FDIC

Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429-9990 Deputy to the Chairman and CFO

May 5, 2014

MEMORANDUM TO: The Board of Directors

FROM: Steven O. App
Deputy to the Chairman and
Chief Financial Officer

Craig R. Jarvill
Director, Division of Finance

SUBJECT: First Quarter 2014 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended March 31, 2014.

Executive Summary

- During the first quarter of 2014, the DIF balance increased by $1.7 billion, from $47.2 billion to $48.9 billion. This quarterly increase was primarily due to $2.4 billion of assessment revenue, partially offset by $422 million of operating expenses and a $348 million increase in the provision for insurance losses.

- During the first quarter of 2014, the FDIC was named receiver for 5 failed institutions. The combined assets at inception for these institutions totaled $643 million with a total estimated loss of $92 million. The corporate cash outlay during the first quarter for these failures was approximately $151 million.

- Through March 31, 2014, overall Corporate Operating Budget expenditures were below budget by 10 percent ($58 million). This variance was primarily the result of lower-than-budgeted spending for contractual services, largely in the Receivership Funding component of the budget; and, vacancies in budgeted positions, largely in the Ongoing Operations component of the budget.

I. <u>Corporate Fund Financial Results</u> (See pages 5 - 6 for detailed data and charts.)

Deposit Insurance Fund

- For the three months ending March 31, 2014, the DIF's comprehensive income totaled $1.7 billion compared to comprehensive income of $2.8 billion for the same period last year. This $1.1 billion decrease was mostly due to a $252 million decrease in assessment revenue and an $847 million increase in provision for insurance losses.

- The provision for insurance losses was $348 million for the first quarter of 2014. The positive provision primarily resulted from a $520 million increase in the estimated losses for future failures and a $167 million decrease in the estimated losses for institutions that failed in current and prior years.

Assessments

- During the first quarter of 2014, the DIF recognized a total of $2.4 billion in assessment revenue. Of this amount, the estimate for first quarter 2014 insurance coverage totaled $2.3 billion. Additionally, the DIF recognized a net adjustment of $127 million that increased assessment revenue. This adjustment consisted of $29 million in prior period amendments and a $156 million increase to the estimate for fourth quarter 2013 insurance coverage recorded at December 31, 2013. The latter adjustment was due to higher than estimated assessment base and rates.

- On March 28, 2014, the FDIC collected $2.4 billion in DIF assessments for fourth quarter 2013 insurance coverage.

<u>II. Investment Results</u> (See pages 7 - 8 for detailed data and charts.)

DIF Investment Portfolio

- On March 31, 2014, the total liquidity (also total market value) of the DIF investment portfolio stood at $45.0 billion, higher than its December 31, 2013, balance of $42.5 billion. During the quarter, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On March 31, 2014, the DIF investment portfolio's yield was 0.56 percent, up 11 basis points from its December 31, 2013, yield of 0.45 percent. Two factors primarily contributed to the increase. During the quarter, newly purchased Treasury securities generally had higher yields than maturing securities. And low yielding overnight investments comprised a much smaller percentage of the portfolio at quarter end.

- In accordance with the approved first quarter 2014 DIF portfolio investment strategy, staff purchased a total of 19 short- to intermediate-maturity conventional Treasury securities, all designated as available-for-sale (AFS). The 19 securities had a total par value of $9.5 billion, a weighted average yield of 0.74 percent, and a weighted average maturity (WAM) of 2.57 years.

III. Budget Results (See pages 9 - 10 for detailed data.)

Approved Budget Modifications

The 2014 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2014 Corporate Operating Budget. The following budget reallocations were approved during the first quarter in accordance with the authority delegated by the Board of Directors.

