FDIC Federal Deposit Insurance Corporation

Deputy to the Chairman and Chief Financial Officer

March 5, 2024

MEMORANDUM TO:	The Board of Directors
FROM:	Donna M. Saulnier Acting Deputy to the Chairman and Chief Financial Officer
SUBJECT:	Fourth Quarter 2023 CFO Report to the Board

The attached report highlights the FDIC's financial activities and results for the quarter ended December 31, 2023.

Executive Summary

- During the fourth quarter of 2023, the Deposit Insurance Fund (DIF) balance increased to $121.8 billion as of December 31, 2023, up $2.5 billion from the September 30, 2023 balance of $119.3 billion. The quarterly increase was primarily due to a $23.5 billion increase in assessment revenue, offset by a $21.3 billion increase in provision for insurance losses. The majority of the quarterly increase in provision for insurance losses represents estimated losses of $20.4 billion resulting from the coverage of uninsured deposits pursuant to two separate systemic risk determinations for Silicon Valley Bank and Signature Bank, which by law must be recovered through a special assessment. As a result, the $23.5 billion increase in assessment revenue was primarily related to the $20.4 billion of special assessments associated with the protection of uninsured depositors.

- The reserve ratio—the fund balance relative to insured deposits—increased by two basis points in the fourth quarter to 1.15 percent.

- During the fourth quarter of 2023, the FDIC was named receiver for one failed institution, Citizens Bank. The assets at inception for Citizens totaled approximately $60 million with an estimated loss of $15 million. The corporate cash outlay during the fourth quarter for this institution was $14 million.

- Overall FDIC Operating Budget expenditures for 2023 were $359.3 million (11 percent) below the full-year budget. In the Ongoing Operations budget component, expenditures were approximately $216.7 million (9 percent) below budget, primarily as a result of vacancies in budgeted positions, less-than-anticipated travel for examinations, and delays in some IT and facilities modernization projects. Expenditures in the Receivership Funding budget component were below budget by $141.4 million (17 percent) because costs were lower than initially estimated for the resolution of three large regional bank failures in the first half of the year.

I. Financial Results (See pages 7 – 8 for detailed data and charts.)

Deposit Insurance Fund

- In 2023, the DIF's comprehensive loss totaled $6.4 billion compared to comprehensive income of $5.1 billion in 2022. The year-over-year change of $11.5 billion was primarily due to a $41.0 billion increase in provision for insurance losses and a $2.3 billion realized loss on the sale of U.S. Treasury (UST) securities, partially offset by a $24.9 billion increase in assessment revenue, a $5.8 billion increase in UST securities market valuation adjustments, and a $1.5 billion increase in interest revenue from UST securities.

- The provision for insurance losses was $41.0 billion for 2023, primarily resulting from approximately $40.4 billion in estimated losses for the five failures that occurred in 2023. Of the $40.4 billion, $20.4 billion represents estimated losses resulting from the coverage of uninsured deposits pursuant to two separate systemic risk determinations for Silicon Valley Bank and Signature Bank, which by law must be recovered through one or more special assessments.

- Assessment revenue was $33.2 billion for 2023, compared to $8.3 billion for 2022. The $24.9 billion year-over-year increase was primarily related to the $20.4 billion of special assessments associated with the protection of uninsured depositors along with a 2 basis point increase in assessment rates beginning with the first quarter 2023 insurance coverage as mandated by the amended Restoration Plan.

- In 2023, the FDIC sold UST securities for total proceeds of $79.8 billion resulting in a total net realized loss of $2.3 billion.

- The DIF's interest revenue on UST securities for 2023 was $2.7 billion, compared to $1.2 billion in 2022. The $1.5 billion year-over-year increase resulted from maturities being reinvested in higher yielding securities.

Assessments

- During December, the DIF recognized assessment revenue of $3.2 billion for the estimate of fourth quarter 2023 insurance coverage. Additionally, the DIF recognized a $129 million adjustment for lower-than-estimated collections for the third quarter 2023 insurance coverage, which decreased assessment revenue.

