

CHRISTIAN SERVICE UNIVERSITY COLLEGE

DEPARTMENT OF BUSINESS ADMINISTRATION

A RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PROFITABILITY IN BANKS

(A CASE STUDY OF HFC GHANA LIMITED AND UT BANK)

BY:

BOAMAH FRIMPONG SETH

SARKODIE ROSINA

SERWAA YAA NIMAKO

ADDAI SARAH

ASANTE GRACE

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We have read the university regulation relating to plagiarism and clarify that this report is all our own work and does not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

BAOMAH FRIMPONG SETH (10124146)	.....	.....
	Signature	Date

SARKODIE ROSINA (10124239)	.....	.....
	Signature	Date

SERWAA YAA NIMAKO (10124243)	.....	.....
	Signature	Date

ADDAI SARAHA (10124080)	.....	.....
	Signature	Date

ASANTE GRACE (10124124)	.....	.....
	Signature	Date

CERTIFIED BY:

OFOSU ADARKWA	.....	.....
Supervisor	Signature	Date

CERTIFIED BY:

KWAKU AHENKORA

Head of Business Studies Department Signature Date

ABSTRACT

Capital structure refers to the way a corporation finance it assets through some combination of equity, debt or hybrid securities

The purpose of the study was to determine if there would be any relationship (being it negative or positive) between capital structure and banks profitability.

The financial statements of two banks listed on the Ghana Stock Exchange (GSE) were used as a method of data analysis. Which are HFC GHANA LIMITED and UT Bank ranges from 2008 to 2010.

Dependent and Independent variables were determined by using the regression analysis.

According to the study, it was noticed that for an increase in the debt component of the capital structure, profitability decreases and for any decrease in the debt component of capital structure of the bank, the profitability increases. Therefore there will be conclusion that the kind of capital structure, (debt/equity) chosen affects the bank's profitability.

The hypothesis is true. In the sense that, there is a positive relationship between Return on Equity and Long Term Debt to equity.

A positive relationship between the Return on Asset and the Short Term Debt to equity is realized: Hence (ROA) is dependent on the Short Term Debt to Equity. This makes the hypothesis true.

DEDICATION

We dedicate this work to God almighty, who has granted us abundant grace to do this work and also to our families for all their support in our education.

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CHAPTER ONE

1. 1 INTRODUCTION

In finance, capital structure refers to the way a corporation finance it assets through some combination of equity, debt or hybrid securities. A firm's capital structure is then the composition or structure of its liabilities, for example a firm that sells \$20billion in equity and \$80 billion in debt is said to be 20% equity financed and 80% debt financed. The firm's ratio of debt to total financing, 80% in this example is referred to as the firms leverage. In reality, capital structure may be highly complex and include dozens of sources. Gearing ratio is the proportion of the capital employed of the firm which comes from outside of the business finance; example is by taking a short term loan.

The Modigliani- Miller theorem, proposed by Franco Modigliani and Merton Miller forms the basis for modern thinking on capital structure though it is generally viewed as a purely theoretical result since it disregards many important factors in the capital structure decision. The theorem states that, in a perfect market, how a firm is financed is irrelevant to its value. This result provides the base with which to examine real world reasons why capital structure is relevant, that is a company's value is affected by the capital structure it employs.

The reason for this research is to investigate the impact of capital structure and profitability on the performance of HFC Ghana limited and UT Bank.

1.2. BACKGROUND OF THE STUDY

The study of capital structure attempts to explain the mix of securities and financing sources used by corporations to finance real investment. Most of the research on capital structure has focused on the proportions of debt vs. equity observed on the right-hand sides of corporations' balance sheets. This paper is an introduction to that research. There is no universal theory of the debt-equity choice, and no reason to expect one. There are several useful conditional theories, however. For example, the tradeoff theory says that firms seek debt levels that balance the tax advantages of additional debt against the costs of possible financial distress. The trade predicts

moderate borrowing by tax-paying firms. The pecking order theory says that the firm will borrow, rather than issuing equity, when internal cash flow is not sufficient to fund capital expenditures. Thus the amount of debt will reflect the firm's cumulative need for external funds. The free cash flow theory says that dangerously high debt levels will increase value, despite the threat of financial distress, when a firm's operating cash flow significantly exceeds its profitable investment opportunities. The free cash flow theory is designed for mature firms that are prone to overinvest. There is another possibility: perhaps financing doesn't matter. Modigliani and Miller (1958) proved that the choice between debt and equity financing has no material effects on the value of the firm or on the cost or availability of capital. They assumed perfect and frictionless capital markets, in which financial innovation would quickly extinguish any deviation from their predicted equilibrium. The logic of the Modigliani and Miller (1958) results is now widely accepted. Nevertheless, financing clearly can matter. The chief reasons why it matters include taxes, differences in information and agency costs. Theories of optimal capital structure differs in their relative emphases on, or interpretations of, these factors. The tradeoff theory emphasizes taxes, the pecking order theory emphasizes differences in information, and the free cash flow theory emphasizes agency costs. Most research on capital structure has focused on public, nonfinancial corporations, etc; these companies have the broadest menu of financing choices and can adjust their capital structures at relatively low cost. Yet even 40 years after the Modigliani and Miller research, our understanding of these firms' financing choices is limited. We know much more about financing tactics-for example the tax-efficient design or timing of a specific security issue-than about financing strategy, for example the firm's choice of a target overall debt level. Research on financing tactics confirms the importance of taxes, information differences and agency costs. Whether these factors have first-order effects on the overall levels of debt vs. equity financing is still an open question.

1.3 PROBLEM STATEMENT

The financial decision of a company is sometimes difficult because there are statistical methods of different variables.

1. To find out whether the Modigliani Miller' statement that the profitability is independent of its capital structure is true.
2. To provide a vivid information about the relationship between capital structure and its profitability.
3. To find out whether Modigliani Miller theory which states that a firms value is maximize when it employs more debt in its capital structure than equity is true or not.

1.4 OBJECTIVES OF THE STUDY

1. To evaluate the impact of capital structure on financial performances.
2. To evaluate the interrelationship between capital structure and firm profitability
- .3. To find out if there could be a positive relationship between Return on Equity (ROE and long term debt.

1.5 RESERCH QUESTIONS

1. What is the relationship between capital structure and its profitability on the firm?
2. What is the impact of capital structure on the firm's profitability?
3. What are the determinants of capital structure?
4. What is the impact of capital structure on HFC Ghana Limited and UT Bank Performance?

1.6 HYPOTHESIS

Ho. There could not be a positive relationship between Return on Equity (ROE) and long term debt.

