

CORPORATE GOVERNANCE AND PERFORMANCE OF NEPALESE COMMERCIAL BANKS

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfillment of requirement for the Master's Degree

By

Asha Moktan

Shanker Dev Campus

Campus Roll No: 471/077

T. U. Regd. No: 7-2-727-24-2016

Exam Roll No: 35324/21

Group: Finance

Kathmandu Nepal

September, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Corporate Governance and Performance of Nepalese Commercial Banks**”. The work of this dissertation has not been submitted previously for the purpose conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in reference section of the dissertation.

Asha Moktan

September, 2024

REPORT OF RESEARCH COMMITTEE

Ms. Asha Moktan has defended research proposal entitled “**Corporate Governance and Performance of Nepalese Commercial Banks**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Kiran Thapa and submit the thesis for evaluation and viva-voce examination.

.....
Kiran Thapa
Dissertation Supervisor

Dissertation Proposal Defended Date:

.....

Dissertation Submitted Date:

.....

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head, Research Department

Dissertation Viva-voce Date:

.....

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Corporate Governance and Performance of Nepalese Commercial Banks**” Presented by Asha Moktan Candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

.....
Kiran Thapa

Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

.....
Asso. Prof. Dr. Sajeep Kumar Shrestha
Chairperson, Research Committee

.....
Campus Chief

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ABBREVIATIONS

ADBL:	Agriculture Development Bank Ltd
ANOVA:	Analysis of Variance
BAFIA:	Banks and Financial Institutions Act
BIST:	Borsa Istanbul
BM:	Board Member Size
BOD:	Board of Directors
BS:	Bank Size
CDR:	Credit deposit ratio
CEO:	Chief Executive Officer
CG:	Corporate Governance
DEM:	Data Envelopment Method
EPS:	Earnings Per Share
EU:	European Union
GIBL:	Global IME Bank Ltd
ID:	number of independent directors
ISS:	Institutional Shareholder Services
NRB:	Nepal Rastra Bank (Central Bank of Nepal)
OECD:	Organization for Economic Co-operation and Development
OLS:	Ordinary Least Squares (a method of linear regression)
ROA:	Return on Assets
ROE:	Return on Equity
S. D:	Standard Deviation
SOEs:	State-Owned Enterprises

US: United States
USA: United States of America
WD: Women on Board of Directors

ABSTRACT

This study investigates the corporate governance and financial performance of Nepalese commercial banks, focusing on the relationships between governance factors and performance metrics. Using both descriptive and causal comparative research designs, the study analyzes data from three banks—Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL)—selected through convenience sampling. The data spans ten fiscal years (2069/70 to 2078/79), primarily sourced from annual reports and supplemented by other publications. The study's conceptual framework examines key corporate governance variables, such as board size, independent directors, credit deposit ratio (CDR), bank size, earnings per share (EPS), and the presence of women on the board, while focusing on Return on Assets (ROA) and Return on Equity (ROE) as indicators of bank performance.

Data analysis is conducted using the Statistical Package for the Social Sciences (SPSS) program, applying descriptive statistics, correlation analysis, and multiple regression models to explore relationships between corporate governance factors and financial performance. The results reveal that bank size, EPS, and CDR are significant predictors of financial performance, with EPS having a strong positive impact on both ROA and ROE, while larger bank size tends to correlate with inefficiencies. Governance factors such as board size and the presence of independent directors show limited impact on the financial performance metrics, indicating the need for deeper exploration of governance practices in the banking sector.

The findings underscore the importance of profitability and efficiency in driving the financial performance of Nepalese banks. While GIBL, NABIL, and ADBL all experienced asset growth, profitability varied, with NABIL leading in EPS and ROE, while ADBL struggled with declining ROE. The study highlights the complexities of governance and performance in the banking sector, suggesting that further research is needed to address the operational and strategic challenges influencing profitability and efficiency.

Key Words: *Corporate Governance, Financial Performance, Commercial Banks, Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), Credit Deposit Ratio (CDR)*

CHAPTER I

INTRODUCTION

1.1 Background of the study

Business organization survives and grows within the larger society. They acquire the inputs from the society and in a way, it is very obvious that business organization must act responsible towards the society. Corporate governance is a set of process customs policies and laws affecting way an organization is directed, administered and controlled. The principal stakeholders are: the shareholders, management and board of directors. Other stakeholders include: employees, suppliers, customers, banks, regulators, environment and the community at large. (Pant 2009). In the simplest terms, it is just the formal system of accountability of senior management to corporate stakeholders.

Corporate Governance refers to the way companies are directed and managed. Without corporate governance, companies cannot be accountable to their different stakeholders. Various scholars define corporate governance as high lightening key element of corporate governance. Corporate governance can be regarded as a mechanism that is utilized to be able to direct and control firms and organizations. (Amarneh, 2014).

Corporate governance can be defined as the relationship among shareholders, the board of directors and the top management in determining the direction and performance of the corporation (Wheelen & Hunger, 2006). It also includes the relationship among the stakeholders and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, regulators, the environment and the community at large.

Corporate governance is essential to all sectors of the economy, however crucial to the banking sector. According to Hambrick et al., (2008) not only do the constituents of the banking sector stand to gain or lose due to the quality and nature of corporate governance therein, but the entire national system can be propelled or stymied as well. Katrodia (2016) states that the health of the economy is closely related to the soundness of its banking sectors. The global financial crisis of 2008 was triggered by

the collapse of large US banks. This, in turn, affected almost all sectors, including the income safety of pension holders. The failures of the financial system in the USA were due to poor governance and this led to a major crisis in that period affecting the world economy. Mareinkowska (2017) stated that any global crisis is related to poor governance in financial institutions.

Today's business firm operate in an environment of intense media investor, regulatory and public security. These agencies are interested to know how the objectives of business firm are set and achieved, how risk is monitored and assessed, how performance is optimized and how social accountabilities are addressed. Being guided by principle of shareholder's democracy, companies have to make clear in the policies in running the business. Corporate governance ensures that how effectively the board of directors and management are discharging their functions in building and satisfying SH'S confidence. Corporate governance is viewed as an indispensable element of market discipline (Levitt 1999) and this is fueling demands for strong corporate governance mechanisms by investors and other financial market participants (Blue Ribbon Committee 1999; Ramsay 2001).

Bank governance was altered tremendously during the 1990s and early 2000s, principally due to bank ownership changes, such as mergers and acquisitions (Berger et al. 2005; and Arouri et al. 2011). The worldwide financial crisis of 2008, which started in the United States, was attributable to U.S. banks' excessive risk-taking. Consequently, in order to control such risk and draw people's attention to the agency problem within banks, there are statements made by bankers, central bank officials, and other related authorities, emphasizing the importance of effective corporate governance in the banking industry since 2008 and until now (Beltratti and Stulz 2009; and Peni and Vahamaa 2011).

Governance simply refers to the process or act of governing. When it comes to the organized sector. corporate sector, it is the way by which organization is organized. Corporate governance refers to the ways a corporation is governed. It is the technique by which companies are directed and managed. It identifies who has power and accountability and who makes decision. It guarantees that an enterprise is directed and controlled in a responsible and transparent manner with the purpose of safeguarding

its long-term success. It is intended to increase the confidence of stakeholders (CFI, 2021).

The relationship between CG and firm's performance has been widely debated and well-researched topic in developed countries content. However, in the past few years, this issue has also been discussed in developing and underdeveloped countries too because of recent corporate collapses and scams. The firms with weaker governance structure have to face more agency problem and managers of such firms gain more private benefits. (Core et al. 1999) Firm's governance plays a very important role in probability of accounting frauds and firms which have weak governance structure being more prone to accounting frauds. (Berkaman et al, 2009) CG has been an important research area which deals with the various governance arrangement used to control the corporation within the objective of maximizing shareholder's wealth. Tsamenyi et al, (2007) have argued that there are multitude of problems faced by developing economies, including the risk and uncertainty, political instability weak legislation, high level of government intervention and low level of protection for investors. As such, there is necessity for effective structure of CG to be adopted.

Company Act (2006), BAFIA Act and unified directives of NRB are acts and regulations which provide necessary guidelines to maintain CG in bank and financial intuition. Nepal Government and central bank are working to develop transparent, competitive and strong financial sector. CG has been a fundamental subject of concern in emerging economics.

In light of these facts associated with corporate governance, it is necessary to examine how far banks in Nepal have been adopting the sound CG practices and how far the CG serve as leading indicator of better performance.

1.2 Statement of the problem

Banks and financial intermediaries are at the Centre after the financial crisis occurred in the USA, Brazil, and Thailand, etc. The deterioration of their asset portfolio, largely due to the distorted credit management was one of the structural sources of the crisis (Sanusi, 2010). This problem occurred because of poor governance to a large extent.

The corporate governance in developing countries has recently received a lot of attention in the literature: credit accrues to the growth prospects of these economies. In addition, noise trading, as opposed to fundamentals, has been documented to affect

markets of these economies (Claessens & Yurtoglu, 2012). These markets are, in general, less efficient and therefore, demand corporate governance at a higher intensity.

The subject of corporate governance is of enormous importance. Even in the advanced market economies, there is a great deal of discussion on the effectiveness of governance mechanisms (Pradhan & Adhikari, 2011). This study is related to determining the relationship between corporate governance variables and bank performance variables. Here, board member size, number of independent directors, earnings per share, capital adequacy ratio, leverage, and bank size are considered as corporate governance variables and their relation to the return on equity and net interest margin are tested.

For a developing country like Nepal, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence and can discourage outside investment.

The Central bank of Nepal, Nepal Rastra Bank (NRB) has consistently been working to improve the governance of banks by revising and updating, policies and directives. The latest comprehensive directive, stress testing guidelines, CEO's remuneration guidelines, etc. are some of the guidelines formulated to ensure better governance in banks.

In spite of such guidelines and directives, corporate governance remains challenging as people with nefarious intentions devise new ways of misusing public money. Nepalese organizations are yet to adopt a good governance culture with adequate care of the general public interest. The demarcation between ownership and management is still not clear. The involvement of directors and staff in fraudulent activities is a serious challenge in Nepal (Khatiwada, 2015). H & B bank (2012) and CEO of KIST bank (2013) faced charged because of misappropriation. Similarly, NABIL (2011) and Himalayan bank (2012) were booked for the theft of the pin number of ATM by the employees.

These cases have created a doubtful environment for the public to deposit their currency to the banks (Khatiwada, 2015). To ensure a better environment of trust and safety among the general people good governance must be focused. Implementing 8 governance by banks can increase the customer's deposit as well as increase the profitability of banks.

