Czech University of Life Sciences Prague

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Department of Economics

Diploma Thesis

Evaluation of HSBC Performance

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DIPLOMA THESIS ASSIGNMENT

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Economics and Management

Thesis title

Evaluation of HSBC performance

Objectives of thesis

To evaluate the financial performance of HSBC and find out whether it is suitable for an investment. To assess its strengths and weaknesses and identify where it performed best while comparing its activities. To make comparison with other banks in the banking sector in order to assess its efficiency in this industry.

Methodology

In the thesis, the following methods will be used.

Profitability performance –ROA, ROE, Cost to income ratio(C/I)

Liquidity performance – Liquid assets to deposit-borrowing ratio (LADST) = Liquid asset/customer deposit and short term borrowed funds, Net loans to total asset ratio (NLTA) =Net loans/total assets, Net loan to deposit and borrowing (NLOST)= Net load/total deposit and short term borrowings.

Asset Credit Quality (Credit performance)–Loan loss reserve to gross loans (LRGL)=Loans loss reserve /gross loans.

The proposed extent of the thesis

60 pages

Keywords

Financial Analysis, Income Statement, Balance sheet, Statement of Changes in Equity, Cash Flow Statement, Banking, HSBC

Recommended information sources

Allman, B. (2006). Banking. Minneapolis, MN: Lerner Publications Co.

Mishkin, F. (1998). The economics of money, banking, and financial markets. Reading, Mass.: Addison-Weslev.

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Declaration

I declare that I have worked on my diploma thesis “Evaluation of HSBC Performance”by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on March 29, 2016 ………………………………..

Nasiru Stevens

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Hodnocení výkonu HSBC

Souhrn:

Výsledky ukázaly, že hodnocená komerční banka se prokázala být rentabilní i když na nižší úrovni a snažila se zotavit ve velmi krátkém čase v porovnání s počátečním období. Její celkové hodnocení vykázalo že překonala ostatní banky. Použila strategii snižování nákladů, které pomáhalo bance v období, kdy její výnosy výrazně klesly. Banka obdržela velké množství pokut týkajících se jejích investičních aktivit. Banka pomalu zlepšuje své výnosy, a při tom stale udržuje pozici největší banky v Evropě. V současné situaci, kdy jsou v blízké budoucnosti očekáváné další nové pokuty, by banka měla zaměřit své zdroje na vysoký standard v bankovní praxi k zlepšení vniřních předpisů a pokračovat ve snižování nákladů v méně produktivních činnostech, a to imobilizaci vice prostředků pro investiční účely při budoucím růstu ekonomiky.

Klíčová slova:

Finanční analýza, príjmový doklad, pohyb hotovosti, Výkaz o změnách ve vlastním kapitálu, výkaz penežních toku, bankovnictnví, HSBC

Evaluation of HSBC Performance

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

Contents

1. 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. It operates in Europe, Asia, North Africa, North America and Latin America. HSBC is named after its founding member, “The Hongkong and Shanghai Banking Corporation Limited, which was established in 1865 to finance the growing trade between Europe, India and China” (HSBC Group, 2016). HSBC plc is the parent of a group of companies serving customers worldwide, which gives the bank the recognition as one of the world biggest financial institution. This bank was initially established in Asia. The recent years have been very much unpleasant with scandals involving band lending practices, tax evasions and other practices that are not in harmony with regulations of the countries in which they are located. Amidst these circle of problems the bank still holds the position of being the biggest bank in Europe.

The history of the bank has been traced by number of steps taking it from a regional bank to international leading financial institution, with series of acquisitions on to its present position internationally in the banking institution. 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. Its performances will show how deposits are converted to capitals for other individuals and institutions which allow an economy to operate conveniently, whereby their benefit is realized.

This evaluation of the bank will cover the period from 2011-2015, through the means of internal assessments, which will mainly be shown by calculating specific ratios by the use of financial statements and external performances, which will take the markets condition into consideration during this period. 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. This work will be unique in the sense that different stakeholders could easily find a particular interest based on results from the internal and external performance together with other ratio calculations that are common among banks in European Union. In the analysis two banks, Lloyeds and UniCredit bank will be compared to show whether the performance of HSBC was better or worse in terms of profitability during the stated period.

Other articles comments will be taken into consideration while dealing with some aspect of the current position of the bank. Most specific statements that have made important contributions on issues surrounding the operational activities of HSBC on the location of its headquarters, China and other locations of big investments, including Europe. Methodology will include formulas for the calculation of ratios, and the results will be displayed in graphs and table representations, which are going to be the basis of evaluating both internal and external performance, and also for comparison with other banks in Europe.

2. 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.

3. HYPOTHESIS

HSBC outperformed other banks in Europe in the banking sector. As the biggest bank in Europe in terms of assets it should show the greatest use of capital to increase the economic value of the bank at the global level. 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.

4. METHODOLOGY

For the analysis of HSBC performance the period 2011 to 2015 will be considered in the whole process of evaluation by the use of the bank`s financial statements, and for the purpose of comparison two banks, the Lloyeds group plc and UniCredit bank will be taken into consideration, because they have their headquarters located in Europe, preferable in the EU. The performance of these banks will be compared with a set of profitability ratios and share prices. Furthermore figures and a means of source data preparations are going to be used to show results of analysis.

Analyzing the Internal Performance

1. Profit Ratios (Investopedia)

These ratios will show where the bank has been efficient and at the same time where it has done the worse. Results are indications of how effective management has utilized the bank`s assets to make profits or otherwise losses.
Return on equity (ROE) = (Net income after tax/Total equity)
Return on assets (ROA) = (Net income after tax/total assets)
Net interest margin (NIM)= (Total interest income – total interest expense)/Total assets
Unravelling profit ratio :
ROE (1) = ROA * TA/TE (Total assets/total equity)
ROE (2) = NI/OR * OR/TA * TA/TE

2. Risk Ratios (U.S Business Reporter)

This measures the risks related to the financial structure of HSBC, it will reveal the risk attached to the capital of the bank, more seriously to show shareowners` the capital risk in all the years.
Leverage ratio = Total equity/Total assets
Total capital ratio = (Total equity + Long-term debt + Reserve for loan loss)/Total assets

3. Asset Quality (U.S. Business Reporter)

These set of ratios are calculated to show all the assets of the bank, including loans, those financial instruments that are relatively risk free.

Provision for loan loss (PLL) = (Provision for loan losses/Total loans and leases)
Loan ratio = Net loans/Total assets

4. Operating Efficiency (Commercial Banking Management)

These measurements show the level of efficiency of resources used by management for the day today running of the business operation, including efforts to reduce costs.
Wages and salaries/Total expenses
Fixed occupancy expenses/Total expenses

5. Liquidity (InvestorWord.com)
Liquidity ratio will indicate the level at which the Bank is capable of making payment settlement to it immediate obligations. It is a very efficient measurement that supports the flow of business activities. (Liquidity ratio that measure how quickly the bank can liquidate assets to offset its current liabilities)
Cash Asset Ratio = (Cash + marketable securities)/Current liabilities

6. Other Financial Ratios (Commercial Banking Management)

Tax rate = Total taxes paid/Net income before taxes
Dollar gap ratio = Interest rate sensitive assets – Interest – Rate sensitive liabilities/Total assets

7. Analyzing the External Performance

Result of this calculation shows how the market views the bank in terms of the value of shares and its capital after all expenses have been paid, which has the ability to influence the decisions of investors. Here the bank has no influence to change this outcome beside the performance of its profits.
Economic Value (EV) = Market value – invested capital

5. LITERATURE RESEARCH

5.1. Banking in Europe

5.1.1. Banking Sector

Banking sector will include banks and other institutions that perform the service of lending and investing money. Banks are one of the most important parts of an economy, because the modern use of money in every society is in different level according to the available technologies and regulations. “Banking sector refers to any institution that lends money or invests it” (The Law Dictionary, 2016). Governments of every state rely on banks for a vibrant economic activity for development and growth. The underlying factors of banks are the services they offer, to the individuals to satisfy their need of safe-keeping and investment, to the businesses their need for investments, and to the government the implementations of monetary policies and provision of jobs. This sector allows money and the value of money to move around, from the government to the individuals and to the businesses then back to the government.

HSBC is one of the biggest banks globally, with a global systematic administration it can pose lots of questions in the minds of investors, such as if there be any diseconomies of banking scale, will it survive as a unit or will be forced to wind down if any big loss occurs. According to The Wall Street Journal, by Paul “Ultimately, it is increasingly difficult to believe that the benefits available to the bigger global banks are enough to make the diseconomies of capital and funding, legal risks and other compliance cost worth bearing”. The author of this journal is positive about the fact that scale of operations of big bank, such as HSBC has the potential to off-set any potential risk or loss which might be a threat to its activities. HSBC in the global banking sector will benefit greatly in external economies of scale. Its size in the industry has placed it in high position to cover unexpected cost, which will allow it to strive through easily compared to smaller banks.

5.1.2. Banking

Banking is the operation of the bank which involves the acceptance of deposits in many forms, and financial service undertakings for which it charges interest to its customers. This activity allows them to be an intermediary between depositors and borrowers in order to facilitate the financial activities in the economy. Due to the nature of the banking activities, this institution is highly regulated. Banking is responsible for the smooth interaction among the economic actors and individual financial needs. “Banking is the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit” (InvestorsWord.com, 2016).

5.1.3. Commercial Banks

“A commercial bank is defined as a bank whose main business is deposit-taking and making loan” (Financial Times, 2016). In essence it provides external source of fund for businesses and organisations, and also render loan services to individuals who wish to borrow money. Through these services in the form of receiving deposits in different categories and some short-term loans, they extend the use of these funds into larger and long-term loans. These are the processes of its main source of profit. Some commercial banks do investment banking, but their main line of business is receiving deposit and giving out loan to the public.

5.1.4. Stress Test

“Bank Stress Test is an analysis conducted under unfavourable economic scenarios which is designed to determine whether a bank has enough capital to withstand the impact of adverse developments” (Investopedia, 2016). It is meant to test, such as risk involve in credit, market and liquidity. This will actually show the financial health of the bank, it can be done internally to put operations in check and externally by supervising authority. Depending on scenarios laid down by the supervising authority the results are obtained.

In the case of HSBC Group, as it`s headquartered in London, its Stress Test result in 2015 was issued by the bank of England. “The Bank of England`s result show that, under the hypothetical stress scenario, HSBC`s CET1 ratio would will fall to a low point of 7.7 per cent, well above the Bank of England threshold CET1 ratio of 4.5 per cent” (HSBC, 2016). Considering that the global management of the HSBC report is prepared in the UK, with the UK region of HSBC`s operations it does not show an encouraging result for the bank of England, which might place the bank in an unsecured position as the largest in EU. A percent above the threshold means several issues, such as a possible turndown in some areas of its operations; also the group will have to use different management options in the case of severe financial satiation. The professional analysis is done to check for weak spots in the banking sector, an evidence that shows how better or worse the HSBC is prepared to withstand any crisis that might suddenly occur within its operations. Because of the size of HSBC `s group and possible inefficiency in some departments of its operation, could place it in lower efficiency when compared with the standard of the bank of England.

5.1.5. Stock

To become an owner and share in the benefit of a corporation, one will have to secure a document which will prove your ownership, this document will detail all the benefits of the holder, it is bought and sold in a specialised market. According to the Cambridge dictionary, "Stock is part of the ownership of a company that can be bought by members of the public" (Cambridge Dictionaries Online, 2016). Stock is a document issued out by a corporation to the public through a market system, which gives the holder of that document right to the corporation`s assets and earnings. There are two main types, the common stock which allows a holder to a vote in the annual general meetings and a right to dividend after all expenses including preferred stock holder. The preferred stock is on with no voting right, but has right to the assets and earning before the common stock holder.

5.1.6. Stock Price

"Stock price is the cost of purchasing a security on an exchange" (InvestoWords.com, 2016). This is the amount or value one pays for possessing a stock in a stock market, which is one of the sources of internal funding of corporations. This stock price can be influence by number of reasons, such as the market condition at a particular time, the company`s image, how the public perceive it products, and the prevailing economic situation. If all the mentioned factors are favourable then the price is likely to be higher which attracts investments. Because high stock prices are generally viewed as indication of success of businesses, it is also very important for management, since it shows how they have being performing in an effective manner, especially when it happens year after year. It also gives the assurance of continuous or secured job, since the owners will as well be satisfied the management team.

5.2. Function of Banking

5.2.1. Branch Banking

"Branch banking is engaging in banking activities such as accepting deposits or making loans at facilities away from a bank`s home office" (Investopedia, 2016). Extending the functions of a company is a means of reaching out to customers so that its services are easily and readily available to customers, but this comes with additional cost on the company which in turn will be charged on customers. Modern technology has made less the need of frequent visits to banks. Banks now have free lines for different services, which customers needing simple advice and enquires will just call and make their desires known. Except for more complicated issues such as loans and payment plans, and the need for interaction of human being for certainty.

5.2.2. Retail Banking

The service which banks offer to retailers, that is clients it deals with at retail level is dealt with as a separate to focus on their needs. "Retail banking is typical mass-market banking in which individual customers use local branches of large commercial banks" (Investopedia, 2016). These are banking services such as savings accounts, personal loans, debit and credit cards facilities offered to individual customers other than corporations or other banks. This serve as one-stop shop for retailers to maintain their transactions, to certain extent services can be extended to providing more investment opportunities and advice to customers. Retail banking in simplest term offer its service to individual members of the public.

5.2.3. Electronic Banking

"Electronic banking is the use of computer to carry out banking transactions such as withdrawals through cash dispensers or transfer of funds at point of sale" (BusinessDictionary.com, 2016). This service allows several ways of receiving and making of payment through the use of computers, such as withdrawal from the ATMs, automatic payment which customers ordered their banks to set on certain limit or even adjustment on personal accounts for making payment for different purposes through the internet, also the use of prepaid cards for the purpose paying without cash. This function has greatly reduced the need of carrying around large sum of cash in hand; it has also eliminated many crimes relation to rubbery. Electronic banking requires advance data storage technology to maintain the high use of computers to facilitate such banking service. Even telephone calls by customers requesting bankers to effect payment to institutions or government institutions to effect payment to an account maintained through the phone.

5.2.4. Corporate Banking

"Corporate banking are financial services specifically offered to corporations, such as cash management, financial, underwriting, and issuing of stocks, bonds or other instruments" (InvestorWords, 2016). These are services the financial institutions provide specifically for corporation making different from that provided for retailers and consumers. A separate department is set to recognise and deal with the corporation (client), which include the cash management, financing and issues in the stock market. For a corporation to grow and have the opportunity to invest in profitable investment, it requires the advice and support of experts in financial investments. Investments on stocks, bonds and it issues need an expert knowledge to advice on the issue of stocks and bonds and to insure them.

5.2.5. Treasury

The treasury function deals with both cash operations and debt operations, this will involve the inflow and outflow of cash, and how excess of funds are not lying idle but are put into profitable investment. This function supports to see that the bank maintain good operations as regulated by the authority, they also make cash available for operation and to keep check on the availability of funds. The bank manages its debt, when it issue bonds to pay back bond holders at the appropriate time. Treasury department dealing with the capital market and the money market will balance correctly the flow of the bank`s activities to stabilize and maintain profitability. "The treasury department actively participates in the foreign exchange market, money market and capital market" (Veneto Banka, 2012). Because it deals with the money market, foreign exchange market it able manage the foreign exchange position and advice to prevent risk that are associated with the money market. Through this function the bank can serve it clients in money management and investment opportunities, also related services on government securities as issued by the government. The treasury function to manage both the flow of cash and the debt to keep the bank operating.

5.3. Financial Statement of Commercial Bank

5.3.1. Consolidated Financial Statements

The term Consolidated is used at the front of the financial statements of the parent company when presenting their annual reports. "The consolidated financial statements combine the financial statements of separate legal entities controlled by a parent company into one set of financial statements for the entire group of companies"(Accounting Coach, 2016). This parent is responsible to prepare the financial reports and that of its subsidiaries. The word Group which is also used at the front of the financial statements refers to the parent and the subsidiaries together.

For example, HSBC is providing banking service and has acquired in the past many other financial institutions globally. These institutions continue to operate as separate legal entities. HSBC in London is the parent and all those acquired ones in all five regions in the world are the subsidiaries. Investors and prospective businessmen would like to know the financial position of this group of companies (Economic entity) operates. The consolidated financial statement of HSBC will include all what is earned from its outside customers and exclude those incomes which arise due to transactions within the HSBC group. Also any amount owed within this group in their transaction will not be included in the consolidated statements.

5.3.2. Parent Company

"A parent company, sometimes called a holding company, is a corporation that has subsidiaries, which are wholly or partially-owned separate businesses controlled by the parent" (WhatIs.com, 2016). It requires 50% of a company`s share to be bought by another company to take a control of it operations and management for a partially owned subsidiary, but for a wholly owned subsidiary the share of stock is 100% owned by the parent. A parent company is made up of different business and can be worldwide with headquarters located in one country. They exist purely own subsidiaries and manage them. For example an oil company, which is a parent company can have a headquarters located in Germany, but have subsidiaries which are partially and wholly owned in various countries operating as an entity in the countries they are registered. The parent company is there to prepare report on the affairs of the subsidiaries in financial statements.

5.3.3. Balance Sheet

"Also called the statement of financial condition, it is a summary of a company's assets, liabilities, and owners' equity" (The Free Dictionary, 2016).This statement shows the present condition of an institution (bank) on that particular date which it was drawn on the very last day of the particular trading period. It set the assets, that is all what the firm owns against all it liabilities both the creditors and its shareholders, and provides the summary of what remain for the firm to continue in operation. These assets of the firm are presented on the left side column for a vertically presented statement or on the first part if presented horizontally. The liabilities are all the financial obligations of the firm, which can be its suppliers and creditors both long and short term, and owners' equity, which is the contribution of the owners of a firm. These are the right column items set on the opposite entry of the assets. In the event of any failure the owners considered after the suppliers and creditors have been paid.

