

A Comparative Analysis of Capital Structure between Banking and Non-Banking Financial Institutions of Bangladesh

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Abstract: This research aims to compare the capital structure of Bangladeshi banking and non-banking financial institutions through some measurements. The annual financial statements of 10 commercial banks and 10 non-bank financial institutions were used for this study which covers a period of five (5) years from 2009-2013. The study assesses the capital structure of the banking and non-banking sectors measured by total debt to equity ratio (DER), total debt to total funds ratio and performance by ROE, ROA, EPS. Descriptive statistics, t-test have been used to show the differences between banking and non-banking capital structure and performance. However this study concludes that there is no significant difference between Bank and non-bank's EPS but there is a significant difference between Bank and non-bank's D/A ratio and D/E ratio and ROA and ROE.

Keywords—Capital Structure, Performance, Return on Equity, Return on Asset, EPS, Total Debt to Total Equity Ratio (DER), and Total Debt to Total Funds Ratio.

I. Introduction

Bank and Non-Bank Financial Institution (NBFI) have been two major sectors for the concern of investors. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses. A non-bank financial institution (NBFI) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering. Examples of these include insurance firms, pawn shops, cashier's check issuers, check cashing locations, payday lending, currency exchanges, and microloan organizations. There are 57 banks and 30 Non-Bank Financial Institutions are in Bangladesh.

This study focuses on capital structure & performance of listed banks in the banking sector and non-banking financial sectors. Capital structure is one of the major topics among scholars in finance. Capital Structure in finance term means the way a firm finances his assets across the blend of debt, equity or hybrid securities (Saad, 2010). The concept is generally described as the combination of debt & equity that make the total capital of firms. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. The term "capital structure" of an enterprise is actually a combination of equity shares, preference shares and long term debts. The relationship between capital structure and profitability is one that received considerable attention in the finance literature. Nonetheless, in the context of the banking industry, the subject has received a limited research attention. The study regarding the effects of capital structure on profitability will help us to know the potential problems in performance and capital structure. The purpose of conducting this study is to measure the impact of capital structure on firms' performance to provide empirical evidence regarding Bangladeshi banking and non-banking sector over a period of 2009 to 2013 and compare these two institutions regarding this issue.

II. Objectives of The Research

This research paper has been conducted to achieve the followings objectives:

1. To know about the capital structure and performance of banking institutions of Bangladesh.
2. To know about the capital structure and performance of non-banking institutions of Bangladesh.
- 3 To compare capital structure and performance between banking and non-banking financial institutions.

III. Research Methodology

In order to conduct the research, a sample of 20 (twenty) listed companies from financial sector of Bangladesh have been used. Annual reports of the sampled companies for the year 2009 to 2013 were collected.

Again, website of banks and non-banks, different periodicals published by the two sectors and research articles have been used. The collected data have been analyzed through descriptive analysis, and t-test.

Performance has been measured through Return on Equity (ROE), Return on asset (ROA), and EPS where capital structure has been measured through Total Debt to Total Equity Ratio (DER), and Total Debt to Total Funds Ratio. The following hypotheses have been conducted to complete this paper.

1. Ho: There is no significant difference between bank and non-bank's D/A ratio
Ha: There is significant difference between bank and non-bank's D/A ratio
2. Ho: There is no significant difference between bank and non-bank's D/E ratio
Ha: There is significant difference between bank and non-bank's D/E ratio
3. Ho: There is no significant difference between bank and non-bank's EPS
Ha: There is significant difference between bank and non-bank's EPS
4. Ho: There is no significant difference between bank and non-bank's ROA
Ha: There is significant difference between bank and non-bank's ROA
5. Ho: There is no significant difference between bank and non-bank's ROE
Ha: There is significant difference between bank and non-bank's ROE

