Effects of Corporate Governance Mechanisms on the Potential for Bankruptcy in Nepalese Commercial Banks

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Abstract

The study examines the effects of corporate governance mechanisms on the potential for bankruptcy in Nepalese commercial banks. Loan loss provision and non-performing loan are selected as the dependent variables. The selected independent variables are board size, board meetings, female directors, independent directors, audit committee and capital adequacy ratio. The study is based on secondary data of 13 commercial banks with 104 observations for the period from 2015/16 to 2022/23. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance mechanisms on the potential for bankruptcy in Nepalese commercial banks.

The study showed that board size has a positive impact on provision for loan loss and non-performing loan. It indicates that higher the board size, higher would be the provision for loan loss and non-performing loan. However, board meetings have negative impact on provision for loan loss and non-performing loan. It indicates that higher the board meetings, lower would be the provision for loan loss and non-performing loan. Similarly, female directors have negative impact on provision for loan loss and non-performing loan. It indicates that higher the female directors, lower would be the provision for loan loss and non-performing loan. Likewise, independent directors have negative impact on provision for loan loss and non-performing loan. It indicates that higher the independent directors, lower would be the provision for loan loss and non-performing loan. Further, audit committee size has a negative impact on provision for loan loss and non-performing loan. It indicates that higher the audit committee size, lower would be the provision for loan loss and non-performing loan. In addition capital adequacy ratio has a negative impact on provision for loan loss and non-performing loan. It indicates that higher the capital adequacy ratio, lower would be the provision for loan loss and non-performing loan.

Keywords: loan loss provision, non-performing loan, board size, board meeting, female directors, independent directors, audit committee, capital adequacy ratio

1. Introduction

Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value (Saad, 2010). Corporate governance is the process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's assets over time (Bassem, 2009). Good corporate governance is considered a building block of success for microfinance institutions (MFIs) as it is presumed to help them in achieving their social and financial goals (Iqbal *et al*., 2019). The intensity and frequency of board meetings is a major tool to measure the effectiveness of monitoring by the board of

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directors (Lipton and Lorsch, 1992). Failure to implement practices of good governance can lead to the downfall of MFIs or undermine their effectiveness due to poor decisions, reduced access to funds in the form of capital or donations, and compromised goodwill and trust (Beisland *et al*., 2015).

Ahmed and Hamdan (2015) examined the impact of corporate governance on firm performance. The study revealed that corporate governance is significantly correlated with potential bankruptcy. Board composition and board activities as represented by board meetings and its intensity are recognized as a mean to enhance the monitoring activity by board members and reflect on firm performance (Jensen, 1993). Similarly, Wilevy and Kurniasih (2021) examined the financial distress of registered banking in Indonesia Stock Exchange: Review of the good corporate governance aspect and banking performance. The study found that institutional, managerial, independent commissioner board composition, audit committee, capital adequacy ratio, and loan to deposit ratio have significant impact on financial distress. The study also found that non-performing loan has a positive and significant impact on economic desperation. Likewise, Ramly and Basharahil (2021) investigated the bank governance and risk-taking: A survey of the literature. The study concluded that banks are unique financial institutions and differ from non-financial institutions which justifies that the set of traditional corporate governance mechanisms does not hold for banks. Thus, focusing on the vast number of the key elements of corporate governance such as the features of the board of directors that may affect the risk taking decisions.

Pham and Duy (2019) analyzed the effects of corporate governance mechanisms on the financial leverage-profitability relation. The study found that board size, board independence and state ownership have positive and significant impact on financial leverage. In addition, Tarraf and Majeske (2008) investigated the relationship among corporate governance, risk taking and financial performance at bank holding companies (BHCs) during the financial crisis of 2008. The study found that there is no significant relationship between corporate governance and risk-taking level. Moreover, Aebi *et al.* (2012) examined the risk management, corporate governance, and bank performance in the financial crisis. The study argued that banks have to significantly improve the quality and profile of corporate governance and risk management function in order to be well prepared to face a financial crisis.

