Determinants Of The Capital Adequacy Working Paper Ratio

This book is timely since the Basel Committee on Banking Supervision at the Bank for International Settlements is in the process of making major changes in the capital rules for banks. It is important that capital adequacy regulation helps to achieve financial stability in the most efficient way. Capital adequacy rules have become a key tool to protect financial institutions. The research contained within the book covers some key issues at stake in the capital requirements for insurance and securities firms. The contributors are among the leading scholars in financial economics and law. Their contributions analyze the use of subordinated debt, internal models, and rating agencies in addition to examining the effect on capital of reinsurance, securitization, credit derivatives, and similar instruments.

This book elaborates the Determinants of Commercial Banks' profitability in Ethiopia taking five bank specific variables namely: capital adequacy, bank size, asset composition, loan loss provision and liquidity and ROA and ROE were used to measure profitability.Ten years data(2003-2012) gathered from seven commercial banks(CBE, Awash, Dashen, Nib, Wugagen, Abyssinia, United banks) were analyzed using descriptive, correlation and regression a

This volume presents a new database on bank regulation in over 150 countries. It offers a comprehensive cross-country assessment of the impact of bank regulation on the operation of banks and assesses the validity of the Basel Committee's influential approach to bank regulation.

We examine the determinants of interest rate margins of Czech banks employing bank-level dataset at the quarterly frequency in 2000-2006. Our main results are as follows. We find that more efficient banks exhibit lower margins and there is no evidence that the banks with lower margins would compensate themselves with higher fees. Price stability contributes to lower margins. There are some economies of scale, as larger banks tend to charge lower margins. Higher capital adequacy is associated with lower margins contributing to the banking stability. Overall, the results indicate that the determinants of interest rate margins of Czech banks are largely similar to those reported in other studies for developed countries. -- commercial banks ; interest rate margins ; bank efficiency

This paper attempts to identify the fundamental variables that drive the credit default swaps during the initial phase of distress in selected European Large Complex Financial Institutions (LCFIs). It uses yearly data over 2004 - 08 for 29 European LCFIs. The results from a dynamic panel data estimator show that LCFIs’ business models, earnings potential, and economic uncertainty (represented by market expectations about the future risks of a particular LCFI and market views on prospects for economic growth) are among the most significant determinants of credit risk. The findings of the paper are broadly consistent with those of the literature on bank failure, where the determinants of the latter include the entire CAMELS structure - that is, Capital Adequacy, Asset Quality, Management Quality, Earnings Potential, Liquidity, and Sensitivity to Market Risk. By establishing a link between the financial and market fundamentals of LCFIs and their CDS spreads, the paper offers a potential tool for fundamentals-based vulnerability and early warning system for LCFIs.

The effect of bank capital on lending is a critical determinant of the linkage between financial conditions and real activity, and has received especial attention in the recent financial crisis. The authors use panel-regression techniques to study the lending of large bank holding companies (BHCs) and find small effects of capital on lending. They then consider the effect of capital ratios on lending using a variant of Lown and Morgan's VAR model, and again find modest effects of bank capital ratio changes on lending. The authors¿ estimated models are then used to understand recent developments in bank lending and, in particular, to consider the role of TARP-related capital injections in affecting these developments. Illus. A print on demand pub.

The 1988 Basel I Accord set the common requirements of bank capital to promote the soundness and stability of the international banking system. The agreement required banks to hold capital in proportion to their perceived credit risks, and this requirement may have caused a “credit crunch,” a significant reduction in the supply of credit. We investigate the direct link between the implementation of the Basel I Accord and lending activities, using a data set spanning annual observations covering 1989–2004 for banks in Egypt, Jordan, Lebanon, Morocco, and Tunisia. The results provide clear support for a significant increase in credit growth following the implementation of capital regulations, in general. Despite higher capital adequacy ratios, banks expanded credit and asset growth. Credit growth appears to be driven by demand fluctuations attributed to real growth, cost of borrowing, and exchange rate risk. Overall, the effects of macroeconomic variables, in contrast to capital adequacy, appear to be more dominant in determining credit growth, regardless of the capital adequacy ratio, and regardless of variation across banks by nationality, ownership, and listing.