In January 2014, the Division of Information Technology (DIT) and the Office of Minority and Women Inclusion (OMWI) realigned small portions of their approved Corporate Operating Budgets among various expense categories. In the Ongoing Operations budget component, DIT increased its Outside Services – Other expense category by $467,898, offset by reductions in the Outside Services – Personnel, Equipment, and other expense categories. DIT also reallocated $351,388 between three expense categories in the Receivership Funding component of its budget. OMWI realigned $54,164 between several expense categories within its Ongoing Operations budget component. All adjustments were administrative in nature to better align funding resources with planned expenditures. None of the budget realignments increased or decreased the total original Board-approved budget for either DIT or OMWI, or the Ongoing Operations or Receivership Funding components of their budgets.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the three months ending March 31, 2014, are defined as those that either (1) exceed the YTD budget by $3 million and represent more than five percent for a major expense category or total division/office budget; or (2) are under the YTD budget for a major expense category or division/office by an amount that exceeds $5 million and represents more than ten percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There was a significant spending variance during the first quarter in only one major expense category of the Ongoing Operations component of the 2014 Corporate Operating Budget:

- Equipment expenditures were $5 million, or 42 percent, less than budgeted. The Division of Administration (DOA) spent $3 million less than budgeted due to lower spending for online information services and under-spending for furniture, fixture and equipment (FF&E). DOA anticipates these variances will decrease as the year progresses. In addition, DIT spent $2 million less than budgeted for hardware and software maintenance due delays in the timing of budgeted purchases.

<u>Receivership Funding</u>

The Receivership Funding component of the 2014 Corporate Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for salary and benefits expenses for permanent employees assigned to the receivership management function.

There was a significant spending variance in two of the seven major expense categories during the first quarter in the Receivership Funding component of the 2014 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $19 million, or 19 percent, less than budgeted. This variance was attributable to lower-than-budgeted contract expenses during the first quarter due to fewer bank closings than budgeted, less costly resolutions, and lower-than-anticipated asset management and marketing costs booked through March. This resulted in lower expenses for contracts supporting Owned Real Estate, Valuations, Securitizations, Due Diligence, Shared-Loss, Receivership Assistance Contracts, and Structured Sales.

- Other Expenses expenditures were $3 million, or 58 percent, more than budgeted. This variance was attributable to costs incurred for the transfer of banking operations and the disposition of failed bank assets.

Significant Spending Variances by Division/Office[1]

Only three organizations had significant spending variances through the end of the first quarter:

- The Division of Resolutions and Receiverships spent $17 million, or 13 percent, less than budgeted, mostly due to less-than-budgeted spending for resolution and receivership workload for the reasons described above.

- The Legal Division spent $10 million, or 13 percent, less than budgeted. Approximately $7 million of this variance was in the Receivership Funding budget component and was largely attributable to lower-than-budgeted spending for legal services contracting and slower-than-projected hiring to fill budgeted positions. Additionally, a $2 million variance in the Ongoing Operations budget component was due to slower-than-projected hiring.

