IMPACT OF CORPORATE GOVERNANCE ON RISK TAKING AND PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled " **IMPACT OF CORPORATE GOVERNANCE ON RISK TAKING AND PROFITABILITY OF COMMERCIAL BANKS IN NEPAL**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Asso. Prof. Rita Maskey of Shanker Dev Campus, T.U.

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Though management accounting is a new evolving phenomenon of accounting concept in modern business world, whatever the tools and techniques have been developed, are accepted as the inevitable management instruments for effective, efficient and rational decision-making. Realizing this fact, an attempt has been made in this thesis to shed light on the present practice of management accounting tools and techniques in commercial banks of Nepal.

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ABBREVIATIONS

ADB-	Asian Development Bank
ASEAN -	Association for Southeast Asian Nations
MBS -	Master’s in business administration
NEPSE -	Nepal Stock Exchange
NPL -	Non-performing Loan
NRB -	Nepal Rastra Bank Aq
OECD -	Organization for Economic Co-operation and Development
ROA -	Return on Assets
ROE -	Return on Equity
WB -	World Bank

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Corporate governance has been emerging as one of the screening tools for both financial and non-financial organizations as a series of corporate frauds happened in developed and underdeveloped countries. The fraud brought negative effects to the corporate performance and stakeholders' interest, and even made some firms go bankrupt. The organization's failure to address governance in many circumstances created the worst condition. For example, As presented in the CSR journal (2020), YES Bank of India began as a non-bank financial corporation (NBFC) in 1999 and expanded into a full-fledged bank in 2003. Former Managing Director and CEO Rana Kapoor was known for propping up the market by agreeing to distribute loans to corporate borrowers rejected by other banks, and his board members were continuously fighting for the top slot. The bank would levy a hefty upfront cost, and most borrowers were willing defaulters. Yes, Bank's financial position has been steadily deteriorating, owing to the bank's failure to raise capital to handle possible loan losses and subsequent downgrades, as well as investors' invocation of bond covenants and withdrawal of deposits. In recent years, the bank has also faced major governance concerns and procedures, which have contributed to its continuous collapse. The RBI worked closely with the bank's management to identify methods to improve the bank's balance sheet and liquidity. The bank's management told the RBI that it was in talks with several investors and that they were likely to succeed.

Furthermore, in many cases, the failure of the organization to handle governance caused the worst situation. One-Tel, for example, was a big company in bankruptcy in Australia in 2001, according to Monme (2001). It was Australia's fourth largest telecommunications firm at the time of its demise, with over two million users and activities in eight countries. Numerous academics and their studies of quantitative and qualitative data imply that One-is Tel's a classic case of unmet expectations, strategic errors, incorrect pricing policy, and unfettered growth. The company's corporate

governance had major flaws, including insufficient and inappropriate internal controls, financial reporting, and audit quality, board oversight of management, inadequate internal communications, and unreasonable CEO remunerations.

Banking oversight will be hampered if there is a lack of good corporate governance (Heidi & Marleen, 2003). Good corporate governance, according to Fanta, Kemal, and Waka (2013), improves economic efficiency and growth while also increasing investor trust by increasing access to external finance, lowering the cost of capital, and improving operational performance. As a result, excellent corporate governance can be argued to contribute to increased firm value as well as improved business performance.

Organizational transparency, financial disclosure, independence, board size, board composition, board committees, board diversity, and directors' fiduciary duties have all been identified as cornerstones of good governance practices today. The World Bank, the International Monetary Fund (IMF), and the Organization for Economic Co-operation and Development (OECD) all have these variables on their key agendas (Inyanga, 2009, & Shungu et al., 2014). Furthermore, these organizations believe that informed corporate governance norms are crucial in assisting emerging nations in regaining competitiveness, regaining investor trust, and promoting long-term economic progress (Reddy, 2001; Koufopoulos, 2006; as cited in Nyanga, 2009). Banks' corporate governance is of critical importance to both the banks and the financial regulators. Listed banks and even non-listeds institutions around the world have begun to openly emphasize the need of excellent corporate governance, even adopting customized corporate governance codices, over the last decade.

In a study based on Sri Lankan companies, (Lakshan and Wijekoon (2012) found that the outside director ratio, the presence of an audit committee, and board member remuneration have negative effects on the likelihood of corporate failure, while board size, auditor's opinion, and outside ownership appear to be unrelated to failure status. Most crucially, CEO dualism is associated with a higher risk of business failure. Greater shareholder rights result in higher growth rates, higher profitability, and a

cheaper cost of capital, according to empirical research. Shareholders' rights are frequently assessed once a company's laws and regulations are implemented (Gompers, Ishii and Metrick, et. al; 2009).

The Nepal Rastra Bank (2010), Nepal's central bank, enacted regulations requiring financial institutions to adhere to corporate governance standards, increasing public trust. The Nepal Rastra Bank now has a strong legal framework for overseeing financial organizations, thanks to the Banking Act of 2014. It has been noted that the licensing function has been suspended; nevertheless, the merger procedure has begun because each bank must raise its capital to Rs 8,000 million. The bank should either issue right shares or merge with another financial organization to increase this amount. Furthermore, the Banking Act requires financial institutions to publish their financial statements every quarter for the public's benefit. This has aided in the instillation of discipline and strong corporate governance among financial organizations significantly (Nepal Rastra bank, 2010).

A company listed on the Nepal Stock Exchange with a paid-up capital of rupees thirty million or more, or a company owned entirely or partially by the government of Nepal, should form an audit committee of at least three members, chaired by a director who is not involved in the day-to-day operations of the company. Company Act (2006, Clause 164) Organization for Economic Co-operation & Development OECD (2004) establishes certain principles of corporate governance, which have been adopted by member countries. As per OECD, corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. The Organization for Economic Cooperation and Development (OECD) is an intergovernmental economic organization with 38 member countries that was established in 1961 to promote economic development and global trade.

Corporate governance principles are divided into six categories by the Organization for Economic Cooperation and Development (OECD): a) establishing the foundation for a sound corporate governance structure; b) Shareholder rights and essential ownership functions; c) equity treatment of shareholders; d) stakeholders' role in

corporate governance; e) disclosure and openness f) The board's responsibilities (OECD, 2004). The way firms are governed and for what purpose is referred to as corporate governance. It establishes who has authority and responsibility, as well as who makes decisions. It is a toolset that helps management and the board of directors' cope more successfully with the issues of running a business. Corporate governance ensures that organizations have adequate decision-making procedures and controls in place to balance the interests of all stakeholders (shareholders, employees, suppliers, customers, and the community). Corporate governance is the process of determining and pursuing a company's objectives in the context of the social, regulatory, and market environment. It is concerned with strategies and methods for ensuring that a company is run in such a way that it achieves its goals while also giving stakeholders trust in the organization's dependability. The act or practice of ruling is simply referred to as "governance." In the organized corporate sector, it is the technique through which an organization is directed or controlled. The effectiveness of corporate governance has a substantial impact on how efficiently a firm function. According to general observation, businesses that have figured out how to successfully arrange their activities have flourished and remained prosperous. Similarly, it is common to criticize poor performance on boards of directors that have failed to appropriately address the difficulties that their companies are facing.

The benefit of effective corporate governance is for building a better reputation, higher credit rating, reducing risk through effective board control, higher stock valuation, mitigation of non-diversifiable risk, operational performance improvements, reduction in investment risk, improvement in capital efficiency, reduction in the cost of capital, and improving access to capital markets, (Beasley, 1996; Lal, & Reddy, 2011; Botosan, & Marlene, 2002 as cited in Madhani, 2012). In support of these scholars, the report of the committee on financial aspects of corporate governance (the UK Cadbury Code, London 1992) argues that corporate governance is necessary for improving capital access, improving organizational performance, adding value to stakeholders, including the community, and reducing investment risk. These above-mentioned benefits of successful corporate governance should be

considered in banks as well as other firms to improve the performance of the banks This study also focuses on the effects of failure of corporate governance. In recent years, the banks failing to organize effective corporate governance are either acquired by the reputed banks or been merged into other banks to sustain and adapt in the new banking environment.

1.2 Profile of Sample Organization

The profile of sample organization of the study is given as follows:

Everest Bank Limited (EBL):

Everest Bank Limited (EBL) is one of the leading commercial banks in Nepal, offering a wide range of banking and financial services to its customers. Established in 1994, EBL has a strong presence across the country with a network of branches and ATMs. The bank is known for its customer-centric approach, innovative banking solutions, and commitment to excellence in service delivery. EBL caters to various segments including retail, corporate, and SMEs, providing tailored financial products and solutions to meet the diverse needs of its clientele.

Nepal Bank Limited (NBL):

Nepal Bank Limited (NBL) is the oldest and largest commercial bank in Nepal, with a rich legacy dating back to 1937. As a pioneer in the banking industry, NBL has played a significant role in the economic development of the country by providing comprehensive banking services to individuals, businesses, and government entities. With a wide network of branches and ATMs, NBL serves as a key financial institution in Nepal, offering a range of products and services including deposits, loans, remittance, and international banking.

Nepal Investment Bank Limited (NABIL):

Nepal Investment Bank Limited (NABIL) is a premier commercial bank in Nepal, renowned for its innovative banking solutions, superior customer service, and strong

corporate governance practices. Established in 1986, NABIL has emerged as a leading player in the Nepalese banking sector, catering to the diverse financial needs of its customers. The bank offers a comprehensive suite of banking products and services, including retail and corporate banking, investment banking, and international banking, to individuals, businesses, and institutions.

Prime Commercial Bank Limited (PCBL):

Prime Commercial Bank Limited (PCBL) is a dynamic commercial bank in Nepal committed to providing innovative banking solutions and exceptional customer service. Since its inception in 2007, PCBL has rapidly grown its presence in the Nepalese banking industry, offering a wide range of financial products and services tailored to the evolving needs of its clients. With a focus on technology-driven banking and strategic partnerships, PCBL aims to be a trusted financial partner for individuals, businesses, and communities across Nepal.

Sanima Bank Limited (SANIMA):

Sanima Bank Limited (SANIMA) is a progressive commercial bank in Nepal known for its strong commitment to integrity, transparency, and customer satisfaction. Established in 2004, SANIMA has quickly established itself as a trusted financial institution, offering a comprehensive range of banking services including retail banking, corporate banking, SME banking, and international banking. With a network of branches and ATMs nationwide, SANIMA is dedicated to fostering economic growth and prosperity in Nepal.

Kumari Bank Limited (KBL):

Kumari Bank Limited (KBL) is a customer-focused commercial bank in Nepal, dedicated to providing innovative banking solutions and personalized services to its clients. Founded in 2001, KBL has grown steadily to become a prominent player in the Nepalese banking sector, offering a wide array of financial products and services such as deposits, loans, remittance, and trade finance. With a strong emphasis on

digital banking and financial inclusion, KBL aims to enhance the banking experience for its customers across the country.

Agricultural Development Bank Limited (ADBL):

Agricultural Development Bank Limited (ADBL) is a specialized commercial bank in Nepal focused on promoting agricultural development and rural prosperity. Established in 1968, ADBL plays a vital role in providing financial support and services to farmers, agribusinesses, and rural communities across Nepal. The bank offers a range of agriculture-focused financial products and services, including crop loans, livestock loans, agro-processing loans, and rural infrastructure development loans, to foster sustainable agricultural growth and livelihood improvement.

