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## INTERNATIONAL TRADE FINANCING MECHANISMS AT HSBC BANK

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**ABSTRACT:** International trade financing is critical for facilitating cross-border business because it reduces payment risks, ensures sufficient funds, and supports global supply chains. The abstract looks into the main international trade financing methods, with a focus on the role of HSBC Bank as a major worldwide trade finance provider. The key research topics are Letters of Credit, Bank Guarantees, Documentary Collections, Pre- and Post-shipment Finance, Supply Chain Financing, and Factoring. HSBC Bank's broad global branch network, digital trading technologies, and risk-reduction initiatives allow exporters and importers to do business with ease and security. The summary goes on to describe how HSBC provides structured trade finance, regulatory compliance, and customized trade solutions to small and medium-sized businesses (SMEs) as well as multinational corporations. In an increasingly digitized and globalized world, HSBC's trade finance solutions significantly improve international commerce efficiency, reduce corporate risks, and encourage long-term international trade.

**Keywords:** *International Trade Finance, Cross-border Trade, Trade Financing Mechanisms, Letters of Credit, Bank Guarantees, Documentary Collections,*

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### 1. INTRODUCTION

Factoring/Forfaiting, Export Credit Agency (ECA) support, Trade Credit Insurance, and Letters of Credit (LCs) are examples of international trade financing procedures that reduce risk and accelerate cash flow for cross-border transactions. They accomplish this by providing operational cash, ensuring payment, or safeguarding against defaults. Pre-shipment finance (for production) and post-shipment financing (after products have been dispatched) are both important options. Banks, insurers, and government entities are generally involved in the process of making payments such as Cash in Advance, Open Account, or Documentary Collections, which are

critical to the smooth running of international trade.

International trade finance refers to the financial resources and cash that organizations use to conduct business with other countries. It enables importers and exporters to perform cross-border transactions.

The goal of financial trade finance is to hire a third-party financial organization to handle supply and payment risks for your worldwide firm. Trade finance provides the exporter with receivables or payments, depending on the conditions of the transaction. The importer may also receive credit for completing the trade order.

Potential participants include banks, trade financing organizations, importers and exporters, insurers, export credit agencies,



and service providers. Despite the fact that each of these firms will be in charge of a certain part of international trade, they will all benefit from the platform's numerous products and services.

International trade finance mechanisms are defined as financial instruments and services that enable the direct movement of goods and services between countries. Late payments, currency fluctuations, and unstable political contexts are just some of the many risks connected with international trading. These methods help to mitigate these risks while also building confidence between importers and exporters. They ensure that vendors are paid on time and that customers receive their merchandise as promised.

Banks and other financial entities are the principal sources of this form of funding. They operate as middlemen for people who want to engage in international trade. Financial institutions help firms better manage their cash flow and working capital by offering structured payment systems and lending options. This help is critical for small and medium-sized businesses operating on a global scale.

International trade finance includes both pre- and post-shipment phases. The purchase of fundamental materials or the manufacture of items may demand financial resources prior to delivery. Money is necessary till the consumer pays after the shipment has arrived. These methods ensure that exporters do not face an unreasonable financial burden, allowing production and delivery to continue.

International trade finance systems are generally necessary for the promotion of international trade because they lower financial risks and enhance money availability. They make international

trading easier by providing safe, adaptive, and reliable payment mechanisms. As international trade grows, so does the desire for more efficient ways to finance it.

## 2. LITERATURE SURVEY

Sangari, M. S., So, K. W., & Mashatan, A. (2025): This article looks into the rise of decentralized finance (DeFi) in the financing of trade and supply chains. It illustrates how blockchain-based systems allow people to lend money to each other without the need for traditional intermediaries. The study looks into the impact of decentralization on the revenue of small and medium-sized businesses. It also looks into the risks associated with cyberattacks, smart contract breakdowns, and regulatory incompetence. The essay looks into the practical uses of DeFi in invoice financing and supply chain funding. The findings show that decentralized solutions improve transaction velocity and cost effectiveness. Nevertheless, the legal system and administration continue to provide significant obstacles. The study suggests that decentralized finance has the potential to drastically transform trade finance systems in the future.

