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Exploring Credit Risk Management and Financial Performance: Evidence from People's Leasing and Finance PLC

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Abstract

The stability and financial performance of the financial intermediaries play a pivotal role in creating the sustainable development of any modern-day economy. Lending is a fundamental income-generating activity of these financial institutions, yet there exists an element of risk in providing credit, that mainly stems from borrowers' failure in fulfilling their loan repayment obligations. Considering the profound impact of credit risk on financial performance, this study aims at examining the relationship between credit risk management indicators, namely risk identification, risk analysis, nonperforming loan (NPL) identification, capital adequacy, and financial performance of non-bank financial institutions. The data gathered through a structured questionnaire from a sample consisting of 152 employees serving the credit departments of selected branches of People's Finance and Leasing PLC in the Colombo district. The results of the multiple regression analysis indicate that risk identification and NPL identification have a positive and significant impact on financial performance. However, the impact of risk analysis and capital adequacy on financial performance were found to be insignificant, contrary to the findings of the previous studies which emphasize the importance of risk analysis and capital adequacy in ensuring financial stability. These results highlight the importance of effective risk identification and NPL management in enhancing financial performance. In conclusion, the study highlights that effective credit risk management practices, particularly in risk identification and NPL management, are crucial in enhancing the financial performance of non-bank financial institutions. Therefore, employing effective credit risk management strategies ensures achieving superior financial performance. Hence, financial institutions ought to allocate resources toward implementing sophisticated risk assessment tools that integrate both quantitative and qualitative data.

Keywords: *Financial performance, Non-banking financial institutions, Risk identification, Non-performing Loans, Capital adequacy*

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Introduction

Background of the Study

Financial institutions play a pivotal role in fostering economic growth and development within an economy (Chhetri, 2021). Sri Lanka, as a developing nation, is home to diverse financial intermediaries, with their performance directly influencing the country's economic stability. Licensed Commercial Banks (LCBs) and Licensed Finance Companies (LFCs) are essential elements in Sri Lanka's economic growth and development. According to statistics from the Central Bank of Sri Lanka (CBSL), LCB and LFC collectively represent 62.4% of the total assets of the financial system. These financial intermediaries are challenged with maintaining stability in financial performance to contribute to economic growth, given the diverse risks that affect their financial performance (Sewwandi & Karunarathne, 2022; Francis et al., 2021; Gimhani & Francis, 2016).

Risk is the probability of damage, loss, injury, or any other undesirable incident stemming from internal or external vulnerabilities (Chhetri, 2021; Dash, 2023). According to Siddique et al., (2022), there are variety of risks associated with banks such as environmental, operational, and financial risks. Credit risk is categorized under financial risk, and it stand out as particularly severe compared to others. According to Liu et al., (2014), credit risk denotes the potential for experiencing a financial loss resulting from a decline in the creditworthiness of a counterparty engaged in a financial transaction. Of particular significance is credit risk, which significantly affects the profitability of banks and non-bank institutions due to the substantial portion of their revenue derived from interest-earning loans and advances (Bhattarai, 2016). Beyond its impact on the financial performance of loans, credit risk leads to broader implications, such as Non-Performing Loans (NPLs) resulting from internal weaknesses in financial institutions, such as management inefficiency (Chhetri, 2021).

When a financial institution is exposed to higher credit risk, its financial strength is impacted. This risk emanates from the potential for its clients to default. Therefore, every financial institution must conduct a comprehensive evaluation of its clients to mitigate credit risk. This involves assessing the client's financial soundness, financial literacy, and history of financial behaviour. By doing so, the institution can reduce its credit risk. A high level of credit risk can undermine the financial strength of an institution. Thus, it is crucial for financial institutions to continually implement measures such as identifying, measuring, collecting data, monitoring, and controlling their credit risks (Ranjan, 2006).