Himalayan Bank Limited (HBL):

Himalayan Bank Limited (HBL) is a leading commercial bank in Nepal, known for its strong commitment to innovation, efficiency, and customer service excellence. Established in 1993, HBL has emerged as a trusted financial partner for individuals, businesses, and institutions, offering a comprehensive suite of banking products and services. With a focus on digital transformation and financial inclusion, HBL aims to drive economic growth and empower communities across Nepal.

Siddhartha Bank Limited (SBL):

Siddhartha Bank Limited (SBL) is a progressive commercial bank in Nepal, dedicated to providing innovative banking solutions and superior customer service. Founded in 2002, SBL has expanded its footprint across the country, offering a wide range of banking products and services tailored to the diverse needs of its customers. The bank is committed to leveraging technology and strategic partnerships to enhance financial inclusion and drive sustainable growth in Nepal.

Machapuchchhre Bank Limited (MBL):

Machapuchchhre Bank Limited (MBL) is a dynamic commercial bank in Nepal committed to providing efficient banking services and fostering economic development. Established in 2011, MBL has rapidly grown its network of branches and ATMs, offering a comprehensive range of banking products and services to individuals, businesses, and institutions. With a focus on customer satisfaction and innovation, MBL aims to be a preferred banking partner for its clients across Nepal.

1.3 Issues of the Topic

In the realm of banking, corporate governance stands as a pivotal determinant of organizational performance and stability. Nepal has witnessed a concerning trend of bank failures over the past decade, raising questions about the efficacy of existing corporate governance frameworks within the sector. The repercussions of these failures extend beyond individual banks, shaking the broader economic landscape and eroding investor confidence. Despite numerous studies highlighting the correlation between corporate governance and firm performance, the specific dynamics within Nepalese commercial banks warrant further investigation.

While prior research has underscored the significance of corporate governance in enhancing the performance and value of banks, there remains a gap in understanding its nuanced impact within the context of Nepalese commercial banks. Moreover, existing studies have primarily focused on state corporations, cooperative organizations, and companies listed on the Nepal Stock Exchange (NEPSE), leaving a dearth of comprehensive analysis within the commercial banking sector. Given the pivotal role of commercial banks in the Nepalese economy, it is imperative to explore the intricacies of corporate governance practices within this domain.

This study seeks to address these gaps by examining the specific relationship between corporate governance, risk-taking behavior, and profitability within Nepalese commercial banks. By delving into the mechanisms through which corporate governance influences risk management strategies and financial performance, this

research aims to provide actionable insights for policymakers, regulators, and industry practitioners. The findings are expected to inform the development of targeted interventions aimed at strengthening corporate governance frameworks within the commercial banking sector, thereby fostering a more resilient and sustainable financial ecosystem in Nepal.

Furthermore, beyond the immediate implications for the banking sector, the study recognizes the broader socio-economic ramifications of robust corporate governance practices. By promoting transparency, accountability, and investor confidence, effective corporate governance can catalyze economic development, attract foreign investment, and mitigate systemic risks. Conversely, weak governance mechanisms may perpetuate vulnerabilities, hinder capital market development, and undermine long-term growth prospects.

Given the essential role that corporate governance plays in influencing the performance and stability of commercial banks, this study seeks to delve deeper into the specific dynamics within Nepalese financial institutions. Recognizing the critical need for a thorough knowledge of corporate governance procedures in this setting, our research investigates the impact of important governance variables on risk-taking behavior and profitability. By concentrating on variables such as board size, frequency of board meetings, board independence, audit committee size, and bank size, we want to uncover the complex relationship between governance systems and bank performance. We hope to give actionable insights that can inform policy decisions and strategic changes targeted at strengthening Nepal's commercial banking sector's resilience and sustainability.

Research Questions:

- What are the factors of corporate governance that affect profitability and risk-taking behavior of commercial banks in Nepal?
- What is the relationship between factors of corporate governance, profitability, and risk-taking behavior of commercial banks in Nepal?

- What is the impact of factors of corporate governance on profitability and risk-taking behavior of commercial banks in Nepal?

1.4 Objectives of the study

The main objective of this study is to investigate the impact of corporate governance on risk-taking behavior and profitability in Nepalese commercial banks. The specific objectives of the study are as follows:

- To explore factors of corporate governance that affect profitability and risk-taking behavior of commercial banks in Nepal.
- To analyze the relationship between factors of corporate governance, profitability, and risk-taking behavior of commercial banks in Nepal.
- To analyze the impact of factors of corporate governance on profitability and risk-taking behavior of commercial banks in Nepal.

1.5 Hypotheses

This study is about the impact of corporate governance in the banking performance of the commercial banks. The possible hypothesis drawn to examine the association of corporate governance in the banking performance of the banks are as follows: -

H1: There is a significant relationship between board size and banking performance of the commercial bank.

H2: There is a significant relationship between frequency of board meeting and banking performance of the commercial bank.

H3: There is a significant relationship between board independence and banking performance of the commercial bank.

H4: There is a significant relationship between audit committee size and banking performance of the commercial bank.

H5: There is a significant relationship between bank size and banking performance of the commercial bank.

H6: There is a significant relationship between board size and risk taking of the commercial bank.

H7: There is a significant relationship between frequency of board meeting and risk taking of the commercial bank.

H8: There is a significant relationship between board independence and risk taking of the commercial bank.

H9: There is a significant relationship between audit committee size and risk taking of the commercial bank.

H10: There is a significant relationship between bank size and risk taking of the commercial bank.

1.6 Significance of the study

Due to a rise in documented examples of frauds, insider trading, agency conflicts, and other business sagas, many government leaders around the world are concerned about corporate governance (Enobakhare, 2010). Recently, there has been a surge in interest among scholars worldwide in corporate governance and commercial bank performance, as seen by an explosion of corporate governance research (Adams, 2012; Adams, Hermalin & Weisbach, 2008). The notion of corporate governance has piqued public interest in recent years, owing to its potential impact on a corporation's overall economic health. As the financial crisis draws to a close, authorities, governments, and academics are increasingly focusing on corporate governance to boost investor trust and attract more fund employment in business. Evidence implies that bad governance causes enterprises in developing nations to be undervalued in financial markets (LaPorta, Lopez-de-Silanes, Shleifer, and Visny, 2000). As a result, better corporate governance can boost investor trust and strengthen these companies'

access to financial markets (Rajagopalan and Zhang, 2009). It is no longer enough for a corporation to be profitable; it must also demonstrate excellent corporate citizenship through environmental awareness, ethical behavior, and sound corporate governance.

In general, corporate governance in non-financial industries necessitates the wise and careful use of the firm's resources to increase corporate value, boost employee morale, maintain market discipline, and, in the end, sustain the company. As a result, corporate governance is correctly described as the methods by which financial and commodities suppliers ensure that they will obtain a fair return on their investment (Shleifer and Vishny, 1997). If this condition does not exist, outside investors will be hesitant to purchase the firm's stock. As a result, corporations will be forced to use internal resources to pursue successful investment opportunities. If this is the case, overall performance will most certainly deteriorate, and employees and customers will likely seek employment with other companies in the industry. The system of accountability among shareholders, boards of directors, and the management of a corporation is known as corporate governance (Lusaka, 2005). The decision-making process must be held accountable to achieve strategic company objectives. He also included the elements of good corporate governance, such as fairness, openness, accountability, and responsibility, as minimum norms that can provide optimum protection from financial crises and increase capital availability. Transparency independence, accountability, discipline, justice, and social responsibility are all essential criteria in excellent corporate governance, according to a new investigation.

Given the critical role banks play in developing economies' financial systems and the numerous banking reforms that these economies have enacted, corporate governance is a critical problem (Arun & Turner, 2002). Because of the special nature and functioning of financial institutions, this is even more important. It is critical for 7 financial institutions to adopt sound corporate governance practices and avoid negligence when dealing with depositors' funds (Khurana, 2012). Stakeholders, particularly depositors, suffer when banks and financial organizations evolve via faults, blunders, manipulations, and wrongdoing. As a result, it is critical to analyze failures and take lessons from them to make the required corrections, safeguards, and

restrictions. Moreover, the financial sector's survival and stability are dependent on the strength of its governance system. Most financial institution failures have been caused by misappropriation of funds and financial record manipulation by the board of directors and top management. Lack of transparency and disclosure is also one of the major reasons of corporate scandals and failures that have a negative impact on the economy the public's belief in the reliability of financial companies' disclosure methods The varied position of banks and financial institutions in the country's economic system has drawn increased regulatory attention to promote good corporate governance and handle the risks that banks and financial institutions confront. If a single financial institution fails, the financial system will collapse, having a significant influence on the country's economic climate (Adhikari, 2014).

1.7 Limitations of the study

This research has its own limitations, assumptions, and scope in different areas of the market. This research is limited because of resource and time constraints. Some of the limitations are:

- Due to limitations in resources and time, the scope of the study may be restricted, potentially impacting the depth and breadth of analysis.
- The findings of the study may have limitations in terms of generalization and representation of the entire population of Nepalese commercial banks, as the sample size and selection process may not fully capture the diversity within the sector.
- The study relies on secondary sources of data for corporate governance practices in Nepalese commercial banks, which may introduce limitations related to data accuracy, completeness, and reliability.
- By focusing solely on commercial banking, the study may not provide insights that can be generalized to the entire banking industry in Nepal, potentially overlooking nuances specific to other banking sectors.

CHAPTER TWO: LITERATURE REVIEW

The significance of corporate governance extends beyond traditional business practices and has become increasingly pivotal in navigating the complexities of the modern economy. With economies evolving towards information and technology-driven landscapes, corporate governance processes emerge as crucial determinants of a corporation's current and future performance, as well as its overall value and growth trajectory. The heightened focus on corporate governance marks a notable shift in contemporary business paradigms, reflecting a recognition of its instrumental role in shaping organizational outcomes. Indeed, improvements in corporate governance standards are widely acknowledged as fundamental pillars underpinning both a country's economic stability and a corporation's long-term viability (Ibrahim & Rehman, 2010). In the wake of the global financial crisis and high-profile corporate failures that reverberated across major financial centers worldwide, the importance of robust corporate governance practices has been magnified (Imam and Malik, 2007). This chapter presents a comprehensive literature review, offering a scholarly foundation for the arguments articulated in this research report. By contextualizing the research within existing scholarly debates, the literature review provides readers with insight into the evolving discourse surrounding corporate governance. Typically situated as a precursor to the main body of the report, the literature review serves to frame the research inquiry and elucidate its alignment with prior scholarship on the subject matter.

2.1 Introduction

The term "corporate governance" draws its analogy from the governance structures observed in cities, nations, or states, as well as those in companies. Early literature in corporate finance highlighted the concept of "representative government" (Mead, 1928, p. 31) as a distinguishing advantage of corporations over partnerships. However, there remains ongoing debate regarding the extent of representativeness in corporate governance and the stakeholders it should prioritize representing.

Corporate governance is a hot topic for research and discussion. The recent extension of "shareholder value" concepts and institutional investment, the formation of best-practice guidelines for boards of directors, and the debate over whether market-oriented or bank-relations-oriented systems are better for economic performance are all good examples. The debate's result is crucial for developed countries, emerging countries, and transition economies. The book reviews the literature on the subject, criticizes the traditional agency viewpoint, and offers ideas and analysis on the role of competition, the political economy of corporate governance, the effects of various systems on growth and performance, venture capital's governance system in Silicon Valley, and human capital and control in the new corporation (Vives, 2000).

