Impact of Risk Management on Financial Performance of Commercial Banks in Nepal

Mini Research Report

Submitted to

Research Management Cell (RMC)

Durgalaxmi Multiple Campus, FWU

Submitted by

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June, 2026

DECLARATION

We hereby seriously declare that the mini research project entitled **Impact of Risk Management on Financial Performance of Commercial Banks in Nepal** has been conducted by us in response to the notice announced by the Research Management Cell (RMC) of Durgalaxmi Multiple Campus, Farwestern University, for the promotion of academic research among its faculty members and students.

We further declare that this mini-research has not been submitted previously, either in part or in full, to any other university or institution. The content presented in this work is authentic and has been carried out by us independently.

……….…………..

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Durgalaxmi Multiple Campus

Approval Sheet

We have conducted the final defense for the approval of the mini-research submitted by

Bhuwan Raj Joshi

Yamuna Kumari Ojha

Entitled

Impact of Risk Management on Financial Performance of Commercial Banks in Nepal

, and found the mini research report to be the original work of the candidate, written as per the format prescribed by the Research Management Cell, Dergalaxmi Multiple Campus. We recommend the mini research report to be accepted to encourage research activities among the faculty and students of this institution.

Approval Committee

Chairperson: … … … … … … … … … … … … … … …

Member: … … … … … … … … … … … … … … …

External Expert: … … … … … … … … … … … … … …

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Risk management is a continuous process directly affected by the banks' internal and external environments. These environmental shifts necessitate ongoing attention to risk assessment and risk reduction (Abu Hussain & Al-Ajmi, 2012). Like banks in many other countries, Nepalese banks must adhere to Basel II to improve the efficiency of risk management. The bank's policy makers decided that risk management is a significant factor in the bank's overall management. For addressing this truth and for the strategic risk management of the banks, they have implemented the Basel Accords. Furthermore, it has been discovered that one factor influencing bank stock returns is risk management (Sensarma & Jayadev, 2009).

Most sectors have the common philosophy of risk management (RM), which is to reduce the possibility of risks and scale down the impact of potential losses (Sleimi & Davut, 2015). According to this perspective, RM may have an impact on corporate competition. For instance, well-crafted RM strategies not only reduce possible losses but also provide a way for businesses to take advantage of fresh commercial prospects (Sleimi & Emeagwali, 2017). Risk, such as credit risk, interest rate risk, liquidity risk, market risk, currency risk, etc., typically arises in unstable environments and unclear conditions (Tan et al., 2017; Sleimi et al., 2018).

The Committee of Sponsoring Organisations of the Treadway Commission (COSO, 2017) defines RM as the culture, skills, and practices implemented by an entity's board of directors, integrated with the organization's strategy and performance to manage risk in creating, preserving, and realizing value. One of the main elements of the COSO (2017) ERM framework is governance; according to COSO, the corporate governance (CG) sets the tone for an organisation while providing oversight responsibilities for RM (COSO 2017). Therefore, an efficient CG system offers the resources, structure, and risk management needed to incorporate RM techniques across the entire organisation. In terms of impacting performance, CG implicitly supports RM initiatives. In other words, effective CG is essential to RM success. Therefore, in order to increase profitability and have an efficient risk management system, banks must coordinate their CG and RM efforts. Despite the significance of this relationship, it is difficult to find observed evidence to support how the interaction among CG and ERM impacts banks' performance, so this study is conducted.

The literature on RM and performance is increasing. However, there aren't many studies on emerging markets, and the setting has mostly been restricted to Nepal. Most studies are conducted on credit risk management by the use of secondary data as the determining factor of the risk management. As a result, there is insufficient empirical evidence to support the understanding of RM in emerging economies. That's why the study reflects the Nepalese situation, as it has the largest financial market. However, this study examines the possible influences of RM practices, which include risk identification, risk analysis, and risk management, on bank performance by moderating the role of corporate governance in Nepal.

1.2 Statement of Problem

The banking sector in Nepal currently faces significant challenges regarding the volume and complexity of risks it undertakes. Historically, bank collapses have been primarily attributed to inadequate risk management and corporate governance failures (Nanab et al., 2012). While risk management aids in assessing and controlling every risk associated with banking operations, there is a critical need for empirical evidence within the Nepalese context. Only a few RM components can be accomplished without corporate governance compliance, according to Rosen and Zenios (2008), who stressed the need of corporate governance for successful RM. According to Quon et al. (2012), risk management and corporate governance are connected and interdependent. The efficient function of both elements is crucial to the stability and enhancement of any bank's performance (Manab et al., 2010). The RM aids in assessing and controlling every risk associated with banking operations. Regarding the amount of risk they take on, banks in Nepal are currently dealing with serious issues. They might create a management system that seamlessly focuses on risk appetite as one of the performance factors with the aid of an excellent risk management culture (Nanabet et al., 2012). For this reason, a positive correlation between the RM and banking operations performance is anticipated (Ekpo, 2013).

