

Capital Structure Impact on Banking Sector Performance in Pakistan

NAEEM AKHTAR

Lecturer; Department of Management Sciences
University of Okara, Pakistan
E-mail: naeem_akhtar46@hotmail.com

MISBAH BANO

Student of MBA; Department of Management Sciences
University of Okara, Pakistan
Email: misbahbismah002@gmail.com

SIDRA BANO

Student of MBA; Department of Management Sciences
University of Okara, Pakistan
Email: sidraasghar012@gmail.com

HAFIZ TAHIR ZIA

Student of MBA; Department of Management Sciences
University of Okara, Pakistan
Email: hafiztahirzia@gmail.com

NASRULLAH JAMEEL

Student of MBA; Department of Management Sciences
University of Okara, Pakistan
Email: qnjameel@gmail.com

Abstract

Capital is considering blood of bank strength. Since, it helps banking sector to operate activities. In the event of difficulties it enables banks to operate continuously in viable and sound manners and solves the difficulties. This study examined the effect of capital structure (debt to equity) on profitability, liquidity, tangibility, interest rate and growth rate to measure performance of banking sector of Pakistan. For this study include five banks annual reports between 2005 and 2015. The research work use pooled analysis to summarize the data for correlation and regression. The result shows that there are positive significant relationships between profitability, tangibility, liquidity, interest rate, and growth rate and capital structure. The paper that major player such as policy maker, bank manager and financial analyst to understand the variables that impact that effect the Pakistani banking industries and increase competitiveness in banking industries. I have short of time and use only eleven years financial reports of five banks. Future researcher should propose to increase numbers of banking and include more variables.

Key Words: Banking Sector, Capital Structure, Profitability, Liquidity, Tangibility, Interest Rate, Growth Rate.

Introduction

Firms who engage with business take deposit from surplus unit give loan to deficit unit and earn profit. (Atkin, 1921) . Different person describe bank is drive from word bancus means “bench. in start Jews doing business transaction in a bench . and some once describe bank word drive from German word back which means back after that it change with bank .it is said in I talian language “ banco.

The history of banking start every interest point people has excess wealth they do not know how to use it .so, people need a person who protect their wealth from theft. Goldsmith was first person who take money and return when demanded it is first stage. In second stage goldsmith use medium of exchange and in third stage he proper start business and give interest for depositing (saab, 2012).

Banking in Pakistan

In Pakistan banking sectors face different challenges since 1947. Pakistan banking face limited resource, poor management, political instability, socio economic condition. After establishing state bank of Pakistan I July 1948 it takes control of banks and provides rules to improve position 1956. And encourage private sector to invest to make more financial institution to improve economy. In 1974 all commercial banks nationalize. But due to poor performance it again privatize in 1990. In Pakistan on June 2010, 36 commercial banks (25 private, 4 public and 7 foreign) and 9087 branches allocated in Pakistan (Dr Asif Ali Shah, 2012).

In Pakistan banking company ordinance can be apply. This ordinance can be spread out all over the Pakistan or it come in Pakistan at force. The provisions of sections 6, 13, 25, 25A, 25AA, 29, 31, 32, 33, 40, 41, 41A, 41B, 41C, 41D, 42, 47, 48, 49, 51, 58, 83, 84 and 94 section of banking company ordinance describe the monetary and credit policy of state bank of Pakistan that impose on commercial bank. (banking company ordinance 1962).

Capital Structure

Financing is a most important element in any firm. It is backbone of any firm. So financing manager wants to make capital structures (debt, equity) that are best for firm. The capital structure is important for better performance. There are different types (100% equity, 100% debt, x% debt and y% debt). Capital structure is relationship between debt and equity. And it is most critical issue that effect on performance (Lawal Babatunde Akeem1, 2014).

Decisions on capital structure are depend upon cost of capital. Capital structures are depending upon major factors like economical, political and institution. Capital structure of an organization can be choices on risk, return and time period of return. Capital structure can also depend upon growth, size, profitability, tangibility, liquidity, interest rate. (myroshnichenko, 2004).

