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

August 26, 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: Second Quarter 2014 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the quarter ended June 30, 2014.

Executive Summary

- During the second quarter of 2014, the DIF balance increased by $2.2 billion, from $48.9 billion to $51.1 billion. This quarterly increase was primarily due to $2.2 billion of assessment revenue and a $204 million decrease in the provision for insurance losses, partially offset by $428 million of operating expenses.

- During the second quarter of 2014, the FDIC was named receiver for 7 failed institutions. The combined assets at inception for these institutions totaled $842 million with a total estimated loss of $112 million. The corporate cash outlay during the second quarter for these failures was approximately $235 million.

- Through June 30, 2014, overall Corporate Operating Budget expenditures were below budget by 8 percent ($93 million). Spending in the Ongoing Operations component was $59 million, or 7 percent, under budget, largely due to underspending for salaries and compensation, equipment, and contractual services. The variance in the Receivership Funding component was $34 million, or 11 percent, under budget, primarily due to lower-than-budgeted spending for contractual services at the site of failed financial institutions.

I. **Corporate Fund Financial Results** (See pages 6 - 7 for detailed data and charts.)

Deposit Insurance Fund

- For the six months ending June 30, 2014, the DIF's comprehensive income totaled $3.9 billion compared to comprehensive income of $4.9 billion for the same period last year. This $1.0 billion decrease was mostly due to a $554 million decrease in assessment revenue and a $676 million increase in provision for insurance losses.

- The provision for insurance losses was $144 million for the first half of 2014. The positive provision primarily resulted from a $449 million increase in the estimated losses for anticipated failures, partially offset by a $295 million decrease in the estimated losses for institutions that failed in current and prior years. The reduction in the estimated losses from failures was primarily attributable to a decrease in the receiverships' shared-loss liability and unanticipated recoveries of tax refunds and professional liability claims by receiverships.

Assessments

- During June, the DIF recognized a total of $2.2 billion in assessment revenue, representing the estimate for second quarter 2014 insurance coverage. Additionally, the DIF recognized a net adjustment of $20 million that increased assessment revenue. This adjustment consisted of a $6 million decrease from prior period amendments and a $26 million increase to the estimate for first quarter 2014 insurance coverage recorded at March 31, 2014. The latter adjustment was due to higher than estimated assessment rates.

- On June 30, 2014, the FDIC collected $2.3 billion in DIF assessments for first quarter 2014 insurance coverage.

II. **Investment Results** (See pages 8 - 9 for detailed data and charts.)

DIF Investment Portfolio

- On June 30, 2014, the total liquidity (also total market value) of the DIF investment portfolio stood at $48.3 billion, higher than its December 31, 2013, balance of $42.5 billion. During the first half of 2014, interest revenue, receivership dividends, and deposit insurance assessment collections exceeded resolution-related outlays and operating expenses.

- On June 30, 2014, the DIF investment portfolio's yield was 0.61 percent, up 16 basis points from its December 31, 2013, yield of 0.45 percent. Two factors primarily contributed to the increase. During the six-month period, newly purchased Treasury securities generally had higher yields than maturing securities. And low yielding overnight investments comprised a smaller percentage of the portfolio at period end.

- In accordance with the approved second quarter 2014 DIF portfolio investment strategy, staff purchased a total of 16 short- to intermediate-maturity conventional Treasury securities, all designated as available-for-sale (AFS). The 16 securities had a total par value of $7.4 billion, a weighted average yield of 0.66 percent, and a weighted average maturity (WAM) of 2.29 years.

III. <u>Budget Results</u> (See pages 10 - 11 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 made during the second quarter in accordance with the authority delegated by the Board of Directors. None of these modifications changed the total 2014 Corporate Operating Budget as approved by the Board in December 2013.

- In May 2014, the CFO approved modifications to the Salaries and Compensation budgets of divisions and offices within both the Ongoing Operations and the Receivership Funding budget components based on an analysis of year-to-date spending for salaries, bonuses/lump-sum payments, and fringe benefits. That reallocation realigned existing budget authority among most divisions and offices, but resulted in no change to the total corporate budget for either the Ongoing Operations or Receivership Funding budget components.