- On December 29, 2023, the FDIC collected $3.1 billion in DIF assessments for third quarter 2023 insurance coverage.

II. Investment Results (See pages 9 – 10 for detailed data and charts.)

DIF Investment Portfolio

- On December 31, 2023, the total liquidity (also total market value) of the DIF investment portfolio stood at $23.8 billion, down $58.9 billion from its September 30, 2023, balance of $82.8 billion. During the quarter, resolution-related outlays and operating expenses exceeded deposit insurance assessment collections, interest revenue and receivership dividends.

- On December 31, 2023, the DIF investment portfolio's yield was 4.659 percent, down 3 basis points from its 4.689 percent yield on September 30, 2023.

- In accordance with the approved fourth quarter 2023 DIF portfolio investment strategy, staff invested in overnight securities only. Staff sold 32 conventional Treasury securities with a total par value of $35 billion, a weighted average yield of 3.787 percent, and a weighted average maturity of 1.52 years.

III. <u>Budget Results</u> (See pages 11 – 12 for detailed data.)

Approved Budget Modifications

The 2023 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2023 FDIC Operating Budget. The CFO did not approve any budget modifications during the fourth quarter.

Approved Staffing Modifications

The 2023 Budget Resolution also delegated to the CFO the authority to modify approved 2023 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2023 FDIC Operating Budget. The CFO did not approve any modifications to staffing authorizations during the fourth quarter. The FDIC's authorized 2023 staffing remained unchanged from the third quarter at 6,628 positions (6,325 permanent and 303 non-permanent).

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the quarter ending December 31, 2023, are defined as those that either (1) exceeded the annual budget for a major expense category or division/office; or (2) were under the annual budget for a major expense category or division/office by more than $5 million and represented more than five percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

Overall spending for the Ongoing Operations budget component was $216.7 million, or 9 percent, below budget for 2023. There were significant spending variances in five major expense categories:

- Spending in the Outside Services-Personnel major expense category was under budget by $58.4 million, or 15 percent. The variance was largely attributable to unused contingency reserves of $15.0 million and underspending in the following five divisions:
    - The Division of Administration (DOA) underspent its budget by $11.5 million, largely due to delays in acquiring contractor support for facilities-related IT projects and for human resources operations, as well as slower-than-expected progress on the implementation of electronic Official Personnel Folders.
    - The Division of Information Technology (DIT) underspent its budget by $9.6 million, primarily due to delays in starting some projects, the realization of cost savings on some contracts, and challenges in onboarding contractors for its infrastructure and application support contracts.

   - The Division of Resolutions and Receiverships (DRR) underspent its budget by $6.1 million due to the redirection of contractor support from activities budgeted within the Ongoing Operations budget component to bank closing activities that were expensed against the Receivership Funding budget. The Joint Venture Transaction Program also experienced contracting delays.

   - The Executive Support Offices underspent their budgets by $4.9 million, largely because media costs for the Deposit Insurance Awareness Campaign carried out by Office of Communications (OCOM) were about $4.1 million lower than projected.

   - The Office of Chief Information Security Officer (OCISO) underspent its YTD budget by $3.5 million due to contractor onboarding issues.

- Spending in the Travel major expense category was under budget by $34.4 million, or 40 percent, primarily due to reduced examination- and training-related travel in the Division of Risk Management Supervision (RMS) and the Division of Depositor and Consumer Protection (DCP), which underspent their budgets by $22.0 million and $6.4 million, respectively.

- Spending in the Buildings and Leased Space major expense category was under budget by $35.8 million, or 29 percent, primarily due to acquisition-related delays and slower-than-expected progress on Field Office Modernization projects and major improvement projects in Headquarters and the San Francisco Regional Office.