Profitability

Financing in capital structure is a most important they are directly related to profitability decision. Capital structure is combination of debt and equity. Debt is defining long term obligation while equity shows ownership. It is very important to taking decision in capital structure because it is directly related to profitability. In financial statement: balance sheet show all assets and liabilities but capital portion is very important. It is combination of common stock, prefer stock and long term obligation. With unplanned capital structure firm fail to operate business and fail to earn profit. Normally debt/equity ratio is 2/1. But it depends upon economic condition. (Niresh J. A., 2012).

Growth Rate

Research conducted on developing countries shows that capital structure directly effect on firm performance and economic growth rate. Capital structure fulfills the expectation of stockholder and creditor. Theory of capital structure shows that capital structure fulfills the need of stakeholder and help to economic growth. (Dr. Nwankwo, Effect of Capital Structure of Nigeria Firms on Economic Growth, 2014)

Interest Rate

Cost agency theory and Jensen and Meckling (1976) and the free-cash-flow theory proposed by Jensen (1986) define capital structure directly related to performance of an organization. Classical Modigliani-Miller theorem (1958) state the fact debt to equity ratio. In Arrow-Debreu environment debt suggest more debt in capital structure. Research describe two benefit of debt capital structure first is only interest payable not tax payable it's enhance the width of firm .second one is cash flow freely there are not restriction cash reserve and pay dividend. But in other side some managers prefer to equity on capital structure due to that there are not pay fixed amount of interest. And equity is necessary to attract debtor. When bank use portfolio in capital structures there less chance of spoilt. Cash flow theory cannot support debt attitude. More debt negative impacts on firm return on equity, operating profit margin, total productivity. (Iavorskiy, 2013).

Tangibility

Research shows that assets defined the capital structure or financing decision in any types of firm. In Croatia small and medium size firm use tangibles assets to obtained more loans. Aim of conducting this research to find out relationship between capital structure and tangibility in medium and small companies in Croatia. In this study take 500 medium and small companies and data are taken 6 years 2005 to 2010 annual reports. There are different results for small and medium companies. For small term companies shows negative relationship between tangibility and capital structure. And positive relationship between tangibility and large companies. And medium size use less interest rate as compare to small size firm. Result similar to principle short term assets finance use for short term financing and long term assets use long term financing (Harc, 2015).

Liquidity

Research conducted to test hypothesis tangibility and capital structure, and profitability and capital structure. Population is commercial banks listed on gulf cooperation council stock market. And sample use 10 year data 2001 to 2010 of 47 GCC. Result shows that 80 finance though debt in commercial banks. Long term debt are important for banks. (AL-Mutairi & Naser, 2015)

Study Background

Capital structure theory describe that capital structure of the firm depend upon different economies. It depends upon financing behavior of firm. Every firm lookup non-tax debt shields, risk and profitability before investing .all institution use different capital pattern for financing because different factors involve like firm size, risk, tangibility, non tax schedule. (RAMAKRISHNAN, 2012). Researches on banking sector explain the relationship of capitalization and return on equity. Increase cost of banking sector increase the need of capital. If control risk taking then positive relationship between capital and profit. High cost of fund decreases the profitability and ROA. If shareholder equity's increase than increase chance of failure bank. Capital in banking sector is combination of equity and debt. In Previously evidence of research debt investing is more beneficial as compare to investing in equity for bank (Olivier de Bandt, 2014)Profitability is ability of firm to generate income at a time period on continuously basis. In every

industry one is benchmarks and every others firm compare its. Study shows that same capital structure use in banking sector as in non-financial institution. Different capital structure required for different firm according to risk associate with it. Most study found that there are negative relationship between LEVERAGE and profit. Market behavior also effect on capital structure. Some time to take competitive advantage reduce profitability in Srilanka bank (Nireesh J. A., Capital Structure and Profitability in Srilankan Banks, 2012). Oligopoly also creates adverse effect on impact profitability ratio on capital structure. Through oligopoly most firm take competitive advantage and take more debt. Normally see that shareholder invest more and more at the time of boom and less at the bad time period because shareholder has limited liabilities. In industry most financial institute as challenge to build relationship between debt and equity to gain competitive advantage and maintain profitability. There is negative relationship between profitability with debt to equity and debt to assets ratio. Today business environment is very complex that create stress and effect on bank profit. Good technology, employee skill and time management effect capital structure that cause profit of bank.