Despite the growing importance of risk management in Nepalese banking, existing empirical studies remain limited in both scope and methodology. Most prior Nepal-focused research has predominantly concentrated on credit risk using secondary financial data. Moreover, there is a lack of empirical evidence based on primary data that captures the internal perspectives of bank employees and risk management professionals regarding the actual implementation of risk management practices. Additionally, although international studies highlight the critical regulation of corporate governance in strengthening the connection among risk management and bank performance. This interaction has not been adequately examined in the Nepalese banking context.

Considering such gaps, there is a crucial need to conduct a comprehensive empirical study on the effect of specific risk management practices, namely risk identification, risk analysis, and risk management, on the financial performance of commercial banks of Nepal, with the moderating effect of corporate governance. This problem should be addressed so that the academic knowledge would grow, and also applied knowledge would be delivered to the bank management and representatives of the banks for enhancing the risk governance and overall stability and performance of the banking sector in Nepal.

The following questions are set out to achieve the objectives:

i) What is the effect of risk identification on the performance of commercial banks in Nepal?
ii) What is the impact of risk analysis on the performance of commercial banks in Nepal?

iii) To the extent of how risk management impacts the performance of commercial banks in Nepal.

1.3 Objective of the Study

The aim of the research is

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

1.4 Rationale of the Study

The need for such a study is motivated by the growing complexity of the monetary system in Nepal, where commercial banks have been experiencing high operational pressures that have resulted in a number of bank failures in the past, owing to poor risk management and mismanagement of banks. It has been universally agreed that risk management and corporate governance are interdependent and crucial for the stability and performance of institutions; however, empirical evidence is lacking in the Nepalese context. The existing local research has been mainly based on secondary financial information and has largely been limited to credit risk and not included other dimensions such as the identification, analysis, and management of risk from an internal organisational perspective. This study uses a primary data-driven approach with a focus on the moderating effects of corporate governance to fill these gaps and offer valuable insights for bank management and policy makers to improve banking system performance and systemic stability in Nepal's emerging banking sector.

CHAPTER 2

REVIEW OF LITERATURE

2.1 Empirical Review

Hassan (2009) explores the risk management practices of Islamic banks of Brunei Darussalam. This study's purpose is to evaluate the extent to Islamic banks in Brunei Darussalam employ risk management procedures (RMPs) and strategies to address various forms of risk. The six variables covered in the first section of the questionnaire were created by the researcher. The two questions in the second section are based on an ordinal scale and cover two subjects: danger facing the sample banks and RI techniques. It was discovered that Islamic banks manage risk quite effectively, with RI and RAA being the most important factors in RMPs. The results of the study are restricted to Brunei Darussalam's Islamic banks' RMPs. The RMPs of Brunei Darussalam's Islamic banks are examined in this article. The findings will be useful to individuals who are interested in the Islamic banking system and can serve as a useful input for improving RMPs in Brunei's Islamic institutions.

Abu Hussain and Al-Ajmi (2012) examined risk management practices of conventional and Islamic banks in Bahrain. The study's purpose describes observed indications concerning the risk management practices of banks operating in Bahrain. The questionnaire was used to survey a sample of bankers to determine whether risk management performs are significant impact on knowledge of risk, risk management, risk identification, risk assessment analysis, risk monitoring, and credit risk analysis. The hypotheses were tested using a variety of statistical and economic techniques. Bahraini banks are deemed to have effective risk management practises, as well as a clear hold of risk and risk management. Furthermore, it is shown that the three biggest risks that both conventional and Islamic banks face are credit, liquidity, and operational risk. Moreover, the effectiveness of risk management practices largely depends on managers' depth of understanding of risk and risk management. Empirical evidence indicates that Islamic banks differ significantly from conservative banks in their approach to considering risk and managing risk-related activities. Studies reveal that Islamic banks are exposed to substantially higher levels of risk compared to their conventional counterparts, particularly in terms of country risk, liquidity risk, operational risk, residual risk, and settlement risk. These outcomes may be partly attributed to the prevailing global economic crisis during the period of investigation. Despite the high survey response rate and the absence of non-response bias, along with strong internal consistency in the responses, the use of a survey-based research design suggests that the findings may reflect respondents' perceptions rather than their actual risk management practices.

Sleimi (2020) analyzed the impact of risk management practices on banks' performance through an empirical study of the Jordanian banks. This study examines how risk management techniques affect the performance of Jordanian commercial banks. This study was conducted through a survey of employees working in the risk management department with the risk management manager of commercial banks. The study employs a quantitative methodology. The data were analyzed through structural equation modelling (PLS-SEM), and the findings revealed that the elements of risk management procedures had favourable and noteworthy effects on banks' performance.

