5th October 2020

Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

## HSBC Bank Malta plc

### Executive Summary:

"The COVID-19 pandemic has presented significant challenges to the world economy and HSBC Bank Malta plc ("HSBC" or "Bank") has not been spared from this unprecedented event. In view of the material impact on the Bank, we are downgrading our recommendation on the stock from a Buy to a Hold, with a reduced 1-year price target of €0.76.

The Bank's loan book grew marginally in H1 2020, however our concern going forward is that if the COVID-19 situation is prolonged, individuals could postpone their demand for loans. Additionally, HSBC's deposits continued to grow weighing on the net interest margin. The Bank's performance has also been significantly impacted by its insurance segment, which reported material losses in the first 6-months, even though we saw a strong recovery in financial markets during Q2 2020.

Notwithstanding HSBC's positive traits including, the completion of both the restructuring and de-risking exercises prior to the outbreak, the Bank's outlook faces several downside risks including, potential further deterioration of the current economic environment leading to an increase in non-performing loans (NPLs). Another drawback to the banking industry is that there will be a time lag between the eventual recovery of the economy and the recovery of banking institutions.

We are cognisant of the fact that the pandemic has pushed banking stocks to historical low levels. Our model reinforces the fact that the headwinds faced by banks will continue to put pressure on profitability margins in the coming years and with no interest rate hikes anytime soon, we have no other alternative than to lower our expectations on the Bank going forward, which leads to a **Hold** recommendation."

### Group Update:

The Bank's growth strategy is to focus on digital banking services and to modernise its branch network, while it continues to drive down costs. The Bank will invest in its principal branches across the country, providing a wider range of services and improved accessibility. According to HSBC, these actions will aim to help mitigate the damaging effect of long-term negative interest rates.

Dividends – In line with ECB's recommendation, which currently is in force till January 2021, the Bank has not paid an interim dividend.

### Group Overview:

HSBC provides a comprehensive range of financial services including retail banking and wealth management, commercial banking and global banking and markets. The Group is also active in the areas of life assurance and fund management. HSBC Bank Malta plc is a member of the international HSBC Group.

## Stock Rating Hold

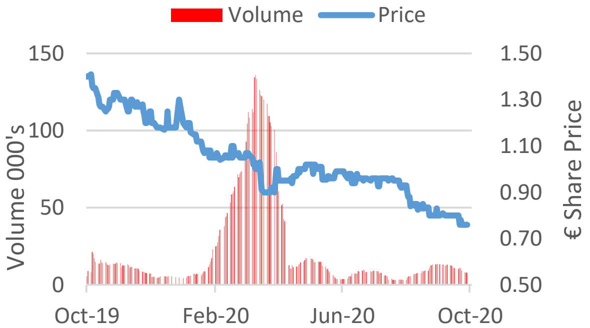
### Price target (1Yr) €0.76

| | |
|---|---|
| **Country** | Malta |
| **Industry** | Banking |
| **Ticker** | HSB |
| **Price (as at 02/10/2020)** | €0.76 |
| **Price Target (1-Year)** | ↓€0.76 – previous PT €1.25 |
| **Upside / Downside to PT** | -% |
| **12m cash div. (Forecast)** | Nil |
| **12m Total S'holder Return** | -% |
| **Market Cap** | €273.8m |
| **Shares Outstanding** | 360.3m |
| **Free Float** | 30.0% |
| **Net Dividend Yield *** | 1.8% |
| **Current P/E *** | 17.0x |
| **1Yr Forward P/E **** | 10.2x |
| **Current P/B *** | 0.58x |

* Based on CC's adjusted Last Twelve Months 2020 results
** CC estimates

| | |
|---|---|
| **Exchange** | Malta Stock Exchange (MSE) |
| **52-week range** | €0.76 - €1.41 |