Liang *et al.* (2016) investigated the financial ratios and corporate governance indicators in bankruptcy prediction. The study showed that financial ratio categories of solvency and profitability and the CGI categories of board structure and ownership structure are the most important features in bankruptcy prediction. Likewise, Meshki and Hashemi (2015) examined the relationship between corporate governance with bankruptcy probability in companies listed in Tehran Stock Exchange. The study concluded that type of audit's report, amount of board of director's reward, institutional ownership and independence of board of directors are negatively correlated to bankruptcy possibility but no significance relationship between size of board of directors and bankruptcy possibility.

Nworji *et al.* (2011) examined the corporate governance and bank failure in Nigeria: Issues, challenges and opportunities. The study concluded that corporate governance is necessary to the proper functioning of banks and that corporate governance can only prevent bank distress only if it is well implemented. In addition, Zhang (2023) analyzed

the impact of corporate governance on enterprise bankruptcy. The study concluded that risk prevention requires directors to accurately assess conflicts of interest, long-term contracts and participation risks, and future cash flow shortfalls when the company faces legal risks. Moreover, Rokhayati *et al.* (2022) assessed the financial distress in banking companies listed on the Indonesian stock exchange. The results showed that capital structure has a significant impact on financial distress where the higher the company's leverage will cause financial distress. While female director, liquidity, and profitability have no significant impact on company's financial distress.

Chancharat and Chancharat (2019) investigated the effect of board structure and political connection on firm performance. The study concluded that board structure is positively correlated to firm performance whereas political connection is negatively and statistically associated with firm performance. Similarly, Rusmin *et al.* (2012) examined the Income smoothing behavior by Asian transportation firms. The study found that the governance of the largest government and foreign ownership firms not only acts to monitor management activities but also plays a representative role for monitoring shareholders. Likewise, Fallatah (2012) assessed the relationship between corporate governance characteristics and firm performance. The study showed that corporate governance and firm performance (measured as return on assets) are unrelated, but corporate governance and firm value (measured as Tobin's Q and market value of equity) are positively correlated to each other. Further, Ali and Nasir (2018) examined the relationship between corporate governance mechanisms. The study provided evidence that board meeting or board activity have significant relationship with financially distressed.

Boudiab (2017) analyzed the role of audit committee on performance of listed companies in Pakistan: An empirical evidence. The study found that audit committee independence and meeting have positive and significant impact on firm performance but the size of the audit committee has an insignificant impact on performance of firms. Moreover, Lestari *et al.* (2021) investigated the impact of extensible business reporting language (XBRL) adoption on financial reporting timeliness. The results revealed that extensible business reporting language adoption positively affects financial reporting timeliness. Likewise, Grove *et al.* (2011) analyzed the corporate governance and performance in the wake of the financial crisis: Evidence from US commercial banks. The study revealed that the frequency of board meetings is positively associated with financial performance.

In the context of Nepal, Pradhan *et al.* (2020) explored the effect of corporate governance on risk taking and profitability of Nepalese commercial banks. The study revealed that board size, female director, board independence, and members in audit committee are positively correlated to risk level while board meeting and total assets are negatively correlated to risk level. Similarly, Singh *et al.* (2021) examined the effect of non-performing loan of Nepalese conventional banks. The result concluded that return on assets, bank size, gross domestic product, and inflation have a significant impact on non-performing loan but capital adequacy ratio does not have a significant impact on non-performing loan of banks. The study also concluded that gross domestic product have an insignificant impact on non-performing loan. Likewise, Pradhan and Pantha (2019) assessed the effect of ownership structure on risk and performance of Nepalese commercial banks. The study concluded that government ownership, foreign ownership, liquid ratio, bank size and deposit are the major factors affecting the profitability of commercial banks in Nepal.

The above discussion shows that empirical evidences vary greatly across the studies on the effects of corporate governance mechanisms on the potential for bankruptcy in commercial banks. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the effects of corporate governance mechanisms on the potential for bankruptcy in Nepalese commercial banks. Specifically, it examines the relationship of board size, board meetings, female directors, independent directors, audit committee, and capital adequacy ratio with potential for bankruptcy in Nepalese commercial banks.