- During the second quarter of 2014, the Acting Chief Information Officer (CIO) approved the realignment of existing budget authority among expense categories within the CIO Council's Ongoing Operations budget, consistent with ongoing reviews of the status of individual projects. These modifications resulted in a net decrease to the budget for the Outside Services - Personnel expense category (-$35,251) and increases to the budgets for the Travel (+$5,000) and Equipment (+$30,251) expense categories. That realignment resulted in no change to the total CIO Council budget.

- In July 2014, the CFO approved a reallocation within the Ongoing Operations component of the 2014 Corporate Operating Budget following the mid-year reassessment of actual and projected spending for the year. The budgets for all major expense categories and most divisions and offices were adjusted. The most significant increase was to the budget of the Division of Information Technology (DIT), which received a net budget increase of over $3 million in its Ongoing Operations budget, largely to support the transition to newly-awarded contracts. The most significant reductions were to the budgets of the Office of Complex Financial Institutions (OCFI) ($2 million) due to contracts that have been indefinitely deferred, and the Division of Insurance and Research ($1 million) due to changes in the timing of enhancements to the Central Data Repository (CDR) project and the Small Business Lending Survey. This reallocation was made effective in June 2014.

- The mid-year budget reallocation reduced the Corporate Unassigned contingency reserve by nearly $2 million in the Ongoing Operations budget. Following that reallocation, the unused amounts remaining within the Corporate Unassigned budgets for the Ongoing Operations and the Receivership Funding budget components were $29,010,938 and $2,742,619, respectively.

Staffing Modifications

The 2014 Budget Resolution also delegated to the CFO the authority to modify approved 2014 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2014 Corporate Operating Budget. The following changes were approved by the CFO in accordance with the authority delegated to him by the Board of Directors:

- In May, the CFO approved an increase of one authorized permanent position in the Information Security and Privacy Staff (ISPS) within the CIO organization to accommodate the addition of a Senior Intelligence Officer.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the six months ending June 30, 2014, are defined as those that either (1) exceed the YTD budget by $2 million and represent more than three 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 $3 million and represents more than five 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 three major expense categories during the second quarter in the Ongoing Operations component of the 2014 Corporate Operating Budget:

- Outside Services - Personnel expenditures were $11 million, or 10 percent, less than budgeted. The Division of Resolutions and Receiverships (DRR) spent $3 million less than budgeted for planning related to the possible orderly liquidation of a systemically important financial institution (SIFI). The Legal Division spent $2 million less than budgeted, largely due to lower-than-projected expenses related to FOIA and Privacy Act requests, defensive litigation, and other legal fees The Division of Administration (DOA) spent $1 million less than budgeted due to a delay in the nationwide implementation of the Identity, Credential and Access Management (ICAM) initiative and lower-than-anticipated contract costs resulting from high turnover among contractor employees and delays in completing background investigations of replacement employees. In addition, OCFI spent $1 million less than budgeted for contractual support, although it expects contract spending to increase in the third and fourth quarters of 2014.

- Travel expenditures were approximately $6 million, or 12 percent, less than budgeted. This variance was largely due to vacancies in non-permanent field examination positions in the Division of Risk Management Supervision and Division of Depositor and Consumer Protection that resulted in lower regular duty and relocation travel expenses, and less travel than planned for Financial Institution Specialists in the Corporate Employee Program (CEP) in Corporate University.

- Equipment expenditures were approximately $13 million, or 39 percent, less than budgeted. DIT spent $10 million less than budgeted, largely due to delays in planned equipment purchases.

Receivership Funding

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 were significant spending variances in one of the seven major expense categories through the second quarter in the Receivership Funding component of the 2014 Corporate Operating Budget:

- Outside Services-Personnel expenditures were $23 million, or 12 percent, less than budgeted. This variance was attributable to lower-than-budgeted contract expenses due to

(a) less costly resolutions, and (b) lower-than-anticipated asset management and marketing costs for contracts supporting Owned Real Estate, Valuations, Securitizations, Due Diligence, Shared Loss, Receivership Assistance Contracts, and Structured Sales.

