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Factors Affecting Financial Performance in Commercial Banks in Nepal

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Abstract

The financial performance of the banking industry reflects the overall economic status of the banking sector, which is, without doubt, a key part of the Nepalese economy. This study examines the key factors influencing the financial performance of Nepalese commercial banks through a survey-based methodology. A cell-administered questionnaire was employed to gather primary data from a sample of two hundred ten (N = 210) respondents, comprising bank employees, managers, and financial analysts from different commercial banks.

The study investigates the strike of risk management practices, intellectual capital and internal control on financial performance of Nepalese commercial banks using Principal Component Analysis (PCA). The results show that risk management practices, intellectual capital and internal control are statistically significant and influence the financial performance of the Nepalese commercial banks. The results also show how important internal governance and risk management are for improving performance metrics. The study adds to the limited real-world research on Nepal's banking sector by providing policymakers, regulators, and bankers with useful guidance on how to make the banking sector more stable and profitable.

Keywords: *commercial banks, financial performance, intellectual capital, internal control, Nepal, risk management*

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Introduction

The financial performance of commercial banks is a very important sign of how well a country's economy is growing. The commercial banking sector is very important to Nepal's economic growth, but its performance is affected by several internal and external factors. These factors include the use of new technologies and bigger problems with the economy and regulations. This article examines the main factors affecting the stability and profitability of Nepal's commercial banks. Both micro-level (internal) and macro-level (external) factors affect how well Nepalese commercial banks do their jobs. The Nepalese financial sector is undergoing a significant digital transformation, as many people use mobile phones and the internet. Using e-banking, mobile banking, and AI-powered systems can help businesses run more smoothly, save money, and give better customer service (Aryal, 2022). AI is being used for real-time fraud detection and risk management, for example. This helps reduce the number of non-performing loans (NPLs) and improve the overall financial health. However, this change also raises issues, including the need for robust IT infrastructure, a shortage of skilled workers, and concerns about data security and privacy (Sunway College, 2025).

Economic and Market Dynamics:

The Nepalese banking sector operates in a highly competitive, sometimes unstable economy. Liquidity crises, slow economic growth, and stiff competition among many financial institutions are just a few factors that can hurt profitability and stability (Ebuka, 2024). The buildup of non-performing loans (NPLs) has been a significant problem, and it can worsen during economic downturns, thereby increasing credit risks (The Himalayan Times, 2025). How well banks handle these risks is a key factor in their financial performance.

Regulatory and Policy Environment:

The Nepal Rastra Bank (NRB) oversees the regulatory framework, which has a significant impact on how banks operate. The central bank's policies on capital adequacy, liquidity, and lending practices directly affect how commercial banks operate. Frequent changes to ad hoc policies and a lack of clear rules, especially for new technologies like AI, can create confusion and slow down change in the banking sector (Ebuka, 2024). To maintain public trust and the long-term life of the banking sector, there must be a strong, stable, and well-enforced regulatory system. Many factors affect the financial life of commercial banks in Nepal, including technology, the economy, and the law. The digital revolution is underway, bringing new opportunities for growth and efficiency. However, it also introduces new risks that must be handled carefully.

For Nepal's commercial banking sector to remain profitable and strong, it needs a balanced approach that incorporates new technologies, addresses systemic problems, and fosters a stable regulatory environment (Adams & Mehran, 2012). This study seeks to analyze the perspectives and experiences of banking personnels to comprehend the determinants influencing the financial performance of commercial banks in Nepal. The main goals of this study are to examine people's opinions and experiences regarding how organizations are run, how money is managed, how people are hired and fired, how politics is involved, and how new technology affects the economy in Nepal's commercial banks.

Goals and objectives

This study seeks to analyze the determinants affecting the performance of commercial banks in Nepal. To achieve this goal, the study's objectives are as follows.

Objectives

To investigate the impact of risk management practices on the financial performance of commercial banks in Nepal.

To evaluate the influence of intellectual capital on the financial performance of commercial banks in Nepal.

To examine the correlation between internal control systems and the financial performance of commercial banks in Nepal.

Research Questions

How much do risk management practices have a big effect on the financial health of Nepal's commercial banks?

How does intellectual capital help commercial banks in Nepal make money?

How do internal control systems affect the financial performance of Nepal's commercial banks?

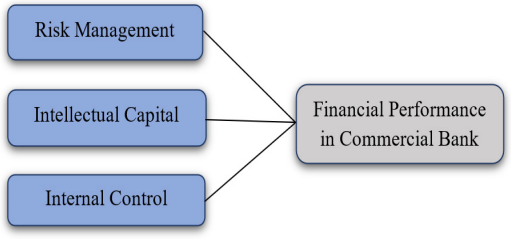

Figure 1. Summary of independent and dependent variables

Hypothesis

H_1: Risk management practices have a significant positive effect on the financial performance of commercial banks in Nepal.

H_2: Intellectual capital has a significant positive impact on the financial performance of commercial banks in Nepal.

H_3: Internal control systems have a significant positive effect on the financial performance of commercial banks in Nepal.

Theoretical framework of the study

Institutional Theory provides a significant theoretical foundation for analyzing the factors that impact the financial performance of Commercial Banks (CBs). This framework posits that organizational structures, practices, and consequently, performance, are not exclusively motivated by rational efficiency but are substantially shaped by the institutional context in which they operate (Scott, 2013). For CBs, this environment includes a wide range of cultural, cognitive, and regulatory factors. Regulatory institutions include formal laws and rules, such as national cooperative acts and prudential norms set by financial authorities, that set limits on how things can be done and what must be reported.

To identify the most important factors for CBs' financial health and longevity, it is important to understand how they interact with their institutional context (Karki, 2024).

Institutional theory posits that our behaviors are significantly shaped by the surrounding social context, rather than being solely determined by individual strategic decisions, as frequently emphasized in management research. It stresses the need to follow both formal rules and unwritten social norms, even going beyond basic compliance (Durand et al., 2019). This way of looking at things helps us understand how organizations deal with stress, how institutions are set up, and how they can improve or worsen over time (Acharya, 2018). People often use this theory to examine how businesses follow rules and social norms, and how they generally try to get people to like and accept them. Institutional theory provides significant insights (Subedi, 2023), into a company's "social license to operate," which refers to the informal approval from society for a business to exist and function. It has been extensively utilized to analyze how companies evade corruption, indicating that institutional compliance and conformance can render corrupt practices less viable and, in some cases, eliminate them entirely (Gottschalk & Hamerton, 2023).

