ANNUAL REPORT 2012

FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

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ANNUAL REPORT 2012

FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429 Office of the Chairman

May 31, 2013

Dear Sir,

In accordance with:

- the provisions of section 17(a) of the Federal Deposit Insurance Act,
- the Chief Financial Officers Act of 1990, Public Law 101-576,
- the Government Performance and Results Act of 1993 (as amended) and the GPRA Modernization Act of 2010,
- the provisions of Section 5 (as amended) of the Inspector General Act of 1978, and
- the Reports Consolidation Act of 2000,

the Federal Deposit Insurance Corporation (FDIC) is pleased to submit its *2012 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF).

In accordance with the Reports Consolidation Act of 2000, the FDIC assessed the reliability of the performance data contained in this report. No material inadequacies were found, and the data are considered to be complete and reliable.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the FDIC can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act of 1982 have been achieved, and that the FDIC has no material weaknesses. Additionally, the U.S. Government Accountability Office did not identify any significant deficiencies in the FDIC's internal controls for 2012. We are committed to maintaining effective internal controls corporate-wide in 2013.

Sincerely,

Martin J. Gruenberg

Martin J. Gruenberg
Chairman

The President of the United States
The President of the United States Senate
The Speaker of the United States House of Representatives

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INSURING DEPOSITS • EXAMINING INSTITUTIONS •
MANAGING RECEIVERSHIPS • EDUCATING CONSUMERS

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other state and federal regulatory agencies, the FDIC promotes the safety and soundness of the U.S. financial system and insured depository institutions by identifying, monitoring, and addressing risks to the Deposit Insurance Fund (DIF).

The FDIC promotes public understanding and the development of sound public policy by providing timely and accurate financial and economic information and analyses. It minimizes disruptive effects from the failure of financial institutions. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of excellence in public service is supported and sustained by a highly skilled and diverse workforce that continuously monitors and responds rapidly and successfully to changes in the financial environment.

At the FDIC, we are working together to be the best.

Message from the Chairman

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) 2012 Annual Report.

In 2012, we saw the continuation of the gradual but steady recovery of FDIC-insured institutions. Capital has increased and banks have bolstered their liquidity. Loan growth has shown improvement, and banks continued to strengthen their balance sheets. Revenue growth surpassed reductions in loss provisions as the principal contributor to earnings, although much of that growth came from loan sales.

At year-end, domestic and international issues still presented challenges for the economy and the banking industry, but the underlying trends were positive. Indeed, bank performance indicators improved during 2012, particularly earnings and credit quality of loans on the books of FDIC-insured institutions. Much of the improvement in earnings over the last few years was driven by lower loan-loss provisions, reflecting improved credit quality. Going forward, industry earnings will depend on increased lending, consistent with sound underwriting.

Although challenges to the recovery remain, the FDIC is well positioned to carry out its mission of maintaining stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships. At the end of 2012, the FDIC insured a record $7.4 trillion of deposits in over half a billion accounts at more than 7,000 institutions.

Our current top priorities include:

- continuing implementation of FDIC's systemic resolution responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), including resolution planning and promoting cross border cooperation and coordination with respect to an orderly resolution of a globally active, systemically important financial institution;
- following up on the FDIC's Community Banking Initiatives, including pursuing additional research relating to the continued viability of community banks, and continuing our review of examination and rulemaking processes with the goal of identifying additional ways to make the supervisory process more efficient, consistent, and transparent, consistent with safe and sound banking practices; and
- continuing our economic inclusion initiatives to expand access to mainstream financial services for all people in the United States.

A great strength of our agency is a highly dedicated and motivated workforce. The FDIC's employees understand the agency's mission and how it relates to what they do. For the second year in a row, the FDIC took the top spot in the *Best Places to Work in the Federal Government* rankings, this year in the new category for mid-sized federal agencies. We are very proud of this recognition. All of us at the FDIC share the responsibility for cultivating a high-performance environment with a deep sense of mission among our workforce.

STRENGTHENING THE DEPOSIT INSURANCE FUND AND RESOLVING FAILED BANKS

The FDIC has made significant progress in rebuilding the DIF. In 2010, the FDIC Board approved a comprehensive, long-term plan for fund management based on Dodd-Frank Act requirements and on an FDIC historical analysis of DIF losses. After returning to a positive balance of $11.8 billion at the end of 2011, from negative $7.4 billion a year earlier, the DIF balance rose to $33.0 billion at the end of 2012. Assessment revenue, fewer bank failures, and fees transferred to the DIF from the Temporary Liquidity Guarantee Program, were the main drivers of fund growth in 2012.

The number of both failed and problem institutions continued to decline in 2012. Failed institutions peaked in 2010 at 157, and declined to 92 in 2011 and 51 in 2012. Similarly, problem banks peaked at 888 in March 2011 and declined to 651 by the fourth quarter of 2012. Although both trends are positive, they still represent highly elevated levels of failed and troubled banks. As a result, the FDIC continues to devote considerable resources to managing receiverships, examining problem institutions, and implementing provisions of the Dodd-Frank Act.

Nonetheless, as the banking industry continues to stabilize, the FDIC will require fewer resources. The FDIC's authorized workforce for 2012 was 8,713 full-time equivalent positions compared with 9,269 the year before. The 2012 Corporate Operating Budget was $3.3 billion, a decrease of $0.6 billion (15 percent) from 2011.

For 2013, the Board reduced the budget by 18 percent to $2.7 billion and reduced authorized staffing by 8 percent to 8,026 positions in anticipation of a further drop in bank failure activity in the years ahead. The FDIC also announced plans to close the last of three temporary satellite offices that were set up to handle crisis-related workload. The Irvine (California) office closed in January 2012, and the Schaumburg (Illinois) office closed in September 2012. The Jacksonville (Florida) office is now scheduled to close in 2014. Contingent resources are included in the budget, however, to ensure readiness should economic conditions unexpectedly deteriorate.

During 2012, the FDIC continued using successful resolution strategies instituted in 2009 to protect insured depositors of failed institutions at the least cost to the DIF. The FDIC actively marketed failing institutions, and the large majority of those institutions were sold to other financial institutions. These strategies protected insured depositors and preserved banking relationships in many communities, providing depositors and customers with uninterrupted access to essential banking services.

IMPLEMENTING THE FDIC'S NEW AUTHORITIES UNDER THE DODD-FRANK ACT AND OTHER FINANCIAL REFORM

The Dodd-Frank Act included far-reaching changes to make financial regulation more effective in addressing systemic risks and gave the FDIC the authority to resolve systemically important financial institutions (SIFIs).

For SIFIs, the Title II – Orderly Liquidation Authority (OLA) of the Dodd-Frank Act provides the FDIC authority to resolve a parent holding company, and any financial affiliate, as well as other nonbank SIFIs. The FDIC has been working for the past two years to develop the strategic and operational capability to carry out this new authority.

During 2012, the FDIC developed internal plans for resolving a failing SIFI premised on utilizing the new Title II OLA authorities of the Dodd-Frank Act. If the FDIC is appointed as receiver of such an institution, it will be required to carry out an orderly liquidation in a manner that mitigates systemic risk, imposes losses on shareholders and creditors, replaces culpable management, and ensures, as required by the statute, that taxpayers bear no losses.

The FDIC also engaged with our counterparts overseas on cross-border protocols for resolving failing SIFIs. As part of our bilateral efforts in this area, the FDIC and the Bank of England, in conjunction with the prudential regulators in our jurisdictions, have been working to develop contingency plans for the failure of Global SIFIs (G-SIFIs) that have operations in both the U.S. and the U.K. Of the 28 G-SIFIs designated by the Financial Stability Board of the G-20 countries, four are headquartered in the U.K., and another eight are headquartered in the U.S. As part of this effort, the FDIC and the Bank of England jointly released a paper in December 2012 discussing resolution strategies for G-SIFIs. In addition to the close working relationship with the U.K., the FDIC and the European Commission (E.C.) established a joint Working Group in 2012 comprised of

senior staff to discuss resolution and deposit guarantee issues common to our respective jurisdictions. We expect that these meetings will enhance close coordination on resolution related matters between the FDIC and the E.C., as well as European Union Member States.

In addition, the Dodd-Frank Act requires bank holding companies with more than $50 billion in assets and other financial companies, designated by the Financial Stability Oversight Council (FSOC) for heightened prudential supervision by the Board of Governors of the Federal Reserve System, to develop their own resolution plans, otherwise known as "living wills." These firms are required to demonstrate how they could be resolved under the bankruptcy code without disruption to the financial system and the economy. Bankruptcy remains the preferred resolution option for these firms. Only when bankruptcy is not a viable option would the FDIC's OLA under Title II of the Dodd-Frank Act be considered.

The FDIC Board has adopted two rules regarding resolution plans. The first rule, jointly issued with the Federal Reserve Board in 2011, requires SIFIs to develop, maintain, and periodically submit resolution plans or "living wills" to the Federal Reserve Board and the FDIC. The second rule requires any FDIC-insured depository institution with assets over $50 billion to develop, maintain, and periodically submit plans for rapid and orderly resolution under the Federal Deposit Insurance Act in the event of material financial distress or failure.

Eleven institutions submitted plans in 2012 under the rulemaking. The FDIC and the Federal Reserve Board are jointly reviewing the plans as required by the statute.

Along with the other U.S. banking agencies, the FDIC participated in an intensive international effort to strengthen bank capital standards that resulted in the Basel III capital agreement. In broad terms, the new standards aim to improve the quality and increase the required level of bank capital. The FDIC Board has proposed implementing rules for Basel III and is now reviewing public comments.

Ongoing resolution planning, regular dialogue with potential SIFIs, stronger capital standards, and international cooperation are critical to the FDIC's implementation of its new responsibilities under the Dodd-Frank Act. The FDIC's Systemic Resolution Advisory Committee continues to advise the FDIC on a variety of issues including the effects on financial stability and economic conditions resulting from the failure of a SIFI, the ways in which specific resolution strategies would affect stakeholders and their customers, and the tools available to the FDIC to wind down the operations of a failed organization.

COMMUNITY BANKING INITIATIVE

Community banks play a crucial role in the American financial system. Community banks account for about 14 percent of the banking assets in our nation, but they provide nearly 46 percent of all the small loans that FDIC-insured depository institutions make to businesses and farms.

The FDIC is the lead federal regulator for the majority of community banks, and the insurer of all. As such, the FDIC has an ongoing responsibility to better understand the challenges facing community banks, and to share that knowledge with bankers and the general public.

In early 2012, the FDIC announced a series of initiatives focusing on the challenges and opportunities facing community banks. The first was a national conference in early 2012 on the Future of Community Banking. During the year, we held a series of roundtables with community bankers in each of the FDIC's six regions. Our most senior executives and I attended these roundtables to hear firsthand the concerns of bankers and to discuss what the FDIC could do in response.

We also issued a comprehensive study of the evolution of community banking in the United States over the past 25 years. The *FDIC Community Banking Study* is an important initial step in understanding the current state of the industry. It also will provide a platform for future research and analysis by the FDIC and other interested parties. Key areas that the study covered include: the definition of a community bank, structural changes among community and non-community banks, the geography of community banking, the performance of community banks compared to non-community banks, the performance of community bank lending specialty groups, and capital formation at community banks. The study is the most comprehensive analysis of the financial performance and structural change in the community banking industry over the past 25 years.

We reviewed the FDIC's bank examination process for both risk management and compliance supervision. We also looked at the rulemakings and guidance process,

in an effort to make it more efficient and transparent while maintaining supervisory standards. The FDIC solicited input from community bankers and incorporated that feedback into specific actions we took in response. Based on feedback received, the FDIC began implementing a number of enhancements to our supervisory and rulemaking processes in 2012, including revamping the pre-exam process to better scope examinations and taking steps to improve communication by using web-based tools to provide critical information regarding new or changing rules and regulations as well as comment deadlines. The FDIC has also instituted a number of new outreach and technical assistance efforts, including increased direct communication between examinations, increased opportunities for attendance at training workshops and symposiums, and current and planned conference calls and training videos on complex subjects of interest. The FDIC's review of examination and rulemaking processes will be an ongoing effort, and we plan to pursue additional enhancements and modifications to our processes.

Finally, our Advisory Committee on Community Banking is a permanent forum for discussing critical issues. The Committee, which is composed of 15 community bank CEOs from around the country, is a valuable source of information and input on a wide variety of topics, including the latest examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

Our community banking initiative will remain an ongoing priority that includes outreach programs, research, and improvements in the examination process.

PROTECTING CONSUMERS AND EXPANDING ACCESS TO BANKING SERVICES

Deposit insurance provides security and peace of mind for customers depositing their money into financial institutions. However, accessing insured institutions has proven elusive for millions of people across the U.S.

In September 2012, the FDIC released the results of the second biennial survey of unbanked and underbanked households, conducted jointly with the U.S. Bureau of the Census. The survey was conducted in mid-2011. It found that one in four U.S. households (28 percent) do not have bank accounts or are underbanked, a slight increase from the 2009 survey.

A separate survey of banks, conducted by the FDIC and released in 2012, found that four in 10 banks develop products and services specifically for unbanked and underbanked consumers, while eight in 10 provide free counseling. Nearly two-thirds said they charged no maintenance fees on basic checking accounts but some banks have account opening requirements that can be challenging for underserved populations, such as initial deposits of $100 or more.

At the national policy level, the FDIC's Advisory Committee on Economic Inclusion—composed of bankers, community and consumer organizations, and academics—explored strategies to bring the unbanked into the financial mainstream. The Committee has pursued a number of initiatives since it was formed in 2007. One of its initial projects—the Small-Dollar Loan Pilot Program—demonstrated that banks can offer safe, affordable, small-dollar loans as an alternative to high-priced sources of emergency credit, such as payday loans or fee-based overdrafts.

In 2012, the Committee completed another pilot program, Model Safe Accounts, that evaluated how banks can offer safe, low-cost transaction and savings accounts that are responsive to the needs of underserved consumers. Nine financial institutions participated in the pilot, which featured electronic and card-based accounts. The results indicated that Safe Accounts performed on par with, or better than, other transaction and savings accounts offered by the pilot banks. A large portion of account holders remained banked during the year, suggesting that consumers can maintain successful banking relationships using Safe Accounts. Most of the pilot institutions reported that the cost of offering Safe Accounts was roughly the same, if not lower, because the pilot accounts do not have paper check-related costs.

The Committee also looked at the role that technology and innovation, particularly mobile banking, can play in expanding access to mainstream financial services. The Committee formed a Mobile Financial Services Subcommittee to examine ways in which the FDIC can support the ongoing development of mobile financial services in ways that facilitate broader access to mainstream financial services. The Committee will continue to meet during 2013, and mobile banking

will continue to be a focus of the Committee and the FDIC.

At the local level, the FDIC's Alliance for Economic Inclusion has organized coalitions of financial institutions, community organizations, local government officials, and other partners in communities across the country to bring unbanked and underbanked households into the financial mainstream. The effort includes better access to basic retail financial services, such as checking and savings accounts, affordable remittance products, small-dollar loans, targeted financial education programs, and asset-building programs. These partnerships are currently operating in 16 communities nationwide, with two new partnerships formed in 2012.

CONCLUSION

The banking industry made measurable progress in 2012, with stronger earnings, better asset quality, and fewer bank failures and problem institutions. Still, we remain mindful that challenges remain.

The FDIC's workforce remains committed to carrying out our mission. I am very grateful to the dedicated professionals of the FDIC for their work during the financial crisis to maintain the stability of and public confidence in the financial system, and have full confidence that this commitment to our mission will continue as the banking system recovers.

Sincerely,

Martin J. Gruenberg

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Message from the Chief Financial Officer

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) *2012 Annual Report* (also referred to as the *Performance and Accountability Report*). The report covers financial and program performance information and summarizes our successes for the year. The FDIC takes pride in providing timely, reliable, and meaningful information to its many stakeholders.

For 21 consecutive years, the U.S. Government Accountability Office (GAO) has issued unmodified (unqualified) audit opinions for the two funds administered by the FDIC: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). We take pride in our responsibility and demonstrate discipline and accountability as stewards of these funds. We remain proactive in execution of sound financial management and in providing reliable financial data.

During 2012, the DIF continued to recover from the recent crisis. The DIF balance increased from $11.8 billion at the end of 2011, to $33.0 billion at the end of 2012. The increase in the DIF balance was due in part to the decrease in the number of bank failures, from 92 in 2011 to 51 in 2012. Other factors contributing to the increase include assessment income and net fees transferred from the Temporary Liquidity Guarantee Program (TLGP). The FDIC expects that the rate at which troubled banks fail will continue to decline and the DIF balance will continue to grow.

FINANCIAL RESULTS FOR 2012

For 2012, the DIF's comprehensive income totaled $21.1 billion compared to comprehensive income of $19.2 billion during 2011. This $1.9 billion year-over-year increase was primarily due to a $3.3 billion increase in revenue from excess Debt Guarantee Program (DGP) fees previously held as systemic risk deferred revenue, partially offset by a $1.1 billion decrease in assessments and a $191 million increase in the provision for insurance losses.