Furthermore, the financial behaviours of individuals have evolved due to rapidly changing technological trends. People's Leasing and Finance PLC, a non-banking financial institution registered with CBSL, has broadened its product portfolio and established new loan structures. The company's maximum credit risk exposure increased to Rs. 207.76 billion, or 9.81%, from Rs. 181.11 billion during the fiscal year 2022/23 (Peoples et al., 2022/23. As of the end of the fiscal year, 21.79% of the company's portfolio was allocated to the transportation industry, while 20.21% was allocated to

the agriculture industry. The group's exposures to these two industries were 20.24% and 19.50%, respectively. The agricultural sector faced challenges due to the prohibition of fertilizers and the ongoing scarcity of fuel. Close attention is being paid to consumers' financial stability and their ability to return to normal operations, and proactive measures are being implemented (Francis et al., 2024). Additionally, efforts are underway to establish a dedicated Loan Management Unit to supervise the collection of past-due loans and other forms of debt.

Research Problems

In their role as financial intermediaries, both banks and non-bank financial institutions serve to accept deposits from savers to facilitate the extension of credit to borrowers. This function is particularly pivotal as a revenue-generating activity for most financial institutions. Credit expansion inevitably occurs in response to the escalating demand for loans and credit transactions. However, the prevalence of credit risk in the financial sector can lead to the inadequate management of balance sheets, consequently precipitating declines in net profits, liquidity crises, and detrimental impacts on the reputations of such institutions. This downslide in financial performance is likely to erode customer confidence in the sector at large, potentially leading to a waning interest in engaging with financial entities such as People's Leasing and Finance PLC.

Research Objective

This study aims mainly to examine the impact of credit risk management indicators (Risk identification, risk analysis, Non-performance loan, capital adequacy) on the financial performance of People's Leasing and Finance PLC. The research will yield important insights into the efficacy of PLC's credit risk management practices and their impact on the institution's financial performance.

Literature Review

Lending serves as the primary income source for every financial institution. The interest earned through lending constitutes a substantial portion of the organization's income (Sewwandi & Karunarathne, 2022; Francis & Ganeshamoorthy, 2017). As per Li and Zou (2014), financial institutions must exercise caution concerning credit risk. Credit risk has been characterized from various perspectives by different organizations and researchers, with consensus largely aligning with the definition put forth by the Basel Committee on Banking Supervision (2001). According to the Basel Committee, credit risk is defined as the potential for financial loss resulting from a borrower's inability to fully or partially repay a loan due to failure to meet obligations and rating restructuring.

The existing literature has conducted in-depth analyses to identify and understand various types of credit risks, such as default risk, concentration risk, and country risk. According to a study conducted by Arif and Nauman (2022), default risk is influenced by multiple factors, including the creditworthiness of the borrower, prevailing economic conditions, and the characteristics of the loan. The research underscores the significance of advanced credit scoring systems and thorough borrower evaluations for banks to effectively mitigate default risk and improve their financial performance. Similarly, a study by Zhang et al. (2021) emphasizes the importance of

diversification in minimizing concentration risk. The authors argue that banks with well-diversified credit portfolios are less exposed to sector-specific downturns, resulting in more stable financial performance. Furthermore, a recent examination by Hernandez and Lopez (2023) delves into the implications of country risk on international banking operations. The study reveals that banks with substantial exposure to high-risk countries often experience elevated levels of non-performing loans, which can detrimentally impact their financial performance. The authors posit that banks with extensive exposure to high-risk countries often face higher levels of non-performing loans, thus negatively affecting their financial performance.

The prominent causes of credit risk identified by the researchers encompass lack of follow-up and supervision, changes in government policies, improper credit appraisal, fund diversion, and infrastructural obstacles. Furthermore, Sewwandi and Karunarathne (2022) emphasized that credit risk is influenced by both internal and external factors. Internal factors encompass inadequate risk management, poor credit policy, and insufficient credit monitoring, while external factors comprise natural disasters, borrower integrity, and government policies.

