

# Annex 1

## The 15% of Tier 1 Limit on Innovative Instruments

1. This annex is meant to clarify the calculation of the 15% limit on innovative instruments agreed by the Committee in its press release of October 1998.
2. Innovative instruments will be limited to 15% of Tier 1 capital, net of goodwill. To determine the allowable amount of innovative instruments, banks and supervisors should multiply the amount of non-innovative Tier 1 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 €75 of common equity, €15 of non-cumulative perpetual preferred stock, €5 of minority interest in the common equity account of a consolidated subsidiary, and €10 of goodwill. The net amount of non-innovative Tier 1 is  $€75+€15+€5-€10 = €85$ .
4. The allowable amount of innovative instruments this bank may include in Tier 1 capital is  $€85 \times 17.65\% = €15$ . If the bank issues innovative Tier 1 instruments up to its limit, total Tier 1 will amount to  $€85 + €15 = €100$ . The percentage of innovative instruments to total Tier 1 would equal 15%.