

Illustrative example to calculate the applicable amount of minority interests / Additional Tier 1 and Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties to be recognized in CET1 capital, Additional Tier 1 capital and Tier 2 capital of an authorized institution

Suppose a bank subsidiary (Bank S) issued ordinary shares, Additional Tier 1 and Tier 2 capital instruments of \$90, \$40 and \$20 respectively, and third parties own 30% of the ordinary share, 50% of additional Tier 1 capital instruments and 75% of Tier 2 capital instruments. If Bank S has \$1,000 of total risk-weighted assets, its minimum CET1, Tier 1 and total capital requirements are assumed to be \$70, \$85 and \$105 (i.e. corresponding to a 7% CET1 capital ratio, 8.5% Tier 1 capital ratio and a 10.5% Total capital ratio)¹ respectively. Therefore, the applicable amount of minority interests is calculated as follows:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Capital issued by Bank S (gross of regulatory deductions)	Capital owned by third parties	Amount of minority interests $= ((a) * (b))$	Minimum capital ratio	Minimum capital requirement $= (RWA * (d))$	Surplus capital of subsidiary (net of deductions, if any) $= ((a) - (e))$	Surplus capital of subsidiary attributable to third parties $= ((f) * (b))$	Minority interests recognized $= ((c) - (g))$
CET1	\$90	30%	\$27	7%	\$70	\$20	\$6	\$21
AT1	\$40	50%	\$20					\$9.8
Tier 1	\$130	36%	\$47	8.5%	\$85	\$45	\$16.2	\$30.8
Tier 2	\$20	75%	\$15					\$12.7
Total capital	\$150	41%	\$62	10.5%	\$105	\$45	\$18.5	\$43.5
		C	A			B		

¹ The three percentage figures here are for illustrative purposes only. The exact figures to be used in reality will depend on whether Bank S is locally incorporated in Hong Kong or outside Hong Kong according to Schedule 4D of the Capital Rules.

In this example, by using the formula $[A - (B * C)]$ as stipulated in paragraph 15 of the completion instructions, the amount of minority interest that can be recognized in the institution's consolidated CET1 capital is \$21 (i.e. $\$27 - (\$20 * 30\%)$).

Similarly, following the same formula above, the amount of Tier 1 capital instruments (including both CET1 and AT1 capital instruments) held by third parties that can be recognized in the institution's consolidated Tier 1 capital equals to \$30.8 (i.e. $\$47 - (\$45 * 36\%)$). Since \$21 has been recognized in the consolidated CET1 capital of the institution, only \$9.8 (i.e. $\$30.8 - \21) of such Tier 1 capital instruments can be included in its consolidated Additional Tier 1 capital.

The calculation of the applicable amount of Tier 2 capital instruments held by third parties to be included in an institution's Tier 2 follows the same methodology as shown above.

Illustrative example to calculate the exclusion of non-eligible minority interests or capital instruments held by third parties from capital base of an authorized institution

Section 4 of Schedule 4H of the Capital Rules requires that where, in respect of a consolidated subsidiary of an authorized institution, a minority interest or a capital instrument issued by the subsidiary and held by third parties is no longer eligible for inclusion in the institution's capital base on 1 January 2013 but was included in the calculation of the institution's capital base before that date, such minority interest or capital instrument may be subject to phase-out at the rate of 20% per each subsequent year from the capital base of the institution.

The following three different scenarios illustrate how such minority interests or capital instruments that are subject to transitional arrangements should be calculated.

Scenario 1

A bank subsidiary (Bank S) issued ordinary shares of \$25,000, of which third parties own \$11,000. The ordinary shares issued by Bank S meet the CET1 Qualifying Criteria set out in Schedule 4A of the Capital Rules. Bank S did not issue any Additional Tier 1 capital instruments or Tier 2 capital instruments. Total amount of risk-weighted assets of Bank S is \$220,000. According to the computation methods stipulated in Schedule 4D of the Capital Rules, the eligible portion of minority interests to be included in the parent bank's consolidated CET1 capital, Additional Tier 1 capital and Tier 2 capital respectively on 1 January 2013 should be calculated as follows:

Tier of capital	Surplus capital of Bank S	Surplus capital attributable to third parties	Capital of Bank S held by third parties less surplus capital attributable to third parties	Amount of eligible minority interests to be included on 1.1.2013
Common Equity Tier 1	= \$25,000 – (\$220,000 * 7%) = \$9,600	= \$9,600 * (\$11,000 / \$25,000) = \$4,224	= \$11,000 – \$4,224 = \$6,776	= \$6,776 (a)
Tier 1 (CET1 + Additional Tier 1)	= \$25,000 – (\$220,000 * 8.5%) = \$6,300	= \$6,300 * (\$11,000 / \$25,000) = \$2,772	= \$11,000 – \$2,772 = \$8,228	= \$8,228 – \$6,776 = \$1,452 (b)

Total (CET1 + Additional Tier 1 + Tier 2)	= \$25,000 – (\$220,000 * 10.5%) = \$1,900	= \$1,900 * (\$11,000 / \$25,000) = \$836	= \$11,000 – \$836 = \$10,164	= \$10,164 – \$8,228 = \$1,936 (c)
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The non-eligible portion of minority interests on 1 January 2013 is therefore \$836, representing the difference between (i) \$11,000 (i.e. the minority interests recognized before 1.1.2013), and (ii) \$10,164 (the sum of (a), (b) and (c) recognized on 1.1.2013).

Assuming the amount and composition of the bank's capital remain constant in the coming 6 years, the reporting of the eligible portion and the non-eligible portion of minority interests throughout the transitional period will be as follows:

Tier of capital	1.1.2013	1.1.2014	1.1.2015	1.1.2016	1.1.2017	1.1.2018
Common Equity Tier 1 (a)	6,776	6,776	6,776	6,776	6,776	6,776
Additional Tier 1 (b)	1,452	1,452	1,452	1,452	1,452	1,452
Tier 1 - non-eligible portion of minority interests subject to transitional arrangements	836	669	502	334	167	0
	= 836 * 100%	= 836 * 80%	= 836 * 60%	= 836 * 40%	= 836 * 20%	= 836 * 0%
Tier 2 (c)	1,936	1,936	1,936	1,936	1,936	1,936

Where third parties ownership of Bank S's ordinary shares dropped from \$11,000 to \$8,000 in any subsequent year, for the purpose of calculating the non-eligible portion of minority interests, the figure labelled (i) above should be substituted by \$8,000 instead while the figure labelled (ii) above should be replaced by the amount of minority interests calculated based on that current position of \$8,000. On the other hand, if the third parties ownership increases by \$4,000 to \$15,000 in any subsequent year, no transitional arrangements should be applied to that \$4,000 new addition.

Scenario 2

Bank S issued ordinary shares of \$25,000 only to its parent bank as well as a Tier 2 capital instrument of \$10,000 only to third parties. The ordinary shares issued by Bank S meet the CET1 Qualifying Criteria set out in Schedule 4A of the Capital Rules while the Tier 2 capital instrument does not meet the Tier 2 Qualifying Criteria set out in Schedule 4C of the Capital Rules. Total amount of risk-weighted assets of Bank S is \$220,000.

