



# WORKING PAPER SERIES

223, 2022

## **Foreign Bank Assets and Presence on Banking Stability in Africa: Does Strong and Weak Corporate Governance Systems under different Regulatory Regimes Matter?**

**Forthcoming:** Journal of Financial Economic Policy

**Baah Aye Kusi**

Department of Banking and Finance  
Central University  
&  
Department of Finance  
University of Ghana Business School

**Elikplimi Agbloyor**

Department of Finance  
University of Ghana Business School

**Simplice Asongu**

African Governance and Development Institute,  
Cameroon

**Joshua Yindenaba Abor**

Department of Finance  
University of Ghana Business School



## **Abstract**

This study examines the effect of foreign bank assets and their presence on banking stability in the economies with strong and weak country-level corporate governance in Africa between 2006 and 2015. The study employs the Prais-Winsten panel data model on 86 banks in about 30 African economies. The result of the findings shows that foreign bank presence and assets promote banking stability. However, the positive effect of foreign bank assets and presence is enhanced in economies with strong country-level corporate governance. In contrast, the positive effect of foreign bank assets and presence is weakened in economies with weak country-level corporate governance. After introducing different regulatory variables (regimes), it is observed that the enhancing effect of foreign bank presence and assets on banking stability in the full sample economies with strong and weak country level corporate governance systems is deepened or improved under the loan loss provision regulation regime. However, under the private and public sector-led financial transparency regulations, the reducing effect of foreign bank presence and assets on banking stability in economies with weak corporate governance systems is further dampened. These findings show that the relationship between foreign bank presence and assets is deeply shaped by corporate governance systems and regulatory regimes in Africa. Hence, policymakers must build strong corporate governance and sound regulatory regimes to enhance how foreign bank operations promote banking stability.

**Keywords:** Stability; Foreign banks; Regulation, Corporate governance; Africa

**JEL Codes:** G0; G2; G3

## **Introduction**

Existent literature advance that foreign bank operations (assets and presence) have implications for banking operations and activities. For instance, prior studies show that foreign bank assets and presence serve as diversification mechanism and aids the introduction of new sophisticated innovations that translate into enhanced competition and banking stability (Lee and Hsieh, 2014; Vogel and Winkler, 2012; 2010; Hass and Lelyveld, 2006; Hull, 2002). Specifically, Crystal, Dages and Goldberg (2002) report that foreign banks have a more aggressive response to dealing with deteriorating assets and greater risk absorption capacity which promotes stability in the banking system of Latin America. Interestingly, existent literature on foreign banks in developing economies has focused mainly on how foreign bank assets and presence influence banking efficiency and competition (Hass and Lelyveld, 2006; Claessens, Demirguc-Kunt and Huizinga, 2001; Berger, DeYoung, Genav and Udell, 2000b) with these studies mainly studying the “global advantage and home-field advantage hypothesis.” While the “global advantage hypothesis” advance that foreign banks generally have competitive benefits relative to their domestic counterparts, “home field advantage hypothesis” states that domestic banks have more insights into and knowledge on the dynamisms in the local markets which creates some benefits for them. However, the effect of foreign bank assets and presence on banking stability in Africa is limited (see Motelle and Biekpe, 2015; Vogel and Winkler, 2010) and yet to be studied.

Moreover, prior studies shows that weak corporate governance and laxity in supervision and regulations contributed to the 2007-2009 global financial instability (Jagannathan, Kapoor and Schaumburg, 2013; Mazumder and Ahmed, 2010; Poole, 2010; Crotty, 2009; Carmassi, Gros and Micossi, 2009), it is clear that corporate governance and regulations help shape banking stability and its related factors. For instance, prior studies (Tunay and Yuksel, 2017) shows that the strong country-level corporate governance and tight regulations influence the operations of foreign banks in developing economies. The argument is that a strong country-level corporate governance system tames political interventions

and increases transparency (Tunay and Yuksel, 2017; Ho, Lin and Tsai, 2015) which are all recipes for promoting the effect of foreign bank assets and presence on banking stability. Additionally, corporate governance systems tend to protect the interest of foreign investors (foreign bank investors) and boost investor confidence (Appiah-Kubi, Mansoor, Zaganjori, Sahataqija and Malec, 2020; Shapiro, Tang, Yang and Zhang, 2013; Globerman, Shapiro and Tang, 2006; Jones and Pollitti, 2004), and hence leads to improved banking stability. While these arguments are intuitively sound and empirically tested in Europe, America and Asia, empirical evidence on the existence of such interrelationship among foreign bank assets and presence, corporate governance and regulations on banking stability is yet to be studied in Africa.

From the above, it is clear that the interrelationship among foreign bank activities (assets and presence), corporate governance and regulations on banking stability is supported by empirical and intuitive reasoning, yet studies that investigate these interrelationships are non-existent especially in Africa. It is against this background that this study attempts to provide evidence on how foreign bank assets and presence affect banking stability in strong and weak country-level corporate governance systems under different regulatory regimes because different regulatory variables (regimes) may yield different outcomes (see Leuz and Wysocki, 2016; Edwards and Waverman, 2006). There are three main or key contributions to the best of author's knowledge in relation to the extant literature and contributions include; (i) provide evidence on how foreign banks assets and presence affect banking stability in Africa for the first time; (ii) assess evidence on the effect of foreign bank assets and presence on banking stability in strong and weak country-level corporate governance economies in Africa for the first time and (iii) examine evidence on how different regulatory regimes (variables) influence this interrelationship among foreign bank assets and presence and corporate governance on banking stability in Africa for the first time. The rest of the paper is organized into: an overview of banking stability, regulations, foreign banks and corporate governance in Africa, a literature

review, methodology, empirical results and conclusions and policy implications.

### **Overview of Banking Stability, Regulations, foreign banks (assets and presence) and corporate governance in Africa**

This section presents an overview on the key variables used in this study. From Table 1, yearly trends in banking stability (Z-Score), foreign bank assets (FBA), foreign bank presence (FBP), private sector-led transparency regulation (PrSLFTR), public sector-led transparency regulation (PuSLFTR), loan loss provision regulation (LLPR), country-level corporate governance (CLCG), shareholder suit index (ESHS), extent of director liability index (ExDL), extent of disclosure (ExD), strength of investor protection (SIP) and extent of business disclosure (ExBD) in Africa. Banking stability is represented with z-score which indicates a bank's distance away from experiencing financial distress. In terms of corporate governance, this study follows prior studies (Appiah-Kubi et al., 2020; Hillier, Pindado, Queiroz and Torre, 2011) that employed five country-level corporate governance structure indexes obtained from Doing Business Database while regulations are measured using loan loss provision, private and public sector-led financial transparency regulations. Financial transparency regulation is measured as the percentage of adult population who have their credit information mandatorily stored and shared among lenders through private (private credit bureaus (PrSLFTR) and public (public credit registries (PuSLFTR)) information sharing institutions. Also, the average country level corporate governance (CLCG) is reported and computed as the year average of all the five corporate governance indicators and higher values of corporate governance indicators are preferred. All the country level corporate governance indexes are scaled over 10 with the exception of SIP which is scaled over 25.

**Table 1: Trends in Banking Stability, Foreign Bank Assets, Presence, Financial Sector Transparency Regulation and Corporate Governance in Africa**

<b>Years</b>	<b>Z-Score</b>	<b>FBA</b>	<b>FBP</b>	<b>PrSLFTR</b>	<b>PuSLFTR</b>	<b>LLPR</b>	<b>CLCG</b>	<b>ESHS</b>	<b>ExDL</b>	<b>ExD</b>	<b>SIP</b>	<b>ExBD</b>
2006	13.46	40.76	38.53	19.70	2.42	6.45	7.70	6.44	5.13	5.13	16.69	5.13
2007	13.94	41.71	37.86	20.24	2.81	4.57	7.49	6.21	4.91	5.07	16.18	5.07
2008	13.76	41.08	40.58	20.05	3.99	5.14	7.45	6.33	5.22	4.71	16.32	4.69

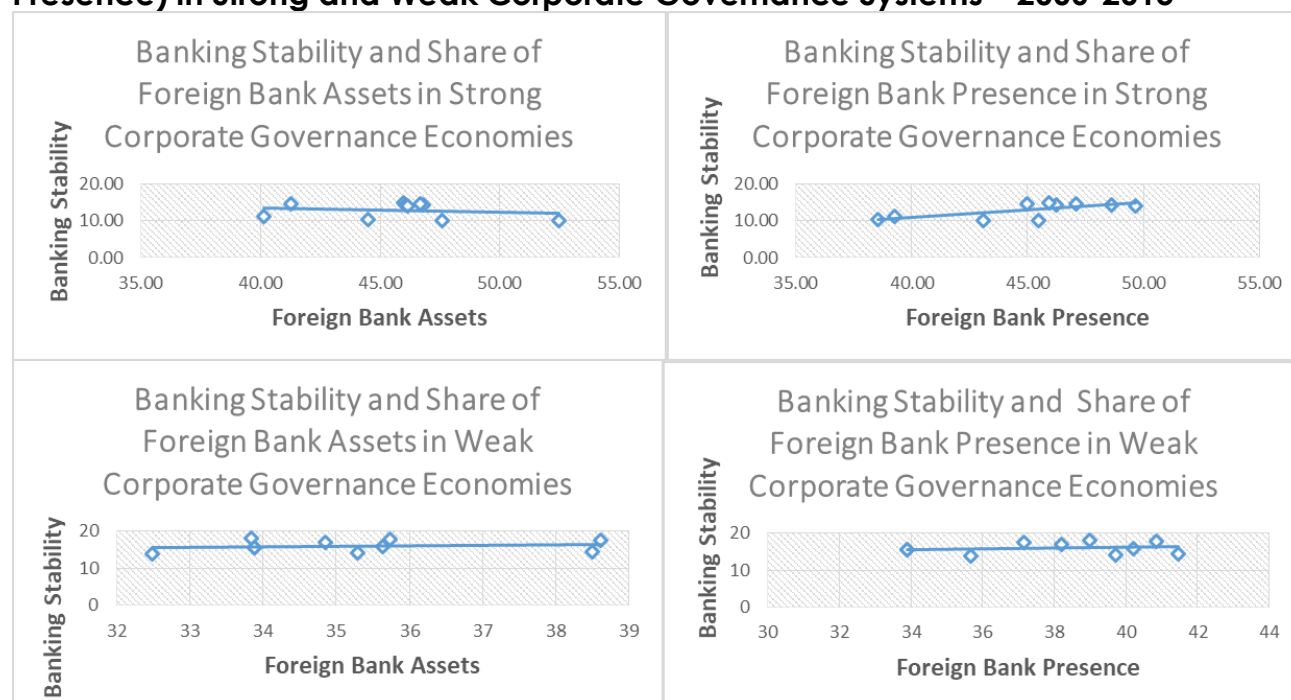
2009	14.23	43.15	42.24	18.21	4.74	5.62	7.63	6.29	5.48	4.70	16.52	5.14
2010	14.93	41.64	41.30	19.45	5.82	4.94	7.90	6.28	5.71	5.14	17.19	5.19
2011	14.22	40.73	42.29	19.16	5.94	4.51	7.94	6.26	5.70	5.25	17.27	5.25
2012	14.54	41.99	43.61	20.30	6.32	7.15	8.11	6.57	5.64	5.32	17.60	5.41
2013	14.46	40.05	43.65	20.91	6.64	6.25	8.17	6.64	5.58	5.45	17.74	5.45
2014	14.77	41.78	43.67	21.06	6.68	5.04	8.29	6.73	5.71	5.47	17.99	5.54
2015	15.10	40.94	43.71	25.86	7.39	3.97	8.39	6.87	5.71	5.51	18.13	5.74
<b>Average</b>	<b>14.34</b>	<b>41.45</b>	<b>41.42</b>	<b>20.50</b>	<b>5.27</b>	<b>5.37</b>	<b>7.91</b>	<b>6.46</b>	<b>5.48</b>	<b>5.17</b>	<b>17.16</b>	<b>5.26</b>

*Source: Computed by authors based on data from World Development Indicators, Global Finance Development and Doing Business Databases – Note: banking stability (z-score), foreign bank assets (FBA), foreign bank presence (FBP), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD)*

From Table 1, average period banking stability is reported to be 14.34 implying that banks over the period under study are about 14.34 points away from financial distress. Also, banking stability appears to be fairly unstable given its fluctuations in 2008, 2011 and 2013. Similarly, foreign bank assets and presence reported an average of 41.45% and 41.42% implying that foreign bank assets constituted 41.45% of total banking assets under review while foreign banks constituted 41.42% of total banks in Africa over the periods under review. This provides evidence that local banks in Africa dominate the banking sector of Africa. In terms of financial sector transparency an average of 20.50% and 5.27% are reported indicating that mandatory financial regulation on transparency led by the private and public sectors covers 20.50% and 5.27%, respectively. This shows that private sector-led financial transparency regulation is more vibrant and covers a wider space compared to public sector led financial transparency regulation in Africa. Moreover, public sector-led transparency regulation has consistently increased for the period under review. Also, loan loss provision presents a period average of 5.37% implying that banks over the period under review allocated 5.37% of their total loans as provisions for loan losses. Considering to country-level corporate governance, an overall country-level corporate governance index of 7.91 is reported while a stable and steady increase in the

overall country level corporate governance index is observed. Specifically, ease of shareholder suit index (ESHS), extent of disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD) reported period average indexes of 6.46, 5.48, 5.17, 17.16 and 5.26, respectively. These are indications that country-level corporate governance in Africa is fairly strong given the periods under review.