Organizational Governance

For the last 20 years, scholars and regulators have been interested in corporate governance and its impact on organizational performance, especially in banking sector. This has led to new governance codes around the world, raising standards. Research across countries shows that governance structures differentiate widely. Shleifer and Vishny (1998) gave a key overview, while La Porta et al. (1997, 1998) showed how legal systems affect governance effectiveness. In economies characterized by the "Anglo-Saxon dispersed ownership model," the primary conflict exists between shareholders and managers. Governance seeks to align managerial decisions with shareholder interests to enhance wealth and performance. La Porta et al. (1997) contend that inadequate investor protection is

associated with greater ownership concentration and a greater reliance on control mechanisms. Research frequently investigates variables such as board size and composition as governance controls (Adams & Mehran, 2012; Agoraki et al., 2010; Pathan & Faff, 2013; Sierra et al., 2006). Many studies indicate a positive correlation between robust governance and enhanced corporate value or performance (Cheung et al., 2014; Klapper & Love, 2004). Comparable results are observed across banking sectors (Berger et al., 2005; De Masi & Paci, 2016; Ghosh, 2017; Mülbert, 2009; Naushad & Abdul Malik, 2015; Qian & Yeung, 2015; Srairi, 2015). Nonetheless, recent crises have sparked apprehensions regarding governments' capacity to enforce governance, ensure equitable markets, and avert systemic crises (Abdallah & Ismail, 2017). Different studies investigate the effects of crises on banking, particularly governance. Berger et al. (2016) found that banks characterized by high managerial ownership, especially among lower-level employees, face a greater risk of failure than those with CEO ownership. Bhatt and Bhatt (2017) demonstrated that enhanced governance, as indicated by MCGI, is associated with improved performance in Malaysian companies. Myeza, Ecim and Maroun, (2023) examined the role of integrated thinking in enabling leaders to navigate COVID-19 disruptions by transforming business models through a multi-stakeholder approach. Our research emphasizes concentration on ownership and market competition as governance mechanisms within the banking sector.

Financial Management Practices in the Banking Industry

Financial management is a key part of running a business and is important for its success. Bad practices and unstable markets make things more complicated and undefined (Chandra, 2017). This makes us wonder whether businesses can better manage their finances, analyze results, predict trends, and make decisions (Barker, 2017). This study looks at how financial management affects the performance of commercial banks in Nepal.

Strong financial systems are linked to economic growth worldwide. In China, Elliott and Yan (2017) show that reforms led to more growth, making it the second-largest economy. Ethical practices and transparency reduce corruption and make resources more efficient. In the U.S., McKinney (2017) says that better governance, stricter rules, and better reporting are needed to improve financial management. Edem (2017) says that in Canada, banks face financial risk from changes in interest rates and exchange rates, defaults, liquidity, and volatility, which can hurt cash flows and performance. Kenyan banks say that liquidity, credit, market, interest rate, and foreign exchange risks are their biggest threats (Barker, 2017).

According to Lelgo and Obwogi (2018), liquidity risk happens when banks don't have enough liquid funds to run their businesses, which makes it harder for them to meet their obligations. Tiwary (2019) talks about foreign exchange settlement risk as the possible loss when a bank pays for currency but doesn't get it, which can happen because of default, operational problems, or market liquidity issues. Market risk is the possible loss that can happen when the value of traded financial instruments changes. Lelgo and Obwogi (2018) assert that liquidity risk in Europe occurs when banks do not possess adequate liquid assets for their operations, complicating the fulfilment of obligations. Tiwary (2019) characterizes foreign exchange settlement risk as the prospective loss incurred when a bank remits payment for currency but fails to receive it, attributable to default, operational challenges (market liquidity constraints). Market risk refers to the potential losses arising from variations in the value of traded financial instruments (Tiwary, 2019).

Skills of human resource management for better financial performance

Resource-based view elucidates the impact of High-Performance Work Systems (HPWs) on performance by highlighting the cultivation of internal resources to attain competitive advantage (Barney, 1991). It conceptualizes human resources as strategic assets that enable organizations to adapt to evolving markets. Resources characterized by Valuable, Rare, Inimitable, and Non-substitutable (VRIN) attributes—valuable, rare, inimitable, and non- substitutable—provide a competitive advantage (Barney et al., 1991). HPWS can

transform HR into a VRIN asset, rendering it challenging for competitors to replicate (Becker & Gerhart, 1996; Bowen & Ostroff, 2004).

It boosts productivity by enhancing workers' skills, abilities, and motivation, and empowering them to act in alignment with organizational goals. Previous research has shown that HPWS plays a key role in encouraging human resources to engage in discretionary behaviors within the organization, which are unique and challenging for other firms to imitate (Beltrán-Martín et al., 2008; Katou, 2021; Mehralian et al., 2023). In this study, Resource-Based View (RBV) provides a theoretical foundation for explaining how HPWS, a set of HR practices, develops human resource capabilities, ultimately leading to better performance (Fu et al., 2019; Jiang et al., 2012; Lu et al., 2015). Therefore, HPWS is viewed as a strategic investment process in building a valuable HR pool to optimize organizational performance.

Dynamic Capability View (DCV), introduced by Teece, Pisano, and Shuen (1997), offers a forward-looking perspective for organizations. Dynamic capabilities refer to ''the firm's ability to integrate, build, and reconfigure internal and external competencies to respond to rapidly changing environments' (Teece et al., 1997, p. 516). Organizations can develop these capabilities by utilizing key resources to seize opportunities and address environmental challenges (Apascaritei & Elvira, 2021; Nejatian & Zarei, 2013; Wang, Chen & Lawler, 2022). Organizational agility is one such dynamic capability that enables quick detection and response to change business conditions (Apascaritei & Elvira, 2021; Irfan, Wang & Akhtar, 2019; Nijssen & Paauwe, 2012). The banking sector faces globalization, privatization, economic shifts, technology, and sustainability challenges, underscoring the need for organizational agility (Irfan et al., 2019; Panda & Rath, 2016). This study uses DCV to explore how agility boosts performance. HPWS includes key HR practices that align workforce efforts with strategic goals, differing from traditional Human Resource (HR).