As the TLGP expired at year-end, the DIF recognized revenue of $5.9 billion in 2012, representing the remaining deferred revenue not absorbed by the TLGP for losses. Through the end of the debt issuance period, the FDIC collected $10.4 billion in fees and surcharges under the DGP. In addition, the FDIC collected Transaction Account Guarantee Program (TAG) fees of $1.2 billion for unlimited coverage for noninterest-bearing transaction accounts held by insured depository institutions (IDIs) on all deposit amounts exceeding the fully insured limit of $250,000. Since inception of the program, the TLGP incurred estimated losses of $153 million and $2.1 billion on DGP and TAG Program claims, respectively. Over the duration of the TLGP, $8.5 billion in TLGP assets were transferred to the DIF. In addition, during 2009, surcharges of $872 million were collected and deposited into the DIF.

Assessment revenue was $12.4 billion for 2012. The decrease of $1.1 billion, from $13.5 billion in 2011, was primarily due to lower average assessment rates in 2012, resulting from improvement in the financial condition of the banking industry.

The provision for insurance losses was negative $4.2 billion for 2012, compared to negative $4.4 billion for 2011. The negative provision for 2012 primarily resulted from a reduction in the contingent loss reserve due

to the improvement in the financial condition of institutions that were previously identified to fail, and a reduction in the estimated losses for institutions that have failed in the current and prior years.

While the number of bank failures over the last two years, 143, was fewer than at the height of the recent banking crisis, with 157 failures in 2010, we will maintain our focus on risks to the insurance fund going forward. In addition, we will continue to employ sound financial management techniques, emphasize the importance of a strong enterprise-wide risk management and internal control program, and continue to implement the changes under the Dodd-Frank Act.

Sincerely,

Steven O. App

I. Management's Discussion and Analysis

The Year in Review

OVERVIEW

Much of our work during 2012 focused on a number of key areas, all mission-based. First was moving forward on implementing our new responsibilities under the Dodd-Frank Act. This effort included continuing implementation of FDIC's systemic resolution responsibilities under the Dodd-Frank Act, including resolution planning and promoting cross border cooperation and cooperation with respect to any orderly resolution of a globally active, systemically important financial institution. We commenced a Community Banking Initiative to further the understanding of the future of community banking, which included outreach, research, and efforts to streamline examinations without compromising safe and sound banking practices. As always, our mission to maintain stability and public confidence in the nation's financial system guided our work. The sections below fill in the details and highlight some of our accomplishments during the year.

INSURANCE

The FDIC insures bank and savings association deposits. As insurer, the FDIC must continually evaluate and effectively manage how changes in the economy, the financial markets, and the banking system, affect the adequacy and the viability of the Deposit Insurance Fund (DIF).

Long-Term Comprehensive Fund Management Plan

In 2010 and 2011, the FDIC developed a comprehensive, long-term management plan designed to reduce the effects of cyclicality and achieve moderate, steady assessment rates throughout economic and credit cycles, while also maintaining a positive fund balance even during a banking crisis. The plan is designed to ensure that the reserve ratio will reach 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act.[1] The plan includes a reduction in rates that the FDIC Board has adopted to become effective once the reserve ratio reaches 1.15 percent. To increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board has—pursuant to the plan—suspended dividends indefinitely. The plan prescribes progressively lower assessment rates that will become effective when the reserve ratio exceeds 2.0 percent and 2.5 percent. These lower assessment rates serve almost the same function as dividends, but provide more stable and predictable effective assessment rates.

Under provisions in the Federal Deposit Insurance Act that require the FDIC Board to set the Designated Reserve Ratio (DRR) for the DIF annually, the FDIC Board voted in December 2012 to maintain the 2.0 percent DRR for 2013. Using historical fund loss and simulated income data from 1950 to 2010, FDIC analysis showed the reserve ratio would have had to exceed 2.0 percent before the onset of the two crises that occurred since the late 1980s, to

[1] The Act also requires that the FDIC offset the effect on institutions with less than $10 billion in assets of increasing the reserve ratio from 1.15 percent to 1.35 percent. The FDIC will promulgate a rulemaking that implements this requirement at a later date to better take into account prevailing industry conditions at the time of the offset.

have maintained both a positive fund balance and stable assessment rates throughout both crises. The analysis assumes a moderate, long-term average industry assessment rate, consistent with the rates set forth in the plan. The 2.0 percent DRR should not be viewed as a cap on the fund. The FDIC views the 2.0 percent DRR as a long-term goal and the minimum level needed to withstand future crises of the magnitude of past crises.

State of the Deposit Insurance Fund

Estimated losses to the DIF were $2.7 billion from failures occurring in 2012, and were lower than losses from failures in each of the previous four years. The fund balance continued to grow through the fourth quarter of 2012, with 12 consecutive quarters of positive growth. Assessment revenue, fewer anticipated bank failures, and the transfer of fees previously set aside for debt guaranteed under the Temporary Liquidity Guarantee Program (TLGP) have driven the increase in the fund balance. The fund reserve ratio rose to 0.35 percent at September 30, 2012, from 0.17 percent at the beginning of the year.

Assessment System for Large and Highly Complex Institutions

On October 9, 2012, the FDIC Board approved a final rule to amend the assessment system for large and highly complex institutions. The rule amends definitions adopted in the February 2011 large bank pricing rule used to identify concentrations in higher-risk assets. This rule, which went into effect on April 1, 2013, amends the definitions of leveraged loans and subprime loans, which are areas of significant potential risk. The revised definition of leveraged loans, renamed higher-risk C&I (commercial and industrial) loans and securities, focuses on large loans to the riskiest borrowers—those that are highly leveraged as the result of loans to finance a buyout, acquisition, or capital distribution. The revised definition of subprime consumer loans, renamed higher-risk consumer loans, focuses on the most important characteristic—the probability of default. The final rule resulted from concerns raised by the industry about the cost and burden of reporting under the definitions in the February 2011 rule. Nonetheless, the new definitions better reflect the risk that institutions pose to the DIF.

Temporary Liquidity Guarantee Program

On October 14, 2008, as part of a coordinated response by the U.S. government to the disruption in the financial system and the collapse of credit markets, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP). By calming market fears and encouraging lending, the TLGP helped bring stability to financial markets and the banking industry during the crisis period. The TLGP consisted of two components: (1) the Transaction Account Guarantee Program (TAG), an FDIC guarantee in full of noninterest-bearing transaction accounts; and (2) the Debt Guarantee Program (DGP), an FDIC guarantee of certain newly issued senior unsecured debt.

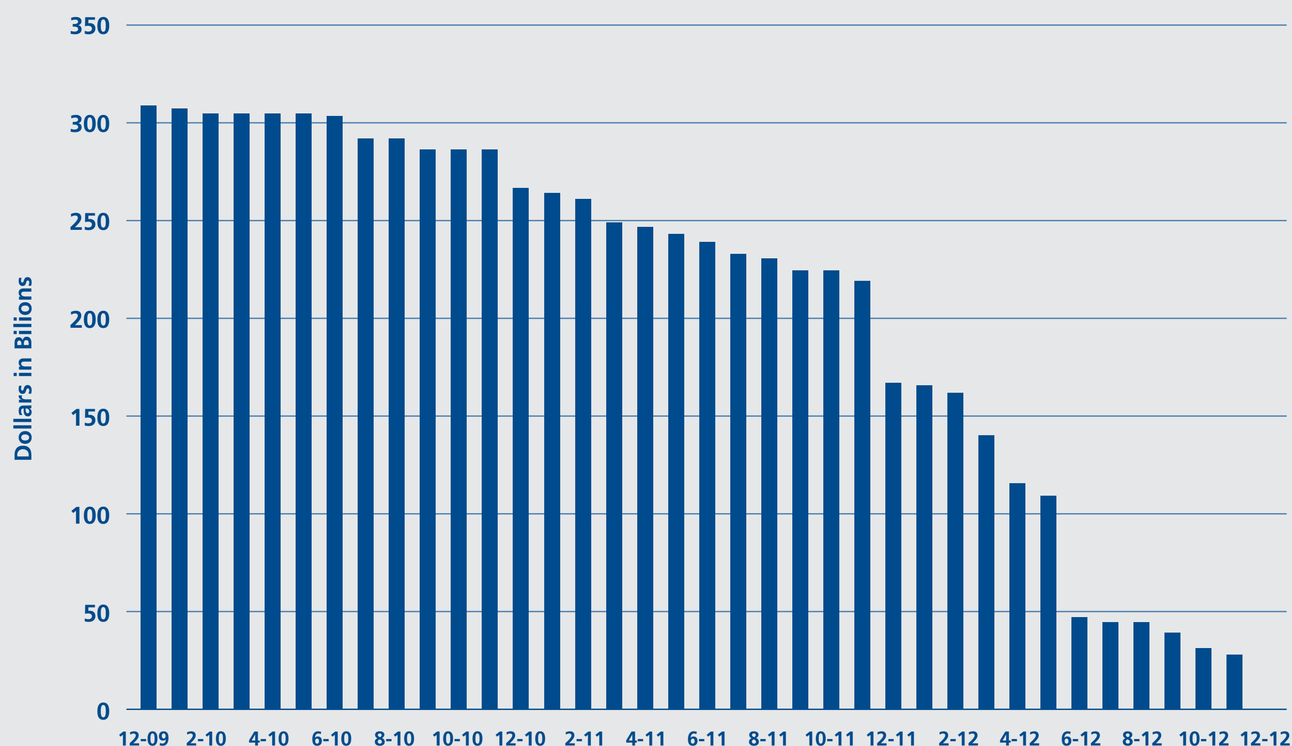
The TAG Program initially guaranteed in full all domestic noninterest-bearing transaction deposits held at participating banks and thrifts through December 31, 2009. The deadline was extended twice and expired on December 31, 2010.

The TAG Program brought stability and confidence to banks and their business customers by removing the risk of loss from deposit accounts that are commonly used to meet payroll and other business transaction purposes. Deposits provide the primary source of funding for most banks, and they are particularly important for smaller institutions. The temporary coverage allowed institutions, particularly smaller ones, to retain these accounts and maintain the ability to make loans within their communities.

Under the DGP, the FDIC initially guaranteed in full, through maturity or June 30, 2012, whichever came first, the senior unsecured debt issued by a participating entity between October 14, 2008, and June 30, 2009. In 2009, the issuance period was extended through October 31, 2009. The FDIC's guarantee on each debt instrument was also extended in 2009 to the earlier of the stated maturity date of the debt or December 31, 2012.

The DGP enabled financial institutions to meet their financing needs during a period of record high credit spreads and aided the successful return of the credit market to near normalcy, despite the recession and slow economic recovery. This improvement in the credit markets was reflected in the increasing ability of banks and their holding companies to issue longer-term debt over the course of the DGP issuance period. At the inception of the program, firms heavily relied upon the DGP to roll over short-term liabilities because of the fragility of the credit markets and investors' continued aversion to risk. By providing the ability to issue debt guaranteed by the FDIC, the DGP allowed institutions to extend maturities and obtain more stable unsecured funding.

OUTSTANDING TLGP DEBT BY MONTH



Program Statistics

Over the course of the DGP's existence, 122 entities issued TLGP debt. At its peak, the DGP guaranteed $345.8 billion of debt outstanding (see the chart above). The DGP guarantee on all TLGP debt that had not already matured, expired on December 31, 2012. Therefore, at the end of 2012, no debt guaranteed by the DGP remained.

The FDIC collected $10.4 billion in fees and surcharges under the DGP. As of December 31, 2012, the FDIC paid $153 million in losses resulting from six participating entities defaulting on debt issued under the DGP. The majority of these losses ($113 million) arose from banks with outstanding DGP notes that failed in 2011 and were placed into receivership.

The FDIC collected $1.2 billion in fees under the TAG Program. Cumulative estimated TAG Program losses on failures as of December 31, 2012, totaled $2.1 billion.

Overall, TLGP fees exceeded the losses from the program. From inception of the TLGP, it was the FDIC's policy to recognize revenue to the DIF for any deferred revenue not absorbed by losses upon expiration of the TLGP guarantee period (December 31, 2012) or earlier, for any portion of guarantee fees determined in excess of amounts needed to cover potential losses. In total, $9.3 billion in TLGP fees and surcharges were deposited into the DIF.

Temporary Unlimited Coverage for Noninterest-Bearing Transaction Accounts under the Dodd-Frank Act Ends

The Dodd-Frank Act provided temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts from December 31, 2010, through December 31, 2012, regardless of the balance in the account and the ownership capacity of the funds. This coverage essentially replaced the TAG Program, which expired on December 31, 2010, and was available to all depositors, including consumers, businesses, and government entities. The coverage was separate from, and in addition to, the standard insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

James Wigand, Director of the Office of Complex Financial Institutions, outlines the FDIC's resolution strategy for systemically important financial institutions during a committee meeting.

A noninterest-bearing transaction account is a deposit account in which interest is neither accrued nor paid, depositors are permitted to make transfers and withdrawals, and the bank does not reserve the right to require advance notice of an intended withdrawal.

Similar to the TAG Program, the temporary unlimited coverage also included trust accounts established by an attorney or law firm on behalf of clients, commonly known as IOLTAs, or functionally equivalent accounts. Money market deposit accounts and negotiable order of withdrawal accounts were not eligible for this temporary unlimited insurance coverage, regardless of the interest rate and even if no interest was paid.

As of September 30, 2012, insured institutions had $1.5 trillion above the basic coverage limit of $250,000 per account in domestic noninterest-bearing transaction accounts. This amount was fully insured through the end of 2012 under the Dodd-Frank Act.

The provision of the Dodd-Frank Act extending unlimited FDIC coverage to noninterest-bearing transaction accounts through 2012, like the original TAG Program, served as a source of stability to both banks and their business customers in the wake of the financial crisis and economic downturn.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

Risk Monitoring Activities for Systemically Important Financial Institutions

The Dodd-Frank Act expanded the FDIC's responsibilities for overseeing and monitoring the largest, most complex banking organizations and large systemically important financial institutions designated by the FSOC for Federal Reserve Board supervision. In 2012, the FDIC's complex financial institution program activities included ongoing reviews of selected banking organizations with more than $100 billion in assets as well as certain nonbank financial companies. In addition, the FDIC continued to work closely with other federal regulators to gain a better understanding of the risk measurement and management practices of these institutions, and assess the potential risks they pose to financial stability.

Title I Resolution Plans

In 2012, according to the "living will" rules promulgated by the FDIC and Federal Reserve, under Title I of the Dodd-Frank Act, Section 165(d), covered companies with nonbank assets over $250 billion or insured depository institution (IDI) assets over $50 billion, were required to submit plans for a nonsystemic resolution under the bankruptcy code. By July 2012, the FDIC and Board of Governors of the Federal Reserve System received the first set of plans from these companies and began the process of reviewing the plans for completeness and sufficiency. These plans are intended to provide information about each firm's critical operations and core business lines and to identify key obstacles to an orderly resolution in bankruptcy. The first set

Then-Acting Chairman Gruenberg (center) discusses the FDIC's progress on implementing the Dodd-Frank Act during a meeting of the Systemic Resolution Advisory Committee. Also pictured are (from left) William H. Donaldson, Chairman, Donaldson Enterprises; Paul A. Volcker, former Chairman of the Board of Governors, Federal Reserve System; John S. Reed, Chairman of the Massachusetts Institute of Technology's Corporation; and Thomas Curry, FDIC Director.

of companies filing resolution plans will submit revised plans by July 2013. Covered companies with nonbank assets over $100 billion will submit their first resolution plans by July 2013, and all other covered companies must submit their first resolution plans by December 2013.

Title II Resolution Strategy Development

Title II of the Dodd-Frank Act authorizes the FDIC to resolve certain systemically important bank holding companies and other financial companies (other than IDIs which the FDIC resolves under provisions of the Federal Deposit Insurance Act and insurance companies, which are resolved under applicable state law), if their failure would have serious adverse consequences on U.S. financial stability. During 2012, the FDIC reviewed the characteristics of each domestic company and studied the systemic effects and channels of contagion of previous financial downturns and consulted with external practitioners and experts on key resolution components and options. As a result of these activities, the FDIC developed a baseline conceptual approach that could be used across a spectrum of large financial institutions. Throughout 2012, the FDIC discussed this concept at outreach events with other domestic government agencies, the Systemic Resolution Advisory Committee, industry groups, the academic community, and international financial regulators.

Systemic Resolution Advisory Committee

In 2011, the FDIC Board approved the creation of the Systemic Resolution Advisory Committee. During 2012, the Committee continued to provide important advice to the FDIC regarding systemic resolutions. The Committee advises the FDIC on a variety of issues including the effects on financial stability and economic conditions resulting from the failure of a SIFI, the ways in which specific resolution strategies would affect stakeholders and their customers, the tools available to the FDIC to wind down the operations of a failed organization, and the tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations. Members of the Committee have a wide range of experience including managing complex firms; administering bankruptcies; and working in the legal system, accounting field, and academia.

