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CREDIT RISK MANAGEMENT IN CANARA BANK ,Hyderabad.

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ABSTRACT

Credit risk management is a crucial function in the banking sector, as it directly impacts the financial stability and profitability of banks. This project focuses on analyzing the credit risk management practices of Canara Bank, one of India's leading public sector banks. The study examines how the bank identifies, measures, monitors, and controls credit risk associated with its lending activities.

The project highlights various tools and techniques used by the bank, such as credit appraisal systems, risk rating models, and loan monitoring mechanisms. It also explores the role of regulatory guidelines issued by the Reserve Bank of India in shaping credit risk policies. Special emphasis is given to non-performing assets (NPAs), their causes, and the strategies adopted by the bank to reduce them.

Further, the study analyzes the effectiveness of Canara Bank's credit risk framework in maintaining asset quality and ensuring sustainable growth. It also discusses challenges faced by the bank in managing credit risk in a dynamic economic environment and provides suggestions for improvement.

Overall, this project provides a comprehensive understanding of credit risk management practices in the Indian banking sector with specific reference to Canara Bank.

INTRODUCTION

Credit risk is one of the most significant risks faced by banks, arising when borrowers fail to repay loans or meet contractual obligations. As financial intermediaries, banks play a vital role in mobilizing deposits and extending credit to individuals, businesses, and institutions. Effective credit risk management is essential for maintaining financial stability, profitability, and asset quality.

This study examines the credit risk management practices of Canara Bank, a leading public sector bank in India. The bank manages a diverse portfolio of retail, corporate, agricultural, and MSME loans while adhering to Reserve Bank of India (RBI) guidelines and Basel III norms. Through internal credit rating systems, borrower assessment, continuous monitoring, and early warning mechanisms, Canara Bank seeks to minimize defaults and control non-performing assets (NPAs).

The study aims to analyze the effectiveness of the bank's credit risk management framework and its role in maintaining the quality and sustainability of the loan portfolio.

REVIEW OF LITERATURE

Hoff and Stiglitz (1990) explained that information asymmetry between borrowers and lenders affects credit decisions and increases credit risk.

Minsky (1992) emphasized that excessive credit expansion can lead to financial instability, highlighting the need for effective credit risk management.

Crouhy, Galai, and Mark (2000) proposed integrated frameworks for measuring and managing credit risk using

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portfolio-based approaches.

Saunders and Allen (2002) highlighted the importance of internal credit rating systems, loan pricing, and regulatory policies in controlling credit risk.

Ghosh (2005) found that weak credit appraisal and monitoring systems are major causes of rising Non-Performing Assets (NPAs) in Indian banks.

Fernando and Nimal (2013) observed that effective risk management practices improve the operational efficiency and performance of banks.

Bekhet and Eletter (2014) stressed the importance of evaluating customers' financial history and creditworthiness before granting loans.

Arora and Singh (2015) concluded that inadequate credit appraisal and poor lending practices contribute to NPAs and recommended stronger risk assessment mechanisms.

NEED AND IMPORTANCE OF THE STUDY

Credit risk management is a crucial function in the banking sector as it directly affects a bank's profitability, asset quality, and financial stability. The study is important because it examines how Canara Bank identifies, assesses, and manages credit risk to minimize loan defaults and Non-Performing Assets (NPAs).

The research helps evaluate the effectiveness of the bank's credit appraisal, monitoring, and risk mitigation practices while ensuring compliance with RBI guidelines and Basel III norms. It also highlights the role of technology and internal control systems in strengthening credit risk management.

The findings of the study provide valuable insights for bankers, policymakers, researchers, and students by offering a better understanding of effective credit risk management practices. The study can also serve as a reference for improving credit policies, enhancing asset quality, and maintaining long-term financial stability in the banking sector.

