PRESS RELEASE

Federal Deposit Insurance Corporation

January 31, 1995

FDIC BOARD ADOPTS AMENDMENT TO PLACE CAPITAL LIMIT ON DEFERRED TAX ASSETS

FOR IMMEDIATE RELEASE

The Board of Directors of the FDIC today amended its capital standards to establish a limit on the amount of deferred tax assets an FDIC-supervised bank may include in Tier 1 capital for risk-based and leverage capital purposes.

Deferred tax assets that can only be realized if a bank earns sufficient taxable income in the future will be limited for regulatory capital purposes. However, deferred tax assets that can be realized through carrybacks to taxes paid on income earned in the past generally will not be subject to limits on regulatory capital.

The limit is the lesser of the amount that the bank is expected to realize within one year of the most recent calendar quarter-end date, based on the institution's projection of taxable income for that year, or ten percent of Tier 1 capital. Deferred tax assets in excess of this limit will be deducted from a bank's Tier 1 capital and from its assets when calculating the risk-based and leverage capital ratios. The effective date for this final rule is April 1, 1995.

The regulatory capital limit for deferred tax assets was developed by federal banking regulators in response to Financial Accounting Standards Board Statement No. 109. This accounting standard generally allows institutions to report higher amounts of deferred tax assets than permitted under previous generally accepted accounting principles (GAAP) and prior regulatory reporting policies.

Because of supervisory concerns about the realizability of deferred tax assets that depend on future taxable income, the banking agencies considered how deferred tax assets should be treated for regulatory reporting and capital purposes. The regulators worked under the auspices of the Federal Financial Institutions Examination Council

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). PR-8-95

(FFIEC). The FFIEC decided in December 1992 that banks and savings associations should report deferred taxes in their regulatory reports in accordance with FASB 109. At the same time, however, the FFIEC also recommended that the banking agencies amend their regulatory capital standards to limit the amount of deferred tax assets that depend on future taxable income that can be included in regulatory capital.

In response, the FDIC issued a proposed rule in May 1993 to place a regulatory capital limit on deferred tax assets. The FDIC's final rule retains the proposed limit, but certain technical aspects have been modified or clarified to lessen the regulatory burden. This final rule is consistent with a November 1994 recommendation by the FFIEC's Task Force on Supervision.

The capital limitation is intended to balance the FDIC's concerns about deferred tax assets that depend on future taxable income against the fact that such assets will, in many cases, be realized. The limitation also ensures that FDIC-supervised banks do not place excessive reliance on deferred tax assets to satisfy the minimum capital standards.