

EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

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fulfillment of the requirements for the Master's Degree

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Certification of Authority

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

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 the reference section of the dissertation.

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Table of Contents

<i>Certification of Authority</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figure</i>	<i>ix</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstract</i>	<i>xi</i>
<u>CHAPTER I</u>	<u>1</u>
<u>INTRODUCTION</u>	<u>1</u>
<u>1.1 Background of the Study</u>	<u>1</u>
<u>1.2 Problem Statement</u>	<u>5</u>
<u>1.3 Objectives of the Study</u>	<u>9</u>
<u>1.4 Hypothesis</u>	<u>9</u>
<u>1.5 Rationale of the Study</u>	<u>10</u>
<u>1.6 Limitations of Study</u>	<u>10</u>
<u>CHAPTER II</u>	<u>12</u>
<u>LITERATURE REVIEW</u>	<u>12</u>
<u>2.1 Introduction</u>	<u>12</u>
<u>2. 2 Theoretical Review</u>	<u>12</u>
<u>2.3 Conceptual Review</u>	<u>19</u>
<u>2.4 Empirical Review</u>	<u>21</u>
<u>2.5 Research Gap</u>	<u>45</u>

CHAPTER III	46
RESEARCH METHODOLOGY	46
3.1 Introduction	46
3.2 Research Design.....	46
3.3 Population, Sample and Sampling Design	46
3.4 Nature and Sources of data collection, and instrument of data collection	48
3.5 Method of analysis	48
3.6 Research Framework and Definition of Variables.....	50
CHAPTER IV	54
RESULTS AND DISCUSSION	53
4.1 Introduction	53
4.2 Inferential Analysis.....	60
4.3 Discussion	68
CHAPTER V.....	70
SUMMARY AND CONCLUSION.....	70
5.1 Summary	70
5.2 Conclusion	71
5.3 Implications.....	71
REFERENCES.....	75
APPENDIX.....	83

List of Tables

Table No.	Title	Page No.
Table 1	Meta table	38
Table 2	Selection of commercial banks along with study period	47
Table 3	Analysis of Board Member Size of Sample Banks	53
Table 4	Analysis of Number of Independent directors of Sample Banks	54
Table 5	Analysis of Earnings per share of Sample Banks	55
Table 6	Analysis of Capital Adequacy Ratio of Sample Banks	56
Table 7	Analysis of Leverage of Sample Banks	57
Table 8	Analysis of Return on assets of Sample Banks	58
Table 9	Analysis of Net Interest Margin of Sample Banks	59
Table 10	Relationship between various independent variables and the Return on Assets (ROA)	61
Table 11	Regression analysis of independent variables and the Return on Assets (ROA)	63
Table 12	Relationship between various independent variables and the Net Interest Margin (NIM)	65
Table 13	Regression analysis of independent variables and the Net Interest Margin (NIM)	67

List of Figure

Figure No.	Title	Page No.
Figure 1:	Conceptual Framework	50

Abbreviations

BFI	Bank and Financial Institutions
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
DFID	Department for International Development
EPS	Earnings Per Share
FSAP	Financial Sector Assessment Program
IMF	International Monetary Fund
NIM	Net Interest Margin
NFRS	Nepal Financial Reporting System
NRB	Nepal Rastra Bank
OECD	Organization for Economic Cooperation Development
ROE	Return on Equity
UNO	United Nations Organization

Abstract

In an effort to increase the transparency and accountability of financial and non-financial institutions, corporate governance has emerged as one of the most discussed topics globally. In the nation's economy, financial institutions play a significant role. The primary goal of this study is to investigate the connection between Nepalese commercial banks' financial performance and corporate governance. Return on assets and net interest margin were considered dependent variables, whereas board member size, number of independent variables, bank size, earning per share, capital adequacy ratio, and leverage were considered independent variables. During the years 2012/13 to 2021/22, ten commercial banks in Nepal participated in the study. The information was gathered from the banks' yearly reports. To examine the impact of corporate governance on the financial performance of Nepalese commercial banks, correlation and regression analysis were employed.

The outcome demonstrated that while there was no significant correlation between the number of independent directors and the capital adequacy ratio and return on assets, there was a positive correlation between board member size, earnings per share, and leverage. While there was a negative correlation found between the number of independent directors and board member size and net interest margin, there was a positive correlation found between net interest margin and earning per share, leverage, and capital adequacy ratio.

For improved performance, the banks should increase the number of independent directors while decreasing the number of directors on the board. Central banks ought to prioritize the expansion of banks and effectively oversee their operations.

Key words: net interest margin, board member size, return on assets, independent director.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Corporate governance has a significant and complex effect on the financial performance of Nepalese commercial banks. Good corporate governance techniques are essential to improving these financial organizations' ethical behavior, accountability, and transparency. This promotes confidence among interested parties, such as the public, regulators, and shareholders. A crucial component of corporate governance, transparency and accurate financial reporting directly affect investor trust and draw in capital that is necessary for banks to expand and perform better financially (Pradhan and Adhikari, 2011).

Robust corporate governance facilitates effective risk management by offering structures for recognizing, evaluating, and reducing risks. Maintaining financial stability and assuring sustained performance need risk mitigation, especially in a dynamic economic climate. Furthermore, corporate governance can facilitate strategic decision-making that generates value for shareholders and has a favorable effect on the bank's long-term financial performance by coordinating the interests of shareholders with its goals (Kaawaase et al., 2021).

Regulatory compliance is essential for corporate governance in Nepalese commercial banks. Following legal and regulatory standards ensures a stable operating environment, reducing legal risks and financial losses. This compliance fosters accountability and transparency, enhancing the banks' reputation and building stakeholder trust. Such trust is crucial for attracting new clients and collaborators, thereby boosting financial performance. By prioritizing regulatory compliance and sound governance, Nepalese banks can achieve sustainable growth and stability. Effective governance practices lay the groundwork for resilient financial institutions that can withstand market fluctuations and

maintain stakeholder confidence, ensuring long-term success in a competitive market (Anh et al., 2023).

Governance is the process through which an institution's management ensures that its operations are transparent, accountable, and effective while protecting the interests of its stakeholders. Modern corporate governance norms have evolved over time, and many businesses have produced their own unique codes of best practices. The OECD Code of company Governance and the Basel Code of Corporate Governance both contain descriptions of the fundamentals of sound company governance. These guidelines generally address the responsibilities of the board, directors, chairman, CEOs, senior management, auditors, shareholders, and regulators. Numerous challenges, like as accountability, related party transactions, internal control, conflicts of interest, and information disclosure, have been addressed and targeted by these governance principles (Cabraal, 2014).

a combination of corporate policies and best practices that the corporate entities have put in place to achieve their objectives in relation to their stakeholders. Economics also encompasses the study of the different issues arising from the dissociation from ownership and control. According to Pradhan and Adhikari (2011), the corporate governance structure delineates the protocols and guidelines for formulating decisions concerning corporate matters, along with the distribution of rights and obligations among diverse stakeholders, such as shareholders, board managers, and other relevant parties.

The word has evolved to signify goodness in both ethical and non-ethical contexts. Effective decision-making, prudent resource allocation, strategic planning, and other uses are among its immoral uses (Monks and Minow, 2011). Nonetheless, morally speaking, sound corporate governance is increasingly seen as promoting an environment that is suitable in and of itself since moral behavior in business yields profitable outcomes (Francis, 2012). The links made here are therefore related to due diligence, director responsibilities, and the general reinforcement of corporate responsibility.

Corporate performance, or the efficient use of an organization's human, financial, and material resources to achieve its overall objectives, is a fundamental concept in business management. It keeps the business running and widens the window of opportunity for

expansion in the future. A positive outcome of good corporate governance should be increased investor confidence in our country's economy. Corporate governance involves establishing credibility, ensuring accountability and openness, and maintaining an effective channel for information disclosure. All of these things will enhance business performance. Therefore, it is essential that a strong code of corporate governance be followed by all industries, including the service industry. Losing the investment could force banks to fail and have an effect on the nation's economy, which makes it more important for banks as they manage public funds (El-Chaarani 2022).

Studies conducted by Grossman (2005) and Bernanke (2003) demonstrate that bank failures might significantly harm future economic growth. The bank's failure resulted in lower income, more poverty rates, compensation growth, and fewer jobs. Being an ethical business leader is not an end in and of itself. It is a tool for advancing economic efficiency, sustainable growth, and financial stability. effective performance is a direct result of effective governance. Corporate governance is essential for all economic sectors, but it is particularly crucial for the banking sector. According to Hambrick et al. (2008), the type and caliber of corporate governance in the banking sector has the power to influence not just the individuals who work in the sector but also the national system as a whole. Katrodia (2016) asserts that the health of a nation's financial system directly affects the health of its economy. The worldwide financial crisis of 2008 was sparked by the failure of significant US institutions. This in turn affects almost every industry, including the financial security of pension holders. The American financial system collapsed as a result of poor governance, which at the time created a severe crisis that affected the world economy. Mareinkowska (2017) asserts that a contributing element to every global crisis is deficient financial institution governance.

Strong corporate governance is essential to building and maintaining public trust in the financial sector, according to the Bank for International Settlement. The public's faith and trust are the most crucial elements in deposit mobilization. It still seems like a challenging endeavor to implement corporate governance in emerging nations. It is necessary to conduct research on developing corporate governance structures, regulations, and frameworks in developing countries. Corporate governance has gotten

less attention in developing countries. They are entangled in domestic problems including political instability, unemployment, poverty, and civil war (Mulili, 2011). Arun and Turner (2004) focused on the need for developing corporate governance in the banking sector in developing countries.

In recent years, corporate governance has drawn a lot of attention from around the world, especially in the wake of the previous economic crisis and the disastrous failure of many banks and businesses. Nevertheless, there hasn't been much discussion of corporate governance or the performance of the international banking sector (Maria, 2010). Prior research by Pradhan and Adhikari (2011) indicates that Nepali companies that appoint a "A" class auditor to their firm, conduct their annual general meeting (AGM) on time, and deliver their financial reports on time see higher market prices per share and higher rates of return. As total assets increase, so does the market price of a share and the rate of return.

Because they enable greater capital market savings and foreign direct investment, corporate governance reforms are particularly crucial for developing countries like Nepal (Maskey, 2004). The corporate governance scene didn't truly take off until the nation's central bank, the Nepal Rastra Bank (NRB), published guidelines on the subject in 2002. Currently, the regulatory norms of Nepal Rastra Bank (NRB) are the only criteria for corporate governance. The bank run of Nepal Bangladesh Bank (NB Bank) in November 2006 and the Vibor Bikas Bank (VBB) crisis in 2011 (Sapkota, 2020), whereby the Central Bank (NRB) had to save VBB, are the two most prominent financial crises in Nepal. Vibor Bikas Bank's predicament is similar to Lehman Brothers' (Sapkota, 2020). Similarly, the collapse of the Nepal Development Bank in 2009 was one of the worst times for the country's financial sector (Sapkota, 2020). Conversely, all three circumstances have something to do with the poorly executed adoption of corporate governance. In 2005, the central bank of Nepal, the Rastra Bank, released rules aimed at enhancing corporate governance. However, the publication also disclosed several bank failures.

The political climate and other obstacles in the economic sector deterred investors from thinking about corporate development or new investments. Additionally, there are now

more nonperforming assets than before. In addition, a recent regulation from Nepal Rastra Bank (NRB) mandates that banks increase their paid capital. This implies that share sales or mergers are the only ways for banks to raise money. Even though the merger is advantageous, the likelihood of failure is higher if a failing bank is involved (Khatiwada, 2015). Therefore, corporate governance needs to be strengthened if Nepali banks are to survive in a politically unstable context and perform well enough to remain in a dynamic economy.

Corporate performance, or the efficient use of an organization's human, financial, and material resources to achieve its overall objectives, is a fundamental concept in business management. It keeps the business running and widens the window of opportunity for expansion in the future. A positive outcome of good corporate governance should be increased investor confidence in our country's economy. Thus, upholding an effective channel of information sharing that would encourage positive business performance, as well as building credibility and ensuring transparency and accountability, are all components of corporate governance. As a result, the banking sector must strictly abide by corporate governance guidelines.

1.2 Problem Statement

One important area of research and concern is the connection between Nepalese commercial banks' financial performance and corporate governance. The absence of uniform corporate governance procedures in Nepal's banking industry is one of the main issues. Some banks might not give governance measures enough priority because of the inconsistent governance frameworks and execution of these policies. This discrepancy may make it more difficult to apply governance rules consistently and effectively, which is crucial for maximizing financial performance.

Furthermore, educating and raising awareness of corporate governance among stakeholders—such as shareholders, CEOs, and boards of directors—poses a big problem. Neglect or inadequate application of governance procedures may result from a lack of knowledge about the critical role that governance plays in improving financial performance. Adoption of necessary measures may be impeded by boards and executives'

failure to understand the direct correlation between strong governance standards and long-term financial stability.

One such factor contributing to the issue is the ownership arrangements of Nepalese commercial banks. Ownership concentration in certain banks may result in conflicts of interest. The leading shareholders may put their own interests ahead of the bank's overall financial stability when ownership is excessively concentrated. The successful application of corporate governance procedures, which are designed to balance shareholder interests with the performance and stability of the bank, may be impacted by this conflict.

The problem is made worse by inadequate enforcement and oversight of regulations. Although there are regulatory agencies in Nepal, their effectiveness in implementing and overseeing adherence to corporate governance principles may differ. The absence of strict enforcement measures could lead to certain banks neglecting crucial governance protocols, which could jeopardize their financial stability and performance (Niraula & Upadhyay 2022).

Nepal's distinct socioeconomic and political environment further adds complexity. The banking sector's implementation of governance norms can be impacted by political and economic volatility. Quick changes in the political or economic landscape can have an effect on financial performance by upsetting governance frameworks and making it more difficult to consistently follow best practices.

Promoting awareness and education about the value of corporate governance among all stakeholders is essential to addressing these issues. Fostering a successful governance culture in Nepalese commercial banks requires putting standardized governance principles into place and making sure regulatory agencies implement them strictly. Additionally, improving financial performance and general stability in Nepal's banking industry can be achieved by reexamining and changing ownership structures to reduce conflicts of interest and by customizing governance techniques to the local environment (Poudel and Hovey, 2013).

Enhancing corporate governance can assist Nepal and other developing countries in accomplishing several important public policy objectives. Effective corporate governance can reduce transaction and capital costs, strengthen property rights, diminish the vulnerability of emerging markets to financial crises, and foster the expansion of capital markets. On the other hand, inadequate corporate governance frameworks erode investor confidence and can discourage outside investment. The nation's central bank, Nepal Rastra Bank (NRB), has consistently sought to improve bank governance by revising and updating policies and procedures. Various rules have been devised to provide better governance in banks, such as the latest comprehensive directive, guidelines for stress testing, guidelines for CEO compensation, etc. Corporate governance is challenging despite these laws and guidelines because dishonest people always find new methods to misappropriate public monies. Nepalese organizations continue to lack a culture of sound management practices and appropriate public interest consideration. Where ownership and management end is still a mystery. There is a serious issue with directors and staff members committing fraud in Nepal (Khatiwada, 2015). The CEOs of H and B Bank (2012) and KIST Bank (2013) were charged with embezzlement. Similarly, NABIL (2011) and Himalayan Bank (2012) faced allegations of employee pin-stealing from ATMs. These incidents have eroded the public's trust in banks to handle their money (Khatiwada, 2015). By focusing on effective governance, a stronger climate of safety and trust among the public must be ensured. When banks establish governance, both customer deposits and bank profitability can increase.

According to Sapkota's (2020) analysis of the data, the debt ratio, net interest margin, and total assets all significantly improved the performance of banks. The performance of banks was negatively impacted by board meetings and liquidity. The performance of the company was not significantly impacted by the size of the board or the concentration of ownership. Nonetheless, the study looked at how corporate governance affected Nepalese companies' success. Based on return on assets, the results showed that corporate governance significantly affected how well businesses performed. Based on return on equity, the age of the company and the audit committee had a favorable impact on firm performance, whereas board size and leverage had a negative and significant impact. The

audit committee and the size of the board were the main determinants of the firm's performance when regressing it using Tobin's Q.

Lamichhane (2020), on the other hand, examined the variables that impacted corporate governance and the financial success of Nepali businesses. The findings of this study indicated that the financial performance of Nepalese enterprises could be strongly explained by corporate governance, age, asset size, market to book value ratio, and debt ratio. The framework of corporate governance on director boards. Boards are an endogenously determined governance method for resolving agency difficulties intrinsic to many companies, despite being legally required for many of them. The concept of corporate governance gained popularity as a result of the agency dilemma, which occurs when ownership and control of a corporation are divided.