Coordinating Interagency Resolution Planning

In 2012, the FDIC conducted events to promote interagency information-sharing and cooperative resolution planning. Coordinating with the other federal regulators, these events covered a variety of topics, including the following:

- *QFC Tabletop* – focused on issues arising from derivative instruments, and other financial contracts considered as

"Qualified Financial Contracts," held by a hypothetical company subject to resolution under Title II.

- *Funding Tabletop* – covered the operational implementation of funding a potential global systemically important financial institution (G-SIFI) resolution, subject to Title II of the Dodd-Frank Act.
- *Three Keys Tabletop* – explored the logistical and practical components involved in making the decision to "turn the keys," and place a SIFI into a Title II receivership.
- *Systemic Risk Committee (SRC) Tabletop on Hedge Funds and Systemic Risk* – focused on whether there is sufficient actionable information available to FSOC members to determine the systemic impact associated with the failure of a large derivatives counterparty that is not a G-SIFI, e.g., a large domestic hedge fund.
- *Central Counterparty (CCP) Informational Lecture* – explained the nature of central counterparties, their primary concerns and rule-based requirements, and potential resolution considerations; this lecture was a prelude to a facilitated discussion on CCPs and Title II.

The FDIC also conducted an interagency simulation "Getting to Title II Implementation" in November 2012 that involved evaluating the required steps and possible alternatives when making a decision to implement a Title II resolution for a failing SIFI. The simulation tested the intra- and inter-agency decision-making process leading up to a Title II resolution, identified issues and resolution alternatives, and improved interagency communication and coordination in the context of Title II.

Financial Stability Oversight Council

The Financial Stability Oversight Council (FSOC) was created by the Dodd-Frank Act in July 2010 to monitor and mitigate systemic risk largely through filling gaps in regulatory oversight. The FSOC is composed of ten voting members, including the FDIC, and five non-voting members.

FSOC responsibilities include the following:

- Identifying risks to financial stability, responding to emerging threats in the system, and promoting market discipline.
- Designating whether a nonbank financial company should be supervised by the Board of Governors of the Federal Reserve System and subject to heightened prudential standards.
- Designating financial market utilities (FMUs) and payment, clearing, or settlement activities that are, or are likely to become, systemically important.
- Facilitating regulatory coordination and information-sharing regarding policy development, rulemaking, supervisory information, and reporting requirements.
- Issuing specialized studies and reports.
- Producing annual financial stability reports and requiring each voting member to submit a signed statement indicating whether the member believes that the FSOC is taking all reasonable actions to mitigate systemic risk.

During 2012, the FSOC issued a final rule on designating nonbank financial companies for supervision by the Board of Governors of the Federal Reserve System and subject to enhanced prudential standards. Additionally, several nonbank financial companies were moved to the advanced stage of review for potential designation as systemically important financial companies. The FSOC also designated eight companies as systemically important FMUs, which may subject them to additional risk management standards. Also during 2012, the FSOC released its second annual report, and reports regarding contingent capital and use of prompt corrective action at credit unions. Moreover, in November 2012, the FSOC published options for money market mutual fund reform for a 60-day comment period, which was extended for 30 days. Generally, at each meeting, the FSOC discusses various risk issues, and in 2012, addressed U.S. fiscal issues, the status of Eurozone economies, mortgage servicing and foreclosure issues, energy prices, reforms in the tri-party repurchase agreement market, the status of the investigation regarding potential manipulation of LIBOR, and implications of Superstorm Sandy, among other items.

SUPERVISION AND CONSUMER PROTECTION

Supervision and consumer protection are cornerstones of the FDIC's efforts to maintain the stability and public confidence in, the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised IDIs, protects consumers' rights, and promotes community investment initiatives.

Examination Program

The FDIC's strong bank examination program is the core of its supervisory program. As of December 31, 2012, the FDIC was the primary federal regulator for 4,472 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). Through risk management (safety and soundness), consumer compliance and the Community Reinvestment Act (CRA), and other specialty examinations, the FDIC assesses an institution's operating condition, management practices and policies, and compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumer questions and concerns.

As of December 31, 2012, the FDIC conducted 2,563 statutorily required risk management (safety and soundness) examinations, including a review of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions, within prescribed time frames. The FDIC also conducted 1,665 statutorily required CRA/compliance examinations (1,044 joint CRA/compliance examinations, 611 compliance-only examinations, and 10 CRA-only examinations) and 5,673 specialty examinations. As of December 31, 2012, all CRA/compliance examinations were conducted within the time frame established by policy. The table on this page compares the number of examinations, by type, conducted from 2010 through 2012.

FDIC EXAMINATIONS 2010 – 2012

	2012	2011	2010
Risk Management (Safety and Soundness):			
State Nonmember Banks	2,310	2,477	2,488
Savings Banks	249	227	225
Savings Associations	1	3	0
National Banks	1	1	3
State Member Banks	2	4	4
Subtotal—Risk Management Examinations	2,563	2,712	2,720
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	1,044	825	914
Compliance-only	611	921	854
CRA-only	10	11	12
Subtotal—CRA/Compliance Examinations	1,665	1,757	1,780
Specialty Examinations:			
Trust Departments	446	466	465
Data Processing Facilities	2,642	2,802	2,811
Bank Secrecy Act	2,585	2,734	2,813
Subtotal—Specialty Examinations	5,673	6,002	6,089
Total	**9,901**	**10,471**	**10,589**

Risk Management

As of December 31, 2012, there were 651 insured institutions with total assets of $232.7 billion designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[2] rating of "4" or "5"), compared to the 813 problem institutions with total assets of $319.4 billion on December 31, 2011. This constituted a 20 percent decline in the number of problem institutions and a 27 percent decrease in problem institution assets. In 2012, 256 institutions with aggregate assets of $94.1 billion were removed from the list of problem financial institutions, while 94 institutions with aggregate assets of $34.3 billion were added to the list. Tennessee Commerce Bank, located in Franklin, Tennessee, was the largest failure in 2012, with $1.0 billion in assets. The FDIC is the primary federal regulator for 433 of the 651 problem institutions, with total assets of $138.7 billion.

During 2012, the FDIC issued the following formal and informal corrective actions to address safety and soundness concerns: 104 Consent Orders and 224 Memoranda of Understanding (MOUs). Of these actions, 19 Consent Orders and 15 MOUs were issued, based in whole or in part, on apparent violations of the BSA.

[2] The CAMELS composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

Compliance

As of December 31, 2012, 29 insured state nonmember institutions, about 1 percent of all supervised institutions, having total assets of $54.0 billion were rated "4" or "5" for consumer compliance purposes. As of December 31, 2012, all follow-up examinations for problem institutions were performed on schedule.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2012 compliance examinations involved banks' failure to adequately monitor third-party vendors. As a result, we found violations involving unfair or deceptive acts or practices, resulting in consumer restitution and civil money penalties. The violations involved a variety of issues including failure to disclose material information about new products being offered, deceptive marketing and sales practices, and misrepresentations about the costs of products.

During 2012, the FDIC issued the following formal and informal corrective actions to address compliance concerns: 23 Consent Orders, 92 MOUs, and 109 Civil Money Penalties (CMPs). In certain cases, the Consent Orders issued by the FDIC contain requirements for institutions to pay restitution in the form of refunds to consumers for different violations of laws. During 2012, over $294 million was refunded to consumers by institutions subject to Consent Orders. These refunds primarily related to unfair or deceptive practices by institutions, mainly related to different credit card programs, as discussed above.

In the case of CMPs, institutions pay penalties to the U.S. Treasury. Approximately 85 percent of the CMPs involved repeated errors in the submission of required data under the Home Mortgage Disclosure Act (HMDA) or statutorily mandated penalties for violations of the regulations entitled *Loans in Areas Having Special Flood Hazards*. The average CMP for HMDA and Flood Insurance violations was $8,700.

Bank Secrecy Act/ Anti-Money Laundering

The FDIC pursued a number of BSA, Anti-Money Laundering (AML), and Counter-Terrorist Financing (CTF) initiatives in 2012.

The FDIC conducted a Basic International AML and CTF training session in May 2012, for 22 financial sector supervisors and regulatory staff from Bangladesh, Djibouti, Ethiopia, India, and Niger. Also, two Advanced International AML and CTF training sessions were held in October and December 2012 for 47 participants from Bahrain, Indonesia, Kuwait, Malaysia, Oman, Qatar, Philippines, Thailand, and Yemen. The training focused on AML/CTF controls, the AML examination process, customer due diligence, suspicious activity monitoring, and foreign correspondent banking. The session also included presentations from the Federal Bureau of Investigation, the Financial Crimes Enforcement Network (FinCEN), and the Department of Homeland Security. Topics addressed by invited speakers included combating terrorist financing, trade-based money laundering, bulk cash smuggling and related investigations, law enforcement's use of BSA reporting by financial institutions, and the role of financial intelligence units in detecting and investigating illegal activities. The basic training session concentrated on core areas of AML risk (e.g., customer due diligence, suspicious activity reporting, private banking, wire transfers, and foreign correspondent banking), while the advanced class focused more on effective implementation of AML examination processes, such as expectations for enhanced due diligence.

Minority Depository Institution Activities

The preservation of Minority Depository Institutions (MDIs) remains a high priority for the FDIC. In 2012, the FDIC appointed a dedicated permanent executive to lead the National Minority Depository Institution and Community Development Financial Institution programs. The FDIC is developing a more comprehensive approach to preserving the number of minority financial institutions, preserving the minority character in cases of merger or acquisition, and promoting and encouraging the creation of new MDIs.

In 2012, the FDIC continued to seek ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. Many of the MDIs took advantage of FDIC technical assistance on a number of bank supervision, compliance, and resolution and receivership issues, including but not limited to, the following:

- Overview of the MDI program
- Commercial real estate appraisal guidelines, monitoring and stress testing
- Allowance for loan and lease losses methodology
- Guidance on third party risk
- Interest rate risk monitoring systems

- Liquidity funds management
- FDIC overdraft guidance
- Achieving compliance with outstanding corrective programs
- Regulatory guidance on implementing pre-paid card programs
- Financial education for unbanked and underbanked customers, including the *Money Smart* Program
- Bank Secrecy Act, Anti-Money Laundering, currency transaction reporting, financial recordkeeping, and the USA Patriot Act
- Application process for a variety of regulatory applications including branch activity and change in control
- Flood insurance and the Real Estate Settlement Procedures Act
- Bidding on failed financial institutions
- Purchasing assets from FDIC receiverships

The FDIC continued to offer the benefit of having an examiner or a member of regional office management return to FDIC-supervised MDIs from 90 to 120 days after an examination, to help management understand and implement examination recommendations, or to discuss other issues of interest. Several MDIs took advantage of this initiative in 2012. Also, the FDIC regional offices held outreach training efforts and educational programs for MDIs through conference calls and banker roundtables with MDIs in the geographic regions. Topics of discussion for these sessions included both compliance and risk management, and additional discussions included the economy, overall banking conditions, proposed Basel III capital rules, asset disposition, accounting, and other bank examination issues.

Capital Rulemaking and Guidance

Market Risk Final Rule

In June 2012, the FDIC and the federal banking agencies published a final rule that revises the risk-based capital treatment for trading assets and liabilities for certain banking organizations. This final rule applies to a banking organization with aggregate trading assets and liabilities equal to 10 percent of total assets, or $1 billion or more. Additionally, the final rule includes alternative standards of creditworthiness for the use of credit ratings consistent with Section 939A of the Dodd-Frank Act. The final rule became effective on January 1, 2013.

Regulatory Capital Rules Notices of Proposed Rulemaking

Also in June 2012, the FDIC and the federal banking agencies published several Notices of Proposed Rulemaking (NPRs):

- *Basel III NPR* – published consistent with agreements reached by the Basel Committee on Banking Supervision (BCBS), would apply to all insured banks and savings associations, top-tier bank holding companies domiciled in the United States with more than $500 million in assets, and savings and loan holding companies that are domiciled in the United States. The NPR would implement a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 risk-based capital requirement, and, for banking organizations subject to the advanced approaches capital rules, a supplementary leverage ratio that incorporates a broader set of exposures. Additionally, the Basel III NPR would apply limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified "buffer" of common equity tier 1 capital, in addition to the minimum risk-based capital requirements. Lastly, the NPR would revise the federal banking agencies' prompt corrective action framework by incorporating the new regulatory capital minimums.
- *Advanced Approaches NPR* – would revise the advanced approaches risk-based capital rules consistent with Basel III and other changes to the Basel Committee's capital standards. The NPR also revised the advanced approaches risk-based capital rules to be consistent with Section 939A and Section 171 of the Dodd-Frank Act. Additionally in this NPR, the Office of the Comptroller of the Currency (OCC) and the FDIC propose that the market risk capital rules apply to federal and state savings associations, and the Board of Governors of the Federal Reserve System proposes that the advanced approaches and market risk capital rules apply to top-tier savings and loan holding companies domiciled in the United States, if stated thresholds for trading activity are met. Generally, the advanced approaches rules would apply to such institutions with $250 billion or more in consolidated assets or $10 billion or more in foreign exposure, and the market risk rule would apply to savings and loan holding

companies with significant trading activity.

- *Standardized Approach NPR* – would revise and harmonize rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years. The NPR also proposes alternatives to credit ratings consistent with section 939A of the Dodd-Frank Act. The revisions include methods for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk. The NPR also would introduce disclosure requirements that would apply to U.S. banking organizations with $50 billion or more in total assets. The Standardized Approach NPR would apply to the same set of institutions as the Basel III NPR.

The agencies extended the comment period from September 7, 2012, to October 22, 2012, to allow interested parties more time to review and evaluate the proposals, and prepare written comments. The agencies received over 2,300 comment letters. The majority of the comment letters addressed the Basel III and Standardized Approach NPRs, and most were submitted by community banks. Final rulemaking on the capital NPRs is expected in 2013.

Stress Testing Guidance and Rulemaking

In June 2011, the FDIC along with the other federal banking agencies, issued proposed guidance on stress testing by banking organizations with more than $10 billion in total consolidated assets. After consideration of comments received, the FDIC issued a final rule in October 2012 that implements requirements of Section 165(i) of the Dodd-Frank Act. The rule reinforces the need to establish an effective stress testing framework as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks. The rule delayed the implementation of the annual stress requirements for institutions with total consolidated assets between $10 and $50 billion until September 30, 2013, to ensure these institutions have sufficient time to develop high-quality stress testing programs. The FDIC reserved the authority to allow covered institutions above $50 billion to delay implementation of the rule on a case-by-case basis.

In May 2012, the FDIC, jointly with the other federal banking regulators, issued a public statement to clarify that stress testing expectations applicable to large banking organizations do not apply to institutions with $10 billion or less in total assets. Instead, the agencies noted that community banks are subject to the stress testing expectations contained in existing guidance covering interest rate risk management, commercial real estate concentrations, and funding and liquidity management.

Other Rulemaking Under the Dodd Frank Act

The Dodd Frank Act required and the Corporation's 2012 Annual Performance Plan established goals for the completion of rules and/or policy guidance on five topics that were not successfully completed during 2012: proprietary trading and other investment restrictions (the "Volcker Rule"); restrictions on Federal assistance to swaps entities; capital, margin, and other requirements for OTC derivatives; credit risk retention requirements for securitizations; and enhanced compensation structure and incentive compensation requirements. The bank regulatory agencies and other financial regulatory agencies were tasked to issue these rules and policy guidance on an interagency basis. They worked diligently throughout the year to complete final rules on each of these topics and made considerable progress. In each case, NPRs have been issued (one in 2011), and extensive comments were received. Working groups have been carefully reviewing the comments received. Completion of final rules was delayed, however, by the complex issues raised in the comments and the agencies' desire to give careful and thorough consideration to those comments. The agencies hope to issue final rules on all or most of these topics in 2013. More detail is provided below on the OTC Derivatives and Volcker Rule NPRs.

OTC Derivatives Margin and Capital NPR

In April 2011, the FDIC, along with the other federal banking agencies, the Farm Credit Administration, and the Federal Housing Finance Agency (FHFA), published a proposed rule to enhance the stability of the financial system by preventing certain large financial firms from entering into uncollateralized derivatives exposure with each other. This proposed rule would implement certain requirements contained in Sections 731 and Section 764 of the Dodd-Frank Act, which direct the federal banking agencies to jointly adopt rules requiring dealers and major participants in derivatives covered by Title VII to collect both initial and variation margin. In October 2012, the agencies reopened the comment period for

the proposed rule to allow interested parties additional time to analyze and comment on the proposed margin rule, in light of the consultative document on margin requirements for non-centrally-cleared derivatives, recently published for comment by the BCBS, and the International Organization of Securities Commissions. The comment period closed on November 26, 2012. Final rulemaking is expected in 2013.