**Figure 1: Relationship between Banking Stability and Foreign bank (Assets and Presence) in Strong and Weak Corporate Governance Systems – 2006-2015**



**Source:** Graphed by authors based on data from World Development Indicators, Global Finance Development and Doing Business Databases

To enhance understanding on the relationship between banking stability and foreign bank assets and presence in strong and weak corporate governance economies in Africa, Figure 1 is reported. Interestingly, Figure 1 graphically shows that banking stability has a positive association with banking presence and assets in weak corporate governance economies in Africa. However, in economies with strong corporate governance systems in Africa, a negative association is identified between banking stability and foreign bank assets while a positive association is reported between banking stability and foreign bank presence in

strong corporate governance economies. Given the difference observed in graphical evidence on the association between banking stability and foreign banks assets and presence in weak and strong corporate governance economies, there is an urgent need for further analysis using more advanced techniques to investigate this interrelationship.

### **Literature Review: Theoretical**

In terms of theoretical and conceptual underpinnings, this study draws inspiration from several theories and concepts including institutional, regulatory foreign bank ownership theories and concepts. First, corporate governance is explained and stems from institutional theories. According to the institutional theories literature, institutional theories explain how companies operate and obtain their social, political, and economic legitimacy in a given economy (Zucker, 1987). Thus, institutions provide rules and define the appropriate operational guidelines that discourage inappropriate corporate behavior and the same time encourage acceptable corporate behavior (Peters, 2000). In the same vein, corporate governance systems also provide a framework that guides corporate dealings and protects the investors and the public at large. Furthermore, Scott (1987) states that in addition to the cognitive and normative pillars of institutional theories, there is also a regulative pillar of institutional theories which focuses on how institutions regulate and are regulated.

According to the attendant literature, two main theories explain regulations: the public interest theory of regulations and private interest theory of regulations (Hertog, 2012; Gaffikin, 2005). While the public interest theory of regulations advances that regulations seek to protect and benefit the public at large in terms of best possible allocation of scarce resources for collective and individual goods (Hantke-Domas, 2007), the private interest theory of regulations argues that regulations promote the interest of dominant individuals and groups in society but not the public interest (Gaffikin, 2005). From the theories of regulations, it can be

inferred that regulations generally improve and shape banking stability and foreign investor interest.

In terms of foreign banks literature, Lee and Hsieh (2014) advance that there is no comprehensive theory of multinational banking theory especially in emerging markets or transition economies. However, Berger, DeYoung, Genav and Udell (2000b) advance the “global advantage” and “home field advantage” hypothesis. Interestingly, the “global advantage hypothesis” states that foreign banks have competitive advantage given that they employ more advanced and sophisticated technologies have higher capital adequacy and risk management techniques. These tend to make foreign banks more competitive and stable compared to their domestic counterparts. On the contrary, the “home field advantage hypothesis” states that foreign banks may be disadvantaged as domestic banks have a good and comprehensive understanding of the local banking market and by extension, customer information and knowledge. The underlying provides an indication that the operations of foreign banks affect the domestic banking system and offer the opportunity to strengthen the stability of the domestic banking market.

### **Literature Review: Empirics**

Existent literature on foreign banks in Africa has largely focused on how foreign banks influence banking efficiency and competitiveness (Kiyota, 2011; Chen 2009). However, how foreign bank assets and presence influence banking stability in African economies with strong and weak country-level corporate governance systems under different regulatory regimes is practically nonexistent in the literature. Hence, this empirical review will focus on studies that have examined how foreign bank activities influence banking industry outcomes with an emphasis on the role of country-level corporate governance, institutional quality and regulations.

More recently, Wang and Sui (2019) studied the effect of political institutions in host economies on the risk-taking behavior of foreign banks in emerging markets. Employing a panel of 500 banks across 35 Asian, Central Europe and Latin American economies between 2000 and 2013, they show that the democracy of political institutions boosts foreign bank stability. However, democratic institutions derail foreign banks established through mergers and acquisitions, financial institutions with short operational history and inefficient operations in host economies. Interestingly, while the positive effect of political institutions on banking stability is undermined by deposit insurance system in the host country, sound legal institutions in the host country strengthen the effect of political institutions on banking stability. Also, Tunay and Yuksel (2017) examined the effect of corporate governance on foreign bank ownership in developing economies. Employing annual country level data covering 65 developing economies in a dynamic generalized method of moments model, they report that a strong relationship exists between foreign bank operations and corporate governance at the country level. Specifically, governance factors such as corruption control, political stability, rule of law and flexibility in legal regulations affected foreign bank operations. Again, the operations of foreign banks are stronger in economies with low poverty, high political stability and efficient legal systems.

Likewise, Haas, Korniyenko, Pivovarsky and Tsankova (2015) evaluated how bank ownership and the Vienna Initiative impacted credit growth during the Great Recession. Employing both panel and cross-sectional techniques on about 350 banks between 1999 and 2011, they report that both foreign and domestic banks significantly reduced their credit extension during the crisis. However, foreign banks that participated in the Vienna Initiative were relatively stable lenders compared to their domestic counterparts. Moreover, Lee and Hsieh (2014) studied the effect of foreign bank ownership on banking stability under different banking reforms using banks in Asian countries. Employing the dynamic generalized method of moments on panel data from 1387 banks across 27 Asian economies between 1995 and 2009, they report evidence in support of the

“home field advantage hypothesis”, although evidence of the “global advantage hypothesis” exist when considering the effect of banking reforms. Also, an inverted U-shape is observed from foreign bank ownership to stability indicating that beyond a certain threshold, foreign bank ownership may derail banking stability, while a higher degree of credit control liberalization mitigates the dampening effect of foreign bank ownership on banking stability. However, liberalization of interest rate control and banking supervision significantly enhance banking stability.

More so, Detragiache and Gupta (2006) also compared the performance of foreign and domestic banks in Malaysia during the Asian crisis. Employing the difference in difference model on 43 Malaysian banking institutions between 1995 and 2001, they found that differences existed among foreign banks in Malaysia. That is, foreign banks with strong regional concentration suffered from the crisis as much as domestic banks while foreign banks with less concentration in Asia performed better significantly. The difference in performance was not explained by availability of support from a parent company, likelihood of being bailed out or political connections but rather by theories on managerial herding. Furthermore, Crystal, Dages and Goldberg (2002) examined the performance of foreign and domestic banks using banks in Latin America between 1995 and 2000. Using a broad range of quantitative methods such as agent ratings and composite indexes based on CAMEL (i.e. Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity), they show that foreign banks differ from domestic banks. That is, foreign banks are more aggressive in responding to deteriorating asset quality and loan growth and have greater loss absorption capacity which could help strengthen the financial system of their host countries. Finally, Demirguc-Kunt, Levine and Min (1998) investigated how foreign bank activities influence banking efficiency, likelihood of banking crisis and economic growth. Employing bank level data covering banks across 80 economies between 1988 and 1995 in weighted least squares pooled models, they show that foreign bank activity lowers the chance of a banking crisis,

improves banking efficiency and accelerates long run economic growth through enhanced domestic banking efficiency.

From the literature review, it is clear that the relationship between foreign bank operations and banking stability is a preposition too obvious for a serious debate especially in Asia, Europe and America. However, what is nonexistent and calls for empirical investigation is how foreign banks influence banking stability in the context of Africa. With prior studies showing that corporate governance, political institutions, and regulations shape foreign bank operations and banking stability and no such study in Africa, it is intuitive to argue and examine how foreign bank operations affect banking stability in strong and weak corporate governance systems in Africa under different regulatory regimes. The study hypothesizes that while foreign banks may promote banking stability, the effect may be enhanced and weakened in African economies' strong and weak country-level corporate governance systems. Additionally, these effects of foreign bank operations on banking stability in strong and weak corporate governance African economies may further be improved under different regulatory regimes knowing from prior studies (see Leuz and Wysocki, 2016; Edwards and Waverman, 2006) that regulations can enhance financial and economic outcomes. While these hypotheses are strongly rooted in theoretical and empirical reasoning, there is no empirical evidence to substantiate these claims. Hence, the need for this study.

## **Methodology and Data**

In this study, a panel data technique is employed to shed insights into the interrelationship among foreign banks assets and presence, corporate governance and regulatory regimes and banking stability in Africa. The data covers 86 banks across 30 economies in Africa between 2006 and 2015. Bank level data is sourced from Bank Scope, while country-level bank data is sourced from Global Finance Database. Additional macroeconomic data is obtained from the World Development Indicators database. Following the structure and nature of the data, the panel data approach is used to estimate the results. Baltagi (2015;

2008) states that the panel data provides more robust and convincing results given that it captures and reports both entity and time dimensions of data unlike the cross sectional and time series which report only the entity and time dimensions of data, respectively. Also, the panel data technique is able to control for omitted variables (Imbens and Wooldridge, 2009) and is expressed as:

$$Y_{it} = \alpha_i + \gamma_t + \beta X_{it} + \varepsilon_{it} \dots\dots\dots (\text{Eq 14.1})$$

$\varepsilon_{it} = \alpha_i + \gamma_t + e_{it}$  :  $\alpha_i$  = bank fixed effect  $\gamma_t$  = time fixed effect  $e_{it}$  = idiosyncratic term  
 where: subscript  $i$  denotes the cross sectional dimension (bank)  $i = 1 \dots N$  and  $t$  reflects the time series dimension (time),  $t = 1 \dots T$ ;  $Y_{it}$  is the dependent variable;  $\alpha_i$  is scalar and constant term for all periods ( $t$ ) and specific to a bank fixed effect ( $i$ );  $\gamma_t$  is the time fixed effect  $t$ ;  $\beta$  is a  $k \times 1$  vector of parameters to be estimated on the independent variables for the explanatory variables;  $X_{it}$  is a  $1 \times k$  vector of observations on the independent variables comprising of independent variables in the model which includes controlled variables and  $\varepsilon_{it}$  which is iid is the error term. This study employs the Prais-Winsten estimation technique to control for autocorrelation and heteroscedasticity after following a series of standard econometric procedures. First, the Breusch\_Pagan Lagrangian multiplier test (see Appendix 1) is used to justify the selection between ordinary least square (OLS) and generalized least square (GLS) (random effect) while the Hausman specification test (see Appendix 2) is used to justify the selection between random and fixed effect models. While the Breusch\_Pagan Lagrangian multiplier test suggests evidence in support of using GLS models, the Hausman specification test provides evidence in favor estimating the results with fixed effects models. However, given evidence of autocorrelation and heteroscedasticity in the data, the Prais-Winsten regression which is a GLS estimation technique is employed to control for autocorrelation and heteroscedasticity (Prais-Winsten, 1945).