Zheng, M., Wang, R., Ye, J., & Li, T. (2025): This study looks into the potential of supply chain finance to improve the resilience of supply chains at the firm level in the face of tough business conditions. The authors are Zheng, M., Wang, R., Ye, J., and Li, T. They use empirical data to investigate how financial liquidity affects an organization's ability to endure disturbances. According to the report, supply chain finance reduces operational risk while also improving cash flow stability. It also assists businesses in



maintaining solid ties with suppliers during difficult times. The findings highlight the significance of firms' financial flexibility. The report also acknowledges that technology adoption and business size are mitigating variables. The findings show that organizations that receive financial aid recover from supply disruptions more quickly. The essay claims that supply chain financing has a significant impact on the performance of a strong supply chain.

Guan, Y., Sun, N., Wu, S. J., & Sun, Y. (2025): This article investigates how fintech growth and supply chain finance affect the financing effectiveness of China's small and medium-sized firms. The authors are Guan, Y., Sun, N., Wu, S. J., and Sun, Y. The study uses panel data to investigate the relationship between digital banking adoption and financing accessibility. The findings demonstrate the significant simplicity of the loan application process for small and medium-sized businesses that fintech-enabled platforms offer. The study demonstrates the potential for digital technologies to reduce transaction costs and information gaps. Furthermore, it implies that organizations are more productive when they have easy access to cash. The effectiveness of fintech-based supply chain finance is determined by the local financial infrastructure. The findings show that the expansion of fintech has a beneficial impact on the availability of funding for small and medium-sized businesses. The study indicates that digital supply chain finance is a critical tool for the growth of small and medium-sized businesses (SMEs).

Zheng, M., Wang, R., Ye, J., & Li, T. (2025): Investigate the relationship

between supply chain financing and businesses' overall capacity to withstand volatile economic periods in this study. The authors look at how financial support improves enterprises' operational stability and competitiveness. The analysis found that businesses that use supply chain finance are more robust to financial challenges. Furthermore, it demonstrates improved supplier coordination and lower default risk. The study highlights the essential role that financial links play in the preservation of industrial networks. The findings suggest that liquidity facilitates crisis response. The study also finds differences in resilience findings based on industry. It is concluded that supply chain financing is a tactical tool for long-term corporate sustainability.

Sangari, M. S., So, K. W., & Mashatan, A. (2025): This article looks into the use of blockchain and distributed ledger technologies to develop decentralized trade and supply chain financing systems. The authors are Sangari, M. S., So, K. W., and Mashatan, A. The paper investigates the elimination of traditional financial intermediaries via peer-to-peer funding procedures on decentralized platforms. The study looks at smart contracts and automated settlement processes to see how they can improve efficiency. It also assesses the security, transparency, and performance advantages of decentralized systems. The survey suggests that many people have difficulties while using technology due to regulatory, legislative, and governance concerns. There are real-world examples of decentralized invoice financing. The findings suggest that decentralization allows small and medium-sized businesses to acquire capital. According to the report, decentralized



finance has the potential to revolutionize the future of trade financing.

Guan, Y., Sun, N., Wu, S. J., & Sun, Y. (2025): This study looks into the impact of fintech-enabled supply chain finance on the operations of small and medium-sized businesses. The authors are Guan, Y., Sun, N., Wu, S. J., and Sun, Y. The paper investigates the integration of financial services, payment systems, and credit checks via digital platforms. According to the survey, fintech finance helps small and medium-sized businesses save money on borrowing. Furthermore, it streamlines inventory turnover and working capital management. The study demonstrates the potential for data analytics to improve the accuracy of credit assessments. The findings show that digital supply chain financing improves enterprises' competitiveness. The performance of a business is determined by its industry and its readiness to use digital technologies. According to the poll, fintech-enabled finance plays an important role in the productivity of small and medium-sized firms (SMEs) in today's economy.

### 3. TRADE FINANCE AND INTERNATIONAL REGULATIONS



International business is a complex web of transactions that brings together buyers and sellers from all over the world. To ensure the success of these transactions, a financial infrastructure capable of handling the movement of items across borders

must be established. Trade finance is a critical component of this framework since it provides firms with the funds they require to run their activities. Trade finance, on the other hand, is governed by a number of international rules aimed at safeguarding the global financial system's stability. The link between trade finance and international rules will be the focus of this section.