Since the Tier 2 capital instrument issued by Bank S does not meet the qualifying criteria prescribed in Schedule 4C of the Capital Rules, the phase-out amount of the Tier 2 capital instrument, which is \$9,000 (i.e. \$10,000 * 90%) instead of \$10,000, should be applied when calculating the eligible portion of the capital instrument to be included in the parent bank's consolidated Tier 2 capital for position from 1.1.2013 to 31.12.2013. Based on the computation methods stipulated in Schedule 4D of the Capital Rules, the eligible portion of the capital instrument to be included in the parent bank's consolidated CET1 capital, Additional Tier 1 capital and Tier 2 capital respectively on 1 January 2013 should be calculated as follows:

Tier of capital	Surplus capital of Bank S	Surplus capital attributable to third parties	Capital of Bank S held by third parties less surplus capital attributable to third parties	Amount of eligible minority interests to be included on 1.1.2013
Common Equity Tier 1	Not applicable – no capital instruments held by third parties			
Tier 1 (CET1 + Additional Tier 1)	Not applicable – no capital instruments held by third parties			
Total (CET1 + Additional Tier 1 + Tier 2)	= \$34,000 – (\$220,000 * 10.5%) = \$10,900	= \$10,900 * (\$9,000 / \$34,000) = \$2,885	= \$9,000 – \$2,885 = \$6,115	= \$6,115 (d)

The non-eligible portion of the capital instrument on 1 January 2013 is therefore \$2,885, representing the difference between (i) \$9,000 (i.e. the phase-out amount of the instrument in 2013), and (ii) \$6,115 (i.e. (d), the eligible portion to be included in the consolidated Tier 2 capital).

Assuming the amount and composition of the bank's capital remain constant in the coming 6 years, the reporting of both the eligible portion and the non-eligible portion of the capital instrument throughout the transitional period should be as follows:

Tier of capital	1.1.2013	1.1.2014	1.1.2015	1.1.2016	1.1.2017	1.1.2018
Common Equity Tier 1	0	0	0	0	0	0
Additional Tier 1	0	0	0	0	0	0
Tier 1	0	0	0	0	0	0
Tier 2 – eligible portion (d)	6,115 ²	5,600 ¹	5,053 ¹	4,471 ¹	3,850 ¹	3,186 ¹
Tier 2 – non-eligible portion of capital instrument subject to transitional arrangements	2,885	1,920	1,168	612	230	0
	= (e) – (d)	= ((e)-(d))*80%	= ((e)-(d))*60%	= ((e)-(d))*40%	= ((e)-(d))*20%	= ((e)-(d))* 0%

Note:

Individual steps for computing the eligible portion and non-eligible portion of Tier 2 capital to be included in parent bank's consolidated capital in 2014 to 2018 above have not been shown in this example.

² The calculation of the eligible portion of capital instruments held by third parties to be included in parent bank's capital base (item (d)) in each subsequent year must take into account the phase out amount of that Tier 2 capital instrument in each calendar year.

	1.1.2013	1.1.2014	1.1.2015	1.1.2016	1.1.2017	1.1.2018
Applicable phase-out amount of the Tier 2 capital instrument (e)	\$9,000	\$8,000	\$7,000	\$6,000	\$5,000	\$4,000

Scenario 3 (a combination of Scenario 1 and Scenario 2 above)

Bank S issued ordinary shares of \$25,000 as well as a Tier 2 capital instrument of \$10,000, where \$11,000 of ordinary shares and the Tier 2 capital instrument are held by third parties. The ordinary shares issued by Bank S meet the CET1 Qualifying Criteria set out in Schedule 4A of the Capital Rules while the Tier 2 capital instrument does not meet the Tier 2 Qualifying Criteria set out in Schedule 4C of the Capital Rules. Total amount of risk-weighted assets of Bank S is \$220,000.

Similar to the Tier 2 capital instrument in scenario 2, only the phase-out amount of the Tier 2 capital instrument should be applied when calculating the eligible portion of capital instrument to be included in the parent bank's consolidated Tier 2 capital since that capital instrument does not meet Schedule 4C of the Capital Rules. Based on the computation methods stipulated in Schedule 4D of the Capital Rules, the eligible portion to be included in the parent bank's consolidated CET1 capital, Additional Tier 1 capital and Tier 2 capital respectively on 1 January 2013 and 1 January 2014 should be calculated as follows:

Position: 1 January 2013

Tier of capital	Surplus capital of Bank S	Surplus capital attributable to third parties	Capital of Bank S held by third parties less surplus capital attributable to third parties	Amount of eligible minority interests to be included on 1.1.2013
Common Equity Tier 1	= \$25,000 – (\$220,000 * 7%) = \$9,600	= \$9,600 * (\$11,000 / \$25,000) = \$4,224	= \$11,000 – \$4,224 = \$6,776	= \$6,776 (e)
Tier 1 (CET1 + Additional Tier 1)	= \$25,000 – (\$220,000 * 8.5%) = \$6,300	= \$6,300 * (\$11,000 / \$25,000) = \$2,772	= \$11,000 – \$2,772 = \$8,228	= \$8,228 – \$6,776 = \$1,452 (f)
Total (CET1 + Additional Tier 1 + Tier 2)	= \$34,000 – (\$220,000 * 10.5%) = \$10,900	= \$10,900 * (\$20,000 / \$34,000) = \$6,412	= \$20,000 – \$6,412 = \$13,588	= \$13,588 – \$8,228 = \$5,360 (g)

Position: 1 January 2014

Tier of capital	Surplus capital of Bank S	Surplus capital attributable to third parties	Capital of Bank S held by third parties less surplus capital attributable to third parties	Amount of eligible minority interests to be included on 1.1.2013
Common Equity Tier 1	= \$25,000 – (\$220,000 * 7%) = \$9,600	= \$9,600 * (\$11,000 / \$25,000) = \$4,224	= \$11,000 - \$4,224 = \$6,776	= \$6,776 (e)
Tier 1 (CET1 + Additional Tier 1)	= \$25,000 – (\$220,000 * 8.5%) = \$6,300	= \$6,300 * (\$11,000 / \$25,000) = \$2,772	= \$11,000 - \$2,772 = \$8,228	= \$8,228 - \$6,776 = \$1,452 (f)
Total (CET1 + Additional Tier 1 + Tier 2)	= \$33,000 – (\$220,000 * 10.5%) = \$9,900	= \$9,900 * (\$19,000 / \$33,000) = \$5,700	= \$19,000 - \$5,700 = \$13,300	= \$13,300 - \$8,228 = \$5,072 (g)

Note:

The 7% CET1 capital ratio, 8.5% Tier 1 capital ratio and 10.5% Total capital ratio used in these three scenarios are for illustrative purposes only. The exact figures to be used in reality will depend on whether Bank S is locally incorporated in Hong Kong or outside Hong Kong according to Schedule 4D of the Capital Rules.