In Pakistan banking sector increase continuously .it is beneficial for Pakistan. It is problem to find out the relationship significant or not between capital structure and profitability (Muhammad Raghif Zafar, Impact of Capital Structure on Banking Profitability, 2016).

Tangibility of assets is an important variable to describe debt to total assets ratio. Tangible assets explain the capital structure within the firm. Trade off theory describe there are positive relationship between tangibility and capital structure. (Jennifer Skoogh, The Impact of Tangible Assets on Capital Structure An analysis of Swedish listed companies, 2015) Bank tangibility give benefit to bank but people did not like to take long term loan against tangibility. Tangibility on capital structure effect demand assets. Different tangibility required to different bank on same capital structure. Large firm size takes large debt. Owner equity is less so manager does not take full consideration. Firm size and debt has not significant, liquidity has negative effect on domestic economy, saving, deposit rate, gross national income, inflation rate , private income, foreign private income, cash reserve ratio, inflation rate.

Liquidity management is useful for bank to pay its short term obligation as well as going to pay long-term obligation .liquidity ratio has positively impact on ROA and ROE. When debt to equity ratio will increase than performance of banking become poor. Liquidity, solvency and profitability are strongly relationship with each other. They effect positively and negatively each other. (Waqas Bin Khidmat, 2014). Highly liquid assets give negative impact on economy. Bank cannot full fill all demand and supply. More highly liquid assets cannot earn high return. Liquidity assets create negative effect on leverage. Many kind of harder are take place on disposition of assets.

Efficient Capital structure increase wealth of stakeholder. Poor and inefficient capital structure increase cost. if effectively manage capital structure then firm size , profitability, growth has positive related with capital structure and cost of capital(interest or dividend) negative to each other. (Wanyoike Charles Githira, 2015). Conventional bank and Islamic banking growth rapidly, there are strong competition they innovate new product to build strong position in market and increase share for maintaining share it is necessary to build strong position internally then its performance increase and researched at mature growth size impact negative relation with performance. And increasing operating expanse decrease ROA and ROE (S., 2011).

Highly liquidity creates more sales at low cost. More sale of assets decreases the size of firm and value of assets and bank. It is not a good sign for creditors. And it's created conflict between manager and investors. According to structure adjustment program banking sector take nationalization and after that privatize. But interest rate determined by state bank of Pakistan. Lending rate discounting at default rate of lending. Deposit rate discounting at default rate of deposit. There are different types of risk associate according to capital structure, money market risk, bank efficiency, bank portfolio. Economic factor play important role in developing capital structure. In Pakistan growth rate is not satisfactory.

Problem Statement

Due to inadequacy in capital structure, banking sector effected. To determined effectors such as tangibility, liquidity, interest rate, profitability, size and growth rate that measure performance of banks in Pakistan.

Objectives

To explore the relationship between liquidity and capital structure
To identify relationship between profitability and capital structure.
To determined relationship between tangibility and capital structure
To find out relationship between interest rate and capital structure
To investigate relationship between economic growth rate and capital structure

Research Questions

What is relationship between liquidity and capital structure?
What is relationship between profitability and capital structure?
What is relationship between tangibility and capital structure?
What is relationship between interest rate and capital structure?
What is relationship between economic growth rate and capital structure?

Research Significant

The significant of this study to assess the impact of capital structure that having on banking sector performance in developing countries i-e Pakistan. How it impact on banking sector and tell how it increase its performance. How liquidity, intangibility, profitability, economic growth rate, interest rate significant to take edge. How banking sector play important role in develop Pakistan economy.

