FDIC

Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429-9990

Deputy to the Chairman and CFO

May 8, 2013

MEMORANDUM TO: The Board of Directors

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

Craig R. Jarvill Craig Jarvill
Director, Division of Finance

SUBJECT: First Quarter 2013 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended March 31, 2013.

Executive Summary

- During the first quarter of 2013, the Deposit Insurance Fund (DIF) balance increased by $2.7 billion, from $33.0 billion to $35.7 billion. This quarterly increase was primarily due to $2.6 billion of assessment revenue and a negative $499 million provision for insurance losses, partially offset by $436 million of operating expenses. The DIF balance has increased by $31.8 billion since the fund became positive on June 30, 2011 after seven consecutive quarters of negative balances.

- During the first quarter of 2013, the FDIC was named receiver for four failed institutions. The combined assets at inception for these institutions totaled approximately $463 million with a total estimated loss of $116 million. The corporate cash outlay during the first quarter for these failures was approximately $155 million. This is the lowest quarterly failure count since the second quarter of 2008, when two institutions failed.

- Through March 31, 2013, overall Corporate Operating Budget expenditures were below budget by 14 percent ($91 million). This variance was primarily the result of lower-than-budgeted spending for contractual services and operations at the site of failed financial institutions in the Receivership Funding component.

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

Deposit Insurance Fund

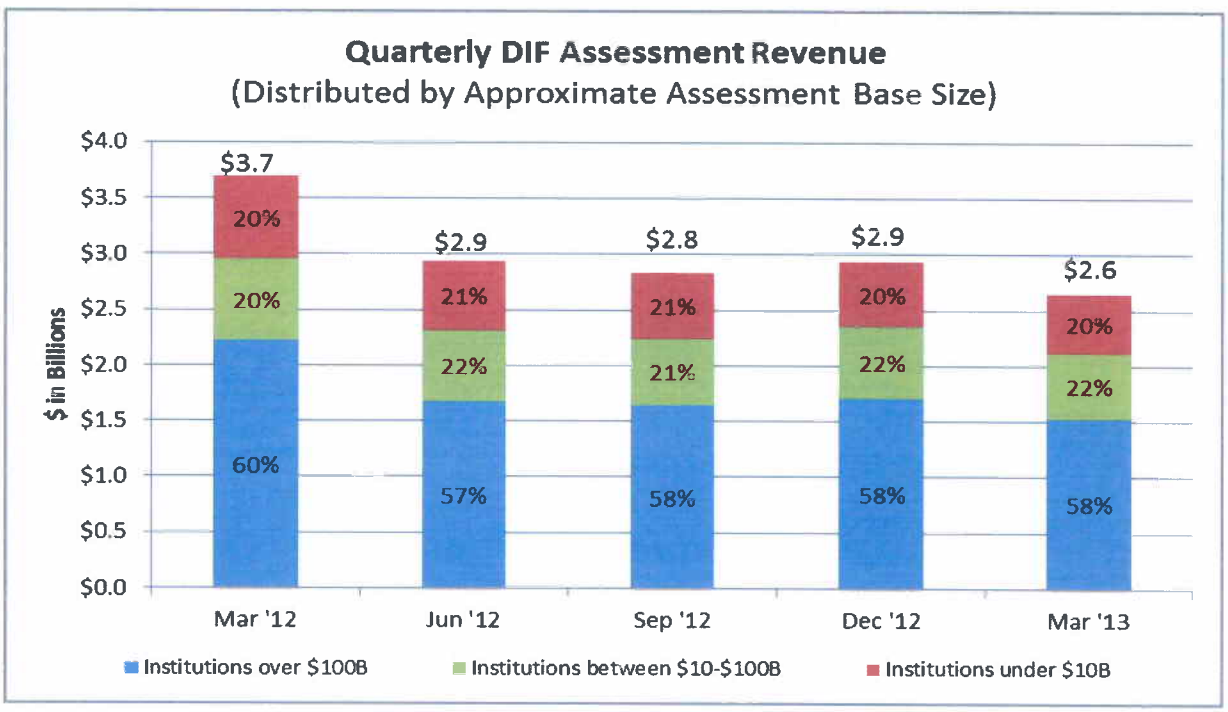
- For the three months ending March 31, 2013, the DIF's comprehensive income totaled $2.8 billion compared to comprehensive income of $3.5 billion for the same period last year. This $700 million decrease was mostly due to a $1.0 billion decrease in assessment revenue and a $124 million lower contribution to year-to-date comprehensive income from unrealized gains/losses on trust preferred securities, partially offset by a $511 million decrease in provision for insurance losses.

