Corporate Governance, Profitability and Bank Capitalization Strategies: A Case of Banking Sector in Pakistan

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Abstract: **The purpose of this study is to search out the association between the corporate governance, profitability and capitalization strategies of domestic financial sample of institution in Pakistan.**

This study finds out the relationship between the corporate governance, profitability and capitalization strategies of financial institution in Pakistan. To evaluate results, data is collected from financial statement of schedule banks listed in Pakistan stock exchange. Data is collected from2006- 2018.This study find that corporate governance mechanism which favors the banks shareholder interest as associated with low capitalization strategies. A governance mechanism having the board independence, intermediate board size and CEO duality is considered share holder friendly corporate governance. Board size negatively affect the financial institutions capitalization. Effective board size is also negatively associated with financial institutions capitalization strategies. Corporate governance shift risk from shareholder of banks to debt holder. Low capitalization is favorable to the shareholder. This negative association represents that corporate governance is positively associated with banking sector instability. Corporate governance having disadvantage by increasing the risk of bank. This disadvantage is compensating with benefit that good governance that underperformance of the management has been restricted. CEO compensation negative associated with bank capitalization strategies. Higher risk taking is cases of low capitalization increased compensation of the CEO. Corporate governance code 2012 suggest that the chair of the board and CEO must be different person. Chairman of the board must be nonexecutive director and its role in the board leadership.

The profitability measures show the significant and positive relationship with the capitalization strategies. Some how the some of the capitalization strategies shows the negative and insignificant relationship with the profitability.

Payout decision mean distribution of residual earing to the owner of the financial institution. Payout is very critical in case of income shocks. Corporate governance negatively associated with payout polices of financial institutions. Financial institutions scale back dividend in case of negative income shock. Consequently, it's concluded that good corporate governance favors the shareholder interest by decreasing capitalization strategies and aggressive payout of financial institutions has been restricted.

Keywords:- **Bank capital, corporate governance, dividend payouts, profitability, executive compensation**

I. INTRODUCTION

1.1 Back ground of the study:

The financial sector of every country is life blood of economy. The modern trades and commerce get finance from these financial institutions. The strength of financial institution signifies the strength of economy (Hussain & Bhatti, 2010).The financial sector, possesses insufficient capital that defines the chances of occurs failure (bankruptcy) of the financial institutions according to Demirguc-Kunt, Huizinga, & Ma, 2016).

According to national income upsurge, motivated people to make savings and deposits. When boost the economic growth organizations to acquire and oversee more money effectively facilitate financial sectors. So as compared to market oriented financial system rather than more high effects on growth of banks oriented in financial system. Fase and Abma (2003); (Tadesse, 2002). The economic growth all over the financial institutions development is very crucial. (Andersen & Tarp, 2003).

When insufficient capital in financial institution chances of occurs failure (bankruptcy) of the financial institutions.

Therefore, to finds out the reason of failure in financial sector with the capitalization strategies. However, the financial institutions used two (capitalization strategies) methods. First of all, financial sector describes the amount of capital, shows financial sector then business is going in daily situation. And as a result, positive and covey good impact on the function and progress of stock market, so high capitalization most important thing at time of financial crises.

1.2 Study objective:

study purpose is the financial institutions regulators like rules and regulations and all activities and central bank emphasizes on the requirement of the corporate governance mechanism in financial institution because poor governance enhances, chances of financial crises (Blinder, 2010; Committee, 2010; Kirkpatrick, 2009). The study mainly consisted on the governance four widely used mechanism that are bored size and board independence in addition to CEO compensation or the board size effectiveness and also focuses on the profitability of the banks i.e. ROA and ROE with the

capitalization strategies. this study objective is to determine that the shareholders how much effected by the governance mechanism and also how profitability effected on the strategies of the capitalization in Pakistan.

1. In what ways, the board size influence on the strategies of the capitalization (banks) in Pakistan.
2. In what ways, the board independence impact on the strategies of the capitalization (banks) in Pakistan.
3. In what ways, the board size, effectiveness impact on the strategies of the capitalization (banks) in Pakistan.
4. In what ways, the CEO's and Chairman impact on the strategies of the capitalization (banks) in Pakistan.
5. In what ways, the executive compensation scheme's impact on the strategies of the capitalization (banks) in Pakistan.
6. Implications of the executive compensation scheme and corporate governance on bank payout policies.
7. How profitability measures, impact on the bank capitalization strategies in Pakistan

1.3 Problem statement:

The currently study, on profitability and corporate governance mechanism in banks, with capitalization strategies generally focuses on two major issues.

1. In what way the governance effect on risk taking ex-ante bank.
2. Bank impartiality proceeding by the corporate governance implications during crises.
3. How profitability measures influence on the bank capitalization strategies.

Firstly problem address by the Pathan (2009) discuss about the board size and bank risk relationship, in USA during 1997 to 2004 period and 212 bank holding corporations taken as sample.

In other hand one issue is account that more shareholding CEO and externally director adversely associated with banks failure prospect for the period of 2007 to 2010, (J. Berger and Milkman 2012). Ellul and Yerramilli (2013), try to find and more focus on the association between the control of risk and under banking sector performance. During the work and task achieving Indicates that the performance increases.

1.4 Research Gap:

The research gap of my study is the corporate governance mechanism association with the strategies of capitalization in Pakistan. Also considered the profitability measure with capitalization strategies. The generous studies are conducted on the corporate governance in financial institutions in Pakistan i.e. (Burki & Ahmad, 2010). The profitability measures in what ways it impacted with governance. The governance mechanism with conventional and Islamic banking. (Halkias, Awan & Ahmed, 2013). The ownership

structure and financial liberalization of the finacail sector (Di Patti and Hardy, 2012, Javid and Iqbal, 2010). Capital structure (Ahmed Sheik & wang 2012) but still no one touched or considered the corporate governance, profitability and bank capitalization strategies in Pakistan.

1.5 Significance of the study:

This research gives addition to the current study literature. The study investigates the profitability, corporate governance, and capitalization strategies decision of financial sector in Pakistan. The study describes how they influences on the financial sector comprise the risk-taking behavior with low capital). On the other hand, the profitability relationship with bank capitalization strategies also be explained in terms of empirical results. The sample period of our study is 2006-2018 also added to prior study literature of corporate governance, profitability and bank capitalization. This study helps to determine the relationship of executive compensation schemes by the complementary mechanism analysis of corporate governance, profitability measures (ROA, ROE) on bank capitalization operations in Pakistan. The research provides to current literature on corporate governance and the policies (payout) of the financial institution.