It is hope that these studies provide information banks, governments and further researcher that factor that guide to improve performance. It also tells how portfolio helps to reduce risk. It helps to introduce those factor that influence on capital structure and way to take edge. The result of this study will helpful for financial market, financial institution ,government and investor in understanding the factor liquidity, profitability, tangibility, interest rate ,and economic rate impact on capital structure .at last it is act as reference for further researcher

Literature Review

Profitability

Research on banking sectors that a license by state bank of Pakistan show that there are positive relationship between performance(return on assets, return on equity, total liabilities to total assets, total liabilities to equities short term liabilities to total assets ,long term liabilities to total assets) and capital structure data are collected 25 banks. (Muhammad Raghob Zafar, 2016). This research can be conducted in bank .data collect from Pakistan and outside the word in capital structure of bank. There are varies method are used to relationship between these two variable. Capital structure has positive relation with banks. Capital structure has three types of ratio. These are return on equity, capital and earnings per share. (Mubeen Mujahid, 2014). Every firm management wants to increase wealth of owner. Capital structure of listed banks of India shows there are positive relationship between return on equity, return on assets and earnings per share. (Goyal, 2013). Capital structure is vital in banking sectors. Profitability directly related to capital structure decision. (Niresh, 2012) .Researcher collect data 5 years from bank shows that size of bank, tangibility in banking sector, profit in banking area have relationship with each other. There are two

types of relation positive and negative between variable. Leverage has positively and directly influence on liquidity and size of bank. Leverage has negative relation with profit and growth variable. data collected from 26 banks (Sidra Amjad, 2013).

Researchers conduct a study on small and medium enterprise in Kenya. Data collect 2009 to 2013 five year. This study help to describe relationship between profitability of assets and enterprise performance has significant with assets performance. (Mirie Mwangi, 2014). Research conduct on medium and small enterprise in Brazilian to determine the capital structure of listed companies in stock exchange. Researcher cannot involve private enterprise in study while role of private enterprise is most important in GDP of varies country. Research use primary and secondary data collection method both. data take 1994 to 2006 (13 year).result shows that there leverage is negatively related to profit , leverage relates positively with profit, leverage is positively related to size, leverage depend upon risk and leverage is negative related to age of firm (Wilson Toshiro Nakamura, 2010).

Researcher conduct study on non life insurance company in turkey. Data collect of 24 non-life insurance companies 8 years. Data collect from observing 192 panels. Profitability is analysis by two different variables: sales profitability ratio and technical profitability ratio. Result shows that premium growth rate, age of the company, current Ratio and, loss ratio effect on profitability of non insurance company. (Kaya, 2015).

Research shows that there are negative relation with financial leverage and profitability. When firm is profitable then operating cost increase. Difficult to decrease cost against profit. Flexibility in capital structure help to reduce operating cost against profit. (Zhiyao Chen, 2013).

Research conduct in listed companies in Tehran. variable use in this study profitability, size, tangible assets, growth rate , tax rate , face value to market value and return on assets. Data collect 61 companies in Tehran of 4 year. Panels are used for data collection. This study show significant relation relationship between capital structure and firm size, the relationship between capital structure and corporate growth rate, capital structure and profitability, the relationship between and capital structure and tangible assets, but the relationship between capital structure and the effective tax rate has no relation (Hossein Keshavarz, 2016).

Liquidity

Decision making on capital structure is highly depends upon liquidity .it will increase long term value of firm. (Kajananthan, 2013). In Asset liquidity on capital, leverage is positively relation with liquidity assets and secures debt. it is more economic and help to take quick decision (SIBILKOV, 2007). Researchers conducted on small and medium size business shows that capital structure should more liquid. (KARANJA, 2013). 2008 to 2012 study show that liquidity and capital structure has not influence on profitability of firm .they consider other factor involve that impact on firm profit. (Velnampy.T, 2014). Long term firms were more liquid .inventory increase the leverage but cash in current assets decrease the short and long term leverage. (Nataša Šarlija, 2012).

