FINANCIAL ANALYSIS OF HSBC BANK USING CAMELS MODEL

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ABSTRACT :
This study assesses the financial performance of HSBC Holdings plc using the CAMELS model over a five-year period (2019-2023). Key areas analyzed include capital adequacy, asset quality, management efficiency, earnings, liquidity, and sensitivity to market risks. Findings show HSBC maintains a strong capital position, improved asset quality, and increasing revenue per employee, indicating operational efficiency. Earnings and liquidity have strengthened post-pandemic, reflecting better financial resilience. Sensitivity to market risks has also improved. The study concludes that HSBC remains financially stable but should continue focusing on profitability, cost efficiency, and sustainable banking initiatives.
Keywords: CAMELS model, HSBC, financial performance, banking sector.

INTRODUCTION OF THE STUDY:
The CAMELS model is a widely used framework for assessing the financial health and stability of banking institutions. It focuses on five key components: Capital Adequacy**,** Asset Quality**,** Management capability**,** Earnings**,** Liquidity and Sensitivity. This model provides a comprehensive approach to evaluating the various financial parameters that contribute to a bank’s overall stability and operational effectiveness. HSBC Bank, one of the largest and most influential global financial institutions, operates in over 60 countries and territories. Given its vast reach, diverse portfolio, and complex operational environment, assessing HSBC's financial strength through the CAMELS framework offers valuable insights into its ability to navigate market fluctuations, regulatory changes, and competitive pressures. HSBC's performance is particularly important not only for its stakeholders but also for the global banking system, given its systemic importance in international finance.

REVIEW OF LITERATURE:
1.Xu, Y. (2025). Empirical Analysis of HSBC, provides a comprehensive evaluation of HSBC’s financial performance from 2021 to 2024, analyzing key investment indicators and historical data. The study examines profitability trends, risk factors, and market positioning, highlighting HSBC’s strategic responses to global economic conditions. Xu’s findings contribute to existing literature by offering empirical insights into HSBC’s investment potential and resilience in fluctuating financial markets.
2. Ullah, N., & Asghar, U. (2023), critically assess the impact of loan defaults on HSBC’s profitability, emphasizing how non-performing loans affect financial stability. Their study explores risk management strategies and regulatory measures, providing insights into HSBC’s approach to mitigating credit risks. The findings contribute to the broader banking literature by highlighting the relationship between loan defaults and overall bank performance.

SCOPE OF THE STUDY:
This research conducts a detailed financial analysis of HSBC Holdings plc over a five-year period using the CAMELS model to assess its overall performance and stability. The study focuses on Capital Adequacy – Evaluating HSBC’s capital strength to determine its ability to absorb potential losses and maintain financial stability, Asset Quality – Assessing the quality of HSBC’s assets, including its loan portfolio, to measure credit risk and financial discipline, Management Efficiency – Examining HSBC’s cost control, resource allocation, and strategic decision-making to gauge operational effectiveness, Earnings Capability – Analyzing HSBC’s profitability, revenue generation, and the sustainability of

 https://doi.org/10.36893/JK.2025.V15I3.007

earnings in a dynamic financial environment, Liquidity Position – Reviewing HSBC's liquidity levels to assess its ability to meet short-term obligations and maintain financial resilience and Sensitivity - sensitivity to market risk, especially interest rate risk.This study provides valuable insights for management, investors, and policymakers by identifying HSBC's strengths and areas for improvement. Additionally, the CAMELS analysis helps benchmark HSBC's performance against industry standards, supporting informed decision-making and strategic planning in a highly competitive financial sector.

STATEMENT OF THE PROBLEM:

The global banking industry operates in a highly dynamic and competitive environment, where financial institutions face a range of challenges including market volatility, regulatory changes, technological advancements, and geopolitical risks. HSBC Bank, as one of the largest multinational banking and financial services organizations, must continually assess its financial strength and operational stability to maintain its market position and meet regulatory requirements.

The primary problem addressed in this study is to evaluate the overall financial health of HSBC Bank through the application of the CAMELS framework. Specifically, the study aims to identify the key factors that influence the bank's capital adequacy, asset quality, management capability, earnings performance, and liquidity position.