Taking into consideration the background of the study and literature review, the research has been set up with the following research questions:

- i. What is the current status of the corporate governance in Nepal?
- ii. What is the relationship of corporate governance with ROA and ROE?
- iii. Which factor of corporate governance has a significant impact on bank performance?

1.3 Objectives of the study

The general objective of the study is to know the relation between governance factors and bank performance. The objective of this study can be stated as:

- i. To assess the current status of the corporate governance in Nepal.
- ii. To examine the relationship of corporate governance with ROA and ROE.
- iii. To analyze the impact of corporate governance practices on ROA and ROE

1.5 Rationale of the study

The research on corporate governance and bank performance are important since the economic aspect is linked with it. The study from various researchers has shown that there is a direct relationship between good governance and the performance of an organization. So, if the organization maintains good governance, they will perform good and vice versa. There are various determinants in governance and they vary along with the type of organizations and business sector. These variables also have various levels of impact on the organization. So, it's important for the banks to know which variable affects them more and which with less impact.

In Nepal, governance has been the topic of much recent academic work and policy discussion (Khatiwada, 2002; Rawal, 2003 & Kafle, 2004). Paudel and Hovey (2013) investigated the impact of corporate governance on the efficiency of Nepalese commercial banks covering 29 banks. The research showed that a bigger board and

audit committee and lower frequency of board meetings with a lower proportion of institutional ownership led to better efficiency in the commercial banks.

So, this study also focuses on determining the impact of variables of good governance on the performance of banks. The board member size, independent director, earnings per share, capital adequacy ratio, leverage, and bank size are used as an independent variable to know their impact in net interest margin and return on equity. This study will ensure the banks can attain the performance by focusing on the relation between the corporate governance variable and performance measuring variables. This study can be used by the banks to maintain the number of board members and the involvement of an independent director.

1.6 Limitation of the study

Despite the comprehensive approach taken in this research, several limitations need to be acknowledged. Firstly, the study is largely dependent on secondary data obtained from financial reports and corporate disclosures of banks. This reliance on secondary data means that any inaccuracies or biases present in the original reports could affect the validity of the findings. Furthermore, the availability and consistency of data across different banks may vary, potentially leading to discrepancies in the analysis. This limitation is particularly pertinent in the context of Nepal, where data transparency and reporting standards might not be as rigorous as in more developed economies.

Secondly, the study's scope is confined to certain variables of corporate governance and their impact on bank performance. While the selected variables such as board member size, independent directors, leverage ratio, bank size, capital adequacy ratio, and earnings per share are critical, they do not encompass all possible factors that could influence bank performance. Other aspects such as corporate culture, management practices, regulatory changes, and macroeconomic conditions are not thoroughly examined. This narrow focus might limit the comprehensiveness of the conclusions drawn and could overlook other significant determinants of bank performance.

Lastly, the study's findings are specific to the Nepalese banking sector, which may limit the generalizability of the results to other contexts. The corporate governance environment and banking practices in Nepal are influenced by unique socio-

economic, cultural, and regulatory factors. Consequently, the results may not be directly applicable to banks in different countries with distinct corporate governance frameworks and market dynamics. Future research could benefit from a comparative analysis involving banks from multiple countries to provide a more global perspective on the impact of corporate governance on bank performance.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical review

Like the government, the word governance derives ultimately from the Greek word *Kubernao* (to steer). The term governance was re-minted as recently as the 1990s by the economist and political scientist and disseminated by institutions such as UNO, IMF, and World bank. Many theories of governance as a process arise out of neoclassical economics. Those theories built deductive models, based on the assumptions of the modern economy to show national actors may come to establish and sustain formal organizations including firms and states, an informal organization such as networks and practices for governing the commons.

The corporate governance went with more diversified, broadening and principles along with period. M. Becht, (2007) had identified five reasons for becoming corporate governance a major issue and becoming prominent to evolve. Those reasons were as follows.

- i. **World-wide privatization wave** Privatization had been an important phenomenon not only in Western Europe and Asia but especially in the former communist countries, some of which joined the EU recently. The US was an exception as state ownership of companies had always been very small. This privatization wave had its origin in the UK which was, for example, responsible for 90% of EU privatization proceeds in 1991. Since 1995 Australia, Italy, France, Japan, and Spain alone had generated 60% of total privatization revenues worldwide. The privatization wave raised the question of ownership and controlled of the former state companies. In the countries of Continental Europe, great care was given to ensure the transfer of controlled to large shareholders. The UK, on the contrary, created a form of “shareholder democracy”. Privatization boosted the development of the stock markets as most OECD sales had been conducted via public offerings.
- ii. **Pension funds and other institutional investors** the private provision for one’s old age was common in the US and due to the demographic development in Europe as well. That made pension funds and other institutional investors into large and powerful institutions that could influence

corporate governance. Institutional investors in the US alone commanded more than 60% of total equity investment in the OECD, rising to 76% when UK institutions were added. A significant proportion was held by pension funds (approx 40% for the US and UK and 15% for Germany). These investors, therefore, played an increasingly active role in global corporate governance.

- iii. **Mergers and takeovers** the hostile takeover wave in the US in 1980 and in Europe in 1990 influenced the public debate on corporate governance. The 200 billion dollar crossed broader hostile bid of Vodafone for Mannesmann in 2000 AD was the largest ever to took placed in Europe. The takeover changed the corporate world of continental Europe. The hostile takeover of Olivetti for telecoms Italia and Generali for INA in Italy and BNP for Paribas and ELF in France, spectacularly shook up the sleepy corporate world of Europe. The deals involved newly privatized giants. These high-profile cases moved takeover regulation of domestic and crossed broader deals in the European Union to the top of political agenda.
- iv. **Economic crisis** The East Asia crisis 1998 that started from Thailand and engulfed most of the Asian countries high lightened the weak governance, practices in emerging countries. This led to the reassessment of the Asian model characterized by centralized and hierarchical industrial groups controlled by the management and large investors. There had also been a similar reassessment of mass insider privatization and its concomitant weal protection of small investors in Russia. These crises led international policymakers to conclude the macro-management was not sufficient to prevent crises and need more governance. And the series of scandals and corporate failure in the USA high lightened the importance of governance. The big corporate giants such as Enron, World telecom, Adelphia communication, etc. failed due to corporate governance weakness. These giant failures caused the US economy an unprecedented crisis requiring the US government to pledge billions of dollars to bail out the banks. These incidents focused on the importance of corporate governance and the evolution of governance principles.

2.2 Empirical review

Smith, Jones, and Patel (2023) conducted a comprehensive study on the relationship between corporate governance and financial performance in North American firms. This study analyzed data from 300 publicly traded companies over the period from 2013 to 2022. The authors used a governance index developed from various metrics such as board independence, audit committee effectiveness, and shareholder rights. Their findings indicated that firms with higher governance scores had significantly higher return on assets (ROA) and return on equity (ROE). The study also revealed that these firms experienced lower volatility in stock prices, suggesting that strong corporate governance not only boosts financial performance but also contributes to market stability.

Li and Wang (2023) explored the effects of corporate governance on financial performance in Chinese state-owned enterprises (SOEs). They examined 150 SOEs from 2012 to 2021, focusing on governance factors such as board structure, executive compensation, and ownership concentration. The results showed that better governance practices, particularly higher board independence and more transparent executive compensation policies, were associated with improved firm performance measured by ROA and Tobin's Q. This study highlights the importance of governance reforms in enhancing the performance of SOEs in China.

Garcia, Hernandez, and Martinez (2024) investigated the impact of corporate governance on the financial performance of Latin American firms. Using a sample of 200 firms from 2014 to 2023, they constructed a governance index that included factors like board diversity, audit quality, and shareholder rights. Their analysis found that firms with higher governance scores had better financial performance, as indicated by higher profit margins and earnings per share (EPS). The study also emphasized the role of board diversity in driving firm performance, suggesting that diverse boards bring varied perspectives that enhance decision-making processes.

Ogunleye and Adeyemi (2024) examined the relationship between corporate governance and bank performance in Sub-Saharan Africa. Analyzing data from 50 banks across 10 countries from 2010 to 2022, they focused on governance variables such as board size, frequency of board meetings, and regulatory compliance. Their findings indicated that banks with stronger governance frameworks had higher ROE

and lower non-performing loan ratios. The study also pointed out that regulatory compliance played a crucial role in ensuring effective governance practices in the banking sector.

Sapkota (2020) investigated the relationship between corporate governance and the financial performance of Nepalese commercial banks. The primary objective of the research is to assess how different aspects of corporate governance impact the performance metrics of these banks. The study covers a sample of nine commercial banks over a ten-year period from 2008/09 to 2017/18. The methodology includes an analysis of corporate governance factors such as leverage ratio, board meetings, board size, and ownership concentration. The findings reveal that while certain corporate governance variables such as board meetings and liquidity have a negative impact on bank performance, others like debt ratio, net interest margin, and total assets positively influence performance. Interestingly, board size and ownership concentration were found to have no significant effect on the banks' ROE. This suggests that while some governance aspects are crucial for performance, others may not have a direct impact, highlighting the complexity of governance-performance relationships in the banking sector.

Lamichhane (2018) focused on the impact of corporate governance on the financial performance of firms in Nepal. The research aims to explore how various governance practices affect the financial outcomes of Nepalese firms. Using a descriptive and causal comparative research design, Lamichhane analyzes secondary data and applies correlation and regression analyses to understand the effects of governance on performance. The study concludes that there is a positive correlation between the level of corporate governance and financial performance. However, ownership concentration did not show a significant relationship with firm performance. The research underscores the importance of strong corporate governance practices in enhancing the financial performance of Nepalese firms, emphasizing that effective governance can lead to better financial outcomes.

Amina et al., (2017) examined the impact of corporate governance on firm performance in Saudi listed companies. The objectives of their study include assessing how governance principles affect operational, financial, and market performance, using Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q

as performance metrics. Their methodology involves analyzing pooled data from the Saudi stock exchange, including both time series and cross-sectional data. The study finds a significant positive relationship between corporate governance and firm performance, particularly with regard to ROA, ROE, and Tobin's Q. The research highlights that better adherence to corporate governance principles, such as having a robust board and transparent executive compensation, is associated with improved firm performance. The findings suggest that stringent corporate governance regulations can enhance the performance of firms listed on the Saudi stock exchange.

Ahmed et al., (2013) investigated the effect of internal corporate governance mechanisms on bank performance, focusing on factors like ownership concentration, board size, and audit committee effectiveness. Their study includes data on bank size and age as control variables and uses performance measures such as Tobin's Q, ROA, and profit margin. The results reveal that while corporate governance practices are crucial, the relationship between governance and financial performance remains complex and not always straightforward. The study indicates that corporate governance mechanisms do not show a clear, consistent impact on bank performance, particularly in emerging economies. This underscores the need for further research to better understand how governance practices influence performance in different banking contexts. These studies collectively highlight the multifaceted nature of corporate governance and its impact on financial performance in various contexts, including Nepalese commercial banks. They suggest that while some governance factors significantly influence performance, others may have a more nuanced or negligible effect.