5.3.4. Cash Assets

Every institution, including bank needs assets for the operating of their businesses. In the daily operations of a business cash assets are highly needed, because it is the most liquid asset of any business. It is classified as current asset in the balance sheet on the assets column. This type of current asset is different from all the others, because it is the asset that can be converted into cash for business purpose at the shortest possible time for converting assets to liquid cash."Cash assets are any economic resource that may readily be converted to cash" (WiseGREEK, 2016). Cash assets are assets which can be converted within a year, which means all financial securities that can mature in three months or less, are automatically classed as cash assets. Institutions such as banks which receive and make payment on regular bases find this type of assets more attractive to keep.

5.3.5. Loans

Loans are source of funding which big corporations depend on for their main operations. "Loan is the act of giving money, property or any material goods to another party in exchange for future payment of the principle amount along with interest or other financial charges" (Investopedia, 2016). This loan can be for a certain period, whether short-term or long-term or for uncertain period, but up to limited amount set by the bank. This loan can be obtain by documentation, which might just be signing an agreement or with a collateral as required by the lender from the borrower, especially legal entity or a large sum of money. The amount charged on interest can be set at maximum by legal requirements, and the time allowed before payment commence, which is included in a written agreement by both parties involve in the transaction. A loan can come from the financial institutions, corporations or individuals who wish to gain some income from money rather than keeping it idle.

5.3.6. Securities

These are the financial instruments used for dealing with assets of corporations, which can be used in an agreement between the corporation and another party who is willing to deal with them. “A security is an asset pledged to guaranty the repayment of a loan, satisfaction of an obligation, or in compliance of an agreement” (BusinessDictionary.com, 2016). As the work security imply, something or some amount set aside which has money value and it`s safe and secured for a time period. The right to these securities are given to whoever buys them; they serve as guaranty in case the issuer fails to offer what provided in these securities. They are written documents that have legal binding on the institution issuing them, meaning the obligations must be paid at the due time. These securities are traded in financial markets, if a holder the holder of a security is willing to trade his or her own security.

5.3.7. Liabilities

“Liability is a legally binding obligation payable to another entity” (Accounting Tools, 2016). Liabilities are means of funding the activities of a business, which are classed as external source of funds. These are funds coming from another entity outside of a company`s source of funding. These items are classed as amounts which services have been received or not yet and payments are pending. They are usually owed to lenders and suppliers of a business, these parties are very important stakeholders of any company, because they have ability to influence the activities of firms in a particular industry by adjusting supply to influence price. There can be short-term liabilities, which have the life span up to a year and the long-term, which is over a year. Liabilities include both funds that are deposited and the non-deposited funds.

5.3.8. Capital

“Capital is wealth, especially in the form of financial or physical assets, used in the production or accumulation of more wealth” (The Free Dictionary, 2016). Investment in larger business, corporation in the form of equity, by the owners of an entity and the debt are called the capital of that company. The capital is the machinery used for production purpose and the financial assets of a firm, the larger this capital is for a company the better is it in terms of its productivity. Capital is different from money in business activities, because money can be used to purchase an item for production purpose, during the production process the item gets consumed and that is the end of its existence, while capital will be used during production and is not consumed during the process. The capital includes the debentures, equity capital and the reserves for any loss on loan.

5.3.9. Income Statement

"Income statement is a summary of a management's performance as reflected in the profitability (or lack of it) of an organisation over a certain period" (Business Dictionary, 2016). It can also be called the statement of profit and loss or expense and income statement for a particular period. This statement communicates the amounts a firm has received as revenues and how it has spent as expenses in the particular year leading to the profit or loss. By giving a summary of how a business performs in the year, it presents all the expenses on the expense category on one side against the revenues on the income category. It shows how effective management has been in terms of the financial aspect of the business, it allocations of the resources by means of transactions and decisions made. Income statement presents incomes at the first column, starting from left to right or first items from top, while the expenses always follow.

5.3.10. Interest Income

These are the incomes that are coming from outside of the original investments, therefore the recording is specifically called income from interest (interest income). This also shows the performance of a company, how well they can make use of short-term investment on deposits and long-term investment to generate income. It involves risk, by the use of moneys that can be required of at any time by customers. "Interest income is a term that company use on their income statement for reporting the interest earned on cash temporarily held in savings accounts, certificates of deposits, or other investments" (InvestorWords, 2016). The interest income obtain in cash, at present or deferred as expense that is owed to the bank by party borrowing from the bank. It is common that some customers fail to pay back their loan from the bank, these fines which the banks charge the borrowers for delaying payment can be categorised as interest income, since it was income from lending out money to borrowers.

5.3.11. Noninterest Income

"Noninterest income is the part of a bank`s revenue that is not generated by its interest earning business" (Financial Times, 2016). This category of income comes from all the fees receive for services rendered to their customers. These fees includes services for issuing cards, charges for monthly maintenance of accounts, deposits of different natures, valuables for which banks have to assure safekeeping of values for their customers. This is income that comes to the bank outside the normal financial activities. These fees are not normally regulated by the monetary authority in a state, but are usually the discretions of bankers to charge what they decide on as fee for the provision of services.

5.3.12. Interest Expenses

These expenses are not targeted at customers, but are related to the fixed operational activities, which the bulk of it is on payment of the employees "Noninterest expense is a fixed operating cost that a financial institution must incur, such as anticipated bad debt provisions" (Investopedia, 2016). These operating costs will include employee salaries, other benefits and taxes to be paid to government authorities, also maintaining facilities, leases and provisions for offsetting payments that will not be made by some borrowers. This expense comes under the operating activities of a business, where through the day to day activities of a firm, in the case of banks this will come from money they borrow from money lenders and the deposits made by customers on long-dated liabilities.

5.3.13. Net Profit

It`s also called net income, because after all the deductions beside the calculations of what the owners will receive as dividend this is what remain for the company. If all the expenses and charges of a company exceed the income then that is loss. This measure is what reveals the profit of a business, which makes it a very important measurement of profitability. "Net profit is the profit of a company after operating expenses and all other charges including taxes, interest and depreciation have been deducted from total revenue" (Financial Times, 2016). Mostly, this is profit is associated with the profit after tax. The shareholders are mostly interested in this figure when the financial reports are published, because out of this amount the company will calculate their returns. It`s an amount derived from the income statement.

5.3.14. Statement of Cash Flow

"A cash flow statement is a financial report that describes the sources of a company's cash and how that cash was spent over a specified time period" (Inc.com, 2016). Forany business to continue on the long-run, the flow of cash is very important. This statement shows where the funds are coming from and where they have been used, itprovides the base for investors to see how the company can adjust in case of sudden finanial crisis. It also provides evidence of how effective or not management has beenduring a partiularyear in the use of the company`s assets. As named cash-flow is recording purly cash transations, and not recording those other transactions which do not bring in cashor make out cash payments.

5.3.15. Statement of Changes in Equity

The statement of changes in equity serves to represent the information about investments of the owners and how they change their positions of ownership from time to time. These changes on decisions made by owners during the accounting year will be reflected on the balance sheet opposite the assets column.“A statement of changes in shareholders equity is a financial statement that presents a summary of the changes is shareholders` equity accounts over the reporting period” (Accounting Explained, 2013). This statement will show the accounting of equity at the beginning and closing of the year. Analyst are very much interested in such information to assess the present position of a business, as another year picks up when one finishes. This statement shows what remains in the company after all liabilities from outside have been settled. This is the internal source of the company`s funding. This source came as a result of companies issueing certificates out to the public for subcriptions at the start and also during operation as a means of raising capital. Funds can be decreased by companies buying back its issued shares from the holders or by paying dividend.

5.4. Internal Performance

The objective of a firm is to maximize profit whereby shareholders `equity being maximized. The management has a very important role to play in order to increase shareholders` equity, because decision making for the firm`s operations are in their control, which they can influence in any direction as fitting to suit their desires. As shareholder`s are the owners of the company, it is the utmost responsibility of management to wisely influence those variables for the maximum satisfaction of the shareholders.

5.4.1. Bank Planning

“The ultimate objective of the bank is to maximize of shareholders` equity” (Commercial Banking Management, 2000). There are many more objectives which need to be accomplished in order for the main objective to be realised. Some of the objectives of the bank can be to diversify the loan facility to attract more interest, increasing the market share and expansion of service to customers in wider locations. Planning is the way to success, every business which fails to plan ahead has already in a dangerous business. When all these objectives have been set, it is appropriate goals for the fulfilment of these objectives according to plan. Planning should involve the necessary requirement, such as regulations of the authority in the state, which is for the benefit of fair competition and to avoid wrong practice of business activities. For the goal setting and the budget and all other strategies to be successfully accomplished the institution needs a good leadership which can increase the revenue growth.

5.4.2. Computer

Different types of computer services are needed in banking, which are specified for their use. To satisfy the needs of all bank customers, from personal to business account and provisions of how they are use on the internet requires high level of computer technology. To make all the services of a bank work properly to serve the public requires different computers. From the mainframe to the ATMs in different locations are all interconnected to display and issue out the required services when demanded by users. The service of the computer in modern societies cannot be avoided, especially in the financial institutions."Computer is a programmable device designed to accept data, perform prescribed mathematical and logical operations at high speed, and display the result of this operations" (Dictionary.com, 2016).

5.4.3. Communications

Every business needs effective communication in all area of operations. The role of management to communicate goals and objectives to the junior staff and also the legal requirements of the land has to be done through appropriate means of communication. For communication to be more effective it has to be two way flow, both from top to bottom and from bottom to top. "Communication is two-way process of reaching mutual understanding, in which participants not only exchange (encode-decode) information, news, ideas and feelings but also create and share meaning" (BusinessDictionary.com, 2016). In the financial world numerous change are taken place, most especially in the reporting financial activities of a company. This leaves no room for secrecy and lack of adequate information about transaction activities that can be accounted for. With the present digital world we are living in, it is expected that communication in banking should be improved and even makes it easier to transact.

5.4.4. Payments

"Payment is compensation, discharge or performance of an obligation, or reimbursement, by giving over something that is of satisfactory value to its recipient, such as money" (BusinessDictionary.com, 2016). With the emerging technology and the growing need of customers has led to banks implement in more sophisticated payment service in order to allow payment for customers who cannot get to the banks. A well-developed payment system will influence positively the banks strategies in various activities that concerns payments. This will improve competitiveness in the banking sector, more especially in the global sense. The payment system in a local bank is obviously less complicated than that of a multinational corporation, which require a robust payment system to support business transactions and payments around the world, which must be supported. Even taken into consideration on the leverage of the company, an effective payment system will put a check on the position of debt in relation to its assets. There is also the need to control payment not to slide into the hands of bad actors during serving customers electronically.

5.4.5. Personal Selling

Personal selling is of great importance to banks, with the development in the banking industry. Banks use this approach in a wide scale, to approach their customers face to face or through the use of middleman to approach them, not only to sell their goods as other regular businesses do, but to develop a long-term relationship with customers while selling their services. "A personal selling is a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party (e.g., those involved in a purchase decision) that results in both parties obtaining value" (KnowThis.com, 2016). On one hand of personal selling, depending on the approach of a company or a salesman toward the customer, it can succeed in selling its goods or services together with gaining the confidence of the customer, and on the other hand the customer gains the benefit of it use and become loyal to the provider of the good or service. The aim of a business should not be just to sell their products, but as well as to gain customer contact and confidence on their products, these can be costly and time consuming because of the numerous means of communications. For a marketing time to be strong it requires the maximum of personal selling to fulfil its objective to obtain and sustain customers.

5.4.6. Geographic Expansion

“Geographic expansion is the process of defining the target customers and business potential to expand a company`s presence to new geographies” (The Growth Strategist, 2016). Expansion of not is not a venture that is free of risk, movement around the world for any business requires a lot to take into consideration, because laws vary from one country to another with respect to establishment. Except in the case where countries are in agreement to allow some amount of freedom, then all legal procedures will be lifted within that region. Geographic expansion will also cause the chain of supply to be extended to the intended locations and all the other services to accompany them. It is advantageous when all barriers are removed and allows fairness among competitors in the economy, which gives an opportunity for wide range of choice for economies receiving the new business. There can as well be disadvantages when this will not be allowed for protective reasons by a government.

HSBC is greatly focusing it resources to areas with high potential returns. Now that it`s using new strategies to invest in the Latin America region, because of aiming at the future market growth. HSBC has gained the advantage of locating itself in all the major investment locations of the globe. The bank already has it presence in the area of it interest at present, where the big corporation have their branches.

5.5. External Performance

External performance of a business is assessed based on the industry or the market`s point of view and the individual investors. It`s an indicator which is valued by outside of the a particular firm`s activities. External performance can reflect the management performance, through their previous activities by improving the value of the business, or the industry can make improvement which reflects positively on a well established firm. Economies of scale is very much advantageous, when it`s external all the firms in that industry enjoy the benefit, but the bigger firms become more profitable and powerful.

5.5.1. Market Share

"Market share is the proportion of industry sales of goods and services that is controlled by a company" (The Free Dictionary, 2016). Market share has earning effect, because the profitability of business depends greatly on the market share of that business. If a company`s share of the market is larger than its competitors in the industry there will be the possibility of high returns to investments, this is the usual case, there can be an exceptions. As investors interest is primarily anchored on earnings, any company can attract greater investment if it share is larger, as profit is strongly determined on the company`s market share. Factors which can influence the market share such as economies of scale brings a more favourable influence for the larger business than the smaller ones, proportion of cost reduction is greater for the larger business. Bigger companies bargaining power has higher influence in the market to control price.

5.5.2. Technology

Technology which requires considerable investment has a very important role to play in modern businesses. Its role has a positive influence on the market to achieve the greatest market share possible for any particular time. "The relationship between banking and technology is such that nowadays it is almost impossible to think of the former without the latter" (Vadlamani, 2016). A well developed technology in the company is a driving force, considering the speed at which services are required in all types of business. There are numerous automating processes in banking, which are so designed to make the services more convenience and faster as compared to the usual counter service, especially services which a ATMs can quickly perform.

5.5.3. Capital Requirement

Due to the complexity of banks operations which increases their activities beyond the normal practices of banking, also level of competition involve in the banking sector. There is therefore a need to regulate their way of business operations. The HSBC headquarters in a member state in the European Union brings it under the compliance of the Single Rulebook in banking. "A Single Rulebook based on a regulation will address those shortcomings and will thereby lead to a more resilient, more transparent, and more efficient European banking sector" (EBA, 2016). It aims are to provide harmonisation in the banking sector, which all banking institutions in the EU must comply to. A more resilient banking sector ensures a stronger safeguard against any possible rise of crisis, which has greater tendency to spread throughout in the region. A more transparent banking sector ensures that an institution financial position is transparent and can be easily compared across the region by various stakeholders. A more efficient banking sector makes it easier to prepare and present financial records in the region without having to comply with numerous rules within the region.

5.5.4. Bank Lending

Lending is the service which the bank does to make money available for other uses. The bank uses the money available in its possession to any member of the public who can fulfil their requirement for loan. Banks are established to serve certain functions, some banks can offer very limited amount of service to the public while others can offer much more. This function is more important in retail corporate banking, where banks can make money available to their clients for business purposes. "Lending is to provide (money) temporally on condition that the amount borrowed be return, usually with an interest fee" (The Free Dictionary, 2016). The size of a bank`s capital should determine its scale of lending, and most especially the regulation by government on banks to lend out money has a greater effect on extent of lending out money to borrowers.

5.5.5. Deposit Insurance

Customers of every bank have their moneys saved, which could be lost overnight without any insurance. In the first place the customers trust the banks to deposit their money there, and they are expecting that the banks should make these moneys available anytime demanded for. Unfortunately, sometimes banks do fail on their responsibility and can run out of business, for this reason the government of the state intervenes to protect the depositors. "Deposit insurance is the protection provided usually by a government agency to depositors against risk of loss arising from failure of a bank or other depository institution" (BusinessDictionary.com, 2016). This kind of regulation by the government is necessary and most important for the prevention of crimes. This deposit insurance is in the form of funds set aside by all the banks, where in they can be able to refund the depositors, should the bank be asked to wind up the business or any other cause for closure. However, the amount that will be refunded is restricted to certain fix maximum per deposit.

5.5.6. Public Image

Bank institutions also have image of themselves, such as how they deliver their services to clients and partnership to collaborate with other institutions. Bank an entity, which takes on personality in the eye of the public should be perceived highly if they will entrust all their savings or assets into their custody. The banks build their image from the trust of expectation that they will deliver the appropriate service on behalf of their clients. “Public image is the general impression that a person presents to the public” (Urban Dictionary, 2016). In this case the bank is a legal entity which qualifies it to act and treat customers and the rest of the public in the most reliable and friendly manner. The perception of the public depends on the individuals, how they appreciate your service, which is a primary concern for management. Management with very friendly advice department has a greater prospect to identify needs of its clients, which can serve as a way to attract the public, by so doing the bank`s public image could receive better public loyalty.

5.6. Profit Ratios Analysis

5.6.1. Return On Equity

The return on equity (ROE) which can also be called return on net worth (RONW) is very important comparing companies in the same industry to know which is more profitable. The amount this calculation provides is as a result of dividing the net income after tax over the total equity of the company that will give a percentage of the owner’s equity. “Return on equity measures a corporation`s prifitability by revealing how much profit a company generates with the money shareholders have invested” (Investopedia, 2016).The net income used in calculating ROE can be adjusted according to the investor’s interest, either by deducting preference shareholder or divided by the average shareholders.

5.6.2. Return On Assets

The return on assets (ROA) shows how well management has utilize the company`s assets to earn its incomes. As it is what the company depends on for all its operations, it size depends greatly on the industry. A manufacturing industry will need a huge sum of capital investment for its large and bulky goods, which makes up the assets than needed by a supermarket which buy and sell in small quantities. The size of the assets will reflect the returns in a usual business operation. “An indicator of how profitable a company is relative to its total assets” (Investopedia, 2016). When doing a comparison in an industry it will make more sense when taking the previous year into consideration to know really how profitable it is now, with any changes in assets.