Research Paper (postgraduate) from the year 2015 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, , language: English, abstract: The main purpose of this study was to examine the determinants of loan default and its effects on financial performance of commercial banks in Ghana by using Fidelity Bank Limited as a case study. The study employed quantitative and qualitative research techniques as the research design. In achieving the research objectives primary and secondary data was used. The primary data was collected through a well structured questionnaire. Simple random technique was used to select 120 loan clients and a purposive sampling was used to select a credit staff. The data was collected from four branches of Fidelity Bank in the Brong Ahafo Region of Ghana. It was realized that the delays in loan approval, poor management, poor credit appraisal and diversion of loans are the main determinants of loan default in Fidelity bank. The study also found that SME clients (49.5%) defaults more than agric, personal and salary loan clients. The major cause of loan default according to the findings of this study was decrease in demand of goods and service (16.1%) sold by the loan clients. Again, it was realized that loan default has a negative impact on profitability. It is recommended that the following measures should be implemented to reduce the rate of loan default; good credit structuring, consistent monitoring, sound credit risk policies and standards, quality analysis, well trained staff, good corporate governance system, independent credit assessment, rescheduling and provision of additional funds.

This paper measures the performance of different metrics in assessing banking system vulnerabilities. It finds that metrics based on equity market valuations of bank capital are better than regulatory capital ratios, and other metrics, in spotting banks that failed (bad apples). This paper proposes that these market-based ratios could be used as a surveillance tool to assess vulnerabilities in the banking sector. While the measures may provide a somewhat fuzzy signal, it is better to have a strategy for identifying bad apples, even if sometimes the apples turn out to be fine, than not being able to spot any bad apples before the barrel has been spoiled.

"Explicit deposit insurance tends to be detrimental to bank stability-- the more so where bank interest rates are deregulated and the institutional environment is weak"--Cover.

Banks and Capital RequirementsChannels of AdjustmentMeasuring the Determinants of Capital Adequacy and Its Impact on Efficiency in the Banking IndustryA Comparative Analysis of Islamic and Conventional BanksDeterminants of Leverage, Return on Assets, Operational Efficiency and Capital Adequacy in Lebanese BanksA Panel Data AnalysisThe Fundamental Determinants of Credit Default Risk for European Large Complex Financial InstitutionsInternational Monetary Fund

Using a sample of publicly listed banks from 62 countries over the 1991-2017 period, we investigate the impact of capital on banks’ cost of equity. Consistent with the theoretical prediction that more equity in the capital mix leads to a fall in firms’ costs of equity, we find that better capitalized banks enjoy lower equity costs. Our baseline estimations indicate that a 1 percentage point increase in a bank’s equity-to-assets ratio lowers its cost of equity by about 18 basis points. Our results also suggest that the form of capital that investors value the most is sheer equity capital; other forms of capital, such as Tier 2 regulatory capital, are less (or not at all) valued by investors. Additionally, our main finding that capital has a negative effect on banks’ cost of equity holds in both developed and developing countries. The results of this paper provide the missing evidence in the debate on the effects of higher capital requirements on banks’ funding costs.

The Prudential Regulation of Banks applies modern economic theory to prudential regulation of financial intermediaries. Dewatripont and Tirole tackle the key problem of providing the right incentives to management in banks by looking at how external intervention by claimholders (holders of equity or debt) affects managerial incentives and how that intervention might ideally be implemented. Their primary focus is the regulation of commercial banks and S&Ls, but many of the implications of their theory are also valid for other intermediaries such as insurance companies, pension funds, and securities funds.Observing that the main concern of the regulation of intermediaries is solvency (the relation between equity, debt, and asset riskiness), the authors provide institutional background and develop a case for regulation as performing the monitoring functions (screening, auditing, convenant writing, and intervention) that dispersed depositors are unable or unwilling to perform. They also illustrate the dangers of regulatory failure in a summary of the S&L crisis of the 1980s.Following a survey of banking theory, Dewatripont and Tirole develop their model of the capital structure of banks and show how optimal regulation can be achieved using capital adequacy requirements and external intervention when banks are violated. They explain how regulation can be designed to minimize risks of accounting manipulations and to insulate bank managers from macroeconomic shocks, which are beyond their control. Finally, they provide a detailed evaluation of the existing regulation and of potential alternatives, such as rating agencies, private deposit insurance, and large private depositors. They show that these reforms are, at best, a complement, rather than a substitute, to the existing regulation which combines capital ratios with external intervention in case of insolvency.The Prudential Regulation of Banks is part of the Walras Pareto Lectures, from the Universiy of Lausanne.