II. LITERATURE REVIEW

2.1 Corporate governance:

Basic definition, Dr. sir Adrian Cadbury the chairman of the committee. Report published in 1992 under the title of "the financial Aspect of corporate governance" related this committee.

According to the Cadbury (1992), "Corporate governance is the system that manages and control the organizations. Boards of directors are liable to control and manage the mechanism of the governance in the institutions. The agency theory is the base of firm's theory, detailed its concepts by the economist Adam Smith (1976) writes the theory agency in this they talk about the persons manages their money beneficiary or not. Many of the authors describes, the agent expecting the formula to guide the beneficial decisions & for those who give to take decision permission.

2.2 Corporate governance and bank regulation:

The function of financial institutions in impacting the progress of governance mechanism, (principles), that are became an important regulatory issue that has received a little bit attention.

The major reasons of the bank activities restricted and the link of banking trade. The number one issue when any bank concerned with activities of underwriting, real estate investment and insurance (John et al., 1994, and Saunders, 1985). The number two extent that the moral hazard motivated to riskier behavior, banks will have many ways to increases the level of risk if give permission to relate with the wider boarder limit of activities (Boyd et al., 1998).). The particular features that rise to governance mechanism were

different from the non-financial firms. First one is financiala leverage and it is 90% possess by the financial institutions. (Berger 7 Bouwmam, 2013; De-Angelo & Stulz, 2015; Esty, 1997, 1998; Hopt, 2013, Macy & o'Hara, 2003). The main capital was provided by the depositors and definitely by the debt holders to financial firms. According to ornall and Strebulaev (2014) the percentage lies between the 87 to 95 of the financial sectors whereas non-financial leverage ratio between the 20 to 30 %. The chance of the failure increases for the financial sector.

So, it is concluded that regulatory plays a very vital role in maintaining the rules and standards. In order to establish the management practices in banks, more reliable, efficient and accountable.

2.3 Board Size:

The board size consists of how many boards of directors were in the board. The larger board size easily solved the agency problem because every director possesses different knowledge so this helpful for the financial sector. (Haji, 2013). Esa and Ghazali, 2012 sates their study on the Malaysian background. The sample period 2005-2007. The results show that corporate governance increases the social responsibility and the size of the board increases than efficiency was reduced, giving the more powers to CEO so they control over the organization.

H1 The larger size of board may be associated to the higher or lower banking capitalization, while the intermediate board size is associated to the lowest banking capitalization.

2.4 CEO chairman Separation:

According to the structure of tier 2 the CEO and chairmanship running by the same person. Fama and Jensen in (1983), discussed and gives the justification about them first. They disclosed and proposed the management decision and giving free hand to compile and execute companies' expensive proposal by monitoring their activities.

If the control of management decision and administrative authorities doing by the same person than it is very difficult for him or her to stay with same kind of positive attitude in order to manages the company affairs. The CEO delegates their power of authority by not giving permission to the board of supervisory authority to take decision So, the control of CEO is not permit by the board.

2.5 Board Independence:

The board of independence is usually considered as the internal corporate mechanism the shareholders is the representations in order to oversee the operations and to support or protect to the interest of the firms. Daily et., al.2003;Hermalin and Wiesbach 2003, the number researcher using the agency theory and their dependency on resource for this many approaches applied to examine association between board independence and firm performance.. According to the Armstrong et al., 2012, suggest that the small and low board

with concern with hire compensation schemes. Li et al (2010) evaluates the influence of mechanism of the governance with related to the listed firms. Its results indicate that the effective directors exert the negative effects. Jiang and Kim (2015). The bank has the opportunity to choose the corporate governance and value of the discretion along with the regulatory framework of every country. It reflects the mixture of the national legal requirement.

H2 banks with more independent boards and with boards not chaired by the CEO have lower capitalization.

2.6 CEO Compensation:

The international sample of banks provides the information on CEO total compensation annually, share ownership and the fair value of options given to the CEO, and this information on the Vega and delta bases for the sample banks of US. The board added value to the firms by performing two special roles. Number one they provide the strategic awareness in areas, where the management is not possesses the expertise. The independent directors maintaining the better association with external environment. Sarkar and Sarkar, 2009).Furthermore, bank capitalization, we noticed how mechanism of corporate governance and CEO compensation different from the bank leaning to linger to establish the payout policies regard with shareholder banks in the system of repurchases share and dividends after experiencing it suffers from the negative income shock. This one is the risky strategy that results to increases in the banking distress. The payout policies may treat as the shareholder interest as it pointed to the lower bank capitalization. Therefore, we postulate the hypothesis that is given below.

H3 while the association among executive compensation and bank capitalization may be unclear, higher risk incentives entrenched in executive compensation should be negatively associated with bank capitalization.

2.7 Corporate Governance and the Payout Policies:

DeAngelo in 2006, defines the optimal policies that prerequisite and allocate firm's for free cash flow. According to him the life cycle, theory is the combination of the Jensen(1986) agency theory.. the payout policies in banking sector, whenever the bank faces the adverse situation. These are related to the decision of the managers that refer to the institution's earning whether how much it is distributed among the stockholder in the form of dividend (Okafor and Mgbame 2011).

H4 corporate governance and executive compensation that are associated with lower bank capitalization are also associated with continued payouts to shareholders subsequent to major negative income shocks.

2.8 Bank capitalization and profitability:

The relationship of the profitability and banking capital has been examined by the number of researchers. According to Ozili (2017), describes that regulatory framework of the bank

capital has a positive influenced on the financial sector. Berger and Bouman (2013), suggested that banking capitalization impact on financial performance of the banks so it will unable to survive.

Lee and Hsieh (2013) describes the profitability and bank positively associated in Asian countries. Barth, Caprio, and Levine (2008) and Berger and Bouwman (2013) make an argue about the influence of capital on bank profitability is not clear yet. Based on the above statements we hypothesized:

H5: bank capitalization strategies had the positive and significant relationship on profitability (performance) of the bank's (Return on Asset, Return on Equity).