In light of the ongoing challenges faced by global financial institutions, it is essential to assess how well HSBC Bank is managing these aspects to ensure its long-term sustainability and resilience. The analysis will also highlight potential areas of concern and offer recommendations for improving the bank's performance, thereby contributing to its competitive advantage in the global banking sector.

OBJECTIVES OF THE STUDY:

1.To analyse the bank's Common equity tier 1 ratio (CET1) and ensure that it complies with international regulatory standards

2.To analyse the quality of HSBC's assets, focusing on the performance of its non-performing assets (NPAs) and provisioning strategies.

3.To analyse the effectiveness of HSBC's management in making strategic decisions, including risk management, governance, and operational efficiency.

4.To review HSBC's profitability through key financial ratios like Return on Assets (ROA), Return on Equity (ROE), and profit margins.

5.To examine the liquidity of HSBC by assessing its capacity to meet short-term obligations without incurring significant losses.

6.To assess the sensitivity of HSBC bank to market risks especially interest rate through Net interest income to total assets to total ratio.

RESEARCH METHODOLOGY:

The CAMELS model approach will be used to examine the financial performance of HSBC bank. In order to analyse the performance through CAMELS model, certain ratios are evaluated which are commonly used in the financial sector. Each element of the CAMELS framework requires unique tools.

DATACOLLECTION: :

This study will be base done secondary data collected from the bank's official website, audited financial statements and related documents for a time period of 5 years i.e.
2019-20 to 2023-24.

DATA ANALYSIS:

In this study the data will be analysed using CAMELS model and the following indicators will be used to analyse the data. The indicators used are as follows:

- Capital adequacy- Common equity tier 1 ratio (CET1)
- Asset quality- Gross NPA ratio (GNPAR)
- Management capability- Revenue per employee ratio (RPER)
- Earnings- Return on total assets ratio (ROTAR)
- Liquidity- Cash flow debt coverage ratio (CFDCR).
- Sensitivity- Total interest income to total assets ratio (TIITAR).

LIMITATIONS OF THE STUDY:

1. The study uses secondary data, which might not be accurate.
2. The five-year period doesn't show long term changes or other important factors.

ANALYSIS AND INTERPRETATION:

To provide a thorough analysis of the CAMELS model applied to HSBC Bank, we would need to break down the CAMELS framework into its key components.

CAPITAL ADEQUACY:

Capital adequacy is the statutory minimum reserves of capital which a bank or other financial institution must have available. Common equity tier 1 ratio (CET1) is the global financial indicator used to determine the capital adequacy of a company.

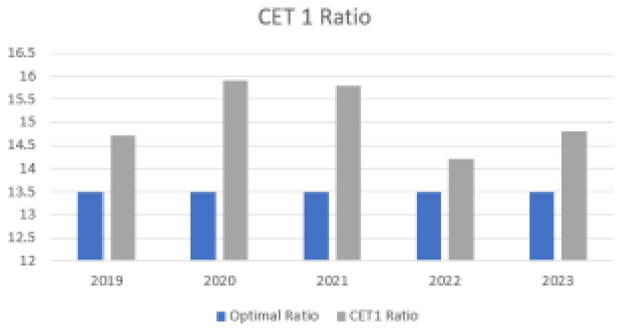
Common equity tier I Ratio (CET1)	$\frac{\text{Core capital}}{\text{Risk weighted assets}} \times 100$

Table No. 1.1 : CET 1 Ratio

(in billion dollar USD$)

Year	Tier 1 Capital (A)	Risk weighted assets (B)	CET1 Ratio (A/B)×100
2019	124	843.4	14.7
2020	136.1	857.5	15.9
2021	132.6	838.3	15.8
2022	119.3	839.7	14.2
2023	126.5	854.1	14.8

Source: Secondary data- HSBC Holdings PLC Annual Reports and Accounts, Pillar 3 Disclosures and Statista.



Interpretation

 https://doi.org/10.36893/JK.2025.V15I3.007

ISSN: 2278-4632
Vol-15, Issue-03, No.02, March: 2025

The above table 1.1 shows that HSBC appears to be in a stable financial position, maintaining a solid CET1 ratio over the years, with minor fluctuations due to changes in Tier 1 Capital and risk-weighted assets. The increase in 2023 shows resilience, which is positive for the bank's capital adequacy. The average optimal CET1 ratio for global banks is 13.5.