"The authors examine the factors that influence banks' type of organizational form when operating in foreign markets using an original database of the branches and subsidiaries in Latin America and Eastern Europe of the top 100 international banks. They find that regulation, taxation, the degree of desired penetration in the local market, and host-country economic and political risks matter. Banks are more likely to operate as branches in countries that have higher corporate taxes and when they face lower regulatory restrictions on bank entry, in general, and on foreign branches, in particular. Subsidiaries are the preferred organizational form by banks that seek to penetrate the local market establishing large and mostly retail operations. Finally, there is evidence that economic and political risks have opposite effects on the type of organizational form, suggesting that legal differences in the degree of parent bank responsibility vis-à-vis branches and subsidiaries under different risk scenarios play an important role in the kind of operations international banks maintain overseas "--World Bank web site.

Under the new Basle Guidelines, all financial institutions subject to local banking laws will soon be required to operate under dramatically different risk exposure rules. Risk Management and Capital Adequacy provides details on the key risk approaches under these new guidelines and is the first book to analyze if and how they can be integrated. From conceptual frameworks to analyses of models and approaches, it provides a solid reference source for the information that everyone in risk management will soon need to know.

For junior-senior/MBA-level courses in Commercial Banking, Commercial Bank Management, Management of Financial Institutions, Financial Institutions and Markets. Established as the market-leader for more than 12 years, this thoroughly revised text describes both the theory and practice of commercial banking from a financial-management perspective. Focusing on the dynamic and rapidly changing financial-services industry, it explores modern financial management decision-making and highlights the importance of adapting to change and creating value as the way for firms to succeed.

The seeming failure of loose monetary policy to reactivate Japan’s economy has led some observers to suggest that the usual credit channels through which monetary policy affects the real economy are blocked, and this because of a pervasive shortage of bank capital that has induced a leftward shift in the supply of bank credit: the so called credit crunch hypothesis. This paper finds support for the hypothesis in the 1997 bank data—a year during which the landscape of the Japanese financial system was changed fundamentally—but finds no, or even contrary, evidence, for most of the 1990’s.

We examine the effect of bank capital levels on firm investment drawing on a sample of 11,106 non-financial firms from 2007 to 2013 in 16 advanced economies. We examine two measures of bank capital adequacy, the Tier 1 ratio and a simple leverage ratio, and find that firms with larger external financial needs invest relatively more when domestic financial systems have relatively high leverage ratios. This pattern is more pronounced for those firms that have sound fundamentals, suggesting that bank balance sheets and their willingness to extend credit can be an important factor in determining aggregate investment and growth outcomes. The empirical findings are robust to a range of specifications. Bank Tier 1 capital ratio does not appear to have a significant effect on corporate investment, possibly because a higher Tier 1 ratio also captures a high share of assets with low risk weights.

As new comers to the market, Islamic Banks (IBs) are facing a trade-off. They can either employ high capital ratios which increase the soundness and safety of the bank and lowers the required return (risk) by investors, or depend on deposits and Islamic bonds which are considered cheaper sources of funds due to their tax deductibility. IBs' management must carefully decide upon the appropriate mix of debt and equity, namely, capital structure, in order to maximize the value of the bank. This study examines the effect of capital structure on IBs' performance in an attempt to provide guidance to managers in the issue of raising capital. The study also examines whether regulatory capital requirements are the first-order determinants of IBs' capital decisions. Furthermore, the study calculates the optimal capital structure for the sample IBs and uses it as guidance for capital structure decisions. Using a sample of 85 IBs covering 19 banking systems, the study uses a Two-Stage Least Squares (2SLS) method to examine the performance determinants of IBs' in order to control for the reverse causality from performance to capital structure and uses the Ordinary Least Squares (OLS) method to examine the determinants of IBs' capital structure. After controlling for macroeconomic environment, financial market structure and taxation, results indicate that IBs' performance (profitability) measures respond positively to increases in equity (capital ratio). The result is consistent with the signaling theory which predicts that banks expected to have better performance credibly transmit this information through higher capital. As for the reverse causation from performance to capital structure, results indicate that more profitable IBs employ higher leverage. This is consistent with the efficiency-risk hypothesis which predicts that more profitable firms choose lower equity ratios (higher leverage). Risk is found to be an insignificant factor in determining leverage, which indicates that minimum capital requirements are not first-order determinants of IBs' capital structure and that standard determinants of capital structure can explain variation in IBs' book capital. Results of