5.6.3. Net Interest Margin

“A performance metric that examines how successful a firm`s investment decisions are compared to its debt situations” (Investopedia, 2016). For a firm to be in the positive in net interest margin is evidence of the efficiency in the part of the decision makers, and when it shows out to be a negative figure that is a result of management not taking optimal decision in the business activities with the investments. Net interest margin is very important for banks, especially big banks which require high skilled to keep return on investment over interest expense.

5.6.4. Unrevelling Profit Ratios

The unrevealling profit ratios are show through various manipulations how the ROE increases. It is very importent to see the relationship between the ROE and ROA, because if the ROE is higher than the ROA, this reveals that the management is doing well for the return the owners. If the opposite happens it mustbethatnet profit has fallen because all expenses have to be paid first before return on equity is calculated. One way how the bank might influence an increase in ROE is by reducing the equity for any given ROA. Whether this change is a positive forthe bank is difficult to tell. Also, because ROE depends on net profit, ifthe ROE and ROA remain the same a change in profit which is caused by some kind of cost reduction, can cause an increase in ROE.There are situations where liabilities can suddenly increase that will cause the return on ROE to fall, because more will be spent on paying now interests.

5.7. Risk Ratios

5.7.1. Leverage Ratio

“A leverage ratio is any of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet financial obligations” (Investopedia, 2016). For a company to operate, it needs the contributions of its owners (equity) and debt to finance operations. This debt should be carefully managed, because there can be greater risk to a company and the investors if interest exceeds earning on loans. As loan is needed beside the equity amount, more over for bigger institution which requires huge funding for operations. Efficiency in at a maximum level is required in highly competitive industry to manage investment so that income on loans exceeds interest paid on loan for the growth of the company.

5.7.2. Debt-to-Capital Ratio

“Debt to capital ratio is a measurement of a company`s financial leverage, calculated as the company`s debt divided by its total capital” (Investopedia, 2016). These debts include both long-term and short-term obligations, and the total capital is the shareholders ‘equity and the debts. The equity and debt are ways by which companies finance their operations, these can also be called internal and external source of finance. This ratio give information on how a company finance it operation, by this users will be able to identify the financial strength of the business. The lower this ratio the better it is for the firm. The low ratio indicates that the company is a low leverage business when compared within the industry, which is more attractive for investors who are trying to avoid risky investments.

As it was mentioned in the Reuters on December 8th 2015 “The ability to support is indicated by HSBC's rating and is viewed in the context of the size of any likely solvency support that would be required relative to the capital available and access at HSBC Holdings”. It was also mentioned in this article that its asset quality demonstrates a high degree of stability, and its funding comes highly from customer deposits. The size of HSBC here speaks more about how little its capital could depend on debt for funding, because larger amount of it operations can be carried on by the huge deposits from its customers. The article explained that the bank can easily transfer funds to where it could be needed most in the case of any sudden financial requirement at any region. The bank stands a greater opportunity not to depend largely on debt, which keep the assets free for more profitable uses.

5.7.3. Provision for Loan Loss Ratio

“The loan loss provision coverage ratio is an indicator of how protected a bank is against future losses” (Chron.com, 2016). Some loans of the bank will not work as expected; there are defaulters that the bank will have to make provisions for, because they cannot tell at the time of making the loan out that a customer will not be able to pay back. The loan loss provision item is found in the balance sheet, which is an estimate of the future loan loss of a company. Banks record either part of whole amount which is not expected to receive from customers. When this ratio is high, it`s an indicator that it can withstand better against any loss in the future.

5.7.4. Loan Loss

Loans are tied to companies assets, in case there is any default in the payment of a loan, the company`s assets are sold to pay the loans. Setting of a goal on percentage tied to a company`s assets for loans should be a priority for management, because this will show the level of liquidity of the firm. "This ratio measures the percentage of total assets that are invested in the loan portfolio" (WOCCU, 2002). Liquidity problem is one that every business is trying to avoid. For management`s decisions to be optimal the percentage of assets set aside to loan, should be lower than a maximum established amount as a goal not to exceed.

5.7.5. Reserve Ratio

"Reserve ratio is the portion (expressed as a percent) of depositor`s balances banks must have on hand as cash" (Investopedia, 2016). This ratio is set by the central bank of every country, as it is regulated by the monetary authority of a country. Commercial banks have the responsibility to reserve these cash for unexpected withdrawal by customers. The central bank can use this as a tool to control the amount of money in the economy. If the policy of the central bank is to increase the supply of money than it will lower the reserve ratio for the banks, and the opposite if its policy is to decrease the supply. The commercial banks also collaborate with the policies of the central banks to control inflation by a high percentage of the reserve ratio, so there can be limited amount available for the public borrowing.

5.7.6. Non-performing Ratio

When a bank notice a kind of irregularity or complete absent of payment from a customer who owes some money and he or she is purpose to pay regular sum, then the bank categorises this loan as a non-performance. It is possible to recover these loans, but they have a very low possibility for recovery. "Non-performance loan is a sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days" (Investopedia, 2016). Loans become non-performance when debtors fail to pay back, and if they start making payment then it becomes performance loan. The information received by this non-performance loan ratio can be used by analyst to assess the loan portfolio of the banks, which is considered as heading to a failure. A bank with a high non-performance loan ratio will be considered as high risk for investors.

5.7.7. Operating Efficiency

This measure shows a great deal of how efficient management has been in the day to day activities of the business, especially in making sure that cost are as low as possible with a maximum output of business activities. According to the Business dictionary "Operating efficiency is the percentage measure of a management`s ability to generate sales revenue and to control cost" (BusinessDictionary.com, 2016). The ability for management to generate revenue in business activity and at the same time reduce cost is a measurement of performance, which demands efficiency in the life circle of any good or service a company might trade in. The cost of a business operation must never exceed its return, if this is reverse that means the management has not been optimal in decision such as pricing and other very important factors. Operating efficiency will show from the level of income a company is able earn during a particular period taken into consideration.

5.7.8. Temporary Investment Ratio

These are the types of investments that banks do for a short period of time, because some investors will prefer to invest in a short term scale than a longer one. These investments can earn greater returns than just to deposit the money in an account with the bank. "Temporal investments are banks most liquid assets, includes federal funds sold, securities and due from banks" (Commercial Banking Management, 2000). The higher the result of this ratio the greater the liquidity of the bank, as it will reveal the bank`s most liquid assets to meet its immediate obligations. These temporal investments are current assets of any company, a high amount will give the company more options of investments, and for a lending institution this is where most of their incomes will be earned.

5.7.9. Volatile Liability Dependency Ratio

"Volatile liability dependency ratio considers the degree to which the riskiest assets are being funded by unstable or 'hot' money funds that can disappear from the bank overnight" (Commercial Banking Management, 2000). It is very important in the measurement of liquidity of a bank. This ratio calculation will reveal the degree to what extent the long-term assets of the bank can depend on volatile liability for funds. Volatile liquidity dependency ratio will not show the liquidity of the bank, but the risk that is attached to the company`s long-term assets.

5.8. Other Financial Ratios

5.8.1. Tax Rate

Both small and large businesses struggle sometimes in their business operations simply because they have not applied the rules and regulations of their governments which greatly influence business activities. Different economies will allow business operations on certain holy days while others will not. Even some countries will not allow business transactions with some countries, more over they can create barriers to prevent international trade. “Tax rate is the percentage at which an individual or corporation is taxed” (Investopedia, 2016). This is the tax imposed by the government on individual or a corporation, and its rate is given by the ruling government. Tax rate can be of different types, but which to use is at the discretion of the tax authority in the state. Tax calculation can be different for different types of business, depending on the regulations, registration of the company or the scale of operations for small businesses.

HSBC taxation has an important role to play for the UK operations, because of recent tax evasion scandal in the Swiss debacle. In an article in the Financial Times by Patrick stated that “HSBC already pays more than a third of the overall levy, which in 2013-2014 raised £2.2bn, according to figures from HMRC”. HSBC`s global operations will be affected, but other regions outside the EU will have their individual taxes based on their individual countries laws. Nevertheless, the head office is located in London, which will bring the group`s balance sheets under the taxation of UK. The size of its operations worldwide makes taxation of the company greater compared to banks which operate is a smaller scale. Taxation was heavily hanging on the decision of the HSBC`s management, to decide whether to keep the head office in London or to move it to another location outside the UK.

5.8.2. Dollar Gap Ratio

“Gap ratio is the value of all interest rate-sensitive assets divided by the value of all interest rate-sensitive liabilities owned by a firm” (Investorwords, 2016). The profit of a bank is earned through various activities; an important activity is when banks forecast high interest rate. This forecasting is done when they expect that the interest rate will be increased or decreased in a near future. When a bank calculates a positive dollar gap, this means the interest rate-sensitivity assets exceed its interest rate-sensitivity liabilities, and when they calculate a negative dollar gap it means the interest rate-sensitivity liabilities exceed its interest rate-sensitivity assets. A positive dollar gap, forecasts an increase in interest rate in the near future, which shows a dynamic measurement taken by management in the administration of assets and liabilities of a firm. A negative dollar gap, forecasts a decrease in interest rate in the near future, this will allow the bank`s costs on deposits to be lower than its revenues.

5.9. External Evaluation

5.9.1. Enterprise Value (EV)

“A measure of a company`s total value, often used as a more comprehensive alternative to equity market capitalization)” (Investopedia, 2016). In measuring the value of a company at a particular time should include the debts and equity. This will include the price of the share and the amount of share at that period, and all the short-term and long-term borrowings. Also the cash and cash equivalents have to be subtracted to get the value of the company at that particular end period. It shows how the company grew year after year, by comparing previous year with the current year one can easily see the growth. This total value of a company can be one important means of comparing on company with another even with different capital structure. This growth or decrease as the years go by can be evaluated by analysts, and can also give external signal for interested parties to base their decisions.

6. PRACTICAL PART

6.1. Banking

HSBC banking, a very important activity does not seem to be in full operation for the time being. John Hackett, the chief operating officer in UK said in a report issued in Reuters by Simon Jessop, Feb 1, 2016 states that “HSBC`s internet and mobiles have partially recovered, and we continue to work to restore a full service”. The implication of Simon`s article concerning the level of HSBC`s service was that majority transactions is done on the internet and phone applications, if it`s hindered will reflect directly on the customers reaction towards the bank. With the size of HSBC in consideration of partial service in the internet service is a great deal of inconvenience, which possibly might have an adverse effect on their ability to receive and make payments to their clients. It is stated in the same article about operating on Saturday to help in facilitating transactions, but this will not take care of the internet service and more so the mobile application service. The appropriate measures which is its plans to invest highly in the technology to make operations in the bank more efficient and safe one.

6.2. Commercial Banking

There are different kinds of clients HSBC serves on its commercial banking, from large corporation to smaller ones, and small and medium size enterprises (SME), which in different parts of the world among these groups they render their commercial banking service. In an article in the International Business Times written by Lianna Brinded in 2014, the HSBC`s global head of business banking Stuart Nivison said “Business banking is a major component of HSBC`s commercial banking strategy because SMEs are at the forefront of economic activity in all the markets we serve”. Lianna, the author of this article sees it as a positive idea to shape the group`s commercial bank`s strategy to clients both domestic and international. Since through this function the HSBC provides capital, loan and even financing projects of their clients, it is beneficial for the bank to direct more resource on the area of business activity where much is realised. As this is the forefront of their economic activity it makes it more demanding and important to invest the most and best of their resources for the global activities of all their clients.

6.3. Stock

In an article written by Harriet Mann in the Interactive Investor in December 2015, says "Even some of the stock market`s worst performers get a new lease of life and stage recoveries over the festive period, according to market watchers at HSBC". The writer of this article is with the opinion that during the festive seasons even the stocks of lower performance companies could bounce back off the downward trend of their stocks. It seem obvious that economic activities vary according to festive period, which can include religious activities as well, therefore, the well-established bank like HSBC with branches worldwide has the opportunity for it stock to bounce off greatly from its regular level of operations. HSBC as a global bank does not depend entirely on seasonal periods for its stock value, but effective management decisions need to be in place in order for the bank to be in the present position it has attained in the banking industry.

6.4. Stock Price

The value of HSBC`s shares according to an article in the Interactive Investor by Harriet Mann on 30th September, 2015, it states that "In both the UK and Asia – which generated 70% of the group revenue last year – as much as half of HSBC`s earnings aren`t performing in line with historical returns". The author sees the need for HSBC to further restructure their capital use to make it heading back to its high return footprint. It is much easier for HSBC to continue its expansion as the largest bank in Europe, but capital usage, either by cutting from one area where it is under performing and redeploying it in a more profitable region or business activity, other condition which might not be under the control of the bank can accelerate the process of capital cutting and redeployment. Stock prices are very favourite benchmark for many investors, which is mostly taken as a base to make an investment, HSBC`s shares in the Asia and UK regions should realize the favourable share value in comparison to other countries in Europe. It is therefore a priority for the Group to free up or divert capital investment in the most effective way.

6.5. Branch Banking

"HSBC announced last week that it was to cut 25,000 jobs worldwide, including 8,000 in the UK, in part because of the introduction of new technology" (Jill, 2015). The article stated that because of the use of the internet service and phone internet have reduced the use of the branches, jet still they keep the service of their branches, though, they are cutting down jobs. The digital technology has an impact in the banking service, HSBC as one of the largest lenders in Europe, with the digital technology speeding up its service and reducing the need of customers visit to the branches, and also taking into consideration the present cut in jobs HSBC is still able to operate and maintain its 6,100 offices worldwide. Retail Banking – in which savings accounts, consumer loans, credit cards, and other such services provided to individuals is called consumer banking (credit card, auto loan, home loans)

The aftermath of the recent scandal about the HSBC branch in Switzerland, has led the bank`s further action towards its branches. An article written on the French to widen the Swiss bank enquires in the Guardian, by James and David state that “HSBC has repeatedly and publicly stressed that it has reformed its Swiss branch and its wider structure since those activities took place that there was new management in place”. Whatever the consequences of actions taken by a branch can affect the group as a whole, these consequences are vice visa, but for such an institution as HSBC, if the global holding company is to be sued because of its branch`s activities, definitely that cost will be so enormous that there could be the need of closing another less preferred branch.

6.6. Retail Banking

The retail banking in HSBC which includes the personal banking, and the customers finance is reviving from a recent glitch in the UK. According to BBC News, John Hackett make a statement on Jan 5, 2016 that “I`m pleased to say that we have seen a steady return of service to internet banking in the past few hours for our personal and business customers”. Prior to the attach on HSBC`s computer system, customers have being accessing their accounts easily, with this slow return to normal operation there is high chance reducing performance and slow process of transaction to accommodate its huge customers need. Further in this article he informed the public that more customers are able to log on, so customers go on and try the service. Thou the HSBC assured the customers about their financial responsibility for fees incurred due to the complex technology, which has created inconveniences for customers and its administration. For the fact that HSBC is a large bank this technical issue in the UK will have effect on its global reporting, but this cost could be covered with the size of the bank`s activities worldwide, even this can be said for UK alone with 17 million account holders.

6.7. Electronic Banking

The HSBC`s chief operating officer, (John Hackett, 2016) stated that “HSBC`s internet and mobile services have partially recovered, and we continue to work to restore a full service” (Yahoo News, 2016). The statement came out after a recent attach when customers were trying to access their accounts on a Friday (payday) in the UK. Internet attack on bank is very risky, considering the time needed for the attach to take place and the extent of damaged that will be done on the bank`s data base system. Already the bank has issued statement of incurring the loss for the customers affected. Electronic banking has made the way for a faster and convenient means transferring payments without the need of face-to-face transactions. It advantages at present supersede the risk involve in keeping these services.

6.8. Corporate Banking

The corporate banking in the banking industry seems to be a very sensitive matter; it could be because of legal requirements for proper documentation and better evidence when it comes to auditing of corporations, both from internal and external auditing. An article in Finextra, dated on Jun 1, 2015 states “Despites the advantages and positive spin, the figures from HSBC also demonstrate a large untapped market as the vast majority of the corporations continue to cling to old-fashioned methods to pay and receive funds, such as paper invoices, bank`s drafts and cheques”. The HSBC like any other bank has a great deal of internet transaction by its customers, only when it comes to the corporations then it appears as if their dealing with corporations has some kind of limitations. In the same article Nadya Hijazi, HSBC`s global head of PCM e-commerce said “For corporations, mobile banking is about more than just convenience”. Obviously it is not just about visible documentation, because the visible information can be produces in a tangible and safe form, but the statement might be based on many risks, such as the amount involve, the identity of the authorised persons and the relationship that exist between the HSBC and its clients (corporations). As there is the need for HSBC to make more improvement on its mobile banking service towards corporations, taking into consideration the fears in the mind of the PCM e-commerce for the group, because the tradition method of dealing with corporations need the change to realise more profit for HSBC.

6.9. Treasury Department

The treasury department in HSBC is responsible for the safe keeping of funds and how they are invested. The treasury department takes critical decisions on the most valuable investment worldwide, and informative role about up to date financial position of the bank. According to an article written in the Financial Times by George Parker on Feb 5, 2016, HSBC`s treasury states “They have looked carefully and dispassionately at the facts and confirmed that the UK is the best place to base a global business”. This statement was made based on the outcome of HSBC`s lawyers and analysts advice on the relocation of the headquarters. Though, emphases on the UK government`s economic plan were made, that could boost HSBC business operation. The writer of this article believes the treasury has a political motive for deciding on maintaining the London high street location. HSBC`s treasury is make appropriate decision when it comes to issues that will place the bank in the best position to attract more investment and better interest rates. They ought to look for the most favourable business condition, because they are responsible for updating the information about cash flow.