In contrast, traditional HR practices mainly function as supporting roles for a company's management (Mansour, Gara & Gaha, 2014; Patel et al., 2013; Riaz et al., 2021). Huselid, (1995) described HPWS as an internally consistent set of HR practices and policies that enhance employees' skills and capabilities, thereby enabling the organization to gain a competitive advantage. HPWS refers to the collection of several interconnected HR practices, such as "selective staffing, rigorous recruitment, training and development, open communication, decentralized decision-making, worker participation, and employment security" (Aryee et al., 2017; Jo et al., 2018; Zhang, Fan & Zhu, 2014).

Organizations adopt mutually reinforcing HR practices that focus on hiring, developing, and empowering employees to achieve positive individual and organizational outcomes (Han et al., 2019; Mansour, 2023; Narbariya, Nayeem & Gupta, 2022). Many Strategic Human Resource Management (SHRM) scholars argue that using a "bundle of practices" or a "system" approach to implement HPWS produces more substantial synergistic effects than isolated HR practices (Mihail & Kloutsiniotis, 2016; Shin & Konrad, 2017; Subramony, 2009). However, there is no clear consensus on which practices combine to form a "optimal" high-performance work system (Cooke et al., 2019; Dastmalchian et al., 2020; Jewell, Jewell & Kaufman, 2022).

Political influence on banking performance

Many studies examine how political factors, such as electoral cycles, influence government-owned banks (GOBs) and their lending practices. However, little research explores how political uncertainty affects overall banking performance (Dine, 2005). Studies show that GOBs lend more money during elections than private banks (Dinç, 2005; Micco et al., 2007; Cole, 2009; Iannotta, Nocera & Sironi, 2013). Sapienza (2004) said that social, agency, and political factors lower GOBs' performance and interest rates, especially in poorer areas, and that political interference is linked to the strength of the local ruling party. Shen and Lin (2012) found that weaker GOBs' performance is mostly due to political interference, not corruption. Research indicates that political

factors influence banking. Imai (2009) discovered that regional banks in Japan performed better when ruling-party politicians exerted greater influence. Brown and Dinç (2005) highlighted the importance of aligning managerial and political objectives prior to elections in shaping regulation. Rosenbluth and Schaap (2003) noted that electoral rules affect banking regulation decisions. Kane (1996) underscored the significance of politics in prompting regulatory intervention and postponing bank failures.

Krzysztof, Kowalewski & Kozlowski (2013) discovered that government ideology does not significantly impact GOBs or their profitability. Political competition and uncertain elections did not reduce interest rate margins, even during concurrent or early elections. Previous studies measure electoral uncertainty based on officials' identities (Krzysztof et al., 2013), but broader factors such as transparency, institutional quality, and voter freedom also matter. Results show banking activities are mostly unaffected by political influence, with African politicians not swaying voters through tax or monetary policy. This independence is supported by models that include transparency and election quality. Politicians might influence voters via social, religious, or cultural issues, which are outside this study's scope and need future research. Despite efforts to improve systems, monetary policy and banking regulation remain low political priorities.

Different studies have explored how political influence affects banking performance, especially in government-owned banks (GOBs). Dinç (2005) found that in emerging markets, GOBs significantly boost lending during election years compared to private banks, indicating that political goals influence lending behavior. Similarly, Micco, Panizza, and Yáñez (2007) examined the performance of state-owned versus private banks and found that state-owned banks in developing countries generally have lower profitability and higher costs, with these differences becoming more evident during election periods, demonstrating the role of political factors. In India, Cole (2009) showed that state-owned banks increased agricultural lending before state elections, suggesting that banking activities were sometimes used to support political aims rather than purely economic ones. Overall, these studies provide strong evidence that political connections and electoral motives can significantly influence the performance and lending patterns of government-owned banks across different regions.

Literature

Table 1. Summary of the previous studies

Authors (Years)	Sources of articles	Objectives	Methods	Key results	Research gaps
Panta, and Bedari (2015)	NRB Economic Review	To analyse the cost efficiency of Nepalese commercial banks in the context of regulatory changes.	Malmquist Productivity Index (MPI) approach.	The study found varying levels of cost efficiency among banks, with regulatory changes having a significant impact on their performance.	The study was limited to regulatory changes and could be expanded to include a broader range of internal and external factors.
Gnawali (2018)	Success Culture Press	To examine the impact of non-performing assets (NPAs) on the profitability of commercial banks.	Panel data analysis of 10 banks for the period 2010–2017.	NPAs were found to have a significant adverse effect on profitability. Capital adequacy and loan-to-deposit ratios were positively associated with profitability.	A significant lack of empirical research on the intricate relationship between non-performing loans and profitability within the specific context of Nepal.
Acharya (2018).	PhD Thesis, The University of Waikato	To investigate the impact of corporate governance practices on the performance of commercial banks.	The study employed various corporate governance indicators and financial performance metrics (ROA and ROE).	Corporate governance structures, such as board size and the existence of a CFO, were found to have a statistically positive effect on performance. The percentage of external directors had a negative impact.	The applicability of corporate governance mechanisms from developed countries may not be practical in a low-income country like Nepal due to significant socio-economic differences.