optimal capital structure finds that the capital-asset ratio has an increasing effect on IBs' profitability. The optimal capital ratio is found to be 37.41%. At capital ratios below 37.41% equity is expensive and has a negative effect on return on equity (ROE) due to the higher required return by investors. Beyond 37.41% equity starts to have a positive effect on ROE and becomes a cheap source of financing. As a general guide, IBs should have minimum capital ratios of 37.41% to be viewed as safe and sound by investors and to lower the cost of issuing additional equity.
Banks play a crucial role in the overall development of a given country. Though liquidity risk is one of the main risk of commercial banks and affects the development of the financial system as a whole, there is almost no or little attempt was done to examine its determinants in Ethiopian commercial banks. Thus, this study attempted to find out determinants of liquidity risk in Ethiopian commercial banks covering a six years period (2007-2012) on ten sample commercial banks using secondary data. Both bank specific and macroeconomic liquidity risk determinants were investigated employing the fixed effect panel data regression model. The study revealed that bank size, capital adequacy, dependency on external fund and liquidity of assets have a negative statistically significant relationship with liquidity risk. However, according to the fixed effect panel data regression model profitability, RGDP growth, inflation and lending interest rate are found to be not powerful variables to influence liquidity risk of Ethiopian commercial banks in the test period. Generally, in this study bank specific variables have more significant effect than macroeconomic variables.
In this paper, we provide an overview of the concerns surrounding the variations in the calculation of risk-weighted assets (RWAs) across banks and jurisdictions and how this might undermine the Basel III capital adequacy framework. We discuss the key drivers behind the differences in these calculations, drawing upon a sample of systemically important banks from Europe, North America, and Asia Pacific. We then discuss a range of policy options that could be explored to fix the actual and perceived problems with RWAs, and improve the use of risk-sensitive capital ratios.
This paper assesses the vulnerability of emerging markets and their banks to aggregate shocks. We find significant links between banks' asset quality, credit and macroeconomic aggregates. Lower economic growth, an exchange rate depreciation, weaker terms of trade and a fall in debt-creating capital inflows reduce credit growth while loan quality deteriorates. Particularly noteworthy is the sharp deterioration of balance sheets following a reversal of portfolio inflows. We also find evidence of feedback effects from the financial sector on the wider economy. GDP growth falls after shocks that drive non-performing loans higher or generate a contraction in credit. This analysis was used in chapter 1 of the Global Financial Stability Report (September 2011) to help evaluate the sensitivity of banks' capital adequacy ratios to macroeconomic and funding cost shocks.
This paper develops a conceptual framework for assessing the major reorientation in bank capital adequacy regulation proposed in the Basel Committee's New Capital Framework (NCF) consultative document.2 The NCF document outlines a series of measures which, taken collectively, amount to a fundamental revision to the Committee's 1988 Capital Accord (Accord). Intended only to apply to internationally active banks, and representing an informal agreement between the central banks and bank

supervisory agencies of the G-10 countries, the Accord has since become accepted as the de facto universal international standard for assessing banks' capital adequacy. Thus, a proposal to revise the Accord is a matter of immense significance for the international financial system.

The high level of nonperforming loans (NPLs) in the Caribbean has been, in large part, a legacy of the global financial crisis, but their persistence owes much to the weak economic recovery in the region, as well as to structural obstacles to their resolution. A comprehensive strategy is needed to address these impediments to sever the adverse feedback loops between weak economic activity and weak asset quality. This paper finds that NPLs are a drag on Caribbean growth and macro-financial links are strong: a deterioration in asset quality hinders bank lending and dampens economic activity, undermining, in turn, efforts to resolve problem loans. A multifaceted approach is needed, involving a combination of macro- economic policies to support growth and employment; strong supervisory frameworks to ensure macro-financial stability and create incentives for resolution; efforts to address informational gaps and deficiencies in insolvency and debt-enforcement frameworks; and development of markets for distressed loans. The institutional capacity constraints require coordination of reforms within the region and support from international organizations through capacity-building.

Scientific Study from the year 2018 in the subject Economics - Finance, grade: 12, , language: English, abstract: This study examines the determinants of profitability of commercial banks in Albania. These determinants are categorized into two groups, internal factors that are the bank specific factors and external factors that are further divided into macroeconomic factors and industry specific factors. The main objective of the study is to determine the factors affecting the profitability of commercial banks and making some recommendations, that maybe can help the management and policymakers. A panel data with 16 commercial banks in Albania is analyzed for the period 2009-2014. Two indicators are used (dependent variables) for the measurement of profitability, return on assets (ROA) and return on equity (ROE). Banking specific factors that are used in this study include variables such as bank size, asset management, credit risk, liquidity of assets, capital adequacy, operational efficiency and cost of financing. On the other hand is taken into consideration only one industry specific factor, which is the concentration and macroeconomic factors such as GDP, inflation and exchange rate. To meet the main object of the research, the study is based mainly on quantitative research method, which is supplemented by a qualitative method. Quantitative data were obtained mainly from the financial statements of commercial banks, by INSTAT, Bank of Albania, and World Bank, in order to make empirical analysis needed to identify and measure the determinants of bank profitability. In particular, multiple regression analysis was used to measure the impact of the determinants of bank profitability. On the other hand, qualitative data were collected through unstructured interviews conducted with executives of finance in the albanian commercial banks. To realize empirical analysis were used the software SPSS 22 and Eviews 7.

