Appendix CA-11

Comprehensive Example of Deductions

Bank "x" with Total Capital of 10,000,000 before deductions (consisting of 5,500,000 CET 1 and 4,500,000 Tier 2) has made three investments listed below.

Investment	Amount
Bank 'a'	500,000
Insurance entity 'b'	3,000,000[1]
Bancassurance 'c'	500,000[2]
Total	4,000,000

The first step is to calculate deductions in CA-2.4.2 to CA-2.4.15 to calculate CET1a . The bank has goodwill of 100,000 from the previous acquisition of a subsidiary. Of its 500,000 investment in Bancassurance 'c', 400,000 is reciprocated by Bancassurance 'c' in Bank 'x' so the reciprocal cross-holding of 400,000 of CET1 and the goodwill must be deducted below.

Determination of CET1a:

	CET1	Tier 2
CET1 and T2	5,500,000	4,500,000
Goodwill [3]	(100,000)	-
Reciprocal cross-holding	(400,000)	-
Resulting CET1a and T2	5,000,000	4,500,000

The second step is to see if the residual investment of 100,000 in bancassurance 'b' exceeds 10% of CET1a (CA-2.4.16). It does not so CET1b (CA-2.4.19) is the same as CET1a. There are no other investments in AT1 or T2 of other financial entities that require deduction (CA-2.4.21) from CET1b, so CET1b is the same as CET1c . The investment of 500,000 in bank 'a' represents 12% of the CET1 of bank 'a' (CA-2.4.20). The third step is to see if the investment in bank 'a' exceeds 10% of CET1c of bank 'x' (CA-2.4.23). The investment of 500,000 in bank 'a' is exactly 10% of bank 'x's CET1c. No deduction is required for bank 'a' (CA-2.4.23) but it is weighted at 250% (CA-2.4.24). However, the investment in insurance entity 'b' must be fully deducted because this is in excess of the 10% threshold that has already been used by the investment in bank 'a' (see also CA-2.4.23). These deductions are shown on the following page. The concerned investments and deductions are shown below.

Investment	Amount	Deduction requirement (For full rules refer to section CA-2.4)
Bank "a"	500,000	0
Insurance entity "b"	3,000,000	3,000,000
Bancassurance "c"	500,000	400,000
Total	4,000,000	3,400,000

[1] This investment is 25% of the capital of insurance entity 'b'.
[2] This holding is 2% of entity 'c's CET1. Entity 'c' has also made a reciprocal cross-holding in CET1 of Bank 'x' amounting to 400,000. This amount must be deducted from CET1 of bank 'x'.
[3] This represents goodwill arising at the time of acquisition of a consolidated subsidiary.

Determination of CET1d:

	CET1	**Tier 2**
CET1c and T2	5,000,000	4,500,000
Insurance entity 'b'	(3,000,000)	-
Resulting CET1d and T2	2,000,000	4,500,000
Eligible CET1d and T2	**2,000,000**	**2,000,000** [4]

Calculation of CAR:

$$CAR = \frac{\text{Eligible Total Capital}}{\text{Risk-Weighted Assets}}$$

$$= \frac{(2{,}000{,}000 + 2{,}000{,}000)}{\text{(Say) } 10{,}000{,}000} = \frac{4{,}000{,}000}{10{,}000{,}000} = 40.0\%$$

The CET1 capital exceeds all the minimum required ratios in CA-B.2.1 (6.5%, 8.0%, 9.0%, 10.5% and 12.5%, so Tier Two only has the 100% cap of Tier One applying to it.

[4] Tier 2 cannot exceed 100% of Tier 1 (after all subsequent deductions).