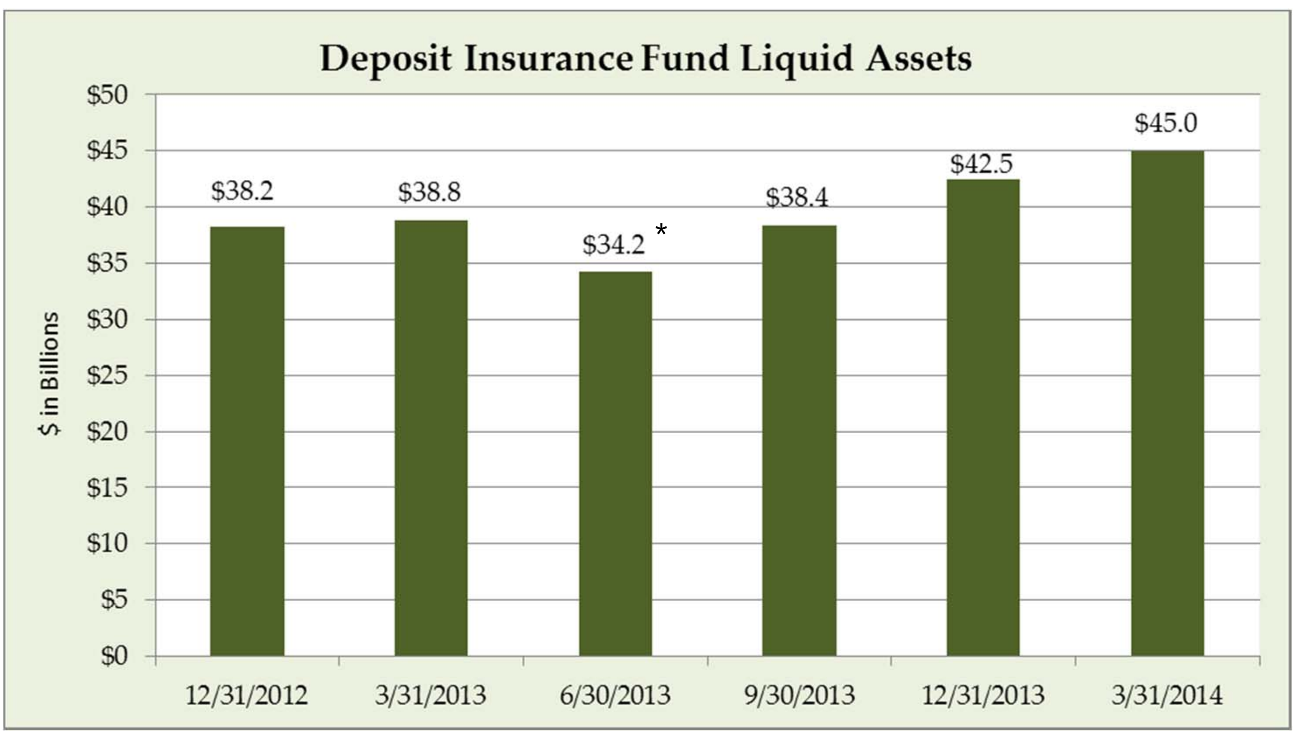
- DOA spent $6 million, or 9 percent, less than budgeted when its Investment Budget spending is taken into account. However, it spent $8 million, or 13 percent, less than budgeted under the Corporate Operating Budget. That variance was largely attributable to lower-than-projected spending for online information services and FF&E purchases; delays in awarding a Human Resource contract; under-spending for the digitizing of all background investigation case holdings and instituting an electronic records management system now expected to begin during the second quarter; delays in bringing replacement contract personnel on board to perform background investigations; and delays in filling budgeted positions. This variance was partially offset by earlier-than-anticipated spending of over $2 million from its budget for the 550 HVAC Retrofit investment project.

[1] Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Mar-14	Audited Dec-13	Quarterly Change	Unaudited Mar-13	Year-Over-Year Change
Cash and cash equivalents	$ 511	$ 3,543	$ (3,032)	$ 1,052	$ (541)
Investment in U.S. Treasury obligations, net	44,215	38,511	5,704	37,474	6,741
Trust preferred securities	-	-	-	2,256	(2,256)
Assessments receivable, net	2,266	2,228	38	1,295	971
Interest receivable on investments and other assets, net	424	511	(87)	470	(46)
Receivables from resolutions, net	15,580	16,345	(765)	22,549	(6,969)
Property and equipment, net	368	377	(9)	381	(13)
Total Assets	$ 63,364	$ 61,515	$ 1,849	$ 65,477	$ (2,113)
Accounts payable and other liabilities	257	300	(43)	319	(62)
Refunds of prepaid assessments	-	-	-	5,829	(5,829)
Liabilities due to resolutions	12,438	12,626	(188)	20,696	(8,258)
Postretirement benefit liability	194	194	-	224	(30)
Contingent liability for anticipated failures	1,577	1,199	378	2,659	(1,082)
Contingent liability for litigation losses	5	5	-	8	(3)
Total Liabilities	$ 14,471	$ 14,324	$ 147	$ 29,735	$ (15,264)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	45	20	25	72	(27)
FYI: Unrealized gain (loss) on trust preferred securities	-	-	-	294	(294)
FYI: Unrealized postretirement benefit (loss) gain	(16)	(16)	-	(61)	45
Fund Balance	$ 48,893	$ 47,191	$ 1,702	$ 35,742	$ 13,151



* On June 28, 2013, DIF refunded $5.9 billion in prepaid assessments to insured depository institutions that had remaining prepaid assessment balances.