- The provision for insurance losses was negative $499 million for the first quarter of 2013, compared to $12 million for the same period in 2012. The negative provision for 2013 resulted from a $434 million decrease in the contingent loss reserve due to lower estimated losses from anticipated future failures and a $66 million reduction in the estimated losses for institutions that have failed in the current and prior years.

Assessments

- During the first quarter of 2013, the DIF recognized a total of $2.6 billion in assessment revenue. The estimate for first quarter 2013 insurance coverage totaled $2.8 billion—$1.5 billion was recognized for those institutions that prepaid assessments and $1.3 billion was recorded as a receivable from those institutions that did not have prepaid assessments available for offset. Additionally, the DIF recognized a net adjustment of $126 million that reduced assessment revenue. This adjustment consisted of $11 million in prior period amendments and a $115 million decrease to the estimate for fourth quarter 2012 insurance coverage recorded at December 31, 2012. The latter adjustment was due to lower average assessment rates.

- On March 29, 2013, the FDIC collected $951 million in DIF assessments for fourth quarter 2012 insurance coverage. At March 31, 2013, the "Unearned revenue – prepaid assessments" line item on the Balance Sheet was zero; the "Refunds of prepaid assessments" line item reflects the estimated $5.8 billion that will be returned to the institutions in June 2013.



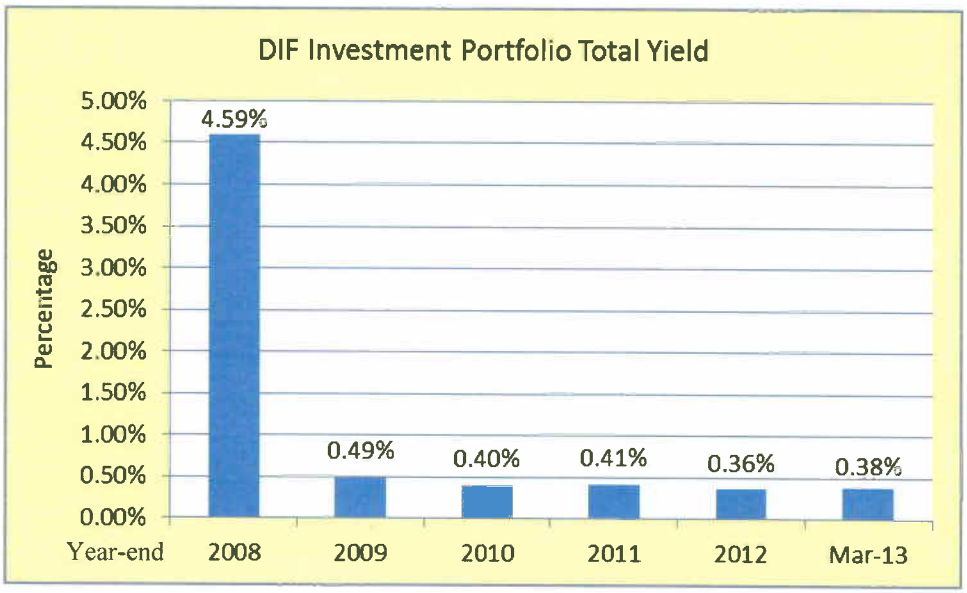
II. Investment Results (See pages 7 - 8 for detailed data and charts.)