Research conduct in Iran. Date are collect 50 Tehran stock exchange three factors include researcher that is optional operational cost, operating cash flow, and normal operational cost. Finding show that there are positive relationship between earning and liquidity leverage (Ahmadreza Elahi, 2015). Research conduct on Asian country in to determine the factor effecting on decisions in capital structure. Data take 6 years. Variables such as market-to-book ratio, firm size, firm liquidity, administration expenses, profitability that impact on capital structure. Market-to-book ratio, firm size, firm liquidity, administration expenses, profitability positively related to capital structure. Result also show that industry nature, institutional attributes and general economic condition also effect on financing decision. (Cheng, 2014). Research conducted on banking sector on turkey. Purpose of this study to show lending behavior change due to

monitory policy. Finding indicate that earnings capability, asset quality, liquidity, capitalization, size, managerial efficiency response according monetary policy (Akboostanc, 2012).

Research conducted to find out relationship between liquidity, profitability, size and capital structure. Research conducted on 34 firms and financial statements are taken 7 years (2006-2012) of listed narobi securities exchange. Firm size play vital role indling capital structure (incentive, common stock, debt) Research delineate profitability, size are positive and liquidity are negative related with capital structure. Market value of share return and risk decide the capital structure.(Thomas, 2014)

Tangability

A research show that impact of, tangibility, size and retain earning has indirect relation between firm liquidity. In auto sector consisting of subsector such as auto parts, vehicles and trailer. Data are taken of twenty two firm financial statements that are issue by state bank of Pakistan. (Qadar Bakhsh Baloch, 2015).

Profitability, size, tangibility is directly proportion to total debt while opportunities are indirectly related with total debt. Researcher used as a sample panel of 33 big companies. And years are taken 1990-2004. (Rafiu Oyesola Salawu, 2008).

Tangibility of assets show describes debt to total asset ratio. Tangibility also explains capital structure. Tangibility is an important element to describe debt to total assets ratio. 2005 to 2014 years data taken of listed companies in Sweden as a sample (Jennifer Skoogh, 2015). Tangible assets Show Company in strong position .creditor mostly invest in those assets that are more tangible because in the time bankrupt they sale them. Tangibility is explained through salability of firm assets. Various methods are used for demand and supply of various tangible assets such as building, land, machine and equipment's. Tangibility include those assets that play important role in making profit and not easily liquidate (Murillo Campello, 2010).

Nigeria stock exchange shows there is positive relation between tangible asset and leverage of company. Researches are conducted in Nigeria stock exchange. Purpose of conduct this study to find out financing behavior in developing country i.e. Nigeria. Finding describes in Nigeria it cannot follows the observed behavior. (A. O. Olakunle, 2014).

Interest

Research Study conducted in banking sector in Kenya's. Panels are used of data collection. The effect of monetary policy rate (interest rate) is positive to build capital structure but it is not always significant. Credit risk, Bank size measure the total loan, operating cost, return on assets significant influence interest rate spread. Small banks small spread rate as corporate to large banking companies (Maureen Were, 2014). High interest increase people do not take loan and banking performance go down. (Ömer Iskenderoğlu, 2011).

Spanish study shows that high interest need during the adjustment period with equity capital. Banks choice capital structure base on social cost and operating cost. Capital and equity ratio depend upon interest rate. And retain earning. Mixture of equity and debt use in banking sector but equity is most important in saving banks (Alfredo Mart'in-Oliver, 2013). Increase interest rate effect both depositor and investor. High interest rate concern on effectiveness and monetary police. Operating cost, inflation, market structure, business risk and ownership structure effect on increase and decrease interest rate. Interest impacts on opportunities investment. Data are collected through primary and secondary sources. Data collected from 44 banks managers and executive level employees. Negative relation between interest rate and saving habit. Inflation rate impacts on interest rate. (Simon-Oke, 2013). Nigeria study show that capital structure by

provided resource, then firm and bank go to long term long term investment beside short term investment. (Dr. Nwankwo, 2014).