In modelling banking stability, this study follows prior studies (Ozili, 2018; Fernandez et al., 2016; Beck et al., 2013) that have assessed banking stability in Africa. In equations 2, the effect of foreign bank operations (assets and presence) on

banking stability with country-level corporate governance as an independent variable but without financial regulation variables (regimes) considerations while in equations 3, the effect of foreign bank operations (assets and presence) on banking stability in strong and weak country-level corporate governance economies in Africa without corporate governance and financial regulatory regimes as independent variables. Furthermore, in equations 4, the effect of foreign bank operations (assets and presence) on banking stability with country-level corporate governance and financial regulation variables (regimes) as independent variables in the model while in equations 5, the effect of foreign bank operations (assets and presence) on banking stability in strong and weak country-level corporate governance economies in Africa without country level corporate governance as independent variable but with and financial regulatory regimes as an independent variable. These models are estimated to highlight the effect of foreign bank operations (assets and presence) in strong and weak country level corporate governance and under different regulatory regimes in Africa.

$$\mathbf{ZSCORE}_{i,t} = \beta_0 + \beta_1 \mathbf{FOREIGNBANK}_{i,t} + \beta_2 \mathbf{CLCG}_{j,t} + \beta_3 \mathbf{NIM}_{i,t} + \beta_4 \mathbf{NII}_{i,t} + \beta_5 \mathbf{CAP}_{i,t} + \beta_6 \mathbf{CLI}_{i,t} + \beta_7 \mathbf{HERF}_{i,t} + \beta_8 \mathbf{SIZE}_{i,t} + \beta_9 \mathbf{GDPC}_{j,t} + \beta_{10} \mathbf{LERNER}_{j,t} + \beta_{11} \mathbf{INFLATION}_{j,t} + \beta_{12} \mathbf{FINCRISES}_t + \boldsymbol{\varepsilon}_{i,t}, \dots$$

(Eq. 2)

$$\mathbf{ZSCORE}_{i,t} = \beta_0 + \beta_1 \mathbf{FOREIGNBANK}_{i,t} + \beta_2 \mathbf{NIM}_{i,t} + \beta_3 \mathbf{NII}_{i,t} + \beta_4 \mathbf{CAP}_{i,t} + \beta_5 \mathbf{CLI}_{i,t} + \beta_6 \mathbf{HERF}_{i,t} + \beta_7 \mathbf{SIZE}_{i,t} + \beta_8 \mathbf{GDPC}_{j,t} + \beta_9 \mathbf{LERNER}_{j,t} + \beta_{10} \mathbf{INFLATION}_{j,t} + \beta_{11} \mathbf{FINCRISES}_t + \beta_{12} \mathbf{FRR}_{j,t} + \boldsymbol{\varepsilon}_{i,t}, \dots$$

(Eq. 3)

$$\mathbf{ZSCORE}_{i,t} = \beta_0 + \beta_1 \mathbf{FOREIGNBANK}_{i,t} + \beta_2 \mathbf{CLCG}_{j,t} + \beta_3 \mathbf{NIM}_{i,t} + \beta_4 \mathbf{NII}_{i,t} + \beta_5 \mathbf{CAP}_{i,t} + \beta_6 \mathbf{CLI}_{i,t} + \beta_7 \mathbf{HERF}_{i,t} + \beta_8 \mathbf{FRR}_{j,t} + \beta_9 \mathbf{SIZE}_{i,t} + \beta_{10} \mathbf{GDPC}_{j,t} + \beta_{11} \mathbf{LERNER}_{j,t} + \beta_{12} \mathbf{INFLATION}_{j,t} + \beta_{13} \mathbf{FINCRISES}_t + \boldsymbol{\varepsilon}_{i,t}, \dots$$

(Eq. 4)

$$ZSCORE_{i,t} = \beta_0 + \beta_1 FOREIGNBANK_{i,t} + \beta_2 NIM_{i,t} + \beta_3 NII_{i,t} + \beta_4 CAP_{i,t} + \beta_5 CL_{i,t} + \beta_6 HERF_{i,t} + \beta_7 FRR_{i,t} + \beta_8 SIZE_{i,t} + \beta_9 GDPC_{j,t} + \beta_{10} LERNER_{j,t} + \beta_{11} INFLATION_{j,t} + \beta_{12} FINCRISES_t + \varepsilon_{i,t}, \dots$$

(Eq. 5)

### Variables' Definition and Selection

Z-Score is used as a measure for banking stability and computed as capital ratio plus return on assets scaled over standard deviation of return on assets (Ozil, 2018; Boyd de Nicolo and Jalal, 2006). The resulting value indicates the number of deviations by which the return of a bank would have to fall from the mean to erode the equity of a bank; hence measuring how stable a bank is from distress (Boyd and Runkle, 1993). The literature on foreign operations advance that the operations of foreign banks have huge implications for banking activities including stability, competition and efficiency. The general expectation is that foreign bank operations improve banking stability (Boateng, Huang and Kufuor, 2015; Pasiouras and Kosmidou, 2007). However, the effect of foreign bank operations improves in economies with strong corporate governance systems and further improves under different regulatory regimes (Bermpei et al., 2018; Tunay and Yuksel, 2017; Haas et al., 2015). Country-level corporate governance indicators used in this study include ease of shareholder suit index (ESHS), extent of disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD). These are used following prior studies (Appiah-Kubi, 2020; Hillier, Pindado, Queiroz and Torre, 2011). Additionally, an overall average country-level corporate governance (clcg) is created and used in this study where higher values of clcg is preferred. The expectation is that strong governance systems will improve the effect of foreign operations (assets and presence) on banking stability while weak corporate governance systems will weaken the effect of foreign bank operations on banking stability. In terms of financial regulatory regimes, loan loss reserves, private and public sector led financial transparency regimes are used. Following the private and public interest theories of regulations, regulations should improve

the outcomes of financial and economic activities. While this view is valid in the study, we additionally contend that regulations may weaken financial and economic outcomes if the institutions (governance systems) are weak. These regulatory regimes are used purely due to availability of data.

Bank interest margin represents banking profitability and is used as a determinant of banking stability. Following prior studies (Dwumfour, 2017; Islam and Nishiyama, 2016), banking profitability may improve or derail banking stability. Thus, profitable banks have the financial muscles to absorb shocks and hence improve banking stability. However, when profits are volatile, it may lead to a decline in banking stability. Following prior studies (Stiroh, 2004a;b), non-interest income is used to proxy income diversification. The argument is that non-interest income reduces the risk of income associated with the core income of banks and hence, promotes banking stability. Banking capitalization is measured as natural log of equity and signifies the ability of banks to absorb and navigate credit losses and shocks following the risk-return hypothesis (see Berger, 1995). Thus, well-capitalized banks can implement sophisticated risk management strategies to ensure banking stability (Beck, Jonghe and Schepens, 2013).

Banking operational cost efficiency is measured as operational cost to income and provides an indication of how well a bank is able to tame or manage its operating costs (see Athanasoglou et al., 2008). With higher values of cost-income ratio indicating poor cost of management, it is expected to reduce stability implying a negative relationship. However, a positive relationship is possible when banks spend to maintain their stability (Mensah, Andoh, Kuttu and Kusi, 2019). Banking sector concentration is computed using the Herfindahl-Hirschman index (HHI). Following the literature on banking concentration, the concentration-fragility and concentration-stability hypotheses explain the negative and positive relationships between concentration and banking stability, respectively (Kasman and Kasman, 2015; Turk-Ariss, 2010). Bank size is measured as the natural logarithm (log) of total assets and explained by the economies and diseconomies of scale

(Mensah et al., 2019). That is, while the economies of scale advance a positive relationship between size and stability based on the notion that there are efficiency gains associated with size, the diseconomies of scale advance a negative relationship between size and stability arguing that larger banks have bureaucratic systems, poor supervision and monitoring problems and delays in decision making which lead to a weakening of banking stability. Gross domestic product per capita measures the standard of living and computed as a ratio of gross domestic product to total population. Following prior studies (Jimenez, Lopez & Saurina, 2009), growth in gross domestic product per capita is an indication of improvements in loan repayment which promotes banking stability.

The Lerner index or market power of banks is measured as output price less marginal cost scaled over price (Beck et al., 2013; Carbo et al, 2009). It reflects the extent to which banks are able to price their outputs above the marginal cost hence making them price setters (Tan, 2016). We argue that higher bank market power improves banking stability because ability to price output above the marginal cost leads to higher banking profitability and stability. Inflation is measured using consumer price index and measures economic stability (see Castro, 2012). Following empirical literature, both positive and negative effects of inflation on stability are possible. Thus, inflation weakens the ability of bank clients to pay their loans which leads to worsening financial positions of banks (see Castro, 2012) and increases credit losses and defaults to reduce banking stability. However, if banks are able to anticipate inflation changes and factor it to their loan prices, it may improve the banking stability of banks. Hence, the relationship between inflation and banking stability is not straightforward. Financial crisis is measured as a dummy which assumes a value of 1 for years of the recent global financial crises (2007, 2008 and 2009) and 0 otherwise. Generally, financial crisis weakens banking stability because crisis leads to lose of confidence in the banking sector. This engenders panic withdrawal which magnifies banking instability; hence, a negative relationship between financial crisis and banking stability. However, it can be argued that crisis leads to collapse of weak banks,

engendering a strong and sound banking sector. Thus, a positive link between financial crisis and banking stability. Appendix 9 reports the summary of variables used in this study.

### **Discussions of Empirical Results**

The summary statistics (Appendix 10) is used to screen for outliers which have the possibility of adversely influencing the accuracy, consistency, and efficiency of the results. Using the mean, maximum and minimum values of the variables, there is no evidence of outliers. Additionally, Pearson's correlation matrix (Appendix 11) is used to screen for multicollinearity and no evidence of multicollinearity is found when the multicollinearity threshold is set to 0.5 (see York, 2012; Wichers, 1975).

The main results of this study are reported in Tables 2, 3, 4 and 5. In Table 2, the effects of foreign bank assets and presence are examined on banking stability in economies with strong and weak country-level corporate governance in Africa without regulatory considerations. However, in Tables 3, 4 and 5, the effects of foreign bank assets and presence are examined on banking stability in economies with strong and weak country-level corporate governance in Africa with concentration on loan loss reserve and private and public sector-led financial transparency regulations. Each table reports six (6) models with the first-three models in each table focusing on how the ratio of number of foreign banks to total banks affect banking stability in strong and weak corporate governance economies, while the last-three models focus on how the ratio of foreign bank assets to total bank assets affect banking stability in strong and weak corporate governance economies. The results cover periods 2006 and 2015 and capture the overall average country-level corporate governance variable created. However, corporate governance indexes including shareholder suit index (ESHS), extent of director liability index (ExDL), extent of disclosure (ExD), strength of investor protection (SIP) and extent of business disclosure (ExBD) are used to split the sample into African economies strong and weak corporate governance systems

and reported in the Appendix (Appendix 5-8)<sup>1</sup> to ensure brevity of findings and discussions. This helps us to understand how foreign banks influence banking stability in Africa in economies with strong and weak corporate governance systems under different financial regulations.

From Table 2 where the effects of foreign bank presence (Models 1-3) and assets (Model 4-6) on banking stability are examined in strong and weak corporate governance economies in Africa, it is observed that both foreign bank presence (Model 1) and assets (Model 4) in the full sample promote banking stability. Interestingly, when the sample is split into economies with strong (Models 2 and 5) and weak (Models 3 and 6) country-level corporate governance, it is evident that the positive effect of foreign bank presence and assets on banking stability is improved in economies with strong country-level corporate governance systems, while the positive effect of foreign bank presence and assets on banking stability declined in economies with weak country-level corporate governance systems. These show that country-level corporate governance systems are crucial in shaping foreign bank assets and presence to stimulate banking stability in Africa even under no regulatory regime. Interestingly, when loan loss provision, private and public sector-led financial transparency regulation regimes are considered in Tables 3, 4 and 5, respectively, it is evident that the effect of foreign bank presence and assets in the full sample and economies with strong country-level corporate governance systems improve relative to when no regulatory regime is considered (Table 2).

