

The Effect of Credit Risk Management on Shareholder Value: With Special Reference to Licensed Commercial Banks in Sri Lanka

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Abstract

This study investigates the effect of credit risk management on the shareholder value of the licensed commercial banks in Sri Lanka. The banking industry is facing enormous challenges due to various risk categories exposed by banks such as credit risk, operational risk, market risk, control risk, liquidity risk, reputational risk, IT risk, legal risk and strategic risk. Among those credit risk has a significant effect on the shareholder value. In the world context researchers found that there is an effect of credit risk management on the shareholder's value. But in the Sri Lankan context there are a few studies investigated in this important research problem. So, the findings of this study offers a better understanding on the status of the effect of credit risk management on the shareholder value of licensed commercial banks in Sri Lankan context. The sample comprises 20 licensed commercial banks encompassing ten years (from 2009/2010 to 2018/2019). The secondary data extracted from audited financial statements and annual reports of banking institutions and analysed using the multiple regression. The findings of this current study will be beneficial for decision making parties in the banking sector, on deciding how to sustain their performance efficiently and effectively by achieving the shareholder value. Further this will be beneficial for the parties who are interested in conducting studies related to credit risk management and shareholder value.

Keywords: Credit risk, Credit risk management, Licensed Commercial Banks, Shareholder Value, Sri Lanka