Significant Spending Variances by Division/Office[1]

Four organizations had significant spending variances through the end of the second quarter:

- DRR spent $28 million, or 11 percent, less than budgeted, mostly due to less-than-budgeted spending for resolution and receivership management activities. Over recent quarters, the size of financial institution failures has been below levels anticipated during the 2014 budget formulation process.

- DIT spent $13 million, or 12 percent, less than budgeted. This variance was largely due to delays in planned equipment purchases.

- The Legal Division spent $11 million, or 8 percent, less than budgeted. This variance was due to under-spending of approximately $7 million in the Outside Services – Personnel category, largely due to lower-than-projected outside counsel expenses for receivership-related litigation, and $4 million in the Salaries and Compensation category ($2 million in the Ongoing Operations budget component and $2 million in the Receivership Funding budget component), mostly due to vacancies in budgeted, non-permanent positions and slower-than-projected hiring to fill those vacancies.

- DOA spent $9 million, or 7 percent, less than budgeted. This variance was largely attributable to lower-than-projected spending for online information services; delays in planned furniture purchases; lower-than-expected contract expenses due to delays in the nationwide implementation of the ICAM initiative; under-spending related to contracting delays for the Student Residence Center pipe replacement project; and significant savings realized in connection with field office lease renewals.

Other Matters

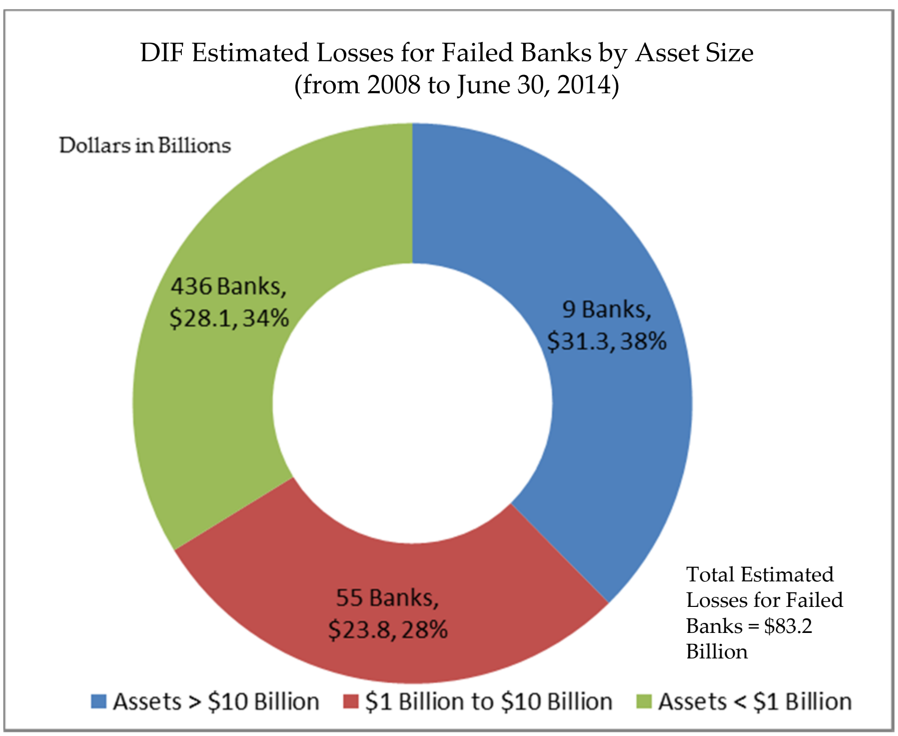
An analysis of 2014 funding requirements for employee pay and benefits was completed in accordance with the 2014 Budget Resolution. The analysis determined that those costs had been over-estimated during the preparation of the 2014 Corporate Operating Budget by approximately $7 million in the Salaries and Compensation expense category. This variance was primarily due to a greater-than-anticipated reduction in actual fringe benefit costs. Because the differences were not material relative to the total 2014 Corporate Operating Budget approved by the Board, the CFO elected not to exercise his delegated authority to adjust the 2014 Corporate Operating Budget.