H1. There could be a positive relationship between Return on Equity (ROE) and long term debt.

Ho. There could not be a positive relationship between the Net Profit Margin and total debt.

H2. There could be a positive relationship between the net profit margin and total debt.

H0. There could not be a positive relationship between return on asset and equity financing.

H3. There could be a positive relationship between return on asset and equity financing.

1.7. SIGNIFICANCE OF STUDY

The relevance of the study to the economic development of Ghana is as follows:

1. Banks can access our research and follow our recommendations to improve the performance of capital structure and allocate resources in a manner that would actually improve the activities of banks.
2. The nation as a whole will benefit with information about current trends on capital structure.
3. The copy of our research will be made available to the university to serve as literature review material for student who engages themselves in similar work.

1.8 SCOPE AND LIMITATION OF STUDY

The study covers two banks selected in Kumasi in the Ashanti region of Ghana, UT Bank and HFC Ghana Limited. The scope of this study covers the relationship between capital structure and firms profitability. Access to the financial statement has been quite difficult. Some banks were reluctant to give out their financial statement.

1.9 ORGANISATION OF THE STUDY

Our study is grouped into five main chapters. The first chapter talks about the introduction, background of study, problem statement, objectives of the study, research questions, hypothesis, significant of the study, scope and limitation of the study.

The second chapter reviews certain literature that is engaged with the study. They include information on capital structure and profitability, financial statements of the banks. The third chapter consists of methodology and organizational profile. Chapter four looks at data presentation, analysis and discussions.

The last chapter gives a recap of findings and also brings out some important recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Capital structure is most significant discipline of company's operations. Our research constitutes an attempt to identify the impact between Capital Structure and Companies performance, taking into consideration the level of Companies Financial Performance. The analyze has been made on the capital structure and its impact on Financial Performance capacity during 2008 to 2010 (3years) financial year of HFC Ghana Limited and UT Bank.

To understand how companies finance their operations, it is necessary to examine the determinants of their financing or capital structure decisions. Company financing decisions involve a wide range of policy issues. At the private, they have implications for capital market development, interest rate and security price determination, and regulation.

Knowledge about capital structures has mostly been derived from data from developed economies that have many institutional similarities (Booth et al., 2001). It is important to note that different countries including Ghana have different institutional arrangements, mainly with respect to their tax and bankruptcy codes, the existing market for corporate control, and the roles banks and securities markets play.

Capital structure refers to a mixture of a variety of long term sources of funds and equity shares including reserves and surpluses of an enterprise. The historical attempt to building theory of capital structure began with the presentation of a paper by Modigliani & Miller (MM) (1958).

They revealed the situations under what conditions that the Capital Structure is relevant or irrelevant to the financial performance of the listed companies (UT Bank and HFC Ghana Limited).

Most of the decision making process related to the Capital Structure are deciding factors when determining the Capital Structure, a number of issues e.g. cost, various taxes and rate, interest rate

have been proposed to explain the variation in Financial Leverage across firms (Van Horne,1993; Hampton, 1998; Titman and Wessels,1998).

How important is the concentration of control for the company performance or the type of investors exerting that control are questions that authors have tried to answer for long time. Prior studies show that capital structure has relation with corporate governance, which is the key issue of state owned enterprise. The study of capital structure will help us to know the effect it has on performances as to whether there is a profit or a loss.

2.2 REFORMS IN THE BANKING SECTOR FOR THE PAST DECADE

The efficiency of financial markets in promoting financial deepening and savings mobilization of financial resources has been recognized by policy makers and economists such as Ronald McKinnon (1973) and Edward Shaw (1973). McKinnon postulates that an increase in holding financial assets (financial deepening) by the public promotes savings mobilization which leads to higher levels of savings, investment, production, growth, and poverty alleviation. However, financial market intervention by governments in developing countries constrains the potential of financial markets in mobilizing savings for growth and development.

In the 1980s, as part of their structural adjustment programs, many developing countries embarked on financial sector reforms to remove the vestiges of financial market repression in order to promote financial market efficiency and savings mobilization. As part of Ghana's financial sector reform, supported by the World Bank and the IMF, the government launched the Financial Institutions Sector Adjustment Program, hereafter referred to as FINSAP, to address the endemic problems of Ghana's financial sector.

This study provides a detailed examination of the problems of Ghana's banking sector that led to the implementation of the financial sector reform. Based on the problem analysis, this study raises various policy research questions as a basis for analytical framework and hypotheses formulation and testing. Answers to the policy research questions and hypotheses were assembled through field research in Ghana.

These include the administration of survey questionnaires to

- (a) Bank managers,
- (b) Bank staff and employees,
- (c) Bank examiners and regulators, and
- (d) Bank depositors.

Other methodologies include parametric statistical analysis of prudential, audited bank data and other macro-financial and macroeconomic data over the study period from 1980 to 1997.

On a micro level, the study presents an index of banking efficiency and bank performance for comparative analysis of the banking sector in Ghana. The study also examines the efficacy of existing and new policy changes regarding prudential regulation and bank supervision in promoting banking efficiency, soundness, and safety. The study shows that the financial sector reform has had a considerable impact on the capacity of the Ghanaian banking sector to mobilize financial savings.

The post-reform era witnessed the establishment of nine new banks, other non-bank financial institutions, and the so-called "magic banks" which were competing with the traditional banking sector for savings mobilization. An important emerging feature of the post-reform financial market development in Ghana is the introduction of innovative information technology in the delivery of financial services to the public. The introduction of automatic teller machines (ATM) by the foreign banks as well as some of the newer ones has set the financial market on the path of electronic banking in Ghana.

The repackaging of savings instruments through the introduction of the "Gold Account" by Standard Chartered Bank, the "Sika Card" by SSB Bank, Econbank's "Econet" and the "Barclay card," have created opportunities for savings mobilization and financial deepening. The privatization of the banking sector has been on course. Two banks have been privatized and listed

on the Ghana Stock Exchange. The remaining government-owned banks are being prepared for privatization or merger with other stronger banks before being divested.

The results of the analysis of the efficiency index (TARCSIMEL) shows that the efficiency indicators of the banking sector have improved since the financial sector reform. The transaction costs of the banking sector have been reduced while the quality of the assets and the capital adequacy position has been greatly enhanced. However, there are a number of problem areas and unfulfilled expectations associated with the financial sector reform. The study shows that the financial sector reform was not accompanied by a substantial increase in deposit rates by banks to obviate the negative impact of inflationary pressures on deposit rates.