The theoretical literature encompasses credit risk theory and anticipated income theory. According to credit risk theory, default risk is the peril that the counterparty will fail to meet the contractual commitment, and it serves as the principal source of credit risk (Liu et al., 2014; Afriha & Francis, 2024). In this context, the lender shoulders the primary responsibility for the risk, encompassing any lost principal and interest. A disruption loss can be total or partial and may manifest because of various events, including the inability of an insolvent bank to reimburse assets deposited by a customer. As highlighted by Owojori et al. (2011), the general principle dictates that the interest rate demanded by creditors should rise commensurately with the level of risk involved.

As per the anticipated income theory, banks should align the repayment structure of a term loan, typically spanning one to five years, with the borrower's anticipated revenue, irrespective of the nature of the borrower's business (Moti et al., 2012; (Francis et al., 2024). This approach emphasizes the consideration of the borrower's short and long-term income projections when designing the loan terms. Instead of requiring a lump sum repayment upon maturity, the bank structures a payment plan that allows the borrower to gradually repay the loan from their future income. In instances, where the borrower consistently realizes the projected revenue and is anticipated to continue doing so, the bank may be inclined to offer additional loan facilities. Embracing this methodology enables the bank's management to allocate credit prudently based on projected income, thereby enhancing the bank's ability to manage credit risk effectively.

In recent years, there have been several studies on the correlation between credit risk management and financial performance. These studies suggest that effective credit risk management can help reduce the likelihood of failure and minimize the uncertainty surrounding achieving the desired financial performance (Alshatti, 2015 & Danthanarayana et al., 2024). The existing empirical evidence

underscores the importance of credit risk management indicators for the financial performance of banks and non-bank financial institutions (Noor et al., 2018). In this context, Fredrick (2012) conducted a multiple regression analysis study to explore the relationship between credit risk and financial performance. The author utilized CAMEL components, such as capital adequacy, asset quality, management efficiency, earnings, and liquidity as independent variables. The findings of the study demonstrated a robust relationship between CAMEL components and the financial performance of commercial banks, suggesting that CAMEL can serve as a proxy for credit risk management.

Similarly, Kodithuwakku (2015) focused on the relationship between credit risk management and the performance of commercial banks. The author used Return on Assets (ROA) as a performance indicator, and Loan Provision to Total Loan (LP/TL), Loan Provision to Total Assets (LP/TA), Loan Provision to Non-Performing Loans (LP/NPL), and Non-Performing Loans/Total Loans (NPL/TL) as independent variables indicating the credit risk of commercial banks. The study highlighted the necessity of implementing effective tools and techniques to mitigate credit risk.

Furthermore, Lalon (2015) emphasized that credit risk management encompasses the identification, measurement, mitigation, monitoring, and control of credit risk. The study affirmed that effective credit risk management contributes to the profitability of banks. Improved credit risk management practices help to ensure the smooth recovery of classified loans and maximize the profitability of banks. Additionally, Muriithi et al. (2016) investigated the impact of credit risk management on financial performance among savings and credit cooperative societies in Kenya. The researchers used management efficiency and capital adequacy as independent variables and financial performance as the dependent variable. The empirical results revealed a significant positive relationship between both management efficiency and capital adequacy with financial performance. This study highlights the significant impact of credit risk on the performance of banks and non-banks in various countries, with limited recent findings in the context of the non-banking sector in Sri Lanka.

Therefore, this paper aims to analyze the correlation between credit risk management and the financial performance of People’s Finance and Leasing PLC in Sri Lanka. Moreover, it seeks to contribute to and enhance the existing research by utilizing credit risk management and performance metrics.

Methods

Data Collection

This study employs a quantitative approach as its research methodology to accumulate objective and quantifiable outcomes. It has adopted a descriptive and cross-sectional research design to focus on the credit risk management and financial performance of the People's Leasing and Finance PLC. The study incorporates all employees working in the credit departments of People’s Leasing and Finance PLC branches in the Colombo district. The convenience sampling method was utilized in selecting the branches, resulting in a sample of 152 employees from the credit sections of five selected branches in the Colombo district, including the main branch of People's

Leasing and Finance PLC. Primary data was collected through a structured questionnaire using Google Sheets, ensuring high accuracy in responses and a greater tendency for honest and true feedback.