III. RESEARCH METHODOLOGY

The population of my study is Financial institutions of Pakistan and 20 listed banks of the Pakistan Stock Exchange (PSX).The aim of this research is to examine the relationship between the governance mechanism, executive compensation and profitability of the banking sector on the payout and capitalization strategies in Pakistan. The size of the sample consists of the listed financial banks in Pakistan stock exchange. The Islamic and conventional bank both were taken. The data were collected from the period 2006 to 2018 of listed bank of financial institutions in Pakistan. The 34 banks in total that are listed on the Pakistan stock exchange. The data were collected from the published reports yearly by these banks. The sample of 20 banks was used in this study. the remaining anomalies were omitted due to data breach or its operating period started after the 2006, due to not upload the latest year annual report of banks and some of them are now amalgamated into another bank.

$CAP_{it} = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 LogA_{it-1} + \beta_6 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it}$

$TIER = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 LogA_{it-1} + \beta_6 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon it _____1$

$TC = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 LogA_{it-1} + \beta_6 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____2$

$CER = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 LogA_{it-1} + \beta_6 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____3$

$TCR = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 LogA_{it-1} + \beta_6 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____4$

$MV = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 LogA_{it-1} + \beta_6 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____5$

In this above equation CAP stands for (capitalization strategies), BS board size, assets (log of assets), BI board independence, ROA (return on assets), BSE board size effectiveness, OS ownership concentration.

$CAP_{it} = \alpha + REM_{it-1} + \beta_2 LogA_{it-1} + \beta_3 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it}$

$TR = \alpha + REM_{it-1} + \beta_2 LogA_{it-1} + \beta_3 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____1$

$TC = \alpha + REM_{it-1} + \beta_2 LogA_{it-1} + \beta_3 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____2$

$TER = \alpha + REM_{it-1} + \beta_2 LogA_{it-1} + \beta_3 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____3$

$TCR = \alpha + REM_{it-1} + \beta_2 LogA_{it-1} + \beta_3 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____4$

$MV = \alpha + REM_{it-1} + \beta_2 LogA_{it-1} + \beta_3 ROA_{it-1} + \beta_7 OS_{it-1} + \varepsilon_{it} _____5$

Above mentioned equation CAP stands for capital strategies, Total compensation of the CEO (REM), Assets (log of assets), ROA (Return on Asset), OS (ownership concentration).

$Payout = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 REM_{it} + \beta_6 IC_{it} + +\varepsilon_{it}$

$DIV = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 REM_{it} + \beta_6 IC_{it} + +\varepsilon_{it} _____1$

$DR = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 REM_{it} + \beta_6 IC_{it} + +\varepsilon_{it} _____2$

The payout means the banking decision polices to pay the dividends, DR (dividends to total assets), DI dummy of dividends in this case given one to those who paid the dividend otherwise 0.

$DIV = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 REM_{it} + \beta_6 IC_{it} + +\varepsilon it _____3$

$DR = \alpha + \beta_1 BI_{it-1} + \beta_2 CD_{it-1} + \beta_3 BS_{it-1} + \beta_4 BSE_{it-1} + \beta_5 REM_{it} + \beta_6 IC_{it} + +\varepsilon_{it} _____4$

In that above equation is the payout policies which means is to establish to develop the decisions in order to pay the CEO compensation, board independence, board size, income shock and board size effectiveness.

$CAP_{it} = \alpha + \beta_1 ROA_{it-1} \beta_2 ROE_{it-1} + \varepsilon_{it}$

$TR = \alpha + \beta_1 ROA_{it-1} \beta_2 ROE_{it-1} + \varepsilon_{it} _____1$

$TC = \alpha + \beta_1 ROA_{it-1} \beta_2 ROE_{it-1} + \varepsilon_{it} _____2$

$TER = \alpha + \beta_1 ROA_{it-1} \beta_2 ROE_{it-1} + \varepsilon_{it} _____3$

$TCR = \alpha + \beta_1 ROA_{it-1} \beta_2 ROE_{it-1} + \varepsilon_{it} _____4$

$MV = \alpha + \beta_1 ROA_{it-1} \beta_2 ROE_{it-1} + \varepsilon_{it} _____5$

In above mentioned equation is CAP (capital strategies), it develops to find out the impact of the profitability with the capitalization strategies where ROA (Return on Asset) and ROE (Return on Equity) it is widely used measures.

Variables	Abbr.	Definition	Literature reference
Tier 1 capital	TR	$\dfrac{total\ tier\ 1\ capital}{total\ risk\ weighted\ assets}$	Anginer et al, 2016; Bhagat, Bolton, & Lu, 2015; abou-El-Sood, 2015; karim, Hassan &mohammad, 2014
Market value	MV	Common market value of equity/total assets + (equity market value – equity book value)	Bhagat et al, 2015; Anginer et al, 2016
Common equity	TER	$total\ common\ equity / total\ assets$	A.N. Berger, Imbierowicz, & Rauch, 2016; Anginer et al, 2016;
Tangible capital	TCR	$tangible\ common\ equity / tangible\ assets$	Mehran et al, 2011; Chernykh& Cole, 2015; Anginer et al, 2016; Demirguc-Kunt, Detragiache, 2013
Total capital	TR	$\dfrac{(Total\ tier1\ capital +\ tier2\ capital)}{total\ risk\ weigted}$	Chernkh& Cole, 2015; karim et al, 2014; Anginer et al, 2016; Flannery & Giacomini
Board size	BS	The total number of the members present in the financial sector.	Pathan, 2009; Anginer et al, 2016; Belkhair et al 2009; Gill & Mathur, 2011
Board size composition	BSE	The value, high indicates the more effective size of the board. • Board size is equal to 1 if the membership < 6 • Board size is equal to 2 if the membership ≥ 6 or ≤8 Board size is equal to 3 if the membership ≥9 or ≤12	Andres et al, 2005; Anginer et al, 2016; John &Senbet, 1998; Raheja, 2005
Board independence	BI	$\dfrac{non-executive\ directors}{total\ directors}$ $\dfrac{non-executive\ independent\ director}{total\ director}$	Abed et. al., , Suwaidan, &Slimani, 2014; Belkhir, 2009; Goh &Rasli, 2014; Pathan, 2009; Rutledge, Karim, & Lu, 2016; Jaiswall& Bhattacharyya, 2016; Ghosh, 2006.
Chairman director	CD	The logarithm of the total value of annual compensation paid to CEOs	Rutledge, Karim, & Lu, 2016, Abed et. al, 2014; pathan 2009; Belkhir, 2009; Jaiswall& Bhattacharyya, 2016;
Dividend	DI	If the financial institution paid dividend then 1 otherwise 0.	Anginer et al, 2016
Dividend to assets	DR	$\dfrac{dividend}{total\ assets}$	Anginer et al, 2016; Ahmed & Fatima, 2013; Kajola et. al., 2015; Maldajian& El Khoury, 2014
CEO Remuneration	CEO	The Logarithm of the total value of annual compensation paid to CEOs	N. Berger et. al., 2016; Anginer et al, 2016; Bliss & Rosen, 2001
Income shock	IS	If ROA, is less than 20% of the last year return, and it is negative, then the bank is considered as to be suffered, in negative income shock in this condition given 1 otherwise 0.	Anginer et al, 2016
Return on asset	ROA	$\dfrac{net\ income\ before\ tax}{total\ assets}$	Detthamrong, U., Chancharat, N.,&Vithessonthi, C. 2017
Return on equity	ROE	$\dfrac{net\ income\ before\ tax}{total\ equity\ shareholders}$	Detthamrong, U., Chancharat, N.,&Vithessonthi, C. 2017
Return on asset	ROA	$=\dfrac{pretax\ profit}{total\ assets}$	Bhagat et. al., 2015; Anginer et al, 2016; Ho & Hsu, 2010; Berger et. al., 2016;
Asset	Log A	It is the natural logarithm of the total assets.	Ho & Hsu, 2010; N. Berger et. al., 2016; Bhagat et. al., 2015; Anginer et al, 2016;
Ownership concentration	OS	It is dummy variable, gives 1 if any of the one single shareholder possesses 10% or more ownership directly, of the bank in financial sector otherwise zero.	Anginer et al, 2016;