Corporate governance is concerned with resolving challenges of collective action among dispersed investors and reconciling conflicts of interest among diverse corporate claimholders. We explore the theoretical and empirical studies on the key methods of corporate control in this study, as well as the important legal and regulatory institutions in different countries and the comparative corporate governance literature. This analysis reveals a basic paradox of corporate governance: while regulation of major shareholder participation may give greater protection to small owners, it may also enhance managerial discretion and the potential for abuse (Becht & Bolton, 2003).

2.2 Literature Review

Rastogi et al. (2022) examine the impact of competition on the profitability and risk-taking of commercial banks in India. Employing dynamic and static panel data analysis on data spanning from 2015 to 2019, the study finds no significant impact of competition on banks' profitability. However, the results concerning risk-taking are mixed, suggesting that overall competition may not significantly affect bank performance in India.

Hunjra et al. (2021) investigate the impact of diversification, corporate governance, and capital regulations on bank risk-taking in Asian emerging economies. Analyzing data from 116 listed banks across ten Asian emerging economies for the years 2010-2018, the study employs the generalized method of moments. The findings suggest that diversification, board size, CEO duality, board independence, block holders, and capital regulations significantly affect bank risk-taking. Specifically, nontraditional income sources and diversification strategies are found to minimize bank risk-taking, highlighting the importance of effective corporate governance practices in managing risk.

Oluwole (2021) investigates the impact of corporate governance on the profitability of commercial banks in Nigeria. Using fixed-effect regression analysis on data from three selected banks covering the period 2009-2018, the study finds a positive and significant relationship between certain corporate governance metrics (audit committee size, board size, and board number of meetings) and earnings per share (EPS). However, it also identifies a negative and significant relationship between audit committee number of meetings and EPS, suggesting that an increase in this metric adversely affects bank profitability. The study concludes that adherence to corporate governance standards enhances commercial banks' performance and recommends policy measures to ensure compliance.

Abid, Gull, Hussain, and Nguyen (2021) investigate the relationship between risk governance mechanisms and bank risk-taking behavior in Asian commercial banks in the post-global financial crisis period. The study focuses on how the characteristics of risk committees and Chief Risk Officers (CROs) influence risk-taking behavior. Utilizing a sample comprising 1480 observations representing 185 banks from the years 2010 to 2017, the study employs regression analysis to examine the impact of risk governance mechanisms on risk-taking behavior. The results reveal a negative and significant relationship between risk governance mechanisms and risk-taking, indicating that effective risk governance helps mitigate excessive risk-taking behavior in Asian banks. Moreover, the study finds that this negative relationship is more pronounced in privately-owned banks (POBs) compared to state-owned banks

(SOBs). Additionally, risk governance mechanisms positively influence the performance of POBs but have no significant impact on the performance of SOBs. This suggests that effective risk governance not only curbs excessive risk-taking but also improves risk management effectiveness and overall performance, particularly in privately-owned banks. The findings underscore the importance of robust risk governance mechanisms in Asian banks, as they play a crucial role in enhancing risk management practices and ultimately contribute to improved bank performance. Moreover, the study highlights the differences in the impact of risk governance mechanisms between privately-owned and state-owned banks, suggesting the need for tailored risk management strategies based on ownership structure.

Wadesango, Mhaka, Mugona, and Haufiku (2020) investigate the effects of corporate governance on the financial performance of commercial banks within a turbulent economic and political environment, focusing on Zimbabwe as a case study. The study aims to examine how board size, board composition, audit committee effectiveness, and leverage ratios influence the financial performance of commercial banks under different economic and political conditions. Employing an explanatory research design, the study utilizes return on equity (ROE) as a measure of bank performance and collects secondary data from the annual reports of 5 out of 13 commercial banks regulated by the central bank of Zimbabwe. The data covers the period from 2010 to 2017, which is divided into two sub-periods: 2010-2013, representing a relatively stable economic and political environment, and 2014-2017, characterized by high political and economic volatility. The findings reveal that the corporate governance measures examined significantly predict the financial performance of commercial banks in Zimbabwe. Specifically, board size, board composition, the effectiveness of subcommittees, and leverage are identified as significant factors influencing the profitability of commercial banks in both stable and turbulent environments.

Pradhan et al. (2020) investigate the effect of corporate governance on risk-taking and profitability of Nepalese commercial banks. Using data from 25 banks over the period 2012/13 to 2016/17, the study employs regression analysis and finds positive

correlations between certain corporate governance variables (such as board meeting frequency, female directors, board independence, and audit committee size) and return on assets (ROA). However, it also notes a negative correlation between board size and ROA. The study reveals mixed results regarding the impact of corporate governance on risk levels, emphasizing the importance of variables such as board independence and total assets in determining bank performance. The findings of the study revealed several significant relationships. Board meetings, presence of female directors, board independence, members in the audit committee, and total assets were found to be positively correlated with Return on Assets (Pradhan et al., 2020). This indicates that an increase in these variables leads to an increase in Return on Assets. However, board size was negatively correlated with Return on Assets. Additionally, board size, presence of female directors, board independence, and members in the audit committee were positively related to the risk level, while board meetings and total assets were negatively related to the risk level. This suggests that an increase in these variables leads to an increase in the risk level, except for board meetings and total assets, which lead to a decrease in the risk level (Pradhan et al., 2020).

Otero, Alaraj, and Lado-Sestayo (2019) investigate the relationship between corporate governance and risk-taking behavior of banks in the Middle East and North African (MENA) countries. The study aims to shed light on how governance structures influence banks' risk-taking behaviors, considering the unique socio-economic and regulatory context of the MENA region. Utilizing a dataset covering 165 banks across 13 MENA countries over the period 2005-2012, the authors employ dynamic panel data methodology to analyze the relationship between corporate governance mechanisms and bank risk-taking. The findings of the study reveal several important insights. Firstly, the results suggest that good corporate governance practices, when aligned with shareholder interests, can potentially lead to excessive risk-taking behavior by banks. This implies a conflict of interest between stakeholders concerned with financial system solvency and shareholders seeking to maximize their returns. Moreover, the study highlights the role of macro governance frameworks and country-level governance in incentivizing higher risk exposure by banks. Specifically,

the governance environment of a country, including regulatory frameworks and law enforcement, can significantly influence the level of risk-taking by banks operating within that jurisdiction. Overall, the study contributes to the literature by providing evidence of the relevance of corporate governance in explaining risk-taking behaviors at both the country and bank levels in MENA countries. This underscores the importance of considering governance structures and regulatory environments when analyzing bank risk-taking activities in the MENA region.

Okoye et al. (2016) examine the impact of corporate governance on the profitability of the Nigerian banking sector. Using return on equity (ROE) and return on assets (ROA) as proxies for profitability and metrics such as capital adequacy ratio (CAR) and liquidity ratio (LQR) as proxies for corporate governance, the study finds a significant positive relationship between corporate governance and bank profitability. The authors recommend strict regulatory oversight to ensure compliance with corporate governance regulations, thereby enhancing the gains achieved in the sector.

Rahman, Uddin, and Moudud-Ul-Huq (2015) investigate the factors affecting the risk-taking behavior of commercial banks in Bangladesh. The study explores various determinants of bank risk, including capital regulation, profitability, bank size, liquidity, off-balance sheet activities, charter value, dividend payout ratio, and macroeconomic variables. Utilizing data from 30 Bangladeshi commercial banks spanning the period from 2005 to 2013, the study employs the Generalized Methods of Moments (GMM) in an unbalanced dynamic panel data framework to analyze the relationship between the aforementioned factors and bank risk, encompassing both credit risk and overall risk. The empirical findings reveal several noteworthy relationships. Firstly, there is a negative relationship between credit risk and capital regulation, indicating that stricter capital regulations are associated with lower credit risk. However, the relationship between overall risk and capital regulation is mixed, suggesting that the impact may vary depending on specific circumstances. Secondly, profitability is found to have a negative association with credit risk but a positive association with overall risk. This implies that more profitable banks may take on more overall risk while managing credit risk effectively. Thirdly, larger banks are

observed to take higher levels of both credit and overall risk, indicating a potential trade-off between risk-taking and bank size. Additionally, off-balance sheet activities are positively correlated with both credit and overall risk, suggesting that these activities contribute to increased risk exposure. Moreover, banks with high liquidity are found to take more credit risk, potentially reflecting a strategy to deploy excess liquidity to generate higher returns. Furthermore, a negative association is identified between credit risk and charter value, indicating that banks with higher charter value may take less credit risk. However, the relationship between charter value and overall risk yields mixed evidence. Lastly, the study finds that dividend payout ratio does not significantly impact bank risk. Overall, the study provides valuable insights into the factors influencing the risk-taking behavior of commercial banks in Bangladesh, highlighting the complex interplay between regulatory, financial, and macroeconomic factors.

Poudel & Hovey (2012) investigate the influence of corporate governance on the efficiency of Nepalese commercial banks. Board size, independence, and diligence, Audit Committee size, independence, and diligence, and ownership structure are all examples of corporate governance factors considered. The non-performing loan variable is used to determine the efficiency of a bank. Regression analysis is employed to investigate the connection between corporate governance and bank efficiency. The findings suggest that in commercial banks, a larger board of directors and audit committee, as well as a lower frequency of board meetings and a smaller amount of institutional ownership, led to greater efficiency.

De Andres & Vallelado (2008) conducted a study on corporate governance in banking: The role of the board of directors with a sample of large international commercial banks to test hypotheses on the dual role of boards of directors. Researchers used a suitable econometric model (two-step system estimator) to solve the well-known endogeneity problem in corporate governance literature and demonstrate the empirical and theoretical superiority of system estimators over OLS and within estimators. They found an inverted U-shaped relation between bank performance and board size, and between the proportion of non-executive directors

and performance. Their results show that bank board composition and size are related to directors' ability to monitor and advise management, and that larger and not excessively independent boards might prove more efficient in monitoring and advising functions and create more value. All these relations hold after we control for the measure of performance, the weight of the banking industry in each country, bank ownership, and regulatory and institutional differences.

Wadesango, Mhaka, Mugona, and Haufiku (2020) investigate the effects of corporate governance on the financial performance of commercial banks within a turbulent economic and political environment, focusing on Zimbabwe as a case study. The study aims to examine how board size, board composition, audit committee effectiveness, and leverage ratios influence the financial performance of commercial banks under different economic and political conditions. Employing an explanatory research design, the study utilizes return on equity (ROE) as a measure of bank performance and collects secondary data from the annual reports of 5 out of 13 commercial banks regulated by the central bank of Zimbabwe. The data covers the period from 2010 to 2017, which is divided into two sub-periods: 2010-2013, representing a relatively stable economic and political environment, and 2014-2017, characterized by high political and economic volatility. The findings reveal that the corporate governance measures examined significantly predict the financial performance of commercial banks in Zimbabwe. Specifically, board size, board composition, the effectiveness of subcommittees, and leverage are identified as significant factors influencing the profitability of commercial banks in both stable and turbulent environments.