[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 Jun-14	Unaudited Mar-14	Quarterly Change	Unaudited Jun-13	Year-Over-Year Change
Cash and cash equivalents	$ 2,409	$ 511	$ 1,898	$ 531	$ 1,878
Investment in U.S. Treasury obligations, net	45,416	44,215	1,201	33,286	12,130
Trust preferred securities	-	-	-	2,240	(2,240)
Assessments receivable, net	2,204	2,266	(62)	2,594	(390)
Interest receivable on investments and other assets, net	577	424	153	533	44
Receivables from resolutions, net	14,211	15,580	(1,369)	18,442	(4,231)
Property and equipment, net	359	368	(9)	376	(17)
Total Assets	$ 65,176	$ 63,364	$ 1,812	$ 58,002	$ 7,174
Accounts payable and other liabilities	256	257	(1)	296	(40)
Liabilities due to resolutions	12,169	12,438	(269)	17,179	(5,010)
Postretirement benefit liability	194	194	-	224	(30)
Contingent liability for anticipated failures	1,493	1,577	(84)	2,426	(933)
Contingent liability for litigation losses	5	5	-	6	(1)
Total Liabilities	$ 14,117	$ 14,471	$ (354)	$ 20,131	$ (6,014)
FYI: Unrealized gain (loss) on U.S. Treasury investments, net	118	45	73	(8)	126
FYI: Unrealized gain (loss) on trust preferred securities	-	-	-	278	(278)
FYI: Unrealized postretirement benefit (loss) gain	(16)	(16)	-	(61)	45
Fund Balance	$ 51,059	$ 48,893	$ 2,166	$ 37,871	$ 13,188



Fund Financial Results - continued

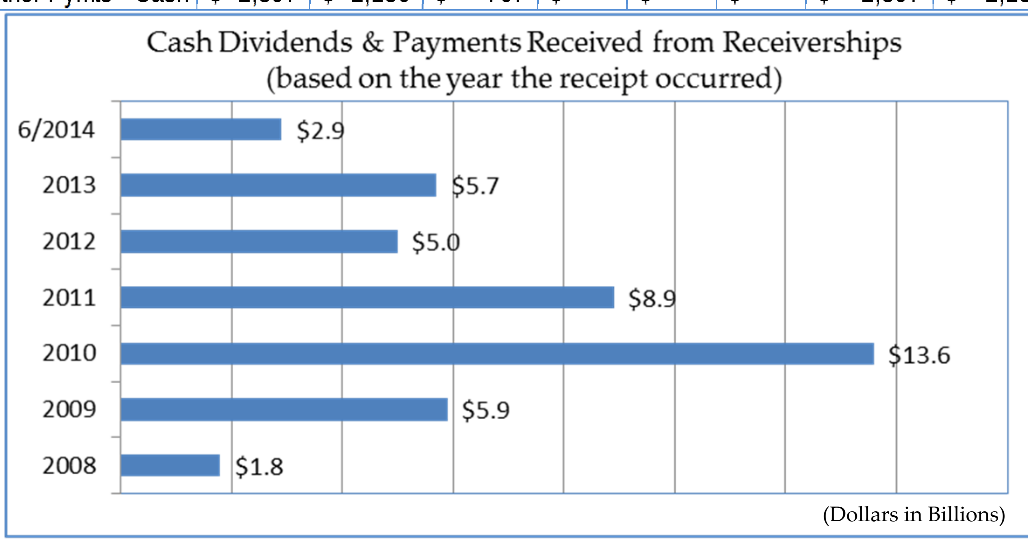
($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund				
	Unaudited Jun-14	Unaudited Mar-14	Quarterly Change	Unaudited Jun-13	Year-Over-Year Change
Assessments	$ 4,617	$ 2,393	2,224	$ 5,171	$ (554)
Interest on U.S. Treasury obligations	132	45	87	45	87
Other revenue	15	9	6	110	(95)
Total Revenue	$ 4,764	$ 2,447	2,317	$ 5,326	$ (562)
Operating expenses	850	422	428	875	(25)
Provision for insurance losses	144	348	(204)	(532)	676
Insurance and other expenses	-	-	-	4	(4)
Total Expenses and Losses	$ 994	$ 770	224	$ 347	$ 647
Net Income	3,770	1,677	2,093	4,979	(1,209)
Unrealized gain (loss) on U.S. Treasury investments, net	98	25	73	(42)	140
Unrealized gain (loss) on trust preferred securities	-	-	-	(24)	24
Unrealized postretirement benefit gain (loss)	-	-	-	-	-
Comprehensive Income	$ 3,868	$ 1,702	2,166	$ 4,913	$ (1,045)