Mustafa et al., (2016) examined this study in two stages: Firstly; the efficiency scores of the banks considered in this study have been assessed by DEA, and then the effect of corporate governance practices on the banks' efficiencies is tried to be determined by panel data analysis. The data belongs to 10 Turkish depository banks listed in Borsa Istanbul (BIST) were used for the period of 2005-2015 years and the balance sheets, income tables and annual reports of the listed depository banks have been considered in measuring the inputs and outputs. In determining the efficiency scores of DMUs, Excel's Solver add-in has been used. In determining the effect of corporate governance on bank efficiency; a two-step procedure has been employed. Firstly; Data Envelopment Method (DEA) has been used in measuring the efficiency of

Turkish listed deposit banks during 2005-2015. Secondly; a multiple regression model has been derived and analyzed by the panel data analysis. In measuring the efficiency level of the banks. The regression results have shown that board size has a positive impact on bank efficiency. This means that larger board size achieves a higher level of efficiency in terms the input and output ratios used in DEA method. Additionally, larger board size brings higher knowledge into supervisory process and the decision-making mechanism.

Gezim Tosuni (2013) examines investigate corporate governance practices of firms, in particular financial institutions, and their impact on the performance of these institutions. As such it will contribute to the debate on the importance of corporate governance for banks. The empirical methodology of the research consists of both OLS and dynamic panel model estimation. The data for SEE banks is based on the author's bank survey which was conducted for one year and can therefore be analyzed only with the OLS method. By applying the Generalized Method of Moments, the positive and statistically significant relationship between corporate governance and bank performance is confirmed. The findings suggested that better legal framework induce, better corporate governance practices of banks and insurance companies. The findings also indicate that there are aspects of corporate governance that need to be regulated by law.

Beiner, Drobetz, Schmid, and Zimmermann (2006) investigated the link between corporate governance and firm valuation in Switzerland. Using a sample of 103 Swiss firms, they constructed a corporate governance index based on 25 governance attributes. Their analysis showed a positive and significant relationship between corporate governance quality and firm valuation, measured by Tobin's Q. The study underscores the importance of comprehensive corporate governance practices for enhancing firm value.

Black, Jang, and Kim (2006) explored the impact of corporate governance on firm value in Korea. They developed a corporate governance index based on a survey of 515 firms listed on the Korea Stock Exchange. The results demonstrated a strong positive relationship between corporate governance index scores and market valuation, suggesting that better-governed firms are valued higher by investors. This

study provides evidence of the significant role of corporate governance in emerging markets.

Brown and Caylor (2006) analyzed the relationship between corporate governance and operational performance in the United States. They used data from Institutional Shareholder Services (ISS) to create a governance index for a sample of 2,327 firms. Their study found that firms with stronger governance structures had higher return on equity (ROE), higher profit margins, and better sales growth. The findings indicate that effective corporate governance contributes to superior operational performance.

Table 1: Summary of Literature Review Table

S.N.	Author(s)	Variables	Methodology	Major findings
1	Garcia, Hernandez, and Martinez, (2024)	Governance index (board diversity, audit quality, shareholder rights), financial performance (profit margins, earnings per share - EPS).	Quantitative, longitudinal study using secondary data from financial reports and governance disclosures.	Firms with higher governance scores had better financial performance, indicated by higher profit margins and EPS. Board diversity plays a crucial role in enhancing firm performance through varied perspectives in decision-making.
2	Ogunleye and Adeyemi (2024)	Governance variables (board size, frequency of board meetings, regulatory compliance), bank performance (ROE, non-performing loan ratios).	Quantitative, longitudinal study using secondary data from bank financial statements and governance reports.	Banks with stronger governance frameworks had higher ROE and lower non-performing loan ratios. Regulatory compliance is crucial for effective governance practices in the banking sector.
3	Li and Wang (2023)	Governance factors (board structure, executive compensation, ownership concentration), financial performance (ROA,	Quantitative, longitudinal study using secondary data from company reports.	Better governance practices, particularly higher board independence and transparent executive compensation policies, were associated with improved firm performance. Governance reforms

		Tobin's Q).		enhance SOE performance.
4	Smith, Jones, and Patel (2023)	Corporate governance index (board independence, audit committee effectiveness, shareholder rights), financial performance (ROA, ROE), stock price volatility.	Quantitative, longitudinal study using secondary data from public records.	Firms with higher governance scores had significantly higher ROA and ROE and lower stock price volatility. Strong corporate governance boosts financial performance and market stability.
5	Sapkota (2020)	Governance factors (leverage ratio, board meeting, board size, ownership concentration), bank performance (ROE, debt ratio, net interest margin, total assets).	Quantitative, longitudinal study using secondary data from bank financial reports.	Debt ratio, net interest margin, and total assets positively contributed to bank performance. Board meetings and liquidity negatively impacted performance. Board size and ownership concentration had no significant contribution to firm performance.
6	Lamichhane (2018)	Governance level, financial performance.	Quantitative, cross-sectional study using secondary data from financial reports and governance disclosures.	Financial performance of Nepalese firms is positively affected by the level of corporate governance. Ownership concentration had no relation to financial performance.
7	Amina et al. (2017)	Governance principles, firm performance (ROA, ROE, Tobin's Q), control variables (firm size, board size, Big Four audit, firm age).	Quantitative, longitudinal study using secondary data from the Saudi stock exchange database.	Positive and significant relationship with Big Four and firm age; negative and insignificant relationship with firm size and board size. Recommends stricter implementation of governance regulations.
8	Mustafa et al. (2016)	Corporate governance	Quantitative, longitudinal study	Larger board size positively impacts bank efficiency,

- practices (board size), bank efficiency. using secondary data from bank financial reports and DEA. bringing higher knowledge into the supervisory process and decision-making mechanisms.
- 9 Ahmed et al. (2013) Corporate governance mechanisms (ownership concentration, director ownership, duality, board size, board non-executive, board activism, audit committee, audit committee meetings), bank performance (Tobin's Q, ROA, Profit Margin), control variables (bank type, bank age, bank size). Quantitative, cross-sectional study using secondary data from bank financial reports. The correlation between corporate governance and performance is unclear; no significant differences in governance practices between conventional and Islamic banks.
- 10 Tosuni (2013) Corporate governance practices, bank performance. Quantitative, cross-sectional study using primary data from bank surveys. Positive and statistically significant relationship between corporate governance and bank performance. Better legal frameworks induce better governance practices.
- 11 Beiner, Drobetz, Schmid, and Zimmermann (2006) Corporate governance quality (25 attributes), firm valuation (Tobin's Q). Quantitative, cross-sectional study using secondary data from firm reports. Positive and significant relationship between corporate governance quality and firm valuation. Comprehensive governance practices enhance firm value.
- 12 Black, Jang, and Kim (2006) Corporate governance index, market valuation. Quantitative research using a governance index and market Strong positive relationship between corporate governance index scores

			valuation metrics and market valuation. analyzed through regression models.	Better-governed firms are valued higher by investors in emerging markets.
13	Brown and Caylor (2006)	Governance structures, operational performance (ROE, profit margins, sales growth).	Quantitative analysis involving the creation of a governance index and examination of its impact on operational performance through regression techniques.	Firms with stronger governance structures had higher ROE, higher profit margins, and better sales growth. Effective corporate governance contributes to superior operational performance.

2.3 Research gap

The existing literature on corporate governance and firm performance reveals several research gaps, particularly related to geographical focus and sector-specific contexts. Many studies are concentrated in specific regions such as North America, China, Latin America, and Sub-Saharan Africa, which may not fully represent the global landscape of corporate governance practices. For instance, while Smith, Jones, and Patel (2023) provide valuable insights into North American firms, their findings may not be applicable to emerging markets with different economic and regulatory environments. Similarly, research by Li and Wang (2023) and Garcia, Hernandez, and Martinez (2024) offers detailed analysis for China and Latin America respectively, highlighting the need for comparative studies across diverse regions to understand how governance impacts financial performance globally.

Another significant gap lies in the sector-specific analysis within the existing studies. Research such as that by Sapkota (2020) and Mustafa et al. (2016) focuses on specific industries, such as Nepalese commercial banks and Turkish depository banks, respectively. These findings may not be generalizable to other sectors or types of financial institutions. For example, Ahmed et al. (2013) investigates corporate governance in Middle Eastern banks without distinguishing between conventional and Islamic banks. Further research could explore how governance mechanisms influence performance in non-banking financial institutions or across different sectors to provide a broader understanding of the impact of corporate governance.

Moreover, the literature often relies on cross-sectional data, limiting the ability to assess the effects of corporate governance over time. Studies such as those by Amina

et al. (2017) and Tosuni (2013) use pooled data or one-year surveys, which may not capture long-term trends or changes in governance practices. Longitudinal studies that track the impact of governance reforms and changes in performance over extended periods could offer deeper insights. Additionally, exploring governance impacts in emerging markets with rapidly evolving regulatory frameworks or in regions with varying governance standards could further enrich the understanding of how corporate governance influences firm performance across different context.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design

This study utilizes descriptive and causal comparative research designs to address fundamental issues related to the corporate governance and the performance of Nepalese banks. The descriptive research design is employed for fact-finding and obtaining sufficient information about the corporate governance and the performance of Nepalese banks. Additionally, a causal comparative research design is applied to assess the effects of independent variable in relation to their dependent variables. The primary objective of incorporating the causal comparative research design is to investigate whether predicting corporate governance and the performance of selected commercial banks is feasible. Further methodological considerations are thoroughly addressed in the relevant sections of this study.

3.2 Population and Sampling Procedure

The study encompasses a total population of 20 commercial banks in Nepal. Employing the convenience sampling method, Global IME Bank, Agriculture Development Bank, and Nabil Bank Ltd have been selected as the sample for the study. The research aims to investigate the influence of corporate governance and the performance of Nepalese banks, utilizing data from the most recent ten fiscal years, spanning from Fiscal Year 2069/70 to Fiscal Year 2078/79.

3.3 Nature and Sources of Data Collection

The study relies on secondary data for its analysis. The primary source of this data is the annual reports of the selected banks, which have been collected directly from the banks and also downloaded from their official websites. In addition to the annual reports, supplementary data has been obtained from various sources, such as newspapers, magazines, brochures, booklets, periodicals, bulletins, and relevant documents and journals available at the library of Tribhuvan University. Other sources include organizations like the Nepal Rastra Bank, providing a comprehensive base for the study's data collection.