2.3 Summary of Literature Review

Table 1: Summary of Literature Review

S. N	Author	Area of Research	Results/Findings
1.	Rastogi et al. (2022)	Impact of competition on Indian bank profitability and risk	Competition has no significant impact on bank profitability. Mixed results regarding risk-taking.
2.	Oluwole (2021)	Influence of corporate governance on Nigerian bank profitability	Positive and significant relationship found between certain governance metrics (e.g., audit committee size) and earnings per share. Negative impact observed for audit committee meeting frequency.
3.	Abid et al. (2021)	Relationship between risk governance and risk-taking in Asian banks	Effective risk governance negatively correlated with risk-taking in Asian banks, especially in privately-owned banks. Positive influence on performance of privately-owned banks.
4.	Hunjra et al. (2021)	Influence of diversification, governance, and	Diversification, board size, CEO duality, and capital regulations significantly affect bank risk-

		regulations on bank risk-taking	taking. Nontraditional income sources and diversification strategies reduce risk-taking.
5..	Wadesango et al. (2020)	Effects of corporate governance on bank financial performance	Corporate governance measures significantly predict bank performance. Factors such as board size, composition, committee effectiveness, and leverage influence profitability.
6.	Pradhan et al. (2020)	Impact of corporate governance on Nepalese bank performance	Positive correlations found between certain governance variables (e.g., board independence, committee size) and return on assets. Mixed results observed for risk levels.
7.	Lisa and Hermanto (2020)	Comparative analysis of financial performance in Shariah vs. conventional banks	Conventional banks manage non-performing loans better. No significant difference in corporate governance practices between Shariah and conventional banks. Conventional banks show better profitability and liquidity ratios.
8.	Omware et al. (2020)	Relationship between corporate governance and financial	Board size, independence, education level, gender diversity, and ethnic composition

		performance in Kenyan banks	positively affect financial performance of Kenyan banks.
9.	Otero et al. (2019)	Relationship between governance and risk-taking in MENA banks	Good governance practices can lead to excessive risk-taking by banks aligned with shareholder interests. Role of macro governance frameworks emphasized in incentivizing risk-taking.
10.	Mangantar, M. (2019)	Impact of corporate governance and social responsibility on banking financial performance	Corporate social responsibility did not have a significant effect on financial performance as measured by ROA. Corporate governance also did not significantly affect financial performance. However, both social responsibility and governance had a positive direction with financial performance (Mangantar, 2019).
11.	Okoye et al. (2016)	Impact of corporate governance on Nigerian bank profitability	Significant positive relationship between corporate governance and bank profitability. Recommendations for enhanced regulatory oversight.

12.	Rahman et al. (2015)	Factors affecting risk-taking in Bangladeshi commercial banks	Capital regulations, profitability, bank size, liquidity, and off-balance sheet activities impact bank risk-taking. Trade-offs observed between credit risk, overall risk, and various bank metrics.
13.	Manini, M. M., & Abdillahi, U. A. (2015)	Influence of corporate governance measures on bank profitability	Audit committee size, board gender diversity, and bank capital had no significant influence on bank profitability in the selected sample. Board size had a negative impact on financial performance, but bank size had a beneficial one. Not all corporate governance processes were found to be important for enhancing financial performance. The study has implications for policymakers aiming to develop effective bank regulation policies (Manini & Abdillahi, 2015).
14.	Sen and Garani (2015)	Role of transparency and disclosure in corporate governance	Transparency and disclosure are important aspects of modern corporate governance mechanisms, guiding equity and debt investors. They cover

			various aspects of corporate practices, including financial and operational information openness, ownership structure transparency, and shareholders' rights disclosure (Sen & Garani, 2015).
15.	Shungu & Ngirande (2014)	Influence of corporate governance on bank performance in Zimbabwe	Board composition, board diversity, and commercial bank performance were positively associated. However, board size, board committees, and bank performance had a negative relationship. Sound corporate governance procedures are recommended to enhance performance in commercial banks (Shungu & Ngirande, 2014).
16.	Poudel, R. P., & Hovey, M. (2012)	Relationship between corporate governance and efficiency in Nepalese commercial banks	Larger board size and audit committee, lower frequency of board meetings, and smaller institutional ownership led to greater efficiency in commercial banks. The study highlights the importance of corporate governance factors in bank efficiency (Poudel & Hovey,

			2012).
17.	Chan and Lee (2010)	Impact of corporate governance on Malaysian bank efficiency	Independent directors enhance cost efficiency. Gender diversity on boards does not significantly affect cost and profit efficiency.
18.	Iwu-Egwuonwu & Chibuike (2010)	Importance of behavioral governance and accountability	Governance effectiveness relies on behavioral efficacy, emphasizing the need for authentic institutionalization of behavioral and ethical accountability within organizations. Directors are encouraged to embrace principles of behavioral governance and accountability to enhance organizational performance (Iwu-Egwuonwu & Chibuike, 2010).
19.	Bathula (2008)	Relationships between board composition and company performance	Board size, CEO duality, and gender diversity were favorably connected to company performance. Director ownership, board meetings, and the proportion of board members with PhD level education were adversely related. The age and size of the company had no

			bearing on the results (Bathula, 2008).
20.	Sandeep et al. (2002)	Impact of transparency on corporate governance	Transparency reduces information asymmetry between a firm's management and financial stakeholders, mitigating the agency problem. It includes the quality and quantity of public information on a bank's risk profile and the timing of its disclosure, among other factors (Sandeep et al., 2002).

2.4 Research Gap

Based on the empirical reviews provided, several key themes emerge regarding the relationship between corporate governance and organizational performance, particularly in the context of the banking sector. One recurring theme is the emphasis on behavioral governance and behavioral accountability, which highlights the critical role of organizational members, particularly directors, in shaping organizational outcomes through their conduct (Iwu-Egwuonwu & Chibuike, 2010). The literature underscores the importance of authentic institutionalization of behavioral and ethical accountability, suggesting that governance failures often arise from a lack of attention to these aspects, ultimately impacting organizational performance (Iwu-Egwuonwu & Chibuike, 2010). Another significant aspect highlighted in the literature is the role of corporate governance in mitigating risks and enhancing performance in the banking sector (Poudel & Hovey, 2012). Studies have shown that sound corporate governance practices, such as board composition, independence, and diligence, are associated

with greater efficiency in commercial banks (Poudel & Hovey, 2012). Additionally, the literature emphasizes the importance of board functions, including strategic planning, performance appraisal, and maintaining ethical standards, in aligning the interests of managers and shareholders (Babalola & Adedipe, 2014).

Furthermore, the impact of corporate social responsibility (CSR) and corporate governance on financial performance has been investigated, particularly in the banking sector (Mangantar, 2019). While some studies suggest a positive association between CSR, corporate governance, and financial performance, others find no significant effect on financial performance (Mangantar, 2019). However, there are gaps in the literature that warrant further exploration. One such gap is the limited understanding of how specific elements of corporate governance, such as board size, composition, and independence, interact to influence organizational performance in the banking sector. While some studies have examined individual factors, such as board size and composition, there is a need for more comprehensive research that considers the combined effects of these factors on performance outcomes (De Andres & Vallelado, 2008).

Additionally, the literature suggests conflicting findings regarding the relationship between corporate governance and risk-taking behavior in banks (Avgouleas & Cullen, 2014). While some studies find that stronger corporate governance practices are associated with reduced risk-taking, others suggest that certain governance mechanisms may encourage risk-taking behavior. This highlights the need for further research to clarify the complex relationship between corporate governance and risk management in the banking sector.

In summary, while existing literature provides valuable insights into the relationship between corporate governance and organizational performance in the banking sector, there are several gaps that need to be addressed. Future research should focus on examining the combined effects of different governance mechanisms on performance outcomes, as well as clarifying the relationship between corporate governance and risk management in banks.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methods or techniques used to find, select, process, and analyze information on a topic were known as research methodology. The methodology portion of a research report helped the reader to critically assess the study's overall validity and dependability (Sekaran & Bougie, 2016). It referred to the different sequential processes that the researcher had to take while researching an issue with specific aims. This chapter discussed analytical methods from a theoretical standpoint, as well as the collection and analysis of data and information. The procedures and methods used in research were discussed in this chapter.

3.2 Research Design

Sekaran and Bougie (2016) described research design as a blueprint or plan developed to gather, measure, and analyze data to address study questions. It serves as a comprehensive strategy outlining the methods for conducting a study. In investigating the principles of corporate governance and their impact on financial performance, an exploratory research approach was utilized. This approach aimed at exploring and uncovering information about the influence of corporate governance on financial performance. The study employed a descriptive study approach for fact-finding and gathering appropriate information. Such approaches involve systematic data collection and presentation to provide a clear understanding of the situation. Additionally, an Explanatory Research design was utilized to examine the relationships between the variables under consideration. Causal research, also known as explanatory research, was employed to identify the degree and nature of causation.

3.4 Population

The term "population" refers to the total number of units from whom data may be gathered. It is also known as the total amount of components about which we wish to

draw conclusions (Cooper & Schindler, 2006). The population for this study was drawn from the Commercial banks established in Nepal, which comprises 20 banks that are formally established under NRB. The study's population consists of commercial banks that have been licensed by the central bank.

3.4.1 Sampling Design

Sekaran and Bougie (2016), entails sampling as selecting a subset of persons or items from a population. The two types of sampling procedures are probability and non-probability sampling. Non-Probability Sampling is a sampling method in which no member has a known or equal probability of being selected, whereas Probability Sampling is a sampling technique in which no member has a known or equal chance of being selected. Non-probability sampling will be used since no chance selection approach will be used in this investigation.

3.4.2 Sampling Method

The survey samples were chosen using a convenience-based judgmental sampling approach. Convenience sampling is the practice of gathering data from individuals of the population who are readily available to do so. It is the most used type of sampling approach in exploratory research, and it is probably the greatest way to gather fundamental data fast and efficiently (Sekaran and Bougie, 2016).

3.4.3 Sample Size

There are 20 Class “A” commercial banks in Nepal. The study had taken various banks to explore the relationship between corporate governance, risk-taking and financial performance. For better generalizability, all commercial banks can be taken into the scope of the study.

For Sample Size	
Population	A Class bank in Nepal
Population Size	20 commercial banks
Selected Sample Size	10 commercial banks
Time Period	2016/17 to 2022/23 (7 years)
Total observation	70

The commercial banks under study include Everest Bank Limited (EBL), Nepal Bank Limited (NBL), Nepal Investment Bank Limited (NABIL), Prime Commercial Bank Limited (PCBL), Sanima Bank Limited (SANIMA), and Kumari Bank Limited (KBL), Agricultural Development Bank Limited (ADBL), Himalayan bank Limited (HBL), Siddhartha Bank Limited (SBL), Machapuchchhre Bank Limited (MBL), The study collected a total of 7 years of data for each listed company, covering the fiscal years 2016/17 to 2022/23. This timeframe ensured a comprehensive analysis of recent trends and developments in the selected companies. The sample size for the study was 70 observations, and the analysis involved yearly periodic tables of company data.

3.6 Data Collection

This study employed a secondary data collection method, drawing information from publicly available sources such as reports published by the Nepal Rastra Bank (NRB), Annual General Meeting (AGM) reports of commercial banks, and other published data. Secondary data collection was chosen due to its accessibility and cost-effectiveness, allowing for a comprehensive analysis of the banking sector in Nepal without the need for primary data collection. The use of secondary data sources like NRB reports ensured the reliability and validity of the data, as these sources are considered authoritative and regularly updated by regulatory bodies. Additionally,

utilizing AGM reports provided insights into the financial performance and operational activities of individual commercial banks, offering a rich dataset for analysis. By leveraging these public data sources, this study was able to conduct a thorough examination of trends and developments in the Nepalese banking sector over the specified time, contributing to a robust understanding of the research objectives.

The literature review for this study was drawn from secondary sources, including academic journals, books, and reports from reputable organizations. By synthesizing existing knowledge and findings from relevant studies, this review provided a theoretical framework and contextual background for the research. Secondary sources were selected based on their relevance to the study's focus on corporate governance, bank efficiency, and risk management in the Nepalese banking sector. Through a comprehensive review of the literature, this study aimed to build upon existing knowledge and identify gaps in the literature that could be addressed through empirical research.

