# CALCULATION OF CONSOLIDATED CAPITAL REQUIREMENT

Suppose a consolidated group consists of three companies:-

- a parent bank
- a banking subsidiary outside Malta
- an investment subsidiary

Suppose also that the following applies:-

| | |
|---|---|
| Consolidated banking book risk weighted assets | B(t) |
| Trading book notional risk weighted assets | |
| - consolidated using line-by-line | T(t) |
| - parent bank | T(p) |
| - banking subsidiary | T(b1) according to authority rules in terms of the Banking Act 1994<br>T(b2) according to host supervisor rules |
| - investment subsidiary | T(i1) according to authority rules in terms of the Investment Services Act 1994<br>T(i2) according to host supervisor rules |
| Banking book trigger | y% |
| Trading book trigger | x% |

**Case 1: All trading activity consolidated using line-by-line**

Capital Requirement:

$$\frac{\text{Consolidated Own Funds}}{B(t) + T(t)}$$

Supervisory Capital Requirement:

$$\frac{\text{Consolidated Own Funds}}{y\% \text{ of } B(t) + x\% \text{ of } T(t)}$$

**Case 2: Trading activity consolidated using "aggregation plus" but competent authority rules**

Capital Requirement:

$$\frac{\text{Consolidated Own Funds}}{B(t) + T(p) + T(b1) + T(i1)}$$

Supervisory Capital Requirement:

$$\frac{\text{Consolidated Own Funds}}{y\% \text{ of } B(t) + x\% \text{ of } [T(p) + T(b1) + T(i1)]}$$

**Case 3: Trading activity consolidated using "aggregation plus" and host supervisors' rules**

Capital Requirement Ratio:

$$\frac{\text{Consolidated Own Funds}}{B(t) + T(p) + T(b2) + T(i2)}$$

Supervisory Capital Requirement:

$$\frac{\text{Consolidated Own Funds}}{y\% \text{ of } B(t) + x\% \text{ of } T(p) + 8\% \text{ of } [T(b2) + T(i2)]}$$