

Credit Risk Management and Shareholder Value Creation: With Special Reference to Listed Commercial Banks in Sri Lanka

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The main aim of this study is to investigate the effect of credit risk management on the shareholder value in listed commercial banks in Sri Lanka. The research has used only the secondary data for the purpose of the analysis and the sources of data include the annual reports of selected quoted public banks in Sri Lanka. This study employed return on shares to measure the shareholder value while non-performing ratio, capital adequacy ratio and loans to deposits ratio have been used as the indicators of the credit risk management of the banks. Regression models were employed to do the empirical analysis. Further the output obtained from the SPSS package was used to interpret the findings. The findings reveal that credit risk management has a significant effect on shareholder value in all eight banks. Among the three credit risk management indicators, Non-Performing Loan Ratio (NPLR) has the most significant effect on the return on shares. Through the results of the study, it can be concluded that null hypothesis can be rejected since there is a significant relationship between credit risk management and shareholder value.

Keywords: *Credit Risk Management, Shareholder Value, Listed Banks, Non-Performing Loan Ratio, Capital Adequacy Ratio, Loans to Deposits Ratio*

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