**Price and Volume Movement (20 day moving average)**




*Source: Bloomberg*

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## SWOT Analysis

### Strengths

- ✓ Second largest bank in Malta from a balance sheet perspective, providing the necessary scale for growth
- ✓ Strong capital position and strong liquidity profile
- ✓ Support from HSBC Europe B.V, being the majority shareholder
- ✓ The Bank completed its de-risking programme prior to the COVID-19 outbreak
- ✓ HSBC reported strong growth across its commercial lending book during H1 2020, continuing on the trend identified in Q4 2019. Commercial lending attracts higher yields in comparison to retail lending thus it has the potential to further strengthen the Bank's revenue
- ✓ Management has a track record of successfully taking important decisions

### Weaknesses

- × Large regulatory burden, being classified as an Other Systemically Important Institution (O-SII)
- × The pandemic has significantly disrupted the operating environment of HSBC, with the Bank providing for higher expected credit losses (ECL) and the insurance segment recording significant revaluation losses
- × The volatility of the insurance segment highly influence the operations of the Bank
- × Upcoming MREL and Basel IV requirements will continue increasing the Bank's regulations and capital requirements
- × Low interest rate environment weighs on profitability of core banking segment
- × Highly exposed to the Maltese economy
- × Narrow credit portfolio, with relatively high exposure to real estate standing at circa 70% of the Bank's total loans and advances

### Opportunities

- o Once the current situation stabilises an economic recovery should ensue, which would increase business opportunities
- o Strong balance sheet is a spring board to increase business development
- o Improved risk management could minimise one-off shocks
- o Strategic shift to continue focusing on a technology oriented offering should benefit the Bank from a cost perspective in the medium to long term
- o Expanding wealth management and other services offered to clients, banks, and investors will contribute further to HSBC's profitability

### Threats

- ! The extent of the impact on the economy from COVID-19 is not yet fully known, therefore HSBC's financial performance may be susceptible to further deterioration
- ! Potential property market crisis
- ! Increase in regulatory burden
- ! Country risk, mainly an economic recession as well as political risk and reputational risk
- ! Data or system breaches
- ! High level of early loan repayments, which have a negative impact on the net interest margin
- ! Scale and prioritisation for investment in Malta business from HSBC Group

## Investment Stance

The COVID-19 pandemic has presented significant challenges both on a local and a global scale, which consequently led to a deterioration in economic activity. The local banks were not spared from this unfortunate global human tragedy, which has also materially impacted HSBC and our view and outlook on the Bank. As a result, we are downgrading our recommendation on the stock from a Buy to a Hold, with a reduced 1-year price target of €0.76 from our previous target of €1.25.

In H1 2020, the Bank's customer loan book grew marginally by 1.0% (FY19: 4.7%). Following easing of restrictions, July saw a good recovery in property sales, however this may be attributable to other factors rather than an economic recovery. The easing of the COVID-19 restrictions has facilitated the negotiations between market participants, in addition to the Government's initiatives to stimulate the property market such as the reduction of taxes related to sales and purchases of real estate. However, our concern going forward is that if the COVID-19 situation is prolonged, the demand for loans could decreases either because individuals would wait for a better entry point or because their disposable income has not yet returned to pre-COVID levels.

Despite this, the Bank's net interest income in H1 2020 decreased by 0.2% following an increase of 3.5% in deposits. This has led to HSBC's deposits with the Central Bank to increase by 120%. It is pertinent to note that in the current negative interest environment, balances with the CBM are charged negative interest, thus increasing the expense for banks over and above the interest paid on deposits.

The strength of this recovery early in H2 2020 may not be sustained, especially if the current economic activity deteriorates further by year-end. Consequently, in terms of FY21 and FY22 projections, we opted to keep the Bank's interest earning assets constant to that achieved throughout H1 2020. In view of the natural reaction of individuals to save more during an economic downturn, we expect deposits to continue growing, thus we lowered the net interest margin form 1.90% as per LTM20 results to 1.85% both for FY20 and FY21.