Total DIF Portfolio Liquidity

- On March 31, 2013, the total liquidity (also total market value) of the DIF investment portfolio stood at $38.8 billion, higher than its December 31, 2012, balance of $38.2 billion. Over the course of the quarter, receivership dividends, assessments, and other inflows were greater than outflows for funding initial resolution payments, operating expenses, and other payments related to receivership activities.

- On March 31, 2013, the DIF investment portfolio's yield was 0.38 percent, up two basis points from its December 31, 2012, yield of 0.36 percent. During the quarter, newly purchased Treasury securities generally had somewhat higher yields than maturing securities, and the overnight investment rate was higher on March 31, 2013, than at December 31, 2012, hence the modest increase in portfolio yield.

- In accordance with the approved first quarter 2013 DIF portfolio investment strategy, staff purchased a total of ten short-maturity conventional Treasury securities on three occasions. The ten securities had a total par value of $3.8 billion, a weighted average yield of 0.24 percent, and a weighted average maturity (WAM) of 1.36 years.



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

Approved Budget Modifications

The 2013 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2013 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 2013, various divisions and offices realigned their approved Ongoing Operations or Receivership Funding budget authority among expense categories. The most significant realignments of the Ongoing Operations budget component occurred within the CIO Council and the Division of Administration (DOA). The CIO Council reallocated slightly over $1 million from Outside Services – Personnel to the Equipment expense category, largely due to third-party hosting of application software and related hardware for several IT projects. DOA reallocated about $1 million from Buildings to the Equipment expense category to cover additional equipment needs identified after the annual budget was formulated. The Division of Information Technology (DIT) reallocated $223 thousand of its Receivership Funding budget authority from Equipment to the Outside Services – Other expense category to correctly account for telephone usage fees.

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, 2013, 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

Ongoing Operations

There was a significant spending variance in only one major expense category during the first quarter in the Ongoing Operations component of the 2013 Corporate Operating Budget:

- Travel expenditures were $5 million, or 21 percent, less than budgeted. The Division of Risk Management Supervision (RMS) spent $3 million less than budgeted primarily due to a larger than expected number of field examiner vacancies and lower-than-projected travel costs per on-board examiner.

Receivership Funding

The Receivership Funding component of the 2013 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 were significant spending variances in two of the seven major expense categories during the first quarter in the Receivership Funding component of the 2013 Corporate Operating Budget:

- Outside Services-Personnel ($46 million, or 32 percent, less than budgeted).

- Other Expenses ($7 million, or 64 percent, less than budgeted).

The variance in the Outside Services – Personnel expense category was attributable to lower-than-budgeted contractual costs during the first quarter of 2013 due to fewer than projected bank closings, less costly resolutions and lower than anticipated asset management and marketing costs. The variance in the Other Expenses category was attributable to fewer bank failures and reduced time required to transfer failed institutions' banking operations and dispose of failed bank assets.

Significant Spending Variances by Division/Office[1]

Only one organization had a significant spending variance through the end of the first quarter:

- DRR spent $58 million, or 30 percent, less than budgeted, mostly due to less-than-budgeted spending for resolution and receivership management activities for the reasons noted above.