IV. Literature Review

One of the main factors that could influence the firm's performance is capital structure. Since bankruptcy costs exist, deteriorating returns occur with further use of debt in order to get the benefits of tax deduction. Therefore, there is an appropriate capital structure beyond which increases in bankruptcy costs are higher than the marginal tax-sheltering benefits associated with the additional substitution of debt for equity. Firms are willing to maximize their performance, and minimize their financing cost, by maintaining the appropriate capital structure or the optimal capital structure. Harris and Raviv (1991) argued that capital structure is related to the trade-off between costs of liquidation and the gain from liquidation to both shareholders and managers. So firms may have more debt in their capital structure than is suitable as it gains benefits for both shareholders and managers. However, as stated in the previous literature, underestimating the bankruptcy costs of liquidation or reorganization, or the aligned interest of both managers and shareholders, may lead firms to have more debt in their capital structure than they should (see, for example, Harris and Raviv, 1991). Krishnan and Moyer, (1997) found a negative and significant impact of total debt to total equity (TD/TE) on return on equity (ROE). Another study by Gleason, Mathur and Mathur, (2000) found that firms capital structure has a negative and significant impact on firms performance measures return on assets (ROA), growth in sales (Gsales), and pre tax income (Ptax). Therefore, high levels of debt in the capital structure would decrease the firm's performance.

Some authors got positive relationship; some got negative relationship while others got mixed or no relationship between capital structure and firm's performance. Some of the major contributions in the literature on this topic have been discussed in the below.

Roden and Lewellen (1995) employed a sample of 48 U.S. firms during 1981-1990 and found a positive relation between profitability and capital structure. Analogous results were also observed by Champion (1999), Ghosh, Nag, and Sirmans (2000), Hadlock and James (2002). They all concluded that firms with highly profitable firms use high-level of debts.

Margaritis and Psillaki (2010) observed a significant positive relation between leverage and firm's performance. They used a sample of both low and high growth French firms for the period 2003-2005 and found that leverage have positive effect on firms' efficiency over the entire sample.

Gleason, Lynette, and Ike (2000) concluded that high levels of debt in the capital structure would reduce the firm's performance. They observed that firm's capital structure has a statistically significant negative effect on firm's performance matrixes, i.e., return on assets (ROA), growth in sales (Gsales), and pretax income (Ptax).

A negative link between capital structure and firm's performance was also witnessed by Fama and French (2002). They observed that highly profitable firms with lower risk of financial distress are actually less levered which contradicts with the trade-off theory.

Capital structure is the combination of a firm's long-term debt, specific short-term debt, common equity, preferred equity and retained earnings which are used to finance its overall operations and growth. Capital structure is a very important financial decision as it is directly related to the risk and return of a firm. Any immature capital structure decision can result in high cost of capital; thereby lowering firm's value while effective capital structure decision can do the opposite. Some scholars also defined capital structure in their own ways. The term 'capital structure' is defined by Weston and Brigham (1979) as the permanent financing of the firm represented by long-term debt, preferred stock and net worth. According to Van Horne and Wachowicz (1995), capital structure is the mix of a firm's permanent long-term financing represented by debt, preferred

stock, and common stock equity. From the above discussion, it is clear that capital structure combines mainly equity and long-term debt. Traditionally capital structure does not consider short-term debt. Since many years, both researchers and academicians are performing theoretical and empirical studies on capital structure, but it drew attention to the financial economists after Modigliani and Miller's (1958) "irrelevance theory of capital structure" (hereafter referred to as MM theory). All researches suggests that there is an optimal capital structure; the one that maximizes the value of the firm and simultaneously minimizes the cost of capital thus striking a balance between risk and return. However, it is not yet possible to provide financial managers with a precise methodology for determining a firm's optimal capital structure (Gitman&Zutter, 2010). After MM propositions, many studies were focused in finding the optimal capital structure. Even though MM theory is based on some unrealistic assumptions, for instance, the assumption of perfect capital markets, this theory provides us a basis to perform research on capital structure. Hitherto four major theories of capital structure emerged; such as the trade-off theory, agency costs theory, pecking order theory, and market timing theory.

According to Modigliani and Miller (1958), under perfect capital markets assumption, the capital structure has no impact on firm's value. This theory is criticized by many researchers objecting that there are no perfect capital markets in reality, although later they revised their earlier theory by incorporating tax benefit and argued that under market imperfection where interest payments are tax deductible, firm value will increase with the level of financial leverage (Modigliani & Miller, 1963).