IV. ANALYSIS & DISCUSSIONS

4.1 Descriptive Statistics

Table 4.1

Variable	Obs	Mean	Std. dev.	Min	Max
Market Value	260	0.1323	0.1189	0.0125	0.8351
Tangible Capital	260	0.0946	0.0964	0.0020	0.8895
Common Equity	260	0.0990	0.0845	0.0023	0.5431
Tier 1 Capital	260	0.1428	0.1121	0.0028	0.9713
Total Capital	260	0.1666	0.1015	0.0173	0.6543
board Independence	260	0.2837	0.0422	0.1538	0.3333
Board Size	260	8.65	1.5929	4	13
Board Size Effectiveness	260	2.4692	0.5152	1	3
Non- executive Directors	260	0.6153	0.2066	0	0.9167
CEO Remuneration	260	4.6454	0.4142	2.6599	5.8686
Dividends	260	0.6308	0.4835	0	1
Dividends to Assets	260	0.0113	0.0554	0	0.758
Asset	260	8.4070	0.5377	6.6047	9.6392
Return on Asset	260	0.0110	0.0269	-0.1037	0.2184
Return on Equity	260	0.1567	0.1939	-0.8792	0.5254
Ownership	260	0.55	0.4985	0	1
Income Shock	260	0.1192	0.3247	0	1

We study the influence of corporate governance and executive compensation on five alternative indicators of bank capitalization. Firstly, Tier 1 capital it is the regulatory capital ratio. The tier 1 capital is divided by risk weighted assets and both were computed on the bases of Basel rules. Tier 1 capital comprises perpetual, non-cumulative preferred equity, common equity and it can be considered a measure of funds to which cumulatively added by preferred and common shareholders that can be depleted through losses while the banks continue as a going concern. As shown as in table 4.1, the mean value of Tier 1 capital ratio is 14.28%. In Pakistan, the 7.5% Tier 1 capital is required for banks. Therefore, the mean value of Tier 1 capital in our sample is 14.28% shows that it is greater than the require 7.5% which means that the average Pakistan banks having additional capital to risk-weighted assets ratios as per law requirement.

Next one is Total capital; it is the broader regulatory ratio that constructed as sum of Tier 1 capital and Tier 2 capital divided by risk-weighted assets. The Tier 2 capital comprises subordinated debt, hybrid capital, loan loss reserves, and valuation reserves. However, not only Tier 2 capital can be considered as cushion to secure the banks from insolvency. The average Total capital ratio is 16.66%. It shows that a higher capital ratio is maintained by the average of banks in Pakistan. According to law, the Total capital ratio at least equal to 10%.

Total common equity ratio is a limited measure of bank capitalization. It is constructed as total common equity by total assets.it should be related to the common shareholders, as it shows the capital that common shareholders have at stake. Interest of the common shareholders is important for banks management and board because they have the voting rights. Total equity ratio mean value is 9%, which represent the investment of common share holder in the capital of bank and reaming capital 91 consist of other stakeholder investment into the banks. Total equity ratio is limited measure that's why we also considered the tangible equity ratio (TCR), it is calculated as tangible capital divided by tangible assets (i.e. total assets – non-tangible assets). Tangible capital ratio has mean value of 9%.

Final, indicator of bank capitalization is market value, it is formed as the ratio of market value of bank's common equity to the proxy for market value of a bank's total assets, calculated as the sum of total assets and the market value of common equity subtracted the book value of common equity. The market value average is 13.23%.

We measured the payout ratio with two variable first one is dividend ratio i.e. dummy variable either bank pays dividend or not. The average 63.08% of the banks paid dividend in Pakistan. Second one is dividend to total asset ratio. The dividend, which is returned to shareholders, as compared with the total assets of the company. The mean value is 1.12%. The amount of dividend is very low that are given to the shareholder as compare to assets of the banks.

Now, the corporate governance variables that are related to board size, board size effectiveness and board independence. To begin with the board size, I represent the number of board members. The mean value is 8.65%, this value ranges from 4 to 13. The board size having the effect on the organization decision making process. The board size effectiveness mean value is 2.46% so, its value shows that the board size is usually effective in the banking sector. Low board size does not contest with the concentration of the shareholder nor the high board effective. High board produce the free stipulation problem and also results problems in decision making.

The board independence indicates the outsider percentage of the board of directors that are present in the companies' board, alignment of the management moves with directors as more outsider director more the consent of shareholders. The corporate governance code requisite that $1/3^{rd}$ of the board must be independent in any organization. The average of board independence in Pakistan is 28%.

CEO compensation is the remuneration of the CEO that is annually provided by the companies. On average in the Pakistan every CEO granted with amount 4.64 million rupees.

The profitability measures used (ROA, ROE), the average mean value of the ROA is 1.1% and the gross ROE ratio average value is 15.67. that shows the influence of the profitability on the strategies.