Data Analysis

Data analysis is the process of systematically searching, arranging, organizing, breaking data into manageable units, synthesizing the data, searching for patterns, and discovering what is important and what is to be learned. The Likert scale was used to evaluate the responses of the respondents. This model proposes that each observed response (measure 1 through measure 5) is influenced partially underlying common factor. The reliability and validity of the collected data were first checked. Later, the personal demographic data analysis of the employees who participated in the sample and the prevalence of lending in their organization was identified. Later, descriptive statistics, paired samples correlations co-efficient between dependent and the independent variables were calculated and interpreted. If the paired t-test statistics low and significant, it indicates that the two variables are not related and are independent of each and profitability analysis have been conducted to analyze the impact of identifying credit risk on the financial performance of the organization. The statistical tool for the analysis was the statistical package for the social sciences (SPSS). The results were presented on frequency distribution tables, pie charts and bar charts. The regression model to be used was as follows:

Results

The analysis of demographic information by frequency enables to gain insights into the composition of the sample and the participants in the research. Among the 152 respondents, 109 are male and 43 are female, indicating that 72% of the sample comprises male participants, with the remaining 28% being female. As a result, the research demonstrates an overrepresentation of males in the study. The study further identified that 65.8 per cent of the participants had previous experience in credit risk management at a financial institution. According to the survey, 79% of the respondents believe that the credit policies of the institution are the most important factor when deciding on issuing loans. The majority (71%) also stated that the overhead cost of the institution has little importance in determining the credit risk. Additionally, 69% of the respondents indicated that considering the general credit trends in the economy and the country is crucial when granting loans, while 76% stated that the institution's creditworthiness is an important factor in determining credit risk.

Reliability Statistics

According to study tests use Cronbach's Alpha to assess internal consistency. It determines whether questions or variables in a questionnaire measure the same concept. High Cronbach's alpha readings indicate internal consistency. Internal consistency is 1 when all scale items or variables are perfectly correlated.

The Cronbach's alpha rating of the study questionnaire or scale was 0.783, indicating strong internal consistency. These items measure the same concept and are strongly correlated. Cronbach's

alpha ratings of 0.783 for this study questionnaire or scale suggest strong reliability and consistency in assessing credit risk management. The excellent internal consistency of the items suggests that they will accurately assess the credit risk management practices of People's Leasing & Finance plc. If the Cronbach's Alpha score is high, the scale or questionnaire is reliable and consistent. Researchers consider a scale or questionnaire reliable if its Cronbach's alpha score is more significant than 0.7.

Descriptive Statistics

According to the table 2, Descriptive statistics are used to describe the basic characteristics of the data in a study. This provides simple summaries of the sample and measurements. In this research, the researcher has tried using descriptive statistics to determine the distribution of data based on coefficients such as the mean, median, mode and standard deviation of the quantitative data and to reach different conclusions. Accordingly, the descriptive statistical values of the quantitative data collected in the research are as follows.

The analysis demonstrates that the mean value of 3.04 signifies that respondents' perspectives on risk identification leaned slightly towards favorability. On average, respondents expressed that risk identification was moderately successful. The mean score, slightly exceeding 3, suggests that attitudes towards risk identification were not overwhelmingly positive. The standard deviation of 0.431 indicates considerable variability in responses. This variability suggests that while the average opinion of risk identification leaned slightly above 3, some respondents held more extreme positive or negative viewpoints. The "Risk Identification" descriptive statistics present the spectrum of responses, the average sentiment, and the variability among respondents. The findings suggest that while the average sentiment is slightly favorable, opinions on risk identification span from strong disagreement to strong agreement.

The minimum score of 1 indicates that some respondents strongly disagreed with the utility of risk analysis and suggested that improvements were necessary. Conversely, the maximum score of 5 suggests that respondents are confident in the efficacy of risk analysis. The average evaluation for risk analysis by respondents is 2.56, indicating a lower rating. The standard deviation of 0.421 indicates substantial variability in viewpoints among respondents, implying both extremely positive and negative opinions about the efficacy of risk analysis despite an overall disagreement.