SCOPE OF THE STUDY

The study focuses on the credit risk management practices adopted by Canara Bank. It examines the bank's procedures for credit appraisal, loan sanctioning, monitoring, and recovery. The research analyzes the bank's performance in terms of advances, deposits, profitability, and Non-Performing Assets (NPAs) to assess the effectiveness of its credit risk management framework. The study also evaluates the bank's compliance with RBI guidelines and regulatory standards related to credit risk. The analysis is based on information obtained from annual reports, published records, RBI publications, and other secondary sources. The findings may be useful for banking professionals, researchers, students, and policymakers in understanding and improving credit risk management practices in the banking sector.

OBJECTIVES OF THE STUDY

1. To study credit risk management in banking.
2. To analyse credit risk practices at Canara Bank.
3. To examine NPA trends over five years.
4. To suggest measures for improving asset quality.

RESEARCH METHODOLOGY

Information for this case analysis was collected from various sources. Present case study data was gathered through

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focus group interactions with branch managers and bank staff, incorporating their ideas. Data collection utilized bank annuals, reports, manuals, internal records, previous records, websites, and balance sheets. Articles were referenced through Google Scholar. This study adopts descriptive research design for analyzing Canara Bank credit risk management. Descriptive research helps understand existing risk frameworks and their credit risk mitigation effectiveness.

DATA COLLECTION

Secondary data:

- Canara Bank annual reports
- RBI credit risk management guidelines
- Basel Committee Reports
- Published research papers, journals, and books
- Financial database reports (e.g., Money control, CMIE, etc.)

SAMPLE DESIGN

Sample size: Depends on access, typically 35 employee interviews.

Research period: 45 days

DATA COLLECTION TOOLS

Document analysis of reports, credit policies, and manuals.

Online database utilization and bank published data.

DATA ANALYSIS AND INTERPRETATION

The study uses secondary data collected from Canara Bank's annual reports for a five-year period. Trend and percentage analysis were applied to evaluate advances, deposits, interest income, and NPAs.

Table 1: Advances provided by bank for the previous 5 years.

Financial year	Gross Advances (crore)	Year-on-year growth (%)
FY2021	639,049	51.0%
FY2022	703,602	10.1%
FY2023	830,673	18.1%
FY2024	931,613	12.2%
FY2025	10,40,000	11.6%

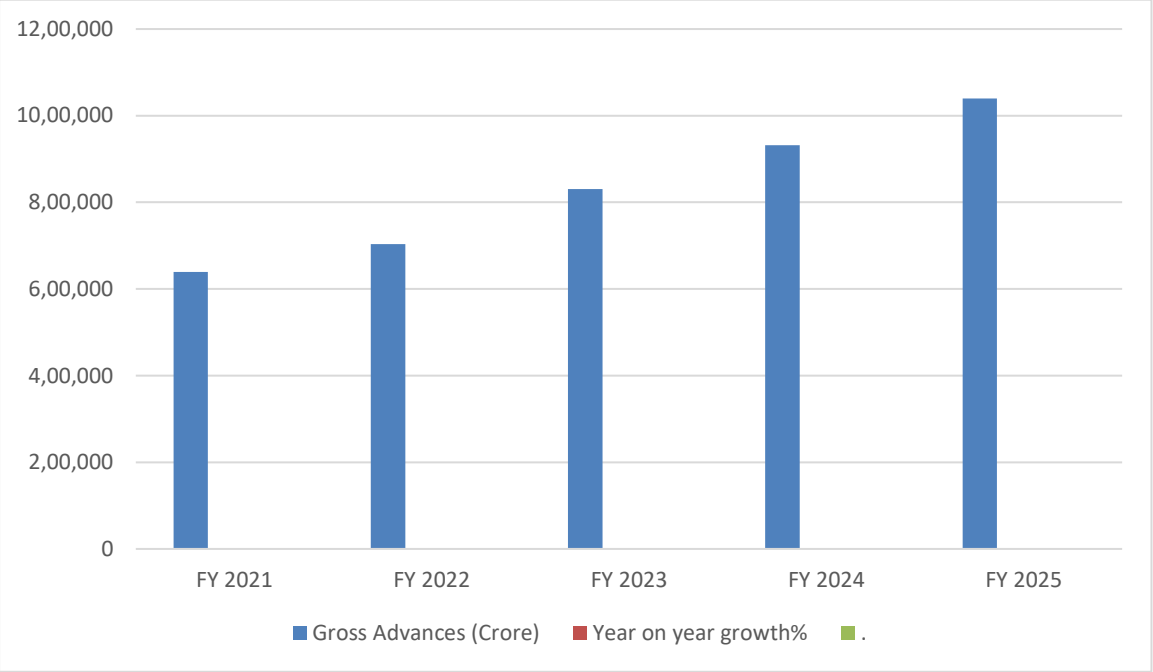
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Interpretation