Alali and Haddad (2023) studied the topic of GCC banking companies' risk management practices and their impact on their financial performance. A study examines the risk management procedures used by Islamic banks and traditional Gulf Cooperation Council (GCC) banks (CBs). This research evaluates the RMP in both kinds of banks using a systematic survey questionnaire. A study discovered that both kinds of banks place a higher value on RMP. The study finds similarity in RMP between the banks, excluding the understanding risk practice phase. Compared to IBs, managers of CBs are more knowledgeable in risk management (RM).

Alazzabi et al. (2023) investigated risk management, top management support, internal audit activities, and fraud mitigation. The objective of this study is to examine the effect of top management support (TMS) and risk management (RM)on the internal audit activities (IAA) and fraud mitigation (FM) in the Libyan banking sector. A survey questionnaire from sixteen commercial banks in Libya is used to gather the data, which is then examined using structural equation modelling. RM and employees' FM and TMS and employees' FM are positively and significantly correlated, according to the study. The study shows that the link between RM, TMS, and FM is significantly mediated.

Horvey and Odei-Mensah (2024) examined enterprise risk management and performance of the South African insurers: the moderating role of corporate governance. By analysing the impact of risk management on insurers' performance, examining how corporate governance moderates the relationship between ERM and performance. This research uses 63 South African insurers from 2015 to 2019 as a sample. The study's conclusions support the body of research showing a favourable correlation among ERM and performance. Study revealed the performance of insurers is impacted by the interaction between ERM corporate governance, and that the link is substantially beneficial. This suggests that company governance has a big impact on how well ERM affects performance. In order to understand the effect of ERM on performance, insurers interested in guaranteeing a strong ERM system should make use of these governance elements.

Yahaya (2024) analyzes the impact of risk management committee on firm risk, with risk management practices as a mediator. This study evaluates how risk management procedures buffer the relationship between corporate risk and a specialised Risk Management Committee (RMC). The main goal is to ascertain if an RMC directly lowers corporate risk or whether the committee's efficacy is primarily achieved by putting thorough risk management procedures into place. Ten years of data were gathered from publicly traded companies between 2014 and 2023, with an emphasis on businesses with well-established RMCs in a variety of industries. Strong insights into the relationship between variables are provided by the methodology, which incorporates panel data analysis utilising multiple regression analysis to examine direct and mediated effects. The results show that although having an RMC is linked to reduced business risk, the entire risk reduction benefit can only be attained by actively implementing risk management procedures, such as risk assessment, monitoring, and compliance checks. The mediation analysis verifies that risk management procedures greatly increase the RMC's influence and offer a mechanism for the committee to more successfully affect firm stability. The study concludes by highlighting the critical impact that active risk management strategies have in lowering corporate risk and emphasising that the RMC's mere existence is insufficient. To achieve the best possible risk reduction, the report advises businesses to set up an RMC and give priority to ongoing improvements in their risk management procedures.

Biresaw and Sibindi (2025) analyzed the assessment of enterprise risk management practices of Ethiopian commercial banks. Studies aim to examine Ethiopian commercial banks' enterprise risk management (ERM) procedures. The strategy is applied to explore current practice for enterprise risk management in Ethiopian banks. The mixed methods research design consists of a survey study and content analysis. The survey results show that the highest priority of the risk management operations in the Ethiopian commercial banks is regulatory reporting requirement compliance. Many banks have developed ERM initiatives primarily to meet regulatory mandates, instead of to generate firm value. The results show that Ethiopian commercial banks have several shortcomings in their risk management policies. These include lack of congruence between risk management practices and institutional mission and values, and lack of risk assessment and prioritization of resources needed for effective risk management. ERM maturity of Ethiopian commercial banks is considered at moderate level, suggesting that significant improvement is needed to enhance risk governance and implementation.

2.2 Research Gap

While extensive research has been conducted globally on the relationship between risk management and financial performance, there are limited studies that focus specifically on Nepalese commercial banks. Most existing research examines risk management, such as risk identification, risk analysis, risk monitoring, and credit risk management enhance financial performance. However, empirical research in South Asian economies, especially Nepal, remains limited. Moreover, Nepal-focused studies have largely emphasized credit risk using secondary financial data, thereby overlooking broader and integrated risk management dimensions, including risk identification, risk analysis, and risk reporting.

Furthermore, prior studies predominantly employ aggregate risk management constructs and secondary data approaches, providing limited insight into the operational implementation of risk management practices from an internal organizational perspective. In addition, while recent international research highlights the moderating role of corporate governance in strengthening the relationship between risk management performance and corporate governance, this interaction remains largely unexplored in the Nepalese banking sector. Addressing these gaps, the present study empirically examines the effects of risk identification, risk analysis, and risk management on the financial performance of Nepalese commercial banks, while incorporating corporate governance as a moderating variable. This study contributes novel empirical evidence from an under-researched emerging economy and offers policy-relevant insights for regulators and bank management.

