

**A COMPARATIVE STUDY ON CAPITAL ADEQUACY RATIO
OF COMMERCIAL BANKS IN NEPAL**

Thesis

Submitted to Central Department of Economics

Tribhuvan University, Kirtipur, Kathmandu

In Partial Fulfillment of the Requirements

For the Degree of

Master of Arts

in

Economics

By

Laxman Bhandari

Roll No.: 134/066-67

TU Regd. No.: 6-3-28-167-2009

Central Department of Economics

Tribhuvan University, Kirtipur

Kathmandu, Nepal

April 2017

RECOMMENDATION LETTER

This thesis entitled **A Comparative Study on Capital Adequacy Ratio of Commercial Banks in Nepal** has been prepared by **Mr. Laxman Bhandari** under my supervision. I hereby recommend this thesis for final examination by the thesis committee as a partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

Associate Professor
Gyan Mani Adhikari
(Thesis Supervisor)

Date: 09/04/2017 A.D

APPROVAL SHEET

We certify that this thesis entitled **A Comparative Study on Capital Adequacy Ratio of Commercial Bank in Nepal** submitted by **Mr. Laxman Bhandari** to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the degree.

Thesis Committee

Prof. Dr. Ram Prashad Gyanwaly
(Head of the Department)

Prof. Dr. R.K. Shah
(External Examiner)

Gyan Mani Adhikari
Associate Professor
(Thesis Supervisor)

Date: 11/04/2017 A.D.
29/12/2073 B.S.

ACKNOWLEDGEMENTS

I am very much pleased to take this opportunity to express my gratitude to my thesis supervisor Associate Professor GyanMani Adhikari, Central Department of Economics, Kritipur, Kathmandu for his valuable guidance, suggestions and encouragement without him this work would not be accomplish.

I also extend my hearty thanks to my brother Sanjeev Bhandari and Mr.Lalu Thapa for providing valuable suggestions and assistance for this research work. Last but not the least, I would like to express thanks to my parents and friends.

Laxman Bhandari

TABLE OF CONTENTS

	Page No.
LETTER OF RECOMMENDATION	i
APPROVAL SHEET	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vi
LIST OF FIGURES	vii
ABBREVIATIONS/ACRONYMS	viii
CHAPTER I: INTRODUCTION	1-4
1.1 Background of the Study	1
1.2 Statement of the Problem	2
1.3 Objectives of Study	2
1.4 Significance of Study	3
1.5 Research Hypotheses	3
1.6 Limitations of Study	4
1.7 Organization of Study	4
CHAPTER II: REVIEW OF LITERATURE	5-21
2.1 Theoretical Review	5
2.1.1 Comparison of Basel I, Basel II and Basel III	7
2.1.1 Comparison of Capital Requirement	8
2.2 Review of Previous Studies	9
2.2.1 International Context	9
2.2.2 National Context	18
2.3 Research Gap	21
CHAPTER III: RESEARCH METHODOLOGY	22-24
3.1 Research Design	22

3.2	Nature and Sources of Data	22
3.3	Conceptual Framework	22
3.4	Population and Sampling	24
3.5	Data Analysis Tools	24
CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA		25-34
4.1	Presentation of Data	25
4.1.1	Capital Adequacy Ratio	25
4.1.1.1	Joint Venture Banks	26
4.1.1.2	Private Domestic Banks	27
4.1.2	Comparing Capital Adequacy Ratio	27
4.2	Mean Value of Group Statistic	30
4.3	Correlation Matrix	32
4.4	Difference between JVB and PDB	33
CHAPTER V: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS		35-36
5.1	Summary of Findings	35
5.2	Conclusion	36
5.3	Recommendations	36
REFERENCES		37-40

LIST OF TABLES

Table No.	Title	Page No.
3.3	Theoretical Framework	
4.1	Joint Venture Banks	26
4.2	Private Domestic Banks	27
4.3	Group Statistic	31
4.4	Correlation Matrix	32
4.5	Independent Sample Test	33

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	Average Capital Adequacy Ratio	28
4.2	Average Capital Adequacy Ratio	29
4.3	Average Supplementary Capital Ratio	30

ABBREVIATIONS/ACRONYMS

BCBS	Basel Committee on Banking Supervision
BoK	Bank of Kathmandu
CRR	Cash Reserve Ratio
DPB	Domestic Private Bank
FSRs	Financial Sector Reform
IMF	International Monetary Fund
JVB	Joint Venture Bank
LBL	Laxmi Bank Limited
NPLR	Non- Performance Loan Ratio
NRB	Nepal Rastra Bank
ROA	Return on Assets
ROE	Return on Equity
SBI/N	State Bank of India /Nepal