The control bank specific variable that has been already introduced. The number one is the log of the assets in total, their higher value shows the larger financial sectors. The large institutions maintain the low level of the capitalizing policies. The second one is return on assets so that represents that if the banks earns high profit than the ratio of capitalization definitely increased. The last and third one is ownership concentration i.e. the dummy variable if any one single owner possesses 10% ownership gives 1 otherwise 0. It is related to low strategies of capitalization.

4.3 Correlation table

	mv	Tcr	Ter	tr	tc	bi	bs	bse	rem	Div	dr	size	roa	roe	os	inshok
mv	1															
tcr	0.5593*	1														
Ter	0.5844*	0.8359*	1													
Tr	0.4181*	0.5579*	0.6357*	1												
Tc	0.4335*	0.5475*	0.6121*	0.9538*	1											
Bi	0.0684	0.0198	0.0678	0.117	0.1079	1										
Bs	-0.055	-0.039	-0.0984	-0.0441	-0.0193	-0.2671*	1									
Bse	0.0658	-0.0112	-0.0117	0.0612	0.0693	0.6725*	0.4973*	1								
Rem	-0.1115	-0.067	-0.0536	-0.1660*	-0.1398*	-0.0028	0.02	-0.0428	1							
Div	0.0093	-0.2207*	-0.2572*	-0.2838*	-0.2187*	-0.1058	0.2276*	0.0472	0.1978*	1						
Dr	0.2885*	0.4072*	0.0302	-0.0247	-0.0175	-0.0533	-0.098	-0.1318*	0.1008	0.1570*	1					
Size	-0.3422*	-0.4553*	0.5092*	0.4985*	-0.4345*	-0.108	0.1940*	-0.0005	0.3550*	0.6869*	0.013	1				
Roa	0.2011*	0.2312*	-0.0081	-0.1194	-0.0722	-0.1364*	0.1683*	-0.0282	0.1285*	0.4342*	0.4383*	0.3618*	1			
Roe	-0.055	-0.1605*	-0.2197*	-0.1787*	-0.1364*	-0.078	0.2942*	0.0621	0.1374*	0.5274*	0.0598	0.5077*	0.6209*	1		
Os	-0.1588*	-0.0153	-0.0059	0.0202	0.0301	0.0259	0.117	0.0887	-0.2655*	-0.3236*	-0.018	-0.2324*	-0.2269*	-0.1163	1	
Inshok	0.1742*	0.2952*	0.3539*	0.3641*	0.3340*	0.0957	-0.1206	0.0105	-0.1545*	-0.4071*	-0.0355	-0.5004*	-0.5800*	-0.4772*	0.1658*	1

In this table we show the pairwise correlation at 5% standard error in parenthese. In this table there is the problem of multicolinerity in two variable and these are my dependent variable so that's why it is fine because we should not run into one equation. Tier 1 ratio and total capital ratio has 0.95 percent. According to the (Kennedy, 1985)If the value is higher than .08) or According to Tabachnick and Fidell, (1996) greater than 0.9 then it will be the alarming problem.

4.4 Description board Independence

We describe the relationship of the board independence with the banking strategies of capitalization. we shows the results in this table which means that the independent variable board independence, bank specific variables, (ROA, Asset & ownership concentration) regressed on dependent variables (market value, tier 1 capital, tangible capital, common equity and total capital)

Table 4.4

		Market Value (1)	Tangible Capital (2)	Common Equity (3)	Tier 1 Capital (4)	Total Capital (5)
Board Independence	Coefficient	-0.5167***	-0.3925***	-0.2201	-0.3059	-0.2491
	Std. Error	0.1539	0.1524	0.1441	0.1679	0.1538
Size	Coefficient	-0.2305***	-0.1556***	-0.1283***	-0.1262***	-0.0980***
	Std. Error	0.0144	0.0143	0.0135	0.0157	0.0144
ROA	Coefficient	1.1841***	1.6984***	0.6202***	0.0544	0.1511
	Std. Error	0.1976	0.1956	0.1850	0.2155	0.1974
Ownership	Coefficient	0.0508*	0.0269	0.0227	-0.0102	-0.0135
	Std. Error	0.0299	0.0296	0.0280	0.0326	0.0299
_cons	Coefficient	2.1742***	1.4796***	1.2203***	1.2951***	1.0659***
	Std. Error	0.1395	0.1381	0.1306	0.1522	0.1394
	R Square	0.684	0.529	0.452	0.578	0.568
	BPLM	0	0	0	0	0
	Hausman test	0	0.0005	0.0584	0.7627	0.7907

Interpretation:

In this table, we regressed Equity of Market value (MV),Tangible Capital (TCR), Common equity (TER), Tier 1 Capital (TR), and total capital (TC) variable of the banking capitalizing strategies on the corporate governance variable compensation along with specific control variables (ROA, Assets, & Ownership Concentration). In above regression model, con_ means constant that is (Equity of Market value, Tangible Capital,Common equity, Tier 1 Capital, and total capital). And standard errors mean's the deviation of the estimated variable mean value from their actual. The coefficient shows the change or slope of the variables with the significant level. The level of significance shows by steric(***P<0.01, **P < 0.05, *P < 0.10). The regression model of Equity of Market value,all variable is significant and positive association with the market value at 1%. Except size shows negative but significant relation. The OS ownership concentration shows significant association at 10%. we regressed tangible capital(TCR), all variable is significant and

positive association with the TCR. Ownership concentration shows insignificant relationship with TCR. In TER model, all variable is significant and positive association with the TER while size shows negative. OS and BI shows positive but insignificant association.The TR, all variable is insignificant association with the TR while size shows negative. insignificant association. size and TR are significant. The regression model of the TC, all variable is insignificant with the TC. Size and TC show significant association. The first hypothesis is rejected according to the results of all above table.