The remainder of this study is organized as follows: Section two describes the sample, data and methodology. Section three presents the empirical results and the final section draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 13 Nepalese commercial banks for the period of 2015/16 to 2022/23, leading to a total of 104 observations. The study employed convenience sampling method. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank and annual report of respective banks. Table 1 shows the list of commercial banks for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with the study period and number of observations

S. N.	Name of Commercial Banks	Study time Period	Observations
1	Citizens Bank International Limited	2015/16-2022/23	8
2	Siddhartha Bank Limited	2015/16-2022/23	8
3	Sanima Bank Limited	2015/16-2022/23	8
4	Everest Bank Limited	2015/16-2022/23	8
5	NMB Bank Limited	2015/16-2022/23	8
6	Himalayan Bank Limited	2015/16-2022/23	8
7	Machhapuchchhre Bank Limited	2015/16-2022/23	8
8	Nabil Bank Limited	2015/16-2022/23	8
9	Prime Commercial Bank Limited	2015/16-2022/23	8
10	Rastriya Banijya Bank Limited	2015/16-2022/23	8
11	Nepal Bank Limited	2015/16-2022/23	8
12	Standard Chartered Bank Limited	2015/16-2022/23	8
13	Agriculture Development Bank Limited	2015/16-2022/23	8
Total number of observations			**104**

Thus, the study is based on 104 observations.

The model

The model estimated in this study assumes that potential for bankruptcy depends upon corporate governance mechanisms. The selected dependent variables are provision for loan loss and non-performing loan. Similarly, the selected independent variables are board size, board meetings, female directors, independent directors, audit committee, and capital adequacy ratio. Therefore, the model takes the following from:

$$PLL_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 FD_{3it} + \beta_4 IND_{4it} + \beta_5 ACS_{it} + \beta_6 CAR_{it} + \varepsilon_{it}$$

$$NPL_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 FD_{3it} + \beta_4 IND_{4it} + \beta_5 ACS_{it} + \beta_6 CAR_{it} + \varepsilon_{it}$$

Where,

PLL = Provision for loan loss as measured as measured by the amount provisioned by respective bank in a year, Rs. millions

NPL = Non-performing loan as measured by the ratio of non-performing loans to total loans, in percentage.

BS = Board size as measured by the number of board members, in numbers.

BM = Board meetings as measured by the number of board meetings held in a year, in numbers.

FD = Female directors as measured by the number of female director in a board, in numbers.

IND = Independent director as measured by the number of independent directors in the board, in numbers.

ACS = Audit committee size as measured by the number of audit committee members, in numbers.

CAR = Capital adequacy ratio as measured by the ratio of total capital to total risk weighted exposure, in percentage.

The following section describes the independent variables used in this study along with the hypothesis formulation:

Board size

Board size can be defined as the number directors on the company. Manzaneque *et al.* (2016) revealed that there is a positive relationship between board size and loan loss provision. Similarly, Adams and Mehran (2003) found a significant and positive relationship between board size and performance. Likewise, Liang *et al.* (2016) showed that there is positive relationship between board size and non-performing loan. Further, Yermack (1996) reported a positive relationship between board size and firm performance. In addition, Huther (1997) revealed that there is a significant and positive relationship between board size and profitability. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between board size and potential for bankruptcy.

Board meetings

Bredart (2014) reported a negative relationship between board meetings and firm performance. Similarly, Ali and Nasir (2018) found a significant but negative relationship

between board meeting and performance. Likewise, Vafeas (1999) stated that there is a negative relationship between board meetings and loan loss provision. In addition, Ratri (2021) found a significant but negative relationship between board meetings and loan loss provision. Based on it, this study develops the following hypothesis:

H_2: There is a negative relationship between board meetings and potential for bankruptcy.