As a result, aggregate savings with the banking sector expressed as a ratio to gross domestic product (GDP) declined after the financial sector reform. The disaggregated savings of demand and time deposits also show the same downward trend. Thus, a decade after the launch of FINSAP, savings rates continue to decline. Total deposits as a ratio of GDP fell from 13.45% (pre-reform) to 10.88% (post-reform). Compared to East Asia's 37% and Latin America's 20%, Ghana's savings rate is very low. Part of the reason for the weak savings response is that an unstable macroeconomic environment has undermined the reforms. From a low of 10.1% in 1992, inflation peaked at 70% in 1995 and only recently moderated to 22% at the end of 1997. The net effect is that real interest rates on deposit rates have been negative for many years after the financial sector reform.

The imbalance in the financial sector has led to market failure in pricing financial assets. The higher pricing of risk free government Treasury bills over risky loans resulted in the mismatch of yields on private sector loans and government Treasury bills. In addition, the comparative high yield on government Treasury bills, as compared with deposit rates, gave rise to savings flight from the banking system to the short-term money market of Treasury bills.

As a result, portfolio allocation by the banking institutions has been in favor of short-term government Treasury bills. This has reduced the incentive for savings mobilization and efficient allocation to the most productive sectors of the economy. Also, government fiscal deficits

accommodated by floating billions of cedis in Treasury bills crowds out the small- and medium sized enterprises from the credit market. Consequently, domestic private lending has not increased to an appreciable level. FINSAP has not made a significant impact on the term structure of bank lending in Ghana. The assets of Ghanaian banks consist primarily of short-term investments, dominated by Treasury bills. High nominal interest rates, fueled by large government deficits, have provided a relatively safe outlet for bank's profit maximization, leaving a big gap in the long-term segment of the market. FINSAP encourages a consolidation of banking activities and downsizing, as a means of increasing bank efficiency. One negative effect of this was the reduction of the national reach of banking services before new structures could be put in place to provide alternative banking services for the rural population. The survey results also confirm the continued lack of confidence in the banking system as a result of the unorthodox policies of the government in the 1980s and 1990s. The majority of the respondents indicated that the lack of banking confidentiality and fear of government probes of individual bank accounts serve as a deterrent to deposits, especially large deposits. Additionally, the continued inflationary pressures and the perennial depreciation of the cedi also affect the public's confidence in depositing their funds with the banking sector. As a result, depositors have increased their asset holdings in foreign denominated bank accounts as a hedge against inflationary and depreciating value of the cedi. One positive impact is the disappearance of the long waiting time at some of the larger banks that have introduced ATMs and computers. However, at those other state-owned banks, some depositors still complain about delays at banks, especially those banks that are not yet computerized. In terms of banking hours, the majority (76.2%) of the respondents in a survey indicated their dissatisfaction with the current banking hours. Sixty-five percent (65%) of the respondents indicated their preference for longer hours from 8.30 am to 4.00 p.m. On the other hand, 35% indicated their preference for bank opening hours on Saturdays. The study also found that proximity of banks to place of work and/or residence were major determining factors for the choice of banks by depositors. Over 80% indicated that their choice of banks was largely influenced by close proximity to work place or of residence. This finding has major policy implications for branch banking network and mobile banks serving the suburbs of the major metropolitan cities of the country. We also tested the impact of the government's 1991 decision to

start paying government employees and civil servants through direct bank deposits. Our survey shows that the majority (87%) of the beneficiaries found the practice very convenient. Additionally, the majority indicated that the practice helped their savings habits. This was confirmed by the bank managers. However, there is currently insufficient data to test whether the above policy change has resulted in increased savings by the government employees because of the direct deposit through the banking system.

The study shows that the reform of the banking sector had no significant effect on the use of cheques as a means of payments. The financial system remains cash-based with large liquidity outside the banking system. This has limited the potency of indirect monetary policy to stabilize macroeconomic aggregates for economic growth. In response to survey questionnaires, the bank management indicated their reluctance to accept cheques in payment due to the following factors:

- ❖ The lack of universal acceptability by the public, merchandise houses, and retailers,
- ❖ lack of verification due to lack of universal identification number of depositors and customers,
- ❖ lack of credit bureaus
- ❖ The slow clearing system of checks drawn on third parties.

.As a result, bank examination results had to be processed manually on typewriters. This practice, as the examiners admitted, leads to low productivity and delay in completing bank examination results.

Additionally, the lack of computerization of the commercial banks, especially in the rural areas, retards their progress on the job. These findings were corroborated by the results of the bank employee survey. The survey result shows that over 62% indicated that they have not participated in any professional training since joining the bank. Also, in terms of job satisfaction, over 51% indicated their displeasure with their current work status due to lack of professional training and the lack of opportunity for promotion and professional advancement. This finding is very troubling and needs further analysis.

The privatization of government owned commercial banks has raised the issue of public confidence and safety of depositor funds in times of banking troubles. Thus, the issue of bank deposits insurance came to the forefront. The majority of bank managers indicated their preference for the introduction of bank deposit insurance to cover depositor funds in the event of bank failures. This response was also corroborated by depositors who expressed their pleasure at seeing their deposits protected by some form of insurance. The results of our study show that there has been a redirection of credit away from the agricultural and the industry sectors that were favored during the pre-FINSAP era.

The increased debt burden may also put severe pressures on Ghana's foreign exchange rate, which may cause depreciation of its local currency. The role of the Bank of Ghana is to control and regulate aggregate money supply in order to stabilize the domestic economy through price and foreign exchange rate stability. However, in practice, the monetary policy objective of the Bank of Ghana conflicts with the continuous budget deficit of the government. Thus, the Central Bank must have a certain degree of autonomous monetary policy in order to stabilize the macroeconomic environment for growth and poverty alleviation. Additionally, the study offers the following recommendations as additional challenges to enhance efficiency of the banking sector for financial deepening and savings mobilization:

There is the need to institute fiscal discipline and management of government revenue and expenditure in order to avoid excessive fiscal deficit accommodated by increases in the money supply that fuels inflation and leads to negative deposit rates. The role of monetary policy in stabilizing macroeconomic variables will be enhanced by an accommodating fiscal policy that does not conflict with BOG's prudential monetary policy. The establishment of an independent central bank to control monetary policy is strongly recommended as a matter of policy expediency. Furthermore, Ghana may learn the virtues of cash budgeting from the Tanzanian government that has helped to reduce the high inflationary pressures and interest rates in that country.