6.10. Balance Sheet

The size of HSBC`s balance sheet mentioned in the Financial Times in an article written by Martin Arnold on March 2015, states “HSBC`s balance sheet has even expanded since the financial crisis in 2008, when most of its rivals` balance sheets peaked”. In the article the global chairman of HSBC cited the amount of businesses and banks it has sold around the world, reason being that these businesses and banks are too risky. Assets of HSBC that have most evidence attracting more risky with high chance of non-performance are just appropriate for the management to take immediate decisions. The figure in the balance sheet of HSBC is very important to use as a comparison with other banks to evaluate it size in the industry. In the case of any wrong practice HSBC, as is shown in the news about money laundry, especially when it happens in the country of the headquarters location, the levy will be on global balance sheet of the bank.

6.11. Cash Assets

It was said about HSBC in an article in Bloomberg written by Julie Verhage on March 4th 2016, states “HSBC has updated its asset allocation model, increasing its cash holdings by 11% points, to 17% percent, in their 6 month tactical portfolio while decreasing its allocation to Germany and Swedish bonds”.In the same article a statement was made by the Global Head of Asset Allocation Fredrik Nerbrand that “While markets have stabilized following the January sell-off, we find limited reasons to add to equity risk”. The writer of this article made a comment to build on the idea that with the present debt in the world cash is the king, which is just to explain one of the reasons why HSBC is selling-off investments where return have come to unfavourable level, as the profit is now in recession in those areas. HSBC is increasing its cash holding, in this case implies selling some less profit investments to invest in some more interest attraction investments. Increasing the banks cash and cash equivalents will just place it the position to in its investment activities. The decision to increase the amount of cash asset by selling less profitable investment, is more attractive than incurring debt for the bank`s investment activities.

6.12. Loans

The HSBC is so large that it can easily collect money from around the world and make these moneys available to whoever needs loan or for whatever financial purpose at any profitable location. An article in the Reuters by Carmel Crimmins and Dan Wilchins on Dec 7, 2015, Mr Thierry Roland, the head of HSBC`s global banking and markets for the Americas said “Given our global footprint, we are able to originate assets from all over the world, repackage them, and then offer them to the U.S. investor base”. In this article the writer mentioned that the HSBC is boosting investment banking profits by packaging more of its loans into bonds and selling them to investors in the United States, which is direct according to what Mr Roland stated. Loans are the means by which the HSBC earnsprofit; it can use any method it sees fit as long as the decision is allowed by the law under which it operates. It is wise decision by the HSBC to convert loan funds to invest in bonds and sell them out to investors where it can be more profitable, as it is with the case of repackaging loans to regions where they now foresee possible losses.

6.13. Securities

HSBC has being managing it cost by various ways; one was by reducing assets tied on loans to allow the offset of inflation and investment growth. In Bloomberg Business an article written by Julia Verlaine on June 9, 2015 stated that “The bank anticipates keeping costs “flat” at the securities unit to offset about $1billion of inflation and investment growth”. The writer of this article is with the opinion that the bank should focus on cost and be effective in risk-weighted assets, which he believes will compliment the efficient use of HSBC`s securities. HSBC needs some radical changes to reduce the risks that are attached to its securities. The writer also pointed out the regulations on banks with regards to long-dated securities, for any eventual liquidation it will be difficult for banks because of the priority towards the capital requirement. HSBC should endeavour to reduce it cost and risk-weighted assets for opportunities to invest on less risky securities.

6.14. Liabilities

HSBC`s location in the UK makes it oblige to the tax levy by the British government. The Financial Times published an article written by Martin Arnold on April 28th 2015, states "Analysts at Bernstein estimate that if a conservative-led government is re-elected that cost of the levy for HSBC could rise to $1.8bn by 2017". Martin also thinks that HSBC`s review of new location was purely because of the UK government`s bank levy, as year tax was up five times more than the year before it, and according to the analysts it rise up till 2017. High tax are discouragement for business, for HSBC to receive high tax on the group`s balance sheet is a huge cut on it profit. This will be the largest part of its liabilities, which is beside the liabilities that have the potentials of bringing in profit to the bank. Banks main source of earning from their short-term term investments is through liabilities, which they in turn make available to their customers in the form of loans with more attractive interest. That is why taxes that are higher could never be an issue to compromise with, only if other incentives offered by the government can encourage business to stay in the country.

6.15. Capital

HSBC has begun the restructuring strategy, by sell businesses which were not so profitable in order to redeploy the proceeds to another more profitable region. In the Consumer News and Business Channel dated on Feb 21, 2016 stated about risk-weighted assets "In addition to a decrease of around $33 billion from the sale of its Brazilian business". The author`s comment on the action of HSBC was based on the banks confidence in converting those unprofitable to area more profitable for investment. The bank openly declared its capability to better connect for a higher business return, which it ought to do, considering it size and fame to attract investors and encourage it owners. HSBC`s strategy of using capital is the best that is available now in its disposal, with its present all over the globe, to make an effective use of assets rather than leaving them under performance.

6.16. Income statement

In the article in CNBC written on Feb 21, 2016 states “HSBC announced a 1 percent rise in pre-tax profit for 2015”. According to the writer of this article, analysts are pessimistic about HSBC`s ability to maintain payments Reason being that the bank is undergoing a strategic balancing program, that is its effort to increase revenues by moving investment to high growth market. It is also noted that the bank`s cost is increasing, most especially because of levy. As HSBC undergoing changes to increase revenues, by selling some investments and cutting cost, which is good considering the expectations from the equity owners, it does not make up for the largest liability which is heavy tax binding on its location in the UK. Its cost reduction strategy has to be to the highest degree it can go in order to get ready for the high levy that awaits it.

6.17. Interest Income

HSBC has being doing a lot of review to assess the best opportunities to improve the wealth of the bank. The CNBC in an article written by Neelabh Chaturvedi on November 1, 2015 states “Net interest income, the difference between what HSBC earns in interest and what it pays when it borrows, was $8.03 billion during the third quarter, down 8.28 percent from a year ago”. The writer of this article also noted that HSBC`s management is taken positive decision concerning the location of the headquarters, which could enhance shareholders` value and other opportunities. As HSBC has being doing most recently in cutting costs and finding new areas of investment opportunities might just be the same way to continue in order to improve the banks interest income. Even as the bank is trying to reduce the lending facilities to small businesses, because of fear of default payment, the bigger corporate which the HSBC invest in does not give them the assurance high incomes without high risks. It has been very successful in its lending activities with the small businesses, especially in the Asia region, HSBC should also focus on areas where most its highest interest incomes have being coming from and develop and new and attractive investment strategies that will attract more income, rather that moving huge investments to bigger corporate in areas of the most attractive interest in the world.

6.18. Noninterest Income

Due to the size of HSBC there is the potential for it to have a large earning on it noninterest income. The BBC News on business published an article on August 29, 2013 states “HSBC`s move towards what is claims is a more transparent system of charges comes as the major bank prepare to make it much easier for customers to switch their bank account providers from 16th September”. The article mentioned that the bank said the monthly account maintenance will rise, but the amount was not disclosed. This action is never a good news for some individual account holders and small businesses or those subject to charges, it will create high competition between HSBC`s and its main competitors. Though these high charges are compensated for by more attractive service, is a sensitive area of banks decisions. This is the main form of banks tactics to attract account holders from another bank to switch to their own bank. This and many other kinds of charges are the means by which HSBC increase it earning besides the interest they charge on loans. A big lender as HSBC should not make such charges a sum that can easily discourage customers, since its activities are heading focusing on investing in bigger corporations. Small businesses can easily just turn their backs on the bank.

6.19. Interest Expense

HSBC`s operations as rely mostly on deposits and lending from money lenders for its day to day operations. Financial Times reported an article by Martin Arnold on August 4, 2014 stated “HSBC`s chief executive blamed the increase spending on their area for driving a 4 percent rise in underlying operating expenses to $18.2bn”. It was also mentioned that Mr Gulliver stated that a rise in the expense is expected next year. The writer of this article pointed out the fact that HSBC`s problem stems from compliance, meaning the bank should concentrate more seriously on regulations, because most of the fines were as a result of bad practices. As a bank, HSBC rely greatly on loans and deposits to facilitate its business activities, for this reason it need to be aware about best practice which will save more loss. According to Mr Gulliver the bank is still not recovered from paying further fines, the year 2015 also faced the fines which have been incurred in the past years. This situation with HSBC will not encourage investors to invest their money in the bank. As the biggest bank in Europe will just attract more scrutiny from the authorities, which will continue to put it under pressure to hinder it incomes.

6.20. Net Profit

The Consumer News and Business Channel (CNBC) on Feb 21, 2016 stated that "HSBC announced a 1 percent rise in pretax profit for the year 2015, as Europe`s biggest bank by assets deals with volatile markets, ongoing cost-cutting efforts, and leadership uncertainties". From this amount the tax can be calculated on percentage according to the government policy, and the remainder will be the net profit for that year. The profit of a business extensively depends on good leadership, that can reduce cost to the minimum and manage HSBC`s in its volatile market. Considering the fines that have been levied on HSBC, if it can increase profit and still maintain its position as Europe`s biggest bank at this point in time, it should be credited for keeping an increase profit after tax in 2015. Further in this publication was a comment by HSBC "All of our initiatives to reduce costs are underway and we expect further progress in 2016", it is clear that HSBC has taken up more on cost reduction to increase their profitability.

6.21. Statement of Cash Flow

The National published an article which was written by Sean Cronin dated on Feb 6th 2016, stated "Turnaround specialists have warned that regional companies face a looming cash-flow crisis as banks pull back from lending amid US$30 oil", this statement was made in the light of banks asking companies to repay the short-term debt, which they were not able to pay back even with the effort to approach other banks for additional funding. The writer made it clear in this article that banks are retreating from lending out to the small businesses, because of fear of default in payment by the small banks. HSBC`s cash inflow as well will be affected, because the smaller businesses which will take loans for short-term that will allow their interest to increase will be redirected to bigger corporates that can repay in a much longer time. Default in payment from the customers will obviously not allow the bank to continue giving out loans to such high risk customers, better for the HSBC to redirect their loan facilities to customers who are likely to repay, since this is the main transactions of HSBC.

6.22. Statement of changes in Equity

The Guardian in an article written by Jill Treanor on Feb 15th 2016 states according to Mr Gulliver"It is not clear that this is the time to change the CEO and chairman because on a relative basis the shares are not down as much as others". This statement suggest that there are some problems which need to be taken care of, or else HSBC will face further drop in shares, because this one of the reasons why owners will decide to sell stocks to get rid of them. This can cause a fall in the bank`s stock price according to the forces of demand and supply, it is highly interconnected with present condition with the shares, how the owners view the market trend is how they will react to whether they will keep their investment in the bank or not. In this case, it seems as if HSBC is facing decrease. The writer of this article drew attention to the level of the shares which went down last week to 2009 level. To save this direction of the banks downward direction of share, it will need the strategic plan which was announced by Mr Gulliver to be very effective as to improve the shares.

6.23. Bank Planning

In the present global market environment, what the HSBC strongly need to achieve its goals and other objectives in 2016 is an experienced leadership to continue and maintain its position as Europe`s largest bank. Investors are keen to hear about a long-term leadership plan, which according to the latest development of the HSBC is crucial and yet to be decided, but they have appositive attitude towards the succession of the bank. A spokeswoman for HSBC stated in Reuters (Lawrence, 2016) “As a matter of good governance, always have succession plans in place for all senior executives”. Whether a chairman or any executive officer of the HSBC issuing a statement to their investors about their capability to continue with long-term plan is an important aspect of planning for the year ahead, should be a source of encouragement.

6.24. Computer

HSBC is equipped with latest computer system that can allow functions which accelerate business transactions with ease, especially now for the telephone service. In an article in The Guardian by Samuel Gibbs Feb 19, 2016 it states that “HSBC will become the first bank in the UK to roll out voice recognition and fingerprint scanner for its Smartphone’s app”. Just how safe will that be depends greatly on its use and the efficient computer services that will be put in place. It’s a bit complicated when one thinks about the accuracy needed to distinguish different voices and what can happen in case where fingerprint is falsified. In another article, The Reuters reported by Steve Slater, Flint stated that “The tech industry has an enormous contribution to make to the modernisation and efficiency of the banking industry and give customers the service proposition they want, but there are issues on the way" Again these issues might be uncertainty about the safety and efficiency according to his expression in the article. Convincingly, this might attract customers and help in the general administration of HSBCs.

6.25. Payments

HSBC has not experienced a good reputation in the country of its headquarters, the UK. A report in Reuter by Matt Scuffham, Aug 31, 2015 stated "Thousands of Britons failed to receive their wages on Friday when a problem at Europe`s biggest bank HSBC prevented some of its business customers from making payments" This problem will roll down to customers of the other banks. Though, this is just one country in the region, the inconveniences might cause a reason for the public not to trust its payment service. This glitch in the banking institution is a common problem, which calls for the attention of all banks to make a great deal of investment. In this same article HSBC went on to say that it will collaborate with other banks to ensure customers do not loss as a result what happened with the payment system. If HSBC deals rightly with this matter, it just might place it back in the right perception.

6.26. Personal Selling

HSBC has taken the bold step to sell one of its valuable investment, as was published in the Financial Times by Martin Arnold on October 27th 2015, stated that "It has agreed to sell Bermuda Trust Company and its private banking operations on the island to its main Bermudan rival, Bank of NT Butterfield & Son". Martin the author stated that the bank pointed out that this represent HSBC`s private bank strategy, which will allow them to redirect their operations on some future growth markets. As the writer pointed out that the selling price was not disclose, it could be that the bank is striking a deal with its main competitor just for mutual benefit, which can help both parties on any other area of their operations. The bank`s aim of raising money by selling investments from one area to more promising investment might be one important factor, but also the personal selling is having a greater influence this deal between these competitors.

6.27. Market Value Added

HSBC has not made improvement in market value. In the Guardian a statement was made in an article written by Jill Treanor & Sean Farrell on Feb 23, 2015, states "More than £5bn was wiped off HSBC`s stock market value after British`s biggest bank reported lower than expected profits and warned of the risk of investigations by regulator around the world”. In this article the HSBC`s chief executive said that the fall in profit was due to the weakness in investment banking area. The writers continued with a statement made in the article about the unexpected performance of HSBC. Commenting on the decisions of the chief executive of HSBC to reduce the set target of the return on equity, and that also the increasing cost of the bank`s operation all these hit the shares. The greatest concern here for the bank is underperformance, because this condition is a great concern for investors. Though other factors such as the Swiss case the bank has its impact as well, the bank needs to reassure the owners that it could again strategize to increase the market value. In this article also HSBC chairman, Douglas Flint made a statement “the bank has doubled the number of compliance staff since 2011”. For the owners this is a kind of encouragement, but it still need to work harder to be able to turn underperformance to start adding value for it investors.

6.28. Market Share

An announcement that came from HSBC, which was reported in the Mortgage Strategy written by Devraj Ray on Feb 23, 2015 states “This gave the lender a 5.6 per cent share of the market last year, down from 8.2 per cent the year before”. According to this writer HSBC is slowly living the broker market, because the downward trend of the bank`s lending and market share. The writer also thought that this intermediaries are the best options of the bank, the writer believes that this is due to the increase in redress and other legal procedures and regulations. HSBC recently has being reducing its transactions with small businesses and lending out loans to individual customers, which has shown some evidence of it reduction of shares in the financial market. At this time in the operation history of HSBC it`s expedient for it to make use of intermediaries, as they wish to concentrate their activities to a growing market, especially when all efforts have been made to reduce cost for the sole purpose of saving.

6.29. Technology

Technology is more crucial in banking, considering all the communication devices, the applications, the internet and all the means of making and receiving payments, which are adopted by HSBC`s administration worldwide. The group chairman, Douglas Flint said in a statement “Technology advancements around data analytics, including big data, are providing much more sophisticated tools to enhance our capabilities to protect our financial system from bad actors" (ComputerWeekly.com, 2016). HSBC received series of fines in the past due to lack of analytics and monitoring techniques. Its IT system was not able to give auditors sufficient information on it private banking in Switzerland. This has led to its shift to a bigger data technology to avoid further occurrence of lack of sufficient information system and infiltration of bad actors on their security system. An advance technology is necessary to gain back their reputation and prevent from any subsequent occurrence, also keeping with the regulatory principles.

6.30. Capital Requirement

In an article in the Financial Times by Laura and Caroline dated Sep 15, 2015 records "The report also found that at the end of 2014, for the first time, the 100 largest internationally active banks all met the Common Equity Tier 1 (CET1) ratio that is cornerstone of the 2019 Base III rules". Incidentally, HSBC is the largest bank in Europe, which qualified it to be part of the stated 100 banks that fulfil the requirement in 2014. Simon Gleeson, London-based at Clifford Chance making reference to the CET1 said that "As far as risk-based are concerned, the banks have got enough capital", which allow room for the assumption that HSBC`s capital requirement for the following year should be met. Simon Gleeson has the impression that HSBC as the largest bank should fulfil the minimum capital requirement in 2015. The bank at present is facing issues surrounding its banking activities with regards to regulation on taxes by the UK government, this is why it should make it a priority to continue operation most especially where the headquarter is located, also part of the world where the highest performance or greater business activities, the Asia region.

6.31. Bank Lending

The condition with HSBC`s lending policy will change towards the Chines, because of economic reasons. The CNBC`s report on Jan 29, 2016 that "Europe`s biggest lender HSBC will no longer provide mortgages to some Chinese nationals who buy real estate in the United States, a policy change that comes as Beijing is battling to stem a swelling crowd of citizens trying to get money out of China". The reason for this policy was because of the low stock market and weak estate prices in China. As it was stated in this article the Chinese buyers of these estates are more willing to pay in cash, and they are among the biggest buyers. For HSBC this is going to be a very though decision they have to comply with, as this is the region that brings the most of the income of the group. The satiation in China is most likely the general cause for investment to be moved to a more profitable area. This will affect the lending policy of HSBC, by reducing the amount of loans giving out to the biggest source interest revenue, also the threat of reducing the lending capability of the bank. This will also incapacitate the bank even the most valuable investments in Europe, because there is the tendency of investors make extra effort to shift their money around through whatever means that is available to attract better returns.