As this scenario involves both CET1 capital and Tier 2 capital instrument, the following table illustrates how the non-eligible portions of the minority interests and the capital instrument subject to phase-out arrangements in calendar years 2013 and 2014 should be calculated and distributed among different tiers of capital:

Tier of capital reporting the minority interests	Amount recognised before 1.1.2013	Amount report after 1.1.2013	Amount recognised before 1.1.2013	Amount report after 1.1.2014
Core Capital	11,000		11,000	
Common Equity Tier 1 (e)		$\left\{ \begin{array}{l} 6,776 \\ 1,452 \end{array} \right.$		$\left\{ \begin{array}{l} 6,776 \\ 1,452 \end{array} \right.$
Additional Tier 1 (f)				
Non-eligible portion of minority interests in Tier 1		2,772 (h)		2,772 (i)
		$= \$11,000 - (\$6,776 + \$1,452)$		$= \$11,000 - (\$6,776 + \$1,452)$
Supplementary Capital	9,000 ³		8,000 ²	
Tier 2 (g)		5,360		5,072
Non-eligible portion of capital instrument in Tier 2		3,640 (j)		2,928 (k)
		$= \$9,000 - \$5,360$		$= \$8,000 - \$5,072$

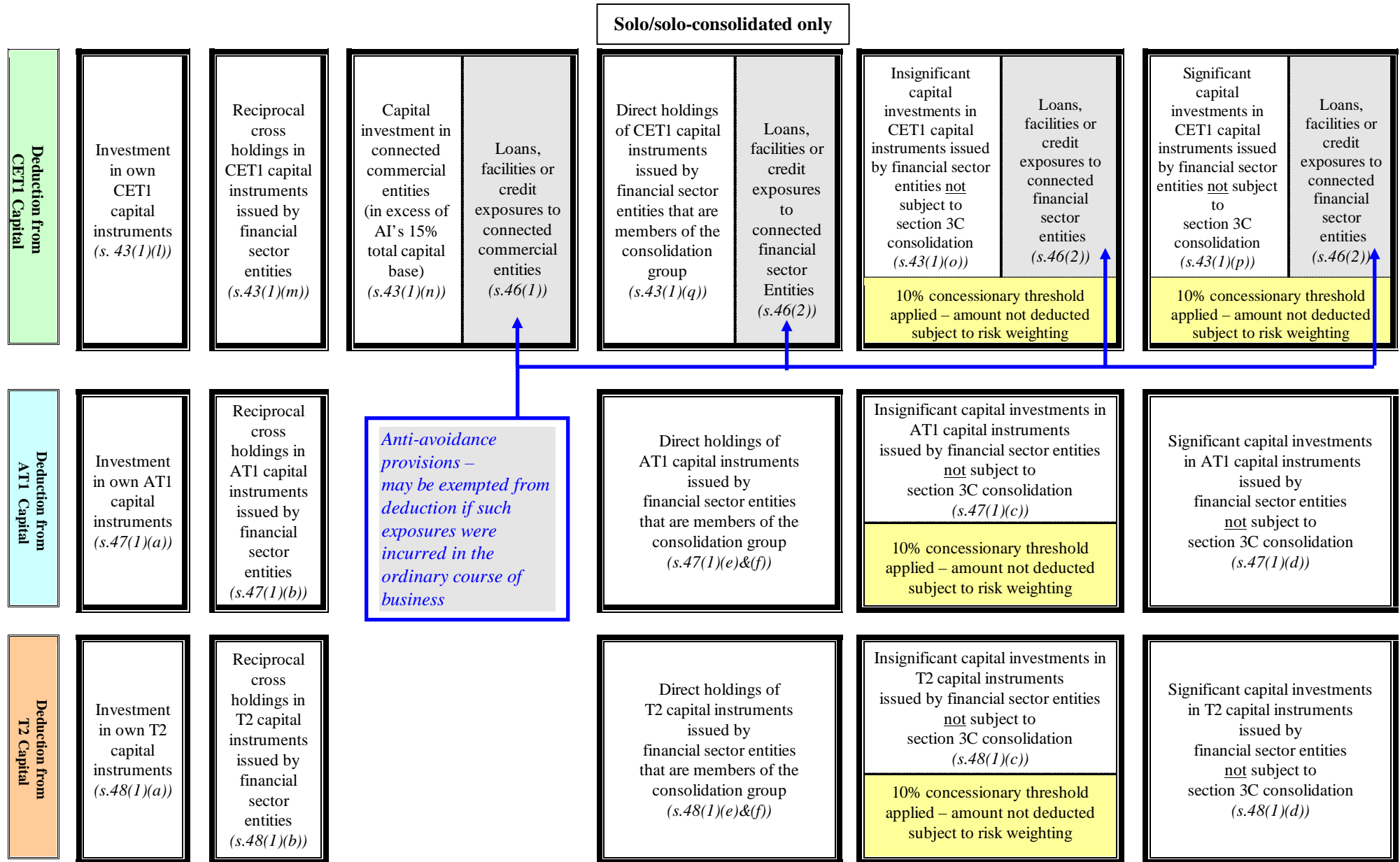
³ This amount is subject to progressive phasing out @10% per year as stipulated in Table E of Schedule 4H of the Capital Rules. In other words, \$9,000 in 2013, \$8,000 in 2014, \$7,000 in 2015, and so on.

Given the above distribution, the reporting of the eligible portion and the non-eligible portion of the minority interests and capital instrument on 1 January 2013 and 1 January 2014 should be as follows:

Tier of capital	1.1.2013	1.1.2014
Common Equity Tier 1 (e)	6,776	6,776
Additional Tier 1 (f)	1,452	1,452
Tier 1 – non-eligible portion of minority interests subject to transitional arrangements	2,772	2,218
	= (h) * 100%	= (i) * 80%
Tier 2 – eligible portion (g)	5,360	5,072
Tier 2 – non-eligible portion of capital instrument subject to transitional arrangements	3,640	2,342
	= (j) * 100%	= (k) * 80%

Deduction of capital investments and loans, facilities or credit exposures from capital base

Annex II-C



Illustrative example to calculate the applicable amount of insignificant capital investments of financial sector entities to be deducted from CET1 capital, Additional Tier 1 capital and Tier 2 capital

Suppose Bank A holds the following capital instruments issued by financial sector entities that are not subject to a section 3C requirement and where the authorized institution does not own more than 10% of the issued ordinary share capital of any of these financial sector entities, and those capital investments was outstanding and subject to 50:50 deduction immediately before 1 January 2013 and suppose further that Bank A has CET1 capital and Additional Tier 1 capital of \$5,000 and \$100 respectively as at reporting date.

CET1 capital instruments	AT1 capital instruments	T2 capital instruments	Total
\$500	\$400	\$300	\$1,200

According to sections (2), (3) and (4) of Schedule 4F of the Capital Rules, the applicable amount of insignificant capital investments to be deducted from the institution's capital base should be determined having regard to a concessionary threshold equal to

10% of the institution's CET1 capital, which is calculated after applying –

- (i) all regulatory deductions set out under items (f)(i) to (f)(xvii); and
- (ii) the portion of 50:50 deduction under transitional arrangements set out in Schedule 4H of the Capital Rules where such deduction is applied to CET1 capital due to insufficient Additional Tier 1 capital to cover the required deductions reported in item (f)(xxii).

The concessionary threshold should be derived based on the following two-stage approach.