Volcker Rule NPR

On November 7, 2011, the FDIC, along with the other federal banking agencies, and the Securities and Exchange Commission, published a joint NPR to implement the provisions of Section 619 of the Dodd-Frank Act, which restricts the ability of banking entities to engage in proprietary trading, and limits investments in hedge funds and private equity funds. In January 2012, the agencies extended the comment period until February 13, 2012, due to the complexity of the issues involved and to facilitate coordination of the rulemaking. The agencies received approximately 300 substantive comment letters, with approximately 16,400 form comment letters in response to the NPR. In April 2012, the agencies issued guidance on the statutory conformance period that will extend through July 21, 2014. Final rulemaking is expected in 2013.

Investment Securities Rules and Guidance

Investments in Corporate Debt Securities by Savings Associations

In July 2012, the FDIC issued a final rule that prohibits any insured savings associations from acquiring or retaining a corporate debt security, when the security's issuer does not have adequate capacity to meet all financial commitments under the security for the security's projected life. The final rule was issued to comply with Section 939A of the Dodd-Frank Act. Insured savings associations must comply with the rule by January 1, 2013. The rule was accompanied by guidance that sets forth due diligence standards for determining the credit quality of a corporate debt security.

Guidance on Revised Standards of Creditworthiness for Investment Securities

In November 2012, the FDIC issued a Financial Institution Letter (FIL) to remind FDIC-supervised institutions of recent regulatory changes regarding the permissibility of certain investment activities. Under FDIC regulations, insured state banks generally are prohibited from engaging in an investment activity that is not permissible for a national bank under OCC regulations, including the requirements of the OCC final rule titled, *Alternatives to the Use of External Credit Ratings in the Regulations of the OCC*. The FDIC's rule on corporate debt securities investments by federal and state savings associations is consistent with the OCC's final rule and related guidance on due diligence considerations and creditworthiness standards for investment securities.

Depositor and Consumer Protection Rulemaking and Guidance

Guidance on Military Homeowners with Permanent Change of Station Orders

In June 2012, the FDIC issued interagency guidance jointly with the Consumer Financial Protection Bureau (CFPB), the Board of Governors of the Federal Reserve System, the OCC, and the National Credit Union Administration (NCUA) to address unique circumstances involving some military homeowners who received Permanent Change of Station (PCS) orders. The guidance highlights concerns about practices that have the potential to mislead or otherwise cause harm to homeowners with PCS orders, and reminds mortgage servicers to ensure that appropriate risk management policies, procedures, and training are in place.

Deposit Insurance Assessment Fees

In July 2012, the FDIC issued an FIL addressing complaints received that certain IDIs are charging customers an "FDIC fee" or similarly described fee for deposit insurance. The FIL discourages institutions from specifically designating that a customer's fee is for deposit insurance, or from stating or implying that the FDIC is charging such a fee, due to the potential to reveal information that could be used to determine an IDI's confidential supervisory ratings, mislead customers into believing that the FDIC charges IDI customers or requires IDIs to charges customers, or both.

Examination Procedures

In August 2012, the FDIC published examination procedures for reviewing an institution's compliance with the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) and regulations. The SAFE Act was enacted on July 30, 2008, and mandated a nationwide licensing and registration system for mortgage loan originators (MLOs). The procedures

focus on the federal residential MLO registration requirements, and an institution's obligation to implement appropriate policies and procedures, and conduct annual independent compliance testing.

Other Rulemaking and Guidance Issued

During 2012, the FDIC issued and participated in the issuance of other rulemaking and guidance in several areas as described below.

Appraisal Requirements for Higher-Risk Mortgages

On August 15, 2012, the FDIC jointly with the Board of Governors of the Federal Reserve System, CFPB, FHFA, NCUA, and the OCC, issued an NPR to implement the appraisal requirements for higher-risk mortgages as stated in Section 1471 of the Dodd-Frank Act. Section 1471 adds a new Section 129H to the Truth in Lending Act. For residential mortgage loans secured by the consumer's principal dwelling, with an annual percentage rate that exceeds the average prime offer rate by a specified percentage, the proposed rule would require creditors to (1) obtain an appraisal or appraisals meeting certain specified standards, (2) provide applicants with a notification regarding the use of the appraisals, and (3) give applicants a copy of the written appraisals used. The comment period closed on October 15, 2012, and the agencies worked to finalize the rule.

Interagency Guidance on Section 612 of the Dodd-Frank Act, Restrictions on Conversions of Troubled Banks

On November 26, 2012, the FDIC and the other federal and state banking agencies issued guidance to clarify supervisory expectations for regulatory conversion subject to Section 612 of the Dodd-Frank Act. This section prohibits charter conversions by certain institutions that are subject to a formal corrective program or an MOU with respect to a significant supervisory matter. Institutions may request an exception to the conversion prohibition as described in the statute. The agencies expect that exceptions will be rare and generally would occur only when an enforcement action's provisions have been substantially addressed.

Regulatory Relief

During 2012, the FDIC issued nine FILs that provide guidance to help financial institutions and facilitate recovery in areas damaged by hurricanes, wildfires, tornadoes, flooding, and other natural disasters. In these FILs, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters, and clarified that prudent extensions or modifications of loan terms in such circumstances can contribute to the health of communities and serve the long-term interests of lending institutions. In addition, the FDIC jointly with the other federal banking agencies, issued a *Statement on Supervisory Practices Regarding Financial Institutions and Borrowers Affected by Hurricane Sandy* to provide regulatory assistance to affected financial institutions.

On October 16, 2012, the FDIC, through the auspices of the Federal Financial Institutions Examination Council (FFIEC) issued a statement encouraging financial institutions to work with agricultural customers impacted by the significant drought conditions affecting the Midwest and southern states. The statement encourages banks to continue making credit available to agricultural borrowers and to provide prudent loan modifications when appropriate.

Other Policy Matters

Interagency Guidance on Leveraged Lending

On March 26, 2012, the FDIC and the other federal banking agencies proposed revisions to the 2001 interagency guidance on leveraged financing. The proposal's purpose is to update the existing guidance and clarify regulatory expectations in light of significant growth in the leveraged lending market, and incorporate lessons learned from the recent financial crisis. The proposal describes expectations for the sound risk management of leveraged lending activities, including well-defined underwriting standards, effective management information systems, a prudent credit limit and concentration framework, and strong pipeline management policies. The banking agencies are considering revisions to the proposal based on the 16 public comments that were received by the June 8, 2012, due date.

Banker Teleconferences

In 2012, the FDIC hosted a series of banker teleconferences to maintain open lines of communication and update supervised institutions about compliance and consumer protection related rulemakings, guidance, and emerging issues. Participants included bank directors, officers, staff, and other banking industry professionals. Five teleconferences were held in 2012. The topics discussed included: Regulations Z's Mortgage Loan Originator Compensation

Rule, Third-Party Compliance Risk Management, Significant Mortgage-Related Proposed Regulations (which were the subject of two calls), and Fair Lending.

Promoting Economic Inclusion

The FDIC is strongly committed to promoting consumer access to a broad array of banking products to meet consumer financial needs. To promote financial access to responsible and sustainable products offered by IDIs, the FDIC:

- conducts research on the unbanked and underbanked,
- engages in research and development on models of products meeting the needs of lower-income consumers,
- supports partnerships to promote consumer access and use of banking services,
- advances financial education and literacy, and
- facilitates partnerships to support community and small business development.

Advisory Committee on Economic Inclusion

The Advisory Committee on Economic Inclusion (ComE-IN) was originally established by former Chairman Sheila C. Bair and the FDIC Board of Directors pursuant to the Federal Advisory Committee Act in November 2006. The ComEIN provides the FDIC with advice and recommendations on important initiatives focused on expanding access to banking services by underserved populations. This may include reviewing basic retail financial services such as check cashing, money orders, remittances, stored value cards, short-term loans, savings accounts, and other services that promote asset accumulation by individuals and financial stability. During 2012, the Committee met on three occasions and discussed the FDIC's research initiatives on the Banks' Efforts to Serve the Unbanked and Underbanked, the FDIC's National Survey of Unbanked and Underbanked Households, mobile financial services, model SAFE accounts, and prepaid card products.

Survey of Banks' Efforts to Serve the Unbanked and Underbanked

Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act) mandates that the FDIC survey IDIs every two years to assess their efforts to bring individuals and families into the conventional finance system.

In 2011, the FDIC conducted its second nationwide survey of FDIC-IDIs to assess efforts to serve unbanked and underbanked individuals and families. The 2011 survey focused on banks' basic transaction and savings account programs, auxiliary product and service offerings, and financial education and outreach efforts. Analysis of the survey results was completed in 2012, and the final results were released to the public in December 2012. The findings from the report, *2011 FDIC Survey of Banks' Efforts to Serve Unbanked and Underbanked*, informs financial institutions, community organizations, and other stakeholders interested in expanding financial products and services, to unbanked and underbanked consumers.

Partnership to Promote Consumer Access: Alliance for Economic Inclusion

The goal of the FDIC's Alliance for Economic Inclusion (AEI) initiative is to collaborate with financial institutions; community organizations; local, state, and federal agencies; and other partners in select markets to launch broad-based coalitions to bring unbanked and underbanked consumers into the financial mainstream.

During 2012, the FDIC expanded the geographic reach of the AEI program. Initially in 14 markets, the FDIC launched AEI initiatives in two additional markets: the Appalachian region of West Virginia and Northeastern Oklahoma. The West Virginia effort resulted in 30 organizations joining the AEI as of year-end; and the Northeastern Oklahoma effort resulted in participation from 49 representatives from 33 organizations.

In addition to the new alliances, FDIC continued in 2012 to support existing AEIs. As a result:

- More than 110 banks and organizations joined AEI nationwide, bringing the total number of AEI members to 1,360.
- At least 133,578 consumers opened a bank account as a result of AEI efforts. Combined, more than 536,000 bank accounts have been opened through the AEI program.
- Approximately 116,413 consumers received financial education through the AEI, bringing the total number of consumers educated to 380,000.

The FDIC also provided program guidance and technical assistance

in the expansion of 70 *Bank On* programs. *Bank On* initiatives are designed to reduce barriers to banking and increase access to the financial mainstream.

Advancing Financial Education

The FDIC expanded its financial education efforts during 2012 through a strategy that included providing access to timely and high-quality financial education products, sharing best practices, and working through partnerships to reach consumers.

Money Smart for Small Business

The FDIC joined with the Small Business Administration (SBA) on April 24, 2012, to launch the new *Money Smart* for Small Business curriculum. The ten modules in this instructor-led curriculum provide introductory training for new and aspiring entrepreneurs on the basics of organizing and managing a business. *Money Smart* for Small Business is a tool for bank-community partnerships. The curriculum is intended to be delivered by stakeholders experienced with small business lending or development. Since the release of the curriculum, more than 10,000 copies have been distributed, and 11 partnerships were developed with organizations that can use or otherwise promote the curriculum to key stakeholders.

Money Smart for Consumers

The FDIC's award-winning *Money Smart* curriculum has reached more than 3 million consumers since its launch in 2001. During 2012, the FDIC reached approximately 250,000 consumers. The existing suite of *Money Smart* products for consumers was enhanced with two new resources:

- *Money Smart* Computer-Based Instruction (CBI) offers key elements of the eight modules of the instructor-led *Money Smart* for Young Adults curriculum and eleven modules of the instructor-led *Money Smart* for Adults curriculum. The CBI features an interactive game-based design. Approximately 29,000 users accessed the CBI during the eight months from its release date through year-end.
- *Money Smart* for Elementary School Students is designed to introduce key personal finance concepts to children ages 5 to 8. Since its release in May 2012, more than 35,000 copies have been downloaded.

Through training and technical assistance, the FDIC emphasizes the importance of pairing education with access to appropriate banking products and services. During 2012, more than 1,300 practitioners attended the 52 train-the-trainer sessions. Approximately 1,200 organizations are members of the *Money Smart* Alliance, and the FDIC worked with many other organizations to promote financial education, such as the Corporate Adopt a School program, which has reached approximately 2,492 students at underserved schools with financial education training.

Leading Community Development

In 2012, the FDIC undertook over 662 community development, technical assistance, and outreach activities and events designed to facilitate understanding and connection between financial institutions and other community stakeholders. The FDIC collaborated with the OCC, Federal Reserve Banks, and other stakeholders to conduct 57 CRA roundtables to provide market-specific training for bankers on enhancing CRA performance, thereby building the capacity of financial institutions to more effectively meet community and small business development needs. The FDIC also conducted 21 workshops for nonprofit stakeholders on effectively engaging with financial institutions to promote community development.

Community Banking Initiatives

As the lead federal regulator for the majority of community banks, the FDIC continues to make community banking a main priority. Though they tend to be small relative to the largest U.S. banks, community banks specialize in activities that are crucial to the functioning of the economy. Community banks make many of the loans to small businesses that, in turn, create new jobs. They also provide financial services to business and household customers that may not be well served by other financial providers. The FDIC's community banking initiatives completed in 2012 include the following:

- *Future of Community Banking Conference* – On February 16, 2012, the FDIC held a community banking conference that brought together community bankers, regulators, academics, and various community bank stakeholders to examine the unique role community banks perform in our nation's economy and the challenges and opportunities they face. Then-Acting FDIC Chairman Gruenberg opened and closed the conference, which also featured keynote remarks by Shelley Moore Capito, U.S. Congresswoman for West Virginia's 2nd District; Ben S. Bernanke, Chairman, Board of Governors of

the Federal Reserve System; and Thomas J. Curry, Director, FDIC. The conference explored the evolution and characteristics of community banks, current challenges and opportunities for community banks, perspectives of community bank customers, and lessons learned and successful strategies for the community bank of the future.

- *Community Bank Roundtable Discussions* – From March to October of 2012, the FDIC conducted roundtable discussions in each of the six FDIC regions with about 70 to 100 attendees, including community bankers, state banking commissioners, state bank trade association representatives, the FDIC's senior executives for supervision, and two members of the FDIC's Board of Directors (including the FDIC's then-Acting Chairman). Each meeting addressed financial and operational challenges and opportunities facing community banks and the regulatory interaction process. The insights provided during the discussions added to other components of the community banking initiatives.

- *Community Banking Study* – On December 17, 2012, the FDIC released a study of community banking in the United States. The goal of this study was to analyze and document what has happened to community banks since 1985. The study set out to explore some basic research questions about community banks, including trends in consolidation, overall financial performance, geographic footprint, business model variations, efficiency and economies of scale, and access to capital. The FDIC assembled a comprehensive database using detailed financial data from bank Call Reports and Thrift Financial Reports, standardizing the data to conduct analysis across the industry beginning in 1984. Financial data have also been linked to the Summary of Deposits data (and Branch Office Survey data for thrifts) that provide a detailed record of banking office location and deposit gathering trends dating back to 1987. The result is an assembly of the most complete record of the history of the financial performance and structural change in the banking industry over the past two and a half decades. This data-driven approach results in a foundational study that provides a platform for future analysis by the FDIC and other researchers with an interest in community banking.

FDIC then-Acting Chairman Martin J. Gruenberg opens the Future of Community Banking Conference on February 16, in Arlington, Virginia.

- *Targeted Community Banking Research* – The FDIC continues to conduct specialized studies and research to more deeply explore certain issues and questions about community banks. On December 18, 2012, the FDIC released two targeted research papers: "Community Bank Efficiency and Economies of Scale" and "What Factors Explain Differences in Return on Assets Among Community Banks?" These papers delve deeper in explaining community bank performance, based on efficiency ratio trends and other bank-specific factors.

- *Review of Examination and Rulemaking Processes* – In 2012, the FDIC reviewed the

Members of the FDIC Advisory Committee on Community Banking.

processes for examining community banks and releasing rulemakings and guidance. The FDIC solicited input from community bankers and incorporated that feedback into various improvements. Also, the FDIC's extensive communication and technical support efforts for community bankers included an educational outreach effort to explain key technical points of the proposed capital rules that included six regional banker meetings, a national teleconference call, educational material posted to the FDIC's website, and an online tool to help bankers measure the potential impact of the proposed capital rules.

In addition, the FDIC's Community Bank Advisory Committee continued to provide timely information and input to the FDIC on a variety of community bank policy and operational issues throughout 2012. The Committee held three meetings in 2012 and provided input on a number of key issues and initiatives, including the FDIC's community bank study and research project, proposed improvements to the FDIC's regulatory and supervisory processes, the status of the Transaction Account Guarantee Program (TAG), the FDIC's preliminary plan to review its regulations under the Economic Growth and Regulatory Paperwork Reduction Act, as well as the potential effects of various regulatory and legislative developments on community banks.

Looking forward, the FDIC will continue to make the Community Banking Initiative a high priority by following up on the Community Banking Study, pursuing additional research relating to the continued viability of community banks, and continuing our review of examination and rulemaking processes with the goal of identifying additional ways to make the supervisory process more efficient, consistent, and transparent, consistent with safe and sound banking practices.

Center for Financial Research

The Center for Financial Research (CFR) was founded by the Corporation in 2004 to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. During 2012, the CFR co-sponsored two major research conferences.