The closure of many banks in the rural areas after the financial sector reform also reduced savings mobilization. Policy changes that encourage moving banking services closer to the depositors will enhance savings mobilization. This can be accomplished by “banks on wheels” to the rural areas of the country, introduction of ATM machines, branch bank networks to the suburbs of the urban areas, and the promoting of the Post Office banking system that has been in existence since 1888 in Ghana

. It is recommended that the banking hours 8:30 a.m. to 2:00 p.m., from Monday – Fridays should be extended from 8:30 a.m. to 4:00 p.m. In addition, the extension of banking hours to Saturdays will satisfy the banking needs of those workers who find it difficult to take time off from their jobs to go to the bank during the week. In order to integrate the informal financial system into the formal banking system, it is necessary for the formal banking sector to embrace the introduction of innovative savings products such as the “Susu savings scheme” initiated by some other banks.

The adoption of high professional standards, prompt attention to depositors’ needs, and reduced time involved in withdrawing or depositing funds would reduce the transaction cost of banking. This could be achieved by utilizing bill-counting machines, computerizing banking services, and displaying sensitivity to depositors’ complaints. Hiring and training of qualified staff and management team will also be helpful. Financial deepening would also be accomplished by the introduction of improved banking products such as credit cards, commercial paper, credit counseling, traveler’s checks, money orders, bankers’ acceptance facilities, and other services that facilitate commercial transactions. The excess liquidity outside the banking system is also due to the lack of universal check acceptance by the public and the banking system. This leads to a cash-based society. One contributing factor is the high float due to long delays in clearing checks through the banking system.

The lack of a national identification number of individuals decreases the chance of recovering bounced checks. The issue of national identification numbers, the establishment of credit bureaus, and national clearing systems of checks would encourage confidence in accepting checks. This would promote financial deepening and savings mobilization. The use of checks and the reduction

of cash holdings should be encouraged by the establishment of legal framework and the enforcing of “returned check laws” in order to increase the banks’ and the public’s acceptance of checks. The introduction of innovative banking products and services, such as the “the Sika card” and automated teller machine and other pre-payment devices, may reduce the excessive liquidity outside the banking sector and enhance savings mobilization in the banking system. In order to ensure public confidence in the banking sector, the introduction of bank deposit insurance should be considered as a necessary policy change in order to cushion bank depositors from bank failures or insolvency. This may also protect the government from unnecessary private bank bailout during times of bad management decisions, as was the case in the late 1980s. The protection of consumer rights from overzealous bank officials should be safeguarded by the introduction of Consumer Bill of Rights that ensures the public’s equal access to credit. A cornerstone of this bill should be the enactment of various consumer protection regulations such as the Equal Credit Opportunity (ECO) and Truth in Lending and Disclosure.

2.3 CAPITAL STRUCTURE

Capital structure is the mix of financial instruments used to finance real investments by corporations. Modigliani and Miller set in 1958 the assumptions under which a firm’s value is independent of its capital structure. Their irrelevance proposition is the cornerstone of capital structure theory. The leading theories of capital structure attempts to explain the proportions of financial instruments observed on the right- hand side of corporations’ balance sheets. The main issues that capital structure literature deals with concerns the following questions:

How do firms finance their operations?

Which factors influence these choices?

Is it possible to increase the firm value just by changing the mix of securities issued?

Is it there an optimal debt-equity combination that maximizes the value of the firm and if so, what is it?

In other terms capital structure refers to the percentage of capital (money) at work in a business by type. Broadly speaking, there are two forms of capital: equity capital and debt capital. Each has its own benefits and drawbacks and a substantial part of wise corporate stewardship and management is attempting to find the perfect capital structure in terms of risk / reward payoff for shareholders. This is true for fortune companies and for small business owners trying to determine how much of their startup money should come from a bank loan without endangering the business. The forms of capital structure are explained below:

Equity Capital

This refers to money put up and owned by the shareholders (owners). Typically, equity capital consists of two types: 1.) contributed capital, which is the money that was originally invested in the business in exchange for shares of stock or ownership and 2.) Retained earnings, which represents profits from past years that have been kept by the company and used to strengthen the balance sheet or fund growth, acquisitions, or expansion.

Many consider equity capital to be the most expensive type of capital a company can utilize because it's "cost" is the return the firm must earn to attract investment. Stockholders purchasing shares in a corporation, for instance, create equity financing, as do angel investors who provide funding do.

Advantages of Equity Financing:

- You can use your cash and that of your investors when you start up your business for all the start-up costs, instead of making large loan payments to banks or other organizations or individuals. You can get underway without the burden of debt on your back.
- If you have prepared a prospectus for your investors and explained to them that their money is at risk in your brand new start-up business, they will understand that if your business fails, they will not get their money back.

Disadvantages of Equity Financing:

- Remember that your investors will actually own a piece of your business; how large that piece is depends on how much money they invest. You probably will not want to give up control of your business, so you have to be aware of that when you agree to take on investors. Investors do expect a share of the profits where, if you obtain debt financing, banks or individuals only expect their loans repaid. If you do not make a profit during the first years of your business, then investors don't expect to be paid and you don't have the monkey on your back of paying back loans.
- Since your investors own a piece of your business, you are expected to act in their best interests as well as your own, or you could open yourself up to a lawsuit. In some cases, if you make your firm's securities available to just a few investors, you may not have to get into a lot of paperwork, but if you open yourself up to wide public trading, the paperwork may overwhelm you. You will need to check with the Securities and Exchange Commission to see the requirements before you make decisions on how widely you want to open up your business for investment.

Debt Capital

The debt capital in a company's capital structure refers to borrowed money that is at work in the business. The safest type is generally considered long-term bonds because the company has years, if not decades, to come up with the principal, while paying interest only in the meantime.

Other types of debt capital can include short-term commercial paper from the capital markets to meet day-to-day working capital requirements such as payroll and utility bills. The cost of debt capital in the capital structure depends on the health of the company's balance sheet. Rated firm is going to be able to borrow at extremely low rates versus a speculative company with tons of debt, which may have to pay 15% or more in exchange for debt capital.

You can think of debt financing as being divided into two categories, based on the type of loan you are seeking: long term debt financing and short term debt financing.

Long Term Debt Financing

Usually applies to assets your business is purchasing, such as equipment, buildings, land, or machinery. With long term debt financing, the scheduled repayment of the loan and the estimated useful life of the assets extends over more than one year.

Short Term Debt Financing

Usually applies to money needed for the day-to-day operations of the business, such as purchasing inventory, supplies, or paying the wages of employees. Short term financing is referred to as an operating loan or short term loan because scheduled repayment takes place in less than one year. A line of credit is an example of short term debt financing.