Stage 1 – to find out the amount of insufficient Additional Tier 1 capital (i.e. item (ii) of the above formula)

Steps	Calculations		
1. Determine the 10% concessionary threshold without taking into account the deduction of item (ii) above, assuming the amount of regulatory deductions under item (i) above to be \$1,000	CET1 capital before deductions - <i>Less: deductions</i> CET1 capital after deductions	\$5,000 <u>(\$1,000)</u> \$4,000	
	Therefore, the 10% concessionary threshold = \$4,000 * 10% = \$400		
2. Apportionment of the applicable amount of CET1 capital investments to be deducted from CET1 capital	= (\$1,200 - \$400) * (\$500 / \$1,200) = \$333		
3. Apportionment of the applicable amount of Additional Tier 1 capital investments to be deducted from Additional Tier 1 capital	= (\$1,200 - \$400) * (\$400 / \$1,200) = \$266		
4. Based on the phase-in arrangement set out in Table C of Schedule 4H of the Capital Rules, determine 50% of the amount to be deducted from Tier 1 capital and 50% of the amount to be deducted from Tier 2 capital (assuming the reporting period is from 1.1.2013 to 31.12.2013)	Deduction from	CET1 capital instruments	AT1 capital instruments
	CET1 capital	Not applicable	Not applicable
	Tier 1 capital	= \$333 * 50% = \$166.5	= \$266 * 50% = \$133
	Tier 2 capital	= \$333 * 50% = \$166.5	= \$266 * 50% = \$133
5. Determine the amount of insufficient Additional Tier 1 capital of Bank A	= (\$166.50 + \$133) - \$100 = 199.50		

Stage 2 – with the amount of insufficient Additional Tier 1 capital arrived at in Stage 1, we can now calculate the 10% concessionary threshold taking into account of both items (i) and (ii) of the above formula

Steps	Calculations	
6. Determine the 10% concessionary threshold taking into account the regulatory deductions of both items (i) and (ii) above	CET1 capital before deductions	\$5,000
	- <i>Less: deductions</i>	(<i>\$1,000</i>)
	- <i>Less: the portion of 50:50 deduction with insufficient AT1 capital to cover it</i>	<u>(<i>\$199.5</i>)</u>
	CET1 capital after deductions	\$3,800.5
Therefore, the 10% concessionary threshold = \$3,800.5 * 10% = \$380		

Consequently, Bank A's holding of insignificant capital investments in excess of 10% concessionary threshold is **\$820** (i.e. the amount subject to deduction from capital base), being \$1,200 minus \$380. Then the pro-rata calculation of respective amounts subject to (a) deduction from each tier of capital, and (b) risk-weighting in accordance with the applicable risk-weights under Part 4, 5, 6 or 8 of the Capital Rules, as the case requires, will be as follows –

	Amount subject to deduction	Amount subject to risk-weighting	Total
from CET1	= \$820 * (\$500/\$1,200) = \$342	= \$380 * (\$500/\$1,200) = \$158	\$500
from AT1	= \$820 * (\$400/\$1,200) = \$273	= \$380 * (\$400/\$1,200) = \$127	\$400
from T2	= \$820 * (\$300/\$1,200) = \$205	= \$380 * (\$300/\$1,200) = \$95	\$300
	\$820	\$380	\$1,200

Taking into account the transitional arrangements provided for capital deductions as stipulated in section 3 of Schedule 4H of the Capital Rules, the reporting of the deduction of \$342 in the calendar years of 2013 and 2014 (assuming the figure remains constant) from CET1 capital should be distributed to different tiers of capital as follows:

Tiers of capital	Year 2013	Year 2014
From CET1 capital	Not applicable	= \$342 * 20% = \$68.4
From Tier 1 capital	= \$342 * 50% = \$171	= (\$342 – \$68.4) * 50% = \$136.8
From Tier 2 capital	= \$342 * 50% = \$171	= (\$342 – \$68.4) * 50% = \$136.8
Total	\$342	\$342

The same phase-in arrangement applies to deductions from the institution's Additional Tier 1 capital (i.e. \$273) and Tier 2 capital (i.e. \$205) unless the institution choose not to apply transitional arrangements as set out in Schedule 4H of the Capital Rules and had duly informed the HKMA in writing of its decision in accordance with section 2 of that Schedule.

**Illustrative example to calculate the applicable amount of significant capital investments
of financial sector entities to be deducted from CET1 capital, Additional Tier 1 capital and Tier 2 capital**

Suppose Bank A holds the following capital instruments issued by financial sector entities that are not subject to a section 3C requirement and where the authorized institution own more than 10% of the issued ordinary share capital of any of these financial sector entities, and those capital investments was outstanding and subject to 50:50 deduction immediately before 1 January 2013 and suppose further that Bank A has CET1 capital and Additional Tier 1 capital of \$5,000 and \$100 respectively as at reporting date.

CET1 capital instruments	AT1 capital instruments	T2 capital instruments	Total
\$1,200	\$400	\$300	\$1,900

According to sections (2) and (3) of Schedule 4G of the Capital Rules, with respect to significant capital investments, the concessionary threshold only applies to the institution's capital investments in the form of CET1 capital instruments. On the other hand, any holdings of Additional Tier 1 and Tier 2 capital instruments must be fully deducted from the institution's Additional Tier 1 capital or Tier 2 capital. The concessionary threshold for significant capital investment is equal to

10% of the institution's CET1 capital, calculated after applying –

- (i) all regulatory deductions set out under items (f)(i) to (f)(xix), (f)(xxi); and
- (ii) the portion of 50:50 deduction under transitional arrangements set out in Schedule 4H of the Capital Rules where such deduction is applied to CET1 capital due to insufficient Additional Tier 1 capital to cover the required deductions reported in item (f)(xxii).

The concessionary threshold should be derived based on the following two-stage approach.

Stage 1 – to find out the amount of insufficient Additional Tier 1 capital (i.e. item (ii) of the above formula)