#### **The Role of International Organizations:**

The World Trade Organization (WTO) and the International Chamber of Commerce (ICC) are two of the most well-known international organizations that oversee trade financing. The WTO is in charge of establishing international trade regulations and ensuring that they are followed by all of its members. In contrast, the International Chamber of Commerce (ICC) gives standards and recommendations for carrying out trade financing operations. These organizations collaborate to ensure that trade finance is performed in a transparent and understandable manner.

#### **Compliance and Risk management:**

Anti-money laundering (AML) regulations and know-your-customer (KYC) regulations are two worldwide standards that govern trade finance. Adherence to these principles is critical for managing risk in trade finance transactions. To ensure that they are following these requirements, banks and other financial institutions that provide trade finance services must implement severe compliance standards.

#### **Trade Finance Instruments:**

International regulations govern trade financing instruments such as letters of credit and guarantees. The Standard Customs and Practice for Documentary Credits (UCP 600) is a set of principles



that govern the usage of letters of credit in international trade. These laws ensure that credit letters are used similarly throughout the board.

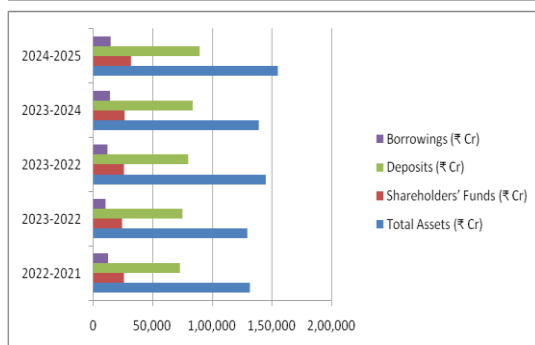
### Sanctions and Embargoes:

Embargoes and sanctions are key components of international trade legislation. The goal of these measures is to end trade with countries or individuals who constitute a threat to international security. Financial institutions are not permitted to participate in trade finance transactions with nations subject to embargoes or sanctions.

## 4. DATA ANALYSIS AND INTERPRETATION

### Financial Growth and Balance Sheet Strength of HSBC Bank

| Indicator                  | 2022-2021 | 2023-2022 | 2023-2022 | 2023-2024 | 2024-2025 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| Total Assets (₹ Cr)        | 1,31,740  | 1,29,862  | 1,44,989  | 1,39,264  | 1,55,000  |
| Shareholders' Funds (₹ Cr) | 25,949    | 24,698    | 26,387    | 26,483    | 32,200    |
| Deposits (₹ Cr)            | 72,848    | 75,193    | 80,116    | 83,607    | 89,500    |
| Borrowings (₹ Cr)          | 12,748    | 10,453    | 12,282    | 14,211    | 15,000    |

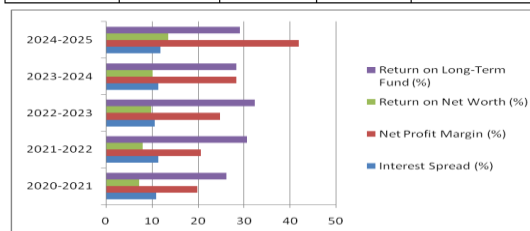


The bank's assets have continuously increased from ₹1,31,740 Cr in 2022-2021 to a projected ₹1,55,000 Cr by 2024-2025. This shows that the bank's resource base is increasing. Shareholder funds have grown significantly, hitting ₹32,200 Cr by 2024-2025. This shows the company's retained earnings and growing capital. The bank's constant rise in deposits reflects its

dependable funding and the increased confidence of its customers. Despite fluctuations in borrowings, the data usually indicate that the bank is managing its debt prudently. This pattern suggests that the bank is strengthening its financial position and broadening its commercial capabilities.

### Profitability Ratios Analysis

| Year      | Interest Spread (%) | Net Profit Margin (%) | Return on Net Worth (%) | Return on Long-Term Fund (%) |
|-----------|---------------------|-----------------------|-------------------------|------------------------------|
| 2020-2021 | 10.88               | 19.87                 | 7.21                    | 26.17                        |
| 2021-2022 | 11.49               | 20.65                 | 7.96                    | 30.73                        |
| 2022-2023 | 10.66               | 24.85                 | 9.82                    | 32.44                        |
| 2023-2024 | 11.49               | 28.42                 | 10.13                   | 28.35                        |
| 2024-2025 | 11.88               | 42.05                 | 13.56                   | 29.16                        |