The Bank's revenue was further characterised by a reduction in fees and commissions and trading income as a result of a drop in activity due to the outbreak across cards, payments, insurance, and credit facilities. Additionally, HSBC's insurance segment reported significant losses which predominantly were driven by revaluation losses as a result of adverse market movements (equity and interest rates) and lower trading activities as a result of the current pandemic. However it is important to point out that markets bottomed at the end of the first quarter and we saw a strong recovery in the second quarter. Nonetheless, the damage in the first quarter must have been significant given the fact that even with the recovery the impact on HSBC was material.

From a positive perspective, the Bank successfully completed its restructuring exercise prior to the outbreak, which translated into a 5% reduction in operating expenses during H12020 on a comparative basis. Furthermore, the Bank's de-risking exercise appears to have been completed by FY19, therefore such strategic decisions limited the impact of COVID-19, in comparison to local peers. The Bank's resilience has also been substantiated with its capital ratios where these continued to strengthen during the last 6 months. As at June 2020, the total capital ratio stood at 19.3% (FY19: 19.0%).

Despite the above listed positive traits, the Bank's outlook faces several downside risks including, potential further deterioration of the current environment leading to an increase in NPLs and higher expected credit losses (H1 2020; €8.7m), coupled with the fact that HSBC's performance is vulnerable to the performance of financial markets, especially the insurance segment. Another drawback to the banking industry is that there will be a time lag between the eventual recovery of the economy and the recovery of banking institutions, even more so if we continue to see further provisions for expected credit losses. Within our model we priced in a further ECL provision of €7.2m for H2 2020 and €2.0m for FY21.

Malta is experiencing strong headwinds on issues concerning the rule of law and prevention of financial crime, which consequently damaged the country's reputation and its attractiveness as a financial services hub. This together with the pandemic, poses a significant threat to the economic outlook and consequently the performance of the Bank. In view of this situation, we deem that it is appropriate to increase the discount rate to reflect this additional risk premium.

We are cognisant of the fact that the pandemic has pushed banking stocks to historical low levels both locally and at European level. HSBC is currently trading at a price to book (P/B) value of 0.58x, with the European average currently standing at circa 0.47x. We believe that the Bank's position both from its risk appetite and continued drive to a digitalised solution leading to operational costs savings, justify a premium of around 15% over the P/B multiple of European peers. In view of this, we utilised a P/B multiple of 0.55x.

Our model reinforces the fact that the headwinds faced by banks will continue to put pressure on margins and profitability in the coming years and with no interest rate hikes anytime soon, we have no other alternative than to lower our expectations on the Bank going forward, which leads to a **Hold** recommendation.

## Valuation

Our 1-year price target of €0.76 is calculated using a P/B multiple of 0.55x. As discussed above we implemented a premium of 1.5% to our discount rate, which in total amounts to 12%.

| €'000s (unless otherwise indicated) | FY17A | FY18A | FY19A | LTM20[1] | FY20F | FY21P |
|---|---|---|---|---|---|---|
| Net Interest Income | 120,660 | 108,622 | 110,111 | 109,987 | 108,173 | 108,173 |
| Net fee and commission income | 22,735 | 22,776 | 22,750 | 22,030 | 21,613 | 21,613 |
| Net Operating income | 163,857 | 146,913 | 151,394 | 129,777 | 117,663 | 139,339 |
| Total Operating Expenses | (114,034) | (108,357) | (120,685) | (118,194) | (99,398) | (97,983) |
| **Profit before tax** | **49,823** | **38,556** | **30,709** | **11,583** | **18,265** | **41,356** |
| Income tax expense | (18,968) | (9,860) | (10,541) | (3,854) | (6,393) | (14,474) |
| **Profit for the period** | **30,855** | **28,696** | **20,168** | **7,729** | **11,872** | **26,881** |
| **Earnings per share (EPS) - €** | **0.086** | **0.080** | **0.056** | **0.021** | **0.033** | **0.075** |
| CC extraordinary adjustments (after tax)[2] | 3,770 | (1,318) | 8,346 | 8,346 | - | - |
| **CC Adjusted Net Profit** | 34,625 | 27,378 | 28,514 | 16,075 | 11,872 | 26,881 |
| **CC EPS Normalised** | **0.096** | **0.076** | **0.079** | **0.045** | **0.033** | **0.075** |