Steps	Calculations													
<p>1. Determine the 10% concessionary threshold without taking into account the deduction of item (ii) above, assuming the amount of regulatory deductions under item (i) above to be \$1,000</p>	<p>CET1 capital before deductions - <i>Less: deductions</i> CET1 capital after deductions</p>	<p>\$5,000 (<i>\$1,000</i>) \$4,000</p>												
	<p>Therefore, the 10% concessionary threshold = \$4,000 * 10% = \$400</p>													
<p>2. Apportionment of the applicable amount of CET1 capital investments to be deducted from CET1 capital</p>	<p>No apportionment (unlike the previous example) required as the 10% concessionary threshold in this example only applies to significant investments in CET1 capital instruments (i.e. (\$1,200 - \$400) = \$800).</p>													
<p>3. Apportionment of the applicable amount of Additional Tier 1 capital investments to be deducted from Additional Tier 1 capital</p>	<p>No apportionment (unlike the previous example) required as the institution's holding of Additional Tier 1 capital instruments in this example is treated as significant capital investments (i.e. \$400) which should be fully deducted from the institution's capital base.</p>													
<p>4. Based on the phase-in arrangement set out in Table C of Schedule 4H of the Capital Rules, determine 50% of the amount to be deducted from Tier 1 capital and 50% of the amount to be deducted from Tier 2 capital (assuming the reporting period is from 1.1.2013 to 31.12.2013)</p>	<table border="1" data-bbox="1072 986 2016 1222"> <thead> <tr> <th data-bbox="1072 986 1323 1026">Deduction from</th> <th data-bbox="1323 986 1680 1026">CET1 capital instruments</th> <th data-bbox="1680 986 2016 1026">AT1 capital instruments</th> </tr> </thead> <tbody> <tr> <td data-bbox="1072 1026 1323 1082">CET1 capital</td> <td data-bbox="1323 1026 1680 1082">Not applicable</td> <td data-bbox="1680 1026 2016 1082">Not applicable</td> </tr> <tr> <td data-bbox="1072 1082 1323 1153">Tier 1 capital</td> <td data-bbox="1323 1082 1680 1153">= \$800 * 50% = \$400</td> <td data-bbox="1680 1082 2016 1153">= \$400 * 50% = \$200</td> </tr> <tr> <td data-bbox="1072 1153 1323 1222">Tier 2 capital</td> <td data-bbox="1323 1153 1680 1222">= \$800 * 50% = \$400</td> <td data-bbox="1680 1153 2016 1222">= \$400 * 50% = \$200</td> </tr> </tbody> </table>		Deduction from	CET1 capital instruments	AT1 capital instruments	CET1 capital	Not applicable	Not applicable	Tier 1 capital	= \$800 * 50% = \$400	= \$400 * 50% = \$200	Tier 2 capital	= \$800 * 50% = \$400	= \$400 * 50% = \$200
Deduction from	CET1 capital instruments	AT1 capital instruments												
CET1 capital	Not applicable	Not applicable												
Tier 1 capital	= \$800 * 50% = \$400	= \$400 * 50% = \$200												
Tier 2 capital	= \$800 * 50% = \$400	= \$400 * 50% = \$200												
<p>5. Determine the amount of insufficient Additional Tier 1 capital of Bank A</p>	<p>= \$199.5 (the shortage determined in the previous example) + \$400 + \$200 = \$799.5</p>													

Stage 2 – with the amount of insufficient Additional Tier 1 capital arrived at in Stage 1, we can now calculate the 10% concessionary threshold taking into account of both items (i) and (ii) in the above formula

Steps	Calculations	
6. Determine the 10% concessionary threshold after taking into account the deductions of both items (i) and (ii)	CET1 capital before deductions	\$5,000
	- Less: deductions	(\$1,000)
	- Less: the portion of 50:50 deduction with insufficient AT1 capital to cover it	(\$799.5)
	CET1 capital after deductions	\$3,200.5
Therefore, the 10% concessionary threshold = \$3,200.5 * 10% = \$320		

Consequently, Bank A's holding of significant CET1 capital investments in excess of 10% concessionary threshold is **\$880** (i.e. the amount subject to deduction from CET1 capital), being \$1,200 minus \$320. Then the calculation of respective amounts subject to (a) deduction from each tier of capital, and (b) risk-weighting at 250% will be as follows –

Amount subject to deduction		Amount subject to risk-weighting @250% risk-weight	Total
from CET1	= \$1,200 - \$320 = \$880	= \$1,200 - \$880 = \$320	\$1,200
from AT1	\$400	Not applicable	\$400
from T2	\$300	Not applicable	\$300
	\$1,580	\$320	\$1,900

Full deduction →

Taking into account the transitional arrangements provided for capital deductions as stipulated in section 3 of Schedule 4H of the Capital Rules, the reporting of the deduction of \$400 in the calendar years of 2013 and 2014 (assuming the figure remains constant) from the institution's Additional Tier 1 capital should be distributed to different tiers of capital as follows:

Tiers of capital	Year 2013	Year 2014
From CET1 capital	Not applicable	Not applicable
From AT1 capital	Not applicable	= \$400 * 20% = \$80
From Tier 1 capital	= \$400 * 50% = \$200	= (\$400 – \$80) * 50% = \$160
From Tier 2 capital	= \$400 * 50% = \$200	= (\$400 – \$80) * 50% = \$160
Total	\$400	\$400

The same phase-in arrangement applies to deductions from CET1 capital (i.e. \$880) and Tier 2 capital (i.e. \$300) unless the institution choose not to apply transitional arrangements as set out in Schedule 4H of the Capital Rules and had duly informed the HKMA in writing of its decision in accordance with section 2 of that Schedule.

Basel III Transitional Arrangements

Treatment of capital instruments that no longer qualify for inclusion in capital base (“non-complying capital instruments”)

The following phase-out treatment will apply to non-complying capital instruments.

1. Non-common equity Tier 1 and Tier 2 capital instruments that do not qualify as Additional Tier 1 capital (i.e. failed to meet the qualifying criteria specified in Schedule 4B of the Capital Rules) or Tier 2 capital (i.e. failed to meet the qualifying criteria specified in Schedule 4C of the Capital Rules) but were included in an Authorized Institution’s (AIs) capital base before 1 January 2013 (collectively referred to “extant capital instruments”) may be phased out during the 10-year period beginning from 1 January 2013. Fixing the base at the nominal amount of such instruments outstanding immediately before 1 January 2013, their recognition will be capped at 90% from 1 January 2013, with the cap reducing by 10 percentage points in each subsequent year⁴. For example, an AI that issued a Tier 1 extant capital instrument in August 2010 will be able to count 90 percent of the notional outstanding amount of the instrument as of 1 January 2013 during calendar year 2013, 80 percent during calendar year 2014, and so on. As of 1 January 2022, no Tier 1 extant capital instruments will be recognized in Tier 1 capital.

Progressive phasing out of non-complying capital instruments

Commencement date	Percentage of base amount of transitional instruments that may be included in Additional Tier 1 and Tier 2 capital under the phase-out arrangement
1 January 2013	90%
1 January 2014	80%
1 January 2015	70%
1 January 2016	60%
1 January 2017	50%
1 January 2018	40%
1 January 2019	30%
1 January 2020	20%
1 January 2021	10%
1 January 2022	0%

2. This progressively reducing cap will be applied to Additional Tier 1 capital and Tier 2 capital separately based on the aggregate amount of extant capital instruments outstanding

⁴ The level of the base is fixed on 1 January 2013 and does not change thereafter.

in each tier⁵. To the extent that an instrument is redeemed, or its recognition in capital is amortized, after 1 January 2013, the nominal amount serving as the base is not reduced. In addition, instruments may only be included under a particular cap to the extent that they are recognized in that tier of capital. That is to say, any amount of instruments issued in excess of the limits allowed for recognition prior to 1 January 2013 (e.g. supplementary capital limited to the institution's core capital; and term debt capital limited to 50% core capital) will not be eligible for the gradual phasing-out treatment (i.e. any such excess amount should be excluded from the calculation of the base amount). Nevertheless, such instruments will be allowed to be fully recognized (i.e. without limitation) on and after 1 January 2013 if they meet all the qualifying criteria specified in Schedule 4B for inclusion in Additional Tier1 capital or Schedule 4C for inclusion in Tier 2 capital of the Capital Rules, as the case may be, and with the approval of the HKMA.