Similarly, the positive effect of foreign bank presence and assets on stability declines in economies with weak corporate governance systems in Africa, especially under the loan loss provision regime. More so, the effect of foreign

---

<sup>1</sup>In Appendix 5, 6 7 and 8, the effect of foreign banks on banking stability in strong and weak corporate governance economies under private sector led transparency regulation, public sector led transparency regulation, loan loss provision and no regulatory regimes respectively are reported. In each case, strong and weak shareholder suit index (ESHS), extent of director liability index (ExDL), extent of disclosure (ExD), strength of investor protection (SIP) and extent of business disclosure (ExBD) are used.

bank presence and assets on banking stability in economies with strong country-level corporate governance systems is still positive under the private and public sector-led transparency regulations while negative stability in economies with weak country-level corporate governance systems under the private and public sector-led transparency regulatory regimes (see Table 4 and 5). These findings clearly show the importance of regulations in reinforcing the effect of foreign bank presence and assets in different corporate governance economies within Africa. These findings confirm prior studies (Bermpei et al., 2018; Tunay and Yuksel, 2017; Haas et al., 2015) that show that corporate governance and regulatory measures are important for shaping how foreign bank presence and assets affect banking stability. Interestingly, employing the different indicators of country level corporate governance structures (see Appendix 5-8), similar results and findings are observed.

On the control variables, the results report a consistent negative effect of profitability measured as net interest margins. Following theories on risk-return, increase in profitability increases risk exposure leading to decline in banking stability (see Mensah et al., 2019). Income diversification is found to be positively related to banking stability across the models estimated. This is consistent with prior studies (Stiroh, 2004a; b), which show that diversification improves banking stability. Banking capitalization is found to be positively related to banking stability. As expected, increase in capital provides an indication of banks' ability to deal with risk which ensures banking stability. As expected, cost inefficiency dampens stability just like banking concentration and size. The negative relationship between banking concentration is explained by the concentration-fragility hypothesis, while the negative effect of bank size is explained by the diseconomies of scale concept. Also, gross domestic product per capita is reported to have a positive nexus with banking stability. This is not surprising given that improvement in gross domestic product signifies better loan repayment and reduced credit risk and default. Bank market power shows a positive effect on banking stability implying that banks that have market power improve banking

stability. Inflation is found to be positively related banking stability. Accordingly, as discussed in the data section, prior studies show that if banks are proactive in passing on inflationary shocks to their clients, it may promote their stability. Financial crisis presents both positive and negative effects on banking stability. This is consistent with prior studies. Interestingly, regulations yield different effects on banking stability depending on the kind of regulation in question. For instance, loan loss reserve is reported to promote banking stability across both economies with strong and weak country level corporate governance systems. Furthermore, while public sector-led financial transparency regulation improved banking stability in the full and economies with strong governance systems, public sector-led financial transparency regulation at the same time dampened banking stability in economies with weak governance systems. However, private sector-led financial transparency regulation consistently impeded banking stability across the entire samples. These confirm the findings of prior studies (see Leuz and Wysocki, 2016; Edwards and Waverman, 2006) on how different regulations yield varying outcomes depending on some contextual factors like governance systems. Interestingly, following Miller (2003) because public sector-led financial transparency institutions are usually established by central banks to complement regulatory efforts, it is not surprising to find it improving banking stability especially in economies with strong governance systems. However, because private sector-led financial transparency institutions are not usually established to complement regulatory efforts, it is not surprising to find it repressing banking stability across the entire sample.

**Table 2: Effect of Foreign Bank Presence and Assets on Financial Stability of Banks in Strong and Weak Country Level Corporate Governance Structures – No Regulatory Regime**

VARIABLES	(1) Full Sample	(2) Strong Governance Sample	(3) Weak Governance Sample	(4) Full Sample	(5) Strong Governance Sample	(6) Weak Governance Sample
FBP	0.0123*** (0.0023)	0.0207*** (0.0017)	0.0040 (0.0032)			

FBA				0.0109*** (0.0018)	0.0185*** (0.0019)	0.0060** (0.0028)
Clcg	-0.0057 (0.0221)			-0.0197 (0.0216)		
nim1	0.0074 (0.0149)	-0.0313** (0.0152)	-0.0230 (0.0485)	0.0064 (0.0148)	-0.0394** (0.0156)	-0.0265 (0.0456)
Nii	0.1174 (0.1007)	0.2299** (0.0970)	-0.4858 (0.4224)	0.2019** (0.1014)	0.1938* (0.1001)	-0.2907 (0.4043)
Cap	0.8724*** (0.0241)	0.9016*** (0.0292)	0.8477*** (0.0402)	0.8711*** (0.0237)	0.9045*** (0.0293)	0.8497*** (0.0377)
Ci	- 0.0521*** (0.0201)	-0.0950*** (0.0222)	-0.0408 (0.0320)	- 0.0815*** (0.0302)	-0.0912*** (0.0238)	-0.1116* (0.0578)
HERF	-0.1420* (0.0775)	-0.2178** (0.0971)	-0.0769 (0.1213)	-0.2145** (0.0938)	-0.2814** (0.1103)	0.0032 (0.1096)
Size	- 0.8522*** (0.0255)	-0.8922*** (0.0286)	-0.7371*** (0.0665)	- 0.8495*** (0.0250)	-0.8951*** (0.0290)	-0.7344*** (0.0617)
Gdpc	0.0197 (0.1698)	0.1570 (0.1124)	-0.4164 (0.4523)	0.0278 (0.2236)	0.2160 (0.1662)	-0.4979 (0.4413)
Lerner	1.1221** (0.4585)	0.0591 (0.4126)	1.2292* (0.7344)	1.4878*** (0.4792)	0.3156 (0.4699)	0.8921 (0.7663)
Inflation	0.0076* (0.0046)	0.0038 (0.0066)	0.0069 (0.0073)	0.0098** (0.0050)	-0.0028 (0.0083)	0.0106 (0.0079)
Fincrisis	-0.0095 (0.0647)	0.0720 (0.0618)	-0.1837 (0.1177)	-0.0433 (0.0696)	0.0737 (0.0662)	-0.1808* (0.1082)
Constant	2.4069*** (0.3927)	2.7048*** (0.1701)	2.3709*** (0.5246)	2.4910*** (0.3860)	2.8581*** (0.2088)	2.3542*** (0.4561)
Observations	367	229	140	351	215	137
R-squared	0.8390	0.9177	0.8088	0.8547	0.9135	0.8293
No. of banks	86	52	46	86	52	46

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.  
Source: Computed by authors based on data from World Development Indicators, Global Finance Development and Doing Business Databases – Note: banking stability (z-score), foreign bank assets (FBA), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest margins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises

**Table 3: Effect of Foreign Bank Presence and Assets on Financial Stability of Banks in Strong and Weak Country Level Corporate Governance Structures – Loan Loss Reserve Regime**

(1) (2) (3) (4) (5) (6)

VARIABLES	Full Sample	Strong Governance Sample	Weak Governance Sample	Full Sample	Strong Governance Sample	Weak Governance Sample
FBP	0.0129*** (0.0027)	0.0220*** (0.0020)	0.0058 (0.0059)			
FBA				0.0116*** (0.0019)	0.0194*** (0.0019)	0.0092* (0.0050)
Clcg	-0.0215 (0.0267)			-0.0292 (0.0254)		
nim1	0.0148 (0.0148)	-0.0397** (0.0166)	-0.0221 (0.0501)	0.0107 (0.0143)	-0.0366** (0.0159)	-0.0127 (0.0506)
Nii	0.1747* (0.1053)	0.2500** (0.1184)	-0.7178 (0.4578)	0.2811** (0.1136)	0.2273* (0.1271)	-0.4620 (0.4251)
Cap	0.8753*** (0.0300)	0.9106*** (0.0334)	0.8422*** (0.0799)	0.8731*** (0.0297)	0.9141*** (0.0332)	0.8512*** (0.0638)
Ci	- 0.0637*** (0.0226)	-0.0803*** (0.0249)	-0.0366 (0.0301)	- 0.0959*** (0.0353)	-0.0798*** (0.0255)	-0.1214** (0.0561)
HERF	-0.1954** (0.0838)	-0.2588** (0.1025)	0.0190 (0.1240)	- 0.2548*** (0.0977)	-0.3644*** (0.1164)	0.0984 (0.1320)
Size	- 0.9043*** (0.0354)	-0.9389*** (0.0363)	-0.7980*** (0.1079)	- 0.8956*** (0.0357)	-0.9430*** (0.0361)	-0.7844*** (0.0810)
Gdpc	0.0084 (0.1795)	0.1472 (0.1184)	-0.4510 (0.5111)	0.0426 (0.2391)	0.2201 (0.1708)	-0.5655 (0.5061)
Lerner	1.0662** (0.5340)	0.0301 (0.4087)	0.8445 (1.2175)	1.5308*** (0.5711)	0.3313 (0.4690)	0.7033 (1.1691)
Inflation	0.0067 (0.0045)	0.0031 (0.0068)	0.0063 (0.0065)	0.0099* (0.0051)	-0.0032 (0.0085)	0.0096 (0.0066)
lnLLR	0.0531* (0.0316)	0.0367* (0.0207)	0.1101 (0.1017)	0.0464 (0.0308)	0.0375* (0.0204)	0.0847 (0.0948)
fincris	0.0119 (0.0761)	0.1012 (0.0677)	-0.1598 (0.1354)	-0.0136 (0.0811)	0.1033 (0.0691)	-0.1557 (0.1312)
Constant	2.6963*** (0.5314)	2.8759*** (0.2058)	2.5986** (1.0441)	2.6727*** (0.5093)	2.9398*** (0.2411)	2.3590*** (0.8537)
Observations	331	209	124	316	195	122
R-squared	0.8316	0.9063	0.7887	0.8512	0.9159	0.8133
No. of banks	85	52	45	85	52	45

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.  
Source: Computed by authors based on data from World Development Indicators, Global Finance Development and Doing Business Databases – Note: banking stability (z-score), foreign bank assets (FBA), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest mrgins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf –

concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises, InLLR – loan loss provision

**Table 4: Effect of Foreign Bank Presence and Assets on Financial Stability of Banks in Strong and Weak Country Level Corporate Governance Structures – Private Sector-Led Financial Transparency Regime**

VARIABLES	(1) Full Sample	(2) Strong Governanc e Sample	(3) Weak Governanc e Sample	(4) Full Sample	(5) Strong Governanc e Sample	(6) Weak Governanc e Sample
FBP	-0.0009 (0.0015)	0.0136*** (0.0028)	-0.0056** (0.0023)			
FBA				0.0046** *	0.0122***	0.0006
				(0.0016)	(0.0018)	(0.0022)
clcg	0.0680** *			0.0543** *		
	(0.0158)			(0.0166)		
nim1	0.0183 (0.0122)	-0.0145 (0.0163)	-0.0199 (0.0316)	0.0209* (0.0120)	-0.0115 (0.0152)	-0.0201 (0.0326)
nii	0.1623* (0.0971)	0.2397** (0.0951)	0.0239 (0.2732)	0.2326** (0.1054)	0.2310** (0.0958)	0.1285 (0.3041)
cap2	0.8619** *	0.9051***	0.7018***	0.8624** *	0.9055***	0.7189***
	(0.0278)	(0.0285)	(0.0629)	(0.0289)	(0.0281)	(0.0672)
Ci	-0.0276* (0.0161)	-0.0965*** (0.0216)	0.0176 (0.0195)	- (0.0250)	-0.0901*** (0.0213)	-0.0069 (0.0599)
				0.0567** (0.0250)		
HERF	-0.0868 (0.0586)	-0.2112** (0.0955)	0.0536 (0.1071)	-0.0958 (0.0703)	-0.2838*** (0.1082)	0.0778 (0.1072)
size	- 0.8615** *	-0.8985***	-0.6749***	- 0.8596** *	-0.8997***	-0.6845***
	(0.0278)	(0.0280)	(0.0751)	(0.0285)	(0.0277)	(0.0745)
gdpc	0.2595** (0.1014)	0.0900 (0.1047)	0.3838 (0.3026)	0.3016** (0.1352)	0.0466 (0.1626)	0.4291 (0.3284)
Lernerindex	0.6189** (0.2867)	-0.3178 (0.3843)	0.1990 (0.5173)	0.8223** (0.3636)	-0.4756 (0.4791)	1.0004* (0.5836)
Inflation	0.0092** (0.0036)	0.0087 (0.0060)	0.0174*** (0.0058)	0.0129** (0.0040)	0.0016 (0.0067)	0.0192*** (0.0063)
				*		
PrSLFTR	- 0.0187** *	-0.0091***	0.0112	- 0.0146** *	-0.0093***	0.0183
	(0.0020)	(0.0026)	(0.0135)	(0.0024)	(0.0021)	(0.0142)
fincrises	0.0580 (0.0411)	0.0196 (0.0611)	-0.0622 (0.0683)	0.0393 (0.0437)	0.0036 (0.0674)	-0.0645 (0.0719)