A score of 1 indicates that some respondents strongly disagreed with the significance of non-performing loans. Conversely, a score of 5 suggests that some respondents strongly believed non-performing loans identification to be a significant issue. The respondents' assessment of non-performing loans averaged 2.30, signifying a slightly negative viewpoint. The standard deviation of 0.534 for non-performing loans identification indicates significant variability in respondents' views, suggesting both positive and negative perspectives, despite the overall disagreement. A minimum score of 1 indicates that some respondents strongly disagree with capital adequacy. Some argued that the amount provided should be more than adequate to meet standards or manage hazards.

The most significant figure of 5 indicates that respondents strongly believed that capital adequacy was optimal. The mean value of approximately 2.83 indicates that, on average, respondents' assessment of capital adequacy was slightly biased towards the lower end of the scale. This suggests that the consensus view on capital adequacy was closer to disagreement than agreement. However, it is important to note that a mean value below 3 does not inherently indicate widespread disagreement, which may be influenced by the distribution of responses across the entire scale. The standard deviation of capital adequacy is 0.383. With a lower standard deviation, respondents agreed on capital adequacy. This suggests that although capital adequacy estimates did not generally agree, there was some unanimity.

A minimum score of 1 indicates that some respondents strongly disagree with financial performance. The most significant number of 5 indicates that the respondents strongly agreed that the financial performance was good or acceptable. The mean value of approximately 2.87 indicates that, on average, respondents' evaluations of financial performance are skewed towards the lower end of the scale. The standard deviation of 0.406 reveals the financial performance response variability. Respondents' financial performance judgments varied, with moderate standard deviations. This indicates that although the overall opinion was not agreed, there were marginal views of excellent and negative financial performance.

Correlation Analysis

As representing on the table 3, To compute the correlation (strength) between the study variables and their findings the researcher used the Karl Pearson's coefficient of correlation (r). Correlation coefficients indicate the strength and direction of linear relationships. This research has conducted correlation analysis with the variables "Financial Performance," "Risk Identification," "Risk Analysis," "NPL identification," and "Capital Adequacy." "Risk Identification" and "Financial Performance" have a 0.859 Pearson correlation coefficient. These factors have a significant positive association. It shows that respondents with excellent risk identification report better financial success. The correlation coefficient is close to 1, indicating a solid linear link between the variables.

"Risk Analysis" and "Financial Performance" have a 0.457 Pearson correlation coefficient. These factors have a modest positive connection. It implies that higher risk analysis is associated with improved financial success, although less strongly than risk detection. "Financial Performance" and "NPL identification " have a Pearson correlation of 0.649. These factors have a significant positive association. Respondents with smaller non-performing loans report more financial success. The correlation coefficient is close to 1, indicating a solid linear link between the variables.

"Financial Performance" and "Capital Adequacy" have a Pearson correlation of 0.575. These factors have a modest positive connection. It implies increased capital adequacy is associated with improved financial performance, although not as strongly as risk identification and NPL. Risk identification, Risk analysis, NPL identification, and capital sufficiency are substantially connected with financial success. Risk identification and NPL identification correlate

strongly, indicating they may have a more significant influence on financial success.

Regression Analysis

Based on the regression coefficient tables 4, In addition, the researcher conducted a linear multiple regression analysis so as to test the relationship among variables (independent) on the financial performance practices. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. The regression analysis shows the association between the dependent variable, "Financial Performance," and the independent variables, "Risk Identification," "Risk Analysis," "NPL" (Non-Performing Loans), and "Capital Adequacy." The analysis *contains* R-squared, ANOVA, and independent variable coefficients. The regression model's independent variables explain 80.9% of financial performance variation. The model fits the data well since a more considerable R-squared value implies a more significant link between variables. According to table 5, Mugenda and Mugenda (2003) ANOVA is a data analysis procedure that is used to determine whether there are significant differences between two or more groups or samples at a selected probability level. `The ANOVA table illustrates the regression model's Sig. The regression model is statistically significant with Sig. = 0.000. This implies that at least one independent variable in the model significantly affects financial performance.