Hermalin and Weisbach (2001) claim that while board size has a negative relationship with business performance, board makeup is unrelated to it. The size and makeup of the board influence its choices about CEO turnover, acquisitions, poison pills, and executive compensation. Lastly, it seems that the CEO's negotiating power in relation to the current directors determines how boards change over time. Changes in ownership structure, firm performance, and CEO turnover seem to be significant variables influencing board changes.

According to Zeitun and Tian (2014), the problem of corporate governance is that a company's capital structure has a major detrimental effect on its performance metrics in the accounting and market sectors. This finding raises the possibility that agency problems could result in more debt than is appropriate for the capital structure. The goal is to align agents with the interests of principals by modifying their risk and effort orientation through the use of supervisory and incentive alignment systems.

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 existing situation of corporate governance and financial performance of Nepalese commercial banks?

- ii. What are the relationships among factors such as board member sizes, the inclusion of independent directors, leverage, capital adequacy ratio, earnings per share, and the overall performance of banks, specifically in terms of Return on Assets (ROA) and Net Interest Margin (NIM)?
- iii. Does the Corporate Governance influence the financial performance of Nepalese commercial banks?

1.3 Objectives of the Study

The general objective of the study is to know the effect of corporate governance on financial performance of Nepalese commercial banks. The objective of this study can be stated as:

- i. To identify the existing situation of corporate governance and financial performance of Nepalese commercial banks.
- ii. To examine the relationship between board member sizes, independent directors, leverage, capital adequacy ratio, earning per share and bank performance (ROA and NIM).
- iii. To analyze the effect of corporate governance on financial performance of Nepalese commercial banks.

1.4 Hypothesis

In this study, the hypothesis testing is used to test the significance of the relationship between dependent and independent variables:

H₁: There is positive impact of board member sizes (BM) on ROA.

H₂: There is negative impact of independent directors on ROA.

H₃: There is positive impact of leverage ratios on bank performance (ROA).

H₄: There is negative impact of capital adequacy ratios on ROA.

H₅: There is positive impact of earning per share on ROA.

H₆: There is negative impact of board member sizes (BM) on NIM.

H₇: There is negative impact of independent directors on NIM.

H₈: There is positive impact of leverage ratios on NIM.

H₉: There is positive impact of capital adequacy ratios on NIM.

H₁₀: There is positive impact of earning per share on NIM.

1.5 Rationale of the Study

Research on corporate governance and bank performance is important since they are linked to the economy. Several studies conducted by scholars have established a clear connection between good governance and an organization's performance. Thus, maintaining strong governance will benefit the organization and vice versa. The many variables that define governance vary based on the industry and type of company. These components also have different effects on the organization. For this reason, it is imperative that the banks know which factors affect them more and less.

In Nepal, policy discussions and scholarly studies have recently focused on governance. Paudel and Hovey (2013) investigated how 20 Nepalese commercial banks' efficacy was impacted by corporate governance. The study finds that larger boards and audit committees, fewer board meetings, and a smaller institutional ownership percentage all contribute to the efficiency of commercial banks.

Determining the ways in which different facets of good governance impact bank performance is, thus, another objective of this research. Independent variables including leverage, earnings per share, capital adequacy ratio, and board size are used to assess their impact on net interest margin and return on equity. This study will ensure that the banks can achieve the performance by focusing on the relationship between the corporate governance variable and performance measurement elements. With the use of this study, the banks can make sure that an independent director is participating and that the number of board members is still adequate.

1.6 Limitations of Study

The required number of bank samples and time frame were used for the research. This study did have certain drawbacks, though. The following are the study's limitations.

Although there are twenty commercial banks in the nation, not all of them are included in the study. For the purposes of the study, only ten banks are taken into account. More

reliable results would have been obtained if all 20 banks had been included in the research.

- The study used the following independent variables: the number of board meetings, the proportion of female directors, the age range, the composition of the management team, and so on. Other variables that were left out included board member size, earnings per share, leverage, and independent directors.
- To establish a link, the study used two dependent variables. Return on asset is one of the numerous dependent variables that can be studied. Because only commercial banks were included in the study sample, there may be differences in the relationships between dependent and independent variables for development banks, microfinance, insurance providers, and other non-financial institutions.
- The study's data collection included the years 2012–2022 and 2021–2022. A longer length of time may have been used to collect data for the study.
- It should be mentioned that only secondary data were taken into account for this investigation. The primary survey's data gathering is not taken into account. As a result, the study's conclusion is not inclusive and adaptable. It is restricted to the information included in the sample banks' annual reports.
- All of the study's material, including secondary data, comes from publicly available sources. As a result, the validity of secondary data and information influences the consistency of the findings and conclusion.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

The facts and conclusions from earlier similar investigations by different researchers are covered in this chapter. Studies and data were pertinent for additional research on corporate governance and bank performance.

2. 2 Theoretical Review

2.2.1 Corporate Governance and the Role of Banks

The processes via which stakeholders in a business exert control on corporate insiders and management to safeguard their interests are referred to as corporate governance. And this includes stakeholders as well, despite the notion that they need to be limited to shareholders. This group includes debt holders as well as non-financial stakeholders including suppliers, employees, and customers (John and Senbet, 1998). Corporate governance begins in the boardroom and among the directors, then moves up to the base of the business (Kocourek, Burger, and Birchard, 2003). It plays a crucial role in the reasons, methods, and schedule for the board of directors' meetings, activities, and interactions with management. It is, however, meaningless unless and until the directors implement the theory measurement, performance criteria, and procedure for qualitative improvements in their actions. According to Tricker (1994), the phrase "corporate governance" refers to a broad range of issues that arise from interactions between the board of directors, senior management, stakeholders, and shareholders. It can also be thought of as the more formal system that holds senior management accountable to the owners. Generally speaking, though, corporate governance will be defined as the mutually reinforcing official and informal relationships with the business sector and the outcomes it produces for society at large.

Since banks are constantly in the forefront of developing financial systems in economies, they are comparatively more significant growth accelerators. Similarly, because the financial markets are still emerging, banks serve as the main source of funding in

developing economies. Thirdly, because they have widely accepted forms of payment, banks in developing economies serve as the primary depository institution for the economy's savings (Levine, 1997).

Furfine (2001) argues that because banks have two connected traits, their corporate governance requires a different examination than that of other organizations. It is influenced by two factors: first, how opaque banks are in comparison to other financial institutions, and second, how well corporate governance promotes growth and development. Anwar (2009) argued that because moral hazard is a constant danger, corporate governance is more crucial for financial institutions. The purpose of the corporate governance regulations was to exclude any possibility of financial intuitions, either willingly or unwillingly, deviating from statutory norms. According to the World Bank, corporate governance is a collection of guidelines, organizational theories, and economic principles that control managers', businesses', and directors' daily operations.

Corporate governance was described by Shleifer and Vishny (1997) as the process that assures financial providers to a firm that they will receive a return on their investment. According to agency theory, managers who are given unrestricted authority may wind up making bad choices for shareholders in terms of investment, dividend, and financing.

Thapa (2014) demonstrated that the importance of corporate governance extends beyond banks to all corporate entities. However, since banks rely on other people's money, it is even more important and necessary for them (OPM). He goes on to say that inadequate control mechanisms and a lack of transparency are the main causes of the possibility of moral hazard issues and vested interest. A greater level of transparency leads to the assurance of justice and the optimization of shareholder value. Furthermore, because banks handle other people's money (OPM), corporate governance is crucial (Abbasi, Kalantari, and Abbasi, 2012). In order to safeguard stakeholder interests, corporate governance enables stakeholders to exert influence over corporate insiders and managers (John and Senbet, 1998). The banking industry is more significant than other industries, especially in less developed nations where economic development and growth are heavily reliant on a stable, well-functioning banking system. This is because a competitive business environment with an efficient financial system is widely attributed to good corporate governance. The banking industry is heavily regulated and constantly under the

watchful eye of the government and regulatory bodies. According to Gorkhali (2010), banks are the cornerstone of financial reforms and national economic progress. Alexander (2004) contends that sound corporate governance standards are essential for lowering the cost of capital and facilitating simple access to capital markets. They also aid in preserving the interests of foreign and minority shareholders.

2.2.2 Corporate Governance practices in Nepal

A review of the literature and corporate governance principles from the perspective of the banking industry makes it abundantly evident that corporate governance ensures the financial system's accountability, transparency, and professionalism, all of which increase the system's credibility and acceptability in the eyes of the public, governments, employees, shareholders, and potential and current investors. Since banks handle public funds, maintaining public trust is crucial (Gorkhali, 2010). Establishing clear plans and a well-defined organizational structure to implement a transparent reporting system in an ethical manner inside a controlled environment are two ways to promote corporate governance (Kharouf, 2000).

Poudel and Hovey (2011) assert that corporate governance is important for all kinds of corporate organizations. The Asian economies' 1997–1998 financial crises brought corporate governance's significance to light. A healthy bank system is essential to the economic sustainability of developing nations like Nepal. In the Nepalese context, it is anticipated that corporate governance standards will develop more in accordance with the Nepal Rastra Bank's regulatory requirements than with other laws and guidelines. Thus, the history, general context, and applications of corporate governance with regard to the Basel Committee on Banking Supervision framework and the OECD Principles of corporate governance are examined in this part. In order to draw in foreign direct investment, manage foreign portfolios, and encourage capital market savings, corporate governance is crucial for emerging nations like Nepal (Sapkota, 2008). In a similar vein, the Basel Committee (2006) recommends that in order to effectively execute corporate governance principles, banks should scale down to the size, complexity, size, and economic significance of the group to which they belong. In accordance with section 79

of the Nepal Rastra Bank Act, 2002, banks and their directors have also received corporate governance directives from Nepal Rastra Bank (NRB), the country's central bank. The NRB directives are summarized below; the complete text can be found in the appendix section. - Adherence to the minimally acceptable code of conduct standards - Not taking part in actions that go against the Bank's interests - Outlawing taking part-time jobs, running for office, and serving as trustees for other organizations - Complete and accurate record-keeping and reporting 18 - Upholding privacy and treating everyone equally In a similar vein, the NRB regulation outlines the obligations and responsibilities of the board of directors, which include serving as the guardian of public deposits, forming an audit committee led by a non-executive director, carrying out frequent internal audits, holding regular board meetings, and more. If directors are found to be working against the interests of depositors or withholding bank data, they will also be subject to fines under section 100 of the Nepal Rastra Bank Act of 2002.

2.2.3 Board Size and Financial Performance (ROA and NIM):

A bank's financial performance is greatly influenced by the makeup of its board of directors, especially when it comes to Return on Assets (ROA) and Net Interest Margin (NIM). One important governance factor that needs to be carefully considered is board size, or the total number of directors on the board. A larger board may provide a wider range of viewpoints and levels of experience, which could improve the quality of the decision-making process. Having a variety of perspectives can be helpful for addressing difficult problems and developing strategic plans. Furthermore, a large board can benefit a bank's performance by introducing a wider range of industry connections and insights into the market.

An overly large board, though, may have disadvantages. It could result in difficulties with coordination and ineffective decision-making. Reaching an agreement might become difficult when there are too many people present, which could cause strategic decisions to be delayed or lead to less-than-ideal options. A bloated board may also result in increased operational and administrative expenses, which, if not properly handled, may harm a bank's bottom line.

Therefore, it's imperative to balance board size. It is imperative for banks to guarantee that their boards are appropriately sized to enable efficient decision-making and governance, without being excessively large or small. A board that balances efficiency and diversity management is the ideal size. Maintaining a healthy Net Interest Margin (NIM) is essential for effective cost and interest revenue management. It also helps banks maximize Return on Assets (ROA), which measures their profitability in relation to shareholders' equity.

2.2.4 Independent Directors and Financial Performance (ROA and NIM):

An essential part of a bank's board, independent directors have a big say in how the bank performs financially, especially when it comes to Return on Assets (ROA) and Net Interest Margin (NIM). Bringing impartiality and objectivity to the decision-making process is the main responsibility of independent directors. Independent directors only operate in the best interests of shareholders and stakeholders, in contrast to executive directors who might have a stake in the administration of the bank.

Higher ROA is strongly correlated with effective company governance, which includes the presence of independent directors. A bank may create a profitable environment by having independent directors on its board who will closely monitor management and make sure that strategic choices are made with the interests of the shareholders in mind. By assisting in the prevention of conflicts of interest and unethical behavior, independent directors can protect the bank's finances and, in turn, its return on assets (ROA).

Furthermore, independent directors have a big impact on raising NIM. Their impartiality and sound financial judgment can help maximize interest income and effectively control interest expenses. They can be extremely important in assessing the bank's risk management procedures and assisting in preserving the optimal ratio of reward to risk.

Independent directorship is essential to good corporate governance and, consequently, to higher ROA and NIM financial performance. They play a crucial role in guaranteeing good decision-making and strategic planning within banks because of their objectivity and dedication to the interests of shareholders.

2.2.5 Leverage and Financial Performance (ROA and NIM):

A key factor in determining a bank's financial performance is leverage, which is defined as its debt-to-equity ratio or debt levels relative to equity. Leverage has a major effect on Return on Assets (ROA) and Net Interest Margin (NIM). Leverage and financial performance have a complicated relationship that needs to be carefully managed to maximize outcomes.

A traditional risk-return trade-off is shown in the link between leverage and ROA. Leverage can improve returns, but it also raises the possibility of financial instability. To strike a compromise between the necessity to meet regulatory requirements and preserve financial stability and the desire for better returns, banks must carefully manage their leverage.

There is, nevertheless, a reverse side to consider. It puts money at risk. A bank that has too much leverage is more vulnerable to financial difficulties in times of recession or unfavorable market circumstances. Elevated debt levels may result in higher interest costs, which, if not effectively controlled, may reduce Net Interest Margin (NIM). Excessive leverage can cause interest expenses to rise dramatically, which can put pressure on the NIM and potentially harm profitability.

Leverage has two effects: it can have a good influence on ROA through increased returns on assets, but it can also have a negative impact on NIM due to higher interest costs. Leverage can increase returns, but it also increases risk, so banks must balance stability and profitability. For banks to achieve the ideal balance and maximize their financial performance, leverage management is crucial.

2.2.6 Earnings per Share (EPS) and Financial Performance (ROA and NIM):

A key financial indicator that has a big impact on a bank's financial performance is earnings per share (EPS), especially when it comes to return on assets (ROA) and net interest margin (NIM). As the amount of a company's profit allotted to each outstanding share of common stock, earnings per share (EPS) is a critical measure of profitability from the standpoint of shareholders.

Robust profitability is indicated by a greater EPS, and this can have a beneficial effect on ROA. A bank's capacity to use its assets profitably is positively correlated with its ability to produce significant earnings for its shareholders. A higher return on assets (ROA) suggests that the bank is making better use of its resources to turn a profit.

Positive effects on NIM can also be seen in a robust EPS. This is due to the possibility that a bank that is more profitable will be able to produce net income more effectively in relation to its assets. One sign of good management of interest income and expenses—two important components of net present value—is a robust earnings per share (EPS). Banks can demonstrate their ability to produce revenue from their primary lending and investing activities by maintaining a favorable net interest margin (NIM) through effective net interest income management.

For banks, earnings per share (EPS) has a significant influence on both return on assets (ROA) and net interest margin (NIM). It shows how profitable the bank is and how well it produces profits for investors. Banks can improve their ROA and NIM by concentrating on increasing their profitability, which will ultimately improve their overall financial health.

2.2.7 Capital Adequacy Ratio and Financial Performance (ROA and NIM):

A key factor in determining a bank's financial success is the Capital Adequacy Ratio (CAR), which compares the capital of the institution to its risk-weighted assets and has a major impact on Return on Assets (ROA) and Net Interest Margin (NIM). A higher CAR gives investors and regulatory agencies more confidence because it shows that the bank is well-capitalized and has a significant buffer against financial stress.

A bank that has a higher CAR is typically in a better position to withstand losses and keep its finances stable, both of which can raise ROA.

A positive NIM is contingent upon a robust CAR. A bank with adequate capital can draw in money at a reduced cost because investors think it's less hazardous. Higher interest margins might result from lower funding costs, which will boost the NIM. The bank's

capacity to sustain a positive CAR is further improved by prudent risk management procedures, which are frequently linked to one.

2.3 Conceptual Review

Over time, the principles of corporate governance become more broad-based and diversified. Becht (2007) had outlined five factors that made corporate governance a significant problem and a growing trend. These were the following reasons.