Shrestha (2020)	NRB Economic Review	To explore the determinants of financial performance of Nepalese commercial banks using a panel data approach.	Panel data of 17 commercial banks from 2010/11 to 2017/18, using descriptive, correlation, and causal comparative research designs.	Leverage, non-performing loans, and liquidity harmed profitability (ROA and ROE). Capital adequacy, bank size, and GDP growth had a positive impact on the economy.	The study was limited to a specific time period and could be expanded to include a broader range of internal and external variables.
Chaudhary and Pandit (2019).	NRB Economic Review	To analyse the price elasticity of sectoral lending in Nepal.	Malmquist Productivity Index (MPI) approach.	The study found that while the price elasticity of lending varied by sector, it was a significant factor in determining the performance of commercial banks.	Further research could investigate the specific factors that influence lending decisions in various sectors, beyond just price elasticity.
Karki (2024).	Research Gate	To analyse the financial stability and resilience of commercial banks using the CAMELS approach and market stress testing.	Multiple regression analysis and market stress testing.	Capital adequacy, asset quality, management quality, and sensitivity to market risk are significantly related to earnings per share (EPS). Nabil Bank emerges as a top performer.	Future research could explore the long-term impact of mergers and acquisitions on bank performance.
Ojha (2019).	Journal of Advanced Academic Research	To analyse the impact of internal and external factors on the profitability of Nepalese commercial banks.	Panel data regression analysis.	Internal factors, such as capital adequacy, asset quality, and management efficiency, have a significant positive impact. Macroeconomic factors, such as GDP growth and inflation, have a positive impact, albeit less significantly.	The study focuses primarily on profitability (ROA, ROE) and could be expanded to include other performance measures.
Subedi (2023)	International Journal of Research in Commerce, Economics and Management	To examine the impact of bank-specific and macroeconomic factors on the profitability of commercial banks in Nepal.	Multiple regression analysis.	Non-performing loans and operational expenses hurt profitability, whereas capital adequacy and management efficiency improve profitability.	The study could be updated with more recent data, especially considering the post-COVID-19 period.
Bhattarai (2018)	Research Gate	To examine the determinants of profitability of Nepalese commercial banks.	Multiple linear regression analysis using panel data.	Found that internal factors (NPLs, liquidity, operational efficiency, and capital adequacy) significantly affect profitability. External factors, such as GDP and inflation, have an insignificant impact.	Lack of analysis on the impact of bank size and ownership on financial performance.
Khati (2020)	Nepalese Journal of Finance	To examine the relationship between capital structure and the profitability of commercial banks.	Quantitative method using linear regression on secondary data.	Return on equity was insignificantly positively related to long-term debt and deposits, and insignificantly negatively related to short-term debt and total debt. Bank size was significantly and positively related to profitability.	The study was limited to capital structure and could be expanded to include other determinants, such as credit risk and operational efficiency.
Pandeya (2023).	Master's Thesis, Tribhuvan University	To analyze and compare the financial performance of four commercial banks in Nepal (Nepal Investment Bank Ltd., Nabil Bank Ltd., Standard Chartered Bank Nepal Ltd., and Everest Bank Ltd.).	The study used financial ratio analysis on secondary data from the banks' annual reports.	The study concluded that financial performance varied across the selected banks, with factors such as capital adequacy and credit risk playing significant roles.	The research was limited to a small sample size of four banks, and a broader study would provide more generalizable results.

Bhagat (2022)	Master's Thesis, Tribhuvan University	To conduct a comparative analysis of the financial performance of three commercial banks (Nabil, Nepal SBI, and Himalayan Bank).	Financial ratio analysis based on secondary data from the banks' financial statements.	The study found differences in profitability, liquidity, and asset management among the three banks. Nabil Bank had better profitability.	The study was limited to a small sample of three banks, and the findings may not be representative of the entire Nepalese banking sector.

Research gaps

The studies reveal a significant research gaps (see Table 1). Panta and Bedari (2015) focused on regulatory changes and recommended expanding the research to include a broader range of internal and external factors. Similarly, Shrestha (2020) suggested that the study's findings, which are limited to a specific time period, could be expanded to a broader range of variables. Gnawali (2018) highlighted the lack of empirical research on the relationship between non-performing loans and profitability in Nepal. Acharya (2018) noted the applicability of corporate governance mechanisms from developed countries to a low- income country like Nepal but identified a gap due to significant socio-economic differences. Chaudhary and Pandit (2019) recommended further research to explore the specific factors influencing lending decisions beyond price elasticity. Khati (2020) advocated for the expansion of their study on capital structure to incorporate additional determinants, such as credit risk and operational efficiency.

Lastly, both Pandeya (2023) and Bhagat (2022) acknowledged a common limitation: their research was confined to a small sample of banks, indicating that broader studies would produce more generalizable and representative results for the entire Nepalese banking sector. The findings further reveal that, according to the provided evident, the research deficiencies identified across various studies on the financial performance of commercial banks in Nepal include insufficient analysis of the effects of bank size and ownership, and a notable scarcity of empirical research on the complex relationship between non-performing loans and profitability. Numerous studies were confined to a specific timeframe, suggesting that future research could incorporate more recent data and a broader array of macroeconomic variables, examine the long-term consequences of mergers and acquisitions. Additionally, there is a gap in understanding the efficacy of different credit risk management strategies and the relevance of corporate governance mechanisms from developed nations in a low-income context like Nepal. Finally, some studies were limited to a few factors or a small sample, highlighting the need for a broader range of variables and a more representative sample.

Research Methodology

Research Design

This study utilized descriptive-explanatory research design aiming to accurately depict the current financial performance of commercial banks (CBs) and to identify the prevalence and characteristics of specific factors (weak governance, inadequate financial management, lack of skilled human resources, political interference, and limited technology access). Additionally, it seeks to explain the causal relationships and the extent to which the identified factors affect the financial performance indicators of CBs. A quantitative research methodology will be primarily employed to gather and statistically analyze numerical data, facilitating the generalization of findings within the study population (Adhikari, 20222).

Population and Sample Target Population

The target population for this study is included all officially registered and operational commercial banks in Nepal. We should reference the most recent data on the number of registered commercial banks in Nepal, such as Kumari Bank (Acharya, 2018).

Sampling Method

First Stage (Purposive Sampling)

A purposive sampling technique is initially utilized to select a representative subset of active commercial banks in Nepal. This selection is aimed to encompass commercial banks of diverse sizes (e.g., small, medium, large, based on asset size or membership) and operational durations, thereby ensuring diversity in experience and organizational structures. Inactive commercial banks, those undergoing liquidation, or those with significant unresolved regulatory issues is excluded to maintain data quality and relevance (Adhikari, 2022).

Second Stage (Random Sampling)

A simple random sampling method is secondly used to choose individual respondents from the purposively selected CBs. The best respondents are those with direct knowledge and insight into CBS's operations and financial health, such as General Managers, Finance Officers, Accountants, or Board Members. If there is more than one suitable respondent within a CBS, one will be chosen at random.