6.32. Deposit Insurance

This provision set aside by the bank can be seen in HSBC how insurance varies for account holders. In the Financial Times an article was written by Emma Dunkley on August 22, 2014 state`s according to HSBC`s statement on the new strategy on insurance package to its customers.“The bank added that customers can opt out of the insurance option and use the standalone account, with no fees”, the writer is suggesting that the bank is trying to drop some cover options to encourage customers to move from the old forms of account. While such offers may not continue for a long period, considering the risk that can arise with money deposited, it is an incentive to some customers who would like to enjoy the free fee for a time. This in a business context does not give insurance for money deposited for safe keeping. Because these deposits and fees are what the bank rely on to make insurance for the deposits of its customers.

6.33. Public Image

The bank needs great deal of time to change the public perception towards compliances with regulations. There are several issues surrounding the banks credibility in the past few years. The Guardian noted on June 10, 2015 stated “That is triply true for HSBC, whose reputation has been tainted thrice over since the crisis”. The article mentioned the three issues; the Mexican drug money laundering, payment compensation for PPI mis-selling (mis-selling of financial product in the UK), and the most recent Swiss scandal. According to this article the bank is making an excuse that the post-crisis brought a split between retail and investment banking operation, which they think will have to be reintroduced. According to source the crime of HSBC during these years are very high and more could arise as time goes by, the penalty will obviously be very high for the bank. It`s going to take reasonably long time to recover and clear the public to a favourable one. Fines for bad practice in the banking institution are common, but HSBC is getting the most of them recently, which does not only reduce its net profit, but leave it with a very bad public image.

6.34. ROE

The return on earning of the HSBC has been deterred from making gradual improvement through the years. In the Telegraph an article written by James Titcomb, he stated “No wonder then, that HSBC has missed the target of a return on equity (ROE), a common measure of bank profitability, of 12 to15 percent”. James Titcomb went on in the article to say that HSBC has suffered a lot of fines in the past years and new standard of capital requirement is increasing beyond expectations. He also brought the fact that HSBC planned, but did not consider the rest of the world. The condition under which HSBC is operation worldwide needs new strategic planning, if it should return back towards its former glory, because potential investors are very much interested in to know the direction of the return on equity. The HSBC should focus on putting the world in their planning and consider the environment under which the bank is operating at present, especially when the fines are expecting to increase as the time goes by due to revelation of their past dealing with practice in the banking industry. In this article a statement was made by Mr Gulliver “Most things have changed”, well it is obvious that the regulators have changed dramatically towards the banking industry. This changed that the HSBC has done should show a positive influence towards the investors interest, which will improve the banks relationship in a positive direction with its customers.

6.35. ROA

HSBC`s position as the biggest bank in Europe is on the basis of the size of its assets. With the new strategy of cutting costs, the bank has resorted to selling some investments, which might be effective but this could threaten its position as Europe`s biggest bank. “Under the strategic shift announced on Tuesday, HSBC said it will reduce the assets at its investment bank by a third, which will reduce the significance of the business to Europe`s biggest bank”, this article further stated that HSBC intension to cut down the low returns on the use of capital, as was said by the chief executive of the global banking and markets. According to the estimates mentioned of up to $100 billion of the assets being cut are held in Europe. It is efficient to convert less profitable investment with more profitable ones, but a reduction of a third of HSBC`s capital, is a very large proportion of a global bank. The bank has being in the business of selling less efficient investments, but to remove fraction of a third of assets is a huge chunk of assets that will not be invested. If this strategy will yield a great return on capital, the bank might still hold it position in Europe.

6.36. Net Interest Margin

HSBC as one of the biggest banks in the world has the potential of huge benefit in its lending capacity. An article in the Financial Times making commenting on interest rate rise, written by Oliver Ralph and Laura Noonan on Sept 13, 2015 states "All banks will hope to benefit from better interest margins when rates rise", they added in their comment that some are hopeful to benefit more than others. Taking this fact into consideration, as the authors are very positive about interest rate rising, HSBC stands the chance in this case to benefit by any increase interest margin. Regions in the world where interest rates are very high would be a possible attraction for HSBC`s marketing and investment team. As was mentioned in the article, the capital of HSBC will be redirected to areas where they have forecasted for greater earnings. The writers of this article also express the fear about the popular perception the public has towards banks, especially well established bank, such as HSBC. In that case there can be pressure from the government to lower interest rate, while there can also be pressure from those depositors that have being suffering with the low interest rates. This is the major mechanism for HSBC`s earning income, which should attract the attention of a very effective management decision.

6.37. Leverage Ratio

HSBC`s capital like all other banks comes from the shareholders and debt, according to the Bank of England this leverage ratio will be regulated in 2016. In the Telegraph an article written by James Titcomb states according to the Bank of England "By 2016, so-called "globally systemic-important" banks – Barclays, Royal Bank of Scotland, HSBC and Standard Chartered – will be subject to supplementary leverage ratio calculated as 35 pc of a basel-designated systemic risk buffer", which reveals the how risky a banks is as judged by the Bank of England. The writer of this article claimed that the banks are now at a low end of the range, considering the forecasted level in 2019 which is 4.05 percent. This shows that as the year goes by the leverage ratio for banks, including the HSBC which has its headquarters in the UK will experience this increment. As the effort of the Bank is to reduce the risks on loans, it is not practical for them to eliminate all the risks. In Europe the HSBC`s presence in UK has a greater impact on the company as a whole. If England leaves the EU, then the regulations of the EU will not be binding on them, which means that HSBC`s management will be left to manage a low leverage ratio as required. Other operations in Europe will be done according to the EU regulations.

6.38. Provision for Loan Loss

HSBC as a parent company and all its subsidiaries have being under investigations, which requires them to provide lots of documentation to investigate their operations. As a leading lender, HSBC`s provisions have to be huge figure as it was stated in the New York Times. The New York Times published an article by Chad Bray on Feb 22, 2016 states “The quarter also included loan-impairment charges and provisions for credit risks of $1.64 billion and a reduction in the fair market value of its debt”, the author of this article said that HSBC`s quarterly result shows less, because of the restructuring cost and other regulatory and legal provisions. For HSBC the provisions are very necessary to take be huge sums, their credit risk increased because of other factors such as oil and gas prices, which cause some hindrance for its debtor. The banks provision for loan loss will now be under pressure, because of the present regulation on money to be available to some Chinese investors to buy estates in the USA. While the bank on one hand will be borrowing from money lender, which requires interests and on the other customers are withdrawing their deposits, this can reduce their capability to make provision for default customers.

6.39. Loan Loss

HSBC is a big lender in the industry, because of the present situation with the bank. In the Bloomberg`s article written by Stephen and Alfred on Feb 22. 2016 there “The increase in bad-loan charges in HSBC`s wholesale banking division, which account for almost $1 billion of loan impairment charges in the quarter, was driven by the oil and gas sector”. The author thinks that HSBC is experiencing tough times with the rate of revenue and cost growth, net interest income has fallen and the operating cost rose. Now the HSBC is experiencing a declining in their credits, which is not encouraging for a bank as majority of the earning comes from this activity. The oil and gas prices also contributed greatly in increasing loan loss, as HSBC`s customers experience low prices as a result low oil and gas prices.

6.40. Non-performance Ratio

In an article internet news called The National written by Sean Cronin on Feb 7, 2016 stated "Lenders are reporting a sharp rise in non-performing loans that started among small companies and its extending to larger corporate as firms seek to conserve cash and governments face funding pressures because of the weak oil price". The writer thinks that banks such as HSBC is taking high precaution against the non-performing loans, by cutting jobs, with the anticipation of lower growth. The writer further stated that banks are retreating from their regular operation of lending to small businesses, because of fear that their customers might default in payment. For the HSBC this is not just about conserving the cash, but where can these cash be reinvested is a matter of priority now. The loans the HSBC gives out to customers, especially the small businesses now under pressure because of the effect of the weak oil price is the main area of the bank`s business activities. The HSBC has to find other alternatives, such as finding new customers with the lowest risk and cost cutting strategy.

6.41. Operating Efficiency

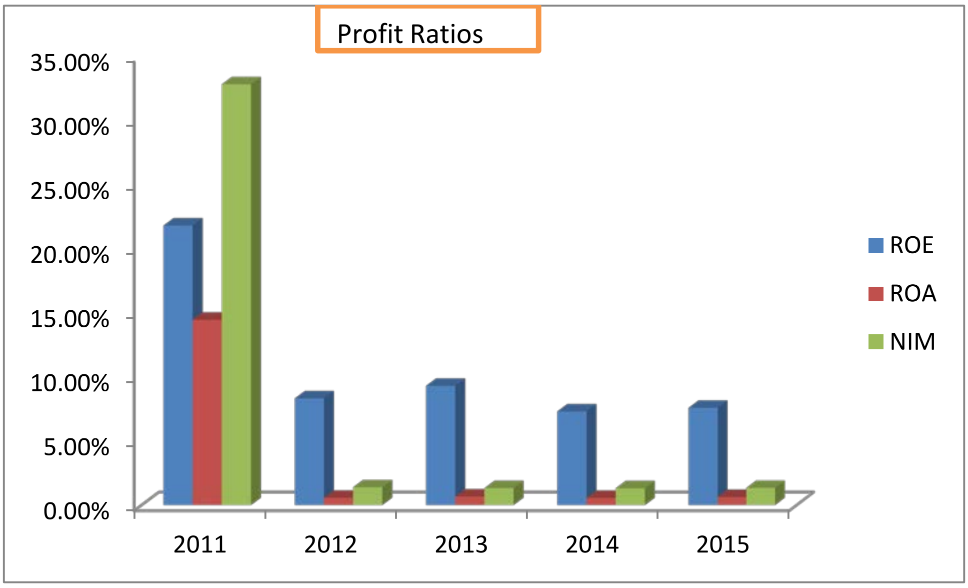
HSBC has being incurring cost relating to paying fines, which it`s still paying. Its main objective which is to maximise the owners wealth if not too fulfilling will cause a negative towards the profit. An article in the Guardian written by Allister Health dated on Feb 23, 2015 states "The banking sector`s central problem is that large swathes of it – and not just HSBC – are still consuming more wealth than they are producing". The writer of this article believes that banks, including HSBC are aiming for too much and also have often mispricing risks in their business activities. It is true that banks are asking for interest far beyond expectations. For bank such as HSBC in the banking institution has to keep huge sum as capital buffer (mandatory), which is not allowing such bank to make use of the money. They have to squeeze extra for interest on borrowing to balance their interest expenses, which if it`s not well manage will not yield the value of its shareholders. For HSBC to be considered as efficient in operations, because its activities are collecting deposits and borrowing from big lenders and balancing with higher interest is the best it can do to keep the business operations.

6.42. ANALYTICAL PART

6.42.1. Profit Ratios

Profitability is what shows how effective HSBC has been in business operation, to an extend it reveals the quality of decisions that the management team have made in the past years. We should take a closer look at the two classes of ratios set in percentages, the profit ratios and the unrevealing profit ratios for the period 2011 to 2015 in order to portray the true picture of HSBC`s profitability trend.

Figure 1: Profit Ratios (%)



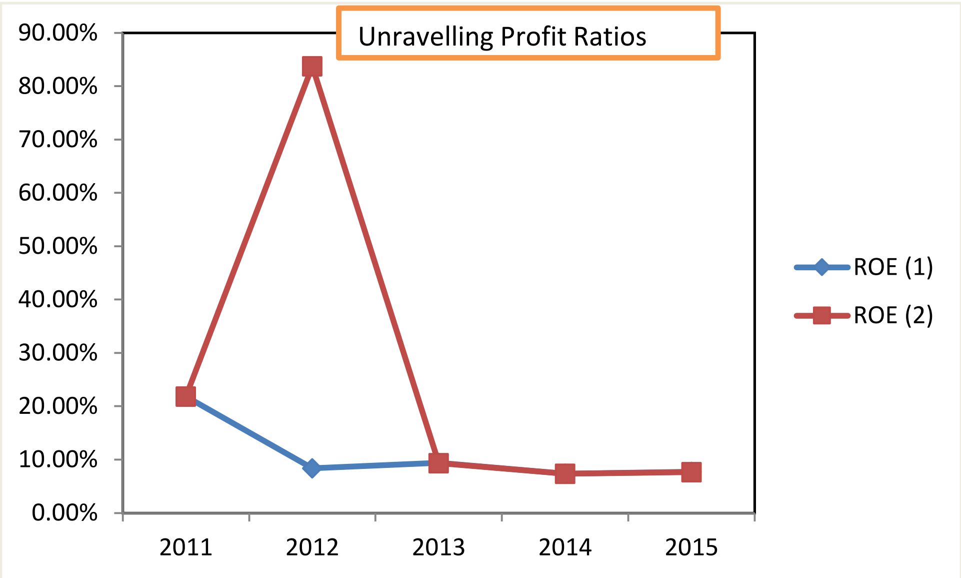
Source: HSBC`s financial statements (2011-2015). Own Computation

HSBC`s ROE has not recovered much unto the last year of comparison (2015). From year 2011, the highest percentage of 21.83% has being decreasing throughout till 2015 to a percentage of 7.64%. This important profitability ratio fell drastically, which is not an encouragement for potential investor, because this is the most looked out for ratio by investors in profit ratios. The 2011 performance in ROE is seen to have been influence by a very high profit, the second in the analyzed period and the lowest tax rate. This is evidence of efficient management decisions in the direction of the growth of the bank. All the remaining years performance have not been encouraging, they decreased in performance and stayed at a particular range and have not recovered.

The ROA of HSBC follows the trend of ROE throughout the compared period in a lower level. It seems that the management of the financial decisions in HSBC have not been efficient enough to squeeze the returns from its assets. Assets of HSBC have being increasing from up to 2014, and the use of these assets have returned very little, only in the last year when the assets drop then it started making progress in ROA.

The net interest margin (NIM), which is the basic activity of HSBC showed the sharpest fall. The year 2011 was 33%, followed by a very large decrease of about 31% and stayed at this level unto 2015. This ratio represent the difference between the bank`s lending and the cost of borrowing, which are reflecting low yield throughout unto the year 2015. This might have been responsible for low assessments of the credit analysts in lending-out money. All three ratios provide a clear picture of the bank`s performance.

Figure 2: Unrevealling Profit Ratio (%)



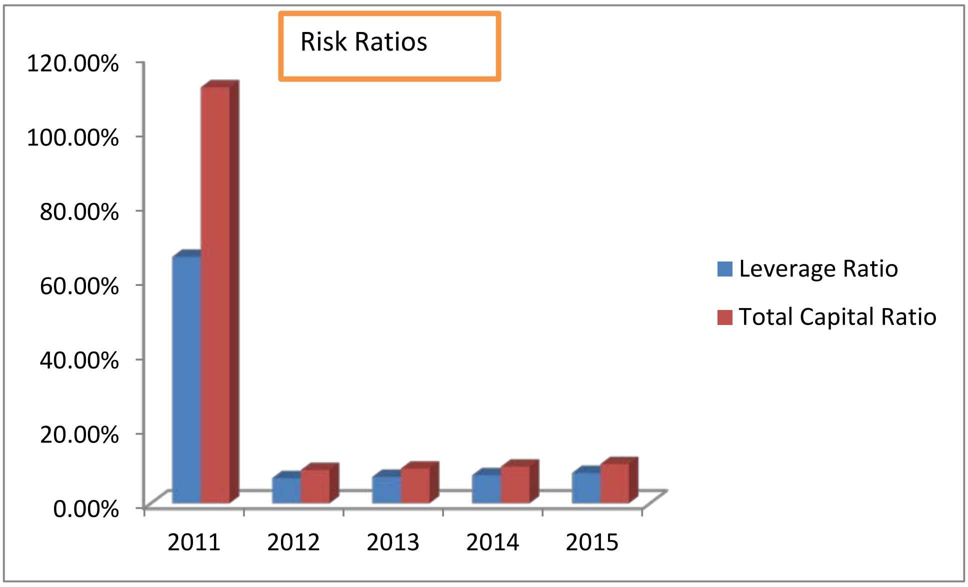
Source: HSBC`s financial statements (2011-2015). Own computation

ROE (1) and ROE (2) are various manipulations that could be done to increase the return on equity. The first is an idea to decrease the equity, so that the bank can increase it ROE at any given amount of return on assets. The decrease from 2011 to 2012 is because HSBC increased the equity and this kept the ROE (1) low and continued to the last year. The increase or decrease is explained by the equity multiplier, the ratio of total assets to total equity. For HSBC this means it could have increased its ROE if the ratio of total assets to total equity were higher, this would have been fulfilled by decreasing its equity. The second is an idea that if the first condition did not increase the ROE, then the other item could cause the increase is profit margin that might result to cutting cost to improve savings. The opposite happened in ROE (2) from 2011 to 2012 the ROE went straight up at about 75% and fell way down again to 9% and stayed below it unto 2015. The great increase in 2012 is explained by the profit margin of HSBC in that year that could have increased the ROE if equity multiplier or the return on assets could not have done so.

6.42.2. Risk Ratios

The ratio will determine the level of risk-weighted assets of the bank, which are assets of the bank measured according to the risk attached to them. It reveals the level of leverage of HSBC`s assets.