Constant	2.9212** *	3.3047***	3.2379***	2.6092** *	3.4157***	2.5730***
	(0.2362)	(0.2100)	(0.4010)	(0.2605)	(0.2193)	(0.3770)
Observations	339	229	112	323	215	109
R-squared	0.8976	0.9207	0.9220	0.9054	0.9229	0.9238
No. of banks	76	52	36	76	52	36

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Source: Computed by authors based on data from World Development Indicators, Global Finance Development and Doing Business Databases – Note: banking stability (z-score), foreign bank assets (FBA), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest margins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises; PrSLFTR – private sector led financial transparency regulation

**Table 5: Effect of Foreign Bank Presence and Assets on Financial Stability of Banks in Strong and Weak Country Level Corporate Governance Structures – Public Sector-Led Financial Transparency Regime**

VARIABLES	(1) Full Sample	(2) Strong Governance Sample	(3) Weak Governance Sample	(4) Full Sample	(5) Strong Governance Sample	(6) Weak Governance Sample
FBP	0.0064*** (0.0016)	0.0203*** (0.0017)	-0.0083*** (0.0022)			
FBA				0.0087*** (0.0013)	0.0180*** (0.0021)	-0.0090*** (0.0025)
Clcg	-0.0178 (0.0173)			-0.0063 (0.0169)		
nim1	0.0101 (0.0138)	-0.0256* (0.0144)	-0.0294 (0.0242)	0.0144 (0.0130)	-0.0260* (0.0152)	-0.0410 (0.0272)
Nii	0.1856* (0.1043)	0.2526*** (0.0977)	0.3061 (0.2268)	0.2609** (0.1124)	0.2092** (0.0990)	0.4225* (0.2314)
cap2	0.8545*** (0.0297)	0.9023*** (0.0296)	0.7360*** (0.0543)	0.8514*** (0.0306)	0.9050*** (0.0295)	0.7533*** (0.0586)
Ci	-0.0363** (0.0177)	-0.0916*** (0.0216)	-0.0554 (0.0348)	-0.0552** (0.0263)	-0.0846*** (0.0218)	-0.0487 (0.0571)
HERF	-0.0851 (0.0680)	-0.2289** (0.0975)	-0.0585 (0.1118)	-0.1222 (0.0785)	-0.2991*** (0.1080)	-0.0133 (0.1119)
Size	- 0.8413*** (0.0296)	-0.8938*** (0.0290)	-0.7699*** (0.0636)	- 0.8402*** (0.0301)	-0.8970*** (0.0291)	-0.8019*** (0.0662)
Gdpc	0.3597*** (0.1201)	0.1915* (0.1139)	0.2210 (0.2481)	0.5351*** (0.1451)	0.2693 (0.1684)	0.1331 (0.2498)

Lernerindex	1.9777*** (0.3199)	0.1266 (0.4214)	0.8165 (0.5701)	2.2390*** (0.3427)	0.1713 (0.4975)	0.9846* (0.5315)
Inflation	0.0088** (0.0043)	0.0075 (0.0068)	-0.0017 (0.0054)	0.0136*** (0.0046)	0.0029 (0.0086)	0.0017 (0.0055)
PuSLFTR	0.0046* (0.0027)	0.0062*** (0.0023)	-0.0654*** (0.0129)	0.0041* (0.0024)	0.0072*** (0.0022)	-0.0845*** (0.0158)
Fincrisis	0.0924** (0.0471)	0.0736 (0.0623)	0.0651 (0.0546)	0.0740 (0.0478)	0.0698 (0.0640)	0.0621 (0.0571)
Constant	2.4221*** (0.2931)	2.6083*** (0.1613)	4.1667*** (0.4389)	2.0926*** (0.2774)	2.7198*** (0.2044)	4.3695*** (0.4684)
Observations	339	229	112	323	215	109
R-squared	0.8727	0.9208	0.9302	0.8950	0.9208	0.9369
No. of banks	76	52	36	76	52	36

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Source: Computed by authors based on data from World Development Indicators, Global Finance Development and Doing Business Databases – Note: banking stability (z-score), foreign bank assets (FBA), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest margins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpcc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises, PuSLFTR – public sector led financial transparency regulation.

## Conclusions and Policy Implications

In this study, the effect of foreign bank assets and presence is examined on banking stability in the economies with strong and weak country-level corporate governance in Africa between the period, 2006 - 2015. Motivated by limited studies on how foreign bank assets and presence influence banking stability in Africa, this study presents evidence for the first time on how foreign bank assets and presence influence banking stability in economies with strong and weak country-level corporate governance systems under different regulatory regimes. This study employs Prais-Winsten panel model on 86 banks across 30 African economies.

The findings show that foreign bank presence and assets promote banking stability. However, the effect of foreign bank assets and presence is enhanced in economies with strong country-level corporate governance systems, while the effect of foreign bank assets and presence reduces in economies with weak country-level corporate governance systems. This finding shows that banking

stability is reinforced in economies that have stronger corporate governance systems in Africa. After introducing different regulatory regimes, it is observed that the enhancing effect of foreign bank presence and assets on banking stability in the full sample and economies with strong and weak country-level corporate governance systems is deepened or improved under loan loss provision regulation regime. However, under the private and public sector-led financial transparency regulations, the reducing effect of foreign bank presence and assets on banking stability in economies with weak corporate governance systems is further dampened. These findings show that the relationship between foreign bank presence and assets are deeply shaped by corporate governance systems and regulatory regimes in Africa.

These findings have some policy implications. First, it is clear the corporate governance systems at the country level can be used as a strategy through which foreign bank assets and presence can induce banking stability. Hence, African economies will have to build stronger corporate governance systems that can be useful for promoting the effectiveness of how foreign bank assets and presence enhance banking stability. Second, policymakers can also rely on regulations to enhance the relationship between foreign bank assets and presence on banking stability in different contextual setups in Africa. However, policymakers must be careful in the selection and implementation of regulatory regimes since some regulatory regimes are more effective compared to others. Third, for the purpose of future research, researchers may want to consider how political institutions under different regulatory regimes can influence the relationship between foreign bank operations (assets and presence) and banking stability in Africa.

## Reference

- Appiah-Kubi, S. N. K., Malec, K., Maitah, M., Kutin, S. B., Pánková, L., Phiri, J., & Zaganjori, O. (2020). The impact of corporate governance structures on foreign direct investment: A case study of West African countries. *Sustainability*, 12(9), 3715.
- Ariss, R. T. (2010). On the implications of market power in banking: Evidence from developing countries. *Journal of banking & Finance*, 34(4), 765-775.
- Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of international financial Markets, Institutions and Money*, 18(2), 121-136.
- Baltagi, B. H. (2008). Forecasting with panel data. *Journal of forecasting*, 27(2), 153-173.
- Baltagi, B. H. (Ed.). (2015). *The Oxford handbook of panel data*. Oxford Handbooks.
- Beck, T., De Jonghe, O., & Schepens, G. (2013). Bank competition and stability: Cross-country heterogeneity. *Journal of financial Intermediation*, 22(2), 218-244.
- Berger, A. N. (1995). The profit-structure relationship in banking--tests of market-power and efficient-structure hypotheses. *Journal of money, credit and banking*, 27(2), 404-431.
- Berger, A. N., DeYoung, R., Genay, H., & Udell, G. F. (2000). Globalization of financial institutions: Evidence from cross-border banking performance. *Brookings-Wharton papers on financial services*, 2000(1), 23-120.
- Boateng, A., Huang, W., & Kufuor, N. K. (2015). Commercial bank ownership and performance in China. *Applied Economics*, 47(49), 5320-5336.
- Boyd, J. H., & Runkle, D. E. (1993). Size and performance of banking firms: Testing the predictions of theory. *Journal of monetary economics*, 31(1), 47-67.
- Boyd, J. H., De Nicolò, G., & Jalal, A. M. (2006). Bank risk-taking and competition revisited: New theory and new evidence.
- Carbó, S., Humphrey, D., Maudos, J., & Molyneux, P. (2009). Cross-country comparisons of competition and pricing power in European banking. *Journal of International Money and Finance*, 28(1), 115-134.

Carmassi, J., Gros, D., & Micossi, S. (2009). The global financial crisis: Causes and cures. *JCMS: Journal of Common Market Studies*, 47(5), 977-996.

Castro, V. (2012). *Macroeconomic determinants of the credit risk in the banking system: The case of the*. GIPSI.

Chen, C. (2009). *Bank efficiency in Sub-Saharan African middle-income countries* (No. 9-14). International Monetary Fund.

Claessens, S., Demirgüç-Kunt, A., & Huizinga, H. (2001). How does foreign entry affect domestic banking markets? *Journal of Banking & Finance*, 25(5), 891-911.

Crotty, J. (2009). Structural causes of the global financial crisis: a critical assessment of the 'new financial architecture'. *Cambridge journal of economics*, 33(4), 563-580.

Crystal, J. S., Dages, B. G., & Goldberg, L. S. (2002). Has foreign bank entry led to sounder banks in Latin America? *Current Issues in Economics and Finance*, 8(1), 1-6.

De Haas, R., & Van Lelyveld, I. (2006). Foreign banks and credit stability in Central and Eastern Europe. A panel data analysis. *Journal of banking & Finance*, 30(7), 1927-1952.

Demirgüç-Kunt, A., Levine, R., & Min, H. G. (1998). Opening to foreign banks: Issues of stability, efficiency, and growth. *The implications of globalization of world financial markets*, 83-115.

denHertog, J. (2012). Economic theories of regulation. In *Encyclopedia of law and economics*. Edward Elgar Publishing Limited.

Detragiache, E., & Gupta, P. (2006). Foreign banks in emerging market crises: Evidence from Malaysia. *Journal of financial stability*, 2(3), 217-242.

Dwumfour, R. A. (2017). Explaining banking stability in Sub-Saharan Africa. *Research in International Business and Finance*, 41, 260-279.

Fernández, A. I., González, F., & Suárez, N. (2016). Banking stability, competition, and economic volatility. *Journal of Financial Stability*, 22, 101-120.

Gaffikin, M. (2005). Regulation as accounting theory.

Globerman, S., Shapiro, D., & Tang, Y. (2006). Foreign direct investment in emerging and transition European countries. *International Finance Review*, 6(6), 431-459.

Hantke-Domas, D. (2007). Common legal principles of advanced regulatory systems. *Agua y Libre Comercio: Impacto e Implicaciones de los Acuerdos de Libre Comercio Sobre el Agua y sus Servicios*, Forthcoming.

Hillier, D., Pindado, J., De Queiroz, V., & De La Torre, C. (2011). The impact of country-level corporate governance on research and development. *Journal of International Business Studies*, 42(1), 76-98.

Ho, P. H., Lin, C. Y., & Tsai, W. C. (2016). Effect of country governance on bank privatization performance. *International Review of Economics & Finance*, 43, 3-18.

Hull, L. (2002). Foreign-owned banks: Implications for New Zealand's financial stability. *Reserve Bank of New Zealand Discussion Paper No. DP2002/05*.

Islam, M. S., & Nishiyama, S. I. (2016). The determinants of bank net interest margins: A panel evidence from South Asian countries. *Research in International Business and Finance*, 37, 501-514.