- Spending in the Equipment major expense category was under budget by $18.8 million, or 12 percent, mostly attributable to delays in acquiring furniture for Field Office Modernization projects and delays in acquiring information services to support Climate-Related Financial Risk research. In addition, DIT and OCISO spent $3.3 million and $1.8 million, respectively, less than budgeted for maintenance and subscription contracts.

- Spending in the Outside Services-Other major expense category was under budget by $7.4 million, or 35 percent, mostly due to lower-than-projected paid media costs for the Deposit Insurance Awareness Campaign in OCOM, lower-than-projected spending on cell phones, and delays in the transition of voice communications to new technology in DIT.

Receivership Funding

The Receivership Funding component of the 2023 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 and other expenses required to ensure readiness without regard to whether failures occur.

Overall spending for the Receivership Funding budget component was $141.4 million, or 17 percent, below budget in 2023. The variance was largely comprised of underspending of $18.0 million in Salaries and Compensation, $40.7 million in Outside Services - Personnel, $5.6 million in Equipment, and $75.5 million in Other Expenses. The key divisions contributing to the underspending were DRR, at $123.5 million below budget, and DIT, at $15.4 million below budget, largely because the actual costs incurred to resolve the three large regional bank failures in early 2023 were less than initially estimated.

Office of Inspector General

There were no significant spending variances in the Office of Inspector General (OIG) budget component.

Significant Spending Variances by Division/Office[1]

Ten organizations had significant spending variances for 2023:

- DRR underspent its budget by $132.8 million, or 16 percent, including $9.3 million in its Ongoing Operations budget and $123.5 million in its Receivership Funding budget. The underspending in the Ongoing Operations budget included $6.1 million in its Outside Services-Personnel budget for the reasons stated above. The underspending in the Receivership Funding budget was due to lower–than-projected resolution costs for the three large regional bank failures.

- DOA underspent its budget by $64.6 million, or 18 percent, including $35.5 million in its Buildings and Leased Space budget, $13.5 million in its Equipment budget, and $11.5 million in its Outside Services-Personnel budget for the reasons stated above.

- RMS underspent its budget by $40.0 million, or 6 percent, partially attributable to underspending of $22.1 million in its Travel budget. RMS also underspent its Salaries and Compensation budget by $14.0 million as a result of vacancies in budgeted positions during the year.

- DIT underspent its budget by $35.2 million, or 8 percent. Underspending of $19.8 million in the Ongoing Operations budget component was attributable to both continuing operations and one-time initiatives. This included underspending of $4.7 million in its Salaries and Compensation budget, $9.6 million in its Outside Services-Personnel budget, $3.3 million in its Equipment budget, and $1.6 million in its Outside Services–Other budget for the reasons stated above. In addition, DIT underspent its Receivership Funding budget by $15.4 million, largely due to slower progress than originally anticipated in collecting records and data from the three large regional bank failures and more efficient processing due to automation.

- DCP underspent its budget by $15.7 million, or 7 percent. This was primarily attributable to underspending of $7.0 million in the Salaries and Compensation budget due to vacancies in budgeted positions and $6.4 million in the Travel budget due to reduced travel for examinations.

- The Executive Support Offices underspent their budgets by $13.7 million, or 28 percent. This was primarily due to underspending in the OCOM budget for the reason stated above.

- The Division of Complex Institution Supervision and Resolution underspent its budget by $12.9 million, or 8 percent, primarily due to underspending of $10.5 million in its Salaries and Compensation budget due to vacancies in budgeted positions.

- The Division of Insurance and Research underspent its budget by $7.6 million, or 11 percent, primarily attributable to underspending of $5.8 million in its Salaries and Compensation budget due to vacancies in budgeted positions.

[1]Information on division/office variances reflects variances in the FDIC Operating Budget and does not include variances related to approved multi-year investment projects.

- OCISO underspent its budget by $6.0 million, or 11 percent, primarily attributable to underspending of $3.5 million in its Outside Services–Personnel budget and $1.8 million in its Equipment budget for the reason stated above.