Coefficient of Determination

As representing on the table 6, The coefficient "Constant" reflects the regression line's y-intercept. The coefficient is 0.113, and the Sig. value is 0.395. Therefore, it is not statistically significant at 0.05. The constant term does not affect financial performance. Holding other factors fixed, the coefficients for independent variables assess the financial performance effect of each variable. "Risk Identification" has a coefficient of 0.642 and a Sig. value of 0.000, suggesting a positive financial impact. "NPL identification " has a coefficient of 0.172 and a Sig. of 0.000, suggesting a substantial positive impact. "Risk Analysis" has a coefficient of 0.059 and a Sig. value of 0.150, demonstrating a non-significant link with financial success. "Capital Adequacy" has a coefficient of 0.089 and a Sig. of 0.076, showing a borderline non-significant association. The regression analysis shows that "Risk Identification" and "NPL identification " positively affect financial performance, whereas "Risk Analysis" and "Capital Adequacy" do not.

Discussion

Hypothesis Testing

The regression analysis presents the relationship between the dependent variable, "Financial Performance," and the independent variables, "Risk Identification," "Risk Analysis," "NPL" (Non-Performing Loans), and "Capital Adequacy." Under the assumption that other factors remain constant, the coefficients for the independent variables assess the impact on financial performance. "Risk Identification" demonstrates a coefficient of 0.642 and a significance value of 0.000, implying

a noteworthy positive influence on financial performance. Similarly, "NPL Identification" portrays a coefficient of 0.172 and a significance value of 0.000, signifying a substantial positive impact. Conversely, "Risk Analysis" exhibits a coefficient of 0.059 and a significance value of 0.150, suggesting an insignificant link to financial success.

Similarly, the variable "Capital Adequacy" exhibits a coefficient of 0.089 and a significance value of 0.076, indicating a non-significant association. In contrast, previous empirical studies revealed that the strong and positive relationship between capital adequacy as a credit risk management practice and the financial performance of banks and non-banks financial institutions in various economies (Kenneth, 2013; Fredrick, 2012 and Kipngetich & Muturi, 2015). Their research underscores the significant correlation between capital adequacy and financial performance. Moreover, they recommend that banks facilitate the functioning of credit bureaus to ensure a thorough evaluation of the financial creditworthiness of loan applicants. In synthesis, the findings indicate that "Risk Identification" and "NPL Identification" positively affect financial performance, while "Risk Analysis" and "Capital Adequacy" do not exhibit significant impacts.

Conclusion

The study underscores the critical role of credit risk management in determining the financial performance of People's Leasing and Finance PLC branches in Colombo district, Sri Lanka. It highlights the positive relationships between risk identification and analysis practices and financial performance, emphasizing the crucial importance of effective risk identification and analysis in driving financial success. Additionally, the study emphasizes the positive influence of identifying NPLs on financial performance and the necessity for effective NPL management. While the study did not find a direct impact of capital adequacy on financial performance, it stresses the importance of capital adequacy in ensuring financial stability. These findings provide valuable insights for Peoples Leasing and Finance PLC and similar institutions to enhance their credit risk management practices to achieve their financial performance objectives.

Based on the study's findings, future research in credit risk management and financial performance could explore additional areas of interest. Conducting a comparative analysis between Peoples Leasing and Finance branches and other non-bank financial institutions in Sri Lanka could yield valuable insights into the effectiveness of credit risk management practices across institutions. Comparing the financial performance of Peoples Leasing and Finance branches to that of their industry peers would help identify credit risk management best practices and areas for improvement. The study primarily focused on internal credit risk management elements, and future research could explore the impact of external factors, such as macroeconomic indicators, regulatory frameworks, and market conditions, on the relationship between credit risk management and financial performance. Understanding how these external factors interact with credit risk management practices would provide a more comprehensive understanding of financial performance dynamics.

