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

May 12, 2016

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 2016 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended March 31, 2016.

Executive Summary

- During the first quarter of 2016, the Deposit Insurance Fund (DIF) balance increased by $2.5 billion, from $72.6 billion to $75.1 billion. This quarterly increase was primarily due to $2.3 billion of assessment revenue, a $412 million unrealized gain on U.S. Treasury investments, and $147 million of interest on U.S. Treasury obligations, partially offset by $415 million in operating expenses.

- During the first quarter of 2016, the FDIC was named receiver for 1 failed institution. North Milwaukee State Bank, which failed on March 11, 2016, had assets at time of failure of $64 million with an estimated loss to the DIF of $10 million. The corporate cash outlay during the first quarter for this failure was approximately $10 million.

- Through March 31, 2016, overall FDIC Operating Budget expenditures were below budget by 11 percent ($57 million). This variance was primarily the result of vacancies in budgeted positions and lower-than-budgeted spending for equipment and contractual services in the Ongoing Operations component of the budget and contractual services in the Receivership Funding component of the budget.

I. <u>Corporate Fund Financial Results</u> (See pages 6– 7 for detailed data and charts.)

Deposit Insurance Fund

- For the first quarter of 2016, the DIF's comprehensive income totaled $2.5 billion, equivalent to the amount reported in the same period last year. Although assessment revenue and earnings (interest and net unrealized gains) on U.S. Treasury obligations were higher in 2016 than 2015 ($139 million and $268 million, respectively), there were smaller negative provision for losses in 2016 compared to last year (negative $43 million in 2016 vs. negative $426 million in 2015).

- The provision for insurance losses was a negative $43 million for the first quarter of 2016. The negative provision primarily resulted from a $97 million decrease in the estimated losses for institutions that failed in current and prior years, partially offset by a $48 million increase in the estimated losses for future failures.

Assessments

- During March, the DIF recognized assessment revenue of $2.3 billion. Of this amount, $2.2 billion represented the estimate for first quarter 2016 insurance coverage. Additionally, the DIF recognized an adjustment of $90 million that increased assessment revenue. This adjustment consisted of $36 million primarily due to prior period amendments from compliance review activity and a $54 million increase to the estimate for fourth quarter 2015 insurance coverage recorded at December 31, 2015. The latter adjustment was primarily due to higher than estimated assessment base and rates for large banks.

- On March 30, 2016, the FDIC collected $2.3 billion in DIF assessments for fourth quarter 2015 insurance coverage.

II. <u>Investment Results</u> (See pages 8 -9 for detailed data and charts.)

DIF Investment Portfolio

- On March 31, 2016, the total liquidity (also total market value) of the DIF investment portfolio stood at $67.8 billion, up $4.0 billion from its December 31, 2015, balance of $63.7 billion. During the quarter, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On March 31, 2016, the DIF investment portfolio's yield was 0.94 percent, little changed from its December 31, 2015, yield. Although the new Treasury securities purchased during the quarter generally had higher yields than the maturing securities' yields, the portfolio had a larger balance of low yielding overnight investments at the end of the first quarter, thus temporarily bringing down the overall portfolio yield.

- In accordance with the approved first quarter 2016 DIF portfolio investment strategy, staff purchased a total of nine short- to intermediate-maturity conventional Treasury securities, all designated as available-for-sale. The nine securities had a total par value of $6.8 billion, a weighted average yield of 0.71% percent, and a weighted average maturity of 1.00 years.

III. <u>Budget Results</u> (See pages 10 – 11 for detailed data.)

Approved Budget Modifications

The 2016 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2016 FDIC 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 2016, the organizations under the Chief Information Officer (CIO), the Office of Minority and Women Inclusion, the Division of Risk Management Supervision (RMS), and the Office of the Ombudsman made minor reallocations of budget authority among major expense categories within their approved budgets. The largest reallocations were made by the CIO organizations (the Division of Information Technology (DIT), CIO Council, and Information Security and Privacy Staff), although those reallocations totaled only 0.4 percent of their combined 2016 Ongoing Operations budgets. The CIO organizations reprogrammed about $1.2 million in budget authority between the Equipment and Outside Services-Personnel expense categories of their budgets to better align budget authority with planned information technology (IT) and IT security related activities for the year. None of the budget realignments increased or decreased the total Board-approved budget or the Ongoing Operations or Receivership Funding components of their division/office budgets.