2.3 Conceptual Framework

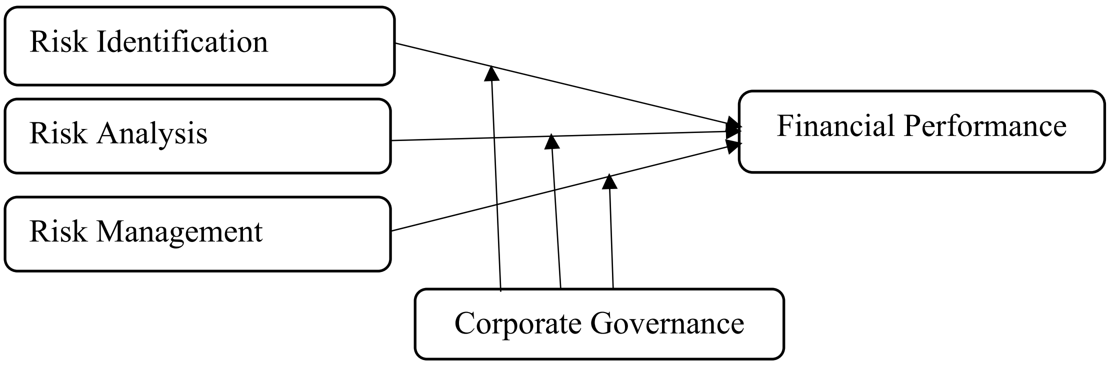
The conceptual framework illustrates the relationship between the study's independent and dependent variables.

Figure 1

Conceptual Framework

Independent Variable **Dependent Variable**

Risk Management Practices **Bank Performance**



Source: Author's compilation from the study of Sleimi (2020).

2.4 Research Hypothesis

Based on given in the conceptual framework model, the following hypotheses are developed for testing.

H_1: Risk identification has a significant impact on the financial performance of the commercial banks in Nepal.

H_2: Risk analysis has a significant impact on the financial performance of the commercial banks in Nepal.

H_3: Risk management has a significant impact on the financial performance of the commercial banks in Nepal.

CHAPTER 3

RESEARCH METHODOLOGY

Research methodology is a means of obtaining accurate, reliable, valid, and appropriate conclusions. Relevant and appropriate methods have been used to achieve the specific objectives of the study.

3.1 Research Design

The study employed a positivist research paradigm, that guiding toward a quantitative research methodology. The researcher used a descriptive survey and correlational research design. The objective of the descriptive research design is to study and explain the current state of risk management practices and their impact on the financial performance of commercial banks in Nepal. Descriptive research helps to clearly present the current state of the study subjects through the collection and analysis of data. In addition, descriptive survey research identifies and presents the relationship between independent and dependent variables based on the perceptions and opinions of the respondents. Similarly, a correlational research design has been used to measure the relationship between risk management and financial performance.

3.2 Population and Sample

The research was done on the employees working in commercial banks in Nepal. According to Nepal Rastra Bank, there are 20 commercial banks in Nepal. Since the number of employees working in commercial banks is unknown, the researcher has used a sample size of 395, which is approximately equal to 385 at a 5% level of significance, according to the formula presented by Cochran (1977). This study used a convenience sampling method similar to that used by Oosthuizen et al. (2016) to analyse the impact of risk management on the financial performance of commercial banks' employees. Assistant, officer, and manager-level employees are the units of analysis.

3.3 Nature and Sources of Data

The researcher collected data from respondents through primary sources by using a survey questionnaire. The questionnaire was developed on the online platform Kobo Toolbox and distributed through WhatsApp. Four hundred fifty structured questionnaires were distributed to employees working in commercial banks in Nepal. The questionnaire items were measured using a five-point Likert scale ranging from “strongly disagree” to “strongly agree”.

3.4 Data Analysis

The collected data were coded in MS Excel and then analyzed using SPSS and SmartPLS. SPSS was used to present the profile of the respondents and to show descriptive statistics of the variables. In addition, PLS-SEM was used to test the relationship between independent and dependent variables. According to partial least squares structural equation modeling (PLS-SEM) is better suited to assess the hypothesis of pre-existing theories (Hair et al.,2017) when there is a moderation effect in the structural model. PLS-SEM was used as it is more effective than regression analysis in assessing the mediating effect. After ensuring validity and reliability in the study, the hypothesized causal relationships were tested through a structural model.

CHAPTER 4

ANALYSIS AND MAJOR FINDINGS

4.1 Respondent's Demographic Profile

Respondent's demographic profile includes gender, age, religion, ethnicity, education, job title, and years of experience.

