

# **IMPACT OF LIQUIDITY RISK ON FINANCIAL PERFORMANCE OF NEPALESE DEVELOPMENT BANK.**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial  
fulfilment of the requirements for the Master's Degree

by

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### **Certification of Authorship**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Impact of Liquidity Risk on Financial Performance of Nepalese Development Bank**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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### Report of Research Committee

Miss. Sapana Shrestha has defended research proposal entitled “**Impact of Liquidity Risk on Financial Performance of Nepalese Development Bank**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Prof. Dr. Mahananda Chalise and submit the thesis for evaluation and viva voce examination.

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## ABBREVIATIONS

<u>AQ</u>	=	<u>Assets Quality</u>
<u>CADR</u>	=	<u>Cash-deposit ratio</u>
CBBISD	=	Cash and Bank Balance to Interest Sensitive Deposit
CDR	=	Credit to Deposit Ratio
CR	=	Current Ratio
CRR	=	Cash Reserve Ratio
DTA	=	Deposits to Total Assets
GDP	=	Gross Domestic Product
GMM	=	Generalized Method of Moments
IGSCA	=	Investment of Government Securities in Current Assets
LCR	=	Liquidity Coverage Ratio
NIM	=	<del>, Net Income Ratio</del> (Net Interest Margin)
<u>NPLR</u>	=	Non-Performing Loan Ratio
NRB	=	Nepal Rastra Bank
NSFR	=	Net Stable Funding Ratio
ROA	=	Return on Assets
ROAA	=	Return on Average Assets
ROAE	=	Return on Average Equity
ROE	=	Return on Equity
ROI	=	Return on Investment
VaR	=	Value at Risk

## ABSTRACT

This study investigates the impact of liquidity risk on the performance of development banks in Nepal by analyzing quarterly report of five development banks selected on the basis of their total assets from the fiscal year 2071/72 to 2075/76. The objective of this study is to identify the impact of liquidity risk factors on both top line and bottom-line performance indicators of development banks. Descriptive statistic unveil that average CDR is 75.77 which is .77 above the international standard of 75. Multiple regression analysis reveals that liquidity risk has non-linear relation with bottom lines Return on Average Assets (ROAA) and negatively affect ROAA, whilst significantly affects Return on Average Equity (ROAE). The liquidity risk has mixed impact on top line performance (Net Interest Margin) of the development banks. The findings of this study suggest that Nepalese development banks need to increase the level of deposits and core fund to gain the higher-level liquidity and financial performance.

**Keywords:** *Liquidity risk, Financial performance, Development banks, Non-performing loan, Credit to deposit, Deposit to total assets.*