CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1. Introduction

This section includes the conclusion of the study which has been conducted on identifying the effects of financial leverage on the banking performance of UK. In this method, the summarised findings are provided in this section of the study which are based on the analysis and discussion. Additionally, the future implications are also included in this chapter of the study which provides guidance to the future researchers pertaining to the limitations of this study. Besides, the recommendations for companies operating in the banking sector are also provided in this section of the study which are based on the analysis and findings of the study. Furthermore, the conclusion is provided at the end of this chapter.

5.2. Summarised Findings

The study has been carried out to identify the effect of financial leverage on the banking performance of UK. In this manner, it has been identified that financial leverage is employed to enhance the return on equity, however, there is an excessive amount of financial leverage which mainly enhances the failure of risk while making it more difficult to repay the debt. On the other hand, it has also been identified that financial leverage is supportive for the company when it can be used for which debt can bring together for the purpose of generating the returns greater in contrast to the interest expense which is associated with the debt. In contrast, the financial leverage helps the company in earning more revenues while causing relaxation in the tax. This depicts the significance of financial leverage for the company.

Moreover, it has also been identified that financial leverage might allow the entity for earning a disproportionate amount over the assets which the business owns. However, the financial leverage may increase the likelihood of inconsistent losses in which the related extent of interest expense strengthen the borrowers if they are not able to earn adequate returns for the purpose of offsetting the interest expense. In addition to this, the financial leverage can be considered as an acceptable alternative of the company has been operating in the competitive industry along with the large cash reserves, firm revenue level and high obstructions to entry. Therefore the operating conditions are adequately stable for supporting in a great amount of leverage with slight downside. In this manner, the financial leverage has been of most significance for the companies operating in the banking sector of UK.

Pertaining to the factors or determinants that effect the financial performance of the organisations, it has been identified that there are four factors or determinants which can affect the financial performance of the companies. These factors include the earnings per share, return on equity, net income margin and liquidity or current ratio. The discussion identified that the earnings per share represents the proportion of the overall profit of the company that is distributed to the individual share of the stock. Moreover, the earning per share ratio is of huge importance for investors, and for individuals those take interest in making investments. It is also identified that the profitability of the company is determined by the high ratio of earning per share. In this manner, of the performance of the company will be better, it will attract more investors which will eventually increase the debt of company. Therefore, earnings per share is one of the significant determinants while measuring the financial performance of company.

The return on equity was also recognised as one of the determinants of financial performance of the company. This is due to the purpose that the ROE is a profitability ratio which depicts the amount of company's profitability that is caused as a proportion of shareholder's equity. Therefore, the ROE ratio is a significant determinant of the financial performance of the company, as it explains the company's capability in terms of generating the cash. The other determinant is net profit margin for the purpose of determining the performance of the company. This is due to the reason that net income margin is considered as profit margin, which depicts the overall profitability of the company. In addition to this, it has also been identified that net profit margin ratio measures the net profit or income which is generated as a proportion of company's revenues.

In addition to this, the study also identified that net profit margin refers to the proportion of revenues remained after the exclusion of interest, operating expenses, preferred stock dividends and taxes. On the other hand, the current ratio or liquidity ratio has also been identified as one of the determinants of financial performance of the company. This is due to the reason that the current ratio is considered as one of the most prominent metrics which is adopted in different industries for the purpose of measuring the firm's short-term liquidity in relation to its impending liabilities and available asset. On the other hand, it has been recognised that there has been significant impact of the financial leverage on the earnings per share, return on equity and current ratio. However, there is no significant impact of financial leverage on the net profit margin.

5.3. Future Implications

This study has intensive on the effects of financial leverage on the banking performance of UK. However, there are several limitations of this study which must be deliberated by the future researchers in order to make significant and broader contributions towards this area of the study. Firstly, this study has focused in the effects of financial leverage on the banking sector. There are several other factors that affect the banking industry which must be considered by the future researchers. Alternatively, the study has concentrated on the effect of financial leverage on banking sector only. It is recommended that other sectors must also be identified in terms of having effect of financial leverage. Lastly, the study has only intensive on the banking performance of UK. It is suggested for the future investigators to include banking sectors of other counties in Europe. This will help them in growing the range of the study.

5.4. Recommendations

Based on the analysis regarding the effect of financial leverage on the banking performance of UK, there are several recommendations developed for the companies operating in the banking sector of UK. These recommendations are delivered below:

- It is suggested for the companies to focus in the identification of the most ideal level of leverage for banks in order to make sure that financing risk should not exceed too far from the tolerable limit. This is due to the reason that it will decrease the returns for shareholders while negatively affecting the overall profitability of the organisation.
- It is also recommended to the companies operating in the banking sector of UK to evaluate the financial system of the company. This is due to the reason that the efficiency can be ensured with the help of healthy financial system along with the efficient economy. In this manner, the banks should must evaluate as well as analyse carefully.
- Lastly, it is also recommended for the companies to focus more on the earnings per share, return on equity and current ratio. This is due to the reason that there is a significant impact of financial leverage on these performance indicators which will enhance the performance of the companies in the industry.

5.5. Conclusion

The most effective financial plan comprises of the proper ratio of debt and equity that is required for investment. However, it is highly difficult for organisations to undertake the operations that are comprised of debt and equity. In this manner, the effect of financial leverage on the banking performance of UK has been studies in this paper. The determinants of financial leverage were identified as the debt to equity ratio, debt to asset ratio and interest coverage ratio. On the other hand, the determinants of financial performance were identified as the earnings per share, return on equity, net income margin and current ratio. The data was gathered from the secondary sources of information for the purpose of determining the impact of financial leverage on the banking performance of the UK. The data was analysed quantitatively using the correlation and regression analysis methods.

From the analysis, it can be determined that there has been a significant impact of financial leverage on the earnings per share, return on equity and current ration. However, the impact of financial leverage on the net profit margin was not found to be significant. In this manner, it is recommended for the companies to focus more on the earnings per share, return on equity and current ratio. As there is a significant impact of financial leverage on these performance indicators which will enhance the performance of the companies in the industry.