The wave of global privatization has been widely seen, especially in former communist nations, Western Europe, and Asia. The UK was the driving force behind it, having received a large share of the proceeds from EU privatization in the early 1990s. This wave created problems for the ownership and management of businesses that were previously held by the state. Various strategies were used by different regions to guarantee a seamless transfer of power; the UK was a leader in the development of "shareholder democracy." The wave of privatization had a big effect on the stock markets since a big part of sales happened through initial public offerings, which promoted market growth.

The rise of institutional investors and pension funds was spurred by the introduction of private retirement plans in the US and Europe. These organizations amassed substantial equity holdings and had considerable sway over corporate governance. The bulk of equity investments inside the OECD were held by institutional investors, particularly in the US and the UK. Because they owned a sizable amount of the equity and were thus active participants in forming global corporate governance, pension funds were vital to this.

Corporate governance entered the public eye amid the waves of hostile takeovers that occurred in the US in the 1980s and in Europe in the 1990s. Prominent takeover offers, like Vodafone's purchase of Mannesmann, changed the corporate environment, particularly in continental Europe. These incidents prompted the European Union to review its takeover laws and brought to light the significance of governance in negotiating both local and international transactions.

Interest in corporate governance has increased due to the heightened integration of global financial markets, which has been made possible by developments such as the Euro's introduction and stock market mergers. European companies, in particular, used cross-listing on different exchanges to obtain funding from a variety of sources. This pattern emphasized how crucial governance is to preserving the favorable conditions that allow for the raising of money from a variety of markets.

Weak governance procedures in emerging economies were made evident during the 1998 East Asia crisis. The crisis led to large insider privatization in Russia as well as a reevaluation of the widely used concept of centralized industrial groups, which was popular in Asia. The string of scandals and corporate collapses in the United States, most notably those involving large businesses such as Enron and WorldCom, brought to light governance deficiencies and underscored the necessity of more robust governance rules in order to avert these kinds of disasters.

Corporate governance is divided into four primary models by the assimilation theory: the Simple Finance Model (Agency Theory), Stewardship Theory, Stakeholder Theory, and Political Theory. A different viewpoint on the dynamic between principals (shareholders) and agents (management) is provided by each of these models. In order to reduce agency issues, the Agency Theory seeks to match management actions with the interests of shareholders. According to the stewardship theory, managers are stewards who work to maximize shareholder returns and business profit. The Stakeholder Theory places a strong emphasis on generating profit for all stakeholders within the company. Finally, the Political Theory recognizes the role played by the government in distributing corporate earnings, privileges, and power.

The governance procedures and business conduct are greatly impacted by these theoretical theories. The Agency Theory directs businesses in creating incentive programs that effectively balance management and shareholders. The Stewardship Theory encourages firms to have a culture of accountable and moral leadership. Companies are encouraged under the Stakeholder Theory to take into account the interests of all parties involved in their decision-making, not just shareholders. The Political Theory emphasizes how governments shape market dynamics and company

conduct through regulation and governance. Comprehending and employing these frameworks aids companies in navigating the intricate terrain of governance, culminating in enhanced organizational efficacy and positive societal consequences.

2.4 Empirical Review

2.4.1 International Study

Renneboog (2000) examined the exercise of corporate governance over companies listed on the Brussels Stock Exchange, such as the market for partial control, board composition, debt policy, and blockholders (holding companies, industrial businesses, families, and institutions), may be useful in disciplining underperforming management. Certain mechanisms might predominate even in the case of a shortage of replacement kinds of punishment. We discover that low performance as determined by stock returns, accounting earnings relative to industry peers, and dividend reductions and omissions is highly correlated with senior management turnover. Tobit models show that, despite the fact that industrial organizations use disciplinary measures when employee performance is subpar, there is minimal correlation between ownership and managerial replacement. There is evidence of an increase in executive board turnover when industrial businesses take on new stakes in underperforming companies or raise their share position, indicating a partial market for control. Disciplining has little bearing on shifts in the ownership concentration of holding businesses and organizations. Nevertheless, there is a correlation between higher disciplining and high leverage, declining solvency and liquidity metrics, a high percentage of non-executive directors, and the division of the CEO and chairman roles.

Hermalin and Weisbach (2001) studied boards are an endogenously determined governance method for resolving agency difficulties intrinsic to many companies, despite being legally required for many of them. There hasn't been a lot of formal theory on boards of directors up until now. The majority of board-related empirical research has attempted to address one of three questions: The main conclusions drawn from this body of empirical work are that board size negatively affects corporate performance and that board composition has no bearing on corporate success. The size and makeup of the

board influence its choices about CEO turnover, acquisitions, poison pills, and executive compensation. Lastly, it seems that the CEO's negotiating power in relation to the current directors determines how boards change over time. Changes in ownership structure, firm performance, and CEO turnover seem to be significant variables influencing board changes.

Caprio and Levine (2002) examined the unique issues with corporate governance that financial intermediaries face and combined this theoretical viewpoint with global data. The corporate governance issue is defined by standard agency theory as how holders of debt and stock persuade managers to operate in the best interests of the capital providers. The unique characteristics of financial intermediaries, and banks in particular, exacerbate common issues with corporate governance. Furthermore, widespread government intervention adds more barriers to efficient company governance. Finding solutions to the financial intermediary sector's governance issue will require careful consideration and a strategy that appropriately concentrates the responsibilities of governmental authorities.

Amel et al. (2004) assessed to significant shifts in technology and regulation, the financial sector is experiencing a never-before-seen wave of consolidation. The efficiency advantages from mergers and acquisitions are being measured by an increasing amount of empirical literature; however, little information is available about how the findings may vary depending on the nation, industry, and time period examined. In order to find common patterns that go beyond sectoral and national differences, we critically review works published over the last 20 years that cover the primary financial industry sectors in the major industrialized countries (commercial and investment banks, insurance, and asset management firms). We discover that banking sector consolidation is advantageous up to a relatively modest size, but there is less proof that mergers result in increased managerial effectiveness or economies of scale.

Halkos and Salamouris (2004) proposed to use to gauge the performance of the Greek banking industry. Using several recommended financial efficiency indices, it investigates the effectiveness of Greek banks from 1997 to 1999. The suggested approach provides an

empirical reference set in this manner, enabling a comparison between inefficient and efficient institutions. It differs from the majority of frontier research on bank performance in that it does not utilize any input variables and instead uses these recommended ratios as output measures. The suggested model is contrasted with both the straightforward ratio analysis and the widely utilized input–output analysis. It is demonstrated that when assessing an organization's performance, data envelopment analysis can be utilized either in addition to or instead of ratio analysis. We discover that efficiency increases with the number of total assets. We also discover a large range in performance, and we demonstrate that the number of small banks is declining as a result of mergers and acquisitions along with the rise in efficiency. Lastly, it appears from the efficiency results that the performance from the previous period and the transfer of ownership are not correlated in a systematic way.

Alexander (2004), analyzed the globalization of the banking industry has brought up significant concerns about the regulation of corporate governance in banking organizations. Some of the most important corporate governance concerns in relation to banking regulation are covered in this research study. Some of the most important problems pertaining to corporate governance and financial institutions will be examined using the conventional principal-agent paradigm. The first section of it analyzes the newly developed global bank corporate governance framework. Pillar II of the revised Basel Capital Accord lays this out. A thorough framework for the relationship between bank supervisors and bank management on the management of banking institutions and its potential effects on financial stability is provided by Pillar II. Next, the paper will examine corporate governance and banking regulations in the US and the UK. The Financial Services and Markets Act of 2000 attempted to close this oversight gap by giving the FSA the authority to create guidelines and regulations that would improve corporate governance for financial firms, even though UK corporate governance regulation has historically not placed much emphasis on the unique role of banks and other financial institutions. Federal and state statutes and regulations govern corporate governance for banking institutions in the United States. A prescriptive framework for directors and senior management to carry out their management obligations is provided

by federal regulation. Governance issues in banks and financial holding corporations are also covered by US banking regulations. The paper makes the case that national banking law and regulation should allow the bank regulator to take the lead in defining governance requirements for financial institutions, banks, and bank/financial holding companies in order to maintain financial stability. The ideal person to represent and strike a balance between the interests of the many stakeholders is the regulator. The US regulatory approach has been constrained by US court rulings that limit the regulator's ability to impose prudential requirements on banks and bank holding corporations, whereas the regulatory framework in the UK is successful in this regard. The implementation of Financial Services Authority (FSA) regulations has improved financial sector accountability by establishing objective norms of behavior for financial company directors and senior management. The paper makes the argument that in order to ensure that banks operate under strong governance standards, effective banking regulation necessitates giving regulators the freedom to reflect the interests of larger stakeholders. It also contends that judicial intervention may result in worse than ideal regulatory outcomes.

Lskavyan and Spatareanu (2006) examined the relationship between ownership concentration and performance, taking into consideration the impact of hostile takeover threats. Some contend that increased ownership concentration will boost output because it will enable or encourage owners to keep a closer eye on managers. Some contend that when there are efficient markets, managers will be disciplined by market monitoring—which involves the prospect of hostile takeovers. Our findings demonstrate that concentration has little bearing on performance in either the UK, where market monitoring is purportedly strong, or the transition nations, where it is purportedly inadequate.

Boone et al. (2007) examined a special panel dataset that charts the evolution of corporate boards from a company's initial public offering (IPO) to a decade later. What they discovered was that: (i) board size and independence rises as companies expand and diversify; (ii) board size, but not board independence, represents a trade-off between the

costs of monitoring and the firm-specific benefits; and (iii) board independence is inversely correlated with the manager's influence and positively correlated with constraints on that influence. These findings suggest that cross-sectional variance in corporate board size and composition can be explained by economic factors, specifically the unique characteristics of the firm's executive team and competitive environment. However, there is still a great deal of variety in board structures that cannot be explained, indicating that unique elements influence the properties of many different boards.

Kosmidou (2008) investigated the factors influencing Greek bank performance between 1990 and 2002 when the EU began its financial integration. An imbalanced pooled time series dataset of 23 banks was used in the study. Lower cost to income ratios and well-capitalized banks were found to be linked to high return on average assets (ROAA). The size was always positive, but it wasn't statistically significant until the financial structure and macroeconomic variables were included in the models. The paper's value lies in demonstrating that money supply growth has no significant effect on profits, while the ratios of banks' assets to GDP, stock market capitalization to banks' assets, and concentration are all statistically significant and negatively related to ROAA. Turning to macroeconomics and financial structure, GDP growth has a significant and positive impact on ROAA, while inflation has a significant negative impact.

Sayed Ebaid (2009) studied into how Egypt, one of the rising or transitioning countries, performed as a firm in relation to the capital structure decision made. The study estimates the association between the firm's performance and its leverage level using multiple regression analysis. Based on a sample of non-financial Egyptian listed firms from 1997 to 2005, and using three accounting-based measures of financial performance (i.e., return on equity (ROE), return on assets (ROA), and gross profit margin), the results show that, generally speaking, capital structure choice decision has a weak-to-no impact on firm's performance. This is the first research that looks at the connection between Egyptian firms' performance and their amount of leverage.

Chau and Gray (2010) evaluated the correlation between the degree of voluntary disclosure and the ownership and independence of the board, including the impact of an independent chairman. The results demonstrate that at moderate to low levels of family shareholding (25 percent or less), the convergence of interest effect predominates and the extent of voluntary disclosure is relatively low. These findings are based on hand-collected data on voluntary disclosure for a sample of 273 listed firms in Hong Kong for the year 2002. The entrenchment effect takes over at higher family shareholding levels (over 25%) and is linked to higher voluntary disclosure. Furthermore, the findings demonstrate a significant correlation between the degree of voluntary disclosure and the selection of an independent chairman. Above all, the nomination of an independent chairman seems to reduce the impact of family ownership on voluntary disclosures; this also applies to companies where the chairman is not independent. Although voluntary disclosure is favorably correlated with the number of independent non-executive directors appointed to the board, the chairman's position somewhat offsets the contribution of these directors.

Mulili and Wong (2011) conducted a historical analysis of the idea of corporate governance. The impact of stewardship and agency theories on corporate governance procedures is examined in this research. The paper focuses on Kenyan public universities. According to a thorough analysis of the literature, emerging nations have been embracing the principles of good corporate governance since the 1980s. There are several ways in which developing and developed nations diverge. As a result, developing nations must create their own corporate governance models that take into account the unique political, technological, and cultural landscapes of each nation. This essay examines the difficulties emerging nations face as they attempt to implement corporate governance principles. The knowledge gaps in corporate governance that the authors have found can serve as the foundation for further studies.

Claessens and Yurtoglu (2012) examined the connections between well-being and economic development and corporate governance. It concludes that companies with better-managed corporate structures benefit from easier access to capital, less capital

costs, improved company performance, and more equitable treatment of all stakeholders. Several studies concur that corporate governance is the reason behind these channels' operation, which occurs not just at the business level but also in sectors and nations. Additionally, there is proof that the effectiveness of voluntary and market corporate governance procedures is more constrained in nations with inadequate overall systems of property rights and corporate governance. Significantly, there is an increasing focus on the dynamic features of corporate governance, i.e., how regimes for corporate governance evolve over time and what effects these changes have. The direct relationships between corporate governance and social outcomes—such as poverty and environmental performance—are less well-established. Additionally, there are certain unique corporate governance problems in different nations and areas that have not yet undergone a thorough analysis. In instance, little is known about the unique corporate governance concerns facing banks, family-owned businesses, and state-owned enterprises, nor about the characteristics and factors influencing both public and private enforcement. As a result, this paper's conclusion identifies important policy and research questions that need more investigation.

Olalekan and Adeyinka (2013) evaluated the impact on the profitability and capital sufficiency of both domestic and foreign banks in Nigeria. This research presents primary data obtained from surveys that were completed by 518 employees of banks, with a 76% response rate. Bank financial statements that were also publicized were used between 2006 and 2010. The results of the secondary data analysis demonstrated a positive and substantial association between capital adequacy and bank profitability, but the original data analysis revealed a non-significant relationship. This suggests that a significant factor in determining the profitability of deposit-taking banks in Nigeria is capital adequacy. It was found that profitability and capitalization serve as a safety net against losses not offset by current earnings and are measures of a bank's effectiveness in managing risk.

Fanta et. al. (2013) investigated the effects of corporate governance measures on the performance of commercial banks. The study evaluated the correlation between a few

chosen external and internal corporate governance systems and the ROE and ROA metrics used to gauge bank performance. The study employed a structured review process for document analysis, and financial data from commercial banks was gathered between 2005 and 2011. The results showed that while bank size had a statistically significant beneficial impact on bank performance, board size and the presence of an audit committee on the board had a statistically significant negative impact. In a similar vein, bank performance was positively impacted by the capital adequacy ratio—a statistically significant indicator of an external corporate governance system. Furthermore, the main factors negatively affecting corporate governance and bank performance in Ethiopia are the lack of an organized stock exchange, heavy government intervention, a lack of awareness of corporate governance, the absence of national standards for corporate governance, accounting, and auditing, as well as a weak legal framework protecting the rights of minority shareholders.

Zeitun and Tian (2014) analyzed the impact that capital structure has had on corporate performance using a panel data sample consisting of 167 Jordanian enterprises from 1989 to 2003. This study also looks at how exogenous shocks have affected Jordan's industrial sectors and business performance. Our findings demonstrated that a firm's capital structure has a substantial detrimental effect on its performance metrics, as measured by the accounting and market. This finding raises the possibility that agency problems could result in more debt than is appropriate for the capital structure. Additionally, we discovered that the market performance measure, or Tobin's Q, is significantly positively impacted by the level of short-term debt to total assets (STDTA). This finding may lend credence to Myers' (2001) claim that companies with high STDTA also have high growth rates and performance. As the only market accessible to Iraq, the Gulf Crisis of 1990–1991 was determined to have a positive effect on Jordanian corporate performance. However, as the majority of Jordanian businesses exported to the West Bank, the September 2000 Intifadah in the West Bank and Gaza had a detrimental effect on business performance.

Thapa (2014) analyzed that sound corporate governance is a basic necessity for the

banking industry's and the economy's overall smooth operation. According to Barrett (2002), corporate governance is the process that includes an organization's corporate and other structures, culture, policies, strategies, and methods of dealing with its different stakeholders. Stronger growth and more equitable societies are supported by good corporate governance, which contributes to the establishment of the trust, transparency, and accountability climate needed to promote long-term investment, financial stability, and commercial integrity (OECD, 2004). The need for and justification of institutional good governance in financial institutions has been given priority. Weak and ineffective corporate governance mechanisms in banks are identified as the primary factor contributing to the failure of institutions along with the development and expansion of the banking sector in Nepal. The absence of sound corporate governance was also causing issues for certain officials and financial organizations. In this domain, there exist numerous concerns pertaining to sound governance. There appears to have been a progressive shift in the initial understanding of the roles and duties of different stakeholders in the organization's operations, including the management and board of directors. This article aims to investigate the current status of corporate governance in the Nepalese banking sector, taking into account various evolving perspectives. After reviewing the literature and current regulatory frameworks, the study attempted to draw some conclusions and provide recommendations.