3.4 Research Framework and Definition of Variables

Based on the literature review and the research objectives, the current study develops the conceptual framework. The conceptual framework of the study explains the systematic explanation of the relationship between the dependent and independent variables. It helps to focus on the research problem and achieve the research objective. A description of the framework contributes to a research report in two ways; it identifies research variables and clarifies the relationship between the variables. Linked to the problem of the statement, the conceptual framework sets the stage for the presentation of the specific research question that drives the research. The conceptual framework for this research is shown in the below diagram.

Independent variables

Dependent Variable

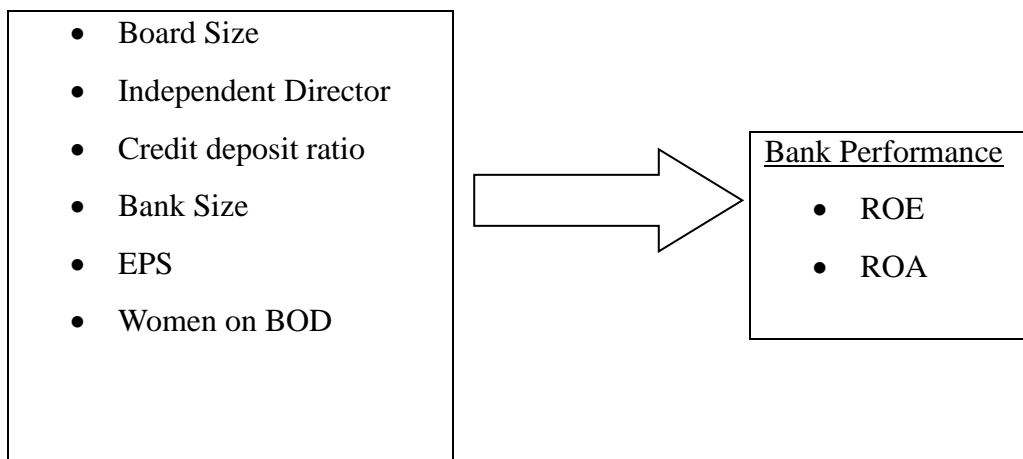


Figure 1: Conceptual Framework

Source: Gautam, 2019

Definition of variables

The conceptual framework for this study is derived from the previous studies carried out by different scholars. This study focuses on the relationship between corporate governance and bank performance. In figure 1, the independent variables are board size, the number of independent directors, leverage ratio, bank size in terms of capital and reserve, earning per share and Capital Adequacy Ratio. And dependent variables are returned on equity and net interest margin. This figure suggests that return on equity and net interest margin which are the indicator of the performance of banks are linked with the board size, independent directors, leverage, earning per share, capital

adequacy ratio and bank size. These governance factors influence the performance of banks.

Board size

Board size refers to the total number of directors that make up a company's board. In the context of banking institutions, the size of the board plays a significant role in shaping the firm's decision-making and governance. A larger board can offer a wide range of expertise, experience, and perspectives, which can enhance the quality of strategic decisions. However, larger boards can also face challenges in terms of coordination and decision-making efficiency. Studies suggest that while larger boards bring diverse viewpoints, they may also slow down decision processes and dilute individual accountability. Conversely, smaller boards are often more agile and cohesive but may lack the broad range of skills needed to address complex issues. Yermack (1996) found that firms with smaller boards often had better market performance, suggesting that an optimal board size is crucial for balancing governance effectiveness and decision-making agility.

Independent director

An independent director is a member of the board who does not have any financial, familial, or business relationships with the company, allowing them to provide unbiased oversight. Independent directors are crucial in ensuring that the board's decisions are in the best interest of shareholders and not unduly influenced by the company's management. The presence of independent directors is considered a key aspect of good corporate governance because they provide a check on the actions of executives, reduce the potential for conflicts of interest, and enhance transparency. According to Fama and Jensen (1983), independent directors help improve decision control within firms by separating decision-making responsibilities from those who monitor and assess the effectiveness of those decisions. This separation reduces managerial discretion and protects the firm from potential misuse of power by executives.

Credit deposit ratio (CDR)

The credit deposit ratio (CDR) measures how effectively a bank uses its deposits to generate loans. It is calculated by dividing a bank's total loans by its total deposits. This ratio is an important indicator of a bank's operational efficiency. A higher CDR

suggests that the bank is lending out more of its deposits, which could lead to higher profitability, provided that loans are performing well and not defaulting. However, a very high CDR could indicate that the bank is taking on excessive risk, which may lead to liquidity issues. Conversely, a lower CDR indicates that the bank is keeping a larger proportion of deposits, which might limit profitability but provides greater liquidity and reduces risk. The optimal CDR depends on the bank's risk appetite and market conditions.

Bank size

Bank size typically refers to the total assets or market capitalization of a bank. Larger banks benefit from economies of scale, allowing them to operate more efficiently and at a lower cost per unit of service. Bigger banks also tend to have more diversified income streams, which can reduce risk and improve financial stability. Additionally, larger banks are often better equipped to access capital markets and invest in technology and infrastructure, giving them a competitive advantage. However, larger institutions might also face challenges related to bureaucracy and slow decision-making processes. Studies, such as those by Berger et al. (1997), show that larger banks often perform better financially due to their ability to exploit operational efficiencies and diversify their risk portfolios.

Earnings per share (EPS)

Earnings per share (EPS) is a financial performance metric that shows the portion of a company's profit allocated to each outstanding share of common stock. It is a key indicator used by investors to assess a company's profitability. Higher EPS indicates better profitability, which can enhance shareholder wealth. In the context of banks, a high EPS can signal efficient management and robust financial performance. However, it's important to consider EPS in relation to other financial ratios and the overall market conditions, as a high EPS in isolation may not always reflect the true financial health of a bank. Investors and analysts frequently use EPS as a primary measure for comparing performance across companies and industries.

Women on the board of directors (Women BOD)

The presence of women on the board of directors refers to the gender diversity within a company's governing body. Gender diversity is increasingly recognized as an important factor in corporate governance. Studies have shown that companies with

gender-diverse boards often benefit from diverse perspectives, better decision-making, and a broader understanding of stakeholder needs. Gender diversity on boards can enhance problem-solving abilities and lead to more balanced and comprehensive strategies. Research by Catalyst (2011) shows that companies with a higher representation of women on boards tend to outperform those with lower representation, in terms of financial performance and governance quality. In Nepalese banks, the presence of women on the board could reflect the organization's commitment to inclusive leadership and progressive governance practices.

Return on assets (ROA)

Return on Assets (ROA) is a profitability ratio that evaluates how efficiently a company uses its assets to generate earnings. It is calculated by dividing net income by total assets, and it reflects the company's ability to manage its resources effectively. A higher ROA indicates that the company is generating more profit per dollar of assets, signaling better asset utilization and operational efficiency. In the banking sector, ROA is critical because banks use assets like loans and investments to generate revenue. As highlighted by Demirgüç-Kunt and Huizinga (1999), ROA is often employed as a measure of performance in financial institutions, particularly in cross-country studies of banking efficiency. A high ROA in a bank suggests strong asset management and effective lending practices, leading to improved profitability.

Return on equity (ROE)

Return on Equity (ROE) measures the profitability of a company in relation to shareholders' equity. It is calculated by dividing net income by shareholders' equity. ROE shows how efficiently a company is using the money invested by shareholders to generate profits. For banks, a high ROE is considered an indicator of good financial health, as it shows that the bank is able to provide higher returns to its investors. Molyneux and Thornton (1992) emphasize that ROE is a critical indicator of financial performance in banking, as it demonstrates how well a bank is utilizing shareholder capital. Higher ROE is often associated with strong financial management and operational success, which are attractive to shareholders and potential investors.

Both ROA and ROE are widely used in banking research to measure performance and profitability, with ROA focusing on asset efficiency and ROE highlighting the returns

generated for shareholders. These variables help compare banks' financial health and assess the effectiveness of various governance and operational factors.

3.5 Methods of analysis

The data analyses in this study were conducted using the Statistical Package for the Social Sciences (SPSS) program. The analytical procedures encompassed descriptive statistics, incorporating frequencies, mean, and standard deviation.

3.5.1 Secondary data

This study employs secondary data analysis, utilizing regression models that include various statistical tests of significance. The regression models encompass multiple regression models. Additionally, the study incorporates descriptive statistics, correlation analysis, and statistical tests of significance, such as t-test, F-test, and Adjusted R².

Model I:

In this model, the dependent variable is the return on equity and independent variables are board size, the number of independent directors in board size, credit deposit ratio, bank size, earning per share and women on board of directors. The model is presented below:

$$ROE = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 CD + \beta_4 BS + \beta_5 EPS + \beta_6 WD + e$$

Model II:

In this model, the dependent variable is Return on assets and independent variables are board size, the number of independent directors in board size, credit deposit ratio, bank size, earning per share and women on board of directors. The model is presented below:

$$ROA = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 CD + \beta_4 BS + \beta_5 EPS + \beta_6 WD + e$$

Where,

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ are the regression coefficient

ROE= return on equity

ROA= return on assets

BM= board member size

ID= number of independent directors

CD = Credit deposit ratio (the percentage of total credit to total deposits)

BS= bank size (total asset)

EPS = earnings per share

WD = Women on Board of Directors (Total number of women directors on the board)

Statistical analysis for model

For data analysis, the Statistical Package for the Social Sciences program (SPSS) was employed. The analysis comprised both descriptive and inferential statistics. Descriptive statistics, including means, standard deviations, and the maximum and minimum values of commercial banks, were utilized to examine the data. Inferential statistics were employed to analyze the relationships between variables, differences in variables among various banks, and how multiple independent variables could account for the variance in a dependent variable. Inferential statistical techniques such as the Correlation Coefficient, Multiple Regression Analysis, and Analysis of Variance (ANOVA) were applied.

CHAPTER IV

RESULT AND DISCUSSION

This chapter focused on analyzing and interpreting the collected data to align the findings with the research objectives. The presentation and analysis of data were essential steps in the research process. The data was systematically organized and structured into tables for clarity. The analysis emphasized financial data, supported by tables and graphs, to provide a basis for recommending corrective actions. To achieve the study's objectives, various statistical and financial methods were employed. The chapter then discussed the results and findings derived from both descriptive and inferential analyses. It was organized into two sections to analyze and present the data obtained primarily from secondary sources. The methods of analysis used included:

- i. Financial analysis
- ii. Statistical analysis

4.1 Financial analysis

In your thesis, financial analysis plays a vital role in assessing the financial health and performance of Global IME Bank, Nabil Bank, and Agriculture Development Bank. This analysis focuses on various governance factors such as Board Size, the presence of Independent Directors, the Credit Deposit Ratio, Bank Size, Earnings Per Share (EPS), and the representation of Women on the Board of Directors (BOD). By examining these elements, the study aims to understand their influence on key performance indicators like Return on Equity (ROE) and Return on Assets (ROA). The analysis delves into how the size and composition of the board, including the presence of independent directors and women, impact the banks' decision-making processes, risk management, and overall governance. It also explores how financial metrics like the Credit Deposit Ratio and EPS relate to the banks' profitability and operational efficiency.