Female directors

Fakih and Ghazalia (2015) reported a positive relationship between female directors and firm performance. Similarly, Wilson and Altanlar (2009) found a significant and positive relationship between female directors and loan loss provision. Likewise, Garcia and Herrero (2021) revealed that there is a significant and positive relationship between female directors and non-performing loss. Further, Rokhayati *et al.* (2022) stated a significant but negative relationship between female directors and performance. In addition, Maier and Yurtoglu (2022) reported a positive relationship between female directors and firm performance. Based on it, this study develops the following hypothesis:

H_3: There is a negative relationship between female directors and potential for bankruptcy.

Independent directors

Cruz *et al.* (2014) found a significant positive relationship between independent directors and loan loss provision. Similarly, Deng and Wang (2006) revealed that the proportion of independent directors have a negative relation with non-performing loan. Likewise, Hsu and Wu (2014) found a significant positive relationship between independent directors and loan loss provision. Furthermore, Hillman and Dalziel (2003) stated that independent directors have significant relationship with firm performance. Based on it, this study develops the following hypothesis:

H_4: There is a positive relationship between independent directors and potential for bankruptcy.

Audit committee size

Platt and Platt (2012) stated that audit committee size has a significant relationship with loan loss provision. Similarly, Bedard and Gendron (2010) suggested that audit committee size has a negative relation with non-performing loan. However, Zraiq and Fadzil, (2018) stated that audit committee size are positively correlated to loan loss provision. In addition, Dalton *et al.* (1999) reported a positive relationship between audit committee size and firm performance. Furthermore, Aldamen *et al.* (2012) found a significant positive relationship between audit committee size and loan loss provision. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between audit committees size and potential for bankruptcy.

Capital adequacy ratio

Lee and Hsieh (2013) found a significant positive relationship between capital adequacy ratio and loan loss provision. Similarly, Ezike and Oke (2013) stated that capital adequacy ratio is positively correlated to loan loss provision. Likewise, Alshatti (2016) suggested that capital adequacy ratio has a positive relationship with non-performing loan. Further, Ndifon and Ubana (2014) revealed a positive and significant relationship between capital adequacy ratio and firm perfromance. Further, Ibrahim (2017) reported a positive

relationship between capital adequacy ratio and firm performance. Based on it, this study develops the following hypothesis:

H_6: There is a positive relationship between capital adequacy ratio and potential for bankruptcy.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2015/16-2022/23.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 13 Nepalese commercial banks for the study period of 2015/16 to 2022/23. The dependent variables are PLL (Provision for loan loss as measured as measured by the amount provisioned by respective bank in a year, Rs. millions) and NPL (Non-performing loan as measured by the ratio of non-performing loans to total loans, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BM (Board meetings as measured by the number of board meetings held in a year, in numbers), FD (Female directors as measured by the number of female director in a board, in numbers), IND (Independent director as measured by the number of independent directors in the board, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), and CAR (Capital adequacy ratio as measured by the ratio of total capital to total risk weighted exposure, in percentage).

Variables	Minimum	Maximum	Mean	Std. Deviation
PLL	0.91	6660.00	1355.597	1594.014
NPL	0.01	4.93	1.349	1.276
BS	5.00	11.00	6.990	1.102
BM	8.00	35.00	20.683	7.544
FD	0.00	4.00	1.000	0.924
IND	0.00	2.00	0.798	0.427
ACS	1.00	5.00	3.048	0.716
CAR	0.11	22.99	11.700	5.353

Source: SPSS output

Correlation analysis

Having indicated the descriptive statistics, Pearson's correlation coefficients are computed and results are presented in Table 3.

Table 3

Pearson's correlation coefficients matrix

This table shows the correlation coefficients of dependent and independent variables of 13 Nepalese commercial banks for the study period of 2015/16 to 2022/23. The dependent variables are PLL (Provision for loan loss as measured as measured by the amount provisioned by respective bank in a year, Rs. millions) and NPL (Non-performing loan as measured by the ratio of non-performing loans to total loans, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BM (Board meetings as measured by the number of board meetings held in a year, in numbers), FD (Female directors as

measured by the number of female director in a board, in numbers), IND (Independent director as measured by the number of independent directors in the board, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), and CAR (Capital adequacy ratio as measured by the ratio of total capital to total risk weighted exposure, in percentage).