3. Where an instrument's recognition in capital is subject to amortization on or before 1 January 2013, only the amortized amount recognized in capital on 1 January 2013 should be taken into account in the amount fixed for transitioning rather than the full nominal amount. The instrument will continue to amortize on a straight-line basis at a rate of 20% per annum during the transition period, while the aggregate cap will be reduced at a rate of 10% per year.
4. Share premium may be included in the base provided that it relates to an instrument that is eligible to be included in the base for the transitional arrangements.
5. Non-qualifying instruments that are denominated in a foreign currency should be included in the base using their value in the reporting currency of the institution as at January 1, 2013. The base will be fixed in the reporting currency of the institution throughout the transition period. During the transition period, instruments denominated in a foreign currency should be valued as they are reported on the balance sheet of the institution at the relevant reporting date (adjusting for any amortization in the case of Tier 2 instruments).
6. Where an instrument is fully derecognized on 1 January 2013 or otherwise ineligible for these transitioning arrangements, the instrument must not be included in the base fixed on 1 January 2013.

Non-complying capital instruments eligible for phase-out treatment

7. The following rules will be applied to determine the extent to which non-complying capital instruments (issued by AI directly or through a subsidiary) are eligible for the phase-out treatment -
 - (a) Capital instruments issued prior to 12 September 2010 that previously qualified as regulatory capital but do not meet the Basel III qualifying criteria for regulatory capital (on a forward looking basis) will be considered non-complying capital instruments and subject to phase-out as described in this Annex.
 - (b) Capital instruments issued before 1 January 1 2013 that meet the Basel III qualifying criteria for regulatory capital, except that they do not meet the "non-

⁵ Where an instrument is derecognized at 1 January 2013, it will not be eligible for grandfathering and does not count towards the base fixed on 1 January 2013.

viability requirements”⁶, will be considered non-complying capital instruments and subject to the phase-out described in this Annex.

- (c) Capital instruments issued between 12 September 2010 and 1 January 2013 that do not meet one or more of the Basel III qualifying criteria for inclusion in regulatory capital (other than the non-viability requirements) will be excluded from regulatory capital as of 1 January 2013 (i.e. they will not be subject to the phase-out described in this Annex).
- (d) Capital instruments issued after 1 January 2013 must meet all of the Basel III criteria for regulatory capital (including the non-viability requirements) to qualify as regulatory capital. Instruments that do not meet all of these requirements will be excluded from regulatory capital for the purpose of determination of capital base.

8. Instruments with an incentive to redeem will be treated as follows:

Characteristics of capital instruments	Phase-out	Derecognize	Recognize
1. Call and step-up date prior to 1 January 2013, is not called and meets the new criteria			√
2. Call and step-up date on or after 1 January 2013, is not called and meets new criteria	√ Starting 1 January 2013 until effective maturity date		√ From effective maturity date onwards
3. Call and step-up date between 12 September 2010 and 1 January 2013, is not called and does not meet new criteria		√ On 1 January 2013	
4. Call and step-up date on or after 1 January 2013, is not called and does not meet new criteria	√ Starting 1 January 2013 until effective maturity date	√ On effective maturity date	

⁶ Minimum requirements to ensure loss absorbency at the point of non-viability, Annex 1 of BCBS Press Release *Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*, 13 January 2011.

Characteristics of capital instruments	Phase-out	Derecognize	Recognize
5. Call and step-up date on or prior to 12 September 2010, was not called and does not meet new criteria	√ Starting 1 January 2013		

- (a) For an instrument that has a call and a step-up (or other incentive to redeem) prior to 1 January 2013, if the instrument is not called at its effective maturity date⁷ and on a forward-looking basis (i.e. from the effective maturity date) will meet the new criteria for inclusion in Additional Tier 1 capital or Tier 2 capital, it will continue to be recognized in that tier of capital.
- (b) For an instrument that has a call and a step-up (or other incentive to redeem) between 12 September 2010 and 1 January 2013, if the instrument is not called at its effective maturity date and on a forward-looking basis (i.e. from the effective maturity date) will not meet the new criteria for inclusion in Additional Tier 1 capital or Tier 2 capital, it will be fully derecognized in that tier of capital from 1 January 2013.
- (c) For an instrument that has a call and a step-up (or other incentive to redeem) on or after 1 January 2013, if the instrument is not called at its effective maturity date and on a forward-looking basis (i.e. from the effective maturity date) will not meet the new criteria for inclusion in Additional Tier 1 capital or Tier 2 capital, it will be fully derecognized in that tier of capital from the effective maturity date. Prior to the effective maturity date, the instrument will be considered an “instrument that no longer qualifies as AT1 or Tier 2” and will therefore be phased out from 1 January 2013.
- (d) For an instrument that has a call and a step-up (or other incentive to redeem) on or prior to 12 September 2010, if the instrument was not called at its effective maturity date and on a forward-looking basis (i.e. from the effective maturity date) does not meet the new criteria for inclusion in Additional Tier 1 capital or Tier 2 capital, it will be considered an “instrument that no longer qualifies as AT1 or Tier 2” and will therefore be phased out from 1 January 2013.

⁷ Effective maturity date refers to the incentive to redeem date. Instruments without an incentive to redeem would not have an effective maturity date other than their scheduled maturity (if any).

Illustrative example –
Recognition of non-qualifying capital instruments during the transitional period

Subject to Schedule 4H of the Capital Rules, the extant capital instruments of an authorized institution that were included in the institution's capital base immediately before 1 January 2013 but do not meet all the qualifying criteria set out in Schedule 4B and 4C of the Capital Rules, as the case may be, must be phased out during the 10-year period.

Assume Bank A has three outstanding non-qualifying Tier 2 debt instruments as at 1 January 2013 which are eligible for phase-out:

- (a) **10-year Term Debt:** Notional amount of \$1,000 to be matured on 1 January 2019;
- (b) **10-year Term Debt:** Notional amount of \$500 with a call option on 1 January 2015 (assume that it will be derecognized after 1 January 2015)
- (c) **Perpetual Debt:** Notional amount of \$500

Based on the above information, the amount of non-qualifying capital instruments that may be recognized in Tier 2 capital of Bank A from 1 January 2013 to 31 December 2022 has been worked out in the following table. Authorized institutions are suggested to follow the below 4 steps in deriving the eligible amount that can be included as part of its capital base each year during the phase-out period.

- Step 1: Consider the maturity profile of each non-compliant instrument, including the 5-year amortization
- Step 2: Calculate the total amount of all non-compliant capital instruments [**A**]
- Step 3: Calculate the capped amount (subject to 10% phase-out) by fixing the base on 1 January 2013 [**B**]
- Step 4: The lower of either [A] or [B] is the amount that could be recognized as Tier 2 capital [**Min (A,B)**]

Reporting Date	Step 1			Step 2	Step 3	Step 4
	Debt (a)	Debt (b)	Debt (c)	Total amount of all non-compliant capital instruments [A]	Cap amount at each year [#] [B]	Amount that may be recognized in Tier 2 capital [Min (A,B)]
1/1/2013	\$1,000	\$500	\$500	\$2,000	\$1,800	\$1,800
1/1/2014	\$1,000	\$500	\$500	\$2,000	\$1,600	\$1,600
1/1/2015	\$800*	\$0	\$500	\$1,300	\$1,400	\$1,300
1/1/2016	\$600	\$0	\$500	\$1,100	\$1,200	\$1,100
1/1/2017	\$400	\$0	\$500	\$900	\$1,000	\$900
1/1/2018	\$200	\$0	\$500	\$700	\$800	\$700
1/1/2019	\$0	\$0	\$500	\$500	\$600	\$500
1/1/2020	\$0	\$0	\$500	\$500	\$400	\$400
1/1/2021	\$0	\$0	\$500	\$500	\$200	\$200
1/1/2022	\$0	\$0	\$500	\$500	\$0	\$0

Note:

* Debt (a) starts in 2015 the 20% straight line amortization in the remaining 5 year before maturity

The extant Tier 2 capital instruments subject to phase-out as at 1.1.2013 are \$2,000. Therefore, this cap amount will be reduced by 10 percentage points in each subsequent year.