3.7 Data Analysis

This study employed a variety of statistical methods to analyze the collected data, including descriptive analysis, correlational analysis, and regression analysis. Descriptive statistics were used to summarize and describe the main features of the dataset. Measures such as mean, median, standard deviation, and range were calculated to provide insights into the central tendency and dispersion of variables related to corporate governance, bank efficiency, and risk management. Correlational analysis was conducted to explore the relationships between different variables in the dataset. Pearson correlation coefficients were computed to assess the strength and direction of associations between pairs of variables. This analysis helped identify potential correlations between variables such as board size, audit committee size, bank profitability, and risk indicators like non-performing loans (NPL). Regression analysis was employed to examine the relationship between independent variables (e.g., board size, audit committee composition) and dependent variables (e.g., bank

profitability, NPL). Multiple regression models were constructed to assess the impact of various factors on bank performance and risk-taking behavior. This analysis allowed for the identification of significant predictors and the quantification of their effects on the outcome variables. By utilizing these statistical techniques, this study aimed to provide a comprehensive understanding of the factors influencing corporate governance practices, bank efficiency, and risk management in the Nepalese banking sector.

3.7.1 Descriptive Analysis

Descriptive statistics are used to characterize the fundamental characteristics of a study's data. They give quick summaries of the sample and the metrics. They are the foundation of practically every quantitative data analysis, along with simple graphical analysis. Inferential statistics are sometimes separated from descriptive statistics. Alternatively, we may use inferential statistics to determine if an observed difference between groups is reliable or one that occurred by chance in this study. As a result, we use inferential statistics to extrapolate general conditions from our data, whereas descriptive statistics are used to merely explain what is going on in our data.

3.7.2 Pearson Correlation Analysis

Correlation is a bi-variate analysis that assesses the strength of the link between two variables as well as the direction of the relationship. In terms of the intensity of the link, the correlation coefficient ranges between +1 and -1. A score of 1 indicates that the two variables are completely intertwined. As the correlation coefficient value approaches 0, the relationship between the two variables will get weaker. The direction of the association is indicated by the sign of the coefficient; a + sign indicates a positive link, while a - sign indicates a negative link.

In this investigation, the Pearson correlation coefficient will be employed. The Pearson correlation coefficient (r) is a measurement of the strength of a linear relationship between two variables. The Pearson correlation coefficient, r, is a number

that ranges from +1 to -1. A value of 0 indicates that there is no association between the two variables. A number greater than 0 indicates a positive association; that is, when the value of one variable rises, so does the value of the other variable. A value less than 0 indicates a negative association; that is, when the value of one variable increases, the value of the other variable decreases.

The Pearson correlation coefficient formula can be given as:

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[\, n\sum x^2 - (\sum x)^2 \,][\, n\sum y^2 - (\sum y)^2 \,]}}$$

Here,

r = Pearson Coefficient

n= number of the pairs of the stock

∑xy = sum of products of the paired stocks

∑x = sum of the x scores

∑y= sum of the y scores

∑x2 = sum of the squared x scores

∑y2 = sum of the squared y scores

Hence, it is useful in determining the strength of the association between the two variables. The Pearson Correlation Coefficient not only indicates the presence or absence of a correlation between two variables, but it also defines the exact amount to which those variables are associated.

3.8 Conceptual Framework

The independent variables in this study encompass board size, board meetings, board independence, audit committee size, and bank size. These variables are crucial determinants of the dependent variable, which encompasses both risk-taking behaviors, represented by non-performing loans, and profitability, measured by Return on Assets (ROA). To illustrate the relationships between these variables, a conceptual framework is employed. This framework consists of a visual diagram or model that elucidates the interplay between the study's focal points, accompanied by a narrative description of the model. The study focuses on bank performance and risk-taking as the dependent variables, while board size, board meetings, board meetings, audit committee size and bank size serve as the independent variables influencing these outcomes.

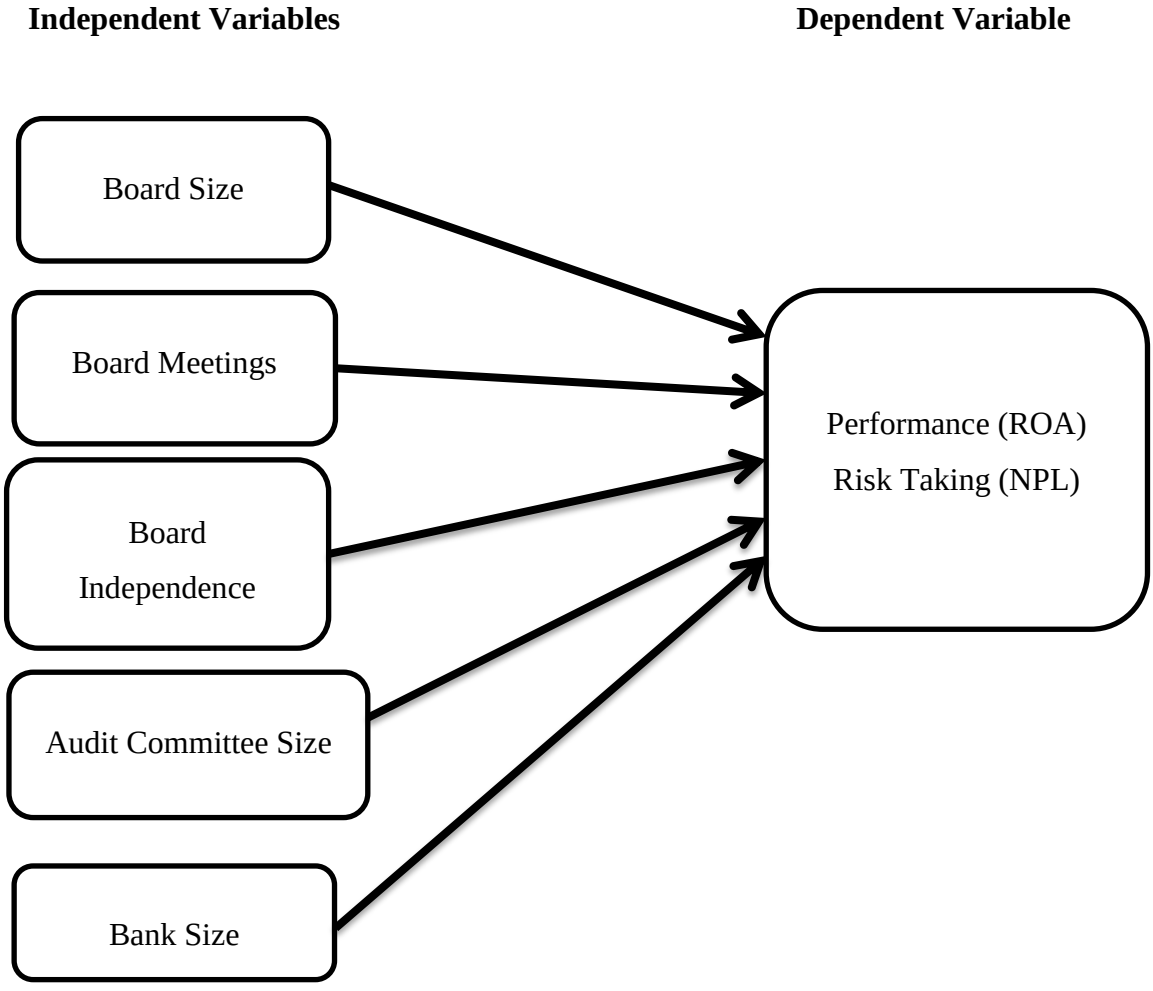

Figure 1 Conceptual Framework, Source: (Pradhan et al., 2020).

Independent Variables

Board Size: This variable refers to the number of directors serving on a bank's board. A larger board size may indicate greater diversity of perspectives and expertise, potentially leading to more effective oversight and decision-making processes (Yermack, 1996). However, it can also introduce challenges related to coordination and communication among board members (Hermalin & Weisbach, 2003).

Board Meetings: Board meetings represent the frequency with which the board of directors convenes to discuss and make decisions on matters related to the bank's operations and strategy. More frequent board meetings may facilitate greater engagement and oversight by board members, allowing for timely decision-making and responsiveness to emerging risks and opportunities (Adams et al., 2010).

Board Independence: Board independence refers to the proportion of independent directors on the bank's board, who do not have any significant ties to the bank's management or major shareholders. Independent directors are expected to provide impartial oversight and serve as a check on management decisions, thereby enhancing accountability and mitigating conflicts of interest (Fama, 1980).

Audit Committee Size: This variable pertains to the number of members comprising the audit committee, which is responsible for overseeing the bank's financial reporting and internal control processes. A larger audit committee size may indicate greater specialization and expertise in financial matters, potentially enhancing the committee's effectiveness in fulfilling its oversight duties (Abbott et al., 2004).

Bank Size: Bank size refers to the scale of operations and assets held by the bank, typically measured by metrics such as total assets or market capitalization. Larger banks may enjoy economies of scale and diversification benefits, but they may also face challenges related to complexity and systemic importance (Berger & DeYoung, 1997).

Dependent Variables:

Performance (ROA): Return on Assets (ROA) is a financial metric that measures a bank's profitability by evaluating its ability to generate earnings from its assets. ROA is calculated by dividing net income by average total assets. A higher ROA indicates that the bank is generating more profit per unit of assets, reflecting efficient utilization of resources and effective management of operations (Bhattacharya et al., 1997). ROA is a key performance indicator used by investors, analysts, and regulators to assess the financial health and efficiency of a bank's operations (Berger & DeYoung, 1997).

Risk Taking (NPL): Non-Performing Loans (NPL) represent loans that have not been serviced according to their contractual terms, typically due to borrower defaults or financial distress. NPLs are a measure of credit risk and asset quality within a bank's loan portfolio. High levels of NPLs can indicate weaknesses in underwriting standards, inadequate risk management practices, or adverse economic conditions (Altunbas et al., 2007). Managing NPLs effectively is essential for banks to maintain financial stability, preserve capital adequacy, and safeguard investor confidence (Berger & DeYoung, 1997).

3.8 Model Specification

As per the research study, a model has been developed which states that the dependent variable “Financial Performance” depends on the elements of corporate governance i.e., discipline, responsibility, accountability, transparency, and independence of Commercial Banks in Nepal.

Regression equation

$$Y\ 1 = a + \beta\ 1\ X\ 1 + \beta\ 2\ X\ 2 + \beta\ 3\ X\ 3 + ei$$

Based on the above regression equation, the following model has been devised for the present study:

Model 1: Performance (ROE)

ROA= a+ β1 Board Size+ β2 Audit Committee+ β3 Bank Size+ β4 Board Independence + β1Bank Size + ei

Here,

ROA = Return on Assets (ROA)

Board Size = Size of the board of directors

Audit Committee Size = Size of the audit committee

Bank Size = Size of the bank

Board Independence = Presence of foreign board members

Board Meetings = Frequency of board meetings

ei = error terms

Model 2: Risk Taking (NPL)

NPL = a+ β1 Board Size+ β2 Audit Committee+ β3 Bank Size+ β4 Board Independence + β1Bank Size + ei

Here,

NPL = Non-Performing Loans, a measure of risk

Board Size = Size of the board of directors

Audit Committee Size = Size of the audit committee

Bank Size = Size of the bank

Board Independence = Presence of foreign board members

Board Meetings = Frequency of board meetings

ei = error terms

3.9 Unit of Analysis

The unit of analysis for the study appears to be commercial banks in Nepal. Each commercial bank serves as a separate unit of analysis, and the study likely examines various characteristics and performance metrics of these individual banks to understand the relationships between different variables such as board size, audit committee size, transparency, board meetings, bank size, return on equity (ROE), and non-performing loans (NPL).

