Appendix CA-3

The 15% of common equity limit on specified items

1. This Annex is meant to clarify the calculation of the 15% limit on significant investments in the common shares of unconsolidated financial institutions (banks, insurance and other financial entities); mortgage servicing rights, and deferred tax assets arising from temporary differences (collectively referred to as specified items).

2. The recognition of these specified items will be limited to 15% of Common Equity Tier 1 (CET1) capital, after the application of all deductions. To determine the maximum amount of the specified items that can be recognised*, banks must multiply the amount of CET1** (after all deductions, including after the deduction of the specified items in full) by 17.65%. This number is derived from the proportion of 15% to 85% (i.e. 15%/85% = 17.65%).

3. As an example, take a bank with BD85 of common equity (calculated net of all deductions, including after the deduction of the specified items in full).

4. The maximum amount of specified items that can be recognised by this bank in its calculation of CET1 capital is BD85 x 17.65% = BD15. Any excess above BD15 must be deducted from CET1. If the bank has specified items (excluding amounts deducted after applying the individual 10% limits) that in aggregate sum up to the 15% limit, CET1 after inclusion of the specified items, will amount to BD85 + BD15 = BD100. The percentage of specified items to total CET1 would equal 15%.

* The actual amount that will be recognised may be lower than this maximum, either because the sum of the three specified items are below the 15% limit set out in this appendix, or due to the application of the 10% limit applied to each item.

** At this point this is a "hypothetical" amount of CET1 in that it is used only for the purposes of determining the deduction of the specified items.