Shahwan (2015) investigated the effectiveness of corporate governance (CG) practices in Egyptian-listed companies and their impact on firm performance and financial hardship. The current study creates a corporate governance index (CGI) with four dimensions—disclosure and transparency, board composition, investor relations, and ownership and control structure—to evaluate the degree of corporate governance procedures at a particular company. The effects of CG on financial distress and performance are evaluated using data from 86 non-financial enterprises that are listed on the Egyptian Exchange. Tobin's Q is a tool for evaluating business performance. Since the Altman Z-score reflects financial distress inversely, it is also employed as a financial distress indicator. The likelihood of financial distress decreases with increasing Z-score. The average CGI score indicates that the caliber of CG practices in Egyptian-listed companies

is comparatively poor. The findings refute the notion that CG practices and financial performance are positively correlated. Furthermore, there is a negligible inverse correlation between the chance of financial trouble and CG practices. Evidence for the potential value of firm-specific features as a preliminary screening tool for assessing firm performance and financial distress is also presented by the current study. Because of the limited sample size and short analytic period, care should be used before extrapolating the findings to the whole population. The results may be useful to regulators, practitioners, and academic researchers who want to learn more about the impact of corporate governance (CG) policies on financial hardship and performance in developing markets like Egypt. This study adds to the body of research by analyzing business performance and financial distress risk in connection to the degree of CG mechanisms used, with a focus on the Egyptian setting.

Al-Musali and Ku Ismail (2016) examined the IC performance of banks in the Gulf Cooperation Council (GCC) in order to determine whether intellectual capital (IC) has an effect on financial performance and to pinpoint the IC elements that could be the main forces behind the conventional measures of bank success. The empirical information comes from the 2008–2010 bank annual reports, which span three years. Regression analysis using ordinary least squares is used to investigate the connections between IC and the financial performance metrics of the institutions. IC performance is measured using Public's value-added intellectual coefficient approach (VAIC). Empirical results show that IC is favorably correlated with bank financial success metrics in all GCC nations, even after adjusting for bank size and the global financial crisis. There are differences in the correlations between the three components of VAIC and bank financial performance measures. The use of the IC measurement model is the study's primary shortcoming. Its primary drawback is that its major benefit—simplicity and ease of use—is also its main asset. Measuring the contribution of something that is non-physical and difficult to quantify is the primary challenge. The main problem is that indirect value is produced by IC. However, since the field is still searching for the best answers, there isn't a perfect way for measuring intellectual capital at this time. The findings may deepen our understanding of the function of IC in the GCC banking industry and provide

management of GCC banks with useful information for developing, utilizing, and retaining IC. The results may also be useful to GCC policymakers in their development and execution of measures aimed at building a resilient banking industry. By expanding our understanding of IC performance and how to use it to improve GCC banks' financial performance, this study contributes to the body of literature. The IC and its relationship to the conventional indicators of bank performance in the GCC region have only been the subject of one prior empirical study (only in Bahrain). This is the first study to compare the GCC nations.

Bhattra (2017) analyzed corporate governance is now more of a global trend and issue than it has ever been in the majority of public commercial enterprises. Accountability, openness, and trustworthiness are key components of corporate governance. It also involves continuing to disclose information in a way that will promote successful business operations. The purpose of this study is to look into how Nepalese commercial banks' corporate governance and financial performance are related. It specifically looks at how return on equity and nonperforming loans are affected by the size of the board, the audit committee, and the proportion of independent directors. The secondary data used in this study was gathered from the annual reports of 13 Nepali commercial banks. During the 2010–2015 review period, 65 observations provided samples for this investigation. According to the study, the size of the board has a negative effect on the financial performance of Nepali commercial banks, but the size of the audit committee and the proportion of independent directors has a good effect.

Eluyela et al. (2018) examined how the frequency of board meetings affected the deposit money banks in Nigeria's business performance. The study's data came from the annual reports of the deposit money banks that are traded on the Nigeria Stock Exchange (NSE). A panel regression was utilized to examine any significant correlation between the variables. Our primary empirical finding demonstrates a favorable correlation between the frequency of board meetings and company performance. Nevertheless, our results also demonstrate that company size was substantial and negative, while board size was positive but not statistically significant. According to the report, bank management ought

to think about holding board meetings more frequently—at least four times a year. This will enable the Nigerian good governance legislation, which mandates that businesses hold meetings at least once per quarter, to be complied with by the sampling deposit money banks.

Baysinger and Butler (2019) studied relatively recent development of the corporate governance, with the previous fifty years seeing a large amount of attention given to the topic. This volume covers a variety of topics, such as the function of the board of directors, the role of shareholders, the goal of corporations, and more recent developments like the activism of hedge funds, the role of sovereign wealth funds, and the evolution of corporate governance laws in China, which is potentially going to become the world's most important economy in the next century. An introduction to the field's intellectual history and an analysis of the selected material for the volume have been produced by the editor. The editor believes the selected papers reflect some of the best and most representative research of the themes they cover. Because of this, the volume provides a comprehensive overview of the current status of some of the key topics in corporate governance.

Zhang et.al. (2020) examined relationship between banks' required and voluntary disclosures, as well as the impact of corporate disclosures' information content on business performance. This article investigates the relationship between voluntary social responsibility disclosure, corporate governance disclosure, and fair-value measurement using data from US-listed banks from 2007 to 2015. The study also looks at how much disclosure of required elements (fair-value measurement) versus optional items (corporate governance and social responsibility problems) affects the return on equity and return on asset of banks. According to this study, banks with better corporate governance and social responsibility disclosure scores typically have smaller percentages of Level 3 fair-value assets. The financial performance of banks is worse when their Level 3 fair-value asset disclosure is higher. This study suggests that banks utilize fair-value assessments to cover up their subpar performance and offers evidence of the interaction between different corporate disclosures made by banks. The results offer guidance to

regulators, investors, and policymakers on how to evaluate banks' disclosure. This report is the first to look at the relationship between required and voluntary disclosures, and it expands on the research on banks' fair-value measurements. This study illustrates the information contained in corporate disclosures about business performance, shedding light on the ideas of performativity, agency, and stakeholder.

Kaawaase et. al. (2021) analyzed data from Uganda's financial institutions to determine the association between internal audit quality, financial reporting quality, and corporate governance traits (board expertise, board independence, and board role performance). The research design used for this study is correlational and cross-sectional. Chief financial officers, senior accountants, and managers of internal audit at financial institutions in Uganda were surveyed using a questionnaire for the study. With the use of the Statistical Package for Social Sciences, data were examined. The findings show that financial reporting quality is substantially correlated with board job performance and knowledge. Furthermore, there is a strong correlation between the quality of internal audits and financial reporting. This study offers insights into the factors that matter for financial reporting quality in Uganda. Board independence is not a significant predictor of financial reporting quality. It gauges the caliber of financial reporting by looking at the qualitative aspects of financial statements. The International Accounting Standards Board's conceptual framework is the primary subject of this essay.

Chege (2021) determined there have been more mergers, collapses, and acquisitions of commercial banks in Kenya's banking sector and the surrounding region in recent years, all of which have been linked to subpar CG systems. Research has been done on the relationship between corporate governance in commercial banks and financial outcomes by focusing on several aspects of corporate governance. Nevertheless, research on corporate governance and its effects on the financial performance of commercial banks listed on the NSE still lacks awareness. The review's main goal was to look into four specific targets—board remuneration, board composition, financial expertise, and audit committee size—and how these targets would affect how well the NSE-listed commercial banks conducted their investigations. These targets were based on four different

approaches: control, agency, inspired confidence, and resource dependency. The 12 Kenyan commercial banks that are listed on the NSE were the target population for this insightful exploration endeavor. Information sheets were utilized in the process of gathering secondary data. The impact of the commercial banks listed on the Kenyan National Stock Exchange's financial performance has been evaluated by regression analysis. The analysis found a statistically significant ($P\text{-value}=0.022$) positive relationship ($B=0.174$) between board compensation and financial success. Niroula and Upadhyay (2022) examined the corporate governance of Nepalese insurance businesses. In order to achieve the study's goals, three dependent variables—*independent directors*, *transparency*, and *responsibility*—as well as four independent variables—*risk assessment*, *monitoring and supervision*, *control environment*, and *internal audit*—have been taken into account. In this study, a descriptive research design was employed. Convenience sampling was used to select fifteen insurance companies in Nepal. The employees of Nepali insurance businesses have provided primary data. Information from 384 respondents in all is included in the study. Excel and SPSS software are utilized for data analysis, where descriptive and inferential statistics are employed. The analysis's findings indicate that the components of risk assessment strengthen the corporate governance pillars of accountability and openness. While monitoring and supervision play a beneficial function in promoting openness and independent directors, they also have a negative impact on accountability. Similarly, an atmosphere that is under control benefits independent directors. While internal audit has a good effect on independent directors, it has a negative impact on responsibility. The effectiveness of internal control in Nepalese insurance businesses influences corporate governance.

El-Chaarani et. al. (2022) assessed how the COVID-19 pandemic affected banks' financial performance in the understudied Middle Eastern and North African (MENA) area by measuring the effects of internal and external corporate governance systems. Both financial and non-financial data on the banking industry were gathered via World Bank publications, bank annual reports, and the Orbis Bank Focus database. Fixed effects regressions and two-stage least squares were then applied. The findings demonstrated that strong legal protection, significant ownership concentration, the absence of political

pressure on board members, and the presence of independent members on the board of directors were all beneficial to the financial performance of banks. During the crisis, corporate governance practices like anti-takeover safeguards, women on boards, performance-based compensation, and moderate board size had no discernible effect on bank performance. In times of pandemics and crises, the financial performance of banks in the Middle East and North Africa (MENA) could be enhanced by an efficient system of internal and external corporate governance.

Anh and Sang's (2023) concluded that Covid-19 pandemic has affected several facets of the economy, including commercial banking. The pandemic has three main effects on banks' operations: first, many businesses are forced to halt operations and production; second, people experience numerous challenges; third, there is a shift in consumer behavior and the way that foreign investors and businesses invest. The way the bank operates is impacted by these subjects' financial circumstances. The goal of the study is to comprehend how the pandemic affected banks' financial stability in the early phases of the outbreak. We gathered secondary data from 24 Vietnamese commercial banks' financial statements spanning the years 2017 to 2020. A paired t-test is used to assess the indications. Three issues have been identified by the article as being of concern during the pandemic: (1) An increase in the liquidity index; (2) A decrease in non-performing loans, despite the fact that this index has been increasing over time under normal conditions; and (3) An increase in return on asset, despite the fact that this index has been declining over time under normal conditions. The paper then makes recommendations for potential fixes to ensure that banks run smoothly throughout the pandemic. This research provides fresh insight into how the pandemic has affected banking activities in Vietnam, a nation whose banking sector is mostly dependent on banks.

2.3.1 Nepalese Study

Sapkota (2020) ascertained the connection between Nepalese commercial banks' financial performance and corporate governance, as well as to investigate the influence of corporate governance on bank performance. Nine commercial banks made up the sample for the ten-year period from 2008–09 to 2017–18. Leverage ratios, board meetings, board

size, and ownership concentration were all regarded as aspects of corporate governance, and their effects on banks' ROE-based performance were not entirely consistent. Data showed that the performance of banks was significantly improved by the debt ratio, net interest margin, and total assets. The performance of banks was negatively impacted by board meetings and liquidity. However, the firm's performance was not significantly impacted by the size of the board or the concentration of ownership.

Silwal (2020) studied the impact of corporate governance on Nepalese enterprises' performance was. The explanatory variables for firm performance were firm size, leverage, board size, age of the firm, and audit committee, whereas the dependent variables were return on equity, return on assets, and Tobin's Q. Data were gathered between 2010 and 2015 from the annual reports of eighteen non-financial companies that were listed on NEPSE. In order to evaluate the impact of explanatory variables on company performance, multiple regression models were estimated. Based on return on assets, the results showed that corporate governance significantly affected how well businesses performed. Based on return on equity, the age of the company and the audit committee had a favorable impact on firm performance, whereas board size and leverage had a negative and significant impact. The audit committee and the size of the board were the main determinants of the firm's performance when regressing it using Tobin's Q.

Poudel and Hovey (2012) emphasized the significance of corporate governance. The survival of the economies of developing nations like Nepal depended heavily on the sound governance of their banks. The effectiveness of corporate governance in Nepalese commercial banks was examined in this study. The ownership structure, board size, independence, and diligence, as well as the size and independence and diligence of the audit committee, served as representatives of the corporate governance variables. The bank's effectiveness was measured using the non-performing loan variable. The association between bank efficiency and corporate governance was investigated using regression analysis. The results demonstrated that greater efficiency in commercial banks

was associated with larger boards and audit committees, fewer board meetings, and a lower percentage of institutional ownership.

Lamichhane (2020) used a descriptive and causal comparative research approach to examine the variables that affected corporate governance and the financial performance of Nepalese enterprises from fiscal year 2009/10 to 2015/16. The study employed profit margin and return on assets as dependent variables to assess financial performance. Explanatory variables included firm-related and corporate governance variables, such as ownership concentration, age of firms, debt ratio, market to book ratio, and corporate governance index. The findings of this study suggested that greater age, market to book ratio, and corporate governance improved the financial performance of Nepalese firms by showing a positive relationship between profit margin and return on assets of firms and these factors as well as the overall corporate governance index. Additionally, the study's regression results demonstrated that ownership concentration had no bearing on the financial performance of enterprises, whereas the quantity of assets and debt ratio had a negative impact. In conclusion, this paper's findings demonstrated a strong explanatory power of corporate governance, age, asset size, market to book value ratio, and debt ratio for Nepalese enterprises' financial performance.

Bhattarai's (2020) determined corporate governance has become a global trend in most commercial industries of public concern. Credibility, accountability, and openness were the major focuses of corporate governance, which also maintained an efficient information disclosure system to promote high corporate performance. The purpose of this study was to look into how Nepali commercial banks' corporate governance and financial performance relate to one another. The study's foundation was secondary data gathered from 13 commercial banks in Nepal's annual reports, with samples drawn from 65 observations made between 2010 and 2015. According to the study, the number of independent directors and the size of the audit committee had a beneficial effect on the financial performance of Nepali commercial banks, whereas the size of the board had a negative effect.

2.3.2 Summary of Review

Table 1

Meta table

Author and Date	Objective	Variables	Research Model	Findings
Olalekan and Adeyinka (2013)	Examine the effect of capital adequacy on profitability of banks in Nigeria	Capital adequacy, Profitability	Primary data (questionnaires), Secondary data	Non-significant relationship in primary data analysis; Positive and significant relationship in secondary data analysis between capital adequacy and profitability. Capitalization and profitability are indicators of bank risk management efficiency.
Fanta et. al. (2013)	Investigate corporate governance mechanisms and their impact on bank performance in Ethiopia	Internal and external corporate governance mechanisms, Bank performance (ROE, ROA)	Descriptive research design, Questionnaire survey	Board size and audit committee negatively affect bank performance; Bank size and capital adequacy positively affect bank performance. Challenges include lack of organized stock exchange, government intervention, and weak legal framework.
Zeitun and	Examine the effect of capital structure on	Capital structure, External shocks,	Descriptive research design,	Capital structure negatively

Tian (2014)	corporate performance in Jordan	Corporate performance	Questionnaire survey	impacts firm performance; Short-term debt has a positive effect on market performance. Gulf Crisis 1990-1991 positively impacted, Intifadah in 2000 negatively impacted Jordanian corporate performance.
Thapa (2014)	Explore the state of corporate governance in Nepalese banking sector	Corporate governance, Banking sector	Descriptive research design, Questionnaire survey	Effective corporate governance is crucial for banking sector functioning; Weak governance contributes to institutional failure; Issues related to governance include lack of awareness, absence of national standards, and weak legal framework.
Shahwan (2015)	Examine corporate governance practices in Egyptian-listed companies	Corporate governance index, Firm performance	CG dimensions: Disclosure, Board composition, Shareholders' rights, Ownership and control	Relatively low quality of CG practices; No positive association between CG practices and financial performance; Insignificant negative relationship

				between CG practices and likelihood of financial distress.
Al-Musali and Ku Ismail (2016)	Explore intellectual capital performance in Gulf Cooperation Council (GCC) banks	Intellectual capital, Financial performance	VAIC method, OLS regression (2008-2010)	Positive association between intellectual capital and financial performance in GCC banks; IC components' impact on financial performance varied.
Bhattraï (2017)	Investigate the relationship between financial performance and corporate governance in Nepalese commercial banks	Board size, Audit committee, Independent directors, Return on equity, Nonperforming loan	Secondary data (annual reports, 2010-2015)	Board size negatively impacts financial performance; Audit committee and independent directors positively impact financial performance.
Eluyela et al. (2018)	Examine the impact of board meeting frequency on firm performance in Nigerian deposit money banks	Board meeting frequency, Board size, Firm size	Panel regression (Nigeria Stock Exchange)	Positive association between board meeting frequency and firm performance; Board size positive but not significant; Firm size negative and significant. Recommended increasing board meeting frequency to comply with governance code.