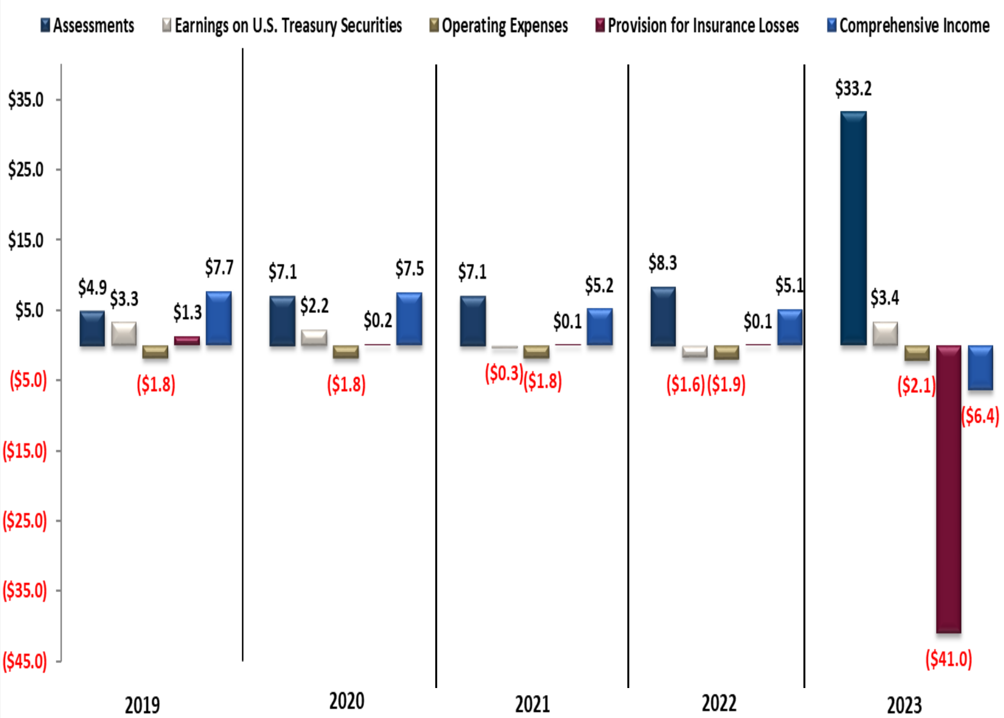
- The Corporate Unassigned contingency reserve had $15 million in unused budget authority remaining at the end of the year. That unused budget authority lapsed on December 31, 2023.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Dec-23	Sep-23	Quarterly Change	Dec-22	Year-Over-Year Change
Cash and cash equivalents	$ 4,873	$ 30,230	$ (25,357)	$ 2,599	$ 2,274
Investment in U.S. Treasury securities	18,929	52,215	(33,286)	122,442	(103,513)
Assessments receivable	3,236	3,273	(37)	2,159	1,077
Special assessments receivable	20,423	16,274	4,149	0	20,423
Interest receivable on investments and other assets, net	146	350	(204)	688	(542)
Receivables from resolutions, net	97,778	158,395	(60,617)	521	97,257
Property and equipment, net	319	368	(49)	360	(41)
Operating lease right-of-use assets	81	79	2	93	(12)
Total Assets	$ 145,785	$ 261,184	$ (115,399)	$ 128,862	$ 16,923
Accounts payable and other liabilities	410	401	9	269	141
Operating lease liabilities	102	100	2	111	(9)
Liabilities due to resolutions	22,513	140,311	(117,798)	0	22,513
Postretirement benefit liability	256	232	24	232	24
Contingent liability for anticipated failures	726	801	(75)	31	695
Contingent liability for litigation losses	0	0	0	1	(1)
Total Liabilities	$ 24,007	$ 141,845	$ (117,838)	$ 644	$ 23,363
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	(29)	(667)	638	(2,985)	2,956
FYI: Unrealized postretirement benefit (loss) gain	10	27	(17)	27	(17)
Fund Balance	$ 121,778	$ 119,339	$ 2,439	$ 128,218	$ (6,440)