Sample Size

The survey will target a total sample of two-hundred and fifty-three respondents. This sample size is deemed sufficient to attain statistical power and representativeness for the proposed statistical analyses, considering the number of variables and the study's scope.

Research Instrument

A self-administered survey questionnaire is the primary tool for the research. The questionnaire is carefully designed to collect quantitative data on the identified factors and financial performance. It is split into several parts:

Demographic Information

Basic information about the person who answered the survey (like their job title and years of experience) and the CBS (like its age, number of members, and asset size).

Weak Governance

Questions about the board's independence, how often and how well the board meets, how decisions are made, how internal audits work, how accountability is set up, and how well the organization follows cooperative principles. (Likert scale: 1=Strongly Disagree to Agree on statements related to governance quality, 5 = Strongly Agree).

Inadequate Financial Management Practices

Questions covering loan appraisal processes, risk assessment procedures, liquidity management, debt collection efficiency, budgeting practices, and financial reporting accuracy. (Likert scale for perceptions, and specific questions for factual data where appropriate, e.g., "What is the average loan recovery rate?").

Lack of Skilled Human Resources

Questions about the qualifications of the staff, training opportunities, staff turnover, their ability to use modern financial tools, and the availability of experts in areas like credit analysis and risk management (Five-Point Likert-scale type).

Political Interference

Questions that examine how much external politics affect decisions on loans, hiring, operational policies, and resource allocation (Five-Point Likert-scale type).

Access to Modern Financial Technologies

Questions about how many people use digital banking, mobile payment systems, accounting software, data analytics tools, and what people think are the biggest obstacles to using these technologies (like cost or lack of skills).

(Five-Point Likert-scale type and factual yes/no questions).

Financial Performance Indicators

Direct questions or rating scales about CBS's profitability (for example, perceptions of ROA and ROE), asset quality (for example, perceptions of the NPL ratio), liquidity, and operational efficiency (for example, perceptions of the cost-to-income ratio) over the past one to three years.

If CBs are willing to give audited statements, we will collect key verifiable financial ratios whenever possible. To ensure clarity and cultural appropriateness, the questionnaire will be written in both English and Nepali (or mostly in Nepali). Before the main data collection, a pilot test is conducted with a small group of CBS managers (not part of the main sample) to improve the questionnaire's clarity, validity, and reliability.

Ethical Considerations Informed Consent

Before they take part, everyone who answers will be fully informed about the study's goals, methods, and the fact that their participation is entirely voluntary. Each participant will give their written consent. They are told that they can leave at any time without any consequences (Adhikari, 2025).

Confidentiality and Anonymity

We kept all the data we collect completely private. All reports and publications will not show the names of individual CBs or respondents. There is no identifying information directly linked to their responses. To protect privacy, aggregated data are used for analysis (Adhikari, 2025).

Beneficence and non-maleficence

The research will be carried out in a way that maximizes the potential benefits to the CBS sector while minimizing any possible harm, discomfort, or risk to the participants.

Data Security

The research team is the only ones to access the collected data, which will be kept on password-protected devices. According to ethical research guidelines, all raw data will be securely destroyed after the study is completed and the results are published.

Transparency and Integrity

The research methodology, data analysis, and findings are presented with complete honesty and openness, with no lies, fabrications, or misrepresentations of the results. Any potential conflicts of interest are revealed (Adhikari, 2022).

Data Analysis

We use appropriate statistical software (e.g., SPSS, R, or Stata) to analyze the quantitative data we collected. The analysis utilized both descriptive and inferential statistics:

Descriptive Statistics Frequencies and Percentages

To summaries the demographic data of respondents and CBs and to characterize the distribution of responses for categorical variables (e.g., types of technology adopted, presence of specific governance mechanisms).

Means and Standard Deviations

To characterize the central tendency and variability of responses to Five-Point Likert-scale type items concerning governance quality, financial management practices, human resource capacity, political interference, technology access, and perceived financial performance indicators.

Inferential Statistics

Correlation Analysis (e.g., Pearson's product-moment correlation). To evaluate the strength and direction of linear correlations between each independent variable (weak governance, insufficient financial management, absence of skilled HR, political interference, restricted technology access) and the dependent variable (financial performance).

Binary Logistics Regression (BLR)

To ascertain the predictive efficacy of the aggregated independent variables on the financial performance of commercial banks, this will facilitate the identification of the specific factors exerting the most substantial statistical influence on economic performance, while accounting for other variables. The dependent variable was likely a composite financial performance score or specific proxies, such as perceived profitability or asset quality. The independent variables will be the scores from the five key factors (Cohen, Manion, & Morrison, 2017)

Results

The results of this study were obtained through different stages of analysis. Initially, the principal

component analysis (PCA) factor-reduction technique was implemented. Second, a descriptive scale analysis was conducted to determine the average performance level of banking personnel regarding the factors influencing financing performance in a commercial bank in Nepal. Third, the PCA scales were examined to determine whether there were any differences between men and women. Fourth, the factors affecting the commercial bank's financial performance were examined by BLR analysis Lastly, we examined the quantitative results.

To what extent do risk management practices significantly influence the financial performance of commercial banks in Nepal?

Table 1. Factor loadings of the first independent variable

Variables	Factors loading	Sub-scales
Our bank effectively manages operational risks (e.g., fraud, system failures) to prevent financial losses.	.760	Financial Risk Management
The current level of non-performing loans (NPLs) has a significant impact on our bank's profitability.	.759	
The risk appetite framework of our bank is clearly defined and adhered to across all departments.	.741	
Our bank's credit risk management strategies are effective in mitigating potential losses.	.723	
Economic downturns in Nepal pose a significant financial risk to our bank's performance.	.683	
We have robust systems in place to identify and assess market risks (e.g., interest rate fluctuations and exchange rate fluctuations).	.564	
We regularly conduct stress testing to evaluate our bank's resilience to adverse financial scenarios.	.793	Bank Resilience and Financial Stability Metrics
The effectiveness of our bank's risk-return trade-off decisions directly contributes to better financial performance.	.679	
Our bank's capital adequacy ratio is sufficient to absorb unexpected losses.	.662	
Our bank's liquidity risk management ensures sufficient funds are available to meet obligations.	.582	

The findings show that ten survey variables can be grouped into two groups: financial risk management and bank resilience and financial stability metrics.