[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-13	Audited Dec-12	Quarterly Change	Unaudited Mar-12	Year-Over-Year Change
Cash and cash equivalents	$ 1,052	$ 3,100	$ (2,048)	$ 741	$ 311
Cash and investments - restricted - systemic risk	-	-	-	4,723	(4,723)
Investment in U.S. Treasury obligations, net	37,474	34,869	2,605	33,937	3,537
Trust preferred securities	2,256	2,264	(8)	2,329	(73)
Assessments receivable, net	1,295	1,007	288	318	977
Receivables and other assets - systemic risk	-	-	-	1,974	(1,974)
Interest receivable on investments and other assets, net	470	433	37	505	(35)
Receivables from resolutions, net	22,549	23,120	(571)	28,963	(6,414)
Property and equipment, net	381	393	(12)	389	(8)
Total Assets	$ 65,477	$ 65,186	$ 291	$ 73,879	$ (8,402)
Accounts payable and other liabilities	319	350	(31)	364	(45)
Unearned revenue - prepaid assessments	-	1,576	(1,576)	14,002	(14,002)
Refunds of prepaid assessments	5,829	5,675	154	-	5,829
Liabilities due to resolutions	20,696	21,174	(478)	32,000	(11,304)
Deferred revenue - systemic risk	-	-	-	6,698	(6,698)
Postretirement benefit liability	224	224	-	188	36
Contingent liability for anticipated failures	2,659	3,221	(562)	5,330	(2,671)
Contingent liability for litigation losses	8	8	-	5	3
Total Liabilities	$ 29,735	$ 32,228	$ (2,493)	$ 58,587	$ (28,852)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	72	34	38	92	(20)
FYI: Unrealized gain (loss) on trust preferred securities	294	302	(8)	367	(73)
FYI: Unrealized postretirement benefit (loss) gain	(61)	(61)	-	(34)	(27)
Fund Balance	$ 35,742	$ 32,958	$ 2,784	$ 15,292	$ 20,450

Income Statement Trend Schedule

$ in Billions	2008	2009	2010	2011	2012	Thru 3/31/13	Cumulative
Assessments	3.0	17.7	13.6	13.5	12.4	2.6	62.8
Earnings on UST Invmts	4.7	0	0.1	0.1	0.1	0.03	5.1
Guarantee-Related Revenue:							
Citi-term fee/earnings	0	2.2	0.5	0.1	0.2	0.04	3.0
TLGP (net of losses)	0	0	0	2.6	5.9	0	8.5
Other	0	1.0	0.04	0.1	0.1	0.01	1.2
Operating Expenses	1.0	1.3	1.6	1.6	1.8	0.4	7.7
Provision for Ins Losses	41.8	57.7	(0.8)	(4.4)	(4.2)	(0.5)	89.6
Comprehensive Income	(35.1)	(38.1)	13.4	19.2	21.1	2.8	(16.7)
Fund Balance	17.3	(20.9)	(7.4)	11.8	33.0	35.7	

Since year-end 2007, the DIF's balance has declined from $52.4 billion to $35.7 billion, a total drop of $16.7 billion. Over this time period, DIF has absorbed $89.5 billion in estimated losses for both actual and anticipated bank failures ($86.8 billion and $2.7 billion, respectively).