Fund Financial Results - continued

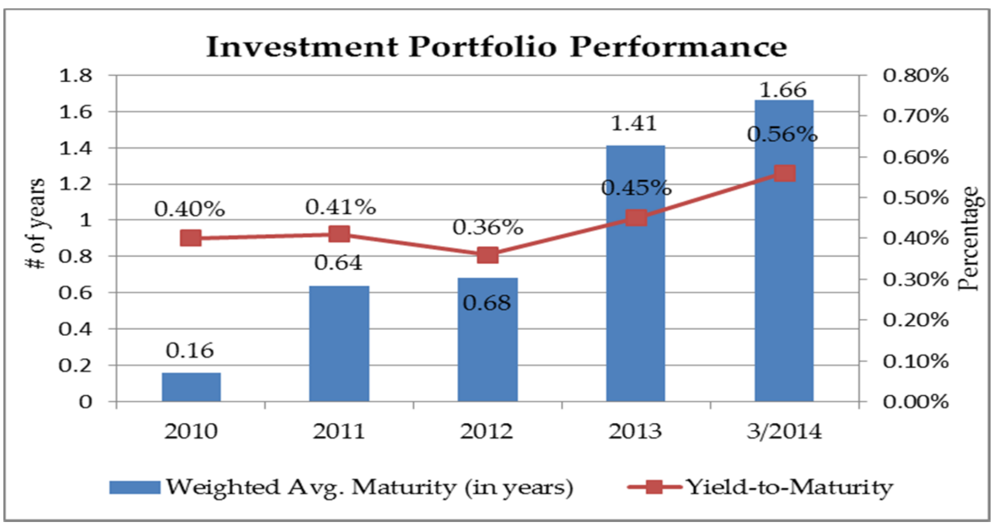
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund Unaudited Mar-14	Audited Dec-13		Unaudited Mar-13	Year-Over-Year Change
Assessments	$ 2,393	$ 9,734		$ 2,645	$ (252)
Interest on U.S. Treasury obligations	45	104		(9)	54
Realized gain on sale of trust perferred securities	-	458		-	-
Other revenue	9	163		56	(47)
Total Revenue	$ 2,447	$ 10,459		$ 2,692	$ (245)
Operating expenses	422	1,609		436	(14)
Provision for insurance losses	348	(5,659)		(499)	847
Insurance and other expenses	-	4		1	(1)
Total Expenses and Losses	$ 770	$ (4,046)		$ (62)	$ 832
Net Income (Loss)	1,677	14,505		2,754	(1,077)
Unrealized gain (loss) on U.S. Treasury investments, net	25	(14)		38	(13)
Unrealized gain (loss) on trust preferred securities	-	(302)		(8)	8
Unrealized postretirement benefit gain (loss)	-	44		-	-
Comprehensive Income (Loss)	$ 1,702	$ 14,233		$ 2,784	$ (1,082)

Selected Financial Data	FSLIC Resolution Fund Unaudited Mar-14	Audited Dec-13	Quarterly Change	Unaudited Mar-13	Year-Over-Year Change
Cash and cash equivalents	$ 872	$ 872	$ -	$ 3,594	$ (2,722)
Accumulated deficit	(124,460)	(124,460)	-	(124,459)	(1)
Total resolution equity	873	872	1	3,598	(2,725)
Total revenue	-	3		1	(1)
Operating expenses	-	2		1	(1)
Goodwill litigation expenses	-	1		-	-
Provision for losses	(1)	(1)		(2)	1
Net Income (Loss)	$ 1	$ (1)		$ 1	$ -

Receivership Selected Statistics March 2014 vs. March 2013

$ in millions	DIF			FRF			ALL FUNDS		
	Mar-14	Mar-13	*Change*	Mar-14	Mar-13	*Change*	Mar-14	Mar-13	*Change*
Total Receiverships	484	467	17	1	3	(2)	485	470	15
Assets in Liquidation	$10,246	$15,498	$ (5,252)	$ 5	$ 6	$ (1)	$10,251	$15,504	$ (5,253)
YTD Collections	$ 1,157	$ 2,367	$ (1,210)	$ 1	$ 2	$ (1)	$ 1,158	$ 2,369	$ (1,211)
YTD Dividend/Other Pymts - Cash	$ 1,078	$ 768	$ 310	$ -	$ -	$ -	$ 1,078	$ 768	$ 310