Canara Bank's gross advances increased steadily from **₹6,39,049 crore in FY2021** to **₹10,40,000 crore in FY2025**, indicating continuous growth in its lending activities. The highest year-on-year growth of **51.0%** was recorded in FY2021, followed by a more moderate growth rate of **10.1%** in FY2022. Growth improved to **18.1%** in FY2023 and remained stable at **12.2%** and **11.6%** in FY2024 and FY2025, respectively. The overall upward trend reflects the bank's sustained expansion in its credit portfolio and strengthening lending operations.

Table 2: Deposits received by Bank for the previous 5 year

Financial year	Total deposits (₹crore)	Year-on-year growth (%)
FY2021-22	10,10,985	-
FY2022-23	10,86,341	7.45%
FY2023-24	11,79,087	8.54%
FY2024-25	13,12,242	11.29%
FY2025-26	1450000	11.48%(As per Sep 2025)

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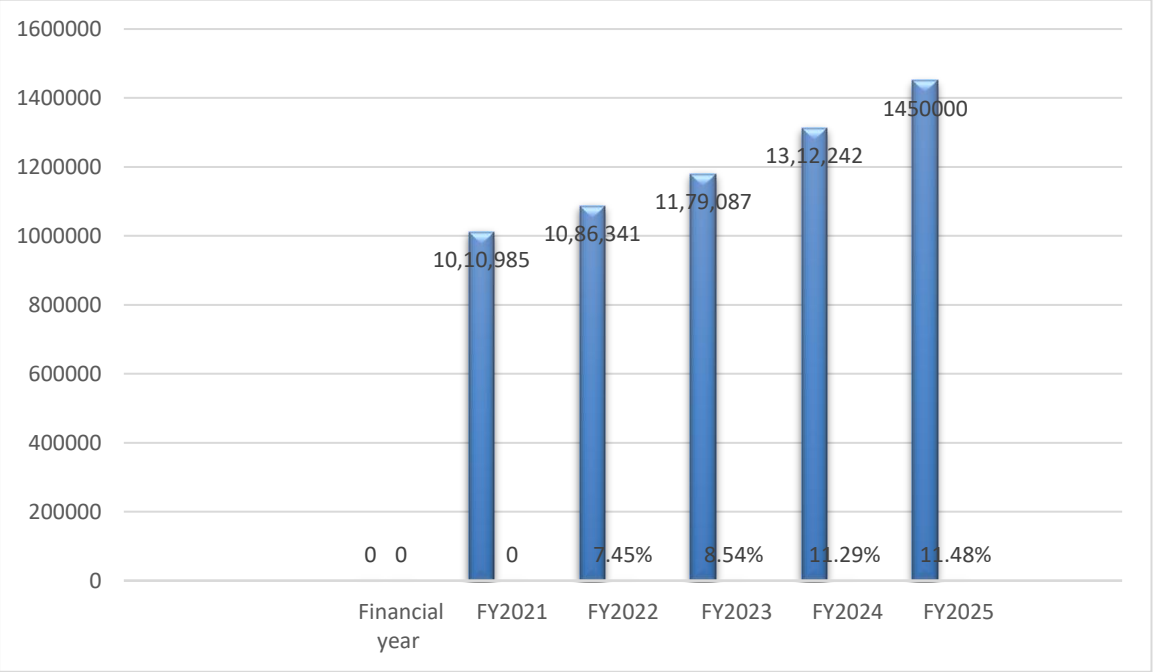


Figure2: Deposits received by the bank for the previous 5 years.