| Equity Evaluation - €'000s (unless otherwise indicated) | FY17A | FY18A | FY19A | LTM20 | FY20F | FY21P |
|---|---|---|---|---|---|---|
| **Equity*** | **479,038** | **458,778** | **469,966** | **468,870** | **481,838** | **508,720** |
| **Book value per share (discounted) - €** | **1.33** | **1.27** | **1.30** | **1.30** | **1.34** | **1.41** |
| **Price/Book Ratio** | **n/a** | **n/a** | **0.58x** | **0.58x** | **0.55x** | **0.55x** |

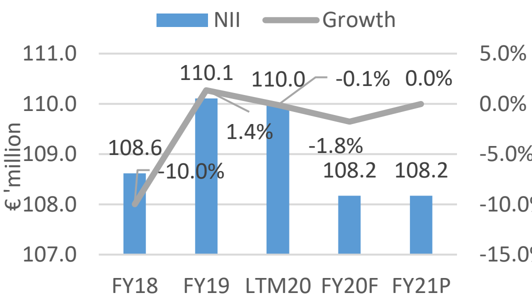
| Ratio Analysis | FY17A | FY18A | FY19A | LTM20 | FY20F | FY21P |
|---|---|---|---|---|---|---|
| Cost Efficiency Ratio | 70.9% | 73.0% | 70.0%[3] | 91.1% | 84.5% | 70.3% |
| Net Interest Income Growth | -4.6% | -10.0% | 1.4% | -0.1% | -1.8% | 0.0% |
| Net Fee and Commission Income Growth | -4.3% | 0.2% | -0.1% | -3.2% | -5.0% | 0.0% |
| Net Operating Income Growth | -0.4% | -10.3% | 3.1% | -14.3% | -22.3% | 18.4% |
| Growth in normalised EPS (YoY) | -12.8% | -20.9% | 4.2% | -43.6% | -58.4% | 126.4% |
| Net Interest Margin | 2.05% | 1.95% | 1.95% | 1.90% | 1.9% | 1.9% |
| CC Adjusted Price/Earnings Ratio | n/a | n/a | 9.6x | 17.0x | 23.1x | 10.2x |
| Return On Equity | 7.3% | 5.8% | 6.1% | 3.4% | 2.5% | 5.4% |
| CC Adjusted Earnings Yield | n/a | n/a | 10.4% | 5.9% | 4.3% | 9.8% |
| Dividends Yield | n/a | n/a | 3.3% | 1.8% | n/a | n/a |
| Dividend pay-out ratio | 129.6% | 47.7% | 44.7% | 31.4% | n/a | n/a |

*Source: HSBC's Financial Statements and CC workings*

* Forecasted equity is calculated by aggregating the profitability with previous year closing equity, less any expected common dividend.

## Investment Thesis Variables

- **Net Interest Income (NII)** – Despite the COVID-19 outbreak at the end of Q1 2020, the Bank managed to maintain its NII, with this decreasing marginally by 0.1% in the LTM20. NII was positively impacted by the growth in the Bank's lending book and lower interest paid on customer deposits with these offset by the effects of interest rate cuts made in September 2019 (EUR) and March 2020 (USD & GBP), together with a further decline in the average yield on the investment book. A growth of 1% was reported in the net loans and advances to customers with the Bank attributing this



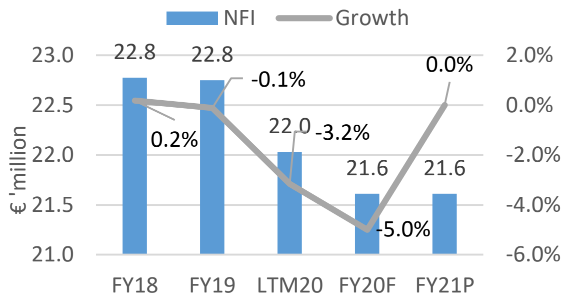
*Source: HSBC's Financial Statements and CC Estimates*

[1] LTM20 is calculated by adding the interim results (H1) of 2020 with the audited results of FY19, less H1 2019.
[2] These adjustments relate to one-off events
[3] Adjusted for one-off €16m restructuring cost

to strong growth across the commercial banking lending book and stable retail lending book where growth in retail lending balances over the first two months of 2020 was offset by declines post-March due to COVID-19.