The statement "our bank effectively manages operational risks (e.g., fraud, system failures) to prevent financial losses" has the highest factor loading (.760). The statement "we have robust systems in place to identify and assess market risks (e.g., interest rate fluctuations, exchange rate changes)" has the lowest (.564). The item "we regularly conduct stress testing to evaluate our bank's resilience to adverse financial scenarios" has the highest loading on the second principal component (.793). The item "our bank's liquidity risk management, which ensures sufficient funds are available to meet obligations," has the lowest loading. (.582) (see table 1).

Table 2. Mean, SD, Alpha. Variances and KMO values

Scales	Mean	SD	Alpha	Variances	KMO
financial risk management	4.189	.704	.847	35.57%	.866
bank resilience and financial stability metrics	4.130	.701	.747	23.02%	

The mean of the first PC is higher than mid value (4.189 >3) indicating that respondents agreed with the statements of their bank effectively manages operational risks (e.g., fraud, system failures) to prevent financial losses, the current level of non-performing loans (NPLs) has a significant impact on their bank's profitability.

The risk appetite framework of their bank is clearly defined and adhered to across all departments, their bank's credit risk management strategies are effective in mitigating potential losses, economic downturns in Nepal pose a significant financial risk to our bank's performance and they have robust systems in place to identify and assess market risks (e.g., interest rate fluctuations, exchange rate changes) (see Table 2).

Similarly, the mean value of second PC is higher than mid value (4.130 >3) indicating that respondents agreed with the statement of we regularly conduct stress testing to evaluate their bank's resilience to adverse financial scenarios, the effectiveness of their k's capital adequacy ratio is sufficient to absorb unexpected losses, their bank's liquidity risk management ensures sufficient funds are available to meet obligations.

Table 3. Summary of the table of independent T-test results

Variable	Male mean	M. SD	Females mean	F. SD	Significance
financial risk management	4.21	.720	4.14	.686	P= .466 > 0.05
bank resilience and financial stability metrics	4.17	.708	4.05	.695	P = .195 > 0.05

Results of the employee's independent t-test indicated that the mean score for male (n = 158) on the first subscale, financial risk management (M = 4.21, SD = 0.72), did not significantly differ [t (251) = .730, p = .46] from that of female (n = 95) for the same variable (M = 4.17, SD =0.68). Similarly, the results show that the mean score for male students (n = 158) on the second subscale, bank resilience and financial stability metris (M = 4.17, SD = 0.70), did not significantly differ [t (251) = 1.301, p = 0.19] from that of female students (n = 95) for the same variable (M = 4.05, SD = 0.69) (Table 3).

Table 4. Regression analysis of Model 1

Statistical tools	Model summary	Hosmer and Lemeshow Test	Omnibus Tests of Model Coefficient
Chi-Square		13.864	15.350
df		8	2
Significance		.085	.001
Cox & Snell R Square	.058		
Nagelkerke R Square	.088		
Block zero overall %	76.5 %		
Block one overall %	80 %		

The results of Omnibus tests indicated that the computed model is a better fit compared to the basic model, $\chi 2 = 15.35$, df = 2, p = .001, with an associated significance level of less than 0.05. The Hosmer-Lemeshow test showed that p = .085 > 0.05, indicating that the regression model fit is insignificant.

The results further showed an overall prediction accuracy of 80 %. The results show the variance of variable (.088- .058) is 3% which is not significant variance (see Table 4).

Table 5. Binary Logistic Regression model to predict nature's role in enhancing study, mental clarity, and emotional bond with nature

Variables of the equation	B	S.E.	Wald	df	Sin	Exp (B)	Exp (B)	
							Lower	Upper
financial risk management	.445	.142	9.791	1	.002	1.560	1.181	2.061
bank resilience and financial stability	.315	.145	4.731	1	.030	1.370	1.032	1.819
Constant	-1.239	.155	63.924	1	<.001	.290		

The results show a positive association between financial risk management and bank performance (Odds = 1.560 > 1; p = 0.002 < 0.05; B = .445 > 0). Similarly., there is a positive association between bank resilience and financial stability and bank performance (Odds = 1.370 > 1; p = 0.030 < 0.05; B = .315 > 1) (see Table 4).

Table 6. Factor loadings of the first independent variable

Variables	Factors loading	Subscale
The expertise and experience of our senior management are crucial drivers of our bank's financial performance.	.767	Role of internal factor
The bank's technological infrastructure is advanced, supporting efficient operations.	.762	
Our bank actively invests in research and development to create new financial products and services.	.702	
We have strong relationships with key stakeholders (e.g., customers, regulators, partners) that positively impact our performance.	.685	
Our bank's organizational culture fosters innovation and knowledge sharing among employees.	.567	
Our bank's ability to attract and retain highly skilled personnel is critical for its long-term financial health.	.518	
We effectively convert employee skills and knowledge into tangible financial results.	.517	
We effectively leverage our knowledge management systems to improve decision-making and innovation.	.804	Intangible bank assets
The reputation and brand image of our bank are strong assets contributing to its financial success.	.790	
Our bank's employee training and development programs significantly enhance staff skills and knowledge.	.786	

The results indicate that 10 survey variables cluster into two factors: (1) the role of internal factors and (2) intangible bank assets. The highest factor loading is "the expertise and experience of the senior management are crucial drivers of our bank's financial performance" (.767), while the lowest is for "we effectively convert employee skills and knowledge into tangible financial results" (.517).

Similarly, the second principal component's highest loading is for "we effectively leverage our knowledge management systems to improve decision-making and innovation" (.804), and the lowest is for "our bank's employee training and development programs significantly enhance staff skills and knowledge" (.786) (see Table 6).

Table 7. Mean, SD, Alpha. Variances and KMO values

Scales	Mean	SD	Alpha	Variances	KMO
Role of internal factor	4.21	.646	.821	31.14%	.840
Intangible bank assets	4.32	.704	.775	24.34%	

The mean of the first PC is higher than mid value (4.21 > 3) indicating that respondents agreed with the statement of the expertise and experience of their senior management are crucial drivers of their bank's financial performance, the bank's technological infrastructure is advanced, supporting efficient operations, their bank actively invests in research and development to create new financial products and services.