Interpretation

Canara Bank's total deposits showed a consistent increase during the study period, rising from **₹10,10,985 crore in FY2021-22** to **₹14,50,000 crore in FY2025-26 (up to September 2025)**. The year-on-year growth rate increased from **7.45%** in FY2022-23 to **11.48%** in FY2025-26, indicating steady improvement in deposit mobilization. The continuous growth in deposits reflects the bank's strong resource base and its ability to attract and retain customer funds, thereby supporting its overall business growth and banking operations.

Table 4.3: Interest earned on advances by bank for previous 5 years.

Financial Year	Interest Earned on Advances (₹ crore)	Year-on-Year Growth (%)
FY2020-21	50,405.00	N/A
FY2021-22	49,862.11	-1.1%
FY2022-23	61,356.58	23.0%
FY2023-24	78,188.44	27.4%
FY2024-25	93,247.00*	19.3%
FY2025-26	**93,247.00**	**0.0%**

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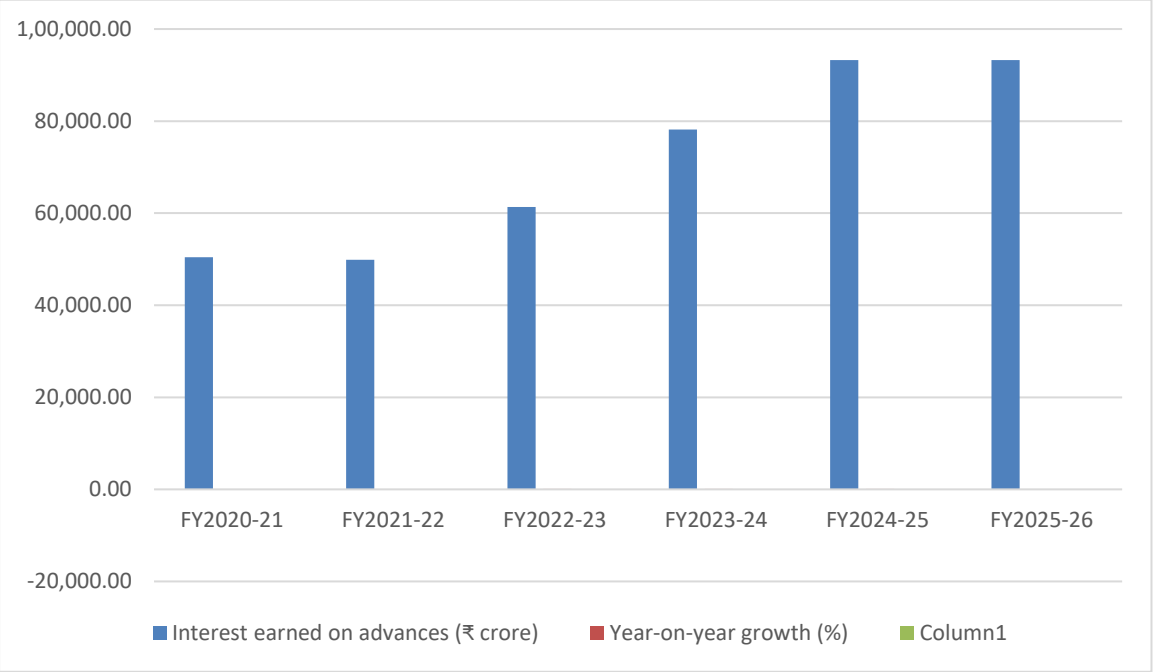


