

## Performance metrics

# League tables

**Is there a right way to compare the size of banks? Rankings vary greatly depending on the measure chosen.**

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Which is the largest bank based in Europe?

### Measurement problems

A simple question, but no simple answer. Banks have always been more difficult to compare than say manufacturers or retailers. With the latter, the value of turnover (sales) provides a cleaner measure of comparative size.

The extent to which banks have moved away from their traditional business of intermediation – turning on-balance sheet deposits into on-balance sheet loans – only complicates the difficulties of making clean comparisons.

In the judgment of most commentators for example, Deutsche Bank, HSBC and UBS should all be represented in any tabulation of Europe's largest banks. But how should the three be best compared given the importance of private banking to UBS, investment banking to Deutsche Bank and, particularly following its acquisition of Household, consumer finance to HSBC?

### Market cap vs balance sheet assets

The two most obvious candidates for comparisons of size are probably market capitalisation and balance sheet assets. This bulletin therefore takes the 15 largest Europe-based banks by market capitalisation at end 2003, and then compared the same 15 banks by balance sheet assets.

The exercise is designed, as much as anything, simply to see what the results look like. And, emphasising the point about the difficulty of clean comparisons, the results show little relationship at all between market capitalisation and balance sheet size.

HSBC is the largest bank by far by market capitalisation, with a value almost twice that of second-ranked RBS and more than twice that of third-ranked UBS. Below RBS and UBS, twelve banks have a market capitalisation falling within the range €28.2bn (Crédit Agricole) to €46.7bn (Barclays).

But by balance sheet assets, HSBC is similar in size to several other banks. And there are plenty of other examples of banks in the sample group which rank significantly higher or lower by balance sheet assets than they do by market capitalisation.

### Factors

The lack of any significant relationship is striking. While validation would require more detailed investigation, various factors may be at work here.

- There is the growth in fee-earning activities, which are much less asset-intensive than traditional lending.
- With lending itself, securitisation and other forms of loan sale weaken the balance sheet as a measure of the loan book under management.
- Other complications include the impact on balance sheets of banks' often substantial investment banking and life assurance operations.
- Reported data is greatly affected by accounting standards.

There is of course no reason to expect a clean relationship between market value and balance sheet size. Market value reflects both size and performance. For a given size, better performing banks will be more highly valued than poorer performers. Looking at the other charts, market value shows a slightly better fit with shareholders' equity and net profit (though note that the market value figures pre-date the release of banks' 2003 results from which the latter figures are taken).

And of course, from an investor perspective, performance matters much more than size. To that extent, balance sheet rankings serve no great analytical purpose. But the lack of relationship with market value does suggest that closer comparisons of balance sheet composition may yield interesting findings on the changes taking place in banking.

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### Note – data issues:

The data used in the following charts has been drawn from earnings statements and annual reports. Comparisons between banks of total assets and shareholders' equity are complicated by various factors – for example, the inclusion in total assets of the long-term assets of life insurance policyholders or the inclusion in year-end shareholders' equity of retained profit for the year, accounting differences. Because of these factors, the data may not be completely consistent between banks.

Europe's 15 largest banks by market capitalisation

Market capitalisation – Jan 2 2004 (€bn)	Total assets – end 2003 (€bn)																																																												
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Note: Data in £ & CHF converted into euros at 2003 average / year-end £/€ or CHF/€ rates as appropriate.

Sources: Company annual reports and earnings statements, Financial Times (market capitalisation data)

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