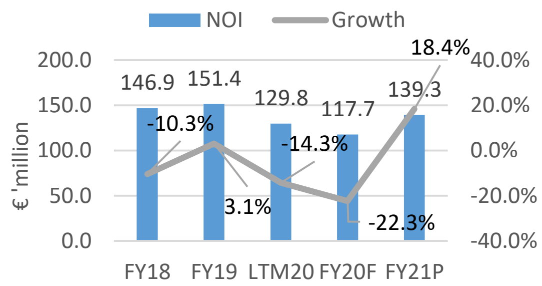
Moving forward we are assuming that the loan book will remain constant, however due to an expected continuation of the upward trend of deposits (which attracts negative interest rates for HSBC) we are forecasting the net interest margin to drop to 1.85% in FY20 and FY21 (LTM20: 1.90%). Therefore, we expect NII to decrease by 1.8% in FY20.

- **Net Fee and Commission Income (NFI)** – Fees and commissions income decreased by 3.2% in the LTM20, with the Bank attributing this to a reduction in fees and commissions and trading income as a result of a drop in activity following the virus outbreak across cards, payments, insurance, and credit facilities. In June, the Government started easing the strict restrictions imposed earlier on and currently, it seems that such strict measures will only be used as a last resort option. Based on this, we expect a slight recovery in NFI during H2 2020, however we still believe that overall this will be circa 5% lower in FY20 when compared to FY19. In FY21, we retained the same level of NFI.




*Source: HSBC's Financial Statements and CC Estimates*

- **Net Operating Income (NOI)** – NOI in LTM20 decreased to €129.8m, reflecting a 14.3% decrease over FY19. This was predominantly as a result of a loss in revenues from the insurance segment which plummeted by €11.1m in H12020 on a comparative basis. Additionally during this period, NOI was impacted by an increase of €8.7m in provisions for ECLs. The insurance segment is currently subject to significant volatility in view of the swings that are being experienced in the financial markets, therefore it is difficult to forecast the performance of this segment. We are assuming that the Bank's insurance will be able to breakeven in H2 2020, resulting in an overall loss of €9m for FY20. In FY21, we are also assuming the insurance business to breakeven.

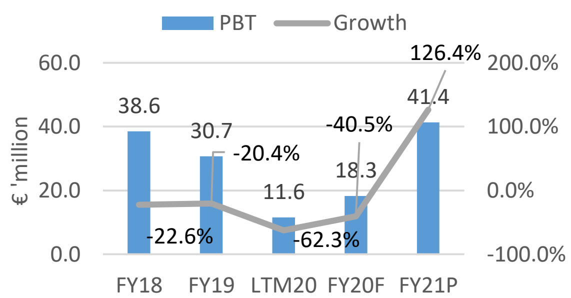



*Source: HSBC's Financial Statements and CC Estimates*

An important metric, especially during such turbulent times is the loss allowance ratio (total ECL/total loans). This stood at 1.20% in FY19 and increased to 1.41% as at June 2020, following an increase of €8.7m in provisions. For FY20, we are forecasting a loss allowance ratio of 1.60%, resulting in a net provision of €16.0m. In FY21, we are forecasting this ratio to further increase to 1.65%, translating into a net provision of €2.0m. This loss allowance ratio is commensurate with European banks, which as at 30 June 2020 averaged at 1.55%. In view of these considerations, NOI is expected to amount to €117.7m in FY20 and recover back to €139.3m in FY21, meaning an 18.4% growth.