The CFR organized and sponsored the 22nd Annual Derivatives Securities and Risk Management Conference jointly with Cornell University's Johnson Graduate School of Management and the University of Houston's Bauer College of Business. The conference was held in March 2012 at the Seidman Center and attracted over 100 researchers from around the world. Conference presentations included systemic risk, asset price dynamics, asset pricing, and credit spreads.

The CFR also organized and sponsored the 12th Annual Bank Research Conference jointly with the *Journal for Financial Services Research* (JFSR), in September 2012. The conference theme, "Performance of Financial Services in the Current Environment," focused on the financial services industry and included over 20 presentations attended by over 120 participants. Experts discussed a range of topics including systemic risk and bank lending, liquidity, and capital issues.

In addition to conferences, workshops and symposia, three CFR working papers were completed and made public on topics including bank bailouts, executive compensation, and tightening loan contracts.

Information Technology, Cyber Fraud, and Financial Crimes

In 2012, the FDIC, jointly with the U.S. Department of Justice, began planning a Financial Crimes Conference to be held in June 2013 that will focus on all types of financial fraud, and how the law enforcement community and regulators can respond effectively to fraud. Other major accomplishments during 2012 in promoting information technology (IT) security and combating cyber fraud and other financial crimes included the following:

- ♦ Issued an updated FFIEC Technology Service Provider booklet. This booklet replaces the March 2003 version.
- ♦ Published the Federal Regulatory Agencies' Administrative Guidelines: Implementation of the Interagency Programs for the Supervision of Technology Service Providers.
- ♦ Published a *Supervisory Insights Journal* article on mobile payments.
- ♦ Issued revised guidance describing potential risks associated with relationships with third-party entities that process payments for telemarketers, online businesses, and other merchants.
- ♦ Hosted the FFIEC IT Conference that addressed technology and operational issues facing the financial federal regulatory agencies.
- ♦ Assisted financial institutions in identifying and shutting down "phishing" websites. The term "phishing"—as in "fishing" for confidential information—refers to scams to fraudulently obtain and use an individual's personal or financial information.
- ♦ Issued six Consumer Alerts pertaining to emails and telephone calls fraudulently claiming to be from the FDIC.

The FDIC conducts IT and operations examinations of financial institutions and technology service providers (TSP). These examinations ensure that institutions and TSPs have implemented adequate risk management practices for the confidentiality, integrity, and availability of sensitive, material, and critical information assets. The result of an IT examination is a FFIEC Uniform Rating System for Information Technology rating. In 2012, the FDIC conducted 2,642 IT and operations examinations at financial institutions and TSPs. Further, as part of its ongoing supervision process, the FDIC monitors significant events, such as data breaches and natural disasters that may affect financial institution operations or customers.

Consumer Complaints and Inquiries

The FDIC investigates consumer complaints concerning FDIC-supervised institutions and answers inquiries from the public about consumer protection laws and banking practices. As of December 31, 2012, the FDIC received 10,564 written complaints, of which 5,088 involved complaints against state nonmember institutions. The FDIC responded to over 98 percent of these complaints within time frames established by corporate policy, and acknowledged 100 percent of all consumer complaints and inquiries within 14 days. The FDIC also responded to 1,793 written inquiries, of which 403 involved state nonmember institutions. In addition, the FDIC responded to 5,209 telephone calls from the public and members of the banking community, of which 2,721 concerned state nonmember institutions.

Coordination with the Consumer Financial Protection Bureau

In 2012 the prudential regulators and the Consumer Financial Protection Bureau (CFPB) signed an MOU to coordinate supervisory matters for

institutions with assets over $10 billion and their affiliates. The CFPB was charged with developing regulations to implement the mortgage reforms and other aspects of regulatory reform in the Dodd-Frank Act. As required by the statute, the FDIC coordinated with the CFPB on the regulations for which it is solely responsible. The FDIC also worked with the CFPB and other banking agencies to develop and implement joint regulations.

As of December 31, 2012, the FDIC received 1,369 complaints involving FDIC-supervised banks under the jurisdiction of the CFPB. Under the agreement between the FDIC and the CFPB, the FDIC investigated 497 of the 1,369 complaints and referred the remaining 872 to the CFPB.

Public Awareness of Deposit Insurance Coverage

The FDIC provides a significant amount of education for consumers and the banking industry on the rules for deposit insurance coverage. An important part of the FDIC's deposit insurance mission is ensuring that bankers and consumers have access to accurate information about the FDIC's rules for deposit insurance coverage. The FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeted to both bankers and consumers.

The FDIC continued its efforts to educate bankers and consumers about the rules and requirements for FDIC insurance coverage. During 2012, the FDIC conducted 15 telephone seminars for bankers on deposit insurance coverage, reaching an estimated 27,734 bankers participating at approximately 7,924 bank locations throughout the country. The FDIC also updated its deposit insurance coverage publications and educational tools for consumers and bankers, including brochures, resource guides, videos, and the Electronic Deposit Insurance Estimator (EDIE).

In 2012, the FDIC received and answered approximately 97,453 telephone deposit insurance-related inquiries from consumers and bankers. The FDIC Call Center addressed 50,845 of these inquiries, and deposit insurance coverage subject-matter experts handled the other 46,608. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 2,619 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

RESOLUTIONS AND RECEIVERSHIPS

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor has ever experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. Upon closure of an institution, typically by its chartering authority—the state for state-chartered institutions, and the Office of the Comptroller of the Currency (OCC) for national banks and federal savings associations—the FDIC is appointed receiver, and the FDIC is responsible for resolving the failed institutions.

The FDIC uses a variety of business practices to resolve a failed institution. These practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may recommend several of these methods to ensure the prompt and smooth payment of deposit insurance to insured depositors, to minimize the impact on the DIF, and to speed dividend payments to uninsured depositors and other creditors of the failed institution.

The resolution process involves evaluating and marketing a failing institution, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the DIF, and working with the acquiring institution through the closing process.

To minimize disruption to the local community, the resolution process must be performed as quickly and smoothly as possible. There are three basic resolution methods used by the FDIC: purchase and assumption transactions, deposit payoffs, and Deposit Insurance National Bank (DINB) assumptions.

The purchase and assumption (P&A) transaction is the most common resolution method. In a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. A variety of P&A transactions can be used. Since each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in the highest value for the failed institution. For each possible P&A transaction, the acquirer may either acquire all or only the insured portion of the deposits. Loss sharing may be offered by the receiver in connection with a P&A transaction. In a loss-share transaction, the FDIC as receiver agrees to share losses on certain

assets with the acquirer. The FDIC usually agrees to absorb a significant portion (for example, 80 percent) of future losses on assets that have been designated as "shared loss assets" for a specific period of time (for example, five to ten years). The economic rationale for these transactions is that keeping shared loss assets in the banking sector can produce a better net recovery than would the FDIC's immediate liquidation of these assets.

Deposit payoffs are only executed if a bid for a P&A transaction does not meet the least-cost test or if no bids are received, in which case the FDIC, in its corporate capacity, makes sure that the customers of the failed institution receive the full amount of their insured deposits.

The Banking Act of 1933 authorizes the FDIC to establish a DINB to assume the insured deposits of a failed bank. A DINB is a new national bank with limited life and powers that allows failed-bank customers a brief period of time to move their deposit account(s) to other insured institutions. Though infrequently used, a DINB allows for a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets.

The receivership process involves performing the closing functions at the failed institution, liquidating any remaining failed institution assets, and distributing any proceeds of the liquidation to the FDIC and other creditors of the receivership. In its role as receiver, the FDIC has used a wide variety of strategies and tools to manage and sell retained assets. These include, but are not limited to asset sale and/or management agreements, structured transactions, and securitizations.

Financial Institution Failures

During 2012, there were 51 institution failures, compared to 92 failures in 2011. For the institutions that failed, the FDIC successfully contacted all known qualified and interested bidders to market these institutions. The FDIC also made insured funds available to all depositors within one business day of the failure if it occurred on a Friday and within two business days if the failure occurred on any other day of the week. There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

FAILURE ACTIVITY 2010–2012
Dollars In Billions

	2012	2011	2010
Total Institutions	51	92	157
Total Assets of Failed Institutions[1]	$11.6	$34.9	$92.1
Total Deposits of Failed Institutions[1]	$11.0	$31.1	$78.3
Estimated Loss to the DIF	$2.7	$8.8	$20.8

[1] Total assets and total deposits data are based on the last Call Report filed by the institution prior to failure.

Asset Management and Sales

As part of its resolution process, the FDIC makes every effort to sell as many assets as possible to an assuming institution. Assets that are retained by the receivership are evaluated. For 95 percent of the failed institutions, at least 90 percent of the book value of marketable assets is marketed for sale within 90 days of an institution's failure for cash sales and within 120 days for structured sales.

Structured sales for 2012 totaled $456 million in unpaid principal balances from commercial real estate and residential loans acquired from various receiverships. Cash sales of assets for the year totaled $1.1 billion in book value. In addition to structured and cash sales, FDIC also uses securitizations to dispose of bank assets. In 2012, securitization sales totaled $449 million.

As a result of our marketing and collection efforts, the book value of assets in inventory decreased by $3.9 billion (19 percent) in 2012.

ASSETS IN INVENTORY BY ASSET TYPE
Dollars in Millions

Asset Type	12/31/12	12/31/11
Securities	$1,179	$1,225
Consumer Loans	99	31
Commercial Loans	604	585
Real Estate Mortgages	1,265	2,208
Other Assets/Judgments	1,134	1,396
Owned Assets	417	1,007
Net Investments in Subsidiaries	179	290
Structured and Securitized Assets	12,120	14,171
Total	**$16,997**	**$20,913**

Receivership Management Activities

The FDIC, as receiver, manages failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of a failed institution have been sold and the final distribution of any proceeds is made, the FDIC terminates the receivership. In 2012, the number of receiverships under management increased by 8 percent, as a result of new failures. The chart below shows overall receivership activity for the FDIC in 2012.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/11[1]	431
New Receiverships	51
Receiverships Terminated	16
Active Receiverships as of 12/31/12[1]	466

[1] Includes five FSLIC Resolution Fund receiverships at year-end 2011 and three at year-end 2012.

Minority and Women Outreach

The FDIC relies on contractors to help meet its mission. In 2012, the FDIC awarded 1,326 contracts. Of these, 388 contracts (29 percent) were awarded to Minority- and Women-Owned Businesses (MWOBs). The total value of contracts awarded was $1.0 billion, of which $308 million (30 percent), were awarded to MWOBs, compared to 29 percent for all of 2011. In addition, engagements of Minority- and Women-Owned Law Firms (MWOLFs) were 18 percent of all engagements; total payments of $15.3 million to MWOLFs were 14 percent of all payments to outside counsel, compared to 17 percent for all of 2011.

In 2012, the FDIC exhibited at 23 procurement-specific trade shows to provide participants with the FDIC's general contracting procedures, prime contractors' contact information, and possible upcoming solicitations. Prime contractors were reminded of the FDIC's emphasis on MWOB participation and were encouraged to subcontract or partner with MWOBs. The FDIC also exhibited at 12 non-procurement events where contracting information was provided. In addition, the FDIC's Legal Division was represented at trade shows where information was provided to MWOLFs about outside counsel opportunities and how to enter into co-counsel arrangements with majority firms. FDIC personnel also met with MWOBs and MWOLFs in one-on-one meetings to discuss contracting opportunities at the FDIC. The FDIC continued to encourage MWOBs to register in the FDIC's Contractor Resource List, which is used to develop source lists for solicitations. Any firm interested in doing business with the FDIC can register for the Contractor Resource List through the FDIC's website.

In 2012, the FDIC's Office of Minority and Women Inclusion (OMWI) participated with the other Dodd-Frank Act agency OMWIs in seven roundtable meetings nationwide with financial services industry groups, trade associations, and other consumer advocacy groups, to obtain input, guidance, and recommendations about strategies to implement standards for assessing regulated entities under Section 342 of the Dodd-Frank Act.

In 2012, the FDIC successfully closed three structured transaction sales. These three auctions combined to attract 19 entities that placed bids. Eight bidders had an MWOB firm as a member. The winning bidder for one of the transactions included an MWOB firm in the investor group. The FDIC continued outreach efforts to small investors and minority-owned and women-owned investors, and held five nationwide workshops on FDIC's loan and Owned Real Estate (ORE) sales programs, and the structured loan sales program. The workshops were held in Chicago, Dallas, Los Angeles, Nashville, and New York, with more than 450 participants.

In 2013, the FDIC will continue to encourage and foster diversity and inclusion of MWOBs in procurement activities and outside counsel engagements, as well as promote strong commitment to diversity inclusion within its workforce, and with all financial institutions and law firms that do business with the FDIC.

Protecting Insured Depositors

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations at the time of failure minimizes the disruption to customers and allows assets to be returned to the private sector immediately. Assets remaining after

resolution are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insurance limit. During 2012, the FDIC paid dividends of $8 million to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

FDIC staff works to identify potential claims against directors, officers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, securities underwriters, securities issuers, and other professionals who may have contributed to the failure of an IDI. Once a claim is determined to be meritorious and cost-effective to pursue, the FDIC initiates legal action against the appropriate parties. During 2012, the FDIC recovered $337 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to 48 failed institutions against 369 individuals for director and officer liability and authorized 21 other lawsuits for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and securities law violations for residential mortgage-backed securities. There were 165 residential mortgage malpractice and fraud lawsuits pending as of year-end 2012. Also, by year-end 2012, the FDIC's caseload included 88 professional liability lawsuits (up from 52 at year-end 2011) and 1,343 open investigations (down from 1,811 at year-end 2011).

In addition, as part of the sentencing process for those convicted of criminal wrongdoing against institutions that later failed, a court may order a defendant to pay restitution or to forfeit funds or property to the receivership. The FDIC, working with the U.S. Department of Justice, collected $4.6 million from criminal restitution and forfeiture orders during 2012. As of year-end 2012, there were 4,860 active restitution and forfeiture orders (down from 5,192 at year-end 2011). This includes 156 orders held by the FSLIC Resolution Fund, i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the Federal Savings and Loan Insurance Corporation or the Resolution Trust Corporation.

INTERNATIONAL OUTREACH

Throughout 2012, the FDIC played a leading role among international standard-setting, regulatory, supervisory, and multi-lateral organizations by supporting the global development of effective deposit insurance and bank supervision systems, maintaining public confidence and financial stability, and promoting effective resolution regimes as integral components of the financial safety net. Among the key institutions the FDIC collaborated with were the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (BCBS), the European Forum of Deposit Insurers, the Financial Stability Board (FSB), the Financial Stability Institute (FSI), the International Association of Deposit Insurers (IADI), the International Monetary Fund (IMF), the International Information Technology Supervisors Group, and the World Bank.

Key to the international collaboration was the ongoing dialogue among then-Acting FDIC Chairman Martin J. Gruenberg, other senior FDIC leaders, and a number of senior financial regulators from the United Kingdom (U.K.) about the implementation of the Dodd-Frank Act, Basel III, and how changes in U.S., U.K., and European Union financial regulations affect global information sharing, crisis management, and recovery and resolution activities. In light of the large number of cross-border operations of large, complex financial institutions, the primary areas of discussion and collaboration were the FDIC's Orderly Liquidation Authority under Title II of the Dodd-Frank Act, and the importance of cross-border coordination in the event a SIFI begins to experience financial distress.

During 2012, the FDIC participated in both Governors and Heads of Supervision and BCBS meetings. The FDIC supported work streams, task forces, and policy development group meetings to address BCBS work on the implementation of Basel III. The FDIC also helped monitor new leverage ratio and liquidity standards, and determine surcharges on global systemically important banks. Additionally, the FDIC participated in BCBS initiatives related to standards implementation, operational risk, accounting, review of the trading book, and credit ratings and securitization. The major issues addressed by these work streams included the recalibration of risk weights for securitization exposures, the comprehensive review of capital charges for trading positions, and the review of BCBS members' domestic rule-making processes surrounding Basel II, Basel II.5, and Basel III.

International Association of Deposit Insurers

Under the leadership of then-Acting FDIC Chairman Gruenberg, IADI celebrated its tenth anniversary in October 2012. Chairman Gruenberg served as the President of IADI and the Chair of its Executive Council from November 2007 to October 2012. Worth noting is the remarkable impact IADI has made during its relatively short history, contributing not only to the security of individual depositors but also to global financial stability. Since its founding in 2002, IADI has grown from 26 founding members to 84 participants, including 64 members, 8 associates and 12 partners, and is strongly represented on every continent. IADI is now recognized as the standard-setting body for deposit insurance by all the major public international financial institutions, including the FSB, the Group of 20 (G-20), the BCBS, the IMF, and the World Bank.