4.5 Description of board size effectiveness:

We describe the relationship of the board size effectiveness with the banking strategies of capitalization. we show the results in table which means that the independent variable board size effectiveness, bank specific variables, (ROA, Asset & ownership concentration) regressed on dependent variables (market value, tier 1 capital, tangible capital, common equity and total capital)

Table 4.5

		Market Value (1)	Tangible Capital (2)	Common Equity (3)	Tier 1 Capital (4)	Total Capital (5)
Board Size Effectiveness	Coefficient	-0.0056	-0.0028	0.0061	0.0038	-0.0033
	Std. Error	0.0138	0.0135	0.0104	0.0139	0.0136
Asset	Coefficient	-0.2182***	-0.1463***	-0.1064***	-0.1166***	-0.0920***
	Std. Error	0.0143	0.0140	0.0106	0.0142	0.0140
ROA	Coefficient	1.1923***	1.7047***	0.6326***	0.0826	0.1551
	Std. Error	0.2022	0.1983	0.1770	0.2136	0.1985
Ownership	Coefficient	0.0551**	0.0301	-0.0136	-0.0166	-0.0114
	Std. Error	0.0306	0.0300	0.0137	0.0234	0.0300

_cons	Coefficient	1.9369***	1.2958***	0.9785***	1.1222***	0.9530***
	Std. Error	0.1250	0.1226	0.0933	0.1256	0.1227
	R Square	**0.670**	**0.516**	**0.288**	**0.213**	**0.563**
	BPLM	**0.0000**	**0.000**	**0.0000**	**0.000**	**0.000**
	Hausman test	**0.0000**	**0.000**	**0.0725**	**0.000**	**0.000**

Interpretation:

In this table, we regressed Equity of Market value (MV),Tangible Capital (TCR), Common equity (TER), Tier 1 Capital (TR), and total capital (TC) variable of the banking capitalizing strategies on the corporate governance variable compensation along with specific control variables (ROA, Assets, & Ownership Concentration). In above regression model, con_ means constant that is (Equity of Market value, Tangible Capital,Common equity, Tier 1 Capital, and total capital). And standard errors mean's the deviation of the estimated variable mean value from their actual. The coefficient shows the change or slope of the variables with the significant level. The level of significance shows by steric(***$P<0.01$, **$P < 0.05$, *$P < 0.10$). The regression model of Equity of Market value, it shows that all results are significant except board size effectiveness and in this ownership concentration significant at the 10%. And ownership with the market value represents that ownership concentration increases capitalization strategies decreases.In TCR model, all variable is insignificant and positive association with the TCR. Board size effectiveness, size and tangible capital shows significant relationship.The regression model of TER, all variable is significant and positive association with the TER while size shows negative. OS and BSE show's positive but insignificant association.The regression model of the TR, all variable is insignificant association with the TR while size shows negative. insignificant association. size and TR are significant.The regression model of TC, all variable is insignificant and negative association with the TER while ROA shows positive. Size and TC show positive but significant association. Our board size effectiveness results concluded that our hypothesis is accepted under the Pakistan's background.

4.6 Description of board size:

We describe the relationship of the board size with the banking strategies of capitalization. we shows the results in table which means that the independent variable board size, bank specific variables, (ROA, Asset & ownership concentration) regressed on dependent variables (market value, tier 1 capital, tangible capital, common equity and total capital).

Table 4.6

		Market Value (1)	Tangible Capital (2)	Common Equity (3)	Tier 1 Capital (4)	Total Capital (5)
Board Size	Coefficient	-0.0004	0.00954*	0.00988**	0.00536	0.00389
	Std. Error	0.0057	0.00555	0.00519	0.00542	0.0050
Size	Coefficient	-0.2180***	-0.1509	-0.1278***	-0.1194***	-0.0932***
	Std. Error	0.0145	0.0142	0.0133	0.0144	0.0133
ROA	Coefficient	1.1911***	1.7331	0.6532***	0.0902	0.1806
	Std. Error	0.2029	0.1978	0.1851	0.2135	0.1959
Ownership	Coefficient	0.0548**	0.0291	0.0235	-0.0179	-0.0141
	Std. Error	0.0306	0.0298	0.0279	0.0236	0.0223
_cons	Coefficient	1.9253***	1.2455***	1.0682***	1.1094***	0.9226****
	Std. Error	0.1234	0.1203	0.1126	0.1234	0.1140
	R Square	**0.669**	**0.522**	**0.455**	**0.215**	**0.165**
	BPLM	**0.0000**	**0.0000**	**0.0000**	**0.0000**	**0.0000**
	Hausman test	**0.0000**	**0.004**	**0.0000**	**0.988**	**0.998**

Interpretation:

In this table, we regressed Equity of Market value (MV),Tangible Capital (TCR), Common equity (TER), Tier 1 Capital (TR), and total capital (TC) variable of the banking capitalizing strategies on the corporate governance variable compensation along with specific control variables (ROA, Assets, & Ownership Concentration). In above regression model, con_ means constant that is (Equity of Market value,

Tangible Capital,Common equity, Tier 1 Capital, and total capital). And standard errors mean's the deviation of the estimated variable mean value from their actual. The coefficient shows the change or slope of the variables with the significant level. The level of significance shows by steric(***P<0.01, **P < 0.05, *P < 0.10). The regression model of Equity of Market value, all variable is significant and positive association with the market value at 1%. Except size shows negative but significant relation. The OS ownership concentration shows significant association at 5%. Board size shows insignificant relationship with market value. The TC model shows, all variable is insignificant and positive association with the TC. Board size and tangible capital shows significant relationship with market value. TER shows significant and positive association with the TER while size shows negative. OS shows positive but insignificant

association. TR , all variable is significant association with the TR while size shows negative. insignificant association. size and TR are significant. The regression model of the TC, all variable is insignificant and positive association with the TC while size shows negative. Size and TC show positive but significant association. All the above results it is concluded that, we accept the hypothesis on Pakistan data results.

4.7 Description of Remuneration

We describe the relationship of the remuneration with the banking strategies of capitalization. we shows the results in table, which means that the independent variable remuneration, bank specific variables, (ROA, Asset & ownership concentration) regressed on dependent variables (market value, tier 1 capital, tangible capital, common equity and total capital).

Table 4.7

		Market Value (1)	Tangible Capital (2)	Common Equity (3)	Tier 1 Capital (4)	Total Capital (5)
Remuneration	**Coefficient**	0.0200	0.0326**	0.0261**	-0.0015	0.0121
	Std. Error	0.0156	0.0152	0.0127	0.0161	0.0148
Size	**Coefficient**	-0.2251***	-0.1576***	-0.1136***	-0.1162***	-0.0952***
	Std. Error	0.0152	0.0148	0.0111	0.0152	0.0140
ROA	**Coefficient**	1.1757***	1.6776***	0.6264***	0.0828	0.1662
	Std. Error	0.2019	0.1968	0.1759	0.2139	0.1957
Ownership	**Coefficient**	0.0529*	0.0268	-0.0104	-0.0163	-0.0128
	Std. Error	0.0305	0.0297	0.0136	0.0236	0.0222
_cons	**Coefficient**	1.8901***	1.2348***	0.9313***	1.1344***	0.9164***
	Std. Error	0.1230	0.1199	0.0937	0.1253	0.1154
	R Square	**0.672**	**0.525**	**0.299**	**0.212**	**0.165**
	BPLM	**0**	**0**	**0**	**0**	**0**
	Hausman test	**0**	**0**	**0**	**0**	**0.0658**

