ABSTARCT

Granting credit is one of the main sources of income in commercial banks, it is imperative that the management of that risk related to that credit will affect the profitability of the banks. Also because of the increasing financial crisis and uncertainty that the world financial market is experiencing, credit risk management becomes important. In this study, we try to find out how the credit risk management affects the profitability in banks. The main purpose of this study is to describe the impact level and study the relationship of credit risk management on profitability in eight commercial banks in India. The results of the study are limited to banks in the sample and are not generalized for the all the commercial banks in India. Furthermore, this study only uses the quantitative approach and we have used regression model (random effects model) to do the empirical analysis. In the model we have defined ROE as profitability indicator while NPAR and CAR as credit risk management indicators. Also since there are a lot of other factors effecting ROE, taking a few prominent indicators such as Growth of Deposits, Liquidity ratio, Loan to Deposit ratio and the Cost to Income ratio as part of the error terms in the regression analysis, we are trying to prove that the effect on ROE of NPAR and CAR is the same irrespective of their inclusion. The data is collected from the sample banks' annual reports (2008-2013). The findings and analysis reveal that credit risk management has effect on profitability in all 8 banks. Among the two credit risk management indicators, NPAR has a significant effect than CAR on profitability (ROE).

Keywords: credit risk management, profitability, banks.