

**THE IMPACT OF CORPORATE GOVERNANCE ON THE DEFAULT RISK OF THE
BANKING INDUSTRY IN PAKISTAN**

By

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Enrollment number: 01-297142-010

A thesis presented to Bahria University, Islamabad in partial fulfillment of the requirements for
the degree of Master in Science

May, 2016

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ACKNOWLEDGEMENTS

All praise is to Allah who has enabled me to undertake and completed this thesis. He has blessed me with the company of people who are unique in their own way and have been of immense help to me throughout this thesis.

I would like to extend my heartiest gratitude to my supervisor Dr. Abdul Sattar for his suggestions, guidance and encouragement. I am also thankful to my university and staff of the management science department, who provided me an opportunity to complete this thesis.

I am also thankful to my parents who gave me support, peace of mind and free me from all my family responsibilities during the research period. I am also thankful to all my friends and teachers who directly or indirectly helped me in carrying out this research.

(Hifza Ajaz)

Dedication

This thesis is dedicated to my parents whose prayers, love support motivated me to accomplish this task and teachers who have been a source of inspiration, knowledge, wisdom and guidance.

ABSTRACT

The several financial crises and other reforms in banking sector of Pakistan have made it compulsory to explore the default risk and governance characteristic of banks in Pakistan. So this thesis has focused on the relationship between corporate governance and the default risk of Commercial Banks in Pakistan. The study has used the sample of 21 Pakistani commercial banks listed on the Karachi stock exchange (KSE-100) over the 10 year period 2005-2014. The agency theory is about the view point that corporate governance characteristics can be the reason of default risk in an organization.

This study has captured the default risk for banks through three measures Merton default risk measure that is the probability of default, cumulative first passage probability of default and Z-score of the firm. The corporate governance (CG) is measured through board size, board composition, insider ownership, institutional ownership and board meeting. This study has also taken total assets of the firms as a control variable. The result of the study shows that increase in board composition and institutional ownership helps in reducing the default risk for the full sample, whereas in large banks sample the board structure variables (board size and board composition) have significant relation and the ownership variable's relationship (institutional ownership and insider ownership) is still unclear. In contrast the results for the sample of medium size banks shows that insider ownership and meeting frequency have a positive relationship where as the institutional ownership have a negative relationship with default risk.

Keywords: default risk, probability of default, corporate governance.

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