**TO STUDY THE EFFECTS OF FINANCIAL LEVERAGE ON THE BANKING PERFORMANCE OF UK**

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## Background of the Study

The following research is aimed towards the effects of financial leverage on the banking performance of UK. In the contemporary business world, the corporate structure is known as one of the issues that are considered to be very puzzling in the literature of corporate finance (Ku and Yen, 2016). The concept of the capital structure is known as such a concept in which the debt and equity are regarded as the strategic choice for the managers of the organization, specifically in the banking sector. The decision of capital structure is considered to be an important decision for the managerial role as it influences the return and risk of the shareholders. The capital structure decision mainly affects the market value of the share and the banks would have to plan that capital structure at the initial phase at the time of inception (Afolabi *et al.,* 2019).

Principally, whenever there are funds which need to be raised for the financial investment purposes, there is an involvement of the capital structure decision. In the banking sector, it is analysed that there is a need of the debt and equity for financing the investments and in this process, the preference shares are also used (Bhayani and Ajmera, 2018). Financial leverage is known as the ratio of the fixed charge sources for funding like preference shares for the equity of the owners and the debt in the capital structure. The decisions that are related to the financial leverage is considered as very important as the performance of the organization is mainly affected by the such decisions, hence, the financial managers in the banking sector should perform their duties with the cautions and the focus over the decisions regarding the debt-equity mix (Ku and Yen, 2016). Thus, the study had been directed for exploring the influence of the financial leverage on the performance of the banking industry in the UK.

## Aims and Objectives of the study

The main aim of conducting this research is to evaluate and measure the effects of financial leverage on the performance of the banking industry in the UK. The objectives that are focused in the study plays a major role in order to achieve the aim of the study in a respective manner. The objectives designed for the study had been presented below:

* To study the concept and significance of financial leverage
* To identify factors affecting the performance of an organisation
* To evaluate the impact of financial leverage on the banking performance of the UK
* To provide recommendations on the improvisation of banking performance through financial leverage in the UK.

## Methodology

The design which is followed in order to conduct the study mainly reflects the nature of the study which is mostly categorized in two types that are qualitative and quantitative research design (Kumar, 2019). For the research, the quantitative research design is followed in which data would be tested by using mathematical and statistical tests. By relying on the existing studies, it is investigated that most of the studies have been conducted over the same topic by using a quantitative research design that is why this method is used for the study. For the study, the primary data is collected through questionnaire, interviews and observations which mostly comprise of new information. Whereas on the other hand, secondary data consists of the data that is already available on the internet in which web link, books and columns etc. are included. The main purpose of the study was analysing the banks of UK; therefore, five top banks of the UK are involved in the study that are HSBC, Barclays, Halifax, Natwest and Lloyds. In order to measure the financial leverage of banks two metrics, debt to asset and debt to equity are used whereas in order to measure the performance of banking the metrics like ROA, ROE and Net profit margins are used. The data will be taken for the years mentioned as 2005-2018. Correlation and regression tools are used in order to analyses the gathered data. The variable description is presented as,

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| --- | --- | --- | --- | --- |
| Variables | | Proxy Variable | Measurement | |
| Independent Variable | | | | |
| Liquidity | | Current Ratio (CR) | Current Assets/Current Liabilities | |
| Quick Ratio (QR) | (Current Assets-Inventories)/Current Liabilities | |
| Leverage | | Debt to Equity (D/E) Ratio | Total Liabilities/Total Equity | |
| Interest Coverage Ratio (ICR) | Earnings Before Interest and Taxes  (EBIT)/Interest Expenses | |
| Debt to Assets (D/A) Ratio | Total Liabilities/Total Assets | |
| Dependent Variable | | | | |
| Profitability | Return on Assets Ratio (ROA) | | | Net Income/Average Total Assets |
| Return on Investment (ROI) | | | (Investment Revenue – Investment Cost)/Investment Cost |

# References

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