The study further investigates the relationship between these governance and financial factors and the banks' performance as measured by ROE and ROA. ROE reflects the banks' ability to generate profits from shareholders' equity, while ROA measures how efficiently they utilize their assets to produce earnings. By linking these indicators to governance and financial metrics, the analysis provides a comprehensive view of how

these factors collectively influence the banks' financial success. This approach not only highlights the importance of effective governance and strategic financial management but also offers insights into areas where the banks can enhance their performance to achieve sustainable growth and profitability.

Table 2: Financial Performance Metrics of Global IME Bank Ltd (GIBL)

Year	Board Size	Ind. Directors	CDR	Bank Size	EPS	W. BOD	ROA	ROE
2071	7	0	79.8929	60,018,207,850	19.77	0	0.0162	0.1957
2072	7	0	81.3231	69,186,488,883	15.58	0	0.0139	0.1558
2073	7	0	81.4657	87,701,310,349	19.33	0	0.0158	0.1933
2074	5	1	79.3053	116,592,269,147	22.57	0	0.0172	0.2257
2075	5	1	87.6659	130,487,162,238	26.46	0	0.0165	0.1576
2076	4	1	91.6152	155,235,178,964	28.04	0	0.0189	0.1765
2077	6	1	83.5678	276,984,686,611	16.46	0	0.0113	0.1068
2078	5	1	81.8963	351,395,995,570	26.16	0	0.0141	0.1471
2079	6	1	94.9930	368,850,671,173	20.84	0	0.0139	0.1325
2080	6	1	85.2070	534,457,216,201	22.06	0	0.0130	0.1152

Source: Annual Report of GIBL

The Table 2 provides a comprehensive overview of Global IME Bank Ltd's (GIBL) financial performance over a decade, spanning from the fiscal year 2071 to 2080 in the Nepali calendar. This period highlights the bank's growth and operational trends across several key metrics. The Board Size fluctuated between 4 and 7 members, reflecting changes in the bank's governance structure. The introduction of Independent Directors from 2074 onwards, starting with 1 member, marks a shift towards greater board independence. Meanwhile, the Credit Deposit Ratio, a critical indicator of how much of the bank's deposits are loaned out, showed variability, ranging from approximately 79% to 95%, indicating fluctuations in the bank's lending practices relative to its deposit base.

The Bank Size, likely represented by total assets, exhibited substantial growth over the decade, expanding from around 60 billion to 534 billion Nepalese Rupees, underscoring the bank's significant expansion in scale. However, Earnings Per Share (EPS) showed fluctuations, peaking at 28.04 in 2076 and dipping to a low of 15.58 in 2072, reflecting the bank's varying profitability across the years. Notably, there was no Women's representation on the Board of Directors (BOD) throughout this period,

as the figure consistently remained at 0. The bank's Return on Assets (ROA), a measure of how effectively it utilized its assets to generate profits, varied between 0.0113 and 0.0189, indicating stable asset utilization. Similarly, Return on Equity (ROE), which gauges profitability relative to shareholders' equity, ranged from about 10.68% to 22.57%, showing fluctuations in shareholder returns. Overall, the data reveals the bank's growth trajectory and changes in financial performance, with a notable absence of female board members and an increasing emphasis on board independence over time.

Table 3: Financial Performance Metrics of Nabil Bank Ltd (NABIL)

Year	Board Size	Ind. Directors	CDR	Bank Size	EPS	W. BOD	ROA	ROE
2071	5	0	72.5631	90,292,964,080	76.12	0	0.0258	0.6376
2072	7	1	63.0086	118,696,825,406	57.36	0	0.0177	0.4413
2073	5	1	69.0549	127,619,359,166	59.36	0	0.0221	0.4566
2074	6	1	75.7278	140,697,262,241	58.41	0	0.0259	0.4533
2075	6	1	84.4350	169,623,421,874	52.34	0	0.0237	0.1942
2076	6	1	81.9829	169,623,421,874	50.77	1	0.0211	0.1826
2077	6	1	80.6571	238,175,189,306	36.44	1	0.0147	0.1343
2078	6	1	92.4868	292,566,048,971	34.62	1	0.0160	0.1371
2079	6	1	95.2133	420,749,061,528	18.89	1	0.0102	0.0810
2080	6	1	85.8824	480,595,671,541	24.11	1	0.0136	0.1141

Source: Annual Report of NABIL

The Table 3 provides an overview of Nabil Bank Ltd's (NABIL) financial performance over a 10-year period from 2071 to 2080 in the Nepali calendar, highlighting key changes and trends in its operations. The Board Size varied between 5 and 7 members, eventually stabilizing at 6 from 2074 onwards, while the presence of Independent Directors has been consistent since 2072, with 1 independent director on the board. The Credit Deposit Ratio, which indicates the proportion of deposits that have been loaned out, experienced significant fluctuations, ranging from a low of 63.01% in 2072 to a high of 95.21% in 2079, reflecting variability in the bank's lending practices.

The Bank Size, likely representing total assets, showed substantial growth, increasing from approximately 90 billion to 480 billion Nepalese Rupees over the decade, indicating significant expansion. However, despite this growth, Earnings Per Share

(EPS) exhibited a notable decline, dropping from 76.12 in 2071 to 24.11 by 2080. The Return on Assets (ROA) and Return on Equity (ROE), key profitability metrics, also followed a downward trend, with ROA decreasing from 0.0258 to 0.0136, and ROE falling dramatically from 63.76% to 11.41% over the period. Another key development was the introduction of Women on the Board of Directors (BOD), with female representation starting in 2076. Overall, while Nabil Bank Ltd experienced significant growth in terms of assets, its profitability metrics generally declined, and female representation on the board was introduced mid-decade.

Table 4: *Financial Performance Metrics of Agriculture Development Bank Ltd (ADBL)*

Year	Board Size	Ind. Directors	CDR	Bank Size	EPS	W. BOD	ROA	ROE
2071	10	0	86.7794	86,512,089,679	35.19	2	0.0176	0.1542
2072	9	0	89.0223	100,928,514,481	78.83	1	0.0357	0.3473
2073	10	0	90.9625	111,785,009,361	52.79	1	0.0220	0.2133
2074	9	0	88.3689	126,866,600,103	31.59	1	0.0202	0.1840
2075	7	1	96.0704	135,245,342,834	37.44	1	0.0275	0.1420
2076	7	1	93.6027	153,278,833,592	45.38	1	0.0288	0.1525
2077	7	1	85.6426	179,745,905,890	25.32	1	0.0173	0.1075
2078	7	1	92.5787	222,959,182,116	30	1	0.0162	0.1130
2079	7	1	106.5245	246,868,133,729	14.91	1	0.0093	0.0673
2080	7	1	90.4601	265,929,199,267	7.54	1	0.0050	0.0394

Source: Annual Report of ADBL

The Table 4 provides an overview of the financial performance of Agriculture Development Bank Ltd (ADBL) over a 10-year period from 2071 to 2080 in the Nepali calendar, highlighting key trends and shifts in its operations. The Board Size started at 10 members, then gradually decreased to 9, and finally stabilized at 7 from 2075 onwards. Independent Directors were introduced from 2075, marking a shift in the bank's governance structure. The Credit Deposit Ratio, which indicates the proportion of deposits that have been loaned out, showed notable fluctuations, with a significant peak of 106.52% in 2079, suggesting periods of aggressive lending. The Bank Size, reflecting total assets, demonstrated consistent growth, rising from approximately 86 billion to 265 billion Nepalese Rupees over the decade, indicating the bank's expanding scale of operations.

Despite this growth in assets, the bank's profitability metrics experienced significant volatility. Earnings Per Share (EPS), for example, showed sharp fluctuations, peaking at 78.83 in 2072 and dropping to a low of 7.54 by 2080. Both Return on Assets (ROA) and Return on Equity (ROE) followed a general downward trend, with ROA decreasing from 0.0176 in 2071 to 0.0050 in 2080, and ROE declining from 34.73% in 2072 to just 3.94% by 2080. Women's representation on the Board of Directors (BOD) started with 2 members in 2071, but was reduced to 1 from 2072 onwards. Overall, while ADBL expanded in size, it struggled with profitability, facing challenges in maintaining consistent earnings and returns. The changes in governance, including a reduction in board size and the introduction of independent directors, reflect the bank's efforts to adapt its structure amid these challenges.

4.2 Statistical analysis

Statistical analysis is a process used to gather, examine, and interpret data to draw meaningful conclusions. It involves the use of statistical methods to summarize and make sense of data, allowing for the identification of patterns, trends, and relationships. The primary objectives of statistical analysis are to comprehend data distributions, make informed predictions, and support decision-making. The process includes two main types of analysis:

- i. Descriptive analysis (such as Means and Standard Deviation)
- ii. Inferential analysis (including Correlation and Regression analysis).

4.2.1 Descriptive analysis

Table 5: Descriptive Analysis

		Board Size	Ind. Directors	CDR	Bank Size	EPS	W. BOD	ROA	ROE
GIBL	Mean	5.80	0.70	84.69	215090918698.60	21.73	0	0.015	0.1606
	S. D	1.033	0.483	5.23	159879487845.56	4.20	0	0.0022	0.0376
NABIL	Mean	5.9	0.9	80.10	224863922598.70	46.84	0.50	0.019	0.2832
	S. D	0.568	0.316	10.15	133564314879.76	17.83	0.527	0.0054	0.1945
ADBL	Mean	8	0.60	91.99	163011881105.2	35.899	1.10	0.0199	0.152
	S. D	1.333	0.516	5.99	63245993333.12	20.087	0.316	0.0091	0.0859

Source: Researcher's survey 2024

The Table 5, descriptive analysis of Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL) reveals key differences in their financial and governance metrics over the analyzed period. Starting with governance, ADBL has the largest board size, with an average of 8 members (S.D 1.333), indicating a slightly fluctuating board composition. NABIL and GIBL have smaller boards, averaging 5.9 (S.D 0.568) and 5.8 members (S.D 1.033) respectively. In terms of board independence, NABIL leads with an average of 0.9 independent directors (S.D 0.316), followed by GIBL with 0.7 (S.D 0.483), and ADBL with 0.6 (S.D 0.516). This suggests NABIL places a stronger emphasis on independent oversight compared to the other two banks.