Baysinger and Butler (2019)	Review corporate governance topics, including purpose of the corporation, board roles, and contemporary developments	Corporate governance topics	L Descriptive research design, Questionnaire survey	Presents a rounded view of contemporary state in corporate governance, covering various subjects and developments in the field.
Zhang et. al. (2020)	Investigate the interaction between mandatory and voluntary disclosures of banks and their impact on firm performance	Mandatory and voluntary disclosures, Fair-value measurement, Corporate governance disclosure, Social responsibility disclosure	US-listed banks (2007-2015), Regression analysis	Positive association between social responsibility disclosure and corporate governance and lower percentages of Level 3 fair-value assets; Level 3 fair-value asset disclosure negatively impacts financial performance.
Kaawaase et. al. (2021)	Establish the relationship between corporate governance attributes, internal audit quality, and financial reporting quality in Uganda's financial institutions	Board expertise, Board independence, Internal audit quality, Financial reporting quality	Cross-sectional correlational design	Board expertise and board role performance positively associated with financial reporting quality; Internal audit quality positively associated with financial reporting quality. Board independence not a significant predictor.
Chege (2021)	Investigate the impact of corporate governance components on the financial performance	Board compensation, Board composition, Financial	Regression analysis (NSE-listed banks)	Positive and statistically significant impact of board compensation on

	of NSE-listed commercial banks in Kenya	expertise, Audit committee size		financial performance in NSE-listed commercial banks in Kenya.
Niroula and Upadhyay (2022)	Highlight the role of internal control in enhancing corporate governance of insurance companies in Nepal	Internal control elements, Corporate governance elements	Descriptive research design, Questionnaire survey	Positive association between risk assessment elements and transparency and responsibility; Monitoring and supervision positively associated with independent directors and transparency.
El-Chaarani et. al. (2022)	Measure the impact of internal and external corporate governance mechanisms on the financial performance of banks in the MENA region during the COVID-19 pandemic	Corporate governance measures, Financial performance	Fixed effects regressions, Two-stage least squares	Positive effects of certain corporate governance measures (e.g., independent board members, ownership concentration) on bank financial performance during the pandemic. Other mechanisms had no significant impact.
Anh and Sang (2023)	Explore the impact of Covid-19 on the financial health of Vietnamese commercial banks	Covid-19 impact, Financial health	Secondary data (2017-2020), Paired t-test	Liquidity index increases; Non-performing loans decrease; Return on asset increases during the pandemic. Implications provided for efficient bank operations during

				the pandemic.
Sapkota (2020)	Determine the relationship between corporate governance and financial performance of Nepalese commercial banks	Leverage ratio, Board meetings, Board size, Ownership concentration	Not specified	Mixed results on ROE; Debt ratio, net interest margin, total assets positively contributed to performance; Board meetings, liquidity negatively impacted performance; Board size and ownership concentration had no significant contribution.
Silwal (2020)	Examine the effect of corporate governance on the performance of Nepalese firms	Firm size, Leverage, Board size, Age of the firm, Audit committee	Multiple regression models	Corporate governance had a significant impact on firms' performance based on ROA; Board size, leverage negatively affected ROE; Age of the firm, audit committee positively influenced ROE; Board size, audit committee major factors determining Tobin's Q.
Poudel and Hovey (2012)	Investigate the impact of corporate governance on the efficiency of Nepalese commercial banks	Board size, Independence, Diligence, Audit committee size, Independence, Diligence, Ownership structure	Regression analysis	Bigger board and audit committee sizes, lower frequency of board meetings, and lower institutional ownership led to

				better efficiency in commercial banks.
Lamichhane (2020)	Analyze factors affecting corporate governance and influencing the financial performance of Nepalese firms	Corporate governance index, Age of firms, Size of assets, Debt ratio, Market to book ratio, Ownership concentration	Descriptive and causal comparative design	Profit margin and ROA positively related to age, market to book ratio, and corporate governance index; Size of assets and debt ratio had a negative effect; Ownership concentration had no relationship with financial performance. Corporate governance, market to book value ratio, age, size of assets, and debt ratio explained financial performance.
Bhattarai (2020)	Investigate the relationship between financial performance and corporate governance of commercial banks in Nepal	Board size, Audit committee, Portion of independent directors	Not specified	Board size negatively impacted financial performance; Audit committee and portion of independent directors positively impacted financial performance of commercial banks in Nepal.

2.5 Research Gap

The purpose of this study was to investigate the relationship between Nepalese commercial banks' financial performance and corporate governance. Only Nepal's "A" class commercial banks are the subject of this investigation. The difference between earlier and current research is referred to as the "research gap." Several scholars, professionals, and students have already studied corporate governance and performance in Nepalese commercial banks. "Nabil Bank, NMB Bank, Everest Bank, Nepal SBI Bank, Himalayan Bank, Laxmi Bank, Sunrise Bank, Nepal Investment Bank, Siddhartha Bank, Nepal Bank, Rastriy Banijya Bank" are the eleven banks that this study attempted to name.

The analysis spans the fiscal years 2012–13 and 2021–2022. This study aimed to elucidate the concepts of return on equity (ROE), return on assets (ROA), and net interest margin (NIM). The research on corporate governance and financial performance in the context of Nepalese banks has been beneficial to a number of organizations, including the central bank of Nepal, commercial banks and other financial institutions, emerging academics, and other non-financial groups. The relationship between the independent and dependent variables was ascertained with the use of regression and correlation analysis of the data. This result might be helpful to the individuals and groups mentioned above.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The research design serves as a guide for this study, which measures the relationship between corporate characteristics and performance variables. It covers the data collection, data analysis, and technique.

3.2 Research Design

In order to address the issues raised and have an effect on the performance of the selected commercial banks in Nepal, this study has employed descriptive and causal research approaches. The descriptive study method makes it easier to gather information and look for adequate data about the components of corporate governance and bank operations in Nepal. This kind of design, which comprises the methodical collection and presentation of data, provides a clear picture of the issue. The type of data held by commercial banks from fiscal year 2012–13 to fiscal year 2021–2022 is characterized by descriptive statistics.

The purpose of the study design is to investigate the relationship between the corporate governance variable (independent) and the bank's performance measure (dependent). Therefore, comparative study designs are used to investigate the relationship between the variables.

3.3 Population, Sample and Sampling Design

Secondary data form the basis of the investigation. Only ten banks have been chosen as a sample for this study. Purposive sampling is used to choose the banks. Nonetheless, banks have merged in the last five years. The sample used is representative of all 20 of Nepal's commercial banks. These banks may have been chosen for the study based on a number of criteria, including their standing in the Nepalese banking industry, their representation

of a variety of bank kinds (commercial, development, etc.), and the availability of thorough financial data for the study period (2012/13 - 2021/22). Depending on the study's goals, the particular rationale for selecting these banks may change, so the analysts or researchers carrying out the investigation will need to give more background information on their selection standards.

The list of selected banks with study period as presented in table 1

Table 2

Selection of commercial banks along with study period

S.No.	Lists of Banks	Study Period
1	NMB bank	2012/13 -2021/22
2	Nabil bank	2012/13 -2021/22
3	Everest bank	2012/13 -2021/22
4	Nepal SBI bank	2012/13 -2021/22
5	Himalayan bank	2012/13 -2021/22
6	Laxmi Sunrise bank	2012/13 -2021/22
7	Nepal Investment Mega bank	2012/13 -2021/22
8	Siddartha bank	2012/13 -2021/22
9	Nepal bank	2012/13 -2021/22
10	Rastriya Banijya bank	2012/13 -2021/22

Source: Nepal Rastra Bank Annual Report (2023)

3.4 Nature and Sources of data collection, and instrument of data collection

The data used in this study came from secondary sources. The main sources of data were the annual reports that these organizations published. Furthermore, the data's accuracy was verified by the central bank and auditors, indicating that the information obtained from the source is reliable. In addition, the required data has been refined using information extracted from the yearly reports.

3.5 Method of analysis

These data analysis techniques can be used independently or in combination with the other to help business leaders and decision-makers acquire business insights from different data types.

Descriptive Statistical

The basic features of a population or a sample in a study can be described by using descriptive analysis. This analysis provides simple summaries about the sample as well as the measures as it transforms the unanalyzed data into a simpler pattern which is easier for interpretation and understanding purposes. Descriptive analysis summarizes the collected information in quantitative form. The statistics computed include frequency distribution and percentages. For this study, descriptive data analytical approaches were employed to analyze the variables related to customer satisfaction of e-banking.

a) Arithmetic Mean

The arithmetic mean or simple mean of set of observations is the sum of all the observation divided by the number of observations. It is the best value, which represents the whole group. It is also called arithmetic average or simply average of a variable.

b) Standard Deviation

Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic mean. It indicates the ranges and size of deviance from the middle or mean. The standard deviation is the absolute measure of dispersion which satisfies most of the requisites of a good measure of dispersion. Higher the standard deviation Higher will be the variability and vice versa. In other words, it helps to analyze the quality of data regarding its variability.

c) Co-efficient of Variation

Standard deviation is the absolute measure of dispersion. The relative measure of dispersing based on the standard deviation is known as the measurement of coefficient of standard deviation. Variance is the square of SD. It gets rid of the units that succeed the SD Value. However, a better relative measure would be the coefficient of variation. CV is capable to compare two variables independently in terms of their variability.

d) Correlation Coefficient

Correlation coefficient is defined as the association between the independent variable and dependent variable. It is a method of determining the degree of relationship between these two variables. If the two variables are so related, change in the value of independent variable causes the change in the value of dependent variable.

3.5.2 Regression analysis

Regression analysis is a statistical technique used to model and examine the relationship between a dependent variable and one or more independent variables. The primary goal of regression analysis is to understand how the value of the dependent variable changes when one or more independent variables are varied. It helps in identifying and quantifying the strength and nature of the relationships between variables, making predictions, and assessing the statistical significance of these relationships (Hair et al., 2007). The R-squared or commonly known as the coefficient of determination indicates the proportion of the variation of the dependent variable that can be explained by the variation of the independent variables.

The Model

$$\text{ROA} = \beta_0 + \beta_1 \text{BM} + \beta_2 \text{ID} + \beta_3 \text{LEV} + \beta_4 \text{EPS} + \beta_5 \text{CAR} + e \dots\dots\dots\text{I}$$

$$\text{NIM} = \beta_0 + \beta_1 \text{BM} + \beta_2 \text{ID} + \beta_3 \text{LEV} + \beta_4 \text{EPS} + \beta_5 \text{CAR} + e \dots\dots\dots\text{II}$$

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

ROA = Return on Assets

NIM = Net Interest Margin

BM = Board Member Size

ID = Number of Independent Directors

LEV = Leverage

EPS = Earnings Per Share

CAR = Capital Adequacy Ratio

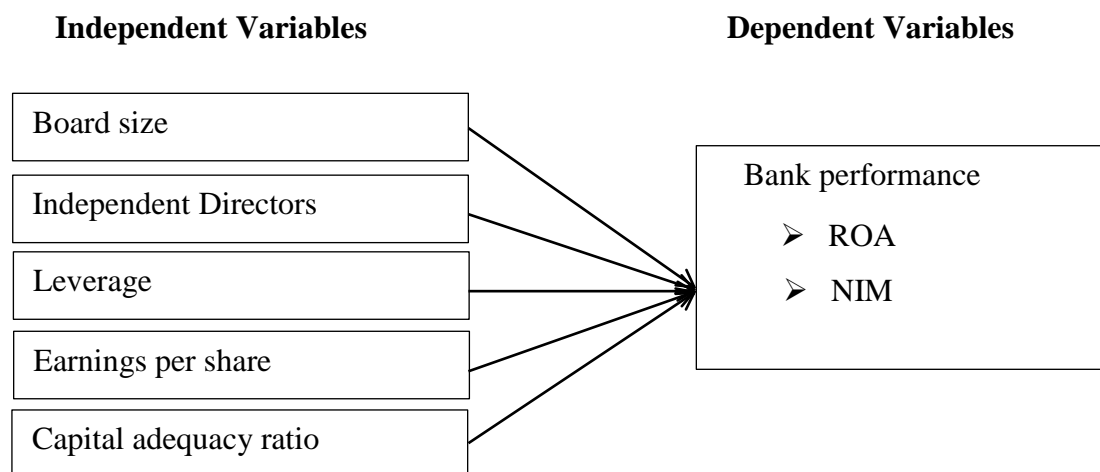
3.6 Research Framework and Definition of Variables

The current study builds the conceptual framework based on the research objectives and the literature review. The systematic explanation of the relationship between the dependent and independent variables is provided by the study's research framework. Reaching the research goal and keeping the research challenge in focus are beneficial. A research report benefits from a description of the framework in two ways: it helps to identify the research variables and makes the relationships between them clear. The conceptual framework, which is related to the statement's problem, establishes the context for presenting the particular research question that serves as the main focus of the investigation.

The research framework for this research is shown in the below diagram.

Figure 1

Research framework for the study



Source: *Based on previous Literature*

This study's research framework is based on earlier investigations conducted by other academics. The relationship between corporate governance and bank performance is the

main topic of this study. The board size, the number of independent directors, the capital and reserve leverage ratio, earnings per share, and the capital adequacy ratio are the independent variables shown in Figure 1. Net interest margin and return on assets are also dependent factors. This graph implies that the size of the board, the number of independent directors, the leverage ratio, earnings per share, and the capital adequacy ratio are all related to return on assets and net interest margin—two metrics used to assess a bank's success. Bank performance is impacted by these governance aspects.

Board Size: Board size refers to the total number of individuals serving on a company's board of directors. It influences corporate governance and decision-making dynamics within the organization. Board size, the number of directors on a company's board, has a noteworthy influence on a bank's financial performance, particularly Return on Assets (ROA) and Net Interest Margin (NIM). A larger board size can bring about diverse perspectives and expertise, which may positively impact decision-making processes.

Independent Directors: Independent directors are members of a company's board who do not have any significant ties or relationships with the company, ensuring impartiality and bringing an objective perspective to governance matters. The presence of independent directors on a bank's board significantly influences financial performance, including Return on Assets (ROA) and Net Interest Margin (NIM). Independent directors bring objectivity and impartiality to the decision-making process.

Leverage: Leverage measures the extent to which a company uses debt to finance its operations and investments. It is calculated by assessing the ratio of debt to equity, providing insights into financial risk and stability. Leverage, representing a bank's debt-to-equity ratio or its debt levels relative to equity, significantly impacts financial performance, particularly Return on Assets (ROA) and Net Interest Margin (NIM).

Earnings per Share (EPS): Earnings per share is a financial metric that evaluates a company's profitability by dividing its net earnings by the number of outstanding shares, indicating the portion of profits attributable to each share. Earnings per Share (EPS), representing the portion of a company's profit allocated to each outstanding share of common stock, directly influences financial performance, including Return on Assets (ROA) and Net Interest Margin (NIM).

Capital Adequacy Ratio: The Capital Adequacy Ratio is a key financial metric, particularly for banks, measuring the proportion of a financial institution's capital to its risk-weighted assets. It assesses the ability to absorb losses and maintain financial stability and maintain the good performance of banks. The Capital Adequacy Ratio (CAR), measuring a bank's capital to its risk-weighted assets, is crucial for financial performance, impacting Return on Assets (ROA) and Net Interest Margin (NIM). A higher CAR signifies a well-capitalized bank, instilling confidence in investors and regulators.

