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the impact of the financing structure on the profitability of UAE commercial banks

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Abstract

The study aimed to demonstrate the impact of the financing structure expressed by the percentage of ownership, the percentage of deposits, the percentage of indebtedness on the profitability of UAE commercial banks, which is expressed by the return on equity. The study also included a sample of (06) banks, for the period from 2011-2019. To achieve the objective of this study, the PANEL Data Model was used.

The study concluded that there is a positive effect of the financing structure represented by the "ownership ratio, indebtedness ratio, and deposit ratio" on the profitability of commercial banks represented by the return on equity for the study sample, through the efficient use of private funds and good utilization of deposits, as well as benefiting from the advantages of financial leverage provided by debt.

Keyword: financing structure, indebtedness, profitability, deposit, static panel model.

Jel classification : G21 ,G32,C33

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1. INTRODUCTION

In order for commercial banks to carry out their activities effectively, they must have financial resources and take care of the quality of their resources and work on their stability. Choosing the appropriate source of financing is one of the important financial decisions for commercial banks. Commercial banks, like other institutions, also aim to maximize their profitability by obtaining the largest amount of deposits and sources of funds at the lowest possible cost through a trade-off between (internal sources (property rights) and external sources) long and short-term debts, and deposits.

The problem of the study

Based on the above, the problem of this study can be formulated as follows:

Is there an effect of the financing structure on the profitability of UAE commercial banks?

In order to answer the problem, we asked a set of sub-questions, which are as follows:

1. Does the financing structure represented by the percentage of ownership affect the profitability represented by the return on equity in UAE commercial banks?

2. Does the financing structure represented by the debt ratio affect the profitability represented by the return on equity in UAE commercial banks?

3. Does the financing structure represented by the percentage of deposits affect the profitability represented by the return on equity in UAE commercial banks?

Study hypotheses

The main hypothesis: There is a statistically significant effect between the financing structure ratios and the profitability ratios.

Sub-hypotheses

-The first hypothesis: There is a statistically significant effect of the financing structure represented by the percentage of ownership on the profitability represented by the return on equity in the UAE commercial banks.

-The second hypothesis: There is a statistically significant effect of the financing structure represented by the indebtedness ratio on the profitability represented by the return on equity in the UAE commercial banks.

-The third hypothesis: There is a statistically significant effect of the financing structure represented by the percentage of deposits on the profitability represented by the return on equity in the UAE commercial banks.

Study variables

The independent variable:

the ratios of the financing structure are:

1. Ownership percentage = Equity / total assets

2. Indebtedness ratio = total debt (short-term debt + long-term debt) /total assets

3. Deposit ratio = deposits / total assets

Dependent variable

profitability expressed as return on equity: net result / equity

The limits of the study

-Spatial boundaries: The spatial boundaries were embodied a sample of 06 banks operating in the United Arab Emirates.

-Temporal limits: The study extended from the year 2011-2019 within the limits of what we have provided of the information on the commercial banks under study.

Study Approach

On the theoretical side, we adopted the analytical descriptive approach, while on the practical side, we relied on the quantitative approach, using the necessary standard and statistical methods to study the relationship between the economic variables under study, in order to reach specific results according to scientific standards, through the application of standard modeling steps represented in collecting information, based on Model, estimation and statistical tests, where did we choose a group of UAE commercial banks.

2. the theoretical side

2.1- definition of capital structure

Numerous attempts to define an eye's definition of capital structure, and most of the tariffs provided to it explain the species for securities and proportionate amounts of capital, which is known to be. It is a combination of various long-term sources such as equity stocks, preference stocks, bonds, long term and which provide for the study of loans and profits held by an enterprise (Tuovila, 2023)

The capital structure interprets the combination of securities and sources of financing used to finance real investment in order to stay in business (stewart, 2000, p. 02).

While the term "capital structure" refers to the relationship between different long-term sources such as equity and preferential capital such as debt Through the recent definitions provided for the capital structure, the capital structure can be defined as a combination of financial sources to finance companies' operations. Financial sources can include debt and equity that can be used by companies (Eltayeb, 2020, p. 730).

2.2- capital structure determinants

The company's capital structure depends on a number of factors affecting the strength of the enterprise, and we mention:

- **Sales growth and stability**

It is an important determinant that it affects the stability of sales to ensure a steady profit for the enterprise to face no problems and raise a higher level of debt.