Under the FDIC's leadership, IADI has made significant progress in advancing the 2009 IADI and BCBS *Core Principles for Effective Deposit Insurance Systems (Core Principles)*. In February 2011, the FSB approved the *Core Principles* and the *Core Principles Assessment Methodology* for inclusion in its Compendium of Key Standards for Sound Financial Systems. The *Core Principles* are officially recognized by both the IMF and World Bank and are now accepted for use in their Financial Sector Assessment Program (FSAP). This represents an important milestone in the acceptance of the role of effective systems of deposit insurance in maintaining financial stability. The FDIC has also worked with senior officials at the World Bank and IMF, and formalized IADI collaboration and support of the deposit insurance review portion of the FSAP reviews. *Core Principles* working group meetings, regional workshops, and training sessions were held in Washington, DC; Kuala Lumpur, Malaysia; Bogota, Colombia; and Nairobi, Kenya, during 2012.

Financial Stability Board

In February 2012, the FSB issued its *Thematic Review on Deposit Insurance Systems Peer Review Report*. The recommendations included a request for IADI to update its guidance that pre-dated the financial crisis and to develop additional guidance to address areas where the *Core Principles* may need more precision to achieve effective compliance, or to better reflect leading practices. The FDIC, in partnership with the Canadian Deposit Insurance Corporation, has taken a leadership role in responding to these recommendations with a set of six focused papers. Prepared under the auspices of the IADI Research and Guidance Committee Guidance Group, two of these papers were presented during the October 2012 IADI Executive Council meeting in London, England; the remaining four papers will be presented to the Executive Council in 2013. IADI and the BCBS will use the papers to enhance the guidance supporting the *Core Principles* and the accompanying *Core Principles Assessment Methodology*.

In November 2011, the G-20 endorsed the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes)*. The *Key Attributes* set out the core elements that the FSB considers necessary for an effective resolution regime and includes the ability to manage the failure of large, complex, and internationally active financial institutions in a way that minimizes systemic disruption and avoids the exposure of taxpayers to the risk of loss. During 2012, a number of initiatives were launched by the FSB related to operationalizing the *Key Attributes*. In January 2012, a special working group under the auspices of the Resolutions Steering Group was formed to draft an assessment methodology for the *Key Attributes*. The FDIC is actively participating in this effort alongside IADI, a number of FSB member jurisdictions, and international organizations such as the World Bank and the European Commission, and has participated extensively in drafting team meetings in Basel, Switzerland. In the second half of 2012, the FDIC participated in the drafting of a consultative document, entitled "Recovery and Resolution Planning: Making the *Key Attributes* Requirements Operational." The document was released for public comment. The FDIC also hosted meetings for the Legal Entity Identifier Working Group, and co-hosted a series of Crisis Management Group meetings for the five U.S.-based G-SIFIs at the Seidman Center in Arlington, Virginia, and the Federal Reserve Bank of New York. FDIC representatives also participated in Crisis Management Group meetings hosted by foreign regulatory authorities in a number of jurisdictions.

In mid-2012, then-acting Chairman Gruenberg was appointed to chair a Thematic Peer Review on Resolution Regimes under the auspices of the FSB's Standing Committee on Standards Implementation (SCSI). This Peer Review was tasked with

conducting a survey of the existing regulatory and legislative landscape; identifying gaps in implementation of the *Key Attributes*; and providing guidance to the *Key Attributes* assessment methodology drafting team. A questionnaire was developed and sent to FSB member jurisdictions over the summer, with jurisdictions providing responses to the Peer Review Team in the fall. The Peer Review Team, comprising 20 members from multiple G-20 jurisdictions and multinational bodies, will develop a report for the SCSI in early 2013 on its findings.

Association of Supervisors of Banks of the Americas

With the goal of contributing to sound banking supervision and resilient financial systems in the Americas, the FDIC has been a member of ASBA since its founding in 1999. In recognition of the FDIC's leadership in ASBA, the General Assembly elected the FDIC's Director of Risk Management Supervision, Sandra Thompson, to serve a two-year term as Vice Chairman. Director Thompson was named Acting Chairman of ASBA until November 2012, upon the resignation of ASBA's Chairman. In these capacities, Director Thompson presided over meetings of the technical committee, the assembly, and the board.

The FDIC led three ASBA technical assistance training missions in 2012, including a Financial Institution Analysis training program in Quito, Ecuador; a Credit Risk Management training program in Asuncion, Paraguay; and a Supervision of Operational Risk training program in Miami, Florida. The FDIC continued to provide subject-matter experts as instructors and speakers to support ASBA-sponsored training programs, seminars, and conferences. In addition, the FDIC participated in the ASBA working group on the Liquidity Coverage Ratio and Net Stable Funding Ratio Overview and established the FDIC-ASBA secondment program. Two ASBA members from the Central Bank of Barbados and the Superintendencia de Bancos de Guatemala were hosted by the FDIC under the inaugural program for eight weeks during the fall of 2012.

Supporting best practices through ASBA, the FDIC chaired the Basel III Liquidity Working Group and participated in several ASBA Working Groups concerning enterprise risk management, effective consumer protection frameworks, and corporate governance. The FDIC also led an internal review of ASBA's Secretary General's office in Mexico City Mexico, led the development of the 2013–2018 ASBA Strategic and Business Plans, developed the first handbook for the Board of Directors, and approved the external audit program.

Foreign Visitors Program

The FDIC continued its global role in supporting the development of effective deposit insurance and banking supervision systems through the provision of training, consultations, and briefings to foreign bank supervisors, deposit insurance authorities, international financial institutions, partner U.S. agencies, and other governmental officials. In 2012, the FDIC hosted 80 visits with over 565 visitors from approximately 42 jurisdictions. Many of these visits were multi-day study tours, enabling delegations to receive in-depth consultations on a wide range of deposit insurance issues. Officials from the Polish Bank Working Group, the Deposit Insurance of Vietnam, the National Bank of Ethiopia, the Deposit Protection Agency of the Kyrgyz Republic, and the Central Bank of Kenya benefited from these extended visits.

During 2012, the FDIC provided subject-matter experts to participate in seven FSI seminars around the world. The topics included risk-focused supervision, financial stability and stress testing, liquidity risk, Basel III, risk management, and regulating and supervising systemic banks. Additionally, 199 students from 13 countries attended FDIC examiner training classes through the FDIC's Corporate University.

The FDIC continued its strong relationship with Chinese public institutions in 2012. The FDIC participated in the Fourth U.S.-China Strategic and Economic Dialogue on May 3, 2012, in Beijing, China, along with counterparts from all of the U.S. financial sector regulatory agencies, in a delegation led by the U.S. Treasury Secretary. The U.S. delegation met with counterparts from the Chinese regulatory agencies to discuss regulatory reforms and progress towards rebalancing their respective economies. The FDIC met separately with the People's Bank of China (PBoC) concerning revisions to the current FDIC-PBoC Technical Assistance Memorandum of Understanding, and also about progress toward implementing a deposit insurance scheme in China. The FDIC held meetings with the China Banking Regulatory Commission (CBRC) to discuss further cooperation on SIFI-related matters. The U.S.-CBRC Bank Supervisors Bilateral Meeting, hosted by the FDIC, was held on October

15, 2012. This meeting involved the three U.S. banking agencies and the CBRC in discussions on a wide range of supervisory issues. In addition, the China delegation met with representatives from the FDIC's Legal Division and Division of Resolutions and Receiverships to obtain guidance on drafting rules for bank resolution in China. The FDIC subsequently hosted a delegation from the CBRC, providing an overview of information technology (IT) examination, supervision and resolution processes, and the roles and responsibilities of the FDIC in the U.S. bank regulatory system.

Financial Services Volunteer Corps

June 1, 2012, marked the five-year anniversary of the secondment program agreed upon by the Financial Services Volunteer Corps (FSVC) and the FDIC to place one or more FDIC employees full-time in the FSVC's Washington, DC, office on an annual basis. The FDIC provided support to several FSVC projects including participation in the U.S. Agency for International Development's Partners for Financial Stability project in the Balkan region. The purpose of this consultation was to develop strategies for resolving problem loans in response to the Eurozone crisis.

FSVC support also included multiple FDIC-led training sessions with the Bank of Albania (the central bank). Follow-up consultations with the Albanian Deposit Insurance Agency, Bank of Albania, and the Ministry of Finance regarding bank liquidation processes, training sessions for examiners, an assessment of the legal framework, operational capabilities to manage a failure, and the implementation of an automated bank reporting and pay-out system were also completed. FDIC subject-matter experts also advised Albanian Financial Supervisory Authority leadership on the effective use of communications to foster relationships with foreign regulators and Albanian institutions, and public outreach and media relations strategies.

FDIC secondees also provided a study tour in New York for members of the Egyptian Banking Institute; traveled to Cairo to support the Egyptian Financial Supervisory Authority's Institute for Financial Services in its assessment and development of a strategic plan for financial inclusion; and conducted a one-week training program on IT risk supervision for the National Bank of Serbia in partnership with the World Bank. In Tunisia, FDIC secondees advised an association of banking and financial experts on techniques used by U.S. regulators for collecting data and best practices of financial institutions for improving the quality and timeliness of data. Finally, the FDIC continued to lead the research and development of a strategy for targeting technical assistance for low-income countries in Sub-Saharan Africa.

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to successfully carry out its mission and meet the performance goals and targets set forth in its annual performance plan. The FDIC must align these strategic resources with its mission and goals and deploy them where they are most needed to enhance its operational effectiveness and minimize potential financial risks to the DIF. Major accomplishments in improving the FDIC's operational efficiency and effectiveness during 2012 follow.

Human Capital Management

The FDIC's human capital management programs are designed to recruit, develop, reward, and retain a highly skilled, cross-trained, diverse, and results-oriented workforce. In 2012, the FDIC stepped up workforce planning and development initiatives that emphasized hiring the additional skill sets needed to address requirements of the Dodd-Frank Act, especially as it related to the oversight of SIFIs. Workforce planning also addressed the need to start winding down bank closure activities in the next few years, based on the decrease in the number of financial institution failures and institutions in at-risk categories. The FDIC also deployed a number of strategies to more fully engage all employees in advancing its mission.

Succession Management

The FDIC provides its employees with comprehensive learning and development opportunities, including technical and general skills training, and leadership development. In addition to extensive internally developed and administered courses, the FDIC also offers its employees with funds and/or time to participate in external offerings in support of their career development. Through training and educational programs, the FDIC provides its employees with the knowledge and skills to successfully accomplish their work and to grow professionally. In 2012, the FDIC kicked-off several initiatives related to advanced or specialized training for mission critical areas. Such training is a critical part of workforce and succession planning as

more experienced employees become eligible for retirement.

The FDIC also continues to expand leadership development opportunities to all employees. Its curriculum takes a holistic approach, aligning its core and elective curriculum with key leadership competencies. By developing employees across the span of their careers, the FDIC builds a culture of leadership and further promotes a leadership succession strategy. In 2012, the FDIC delivered 19 sessions of core leadership courses and 22 sessions of electives. It also supported participation in four external leadership development programs.

Strategic Workforce Planning and Readiness

The FDIC used various employment strategies in 2012 to meet the need for additional human resources resulting from the number of failed financial institutions and the volume of additional examinations. Among these strategies, the FDIC recruited complex financial institution specialists who had developed their skills in other public and private sector organizations, recruited loan review specialists and compliance analysts from the private sector, and redeployed current FDIC employees with the requisite skills from other parts of the Agency.

When the Office of Thrift Supervision (OTS) closed on July 21, 2011, the FDIC received 95 of its employees, all of whom were integrated into the FDIC with full FDIC benefits as of the one-year anniversary of the Dodd-Frank Act. Thirty-eight of the 95 employees were under the OTS's Schedule A hiring authority, and therefore not in the competitive service. The FDIC determined that the equitable treatment provisions of the Dodd-Frank Act required that these employees be transferred to the competitive service; these transfers were effective May 9, 2012.

During 2012, the orderly closing of the FDIC's temporary satellite offices began based on projections of a drop in the number of bank failures expected in 2013 and beyond. These offices had been established to bring resources to bear in especially hard-hit areas in 2009 and 2010, as the number of failed financial institutions increased. Almost all of the employees in these new offices were hired on a nonpermanent basis to handle the temporary increase in bank closing and asset management activities expected over several years, beginning in 2009. The use of nonpermanent appointments allows the FDIC staff to return to a normal size once the crisis is over without the disruptions that reductions in permanent staff would cause.

The West Coast Temporary Satellite Office, which opened in Irvine, California, in early spring of 2009, closed on January 13, 2012, with 265 employees. The East Coast Temporary Satellite Office, which opened in Jacksonville, Florida, in the fall of 2009, is slated to close in 2014. As of December 31, 2012, that office had 391 employees. The third satellite office, which opened for the Midwest in 2010 in Schaumburg, Illinois, closed on September 28, 2012, with 130 employees. During the financial crisis, the FDIC also increased resolutions and receiverships staff in the Dallas Regional Office. For all offices that closed, the FDIC provided transition services to the separated nonpermanent FDIC employees. In addition, a number of these employees were hired as permanent staff to complete the FDIC's core staffing requirements.

The FDIC continued to build workforce flexibility and readiness by hiring through the Corporate Employee Program (CEP). The CEP is a multi-year development program designed to cross-train new employees in the FDIC's major business lines. In 2012, 121 new business line employees entered this multi-discipline program (1,133 hired since program inception in 2005). The CEP continued to provide a foundation across the full spectrum of the FDIC's business lines, allowing for greater flexibility to respond to changes in the financial services industry and to meet the FDIC's human capital needs. As in years past, the program continued to provide the FDIC flexibility as program participants were called upon to assist with both bank examination and bank closing activities based on the skills they obtained through their program requirements and experiences. As anticipated, participants are also successfully earning their commissioned bank examiner and resolutions and receiverships credentials, having completed their three to four years of specialized training in field offices across the country. The FDIC had approximately 362 commissioned participants by the end of 2012. These individuals are well-prepared to lead examination and resolutions and receiverships activities on behalf of the FDIC.

In 2011, the FDIC piloted the Financial Management Scholars (FMS) Program, a ten week summer internship program for college students between their junior and

senior years of college. The FMS was implemented in 2012 and is another recruiting strategy to bring talent into the FDIC and the CEP. The FMS participants completed a one-week orientation session, worked in the field in one of the three key business lines (Depositor and Consumer Protection, Resolutions and Receiverships, and Risk Management Supervision), completed a capstone program, and participated in mini-recruiting event assessments. In 2012, there were 50 FMS participants participating in 34 locations. The FDIC extended 36 job offers and received acceptances from 35 FMS participants. These successful FMS participants will join CEP classes in 2013 as Financial Institution Specialists.

Corporate Risk Management

In 2011, the FDIC Board authorized the creation of an Office of Corporate Risk Management (OCRM) and recruited a Chief Risk Officer (CRO) for the agency. During 2012, the CRO recruited a Deputy Director and a small staff made up of Senior Risk Officers to work with other Divisions and Offices to assess, manage, and mitigate risks to the FDIC in the following major areas:

- Open bank risks associated with the FDIC's role as principal regulator of certain financial institutions and the provider of deposit insurance to all insured depository institutions;
- Closed bank risks associated with the FDIC management of risks associated with assets in receivership, including loss share arrangements and limited liability corporations;
- Systemically important financial institution risks associated with large complex institutions where the FDIC is not the primary federal regulator but would have responsibility in the event of failure;
- Economic and financial risks created for the FDIC and its insured institutions created by changes in the macroeconomic and financial environment;
- Policy and regulatory risks arising through legislative activities and those created by FDIC's own policy initiatives;
- Internal structure and process risks associated with carrying out ongoing FDIC operations, including human resource management, internal controls, and audit work carried out by both OIG and GAO; and
- Reputational risks associated with all of the activities of the FDIC as they are perceived by a range of external factors.

In addition to completing an initial risk inventory for the FDIC, OCRM worked with the newly created Enterprise Risk Committee and Risk Analysis Committee to discuss external and internal risks facing the FDIC. These efforts supported the preparation of quarterly reports to the Board on the risk profile of the institution.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that it remains an employer of choice and that all of its employees are fully engaged and aligned with the mission. The FDIC uses the Federal Employee Viewpoint Survey mandated by Congress to solicit information from employees and takes an agency-wide approach to address key issues identified in the survey. On December 13, 2012, the FDIC received an award from the Partnership for Public Service for being ranked number one among the mid-sized federal agencies on the *Best Places to Work in the Federal Government®* list. Effective leadership was the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

The Culture Change Initiative, 2008–2012, played an important role in helping the FDIC achieve this ranking. The new Workplace Excellence (WE) Program builds upon the success of the Culture Change Initiative by institutionalizing a National WE Steering Committee and separate Division/Office WE Councils. In addition to the WE Program, the new FDIC-NTEU Labor-Management Forum serves as a mechanism for the union and employees to have pre-decisional input on workplace matters. The WE Program and Labor Management Forum enhances communication, provides additional opportunities for employee input, and improves employee empowerment.