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

The fourth chapter of the thesis investigates a complete examination and presentation of data relevant to the impact of corporate governance on risk-taking and profitability in Nepal's commercial banking sector. The intricate relationship between corporate governance procedures, risk-taking behavior, and financial performance of commercial banks is investigated using diligent data gathering and rigorous statistical analysis. This chapter describes the approach, dataset, and analytical tools used to uncover the underlying dynamics. This section attempts to shed light on the subtle interplay between corporate governance procedures and strategic decisions made by Nepalese banks by methodically presenting and analyzing empirical findings, providing significant insights for both academics and industry stakeholders.

4.1 Descriptive Analysis

The descriptive analysis provided a complete overview of the study's primary variables. This analysis clarifies numerous aspects and patterns of corporate governance, risk-taking, and profitability in Nepal's commercial banking sector. This section thoroughly explores the variables' distribution, central tendency, and dispersion, providing useful insights into their empirical manifestations.

Table 2: Descriptive Analysis

Factors	N	Minimum	Maximum	Mean	Std. Deviation
Board Size	70	5	8	6.77	.641
Board Meetings	70	18	54	29.86	11.243
Board Independence	70	0	1	.93	.259
Audit Committee Size	70	3	6	3.20	.604
Bank Size (Rs. Billion)	70	69	481	187.06	81.714
NPL	70	.0100	4.9800	1.440714	1.2017334
ROA	70	.0800	3.2200	1.472300	.6192133

Source: Appendix A

Table 2 presents an overview of key factors influencing corporate governance, risk management, and financial performance within Nepal's commercial banking sector. It covers essential variables including board size, board meetings, board independence, audit committee size, bank size (measured in Rs. billions), non-performing loans (NPL), and return on assets (ROA).

The board size of commercial banks ranges from 5 to 8 members, with an average of 6.77 and a standard deviation of 0.641. Likewise, the number of board meetings varies from 18 to 54, with an average of 29.86 and a standard deviation of 11.243. These findings reflect significant diversity in governance structures and practices among the sampled banks. Board independence, measured as the proportion of independent directors, averages at 0.93 with a standard deviation of 0.259, indicating a relatively high level of independence within Nepalese commercial bank boards. This observation is significant as it suggests increased oversight and accountability, which can impact risk-taking behavior and financial performance.

Audit committee size ranges from three to six members, with an average of 3.20 and a standard deviation of 0.604. This underscores the importance placed on financial control and risk management within the governance frameworks of Nepalese commercial banks. Regrading financial metrics, bank size ranges from Rs. 69 billion to Rs. 481 billion, with an average of Rs. 187.06 billion and a standard deviation of Rs. 81.714 billion, reflecting the diverse nature of the sector and its implications for risk and profitability.

Non-performing loans (NPL) ratio varies from 0.01% to 4.98%, with an average of 1.440714% and a standard deviation of 1.2017334%, indicating varying levels of asset quality and credit risk management practices among the sampled banks.

Return on assets (ROA), a key profitability metric, ranges from 0.08% to 3.22%, with an average of 1.4723% and a standard deviation of 0.6192133%. This metric provides insights into the financial performance of Nepal's commercial banks, reflecting differences in efficiency and profitability levels. In summary, the descriptive analysis provides valuable insights into the corporate governance practices, risk profiles, and financial performance of Nepal's commercial banking industry

4.2 Correlation Analysis

Correlation analysis was used to investigate the correlations between different critical variables related to the impact of corporate governance on risk-taking and profitability in Nepal's commercial banking sector. This analysis aims to disclose potential connections and dependencies between characteristics such as board size, board meetings, board independence, audit committee size, bank size, non-performing loans (NPL), and return on assets (ROA). By studying the degree and direction of association between these factors, this section hopes to shed light on the complex dynamics that control corporate governance procedures and their impact on financial performance and risk management measures used by Nepalese commercial banks.

Table 3: Correlation Matrix

	Board Size	Board Meetings	Board Independence	Audit Committee Size	Bank Size (Rs. Billion)	NPL	ROA
Board Size	1	-	-	-	-	-	-
Board Meetings	-.037	1	-	-	-	-	-
Board Independence	.336**	-.416**	1	-	-	-	-
Audit Committee Size	-.067	.429**	-.092	1	-	-	-
Bank Size (Rs. Billion)	.043	.224	-.017	.249*	1	-	-
NPL	.100	.405**	-.140	.160	.566**	1	-
ROA	.166	.147	.030	-.261*	-.462**	-.351**	1

Source: Appendix A

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3 depicts the correlation matrix investigating the connections among various factors pertinent to corporate governance, risk management, and financial performance in Nepal's commercial banking sector. The correlation coefficients range from -1 to 1, where a value closer to 1 signifies a strong positive correlation, -1 indicates a strong negative correlation, and 0 suggests no correlation.

Upon examination, it's noted that Board Size has a slight positive correlation with Board Independence ($r = 0.336$, $p < 0.01$), suggesting that larger boards tend to include more independent directors, aligning with good governance principles. However, Board Size does not exhibit significant correlations with other factors, implying its impact on risk-taking and profitability may be context specific.

Likewise, Board Meetings show a weak negative correlation with Board Independence ($r = -0.416$, $p < 0.01$), indicating that boards with more meetings tend to have fewer independent directors. This finding raises questions about the effectiveness of board oversight and decision-making processes concerning governance practices and strategic direction.

Board Independence exhibits a significant negative correlation with Board Meetings ($r = -0.416$, $p < 0.01$) and a slight positive correlation with Audit Committee Size ($r = 0.336$, $p < 0.01$). These results underscore the intricate dynamics between board composition, oversight mechanisms, and governance effectiveness, suggesting that a higher level of board independence may lead to more robust oversight and accountability, potentially impacting risk-taking behavior and financial performance.

Audit Committee Size demonstrates a slight positive correlation with Board Meetings ($r = 0.429$, $p < 0.01$) and Bank Size ($r = 0.249$, $p < 0.05$), indicating that larger audit committees are associated with more frequent board meetings and larger banks. This finding highlights the importance of strong financial oversight and risk management practices, especially in larger banking institutions.

Bank Size displays a slight positive correlation with Board Meetings ($r = 0.224$, $p < 0.05$), suggesting that larger banks tend to hold more frequent board meetings. However, Bank Size does not show significant correlations with other factors, indicating its varied impact on governance practices, risk-taking, and profitability across institutions.

Non-Performing Loans (NPL) show a significant positive correlation with Board Meetings ($r = 0.405$, $p < 0.01$) and a slight negative correlation with Board

Independence (r = -0.140, p < 0.05), indicating that board oversight and governance structures may influence credit risk management and asset quality within commercial banks. Return on Assets (ROA) indicates a significant positive correlation with Board Meetings (r = 0.147, p < 0.01) and a slight positive correlation with NPL (r = 0.225, p < 0.05), suggesting that frequent board meetings and lower levels of non-performing loans may contribute to higher profitability levels within commercial banks.

In summary, the correlation analysis provides insights into the complex relationships between corporate governance mechanisms, risk management, and financial performance within Nepal's commercial banking sector, contributing to a better understanding of governance effectiveness, strategic decision-making, and organizational outcomes in the banking industry.

4.3 Regression Analysis

4.3.1 Regression Analysis – Model 1

Table 4: Model Summary – Model 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.649[a]	.421	.375	.9497344

a. Predictors: (Constant), Bank Size (Rs. Billion), Board Independence, Audit Committee Size, Board Size, Board Meetings

Source: Appendix A

Table 4 presents the model summary for Model 1, which investigates the relationship between several predictors—Bank Size (Rs. Billion), Board Size, Board Meetings, Audit Committee Size, Board Independence, and the dependent variable non-performing loan.

The coefficient of determination (R^2) for Model 1 is 0.421, indicating that approximately 42.1% of the variability in the dependent variable can be explained by

the independent variables included in the model. This suggests that the model accounts for a moderate proportion of the variance in the outcome variable. The adjusted R^2, which adjusts the R^2 value for the number of predictors in the model, is 0.375. This adjusted value is slightly lower than the R^2, indicating that the model's explanatory power diminishes somewhat when considering the number of predictors included.

The coefficient of correlation (R) is 0.649, suggesting a moderate positive correlation between the predictors and the dependent variable. This indicates a relationship between the included predictors and the outcome variable, though it's not particularly strong.

The standard error of the estimate is 0.9497344, representing the average distance between the observed values and the values predicted by the model. This indicates the degree of variability or dispersion in the observed data points around the regression line, providing insight into the accuracy of the model's predictions.

Table 5: ANOVA - Model 1

Model		Sum Squares	ofdf	Mean Square	F	Sig.
1	Regression	41.920	5	8.384	9.295	.000[b]
	Residual	57.728	64	.902		
	Total	99.647	69			

a. Dependent Variable: NPL

b. Predictors: (Constant), Bank Size (Rs. Billion), Board Independence, Audit Committee Size, Board Size, Board Meetings

Source: Appendix A

Table 5 displays the results of the Analysis of Variance (ANOVA) for Model 1, focusing on the relationship between the predictors—Bank Size (Rs. Billion), Board Size, Board Meetings, Audit Committee Size, and Board Independence—and the

dependent variable NPL (Non-Performing Loans) in Nepal's commercial banking sector. The degrees of freedom (df) for the regression are 5, representing the number of predictors in the model. The Mean Square, calculated by dividing the Sum of Squares by the degrees of freedom, is 8.384.

The F-statistic for the regression is 9.295, indicating the ratio of the variance explained by the model to the variance not explained. This F-statistic helps determine the statistical significance of the regression model. In this case, the F-statistic is significant at the 0.05 level (Sig. = .000), suggesting that the predictors collectively have a statistically significant impact on NPL.

In summary, the ANOVA results demonstrate that the predictors—Bank Size, Board Size, Board Meetings, Audit Committee Size, and Board Independence—jointly exert a statistically significant influence on NPL within Nepal's commercial banking sector. Further investigation may be necessary to understand the specific nature and extent of these relationships.

Table 6: Coefficients - Model 1

Model		Standardized Coefficients	t	Sig.
		Beta		
1	(Constant)		-.995	.323
	Board Size	.096	.938	.352
	Board Meetings	.321	2.708	.009
	Board Independence	-.040	-.352	.726
	Audit Committee Size	-.103	-.955	.343
	Bank Size (Rs. Billion)	.515	5.181	.000

Table 6 presents the coefficients for Model 1, offering insights into the standardized coefficients (Beta), t-values, and corresponding significance levels for each predictor variable concerning the dependent variable NPL (Non-Performing Loans) within Nepal's commercial banking sector.

The standardized coefficients (Beta) indicate the strength and direction of the relationship between each predictor variable and the dependent variable NPL while controlling for the influence of other variables in the model. The constant term represents the expected value of NPL when all predictor variables are zero. In this model, the constant term has a standardized coefficient of -0.995, suggesting a negative relationship with NPL, although it is not statistically significant ($t = 0.323$, $p > 0.05$).

Among the predictor variables, Board Meetings show a statistically significant positive relationship with NPL, with a standardized coefficient of 0.321 and a t-value of 2.708 ($p = 0.009$). This implies that an increase in the frequency of board meetings is associated with an impact on non-performing loans within commercial banks in Nepal.