Interpretation:

In this table, we regressed Equity of Market value (MV),Tangible Capital (TCR), Common equity (TER), Tier 1 Capital (TR), and total capital (TC) variable of the banking capitalizing strategies on the corporate governance variable compensation along with specific control variables (ROA, Assets, & Ownership Concentration). In above regression model, con_ means constant that is (Equity of Market value, Tangible Capital,Common equity, Tier 1 Capital, and total capital). And standard errors mean's the deviation of the estimated variable mean value from their actual. The coefficient shows the change or slope of the variables with the significant level. The level of significance shows by steric(***P<0.01, **P < 0.05, *P < 0.10). The regression model of Equity of Market value, all variable is significant and positive association with the Common equity at 1%. Except size shows negative but significant relation. The OS ownership

concentration shows significant association at 10%. remuneration shows insignificant relationship with compensation.Tangible Capital (TCR) results, all variable is significant and positive association with the Common equity at 1%. Except size shows negative but significant. The remuneration shows significant association at 5%. OS ownership concentration shows insignificant relationship with compensation. Common equity (TER),all variable is significant association with the Common equity at 1%. The remuneration shows significant association at 10%. OS ownership concentration shows insignificant relationship with compensation. Tier 1 Capital (TR), all variable is insignificant association with the total capital but only the explanatory variable size and dependent variable Tier 1 Capital shows the significant impact at 1%. Total capital (TC) all variable is insignificant association with the total capital but only the explanatory variable size and dependent

variable total capital shows the significant impact at 1%. The results concluded that our fourth hypothesis is accepted on the Pakistan data results.

4.8 Description of profitability

We describe the relationship of the profitability with the banking strategies of capitalization. we shows the results in this table which means that the independent variable profitability, bank specific variables, (ROA, Asset & ownership concentration) regressed on dependent variables (market value, tier 1 capital, tangible capital, common equity and total capital).

Table 4.8

		Market Value (1)	Tangible Capital (2)	Common Equity (3)	Tier 1 Capital (4)	Total Capital (5)
ROA	**Coefficient**	1.0467***	1.6108***	0.5452***	0.0004***	0.1126***
	Std. Error	0.2827	0.2375	0.2156	0.2407	0.2138
_cons	**Coefficient**	0.1208***	0.0769***	0.0930***	0.1428***	0.1653***
	Std. Error	0.0070	0.0059	0.0053	0.0059	0.0053
	R Square	**0.340**	**0.292**	**0.240**	**0.462**	**0.482**
	BPLM	**0**	**0.0007**	**0.002**	**0**	**0**
	Hausman test	**0**	**0.0341**	**0.0017**	**0.0898**	**0.205**

Interpretation:

The results show's that when run the regression, the relationship of profitability ROA of the profitability shows the positive and significant association with the capitalization strategies. . The level of significance shows by steric(***P<0.01, **P < 0.05, *P < 0.10). The equity of market value shows the positive and significant relationship with ROA. The results show's that when run the regression, the relationship of profitability ROA shows positive and significant relationship with TCR. In TER model, ROA has positive and significant association with the TER. ROA has negative and insignificant association with TR. The TC, the relationship of profitability with the capitalization strategies is positive but significant relationship with total capital. All above related its, proves that our null hypothesis is accepted on Pakistani backgrounds.

Table 4.9

		Market Value (1)	Tangible Capital (2)	Common Equity (3)	Tier 1 Capital (4)	Total Capital (5)
ROE	**Coefficient**	0.0705	-0.0123*	0.0133*	0.0351*	0.0375*
	Std. Error	0.0488	0.0437	0.0368	0.0406	0.0360
_cons	**Coefficient**	0.1213***	0.0965***	0.0969***	0.1373***	0.1607***
	Std. Error	0.0100	0.0089	0.0075	0.0083	0.0073
	R Square	**0.309**	**0.156**	**0.220**	**0.464**	**0.484**
	BPLM	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
	Hausman test	**0.000**	**0.03**	**0.000**	**0.08**	**0.2**

Interpretation:

The results show's that when run the regression, the relationship of profitability (ROE) with the capitalization strategies, is positive but insignificant relationship with equity of market value. The level of significance shows by steric(***P<0.01, **P < 0.05, *P < 0.10). The results show's that when run the regression, the relationship of profitability (ROE) with the capitalization strategies is negative but significant relationship with Tangible Capital. It is significant on 10%. The results show's that when run the regression, the relationship of profitability (ROE) with the capitalization strategies is negative but insignificant relationship with common equity The results show's that when run the regression, the relationship of profitability (ROE) with the capitalization strategies is positive but significant relationship with Tier 1 Capital The results show's that when run the regression, the relationship of profitability with the capitalization strategies is positive but significant relationship

with total capital. All above related models proves that our null hypothesis is accepted on Pakistani backgrounds.

4.10 Financial payout policies to stockholder's

In this section we evaluate the impact of the corporate governance, CEO compensation on the decision . The payout policies in banking sector, whenever the bank faces the adverse situation. These are related to the decision of the managers that refer to the institution's earning whether how much it is distributed among the stockholder in the form of dividend (Okafor and Mgbame 2011). According to the Wool Ridge 1982, it is the portion of profit (dividend) that is distribute to the stockholders of any firm. There are used dummy variable(dividend) and dividend to assets ratio, if the coefficient value positive than its considered that firm decision is paid otherwise the payout strategies is risky. The description of their result describes in the different table panels.

Table 4.10

Panel A

BSE		DI	DR
Inshock	Coefficient	-1.844***	-0.173***
	Std. Error	0.3234	0.0434
BSE	Coefficient	0.1521	-0.077***
	Std. Error	0.1638	0.025
Inshock* BSE	Coefficient	-0.6995***	-0.071***
	Std. Error	0.1268	0.0179
	R Square	0.1315	

Interpretation:

In above table, shows the relationship of the bank payout with the governance mechanism. Board size, effectiveness represents the significant and negative relationship with payouts. The level of significance shows at 1% are in *** parentheses. Hence, Banks having effective board size does not pay dividend to stockholders when suffered from negative income shock.