Highlights of DIF Comprehensive Income for the Years 2019 through 2023
(Dollars in Billions)



In 2023, the DIF's comprehensive loss totaled $6.4 billion compared to comprehensive income of $5.1 billion in 2022. The year-over-year change of $11.5 billion was primarily due to a $41.0 billion increase in provision for insurance losses and a $2.3 billion realized loss on sale of U.S. Treasury (UST) securities, partially offset by a $24.9 billion increase in assessment revenue, a $5.8 billion increase in UST securities market valuation adjustments and a $1.5 billion increase in interest revenue from UST securities.

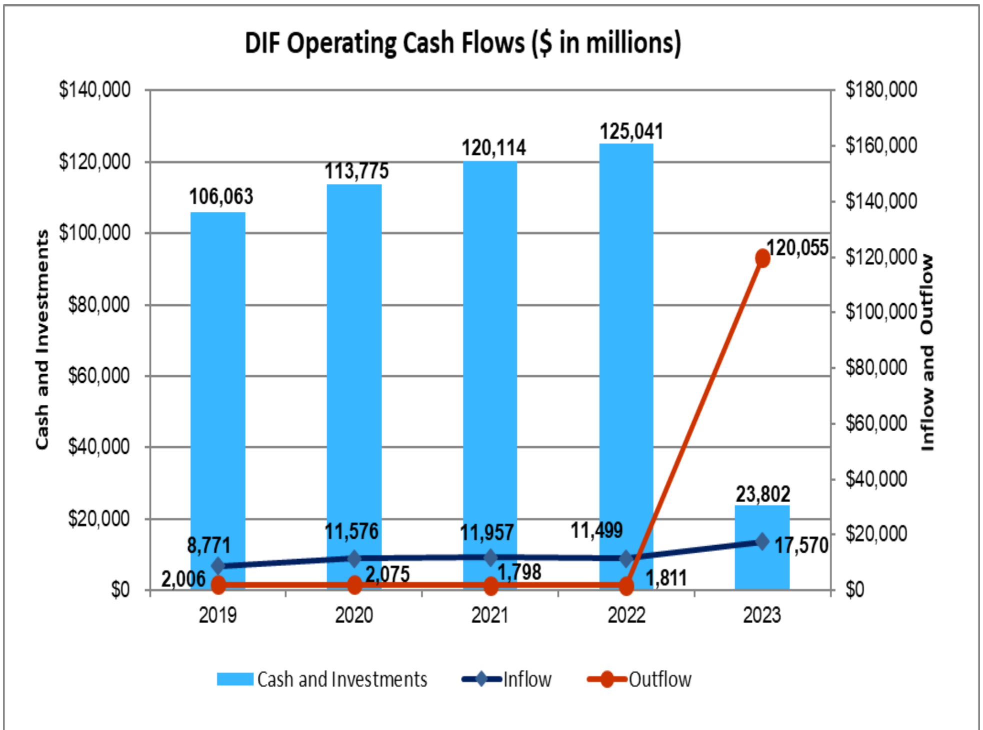
Fund Financial Results - continued

($ in Millions)

Income Statement (year-to-date)	Deposit Insurance Fund Dec-23	Sep-23	Quarterly Change	Dec-22	Year-Over-Year Change
Assessments	$ 33,188	$ 9,658	23,530	$ 8,311	$ 24,877
Interest on U.S. Treasury securities	2,736	2,162	574	1,246	1,490
Return of unclaimed insured deposits	17	16	1	38	(21)
Other revenue	55	8	47	12	43
Total Revenue	$ 35,996	$ 11,844	$ 24,152	$ 9,607	$ 26,389
Operating expenses	2,126	1,522	604	1,883	243
Provision for insurance losses	40,951	19,672	21,279	(83)	41,034
Insurance and other expenses	6	5	1	4	2
Realized loss on sale of investments	2,292	1,842	450	0	2,292
Total Expenses and Losses	$ 45,375	$ 23,041	$ 22,334	$ 1,804	$ 43,571
Net Income	$ (9,379)	$ (11,197)	$ 1,818	$ 7,803	$ (17,182)
Unrealized gain (loss) on U.S. Treasury securities, net	2,956	2,318	638	(2,836)	5,792
Unrealized postretirement benefit gain (loss)	(17)	0	(17)	110	(127)
Comprehensive Income (Loss)	$ (6,440)	$ (8,879)	$ 2,439	$ 5,077	$ (11,517)