Capital structure decisions can have important implications for the value of the firm and its cost of capital (Firer et al, 2008). Poor capital structure decisions can lead to an increased cost of capital thereby lowering the net present value (NPV) of many of the firm's investment projects to the point of making many investment projects unacceptable (known as the underinvestment problem). Effective capital structure decisions will lower the firms overall cost of capital and raise the NPV of investment projects leading to more projects being acceptable to undertake and consequently increasing the overall value of the firm (Gitman, 2003). Despite the importance that capital structure can play in adding value to the firm decades worth of theoretical literature and empirical testing have not been able to give guidance to practitioners with regards to the choice between debt and equity in their capital structures (Frank and Goyal, 2009).

From the above discussion, one important thing is obvious that the basic drive of all the theories of capital structure is to recognize whether the capital structure has any impact on firm's performance or not. Extensive empirical researches have been performed to study the relationship between capital structure and firm's performance although Bangladesh has very little contribution in this literature. Therefore, this effort is attempted by us. However, this study aims to examine the relationship between capital structure choices and firm's performance.

V. Overview of Financial Sector of Bangladesh

Banking Industry

The financial sector's contribution in Bangladesh to GDP has remained static at 1.5 percent during 1999-2000 periods. Commercial banks are at the heart of this financial sector by contributing 80% of the total. Relative stability achieved by the support extended by both the central bank and the Government of Bangladesh in the past has restored public confidence in the country's banking sector. Moreover, Nationalized Commercial Banks (NCBs) and old generation Private Commercial Banks (PCBs) would have to lower the rate of NPAs in their portfolios. Failure to do so would mean re-capitalization, at least for the NCBs. This may in turn lead to a further drain on the limited resources of the Government of Bangladesh. At this time or in the immediate future this re-capitalization would not be feasible. With these conditions in place, the World Bank anticipates the likelihood of a situation where the ever-increasing burden of non-performing loans and growing rate of debt servicing would place the economy under enormous strain and result in a crisis in the banking sector in the long term.

Non-Banking Industry

Non-Bank Financial Institutions (NBFIs) are licensed and regulated under the Financial Institution Act, 1993. NBFIs play an important role in financing various sectors like industry, trade, housing, transport, information technology as well as the capital market. There are 30 NBFIs in the country. As on 30th September, 2011 there are 158 branches of which 60 in Dhaka, 22 in Chittagong and the rest 76 in other districts. Major sources of funds of NBFIs are Term Deposit, Credit Facility from Banks and other NBFIs, Call Money as well as Bond and Securitization.

Selected Banking and Non-Banking Financial Institutions

10 banking and 10 non-banking financial institutions have been selected for the study.

Table 1: Selected Institutions

Banking institution	Details
AB Bank	Incorporated in Bangladesh on 31st December 1981 as Arab Bangladesh Bank Limited and started its operation with effect from April 12, 1982
Southeast Bank	Established in 1995 with a dream and a vision to become a pioneer banking institution of the country
Bank Asia	Incorporation on September 28, 1999 and came to operation on November 27, 1999.
BRAC Bank	Founded on 4 July 2001 as a private commercial bank focused on Small and Medium Enterprises (SME).
City Bank	Started its journey on 27th March 1983. It is a top bank among the oldest five Commercial Banks in the country
Dhaka Bank	Started its commercial operation on July 05, 1995 with an authorized capital of Tk. 1,000 million and paid up capital of Tk. 100 million.
Dutch-Bangla Bank	Has launched the first mobile ATM booth in Bangladesh.
Eastern Bank	Began its journey in 1992. Over the years EBL has established itself as a leading private commercial bank in the country.
IFIC Bank	listed with Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd. Authorized Capital of the Bank is Tk. 20,000.00 Million (\$257.23 Million) and Paid-up Capital is Tk. 14,636.28 Million (\$188.25 Million) having shareholders as on 30th June 2013.
Jamuna Bank	Started its operation from 3rd June 2001. provides all types of support to trade, commerce, industry and overall business of the country.
Non-banking institutions	
Karnaphuli Insurance Company Limited	Started its operation from 3rd June 2001. provides all types of support to trade, commerce, industry and overall business of the country.
Delta Brac Housing Finance Corporation Ltd	Started its operation from 3rd June 2001. provides all types of support to trade, commerce, industry and overall business of the country.
FAS Finance & Investment Limited	Received license in September 2001, from Bangladesh Bank to carryout financing business under the Financial Institutional Act, 1993 and subsequently turned into a Public Limited Company.
Prime finance and investment Ltd.	Started its operation from 3rd June 2001. provides all types of support to trade, commerce, industry and overall business of the country
GSP Finance Company (Bangladesh) Limited (GSPB)	Incorporated in Dhaka, Bangladesh on 29th October 1995 with the Registrar of Joint Stock Companies and Firms. It started its commercial operation from 17th April 1996
Bay Leasing & Investment limited	Started its journey in February, 1996 as a non-banking financial institution and guided under the Financial Institutions Act of 1993.
LankaBangla Finance Limited (LBFL)	Established with multinational collaboration is in operation since 1997 having license from Bangladesh Bank under Financial Institutions Act, 1993.
Uttara Finance and Investments Limited	Operating as Financial Institution since 7 May 1995 under license from Bangladesh Bank (Central Bank). The company extends lease, loans and asset management services. The company's clientele base is from SME to large corporate houses.
Infrastructure Development Company Limited (IDCOL)	Established on 14 May 1997 by the Government of Bangladesh. The Company was licensed by the Bangladesh Bank as a non-bank financial institution (NBFI) on 5 January 1998. Since its inception, IDCOL is playing a major role in bridging the financing gap for developing medium to large-scale infrastructure and renewable energy projects in Bangladesh.
United Leasing Company Limited	Established in 1989 as a public limited company, to cater the investment needs of our economy. Company's revenue registered a 25.20% growth over last year.