Advantages of Debt Financing

- Debt financing allows you to have control of your own destiny regarding your business. You do not have investors or partners to answer to and you can make all the decisions. You own all the profit you make.
- If you finance your business using debt, the interest you repay on your loan is tax-deductible. This means that it shields part of your business income from taxes and lowers your tax liability every year. Your interest is usually based on the prime interest rate.

Disadvantage of Debt Financing

- The disadvantages of borrowing money for a small business may be great. You may have large loan payments at precisely the time you need funds for start-up costs. If you don't make loan payments on time to credit cards or commercial banks, you can ruin your

credit rating and make borrowing in the future difficult or impossible. If you don't make your loan payments on time to family and friends, you can strain those relationships

Other Forms of Capital

There are actually other forms of capital, such as vendor financing where a company can sell goods before they have to pay the bill to the vendor that can drastically increase return on equity but do not cost the company anything. This was one of the secrets to Sam Walton's success at Wal-Mart. He was often able to sell Tide detergent before having to pay the bill to Procter & Gamble, in effect, using PG's money to grow his retailer.

In the case of an insurance company, the policyholder "float" represents money that doesn't belong to the firm but that, it gets to use and earn an investment on until it has to pay it out for accidents or medical bills, in the case of an auto insurer. The cost of other forms of capital in the capital structure varies greatly on a case-by-case basis and often comes down to the talent and discipline of managers.

Seeking the Optimal Capital Structure

Many companies believe that the goal in life is to be debt-free. When you reach the upper echelons of finance, however, that idea is almost anathema. Many of the most successful companies in the world base their capital structure on one simple consideration: the cost of capital. If you can borrow money at 7% for 30 years in a world of 3% inflation and reinvest it in core operations at 15%, you would be wise to consider at least 40% to 50% in debt capital in your overall capital structure.

2.4 DETERMINANTS OF CAPITAL STRUCTURE

Capital structure has to be determined at the time a company is promoted. The initial capital structure should be designed very carefully. The management of the company should set a target capital structure and the subsequent financing decisions should be made with a view to achieve the target capital structure. Once a company has been formed and it has been in existence for some years, the financial manager then has to deal with the existing capital structure. The

company may need funds to finance its activities continuously. Every time the funds have to be procured, the financial manager weighs the pros and cons of various sources of finance and selects most advantageous sources keeping in view the target capital structure: Thus the capital structure decision is a continuous one and has to be taken whenever a firm needs additional finance.

Generally, the factors to be considered whenever a capital structure decision is taken are: (i) Leverage or Trading on equity, (ii) Cost of capital, (iii) Cash flow, (iv) Control, (v) Flexibility, (vi) Size of the company, (vii) Marketability, and (viii) Floatation costs.

2.4.1 Leverage or Trading on Equity

The use of sources of finance with a fixed cost, such as debt and preference share capital, to finance the assets of the company is known as **financial leverage** or **trading on equity**. If the assets financed by debt yield a return greater than the cost of the debt, the earnings per share will increase without an increase in the owners' investment. Similarly, the earnings per share will also increase if preference share capital is used to acquire assets. But the leverage impact is felt more in case of debt because (i) the cost of debt is usually lower than the cost of preference share capital, and (ii) the interest paid on debt is a deductible charge from profits for calculating the taxable income while dividend on preference shares is not.

Because of its effect on the earnings per share, financial leverage is one of the important considerations in planning the capital structure of a company. The companies with high level of the Earnings Before Interest and Taxes (EBIT) can make profitable use of the high degree of leverage to increase return on the shareholders' equity. One common method of examining the impact of leverage is to analyze the relationship between Earnings Per Share (EPS) at various possible levels of EBIT under alternative methods of financing. The EBIT-EPS analysis is one important tool in the hands of the financial manager to get an insight into the firm's capital structure management. He can consider the possible fluctuations in EBIT and examine their impact on earnings per share (EPS) under different financing plans.

Although leverage increases EPS under favorable conditions, it can also increase financial risk to the shareholders. Financial risk increases with the use of debt because of (a) the increased variability in the shareholder's earnings and (b) the threat of insolvency. A firm can avoid financial risk altogether if it does not employ any debt in its capital structure. But when no debt is employed in the capital structure, the shareholders will be deprived of the benefit of increases in EPS arising from financial leverage. Therefore a firm should employ debt to the extent the financial risk perceived by the shareholders does not exceed the benefit of increased EPS.

2.4.2 Cost of Capital

Measuring the costs of various sources of funds is a complex subject and needs a separate treatment. Needless to say that it is desirable to minimize the cost of capital. Hence, cheaper sources should be preferred, other things remaining the same.

The cost of a source of finance is the minimum return expected by its suppliers. The expected return depends on the degree of risk assumed by investors. A high degree of risk is assumed by shareholders than debt-holders. In the case of debt-holders, the rate of interest is fixed and the company is legally bound to pay interest, whether it makes profits or not. For shareholders the rate of dividend is not fixed and the Board of Directors has no legal obligation to pay dividends even if the profits have been made by the company. The loan of debt-holders is returned within a prescribed period, while shareholders can get back their capital only when the company is wound up. This leads one to conclude that debt is a cheaper source of funds than equity. The tax deductibility of interest charges further reduces the cost of debt. The preference share capital is cheaper than equity capital, but is not as cheap as debt is. Thus, in order to minimise the overall cost of capital, a company should employ a large amount of debt.

However, it should be realised that a company cannot go on minimizing its overall cost of capital by employing debt. A point is reached beyond which debt becomes more expensive because of the increased risk of excessive debt to creditors as well as to shareholders. When the degree of leverage increases, the risk to creditors also increases. They may demand a higher interest rate and may not further provide loan to the company at all once the debt has reached a particular level. Furthermore, the excessive amount of debt makes the shareholders' position very risky.

This has the effect of increasing the cost of equity. Thus, up to a point the overall cost of capital decreases with debt, but beyond that point the cost of capital would start increasing and, therefore, it would not be advantageous to employ debt further. So there is a combination of debt and equity, which minimises that firm's average cost of capital and maximises the market value per share.

Thus, when we consider the leverage and the cost of capital factors, it appears reasonable that a firm should employ a large amount of debt provided its earnings do not fluctuate very widely. In fact, debt can be used to the point where the average cost of capital is minimum. These two factors taken together set the maximum limit to the use of debt. However, other factors should also be evaluated to determine the appropriate capital structure for a company. Theoretically, a company should have such a mix of debt and equity that its overall cost of capital is minimum.