Receivership Selected Statistics December 2023 vs. December 2022

	DIF			FRF			ALL FUNDS		
($ in millions)	Dec-23	Dec-22	*Change*	Dec-23	Dec-22	*Change*	Dec-23	Dec-22	*Change*
Total Receiverships	74	132	(58)	0	0	0	74	132	(58)
Assets in Liquidation	$ 84,641	$ 38	$ 84,603	$ 0	$ 0	$ 0	$ 84,641	$ 38	$ 84,603
YTD Collections	$ 206,126	$ 145	$ 205,981	$ 0	$ 0	$ 0	$ 206,126	$ 145	$ 205,981
YTD Dividend/Other	$ 43,143	$ 470	$ 42,673	$ 0	$ 0	$ 0	$ 43,143	$ 470	$ 42,673



Cash and Investments decreased by $101.2 billion from $125.0 billion at year-end 2022 to $23.8 billion at December 31, 2023. The decrease was primarily due to resolution-related outlays, which far exceeded recoveries from resolutions and assessment collections.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	12/31/23	9/30/23	Change
Par Value	$23,935	$84,380	($60,445)
Amortized Cost	$23,861	$83,434	($59,573)
Total Market Value (including accrued interest)	$23,843	$82,759	($58,916)
Primary Reserve [1]	$23,843	$82,759	($58,916)
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	4.659%	4.689%	-0.030%
Weighted Average Maturity (in years)	0.21	0.80	-0.59
Effective Duration (in years)			
Total Portfolio	0.20	0.76	-0.56
Available-for-Sale Securities [2]	0.25	1.21	-0.96

[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] Excludes any overnight investments.

Summary of Other Corporate Investment Portfolios (Dollar Values in Millions)			
	12/31/23	9/30/23	Change
FRF-FSLIC			
Book Value [3]	$944	$931	$13
Yield-to-Maturity	5.42%	5.40%	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)			
	12/31/23	9/30/23	Change
Book Value [4]	$6,472	$4,438	$2,034
Effective Annual Yield	5.42%	5.43%	-0.01%
Weighted Average Maturity (in days)	1	2	(1)

[4] 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 4th Quarter 2023**
	Purchase overnight securities only. Sell, if needed, with regard to the shape and slope of the yield curve.
	Strategy changes for the 1st Quarter 2024
	Purchase short-term Treasury Securities with maturities between 6-months and 1-year based on shape and slope of the yield curve.
NATIONAL LIQUIDATION FUND	
	Strategy for the 4th Quarter 2023
	Maintain a minimum balance of $0.25 billion in the FHLBNY overnight account. Invest excess funds in Government MMFs and agency discount notes of less than 6-month maturities.
	Strategy for the 1st Quarter 2024
	Maintain a minimum balance of $0.25 billion in the FHLBNY overnight account. Invest excess funds in Government MMFs and agency discount notes of less than 6-month maturities.