Source: Websites of listed banks and non-banks financial institutions

VI. Discussion of Empirical Result

6.1.1. Total Debt to Total Funds: This variable refers to the Total Debt to Total Fund over the years and its influence on the bank's and non-bank's performance. Normally it is believed that, there is a negative D/A ratio and firm's performance.

Table 2: Bank and Non-Bank's Total D/A Ratio Scenario

Year	Total D/A ratio		Increase/Decrease	
	Bank	Non bank	Bank	Non bank
2009	9.18	7.7662		
2010	8.94	7.3598	-2.61%	-0.05233
2011	9.02	7.1091	0.89%	-0.03406
2012	9.11	6.9235	1.00%	-0.02611
2013	9.13	7.4239	0.22%	0.072276

Source: Annual reports of banking and non banking financial institutions

In case of selected 20 banks and non-banks, it has been found that D/A ratio were fluctuating over time. In 2010, non-banks D/A ratio was decreased more than banks. In 2011 and 2012, bank's ratio was positive where non-bank's ratio was negative. Again, in 2013 both institution's D/A ratio were positive but bank's ratio was higher.

6.1.2. Total Debt to Total Equity: This variable refers to the Total Debt to equity over the years and its influence on the bank's and non-bank's performance. Normally it is believed that, there is a negative D/E ratio and firm's performance

Table 3: Total D/E Ratio Scenario for Banks and Non-Bank

Year	Total D/E ratio		Increase/Decrease	
	Bank	Non bank	Bank	Non bank
2009	119.011	57.917		
2010	99.299	55.067	-0.16563	-0.04921
2011	97.047	47.466	-0.02268	-0.13803
2012	110.003	42.275	0.133502	-0.10936
2013	109.363	51.089	-0.00582	0.208492

Source: Annual reports of banking and non banking financial institutions

From table, it is seen that, in 2010 and 2011, both institution's D/E ratio were decreased. In 2012, bank's ratio was positive where non-bank's ratio was negative. Again, in 2013 non-bank's ratio was higher.

6.1.3. Return on asset: This variable refers to the ROA over the years. Higher the value, better it is.

Table 4: Total ROA Ratio Scenarios for Banks and Non-Bank

Year	ROA		Increase/Decrease	
	Bank	Non bank	Bank	Non bank
2009	19.11%	29.95%		
2010	19.67%	40.06%	0.02930	0.337563
2011	15.97%	31.02%	-0.18810	-0.22566
2012	11.80%	16.85%	-0.26111	-0.4568
2013	10.74%	21.09%	-0.08983	0.251632

Source: Annual reports of banking and non banking financial institutions

From table, it is seen that, in 2011 and 2012, both institution's ROA ratio were negative. In 2013, bank's ratio was negative where non-bank's ratio was positive.