2.4.3 Cash Flow

One of the features of a sound capital structure is conservation. Conservation does not mean employing no debt or a small amount of debt. Conservatism is related to the assessment of the liability for fixed charges, created by the use of debt or preference capital in the capital structure in the context of the firm's ability to generate cash to meet these fixed charges.

The fixed charges of a company include payment of interest, preference dividend and principal. The amount of fixed charges will be high if the company employs a large amount of debt or preference capital. Whenever a company thinks of raising additional debt, it should analyse its expected future cash flows to meet the fixed charges. It is obligatory to pay interest and return the principal amount of debt. If a company Financial Decision is not able to generate enough cash to meet its fixed obligations, it may have to face financial insolvency. The companies which expect large and stable cash inflows can employ a large amount of debt in their capital structure. It is somewhat risky to employ sources of capital with fixed charges for companies whose cash inflows are unstable or unpredictable.

2.4.4 Control

In designing the capital structure, sometimes the existing management is governed by its desire to continue control over the company. The existing management team may not only what to be elected to the Board of Directors but may also desire to manage the company without any outside interference.

The ordinary shareholders have the legal right to elect the directors of the company. If the company issues new shares, there is a risk of loss of control. This is not a very important consideration in case of a widely held company. The shares of such a company are widely scattered. Most of the shareholders are not interested in taking active part in the company's management. They do not have the time and urge to attend the meetings. They are simply interested in dividends and appreciation in the price of shares. The risk of loss of control can almost be avoided by distributing shares widely and in small lots.

Maintaining control however could be a significant question in the case of a closely held company. A shareholder or a group of shareholders could purchase all or most of the new shares and thus control the company. Fear of having to share control and thus being interfered by others often delays the decision of the closely held companies to go public. To avoid the risk of loss of control the companies may issue preference shares or raise debt capital.

Since holders of debt do not have voting right, it is often suggested that a company should use debt to avoid the loss of control. However, when a company uses large amounts of debt, lot of restrictions are imposed on it by the debt-holders to protect their interests. These restrictions curtail the freedom of the management to run the business. An excessive amount of debt may also cause bankruptcy, which means a complete loss of control.

2.4.5 Flexibility

Flexibility means the firm's ability to adapt its capital structure to the needs of the changing conditions. The capital structure of a firm is flexible if it has no difficulty in changing its capitalisation or sources of funds. Whenever needed the company should be able to raise funds without undue delay and cost to finance the profitable investments. The company should also be

in a position to redeem its preference capital or debt whenever warranted by future conditions. The financial plan of the company should be flexible enough to change the composition of the capital structure. It should keep itself in a position to substitute one form of financing for another to economise on the use of funds.

2.4.6 Marketability

Marketability here means the ability of the company to sell or market particular type of security in a particular period of time which in turn depends upon -the readiness of the investors to buy that security. Marketability may not influence the initial capital structure very much but it is an important consideration in deciding the appropriate timing of security issues. At one time, the market favours debenture issues and at another time, it may readily accept ordinary share issues. Due to the changing market sentiments, the company has to decide whether to raise funds through common shares or debt.

If the share market is depressed, the company should not issue ordinary shares but issue debt and wait to issue ordinary shares till the share market revives. During boom period in the share market, it may not be possible for the company to issue debentures successfully. Therefore, it should keep its debt capacity unutilised and issue ordinary shares to raise finances.

2.4.7 Size of the Company

The size of a company greatly influences the availability of funds from different sources. A small company may often find it difficult to raise long-term loans. If somehow it manages to obtain a long-term loan, it is available at a high rate of interest and on inconvenient terms. The highly restrictive covenants in loans agreements of small companies make their capital structure quite inflexible. The management thus cannot run business freely. Small companies, therefore, have to depend on owned capital and retained earnings for their long-term funds.

A large company has a greater degree of flexibility in designing its capital structure. It can obtain loans at easy terms and can also issue ordinary shares, preference shares and debentures to the public. A company should make the best use of its size in planning the capital structure.

2.4.8 Profitability

There are no consistent theoretical predictions on the effects of profitability on leverage. From the point of view of the trade-off theory, more profitable companies should have higher leverage because they have more income to shield from taxes. The free cash-flow theory would suggest that more profitable companies should use more debt in order to discipline managers, to induce them to pay out cash instead of spending money on inefficient projects. However, from the point of view of the pecking-order theory, firms prefer internal financing to external. So more profitable companies have a lower need for external financing and therefore should have lower leverage. Most empirical studies observe a negative relationship between leverage and profitability, for example (Rajan – Zingales, 1995)⁸, (Huang – Song, 2002), (Booth et al., 2001), (Titman – Wessels, 1988), (Friend – Lang, 1988) and (Kester, 1986). In this study, profitability is proxied by return on assets (defined as earnings before interest and taxes divided by total assets).

2.5 CONCLUSION

Capital structure is the composition of various sources of long-term finance in the total capitalisation of the company. The two main sources are ownership and creditor ship securities. Both types of securities as well as the long-term loans from financial institutions are used by most of the large industrial companies.

Capital structure planning, initially and on continuing basis, is of great importance to any company as it has a considerable bearing on its profitability. A wrong initial decision in this respect may prove quite costly for the company.

While taking a decision about capital structure, due attention should be paid-to objectives like profitability, solvency and flexibility. The choice of the amount of debt and other fixed return securities on the one hand and variable income securities, namely equity shares on the other, is made after a comparison of the characteristics of each kind of securities and after careful consideration of internal and external factors related to the firm's operations. In real life situations compromises have to be made somewhere on the line between the expectations of

companies seeking funds and the expectations of those that supply them. These compromises do not change the basic distinctions between debt and equity. Generally, the decision about financing is not of choosing between equity and debt but is of selecting the ideal combination of the two. The decision on debt-equity mix is affected by considerations of suitability, risk, income, control and timing. The weights assigned to these factors will vary from company to company depending on the characteristics of the industry and the particular situation of the company. There cannot perhaps be an exact mathematical solution to the decision on capital structuring. Human judgments play an important role in analyzing the conflicting forces before a decision on appropriate capital structure is reached.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

Research methodology is defined as a system of models, procedures and techniques used to find the results of a research problem, Panneerselvam (2004): and this is exactly what this chapter intends to bring forth. This includes qualitative and quantitative research, choice of the study area, source of information, data collection techniques, key assumption and the limitation of the study.