- **Cost of capital**

This determinant aims to keep the total cost of the company to a minimum, and the most expensive equity capital, debt capital is the cheapest share, so the lowest capital must be maintained (song, 2005, p. 06)

- **Cash flow capacity:** To be able to use more debt capital to cover fixed fees in the form of capital interest.
- **Control:** With a view to relieving control over the shareholders of the enterprise by issuing fixed debt sustainability fees and preferential equity capital (beven & Danbolt, 2000, p. 08) **.**
- **Flexibility:** An organization's ability to adapt capitalism to its needs regardless of changing circumstances.

- **Company size:** The size of the company affects the size of capital and long-term debt, especially the trend to different markets (beven & Danbolt, 2000, p. 08)
- **Marketability and timeliness:** An enterprise has to adapt to conditions at any time through its fixed choices.
- **Purpose of financing:** The purpose of financing must be chosen when determining its sources, whether for productive, investment or industrial purposes (Bader, 2018, p. 52)**.**
- **Legal requirements:** Various principles issued by the Government from time to time and pay attention to the consideration of bonds to determine the capital structure.

2.3 theories of a capitalist structure

Many theories presented to the capital structure by David and Solomon.

- **The approach to net**

income is defined by David Durand. According to this theory, the company can increase its value and reduce its total cost of capital by using the capital structure. According to the analogy, the largest used debt capital must be lower than the total cost of capital, and subject to the following: "The cost of debt is less than the cost of equity, the investor's perception of risk by using debt, and the absence of corporate taxes (Bader, 2018, p. 59)

- **Net operating income approach**

It was suggested by David Durand that the capital structure and value of the company are irrelevant, that the company does not affect the cost of the capital and the value of the company, and determines its value by: "achieving the market as the value of the company as a whole, establishing business risk at each level of debt, and the absence of corporate taxes (Braun, 2016, p. 12) **.**

- **The traditional view**

known as the middle approach, proposed by Ezra Soliman, is the solution between the two contrasts to the net income approach and the net operating income approach, and can reduce the cost of capital or increase the company's value of debt and equity (Bader, 2018, p. 50).

- **Theory of Modigliani and Miller**

It corresponds to the net operating income theory, where Miller argued that in the absence of any taxation, the cost of the capital and the value of the company are not affected by any changes in the capital structure, i.e. irrelevant capital structure decisions and the company's value is independent of the debt-equity mix. This analog also imposes the following (titman , 2001, p. 18).

- ✓ The presence of perfect capital markets, which is when investors are free to buy.
- ✓ Investors can borrow money without restrictions on the same terms as companies.
- ✓ Acting rationally and being well informed
- ✓ All investors have the same expectations for the company's net operating income
- ✓ There is no strike on companies, and this hypothesis was later removed.

2.4 definition of profitability

Profitability is a fundamental goal for all enterprises, necessary for their survival and sustainability, and an objective that investors look forward to and an indicator of interest to creditors in dealing with the business, which is also an important tool for measuring management's efficiency in using existing resources profitability is also the relationship between the profits generated by the enterprise and the investments that contributed to these profits. Profitability is the enterprise's objective and a measure of the judgment of its adequacy (Honton , 2021)**.**

Profitability is measured either by the relationship between profits and sales, or by the relationship between profits and investments that contributed to them.

3. the applied side

3.1 Description of the standard model

To address the problem in question, which revolves around measuring the impact of the financing structure on the profitability of commercial banks, with application to a sample of commercial banks operating in the United Arab Emirates during the period 2011-2019, where the standard model was described based on what was stated in previous studies that dealt with the subject of the research in whole or in part as follows:

$$\mathbf{ROE_{i1}} = c + \beta_j \mathbf{RFP}_{j(it)} + \gamma_j \mathbf{RDET}_{j(it)} + \delta_j \mathbf{RDEP}_{j(it)} + \varepsilon_{it}$$

Where: (β، γ، δ،) are the parameters of the model, and (i ;1……..n)represent the segments (t : 1……T)represent the time, and ε_{it} represents the random error term.

Where it represents the dependent variable (profitability of commercial banks) and expressed by the return on equity (ROE)index, while the independent variables (financing structure) were represented by the ownership ratio (RFP), the deposit ratio (RDEP), the debt ratio (RDET), and the random error (ε_{it}).

