Determinants of Capital Adequacy Ratio
in Jordanian Banks

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ABSTRACT


This study analyzed determinants of capital adequacy ratio (CAR), by studying the financial statements of a sample of 17 banks in Jordan in two periods. The first period is conducted from [1985-1994] which represent a time before applying Basel committee standards for capital adequacy ratio in Jordanian banks. While the second period covers from [1995-2001] which is a time after applying Basel committee standards for capital adequacy ratio, that represented in a minimum capital adequacy ratio (CAR) of 8%. The study found that most Jordanian banks are committed by a minimum 8% capital adequacy ratio, while some banks have higher than 8% ratio. We used a model of nine independent variables expected to affect CAR. Using correlation coefficients and regression analysis, we found a negative relation between CAR and bank’s size, while CAR was positively affected by ROA, loan to assets ratio(LAR), and equity ratio(EQR). CAR has a positive relation to risky assets ratio(RAR) in the period [1985-1994], while the relation becomes negative over the period [1995-2001]. CAR is negatively affected by deposits assets ratio between [1985-1994] and positively affected by a size of banks’ deposits in a period[1995-2001]. CAR is negatively affected by loan provision ratio(LPR), and positively affected by dividend payout ratio(DR) over the period [1995-2001]. According to these results, banks in Jordan should maintain or increase their capital adequacy ratio(CAR) to enhance the safety of the banking system, and the safety to depositors.