Figure3: interest earned on advances by bank for previous 5 years

Interpretation:

The interest earned on advances by Canara Bank showed an overall increasing trend during the study period. Interest income declined slightly from **₹50,405 crore in FY2020-21** to **₹49,862.11 crore in FY2021-22**, recording a decrease of **1.1%**. Thereafter, it increased significantly to **₹61,356.58 crore in FY2022-23** and **₹78,188.44 crore in FY2023-24**, with growth rates of **23.0%** and **27.4%**, respectively. In **FY2024-25**, interest income further increased to **₹93,247 crore**, registering a growth of **19.3%**. The overall trend indicates a substantial rise in income from advances, reflecting growth in the bank's lending activities and interest earnings.

Table 4.4: Interest expended by bank for previous 5 years.

Finacial year	Interest Expended (₹ crore)	Year-on-Year Growth (%)
FY2021-22	43,035.47	-4.8%
FY2022-23	52,990.06	23.1%
FY2023-24	72,117.59	36.1%
FY2024-25	82,683.00*	14.7%
FY2025-26	**89,156.00**	**7.8%**

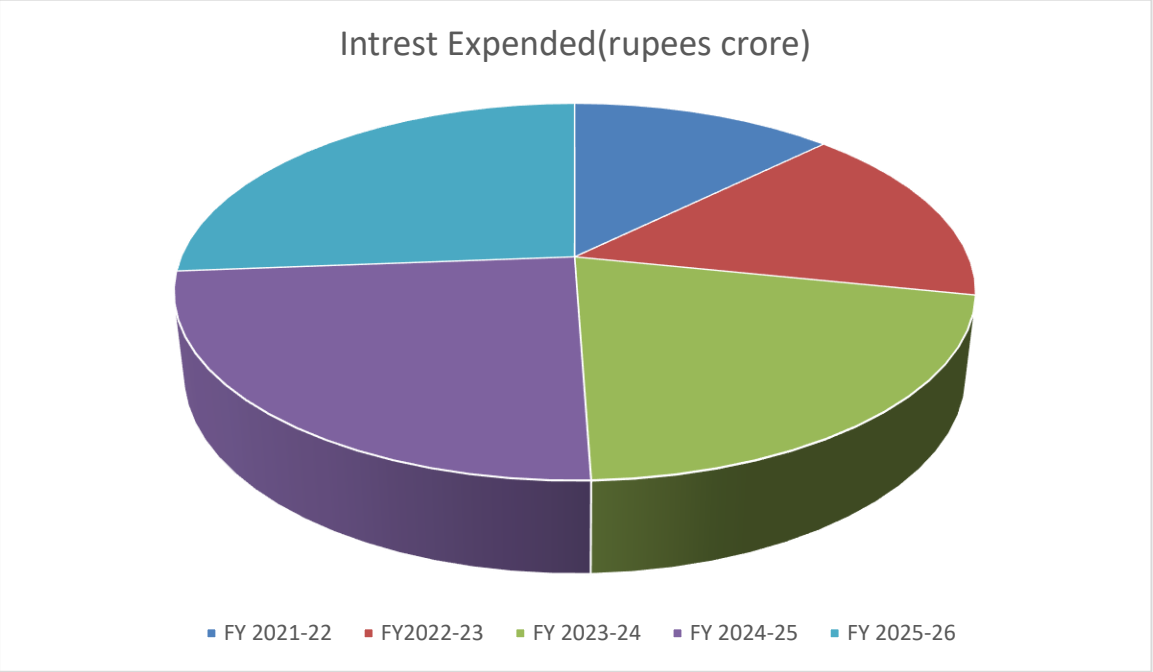
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Interpretation

The interest expended by Canara Bank exhibited an overall increasing trend during the study period. Interest expenses stood at **₹43,035.47 crore in FY2021-22** and increased to **₹52,990.06 crore in FY2022-23** and **₹72,117.59 crore in FY2023-24**, recording growth rates of **23.1%** and **36.1%**, respectively. The upward trend continued with interest expenses reaching **₹82,683 crore in FY2024-25** and **₹89,156 crore in FY2025-26**, reflecting growth rates of **14.7%** and **7.8%**. The consistent increase in interest expended indicates a rise in the bank's funding costs and deposit base during the study period.