ASSET QUALITY:

Asset quality is an assessment of a bank's risk based on its investment and loan portfolios and other assets.

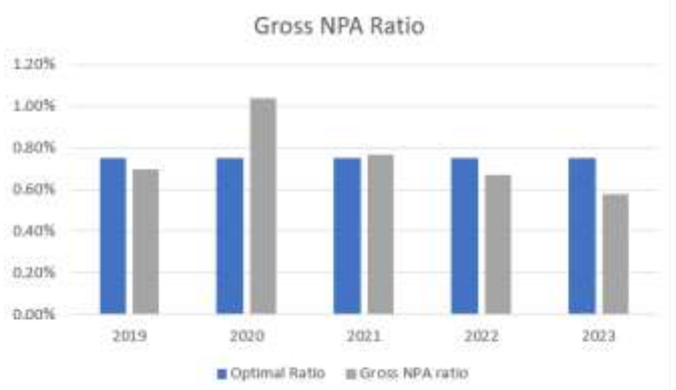
Gross NPA Ratio (GNPAR)	$\frac{\text{Gross non performing assets}}{\text{Gross Advances}} \times 100$

Table No. 1.2 : Gross NPA Ratio

(in billion-dollar USD$)

Year	Gross non-performing assets (A)	Gross advances (B)	GNPAR (A/B)×100
2019	7.3	1,036	0.70%
2020	10.82	1,041	1.04%
2021	8.13	1,057	0.77%
2022	7.26	1,084	0.67%
2023	6.35	1,102	0.58%

Source: Secondary data- HSBC Holdings PLC Annual Reports and Accounts, Pillar 3 Disclosures and Statista.



Interpretation

HSBC's Gross NPA Ratio fell from 1.04% in 2020 to 0.58% in 2023, showcasing strong risk management, credit policies, and financial discipline, making it one of the best in asset quality globally. The average optimal GNPA ratio for global banks is 0.70%.

MANAGEMENT CAPABILITY:

Management capability measures the ability of an institutions management team to identify and then react to financial stress. The category depends on the quality of a bank's business strategy, financial performance, and internal controls.

 https://doi.org/10.36893/JK.2025.V15I3.007

ISSN: 2278-4632
Vol-15, Issue-03, No.02, March: 2025

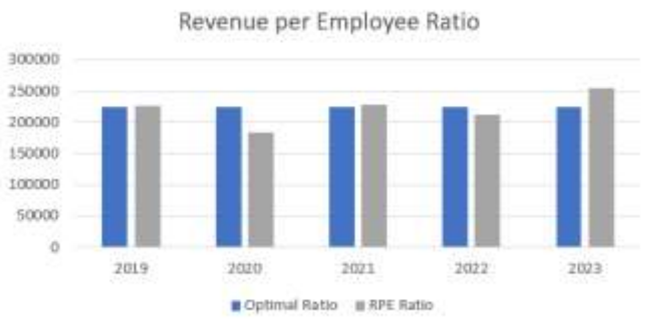
Revenue per employee ratio (RPER)	$\frac{\text{Total Revenue}}{\text{No of Employees}}$

Table No. 1.3 : RPE Ratio

(in billion-dollar USD$)

Year	Total revenue (A)	Current employees (B)	RPER (A/B)
2019	53.34	235,351	226,700
2020	41.61	226,059	184,000
2021	49.9	219,697	227,100
2022	46.36	219,199	211,500
2023	56.35	220,861	255,200

Source: Secondary data- HSBC Holdings PLC Annual Reports and Accounts, Pillar 3 Disclosures and Statista.



Interpretation

HSBC's management demonstrated strong financial discipline and adaptability between 2019-2023. The increase in RPER over time (especially in 2023) suggests improved operational efficiency and strategic execution, reinforcing high management capability in responding to financial stress. The average optimal revenue per employee ratio for large international banks is $225,000.

EARNINGS:

A bank's ability to produce earnings to be able to sustain its activities, expand, and remain competitive is a key factor in rating its continued viability.

