

**DETERMINANTS OF CAPITAL STRUCTURE OF NEPALESE
DEVELOPMENT BANKS**

A Dissertation submitted to the Office of the Dean, Faculty of Management
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(MBS)

By

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Determinants of Capital Structure of Nepalese Development Banks**” 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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REPORT OF RESEARCH COMMITTEE

Rita Parajuli has defended research proposal entitled “**Determinants of Capital Structure of Nepalese Development Banks**” 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 Dhurba Prasad Subedi and submit the thesis for evaluation and viva voce examination.

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We, the undersigned have examined the thesis entitled “**Determinants of Capital Structure of Nepalese Development Banks**” presented by Rita Parajuli, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the viva voce examination of the candidate of the candidate. We hereby certify that the thesis acceptable for the award of degree.

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ABBREVIATIONS

AM:	Arithmetic mean
ADB :	Asian Development Bank
AGM:	Annual General Meeting
ATM:	Automated Teller Machine
BAFIA:	Bank and Financial Institution Act
BOK :	Bank of Kathmandu Limited
CADR:	Cash deposit ratio
CAR:	Capital Adequacy Ratio
CATAR:	Current assets to total assets ratio
CDR:	Credit deposit ratio
CHTDR:	Cash in hand to total deposit ratio
CV:	Coefficient of Variation
D/E:	Debt Equity Ratio
FY:	Fiscal Year
GBBL:	Garima Bikas Bank Limited
JBBL:	Jyoti Bikas Bank Limited
KSBBL:	Kamana Sewa Bikas Bank Limited
LACLAR:	Liquid assets to current liabilities ratio
LADR:	Loan and advances to deposit ratio
LDTA:	Long Term Debt to Total Assets
MBBL:	Mahalaxmi Bikas Bank Ltd
MNBBL:	Mukatinath Bikas Bank Ltd
NPAT:	Net Profit after Tax
NRB:	Nepal Rastra Bank
NRBTDR:	NRB balances to total deposit ratio
ROA:	Return on Asset
ROE:	Return on Equity
SD:	Standard Deviation

ABSTRACT

Profitability plays a crucial role in influencing the growth and sustainability of banks, and effectively managing the trade-off between liquidity and profitability is a significant concern. This study focuses on evaluating the impact of capital structure on the profitability of Nepalese development banks, examining their liquidity positions, and investigating the correlation between liquidity and profitability. Employing a descriptive research approach, the study utilizes secondary data extracted from the annual reports of development banks in Nepal and the Nepal Rastra Bank. The analysis incorporates correlation and regression techniques, using Return on Assets (ROA) and Return on Equity (ROE) to assess profitability. Additionally, Cash in Hand to Total Deposit Ratio (CHTDR), Loan and Advance to Total Deposit Ratio (LATDR), NRB Balance to Total Deposit Ratio (NRBTDR), Liquid Assets to Current Liability Ratio (LACLR), and Current Assets to Total Assets Ratio (CATAR) are employed to evaluate liquidity and profitability positions. The study covers a decade, spanning from the fiscal year 2012/13 to 2021/22, and involves five Nepalese development banks (MNBBL, GBBL, MBBL, JBBL, and KSBBL). The results reveal that LATDR shows a negative and insignificant correlation with ROE, while displaying an insignificant relationship with ROA. Conversely, CHTDR, NRBTDR, and CATAR exhibit significant relationships with ROA, whereas CHTDR and NRBTDR demonstrate significance with ROE, and LATDR is found to be insignificant with both ROA and ROE. The findings suggest a positive and significant relationship between liquidity, deposits, loans and advances, and profitability across Nepalese development banks during the study period. It is important to note that these results are derived from a study of selected banks, and their generalizability to the broader banking sector should be considered.

Keywords: Financial Institution, Profitability, Equity, Capital Structure and Liquidity.