Return on Assets (ROA): Return on Assets (ROA) is a metric used to evaluate the performance of banks. It displays the bank's capacity to turn a profit on its assets. The most important ratio for assessing bank profitability is ROA. Net profit divided by total assets is known as return on assets (ROA). The management's capacity to turn the bank's assets into net earnings is gauged by ROA. The ROA is a measure of a bank's management team's capacity to turn a profit on the institution's assets. It displays the earnings per billions of assets and provides insight into how well the bank manages its assets to create income, but it may be skewed by off-balance-sheet operations. When assessing the effectiveness and operational performance of banks, this ratio—which shows the returns produced by the assets the bank owns is arguably the most significant one. It assesses how well bank management can turn a profit using the resources available to them. Stated differently, it demonstrates the effectiveness with which the company's resources are employed to produce revenue.

Net Interest Margin (NIM): NIM is a key indicator of a bank's profitability, specifically related to its core lending and investment activities. It is calculated as the difference between the interest income earned on loans and investments and the interest paid on deposits and other liabilities, divided by the average interest-earning assets. A higher NIM suggests that the bank is earning more from its interest-earning assets compared to the cost of funding. NIM is a critical measure of a bank's interest rate spread and efficiency in managing interest-related income and expenses.

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Introduction

An essential step in the research process is data analysis. Transforming material from an unprocessed state into a comprehensible presentation is the aim of analysis. It is the process of creating a response to the query by looking through and analyzing data. The systematic presentation, interpretation, and analysis of secondary data are provided in Chapter 4 so that the link between these dependent and independent variables can be understood.

4.1.1 Results

The descriptive statistics for the effects of various independent variables on bank performance, including the maximum, minimum, mean, standard deviation and coefficient of variance for all variables.

Table 3

Analysis of Board Member Size of Sample Banks

(In percentage)

Year	NABIL	NMBL	EBL	NSBL	HBL	SBL	NIMBL	LBL	NBL	RBBL
2012/13	7	9	8	8	9	9	7	8	6	7
2013/14	5	10	8	7	8	9	7	8	8	7
2014/15	7	10	7	8	8	9	6	7	8	7
2015/16	6	11	8	8	8	8	7	6	7	7
2016/17	7	7	8	5	8	5	8	6	7	7
2017/18	7	7	7	6	8	5	7	5	7	7
2018/19	6	8	7	6	8	6	6	5	6	7
2019/20	7	8	7	6	8	6	6	6	6	6
2020/21	7	7	7	6	8	6	7	6	8	7
2021/22	7	9	7	7	8	6	7	6	7	8
Mean	6.6	8.6	7.4	6.7	8.1	6.9	6.8	6.3	7	7
SD	0.7	1.43	0.5	1.06	0.3	1.66	0.63	1.06	0.82	0.47
CV	8	16.63	7	15.8	3.9	24.1	9.3	16.8	11.7	6.73

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

The data presented outlines the size of the board of directors for various banks expressed as percentages from the fiscal year 2012/13 to 2021/22. The key statistical measures provided include the mean, standard deviation (SD), and coefficient of variation (CV) for each bank. Analyzing the means, NMBL and HBL generally have larger boards, with

average percentages of 8.6% and 8.1%, respectively. In contrast, LBL has the smallest average board size at 6.3%. This indicates a preference or strategic decision for larger governance structures in some banks over others. The standard deviation provides insight into the variability of each bank's board size across the observed years. NMBL displays the highest variation with an SD of 1.43, suggesting significant fluctuations in board size year over year. HBL exhibits the least variability, with an SD of 0.3, pointing to a stable board size during this period. The coefficient of variation highlights the relative variability in board size concerning the mean. SBL shows the highest CV at 24.1, indicating that its board size varies significantly relative to its average, suggesting possible instability or major organizational changes. Conversely, HBL's low CV of 3.9 demonstrates remarkable consistency in the size of its board. These statistics collectively provide insights into the governance dynamics of these banks, reflecting their operational stability and strategic governance adjustments over the ten-year period.

Table 4

Analysis of Number of Independent directors of Sample Banks

(In percentage)

Year	NABIL	NMB	EBL	NSBL	HBL	SBL	NIMB	LBL	NBL	RBBL
2012/13	0	1	0	1	1	0	1	1	0	1
2013/14	0	1	0	1	1	1	1	1	0	1
2014/15	1	1	0	1	1	1	1	1	0	1
2015/16	1	0	0	1	1	0	1	0	0	1
2016/17	1	1	0	1	1	0	1	0	0	1
2017/18	1	1	1	1	1	0	1	0	1	1
2018/19	0	1	1	1	1	1	0	1	1	1
2019/20	1	1	1	1	1	1	1	1	1	1
2020/21	1	0	1	1	1	0	1	1	1	1
2021/22	1	1	1	1	1	1	1	1	0	1
Mean	0.7	0.8	0.5	1	1	0.5	0.9	0.7	0.4	1
SD	0.48	0.42	0.5	0	0	0.53	0.32	0.48	0.52	0
CV	1	52.7	105	0	0	105	35.14	69	129	0

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

The provided data set shows binary values representing a specific attribute (likely board changes or some binary characteristic like dividend payment) of various banks over a period from 2012/13 to 2021/22. Each "1" or "0" indicates whether a specific event occurred in that year for the respective bank. The table also includes calculated mean, standard deviation (SD), and coefficient of variation (CV) for each bank across these

years. From the mean values, NSBL, HBL, and RBBL show a consistent pattern with a mean of 1, suggesting that the specified event occurred every year during the observed period for these banks. Conversely, NBL shows the lowest mean (0.4), indicating infrequent occurrences of the event. The standard deviation provides insights into the variability of the event's occurrence. Banks with a standard deviation of 0, like NSBL, HBL, and RBBL, had no variability, meaning the event consistently occurred every year or not at all. Banks such as NBL and SBL show higher variability (SD of 0.52 and 0.53 respectively), highlighting less consistency in the event's occurrence. The coefficient of variation is notably high for several banks, especially NBL with a CV of 129, followed by EBL and SBL both with a CV of 105. This high CV indicates a high relative variability, which in this context, given the binary nature of data, emphasizes the irregular occurrence of the event relative to its mean. Banks with a CV of 0 (NSBL, HBL, and RBBL) show no variability, reinforcing the consistency and predictability in the occurrence of the event for these banks.

Table 5

Analysis of Earnings per share of Sample Banks

(In percentage)

Year	NABIL	NMBL	EBL	NSBL	HBL	SBL	NIMBL	LBL	NBL	RBBL
2012/13	91.05	13.4	92	16.5	17	29.8	18.02	24.8	199	21.8
2013/14	83.68	13.7	86	20	19	38.6	20.5	26.1	18.1	21.4
2014/15	57.24	13.9	78	23.2	22	37.8	25.05	19.4	7.84	54.1
2015/16	59.27	15.2	66	22.2	28	41.5	27.78	27.2	44.6	27.4
2016/17	58.41	15.7	44	20.4	29	26.6	26.88	21.8	38.8	32.3
2017/18	51.58	13.54	33	33.5	23	35.7	21.86	13.6	40.7	30.3
2018/19	50.57	13.32	38	25.2	32	26.4	18.79	14.8	30.9	56
2019/20	36.16	8.94	30	27.1	27	17	11.18	14.2	29.3	48.6
2020/21	33.57	12.08	20	17.3	28	22	14.76	15.8	29.3	37.3
2021/22	18.64	12.95	26	10.2	18	20.7	17.92	14.5	35.7	34.9
Mean	54.017	13.273	51	21.5	24	29.6	20.27	19.2	47.4	36.4
SD	21.9	1.84	27	6.38	5.2	8.44	5.28	5.35	54.2	12.6
CV	28.9	13.89	52	29.6	21	28.5	26.06	27.9	114	34.6

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

This table presents earnings per share (EPS) for a range of banks from 2012/13 to 2021/22. The figures reflect the performance of these banks over time. Let's break down some key insights from this data set. The mean values give an overall sense of each

bank's average EPS during the 10-year period. NBL shows the highest average EPS with 47.4, indicating that it generally generates high earnings for each share. Other high performers include NABIL (54.017) and EBL (51). On the lower end, NSBL (21.5) and NIMBL (20.27) had the lowest means, suggesting lower profitability per share. The standard deviation (SD) measures how much the EPS fluctuates over the years. NBL has the highest SD (54.2), suggesting wide variability and fluctuations in its performance. Conversely, NMBL has the lowest SD (1.84), indicating more consistent performance. The coefficient of variation (CV) measures relative variability, indicating how much variation there is compared to the mean. A high CV suggests greater variability relative to the average EPS. NBL has the highest CV (114), reinforcing that its high EPS mean is accompanied by significant fluctuation. In contrast, NMBL has a much lower CV (13.89), indicating more stable EPS over time. Looking at individual years, we can see fluctuations in EPS across the banks. For example, NABIL's EPS decreased significantly from 2012/13 (91.05) to 2021/22 (18.64).

Table 6

Analysis of Capital Adequacy Ratio of Sample Banks

(In percentage)

Year	NABIL	NMB	EBL	NSBI	HBL	SBL	NIMBL	LBL	NBL	RBBL
2012/13	10.58	11.74	12	12.4	12	11.8	11.49	12.2	-0.6	12.5
2013/14	11.24	10.75	11	13.3	11	11.4	11.27	11.9	4.55	12.2
2014/15	11.57	11.13	13	14	11	11.1	11.9	10.8	7.49	10.2
2015/16	11.73	10.98	13	13.5	11	11.3	14.92	11.2	10.2	10.5
2016/17	12.9	13.61	15	15.7	12	12.7	13.02	13.6	14.5	10.4
2017/18	13	15.75	14	15.7	12	12.7	14.2	12.4	11.3	11.5
2018/19	12.5	15.45	14	15.2	13	13.3	13.74	11.8	11.9	13.4
2019/20	13.07	15.08	13	14.1	15	13.5	13.38	13	14.9	12.6
2020/21	12.77	15.08	12	15.6	14	14.7	12.48	12.2	13	13.5
2021/22	13.09	13.59	12	13.9	12	16	11.89	12.8	12.7	13.3
Mean	12.245	13.316	13	14.3	12	12.8	12.83	12.2	9.99	12
SD	0.9	2	1.1	1.15	1.3	1.59	1.23	0.83	4.87	1.29
CV	12.15	15.05	8.8	8.02	10	12.4	9.55	6.81	48.8	10.8

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

The Capital Adequacy Ratio (CAR) is a crucial measure of a bank's financial stability, reflecting its capacity to absorb losses while fulfilling its obligations to depositors and other creditors. The data provided captures CAR for several banks from 2012/13 to 2021/22. Analyzing the mean CAR, NSBI has the highest average ratio at 14.3%,

indicating strong capital buffers and prudent risk management. Other banks like EBL, NMB, and RBBL also show robust capital adequacy with mean values above 13%, suggesting a consistent ability to meet regulatory requirements and manage risk. NBL stands out with the lowest mean CAR at 9.99%, indicating a potential concern regarding its capacity to cover risks and maintain stability. This bank also has the highest standard deviation (SD) at 4.87, indicating significant fluctuations in its CAR over time. Such variability may point to inconsistent capital management or volatile financial performance. Other banks, such as NABIL and HBL, exhibit moderate mean CARs and relatively lower variability, suggesting more stable capital management practices. NSBI and EBL demonstrate the lowest standard deviations (1.15 and 1.1, respectively), indicating steady capital ratios over time. The coefficient of variation (CV) provides a sense of relative variability, with NBL showing the highest CV at 48.8, reinforcing its unstable capital adequacy. In contrast, NSBI's low CV (8.02) indicates stable performance in capital adequacy.

Table 7

Analysis of Leverage of Sample Banks

(In percentage)

Year	NABIL	NMB	EBL	NSBI	HBL	SBL	NIMBL	LBL	NBL	RBBL
2012/13	9.98	10.42	9.3	9.59	9	8.28	10.01	9.15	-0.6	8.51
2013/14	9.74	9.91	9.4	10.2	9	8.39	9.52	9.62	2.92	4.46
2014/15	10.18	8.84	10	11.2	9.5	7.58	9.54	9.17	6.32	9.59
2015/16	10.51	9.34	10	11	9.4	8.85	13.05	9.79	9.01	9.86
2016/17	11.21	12.39	13	13.5	11	11	11.58	12.4	13.4	9.7
2017/18	11.7	14.78	13	13.5	11	11.6	11.58	11.3	9.52	10.8
2018/19	11.81	13.11	12	13.4	12	11.4	11.39	11	9.54	9
2019/20	11.4	13	12	12.2	12	11.8	11.77	10.3	13.1	8.4
2020/21	10.67	11.42	11	12.4	11	11.1	11.11	9.49	11.6	9.1
2021/22	10.76	10.36	11	11	10	12.2	12.15	9.05	11.5	11
Mean	10.796	11.357	11	11.8	10	10.2	11.17	10.1	8.62	9.04
SD	0.72	1.91	1.3	1.42	1.1	1.72	1.15	1.12	4.51	1.83
CV	10.93	16.84	12	12	11	16.9	10.32	11.1	52.4	20.2

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

The leverage ratio, which represents a bank's level of debt relative to its equity, is an important measure of a bank's financial health and risk exposure. This dataset covers the leverage ratios for a set of banks from 2012/13 to 2021/22, along with calculated statistical metrics such as mean, standard deviation (SD), and coefficient of variation

(CV). Looking at the mean leverage ratios, NSBI has the highest average (11.8%), suggesting that it operates with higher debt relative to its equity, which may indicate more aggressive leveraging. Banks such as EBL and NMB have slightly lower mean ratios, around 11%, indicating more moderate levels of leverage. On the other hand, RBBL shows the lowest average (9.04%), suggesting a more conservative approach to leverage. Standard deviation (SD) indicates variability in leverage over time. NBL has the highest SD at 4.51, suggesting significant fluctuations in its leverage, which might reflect inconsistency in capital management or periods of high financial stress. NMB shows the second-highest SD (1.91), indicating relatively more significant variability compared to other banks. Conversely, NABIL and EBL have lower SD values, indicating more stable leverage management over the period. The coefficient of variation (CV) is a normalized measure of variability relative to the mean. NBL has the highest CV at 52.4, reinforcing its high variability and possible instability in leverage management. Meanwhile, banks like NSBI, EBL, and NMB have moderate CVs, suggesting relatively consistent leverage ratios over time.

Table 8

Analysis of Return on assets of Sample Banks

	(In percentage)									
Year	NABIL	NMB	EBL	NSBI	HBL	SBL	NIMBL	LBL	NBL	RBBL
2012/13	3.25	1.43	2.39	1.19	1.54	1.43	2.6	1.5	1.07	1.26
2013/14	2.89	1.36	2.25	1.5	1.3	1.74	2.3	1.47	0.92	1.47
2014/15	2.06	1.21	1.85	1.7	1.34	1.51	1.9	1.04	0.55	3.22
2015/16	2.32	1.49	1.61	2	1.94	1.69	2	1.35	2.79	1.42
2016/17	2.7	1.69	1.72	1.68	2.03	1.53	2.1	1.61	2.78	1.6
2017/18	2.61	1.65	1.97	1.97	1.67	1.59	2.13	1.55	2.41	1.42
2018/19	2.11	1.67	1.94	1.94	2.21	1.49	1.79	1.66	1.51	2.23
2019/20	1.58	0.95	1.42	1.17	1.79	1.26	1.19	1.2	1.22	1.64
2020/21	1.71	1.17	0.89	0.7	1.68	1.25	1.56	1.12	1.33	1.1
2021/22	1.2	1.29	1.13	1.07	1.09	1.1	1.55	0.93	1.12	1.3
Mean	2.243	1.391	1.717	1.492	1.659	1.459	1.912	1.343	1.57	1.666
SD	0.64	0.24	0.47	0.44	0.35	0.20	0.41	0.26	0.80	0.63
CV	2.03	17.49	27.43	29.69	21.14	13.92	21.39	19.03	50.94	37.52

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

The Return on Assets (ROA) provides a measure of a bank's profitability relative to its total assets, indicating how effectively a bank is using its assets to generate profits. The dataset shows the ROA for various banks over ten years, from 2012/13 to 2021/22, with additional statistical analysis to identify trends and variability. Analyzing the mean

values, NABIL has the highest average ROA (2.243%), indicating its strong profitability and efficient use of assets over the period. NIMBL and EBL follow with average ROAs of 1.912% and 1.717%, respectively, demonstrating consistent profitability. The lowest average ROAs are from LBL (1.343%) and NSBI (1.492%), suggesting these banks have struggled with generating profit relative to their assets. The standard deviation (SD) reveals the variability of ROA over time. NBL has the highest SD at 0.80, indicating considerable fluctuations in profitability. In contrast, SBL (0.20) and NMB (0.24) have the lowest SDs, indicating more stable profitability across the years. The coefficient of variation (CV) normalizes variability relative to the mean, offering a perspective on relative fluctuations. NBL's CV of 50.94 indicates extreme variability in its ROA, suggesting a potential risk or inconsistency in profitability. In contrast, NABIL's CV of 2.03 shows a much more stable performance. Looking at individual years, we see that NABIL's ROA generally declined over the decade, from a high of 3.25% in 2012/13 to 1.2% in 2021/22. This could indicate changing profitability conditions or strategic adjustments. RBBL's ROA peaked in 2014/15 at 3.22% and then declined, showing a significant drop in profitability.