Selected Financial Data	FSLIC Resolution Fund				
	Unaudited Jun-14	Unaudited Mar-14	Quarterly Change	Unaudited Jun-13	Year-Over-Year Change
Cash and cash equivalents	$ 872	$ 872	$ -	$ 3,596	$ (2,724)
Accumulated deficit	(124,460)	(124,460)	-	(124,459)	(1)
Total resolution equity	873	873	-	3,598	(2,725)
Total revenue	1	-	1	2	(1)
Operating expenses	1	-	1	1	-
Goodwill litigation expenses	-	-	-	1	(1)
Provision for losses	(1)	(1)	-	-	(1)
Net Income (Loss)	$ 1	$ 1	$ -	$ 1	$ -

Receivership Selected Statistics June 2014 vs. June 2013

$ in millions	DIF			FRF			ALL FUNDS		
	Jun-14	Jun-13	*Change*	Jun-14	Jun-13	*Change*	Jun-14	Jun-13	*Change*
Total Receiverships	489	478	11	-	2	(2)	489	480	9
Assets in Liquidation	$ 9,168	$14,180	$ (5,012)	$ 5	$ 5	$ -	$ 9,173	$ 14,185	$ (5,012)
YTD Collections	$ 2,698	$ 4,294	$ (1,596)	$ 2	$ 2	$ -	$ 2,700	$ 4,296	$ (1,596)
YTD Dividend/Other Pymts - Cash	$ 2,897	$ 2,130	$ 767	$ -	$ -	$ -	$ 2,897	$ 2,130	$ 767



Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	6/30/14	12/31/13	Change
Par Value	$46,525	$40,682	$5,843
Amortized Cost	$47,698	$42,025	$5,673
Total Market Value (including accrued interest)	$48,323	$42,461	$5,862
Primary Reserve [1]	$48,323	$42,461	$5,862
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity [2]	0.61%	0.45%	0.16%
Weighted Average Maturity (in years)	1.69	1.41	0.28
Effective Duration (in years)			
Total Portfolio	1.65	1.36	0.29
Available-for-Sale Securities	1.74	1.49	0.25
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 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] 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)			
	6/30/14	12/31/13	Change
FRF-FSLIC			
Book Value [4]	$827	$826	$1
Yield-to-Maturity	0.02%	0.01%	0.01%
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)			
	6/30/14	12/31/13	Change
Book Value [5]	$12,682	$13,657	($975)
Effective Annual Yield	0.10%	0.10%	0.00%
Weighted Average Maturity (in days)	66	62	4

[5] 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 2nd Quarter 2014** Purchase up to $9 billion (par value) of Treasury securities with maturity dates between September 30, 2014, and December 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).
	Strategy Changes for 3rd Quarter 2014
	Purchase up to $9 billion (par value) of Treasury securities with maturity dates between December 31, 2014, and December 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).
NATIONAL LIQUIDATION FUND	**Strategy for 2nd 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.
	Strategy Changes for 3rd Quarter 2014
	No strategy changes for the third quarter of 2014.

