

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Capital Adequacy and its Impact on Profitability of Commercial Banks in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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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Dipendra Kumar Gupta

December, 2023

REPORT OF RESEARCH COMMITTEE

Mr. Dipendra Kumar Gupta has defended research proposal entitled "**Capital Adequacy and its Impact on Profitability of Commercial Banks in Nepal**" 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 Joginder Goet and submit the dissertation for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**Capital Adequacy and its Impact on Profitability of Commercial Banks in Nepal**" presented by Dipendra Kumar Gupta for the degree of Master of Business Studies (MBS Semester). We hereby certify that the dissertation is acceptable for the award of degree.

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ACKNOWLEDGEMENTS

It is a pleasure to experience own creation that adds value to others. Actually, this thesis is the partial fulfillment of requirements for master's degree of Business Studies (MBS) and I gained a lot of knowledge while doing it. This thesis is of course the result of my self-endeavor and hard work, but this would not have been completed without helpful hand of intellectuals. The completion of the present study is a result of help and support of several hands.

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Thank You,

Dipendra Kumar Gupta

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ABBREVIATIONS

ACRR	:	Adjusted Capital to Risk Assets Ratio
ATM	:	Automated Teller Machine
AVG	:	Average
BCBS	:	Basel Committee on Banking Supervision
CAR	:	Capital Adequacy Ratio
CD	:	Certificate of Deposit
CRAR	:	Capital to Risk Weighted Assets
DER	:	Debts Equity Ratio
ETC	:	Etcetera
GDP	:	Gross Domestic Product
GSTIR	:	Government Security to Investment Ratio
HBL	:	Himalayan Bank Limited
LAR	:	Loans and Advance Ratio
MBL	:	Machhapuchhre Bank Limited
NEPSE	:	Nepal Stock Exchange
NPLR	:	Non-Performing Loan Ratio
NRB	:	Nepal Rastra Bank
NRS	:	Nepalese Rupees
NSBI	:	Nepal SBI Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Rate of Interest
RWA	:	Risk Weighted Assets
SD	:	Standard Deviation
SHE	:	Shareholders' Equity
SIG.	:	Significance

ABSTRACTS

This study aims to assess the effects of capital adequacy on commercial banks in Nepal, employing a descriptive research design. Secondary data from four commercial banks spanning the period from 2013 to 2022 were analyzed using various financial ratios and statistical tools. Data was sourced from the annual reports of banks and the annual supervision report of Nepal Rastra Bank. Profitability is measured through ROA and ROE, while determinants of profitability include the capital adequacy ratio, debt-to-equity ratio, loan and advance ratio, government security to total investment ratio, and non-performing loan ratio. The comprehensive criteria for evaluating banking profitability extend beyond the favorable aspects of risk and consider the impact of the capital adequacy ratio, assessing banking profitability in terms of risk-weighted assets as a whole.

The dependent and independent variables might have positive as well as negative influences, according to the correlation coefficient. In particular, there is a positive link with ROA based on the correlation coefficient between CAR and NPLR. Conversely, the correlation coefficients for DER, LAR, and GSTIR suggest a negative correlation with ROA. Similarly, the correlation coefficients for CAR, LAR, and GSTIR indicate a negative correlation with ROE. In contrast, the correlation between DER and NPLR suggests a positive correlation with ROE.

In light of the findings, it is advisable for banks to prioritize secure investments guided by the capital adequacy ratio, achieve optimal levels of capital adequacy, enhance the quality of investments, and manage liquidity effectively to mitigate risks. This approach is crucial for the sustained vitality of institutions in the future. Additionally, there should be a concerted effort to maintain high asset quality to ensure long-term viability. The liquidity position of sampled banks must align with both current and potential obligations.

Keywords: *Capital adequacy ratio, debt-to-equity ratio, loans and advances ratio, non-Performing Loans Ratio, and Profitability.*