Figures and Tables

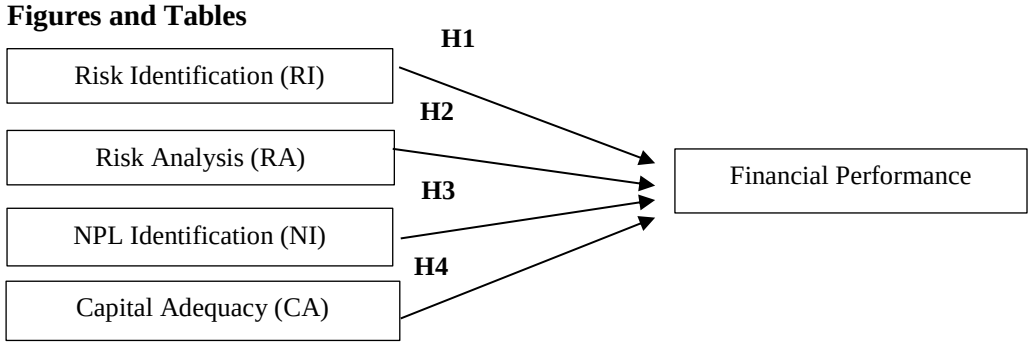

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Figure 1: Conceptual framework

Source: Developed by Authors

Table 01: Reliability Statistics

Variable	Cronbach's Alpha
Risk identification	.8265
Risk analysis	.7388
Non-performing loan	.7283
Capital Adequacy	.8397

Source: Survey data (Developed by Authors)

Table 02: Descriptive Statistics of Dependent and Independent Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Risk Identification (RI)	152	1	5	3.04	.431
Risk Analysis (RA)	152	1	5	2.56	.421
NPL Identification (NI)	152	1	5	2.30	.534
Capital Adequacy (CA)	152	1	5	2.83	.383
Financial Performance (FP)	152	1	5	2.87	.406
Valid N (list wise)	152				

Source: Survey data (Developed by Authors)

Table 03: Correlations Analysis

		FP	**RI**	**RA**	**NI**	**CA**
FP	Pearson Correlation	1	.859**	.457**	.649**	.575**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	152	152	152	152	152
RI	Pearson Correlation	.859**	1	.363**	.501**	.484**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	152	152	152	152	152
RA	Pearson Correlation	.457**	.363**	1	.494**	.422**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	152	152	152	152	152
NI	Pearson Correlation	.649**	.501**	.494**	1	.593**

	Sig. (2-tailed)	.000	.000	.000		.000
	N	152	152	152	152	152
CA	Pearson Correlation	.575**	.484**	.422**	.593**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	152	152	152	152	152
****. Correlation is significant at the 0.01 level (2-tailed).**						

Source: Survey data (Developed by Authors)

Table 04: Model Summary

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	.900	.809	.804	.180	.809
a. Predictors: (Constant), Capital Adequacy, Risk analysis, Risk identification, NPL identification					
b. Dependent Variable: Financial Performance					

Source: Survey data (Developed by Authors)

Table 05: ANOVA

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	20.128	4	5.032	155.816	.000[b]
	Residual	4.747	147	.032		
	Total	24.876	151			

Source: Survey data (Developed by Authors)

Table 6: Coefficient of Determination

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
	(Constant)	.113	.133		.853	.395
	Risk identification	.642	.041	.682	15.687	.000
	Risk analysis	.059	.041	.061	1.447	.150
	NPL identification	.172	.037	.226	4.612	.000
	Capital Adequacy	.089	.050	.084	1.790	.076

Source: Survey data (Developed by Authors)

Table 07: Hypothesis Testing Results

Hypotheses	β value	p-value	Decision
H1: There is a relationship between risk identification and financial performance	0.682	0.000	Supported
H2: There is a relationship between risk analysis and financial performance	0.061	0.150	Not supported
H3: There is a relationship between NPL identification and financial performance	0.226	0.000	Supported
H4: There is a relationship between capital adequacy and financial performance	0.084	0.076	Not supported

Source: Developed by Author

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