3.2 Sample and data source of the study

In measuring the effect of the financing structure on the profitability of commercial banks in the United Arab Emirates, the static Panel models were relied upon, which are considered the most appropriate model for the data used in this study (time series data for a group of segments). The study sample is (06). Commercial banks are Emirates investment bank pjsp, Emirates NBD, Abu Dhabi commercial bank ADCB, NBF, Rakbank, Commercial bank of dubai, on the other hand, it was based on annual data extending from 2011 to 2019, and the data was obtained from the annual reports of these banks.

3.3 Descriptive analysis of the data

3.3.1 Descriptive analysis of variables: In order to give an initial perception of the data adopted in the study, the most important statistical characteristics of this data will be presented. The results of the study can be presented The descriptive analysis is in the following table:

Tableau 1. Descriptive analysis of the study variables

	ROE	RFP	RDET	Rdep
Arithmetic mean	11.84785	13.98	86.00394	66.55481
Mediator	13.0023	13.27633	86.58037	69.3285
Highest value	24.68883	21.61355	89.93506	81.12098
Lowest value	0.099	10.06494	78.38645	55.19107
Standard deviation	6.28454	2.619428	2.615669	14.7849
Skewness	-0.53281	1.256322	-1.24418	-3.37028
Kurtosis	3.056115	4.193383	4.186142	15.84887
The total	639.7839	754.9202	4,644,213	3593.96
Sum of squares	2,093,258	363.6544	362.6114	11585.45
Views	54	54	54	54

Source: Prepared by the two researchers based on the outputs of the Eviews12 program

Based on the above table, the following observations can be made:

• The arithmetic mean of the return on equity index for a sample of banks operating in the United Arab Emirates was (11.84%). As for the financing structure indicators, the indebtedness ratio was (86.00%), the ownership ratio was 13.98%, and the deposit ratio was 66.55%.

• The highest value in the rate of return on equity in a sample of UAE banks reached (24.68%) in the year (2011) in (Rakbank) due to the increase in profits by a greater percentage than the increase in equity, while the lowest value in the return on equity index was (0.09%) in (NBD) Bank during the period (2012), due to the increase in equity and the decrease in profits.

• The highest percentage of ownership in the sample of UAE banks included in the study was (21.6%) during the year (2013) in (Rakbank) due to the increase in property rights from the reserves and retained earnings at a rate greater than the increase in the assets of this bank. The lowest value in ownership percentages was (10.06%) during

the year (2012) in the Banking Corporation (NBD) due to the decrease in equity and the increase in its investments.

• The highest indebtedness ratio was estimated at (89.93%) in (NBD) Bank during the year (2012).and this increase is due to the increase in assets compared to the total debt by a rate greater than the increase in the volume of assets. As for the lowest value in terms of indebtedness ratios, it reached (78.38%) in (Rakbank) during the year (2013), and this decrease is due to the increase in assets compared to the total debts by a rate greater than the increase in the volume of assets.

• Finally, the highest percentage of deposits (81.12%) was recorded in (ADCB) Bank during the year (2017), and this is due to the increase in the volume of deposits by a percentage greater than the increase in the volume of its assets, while the lowest value was (55.19%) in (NBD) Bank During the year (2014), this decrease is due primarily to the increase in assets by a greater percentage than the increase in the volume of deposits.

• It is also noted from the above table that the standard deviation values for the ownership ratio and indebtedness ratio are relatively low compared to the rest of the model variables, which indicates the homogeneity of the sample data and the absence of significant differences in the observations between each segment and another (bank) with respect to the aforementioned variable. While the observations of the rest of the variables knew a kind of dispersion between all the study items (banks).

3.3.2 Multivariate Statistical Analysis of Profitability Index

Through this step, it will be ascertained that there are differences between the banks under study with regard to the return on equity (ROE) index, by comparing the averages of these variables for each bank with the rest of the other banks included in the study. The focus was on the one-way analysis of variance test (ANOVA) to determine The existence of differences or not, as a first stage, to then determine the source of differences between these banks based on the LSD test)) in a second stage.