Table 9

Analysis of Net Interest Margin of Sample Banks

(In percentage)

Year	NABIL	NMB	EBL	NSBI	HBL	SBL	NIMBL	LBL	NBL	RBBL
2012/13	11.64	8.32	10	11.2	3.2	7.1	12.3	11.8	5.88	2.64
2013/14	10.16	9.1	10	9.55	3.3	7.7	10.8	10.3	7.55	2.04
2014/15	8.5	7.86	8.8	8.81	3.2	8.3	9	9.34	8.49	1.53
2015/16	8.08	7.16	6.9	7.74	3.4	8.7	8.4	7.83	11.2	1.27
2016/17	8.27	9.26	8.2	8.38	3.5	8.9	9	7.16	14.5	1.24
2017/18	11.36	10.78	9.9	9.51	12	11	9.89	11	9.52	9.2
2018/19	11.41	11.17	11	11.9	12	10.9	10.66	11.7	9.54	8.97
2019/20	10.98	10.95	11	12.7	11	10.1	10.51	11.1	13.1	9.63
2020/21	9.37	8.16	7.2	12.1	7.7	8.2	7.17	8.5	11.6	6.99
2021/22	10.28	9.55	8.6	8.87	10	8.7	8.62	9.64	11.5	7.93
Mean	10.005	9.231	9.1	10.1	6.9	8.96	9.635	9.83	10.3	5.14
SD	1.37	1.39	1.4	1.76	3.9	1.31	1.48	1.62	2.59	3.68
CV	3.5	15.05	15	17.4	57	14.6	15.39	16.5	25.2	71.5

Source: Annual reports of sample commercial banks from 2012/13 to 2021/22

Net Interest Margin (NIM) represents the difference between interest income generated by banks and the amount of interest paid out to lenders (like depositors), relative to their

assets. It is a key measure of a bank's profitability, reflecting how well it manages its interest-earning assets and liabilities.

Looking at the mean values, NSBI has the highest average NIM at 10.1%, indicating a strong ability to generate income from its lending activities relative to its assets. NBL and NABIL also exhibit high average NIMs of 10.3% and 10.005%, respectively, suggesting robust profitability from interest-based activities. The lowest mean NIM is from RBBL (5.14%), which might indicate lower efficiency in generating interest income or higher costs in maintaining its assets. HBL's mean NIM of 6.9% suggests moderate profitability from its lending operations compared to other banks. Standard deviation (SD) measures the variability of NIM over the years. RBBL has the highest SD at 3.68, indicating significant fluctuations in its interest margin, which could reflect variable interest rates, lending practices, or economic conditions. NSBI's high SD (1.76) also indicates some instability, despite its high mean NIM. The coefficient of variation (CV) normalizes variability relative to the mean. RBBL has the highest CV at 71.5, reinforcing the high level of fluctuation in its NIM. In contrast, NABIL has a much lower CV at 3.5, suggesting a more consistent approach to generating interest income. Looking at the trends, many banks experienced significant fluctuations in NIM. For example, NABIL's NIM ranged from 8.08% in 2015/16 to 11.41% in 2018/19, showing significant variation in its interest-related profitability. HBL also exhibits variability, with a notable peak in 2017/18 at 12% and a dip to 3.2% in 2012/13. Conversely, banks like NMB and EBL show more consistent patterns, with less dramatic swings in NIM, suggesting steady profitability from interest-related activities.

4.2. Inferential Analysis

Inferential statistics is a branch of statistics that makes the use of various analytical tools to draw inferences about the population data from sample data. Apart from inferential statistics, descriptive statistics forms another branch of statistics. Inferential statistics help to draw conclusions about the population while descriptive statistics summarizes the features of the data set.

4.2.1 Regression Analysis

A descriptive statistic is a summary statistic that quantitatively describes or summarizes features from a collection of information, while descriptive statistics is the process of using and analyzing those statistics.

Table 10

Relationship between independent variables and Return on Assets (ROA) (Fixed effect Model)

Dependent Variable: ROA

Method: Panel Least Squares

Sample: 1 100

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	0.125420	0.045670	2.746257	0.0074
ID	0.131750	0.119101	-1.106208	0.2718
EPS	0.011795	0.002583	4.567020	0.0000
CAR	0.003094	0.045500	-0.068002	0.9459
BM	0.109704	0.051658	2.123678	0.0366
C	0.687691	0.641265	-1.072399	0.0432
R-squared				0.447814
Adjusted R-squared				0.356866
F-statistic				4.923839
Prob(F-statistic)				0.000001

Source: Research calculation using EViews.

The presented statistical output summarizes the results of a panel least squares regression that examined the relationship between various independent variables and the Return on Assets (ROA) as the dependent variable. The analysis incorporated data over 10 periods with 10 cross-sections, leading to a total of 100 balanced observations.

The model uses variables such as Leverage (LEV), Independent director (ID), Earnings Per Share (EPS), Capital Adequacy Ratio (CAR), Board member size (BM), and a constant (C), and adjusts for individual effects using cross-section fixed effects (dummy variables).

In a recent statistical analysis, Earnings per Share (EPS) was found to have a significant positive impact on Return on Assets (ROA), with a coefficient of 0.011795 and a p-value of less than 0.0001. This suggests that higher EPS is associated with higher ROA, indicating that companies with higher earnings relative to their shares tend to generate greater returns from their assets. Additionally, both leverage (LEV) and the board member size (BM) emerged as significant predictors of ROA, with coefficients of 0.125420 and 0.109704, respectively. This indicates that companies employing higher leverage tend to have higher ROA, possibly pointing to more efficient use of borrowed funds in asset generation. Conversely, independent director (ID) and the capital adequacy ratio (CAR) were not found to significantly influence ROA, as both factors had p-values well above the 0.05 threshold, suggesting these variables do not play a decisive role in explaining the variability in ROA within this model. The R-squared value of 0.447814 indicates that about 44.78% of the variability in ROA is explained by the model, which is moderately strong for economic data. The F-statistic is significant ($p < 0.000001$), supporting the overall model validity. The Durbin-Watson statistic of 1.230697 suggests moderate autocorrelation, which might need further investigation for time series data.

The Adjusted R-squared of 0.356866 shows that after adjusting for the number of predictors, the model still retains a reasonable fit. The standard error of regression at 0.421331 indicates the average distance that the observed values fall from the regression line. In conclusion, the analysis highlights that EPS, LEV, and BM are significant drivers of ROA, pointing to the importance of financial performance indicators and leverage in asset profitability. This model, however, could be improved by investigating the effects of autocorrelation further or by including additional variables that could potentially influence ROA.

Table 11

Regression analysis of independent variables and the Return on Assets (ROA) (Random effect Model)

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Sample: 1 100

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	0.123672	0.042593	2.903538	0.0046
ID	0.045633	0.112050	-0.407258	0.6847
EPS	0.011972	0.002319	5.163433	0.0000
CAR	0.015966	0.042941	-0.371811	0.7109
BM	0.067077	0.044113	1.520553	0.0110
C	0.274429	0.552935	-0.496314	0.0050
R-squared				0.277851
Adjusted R-squared				0.239439
F-statistic				7.233400
Prob(F-statistic)				0.000009

Source: Research calculation using EViews.

This analysis presents the results from a Panel EGLS (Cross-section random effects) regression exploring factors that impact Return on Assets (ROA). The dataset covers 10 periods and includes 10 cross-sections, culminating in a balanced panel of 100 observations. The Swamy and Arora estimator for component variances was used to estimate this model, acknowledging the heterogeneity among the cross-sectional units.

LEV (Leverage): The coefficient of 0.123672 suggests that higher leverage positively impacts ROA, significant at a p-value of 0.0046. This indicates that firms with more debt

relative to equity tend to have higher returns on assets, potentially due to more aggressive investment or capital structure strategies. EPS (Earnings per Share): With a coefficient of 0.011972 and a p-value of 0.0000, EPS is a strong predictor of ROA. This suggests that profitability per share is a crucial driver of asset returns, aligning with financial theory that profitable firms typically generate better returns on their assets. BM (Board member size): The positive coefficient of 0.067077, significant at the 0.0110 level, implies that firms with higher member size tend to report better ROA. CAR (Capital Adequacy Ratio) and ID (Independent director): Both variables show no significant impact on ROA, indicated by p-values of 0.7109 and 0.6847, respectively. This suggests that these factors may not be relevant predictors of ROA in this dataset or that their effects are obscured by other variables. C (Constant): The model includes a constant or intercept, though not significant ($p = 0.0050$), which adjusts the regression to better fit the data.

R-squared of 0.277851 indicates that approximately 27.79% of the variability in ROA is explained by the model. This is relatively low, suggesting other factors not included in the model might be influencing ROA. Adjusted R-squared is 0.239439, considering the number of predictors in the model, this value shows a moderate fit. The F-statistic is significant ($p < 0.000009$), affirming the model's overall statistical validity.

Overall, the analysis confirms significant relationships between ROA and variables like Leverage, EPS, and Board member size

Table 12

Relationship between independent variables and the Net Interest Margin (NIM) (Fixed effect Model)

Dependent Variable: NIM

Method: Panel Least Squares

Sample: 1 100

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	0.295591	0.218643	1.351932	0.1800
ID	-0.238600	0.570196	0.418452	0.0367
EPS	0.021997	0.012364	1.779147	0.0788
CAR	0.371605	0.217831	1.705929	0.0417
BM	-0.020965	0.247311	0.084771	0.0326
C	0.154926	3.070061	0.050463	0.0299
R-squared				0.506409
Adjusted R-squared				0.425112
F-statistic				6.229107
Prob(F-statistic)				0.000000

Source: Research calculation using EViews.

The results summarize a fixed-effect panel data analysis aimed at exploring the relationship between various independent variables and the Net Interest Margin (NIM), a key profitability metric in the banking sector.

Leverage has a positive coefficient (0.295591), indicating that higher leverage might lead to higher NIM. However, with a p-value of 0.1800, this result is not statistically significant, suggesting that the relationship might not be strong or consistent.

Independent Director has a negative coefficient (-0.238600) and a statistically significant p-value (0.0367), indicating that a higher proportion of independent directors on the

board could be associated with lower NIM. This result may suggest that independent oversight might influence risk aversion or other board decisions impacting profitability.

EPS (Earnings Per Share) has a positive coefficient (0.021997) and a marginally significant p-value (0.0788), suggesting a potential positive relationship between profitability (EPS) and NIM, although this result is on the borderline of significance.

CAR (Capital Adequacy Ratio) has a significant positive coefficient (0.371605, p-value = 0.0417). This indicates that banks with higher capital adequacy ratios might enjoy higher NIM, potentially due to greater financial stability and lower risk.

Board Member Size has a small negative coefficient (-0.020965) with a statistically significant p-value (0.0326), indicating that a larger board might slightly decrease NIM, possibly due to inefficiencies or decision-making complexities in larger boards.

The Intercept (Constant) is significant (0.154926, p-value = 0.0299), representing the expected NIM when all other variables are at zero or baseline.

The R-squared is 0.506409, suggesting that about 50.6% of the variability in NIM can be explained by the model's independent variables. The Adjusted R-squared (0.425112) accounts for the number of predictors.

The F-statistic and its corresponding p-value (0.000000) indicate that the model is statistically significant overall.

These results provide insights into factors that influence NIM in the banking sector, with some significant relationships, though caution is advised given the presence of possible autocorrelation and the varying levels of statistical significance.

Table 13

*Regression analysis of independent variables and the Net Interest Margin (NIM)
(Random effect Model)*

Dependent Variable: NIM

Method: Panel EGLS (Cross-section random effects)

Sample: 1 100

Periods included: 10

Cross-sections included: 10

Total panel (balanced) observations: 100

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEV	0.454259	0.204019	2.226556	0.0284
ID	-0.375132	0.536690	-0.698973	0.0563
EPS	0.014714	0.011109	1.324541	0.0885
CAR	0.155224	0.205672	0.754712	0.0423
BM	-0.150111	0.211423	-0.710003	0.0395
C	3.110471	2.650071	1.173731	0.0435
R-squared				0.217184
Adjusted R-squared				0.175545
F-statistic				5.215873
Prob(F-statistic)				0.000286

Source: Research calculation using EViews.

In the analysis of the effects of various financial variables on Net Interest Margin (NIM) using a panel data regression model, several key insights emerge. The leverage (LEV) coefficient of 0.454259 is significant at the 0.0284 level, suggesting that banks with higher leverage ratios tend to achieve higher NIMs, possibly reflecting a risk-return trade-off where higher risk associated with leverage potentially yields greater returns. Independent director (ID) displays a negative coefficient of -0.375132, which, while not statistically significant ($p = 0.0563$), hints at a potentially adverse effect on NIM.

Earnings Per Share (EPS) shows a marginally positive effect on NIM, evidenced by a coefficient of 0.014714 with a p-value of 0.0885, suggesting that profitability per share has a slight influence on margin gains, albeit not a robust one. The Capital Adequacy Ratio (CAR) presents a positive coefficient of 0.155224, significant at the 0.0423 level, indicating a weak positive influence on NIM which could reflect the financial stability brought about by adequate capital levels, though this does not necessarily translate to significantly higher margins. Conversely, the Board member size (BM) has a negative impact on NIM, as shown by a coefficient of -0.150111 with a p-value of 0.0395.

The model's fit, with an R-squared of 0.217184, indicates that approximately 21.72% of the variance in NIM is captured, typical of economic and financial models where many influencing factors remain unobserved. The adjusted R-squared of 0.175545 further confirms moderate fit, acknowledging the inclusion of multiple variables. The F-statistic is notably significant ($p = 0.000286$), underscoring that the variables collectively provide meaningful insights into NIM variations. In summary, the analysis points to significant roles played by leverage and capital adequacy in influencing NIM, with concerns about the potential negative impacts of independent director and BM. The model's limited predictive power and issues with autocorrelation suggest that further exploration through alternative models or the inclusion of additional variables might be necessary for a more thorough understanding of the factors driving NIM in the banking sector.

4.3 Discussion

The study's primary focus has been on how corporate governance factors affect Nepalese banks' performance. In this study, the dependent variables were return on assets and net interest margin, whereas the independent factors were capital adequacy ratio, earnings per share, leverage ratio, and number of directors on the board. The findings come from a study conducted between 2012–13 and 2021–22 on a sample of ten commercial banks.

Leverage (LEV), Earnings per Share (EPS), and Board member size (BM) all considerably increase the Return on Assets (ROA) in the Panel Least Squares (PLS) analysis, demonstrating strong positive connections. The Panel EGLS with Random Effects model confirms these results, demonstrating the consistency of the results across

several analytical techniques. The absence of substantial impacts on ROA in both models for independent director (ID) and capital adequacy ratio (CAR) suggests that these variables may not have a direct impact on asset returns in the contexts under investigation. The findings of this study were consistent with those of Chau and Gray (2010) and Fama and Jensen (1993). In a similar vein, banks will perform better the greater the capital adequacy ratio. The study agrees with Olalekon, Adeyinka, and Kosmideu (2008) (2013).

Ultimately, there will be a rise in return on assets in line with the increase in earnings per share. The study has similarities to Lamont (1998) and Ammar Gull et al. (2013). Regression study revealed a strong link between return on equity and board member size and leverage. This implies that the return on assets for banks will increase with the number of board members and leverage ratio. According to Jensen (1996), Yermack (1998), and Lipton and Lorsch (1995), there is a negative correlation between board membership and bank performance. In a similar vein, Jensen and Meckling (2001), Majundar and Chinner (2003), and Karray and Chichti (2013) all backed the idea that leverage and business performance have a negative connection. However, relationship is significant for board member size, leverage and earnings per share. The relationship is insignificant for capital adequacy and independent director.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

Following numerous researchers' reviews of the literature, the independent variables for the study were determined, including board member size, the number of independent directors among board members, earnings per share, capital adequacy ratio, and leverage. These variables revealed a variety of correlations with the countries' and the time period's performance. The size of the board, the number of independent directors, and earnings per share all have a big influence on how well banks function in Nepal. For banks to perform better in Nepal, it is crucial to pay attention to independent directors, additional board directors, and earnings per share. It suggests that the return on equity would increase with the number of independent directors.