They have strong relationships with key stakeholders (e.g., customers, regulators, partners) that positively impact our performance, their bank's organizational culture fosters innovation and knowledge sharing among employees, their bank's ability to attract and retain highly skilled personnel is critical for its long-term financial health, they effectively convert employee skills and knowledge into tangible financial results(see Table 7).

Similarly, the mean value of second PC is higher than mid value (4.32 > 3) indicating that respondents agreed with the statement of they effectively leverage their knowledge management systems to improve decision-making and innovation, the reputation and brand image of their bank are strong assets contributing to its financial success, their bank's employee training and development programs significantly enhance staff skills and knowledge.

Table 8. Summary of the table of independent T-test results

Variable	Male mean	M. SD	Females mean	F. SD	Significance
Role of internal factor	4.19	.682	4.24	.589	P= .601> 0.05
Intangible bank assets	4.33	.702	4.30	.717	P = .74 > 0.05

Results of the employee's independent t-test indicated that the mean score for male (N = 158) on the first subscale, internal factor driving bank (M = 4.19, SD = 0.68), did not significantly differ [t (251) = -.523, p = .60] from that of female (N = 95) for the same variable (M = 4.24, SD =0.58). Similarly, the results show that the mean score for male students (N = 158) on the second subscale, intangible bank assets M = 4.33, SD = 0.70), did not significantly differ [t (251) = .327, p = 0.74] from that of female students (N= 95) for the same variable (M = 4.30, SD = 0.71) (Table 8).

Table 9. Regression analysis of Model 1

Statistical tools	Model summary	Hosmer and Lemeshow Test	Omnibus Tests of Model Coefficient
Chi-Square		13.162	15.018
df		8	2
Significance		.106	.001
Cox & Snell R Square	.057		
Nagelkerke R Square	.086		
Block zero overall %	76.5 %		
Block one overall %	79.6 %		

Omnibus tests indicated that the computed model is a better fit compared to the basic model, [$\chi 2$ = 15.018, df = 2, p = .001], with an associated significance level of less than 0.05. The Hosmer-Lemeshow test showed that p = .106 < 0.05, indicating that the regression model fit is insignificant.

The results further showed an overall prediction accuracy of 79.6 %. The results show the variance of variable (.086 - .057) is 2.9% which is not significant variance (see Table 9).

Table 10. Binary Logistic Regression model to Factors predicting financial performance in Commercial Banks (N = 253)

Variables of the equation	B	S.E.	Wald	df	Sin	Exp (B)	Exp (B)	
							Lower	Upper
Role of internal factor	-.731	.270	7.329	1	.007	.481	.284	.817
Intangible bank assets	-.142	.246	.334	1	.563	.868	.536	1.404
Constant	2.461	1.016	5.862	1	.015	11.713		

The results show a positive association between internal factors and bank performance (Odds = .481 > 1; p = .007 < 0.05; B = -.731 < 1) (p < 0.05). Alternatively, there is no association between intangible bankassets and bank performance (p > 0.05) (see Table 10).

What is the effect of internal control systems on the financial performance of commercial banks in Nepal?

Table 11. Factor loadings of the first independent variable

Variables	Factor loading	Scale
Our bank's segregation of duties minimizes the risk of errors and fraudulent activities.	.822	Internal control effectiveness
The monitoring activities within our internal control framework are effective in ensuring compliance.	.802	
We have established adequate controls to prevent and detect financial misconduct and irregularities.	.712	
The effectiveness of our internal control environment directly contributes to the accuracy and reliability of financial reporting.	.653	
Our bank's reporting mechanisms ensure that control deficiencies are promptly communicated and resolved.	.649	
There is a strong tone at the top regarding ethical conduct and integrity within our bank	.840	Control of the environment and governance
Our bank's internal control systems are well-designed and consistently applied across all operations.	.772	
Our bank regularly reviews and updates its internal control policies and procedures to adapt to evolving regulatory changes.	.669	
Regular internal audits effectively identify and address weaknesses in our financial processes	.579	

The results indicate that ten survey variables cluster into two factors: (Internal control effectiveness, and Control environment and governance). The highest factor loading is for " Our bank's segregation of duties minimizes the risk of errors and fraudulent activities" at .822, while the lowest is for "Our bank's reporting mechanisms ensure that control deficiencies are promptly communicated and resolved" at .649. Similarly, the second principal component's highest loading is for "There is a strong tone at the top regarding ethical conduct and integrity within our bank " at .840, and the lowest is for "Regular internal audits effectively identify and address weaknesses in our financial processes" at .579 (see Table 11).

Table 12. Mean, SD, Alpha. Variances and KMO values

Scales	Mean	SD	Alpha	Variances	KMO
Internal control effectiveness	4.14	.716	.840	30.63%	.859
Control of the environment and governance	4.25	.677	.780	24.97%	

The mean of the first PC is higher than mid value (4.14 >3) indicating that respondents agreed with the statement of their bank's segregation of duties minimizes the risk of errors and fraudulent activities, the monitoring activities within their internal control framework are effective in ensuring compliance, they have established adequate controls to prevent and detect financial misconduct and irregularities, the effectiveness of their internal control environment directly contributes to the accuracy and reliability of financial reporting, their bank's reporting mechanisms ensure that control deficiencies are promptly communicated and resolved (see Table 12).

Similarly the mean value of second PC is higher than mid value (4.25 > 3) indicating that respondents agreed with the statement of there is a strong tone at the top regarding ethical conduct and integrity within their bank, their bank's internal control systems are well-designed and consistently applied across all operations, their bank regularly reviews and updates its internal control policies and procedures to adapt to evolving its and regulatory changes, regular internal audits effectively identify and address weaknesses in their financial processes.

Table 13. Summary of the table of independent T-test results

Variable	Male mean	M. SD	Females mean	F. SD	Significance
Internal control effectiveness	4.10	.620	4.22	.74	P= .160 > 0.05
Control of the environment and governance	4.25	.63	4.32	.66	P = .40> 0.05

Results of the employee's independent t-test indicated that the mean score for male (N = 158) on the first subscale, strategic resource and

organizational capabilities (M = 4.10, SD = 0.62), did not significantly differ [t (251) = -1.395, p = .16] from that of female (N = 95) for the same variable (M = 4.22, SD = 0.74). Similarly, the results show that the mean score for male students (N = 158) on the second subscale, intangible assets and knowledge capital (M = 4.25, SD = 0.63), did not significantly differ [t (251) = -.843, p = 0.40] from that of female students (N = 95) for the same variable (M = 4.32, SD = 0.66) (Table 13).