Illustrative example – Reporting of Columns 1 to 4 in Part II(b)

The HKMA allowed a transitional period (from 1 January 2013 to 31 December 2017) for the phasing-in of those capital deductions which under the Capital Rules are required to be deducted from CET1 capital, Additional Tier 1 capital and Tier 2 capital but which were deducted on an equal basis from core capital and supplementary capital or risk-weighted under the pre-amended Capital Rules before 1 January 2013. Section 3 of Schedule 4H of the Capital Rules set out such transitional arrangement⁸ of capital deductions for determination of an institution's capital base.

The following illustrates how Columns 1, 2, 3 and 4 of Part II(b) are reported based on the scenario below. Suppose Bank C holds item (i) to (iv) that are subject to regulatory deduction after 1 January 2013. The bank chooses to apply the transitional arrangements under Schedule 4H.

Items	Amount	Capital treatment before 1.1.2013	Capital treatment after 1.1.2013
(i) Defined benefit pension fund assets	\$50	Risk-weight	Deduct from CET1 capital
(ii) Shortfall of provisions to expected losses	\$100	50:50 deduction	Deduct from CET1 capital
(iii) Insignificant investment in the ordinary shares of financial sector entities	\$250	of which, \$120 subject to risk-weight \$130 subject to 50:50 deduction	Deduct from CET1 capital and subject to a 10% concessionary threshold

⁸ An authorized institution may, for any reasons, choose not to apply the transitional arrangements set out in Schedule 4H for a certain item or individual investment that is subject to deduction from CET1 capital, Additional Tier 1 capital or Tier 2 capital, as the case requires. The institution must inform the MA in writing of its decision and must not change its decision without the prior approval of the MA.

Items	Amount	Capital treatment before 1.1.2013	Capital treatment after 1.1.2013
(iv) Significant investment in the ordinary shares of a financial sector entity and a facility provided by the institution to that entity which is a connected company of the institution and <u>not</u> subject to consolidation under a section 3C requirement	Ordinary shares - \$50	50:50 deduction	- Deduct investment* in ordinary shares from the institution's CET1 capital and subject to a 10% concessionary threshold
	Facility - \$25		(* Section 46(2) of the Capital Rules requires the facility to be aggregated with significant investments in CET1 capital instruments and deduct from the institution's CET1 capital subject to a 10% concessionary threshold)
	Total - \$75		
	Ordinary shares - \$80	Not applicable (assuming investment incurred after 1.1.2013)	Deduct from CET1 capital and subject to a 10% concessionary threshold

Part A: Reporting of items (i), (ii) and (iii)

With respect to items (i), (ii) and (iii) that was all outstanding immediately before 1 January 2013, based on the phase-in arrangement stipulated in Schedule 4H, Bank C's reporting of the relevant items in Part II(b) on **1 January 2013** and **1 January 2014** will be as follows:

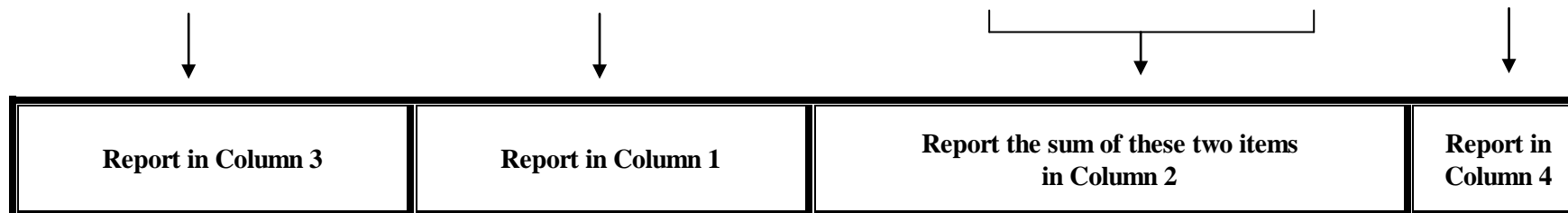
Item in Part II(b)	Nature of item	Column 1	Column 2	Column 3	Column 4	Remarks				
							Amount transitioned	Amount not yet transitioned		Total
								Risk-weight	50:50 deduction	
Common Equity Tier 1 Capital										
(1)	Defined benefit pension fund assets	1.1.2013	0	50	0	50	<ul style="list-style-type: none"> - Calculation based on <u>Table B of Schedule 4H</u> - As deduction from CET1 capital only starts from 1.1.2014, therefore, the amount transitioned reported on 1.1.2013 is zero. 			
		1.1.2014	10	40	0					
(3)	Shortfall of provisions to expected losses	1.1.2013	0	0	100	100	<ul style="list-style-type: none"> - Calculation based on <u>Table C of Schedule 4H</u> - As deduction from CET1 capital only starts from 1.1.2014, therefore, the amount transitioned reported on 1.1.2013 is zero. 			
		1.1.2014	20	0	80					
(8)	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are <u>not</u> subject to consolidation under a section 3C requirement	1.1.2013	0	172	78	250	<ul style="list-style-type: none"> - The 10% concessionary threshold for insignificant capital investments is available in full starting 1.1.2013. - Please refer to <u>Note (I)</u> in the following pages for the calculation of the portions of the aggregate insignificant capital investments that are respectively subject to deduction and risk-weighting given the 10% concessionary threshold. - Please follow <u>Note (II)</u> in the following pages to derive the amount to be reported in Columns 1, 2, 3 and 4 in case the insignificant capital investments were partly 50:50 deducted and partly risk-weighted before 1.1.2013. - As deduction from CET1 capital only starts from 1.1.2014, the amount transitioned reported in 1.1.2013 is zero. 			
		1.1.2014	30	157.6	62.4					

Note (I)

Insignificant investments in CET1 capital instruments	Amount	As % of total capital investments
Treatments before 1.1.2013		
- Portion of investments subject to 50:50 deduction	\$130	52%
- Portion of investments subject to risk weighting	\$120	48%
- Total investments	\$250	
Treatments after 1.1.2013		
Assume CET1 capital of Bank C after required deductions	\$1,000	
10% concessionary threshold = (\$1,000 * 10%)	\$100	
Therefore,		
- portion of investments subject to deduction = (\$250 - \$100)	\$150	(c)
- portion of investments subject to risk weighting = (\$250 – (c))	\$100	(d)

Note (II)