Table 1

Respondent's demographic profile

Demographic variables	Category	No. of respondents	%
Gender	Male	318	80.5
	Female	77	19.5
Age	21-30	103	26.08
	31-40	227	57.46
	Above 40	65	16.46
Religion	Christian	6	1.52
	Hindu	389	98.48
Ethnicity	Brahmin	213	53.93
	Chhetri	123	31.14
	Dalit	4	1.01
	Newar	12	3.04
	Tharu	12	3.04
	Other	31	7.84
Education	Bachelor	86	21.77
	Master	306	77.47
	MPhil/PhD	3	0.76
Job title	Assistant	183	46.33
	Officer	141	35.7
	Manager	71	17.97
Year of Experience	Below 5	96	24.3
	5-10	154	38.99
	10-15	92	23.29
	Above 15	53	13.42

Source: Authors' Survey (2026)

Table 1 shows that 395 responses were collected. The majority (80.5%) of responses were male, and women were only 19.5%. This study shows the low female representation in the Nepalese banking sector. The majority (57.46%) respondences from the age group 31-40 years. The 21-30 years age group's respondents are 26.08%, whereas respondents above 40 years are 16.46%. This suggests that middle-aged working group employees has mojirity incommercial banks. In the entire sample, almost (98.48%) respondent were Hindu, while only 6 (1.52%) employees were Christian. This reflect that Hindu dominent society of Nepal. Based on ethnicity, result shows that Bhramin respondent has a largest group with 53.93%, which is followed by the Chhetri with 31.14% respondents. Other ethnic groups included Newar and Tharu, each representing 12 respondents (3.04%), Dalit with 4 respondents (1.01%), and other ethnicities with 31 respondents (7.84%). The findings indicate that the sample was largely dominated by the Brahmin and Chhetri communities. With respect to educational qualification, the majority (77.47%) of respondents held a master’s degree. Bachelor-level respondents represented 86 respondents (21.77%), while only 3 respondents (0.76%) possessed MPhil or PhD qualifications. This demonstrates that most banking employees had higher educational qualifications suitable for professional banking activities. Regarding job title, assistant-level employees formed the largest proportion with 183 respondents (46.33%), followed by officers with 141 respondents (35.7%) and managers with 71 respondents (17.97%). This indicates that the responses were mainly collected from operational and mid-level employees. Finally, in terms of work experience, the highest (38.99%) proportion of respondents had 5–10 years of experience. Respondents with below 5 years of experience represented 96 respondents (24.3%), those with 10–15 years accounted for 92 respondents (23.29%), and respondents having above 15 years of experience constituted 53 respondents (13.42%). This implies that most respondents had adequate professional experience and were capable of providing reliable information related to the study.

4.2 Descriptive Statistics

Table 2

Descriptive statistics

Constructs	Items	Factor loadings	Item mean	Construct mean	Construct SD
RI	RI1	0.661	3.92	3.81	2.66
	RI2	0.571	3.19		
	RI3	0.900	3.95		
	RI4	0.829	4.03		
	RI5	0.839	3.94		
RA	RA1	0.877	3.97	4.10	3.71
	RA2	0.885	4.22		
	RA3	0.904	4.13		
	RA4	0.875	4.04		
	RA5	0.902	4.14		
RM	RM1	0.850	4.09	4.13	3.36
	RM2	0.886	4.10		
	RM3	0.857	4.20		
	RM4	0.692	4.06		
	RM5	0.814	4.20		
CG	CG1	0.900	4.04	4.07	2.47
	CG2	0.924	4.06		
	CG3	0.899	4.10		
FP	FP1	0.815	4.10	3.93	6.83
	FP2	0.881	3.89		
	FP3	0.905	3.95		
	FP4	0.875	3.72		
	FP5	0.887	3.87		
	FP6	0.865	3.85		
	FP7	0.839	4.00		
	FP8	0.802	4.06		

Note. RI = risk identification, RA = risk analysis, RM = risk management, CG = corporate governance, and FP = financial performance.

Sources: Authors' calculation from survey data 2026

Table 2 presents the respondents' level of agreement with various constructs and item variables as well as factor loadings. According to Vinzi et al. (2010), it is suggested to remove factor loadings with values less than 0.7. However, it is not considered appropriate to remove an item unless there is a significant improvement in Composite Reliability (CR) and Average Variance Extracted (AVE). As shown in Table 2, all items except RI1, RI2, and RM4 have external loadings above 0.7. RI1, RI2, and RM4 were initially removed, and the CR and AVE analyses were performed, but since there was no significant improvement when the item was removed, all original items were ultimately included in the model. Except for RA, RM, and CG, the respondent has shown low satisfaction. The RM has a high mean (4.13), and FP has a low mean (3.93).