3.2 QUANTITATIVE RESEARCH

The two primary research methods are qualitative and quantitative. Quantitative research generates numerical data or data that can be converted into numbers, for example the National Census, which counts people and households. The primary purposes of quantitative research are to create and test hypotheses, look at cause and effect, and make scientific predictions.

Quantitative research collects data by questionnaires, inventories and computers. Researchers will generally use large samples to create a group that represents a larger population. This type of research starts with a hypothesis statement to explain a specific situation with numbers and objective data. The researcher is more of an observer than a active participant. Quantitative research is structured and well tested.

QUALITATIVE RESEARCH

Qualitative research may focus on words, images or objects, and to help understand and decipher social interactions. It can also be used to explore and understand people's beliefs, experiences, attitudes, behaviour and interactions. It generates non- numerical data, e.g. a patient's description of their pain rather than a measure of pain.

Qualitative research deals with conducting interviews and observing and recoding behavior. The information collected is primary used to focus on individuals and the human level. Detail and

descriptions are important with qualitative research. This type of research is more focused on process instead of outcomes. Qualitative research is flexible and evolving. The difference between qualitative and quantitative research depends on other theories. These includes: deductive versus inductive, positivist versus interpretive, objective versus constructivist. A quantitative approach to research is likely to be associated with a deductive approach to testing theory, often using number or fact and therefore a positivist or natural science model and an objectivist view of the objects studied.

A qualitative approach to research to research is likely to be associated with an inductive approach to generating theory, often using an interpretive model allowing the existence of multiple subjective perspectives and constructing knowledge rather than seeking to 'find' it in reality.

As far as the purpose of this research is concerned, 'the relationship between capital structure and profit abilities in banks, a case studies of UT Bank and HFC Ghana Limited. Our study will use quantitative method in order to make the results of this research a success.

3.3 SOURCE OF DATA

There are three main ways of obtaining data and they are; Primary source, secondary source and tertiary source.

3.4 PRIMARY DATA

A **primary source** is an original object or document -- the raw material or first-hand information. Primary sources include historical and legal documents, eyewitness accounts, results of experiments, statistical data, pieces of creative writing, and art objects.

In the natural and social sciences, primary sources are often empirical studies -- research where an experiment was done or a direct observation was made. The results of empirical studies are typically found in scholarly articles or papers delivered at conferences, so those articles and papers that present the original results are considered primary sources.

3.5 SECONDARY DATA

A secondary source is something written about a primary source. Secondary sources include comments on, interpretations of, or discussions about the original material. You can think of secondary sources as second-hand information.

If I tell you something, I am the primary source. If you tell someone else what I told you, you are the secondary source. Secondary source materials can be articles in newspapers or popular magazines, book or movie reviews, or articles found in scholarly journals that discuss or evaluate someone else's original research.

Additionally, the research will use secondary data for the study of the outcomes of the financial statements of both banks, UT Bank and HFC Ghana Limited. This outcome will be based on the performance of the two banks in the years 2008 to 2010. Secondary data provides an in depth knowledge on how past researchers relates to this research.

CHAPTER 4

RESULTS, DISCUSSION AND DATA ANALYSIS

4.1INTRODUCTION

The results of the research were developed from the analysis of financial statements of HFC Ghana limited and UT Bank.

The following outcomes relating to our study was grouped out of the statement.

4.2 HFC BANK LIMITED

Year 2008	GH¢
Items	
Interest income (sales)	34265629
Total debt	52643349
Profit before tax	7915036
Long-term debt	52110964
Short term debt	532385
Total equity	27504215

Year 2009	GH¢
Items	
Interest income	47566539
Total debt	60801818
Profit before tax	6725040
Long term debt	60145412
Short term debt	656406
Total equity	32058246

Year 2010	GH¢
Items	
Interest income	52950642
Total debt	60847152
Profit before tax	12183051
Long term debt	50716630
Short term debt	10130522
Total equity	69775606

4.3 DATA ANALYSIS

The secondary data collection will be analysed using a quantitative method of simple linear regression. But before then, dependent and independent variables were determined for every year. This then leads to the regression analysis to determine the relationship between the profit

ability measures and the various components of the capital structure. Three profitability measures were chosen which are also termed as the dependent variables. These are:

1. Return On Equity (ROE).
- 2 .Return On Asset (ROA).
3. Net Profit Margin (NPM).

Three components of the capital structure chosen.

1. Long Term Debt to Equity
2. Short Term Debt to Equity
3. Total Debt to Equity

The analysis will be considered in three folds.

1. The relationship between Return on Equity (ROE) and Long Term Debt to Equity.
2. The relationship between Return on Asset (ROA) and Short Term Debt Equity
3. The relationship between Net Profit Margin and Total Debt to Equity.

4.16 UT BANK

Year 2008

Items	GH¢
Interest income (sales)	43568000
Total debt	96152000
Profit before tax	7550000
Long term debt	91152000
Short term debt	5000000
Total equity	16878000

Year 2009

Items	GH¢
Interest income	67612000
Total debt	18964200
Profit before tax	9705000
Long term debt	16534200
Short term debt	24300000
Total equity	22279000

Year 2010	GH¢
Items	
Interest income (sales)	74706000
Total debt	38611800
Profit before tax	12160000
Long term debt	50716630
Short term debt	16261900
Total equity	516632000

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This research paper talks about the connection between the capital structure and profitability of banks in Ghana. UT bank and HFC bank limited were used as case study. Their financial statements were deliberately studied to find the effects of high and low capital structure on the profitability of the banks.

5.2 SUMMARY OF FINDINGS

With the use of regression analysis method, data were collected from these two banks which were analyzed to determine the relationship between them. Return on Equity (ROE), Return on Asset (ROA) and Net Profit Margin (NPM) were the profitability measures considered. Quantitative analysis was used. Mathematical approach under the quantitative analysis was included, which consist of correlation and regression analysis. Dependent variable and independent variable were used respectively.

The debt profitability ratios were regressed to come out with statistical signfinance of the relationship between capital structure and profitability of both banks.

5.3 RATIO ANALYSIS

5.3.1 The Return on Equity (ROE)

The ROE is termed as the amount of net income returned as a percentage of shareholders equity. Return on equity measures corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The return on equity was calculated by dividing the net profit before tax by the total equity.

In the year 2008 to 2010, HFC Bank ROE was 0.43, 0.21, and 0.17 respectively and the year 2008 to 2010, UT Bank ROE was 0.45, 0.44 and 0.02 respectively

5.3.2 The Return on Asset (ROA).

The Return on Asset is referred to as Return on Investment (ROI). This measures the overall effectiveness of management in generating profits with its available assets (Gitman, 2006:68). It was calculated by dividing the interest income or revenue by the Total Equity and the Long Term Debt.