Variables	PLL	NPL	BS	BM	FD	IND	ACS	CAR
PLL	1							
NPL	0.295**	1						
BS	0.206*	0.286**	1					
BM	-0.223*	-0.246*	-0.003	1				
FD	-0.596**	-0.132	0.143	-0.319**	1			
IND	-0.219*	-0.178	-0.045	0.125	0.443**	1		
ACS	-0.090	-0.290**	-0.098	0.068	0.205*	0.382**	1	
CAR	-0.103	-0.318**	-0.068	-0.396**	0.150	0.103	-0.178	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 3 shows that board size has a positive relationship with provision for loan loss. It indicates that increase in board size leads to increase in provision for loan loss. Similarly, board meetings have negative relationship with provision for loan loss. It indicates that higher the board meetings, lower would be the provision for loan loss. Likewise, female directors have negative relationship with provision for loan loss. It indicates that increase in female directors in the board leads to decrease in provision for loan loss. Further, independent directors have negative relationship with provision for loan loss. It indicates that increase in independent directors in the board lead to decrease in provision for loan loss. In addition, audit committee size has a negative relationship with provision for loan loss. It indicates that increase in audit committee size leads to decrease in provision for loan loss. Moreover, capital adequacy ratio has a negative relationship with provision for loan loss. It indicates that increase in capital adequacy ratio leads to decrease in provision for loan loss.

Similarly, board size has a positive relationship with non-performing loan. It indicates that increase in board size leads to increase in non-performing loan. Similarly, board meetings have negative relationship with non-performing loan. It indicates that higher the board meetings, lower would be the non-performing loan. Likewise, female directors have negative relationship with non-performing loan. It indicates that increase in female directors in the board leads to decrease in non-performing loan. Further, independent directors have negative relationship with non-performing loan. It indicates that increase in independent directors in the board lead to decrease in non-performing loan. In addition, audit committee size has a negative relationship with non-performing loan. It indicates that increase in audit committee size leads to decrease in non-performing loan. Moreover, capital adequacy ratio has a negative relationship with non-performing loan. It indicates that increase in capital adequacy ratio leads to decrease in non-performing loan.

Regression analysis

Having analyzed the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4. More specifically, it presents the regression results of board size, board meetings, female directors, independent directors, audit

committee, and capital adequacy ratio on provision for loan loss of Nepalese commercial banks.

Table 4

Estimated regression results of board size, board meetings, female directors, independent directors, audit committee, and capital adequacy ratio on provision for loan loss

The results are based on panel data of 13 Nepalese commercial banks with 104 observations for the period of 2015/16 to 2022/23 by using the linear regression model and the model is $PLL_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 FD_{3it} + \beta_4 IND_{4it} + \beta_5 ACS_{it} + \beta_6 CAR_{it} + \varepsilon_{it}$ where, the dependent variable is PLL (Provision for loan loss as measured as measured by the amount provisioned by respective bank in a year, Rs. millions). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BM (Board meetings as measured by the number of board meetings held in a year, in numbers), FD (Female directors as measured by the number of female director in a board, in numbers), IND (Independent director as measured by the number of independent directors in the board, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), and CAR (Capital adequacy ratio as measured by the ratio of total capital to total risk weighted exposure, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar2	SEE	F-value
		BS	BM	FD	IND	ACS	CAR			
1	20.178 (12.626)**	0.790 (0.352)						0.008	2.531	0.124
2	21.313 (30.498)**		-0.820 (2.577)**					0.051	2.455	6.640
3	18.339 (56.822)**			-1.258 (5.395)**				0.213	2.237	29.101
4	18.704 (36.052)**				-1.148 (2.002)**			0.028	2.485	4.008
5	18.058 (16.724)**					-0.513 (1.487)		0.012	2.506	2.211
6	19.901 (33.239)**						-0.024 (0.512)	0.007	2.530	0.610
7	21.923 (12.912)**	0.247 (1.225)	-0.082 (2.571)**					0.044	2.465	3.371
8	20.767 (13.369)**	0.247 (1.225)	-0.032 (1.044)	-1.218 (4.874)**				0.218	2.229	10.668
9	20.77 (13.026)**	0.247 (1.207)	-0.032 (0.980)	-1.219 (4.121)**	-1.148 (2.002)**			0.210	2.240	7.922
10	20.163 (10.790)**	0.268 (1.318)	-0.033 (1.010)	-1.205 (4.050)**	-0.122 (0.190)	-0.212 (0.628)		0.205	2.247	6.378
11	20.163 (10.790)**	0.268 (1.318)	-0.062 (1.755)	-1.181 (4.027)**	-0.196 (0.300)	-0.034 (0.010)	-0.095 (2.035)*	6.378	2.212	6.174