4.3 Measurement Model

Table 3

Validity of the measurement model

Variables	Cronbach's Alpha	Composite reliability(rho a)	Composite reliability(rho c)	Average Variance Extracted (AVE)
CG	0.894	0.914	0.934	0.824
FP	0.949	0.952	0.958	0.739
RA	0.934	0.939	0.949	0.790
RI	0.823	0.861	0.877	0.593
RM	0.879	0.893	0.912	0.677

Note. RI = risk identification, RA = risk analysis, RM = risk management, CG = corporate governance, FP = financial performance, CM = composite reliability, and AVE = average variance extracted.

Sources: Authors' calculation from survey data 2026

Table 3 provides the information about the measurement model of variables, which has been used to analyze the relationship between independent and dependent variables. This model evaluates Cronbach's alpha, CR, and AVE. According to the recommendation of Hair et al. (2014), the minimum value of Cronbach's alpha ($\propto > 0.70$) and the minimum value of CR ($CR > 0.70$). This table shows the construct validity, which is Cronbach's alpha, and the composite reliability is more than the minimum value. In this model, the AVE is used to determine the convergent validity. The result of the AVE value of each construct shows that more than 0.5 is good convergent validity, as advised by Fornell and Larcker (1981). Based on Fornell and Larcker's (1981) criterion, that used to measure AVE for each variable, is higher than the minimum AVE. That's why all requirements of internal consistency were satisfied in this measurement model.

Table 4

Heterotrait-monotrait (HTMT) correlation

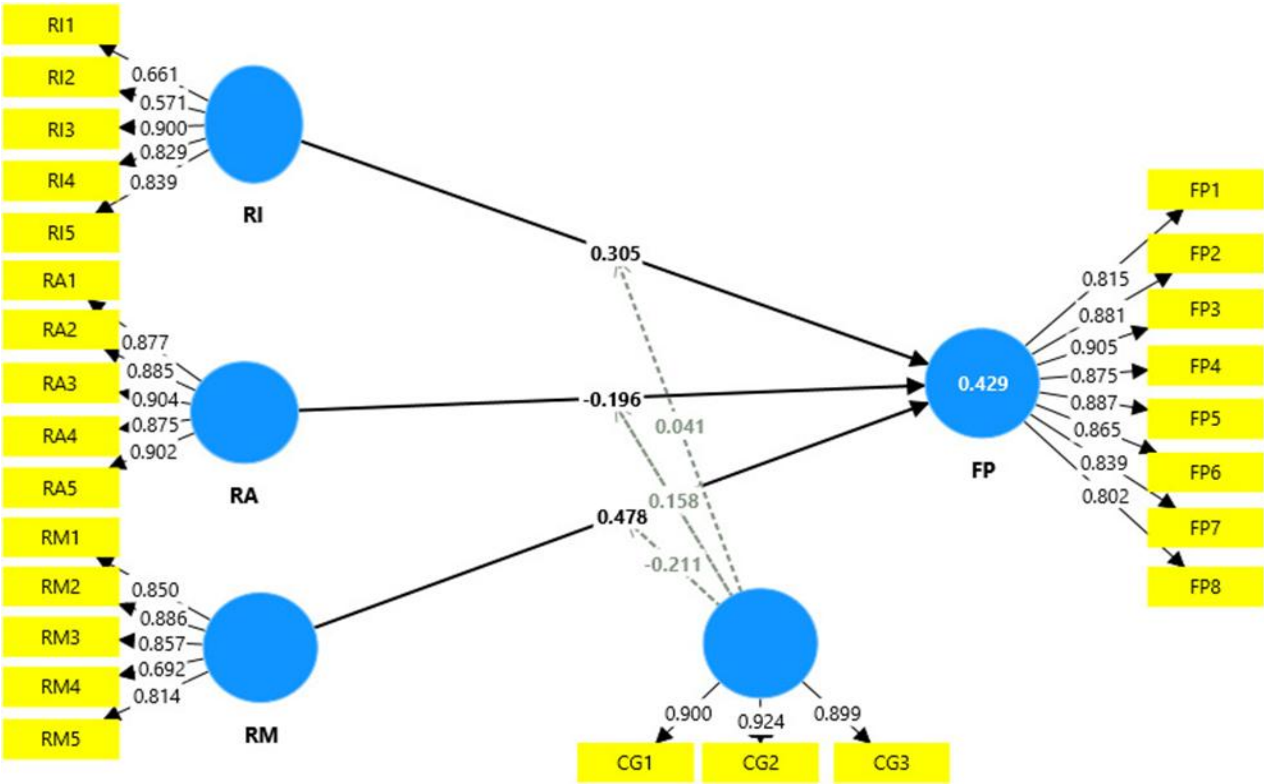
Regression Path	Original Sample (O)	Original Sample (M)	2.5%	97.5%
FP <-> CG	0.519	0.517	0.405	0.620
RA <-> CG	0.708	0.705	0.600	0.795
RA <-> FP	0.547	0.544	0.431	0.645
RI <-> CG	0.696	0.694	0.598	0.781
RI <-> FP	0.622	0.618	0.523	0.705
RI <-> RA	0.839	0.836	0.769	0.890
RM <-> CG	0.755	0.753	0.659	0.834
RM <-> FP	0.654	0.652	0.563	0.731
RM <-> RA	0.910	0.907	0.852	0.947
RM <-> RI	0.791	0.787	0.703	0.854