Employee Learning and Development

The FDIC has a strong commitment to the learning and development of all employees. Through its learning and development programs, the FDIC creates opportunity, enriches career development, and cultivates future leaders. New employees can more quickly and thoroughly assume their job functions and assist with examination and resolution activities through the use of innovative learning solutions. To prepare new and existing employees for the challenges ahead, the FDIC delivered just-in-time training to quickly address new business needs and completed

comprehensive needs assessments to inform its long-term strategy.

In support of business requirements, the FDIC delivered various sessions of resolution-related training based on new responsibilities acquired under the Dodd-Frank Act. To prepare for the resolution of the most complex financial institutions, the FDIC also used facilitated discussions, table top exercises, and simulations with other federal agencies to share information, identify challenges, and build interagency relationships.

In addition to conducting just-in-time training and events to meet immediate needs, the FDIC is focused on assessing long-term needs and developing comprehensive curricula accordingly. Based on the results of needs assessments for the Office of Complex Financial Institutions, the Division of Resolutions and Receiverships, and the Division of Risk Management Supervision, the FDIC developed multi-year frameworks to supplement existing learning and development. The FDIC will implement the priority components of the business line curricula next year.

In support of knowledge and succession management, the FDIC is focused on capturing, maintaining, and documenting best practices and lessons learned from bank closing activity over the past two years. Capturing this information now is strategically important to ensure corporate readiness, while at the same time maintaining effectiveness as experienced employees retire and the temporary positions created to support the closing activity expire.

In 2012, the FDIC provided its employees with approximately 160 instructor-led courses and 1,800 web-based courses to support various mission requirements. There were approximately 9,292 completions of instructor-led courses and 36,570 completions of web-based courses.

Chairman Martin J. Gruenberg and Arleas Upton Kea, Director of the Division of Administration, accepting the award for the number one ranking among mid-sized federal agencies for Best Places to Work in the Federal Government.

In 2012, the FDIC was recognized as a LearningElite organization by *Chief Learning Officer* magazine. The LearningElite program is a robust peer-reviewed ranking and benchmarking program that recognizes those organizations that employ exemplary workforce development strategies to deliver significant business results.

Information Technology Management

The FDIC understands that information technology (IT) is a critical, transformative resource for the successful accomplishment of agency business objectives. The FDIC relies on the strategic capabilities that IT provides to ensure and enhance mission achievement. This year, introduction of new technologies coupled with changes to maintenance contracts have allowed the FDIC to identify $15 million in budget reductions in IT equipment and services areas from 2012 to 2013.

IT Governance

The FDIC has strengthened agency governance of IT investments and projects by adopting new guidelines for project scope, cost, schedule, and reporting. The FDIC also implemented the Office of Management and Budget's Federal Chief Information Officer's Tech Stat concept, a face-to-face, evidence-based review by agency executives of IT projects, identify issues affecting progress, and take the necessary corrective actions. The FDIC has also improved the risk management and cost estimation project disciplines, training project management staff across the organization. Also, in 2012, the FDIC worked on an update to the Business Technology Strategic Plan that highlights strategic initiatives for document management, research and analytics, and mobility.

Support for Regulatory Reform

Business application development and enhancement continued in 2012 to support implementation of the requirements of the Dodd-Frank Act. The FDIC implemented new applications to deliver full functionality required to comply with Section 165(d) of the Dodd-Frank Act. While not mandated by the statute, the FDIC has also implemented an enhanced tool to facilitate the electronic review of a bank's loan portfolio and streamline the loan review process. The Examination Tool Suite-Automated Loan Examination Reporting Tool (ETS-ALERT), will be used by the FDIC, all 50 states banking supervision organizations, and the Federal Reserve.

Cyber Security

The FDIC recognizes that cyber threats are one of the most serious security challenges facing the nation, and that collaboration with other federal agencies is vital to strengthening the FDIC's security position. In 2012, the FDIC was actively involved with the Federal Chief Information Officer Council's Privacy Committee, including serving as co-chair of the inter-agency Best Practices Subcommittee and as a member of three other subcommittees: Innovation and Technology, Development and Education, and International. In addition, the FDIC initiated the first Interagency Data Loss Prevention (DLP) Working Group, composed of representatives from 15 agencies, as a forum for discussions of DLP best practices, federal requirements, and lessons learned, as well as a platform for industry presentations on DLP techniques and tools.

The FDIC has undertaken several initiatives to augment external cyber resources. In 2012, the FDIC participated with the Office of the National Director of Intelligence in initiating the new Federal Senior Intelligence Coordinator Advisory Board and associated workgroups to gather additional counter-intelligence on new threats. The FDIC has established informal information-sharing relationships with the Federal Bureau of Investigation's (FBI) cybercrime squads in the FBI's Washington, DC office, where real-time cybercrime information is exchanged. The FDIC also serves as an active participant in industry information-sharing organizations, including the Financial Services - Information Sharing and Analysis Center, a financial services-focused association that gathers reliable and timely information from financial services providers; commercial security firms; federal, state, and local government agencies; law enforcement; and other trusted resources; to quickly disseminate physical and cyber threat alerts and other critical information to participating organizations.

Internally, the FDIC continued to focus on enhancing its security posture to combat the increased number and sophistication of cyber-attacks. The FDIC established a Security Operations Center that provides continuous event-monitoring and risk analysis to prevent and detect intrusion through use of an array of tools.

Privacy Program

The FDIC has a well-established privacy program that works to maintain privacy awareness and promote transparency and public trust. During the last year, the FDIC conducted unannounced privacy assessments of various regional and field offices to ensure that confidential and proprietary documents and media are properly safeguarded, and that individual and agency privacy data are protected. These assessments provide the FDIC with its own internal mechanism to identify weaknesses and potential mitigating circumstances, and to track progress in correcting vulnerabilities.

II. Financial Highlights

In its role as deposit insurer of financial institutions, the FDIC promotes the safety and soundness of insured depository institutions (IDIs). The following financial highlights address the performance of the deposit insurance funds, and discuss the corporate operating budget and investment spending.

DEPOSIT INSURANCE FUND PERFORMANCE

The FDIC administers the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the DIF. (See the accompanying graphs on FDIC-Insured Deposits and Insurance Fund Reserve Ratios on the following page.)

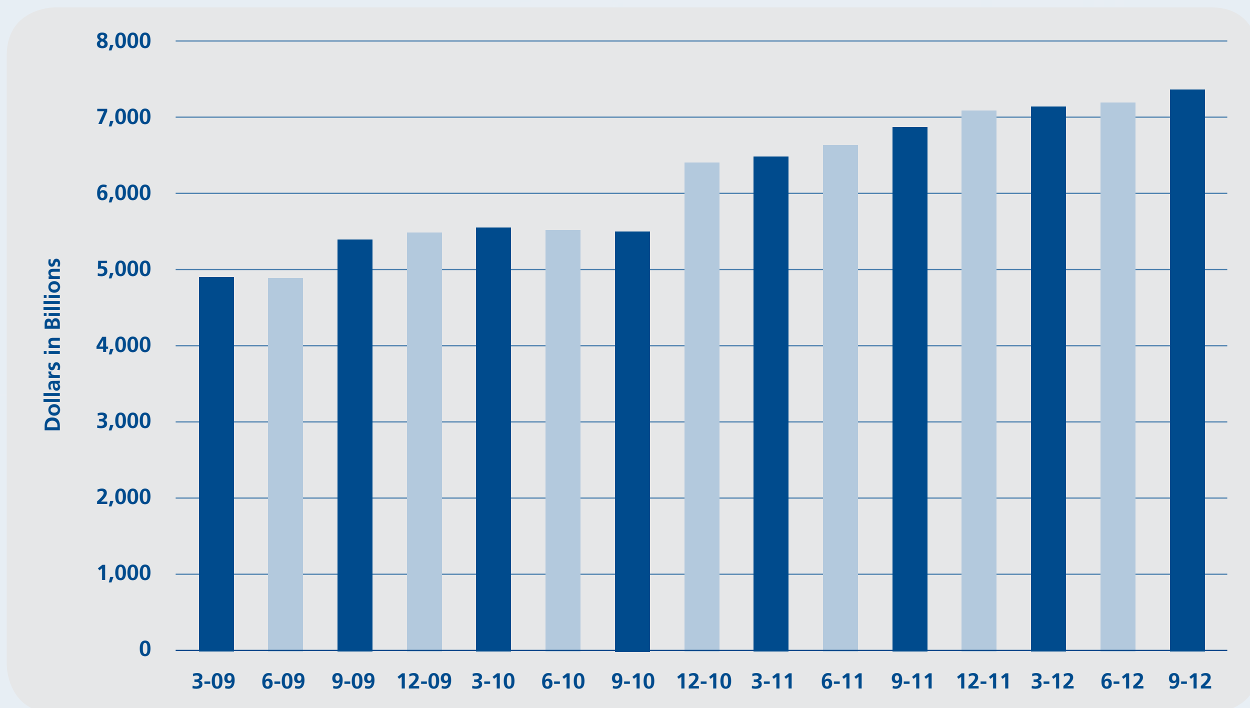
For 2012, the DIF's comprehensive income totaled $21.1 billion compared to comprehensive income of $19.2 billion during 2011. This $1.9 billion year-over-year increase was primarily due to a $3.3 billion increase in revenue from excess Debt Guarantee Program (DGP) fees previously held as systemic risk deferred revenue, partially offset by a $1.1 billion decrease in assessments and a $191 million increase in the provision for insurance losses.

As the TLGP expired at year-end, the DIF recognized revenue of $5.9 billion in 2012, representing the remaining deferred revenue not absorbed by the TLGP for losses. Through the end of the debt issuance period, the FDIC collected $10.4 billion in fees and surcharges under the DGP. In addition, the FDIC collected Transaction Account Guarantee Program (TAG) fees of $1.2 billion for unlimited coverage for noninterest-bearing transaction accounts held by IDIs on all deposit amounts exceeding the fully insured limit of $250,000. Since inception of the program, the TLGP incurred estimated losses of $153 million and $2.1 billion on DGP and TAG Program claims, respectively. Over the duration of the TLGP, $8.5 billion in TLGP assets were transferred to the DIF. In addition, during 2009, surcharges of $872 million were collected and deposited into the DIF.

Assessment revenue was $12.4 billion for 2012. The decrease of $1.1 billion, from $13.5 billion in 2011, was primarily due to lower average assessment rates in 2012, resulting from improvement in the financial condition of the banking industry.

The provision for insurance losses was negative $4.2 billion for 2012, compared to negative $4.4 billion for 2011. The negative provision for 2012 primarily resulted from a reduction in the contingent loss reserve due to the improvement in the financial condition of institutions that were previously identified to fail, and a reduction in the estimated losses for institutions that have failed in the current and prior years.

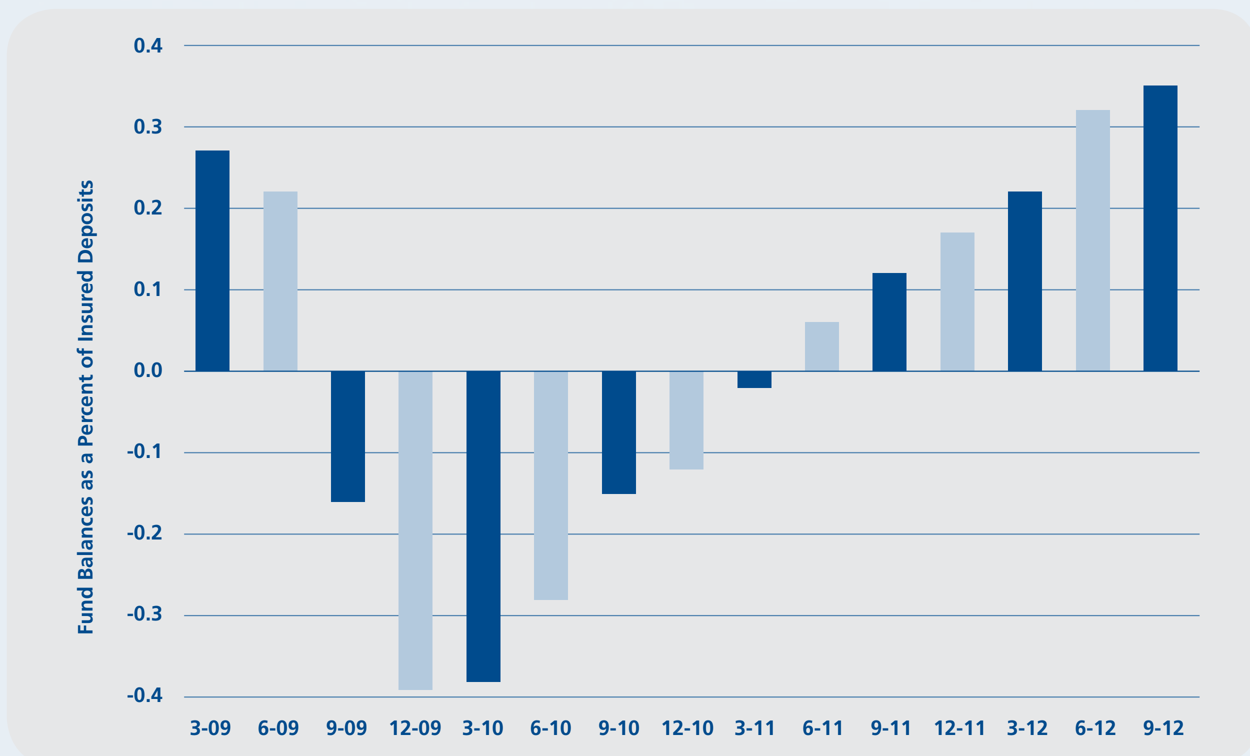
ESTIMATED DIF INSURED DEPOSITS



SOURCE: Commercial Bank Call and Thrift Financial Reports

Note: Beginning in the fourth quarter of 2010, estimated insured deposits include the entire balance of noninterest-bearing transaction accounts.

DEPOSIT INSURANCE FUND RESERVE RATIOS



DEPOSIT INSURANCE FUND SELECTED STATISTICS Dollars in Millions			
	For the years ended December 31		
	2012	2011	2010
Financial Results			
Revenue	$18,522	$16,342	$13,380
Operating Expenses	1,778	1,625	1,593
Insurance and Other Expenses (includes provision for loss)	(4,377)	(4,541)	(1,518)
Net Income (Loss)	21,121	19,257	13,305
Comprehensive Income (Loss)	21,131	19,179	13,510
Insurance Fund Balance	$32,958	$11,827	$(7,352)
Fund as a Percentage of Insured Deposits (reserve ratio)	0.35 %*	0.17 %	(0.12) %
Selected Statistics			
Total DIF-Member Institutions[1]	7,181*	7,357	7,657
Problem Institutions	651	813	884
Total Assets of Problem Institutions	$232,701	$319,432	$390,017
Institution Failures	51	92	157
Total Assets of Failed Institutions in Year[2]	$11,617	$34,923	$92,085
Number of Active Failed Institution Receiverships	463	426	336

* Figures are as of September 30, 2012.

[1] Includes commercial banks and savings institutions, but does not include U.S. insured branches of foreign banks.

[2] Total asset data are based upon the last Call Report filed by the institution prior to failure.

CORPORATE OPERATING BUDGET

The FDIC segregates its corporate operating budget and expenses into two discrete components: ongoing operations and receivership funding. The receivership funding component represents expenses resulting from financial institution failures and is, therefore, largely driven by external forces, while the ongoing operations component accounts for all other operating expenses and tends to be more controllable and estimable. Corporate Operating expenses totaled $2.5 billion in 2012, including $1.6 billion in ongoing operations and $0.9 billion in receivership funding. This represented approximately 92 percent of the approved budget for ongoing operations and 57 percent of the approved budget for receivership funding for the year.[3]

The FDIC Board of Directors approved a 2013 Corporate Operating Budget of approximately $2.7 billion, consisting of $1.8 billion for ongoing operations and $0.9 billion for receivership funding. The level of approved ongoing operations budget for 2013 is approximately $2.0 million (0.1 percent) higher than the actual 2012 ongoing operations budget, while the approved receivership funding budget is roughly $600 million (40 percent) lower than the 2012 receivership funding budget.

As in prior years, the 2013 budget was formulated primarily on the basis of an analysis of projected workload for each of the Corporation's three major business lines and its major program support functions. The most significant factor contributing to the decrease in the Corporate Operating Budget is the improving health of the industry and the resultant reduction in failure related workload. Although savings in this area are being realized, the 2013 receivership funding budget allows for resources for contractor support as well as nonpermanent staffing for the Division of Resolutions and Receiverships, the Legal Division, and other organizations, should workload in these areas require an immediate response.