- In March 2016, in conjunction with a reduction in authorized staffing (see below), the CFO approved the realignment of $320,054 from the RMS Salaries and Compensation budget to the Corporate Unassigned contingency reserve to reflect the reduction of RMS's 2016 staffing authorization. Following this budget reallocation, the amounts remaining available within the Corporate Unassigned budgets for the Ongoing Operations and the Receivership Funding budget components were $18,320,054 and $27,407,582, respectively.

Approved Staffing Modifications

The 2016 Budget Resolution delegated to the CFO the authority to modify approved 2016 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2016 FDIC Operating Budget. The following change was approved by the CFO in accordance with the authority delegated to him by the Board of Directors:

- In February 2016, the CFO approved a reduction of 49 authorized non-permanent field examination positions and one non-permanent Supervisory Examiner position in RMS to reflect the projected reduction in examination workload resulting from a statutory change in early December 2015 and the Board's subsequent adoption of a rule implementing extended examination cycles for highly-rated institutions with $500 million to $1.0 billion in assets. This reduction in authorized non-permanent examination staffing was partially offset by the addition of seven non-permanent non-examination positions in RMS's Washington office to provide for an orderly transition of work from non-permanent to permanent staff during 2016.

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, 2016, are defined as those that either (1) exceed the YTD budget by more than $3 million and represent more than five percent of 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 during the first quarter in two major expense categories of the Ongoing Operations component of the 2016 FDIC Operating Budget:

- Outside Services-Personnel expenditures were $6 million, or 12 percent, less-than-budgeted. Most of this underspending occurred in the Division of Administration (DOA), the Division of Depositor and Consumer Protection (DCP), and the Division of Resolutions and Receiverships (DRR). DOA spent $3 million less than budgeted for contractual support in the first quarter, largely due to lower-than-expected expenses for administrative services due to weather-related closures and vacant contractor positions; delays in completing the salary structure review and related pay, performance, and competency modeling projects; and slower-than-budgeted spending on security related initiatives. DCP spent $1 million less-than-budgeted, primarily due to delays in beginning work on several enhancements to *Money Smart* products and to delays in interagency billing for the FDIC's share of the costs for an interagency project to upgrade the Home Mortgage Disclosure Act (HMDA) data collection infrastructure and for 2016 HMDA data collection services. DRR spent $1 million less-than-budgeted, due largely to continuing delays in contracting for advisory services in support of DRR's Title I and Title II resolution planning responsibilities and lower-than-projected spending for IT systems development and support.

- Equipment expenditures were $5 million, or 30 percent, less-than-budgeted. DIT spent $4 million less-than-budgeted, primarily because hardware purchases from its technical refresh allowance were not made as quickly as anticipated.

Receivership Funding

The Receivership Funding component of the 2016 FDIC 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 only one of the seven major expense categories during the first quarter in the Receivership Funding component of the 2016 FDIC Operating Budget:

- Outside Services-Personnel expenditures were $25 million, or 37 percent, less-than-budgeted. This variance was primarily attributable to DRR, which spent $21 million less-than-budgeted. This reflected the fact that there was only one small bank closing that required less contractual support than was budgeted for first-quarter resolutions, and only minimal expenses were incurred for loan servicing and asset management for the 439 active receiverships.

Significant Spending Variances by Division/Office[1]

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

- DRR spent $26 million, or 29 percent, less-than-budgeted, mostly due to less-than-budgeted spending for resolutions and receivership workload for the reasons described above.