In the year 2008 to 2010, HFC Bank had 0.44, 0.52, 0.44 respectively and the year 2008 to 2010, UT Bank ROA was 0.4, 0.36, 0.1 respectively. The ROA percentage shows how profitable a company asset is in generating revenue. It also tells an investor how much profit a company generated for each asset. The return on assets ratio of any company if you enter in the net income. Return on assets performance continues its long term decline due to deteriorating firm performance

5.3.3 Net Profit Margin

The NPM is measured by dividing the interest income or revenue by the Net Profit before Tax.

In the year 2008 to 2010, HFC Bank was 0.16, 0.14, and 0.22 respectively and the year 2008 to 2010, UT Bank NPM was 0.17, 0.14, and 0.16 respectively.

5.3.4 Debt Ratios

The profitability measures served as our dependent variables, y, whilst the component of the capital structure served as the independent variables, x. debt ratios measured the proportion of the total assets financed by the banks creditors.

The higher these ratios the greater the amount of debt used to generate profits (Gitman 2006:64). Long term debts to equity, short term debt to equity, total debt to equity ratios were used.

5.4 FINDINGS OF THE STUDY.

According to Modigliani, and Miller profitability is independent on capital structure .Based on our study, it was realized that both banks (UT Bank Ghana Limited and HFC Ghana Limited) had a positive relationship between the capital structure and profitability.

That is at the end of our study, we realized that profitability could be said to some extent dependent depending on the capital structure used.

- Based on our study, it was realized that both banks (UT Bank Ghana Limited and HFC Ghana Limited) had a positive relationship between the capital structure and profitability.

Modigliani and Miller also stated that the value of a firm is maximized when the firm employs debt finance than equity

1. According to the study, it was noticed that for an increase in the debt component of the capital structure, profitability decreases and for any decrease in the debt component of capital structure of the bank, the profitability increases. Therefore there will be conclusion that the kind of capital structure, (debt/equity) chosen affects the bank's profitability.
2. With respect to our calculation, in the year 2008, HFC had Return on Equity to be 0.25 and Long Term Debt to equity was 1.89. This shows that there is a positive relationship between Return on Equity and Long Term Debt to Equity. With UT Bank, Return on Equity 0.31 and Long Term Debt to Equity was 5.40. it also had the same positive relationship. Therefore Return on Equity is dependent on Long term debt to Equity and this makes our hypothesis true.
3. Based on our calculation, using the year 2008, HFC had Return on Asset of 0.42 and short term debt to equity was 0.02. UT Bank return on Asset was 0.41 and short term debt to equity was 0.30. This shows that there is a positive relationship between return on Asset and short term debt to equity of the two banks. Return on assets is dependent on the short term debt to equity of both banks. This makes the hypothesis true.
4. At the end of the study, Net Profit Margin was 0.25 and Total Debt to equity was 1.91 and with UT Bank, Net Profit Margin was 0.31 and Total Debt to Equity was 5.70. This shows that there is a positive relationship between Net Profit Margin and Total Debt to equity of both banks. Therefore net profit margin is dependent on total debt to equity of both banks. This makes the hypothesis true.

5. On the other hand, careful analysis was made between HFC and UT Bank, HFC is said to be better than UT Bank in terms of their profitability earned. The reason is that, when there is decrease in the capital structure of HFC, there is greater profit margin of profitability which is not so in UT Bank.

5.5 CONCLUSION

Capital structure is most significant discipline of company's operations. Our research constitutes an attempt to identify the impact between Capital Structure and Companies performance, taking into consideration the level of Companies Financial Performance. The analyze has been made on the capital structure and its impact on Financial Performance capacity during 2008 to 2010 (3years) financial year of HFC Ghana Limited and UT Bank.

The purpose of the study was to determine if there would be any relationship (being it negative or positive) between capital structure and the bank's profitability. In view of the fact that, the bank's profitability will be determined by the kind of capital structure selected, there was a realization that both HFC bank and UT bank had a positive relationship between the profitability and the capital structure

5.6 RECOMMENDATION

1. A study should be made on the determinants of capital structure when companies are taking decisions on a kind of capital structure to be used.
2. There should be a study on capital structure which will help banks to know the effect it has on their performance whether there is a profit or loss.
3. When a target capital structure is set, the management should make financial decisions which will help to achieve the target capital structure.
4. A firm should continuously take decision on capital structure whenever it needs additional finance.
5. While taking decision about capital structure, due attention should be paid to objectives like profitability, solvency and flexibility which help the banks to know the impact on their financial performance.

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APPENDIX A

HFC BANK LIMITED

2008

Profitability/capital structure	Long term debt to equity (1.89)	Short term debt to equity(0.02)	Total debt equity (1.91)
Return on equity (ROE)	Positive 29%		
Return on asset (ROA)		Positive 43%	
Net profit margin (NPM)			Positive 23%

Source: Field Work 2012

HFC BANK LIMITED

2009

Profitability/capital structure	Long term debt to equity (1.88)	Short term debt to equity(0.02)	Total debt equity (1.90)
Return on equity (ROE)	Positive 21%		
Return on asset (ROA)		Positive 51%	
Net profit margin (NPM)			Positive 41%

Source: Field Work 2012

HFC BANK LIMITED

2010

Profitability/capital structure	Long term debt to equity (0.73)	Short term debt to equity(0.15)	Total debt equity (0.87)
Return on equity (ROE)	Positive 17%		
Return on asset (ROA)		Positive 44%	
Net profit margin (NPM)			Positive 23%

Source: Field Work 2012

UT BANK

2008

Profitability/capital structure	Long term debt to equity (5.40)	Short term debt to equity(0.30)	Total debt equity (5.70)
Return on equity (ROE)	Positive 45%		
Return on asset (ROA)		Positive 40%	
Net profit margin (NPM)			Positive 17%

Source: Field Work 2012

UT BANK

2009

Profitability/capital structure	Long term debt to equity (7.42)	Short term debt to equity(1.09)	Total debt equity (8.51)
Return on equity (ROE)	Positive 44%		
Return on asset (ROA)		Positive 36%	
Net profit margin (NPM)			Positive 14%

Source: Field Work 2012

UT BANK

2010

Profitability/capital structure	Long term debt to equity (0.43)	Short term debt to equity(0.31)	Total debt equity (0.75)
Return on equity (ROE)	Positive 2%		
Return on asset (ROA)		Positive 10%	
Net profit margin (NPM)			Positive 16%

Source: Field Work 2012

