

ABSTRACT

The banking industry is considered as a high-leverage level industry. In order to keep the financial systems stable, the bank capital structure is subject to the minimum capital requirements regulated by Basel Accords agreement. However, with rapid development of the banking sector, the capital structure of banks is not just determined by the regulations. Hence, the purpose of this study is to identify the determinants of capital structure of listed commercial banks in China.

Using unbalanced panel data of 16 listed commercial banks in China during the period of 2003 to 2012, the results from the multiple linear regression indicate that profitability and ownership structure have a significantly negative relationship with the banks' capital structure. A listed commercial bank with higher profitability may reduce the degree of debt financing, which results in a lower leverage level. Moreover, the more shares of listed commercial banks in China held by the largest shareholders, the lower leverage level those banks would have. These two variables should be considered when Chinese listed commercial banks make decisions regarding the capital structure.

The results of this study help managers of listed commercial banks in creating an adequate capital structure decision to further maximize the bank's value. In addition, the investors and depositors are able to judge the safety of bank capital after understanding the determinants of capital structure, which helped in reducing the risk exposure. Last but not least, the results of this study provide implications for the government to make bank capital regulations, which is important for the soundness and safety of the financial system.