Figure 3: Risk Ratio (%)



Source: HSBC`s financial statements 2011-2015. Own computation

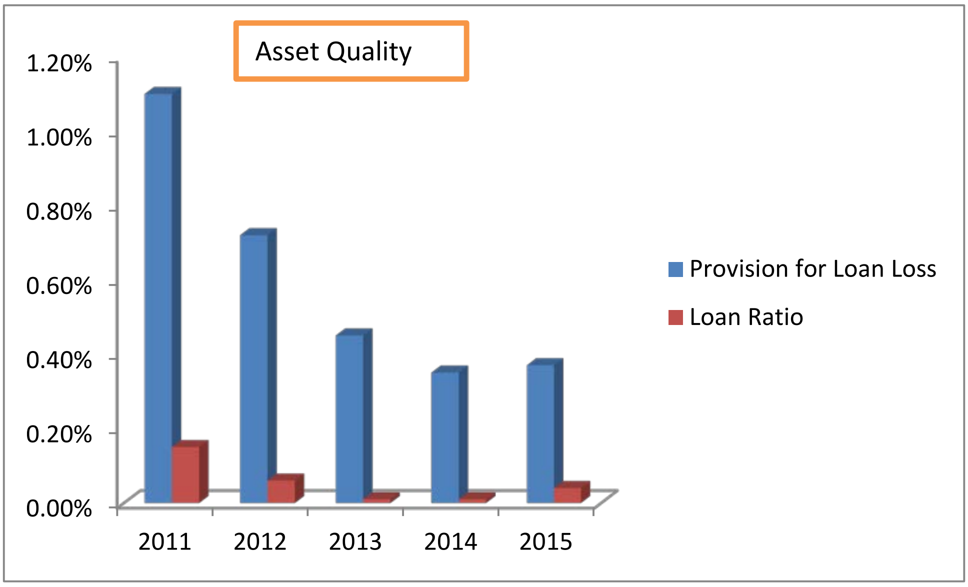
The leverage ratio here taken into consideration is the total equity against the total assets, HSBC though it was a strong bank it shows a high degree of indebtedness in 2011. In 2012 the level of leverage came as low as 6.8%, this was a period when borrowing was difficult because most people were not willing to take their money to the bank, this could have contributed to the low leverage. Many institutions were not willing to give out loans. The following 2013 to 2015 the leverage started rising at a very slow rate, this was the period when the EU was trying to cut the interest rate, it was now possible to borrow money at a low interest rate, since people and businesses are now putting their into banks. This directly reflected the period from 2013 to 2015 as shown in the figure above.

In the same figure above is the total capital ratio, which takes into consideration the total assets as against the equity and debts show consistency with the leverage ratio, because the ratios have very small differences between them. The periods as well correspond in the same trend with the leverage ratio. The lower the leverage the better it will be for the bank. According to the trend of the HSBC`s risk ratios it appear that the higher the leverage the higher the profitability ratios. The period of the high leverage suggest that HSBC was holding large sums of money which was available for investment purpose. The last year, 2015 reveals a pattern of recovery, as the bank`s performance starts increasing.

6.42.3. Asset Quality

Asset quality is an indication of the quality of the bank`s assets, which the management has used in the form of giving out loan to earn interest from it.

Figure 4: Asset Quality (%)



Source: HSBC`s financial statements 2011-2015 (Own computation)

The asset quality of HSBC as shown in the above figure has being steadily declining throughout the years till 2015, where it made a change in the downward trend by increasing to 0.37%. The bank depends on giving out loans to earn income a decreasing rate is most desired result in this measurement. The declining trend in the provision for loan loss shows that throughout the period from 2011 to 2014 the assets of HSBC have being reducing the rate of bad debts, which is a good indication of the efficiency of

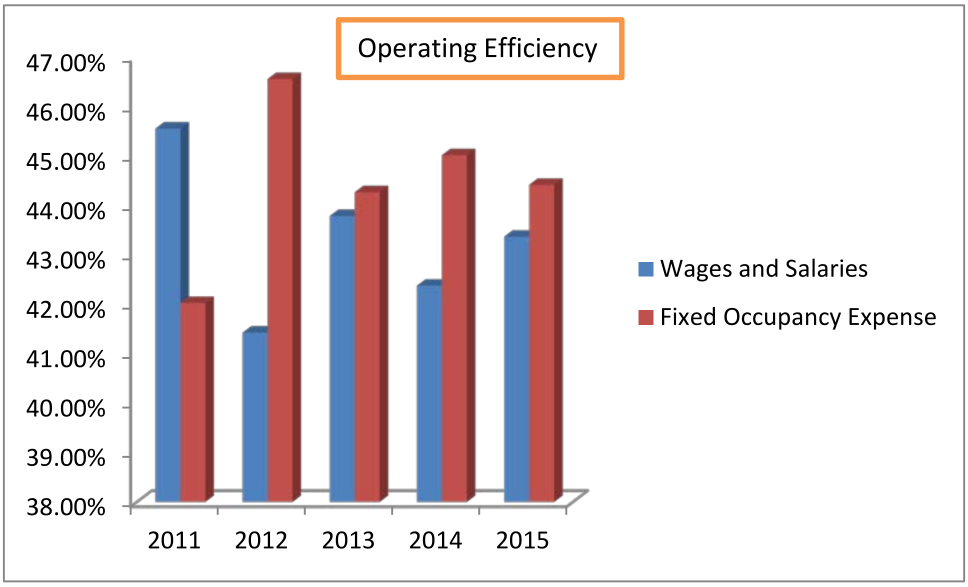
HSBC`s assets management team. In 2015 we see that this trend the opposite direction, which turns again the bank`s level of provision for loan loss up by 0.02%.

The loan ratio revealed a decreasing pattern in the rate of loss in loans giving out. From the year 2011 to 2013 it has being decreasing down to 0.01%, and stayed the same for the following year, but in 2015 we see how it increased up to 0.04%. The trend of the loan ratio corresponds to the provision for loan loss.

6.42.4. Operating Efficiency

Operating efficiency here is the outcome of management ability in taking appropriate decisions in the most basic activities of the bank. These decisions lead to cost reduction and saving.

Figure 5: Operating Efficiency (%)



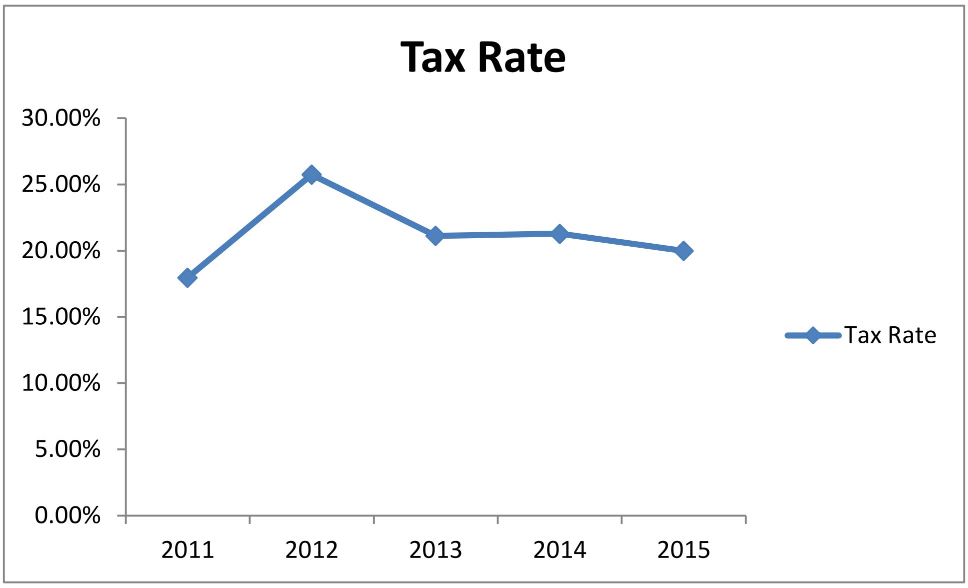
Source: HSBC`s financial statements 2011-2015 (Own computation)

The operating efficiency shown from the above figure reveals the pattern between the two main expenses of HSBC. The wages and salaries expenses in the year 2011 are above the fixed occupancy expense, but from 2012 to 2015 the fixed occupancy expense was laying above wages and salaries expenses. In 2011 the wages and salaries were 4% above the fixed occupancy, and in the following year it decreased by 4% while the fixed occupancy made an increment of 4%. In 2013 was the closest in percentage between them, the wages and salaries were 43.78% while the fixed occupancy was 44.26%, the following year the fixed occupancy was up again by 3% above the wages and salaries. The final year shows the second closest percentage again between them, by 2% the fixed occupancy above the wages and salaries. In the above figure we observe how the struggle between the two expenses of the bank keep altering in percentage, they were far apart in both 2011 and 2012, and 2013 when they were closest, all these years the bank has been earning higher income when compared to the last two years. In the last two years the differences between the two expenses were smaller in comparison to the first two years, but with smaller incomes. The trends at separate glance reveal that as one expense is increasing so the other is decreasing and vice versa.

6.42.5. Tax Rate

The figure below shows the percentage of tax paid to their respective governments. Tax here includes current, deferred tax, and is paid when they are called for irrespective of the time in which they are incurred. This rate is an average of all the different taxes according to the various tax rate enacted, since countries differ in taxes and some even give some incentives for small or no tax.

Figure 6: Tax Rate (%)



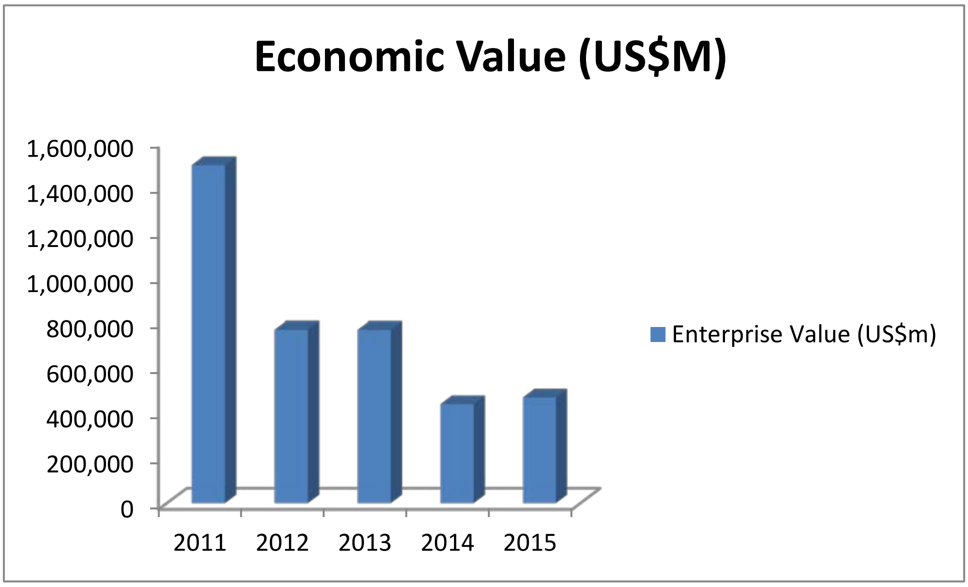
Source: HSBC`s financial statement 2011-2015 (Own computation)

As show in the above figure the tax is highest in 2012. In the accounting system of HSBC, taxes paid in a particular year are not only on expenses incurred in the present year, they can also make provision for any potential current liability (HSBC`s note, 2012), but also the deferred taxes. The tax in 2012 was high because the profit before tax showed reduction of 2% when compared with the previous year. The same is observed in the following year when the profit before tax increased by 4% the tax again decreased. After 2013 the trend remains in a decreasing order, the higher the ration between the tax expense and profit before tax the higher HSBC is paying out of its profit.

6.42.6. Enterprise Value

The enterprise value shows the level of capital that remains in HSBC after all costs have been deducted, which in a wider sense could reveal the value of the bank. The level of amount in US$ in the figure below shows the value of HSBC at the end of each year, which is a reasonable representation of the bank`s total value.

Figure 7: Enterprise Value (US$M)



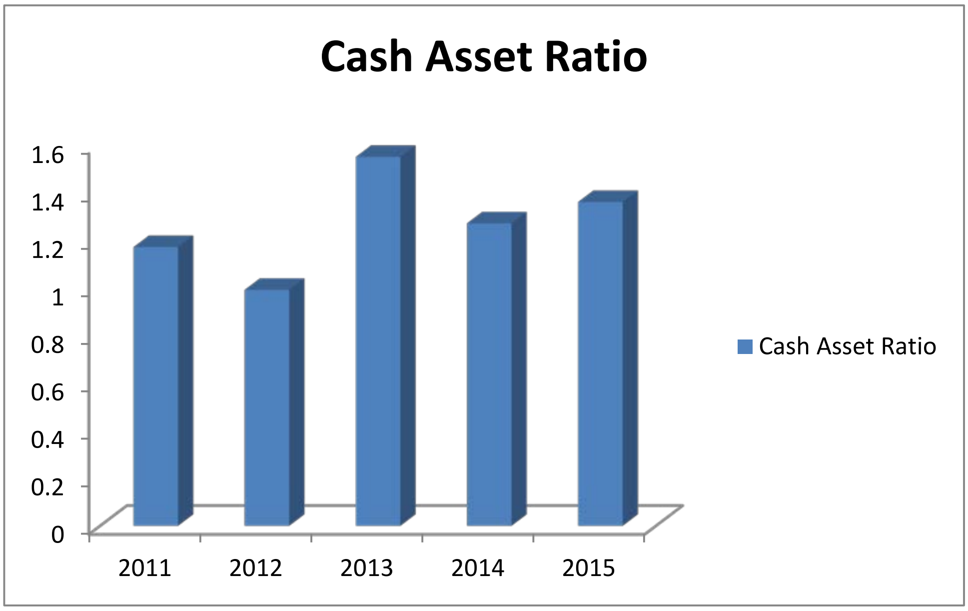
Source: HSBC`s financial statements 2011-2015 (Own computation)

The economic value represents the capital structure of HSBC in the following years for the analysis. The figure above shows how the debts and equity are reducing, the greatest difference was between 2011 and 2012 where the economic value decreased by 32%. The difference between 2012 and 2023 is very small, but the following year 2014 reveals another decreased of 28% from the previous year. It started recovering in 2015 with an upward movement with an increment of 4%.This is not a good indicator for investor, as this figure is very important for them to assess the rate at which management is able to increase the value of the bank. This exposes the bank to higher competition in the industry, especially with a continuous declining over a three year period. The reason for such reduction in the banks economic value might have been because of failing to earn on its interest rates, but obviously is more likely due to the fines relating to bad investment practice of the bank.

6.42.7. Cast Asset Ratio

The cash asset ratio will show the ability of the bank to pay its short-term liabilities. Though this measurement can differ according to the size of the industry, but the trend will be looked at to see how capable it has been during the compared period. In this measurement of liquidity the most current assets were used to represent this liquidity performance.

Figure 8: Cash Asset Ratio



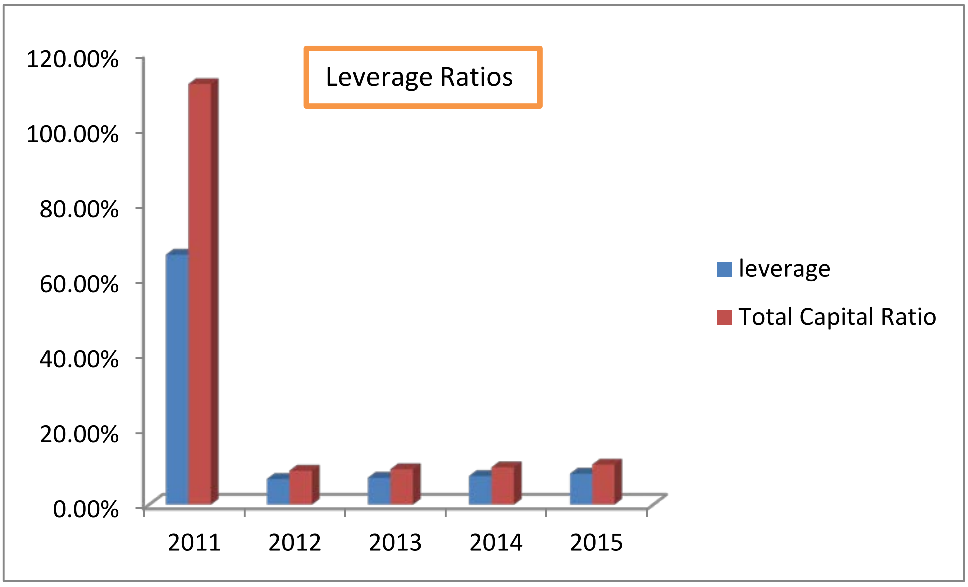
Source: HSBC`s financial statements 2011-2015 (Own computation)

In the above graph, we see that at the beginning the bank was just keeping with meeting its immediate obligations, and as time went on in it increased and later decreased, but the very last year shows an upward direction again. At the start of the period the bank profits were high unto 2013, where it made the largest profit among the years analyzed, its cash asset ratio went to the level of 1.5 showing that the bank is capable of paying its current obligations one time and half, which for such a huge company is a sign of good performance, taking into consideration the amount of borrowing and lending they are involved in. This ratio fell back in 2014, but immediately recovered again the following year. During these two years, 2014 and 2015 the bank did not make any increment as regards to profit when compares with the previous three years. But they were at the position to pay their current obligation as they fall due. One of the reasons why the bank has been holding larger sums of cash was caused by the large amount customers' deposits, which an advantage on the part of the bank due to it size. Through this it has showed how the bank had exhibited strong ability especially in the last two years.

6.42.8. Leverage Ratios

The leverage ratios here will consider the equity adjustment and the total debt which are used to show how HSBC`s financing is well enough or inadequate in paying its long-term debts.