3.3.2.1 Examining the existence of differences between a sample of commercial banks operating in the UAE during the study period based on the profitability index:

The following will be tested for the existence of differences in the averages of banking performance indicators for a sample of banks operating in the United Arab Emirates, as shown in the following table:

Tableau 2. One-way analysis of variance test to study the differences

ANOVA						
		Sum of squares	Df	mean square	F	Sig.
ROE	Between Groups	1638.409	5	327,682	34,580	0.000

Source: Prepared by researchers based on the output of spss 24

The statistical value of Fisher for the return on equity variable was (F_{stat} =34.58)between the groups (banks), which is statistically significant because the probability value of this statistic amounted to (0.00), and thus accepting the alternative hypothesis of the one-way analysis of variance test, which states that there are significant differences in terms of The statistic of the average return on equity index among banks during the study period.

3.3.2.2 Determine the source of the differences between the members of the sample based on the profitability index of the banks under study

At this stage, the source of the differences will be determined accurately between each of the selected banks with the rest of the sample items with regard to the return on equity index, which is shown in the following table:

Tableau 3. Results of the LSD multiple comparison test for ROE

ROE						
	PJSC	NBD	ADCB	NBF	RAKBANK	CBD
PJSC		X		X		
NBD	X		X	X	X	X
ADIB		X			X	
NBF	X	X			X	
RAKBANK		X	X	X		X
CBD		X			X	

Source: Prepared by researchers based on the outputs of SPSS 24

Through the above table, we find that there is an apparent difference with regard to the average indicators of return on equity between each of (NBD, RAKBANK) with the rest of the banks included in the study sample for that during the period (2011-2019), as RAKBANK is much higher than The arithmetic averages of the study sample banks, and this is a good indicator indicating the efficiency of its investment decisions for its money in achieving the required return.

As for NBD Bank, it achieved the lowest arithmetic average, which indicates the inefficiency of investment decisions for its funds in achieving the required return.

3.4 Measuring the impact of the financing structure on the profitability of UAE commercial banks

The focus will be on presenting and analyzing the results of the static estimation of a model that measures the impact of the financing structure on the profitability of commercial banks operating in the United Arab Emirates during the period (2011-2019).Finally, analyze the results obtained from the statistical and economic angles.

3.4.1 Estimating results of the basic panel model

The following will show the results of estimating a model for a sample of banks operating in the Emirates. It is related to the basic model that measures the impact of the financing structure on a dependent variable. The results of the estimation are shown through the following table:

Tableau 4. Estimating the basic Banle model for commercial banks operating in the UAE United

Dependent Variable: ROE								
PRM			FEM			REM		
Total panel (balanced) observations: 54								
Var	Coef	Prob.	Var	Coef	Prob.	Var	Coef	Prob.
RFP	-1.91848	0.8556	RFP	21.65527	0.0014	RFP	20.75727	0.0018
RDET	-3.3621	0.7502	RDET	20.88367	0.0019	RDET	19.92981	0.0026
Rdep	0.074253	0.1261	Rdep	0.046742	0.1158	Rdep	0.048918	0.0966
C	322.8801	0.7596	C	-2090.08	0.0019	C	-1995.64	0.0025
R- sq	0.376654		R- sq	0.852742		R- sq	0.312033	
F-stat	10.07078		F-stat	32.57315		F-stat	7.559309	
P-(F-stat)	0.000027		P-(F-stat)	0		P-(F-stat)	0.000289	
DW stat	0.402887		DW stat	1.353543		DW stat	1.19799	

Source: Prepared by the researchers based on the outputs of the EVIEWS 12 program

Through the above table, comparison tests of panel models will be relied upon to determine the type of individual effects that distinguish each banking institution from another in the UAE banking sector.

Where the (Redundant) test will be relied upon to compare between the aggregate regression and fixed effects models, while the results of this test will be confirmed by relying on the (Breusch Pegan) test In the last stage, the type of individual effects will be verified if their existence has been confirmed through two first tests, based on the (Hausman) test.

3.4.2 the results of the selection test

As mentioned above, the differentiation tests adopted in this study aim to identify the source of individual differences between banks operating in the United Arab Emirates, and thus to determine the method of estimation that is commensurate with the behavior of the model variables.