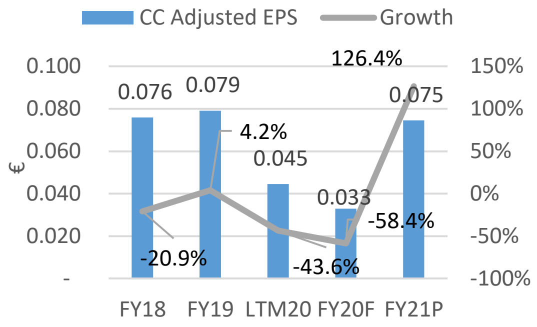
- **Profit before Tax (PBT)** – As can be analysed, the pandemic significantly impacted the Bank's operations, whereby PBT plunged by 62.3% in the LTM20 (this also includes the H2 2019 one-off events, most notably the €16m restructuring cost).

Given these one-off events we expect PFT to improve to €18.3m in FY20, however this is still well below prior levels, where in FY19 adjusted PBT was of €44.9m. In H1 2019, the Bank reported a 5% reduction in its operating costs and we expect this to be maintained in FY21 although to a lesser extent, where we predict operating costs to fall by 1.4%.
Based on the considerations discussed above and an anticipated improvement in the economic environment, we expect HSBC's PBT to recover back to €41.4m in FY21.




*Source: HSBC's Financial Statements and CC Estimates*

- **Net Profit and EPS** – We are forecasting a net profit of €11.9m in FY20 compared to €28.5m in FY19 (on an adjusted basis), meaning an EPS figure of €0.033 and €0.079 in FY20 and FY19, respectively. As explained earlier, we anticpate that FY21 will be better than FY20 and therefore we expect net profit to improve to €26.9m or €0.075 per share in FY21. The Bank's historical 5-year average (2015-2019) effective tax rate is currently at 34.1%. In our valuation we assumed that HSBC will incur the standard corporate tax level of 35%.



*Source: HSBC's Financial Statements and CC Estimates*

  HSBC's dividends continue to be influenced by the recommendations of the European Central Bank, where in line with latest recommendations European banks are refrained from distributing any dividends at least until January 2021. In view of ECB's cautious stance and the economic downturn caused by this virus we see limited prospects for dividend distributions in FY21.

- **Capital Requirements** – As at 30 June 2020, the Bank's CET1 ratio stands at 16.6% (FY19: 16.4%). HSBC currently does not have any AT1 instruments, subsequently the Tier1 ratio is equal to the CET1 ratio, but it does have a €62m subordinated unsecured loan stock, which was issued in December 2018, with a maturity of 10 years. This classifies as Tier 2 capital, which boosts up the total capital ratio of the Bank to 19.3% (FY19: 19.0%).

  HSBC's minimum total capital requirement for FY20 is of 14.25%, therefore the Bank is current adequately capitalised. The Bank however faces further stringent banking requirements; including future "Minimum Requirement for own funds and Eligible Liabilities" and Basel IV requirements, which pushes the Bank to further enhance its capital base through retained earnings and/or capital markets operations. In fact, with the newly revised 'output floor', the European Banking Authority (EBA) has estimated that the impact of the regulations will cause RWAs to increase by 28% on average. COVID-19 has delayed the implementation of such requirements by circa 1-year, with the first implementation now on 1 Jan 2023 and the 'output floor' on 1 Jan 2028.