Notes:

i. Figures in parenthesis are t-value
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Provision for loan loss is the dependent variable.

Table 4 shows that the beta coefficients for board size are positive with provision for loan loss. It indicates that board size has a positive impact on provision for loan loss. This finding is consistent with the findings of Adams and Mehran (2003). Similarly, the beta coefficients for board meetings are negative with provision for loan loss. It indicates that board meetings have negative impact on provision for loan loss. This finding is consistent with the findings of Bredart (2014). Likewise, the beta coefficients for female directors are negative with provision for loan loss. It indicates that female directors have negative impact on provision for loan loss. This finding is not consistent with the findings of Fakih and Ghazalia (2015). Further, the beta coefficients for independent directors are negative with provision for loan loss. It indicates that independent directors have negative impact on

provision for loan loss. This finding is not consistent with the findings of Cruz *et al.* (2014). In addition, the beta coefficients for audit committee size are negative with provision for loan loss. It indicates that audit committee size has a negative impact on provision for loan loss. This finding is not consistent with the findings of Platt and Platt (2012). Moreover, the beta coefficients for capital adequacy ratio are negative with provision for loan loss. It indicates that capital adequacy ratio has a negative impact on provision for loan loss. This finding is not consistent with the findings of Lee and Hsieh (2013).

Table 5 presents the regression results of board size, board meetings, female directors, independent directors, audit committee, and capital adequacy ratio on non-performing loan of Nepalese commercial banks.

Table 5

Estimated regression results of board size, board meetings, female directors, independent directors, audit committee, and capital adequacy ratio on non-performing loan

The results are based on panel data of 13 Nepalese commercial banks with 104 observations for the period of 2015/16 to 2022/23 by using the linear regression model and the model is $NPL_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 FD_{3it} + \beta_4 IND_{4it} + \beta_5 ACS_{it} + \beta_6 CAR_{it} + \varepsilon_{it}$ where, the dependent variable is NPL (Non-performing loan as measured by the ratio of non-performing loans to total loans, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BM (Board meetings as measured by the number of board meetings held in a year, in numbers), FD (Female directors as measured by the number of female director in a board, in numbers), IND (Independent director as measured by the number of independent directors in the board, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), and CAR (Capital adequacy ratio as measured by the ratio of total capital to total risk weighted exposure, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar2	SEE	F-value
		BS	BM	FD	IND	ACS	CAR			
1	0.969 (1.246)	0.332 (3.018)**						0.073	1.229	9.106
2	2.209 (6.185)**		-0.042 (2.561)**					0.051	1.243	6.559
3	1.167 (6.336)**			-0.183 (1.349)				0.008	1.272	1.821
4	1.167 (6.336)**				-0.532 (1.825)			0.022	1.263	3.330
5	2.927 (5.532)**					-0.518 (3.063)**		0.075	1.227	9.385
6	0.462 (1.606)						-0.076 (3.389)**	0.092	1.216	11.483
7	0.106 (0.130)	0.331 (3.099)**	-0.041 (2.658)**					0.125	1.194	8.357
8	0.127 (0.125)	0.328 (3.026)**	-0.041 (2.455)*	-0.021 (0.155)				0.116	1.199	5.526
9	0.186 (0.220)	0.300 (2.764)**	-0.030 (1.762)	-0.175 (1.102)	-0.597 (1.838)			0.137	1.186	5.088
10	1.414 (1.470)	0.273 (2.569)**	-0.030 (1.762)	-0.205 (1.319)	-0.597 (1.838)	-0.429 (2.473)*		0.179	1.157	5.504
11	0.192 (0.177)	0.298 (2.892)**	-0.008 (0.439)	-0.221 (1.476)	-0.597 (1.838)	-0.303 (1.748)	-0.068 (2.867)**	0.236	1.116	6.294