6.1.4. Return on Equity: This variable refers to the ROE over the years. Higher the value, better it is.

Table 5: Total ROE Ratio Scenario for Banks and Non-Bank

Year	ROE		Increase/Decrease	
	Bank	Non bank	Bank	Non bank
2009	259.22%	205.58%		
2010	255.08%	235.98%	-0.01597	0.147874
2011	181.17%	210.33%	-0.28975	-0.1087
2012	127.64%	134.94%	-0.29547	-0.35844
2013	125.93%	176.34%	-0.01340	0.306803

Source: Annual reports of banking and non banking financial institutions

From table, it is seen that, all the years bank's ROE were negative where non bank's ROA were fluctuating.

6.1.5. EPS: In an efficient market, the theory of market efficiency says that the market takes some hikes from the EPS data. This report considers earnings per share (EPS) as the measure of profitability. Prior literatures do not use this kind of variable. In my opinion, I consider EPS will be the most perfect measure of profitability which is affected by capital structure.

Table 6: Total EPS Ratio Scenario for Banks and Non-Bank

Year	EPS		Increase/Decrease	
	Bank	Non bank	Bank	Non bank
2009	44.46	47.19		
2010	54.83	56.72	0.23324	0.20195
2011	43.42	42.42	-0.20810	-0.25212
2012	30.57	31.24	-0.29595	-0.26355
2013	36.14	30.68	0.18220	-0.01793

Source: Annual reports of banking and non banking financial institutions

From table, it is seen that, in 2011 and 2012, both institution's EPS were negative. In 2013, bank's EPS was positive where non-bank's EPS was negative.

6.2. Descriptive Statistics

6.2.1. For banks: Table provides a summary of the descriptive statistics for the dependent and independent variables for the sample banks. It shows that over the period under study, the profitability ratios

measured by EPS, return on asset, and return on equity averaged 4.19, 0.0154 and .1899 respectively. The debt/equity ratio stood at 10.69 and debt to total funds averaged .907. This indication that approximately 91% of total assets in the banking sector of Bangladesh are represented by debt, confirming the fact that banks are highly geared institutions. The maximum and minimum values for debt/equity ratio indicate that the debt/equity composition varies substantially among the listed banks in Bangladesh.

Table 7: Summary of Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
eps1	50	4.1884	2.378886	1.2	11.6
roa1	50	.015458	.0073349	.0035	.0352
roe1	50	.189808	.0883804	.043	.3984
dta1	50	.9074681	.0269904	.8308072	.946792
dte1	50	10.69444	2.845771	5.481966	17.79417

6.2.2. For non-banks

Table provides a summary of the descriptive statistics for the dependent and independent variables for the sample non-banks. It shows that over the period under study, the profitability ratios measured by EPS, return on asset, and return on equity averaged 4.16, .2325 and 1.76 respectively. The debt/equity ratio stood at 5.076 and debt to total funds averaged .731. This indication that approximately 73% of total assets in the non-banking sector of Bangladesh are represented by debt, confirming the fact that banks are less highly geared institutions compared to bank. The maximum and minimum values for debt/equity ratio indicate that the debt/equity composition varies substantially among the listed non-banks in Bangladesh.

Table 8: Summary of Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
eps2	50	4.165	2.774043	.02	10.65
roa2	50	.2325054	.6186853	-.00115	2.18
roe2	50	1.755504	4.927594	.0282	26.2
dta2	50	.7318022	.1927561	.213077	.9408315
dte2	50	5.076279	4.285209	.3424144	15.90088

6.2.3. Comparative Analysis Between Bank and Non-Bank's Performance through Descriptive Statistics

Table 9: Comparative Analysis through Descriptive Statistics

Mean	EPS	ROA	ROE	D/A ratio	D/E ratio
Bank	4.19	.0154	.1899	.907	10.694
Non-bank	4.165	.23250	1.756	.73180	5.076

The above table shows the banks and non-banks EPS, ROA, ROE and D/A ratio. It is seen that Banking and Non-banking sector's EPS does not vary significantly, but ROA, ROE and D/A ratio vary significantly. Non-banking sector's ROA and ROE are good than that of banks and they are less levered firm than banks. We can see that Banks use almost 90% debt to form their asset and where NBFI use 73% debt. Similarly their D/E ratio is higher than non-banking sector.

