

Czech University of Life Sciences Prague
Faculty of Economics and Management
Department of Economics



Diploma Thesis

Evaluation of HSBC Performance

Author: Nasiru Stevens

EVALUATION OF HSBC PERFORMANCE

ABSTRACT

SUMMARY

The results have shown that the evaluated commercial bank has proven to be profitable though at a lower level and tried to recover at a very minimal pace as compared to the start of the period. Its overall evaluation has indicated that the bank outperformed the other banks. It applied a strategy of cost cutting, which did support the bank throughout period when its returns decreased greatly. The bank has experienced huge amounts of fines relating to investment activities. The bank is slowly making improvements on its returns, and still maintaining the position as the biggest bank in Europe. With the present satiation, as the bank still expect new fines to emerge in the near future, it should focus its resources on high standard of banking practice to enhance compliances and continue to reduce costs on less productive operations, also mobilizing more resources to future growth economies for investment purposes.

KEYWORDS

Income statement, balance sheet, Statement of cash flow, ratio analysis, commercial bank, HSBC`s evaluation, banking sector, bank performance

INTRODUCTION

This piece of work will be concentrated on the evaluation of a bank in the global banking sector, a specific commercial bank in Europe, the Hong Kong and Shanghai Banking Corporation headquartered in London. The center of focus is banks in Europe, and HSBC as the largest bank in Europe in terms of assets influence the choice of bank to be evaluated. "HSBC is named after its founding member, The Hong Kong and Shanghai Banking Corporation Limited, which was established in 1865 to finance the growing trade between Europe, India and China (HSBC Group, 2016). With the worldwide numerous changes which the banking industry is going through as they operate in their basic activities, which is serving customer, will be examined as to how efficient the chosen bank has operated in the industry. Analysis of the HSBC`s performance will be done using financial ratios calculation. A comparison will be made with banks which have their headquarters in Europe.

OBJECTIVES

To evaluate the financial performance of HSBC and find out whether it is suitable for an investment. The different types of ratios which will show the financial performance such as the profitability ratios, assets quality, operating efficiency and liquidity are going to be used to show the trend of its operations, which would give a picture of the financial position of the bank. This result could serve as a good basis for making an investment decisions.

To assess its strengths and weaknesses and identify where it performed best while comparing its activities. By the use of ratios that will reveal the investments that have been profitable and those risks which the bank suffered as a result of either management's decisions and other factors beyond the control of management, which in this paper will not be dealt with, but will show the effect of certain decisions that could have been taken most especially to improve the return of owners' equity

To make a comparison of HSBC's performance with other banks in the banking sector in order to assess its efficiency in the industry. In comparing HSBC with other banks in the global banking institutions will reveal a pattern that could allow a closer observation of its profitability ratios and also the movement of share prices of the three banks from 2011 to 2015. These results will serve as the base for the comparison of the selected banks in Europe. These ratios will be examined to show where HSBC can show efficiency among other banks which have their headquarters in Europe

HYPOTHESIS

HSBC outperformed other banks in Europe in the banking sector. The performance that will be evaluated will be done based on the consolidated statements of the group

HSBC performed in the analysed period is better than industry average. The industry average will be considered base on the UK, because of the location of its headquarters, as Europe is the region of focus in this paper.

Current HSBC stock price is fair valued, it can be recommended to hold it. This external evaluation of HSBC will be done using the market value of current price to present a result that will serve potential investors, which will be a representation of the position of HSBC's stock price.

METHODOLOGY

For the analysis of HSBC performance the period 2011 to 2015 will be considered. The performance of these banks will be compared with a set of profitability ratios and share prices. Furthermore, figures and means of source data preparations are going to be used to show results of analysis.

Ratio Analysis:

Profit Ratios (return on equity, return on assets and net interest margin)

Risk Ratios (leverage ratio and total capital ratio)

Asset Quality (provision for loan loss and loan ratio)

Operating Efficiency

Liquidity (Cash Asset Ratio)

Analyzing the External Performance (Enterprise Value)

CONCLUSION

The indicators of profitability as a results of good performance of business activities has reveal that HSBC did not improved the returns, but has being decreasing unto the last year. It has kept these returns at a reasonable level that its owners still find the bank attractive. The bank has shown some amount of weakness, in that it reduced its net interest margin at a very large amount and could not recover by any change in the trend unto the very last year of analysis. The results of HSBC`s financial statements has been proven as the highest profitable bank in Europe, which has given the privilege to the bank to maintain its position in the financial sector. The HSBC is facing difficult times due to its wrong financial investments records in the past, but with its current management strategy of cost cutting and reinvestments in locations where there is potential market growth could just be the way for the bank to keep being the biggest and most profitable bank in Europe.

SELECTED REFERENCES

Academia, Introduction to Banking Technology and Management, 2016. (Online)
<http://www.academia.edu/298935/Introduction_to_Banking_Technology_and_Management>
[cit.09/02/2016]

Accounting Coach, Q&A, What are consolidated financial statements, 2016. (Online)
<<http://www.accountingcoach.com/blog/consolidated-financial-statements>> [cit.04/02/2016]

Accounting Explained, Financial Accounting, Statement of Changes in Shareholders Equity, 2013. (Online)<<http://accountingexplained.com/financial/statements/changes-in-shareholders-equity>>[cit.05/02/2016]

Accounting Tools, Definition, Liability, 2016. (Online)
<<http://www.accountingtools.com/definition-liability>> [cit.15/02/2016]

BBC News, Business, HSBC raises fees for 700,000 business customers, August 29, 2013. (Online) <<http://www.bbc.com/news/business-23890694>> [cit.10/03/2016]

BBC News, Business, HSBC says online banking services `returning`, Jan 5, 2016. (Online)
<<http://www.bbc.com/news/business-35238420>> [cit.22/02/2016]

Bloomberg Business, HSBC Investment Bank Follows European Peers in Restructuring, by Julia Verlaine, June 9, 2015. (Online) <<http://www.bloomberg.com/news/articles/2015-06-09/hsbc-to-eliminate-130-billion-of-assets-at-securities-unit>> [cit.06/03/2016]