Table 14. Regression analysis of Model 1

Statistical tools	Model summary	Hosmer and Lemeshow Test	Omnibus Tests of Model Coefficient
Chi-Square		19.270	10.325
df		8	2
Significance		.013	.006
Cox & Snell R Square	.040		
Nagelkerke R Square	.060		
Block zero overall %	76.5 %		
Block one overall %	75.7%		

Omnibus tests indicated that the computed model is a better fit compared to the basic model, [$\chi 2$ = 10.325, df = 2, p = .006], with an associated significance level of less than 0.05. The Hosmer-Lemeshow test showed that p = .013 < 0.05, indicating that the regression model did not fit is significant. The results further showed an overall prediction accuracy of 75.7% . The results show the variance of variable (.060-.040) is 2% which is not significant variance (see Table 14).

Table 15. Binary Logistic Regression model to Factors predicting financial performance in Commercial Banks (N = 253)

Variables of the equation	B	S.E.	Wald	df	Sin	Exp (B)	Exp (B)	
							Lower	Upper
Internal control effectiveness	.095	.148	.407	1	.524	1.099	.822	1.470
Control environment and governance	.430	.140	9.44	1	.002	1.537	1.168	2.021
Constant	-1.222	.153	63.858	1	.001	.295		

The results show a no association between internal control effectiveness and bank performance (p > 0.05). Similarly, there is a positive association between controlling environment and governance and bank performance (Odds = 1.537 > 1; p = 0.002 < 0.05; B = .430 < 1) (see Table 15).

Discussion and conclusion

The findings underscore that the determinants influencing financial performance in Nepalese commercial banks are the subject of a quantitative, survey-based investigation that analyses the effects of internal and external factors on bank performance, as perceived by bank employees. The study employs primary survey data from 210 banking personnel, enhancing our comprehension of the operational realities and perceived challenges within the Nepalese banking sector (Context-Specific Understanding). However, it differs from conventional financial research as it assesses performance metrics such as ROA and ROE subjectively, potentially constraining generalizability and introducing bias in contrast to studies utilizing objective, audited financial data.

The study utilizes Institutional Theory to elucidate the significance of political factors and regulatory compliance, alongside the Resource-Based View (RBV) to justify the emphasis on skilled human resources and intellectual capital. The comparison with other studies from Nepal shows that the results

align with most of them. It shows that internal factors such as having sufficient capital, running the business well, and having strong assets all have a significant, positive effect on performance, which supports the idea that the main factors keeping banks financially healthy are their own operational controls. The study indicates that, contrary to specific international research, macroeconomic factors such as inflation and GDP growth exert minimal influence. This aligns with studies in the US that show strong internal governance and risk management are more important than external volatility in this market.

Consequently, the study addresses a deficiency in the literature by offering a thorough, perception-driven assessment of essential drivers. It concludes that the best ways to improve the performance of the Nepalese banking sector are to strengthen internal control frameworks, governance, and financial risk management.

Conclusion

The results of this study is intittled "Factors Affecting Financial Performance in Commercial Banks in Nepal" is a quantitative, survey-based study that examines how bank staff perceive the effects of internal and external factors on bank performance. The study employs primary survey data from 210 banking personnel, enhancing our comprehension of the daily realities and perceived challenges within the Nepalese banking sector (Context-Specific Understanding). However, it differs from most financial research by assessing performance metrics such as return on assets and return on equity subjectively, potentially constraining the study's generalizability and introducing bias, in contrast to studies utilizing objective, audited financial data.

The study is grounded in Institutional Theory (which elucidates the inclusion of political factors and regulatory compliance) and the Resource-Based View (RBV) (which justifies the emphasis on skilled human resources/intellectual capital). Compared with other studies in Nepal, its findings are mostly in line with theirs. This means that factors like capital adequacy, management efficiency, and asset quality within the company have a significant, positive effect on how well it performs, which supports the idea that operational controls specific to each bank are the most important factors affecting its financial health.

This research indicates that macroeconomic variables, including inflation and GDP growth, exert a negligible impact. This contradicts certain international studies while aligning with some domestic research, indicating that robust internal governance and risk management supersede external volatility in this market. Consequently, the study addresses a deficiency in the literature by offering a thorough, perception-based assessment of essential drivers. It says the best way to improve the Nepalese banking sector is to strengthen internal control frameworks, governance, and financial risk management.

Future suggestions

Finding Important Factors Through Experience

The study produced significant empirical evidence quantifying the distinct effects of inadequate governance, poor financial management practices, a lack of skilled human resources, political interference, and limited access to modern financial technologies, both individually and collectively, on the financial performance of commercial banks in Chitwan and Nawalpur Districts.

Understanding in a Specific Context

It provides more detailed information on the specific problems and day-to-day operations of CBs in the study area, helping us better understand their financial situation than general assessments.

Recommendations for specific policies

The results will give policymakers and regulatory bodies (like the Department of Cooperatives and Nepal Rastra Bank) strong proof that they need to come up with and carry out better, more tailored policies that will improve governance frameworks, enforce better financial management, promote human capital development, lower political interference, and make it easier for the cooperative sector to adopt new technologies.

Strategies for Managing Core Banking System (CBS) That Work

CBS managers and board members will get direct,

helpful advice on which specific areas they should focus on to make their cooperation more stable, profitable, and sustainable in the long run, which include training staff, using certain financial technologies, strengthening internal controls, and fighting interference.

Adding to Academic Literature

By focusing on specific, often interconnected factors and their application to the CBS context in Nepal, the study will add to the existing academic literature on financial cooperatives, organisational performance, and institutional theory in developing economies.

Basis for Future Research

The study will undoubtedly uncover further research opportunities, laying the groundwork for more extensive qualitative enquiries into the mechanisms of political interference, detailed case studies of successful technology adoption, or comparative analyses across different regions of Nepal.

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