6.3. Comparative analysis of Bank and non-banks through t-statistics

6.3.1. D/A ratio

Mean Score	Bank' Mean Score	Non-bank' Mean Score	t-Test Score Ho: $\mu=3$, Ha: $\mu \neq 3$
.8196	.907	.731	6.38*

➤ * $p < .05$; ** $p > .05$

From the Mean score of .8196, it can be inferred that majority accept that there is a significant difference between bank and non-banks' capital structure. So H_a is accepted. Here from the banks and non-banks individual mean score, it is observed a difference between their D/A ratio. Banks are a way more D/A ratio than non-bank in this regard. The t-test score also disclose the fact ($t = 6.38, p < .05$).

6.3.2. D/E ratio

Mean Score	Bank' Mean Score	Non-bank' Mean Score	t-Test Score Ho: $\mu=3$, Ha: $\mu \neq 3$
7.885	10.69	5.076	7.7228*

➤ * $p < .05$; ** $p > .05$

From the Mean score of 7.88, it can be inferred that majority accept that there is a significant difference between bank and non-banks' capital structure. So H_a is accepted. Here from the banks and non-banks individual mean score, it is observed a difference between their D/E ratio. Banks are a way more D/E ratio than non-bank in this regard. The t-test score also disclose the fact ($t = 7.7228, p < .05$).

6.3.3. EPS

Mean Score	Bank' Mean Score	Non-bank' Mean Score	t-Test Ho: $\mu=3$, Ha: $\mu\neq3$	Score
4.1762	4.188	4.164	.0453**	

➤ * $p < .05$; ** $p > .05$

From the Mean score of 4.18, It can be inferred that majority accept that there is not a significant difference between bank and non-banks' EPS. So H_o is accepted. Here from the banks and non-banks individual mean score, it is observed a very slight difference between their EPS. The t-test score also disclose the fact ($t = 7.7228, p > .05$).

6.3.4. ROA

Mean Score	Bank' Mean Score	Non-bank' Mean Score	t-Test Ho: $\mu=3$, Ha: $\mu\neq3$	Score
.1239	.0155	.2325	-2.4805*	

➤ * $p < .05$; ** $p > .05$

From the Mean score of .1239, It can be inferred that there is a significant difference between bank and non-banks' ROA. So H_a is accepted. Here from the banks and non-banks individual mean score, It is observed difference between their ROA. The t-test score also disclose the fact ($t = -2.4805, p < .05$).

6.3.5. ROE

Mean Score	Bank' Mean Score	Non-bank' Mean Score	t-Test Ho: $\mu=3$, Ha: $\mu\neq3$	Score
.9727	.1898	1.756	-2.2464*	

➤ * $p < .05$; ** $p > .05$

From the Mean score of .9727, it can be inferred that there is a significant difference between bank and non-banks' ROE. So H_a is accepted. Here from the banks and non-banks individual mean score, it is observed huge difference between their ROE. The t-test score also disclose the fact ($t = -2.2464, p < .05$).

VII. Conclusion and Recommendations

7.1. Conclusion

Banking and non banking financial institutions play a crucial role in our economy. A bank links together customers that have capital deficits and customers with capital surpluses. Non-bank financial institutions facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering. Examples of these include insurance firms, pawn shops, cashier's check issuers, check cashing locations, payday lending, currency exchanges, and micro loan organizations. There are 57 banks and 30 Non-Bank Financial Institutions are in Bangladesh. This study focuses on capital structure of both banking and non banking financial institutions. Generally firm's capital structure has a significant and negative impact on the firm's performance. In this study, it is tried to find out that whether there is any differences between banking and non-banking capital structure and performance or not. For this, descriptive statistics, t-test have been used. It is found that that there is no significant difference between Bank and non-bank's EPS but there is a significant difference between Bank and non-bank's D/A ratio and D/E ratio and ROA and ROE. So it can be concluded that banking sector uses more debt than non banking sector. This paper will give insight about capital structure of banking and non banking financial institutions and help the management of those sectors to make optimal capital structure to create value of their firm.

7.2. Recommendation

The following recommendations are suggested for banking and non banking sector of Bangladesh to improve their performance.

- 1) Banking sector should reduce dependency on debt capital and increase equity capital.
- 2) Non banking sector should increase their EPS.
- 3) Banking sector should increase their ROA.
- 4) Banking sector should increase their ROE.

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