Return on total assets ratio (ROTAR)	$\frac{\text{Net Income}}{\text{Total Assets}} \times 100$

Table No. 1.4 : ROTA Ratio

(in billion-dollar USD$)

Year	Net income (A)	Total assets (B)	ROTAR (A/B)× 100
2019	5.97	2,715	0.22%
2020	3.9	2,984	0.13%
2021	14.69	2,957	0.50%
2022	16.67	2,967	0.56%
2023	22.37	2,990	0.75%

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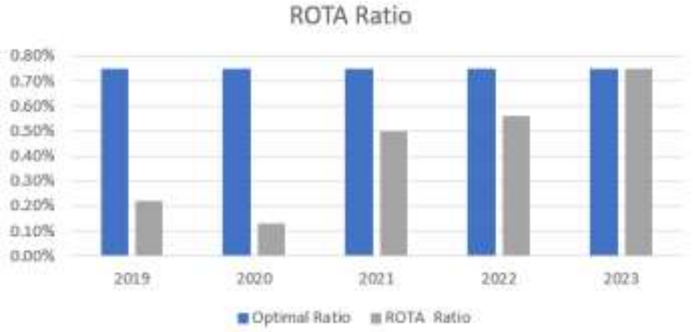
Source: Secondary data- HSBC Holdings PLC Annual Reports and Accounts, Pillar 3 Disclosures and Statista.



Interpretation

HSBC's management capability improved over time, evident in the rising ROA from 2021 to 2023. Despite the pandemic setback in 2020, the bank successfully navigated financial stress, increasing profitability while maintaining asset stability. The optimal return on total assets ratio for global banks is 0.75%.

LIQUIDITY:

Liquidity is crucial for a bank to meet short-term obligations, ensuring smooth customer withdrawals, strong loan funding, and stability during economic uncertainty. Higher liquidity enhances financial resilience and operational efficiency.

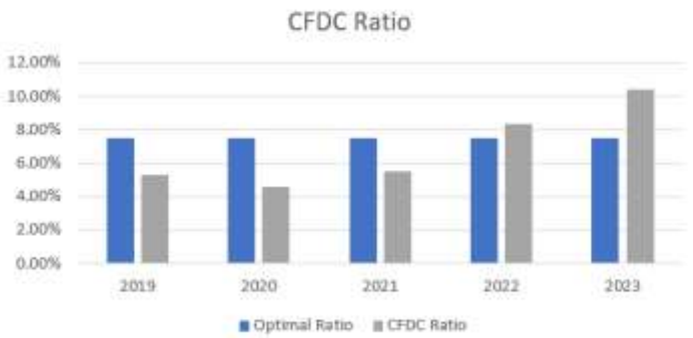
Cash flow debt coverage ratio (CFDCR).	$\frac{\text{Operating Cash Flow}}{\text{Total Debt}}$

Table No. 1.5 : CFDC Ratio

(in billion-dollar USD$)

Year	Operating cash flow (A)	Total debt (B)	CFDCR (A/B)
2019	18.08	342.49	5.28%
2020	15.77	343.69	4.59%
2021	17.83	322.64	5.53%
2022	26.46	316.35	8.37%
2023	32.12	309.18	10.39%

Source: Secondary data- HSBC Holdings PLC Annual Reports and Accounts, Pillar 3 Disclosures and Statista.



Interpretation

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HSBC has significantly improved its cash flow position post-pandemic, increasing CFDCR from 4.59% (2020) to 10.39% (2023). This reflects strong liquidity, better debt management, and financial resilience, reinforcing the bank's ability to withstand economic uncertainties.
The optimal average cash flow debt coverage ratio for large international banks is 7.5%.

SENSITIVITY:
Sensitivity covers how particular risk exposures can affect institutions. It is majorly concerned with risks related to interest rates.