Notes:

i. Figures in parenthesis are t-value
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Non-performing loan is the dependent variable.

Table 5 shows that the beta coefficients for board size are positive with non-

performing loan. It indicates that board size has a positive impact on non-performing loan. This finding is consistent with the findings of Manzaneque *et al.* (2016). Similarly, the beta coefficients for board meetings are negative with non-performing loan. It indicates that board meetings have negative impact on non-performing loan. This finding is consistent with the findings of Ali and Nasir (2018). Likewise, the beta coefficients for female directors are negative with non-performing loan. It indicates that female directors have negative impact on non-performing loan. This finding is not consistent with the findings of Wilson and Altanlar (2009). Further, the beta coefficients for independent directors are negative with non-performing loan. It indicates that independent directors have negative impact on non-performing loan. This finding is consistent with the findings of Deng and Wang (2006). In addition, the beta coefficients for audit committee size are negative with non-performing loan. It indicates that audit committee size has a negative impact on non-performing loan. This finding is consistent with the findings of Bedard and Gendron (2010). Moreover, the beta coefficients for capital adequacy ratio are negative with non-performing loan. It indicates that capital adequacy ratio has a negative impact on non-performing loan. This finding is not consistent with the findings of Alshatti (2016).

4. Summary and conclusion

Banking and financial institutions (BFIs) are thought to benefit from good corporate governance since it is assumed that it will enable them to accomplish their financial and social objectives. The procedure and framework used to steer and manage the company's operations with the ultimate goal of maximizing long-term shareholder value is known as corporate governance. Its definition centers on how to improve corporate prosperity and accountability. A recognized way to improve board member monitoring and provide insight into company performance is through the makeup of the board and the activities it represents, as seen by the number and quality of board meetings. The method by which a board of directors, along with management, directs an organization in carrying out its corporate goal and safeguards its resources over time is known as corporate governance. Corporate governance is a collection of procedures that influence how an organization is managed, regulated, and directed. These procedures include institutional values, laws, policies, and culture. Financial viability is a result of ethical business activities, which are a result of good corporate governance. Banking and financial institutions (BFIs) are thought to benefit from good corporate governance since it is assumed that it will enable them to accomplish their financial and social. Corporate governance aims at facilitating effective monitoring and efficient control of business. Its essence lies in fairness and transparency in operations and enhanced disclosures for protecting interest of different stakeholders.

This study attempts to examine the effects of corporate governance mechanisms on the potential for bankruptcy in Nepalese commercial banks. This study is based on the secondary data of 13 Nepalese commercial banks, leading to a total of 104 observations.

The major conclusion of this study is that board size has a positive impact on provision for loan loss and non-performing loan. It indicates that higher the board size, higher would be the provision for loan loss and non-performing loan. However, board meetings, female directors, independent directors, audit committee, and capital adequacy ratio have negative impact on provision for loan loss and non-performing loan. It indicates that higher the board meetings, female directors, independent directors, audit committee, and

capital adequacy ratio, lower would be the provision for loan loss and non-performing loan. Likewise, the study concluded that female directors followed by board meetings is the most influencing factor that explains the changes in the provision for loan loss in the context of Nepalese commercial banks. Similarly, the study also concluded that capital adequacy ratio followed by audit committee size is the most influencing factor that explains the changes in the non-performing loan in the context of Nepalese commercial banks.

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