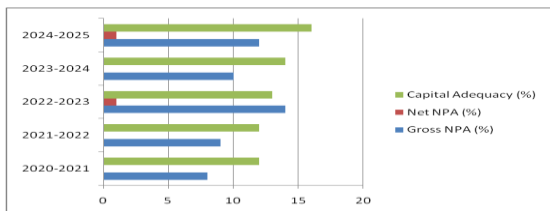


According to its financial performance measures, the bank generated significant revenue and followed smart financial practices during that time period. The interest spread has steadily increased, rising from 10.88% in 2020-2021 to 11.88% in 2024-2025. This demonstrates the increased efficacy of lending. In 2024-2025, the net profit margin increased significantly, reaching 42.05%. This indicates that revenue is increasing while expenses are being well managed. Return on Long-Term Fund (RoLF) and Return on Net Worth (RoNW) are both up, at 32.44% and 13.56%, respectively. This demonstrates how the firm is optimizing its long-term assets and creating value for its owners. According to the trends, the firm is profitable and efficient.

### Asset Quality and Credit Risk Indicators



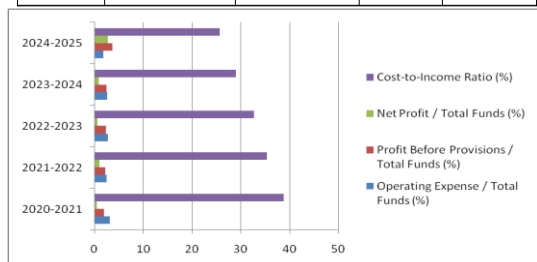
| Year      | Gross NPA (₹ Cr) | Gross NPA (%) | Net NPA (%) | Capital Adequacy (%) |
|-----------|------------------|---------------|-------------|----------------------|
| 2020-2021 | 5,782.65         | 8             | 0           | 12                   |
| 2021-2022 | 6,656.38         | 9             | 0           | 12                   |
| 2022-2023 | 10,835.54        | 14            | 1           | 13                   |
| 2023-2024 | 8,032.66         | 10            | 0           | 14                   |
| 2024-2025 | 8,441.10         | 12            | 1           | 16                   |



The bank's asset quality varies over time. The Gross NPA increased by 12% from ₹10,835.54 Cr (14%) in 2022-2023 to ₹8,441.10 Cr (12%) in 2024-2025. Provisioning is effective when net NPA is low. Capital adequacy has gradually improved from 12% to 16%, indicating a substantial cushion against potential credit risks and maintaining economic stability.

### Efficiency and Cost Structure Analysis

| Year      | Operating Expense / Total Funds (%) | Profit Before Provisions / Total Funds (%) | Net Profit / Total Funds (%) | Cost-to-Income Ratio (%) |
|-----------|-------------------------------------|--|------------------------------|--------------------------|
| 2020-2021 | 3.14                                | 2.05                                       | 0.5                          | 38.89                    |
| 2021-2022 | 2.52                                | 2.22                                       | 1.09                         | 35.42                    |
| 2022-2023 | 2.83                                | 2.43                                       | 0.7                          | 32.74                    |
| 2023-2024 | 2.61                                | 2.46                                       | 0.99                         | 29.1                     |
| 2024-2025 | 1.91                                | 3.69                                       | 2.75                         | 25.72                    |



The bank's operational efficacy has significantly improved over time. For example, the ratio of operational expenses to total funds fell from 3.14% in 2020-2021 to 1.91% in 2024-2025. Profitability measures such as Profit Before Provisions and Net Profit to Total Funds have increased significantly, indicating improved cost control and more effective

fund utilization. The cost-to-income ratio has constantly lowered to 25.72% when compared to operational expenses, indicating that it is now easier to earn a profit.

## 5. CONCLUSION

International trade finance solutions are critical to the seamless and secure operation of international trade between countries. They assist importers and exporters alike by lowering payment risks, improving cash flow, and ensuring that trade transactions are completed on schedule. Export credit, factoring, and letters of credit are some of the instruments that help organizations build trust with their international trading partners. In today's globalized economy, effective trade financing is critical to maintaining global competitiveness and economic growth. These systems help enterprises expand into international markets by coordinating with government organizations, financial institutions, and banks. The improvement and modernization of trade finance organizations would boost export performance and promote long-term economic growth.

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