Table 4.5: Profitability statement of Canara bank for previous 5 years.

ial Year		Net Interest Income (₹ crore)	Operating Profit (₹ crore)	Net Profit (₹ crore)			
0-21		13,123.91	9,359.82	-2,235.72			
1-22		24,062.17	20,009.27	2,557.58			
2-23		26,383.99	23,088.98	6,536.94			
3-24		31,435.29	27,716.01	10,603.76			
4-25		38,401.20	29,412.59	14,554.33			
5-26		**39,232.00**	**31,078.00**	**19,186.67**			

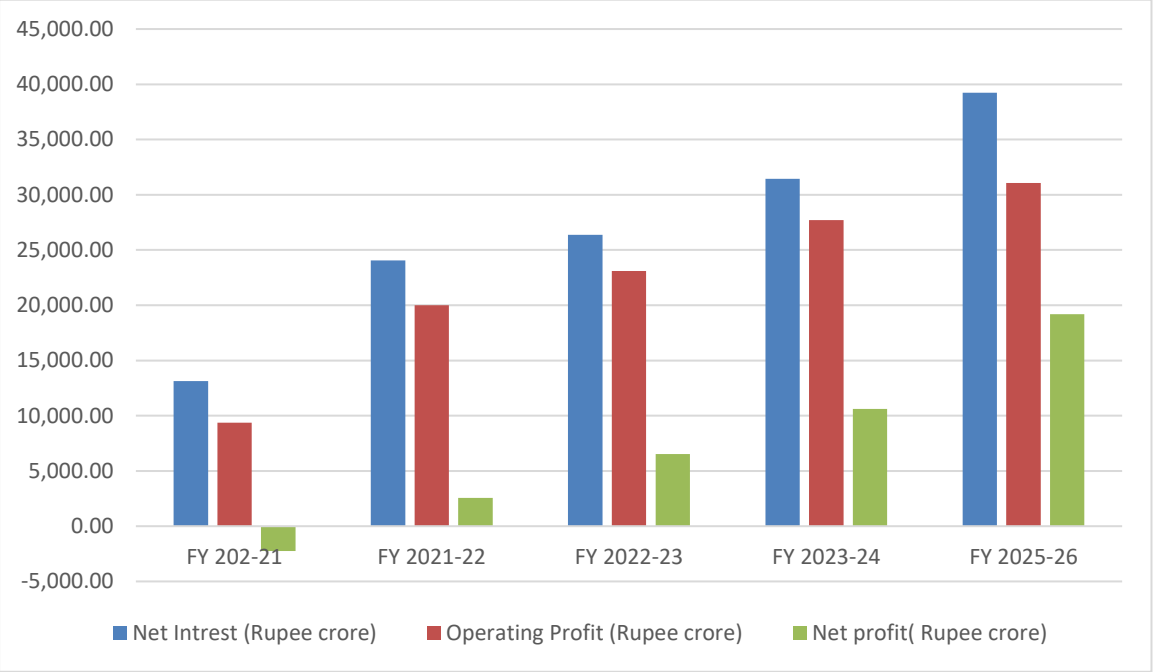
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Interpretation

The profitability indicators of Canara Bank show significant improvement during the study period. The bank recorded a **net loss of ₹2,235.72 crore in FY2020-21**, but returned to profitability in **FY2021-22** and subsequently achieved consistent growth in net profit, reaching **₹19,186.67 crore in FY2025-26**. Net Interest Income (NII) increased steadily from **₹13,123.91 crore** to **₹39,232.00 crore**, reflecting improved earnings from core banking operations. Similarly, operating profit rose from **₹9,359.82 crore in FY2020-21** to **₹31,078.00 crore in FY2025-26**, indicating enhanced operational performance. Overall, the upward trend in NII, operating profit, and net profit demonstrates a strong improvement in the bank's profitability and financial performance during the study period.

