

CAPITAL ADEQUACY AND ITS IMPACT ON PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

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

By

Hira Lal Khanal

Roll No: 3806/18

T.U. Regd. No: 7-2-851-15-2013

Central Department of Management, Tribhuvan University

Kirtipur, Kathmandu

March, 2021

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 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.

.....

Hira Lal Khanal

March, 2021

REPORT OF RESEARCH COMMITTEE

Mr Hira Lal Khanal 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 Assistant Prof. Bharat Singh Thapa and submit the thesis for evaluation and viva voce examination.

.....
Assistant Prof. Bharat Singh Thapa
Dissertation Proposal Supervisor

Dissertation Proposal Defended Date: August 11, 2020
--

.....
Assistant Prof. Bharat Singh Thapa
Dissertation Supervisor

Dissertation Submitted Date: 10 March, 2021

.....
Prof. Dr. Sanjay Kumar Shrestha
Chairperson, Research Committee

Dissertation Viva Voce Date: 16 March, 2021

APPROVAL SHEET

We have examined the dissertation Capital Adequacy and its Impact on Profitability of Commercial Banks in Nepal presented by Hira Lal Khanal for the degree of **Master of Business Studies (MBS)**. We hereby certify that the dissertation is acceptable for the award of degree.

Assistant Prof. Bharat Singh Thapa
Dissertation Supervisor

Lecturer Nirajan Basnet
Internal Examiner

Dr. Arun Kumar Thakur
External Examiner

Prof. Dr. Sanjay Kumar Shrestha
Chairperson, Research Committee

Prof. Dr. Ramji Gautam
Head, Central Department of Management

Date:

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Hira Lal Khanal

Central Department of Management

ABSTRACTS

This study aimed at examining the impacts of capital adequacy of commercial banks in Nepal. The Descriptive research design has been adopted for the study. The study used a secondary data for six commercial bank for the period 2010/11 to 2019/20 have been analyzed using different financial ratios and statistical tools. Data is obtained from banks annual report and Nepal Rastra Banks annual supervision report. ROA and ROE is taken as profitability indicator and capital adequacy ratio, debts-equity ratio, government security investment ratio and non-performing loan ratio are determinants of profitability. The overall criteria to evaluate the banking profitability as a whole. It doesn't only consider the best part of the risk but it assumes what is the impact of capital adequacy ratio and evaluate the banking profitability in term of risk-weighted assets as a whole.

Based on the finding, it is recommended that the banks should safe investment based on capital adequacy ratio, make optimum capital adequacy, improvement on quality of investment and liquidity by mitigate the risk because it gives the life to the institutions for the coming days. They should also focus on their assets quality to ensure their existence in long run. The liquidity position of the sample banks should meet its current and contingent obligations.

The correlation coefficient shows the positive and negative impact of the dependent and independent variables. The correlation coefficient between CAR, GSTIR NPLR and D/E ratio which shows that there is negative correlation with ROA and ROE. AAR is positively correlated with ROA and ROE.

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ABBVIATIONS

AAR	:	Loans and Advance to Assets Ratio
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
D-E	:	Debts Equity Ratio
ETC	:	Etcetera
GDP	:	Gross Domestic Product
GSTIR	:	Government Security to Investment Ratio
HBL	:	Himalayan Bank Limited
MBL	:	Machhapuchhre Bank Limited
NBB	:	Nepal Bangladesh Bank Limited
NCC	:	Nepal Credit and Commerce 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
VIF	:	Variance Inflation Factor