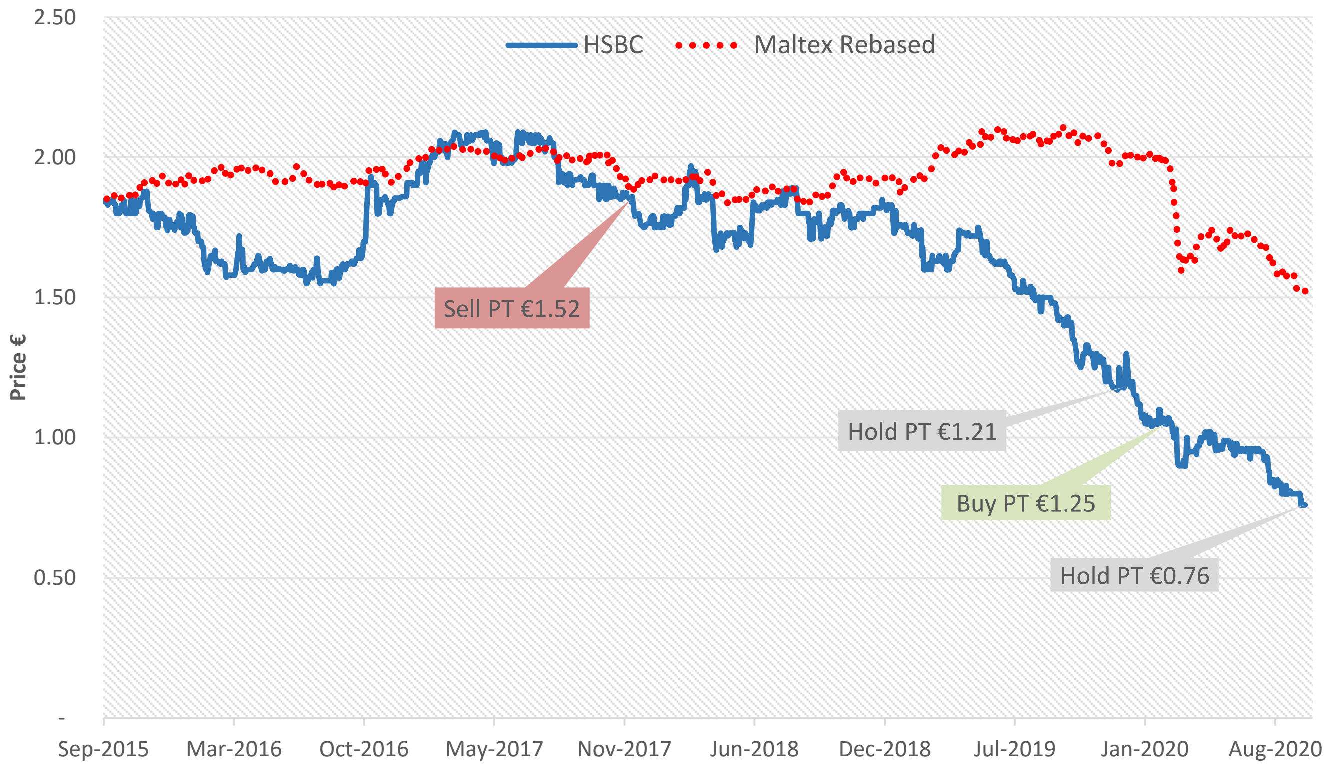
## Key Financial Indicators

| HSBC Bank Malta plc - €'000s (unless otherwise indicated) | Dec-17 | Dec-18 | Dec-19 | Jun-20 |
|---|---|---|---|---|
| **Balance Sheet** | | | | |
| Interest earning assets | 5,557,252 | 5,567,170 | 5,733,756 | 5,847,206 |
| Loans and advances to banks | 1,059,308 | 1,097,714 | 676,031 | 663,771 |
| Loans and advances to customers | 3,128,833 | 3,110,412 | 3,257,433 | 3,289,755 |
| Loans and advances to banks growth yoy | -1.7% | 3.6% | -38.4% | -1.8% |
| Loans and advances to customers growth yoy | -5.8% | -0.6% | 4.7% | 1.0% |
| Total deposits | 4,820,698 | 4,890,015 | 4,977,420 | 5,152,313 |
| Total deposits growth yoy | -3.8% | 1.4% | 1.8% | 3.5% |
| Shareholders' equity | 479,038 | 458,778 | 469,966 | 468,870 |
| Risk weighted assets | 2,548,421 | 2,581,346 | 2,403,621 | 2,334,829 |
| CET1 Capital | 354,827 | 377,346 | 395,008 | 387,843 |
| Tier1 capital | 354,827 | 377,346 | 395,008 | 387,843 |
| Total capital | 366,481 | 439,346 | 457,008 | 449,843 |
| Shares Outstanding | 360,306 | 360,306 | 360,306 | 360,306 |
| Net impairments / gross loans | N/A | 0.08% | 0.01% | 0.22% |
| CET1 Ratio | 13.9% | 14.6% | 16.4% | 16.6% |
| Tier1 Ratio | 13.9% | 14.6% | 16.4% | 16.6% |
| Total Capital Ratio | 14.4% | 17.0% | 19.0% | 19.3% |