Table 4.6: Non-Performing Assets (NPA) of the Bank for previous 5 years.

Financial Year	Gross NPA (₹ crore)	Gross NPA (%)	Net NPA (₹ crore)	Net NPA (%)	
FY2020-21	37,250.53	8.24%	18,287.72	4.23%	
FY2021-22	60,397.80	8.94%	24,455.07	3.82%	
FY2022-23	55,714.41	7.51%	18,676.48	2.65%	
FY2023-24	46,213.54	5.35%	14,256.16	1.73%	
FY2024-25	30,657.18	4.23%	11,831.26	1.27%	
FY2025-26	**22,740.01**	**1.84%**	**5,209.37**	**0.43%**	

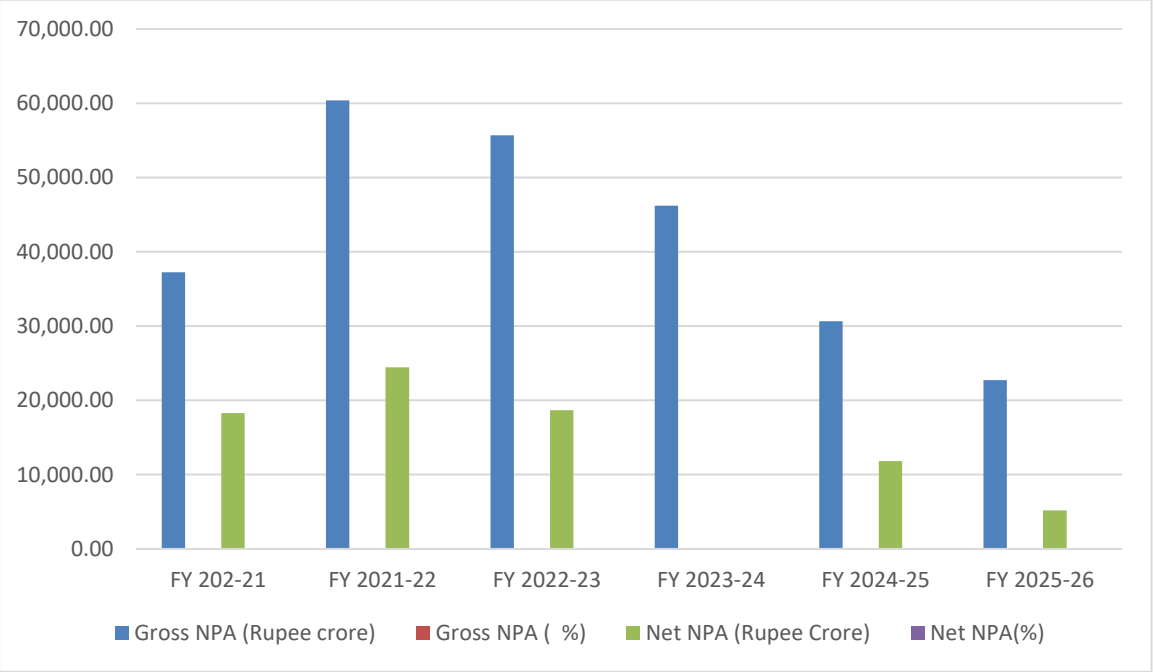
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Interpretation

The NPA position of Canara Bank shows a significant improvement in asset quality during the study period. Gross NPA increased from **₹37,250.53 crore (8.24%) in FY2020-21** to **₹60,397.80 crore (8.94%) in FY2021-22**, but thereafter declined steadily to **₹22,740.01 crore (1.84%) in FY2025-26**. Similarly, Net NPA decreased from **₹24,455.07 crore (3.82%) in FY2021-22** to **₹5,209.37 crore (0.43%) in FY2025-26**. The continuous reduction in both Gross and Net NPA levels indicates a substantial improvement in the bank's asset quality and credit risk profile. Overall, the declining NPA trend reflects effective management of stressed assets and strengthening of the bank's financial position.