Executive Summary of 2023 Budget and Expenditures by Budget Component and Major Expense Category Through December 31, 2023 (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	$1,501,707	$1,501,707	$1,444,177	96%	($57,529)
Outside Services - Personnel	381,356	381,356	322,998	85%	(58,358)
Travel	86,051	86,051	51,646	60%	(34,406)
Buildings	124,179	124,179	88,406	71%	(35,773)
Equipment	156,093	156,093	137,278	88%	(18,816)
Outside Services - Other	20,967	20,967	13,589	65%	(7,377)
Other Expenses	15,642	15,642	11,215	72%	(4,427)
Total Ongoing Operations *	**$2,285,994**	**$2,285,994**	**$2,069,309**	**91%**	**($216,685)**
Receivership Funding					
Salaries & Compensation	$24,742	$24,742	$6,767	27%	($17,975)
Outside Services - Personnel	411,627	411,627	370,922	90%	(40,705)
Travel	4,032	4,032	2,883	71%	(1,149)
Buildings	405	405	95	23%	(310)
Equipment	8,911	8,911	3,279	37%	(5,632)
Outside Services - Other	1,491	1,491	1,330	89%	(162)
Other Expenses	373,791	373,791	298,283	80%	(75,508)
Total Receivership Funding *	**$825,000**	**$825,000**	**$683,559**	**83%**	**($141,441)**
Office of Inspector General					
Salaries & Compensation	$41,500	$41,500	$37,160	94%	($4,340)
Outside Services - Personnel	1,484	1,484	2,936	74%	1,452
Travel	1,594	1,594	1,114	70%	(480)
Buildings	0	0	223		223
Equipment	2,198	2,198	3,827	174%	1,629
Outside Services - Other	0	0	104		104
Other Expenses	1,309	1,309	1,552	119%	243
Total Office of Inspector General *	**$48,085**	**$48,085**	**$46,915**	**98%**	**($1,170)**
Total FDIC Operating Budget *	**$3,159,079**	**$3,159,079**	**$2,799,783**	**89%**	**($359,296)**

* Totals may not foot due to rounding.

Executive Summary of 2023 Budget and Expenditures by Division/Office Through December 31, 2023 (Dollars in Thousands)

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	$ 641,878	$ 641,878	$ 601,941	94%	$ (39,937)
Information Technology	438,728	438,728	403,491	92%	(35,237)
Administration	358,005	358,005	293,448	82%	(64,557)
Depositor & Consumer Protection	213,671	213,671	197,982	93%	(15,689)
Legal	173,632	173,632	165,958	96%	(7,674)
Resolutions & Receiverships	842,560	842,560	709,755	84%	(132,805)
Complex Institution Supervision & Resolution	165,303	165,303	152,432	92%	(12,871)
Insurance & Research	66,891	66,891	59,263	89%	(7,628)
Inspector General	48,085	48,085	46,915	98%	(1,170)
Chief Information Security Officer	53,066	53,066	47,036	89%	(6,030)
Executive Support [1]	48,244	48,244	34,499	72%	(13,745)
Finance	41,108	41,108	39,995	97%	(1,113)
Corporate University - Corporate	28,088	28,088	25,347	90%	(2,741)
Executive Offices [2]	14,773	14,773	12,545	85%	(2,228)
Risk Management & Internal Control	10,034	10,034	9,177	91%	(857)
Corporate Unassigned [3]	15,013	15,013	0	0%	(15,013)
Total FDIC Operating Budget [4]	**$ 3,159,079**	**$ 3,159,079**	**$ 2,799,783**	**89%**	**$ (359,296)**

1) Executive Support includes the Offices of Minority and Women Inclusion, Communications, Ombudsman, Legislative Affairs, and Financial Institution Adjudication.
2) Executive Offices include the offices of the Chairman, Vice Chairman, Appointive Director, Deputy to the Chairman and Chief Operating Officer, Deputy to the Chairman and Chief Financial Officer, Deputy to the Chairman for Policy, Deputy to the Chairman for External Affairs, Deputy to the Chairman for Financial Stability, and Chief Information Officer/Chief Privacy Officer.
3) This includes a $15.0 million contingency reserve in the Ongoing Operations budget component and a $0 million contingency reserve in the Receivership Funding budget component to meet unanticipated budget requirements that may arise during the year.
4) Totals may not foot due to rounding.