Reporting date	Treatment of (c) after 1.1.2013			Treatment of (d) after 1.1.2013	Total
	Amount to be deducted from T1 and T2 capital on an equal basis after 1.1.2013 (for the portion that was 50:50 deducted before 1.1.2013)	Amount to be deducted from CET1 capital after 1.1.2013 (for both the portion that was 50:50 deducted and the portion that was risk-weighted before 1.1.2013)	Amount to be risk-weighted after 1.1.2013 (for the portion that was not deducted from capital base after 1.1.2013)		
1.1.2013	$\$150 * (a) = \78	$(\$150 * (a) * 0\%) + (\$150 * (b) * 0\%) = \$0$	$\$150 - \$78 - \$0 = \72	\$100	\$250
1.1.2014	$(\$150 * (a)) * 80\% = \62.4	$(\$150 * (a) * 20\%) + (\$150 * (b) * 20\%) = \$30$	$\$150 - \$62.4 - \$30 = \57.6	\$100	\$250
1.1.2015	$(\$150 * (a)) * 60\% = \46.8	$(\$150 * (a) * 40\%) + (\$150 * (b) * 40\%) = \$60$	$\$150 - \$46.8 - \$60 = \43.2	\$100	\$250
1.1.2016	$(\$150 * (a)) * 40\% = \31.2	$(\$150 * (a) * 60\%) + (\$150 * (b) * 60\%) = \$90$	$\$150 - \$31.2 - \$90 = \28.8	\$100	\$250
1.1.2017	$(\$150 * (a)) * 20\% = \15.6	$(\$150 * (a) * 80\%) + (\$150 * (b) * 80\%) = \$120$	$\$150 - \$15.6 - \$120 = \14.4	\$100	\$250
1.1.2018	No longer applicable	\$150	No longer applicable	\$100	\$250



Part B: Reporting of item (iv)

Bank C has a significant capital investment and a facility with a total outstanding amount before 1.1.2013 of \$75 (referred to as **Group (a)** hereafter) and a significant capital investment incurred after 1.1.2013 of \$80 (referred to as **Group (b)** hereafter) that are required to be aggregated for regulatory treatment after 1.1.2013.

Assume Bank C's CET1 capital after regulatory deductions is \$700, then the 10% threshold applied in this case is \$70 (i.e. \$700 * 10%). The portions of capital investments under each group that are either required to be deducted from the institution's capital base or risk-weighted are calculated as follows:

	Group (a) Capital investments outstanding before 1.1.2013	Group (b) Capital investments incurred after 1.1.2013
Deduct from CET1 capital	$= (\$155 - \$70) / (\$75 / \$155)$ $= \$41.13$	$= (\$155 - \$70) / (\$80 / \$155)$ $= \$43.87$
Risk-weight at 250%	$= \$70 * (\$75 / \$155)$ $= \$33.87$	$= \$70 * (\$80 / \$155)$ $= \$36.13$
Total	\$75	\$80

First, based on the results calculated above, the reporting of items under **Group (a)** (i.e. capital deduction items subject to transitional arrangement) in Part II (b) will be as follows:

Item in Part II(b)	Nature of item	Column 1	Column 2	Column 3	Column 4	Remarks				
							Amount transitioned	Amount not yet transitioned		Total
								Risk-weight	50:50 deduction	
Common Equity Tier 1 Capital										
(9)	Significant capital investments in CET1 capital instruments issued by financial sector entities that are <u>not</u> subject to consolidation under a section 3C requirement	1.1.2013	0	33.87 *	41.13 #	75	<ul style="list-style-type: none"> - The 10% concessionary threshold for significant investments in CET1 capital instruments is available in full starting 1.1.2013 and applies to the facility as well. - <u>Note (III)</u> as shown below contains explanations on how to calculate the amount to be reported in Columns 1, 2, 3 and 4. 			
		1.1.2014	8.23 ^	33.87	32.9 ^					
(9)(a)	<i>of which: any amount of loans, facilities or other credit exposures that is required by section 46(2) of Capital Rules to be aggregated with item (9)</i>	1.1.2013	0	11.29 *	13.71 #	25				
		1.1.2014	2.74 ^	11.29	10.97 ^					

Note (III)

According to Table C of Schedule 4H, the deduction amount (i.e. \$41.13) will still be subject to “50:50 deduction” on 1.1.2013. The amount subject to “50:50 deduction” report in item (9)(a) = $\$41.13 * (\$25 / \$75) = \mathbf{\$13.71}$

^ In line with Table C of Schedule 4H, on 1.1.2014, 20% of the deduction amount (i.e. $\$41.13 * 20\% = \mathbf{\$8.23}$) is to be deducted from the institution’s CET1 capital, while the remaining portion (i.e. $\$41.13 * 80\% = \mathbf{\$32.90}$) will still be subject to “50:50 deduction”. The “amount transitioned” (Column 1) reported in item (9)(a) = $\$13.71 * 20\%$, whereas “50:50 deduction” (Column 3) should report $\mathbf{\$10.97}$ (i.e. $\$13.71 * 80\%$).

* The amount subject to “risk-weighting” (Column 2) report in item (9)(a) as on 1.1.2013 = \$33.87 * (\$25 / \$75)

Next, the relevant deduction amount under items of **Group (b)** (i.e. capital deduction items not subject to any transitional arrangement) should be reported in the relevant cells of Part II(a) based on the result calculated above:

Item in Part II(a)	Nature of Item		Column 1	Column 2	Remarks
(f)(xx)	Significant capital investments in CET1 capital instruments issued by financial sector entities that are <u>not</u> subject to consolidation under a section 3C requirement	1.1.2013		43.87	- Being the difference between the total Group (b) capital investments (\$80) and the portion of such investments that is subject to risk-weighting (i.e. \$36.13)
		1.1.2014		52.10	- This amount represents the sum of (i) the first year phase-in deductible amount of Group (a) capital investments (i.e. \$8.23) and (ii) the deduction of Group (b) capital investments (i.e. \$43.87)
(f)(xx)(1)	<i>of which: any amount of loans, facilities or other credit exposures that is required by section 46(2) of Capital Rules to be aggregated with item (f)(xx)</i>	1.1.2013	0		
		1.1.2014	2.74		- This is the portion of the first year phase-in deductible amount of Group (a) capital investments (i.e. \$8.23 * (25/75)) which is related to the facility provided to financial sector entities

Mapping of Items report in Part II(b)

Items in Part II(b)	Cross reference with Part II(a)	
Column 1	Column 1	Column 2
(1)	(f)(vi)(1)	
(2)		(f)(vii)
(3)		(f)(xii)
(4)		(f)(xiii)
(5)		(f)(xv)
(6)		(f)(xvi)
(7)		(f)(xvii)
(8)		(f)(xviii)
(8)(a)	(f)(xviii)(1)	
(9)		(f)(xix)
(9)(a)	(f)(xix)(1)	
(10)		(f)(xx)
(10)(a)	(f)(xx)(1)	
(11)		(f)(xxi)
(11)(a)	(f)(xxi)(1)	
(12)		(i)(i)
(13)		(i)(ii)
(14)		(i)(iii)
(15)		(i)(iv)
(16)		(i)(v)
(17)		(r)(i)
(18)		(r)(ii)
(19)		(r)(iii)
(20)		(r)(iv)
(21)		(r)(v)