Panel B

		DI	DR
Inshock	Coefficient	-1.8078***	-0.165***
	Std. Error	0.3225	0.0443
BI	Coefficient	-2.4255	-0.841**
	Std. Error	2.07	0.3337
Inshock* BI	Coefficient	-6.1711***	-0.609***
	Std. Error	1.0951	0.1533
	R Square	0.133	

Interpretation:

In above table, shows the relationship of the bank payout with the governance mechanism. Board independence has the negative and significant relationship with payouts. It is provided in parentheses ***, and ** shows significance at 1% and 5%, respectively.

Panel C

		DI	DR
Inshock	Coefficient	-1.7737***	-0.1852***
	Std. Error	0.32512	0.04511
BS	Coefficient	0.18994***	-0.0085
	Std. Error	0.0598	0.00784
Inshock* BS	Coefficient	-0.219***	-0.022***
	Std. Error	0.03897	0.0054
	R Square	**0.16071**	

Interpretation:

The payout polices regressed on the board size, that represents the positive and significant relationship with payouts. It is significant at 1%. The sector (financial) in negative income shock even continuous to pay and the dividend is backed by the small firm size in case, suffers from the negative income shocks.

Panel D

		DI	DR
Inshock	Coefficient	-1.7963***	-0.1823***
	Std. Error	0.33064	0.04681
REM	Coefficient	0.48744**	0.08077**
	Std. Error	0.20116	0.03215
Inshock* REM	Coefficient	-0.3905***	-0.0352***
	Std. Error	0.06899	0.00944
	R Square	**0.146**	

Interpretation:

The regression run to search out the relationship between remuneration of the CEO and the bank payouts. CEO compensation variable is regressed on bank payout polices.CEO compensation shows positiveand significant relationship with corporate payouts. The *, **, and *** are provided in parentheses it shows the significance at 10%, 5% and 1%, respectively. In this situation, continuous to pay even in the negative income shocks by Financial institutions.

V. CONCLUSION AND FUTURE RECOMMENDATION

The primary purpose of the financial institution is to do the maximization of the wealth of stakeholders. The decision of payouts and financing are very essential in order to achieve the goals. Equity or debt is the source of assets it relates to the financing decisions. The distribution of profit related to the payout, it is provided by the banks to shareholders or gaining of the capital is given to the stockholder by the scheme of reinvesting the earning into the assets of the banks. The price of the stock when appreciated, in this situation when sell these stocks then received the capital gains. According to the empirical results and findings involved one and only payouts and capitalization decisions along with governance mechanism. In few decade's the demand of good and effective governance system is increased. This is because to support or protect the stockholder and put the control over through in the time of financial collapse in the countries who are developed. The collapse of financial influenced the economy. So, the platform related to stock exchange and financial markets in Pakistan has been introduced. All the listed firms must follow the code compliance of 2002 of the corporate governance. The study searches out the relationship of the corporate governance. The profitability with capitalization strategies of banks. The secondary data used to postulate our results. We collect our data from the scheduled banks through their annual

reports, these banks are listed on the Pakistan stock exchange. The sample period is from the 2006-2018. The results show that the governance favors the stockholders (banks) interest that related with low capitalization strategies. The governance involved board size effectiveness, board independence, CEO duality a compensation which taken as the friendly shareholder and corporate governance, it moves the risk from the stockholders towards the debt holder. The board size and board independent shows the negative associations with the financial institution therefore, low capital is in favor of stockholder. This shows the governance associated positively with instability of the banks. The demerit of governance is it increases the bank risk. This demerit restricted to the governance in order to outperform under management. The low capital increase when it is taking the high risk that effected on CEO. According to 2012 of the governance compliances recommended CEO and the chairman/ chairperson must be different. The non-executive directors of the board must be chairman and play role in the board leadership. The profitability measure shows that it also impacts on the capitalization policies. The profitability increases and shows positive and significant association with the strategies of the capitalization.

In financial institution the payout decision defined as " it is the residual earning that are distributed among the owner of the firm". In case of income shock the payout becomes very critical. Corporate governance associated negatively with payout on the financial institution. It backs the dividend when they suffered from negative income shock. So, it is summed up with that better corporate governance, favor and protect to the stockholder results in decreases the capital strategy and payout restricted by the financial institution. The profitability also related to the capitalization strategies if higher the profit than it is impacted good on banking capitalization and wise versa.

It is recommended to must consider the other variables of the governance, board characteristics and the other proxies of the profit that whether it is impacting on the capitalization. Last one, the index of corporate governance shall be prepared in order to search out the influences and association with the banking capitalization strategies.

5.2 Limitations of the study

The limitation of our research given below:

- It only covers the listed schedule bank of Pakistan. It is the developing country.
- The sample of our study considered only the listed bank, not the private banks, specialized and foreign banks.
- The research was conducted on only four variables of the governance with capitalization (Board size, board size effectiveness, board independence, CEO) and other important variables. (Board committee, corporate ethics, audit committee and also impact on bank capitalization.

- The profitability measures ROA, ROE only be considered to evaluate the impact on capitalization banks. So, the must related to other main proxies like EPS etc.
- The research we conducted on a few characteristics of the board. (Board independence, board size, board size effectiveness and CEO). Also, research considered the age, education, gender character, tenure of directorship it may also explore the relationship.

Therefore, the above, mentioned limitations, the worth of our research is not neglected and compromised. The study puts addition to the current literatures, especially in the field of corporate governance and banking capitalization.

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APPENDIX

Banks for sampling

BANK NAME	BRANCHES
1.ALLIED BANK LIMITED	1,048
2.ASKARI BANK LIMITED	391
3.BANK AL-HABIB LIMITED	630
4.BANK ALFALAH LIMITED	420
5. BANK ISLAMI PAKISTAN LIMITED	176
6.The BANK OF KHYBER LIMITED	131
7.The BANK OF PUNJAB	405
8. Faysal Bank LIMITED	281
9.HABIB BANK LIMITED	1,663
10.HABIBMETROPOLITANBAN LIMITED	237
11.JS BANKLIMITED	243
12. MCB BANKLIMITED	1,247
13 MEEZAN BANK LIMITED	551
14. NATIONAL BANK OF PAKISTAN	1,406
15. SAMBA Bank LIMITED	34
16. SONERI BANK LIMITED	266
17. STANDARD CHARTERED BANK (PAKISTAN) LIMITED	101
18. SUMMIT BANK	193
19. UNITED Bank LIMITED	1,311
20. SILK BANK LIMITED	88