The Credit Deposit Ratio (CDR), which reflects the proportion of deposits loaned out, varies significantly among the banks. ADBL has the highest average CDR at 91.99% (S.D 5.99%), indicating a more aggressive lending approach. GIBL has a moderately lower average CDR of 84.69% (S.D 5.23%), while NABIL has the lowest mean CDR at 80.10% (S.D 10.15%), but with the highest variability, suggesting greater fluctuations in lending practices. In terms of size, NABIL is the largest bank, with average total assets of NPR 224.86 billion (S.D 133.56 billion), followed closely by GIBL at NPR 215.09 billion (S.D 159.87 billion). ADBL is smaller, with mean total assets of NPR 163.01 billion (S.D 63.25 billion).

Profitability metrics further distinguish these banks. NABIL exhibits the highest average Earnings Per Share (EPS) at 46.84 (S.D 17.83), indicating strong profitability, while ADBL has a mean EPS of 35.899 (S.D 20.087), reflecting significant but more variable profitability. GIBL, with a mean EPS of 21.73 (S.D 4.20), lags behind in this area. In terms of gender diversity on the Board of Directors (BOD), ADBL again leads with an average of 1.10 women (S.D 0.316), while NABIL has an average of 0.50 women (S.D 0.527). GIBL, however, has no female representation on its board throughout the period analyzed.

When assessing returns, ADBL has the highest average Return on Assets (ROA) at 1.99% (S.D 0.91%), closely followed by NABIL with 1.9% (S.D 0.54%). GIBL's average ROA is lower at 1.5% (S.D 0.22%). NABIL outperforms significantly in Return on Equity (ROE), with an average of 28.32% (S.D 19.45%), indicating strong returns for shareholders. In contrast, GIBL and ADBL have lower average ROEs of

n
Sig. (2-
tailed)

Source: Researcher's survey 2024

The Table 6, correlation analysis provides key insights into the relationships between the dependent variables, Return on Assets (ROA) and Return on Equity (ROE), and the independent variables: Board Size, Independent Directors, Credit Deposit Ratio (CDR), Bank Size, Earnings Per Share (EPS), and Women on the Board of Directors (Women BOD).

Return on Assets (ROA) shows significant relationships with two independent variables: Bank Size and EPS. The analysis reveals a significant negative correlation between Bank Size and ROA ($r = -0.521$, $p = 0.003$). This suggests that as bank size increases, ROA tends to decrease, indicating that larger banks may not be utilizing their assets as efficiently as smaller ones. In contrast, EPS demonstrates a strong positive correlation with ROA ($r = 0.839$, $p < 0.001$), indicating that banks with higher earnings per share tend to have higher returns on assets. This relationship underscores the importance of profitability in driving asset performance. The other variables—Board Size, Independent Directors, CDR, and Women BOD—do not exhibit significant correlations with ROA, implying they may not be crucial factors in determining asset returns.

Return on Equity (ROE) also has significant correlations with multiple independent variables. Similar to ROA, Bank Size shows a significant negative correlation with ROE ($r = -0.463$, $p = 0.010$), suggesting that larger banks may struggle to generate high returns on equity. CDR shows a strong negative correlation with ROE ($r = -0.706$, $p < 0.001$), indicating that a higher credit deposit ratio, which might reflect greater lending relative to deposits, is associated with lower equity returns. This could imply that overly aggressive lending strategies might not be conducive to maximizing shareholder returns. EPS again shows a strong positive correlation with ROE ($r = 0.805$, $p < 0.001$), reaffirming the critical role of profitability in driving returns for shareholders. Interestingly, Women BOD displays a significant negative correlation with ROE ($r = -0.382$, $p = 0.037$), suggesting that banks with a higher proportion of women on their boards might have lower returns on equity. However, this finding would require further investigation to understand the underlying causes and implications. Similar to ROA, Board Size and Independent Directors do not have

significant correlations with ROE, indicating they may not be key determinants of equity returns in this context.

In summary, the analysis highlights that Bank Size and EPS are consistently significant predictors of both ROA and ROE, with larger banks tending to have lower performance and higher EPS being associated with better performance. CDR has a notable negative impact on ROE, and Women BOD also shows a negative relationship with ROE. However, Board Size and Independent Directors do not appear to significantly influence either ROA or ROE, suggesting that these factors may not play a central role in determining bank performance in this study.

4.2.2.2 Multiple regression analysis

Regression analysis is a statistical method used to examine the relationship between one dependent variable and one or more independent variables. Regression analysis is a predictive modeling technique that estimates how changes in independent variables (predictors) affect a dependent variable (outcome). It aims to find the best-fitting mathematical model to describe this relationship.

Model I:

In this model, the dependent variable is the return on equity and independent variables are board size, the number of independent directors in board size, credit deposit ratio, bank size, earning per share and women on board of directors. The model is presented below:

$$ROE = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 CD + \beta_4 BS + \beta_5 EPS + \beta_6 WD + e$$

Table 7: Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.900 ^a	0.809	0.759		0.0031516

a. Predictors: (Constant), Women on BOD, EPS, Independent Directors, Bank Size, Credit Deposit Ratio, Board Size

Source: Researcher's survey 2024

The Table 7, model summary and subsequent analysis reveal significant insights into the factors that influence Return on Assets (ROA) in the studied banks. The model

demonstrates a strong correlation between the predictors and the dependent variable, with an R value of 0.900. This indicates that the set of independent variables—Board Size, Independent Directors, Credit Deposit Ratio (CDR), Bank Size, EPS, and Women on the Board of Directors (Women BOD)—collectively have a strong relationship with ROA.

The R Square value of 0.809 suggests that 80.9% of the variance in ROA can be explained by the model, which is quite substantial. This means that the selected predictors are highly effective in accounting for the changes in ROA. However, the Adjusted R Square, which stands at 0.759, provides a more conservative estimate, accounting for the number of predictors in the model. It suggests that even after adjusting for the potential overfitting, about 75.9% of the variance in ROA is still explained by these variables. The standard error of the estimate is 0.0031516, indicating that the average deviation of the observed ROA values from the predicted values is relatively small, further reinforcing the model's reliability.

Table 8: ANOVA^a

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	0.001	6	0.000	16.258	<0.001 ^b
	Residual	0.000	23	0.000		
	Total	0.001	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), Women on BOD, EPS, Independent Directors, Bank Size, Credit Deposit Ratio, Board Size

Source: Researcher's survey 2024

The Table 8, ANOVA results provide additional confirmation of the model's robustness. With an F-statistic of 16.258 and a significance level of less than 0.001, the model as a whole is statistically significant. This means that the independent variables, when considered together, have a significant effect on ROA. The low p-value suggests that the likelihood of these results occurring by chance is extremely low, reinforcing the confidence in the model's findings.

Table 9: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0.012	0.009		-1.249	0.224
	Board Size	0.000	0.001	0.036	0.213	0.833
	Independent Directors	0.000	0.002	0.015	0.107	0.916
	Credit Deposit Ratio	0.000	0.000	0.343	2.780	0.011
	Bank Size	-1.332E-14	0.000	-0.258	-2.188	0.039
	EPS	0.000	0.000	0.878	7.992	<0.001
	Women on BOD	-0.002	0.002	-0.148	-1.014	0.321

a. Dependent Variable: ROA

Source: Researcher's survey 2024

In Table 9, When examining the coefficients of each predictor, the analysis identifies which variables have a significant impact on ROA. EPS emerges as the most influential predictor, with a highly significant positive relationship with ROA (B = 0.000, $p < 0.001$). This is further supported by its large standardized coefficient (Beta = 0.878), indicating that EPS has the strongest impact on ROA among all the variables in the model. This finding highlights the critical role of profitability in driving returns on assets, where higher earnings per share lead to better asset performance.

CDR also shows a significant positive relationship with ROA (B = 0.000, $p = 0.011$), suggesting that a higher credit deposit ratio is associated with higher returns on assets. This relationship might indicate that banks with a greater proportion of their deposits lent out are more effectively utilizing their assets to generate returns. On the other hand, Bank Size has a significant negative relationship with ROA (B = -1.332E-14, $p = 0.039$), implying that larger banks may struggle to achieve high returns on their assets. This could be due to various factors, such as inefficiencies or higher operational costs associated with larger institutions.

Interestingly, the other variables—Board Size, Independent Directors, and Women on BOD—do not have statistically significant relationships with ROA in this model. The coefficients for Board Size ($B = 0.000$, $p = 0.833$), Independent Directors ($B = 0.000$, $p = 0.916$), and Women BOD ($B = -0.002$, $p = 0.321$) are not significant, suggesting that these factors do not have a meaningful impact on the return on assets within the context of this study.

In conclusion, the analysis indicates that EPS, CDR, and Bank Size are the most critical factors in predicting ROA. EPS, with its strong positive influence, stands out as the most important determinant, while CDR and Bank Size also play significant roles, albeit in opposite directions. The lack of significant impact from Board Size, Independent Directors, and Women on BOD suggests that these governance-related factors may not be as influential in determining asset returns in this particular context. This comprehensive understanding helps in prioritizing the key variables that can drive better financial performance in the banking sector.

Model II:

In this model, the dependent variable is Return on assets and independent variables are board size, the number of independent directors in board size, credit deposit ratio, bank size, earning per share and women on board of directors. The model is presented below:

$$ROA = \beta_0 + \beta_1 BM + \beta_2 ID + \beta_3 CD + \beta_4 BS + \beta_5 EPS + \beta_6 WD + e$$

Table 10: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	0.937 ^a	0.878	0.846	0.05285178

a. Predictors: (Constant), Women on BOD, EPS, Independent Directors, Bank Size, Credit Deposit Ratio, Board Size

Source: Researcher's survey 2024

The Table 10, regression analysis with Return on Equity (ROE) as the dependent variable offers crucial insights into the factors influencing equity returns in the banking sector. The model summary highlights a very strong relationship between the

independent variables—Board Size, Independent Directors, Credit Deposit Ratio (CDR), Bank Size, EPS, and Women on the Board of Directors (Women BOD)—and ROE, with an R value of 0.937. This indicates that these predictors collectively have a significant and strong correlation with ROE.

The R Square value of 0.878 is particularly noteworthy, as it suggests that 87.8% of the variance in ROE can be explained by the model. This high percentage indicates that the chosen independent variables are highly effective in predicting ROE. The Adjusted R Square, which accounts for the number of predictors and provides a more conservative estimate, remains robust at 0.846. This means that even after adjusting for potential overfitting, approximately 84.6% of the variance in ROE is still explained by the model, affirming its strength and reliability. The standard error of the estimate, 0.05285178, reflects a relatively small average deviation of the observed ROE values from the predicted values, further validating the model's accuracy.