Source: Authors' calculation from survey data (2026)

Table 4 provides the result of Heterotrait-monotraite correlation, which shows the average correlation of items measuring across the variable relative to the average value of items' correlation of the same variable (Haire et al., 2017), which should not be more than 0.90 (Henseler et al., 2015). This result provides evidence of discriminant validity with a less than 0.90 HTMT ratio for all.

Figure 2

Structural equational model analysis



Source: Output profil

Figure 2 shows the structural equation model calculation with moderating variables. Formulated hypotheses were tested with a path model with a bootstrapping process, with a recommended 10,000 bootstrap samples to find the required p-values and confidence interval, as suggested by Hair et al. (2017).

Table 5

Direct path coefficient

Regression paths	Beta coefficient Original sample (O)	Beta coefficient Original sample mean (M)	SD	T statistics	P values	Decision on hypothesis
RI -> FP	0.305	0.309	0.052	5.924	0.000	Supports H1
RA -> FP	-0.196	-0.197	0.063	3.084	0.002	Supports H2
RM -> FP	0.478	0.477	0.064	7.453	0.000	Supports H3

CG x RI -> FP	0.041	0.038	0.076	0.542	0.588	Refutes H4
CG x RA -> FP	0.158	0.160	0.073	2.170	0.030	Supports H5
CG x RM -> FP	-0.211	-0.214	0.060	3.511	0.000	Supports H6

Source: Authors' calculation from survey data (2026)

Table 5 shows that five out of six path coefficient p-values are less than 0.05. Therefore, all of the 5 paths are important at 95% confidence interval, which gives reason for the acceptance of H1, H2, H3, H5, and H6. However, one path coefficient is insignificant,i.e., the moderating role of corporate governance between risk identification and financial performance, which refutes H4. Moreover, the influence of risk management enhancement is the strongest on financial performance, with a beta coefficient of 0.478, followed by the influence of risk identification on financial performance (0.305). For the model in Table 5, the beta values for corporate governance moderate the relationship between risk management and financial performance, which is -0.211, and the relationship between risk analysis and financial performance is -0.196, which shows the negative relationship between the variables.

Table 6

R-square of the model (predictors: risk management practices dimensions)

	Original sample (O)	Sample mean (M)	SD	T statistics	P values
FP	0.429	0.437	0.046	9.413	0.000

Source: Authors' calculation from survey data (2026)

Table 6 R-squared measures the effects of exogenous variables on endogenous variables. Endogenous latent variables with R-square values of 0.75, 0.50, or 0.25 are considered considerable, moderate, or weak, respectively (Henseler et al., 2015).In this model, the result revealed that a 42.9% change in financial performance can be attributed to risk management practices dimensions.

Table 7

Model goodness of fit with SRMR statistics

	Original sample (O)	Sample mean (M)	95%	99%
Saturated model	0.079	0.035	0.040	0.043
Estimated model	0.078	0.036	0.042	0.045

Source: Authors' calculation from survey data (2026)

Table 7 Henseler et al. (2015) introduced the standardized root mean square residual (SRMR) as a PLS-SEM goodness-of-fit metric that can be used to prevent model deviation. SRMR values less than 0.05 are considered an appropriate fit (Hu and Bentler, 1999), which proves the model satisfies the goodness of fit.

CHAPTER 5

DISCUSSION, CONCLUSION, AND IMPLICATION

5.1 Discussion

The results of this study would be of great importance as empirical evidence for the effect of risk management practices on the financial performance of commercial banks in Nepal. The findings of the PLS-SEM analysis of 395 respondents are consistent with the hypothesis of sound risk management as an important factor in bank performance. A significant positive relationship is found between risk identification and financial performance ($\beta = 0.305$, $p<0.001$). The outcome indicates that banks that are aware of the risks to their financial decisions earlier and more systematically will be better able to protect and enhance their financial results. The findings support the findings of Hassan (2009) and Sleimi (2020), who concluded that the concept of a sustainable society is still evolving. The findings of this risk analysis are against expectations, with a significant negative relationship with financial performance ($\beta = -0.196$, $p = 0.002$). The study suggests that formal risk is negatively linked with the banks' financial performance, potentially due to the resource and time-intensive nature of risk analysis activities that represent operational costs without a corresponding immediate financial benefit for banks. The result is in contradiction with the previous concept of Sleimi (2020), which found that risk assessment and analysis have positive effects on banks' performance. However, the most influential and positive impact on financial performance ($\beta = 0.478$, $p < 0.001$) was risk management. Furthermore, the findings set a significant positive effect of risk management improvement on banks' financial performance, which aligns with previous studies (Hassan, 2009; Sleimi, 2020). This reinforces the point that good enterprise-wide risk management directly equates to excellent financial results.