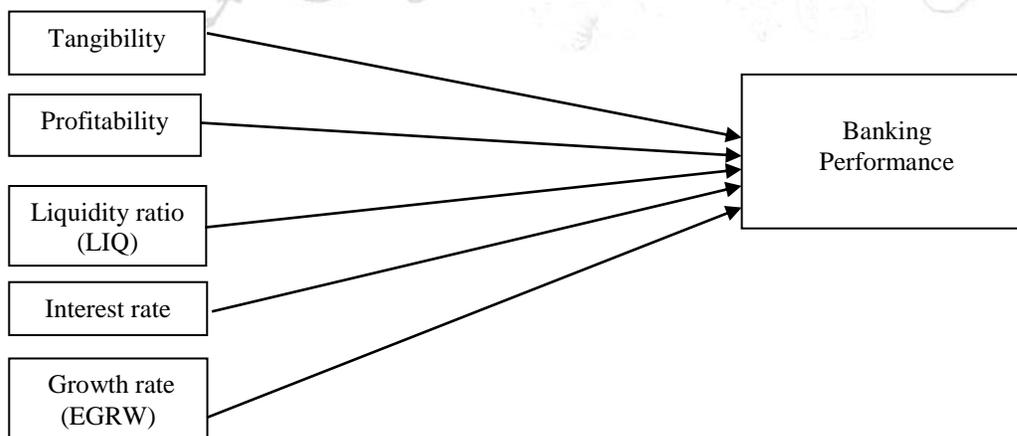
Growth Rate

Varies stages of economic develop counties I-e Pakistan, Japan and Malaysia shows that capital structure are significant in economic development. Capitalization decisions of corporate are important in economic decision. Financial intermediaries like banks and firm fulfill the requirement of financing decision. Second way get financing is issue share in stock exchange. Multiple debates on capital structure but it are till continuous .study shows that use multiple mixtures of debt and equity Companies play important role in economic development. Financial institute play important role in economic and industries development (MAHMUD, 3003).

Research conducted in developing country Nigeria. Data is collected 60 agro base firm. Data are taken from 5 year of firm. Regression and descriptive method is used. Education and Growth of firm has significant with short and long term debt ratio. Size, business risk, and profitability significant with short term debt ratio. And age of firm, assets structure, gender of owner has significant with long term debt ratio. (Bassey, 2013).

Research organized in banking companies in Ethiopia to evaluate the financial performance. Data are collect 12 years through panel. Research is descriptive nature. Bank performances are significant to macroeconomic variable. (Kokobe Seyoum Alemu, 2013). Researches are conducted to find out the type of capital structure are choice in small or rapidly growing firm. Data are taken from 405 firm, data are taken from high growth 27.2%. research shows that management preference ,tax , cost agency , signaling theory and information asymmetry impact on capital structure.(Norton, 1991).The purpose of this research to determined the performance growth and various ratio.of Islamic banking in Pakistan. Result shows that there are positive relationship between equity ratio, total assets, and ratio of financing to total assets.there are zero significant of liquidity ratio (Rajha & Alslehat, 2014).

Framework



Research Hypothesis

- H1: There is significant relationship between liquidity and capital structure
- H2: There is significant relationship between profitability and capital structure.
- H3: There is significant relationship between tangibility and capital structure
- H4: There is significant relationship between interest rate and capital structure

H5: There is significant relationship between economic growth rate and capital structure

Methodology

Research is conducted on MCB bank of Pakistan. The purpose of this study is determined of capital structure impact on banking performance. Data are taken from financial annual reports of banks 2005 to 2015 total eleven years. It is descriptive methodology and quantitative.

Context

It is descriptive methodology and quantitative. Data are collected from past financial statement of MCB bank limited, ABL, Askari Bank, UBL and Bank Alfalah from 2005 to 2014.

Profitability

Profit is key element in every organization. There are different methods used for checking profitability. In banking sector profit mostly depends upon difference between interest give and take on deposit and credit. Profitability of bank measure through net profit divided by total sale(revenue) and multiplies 100.

Profitability=net profit/total revenue*100

Liquidity

In liquidity take only quick ratio. Quick ratio includes most quick assets (liquid assets-inventory-prepare expense) that is divided by total liabilities. It shows that bank has most quick assets to pay current liabilities.

quick ratio=cash+ balance with securities/total assets*100

Growth Rate

Pecking order theory and agency cost theory describe the relationship between capital structure and growth rate. High Degree of deposit increase growth rate.

Growth rate= advances / total assets *100

Tangibility

In firm debt holder and shareholders have different interest. Lender determined the value (fixed assets to total assets) and level of finance debt. Fixed assets directly relate to tangible assets. If firm assets tangible than it high tangible. In banking capital structure depend upon tangibility.