3.4.2.1 Test (Redundant Fixed Effects)

This test aims to differentiate between the regression aggregate model and the fixed effects model and is based on the following hypotheses:

Combined regression model is appropriate ..... H_0

The fixed effects model is appropriate ..... H_1

Tableau 5. Redundant test results fixed Effects

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Redundant Fixed Effects Tests				Sample
Test cross-section fixed effects				
Effects Test	Statistic	df	Prob.	
Cross-section F	29.09703	(5,45)	0	The first prototype ROE

Source: Prepared by the researchers based on the outputs of Eviews 12

Source: Prepared by the researchers based on the outputs of Eviews 12

The statistical value of the (Redundant Fixed Effects) test for the model that measures the effect of the financing structure on the return on commercial property rights index operating in the United Arab Emirates was (29.09) with a probability value equal to (0.00). Therefore, the alternative hypothesis of this test can be accepted at the level of significance 5%, which It states that the fixed effects model is better than the aggregate model.

3.4.2.2 The (Breusch Pegan LM) test

Tableau 6. Breusch Pegan LM test results

Correlated Random Effects - Hausman Test				Sample
Test cross-section random effects				
Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.	
Cross-section random	14.419332	3	0.0001	The first prototype ROE

Source: Prepared by the researchers based on the outputs of Eviews 12.

Based on the results shown in the table above, the statistical value of the (Breusch Pegan LM) test for the model that measures the impact of the financing structure on the rate of return on equity in a sample of commercial banks operating in the United Arab Emirates (78.72), which is greater than the corresponding tabular value on Considering that the probability value of this statistic was (0.00), and therefore the alternative hypothesis of the Breusch Pegan LM test of the basic model can be accepted, which states that the fixed and random effects models are better and more efficient than the combined regression model for it.

3.4.2.3 Hausman test

Tableau 7. The results of the Haussmann test

follow variable		ROE
Bank	CODE	Effect
PJSC	1	6.132009
NBD	2	-9.92159
ADCB	3	0.87431
NBF	4	-0.2441
RAKBANK	5	1.940423
CBD	6	1.218943

Source: Prepared by the researchers based on the outputs of Eviews 12.

The statistical value of the Haussmann test for the model was (14.41), which is completely greater than the corresponding tabular value at the 5% level of significance and the degree of freedom (3), given that the probability value of the test amounted to

(0.00), which is less than the critical value of 0.05, and therefore the alternative hypothesis of the test can be accepted Which states that the fixed effects model is more appropriate compared to the random effects model.

3.4.3 Statistical and Economic Analysis of Fixed Effects Models

In this step, the efficiency of the model that was chosen based on the comparison process described above will be confirmed, from the statistical and economic perspectives, where the focus will be on each of the morale of the models in terms of partial and macro aspects and their explanatory ability in addition to verifying the absence of the problem of self-correlation, as for the economic viability The elasticities of the return on equity response to changes in the financing structure indicators will be determined for a sample of commercial banks operating in the UAE and included in this study.

3.4.3.1 Statistical analysis of fixed effects models:

Referring to Table No (04), it appears that the parameter associated with the ownership percentage variable is statistically significant, given that the probability value of the Student statistic reached (0.00), which is completely less than the critical value of 0.05. Therefore, the value calculated for the Student statistic is completely greater than the corresponding tabular value It has a significance level of 5%, which prompted us to accept the alternative hypothesis of this test, which states that the parameter under test is statistically significant. The same observation is made for the parameter associated with the indebtedness ratio, as the probability value of the student statistic corresponding to the value calculated for this test is equal to 0.00, that is, the alternative hypothesis of the Student test, which states that the parameter associated with the indebtedness ratio variable is also statistically significant, can be accepted.

3.4.3.2 The overall significance of the estimated fixed effects model

For the model, which measures the impact of the financing structure on the rate of return on equity, the value of Fisher's statistic was (32.57) with a probability value equal to (0.00) completely less than the critical value of 0.05. Therefore, the alternative hypothesis of Fisher's statistic can be accepted for the first basic model, which states that this model Statistically significant.

- **Explanatory Power of Estimated Fixed Effects Models**

The explanatory power of the model was (0.85), meaning that the financing structure indicators explain 85% of the changes in the rate of return on equity, and the remaining percentage (15%) is due to other factors not included in the model but included in the margin of error.

On the other hand, the statistical value of the model reached (1.35), which is a high value and did not come close to the value (2), which denies the existence of a problem of autocorrelation between errors in the basic and previously estimated fixed effects model.