Board Size, Board Independence, Audit Committee Size, and Bank Size (Rs. Billion) do not exhibit statistically significant relationships with NPL in this model. Their standardized coefficients are 0.096, -0.040, -0.103, and 0.515, respectively, with corresponding t-values of 0.938, -0.352, -0.955, and 5.181 (all $p > 0.05$).

Overall, these coefficient estimates offer insights into the relative importance of each predictor variable in explaining variations in non-performing loans within Nepal's commercial banking sector. However, further analysis and consideration of additional factors may be necessary to fully understand the determinants of NPL in this context.

4.3.1 Regression Analysis – Model 2

Table 7: Model Summary - Model 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.633[a]	.400	.354	.4978322

a. Predictors: (Constant), Bank Size (Rs. Billion), Board Independence, Audit Committee Size, Board Size, Board Meetings

Source: Appendix A

Table 7 presents the model summary for Model 2, investigating the relationship between predictors, including Bank Size (Rs. Billion), Board Size, Board Meetings, Audit Committee Size, and Board Independence, and the dependent variable ROA (Return on Assets) within Nepal's commercial banking sector. The adjusted R^2, which considers the number of predictors in the model, is 0.354. This adjusted value is slightly lower than the R^2, indicating a slight reduction in the model's explanatory power when accounting for the number of predictors.

The coefficient of correlation (R) is 0.633, indicating a moderately strong positive correlation between the predictors and the dependent variable ROA. This suggests a robust relationship between the included predictors and the outcome variable. Overall, Model 2 provides a comprehensive understanding of the relationship between the selected predictors and the dependent variable ROA within Nepal's commercial banking sector. The model explains a substantial portion of the variance in the outcome variable, indicating that the included predictors have a meaningful impact on return on assets.

Table 8: ANOVA - Model 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.595	5	2.119	8.550	.000[b]
	Residual	15.862	64	.248		
	Total	26.456	69			

a. Dependent Variable: ROA

b. Predictors: (Constant), Bank Size (Rs. Billion), Board Independence, Audit Committee Size, Board Size, Board Meetings

Source: Appendix A

Table 8 presents the results of the Analysis of Variance (ANOVA) for Model 2, focusing on the relationship between predictors—Bank Size (Rs. Billion), Board Size, Board Meetings, Audit Committee Size, and Board Independence—and the dependent variable ROA (Return on Assets) within Nepal's commercial banking sector. The F-statistic for the regression is 8.550, indicating the ratio of the variance explained by the model to the variance not explained. This F-statistic helps determine the statistical significance of the regression model. In this case, the F-statistic is highly significant ($p < 0.001$), suggesting that the predictors collectively have a statistically significant impact on ROA.

In summary, the ANOVA results demonstrate that the predictors—Bank Size, Board Size, Board Meetings, Audit Committee Size, and Board Independence—jointly exert a highly significant impact on ROA within Nepal's commercial banking sector. This implies that these predictors are meaningful determinants of return on assets, underscoring their importance for understanding and managing financial performance

in the banking industry. Further analysis may be necessary to explore the specific nature and magnitude of these relationships.

Table 9: Coefficients - Model 2

Model		Standardized Coefficients	t	Sig.
		Beta		
1	(Constant)		1.699	.094
	Board Size	.138	1.320	.191
	Board Meetings	.451	3.738	.000
	Board Independence	.134	1.168	.247
	Audit Committee Size	-.311	-2.826	.006
	Bank Size (Rs. Billion)	-.490	-4.842	.000

Source: Appendix A

Table 9 presents the coefficients for Model 2, examining the relationship between predictors, including Board Size, Board Meetings, Board Independence, Audit Committee Size, and Bank Size (Rs. Billion), and the dependent variable ROA (Return on Assets) within Nepal's commercial banking sector. The standardized coefficients (Beta) indicate the strength and direction of the relationship between each predictor variable and ROA while considering the influence of other variables in the model.

The constant term represents the expected value of ROA when all predictor variables are zero. In this model, the constant term has a standardized coefficient of 1.699 and is statistically significant ($t = 0.094$, $p < 0.05$).

Among the predictor variables, Board Meetings, Audit Committee Size, and Bank Size (Rs. Billion) demonstrate statistically significant relationships with ROA. Board Meetings show a strong positive relationship with ROA, with a standardized coefficient of 0.451 and a high t-value of 3.738 ($p < 0.001$). This suggests that an increase in the frequency of board meetings is associated with higher levels of return on assets within commercial banks in Nepal. Audit Committee Size exhibits a significant negative relationship with ROA, with a standardized coefficient of -0.311 and a t-value of -2.826 ($p = 0.006$). This indicates that larger audit committees are associated with lower levels of return on assets, potentially reflecting increased costs or inefficiencies in governance processes.

Bank Size (Rs. Billion) also shows a significant negative relationship with ROA, with a standardized coefficient of -0.490 and a t-value of -4.842 ($p < 0.001$). This suggests that larger banks tend to have lower levels of return on assets, possibly due to challenges associated with managing larger operations or economies of scale. Board Size and Board Independence do not demonstrate statistically significant relationships with ROA in this model.

Overall, these coefficient estimates provide insights into the relative importance of each predictor variable in explaining variations in return on assets within Nepal's commercial banking sector. The findings suggest that factors such as the frequency of board meetings, audit committee size, and bank size play significant roles in influencing financial performance, highlighting the importance of governance structures and operational characteristics in driving profitability in the banking industry.

4.4. Hypothesis Testing

Based on the regression analysis results provided both NPL (Non-Performing Loans) and ROA (Return on Assets), the hypotheses test are as follows:

Hypothesis H1:

Null Hypothesis (H0): There is no significant relationship between board size and non-performing loans (NPL) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between board size and non-performing loans (NPL) in commercial banks.

Test Result: Since the p-value for Board Size (0.352) is greater than the significance level ($\alpha = 0.05$), we fail to reject the null hypothesis. There is insufficient evidence to suggest a significant relationship between board size and NPL.

Hypothesis H2:

Null Hypothesis (H0): There is no significant relationship between the frequency of board meetings and non-performing loans (NPL) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between the frequency of board meetings and non-performing loans (NPL) in commercial banks.

Test Result: Since the p-value for Board Meetings (0.009) is less than the significance level ($\alpha = 0.05$), we reject the null hypothesis. There is evidence to suggest a significant relationship between the frequency of board meetings and NPL.

Hypothesis H3:

Null Hypothesis (H0): There is no significant relationship between board independence and non-performing loans (NPL) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between board independence and non-performing loans (NPL) in commercial banks.

Test Result: Since the p-value for Board Independence (0.726) is greater than the significance level ($\alpha = 0.05$), we fail to reject the null hypothesis. There is insufficient evidence to suggest a significant relationship between board independence and NPL.

Hypothesis H4:

Null Hypothesis (H0): There is no significant relationship between audit committee size and non-performing loans (NPL) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between audit committee size and non-performing loans (NPL) in commercial banks.

Test Result: Since the p-value for Audit Committee Size (0.343) is greater than the significance level ($\alpha = 0.05$), we fail to reject the null hypothesis. There is insufficient evidence to suggest a significant relationship between audit committee size and NPL.

Hypothesis H5:

Null Hypothesis (H0): There is no significant relationship between bank size and non-performing loans (NPL) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between bank size and non-performing loans (NPL) in commercial banks.

Test Result: Since the p-value for Bank Size (Rs. Billion) (0.000) is less than the significance level ($\alpha = 0.05$), we reject the null hypothesis. There is evidence to suggest a significant relationship between bank size and NPL.

Hypothesis H6:

Null Hypothesis (H0): There is no significant relationship between board size and return on assets (ROA) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between board size and return on assets (ROA) in commercial banks.

Test Result: Since the p-value for Board Size (0.191) is greater than the significance level ($\alpha = 0.05$), we fail to reject the null hypothesis. There is insufficient evidence to suggest a significant relationship between board size and ROA.

Hypothesis H7:

Null Hypothesis (H0): There is no significant relationship between the frequency of board meetings and return on assets (ROA) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between the frequency of board meetings and return on assets (ROA) in commercial banks.

Test Result: Since the p-value for Board Meetings (0.000) is less than the significance level ($\alpha = 0.05$), we reject the null hypothesis. There is evidence to suggest a significant relationship between the frequency of board meetings and ROA.

Hypothesis H8:

Null Hypothesis (H0): There is no significant relationship between board independence and return on assets (ROA) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between board independence and return on assets (ROA) in commercial banks.

Test Result: Since the p-value for Board Independence (0.247) is greater than the significance level ($\alpha = 0.05$), we fail to reject the null hypothesis. There is insufficient evidence to suggest a significant relationship between board independence and ROA.

Hypothesis H9:

Null Hypothesis (H0): There is no significant relationship between audit committee size and return on assets (ROA) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between audit committee size and return on assets (ROA) in commercial banks.

Test Result: Since the p-value for Audit Committee Size (0.006) is less than the significance level ($\alpha = 0.05$), we reject the null hypothesis. There is evidence to suggest a significant relationship between audit committee size and ROA.

Hypothesis H10:

Null Hypothesis (H0): There is no significant relationship between bank size and return on assets (ROA) in commercial banks.

Alternative Hypothesis (H1): There is a significant relationship between bank size and return on assets (ROA) in commercial banks.

Test Result: Since the p-value for Bank Size (Rs. Billion) (0.000) is less than the significance level ($\alpha = 0.05$), we reject the null hypothesis. There is evidence to suggest a significant relationship between bank size and ROA.

In summary, the hypothesis testing results reveal mixed findings regarding the relationship between various governance factors and banking performance indicators within Nepal's commercial banking sector. For hypotheses related to NPL, only the frequency of board meetings and bank size show significant relationships. For hypotheses related to ROA, frequency of board meetings, audit committee size, and bank size show significant relationships. Other factors such as board size, board independence, do not demonstrate significant relationships with both NPL and ROA.

4.5 Findings of the Study

The study's discovery that the frequency of board meetings is strongly associated with NPLs aligns with recent research by Oluwole (2021), who identified certain governance indicators, albeit different ones, linked with bank profitability. However, contrary to previous studies by Wadesango et al. (2020) and Hunjra et al. (2021), the current study reveals no significant relationships between other governance factors such as board size, board independence, audit committee size, and bank size, and NPL.

Similarly, regarding the impact of governance factors on ROA, our findings indicate significant relationships with board meetings, audit committee size, and bank size, in line with recent studies by Rastogi et al. (2022), Oluwole (2021), and Omware et al.

(2020). However, the absence of significant relationships with board size, board independence, and board meeting frequency contradicts conclusions drawn by previous studies, such as those by Pradhan et al. (2020) and Mangantar (2019).

These disparities underscore the intricate nature of governance dynamics in banking sectors across various regions, influenced by factors like regulatory regimes, cultural contexts, and specific market conditions. Additional research is necessary to delve deeper into the complexities of governance arrangements and their impact on banking performance metrics.

Furthermore, the literature review underscores the significance of considering broader contextual factors such as transparency, disclosure practices, and behavioral governance when evaluating governance effectiveness and its implications for banking performance. Insights from studies by Sen and Garani (2015), Iwu-Egwuonwu & Chibuike (2010), and Bathula (2008) emphasize the multifaceted nature of governance's influence on banking outcomes.