Jagannathan, R., Kapoor, M., & Schaumburg, E. (2013). Causes of the great recession of 2007–2009: The financial crisis was the symptom not the disease! *Journal of Financial Intermediation*, 22(1), 4-29.

Jiménez, G., Lopez, J. A., & Saurina, J. (2009). Empirical analysis of corporate credit lines. *The Review of Financial Studies*, 22(12), 5069-5098.

Jones, I., & Pollitt, M. (2004). Understanding how issues in corporate governance develop: Cadbury report to Higgs review. *Corporate Governance: An International Review*, 12(2), 162-171.

Kasman, S., & Kasman, A. (2015). Bank competition, concentration, and financial stability in the Turkish banking industry. *Economic Systems*, 39(3), 502-517.

Kiyota, H. (2011). *Efficiency of commercial banks in Sub-Saharan Africa: a comparative analysis of domestic and foreign banks* (No. 2011/58). WIDER Working Paper.

Lee, C. C., & Hsieh, M. F. (2014). Bank reforms, foreign ownership, and financial stability. *Journal of International Money and Finance*, 40, 204-224.

Mazumder, M. I., & Ahmad, N. (2010). Greed, financial innovation or laxity of regulation?: A close look into the 2007-2009 financial crisis and stock market volatility. *Studies in Economics and Finance*, 27(2), 110-134.

Mensah, L., Andoh, C., Kuttu, S., & Kusi, B. A. (2019). Do banking institutions respond to incentives? Banking awards and stability evidence from an emerging economy. *African Finance Journal*, 21(1), 23-49.

Ozili, P. K. (2018). Banking stability determinants in Africa. *International Journal of Managerial Finance*.

Pasiouras, F., & Kosmidou, K. (2007). Factors influencing the profitability of domestic and foreign commercial banks in the European Union. *Research in International Business and Finance*, 21(2), 222-237.

Peters, B. G. (2000). Globalization, institutions, and governance. *Governance in the Twenty-First Century: revitalizing the public service*, 29-57.

Poole, W. (2010). Causes and Consequences of the Financial Crisis of 2007-2009. *Harv. JL & Pub. Pol'y*, 33, 421.

Scott, S. M. (1995). Institutions and organizations.

Scott, W. R. (1987). The adolescence of institutional theory. *Administrative science quarterly*, 493-511.

Shapiro, D., Tang, Y., Wang, M., & Zhang, W. (2015). The effects of corporate governance and ownership on the innovation performance of Chinese SMEs. *Journal of Chinese Economic and Business Studies*, 13(4), 311-335.

Stiroh, K. J. (2004). Diversification in banking: Is noninterest income the answer? *Journal of money, Credit and Banking*, 853-882.

Stiroh, K. J. (2004). Do community banks benefit from diversification? *Journal of Financial Services Research*, 25(2-3), 135-160.

Tan, Y. (2016). The impacts of risk and competition on bank profitability in China. *Journal of International Financial Markets, Institutions and Money*, 40, 85-110.

Tunay, K. B., & Yüksel, S. (2017). The relationship between corporate governance and foreign ownership of the banks in developing countries. *Contaduría Administración*, 62(5), 1627-1642.

Vogel, U., & Winkler, A. (2010). *Foreign banks and financial stability in emerging markets: evidence from the global financial crisis* (No. 149). Frankfurt School-Working Paper Series.

Vogel, U., & Winkler, A. (2012). Do foreign banks stabilize cross-border bank flows and domestic lending in emerging markets? Evidence from the global financial crisis. *Comparative Economic Studies*, 54(3), 507-530.

Wang, R., & Sui, Y. (2019). Political institutions and foreign banks' risk-taking in emerging markets. *Journal of Multinational Financial Management*, 51, 45-60.

Wichers, C. R. (1975). The detection of multicollinearity: A comment. *The Review of Economics and Statistics*, 366-368.

York, R. (2012). Residualization is not the answer: Rethinking how to address multicollinearity. *Social science research*, 41(6), 1379-1386.

Zucker, L. G. (1987). Institutional theories of organization. *Annual review of sociology*, 13(1), 443-464.

## **Appendix**

### **Appendix 1: Breusch-Pagan Lagrangian Multiplier Test**

Test:  $\text{Var}(u)=0$

Chibar2(01)=495.33

Prob>Chibar2=0.000

### **Appendix 2: Hausman (1978) Specification**

Chi-square test value = 55.6

P-Value =0.000

### **Appendix 3: Modified Wald Test for Groupwise Heteroskedasticity**

Ho:  $\sigma^2(i) = \sigma^2$  for all i

Chi2 (77)= 1.7e+05

Prob>chi2=0.000

### **Appendix 4: Wooldridge Test for Autocorrelation in panel data**

Ho: no first order autocorrelation

F(1,60)=4.664

Prob>F=0.0348

**Appendix 5: Effect of Foreign Bank Presence on Financial Stability across Strong and Weak Different Country Level Corporate Governance Structures – Private Sector-Led Financial Transparency Regime**

VARIABLES	ESHS	ExD	ExDL	SIP	ExBD	ESHS	ExD	ExDL	SIP	ExBD
	Strong Corporate Governance Economies					Weak Corporate Governance Economies				
FBP	0.0027	0.0109**	0.0150**	0.0091**	0.0159**	0.0118**	-0.0015	-0.0018	-0.0005	-0.0020
		*	*		*	*				
nim1	(0.0022)	(0.0036)	(0.0053)	(0.0041)	(0.0055)	(0.0039)	(0.0020)	(0.0019)	(0.0020)	(0.0019)
	-0.0242	-0.0246	-0.0109	-0.0295	-0.0091	-0.0438	-0.0114	0.0626**	0.0671**	0.0632**
								*	*	*
nii	(0.0157)	(0.0167)	(0.0182)	(0.0182)	(0.0182)	(0.0404)	(0.0278)	(0.0192)	(0.0210)	(0.0196)
	0.1438	0.2720**	0.2493**	0.2100*	0.2444**	0.6063*	0.0602	0.2612	0.3485*	0.2535
cap2	(0.0915)	(0.1182)	(0.1163)	(0.1105)	(0.1159)	(0.3516)	(0.2264)	(0.1852)	(0.2009)	(0.1848)
	0.9223**	0.9001**	0.9229**	0.9495**	0.9271**	0.5262**	0.6491**	0.7787**	0.7380**	0.7761**
	*	*	*	*	*	*	*	*	*	*
ci	(0.0268)	(0.0307)	(0.0323)	(0.0288)	(0.0322)	(0.0664)	(0.0895)	(0.0479)	(0.0534)	(0.0486)
	-	-	-	-	-	0.0013	-	0.0236	0.0328*	0.0221
	0.0814**	0.1000**	0.0948**	0.1017**	0.0784**		0.0749**			
	*	*	*	*	*					
HERF	(0.0210)	(0.0332)	(0.0251)	(0.0220)	(0.0268)	(0.0256)	(0.0382)	(0.0181)	(0.0186)	(0.0186)
	-0.1200*	-0.1445	-0.1687*	-	-0.1450	0.1617	-0.0910	0.0896	0.1016	0.0818
				0.2424**						
size	(0.0630)	(0.0890)	(0.1013)	(0.1005)	(0.1024)	(0.1420)	(0.1031)	(0.0937)	(0.0996)	(0.0929)
	-	-	-	-	-	-	-	-	-	-
	0.9141**	0.8972**	0.9203**	0.9457**	0.9242**	0.5773**	0.6120**	0.7914**	0.7530**	0.7890**
	*	*	*	*	*	*	*	*	*	*
gdpc	(0.0269)	(0.0308)	(0.0321)	(0.0290)	(0.0319)	(0.0760)	(0.0867)	(0.0515)	(0.0574)	(0.0521)
	0.0476	0.3044*	0.0412	0.0444	0.0329	0.6668*	0.3073*	0.4298	0.4708	0.4145
Lernerindex	(0.0913)	(0.1727)	(0.1125)	(0.1027)	(0.1136)	(0.3895)	(0.1743)	(0.2659)	(0.2894)	(0.2638)
	0.2709	0.3440	-0.2188	-0.2664	-0.2625	0.0296	0.7925	0.1759	0.0887	0.1110
	(0.2826)	(0.5047)	(0.5997)	(0.4745)	(0.6072)	(0.8313)	(0.5037)	(0.5229)	(0.5683)	(0.5279)
Inflationcon	0.0023	0.0024	0.0108*	0.0114*	0.0044	0.0168**	0.0060	0.0174**	0.0231**	0.0168**
s								*	*	*

	(0.0028)	(0.0080)	(0.0062)	(0.0059)	(0.0069)	(0.0082)	(0.0058)	(0.0057)	(0.0063)	(0.0056)
PrSLFTR	-	-	-	-	-	0.0033	-0.0008	0.0294**	0.0421**	0.0299**
	0.0176**	0.0084**	0.0092**	0.0130**	0.0079**				*	
	*		*	*	*					
fincrisis	(0.0016)	(0.0033)	(0.0028)	(0.0023)	(0.0029)	(0.0037)	(0.0114)	(0.0132)	(0.0157)	(0.0140)
	0.0146	0.1108*	0.0108	-0.0106	0.0145	-0.0563	-0.0754	0.0812	0.1050	0.0802
	(0.0488)	(0.0584)	(0.0660)	(0.0637)	(0.0659)	(0.0884)	(0.0846)	(0.0701)	(0.0783)	(0.0705)
Constant	4.1068**	3.3368**	3.2776**	3.8714**	3.2132**	2.1183**	2.7835**	2.8475**	2.5220**	2.8818**
	*	*	*	*	*	*	*	*	*	*
	(0.2140)	(0.3248)	(0.3251)	(0.2698)	(0.3325)	(0.5239)	(0.3668)	(0.3380)	(0.3514)	(0.3392)
Observations	247	217	192	185	194	94	124	149	156	147
R-squared	0.9314	0.9071	0.8849	0.9033	0.8810	0.9041	0.8853	0.9192	0.9061	0.9158
No. of banks	50	53	41	40	41	27	35	38	42	36

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 - Source: Graphed by authors based on data from World Development Indicators and Doing Business Databases – Note: banking stability (z-score), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), foreign bank assets (FBA), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest margins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises, PrSLFTR - private sector led financial transparency regulation

#### **Appendix 6: Effect of Foreign Bank Presence on Financial Stability across Strong and Weak Different Country Level Corporate Governance Structures – Public Sector-Led Financial Transparency Regime**

