificant at the O	01 level (1-tailed)					

B.2.a CORRELATION ANALYSIS FINDINGS

Correlation is significant at the 0.01 level (

Table 6 presents the data regarding correlation between dependent variable i.e. return on assets (ROA) and independent variables which are capital adequacy ratio (CAR), non-performing assets ratio (NPAR), creditdeposit ratio (CDR), total loans to total assets ratio (TLTA). Since the test for significance is done at 95% confidence interval level, the significant values has to be less than 0.05 for the significant impact of credit risk management on the financial performance. Capital adequacy ratio has a significance level of 0.135 which is greater than 0.05, so capital adequacy ratio does not have significant impact on return on assets. Same is the case with credit-deposit ratio and total loans to total assets ratio as they have significance level of 0.381 and 0.204 respectively which is greater than 0.05 (significance level), so the impact of capital adequacy ratio, credit-deposit ratio and total loans to total assets ratio on return on assets is not statistically significant. Only non-performing asset ratio have statistically significant relationship with return on assets as its significance level is 0.000 less than 0.05 and correlation coefficient is -0.926 which implies that nonperforming assets ratio have negative and significant impact on return on assets. It means if non-performing asset ratio increases by one unit it will decrease return on assets by 0.926 units.

B.1.b MULTIPLE REGRESSION ANALYSIS FINDINGS

	Table 7 Model Summary								
Model	R	R Sc	uare	Adjusted R	Std. Error of the				
				Square	Estimate				
1	.969ª	.9	38	.876	.24319				
a. Pre	. Predictors: (Constant), LOANTOT		OTALASSETSRATIO,	NONPERFORMINGASSETSRATIO,					

CAPITALADEQUACYRATIO, CREDITDEPOSITRATIO

In table 7 R denotes Correlation Coefficient between the dependent variable return on assets and independent variables which are capital adequacy ratio, non-performing assets ratio, credit-deposit ratio, total loan to total assets ratio. R value of 0.969 expresses there is strong linear positive relationship between dependent variable (ROA) and independent variables (CAR, NPAR, CDR, TLTA). So it can be said that credit risk management affect banks financial performance. R Square is called Coefficient of Determination , gives the contribution made by regression in explaining the variation in the dependent variable, R Square value is 0.938 which means 93.8% of variation in dependent variable return on assets is explained by the independent variables capital adequacy ratio, non-performing assets ratio, credit-deposit ratio, total loans to total assets ratio. About 6.2% of variations in return on assets is accounted by error or residual term, so the model is fairly fitted.

Table 8 ANOVA ^a								
Model		Sum of	df	Mean	F	Sig.		
		Squares		Square				
1	Regression	3.594	4	.898	15.191	.011 ^b		
	Residual	.237	4	.059				
	Total	3.830	8					
a. Depe	ndent Variable:	RETURNONASS	ETS					
b.	b. Predictors: (Co		Constant), LOANTOTOTALASSETSRA			TSRATIO,		
NONPE	NONPERFORMINGASSETSRATIO, CAPITALADEQUACYRATIO, CREDITDEPOSITRATIO							

The Table 8 presents the ANOVA which is used to find the significance of the model. ANOVA presents the significance value of 0.011 which is less than 0.05. Since the test of significance is done at 95% confidence level, the significance value has to be less than or equal to 0.05 for the model to be significant. From table 8, it is inferred that there is significant relationship between the dependent variable i.e. return on assets and independent variables that are capital adequacy ratio, non-performing assets ratio, credit- deposit ratio and total loans to total assets ratio. This finding therefore indicates that all the Credit Risk Management indicators have direct relationship with financial performance and the model is significant.

Table 9 Coefficients ^a								
Model		Unstand	ardized	Standardized	t	Sig.		
		Coeffi	cients	Coefficients				
		В	Std. Error	Beta				
1	(Constant)	3.805	3.598		1.057	.350		
	CAPITALADEQUACYRA	.145	.064	.332	2.275	.085		
	TIO							
	NONPERFORMINGASS	270	.045	967	-6.022	.004		
	ETSRATIO							
	CREDITDEPOSITRATIO	.076	.153	.201	.493	.648		
	LOANTOTOTALASSETS	157	.188	373	836	.450		
	RATIO							
a. Deper	dent Variable: RETURNON	ASSETS						

Since the test of significance is done at 95% confidence level, the significance value has to be less than 0.05 for the significant impact of credit risk management indicators on the financial performance indicated by return on assets.

In the Table 9, observation of significance level indicates that non-performing assets ratio significance level is 0.004 which is less than 0.05 which means it has significant impact on return on assets. The Beta value is – 0.270 which implies that non-performing ratio have negative impact on return on assets which means that a unit increase in non-performing ratio will lower return on assets by 0.270, so we can say non-performing ratio has significant negative impact on return on assets. Capital Adequacy Ratio has significant elvel of 0.085 which is greater than 0.05 so capital adequacy ratio does not have significant impact on return on assets. Credit-Deposit Ratio has significance level of 0.648 which is greater than 0.05 so credit-deposit ratio does not have significant impact on return on assets. Total Loan to Total Assets Ratio has significance level of 0.450 which is greater than 0.05 so total loan to total asset ratio does not have significant impact on return on assets.

V. DISCUSSION, CONCLUSION AND SUGGESTION

Results of the tests revealed that overall credit risk management has the significant impact on the financial performance of Canara Bank. Out of the Credit Risk Management indicators it was found that the Non-performing assets ratio alone has a significant and negative impact on the financial performance measured by return on assets and return on equity. Other credit risk management indicators (Capital adequacy ratio, credit-deposit ratio, total loan to total assets ratio) were found to have an insignificant impact on return on assets and return on equity.Based on these results it is recommended that Canara Bank should focus more on credit risk management especially the controlling and monitoring of Non-performing assets. The bank should use the various tools and techniques which help in monitoring of Non-Performing Assets as it has effect on Financial Performance of Canara bank. The bank should take preventive actions so that normal loans account don't become non-performing loans and proper analysis should be done before giving any loans to customers. They should adopt proper management information systems for proper handling of information. They should adopt more rigid loan review tools and should take prompt corrective actions for recovery of non-performing loan. As there is a very well-known saying "Prevention Is Better Than Cure", so they should try to find out the loopholes in their system so that proper credit risk assessment takes place and based on that further course of action is decided.

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