Fund Financial Results - continued

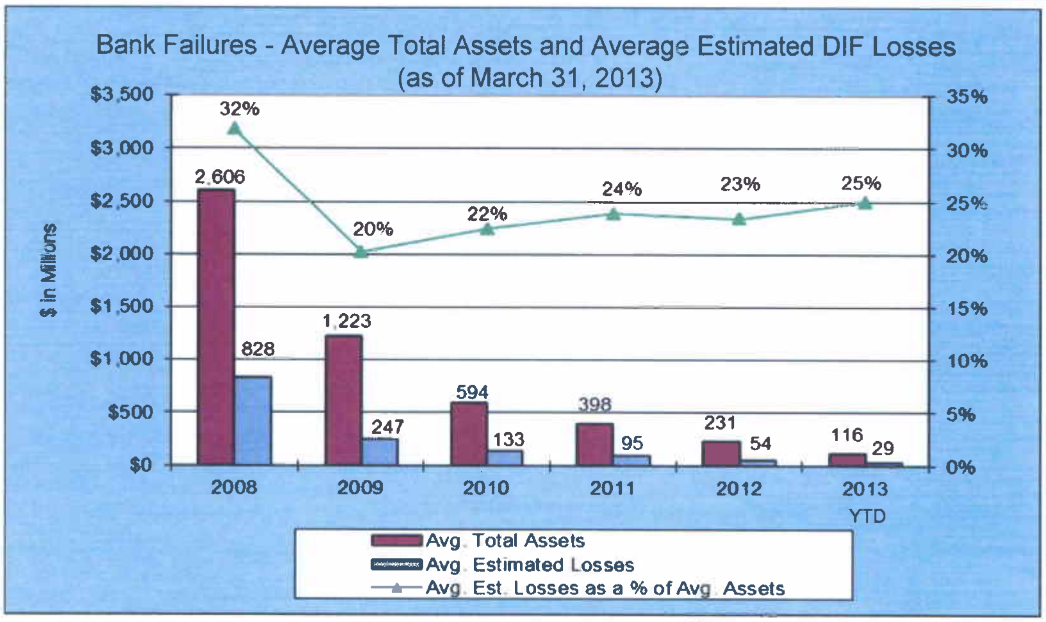
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund Unaudited Mar-13	Audited Dec-12	Unaudited Mar-12	Year-Over-Year Change
Assessments	$ 2,645	$ 12,397	$ 3,694	$ (1,049)
Systemic risk revenue	-	(161)	10	(10)
Interest on U.S. Treasury obligations	(9)	159	20	(29)
Other revenue	56	6,127	64	(8)
Total Revenue	$ 2,692	$ 18,522	$ 3,788	$ (1,096)
Operating expenses	436	1,778	460	(24)
Systemic risk expenses	-	(161)	10	(10)
Provision for insurance losses	(499)	(4,223)	12	(511)
Insurance and other expenses	1	7	1	-
Total Expenses and Losses	$ (62)	$ (2,599)	$ 483	$ (545)
Net Income (Loss)	2,754	21,121	3,305	(551)
Unrealized gain (loss) on U.S. Treasury investments, net	38	(14)	44	(6)
Unrealized gain (loss) on trust preferred securities	(8)	51	116	(124)
Unrealized postretirement benefit gain (loss)	-	(27)	-	-
Comprehensive Income (Loss)	$ 2,784	$ 21,131	$ 3,465	$ (681)

Selected Financial Data	FSLIC Resolution Fund Unaudited Mar-13	Audited Dec-12	Quarterly Change	Unaudited Mar-12	Year-Over-Year Change
Cash and cash equivalents	$ 3,594	$ 3,594	$ -	$ 3,579	$ 15
Accumulated deficit	(124,459)	(124,460)	1	(124,281)	(178)
Total resolution equity	3,598	3,597	1	3,595	3
Total revenue	1	5		1	-
Operating expenses	-	4		1	(1)
Goodwill litigation expenses	-	181		-	-
Recovery of tax benefits	-	-		-	-
Net Income (Loss)	$ 1	$ (179)		$ -	$ 1

Receivership Selected Statistics March 2013 vs. March 2012

$ in millions	DIF			FRF			ALL FUNDS		
	Mar-13	Mar-12	*Change*	Mar-13	Mar-12	*Change*	Mar-13	Mar-12	*Change*
Total Receiverships	467	442	25	3	5	(2)	470	447	23
Assets in Liquidation	$ 15,498	$ 21,015	$ (5,517)	$ 6	$ 20	$ (14)	$ 15,504	$ 21,035	$ (5,531)
YTD Collections	$ 2,367	$ 2,597	$ (230)	$ 2	$ 4	$ (2)	$ 2,369	$ 2,601	$ (232)
YTD Dividend/Other Pymts - Cash	$ 768	$ 1,337	$ (569)	$ -	$ -	$ -	$ 768	$ 1,337	$ (569)