Table 11: ANOVA^a

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	0.463	6	0.077	27.638	<0.001 ^b
	Residual	0.064	23	0.003		
	Total	0.527	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), Women on BOD, EPS, Independent Directors, Bank Size, Credit Deposit Ratio, Board Size

Source: Researcher's survey 2024

The Table 11, ANOVA results reinforce the significance of the model, with an F-statistic of 27.638 and a p-value of less than 0.001. These results indicate that the model as a whole is statistically significant, meaning that the independent variables collectively have a substantial impact on ROE. The very low p-value suggests that the likelihood of these results occurring by chance is extremely low, thereby strengthening the credibility of the findings.

Table 12: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.590	0.159		3.712	0.001
	Board Size	-0.019	0.013	-0.203	-1.510	0.145
	Independent Directors	-0.066	0.034	-0.222	-1.951	0.063
	Credit Deposit Ratio	-0.004	0.002	-0.269	-2.736	0.012
	Bank Size	-5.007E-14	0.000	-0.046	-0.491	0.628
	EPS	0.005	0.001	0.653	7.436	<0.001
	Women on BOD	-0.033	0.028	-0.141	-1.212	0.238

a. Dependent Variable: ROE

Source: Researcher's survey 2024

In Table 12, terms of individual predictors, the coefficients table provides detailed insights. EPS (Earnings Per Share) stands out as the most influential predictor of ROE, with a highly significant positive relationship ($B = 0.005$, $p < 0.001$). The large standardized coefficient (Beta = 0.653) further emphasizes that EPS has the strongest impact on ROE among all the variables considered. This underscores the importance of profitability in determining equity returns, where higher earnings per share are strongly associated with higher returns on equity.

CDR, on the other hand, has a significant negative relationship with ROE ($B = -0.004$, $p = 0.012$). This finding suggests that a higher credit-deposit ratio is associated with lower returns on equity, possibly indicating that more aggressive lending relative to deposits may not be conducive to maximizing shareholder returns. The negative relationship between CDR and ROE is particularly interesting, as it contrasts with the positive relationship observed between CDR and ROA in the previous analysis, highlighting different dynamics at play in asset and equity returns.

Independent Directors show a marginally significant negative relationship with ROE ($B = -0.066$, $p = 0.063$). While not highly significant, this finding suggests that the presence of independent directors might be associated with slightly lower equity returns, though the reason behind this would require further exploration. Board Size ($B = -0.019$, $p = 0.145$), Bank Size ($B = -5.007E-14$, $p = 0.628$), and Women on BOD ($B = -0.033$, $p = 0.238$) do not exhibit statistically significant relationships with ROE in this model, indicating that these factors may not have a meaningful impact on equity returns within the context of this study.

In conclusion, the regression analysis reveals that EPS and CDR are the most critical factors in predicting ROE. EPS, with its strong positive influence, emerges as the most significant determinant, while CDR shows a significant negative impact. The marginal significance of Independent Directors also warrants attention, though it is less pronounced. The lack of significant impact from Board Size, Bank Size, and Women on BOD suggests that these governance and structural factors may not be as influential in determining equity returns. Interestingly, the model for ROE explains slightly more variance than the model for ROA from the previous analysis, indicating that these predictors might be more closely related to equity returns than to asset returns in this context.

4.3 Discussion

The financial performance analysis of Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL) over a decade (2071-2080) reveals distinct trends in growth, profitability, and governance. GIBL experienced substantial growth in total assets, expanding from 60 billion to 534 billion Nepalese Rupees, indicating a significant scale-up in operations. However, its profitability metrics such as Earnings Per Share (EPS) and Return on Assets (ROA) exhibited fluctuations, with EPS peaking in 2076 and ROA remaining relatively stable but modest throughout the period. The introduction of independent directors from 2074 highlights a shift towards enhanced governance, although the absence of women on the Board of Directors (BOD) raises concerns about gender diversity in leadership roles. Similarly, NABIL also saw considerable asset growth, with its size increasing from 90 billion to 480 billion Nepalese Rupees. However, this growth was accompanied by a notable decline in profitability, with EPS, ROA, and Return on Equity (ROE) all trending downward. The introduction of women to the BOD in 2076

marks a positive step towards gender inclusivity, though the overall profitability challenges underscore potential operational inefficiencies (Bhattarai, 2022).

ADBL's performance was marked by substantial asset growth from 86 billion to 265 billion Nepalese Rupees, yet it faced significant challenges in maintaining profitability. EPS, ROA, and ROE all showed considerable volatility, with ROE plummeting from 34.73% in 2072 to just 3.94% by 2080, indicating struggles in generating returns for shareholders despite asset growth. The introduction of independent directors in 2075 and a reduction in board size reflect ADBL's attempts to streamline governance and address these profitability issues. The presence of women on the BOD, although reduced from 2 members to 1, suggests a commitment to maintaining gender diversity amidst these structural changes. Overall, while all three banks expanded their asset bases, their varying approaches to governance and fluctuating profitability metrics highlight the complex dynamics of growth and efficiency in Nepal's banking sector (Shrestha, 2021).

The descriptive analysis of Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL) highlights distinct variations in their governance and financial performance metrics, underscoring NABIL's superior profitability and independent oversight, ADBL's aggressive lending and gender diversity, and GIBL's balanced but comparatively lower performance. NABIL leads in profitability, with the highest average Earnings Per Share (EPS) at 46.84 (S.D 17.83) and Return on Equity (ROE) at 28.32% (S.D 19.45%), supported by a strong presence of independent directors (0.9, S.D 0.316). ADBL, with the largest board size (8 members, S.D 1.333) and highest Credit Deposit Ratio (91.99%, S.D 5.99%), emphasizes a more aggressive lending strategy, yet shows significant variability in profitability (EPS 35.899, S.D 20.087). GIBL, despite being sizable (average assets of NPR 215.09 billion, S.D 159.87 billion), demonstrates moderate financial performance with an average EPS of 21.73 (S.D 4.20) and lower returns (ROE 16.06%, S.D 3.76%), suggesting potential areas for strategic improvement. This analysis aligns with broader findings in banking literature that link board composition and financial metrics to overall bank performance (Adams & Ferreira, 2009).

The correlation analysis of bank performance highlights that Bank Size and Earnings Per Share (EPS) are significant predictors of financial outcomes, with larger banks

showing a negative correlation with both Return on Assets (ROA) and Return on Equity (ROE), suggesting inefficiencies in asset and equity utilization (ROA: $r = -0.521$, $p = 0.003$; ROE: $r = -0.463$, $p = 0.010$). Conversely, EPS has a strong positive correlation with both ROA ($r = 0.839$, $p < 0.001$) and ROE ($r = 0.805$, $p < 0.001$), underscoring its role in enhancing financial performance. Additionally, higher Credit Deposit Ratios (CDR) and greater female representation on the Board of Directors (Women BOD) are negatively correlated with ROE (CDR: $r = -0.706$, $p < 0.001$; Women BOD: $r = -0.382$, $p = 0.037$), indicating complex impacts on equity returns. These insights are consistent with the findings of Laeven and Levine (2009) on bank performance and governance.

The model I analysis indicates that Earnings Per Share (EPS), Credit Deposit Ratio (CDR), and Bank Size are crucial predictors of Return on Assets (ROA). With an R^2 of 0.809, the model explains a substantial portion of ROA variance. EPS is the strongest predictor, showing a significant positive effect ($B = 0.000$, $p < 0.001$), highlighting its role in driving asset returns. CDR also positively affects ROA ($B = 0.000$, $p = 0.011$), while larger Bank Size negatively impacts ROA ($B = -1.332E-14$, $p = 0.039$), suggesting inefficiencies in larger banks. Governance factors such as Board Size, Independent Directors, and Women on the Board do not significantly impact ROA. These findings are consistent with the literature on banking performance, emphasizing profitability and efficiency as key determinants (Berger, 1995).

The Model II regression analysis reveals that Earnings Per Share (EPS) and Credit Deposit Ratio (CDR) are pivotal in influencing Return on Equity (ROE). With an R^2 of 0.878, the model indicates that these variables account for a significant portion of the variance in ROE. EPS demonstrates a strong positive impact on ROE ($B = 0.005$, $p < 0.001$), highlighting profitability as a key determinant of equity returns. Conversely, CDR has a notable negative effect ($B = -0.004$, $p = 0.012$), suggesting that higher lending relative to deposits may diminish equity returns. The marginal significance of Independent Directors ($B = -0.066$, $p = 0.063$) implies a potential, though not definitive, link to lower ROE, warranting further investigation. The lack of significant impact from Board Size, Bank Size, and Women on the Board of Directors suggests these factors are less influential on ROE in this context. These findings align with broader research that emphasizes profitability and efficient asset utilization as central to financial performance (Athanasoglou et al., 2008).

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

This study focuses on the corporate governance and performance of Nepalese banks, employing both descriptive and causal comparative research designs. The research aims to gather comprehensive information about these aspects and investigate potential cause-and-effect relationships between corporate governance factors and bank performance.

The study population consists of 20 commercial banks in Nepal, from which three banks - Global IME Bank, Agriculture Development Bank, and Nabil Bank Ltd - were selected using convenience sampling. The research analyzes data from these banks over a ten-year period, spanning from Fiscal Year 2069/70 to 2078/79.

Data collection primarily relies on secondary sources, with annual reports of the selected banks serving as the main source of information. Additional data is gathered from various publications, including newspapers, magazines, and academic resources. This approach ensures a comprehensive dataset for analysis.

The conceptual framework of the study identifies several independent variables, including board size, number of independent directors, credit deposit ratio, bank size, earnings per share, and the presence of women on the board of directors. The dependent variables are Return on Equity (ROE) and Return on Assets (ROA), which serve as indicators of bank performance.

For data analysis, the study utilizes the Statistical Package for the Social Sciences (SPSS) program. The analytical methods include descriptive statistics, correlation analysis, and multiple regression models. Two main regression models are presented: one with ROE as the dependent variable and another with ROA. These models aim to explore the relationships between the corporate governance factors and bank performance metrics.

The statistical analysis encompasses both descriptive and inferential statistics. Descriptive statistics provide an overview of the data, while inferential techniques such as Correlation Coefficient, Multiple Regression Analysis, and Analysis of Variance (ANOVA) are used to examine relationships between variables and

differences among banks. This comprehensive approach allows for a thorough investigation of how corporate governance factors influence the performance of Nepalese banks.

The financial performance analysis of Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL) reveals significant insights over the decade 2071-2080. GIBL showed substantial asset growth but had fluctuating profitability, with EPS peaking in 2076 and stable but modest ROA. NABIL also experienced asset growth but faced declining profitability metrics. ADBL had notable asset expansion but struggled with profitability, including a sharp drop in ROE. Governance changes, such as the introduction of independent directors and gender diversity efforts, were noted across the banks.