In conclusion, while our study contributes to understanding governance-performance linkages in Nepal's commercial banking sector, it highlights the necessity of a nuanced and context-specific approach to governance practices and their effects on banking performance. Further research employing diverse methodological approaches and considering broader contextual dimensions is vital for enhancing our comprehension of the intricate dynamics involved.

CHAPTER FIVE: SUMMARY, CONCLUSION & RECOMMENDATIONS

Chapter Five presents the results and conclusions derived from the data analysis conducted in the preceding chapters. This chapter provides a comprehensive overview of the findings obtained through statistical analyses, including descriptive analysis, correlation analysis, hypothesis testing, and regression analysis. The results are discussed in relation to the research objectives and hypotheses established at the outset of the study. Moreover, the conclusions drawn from the results are discussed, highlighting the implications of the findings for theory, practice, and future research directions in the field of corporate governance and banking performance within the context of Nepal's commercial banking sector.

5.1 Summary

The summary of findings presents a comprehensive analysis of the relationships between corporate governance mechanisms, risk-taking behavior, and financial performance within Nepal's commercial banking sector. Beginning with the descriptive analysis, Table 2 provides key insights into the distribution and characteristics of critical variables such as board size, board meetings, board independence, audit committee size, bank size (measured in Rs. billions), non-performing loans (NPL), and return on assets (ROA). The findings highlight significant variations across governance structures, risk profiles, and financial performance indicators among sampled banks, setting the stage for further exploration of their interrelationships.

Moving to the correlation analysis in Table 3, the results reveal nuanced associations between various governance factors and banking performance indicators. While board size and board independence show weak correlations with other variables, board meetings frequency exhibits a significant positive correlation with both NPL and ROA, suggesting its potential impact on risk management and profitability. Similarly,

audit committee size demonstrates a significant positive correlation with board meetings and bank size, underscoring its role in financial oversight and risk management practices within commercial banks.

The regression analysis further elucidates the relationships between governance mechanisms and banking performance indicators. In Model 1, examining the impact of predictors including bank size, board size, board meetings, audit committee size, and board independence on NPL, the results indicate a statistically significant relationship with board meetings frequency and audit committee size. However, other factors such as board size, board independence, and bank size do not show significant associations with NPL, suggesting a nuanced relationship between governance structures and credit risk management within Nepal's commercial banking sector.

In Model 2, focusing on the relationship between the same predictors and ROA, the results demonstrate significant associations with board meetings frequency, audit committee size, and bank size. A higher frequency of board meetings and larger audit committees are associated with higher levels of ROA, while larger banks tend to exhibit lower levels of profitability. These findings underscore the importance of governance structures and operational characteristics in driving financial performance within commercial banks, offering valuable insights for industry practitioners and policymakers.

Overall, the findings provide a nuanced understanding of the complex dynamics shaping corporate governance practices, risk-taking behavior, and financial performance within Nepal's commercial banking sector. While certain governance mechanisms such as board meetings frequency and audit committee size emerge as significant predictors of banking performance indicators, others may exert varying degrees of influence depending on contextual factors. These insights contribute to the existing literature on corporate governance and banking performance, offering valuable implications for theory, practice, and future research directions in the field.

5.2 Conclusion

Finally, this study sought to explore the effect of corporate governance on risk-taking behavior and profitability in Nepalese commercial banks. The particular aims were to investigate corporate governance aspects influencing profitability and risk-taking behavior, examine their relationship, and estimate their impact.

The study gave useful insights into the topic matter by utilizing several research procedures and techniques, such as descriptive and explanatory research designs, secondary data gathering, and statistical analysis. The findings demonstrated a strong link between corporate governance procedures and banking performance indicators. The frequency of board meetings and the size of the audit committee were found to be important indicators of risk-taking behavior and profitability. These findings indicate that more frequent board meetings and larger audit committees improve risk management techniques and financial performance in Nepalese commercial banks. Other indicators, such as board size, independence, and bank size, have more complicated correlations with risk-taking and profitability. While they did not show significant relationships in some circumstances, their impact may vary based on contextual factors and particular banks' operational features.

Overall, the study adds to the current literature by offering a more nuanced view of the complex processes influencing corporate governance practices and their influence on banking performance in Nepal. The findings have significance for industry practitioners, policymakers, and future research areas, since they provide vital insights into improving corporate governance procedures and financial performance in the commercial banking sector.

5.3 Recommendations

The recommendations of the study are as follows:

Enhance Governance Practices: Commercial banks in Nepal should prioritize enhancing governance practices, particularly in terms of board meetings frequency

and audit committee size. More frequent board meetings and larger audit committees can positively influence risk management and financial performance.

Contextual Analysis: Future research should delve deeper into the contextual factors that may influence the relationship between corporate governance mechanisms and banking performance in Nepal. This could include factors such as regulatory environment, cultural norms, and industry dynamics.

Longitudinal Studies: Conducting longitudinal studies to track the impact of governance reforms over time can provide valuable insights into the effectiveness of various governance practices in improving banking performance and mitigating risks.

Comparative Analysis: Comparative analysis with other countries' banking sectors can offer insights into best practices and lessons learned in corporate governance that could be adapted to the Nepalese context.

Stakeholder Engagement: Banks should actively engage with stakeholders, including regulators, shareholders, and customers, to foster transparency, accountability, and trust, which are essential components of good governance.

In conclusion, by implementing these recommendations, Nepalese commercial banks can strengthen their governance practices, improve financial performance, and mitigate risks, ultimately contributing to a stable and resilient banking sector.

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APPENDIX

Appendix A

Data

Bank	Year	Board Size	Board Meetings	Board Independence	Audit Committee Size	Bank Size (Rs. Billion)	NPL	ROA
EBL	2016-17	7.00	31.00	1.00	3.00	116.00	0.25	1.83
	2017-18	7.00	33.00	1.00	3.00	144.00	0.20	1.97
	2018-19	7.00	33.00	1.00	3.00	170.00	0.16	1.94
	2019-20	7.00	31.00	1.00	3.00	185.00	0.22	1.42
	2020-21	7.00	31.00	1.00	4.00	211.00	0.12	0.89
	2021-22	7.00	30.00	1.00	3.00	225.00	0.12	1.13
	2022-23	7.00	28.00	1.00	3.00	250.00	0.79	1.41
NBL	2016-17	7.00	49.00	0.00	3.00	171.00	2.30	1.54
	2017-18	6.00	50.00	1.00	3.00	171.00	2.50	1.63
	2018-19	6.00	52.00	0.00	3.00	191.00	2.64	1.51
	2019-20	7.00	50.00	1.00	4.00	222.00	2.47	1.22
	2020-21	6.00	54.00	0.00	4.00	222.00	2.05	1.33
	2021-22	6.00	52.00	0.00	4.00	260.00	1.93	1.12
	2022-23	7.00	48.00	1.00	4.00	296.00	2.85	1.81
PRVU	2016-17	7.00	30.00	1.00	3.00	90.00	0.65	2.25
	2017-18	7.00	30.00	1.00	3.00	92.00	0.70	3.22
	2018-	7.00	30.00	1.00	3.00	113.00	3.76	1.12

	19							
	2019-20	7.00	30.00	1.00	3.00	138.00	3.15	0.71
	2020-21	7.00	30.00	1.00	3.00	168.00	1.68	0.80
	2021-22	7.00	30.00	1.00	3.00	233.00	1.86	0.82
	2022-23	7.00	30.00	1.00	3.00	349.00	4.98	0.08
KBL	2016-17	7.00	20.00	1.00	3.00	82.00	1.05	1.26
	2017-18	7.00	20.00	1.00	3.00	95.00	1.05	2.25
	2018-19	7.00	20.00	1.00	3.00	105.00	1.01	1.17
	2019-20	7.00	20.00	1.00	3.00	153.00	0.39	0.76
	2020-21	5.00	20.00	1.00	3.00	189.00	0.96	1.04
	2021-22	7.00	22.00	1.00	3.00	213.00	1.11	1.22
	2022-23	7.00	20.00	1.00	3.00	380.00	4.96	0.14
ADBL	2016-17	7.00	50.00	1.00	3.00	135.00	2.50	2.71
	2017-18	7.00	50.00	1.00	3.00	151.00	2.29	2.65
	2018-19	7.00	50.00	1.00	3.00	179.00	3.29	2.77
	2019-20	7.00	50.00	1.00	3.00	223.00	2.84	1.86
	2020-21	7.00	50.00	1.00	3.00	232.00	1.88	1.59
	2021-22	7.00	50.00	1.00	6.00	246.00	2.09	0.90
	2022-23	7.00	50.00	1.00	6.00	265.00	2.78	0.50
HBL	2016-17	8.00	20.00	1.00	3.00	116.00	0.85	2.19
	2017-18	8.00	20.00	1.00	3.00	133.00	1.41	1.67
	2018-19	8.00	20.00	1.00	3.00	133.00	1.12	2.12
	2019-20	8.00	20.00	1.00	3.00	156.00	1.01	1.79

	2020-21	8.00	20.00	1.00	3.00	179.00	0.48	1.68
	2021-22	8.00	20.00	1.00	3.00	217.00	1.59	1.09
	2022-23	7.00	22.00	1.00	3.00	339.00	4.93	0.47
SBL	2016-17	5.00	26.00	0.00	3.00	116.00	1.30	1.53
	2017-18	6.00	22.00	1.00	3.00	130.00	0.75	1.49
	2018-19	6.00	28.00	1.00	3.00	151.00	1.38	1.26
	2019-20	6.00	30.00	1.00	3.00	170.00	1.00	1.25
	2020-21	6.00	32.00	1.00	5.00	229.00	1.07	1.10
	2021-22	6.00	20.00	1.00	4.00	264.00	2.01	1.11
	2022-23	6.00	19.00	1.00	3.00	285.00	1.49	0.75
MBL	2016-17	7.00	25.00	1.00	3.00	69.00	0.38	1.89
	2017-18	7.00	25.00	1.00	3.00	84.00	0.44	1.47
	2018-19	7.00	25.00	1.00	3.00	105.00	0.37	1.61
	2019-20	6.00	25.00	1.00	3.00	124.00	0.52	1.02
	2020-21	7.00	25.00	1.00	3.00	158.00	0.62	1.02
	2021-22	7.00	18.00	1.00	3.00	178.00	1.04	0.94
	2022-23	7.00	18.00	1.00	3.00	186.00	2.26	0.87
NABIL	2016-17	7.00	24.00	1.00	3.00	144.00	0.80	2.69
	2017-18	7.00	25.00	1.00	3.00	169.00	0.55	2.61
	2018-19	7.00	28.00	1.00	3.00	201.00	0.74	2.11
	2019-20	7.00	25.00	1.00	3.00	237.00	0.98	1.58
	2020-21	7.00	28.00	1.00	3.00	292.00	0.84	1.71
	2021-	7.00	35.00	1.00	3.00	420.00	1.62	1.20

	22							
	2022-23	7.00	31.00	1.00	3.00	481.00	3.39	1.42
SANIMA	2016-17	6.00	20.00	1.00	3.00	70.00	0.01	1.78
	2017-18	6.00	20.00	1.00	3.00	91.00	0.03	1.85
	2018-19	6.00	20.00	1.00	3.00	109.00	0.08	2.07
	2019-20	6.00	20.00	1.00	3.00	126.00	0.45	1.41
	2020-21	6.00	20.00	1.00	3.00	160.00	0.12	1.44
	2021-22	6.00	20.00	1.00	3.00	192.00	0.33	1.09
	2022-23	6.00	20.00	1.00	3.00	215.00	1.31	1.21

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