ESHS	ExD	ExDL	SIP	ExBD	ESHS	ExD	ExDL	SIP	ExBD
------	-----	------	-----	------	------	-----	------	-----	------

VARIABLES	Strong Corporate Governance Economies					Weak Corporate Governance Economies				
FBP	0.0138** *	0.0155** *	0.0199** *	0.0223** *	0.0207** *	0.0059	- 0.0059** *	-0.0029	-0.0007	-0.0028
nim1	(0.0021) -	(0.0022) -	(0.0033) -0.0159	(0.0039) -	(0.0033) -0.0125	(0.0038) -	(0.0019) -0.0375	(0.0023) -0.0193	(0.0022) -0.0202	(0.0025) -0.0210
Nii	0.0388** (0.0168) 0.1051	0.0314** (0.0157) 0.2460**	0.2584** (0.0180)	0.0375** (0.0185) 0.2191**	0.2609** (0.0182)	0.0889** (0.0370) 0.3096	(0.0255) 0.1932	(0.0242) 0.1317	(0.0250) 0.1761	(0.0245) 0.1174
cap2	(0.1030) 0.9189** *	(0.1241) 0.8984** *	(0.1184) 0.9205** *	(0.1114) 0.9414** *	(0.1187) 0.9244** *	(0.2972) 0.5290** *	(0.1865) 0.6320** *	(0.1646) 0.7805** *	(0.1779) 0.7464** *	(0.1626) 0.7804** *
Ci	(0.0293) -	(0.0325) -	(0.0329) -	(0.0307) -	(0.0329) -	(0.0632) -0.0424	(0.0738) -	(0.0441) -0.0118	(0.0472) -0.0171	(0.0441) -0.0108
HERF	0.0840** *	0.0940** *	0.0817** *	0.0957** *	0.0688** *	0.0873** *	(0.0313) 0.0894	(0.0331) -0.1014	(0.0212) -0.0077	(0.0262) -0.0100
Size	(0.0259) -0.1236* (0.0679) -	(0.0328) -0.1282 (0.0932) -	(0.0252) -0.1756* (0.1024) -	(0.0243) - (0.1006) -	(0.0271) -0.1556 (0.1035) -	(0.0313) 0.0894 (0.1203) -	(0.0331) -0.1014 (0.1097) -	(0.0212) -0.0077 (0.0720) -	(0.0262) -0.0100 (0.0889) -	(0.0206) -0.0084 (0.0707) -
Gdpc	0.8988** *	0.8937** *	0.9154** *	0.9335** *	0.9204** *	0.5385** *	0.6614** *	0.7774** *	0.7365** *	0.7775** *
Lernerindex	(0.0294) 0.2508** *	(0.0326) 0.5355** *	(0.0327) 0.1404	(0.0307) 0.1707	(0.0327) 0.1157	(0.0687) 0.3914	(0.0671) 0.1912	(0.0479) 0.1669	(0.0513) 0.1598	(0.0477) 0.1520
Inflation	(0.1137) 1.7299** *	(0.1795) 1.1632** *	(0.1219) 0.1933	(0.1168) -0.0348	(0.1227) 0.0492	(0.3130) 1.4391** *	(0.1316) 1.1823** *	(0.2205) 0.5798	(0.2380) 0.9701*	(0.2158) 0.4876
	(0.3346) 0.0028	(0.4884) 0.0075	(0.6172) 0.0074	(0.5722) 0.0089	(0.6226) 0.0024	(0.6486) -0.0100	(0.4569) -0.0093	(0.4794) 0.0075	(0.5381) 0.0086	(0.4710) 0.0074

PuSLFTR	(0.0038) 0.0031	(0.0092) 0.0052**	(0.0067) 0.0082** *	(0.0067) 0.0061** *	(0.0074) 0.0081** *	(0.0078) - 0.0278** *	(0.0057) - 0.0696** *	(0.0054) - 0.0378** *	(0.0056) - 0.0390** *	(0.0053) - 0.0390** *
Fincrisis	(0.0020) 0.1048*	(0.0026) 0.1567** *	(0.0021) 0.0586	(0.0022) 0.0541	(0.0021) 0.0521	(0.0072) -0.0822	(0.0139) 0.1440**	(0.0055) -0.0208	(0.0050) -0.0072	(0.0056) -0.0226
Constant	(0.0540) 2.7254** *	(0.0601) 2.5981** *	(0.0677) 2.5692** *	(0.0640) 2.7932** *	(0.0678) 2.5933** *	(0.0773) 2.6301** *	(0.0726) 3.8374** *	(0.0585) 3.6722** *	(0.0632) 3.2313** *	(0.0586) 3.7282** *
	(0.1985)	(0.2036)	(0.2118)	(0.2264)	(0.2119)	(0.3979)	(0.3489)	(0.3638)	(0.3791)	(0.3600)
Observations	247	217	192	185	194	94	124	149	156	147
R-squared	0.9121	0.9109	0.9031	0.9058	0.9003	0.9235	0.9138	0.9262	0.9214	0.9251
No. of banks	50	53	41	40	41	27	35	38	42	36

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 - Source: Graphed by authors based on data from World Development Indicators and Doing Business Databases – Note: banking stability (z-score), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), foreign bank assets (FBA), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest mrgins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises, PuSLFTR - private sector led financial transparency regulation

#### **Appendix 7: Effect of Foreign Bank Presence on Financial Stability across Strong and Weak Different Country Level Corporate Governance Structures – Loan Loss Reserve Regime**

	ESHS	ExD	ExDL	SIP	ExBD	ESHS	ExD	ExDL	SIP	ExBD
VARIABLES	Private	Private	Private	Private	Private	Private	Private	Private	Private	Private
FBP	0.0135**	0.0260**	0.0230**	0.0231**	0.0225**	0.0153*	-0.0003	0.0032	0.0032	0.0033

	*	*	*	*	*					
nim1	(0.0023) - 0.0465** *	(0.0035) -0.0314	(0.0037) -0.0291	(0.0039) -0.0346	(0.0035) -0.0285	(0.0083) -0.0249	(0.0019) -0.0135	(0.0039) 0.0694** *	(0.0039) 0.0704** *	(0.0039) 0.0683** *
Nii	(0.0177) 0.1377 (0.1116)	(0.0223) 0.3438** (0.1586)	(0.0197) 0.2174* (0.1300)	(0.0211) 0.2144 (0.1350)	(0.0195) 0.2173* (0.1299)	(0.0676) 0.1114 (0.4505)	(0.0234) -0.1510 (0.1931)	(0.0207) -0.0362 (0.1903)	(0.0209) -0.0291 (0.1930)	(0.0204) -0.0356 (0.1899)
Cap	0.9139** *	0.9125** *	0.9487** *	0.9465** *	0.9490** *	0.8433** *	0.8144** *	0.8467** *	0.8450** *	0.8468** *
Ci	(0.0338) - 0.0929** *	(0.0317) - 0.1067**	(0.0347) - 0.0701** *	(0.0358) - 0.0761** *	(0.0343) - 0.0683** *	(0.0706) -0.0386	(0.0776) - 0.0702**	(0.0534) -0.0360	(0.0538) -0.0350	(0.0535) -0.0356
HERF	(0.0283) -0.1304*	(0.0418) -0.1720	(0.0264) - 0.3019** *	(0.0269) - 0.3069** *	(0.0263) - 0.2984** *	(0.0306) -0.1693	(0.0333) - 0.2063**	(0.0283) 0.0092	(0.0285) 0.0137	(0.0282) 0.0097
Size	(0.0709) - 0.9124** *	(0.1138) - 0.9931** *	(0.0861) - 0.9507** *	(0.1105) - 0.9495** *	(0.0858) - 0.9492** *	(0.2110) - 0.9492** *	(0.0933) - 0.6744** *	(0.0983) - 0.9086** *	(0.1002) - 0.9074** *	(0.0981) - 0.9090** *
Gdpc	(0.0358) 0.2297** (0.1161)	(0.0420) -0.1675 (0.2951)	(0.0381) 0.1559 (0.1226)	(0.0390) 0.1515 (0.1256)	(0.0377) 0.1628 (0.1214)	(0.0891) -0.3947 (0.5298)	(0.0769) 0.1877 (0.1304)	(0.0756) -0.2192 (0.4079)	(0.0761) -0.2102 (0.4124)	(0.0756) -0.2219 (0.4086)
Lernerindex	1.9276** *	-0.9949	0.2885	0.2750	0.3797	-0.9726	1.0395**	0.7833	0.8273	0.7323
Inflation	(0.3376) 0.0025 (0.0039)	(0.8442) -0.0181 (0.0156)	(0.5697) 0.0043 (0.0064)	(0.5913) 0.0045 (0.0067)	(0.5683) 0.0042 (0.0064)	(1.2492) 0.0136* (0.0082)	(0.4298) -0.0022 (0.0052)	(1.1433) 0.0118** (0.0054)	(1.1584) 0.0126** (0.0055)	(1.1373) 0.0120** (0.0053)
InLLR	0.0162	0.0905** *	0.0072	0.0089	0.0046	0.1417	- 0.0855**	0.1066*	0.1070*	0.1069*

							*			
	(0.0203)	(0.0342)	(0.0221)	(0.0227)	(0.0220)	(0.0905)	(0.0308)	(0.0561)	(0.0563)	(0.0562)
Fincrisis	0.1251**	0.0260	0.1133	0.1172	0.1214*	-0.0758	-0.0309	0.0135	0.0128	0.0173
	(0.0607)	(0.1083)	(0.0711)	(0.0743)	(0.0705)	(0.1332)	(0.0663)	(0.1204)	(0.1215)	(0.1197)
Constant	2.8247**	3.2937**	2.6572**	2.6970**	2.6420**	3.1929**	2.7244**	2.7514**	2.7105**	2.7776**
	*	*	*	*	*	*	*	*	*	*
	(0.2347)	(0.3739)	(0.2702)	(0.2846)	(0.2690)	(1.1134)	(0.3617)	(0.8175)	(0.8249)	(0.8117)
Observation	226	217	171	167	173	107	116	162	166	160
R-squared	0.9023	0.8465	0.8942	0.8864	0.8979	0.7814	0.9354	0.8383	0.8385	0.8395
No. of banks	50	62	41	40	41	36	35	47	51	45

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 - Source: Graphed by authors based on data from World Development Indicators and Doing Business Databases – Note: banking stability (z-score), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), foreign bank assets (FBA), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest mrgins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises –financial crises, InLLR – loan loss provision regulation regime

#### Appendix 8: Effect of Foreign Bank Presence on Financial Stability across Strong and Weak Different Country Level Corporate Governance Structures – No Regulatory Regime

VARIABLES	ESHS Private	ExD Private	ExDL Private	SIP Private	ExBD Private	ESHS Private	ExD Private	ExDL Private	SIP Private	ExBD Private
FBP	0.0141** *	0.0241** *	0.0223** *	0.0199** *	0.0229** *	0.0154** *	-0.0014	0.0033	0.0039	0.0033
nim1	(0.0020) -	(0.0031) -0.0339	(0.0041) -0.0199	(0.0036) -	(0.0039) -0.0175	(0.0041) -0.0727	(0.0021) -0.0106	(0.0027) 0.0653**	(0.0027) 0.0684**	(0.0027) 0.0648**

	0.0466**			0.0413**				*	*	*
	*									
Nii	(0.0169)	(0.0207)	(0.0188)	(0.0189)	(0.0188)	(0.0536)	(0.0285)	(0.0219)	(0.0224)	(0.0219)
	0.1017	0.2374*	0.2373**	0.2029*	0.2421**	0.2172	0.0654	-0.0199	-0.0070	-0.0213
Cap	(0.1009)	(0.1228)	(0.1175)	(0.1115)	(0.1173)	(0.3432)	(0.2258)	(0.1859)	(0.1946)	(0.1853)
	0.9190**	0.8994**	0.9173**	0.9370**	0.9208**	0.8412**	0.6489**	0.8540**	0.8421**	0.8543**
	*	*	*	*	*	*	*	*	*	*
Ci	(0.0292)	(0.0251)	(0.0323)	(0.0302)	(0.0322)	(0.0381)	(0.0875)	(0.0338)	(0.0344)	(0.0339)
	-	-	-	-	-	-0.0323	-	-0.0357	-0.0306	-0.0358
	0.0884**	0.1033**	0.0899**	0.0964**	0.0757**		0.0746**			
	*	*	*	*	*					
HERF	(0.0256)	(0.0362)	(0.0256)	(0.0242)	(0.0272)	(0.0273)	(0.0381)	(0.0288)	(0.0290)	(0.0288)
	-0.1275*	-	-0.1627	-	-0.1421	-0.1653	-0.0910	-0.1013	-0.0751	-0.1011
		0.1951**		0.2614**						
Size	(0.0667)	(0.0989)	(0.1014)	(0.1020)	(0.1026)	(0.1674)	(0.1047)	(0.1219)	(0.1158)	(0.1217)
	-	-	-	-	-	-	-	-	-	-
	0.8986**	0.8889**	0.9111**	0.9283**	0.9154**	0.8539**	0.6122**	0.8232**	0.8099**	0.8234**
	*	*	*	*	*	*	*	*	*	*
Gdpc	(0.0292)	(0.0259)	(0.0320)	(0.0302)	(0.0319)	(0.0458)	(0.0837)	(0.0434)	(0.0436)	(0.0435)
	0.2289**	-0.1331	0.0958	0.1545	0.0748	-0.3844	0.3000*	-0.1341	-0.1473	-0.1354
	(0.1115)	(0.2715)	(0.1220)	(0.1159)	(0.1224)	(0.4307)	(0.1601)	(0.3628)	(0.3662)	(0.3627)
Lernerindex	1.7269**	-0.9574	0.2380	0.2956	0.1021	-1.3018	0.7962	0.9880	0.9935	0.9742
	*									
Inflation	(0.3309)	(0.8059)	(0.6373)	(0.5333)	(0.6331)	(0.9033)	(0.5020)	(0.7891)	(0.7743)	(0.7849)
	0.0017	-0.0043	0.0057	0.0057	-0.0003	0.0158	0.0061	0.0104*	0.0128**	0.0104*
	(0.0036)	(0.0125)	(0.0066)	(0.0065)	(0.0071)	(0.0100)	(0.0057)	(0.0057)	(0.0059)	(0.0057)
Fincrisis	0.1000*	-0.0216	0.0568	0.0633	0.0527	-0.1528	-0.0760	-0.0209	-0.0232	-0.0188
	(0.0542)	(0.0882)	(0.0694)	(0.0667)	(0.0689)	(0.1158)	(0.0788)	(0.1059)	(0.1076)	(0.1058)
Constant	2.8131**	2.8951**	2.5627**	2.8468**	2.6005**	3.2133**	2.7676**	2.3586**	2.2062**	2.3690**
	*	*	*	*	*	*	*	*	*	*
	(0.2004)	(0.2510)	(0.2215)	(0.2331)	(0.2201)	(0.5464)	(0.3650)	(0.5139)	(0.5024)	(0.5113)

Observations	247	245	192	185	194	122	124	177	184	175
R-squared	0.9082	0.8759	0.8804	0.8954	0.8803	0.8212	0.8818	0.8495	0.8442	0.8492
No. of banks	50	63	41	40	41	37	35	48	52	46

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 - Source: Graphed by authors based on data from World Development Indicators and Doing Business Databases – Note: banking stability (z-score), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), foreign bank assets (FBA), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest margins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises – financial crises.