Beginning in 2013, the increase in the DIF portfolio's yield has been largely attributable to investing in longer-maturity securities coupled with a steeper yield curve environment. The portfolio's yield increased substantially by 20 basis points over the 15-month period between December 31, 2012 and March 31, 2014.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	3/31/14	12/31/13	Change
Par Value	$43,424	$40,682	$2,742
Amortized Cost	$44,672	$42,025	$2,647
Total Market Value (including accrued interest)	$45,046	$42,461	$2,585
Primary Reserve [1]	$45,046	$42,461	$2,585
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.56%	0.45%	0.11%
Weighted Average Maturity (in years)	1.66	1.41	0.25
Effective Duration (in years)			
Total Portfolio	1.62	1.36	0.26
Available-for-Sale Securities	1.63	1.49	0.14
Held-to-Maturity Securities	0	0	0

[1] Primary Reserve is the total market value (including accrued interest) of overnight investments, all available-for-sale securities, and held-to-maturity securities maturing within three months.

[2] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which presently assumes an average 2.0% annual increase in the CPI over the remaining life of each TIPS.

Summary of Other Corporate Investment Portfolios (Dollar Values in Millions)			
	3/31/14	12/31/13	Change
FRF-FSLIC			
Book Value [3]	$826	$826	$0
Yield-to-Maturity	0.03%	0.01%	0.02%
Weighted Average Maturity	overnight	overnight	no change

[3] Due to the current short-term nature of this portfolio, its respective Par, Book, and Market Values are identical for reporting purposes.

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)			
	3/31/14	12/31/13	Change
Book Value [4]	$13,313	$13,657	($344)
Effective Annual Yield	0.10%	0.10%	0.00%
Weighted Average Maturity (in days)	58	62	(4)

[4] Due to the short-term nature of the NLF, the portfolio's Book and Market Values are identical for reporting purposes.

<table>
<tr><th colspan="2">Investment Strategies</th></tr>
<tr><td rowspan="4">DEPOSIT INSURANCE FUND</td><td>Strategy for the 1st Quarter 2014
Purchase up to $10 billion (par value) of Treasury securities with maturity dates between June 30, 2014, and March 31, 2019, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $3 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS).</td></tr>
<tr><td>Strategy Changes for 2nd Quarter 2014</td></tr>
<tr><td>Purchase up to <u>$9 billion</u> (par value) of Treasury securities with maturity dates between <u>September 30, 2014</u>, and <u>December 31, 2019</u>, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale (AFS); and no more than $3 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS).</td></tr>
<tr><td></td></tr>
<tr><td rowspan="3">NATIONAL LIQUIDATION FUND</td><td>Strategy for 1st Quarter 2014
Maintain an overnight deposit target floor balance within a range of $100 million to $300 million.
Strategically invest the remaining funds in the zero- to 12-month maturity sector.</td></tr>
<tr><td>Strategy Changes for 2nd Quarter 2014</td></tr>
<tr><td>No strategy changes for the second quarter of 2014.</td></tr>
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Executive Summary of 2014 Budget and Expenditures
by Major Expense Category
Through March 31, 2014
(Dollars in Thousands)

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Ongoing Operations					
Salaries & Compensation	$1,206,502	$297,052	$278,369	94%	($18,683)
Outside Services - Personnel	269,244	54,515	48,807	90%	(5,708)
Travel	105,765	25,134	21,395	85%	(3,739)
Buildings	89,155	20,686	20,057	97%	(629)
Equipment	85,537	12,683	7,349	58%	(5,334)
Outside Services - Other	18,152	4,094	3,333	81%	(761)
Other Expenses	17,097	3,727	3,009	81%	(718)
Total Ongoing Operations	**$1,791,452**	**$417,893**	**$382,319**	**91%**	**($35,574)**
Receivership Funding					
Salaries & Compensation	$124,532	$41,944	$37,875	90%	($4,069)
Outside Services - Personnel	400,107	100,323	81,068	81%	(19,255)
Travel	10,414	3,912	2,062	53%	(1,850)
Buildings	28,580	7,595	7,107	94%	(488)
Equipment	7,745	733	424	58%	(309)
Outside Services - Other	4,999	1,343	1,458	109%	115
Other Expenses	23,623	5,987	9,434	158%	3,447
Total Receivership Funding	**$600,000**	**$161,838**	**$139,428**	**86%**	**($22,410)**
Total Corporate Operating Budget	**$2,391,452**	**$579,731**	**$521,747**	**90%**	**($57,984)**
Investment Budget [1]	**$23,215**	**$2,802**	**$4,710**	**168%**	**$1,908**
Grand Total	**$2,414,667**	**$582,533**	**$526,457**	**90%**	**($56,076)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2014 spending estimates for approved projects.