*Source: HSBC's Financial Statements and CC Workings*

## Historical 1-Year Price Target

| Reference | Date | Price | Price Target | Analyst | Recommendation |
|---|---|---|---|---|---|
| HSB | 05.10.2020 | €0.76 | €0.76 | Rowen Bonello and Andrew Fenech | Hold |
| HSB | 02.03.2020 | €1.05 | €1.25 | Rowen Bonello and Andrew Fenech | Buy |
| HSB | 27.12.2019 | €1.18 | €1.21 | Simon Psaila | Hold |
| HSB | 29.11.2017 | €1.85 | €1.52 | Simon Psaila and Elisabetta Gaudiano | Sell |




*Source: Bloomberg*

## Explanation of Equity Research Ratings

**Buy:** Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

## Disclaimer

## Glossary and Definitions

| | |
|---|---|
| **Income Statement** | |
| Net Interest income | Interest Income minus Interest Expense. |
| Operating Profit | Operating profit for financial services firms is the difference between operating income (revenue generation) and operating expenses (typically administrative expenses). |
| Profit after tax | Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities. |
| Earnings per share ("EPS") | Earnings per share is the portion of a company's net profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. |
| **Profitability and other ratios** | |
| Costs / Income ratio | It is an indicator of overall company efficiency. The ratio is calculated dividing total costs by total Operating Income. |
| Net interest margin | Net interest margin is the Net Interest Income for the year as percentage of average Interest-Earning assets. |
| Earnings yield | Earnings yield are the earnings per share for the most recent 12-month period divided by the current market price per share. Reciprocal of P/E ratio. |
| Dividends yield | This ratio indicates how much a Group pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end. |
| Return on common equity | Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance). |
| Return on Assets | Return on assets (ROA) is computed by dividing net income by the average total assets (average assets of two years financial performance). |
| **Balance Sheet** | |
| Interest Earnings Assets | Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets (goodwill on acquisition), investment properties, and property, plant & equipment. |
| Gross Loans | Gross Loans and Leases comprise Gross Loans to Customers net of Unearned Income, Allowance for Loan Losses, and other deductions from Gross Loans. |
| Total Deposits | Total Deposits include all customer and institutional deposits held at the bank. They are essentially the core liabilities of banking institutions. |
| Shareholders' equity | Shareholders' Equity as reported by the Bank. Comprises Common Stock and Treasury Stock, Capital Surplus, Retained Earnings, Revaluations, Minority Interest and other components of Shareholders' Equity. |
| Risk Weighted Assets | Sum of all Risk-Weighted Assets as required for Regulatory Capital ratio measures. |
| Tier 1 Capital | Sum of permanent Shareholders' Equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and Disclosed Reserves (share premiums, retained profit, general reserves and legal reserves). In the case of consolidated accounts, this also includes minority interests in the equity of subsidiaries that are less than wholly owned. Excludes revaluation reserves and cumulative preference shares. |
| Total Capital | Sum of Net Tier 1 Capital and other more senior forms of capital (Tier 2 and Tier 3). |
| **Financial Strength / Capital Adequacy Ratios** | |
| Net impairment / gross loans | Net impairment gain/ (loss) on financial assets divided by gross loans. |
| Tier 1 ratio | Tier 1 Capital as a percentage of Risk-Weighted Assets. |
| Total Capital Ratio | Total Capital as a percentage of Risk-Weighted Assets. |