- Since 2008, estimated losses averaged 23% of total assets.
- 2008 excludes Washington Mutual Bank with total assets of $299 billion and zero estimated losses to the DIF.
- IndyMac Bank accounted for two-thirds ($13.2B) of total 2008 failure estimated losses of $19.9B. Excluding IndyMac Bank, average total assets and estimated losses in 2008 were $1,504 million and $290 million (19%), respectively.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	3/31/13	12/31/12	Change
Par Value	$37,604	$37,086	$518
Amortized Cost	$38,486	$37,927	$559
Total Market Value (including accrued interest)	$38,839	$38,249	$590
Primary Reserve [1]	$38,839	$38,249	$590
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.38%	0.36%	0.02%
Weighted Average Maturity (in years)	0.58	0.68	(0.10)
Effective Duration (in years) [3]			
Total Portfolio	0.54	0.64	(0.10)
Available-for-Sale Securities	0.59	0.70	(0.11)
Held-to-Maturity Securities [4]	not applicable	not applicable	not applicable

[1] Primary Reserve is the total market value (including accrued interest) of overnight investments, 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.

[3] For each TIPS, an estimated 80 percent "yield beta" factor is applied to its real yield duration to arrive at an estimated effective duration.

[4] In early August 2008, management reclassified all of the DIF portfolio's HTM securities as AFS securities effective as of June 30, 2008, because the FDIC could no longer assert it had the positive intent and ability to hold its HTM securities until their maturity dates.

Summary of Other Corporate Investment Portfolios (Dollar Values in Millions)			
	3/31/13	12/31/12	Change
FRF-FSLIC			
Book Value [5]	$3,425	$3,425	$0
Yield-to-Maturity	0.04%	0.00%	0.04%
Weighted Average Maturity	overnight	overnight	no change

[5] 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)			
	3/31/13	12/31/12	Change
Book Value [6]	$14,940	$14,702	$238
Effective Annual Yield	0.12%	0.12%	0%
Weighted Average Maturity (in days)	36	20	16

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

Investment Strategies	
Deposit Insurance Fund	**Strategy for the 1st Quarter 2013** Purchase up to $4 billion (par value) of available-for-sale (AFS) securities with maturity dates between June 30, 2013, and June 30, 2016, subject to the following additional restrictions: no more than $3 billion (par value) of such securities shall have maturity dates beyond June 30, 2014; no more than $2 billion (par value) of such securities shall have maturity dates beyond June 30, 2015; and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS). **Strategy Changes for 2nd Quarter 2013** Purchase up to $6 billion (par value) of available-for-sale (AFS) securities with maturity dates between September 30, 2013, and December 31, 2016, subject to the following additional restrictions: no more than $4 billion (par value) of such securities shall have maturity dates beyond December 31, 2014; no more than $3 billion (par value) of such securities shall have maturity dates beyond December 31, 2015; and no more than $3 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities (TIPS).
National Liquidation Fund	**Strategy for 1st Quarter 2013** 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. **Strategy Changes for 2nd Quarter 2013** No strategy changes for the second quarter of 2013.

Executive Summary of 2013 Budget and Expenditures
by Major Expense Category
Through March 31, 2013
(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	$1,184,356	$288,081	$276,567	96%	($11,514)
Outside Services - Personnel	285,416	58,711	52,860	90%	(5,851)
Travel	109,247	26,381	20,934	79%	(5,447)
Buildings	90,834	21,753	18,969	87%	(2,784)
Equipment	78,112	11,433	8,046	70%	(3,387)
Outside Services - Other	18,029	4,272	2,980	70%	(1,292)
Other Expenses	16,645	3,605	3,281	91%	(324)
Total Ongoing Operations	**$1,782,639**	**$414,236**	**$383,637**	**93%**	**($30,599)**
Receivership Funding					
Salaries & Compensation	$188,858	$47,393	$43,037	91%	($4,356)
Outside Services - Personnel	592,500	143,641	97,459	68%	(46,181)
Travel	22,067	5,516	2,666	48%	(2,850)
Buildings	37,430	9,934	9,791	99%	(143)
Equipment	10,687	955	679	71%	(276)
Outside Services - Other	6,386	1,595	1,245	78%	(350)
Other Expenses	42,072	10,518	3,820	36%	(6,698)
Total Receivership Funding	**$900,000**	**$219,552**	**$158,697**	**72%**	**($60,855)**
Total Corporate Operating Budget	**$2,682,639**	**$633,788**	**$542,334**	**86%**	**($91,454)**
Investment Budget [1]	**$26,440**	**$4,002**	**$5,565**	**139%**	**$1,563**
Grand Total	**$2,709,079**	**$637,790**	**$547,899**	**86%**	**($89,891)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2013 spending estimates for approved projects.