Doctoral Thesis / Dissertation from the year 2019 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 1, Bharathiar University, language: English, abstract: This study seeks to understand the impact of a series of key internal determinants of the profitability of listed commercial banks in India. Following are the research questions raised in this regard: Are there differences in key performance measures of private and public sector banks? Does the size of the bank affect bank profitability? Does the bank's lending activity and income generation capability affect its profitability? Does the productivity of the bank impact its profitability? Does the bank's asset quality and capital adequacy affect its profitability? Can bank profitability be forecasted from determinants? The banking industry in India is diverse in nature. There are more than sixty listed commercial banks in India. These include banks in the public and private sector and the banks are of varying size and profitability levels. As noted early, the Indian banking system is faced with severe asset quality issues. The banking system has been flooded with non-performing assets which have significantly eroded the bank margins. Recent adverse developments in the banking sector such as lending scams and questionable advances to troubled segments of the economy have dominated the financial press. While this being so, this research is aimed at examining the contributing factors of profitability in banks. Key measures of bank profitability include the return of assets, return on equity and net interest margin. There are several possible drivers of bank profitability. These include asset quality, capital adequacy, liquidity, productivity and income. While several studies till date have looked at key determinants of bank profitability, very few studies have compared the effect of key determinants for a larger cross section of banks that represent the banking sector in India as a whole. Hence an attempt has been made in this study to know the key drivers of profitability of the banking sector. The study also looks at the similarities or the differences of the influence of selected determinants on profitability measures across the sample of banks selected for research. This study also compares the key drivers of bank profitability for public and private sector banks and an attempt is made to develop models to forecast bank profitability from key determinants.

Working capital is a financial measure that interprets operating liquidity available to a business, organization or other entity and is counted a part of operating capital. The importance of working capital management is irrefutable. Moreover, the recognition of determinants of working capital is crucial as to take proper measures regarding the management of each component of working capital. The main reason behind the failure of many businesses is the incapability of firm's financial managers to properly managing their current assets and liabilities (Smith, 1973). The present study will see that what are the major factors those determine the Working Capital Requirements of Pakistani firms. The sample of 385 selected from 414 listed non-financial firms in Karachi Stock Exchange, Pakistan. The period covered by the study extended to six year starting from 2004 to 2009 (2310 firm-year observations).

This monograph focuses on the liquidity risk of commercial banks in the Visegrad countries in the period from 2000 to 2011. This risk is comprehensively evaluated with several different methods: six liquidity ratios, panel data regression analysis with fixed effects, probit model and scenario analysis. The liquidity position, net position on the interbank market and strategy of liquidity risk management differ significantly in individual Visegrad countries. The capital adequacy is the most important determinant of bank liquidity. However, some other factors such as size of the bank, credit portfolio quality or macroeconomic development are

significant as well. All three tested stress scenarios would have a negative influence on bank liquidity. A run on the bank would have most serious impact on the bank liquidity in all Visegrad countries. The use of committed loans is the second most severe scenario for Czech and Slovak banks and a crisis confidence in the interbank market for Hungarian and Polish banks.
While system-wide profitability for Spanish banks has recovered gradually since the crisis, the return on equity remains below the cost of capital (Bank of Spain May 2016 FSR).2 Profitability remains higher for Spanish banks compared with European peers, especially supported by relatively high Net Interest Margins (NIMs), however, some Spanish banks still have higher non-performing loan (NPL) and provision to asset ratios.3 The internationally oriented Spanish banks perform more strongly in NIMs compared with domestically oriented banks, mainly supported by their subsidiaries abroad (particularly in Latin America). The efficiency of Spanish banks as measured by the cost-to-income ratio remains favorable compared with peers. On excess capacity, the branch per capita level is relatively high for Spanish banks, while bank employees per capita remains low compared with European peers.