## Appendix 9: Summary of Variables

Variables		Measurements	Sources	Expected Sign
Bank (ZSCORE)	Stability	capital ratio + return on assets / standard deviations of return on assets	computed by authors based on data from BankScope	
Country Corporate Governance (CLCG)	Level	Average of all country level corporate governance indicators	computed by authors based on data from World Bank, Doing Business	+
Ease of Shareholder suits (ESHS)		The ease of shareholder suits index measures how likely plaintiffs are to access internal corporate evidence. It has six components: (i) whether shareholders owning 10% of the company's share capital have the right to inspect the Buyer-Seller transaction documents before filing a suit; (ii) whether shareholders owning 10% of the company's share capital can request that a government inspector investigate the Buyer-Seller transaction without filing a suit; (iii) what range of documents is available to the shareholder plaintiff from the defendant and witnesses during trial; (iv) whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each document specifically; (v) whether the plaintiff can directly examine the defendant and witnesses during trial (0-2); and (vi) whether the standard of proof for civil suits is lower than that for criminal cases.	World Bank, Doing Business project ( <a href="http://www.doingbusiness.org/">http://www.doingbusiness.org/</a> )	+

<p><i>extent of Disclosure index (ExD)</i></p>	<p>The extent of disclosure index measures the approval and disclosure requirements of related-party transactions. It has five components: (i) whether it is the managing director alone, the board of directors, or the general meeting of shareholders the corporate body who can provide legally sufficient approval for the transaction (points are assigned depending on whether interested directors are permitted to vote or not); (ii) whether an external body (an independent auditor, for example) must review the transaction before it takes place; (iii) whether disclosure by Mr. James to the board of directors or the supervisory board is required; (iv) whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required; and (v) whether disclosure in periodic filings (for example, annual reports) is required</p>	<p>World Bank, Doing Business project (<a href="http://www.doingbusiness.org/">http://www.doingbusiness.org/</a>) +</p>
<p><i>extent of director liability index (ExDL)</i></p>	<p>The extent of director liability index measures when board members can be held liable for harm caused by related-party transactions and what sanctions are available. It has seven components: (i) whether shareholders can sue directly or derivatively for the damage the transaction causes to the company; (ii) whether a shareholder plaintiff can hold Mr. James liable for the damage the</p>	<p>World Bank, Doing Business project (<a href="http://www.doingbusiness.org/">http://www.doingbusiness.org/</a>) +</p>

Buyer-Seller transaction causes to the company; (iii) whether a shareholder plaintiff can hold other executives and directors (the CEO, members of the board of directors or members of the supervisory board) liable for the damage the transaction causes to the company; (iv) whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff; (v) whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff; (vi) whether Mr. James is disqualified upon a successful claim by the shareholder plaintiff; and (vii) whether a court can void the transaction upon a successful claim by a shareholder plaintiff.

<i>strength of investor protection (SIP)</i>	The extent of disclosure index, the extent of director liability index, and the ease of shareholder suit index. The index ranges from 0 (little to no investor protection) to 10 (greater investor protection)	World Bank, Doing Business project ( <a href="http://www.doingbusiness.org/">http://www.doingbusiness.org/</a> )	+
<i>extent of business disclosure (ExBD)</i>	Disclosure index measures the extent to which investors are protected through disclosure of ownership and financial information. The index ranges from 0 to 10, with higher values indicating more disclosure.	World Bank, Doing Business project ( <a href="http://www.doingbusiness.org/">http://www.doingbusiness.org/</a> )	+
Financial Transparency (PrSLFTR)	Measures the number of individuals or firms listed by a private sector information	World Development Indicators	+/-

	sharing institutions with current information on repayment history, unpaid debts, or credit outstanding. The number is expressed as a percentage of the adult population.		
Financial Transparency (PuSLFTR)	Measures the number of individuals and firms listed in a public credit registry with current information on repayment history, unpaid debts, or credit outstanding. The number is expressed as a percentage of the adult population.	World Development Indicators	+/-
Profitability (NIM)	Natural log of net interest margins	computed by authors based on data from BankScope	+/-
Non-Interest Income (NII)	Non-interest income/ total income	computed by authors based on data from Bank Scope	+
Capitalization (CAP)	Natural log of total equity	computed by authors based on data from Bank Scope	+
Efficiency (CI)	operating expenses / total operating income	computed by authors based on data from BankScope	-
Concentration (HERF)	$(\text{GrossLoans} / \text{sum}(\text{GrossLoans}))^2$	computed by authors based on data from BankScope	-
Foreign bank presence (FBP)	number of foreign banks / total number of banks	Global Financial Development	+/-
Foreign bank assets (FBA)	Asset of foreign banks/ total industry assets		+/-
Size	natural log of total assets	computed by authors based on data from data	-/+
Gross Domestic Product per Capita (GDPC)	sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of	World Development Indicators	+

		the products / total population		
Lerner Index (Lerner)		(Price – Marginal Cost)/ Price	Global Development	Financial +
Inflation		changes consumer price index	World Indicators	Development -/+
Financial (FINCRISES)	Crises	Dummy which assumes a value of 1 for years 2007, 2008 and 2009 and 0 otherwise	Dietrich and Wanzeried, 2011; Molyneux and 2009	Goddard, Wilson, -/+

**Table 10: Summary Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
ZSCORE	945	1.64	1.027	-4.228	4.524
PRSLTR	777	20.436	25.479	0	66.2
PUSLTR	777	5.366	13.842	0	82.6
CLCG	939	7.908	0.236	1.8	11.400
ESHS	947	6.449	2.138	1	10
EXDL	947	5.488	2.337	1	9
EXD	947	5.164	2.312	0	8
SIP	939	17.148	4.948	4	25
EXBD	947	5.248	2.244	0	8
NIM	739	7.587	2.646	-.511	13.535
NII	947	39.500	45.9	-3.333	559.4
CAP	965	6.798	3.103	-2.303	13.827
CI	939	1.476	8.871	-190.559	129.267
HERF	968	7.10	21.60	0	1
FOREIGNBANKS	656	41.419	21.388	0	94
SIZE	972	8.994	3.178	1.163	16.198
GDPC	716	6.90	14.1	-53.6	136.00
LERNER	634	29.00	10.40	-8.40	58.00
INFLATION	840	8.221	5.618	-.25	47.305
FINCRISES	973	.307	.462	0	1

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 - Source: Graphed by authors based on data from World Development Indicators and Doing Business Databases – Note: banking stability (z-score), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), foreign bank assets (FBA), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest margins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises –financial crises.

### Appendix 11: Pearson's Correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) ZSCORE	1.000																
(2) PRSLTR	-	1.000															
	0.350*																
(3) PUSLTR	0.059	-	1.000														
		0.308*															
(4) ESHS	-0.021	0.094*	0.226*	1.000													
(5) EXDL	-	0.456*	0.206*	0.291*	1.000												
	0.279*																
(6) EXD	-	0.664*	-0.050	0.199*	0.398*	1.000											
	0.137*																
(7) SIP	-	0.577*	0.166*	0.658*	0.780*	0.748*	1.000										
	0.197*																
(8) EXBD	-	0.656*	-0.041	0.170*	0.401*	0.973*	0.725*	1.000									
	0.148*																
(9) NIM1	-	0.379*	-	0.279*	0.087*	0.191*	0.253*	0.161*	1.000								
	0.120*		0.258*														
(10) NII	0.094*	-	0.127*	0.048	0.002	-	-0.042	-	-	1.000							
		0.315*				0.127*		0.126*	0.613*								
(11) CAP2	0.197*	-	0.070*	0.219*	-	-0.042	0.047	-	-	0.615*	1.000						
		0.226*			0.061*			0.063*	0.184*								
(12) CI	-0.049	-0.049	0.021	-0.022	0.008	-	-0.032	-	-	-	0.084*	1.000					
						0.055*		0.055*	0.075*	0.264*							
(13) HERF	0.079*	-	-0.027	-	-	-	-	-	-0.058	0.045	0.127*	0.072*	1.000				
		0.106*		0.117*	0.080*	0.079*	0.123*	0.088*									
(14)	0.234*	-	0.203*	-0.010	-	-	-	-	0.041	-0.035	0.041	0.007	0.061	1.000			
FOREIGNBAN		0.508*			0.121*	0.202*	0.143*	0.207*									
(15) SIZE	0.102*	-	0.081*	0.233*	-0.039	-0.051	0.059*	-	-	0.629*	0.972*	0.080*	0.115*	0.041	1.000		
		0.238*						0.072*	0.193*								
(16) GDPC	0.074*	-	-	-0.043	-	-	-	-	-	0.048	0.030	0.014	0.023	0.131*	0.028	1.000	
		0.210*	0.085*		0.169*	0.132*	0.168*	0.149*	0.086*								
(17)	0.311*	-	0.402*	0.146*	-	-	-	-	-	0.219*	0.214*	0.015	0.031	0.453*	0.217*	0.099*	1.000
LERNERINDEX		0.754*			0.456*	0.469*	0.388*	0.466*	0.258*								
(18)	0.095*	-	-	-	-	-	-	-	-	0.138*	0.113*	0.052	0.052	0.031	0.121*	-0.023	-0.006
INFLATION		0.243*	0.271*	0.116*	0.165*	0.225*	0.251*	0.221*	0.128*								

(19)	-	-0.025	-	-0.053	-	-	-	-	-	0.024	-0.025	0.023	0.004	-0.037	0.002	0.030	-	0
FINCRISES	0.063*		0.068*		0.078*	0.101*	0.109*	0.085*	0.068*								0.136*	

Standard errors in parentheses - Significance Level: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 - Source: Graphed by authors based on data from World Development Indicators and Doing Business Databases – Note: banking stability (z-score), private sector-led financial transparency regulation (PrSLFTR), public sector-led financial transparency regulation (PuSLFTR), foreign bank assets (FBA), ease of shareholder suit index (ESHS), extent of Disclosure index (ExD), extent of director liability index (ExDL), strength of investor protection (SIP) and extent of business disclosure (ExBD), foreign bank presence (FBP), country level corporate governance (clcg), nim – net interest mrgins, nii – non-interest income, cap – capital adequacy, ci – cost efficiency, herf – concentration, size – bank size, gdpc – gross domestic product per capital; lerner – market power, inflation – economic stability, fincrises –financial crises.