Tangibility=total fixed assets/total assets*100

Interest Rate

In banking sector, different rate in charge for taking and giving deposit. Take only interest earn to determined capital structure. It is calculated though mark up or interest earn divided by advances and multiply by 100

Interest rate= markup or interest earned/advances*100

Population

I want to draw population from Muslim commercial bank (MCB), united bank limited (UBL), Askari bank limited , allied bank limited (ABL), Alfalah bank limited five banks in banking sector of Okara and population is known.

Sample Size

Sample is subset of total target population. Population is total Muslim commercial bank, united bank limited (UBL), Askari bank limited, allied bank limited (ABL), Alfalah bank limited. Recently eleven years 2005 to 2015 are taken. Eleven years are used as a sampling size.

Research Instrument

Financial statements of Muslim commercial bank, united bank limited (UBL), Askari bank limited, allied bank limited (ABL), Alfalah bank limited after audit are used as a research instrument. Whole data draw from financial statements to determine the performances of bank.

Data Collection

A financial statement of Muslim commercial bank, united bank limited (UBL), Askari bank limited, allied bank limited (ABL), Alfalah bank limited is used for data that are issue after audit and instrument is financial statements.

Data Analysis

Pooled analysis is used for analysis the data. Pooled analysis is used to tell the relationship between profitability, tangibility, liquidity, growth rate and interest rate with respect to capital structure of bank.

Technique

Through Pooled analysis is used to find correlation and regression between dependent variables (capital structure) and independent variables (profitability, liquidity, interest rate, growth rate, tangibility).

Descriptive Analysis

	profitability %	liquidity %	tangibility %	Capital Struture
Mean	28.40927273	7.842363636	49.09090909	787.4460182
Standard Error	1.628990306	0.442324055	1.316630923	774.8438065
Median	31	8	50	12.96
Mode	37	8	60	15.89
Standard Deviation	12.08091544	3.28036299	9.764396261	5746.395466
Sample Variance	145.948518	10.76078135	95.34343434	33021060.85
Kurtosis	-0.851202998	-0.50999943	-1.236637569	54.99993572
Skewness	-0.320620047	-0.13571433	-0.186300161	7.416192103
Range	45.26	13	33	42622.84
Minimum	5	2	31	6.16
Maximum	50.26	15	64	42629
Sum	1562.51	431.33	2700	43309.531
Count	55	55	55	55

Table shows that Qualities of data. In profitability, mean 28.4 median 31 and mode 37 that are proximately equal. In liquidity, mean 7.8 median 8 and mode 8 that are proximately equal. In tangibility, mean 49 median 50 and mode 60 that are proximately equal. In capital structure, median 12.96 and mode 15.89 that are proximately equal. Standard deviation in profitability 12.08, liquidity 3.28,tangibility 9.76 and capital struture5746.39. all these value shows the quality of data.

Correlation

	profitability %	liquidity %	tangibility %	interest rate %	growth rate %	Capital Structure
profitability %	1					
liquidity %	-0.1698225	1				
tangibility %	-0.03277553	-0.0479457	1			
interest rate %	0.066711923	-0.20821838	0.064003328	1		
growth rate %	-0.08792887	0.170997749	0.087158033	0.128021148	1	
CAPITAL STRUTURE	-0.09614601	0.132186717	0.113652363	0.019218869	0.16753809	1

Profitability has strong relation 1 with profitability. Table shows liquidity value is -0.1698225%. Liquidity has inverse relation with profitability. Tangibility value is -0.03277553%. tangibility has inverse relation with profitability. When the value of tangibility decrease profitability increase. Interest rate has positive relation with profitability. Interest rate is .06675% that shows when interest rate increase profit increase. Growth rate value is -0.0879% that shows growth rate has inverse relation with profitability. Liquidity has strong relation 1 with liquidity. Table shows tangibility value is -0.0479457%. Interest rate has negative relation with liquidity. Growth rate has positive effect with liquidity. Capital structure has positive relation with liquidity.