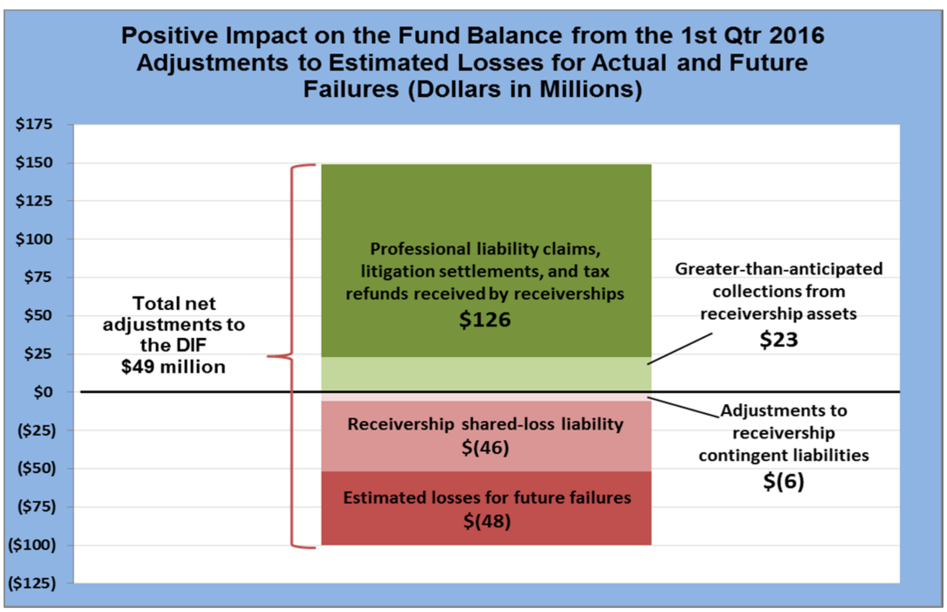
- The Legal Division spent $6 million, or 11 percent, less-than-budgeted. Approximately $5 million of this variance was in the Receivership Funding budget component due largely to lower-than-projected outside counsel expenses for receivership-related litigation. It also had a $1 million variance in its Ongoing Operations budget component due to slower-than-projected hiring to fill vacant positions.

[1] Information on division/office variances reflects variances in the Corporate Operating Budget.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Mar-16	Audited Dec-15	Quarterly Change	Unaudited Mar-15	Year-Over-Year Change
Cash and cash equivalents	$ 3,519	$ 877	$ 2,642	$ 3,729	$ (210)
Investment in U.S. Treasury obligations	63,833	62,497	1,336	50,591	13,242
Assessments receivable, net	2,238	2,172	66	2,051	187
Interest receivable on investments and other assets, net	474	418	56	373	101
Receivables from resolutions, net	9,638	11,578	(1,940)	17,258	(7,620)
Property and equipment, net	370	378	(8)	365	5
Total Assets	$ 80,072	$ 77,920	$ 2,152	$ 74,367	$ 5,705
Accounts payable and other liabilities	217	273	(56)	243	(26)
Liabilities due to resolutions	4,059	4,419	(360)	7,868	(3,809)
Postretirement benefit liability	233	233	-	243	(10)
Contingent liability for anticipated failures	443	395	48	717	(274)
Contingent liability for litigation losses	0	0	-	0	-
Total Liabilities	$ 4,952	$ 5,320	$ (368)	$ 9,071	$ (4,119)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	403	(9)	412	282	121
FYI: Unrealized postretirement benefit (loss) gain	(34)	(34)	-	(58)	24
Fund Balance	$ 75,120	$ 72,600	$ 2,520	$ 65,296	$ 9,824



The estimated recoveries from assets held by receiverships and estimated payments related to shared-loss covered assets and other liabilities are used to derive the loss allowance on the receivables from resolutions.

The $23 million adjustment resulted from greater-than-anticipated collections from a receivership's investment in a structured transaction.

The $46 million net adjustment to the receiverships' shared-loss liability primarily resulted from higher than estimated final payments on commercial shared-loss agreements (SLA) where loss coverage expired, net of savings on early SLA terminations.

The $6 million adjustment resulted from a $9 million increase in estimated rep & warranty liabilities, net of a $3 million decline in estimated litigation liabilities.