The moderating role between risk identification and financial performance was found not to be significant ($\beta = 0.041$, $p = 0.588$); therefore, H4 was rejected. This implies that the governance systems are present, but they have limited influence on the direct relationship between the risk identification processes and the financial outcomes in commercial banks in Nepal. The findings are similar to previous studies, which found that the majority of the standard corporate governance factors are insignificant or even negatively correlated with bank performance during the crisis (Aebi, 2012), while the risk management-specific factors are significantly related to good bank performance. Corporate governance greatly softens the connection between risk analysis and financial performance ($\beta = 0.158$, $p = 0.030$). This positive moderating coefficient is, however, surprising because it counteracts the negative base relationship between risk analysis and financial performance. The corporate governance has a significant moderating effect between risk management and financial performance ($\beta = -0.211$, $p < 0.001$). The negative score of this interaction indicates that the direct positive effect of risk management on financial performance is somewhat moderated in banks with higher governance mechanisms. This could be because highly controlled banks must adhere to higher compliance standards, prudential requirements, and regulatory framework, which, whilst helping to limit risk, also narrow the scope of the activities and returns that the manager can achieve. Good corporate governance is essential for the sound operation of the banking sector, and good governance instruments that prevent excessive risk-taking can, at the same time, reduce the potential for earnings from risk-taking activities. The results of the previous study by Aebi et al. (2012) showed that banks with a Chief Risk Officer reporting directly to the board had significantly better performance, while the relationship of most other risk governance mechanisms and the performance of banks was either insignificant or complicated. The model accounts for 42.9% of the variance in financial performance (R2 = 0.429), which is significant and has a moderate explanatory power in the context of banking research. Both the saturated model (0.079) and the estimated model (0.078) have values of SRMR that fall into the acceptable range, suggesting a good model fit. The results support the use of a theoretical approach and also indicate that all of the dimensions of risk management are significant predictors of financial performance as a whole.

5.2 Conclusion

This study investigates the relationship of risk management practices to the financial performance of Commercial banks in Nepal and explores the moderating effect of corporate governance. The data collected from 395 employees of commercial banks and analyzed with PLS-SEM revealed that the risk identification and the risk management had a significant positive impact on financial performance. Based on the dimensions of risk management practices, risk management proved to be the strongest predictor of financial performance. Risk analysis, on the other hand, had a negative relationship with financial performance, suggesting that over- or inadequate risk analysis may negatively affect timely decision making and operational efficiency. The results also suggest that the effect of risk identification on financial performance is not significantly mitigated by corporate governance. The relationship between risk analysis and financial performance, and that of risk management and financial performance are however, significantly moderated by corporate governance. The findings indicate that the effectiveness of risk management practices is related to the quality of risk management activities as well as the governance framework in which they are adopted. This model accounts for 42.9% of the variation in financial performance, and it shows that the combined effect of risk management practices and corporate governance is significant in explaining the bank's financial performance. The study findings ultimately suggest that risk management practices play an important role in the financial performance of commercial banks in Nepal. Improving risk identification and risk management procedures and ensuring the proper governance monitoring of these procedures can make a meaningful contribution to the performance of the organizations and to the stability and sustainability of the banking sector.

5.3 Implications of the Study

The study contributes to the literature on risk management and financial performance by presenting empirical evidence in the banking sector of Nepal. It validates the view of risk management as a multi-dimensional concept where each dimension has a different impact on financial performance. The study also adds to the corporate governance literature by developing the argument on how corporate governance moderates the link between risk management practices and financial performance. The results confirm the hypothesis that governance mechanisms can enhance or hinder the effectiveness of risk management activities. Based on the managerial point of view, the results recommend that bank managers need to pay more attention to complete risk management systems, especially to risk identification and risk management activities, which have positive effects on financial performance. Managers should ensure that risk monitoring, mitigation, and control systems are continuously updated to deal with new financial and operational risks. The negative correlation between risk analysis and financial performance suggests a review of the current risk assessment processes to ensure that they support, not hinder, decision-making. The results underscore the need to advance good corporate governance in commercial banks for policymakers and regulators. The regulatory environment should be strengthened with effective governance guidelines, improve board oversight responsibilities, and promote good governance integration with the risk management system, like Nepal Rastra Bank. These measures can enhance the stability and resilience of the banking system, lower risk exposure, and promote overall financial stability.

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