Executive Summary of 2013 Budget and Expenditures by Budget Component and Division/Office Through March 31, 2013 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Resolutions & Receiverships	$780,465	$194,887	$136,835	70%	($58,053)
Risk Management Supervision	533,995	132,080	124,786	94%	(7,294)
Legal	299,582	73,063	68,378	94%	(4,685)
Administration	267,104	62,783	57,152	91%	(5,631)
Information Technology	262,459	49,088	47,873	98%	(1,215)
Depositor & Consumer Protection	168,548	42,248	38,864	92%	(3,384)
CIO Council	71,582	16,610	13,957	84%	(2,652)
Complex Financial Institutions	57,121	13,999	11,109	79%	(2,890)
Insurance & Research	45,538	10,458	9,633	92%	(825)
Finance	41,731	9,897	9,256	94%	(641)
Inspector General	33,722	8,345	7,035	84%	(1,310)
Executive Support [1]	31,075	7,244	6,019	83%	(1,225)
Corporate University - Corporate	188,858	5,065	4,877	96%	(188)
Corporate University - CEP	19,255	4,240	3,654	86%	(586)
Executive Offices [2]	10,657	3,781	2,906	77%	(875)
Government Litigation	1,000	0	0	N/A	0
Corporate Unassigned	37,632	0	0	N/A	0
Total, Corporate Operating Budget	**$2,682,639**	**$633,788**	**$542,334**	**86%**	**($91,454)**
Investment Budget [3]					
Information Technology	$16,876	$3,633	$3,875	107%	$242
Administration	8,723	175	1,582	904%	1,407
Corporate University - Corporate	200	50	74	148%	24
Risk Management Supervision	373	132	33	25%	(99)
Depositor & Consumer Protection	236	0	1	N/A	1
CIO Council	32	12	0	0%	(12)
Total, Investment Budget [3]	**$26,440**	**$4,002**	**$5,565**	**139%**	**$1,563**
Combined Division/Office Budgets					
Resolutions & Receiverships	$780,497	$194,899	$136,835	70%	($58,064)
Risk Management Supervision	534,368	132,212	124,819	94%	(7,393)
Legal	299,582	73,063	68,378	94%	(4,685)
Administration	275,827	62,958	58,734	93%	(4,224)
Information Technology	279,335	52,721	51,748	98%	(973)
Depositor & Consumer Protection	168,784	42,248	38,864	92%	(3,384)
CIO Council	71,582	16,610	13,957	84%	(2,652)
Complex Financial Institutions	57,121	13,999	11,109	79%	(2,890)
Insurance & Research	45,538	10,458	9,633	92%	(825)
Finance	41,731	9,897	9,257	94%	(641)
Inspector General	33,722	8,345	7,035	84%	(1,310)
Executive Support [1]	31,075	7,244	6,019	83%	(1,225)
Corporate University - Corporate	21,373	5,115	4,951	97%	(164)
Corporate University - CEP	19,255	4,240	3,654	86%	(586)
Executive Offices [2]	10,657	3,781	2,906	77%	(875)
Government Litigation	1,000	0	0	N/A	0
Corporate Unassigned	37,632	0	0	N/A	0
Grand Total	**$2,709,079**	**$637,790**	**$547,899**	**86%**	**($89,891)**

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

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, 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 2013 spending estimates for approved projects.