Fund Financial Results - continued

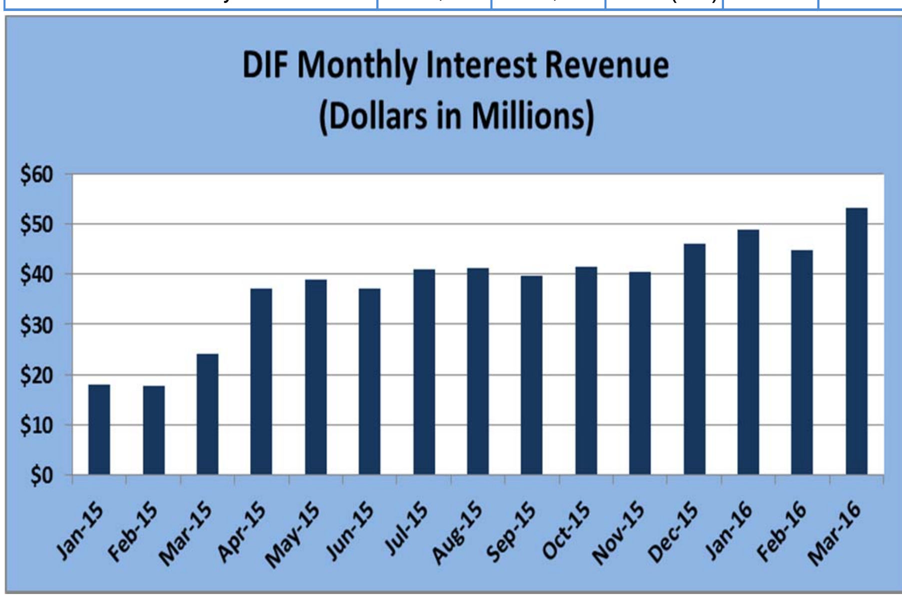
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund Unaudited Mar-16	Audited Dec-15	Unaudited Mar-15	Year-Over-Year Change
Assessments	$ 2,328	$ 8,847	$ 2,189	$ 139
Interest on U.S. Treasury obligations	147	422	60	87
Other revenue	5	34	6	(1)
Total Revenue	$ 2,480	$ 9,303	$ 2,255	$ 225
Operating expenses	415	1,687	396	19
Provision for insurance losses	(43)	(2,251)	(426)	383
Insurance and other expenses	0	11	0	-
Total Expenses and Losses	$ 372	$ (553)	$ (30)	$ 402
Net Income	2,108	9,856	2,285	(177)
Unrealized gain (loss) on U.S. Treasury investments, net	412	(60)	231	181
Unrealized postretirement benefit gain (loss)	-	24	-	-
Comprehensive Income	$ 2,520	$ 9,820	$ 2,516	$ 4

Selected Financial Data	FSLIC Resolution Fund Unaudited Mar-16	Audited Dec-15	Quarterly Change	Unaudited Mar-15	Year-Over-Year Change
Cash and cash equivalents	$ 872	$ 871	$ 1	$ 872	$ -
Accumulated deficit	(124,617)	(124,618)	1	(124,460)	(157)
Total resolution equity	872	871	1	872	-
Total revenue	1	3		1	-
Operating expenses	1	3		0	1
Provision for losses	(3)	0		0	(3)
Other expenses	2	0		0	2
Goodwill litigation expenses	-	157		-	-
Net Income (Loss)	$ 1	$ (157)		$ 1	$ -

Receivership Selected Statistics March 2016 vs. March 2015

$ in millions	DIF			FRF			ALL FUNDS		
	Mar-16	Mar-15	*Change*	Mar-16	Mar-15	*Change*	Mar-16	Mar-15	*Change*
Total Receiverships	439	483	(44)	0	0	-	439	483	(44)
Assets in Liquidation	$ 4,433	$ 7,289	$ (2,856)	$ 2	$ 5	$ (3)	$ 4,435	$ 7,294	$ (2,859)
YTD Collections	$ 372	$ 1,365	$ (993)	$ 1	$ -	$ 1	$ 373	$ 1,365	$ (992)
YTD Dividend/Other Pymts - Cash	$ 1,789	$ 2,170	$ (381)	$ -	$ -	$ -	$ 1,789	$ 2,170	$ (381)



DIF interest revenue was over twice as high in the first quarter of 2016 ($147 million) as compared to the same period in 2015 ($60 million).

A combination of factors led to this increase: (1) the Federal Reserve increased the Fed Funds Target Rate, resulting in an increase in the average overnight investment interest rate (from 0.02% in the first quarter of 2015 to 0.24% in the same period of 2016); (2) higher interest rates on new long-term investments obtained as older long-term investments mature; (3) steady growth in the investment portfolio balance; and (4) the Treasury Inflation Protected Securities (TIPS) inflation compensation was less negative in the first quarter of 2016 (negative $2.895 million) as compared to the same period in 2015 (negative $26.643 million).

Deposit Insurance Fund Portfolio Summary

(Dollar Values in Millions)

	3/31/16	12/31/15	Change
Par Value	$66,541	$62,973	$3,568
Amortized Cost	$66,939	$63,368	$3,571
Total Market Value (including accrued interest)	$67,774	$63,737	$4,037
Primary Reserve [1]	$67,774	$63,737	$4,037
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.94%	0.94%	0.00%
Weighted Average Maturity (in years)	1.44	1.65	-0.21
Effective Duration (in years)			
Total Portfolio	1.41	1.62	-0.21
Available-for-Sale Securities	1.49	1.64	-0.15
Held-to-Maturity Securities [3]	not applicable	not applicable	not applicable

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

[2] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assumes an average 1.8% annual increase in the CPI over the remaining life of each TIPS.