The analysis illustrates how financial ratios such as leverage, earnings per share, and capital adequacy can influence key financial performance metrics like ROA and NIM. However, the impact of these variables can vary significantly based on the regression method used. The presence of autocorrelation in several models suggests the need for further investigation, possibly incorporating additional data or alternative econometric techniques to validate these findings. The different results across models highlight the complexity of financial data analysis and the importance of choosing appropriate methodologies that align with the specific characteristics of the data and the objectives of the analysis.

This comprehensive analysis not only enhances our understanding of how various financial ratios influence key performance indicators but also underscores the critical role of methodological rigor in empirical finance research. The divergent results across different models provide a compelling case for the need to employ multiple approaches in econometric analysis to fully unravel the effects of financial policies and practices. As such, while the study provides significant insights into the financial drivers of ROA and NIM, it also highlights the broader implication of econometric choices, calling for meticulous design and thoughtful interpretation of financial data studies.

5.2 Conclusion

The study's primary focus has been on how corporate governance factors affect Nepalese banks' performance. In this study, the dependent variables were return on assets and net interest margin, whereas the independent factors were capital adequacy ratio, earnings per share, leverage ratio, and number of directors on the board. The study's findings are derived from panel data analysis using panel regression models, such as Panel Least Squares (PLS) and Panel Estimated Generalized Least Squares (EGLS), with a focus on the ten commercial banks that were chosen for the study's sample.

The results conclude that Leverage (LEV), Earnings Per Share (EPS) and Board Member Size (BM) have positive and significant impact on return on assets (ROA) suggesting that higher leverage, greater profitability per share, and larger boards can lead to improved asset returns whereas Independent director (ID) and Capital Adequacy Ratio (CAR) do not show significant effects on ROA. In the analysis of Net Interest Margin (NIM), the results reveal Capital Adequacy Ratio (CAR) and leverage (LEV) positively impact NIM, suggesting that well-capitalized banks with higher leverage tend to generate greater interest margins. Conversely, the influence of board size (BM) and independent directors (ID) on NIM is negative, possibly indicating that larger boards and more independent oversight may temper risk-taking. Additionally, higher Earnings per Share (EPS) is strongly associated with increased NIM, highlighting profitability per share as a critical driver of interest margins.

5.3 Implications

5.3.1 Practical Implications

According to empirical research, corporate governance and bank performance are important factors to consider while trying to improve the performance of Nepal's commercial banks.

Because the research of corporate governance and performance is significant, it ought to be carried out on a regular basis during specific times. It is advised that larger sample sizes be obtained over longer time periods while doing research in the future. Comparing the relationship between corporate governance and performance across commercial

banks, development banks, finance firms, and non-financial companies can also be done through research. It's also critical to understand how Nepal's central bank has been overseeing the banks and whether the guidelines and procedures it employs are similar to those of other central banks. The banks in Nepal may find this research to be quite beneficial. Similarly, this research can serve as a foundational study for future researchers, who can then build on it or compare the current state of affairs with that of the future.

While this study focused on a set of traditional financial ratios, future research could explore the inclusion of additional variables such as market volatility, economic indicators, or industry-specific factors. These variables could provide a more comprehensive understanding of the determinants of ROA and NIM.

- Conducting longitudinal studies over extended periods could provide insights into how financial performance metrics evolve over time and how they respond to changes in market conditions, regulatory environments, or macroeconomic factors. This longitudinal approach could capture trends and cyclical patterns that may not be apparent in cross-sectional analyses.
- Comparing the financial performance of firms across different industries could reveal sector-specific drivers of ROA and NIM. Understanding how factors such as regulatory frameworks, competitive dynamics, and technological advancements impact financial metrics could offer valuable insights for industry practitioners and policymakers.
- Investigating potential non-linear relationships between financial ratios and performance metrics could uncover more nuanced insights. For instance, studying threshold effects or interactions between variables may reveal critical inflection points or synergistic relationships that impact ROA and NIM differently under varying conditions.
- Conducting cross-country comparisons could provide valuable insights into how institutional differences, regulatory frameworks, and cultural factors influence financial performance metrics. Comparative studies

could help identify best practices and policy implications for enhancing ROA and NIM across different economic contexts.

- Complementing quantitative analyses with qualitative research methods such as case studies or interviews could provide deeper insights into the underlying mechanisms driving ROA and NIM. Qualitative approaches can capture contextual factors, managerial decision-making processes, and industry-specific nuances that quantitative models may overlook.

Managerial Implications

The results also imply that in order to generate higher and more stable earnings, shareholders should actively participate in implementing sound corporate governance in the banks they own. By passing laws and regulations, the NRB should encourage banks to adopt sound corporate governance standards. It is advised to maintain a minimum number of directors on a bank board, provided that the minimum number of directors allows the board to effectively carry out its supervisory duties. Because of economies of scale, commercial banks should grow both their branch networks and branch locations to increase profitability. In order to improve corporate governance and business rivalry in the nation, the government, financial institutions, and business community should collaborate to build a formal capital market, particularly a stock exchange.

Financial authorities are rushing to adapt to the shift and navigate the instability brought forth by technology and globalization. Regulators must create a strong financial system with solid governance in order to achieve this. Because it addresses both governance and performance, the study of corporate governance and financial performance is significant. The economy of the nation is based primarily on banks. A country cannot achieve economic progress without banks and other financial organizations. The banking industry's poor governance might put the entire economy at danger. Thus, understanding the components of corporate governance is crucial. Similarly, strong financial performance is necessary for the banking industry to run efficiently. A favorable atmosphere must be established in order for banks to survive and grow.

Implications for Policyholders and Practitioners:

Policymakers and financial practitioners can use the findings of this study to inform capital allocation strategies. Emphasizing the importance of maintaining adequate capital reserves could help mitigate risks and enhance NIM by ensuring stability in lending and investment activities.

- Understanding the impact of leverage on ROA and NIM highlights the importance of robust risk management practices. Policymakers can encourage financial institutions to adopt prudent risk assessment frameworks to mitigate the adverse effects of excessive leverage on profitability.
- Insights into the positive impact of independent director on NIM suggest the importance of effective corporate governance mechanisms. Policymakers can promote transparent disclosure practices and aligning managerial incentives with shareholder interests to enhance NIM and overall firm performance.
- Policymakers can tailor regulatory frameworks to address sector-specific challenges identified in this study. For instance, implementing regulations that promote transparency and risk management in the banking sector can enhance NIM stability and ensure financial resilience.
- Financial practitioners can use the findings of this study to inform investment and lending decisions. Understanding the drivers of ROA and NIM can help financial institutions identify profitable investment opportunities and optimize lending practices to maximize returns while managing risks effectively.
- Given the dynamic nature of financial markets, policymakers and practitioners should continuously monitor changes in market conditions and adapt strategies accordingly. Regular assessments of the factors influencing ROA and NIM can help policymakers and practitioners stay responsive to evolving market dynamics and regulatory environments.

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APPENDIX

S.No	Year	Bank Name	Bank Size	Independent Director	EPS	CAR	Leverage	NIM	ROE
1	2012/13	Nabil	12	3	91.05	10.58	9.98	11.64	32.78
2	2013/14	Nabil	12	3	83.68	11.24	9.74	10.16	27.97
3	2014/15	Nabil	12	3	57.24	11.57	10.18	8.5	22.73
4	2015/16	Nabil	12	3	59.27	11.73	10.51	8.08	25.61
5	2016/17	Nabil	11	3	58.41	12.90	11.21	8.27	26.65
6	2017/18	Nabil	11	3	51.58	13.00	11.7	11.36	20.94
7	2018/19	Nabil	7	1	50.57	12.50	11.81	11.41	17.76
8	2019/20	Nabil	11	3	36.16	13.07	11.4	10.98	13.61
9	2020/21	Nabil	11	3	33.57	12.77	10.67	9.37	15.19
10	2021/22	Nabil	11	11	18.64	13.09	10.76	81.02	9.78
11	2012/13	NMB	7	1	13.4	11.74	10.42	8.32	13.4
12	2013/14	NMB	7	1	13.7	10.75	9.91	9.10	13.7
13	2014/15	NMB	7	1	13.9	11.13	8.84	7.86	13.9
14	2015/16	NMB	7	1	15.2	10.98	9.34	7.16	15.2
15	2016/17	NMB	7	1	15.7	13.61	12.39	9.26	15.7
16	2017/18	NMB	9	1	13.54	15.75	14.78	10.78	13.54
17	2018/19	NMB	9	2	13.32	15.45	13.11	11.17	13.32
18	2019/20	NMB	11	2	8.94	15.08	13	10.95	8.94
19	2020/21	NMB	11	3	12.08	15.08	11.42	8.16	12.08
20	2021/22	NMB	11	3	12.95	13.59	10.36	9.55	12.95
21	2012/13	EBL	8	1	91.88	11.59	9.31	10.49	13.2
22	2013/14	EBL	8	1	86.04	11.31	9.35	10.11	13.7
23	2014/15	EBL	8	1	78.04	13.33	10.44	8.76	15.9
24	2015/16	EBL	8	1	65.97	12.66	10.34	6.94	15.6
25	2016/17	EBL	8	1	44.32	14.69	12.72	8.19	16
26	2017/18	EBL	8	1	32.78	14.2	12.65	9.89	16.05
27	2018/19	EBL	8	1	38.05	13.74	12.38	10.66	17.54
28	2019/20	EBL	8	1	29.71	13.38	11.92	10.51	18.59
29	2020/21	EBL	9	1	19.91	12.48	11.24	7.17	20.64
30	2021/22	EBL	9	1	26.3	11.89	10.78	8.62	22.75
31	2012/13	NSBI	7	1	16.47	12.39	9.59	11.20	20.31
32	2013/14	NSBI	7	1	19.97	13.28	10.19	9.55	22.85
33	2014/15	NSBI	7	1	23.22	14.03	11.18	8.81	22.51
34	2015/16	NSBI	7	1	22.16	13.49	10.98	7.74	22.16
35	2016/17	NSBI	7	1	20.41	15.71	13.53	8.38	20.41

36	2017/18	NSBI	8	1	33.46	15.71	13.53	9.51	14.85
37	2018/19	NSBI	8	1	25.16	15.15	13.38	11.94	15.81
38	2019/20	NSBI	9	1	27.13	14.12	12.17	12.72	16.2
39	2020/21	NSBI	11	1	17.32	15.55	12.39	12.1	10.44
40	2021/22	NSBI	11	1	10.15	13.86	11.02	8.87	6.26
41	2012/13	HBL	8	1	17.14	11.55	8.96	3.2	9.56
42	2013/14	HBL	8	1	19.20	11.23	9.03	3.3	9.9
43	2014/15	HBL	8	1	22.10	11.41	9.48	3.2	10.2
44	2015/16	HBL	8	1	27.51	10.84	9.43	3.4	10.48
45	2016/17	HBL	8	1	28.90	12.15	10.93	3.5	11.25
46	2017/18	HBL	8	1	23.11	12.46	11.4	11.64	20.17
47	2018/19	HBL	9	1	32.44	12.6	11.63	11.76	17.06
48	2019/20	HBL	9	1	27.26	14.89	11.76	10.79	24.53
49	2020/21	HBL	9	1	28.07	13.89	11.21	7.71	21.58
50	2021/22	HBL	9	1	18.26	11.75	10.49	10.35	20.17
51	2012/13	SBL	7	1	29.80	11.80	8.28	7.10	19.82
52	2013/14	SBL	7	1	38.63	11.39	8.39	7.70	20.54
53	2014/15	SBL	7	1	37.77	11.10	7.58	8.30	20.3
54	2015/16	SBL	7	1	41.53	11.25	8.85	8.70	19.93
55	2016/17	SBL	7	1	26.60	12.74	11.02	8.90	20.02
56	2017/18	SBL	8	1	35.66	12.66	11.58	11	14.71
57	2018/19	SBL	9	1	26.43	13.26	11.39	10.9	13
58	2019/20	SBL	9	1	17.03	13.54	11.77	10.1	8.92
59	2020/21	SBL	9	1	22	14.71	11.11	8.2	11.04
60	2021/22	SBL	9	1	20.74	15.96	12.15	8.7	11.17
61	2012/13	NIMB	8	1	18.02	11.49	10.78	12.3	74.8
62	2013/14	NIMB	8	1	20.50	11.27	10.78	10.8	71.9
63	2014/15	NIMB	8	1	25.05	11.9	10.78	9.0	72.8
64	2015/16	NIMB	8	1	27.78	14.92	10.78	8.4	76.8
65	2016/17	NIMB	8	1	26.88	13.02	10.78	9.0	77.6
66	2017/18	NIMB	8	1	21,86	14.2	10.78	9.89	16.05
67	2018/19	NIMB	8	2	18.79	13.74	10.78	10.66	17.54
68	2019/20	NIMB	8	2	11.18	13.38	10.78	10.51	18.59
69	2020/21	NIMB	9	3	14.76	12.48	10.78	7.17	20.64
70	2021/22	NIMB	7	3	17.92	11.89	10.78	8.62	22.75
71	2012/13	LBL	8	1	24.78	12.23	9.15	11.77	10.5
72	2013/14	LBL	8	1	26.07	11.91	9.62	10.34	11.3
73	2014/15	LBL	8	1	19.42	10.81	9.17	9.34	10.5

74	2015/16	LBL	8	1	27.15	11.15	9.79	7.83	13
75	2016/17	LBL	8	1	21.77	13.58	12.43	7.16	14.2
76	2017/18	LBL	7	1	13.57	12.43	11.32	10.95	15.1
77	2018/19	LBL	6	1	14.81	11.83	11.01	11.72	10.33
78	2019/20	LBL	6	1	14.24	13.02	10.26	11.06	11.17
79	2020/21	LBL	7	1	15.79	12.15	9.49	8.5	9.2
80	2021/22	LBL	7	1	14.46	12.75	9.05	9.64	7.01
81	2012/13	NBL	7	1	198.53	0.59	-0.59	5.88	7.01
82	2013/14	NBL	7	1	18.08	2.92	4.55	7.55	8.01
83	2014/15	NBL	7	1	7.84	6.32	7.49	8.49	8.42
84	2015/16	NBL	7	1	44.59	9.01	10.2	11.2	9.04
85	2016/17	NBL	7	1	38.77	13.37	14.47	14.47	9.78
86	2017/18	NBL	8	1	40.67	11.27	9.52	9.52	27.6
87	2018/19	NBL	9	1	30.92	11.9	9.54	9.54	24.8
88	2019/20	NBL	9	1	29.3	14.92	13.05	13.05	26
89	2020/21	NBL	9	1	29.31	13.02	11.58	11.58	19.1
90	2021/22	NBL	9	1	35.66	12.66	11.46	11.46	18.71
91	2012/13	RBBL	9	1	21.79	8.51	12.52	2.64	10.31
92	2013/14	RBBL	9	1	21.38	4.46	12.16	2.04	11.82
93	2014/15	RBBL	9	1	54.07	10.16	9.59	1.53	11.42
94	2015/16	RBBL	9	1	27.42	10.46	9.86	1.27	13.93
95	2016/17	RBBL	9	1	32.32	10.39	9.70	1.24	16.78
96	2017/18	RBBL	9	1	30.26	11.46	10.8	9.2	30.68
97	2018/19	RBBL	9	1	56.04	13.39	9	8.97	21.58
98	2019/20	RBBL	7	1	48.61	12.64	8.4	9.63	23.02
99	2020/21	RBBL	7	0	37.27	13.46	9.1	6.99	28.67
100	2021/22	RBBL	7	0	34.85	13.29	11	7.93	32.67

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Abstract In an effort to increase the transparency and accountability of financial and non- financial institutions, corporate governance has emerged as one of the most discussed topics globally. In the nation's economy, financial institutions play a significant role. The primary goal of this study is to investigate the connection between Nepalese commercial banks' financial performance and corporate governance.

Return on assets and net interest margin were considered **dependent variables**

, whereas

board member size, number of independent variables, **bank size, earning per share, capital adequacy ratio, and leverage were** considered **independent variables**

. During the years 2012–2022 and 2021–2022, ten commercial banks in Nepal participated in the study. The information was gathered from the banks' yearly reports. To examine the impact of corporate governance on the financial performance of Nepalese commercial banks, correlation and regression analysis were employed. The outcome demonstrated that while there was no significant correlation between the number of independent directors and the capital adequacy ratio and return on assets, there was a positive correlation between board member size, earnings per share, and leverage. While there was a negative correlation found between the number of independent directors and board member size and net interest margin,