Descriptive statistics showed that NABIL led in profitability with high EPS and ROE, while ADBL's aggressive lending strategy resulted in high CDR but volatile profitability. GIBL's performance was moderate despite its significant asset base. Correlation analysis revealed that Bank Size and EPS are key predictors of financial performance, with larger banks showing inefficiencies. EPS positively correlated with ROA and ROE, while higher CDR and female board representation had complex effects on equity returns.

Regression models highlighted EPS, CDR, and Bank Size as crucial predictors for ROA, with EPS having the strongest positive impact. For ROE, EPS was also a key determinant, whereas CDR had a negative effect. Governance factors like Board Size and Independent Directors did not significantly impact ROA or ROE. These findings underscore the importance of profitability and efficiency in banking performance

5.2 Conclusion

The decade-long analysis of Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL) reveals significant insights into their growth, profitability, and governance. Despite notable asset expansion across all three banks, profitability and efficiency metrics exhibit considerable variability.

GIBL demonstrated substantial asset growth from 60 billion to 534 billion Nepalese Rupees, but its profitability metrics showed fluctuations, with modest Return on Assets (ROA) and a peak in Earnings Per Share (EPS). The introduction of

independent directors in 2074 indicates an effort toward improved governance, though the lack of female board members raises concerns about gender diversity.

NABIL also saw significant asset growth, yet experienced a decline in profitability, with decreasing EPS, ROA, and Return on Equity (ROE). The addition of women to the board in 2076 represents a positive governance change, but persistent profitability challenges suggest underlying operational issues.

ADBL's performance was marked by substantial asset growth but faced significant challenges in maintaining profitability, with ROE dropping sharply over the period. The introduction of independent directors and a reduction in board size in 2075, along with a slight decrease in female board members, reflect efforts to enhance governance and address profitability concerns.

The descriptive and correlation analyses indicate that NABIL excelled in profitability metrics, while ADBL's aggressive lending strategy led to high Credit Deposit Ratios (CDR) but variable profitability. GIBL, despite its large asset base, showed moderate financial performance, suggesting areas for strategic improvement.

Regression analyses highlight that EPS and CDR are crucial predictors of financial performance, with EPS positively affecting both ROA and ROE, while higher CDR negatively impacts ROE. Larger bank size tends to correlate with inefficiencies, affecting ROA and ROE negatively. Governance factors, such as Board Size and Independent Directors, showed mixed impacts on financial metrics, indicating the need for further exploration.

Overall, the findings illustrate the complex relationship between asset growth, profitability, governance, and financial performance in Nepal's banking sector. Effective governance and profitability remain essential for achieving optimal financial performance. Further research could explore the underlying factors affecting profitability and efficiency, including operational and strategic adjustments.

5.3 Implication

The findings from this study offer several key implications for the banking sector in Nepal, particularly regarding corporate governance and financial performance:

- i. **Governance Practices:** The introduction of independent directors and efforts to enhance gender diversity on boards have mixed impacts on financial

performance. Banks should focus on strengthening governance practices by ensuring that independent directors are genuinely independent and capable of providing effective oversight. Gender diversity should be actively pursued, as it contributes to more balanced decision-making and improved governance.

- ii. **Profitability and Efficiency:** The analysis underscores the importance of Earnings Per Share (EPS) as a significant predictor of profitability. Banks should prioritize strategies that enhance EPS through improved operational efficiency and effective revenue generation. Additionally, higher Credit Deposit Ratios (CDR) were found to negatively impact Return on Equity (ROE), suggesting that aggressive lending strategies should be carefully managed to avoid diminishing returns.
- iii. **Asset Management:** While asset growth is crucial for scaling operations, it does not automatically translate into improved profitability. Banks must adopt strategic approaches to managing and utilizing their assets efficiently. Larger banks, in particular, need to address potential inefficiencies associated with scale to optimize financial performance.
- iv. **Regulatory Framework:** The study highlights the need for regulatory bodies to monitor and support effective governance practices. Regulations should encourage transparency and accountability in corporate governance, as well as support initiatives that promote gender diversity on boards.
- v. **Strategic Improvements:** Banks showing moderate performance despite substantial asset bases, such as GIBL, may benefit from strategic reviews to identify areas for improvement. This could include refining business models, enhancing customer services, and implementing technology-driven solutions to boost overall efficiency and profitability.
- vi. **Further Research:** The findings suggest areas for further research, including the investigation of specific operational and strategic factors that influence profitability and efficiency. Detailed studies could provide deeper insights into the effectiveness of various governance practices and their direct impact on financial outcomes.

In summary, this study's implications emphasize the need for banks to adopt robust governance practices, manage assets effectively, and focus on enhancing profitability.

Addressing these areas can help improve overall financial performance and ensure sustainable growth in Nepal's banking sector.

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APPENDICES

Year	Name	Board Size	Independent Directors	Credit Deposit Ratio	Bank Size
2071	Global IME BANK	7.00	0.00	79.89	60018207850
2072	Global IME BANK	7.00	0.00	81.32	69186488883
2073	Global IME BANK	7.00	0.00	81.47	87701310349
2074	Global IME BANK	5.00	1.00	79.31	116592269147
2075	Global IME BANK	5.00	1.00	87.67	130487162238
2076	Global IME BANK	4.00	1.00	91.62	155235178964
2077	Global IME BANK	6.00	1.00	83.57	276984686611
2078	Global IME BANK	5.00	1.00	81.90	351395995570
2079	Global IME BANK	6.00	1.00	94.99	368850671173
2080	Global IME BANK	6.00	1.00	85.21	534457216201
2071	Nabil Bank Ltd	5.00	0.00	72.56	90292964080
2072	Nabil Bank Ltd	7.00	1.00	63.01	118696825406
2073	Nabil Bank Ltd	5.00	1.00	69.05	127619359166
2074	Nabil Bank Ltd	6.00	1.00	75.73	140697262241
2075	Nabil Bank Ltd	6.00	1.00	84.44	169623421874
2076	Nabil Bank Ltd	6.00	1.00	81.98	169623421874
2077	Nabil Bank Ltd	6.00	1.00	80.66	238175189306
2078	Nabil Bank Ltd	6.00	1.00	92.49	292566048971
2079	Nabil Bank Ltd	6.00	1.00	95.21	420749061528
2080	Nabil Bank Ltd	6.00	1.00	85.88	480595671541
2071	Agriculture Development Bank	10.00	0.00	86.78	86512089679
2072	Agriculture Development Bank	9.00	0.00	89.02	100928514481
2073	Agriculture Development Bank	10.00	0.00	90.96	111785009361
2074	Agriculture Development Bank	9.00	0.00	88.37	126866600103
2075	Agriculture Development Bank	7.00	1.00	96.07	135245342834

2076	Agriculture Development Bank	7.00	1.00	93.60	153278833592
2077	Agriculture Development Bank	7.00	1.00	85.64	179745905890
2078	Agriculture Development Bank	7.00	1.00	92.58	222959182116
2079	Agriculture Development Bank	7.00	1.00	106.52	246868133729
2080	Agriculture Development Bank	7.00	1.00	90.46	265929199267

Year	Name	EPS	Women on BOD	ROA	ROE
2071	Global IME BANK	19.77	0.00	0.0162	0.1957
2072	Global IME BANK	15.58	0.00	0.0139	0.1558
2073	Global IME BANK	19.33	0.00	0.0158	0.1933
2074	Global IME BANK	22.57	0.00	0.0172	0.2257
2075	Global IME BANK	26.46	0.00	0.0165	0.1576
2076	Global IME BANK	28.04	0.00	0.0189	0.1765
2077	Global IME BANK	16.46	0.00	0.0113	0.1068
2078	Global IME BANK	26.16	0.00	0.0141	0.1471
2079	Global IME BANK	20.84	0.00	0.0139	0.1325
2080	Global IME BANK	22.06	0.00	0.0130	0.1152
2071	Nabil Bank Ltd	76.12	0.00	0.0258	0.6376
2072	Nabil Bank Ltd	57.36	0.00	0.0177	0.4413
2073	Nabil Bank Ltd	59.36	0.00	0.0221	0.4566
2074	Nabil Bank Ltd	58.41	0.00	0.0259	0.4533
2075	Nabil Bank Ltd	52.34	0.00	0.0237	0.1942
2076	Nabil Bank Ltd	50.77	1.00	0.0211	0.1826
2077	Nabil Bank Ltd	36.44	1.00	0.0147	0.1343
2078	Nabil Bank Ltd	34.62	1.00	0.0160	0.1371
2079	Nabil Bank Ltd	18.89	1.00	0.0102	0.0810
2080	Nabil Bank Ltd	24.11	1.00	0.0136	0.1141
2071	Agriculture Development Bank	35.19	2.00	0.0176	0.1542
2072	Agriculture Development Bank	78.83	1.00	0.0357	0.3473
2073	Agriculture Development Bank	52.79	1.00	0.0220	0.2133

2074	Agriculture Development Bank	31.59	1.00	0.0202	0.1840
2075	Agriculture Development Bank	37.44	1.00	0.0275	0.1420
2076	Agriculture Development Bank	45.38	1.00	0.0288	0.1525
2077	Agriculture Development Bank	25.32	1.00	0.0173	0.1075
2078	Agriculture Development Bank	30.00	1.00	0.0162	0.1130
2079	Agriculture Development Bank	14.91	1.00	0.0093	0.0673
2080	Agriculture Development Bank	7.54	1.00	0.0050	0.0394

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ABSTRACT This study investigates the corporate governance and financial performance of Nepalese commercial banks, focusing on the relationships between governance factors and performance metrics. Using both descriptive and causal comparative research designs, the study analyzes data from three banks—Global IME Bank Ltd (GIBL), Nabil Bank Ltd (NABIL), and Agriculture Development Bank Ltd (ADBL)—selected through convenience sampling. The data spans ten fiscal years (2069/70 to 2078/79), primarily sourced from annual reports and supplemented by other publications. The study's conceptual framework examines key corporate governance variables, such as board size, independent directors, credit deposit ratio (CDR), bank size, earnings per share (EPS), and the presence of women on the board, while focusing on Return on Assets (ROA) and Return on Equity (ROE) as indicators of bank performance. Data analysis is conducted using the Statistical Package for the Social Sciences (SPSS) program, applying descriptive statistics, correlation analysis, and multiple regression models to explore relationships between corporate governance factors and financial performance. The results reveal that bank size, EPS, and CDR are significant predictors of financial performance, with EPS having a strong positive impact on both ROA and ROE, while larger bank size tends to correlate with inefficiencies. Governance factors such as board size and the presence of independent directors show limited impact on the financial performance metrics, indicating the