Based on the results of the statistical analysis of the model, which showed high efficiency from a statistical point of view, it will be finally approved in the process of interpreting the results reached from an economic point of view.

- **Analyzing the results from an economic point of view**

After verifying the statistical efficiency of the fixed effects model that was chosen after the selection process, an attempt will be made at this stage to interpret the results from the economic point of view.

By looking at the main model approved in the study, which measures the impact of the rate of return on equity in banks operating in the United Arab Emirates (fixed effects model), it appears that the rate of return on equity responds positively to changes in the percentage of ownership, as the increase in the percentage of ownership by % 100 leads to an increase in the return on equity in the sample of banks under study by more than (21.65%), which indicates that financing by capital, retained earnings, and reserves in Emirati banks works to increase their share of profits, making good use of private funds.

The rate of return on equity also responds positively and with high flexibility to changes in the indebtedness ratio, as an increase in the indebtedness ratio by 100% leads to an increase in the rate of return on equity by more than (20.88%), and this indicates that financing by debt increases the share of Ownership rights This reflects the efficiency in the exploitation of debts, whether long or short-term, i.e. works to increase its share of profits in the required manner, or in other words, the success of the UAE banks, the sample of the study, in properly exploiting their borrowed funds and benefited from the advantages of financial leverage, because the interest that was paid on those loans (Debt) is less than the return achieved from the investment of borrowed funds.

This can also be explained by the fact that the banks of the study sample rely on their own resources and external debts, both long and short, to achieve profit, and this is a good indicator.

As for a parameter of the deposit ratio variable, it did not have any statistically significant effect on the rate of return on equity in commercial banks operating in the United Arab Emirates. The parameter associated with this variable indicates the positive effect of the latter on the rate of return on equity, which indicates that financing by deposits In UAE banks, he works to increase his share of the profits, and there is

efficiency in the exploitation of deposits. This is due to the compatibility of the characteristics and features of these accounts with the desires of the customers of these banks.

3.4.4 Fixed individual effects for each bank in the sample of banks operating in the United Arab Emirates

The model of the rate of return on equity showed the existence of negative individual effects in (NBD; NBF), which means a decrease in the return obtained by the shareholders, which requires a review of the investment and operational decisions in these two banks.

While there are positive individual effects in the rest of the banks, and this is considered a good indicator, which indicates the high return that shareholders get on their money employed in the bank's capital, and indicates the efficiency of investment and operational decisions in achieving the required return in these four banks.

4. CONCLUSION

Through this study, an analysis of the indicators of the financing structure of commercial banks operating in the United Arab Emirates was addressed, and their impact on the profitability of the commercial banks under study, which numbered (06) banks during the period (2011-2019), as the study reached the following results:

•For the first hypothesis: We accept the first hypothesis, which states that there is a statistically significant effect of the financing structure represented by the ownership ratio on the profitability represented by the return on equity in UAE commercial banks.

•Regarding the second hypothesis: We accept the second hypothesis, which states that there is a statistically significant effect of the financing structure represented by the debt ratio on the profitability represented by the return on equity in the UAE commercial banks.

•The third hypothesis: We accept the third hypothesis, which states that there is a statistically significant effect of the financing structure represented by the percentage of deposits on the profitability represented by the return on equity in UAE commercial banks.

- By testing the sub-hypotheses, the main hypothesis, which states that there is a statistically significant effect of the financing structure in UAE commercial banks on profitability, was confirmed through the efficient use of private funds and the good use of deposits, as well as benefiting from the advantages of financial leverage provided by debts.

Recommendations

In light of the results of the study, some general recommendations can be suggested as follows:

- The need to adopt a diversification strategy that includes several areas, such as diversification of services provided, diversification and innovation in investments in order to reduce risks and increase profits.

- UAE commercial banks should conduct bolder campaigns to earn more deposits, as they are considered the most important sources of financing in banks, and are also considered one of the main indicators for measuring the public's confidence in the bank, as it is the mainstay of their ability to create money.

- Commercial banks should balance the use of various sources of financing by not being satisfied with property rights in order to maximize the wealth of shareholders and increase the confidence of depositors in banks as it is considered a margin of safety for them, and not to exaggerate resorting to debts in order to benefit from the tax benefits it provides, because more Borrowing increases the risks to shareholders, and at the same time undermines the confidence of depositors.

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