Figure 9: Leverage ratios (%)



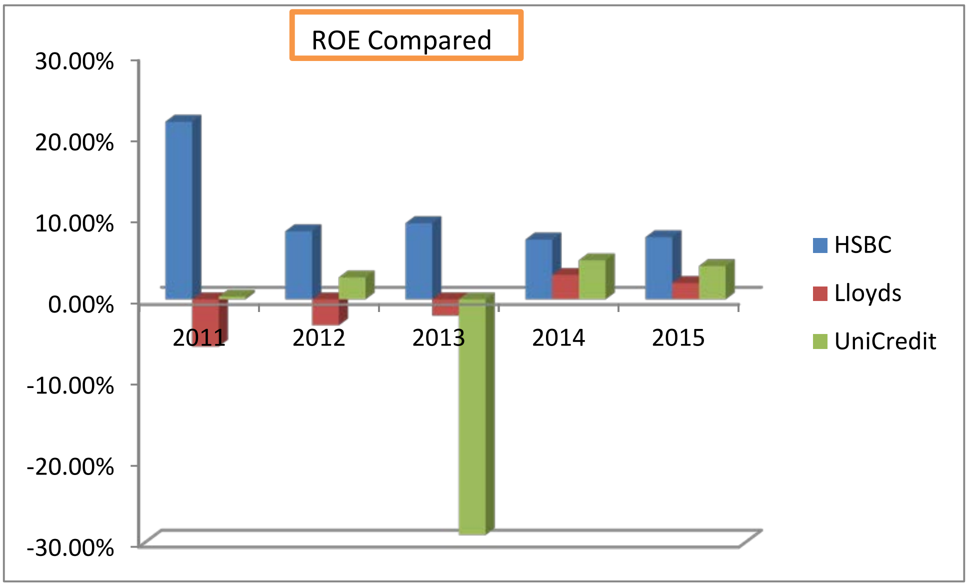
Source: HSBC`s financial statements 2011-2015 (Own computation)

The bank at the very start of the analytical period its leverage was very high, but as the years compared start progressing it fell sharply and starts recovering at a very small pace as the year progress unto 2015. For the first years of this period the bank`s debt was financed by 66.35% of equity amount, the following year the bank`s debt finance very low, the debt was finance by about 6% of equity and started rising again by 1% from 2014 unto 2015. The total debt of HSBC follows just the same pattern of the equity leverage. The first year of the total capital ratio it shows a vast difference when compared it with just the equity debt of the bank in the preceding years. The rest of the four years onto 2015 the differences were quiet minimal and the leverage stayed at 10%, which was the maximum total capital ratio in 2015. The reason for the high leverage in the first year was due to large amount of borrowing and at the same time equity amount was increasing. The following year the equity number increased and kept increasing for all preceding years, but the percentage of equity leverage was very small. The bank has been paying fines from different countries, because of its involvements in investment scandals. The bank has also taken good advantage in the use of deposits.

6.42.9. Analysis for comparison

The ratio analysis below covers the profitability ratios of the selected banks, which are banks within the European Union, namely Lloyds Group Bank and UniCredit Bank. The aim is to show the trend of profitability of these banks in comparison with that of HSBC`s during the period from 2011 to 2015. The measurement will include ROE, ROA and NIM, which are common among these banks for measuring profitability.

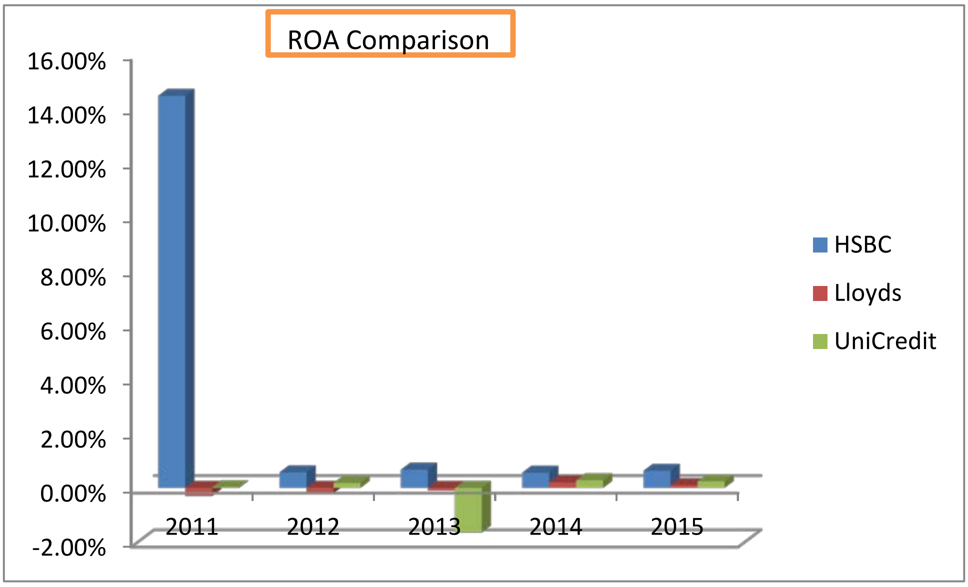
Figure 10: ROE of banks (%)



Source: Financial statements of 2011-2015 HSBC, Lloyds and UniCredit (Own computation)

The figure above shows distinctively throughout the period how HSBC`s ROE was floating high among the rest of the compared banks. The ROE of HSBC started high and the following year it drops and stay down, while struggling here to recover it still stayed above the ROE`s of Lloyds and UniCredit. It a clear indication of why investors can still look up to HSBC as a bank worth to invest in. The two banks were struggling very much at the beginning of the period, but at the end during 2014 and 2015 they try very hard to increase their ROE below that of HSBC`s. The Lloyds bank showed a trend that is progressing, though at a level below HSBC and UniCredit. The UniCredit has a very unusual pattern; it can go to an extreme negative value and pick up greatly the next year. The HSBC has a decreasing trend, but seems to pick up slightly at the end of the period.

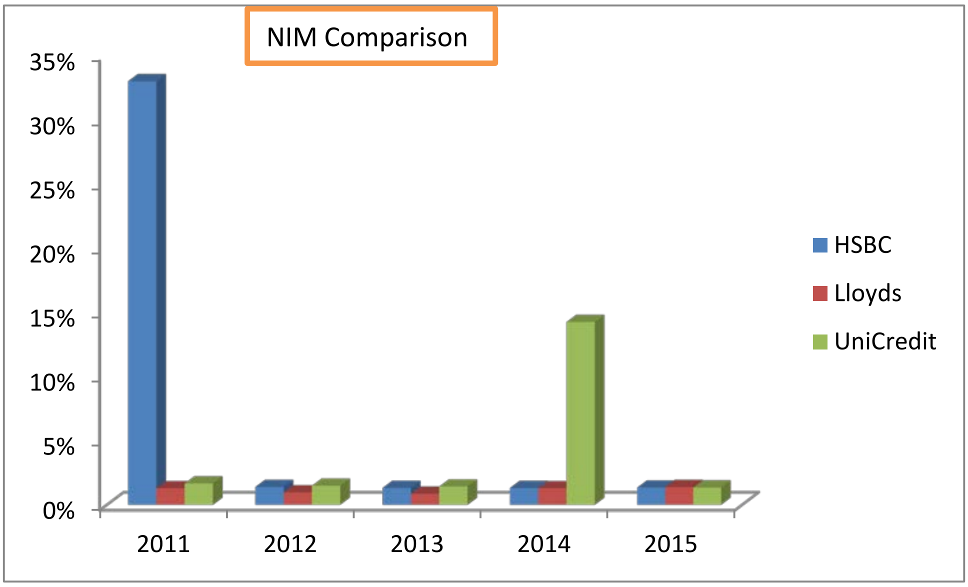
Figure 11: ROA of banks (%)



Source: Financial statements of 2011-2015 HSBC, Lloyds and UniCredit (Own computation)

The ROA ratio above again clearly shows how HSBC has a better asset management capability in comparison to the other banks. HSBC ROA stayed above it competitor even at its lowest level. The ROA of HSBC shows a difference of about 14% greater than all the banks compared, it again dropped to 1% in 2012 and stayed there unto 2015. The compared banks, Lloyds and UniCredit never equaled HSBC in all the years. The bank, HSBC showed more efficient in managing the assets to earn the profit of the bank. Though HSBC is the largest bank among the compared banks, performance can still be evaluated among institutions of different size. The trend of HSBC has been consistence since it fell from 2011 to 2012 at 1 percentage, the rest of the banks have not being able to reach 1 percent.

Figure 12: NIM of banks (%)



Source: Financial statements of 2011-2015 HSBC, Lloyds and UniCredit (Own computation)

Unlike the previous profitability measurement the NIM in the above graph tells a different story about the mentioned banks ability to earn in its activities of borrowing and lending money. At the start of the period 2011 HSBC as usual was 31% greater than the other banks, but the following year the UniCredit bank took the lead with 1.5% and continued till 2014 when it increased 13% above its competitors. The final year 2015 all the banks were about equal in NIM. The HSBC and Unicredit more or less showed similar pattern, while the Lloyds bank was soaring at 1% unto the last year. For the Lloyds bank the trend will not increase drastically, it will take a longer time to increase to a higher level. The HSBC has fallen and stayed at above 1% for the rest of the period, while the UniCredit has made an unexpected leap in 2014, this placed it at a position of high expectation for future growth.

6.42 10.Share Prices of Banks

The graph below is the market share price of the three banks compared. It is provided by the Bloomberg`s software for presenting share movement. The graph will clearly show how the prices of shares of these banks have being moving from 2011 to 2015.

Figure 13: Share prices (%)

Source: Bloomberg, Market, Data preparation. (Own generation)

From the above graph, the blue wave is representing the share`s of Lloyds and the yellow is for HSBC while the pink is for UniCredit. The UniCredit bank was below the other two banks right from the start and stayed way below them unto the very last year 2015. It shares never recovered to get back to the level where it started. The Lloyds appeared to show the highest about 18% at the end of 2015, it started low and decreased until mid of 2013 when it starts increasing unto 2014 and stayed between 18 to 20 percent. Likewise, the HSBC started at the same level as Lloyds with its lowest share price at about 36% in 2012, it started rising and gained it highest market share price about 18% in the second quarter of 2014. In 2015 the bank`s share price again started moving downward and at the end of the year it was about 1%, which placed it second position among its competitors in this period.

7. RESULTS AND DISCUSSION

The evaluation of HSBC`s ROE has not shown the returns of owners over the last five years in a manner that will encourage them, but in the very last year its ROE starts increasing just by 0.29%, which is less than 1% increment. At the end of the analyzed period the bank`s management was able to squeeze slightly more returns for owners from the assets when compared to the years that precede 2015. The size of HSBC does not matter when evaluating its efficiency, it`s completely meaningless, unless its assets generate reward for the owners. The ROA of the bank fell and never recovered, which explains a lot about why even the ROE was not improved, but just kept deteriorating. The bank can reduce its amount of equity and can still make a profit in the business activities, but its assets are what the investment activities of the bank profit. It is seen in the analysis that the percentage of the rate of loan to assets is highest in 2011, which implies that the amount of assets in the form of loan was the highest. All the profitability ratios of the bank are showing tendency of rising in the future, there might have been some good strategies put in place by the management.

The bank`s risk ratio showed a very sharp difference in 2011 compared with the rest of the period. 2011 was the period when the bank was coming out of the financial crisis, so the leverage level of HSBC was high, more likely because of the financial crisis that just finished before this period. In the following years the leverage of the bank was low continuously, as could be expected people were not willing to take their money to the banks, it could have been one of the many reasons why the degree of debt attached to its assets were low. From the sharp decrease in 2012, it started picking up at a very slow pace, just in the opposite direction as the total value of assets. This risk might continue but in a very slow manner, as the bank aims at reducing assets and amount of equity not in a drastic manner, but reasonable enough to maximize their shareholders return.

The quality of HSBC`s assets has been improving over the years, from year to year the percentage of provision for bad debts have being reducing unto 2014, but the last year 2015 showed an increased when compared with the previous year. The Asia region which is a major contributor to the HSBC Holding plc, especially China has being doing well in terms of the bank`s earning, which just shows how their clients have reduced defaults in payment over the years. If the bank was not involve in any serious crime as it was with the Swiss scandal, this reduction in the provision of loan loss, which is a positive indicator of clients compliance to payments could have been reflected in the profits of the bank. It is seen in the figure above that also that the amount loans were reducing until 2015 when they started increasing. The Chinese economy has being slowing down, and the citizens in 2015 have taken the opportunity of the flexibility of HSBC`s payment system, which cause the Chinese government to order banks not to give loans to certain citizens. This reason and the slow economy in China have not help the bank worldwide in its lending activities.

The efficiency which the bank has shown in managing its expenses has been irregular. In the first two years the difference between the bank`s major expenses have been far apart, but the last three years have very small differences between them. For the last three years the fixed occupancy expense has been greater than the wages and salaries. Fixed occupancy which includes rent which is very expensive, especially for such an institution as a bank, which is why it stayed above the wages and salaries expenses for all the years except the first. It showed a more consistent approach to the way they manage their expenses. The bank has succeeded in cutting the wages and salaries below the fixed occupancy, and this trend tends to continue in the near future as the bank is focusing on cutting costs.

The bank cannot influence the tax rate of a country; the percentage of tax rate can either encourage or discourage profits, except when other facilities like tax exemptions, which can have a greater influence on operational decisions. The trend of HSBC`s tax rate explained in average, because all the different tax rates of different countries in which HSBC operates are not uniform. It seem as if the movement is not strictly influence by any particular order, in 2012 the bank paid the highest tax even when the net income before tax of both years 2011 and 2013 were higher than 2012. The pattern of the tax rate in 2014 and 2015 show otherwise, this is clear evidence that the bank has little or no influence on tax rates imposed.

The economic value of the bank over the years has not recovered, which has placed the bank in a critical position for attracting investments. The value of the bank fell from about $1.5**B** in 2011 to $471**M** in 2015, which is 52% decrease in space of four years, the might take the bank more years in the future to return back to the economic value in 2011.

Investors are interested to invest in a company whose economic value is improving or at least not decreasing, because this shows how capable management is towards the improvement of the owners` equity value. The attractiveness of HSBC as the biggest bank in Europe is gradually loosing that fame if it should continue to reduce the market value, as the future is not so certain for the bank due to high levy and fines which could arise due to scandals of money laundry and other related practices.

The cash asset ratio of HSBC has a down and up movement, which is not too bad for a lending institution when considering the amount of risk involve the bank`s basic operations. The bank has been improving the amount of cash and cash equivalents it holds, it shows a trend that reveals how management immediately respond to drop in one year cash asset ratio by picking up with upward movement in the next year. This might have contributed greatly on the earning of the bank, because the short-term obligations have the tendency of speeding up the activities of finances of the bank. HSBC is always ready to make its payment, this evidence is shown in it flexibility in making payment to clients all over the world. The trend of the bank`s cash asset ratio shows how effective it can be in making payments, which will encourage its creditors to see the bank as trust worthy.

HSBC`s leverage for the year 2011 was very high,  a total over 111% when compared with the following years, but it fell too low and stayed at the level of 10% as the highest. Its leverage fell to about 90%, which is the last year`s percentage. From the year 2012 to 2015 the bank could boast its degree of leverage between 6 to 10 percentages. Though banks would like to keep leverage very low, it also reveal a sign of inefficiency, the more lower it gets the more riskier it can be for the bank.

The comparison of the profitability ratio showed different patterns among the banks. The Lloyds bank had a consistence pattern in its ROE throughout the period; it started with a negative ratio, but built up gradually unto the end of the period 2015 when the ROE rose to 2%. The UniCredit bank is a kind of irregular pattern, which could be very difficult to tell what progress of ROE it can achieve in the future, at least the last two years in this period showed that it can raise its ROE. The bank, HSBC showed decreasing trend with a slight increased in the last year, but it managed to stay above the ROE`s of its competitors throughout the period. The ROAs of the banks were a similar to the nature of their ROE, but the beginning of the period the difference between HSBC and the two banks so large that it could make up for the rest of the period. In the NIM again the Lloyds bank showed a consistence low percentage of NIM throughout the period. The UniCredit also followed a consistent low percentage, except for the year 2014 where it increased to 14% the highest for that year among the competitors, but fell again to 1% in 2015. The HSBC had the highest in 2011 at 33% which was the highest and in 2012 it fell down to 1.4% and stayed at that level for the rest of the period.

The market prices of the banks showed more competitiveness between Lloyds and HSBC, the UniCredit bank stayed below the other two banks, especially since 2012. Its share price continued to decrease below that of its competitors. For the Lloyds bank, at the beginning its share prices were below that of HSBC`s until about half way over the mid of 2014, then it starts increasing above HSBC for the rest of the period. The HSBC struggled to keep it pace below Lloyds for the rest of the period.

8. CONCLUSION AND RECOMMENDATIONS

The paramount ratio analysis which is an indicator of profitability as a result of good performance of business activities has revel that HSBC was not improved the returns, but has kept these returns at a reasonable level that its owners still find the bank attractive. It has shown its profitability among other big banks within Europe, and has proven from its records that despite the odd it faced with scandals. Notwithstanding its position in Europe as the biggest bank, it owes its owners to improve their returns, and also the banks total value should not continue to decreasing in the way it is doing now.

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. Its position as the biggest bank in Europe, which gives it advantage over other banks should serve as a warning. The bank should strategize its investment skills for a higher percentage than what it has done in the past period, by directing its investment in economies with growing market or market which is showing future economic growth.

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 results also reveal that the bank in comparison with others in Europe is the best in the measurement of profitability evaluation. Its market share currently is just below the Lloyds bank which has the highest share price among the compared banks, even though they were all decreasing. The bank, HSBC could be recommended for a choice of investment for investors. HSBC should improve the return on equity to encourage a higher market capitalization.

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 bank in Europe. Its size has also helped in maintaining the financial operations even when the bank`s total value is reducing, its position in Europe is maintained.

