**Email to the Manager**

**To**: Joe (Manager at Citi Finance)

**From**: <Aakanksha Malik> (Financial Analyst at Citi Finance)

**Date**: <24/03/2025>

**Subject:** Verification of risk-weighted assets provided by operating units

Dear Joe,

As part of the annual capital adequacy exercise, I have tried to verify the risk-weighted assets and capital adequacy ratio for each of the operating units.

Operating units A, B, C, and D have supplied the following key information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Operating units ($'m)** | **A** | **B** | **C** | **D** |
| Risk-Weighted Assets (RWA) | 70.25 | 59.5 | 244 | 200.2 |
| Capital Adequacy Ratio (CET1/RWA) | 14.2 | 25.2% | 8.2% | 10.0% |

I have independently verified the risk-weighted assets (RWA) and capital adequacy ratios for each unit and identified the following critical issues:

* **Unit C:** The capital adequacy ratio has fallen below the minimum required threshold of 10.5%, necessitating immediate corrective measures.
* **Unit D:** The RWA appears to have been miscalculated. Based on the provided information, the correct RWA should be $447.5 million (rather than $200 million), with Common Equity Tier 1 Capital of $20 million, resulting in a capital adequacy ratio of 4.5%. The revised RWA has been determined by applying the appropriate risk weights to asset values, as detailed below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Type** | **Asset Value ($'m)** | **Risk Weight** | **RWA ($'m)** |
| Loans for Cards | 20.0 | 25% | 5.0 |
| Consumer Mortgages | 50.0 | 55% | 27.5 |
| Retail Banking | 350.0 | 90% | 315.0 |
| Unsecured Retail Lending | 100.0 | 100% | 100.0 |
| **Total** | 520.0 |  | 447.5 |

The revised ratio is significantly below the minimum requirement of 10.5% and thus requires urgent remedial action.

Capital adequacy ratios for units C and D need to be improved urgently either by increasing CET1 and/or reducing RWAs. Please let me know if you would like to discuss this further or would prefer me to flag it with the respective operating units.

Many thanks,

Aakanksha Malik

Financial Analyst,

Citi Finance