[3] 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)

	3/31/16	12/31/15	Change
FRF-FSLIC			
Book Value [4]	$828	$828	$0
Yield-to-Maturity	0.14%	0.08%	0.06%
Weighted Average Maturity	overnight	overnight	no change

[4] 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)

	3/31/16	12/31/15	Change
Book Value [5]	$8,969	$10,508	($1,539)
Effective Annual Yield	0.42%	0.30%	0.12%
Weighted Average Maturity (in days)	105	90	15

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

Investment Strategies	
DEPOSIT INSURANCE FUND	**Strategy for the 1st Quarter 2016** Purchase up to $10 billion (par value) of Treasury securities with maturity dates between June 30, 2016, and June 30, 2021, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale; and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities.
	Strategy Changes for the 2nd Quarter 2016
	Purchase up to $14 billion (par value) of Treasury securities with maturity dates between September 30, 2016, and September 30, 2021, subject to the following additional provisions: all newly purchased securities will be designated as available-for-sale; and no more than $2 billion (adjusted par value) of such securities shall consist of Treasury Inflation-Protected Securities.
NATIONAL LIQUIDATION FUND	**Strategy for the 1st Quarter 2016** 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 the 2nd Quarter 2016
	No strategy changes for the second quarter of 2016.

Executive Summary of 2016 Budget and Expenditures by Major Expense Category Through March 31, 2016 (Dollars in Thousands)					
Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Ongoing Operations					
Salaries & Compensation	$1,254,695	$309,781	$297,884	96%	($11,897)
Outside Services - Personnel	248,758	53,583	47,418	88%	(6,165)
Travel	98,696	23,903	22,165	93%	(1,738)
Buildings	95,422	24,113	23,287	97%	(826)
Equipment	81,935	16,695	11,657	70%	(5,038)
Outside Services - Other	15,739	4,233	2,445	58%	(1,788)
Other Expenses	15,456	3,699	3,185	86%	(514)
Total Ongoing Operations	**$1,810,701**	**$436,007**	**$408,041**	**94%**	**($27,966)**
Receivership Funding					
Salaries & Compensation	$61,080	$17,835	$14,997	84%	($2,838)
Outside Services - Personnel	296,955	67,034	42,327	63%	(24,707)
Travel	8,207	2,047	729	36%	(1,318)
Buildings	14,602	3,593	3,320	92%	(273)
Equipment	1,452	291	990	341%	699
Outside Services - Other	1,900	351	247	70%	(104)
Other Expenses	15,805	3,940	3,521	89%	(419)
Total Receivership Funding	**$400,000**	**$95,091**	**$66,131**	**70%**	**($28,960)**
Total FDIC Operating Budget	**$2,210,701**	**$531,098**	**$474,172**	**89%**	**($56,926)**

Executive Summary of 2016 Budget and Expenditures by Budget Component and Division/Office Through March 31, 2016 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	$595,681	$146,193	$140,156	96%	($6,037)
Resolutions & Receiverships	358,618	92,509	66,081	71%	(26,428)
Administration	268,848	67,046	60,808	91%	(6,239)
Legal	237,781	59,305	52,827	89%	(6,478)
Information Technology	216,584	49,875	45,053	90%	(4,822)
Depositor & Consumer Protection	180,155	44,749	41,673	93%	(3,075)
Insurance & Research	48,211	11,658	12,002	103%	344
Finance	40,028	10,099	9,619	95%	(480)
CIO Council	51,791	10,976	9,588	87%	(1,387)
Inspector General	34,153	8,538	7,694	90%	(844)
Information Security & Privacy Staff	33,813	7,396	7,335	99%	(61)
Executive Support [1]	26,539	6,362	5,657	89%	(705)
Corporate University - Corporate	21,498	5,170	5,350	103%	180
Complex Financial Institutions	21,285	4,530	4,381	97%	(149)
Corporate University - CEP	18,597	3,947	3,516	89%	(431)
Executive Offices [2]	11,391	2,745	2,431	89%	(314)
Corporate Unassigned	45,728	0	0	N/A	0
Total FDIC Operating Budget	**$2,210,701**	**$531,098**	**$474,172**	**89%**	**($56,926)**

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

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 Chief Information Officer.