Executive Summary of 2014 Budget and Expenditures by Major Expense Category Through June 30, 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	$593,016	$569,374	96%	($23,642)
Outside Services - Personnel	269,208	118,041	106,575	90%	(11,466)
Travel	105,770	50,234	44,201	88%	(6,033)
Buildings	89,155	42,641	40,796	96%	(1,845)
Equipment	85,568	33,425	20,273	61%	(13,152)
Outside Services - Other	18,152	8,883	7,941	89%	(942)
Other Expenses	17,097	7,727	6,014	78%	(1,713)
Total Ongoing Operations	**$1,791,452**	**$853,967**	**$795,174**	**93%**	**($58,793)**
Receivership Funding					
Salaries & Compensation	$124,532	$69,972	$66,823	95%	($3,149)
Outside Services - Personnel	400,107	200,592	177,127	88%	(23,465)
Travel	10,414	6,524	3,835	59%	(2,689)
Buildings	28,580	14,858	12,280	83%	(2,578)
Equipment	7,745	2,154	1,065	49%	(1,089)
Outside Services - Other	4,999	2,848	2,131	75%	(717)
Other Expenses	23,623	11,893	11,139	94%	(754)
Total Receivership Funding	**$600,000**	**$308,841**	**$274,401**	**89%**	**($34,440)**
Total Corporate Operating Budget	**$2,391,452**	**$1,162,808**	**$1,069,575**	**92%**	**($93,233)**
Investment Budget [1]	**$16,971**	**$5,167**	**$5,979**	**116%**	**$812**
Grand Total	**$2,408,423**	**$1,167,975**	**$1,075,554**	**92%**	**($92,421)**

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 June 30, 2014 (Dollars in Thousands)					
Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
Corporate Operating Budget					
Risk Management Supervision	$566,194	$279,465	$269,260	96%	($10,205)
Resolutions & Receiverships	505,484	261,379	233,804	89%	(27,576)
Legal	299,292	148,914	137,549	92%	(11,365)
Administration	269,405	126,240	116,674	92%	(9,566)
Information Technology	238,052	111,551	98,198	88%	(13,353)
Depositor & Consumer Protection	169,063	84,041	79,708	95%	(4,333)
CIO Council	59,237	28,235	25,731	91%	(2,504)
Executive Support [1]	55,970	25,992	23,775	91%	(2,217)
Insurance & Research	48,671	22,335	20,023	90%	(2,312)
Finance	40,049	19,648	18,494	94%	(1,154)
Inspector General	33,698	16,781	14,398	86%	(2,383)
Corporate University - Corporate	24,717	12,953	10,639	82%	(2,314)
Corporate University - CEP	16,842	8,374	8,082	97%	(292)
Complex Financial Institutions	21,388	10,794	8,068	75%	(2,726)
Executive Offices [2]	11,637	6,106	5,170	85%	(936)
Corporate Unassigned	31,754	0	0	N/A	0
Total, Corporate Operating Budget	**$2,391,452**	**$1,162,808**	**$1,069,575**	**92%**	**($93,233)**
Investment Budget [3]					
Administration	$9,500	$4,750	$5,667	119%	$917
Information Technology	5,327	180	242	134%	62
Risk Management Supervision	892	40	41	101%	1
Corporate University - Corporate	853	90	30	33%	(60)
Resolutions & Receiverships	1	0	0	N/A	0
Depositor & Consumer Protection	398	107	0	0%	(107)
Total, Investment Budget [3]	**$16,971**	**$5,167**	**$5,979**	**116%**	**$812**
Combined Division/Office Budgets					
Risk Management Supervision	$567,086	$279,505	$269,301	96%	($10,204)
Resolutions & Receiverships	505,485	261,379	233,804	89%	(27,575)
Legal	299,292	148,914	137,549	92%	(11,365)
Administration	278,905	130,990	122,341	93%	(8,649)
Information Technology	243,379	111,731	98,440	88%	(13,291)
Depositor & Consumer Protection	169,461	84,148	79,708	95%	(4,440)
CIO Council	59,237	28,235	25,731	91%	(2,504)
Executive Support [1]	55,970	25,992	23,775	91%	(2,217)
Insurance & Research	48,671	22,335	20,023	90%	(2,312)
Finance	40,049	19,648	18,495	94%	(1,153)
Inspector General	33,698	16,781	14,398	86%	(2,383)
Corporate University - Corporate	25,570	13,043	10,669	82%	(2,374)
Corporate University - CEP	16,842	8,374	8,082	97%	(292)
Complex Financial Institutions	21,388	10,794	8,068	75%	(2,726)
Executive Offices [2]	11,637	6,106	5,170	85%	(936)
Corporate Unassigned	31,754	0	0	N/A	0
Grand Total	**$2,408,423**	**$1,167,975**	**$1,075,554**	**92%**	**($92,421)**

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.