Tangibility has 1 relationship with tangibility. There are positive relationship between tangibility and interest rate. The value of growth rate is positively tangibility with 0.087158033. capital structure has positively with tangibility with 0.113652363%. The % of growth rate and capital structure has positively with interest rate earned with respectively 0.128021148% and 0.019218869%. Capital structure has growth rate 0.16753809%.

Regression

Summary output

Regression Statistics	
Multiple R	0.233055842
R Square	0.683150254
Adjusted R Square	0.631834414
Standard Erro	
r	5866.344929
Observations	55

The value of r square is 68%. That shows that dependence of dependent variable capital structure has strong relation with independent variable independent variable profitability, liquidity, and tangibility, interest rate and growth rate. Adjusted R show the dispersion of data. In the table value of adjusted R shows 63% in one side.

Anova

	Df	SS	MS	F	Significance F
Regression	5	96851147.01	19370229.4	0.002628589	0.001
Residual	49	1686286139	34414002.83		
Total	54	1783137286			

This table shows that significant level is 0.001. It shows strong relations between dependent variable and independent variables. So we accept the H1 and H0 is rejected. There is significant relationship between liquidity and capital structure. There is significant relationship between profitability and capital structure. There is significant relationship between tangibility and capital structure. There is significant relationship between interest rate and capital structure. There is significant relationship between economic growth rate and capital structure.

	Coefficients	t Stat	P-value
Intercept	-6122.27072	-1.052216346	0.002
profitability %	-30.0147193	-0.446143001	0.001
liquidity %	179.2043423	0.695093784	0.003
tangibility %	830.7309064	0.743083779	0.004
interest rate %	-0.16914272	-0.030619993	0.001
growth rate %	80.01858694	0.94248162	0.002

The table shows that in intercept $p < 0.002$; profitability value of $p < 0.001$; liquidity value of $p < 0.003$; tangibility value of $p < 0.004$; interest rate value < 0.001 and growth rate value is $p < 0.002$.

Conclusion

This study was conducted to determine the capital structure of Pakistani banks. It defines how factors such as profitability, liquidity, tangibility, interest rate and growth rate related to capital structure of banking sector in Pakistan. This study is covering the five banks financial annual report from 2005 to 2015. This study defined examine that capital structure affect the performance of banking industries as cited by various previous study.

This research study can be used as a database because before this study cannot conduct these five banks and years 2005 -2015 in Pakistan. Pooled is used for analysis the data. By using pooled analysis to find regression, correlation. The result of regression shows that liquidity; tangibility; growth rate have negative effect on students performance. Interest rate has positive relation with profitability. Interest rate has negative relation with tangibility. Growth rate and capital structure have positive relation with tangibility. In regression the value of r^2 show 23.3 that shows there are strong relation between dependent variable and independent variable. Our result supports to previous research paper.

The finding of this study shows that capital structure effect on banking performance like profitability, liquidity, tangibility, interest rate and growth rate. This study supports the previous research study that conducted on similar sectors in Pakistan and other countries.

Limitation

In this research study examines the capital structure impact on banking performance of banking sectors of Pakistan. In this research data are taken only five banks of Pakistan to show overall performance of banking sectors in Pakistan. Populations are taken only five banks and sample size include 2005 to 2015 eleven years. For measuring performance include profitability, tangibility, liquidity, interest rate (earn), growth rate. In profitability see net profit on base of total income, other profitability ratio like return on equity, return on investment is ignore. Tangibility check through fixed assets on base of total assets, other formulas of tangibility is not taken. In Liquidity take only quick ratio, other liquidity ratio like cash ratio, current ratio is leave in this study. Similarly in interest rate take interest rate earn and interest rate paid ratio paid leave. And growth rate on banks is check thought advance to total assets.

Recommendations

This research study includes only eleven years for data. For future study should be carried out next years (after 2015) or extension no years eleven to 20 years. This research study conduct in Pakistan, it is suggested apply same variables in an others countries. It is also suggest that in profitability, tangibility, liquidity, interest rate (earn), growth rate measures from others formulas and methods. It also suggested that studies should carries by other factors.

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