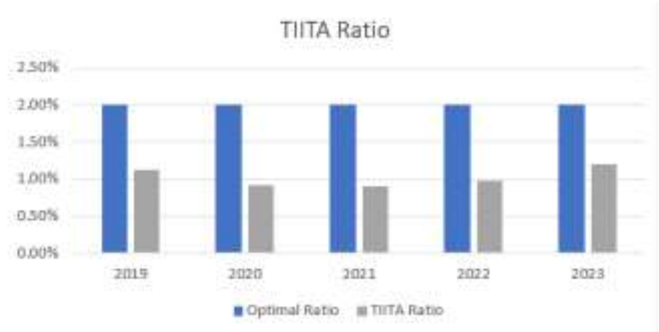
Total interest income to total assets ratio (TIITAR).	$\frac{\text{Total Interest Income}}{\text{Total Assets}} \times 100$

Table No. 1.6 : TIITA Ratio

(in billion-dollar USD$)

Year	Total interest income (A)	Total assets (B)	TIITAR (A/B)× 100
2019	30.46	2,715	1.12%
2020	27.59	2,984	0.92%
2021	26.49	2,957	0.90%
2022	28.88	2,967	0.97%
2023	35.96	2,990	1.20%

Source: Secondary data- HSBC Holdings PLC Annual Reports and Accounts, Pillar 3 Disclosures and Statista.



Interpretation
HSBC's Net Interest Income to Total Assets Ratio dropped in 2020-2021 due to the pandemic and low interest rates but started recovering in 2022. The sharp rise to 1.20% in 2023 shows stronger interest income and better asset utilization. A higher ratio means HSBC is earning more from its interest-based activities, which is good for profitability. The optimal total interest income to total assets ratio for global banks is 2%.

FINDINGS OF THE STUDY:
Capital Adequacy:
This institution appears to be in a stable financial position, maintaining a solid CET1 ratio over the years, with minor fluctuations due to changes in Tier 1 Capital and risk-weighted assets. The increase in 2023 shows resilience, which is positive for the bank's capital adequacy.
Asset Quality:
HSBC's Gross NPA Ratio fell from 1.04% in 2020 to 0.58% in 2023, showcasing strong risk management, credit policies, and financial discipline, making it one of the best in asset quality globally.
Management Capability:

HSBC's management demonstrated strong financial discipline and adaptability between 2019-2023. The increase in RPER over time (especially in 2023) suggests improved operational efficiency and strategic execution, reinforcing high management capability in responding to financial stress.

Earnings:

HSBC's management capability improved over time, evident in the rising ROA from 2021 to 2023. Despite the pandemic setback in 2020, the bank successfully navigated financial stress, increasing profitability while maintaining asset stability.

Liquidity:

HSBC has significantly improved its cash flow position post-pandemic, increasing CFDCR from 4.59% (2020) to 10.39% (2023). This reflects strong liquidity, better debt management, and financial resilience, reinforcing the bank's ability to withstand economic uncertainties.

Sensitivity:

HSBC's TIITA Ratio fell in 2020-21 due to the pandemic but rebounded in 2022, reaching 1.2% in 2023, reflecting strong interest income and asset utilization, boosting profitability.

SUGGESTION OF THE STUDY:

HSBC should enhance profitability by optimizing costs and diversifying revenue, maintain strong asset quality through better credit risk management, and boost operational efficiency with digital transformation. Strengthening liquidity management and expanding sustainable banking initiatives will further solidify its financial resilience and competitive edge in the evolving global market.

CONCLUSION OF THE STUDY :

HSBC Holdings plc has demonstrated strong financial stability and resilience over the past five years, as analyzed through the CAMELS model. The capital adequacy position remains solid, with CET1 ratios consistently above regulatory requirements, reflecting a well-capitalized and secure banking institution. Asset quality has significantly improved, with the Gross NPA Ratio declining from 1.04% in 2020 to 0.58% in 2023, highlighting strong risk management and credit policies. The bank's management capability has been reinforced by a steady rise in revenue per employee (RPER), showcasing operational efficiency and adaptability. Earnings performance has improved post-pandemic, with Return on Total Assets (ROTA) increasing from 0.13% in 2020 to 0.75% in 2023, indicating strong profitability growth. Liquidity strength has also improved, with the Cash Flow Debt Coverage Ratio (CFDCR) rising to 10.39% in 2023, reflecting better debt management and financial resilience. Overall, HSBC Holdings plc has successfully navigated economic uncertainties while enhancing its financial performance. However, continued focus on profitability and asset quality will be essential to maintaining its competitive edge in an evolving financial landscape. HSBC's Net Interest Income to Total Assets Ratio fell in 2020-2021 due to the pandemic but rebounded in 2022, reaching 1.20% in 2023, reflecting stronger interest income and better asset utilization, boosting profitability.

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