5.1. FINDINGS

i. Strong post-merger recovery strategy

- After merger with Syndicate Bank in FY2020, Canara Bank faced increased credit risk due to addition of stressed assets.
- The bank implemented rigorous credit risk assessment and monitoring systems, leading to steady reduction in gross and Net NPAs from FY21 onwards.

ii. improvement in Asset Quality

- Gross NPA fell from 8.94% (FY21) to 4.23% (FY24).
- Net NPA fell from 3.82% to 1.27% in the same period.
- This suggests effective credit appraisal, early warning signals (EWS), and recovery mechanisms.

iii. Use of Risk-Based Pricing and Credit Scoring.

- Canara Bank has adopted risk-based pricing, which links interest rates charged to borrower credit risk profiles.
- It uses internal credit rating models to evaluate borrower risk, helping to filter out high-risk accounts early in

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credit cycles.

iv. enhanced recovery mechanisms.

- The bank improved its recovery through:
- SARFAESI Act and Debt Recovery Tribunals (DRT).
- One-time settlement (OTS) schemes
- Sale of NPAs to ARCs (Asset Reconstruction Companies).

v. compliance with regulatory norms.

- Canara Bank aligns its credit practices with RBI's Basel III norms.
- Maintains adequate Capital to Risk-weighted Asset Ratio (CRAR), above minimum regulatory thresholds.

vi. Adoption of Technology in Credit Risk.

- Implementation of credit life cycle management software and analytics-based monitoring tools.
- Integration of automated scoring engines for retail and SME segments has enhanced risk identification at origination.

vii. Sectorial and Concentration Risk Controls.

- The bank has taken steps to diversify credit exposure across sectors and geographies.
- Limits are set on exposure to vulnerable sectors like real estate, MSMEs, and NBFCs to reduce concentration risk.

5.2. SUGGESTIONS

1. **Enhance Credit Appraisal Mechanism:** Strengthen credit appraisal systems by incorporating more robust financial analysis tools and regular credit officer training.
2. **Adopt Advanced Risk Rating Models:** Implement predictive analytics and AI-based credit scoring models for better risk classification and early warning signals.
3. **Strengthen Monitoring Systems:** Develop more dynamic loan monitoring systems with real-time alerts on delayed payments, account irregularities, and sectoral risk exposures.
4. **Diversify Credit Portfolio:** Reduce concentration risk by diversifying across sectors, geographies, and borrower categories.
5. **Increase Use of Collateral and Guarantees:** Encourage secured lending and ensure that collateral values are properly assessed and regularly updated.
6. **Boost Staff Training and Awareness:** Conduct frequent workshops and training sessions on credit risk assessment and regulatory compliance.
7. **Utilize Technology for Risk Analytics:** Invest in digital platforms and risk analytics tools to better understand customer behavior and predict defaults.

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5.3. CONCLUSION

Credit risk management plays pivotal roles in banking institution stability and profitability like Canara Bank. The study reveals that while banks have established solid frameworks for managing credit risk—through policies, appraisal systems, and monitoring mechanisms—there is still room for improvement in areas such as risk prediction, portfolio diversification, and technological integration.

With growing complexity of financial products and changing economic conditions, it is imperative for Canara Bank to continuously evolve its credit risk management practices. Adopting data-driven decision-making tools, enhancing staff capabilities, and reinforcing recovery mechanisms will help banks mitigate credit risk more effectively and ensure sustained growth.

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