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10. SUPPLEMENTS

Table1: **Consolidated statement of cash flows for the year ended 31 December**

	2015	2014	2013	2012	2011
	$m	$m	$m	$m	$m
Cash flows from operating activities					
Profit before tax	18,867	18,680	22,565	20,649	21,872
Adjustments for:					
-net gain from investing activities	-1,935	-1,928	-1,458	-2,094	-1,196
-share of profits in associates and joint ventures, subsidaries and businesses	-2,556	-2,532	-2,325	-3,557	-3,264
-(gain)/loss on disposal of associates, joint ventures, subsidiaries and businesses	-	9	-1,173	-7,024	-
-other non-cash items included in profit before tax	10,765	11,262	11,995	19,778	19,878
-change in operating assets	65,828	25,877	-148,899	-116,521	-7,412
-change in operating liabilities	-106,762	-93,814	164,757	89,070	44,012
-elimination of exchange differenced	18,308	24,571	4,479	-3,626	10,840
-dividends received from associates	879	757	694	489	304
-contributions paid to defined benefit plans	-664	-681	-962	-733	-1,177
-tax paid	-3,852	-3,573	-4,696	-5,587	-4,095
Net cash generated from/(used in) operating activities	-1,122	-21,372	44,977	-9,156	79,762
Cash flows from investing activities					
Purchase of financial investments	-438,376	-384,199	-363,979	-342,974	-319,008
Proceeds from the sale and maturity of financial investments	399,636	382,837	342,539	329,926	311,702
Purchase of property, plant and equipment	-1,352	-1,477	-1,952	-1,318	-1,505
Proceeds from sale of property, plant and equipment	103	88	441	241	300
Net cash inflow/(outflow) from disposal of customer and loan portfolios	2,023	-1,035	6,518	-	-
Net cash inflow disposal of US branch network and US card business	-	-	-	20,905	-
Net investment in intangible assets	-954	-903	-834	-1,008	-1,571
Proceeds from disposal of Ping An	-	-	7,413	1,954	-
Net cash inflow/(outflow)from disposal of other subsidiaries, businesses, associates and joint ventures	8	-272	3,269	-2,073	151
Net cash generated from/ (used in) investing activities	-38,912	-4,961	-6,585	5,653	-9,931
Cash flows from financing activities					
Issue of ordinary share capital	147	267	297	594	96
Net sales/ (purchases) of own share for market-making and investment purposes	331	-96	-32	-25	-225
Net sales/(purchase) of own shares to meet share awards and share option awards	-	-	-	-	-136
Issue of other equity instruments	3,580	5,681	-	-	-
Redemption of preference share and other equity instruments	-463	-234	-	-	-
Subordinated loan capital issued	3,180	3,500	1,989	37	7
Subordinated loan capital repaid	-2,157	-3,163	-1,662	-1,754	-3,777
Net cash inflow/ (outflow)from change in stake in subsidiaries	-	-	-	-14	104

Dividends paid to shareholders of the parent company	-6,548	-6,611	-6,414	-5,925	-5,014
Dividends paid to non-controlling interests	-697	-639	-586	-572	-568
Dividends paid to holders of other equity instruments	-950	-573	-573	-573	-573
Net cash used in financing activities	-3,577	-1,868	-6,981	-8,232	-10,086
Net increase/ (decrease) in cash and cash equivalents	-43,611	-28,201	31,411	-11,735	59,745
Cash and cash equivalents at 1 January	301,301	346,281	315,308	325,449	274,076
Exchange differences in respect of cash and cash equivalents	-13,827	-16,779	-438	1,594	-8,372
Cash and cash equivalents at 31 December	243,863	301,301	346,281	315,308	325,449

Source: HSBC`s annual report 2011-2015

Table 2: **Consolidated balance sheet at 31 December**

	2015	2014	2013	2012	2011
	$m	$m	$m	$m	$m
Assets					
Cash and balances at central banks	98,934	129,957	166,599	141,532	129,902
Items in the course of collection from other banks	5,768	4,927	6,021	7,303	8,208
Hong Kong Government certificates of indebtedness	28,419	27,674	25,220	22,743	20,922
Trading assets	224,837	304,193	303,192	408,811	330,451
Financial assets designated at fair value	23,852	29,037	38,430	33,582	30,856
Derivatives	288,476	345,008	282,265	357,450	346,379
Loans and advances to banks	90,401	112,149	211,521	152,546	180,987
Loans and advances to customers	924,454	974,660	1,080,304	997,623	940,429
Reverse repurchase agreements - non-trading	146,255	161,713	-	-	-
Financial investments	428,955	415,467	425,925	421,101	400,044
Assets held for sale	43,900	7,647	4,050	19,269	39,558
Prepayments, accrued income and other assets	54,398	67,529	61,945	64,218	58,758
Current tax assets	1,221	1,309	985	515	1,061
Interests in associates and joint ventures	19,139	18,181	16,640	17,834	20,399
Goodwill and intangible assets	24,605	27,577	29,918	29,853	29,034
Property, plant and equipment	-	-	10,847	10,588	10,865
Deferred tax assets	6,051	7,111	7,456	7,570	7,726
Total assets at 31 December	2,409,656	2,634,139	2,671,318	2,692,538	2,555,579
Liabilities and equity					
Liabilities					
Hong Kong currency notes in circulation	28,410	27,674	25,220	22,742	20,922
Deposits by banks	54,371	77,426	129,212	107,429	112,822
Customer accounts	1,289,586	1,350,642	1,482,812	1,340,014	1,253,925
Repurchase agreements - non-trading	80,400	107,432	-	-	-
Items in the course of transmission to other banks	5,638	5,990	6,910	7,138	8,745
Trading liabilities	141,614	190,572	207,025	304,563	265,192
Financial liabilities designated at fair value	66,408	76,153	89,084	87,720	85,724
Derivatives	281,071	340,669	274,284	358,886	345,380
Debt securities in issue	88,949	95,947	104,080	119,461	131,013
Liabilities of disposal groups held for sale	36,840	6,934	2,804	5,018	22,200
Accruals, deferred income and other liabilities	38,116	46,462	46,606	47,046	41,073
Current tax liabilities	783	1,213	607	1,452	2,117
Liabilities under insurance contracts	69,938	73,861	74,181	68,195	61,259
Provisions	5,552	4,998	5,217	5,252	3,324
Deferred tax liabilities	1,760	1,524	910	1,109	1,518
Retirement benefit liabilities	-	-	2,931	3,905	3,666
Subordinated liabilities	22,702	26,664	28,976	29,479	30,606
Total liabilities at 31 December	2,212,138	2,434,161	2,480,859	2,509,409	2,389,486

Equity					
Called up share capital	9,842	9,609	9,415	9,238	8,934
Share premium account	12,421	11,918	11,135	10,084	8,457
Other equity instruments	15,112	11,532	5,851	5,851	5,581
Other reserves	7,109	20,244	26,742	29,722	23,615
Retained earnings	143,976	137,144	128,728	120,347	111,868
Total shareholders` equity	188,460	190,447	181,871	175,242	158,725
Non-controling interests	9,058	9,531	8,588	7,887	7,368
Total equity at 31 December	197,518	199,978	190,459	183,129	166,093
Total liabilities and equity at 31 December	2,409,656	2,634,139	2,671,318	2,692,538	2,555,579

Source: HSBC`s annual report 2011-2015

Table 3: **Consolidated statement of cash flows for the year ended 31 December**

	2015	2014	2013	2012	2011
	$m	$m	$m	$m	$m
Cash flows from operating activities					
Profit before tax	18,867	18,680	22,565	20,649	21,872
Adjustments for:					
-net gain from investing activities	-1,935	-1,928	-1,458	-2,094	-1,196
-share of profits in associates and joint ventures, subsidaries and businesses	-2,556	-2,532	-2,325	-3,557	-3,264
-(gain)/loss on disposal of associates, joint ventures, subsidiaries and businesses	-	9	-1,173	-7,024	-
-other non-cash items included in profit before tax	10,765	11,262	11,995	19,778	19,878
-change in operating assets	65,828	25,877	-148,899	-116,521	-7,412
-change in operating liabilities	-106,762	-93,814	164,757	89,070	44,012
-elimination of exchange differenced	18,308	24,571	4,479	-3,626	10,840
-dividends received from associates	879	757	694	489	304
-contributions paid to defined benefit plans	-664	-681	-962	-733	-1,177
-tax paid	-3,852	-3,573	-4,696	-5,587	-4,095
Net cash generated from/(used in) operating activities	-1,122	-21,372	44,977	-9,156	79,762
Cash flows from investing activities					
Purchase of financial investments	-438,376	-384,199	-363,979	-342,974	-319,008
Proceeds from the sale and maturity of financial investments	399,636	382,837	342,539	329,926	311,702
Purchase of property, plant and equipment	-1,352	-1,477	-1,952	-1,318	-1,505
Proceeds from sale of property, plant and equipment	103	88	441	241	300
Net cash inflow/(outflow) from disposal of customer and loan portfolios	2,023	-1,035	6,518	-	-
Net cash inflow disposal of US branch network and US card business	-	-	-	20,905	-
Net investment in intangible assets	-954	-903	-834	-1,008	-1,571
Proceeds from disposal of Ping An	-	-	7,413	1,954	-
Net cash inflow/(outflow)from disposal of other subsidiaries, businesses, associates and joint ventures	8	-272	3,269	-2,073	151
Net cash generated from/ (used in) investing activities	-38,912	-4,961	-6,585	5,653	-9,931
Cash flows from financing activities					
Issue of ordinary share capital	147	267	297	594	96
Net sales/ (purchases) of own share for market-making and investment purposes	331	-96	-32	-25	-225
Net sales/(purchase) of own shares to meet share awards and share option awards	-	-	-	-	-136
Issue of other equity instruments	3,580	5,681	-	-	-
Redemption of preference share and other equity instruments	-463	-234	-	-	-
Subordinated loan capital issued	3,180	3,500	1,989	37	7
Subordinated loan capital repaid	-2,157	-3,163	-1,662	-1,754	-3,777
Net cash inflow/ (outflow)from change in stake in subsidiaries	-	-	-	-14	104
Dividends paid to shareholders of the parent company	-6,548	-6,611	-6,414	-5,925	-5,014
Dividends paid to non-controlling interests	-697	-639	-586	-572	-568

Dividends paid to holders of other equity instruments	-950	-573	-573	-573	-573
Net cash used in financing activities	-3,577	-1,868	-6,981	-8,232	-10,086
Net increase/ (decrease) in cash and cash equivalents	-43,611	-28,201	31,411	-11,735	59,745
Cash and cash equivalents at 1 January	301,301	346,281	315,308	325,449	274,076
Exchange differences in respect of cash and cash equivalents	-13,827	-16,779	-438	1,594	-8,372
Cash and cash equivalents at 31 December	243,863	301,301	346,281	315,308	325,449

Source: HSBC`s annual report 2011-2015

Table 4: Consolidated statement of changes in equity for the year ended 31 December

	Called up share capital	Share premium	Other equity instruments	Retained Earnings	Other reserves	Total share-holders` equity	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m
At 1 January 2015	9,609	11,918	11,532	137,144	20,244	190,447	9,531	199,978
Profit for the year	-	-	-	13,522	-	13,522	1,574	15,096
Other comprehensive income (net of tax)	-	-	-	73	-13,135	-13,062	-887	-13,949
-available-for-sale investments	-	-	-	-	-2,332	-2,332	-740	-3,072
-cash flow hedges	-	-	-	-	-24	-24	-	-24
-remeasurement of defined benefit asset/liability	-	-	-	82	-	82	19	101
-share of other comprehensive income of associates and joint ventures	-	-	-	-9	-	-9	-	-9
-exchange differences	-	-	-	-	-10,779	-10,779	-166	-10,945
Total comprehensive income for the year	-	-	-	13,595	-13,135	460	687	1,147
Shares issued under employee remuneration and share plans	45	691	-	-589	-	147	-	147
Shares issued in lieu of dividends and amounts arising theron	188	-188	-	3,162	-	3,162	-	3,162
Capital securities issued	-	-	3,580	-	-	3,580	-	3,580
Dividends to shareholders	-	-	-	-10,660	-	-10,660	-697	-11,357
Cost of share-based payment arrangements	-	-	-	757	-	757	-	757
Other movements	-	-	-	567	-	567	-463	104
At 31 December 2015	9,842	12,421	15,112	143,976	7,109	188,460	9,058	197,518
At 1 January 2014	9,415	11,135	5,851	128,728	26,742	181,871	8,588	190,459
Profit for the year	-	-	-	13,688	-	13,688	1,017	14,705
Other comprehensive income (net of tax)	-	-	-	2,066	-6,507	-4,443	765	-3,678
-avaiable-for-sale investments	-	-	-	-	2,025	2,025	947	2,972
-cash flow hedges	-	-	-	-	189	189	-1	188
-remeasurement of defined benefit asset/liability	-	-	-	1,986	-	11,986	-1	1,985
-share of other comprehensive income of associates and joint ventures	-	-	-	80	-	80	-	80
-exchange differences	-	-	-	-	-8,723	-8,723	-180	-8,903
Total comprehensive income for the year	-	-	-	15,754	-6,507	9,245	1,782	11,027
Shares issued under employee remuneration and share plans	60	917	-	-710	-	267	-	267
Shares issued in lieu of dividends and amounts arising theron	134	-134	-	2,709	-	2,709	-	2,709
Capital securities issued	-	-	5,681	-	-	5,681	-	5,681
Dividends to shareholders	-	-	-	-9,893	-	-9,893	-712	-10,605
Cost of share-based payment arrangements	-	-	-	732	-	732	-	732

Other movements	-	-	-	-176	11	-165	-127	-292
At 31 December 2014	9,609	11,918	11,532	137,144	20,244	190,447	9,531	199,978
At 1 January 2013	9,238	10,084	5,851	120,347	29,722	175,242	7,887	183,129
Profit for the year	-	-	-	16,204	-	16,204	1,596	17,800
Other comprehensive income (net of tax)	-	-	-	-561	-2,999	-3,560	-187	-3,747
-available-for-sale investments	-	-	-	-	-1,577	-1,577	-141	-1,718
-cash flow hedges	-	-	-	-	-128	-128	-	-128
-remeasurement of defined benefit asset/liability	-	-	-	-490	-	-490	32	-458
-share of other comprehensive income of associates and joint ventures	-	-	-	-71	-	-71	-	-71
-exchange differences	-	-	-	-	-1,294	-1,294	-78	-1,372
Total comprehensive income for the year	-	-	-	15,643	-2,999	12,644	1,409	14,053
Shares issued under employee remuneration and share plans	60	1,168	-	-931	-	297	-	297
Shares issued in lieu of dividends and amounts arising theron	117	-117	-	2,523	-	2,523	-	2,523
Dividends to shareholders	-	-	-	-9,510	-	-9,510	-718	-10,228
Cost of share-based payment arrangements	-	-	-	630	-	630	-	630
Other movements	-	-	-	26	19	45	10	55
At 31 December 2013	9415	11,135	5,851	128,728	26,742	181,871	8,588	190,459
At 1 January 2012	8,934	8,457	5,851	111,868	23,615	158,725	7,368	166,093
Profit for the year	-	-	-	14,027	-	14,027	1,307	15,334
Other comprehensive income (net of tax)	-	-	-	321	6,107	6,428	106	6,534
-available-for-sale investments	-	-	-	-	5,010	5,010	60	5,070
-cash flow hedges	-	-	-	-	108	108	1	109
-remeasurement of defined benefit asset/liability	-	-	-	-212	-	-212	17	-195
-share of other comprehensive income of associates and joint ventures	-	-	-	533	-	533	-	533
-exchange differences	-	-	-	-	989	989	28	1,017
Total comprehensive income for the year	-	-	-	14,348	6,107	20,455	1,413	21,868
Shares issued under employee remuneration and share plans	119	1,812	-	-1,337	-	594	-	594
Shares issued in lieu of dividends and amounts arising theron	185	-185	-	2,429	-	2,429	-	2,429
Dividends to shareholders	-	-	-	-8,042	-	-8,042	-707	-8,749
Tax credit on distributions	-	-	-	32	-	32	-	32
Own shares adjustment	-	-	-	2	-	2	-	2
Cost of share-based payment arrangements	-	-	-	988	-	988	-	988
Income taxes on share-based payments	-	-	-	42	-	42	-	42
Other movements	-	-	-	-26	-	-26	-20	-46
Acquisition and disposal of subsidiaries	-	-	-	-	-	-	-108	-108
Changes in ownership interests in subsidiaries that did not result in loss of	-	-	-	43	-	43	-59	-16

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At 31 December 2012	9,238	10,084	5,851	120,347	29,722	175,242	7,887	183,129
At 1 January 2011	8,843	8,454	5,851	99,105	25,414	147,667	7,248	154,915
Profit for the year	-	-	-	16,797	-	16,797	1,147	17,944
Other comprehensive income (net of tax)	-	-	-	368	-1,799	-1,431	-109	-1,540
-available-for-sale investments	-	-	-	-	716	716	-42	674
-cash flow hedges	-	-	-	-	190	190	-3	187
-remeasurement of defined benefit asset/liability	-	-	-	1,078	-	1,078	-69	1,009
-share of other comprehensive income of associates and joint ventures	-	-	-	-710	-	-710	-	-710
-exchange differences	-	-	-	-	-2,705	-2,705	5	-2,700
Total comprehensive income for the year	-	-	-	17,165	-1,799	15,366	1,038	16,404
Shares issued under employee remuneration and share plans	6	90	-	-	-	96	-	96
Shares issued in lieu of dividends and amounts arising theron	85	-87	-	2,232	-	2,230	-	2,230
Dividends to shareholders	-	-	-	-7,501	-	-7,501	-815	-8,316
Tax credit on distributions	-	-	-	128	-	128	-	128
Own shares adjustment	-	-	-	-361	-	-361	-	-361
Cost of share-based payment arrangements	-	-	-	1,154	-	1,154	-	1,154
Income taxes on share-based payments	-	-	-	21	-	21	-	21
Other movements	-	-	-	-75	-	-75	28	-47
Acquisition and disposal of subsidiaries	-	-	-	-	-	-	-252	-252
Changes in ownership interests in subsidiaries that did not result in loss of control	-	-	-	-	-	-	121	121
At 31 December 2011	8,934	8,457	5,851	111,868	23,615	158,725	7,368	166,093

Source: HSBC`s annual report 2011-2015