Executive Summary of 2014 Budget and Expenditures by Budget Component and Division/Office Through March 31, 2014 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Risk Management Supervision	$569,322	$140,933	$132,052	94%	($8,881)
Resolutions & Receiverships	507,130	137,114	119,952	87%	(17,162)
Legal	302,043	76,216	66,567	87%	(9,649)
Administration	269,844	63,683	55,664	87%	(8,019)
Information Technology	234,719	45,609	44,048	97%	(1,561)
Depositor & Consumer Protection	169,934	42,121	38,894	92%	(3,227)
CIO Council	59,237	13,628	12,747	94%	(882)
Executive Support [1]	55,309	12,774	11,413	89%	(1,361)
Insurance & Research	50,700	11,486	9,803	85%	(1,683)
Finance	40,018	9,776	9,080	93%	(696)
Inspector General	33,698	8,424	6,767	80%	(1,657)
Corporate University - Corporate	22,006	4,704	5,162	110%	458
Complex Financial Institutions	23,715	5,899	3,943	67%	(1,956)
Corporate University - CEP	16,876	3,891	3,652	94%	(239)
Executive Offices [2]	11,654	3,473	2,002	58%	(1,471)
Corporate Unassigned	25,247	0	0	N/A	0
Total, Corporate Operating Budget	**$2,391,452**	**$579,731**	**$521,747**	**90%**	**($57,984)**
Investment Budget [3]					
Administration	$9,500	$2,375	$4,607	194%	$2,232
Risk Management Supervision	967	230	25	11%	(205)
Information Technology	10,409	141	79	56%	(62)
Depositor & Consumer Protection	970	29	0	-1%	(29)
Corporate University - Corporate	1,368	26	0	0%	(26)
Resolutions & Receiverships	1	1	0	0%	(1)
Total, Investment Budget [3]	**$23,215**	**$2,802**	**$4,710**	**168%**	**$1,908**
Combined Division/Office Budgets					
Risk Management Supervision	$570,289	$141,163	$132,077	94%	($9,086)
Resolutions & Receiverships	507,131	137,115	119,952	87%	(17,163)
Legal	302,043	76,216	66,567	87%	(9,649)
Administration	279,344	66,058	60,271	91%	(5,787)
Information Technology	245,128	45,750	44,127	96%	(1,623)
Depositor & Consumer Protection	170,904	42,150	38,894	92%	(3,256)
CIO Council	59,237	13,628	12,747	94%	(882)
Executive Support [1]	55,309	12,774	11,413	89%	(1,361)
Insurance & Research	50,700	11,486	9,803	85%	(1,683)
Finance	40,018	9,776	9,080	93%	(695)
Inspector General	33,698	8,424	6,767	80%	(1,657)
Corporate University - Corporate	23,374	4,730	5,162	109%	432
Complex Financial Institutions	23,715	5,899	3,943	67%	(1,956)
Corporate University - CEP	16,876	3,891	3,652	94%	(239)
Executive Offices [2]	11,654	3,473	2,002	58%	(1,471)
Corporate Unassigned	25,247	0	0	N/A	0
Grand Total	**$2,414,667**	**$582,533**	**$526,457**	**90%**	**($56,076)**

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, Corporate Risk Management, and Information Security and Privacy Staff.

2) Executive Offices include the offices of the Chairman, Vice Chairman, Independent Director, Deputy to the Chairman and Chief Operating Officer, Deputy to the Chairman and Chief Financial Officer, Chief Information Officer, and Deputy to the Chairman for External Affairs.

3) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2014 spending estimates for approved projects.