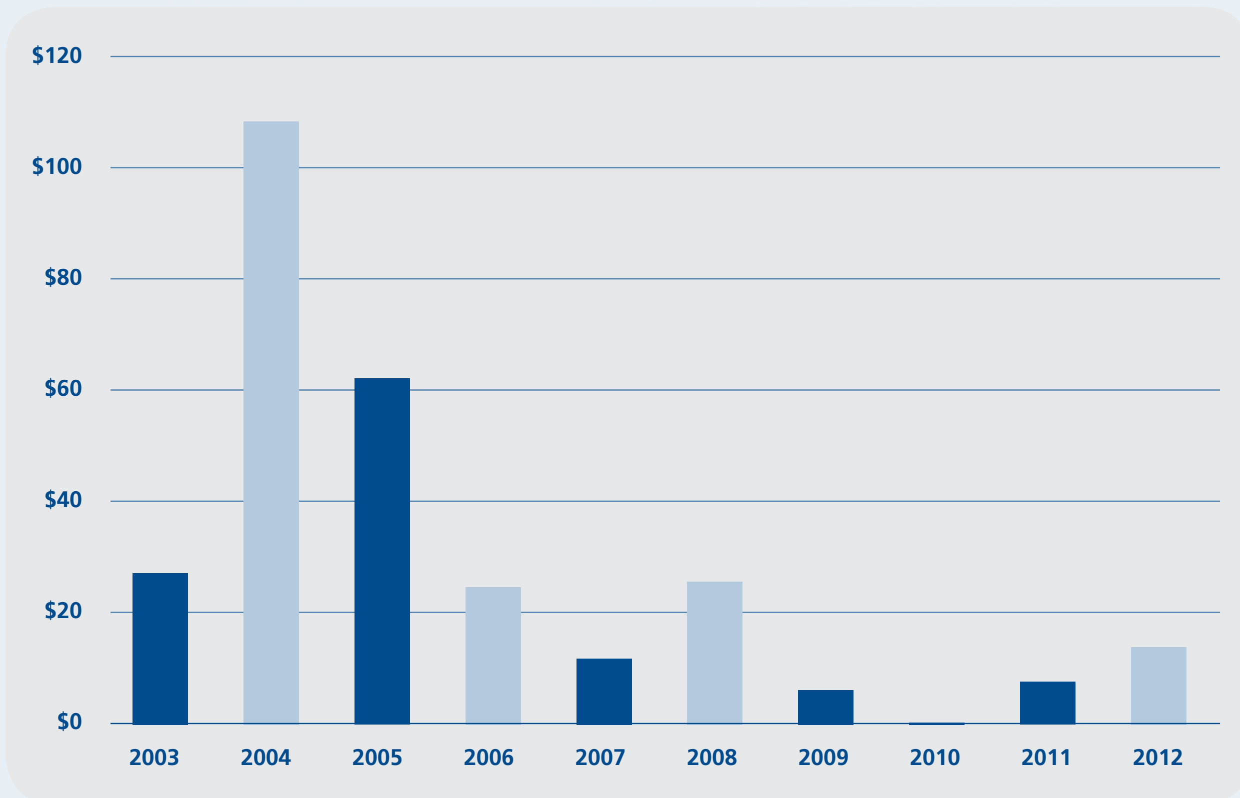
[3] The numbers in this paragraph will not agree with the DIF and FRF financial statements due to differences in how items are classified.

INVESTMENT SPENDING

The FDIC instituted a separate Investment Budget in 2003. It has a disciplined process for reviewing proposed new investment projects and managing the construction and implementation of approved projects. Proposed IT projects are carefully reviewed to ensure that they are consistent with the FDIC's enterprise architecture. The project approval and monitoring processes also enable the FDIC to be aware of risks to the major capital investment projects and facilitate appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review is provided to the FDIC's Board of Directors quarterly.

The FDIC made significant capital investments during the 2003–2012 period, the largest of which was the expansion of its Virginia Square office facility. Most other projects involved the development and implementation of major IT systems. Investment spending totaled $288 million during this period, peaking at $108 million in 2004. Spending for investment projects in 2012 totaled approximately $14 million. For 2013, investment spending is estimated at $28 million.

INVESTMENT SPENDING 2003–2012
Dollars in Millions



III. Performance Results Summary

SUMMARY OF 2012 PERFORMANCE RESULTS BY PROGRAM

The FDIC successfully achieved 43 of the 45 annual performance targets established in its 2012 Annual Performance Plan. Two targets involving capital standards were not achieved. There were no instances in which 2012 performance had a material adverse effect on the successful achievement of the FDIC's mission or its strategic goals and objectives regarding its major program responsibilities.

Additional key accomplishments are noted below.

Program Area	Performance Results
Insurance	♦ Updated the FDIC Board of Directors on loss, income, and reserve ratio projections for the Deposit Insurance Fund at the April and October meetings. ♦ Briefed the FDIC Board of Directors in April and October on progress in meeting the goals of the Restoration Plan. Based upon current fund projections, no changes to assessment rate schedules were necessary. ♦ Completed reviews of the recent accuracy of the contingent loss reserves. ♦ Provided analysis to the FDIC Chairman in August 2012, with recommendations for follow-up, of possible refinements to the deposit insurance pricing methodology for banks with assets under $10 billion. ♦ Researched and analyzed emerging risks and trends in the banking sector, financial markets, and the overall economy to identify issues affecting the banking industry and the Deposit Insurance Fund. ♦ Provided policy research and analysis to FDIC leadership in support of the implementation of financial industry regulation, as well as support for testimony and speeches. ♦ Published economic and banking information and analyses through the *FDIC Quarterly, FDIC Quarterly Banking Profile (QBP), FDIC State Profiles,* and the Center for Financial Research *Working Papers*. ♦ Operated the Electronic Deposit Insurance Estimator (EDIE), which had 435,192 user sessions in 2012.

Program Area	Performance Results
Supervision and Consumer Protection	♦ Conducted 2,585 Bank Secrecy Act examinations, including required follow-up examinations and visitations. ♦ Worked with other federal banking regulators and the Basel Committee on Banking Supervision to develop proposals to strengthen capital and liquidity requirements. ♦ Among other releases, issued FILs on effective credit risk management practices for purchased loan participants and the inappropriate practice of directors and officers copying and removing financial institution and supervisory records from the institution in anticipation of litigation or enforcement activity against them.
Receivership Management	♦ Completed on-site field work for reviews of 100 percent of the loss share and Limited Liability Corporation (LLC) agreements active as of December 31, 2011, to ensure full compliance with the terms and conditions of the agreements. Reviewed the final review reports and implemented an action plan to address the reports' findings and recommendations for 80 percent of the loss-share reviews and 70 percent of the LLC reviews. ♦ Terminated at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments within three years of the date of failure. ♦ Made final decisions for 85 percent of all investigated claim areas that were within 18 months of the institution's failure date.

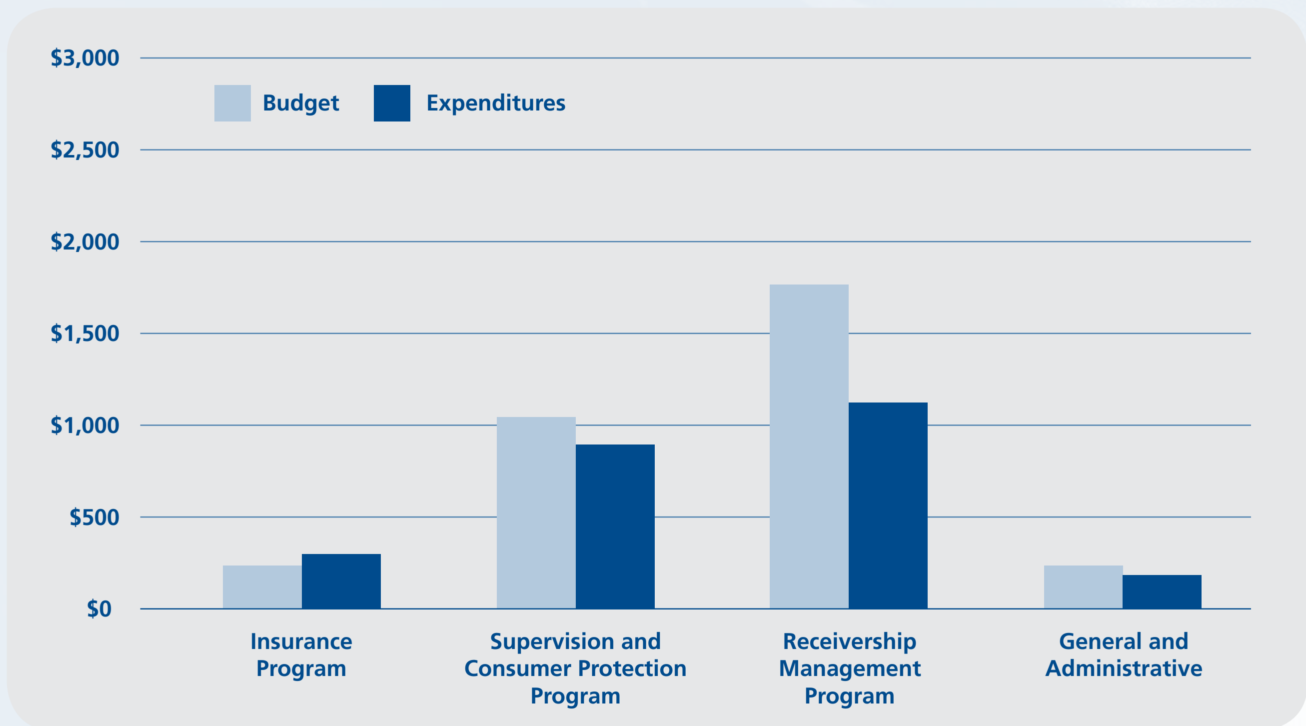
2012 BUDGET AND EXPENDITURES BY PROGRAM

(Excluding Investments)

The FDIC budget for 2012 totaled $3.3 billion. Budget amounts were allocated as follows: $227 million, or 7 percent, to Corporate General and Administrative expenditures; $245 million, or 7 percent, to the Insurance program; $1.0 billion, or 32 percent, to the Supervision and Consumer Protection program; and $1.8 billion, or 54 percent, to the Receivership Management program.

Actual expenditures for the year totaled $2.5 billion, and expenditures amounts were allocated as follows: $174 million, or 7 percent, to Corporate General and Administrative expenditures; $290 million, or 12 percent, to the Insurance program; $906 million, or 36 percent, to the Supervision and Consumer Protection program; and $1.1 billion, or 45 percent, to the Receivership Management program.

2012 BUDGET AND EXPENDITURES (SUPPORT ALLOCATED)
Dollars in Millions



PERFORMANCE RESULTS BY PROGRAM AND STRATEGIC GOAL

<table>
<tr><th colspan="5">2012 INSURANCE PROGRAM RESULTS</th></tr>
<tr><td colspan="5">Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.</td></tr>
<tr><th>#</th><th>Annual Performance Goal</th><th>Indicator</th><th>Target</th><th>Results</th></tr>
<tr><td rowspan="4">1</td><td rowspan="4">Respond promptly to all financial institution closings and related emerging issues.</td><td rowspan="2">Number of business days after an institution failure that depositors have access to insured funds either through transfer of deposits to the successor insured depository institution or depositor payout.</td><td>Depositors have access to insured funds within one business day if the failure occurs on a Friday.</td><td>Achieved. See pg. 31.</td></tr>
<tr><td>Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.</td><td>Achieved. See pg. 31.</td></tr>
<tr><td rowspan="2">Insured depositor losses resulting from a financial institution failure.</td><td>Depositors do not incur any losses on insured deposits.</td><td>Achieved. See pg. 31.</td></tr>
<tr><td>No appropriated funds are required to pay insured depositors.</td><td>Achieved. See pg. 31.</td></tr>
<tr><td rowspan="2">2</td><td rowspan="2">Deepen the FDIC's understanding of the future of community banking.</td><td rowspan="2">Completion and publication of research.</td><td>Conduct a nationwide conference on the future of community banking during the first quarter of 2012.</td><td>Achieved. See pgs. 26-27.</td></tr>
<tr><td>Publish by December 31, 2012, a research study on the future of community banks, focusing on their evolution, characteristics, performance, challenges, and role in supporting local communities.</td><td>Achieved. See pg. 27.</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.</td><td rowspan="2">Scope and timeliness of information dissemination on identified or potential issues and risks.</td><td>Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.</td><td>Achieved. See pg. 45.</td></tr>
<tr><td>Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.</td><td>Achieved. See pg. 45.</td></tr>
</table>

2012 INSURANCE PROGRAM RESULTS (continued)

Strategic Goal: *Insured depositors are protected from loss without recourse to taxpayer funding.*

#	Annual Performance Goal	Indicator	Target	Results
4	Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.	Updated fund balance projections and recommended changes to assessment rates.	Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2012, and December 31, 2012.	Achieved. See pg. 45.
			Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	Achieved. See pg. 45.
		Demonstrated progress in achieving the goals of the Restoration Plan.	Provide progress reports to the FDIC Board of Directors by June 30, 2012, and December 31, 2012.	Achieved. See pg. 45.
		Analysis of possible refinements to the deposit insurance pricing methodology.	Provide to the Chairman by September 1, 2012, an analysis, with recommendations where appropriate, of refinements to the deposit insurance pricing methodology for banks with assets under $10 billion.	Achieved. See pg. 45.
5	Expand and strengthen the FDIC's participation and leadership role in supporting robust international deposit insurance and banking systems.	Scope of information sharing and assistance available to international governmental bank regulatory and deposit insurance entities.	Maintain open dialogue with counterparts in strategically important countries as well as international financial institutions and partner U.S. agencies.	Achieved. See pgs. 35-36.
			Foster strong relationships with international banking regulators and associations that promote sound banking supervision and regulation, failure resolutions, and deposit insurance practices.	Achieved. See pgs. 33, 35.
			Target capacity building based on the assessment methodology of the BCBS and IADI ***Core Principles for an Effective Deposit Insurance System.***	Achieved. See pg. 34.
			Lead and support the Association of Supervisors of Banks of the America's efforts to promote sound banking principles throughout the Western Hemisphere.	Achieved. See pg. 35.
6	Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.	Timeliness of responses to deposit insurance coverage inquiries.	Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	Achieved. See pg. 29.
		Initiatives to increase public awareness of deposit insurance coverage changes.	Conduct at least 12 telephone or in-person seminars for bankers on deposit insurance coverage.	Achieved. See pg. 30.

2012 SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS

***Strategic Goal:* FDIC-insured institutions are safe and sound.**

#	Annual Performance Goal	Indicator	Target	Results
1	Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all required risk management examinations within the time frames prescribed by statute and FDIC policy.	Achieved. See pg. 19.
2	For all institutions that are assigned a composite Uniform Financial Institutions Rating of 3, 4, or 5, conduct on-site visits within six months after implementation of a corrective program. Ensure during these visits and subsequent examinations that the institution is fulfilling the requirements of the corrective program that has been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination.	Percentage of follow-up examinations and on-site visits of 3-, 4-, or 5-rated institutions conducted within required time frames.	Conduct 100 percent of required on-site visits within six months after implementation of a corrective program.	Achieved. See pg. 19.
3	Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	Conduct all Bank Secrecy Act examinations within the time frames prescribed by statute and FDIC policy.	Achieved. See pg. 19.
4	More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.	Issuance by the federal banking agencies of rules implementing alternative standards of creditworthiness for credit rating in risk-based capital rules.	Complete by December 31, 2012, final rules addressing alternative standards of creditworthiness for credit ratings in the risk-based capital rules.	Not Achieved. See pgs. 21-22.
		Issuance by the federal banking agencies of rules to implement internationally agreed upon enhancements to regulatory capital standards.	Complete by December 31, 2012, a final rule for the Basel III capital standards. Complete by July 31, 2012, a final rule on the Market Risk Amendment, including finalizing alternatives to the use of credit ratings in accordance with DFA requirements.	Not Achieved. See pgs. 21-22. Achieved. See pg. 21.

2012 SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS (continued)				
***Strategic Goal:** FDIC-insured institutions are safe and sound.*				
#	Annual Performance Goal	Indicator	Target	Results
5	Identify and address risks in financial institutions designated as systemically important.	Issuance of rules and policy guidance (with other financial regulatory agencies) to implement provisions of DFA applicable to systemically important institutions and markets.	Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on proprietary trading and other investment restrictions (also known as the Volcker Rule).	Achieved. See pgs. 22-23.
			Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on restrictions on federal assistance to swap entities.	Achieved. See pg. 22.
			Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on capital and margin and other requirements for OTC derivatives.	Achieved. See pgs. 22-23.
			Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on credit risk retention requirements for securitizations.	Achieved. See pg. 22.
			Take all steps necessary to facilitate timely issuance of implementing regulations and related policy guidance on enhanced compensation structure and incentive compensation requirements.	Achieved. See pg. 22.
		Establishment of institution monitoring and resolution planning programs for systemically important institutions.	Monitor risk within and across large, complex firms to assess the potential need for, and obtain the information that would be required to carry out, if necessary, an FDIC resolution of the institution.	Achieved. See pgs. 16-17.
			Establish by June 30, 2012, with the FRB, policies and procedures for collecting, processing, and reviewing for completeness and sufficiency holding company and insured depository institution (IDI) resolution plans submitted under Section 165(d) of DFA.	Achieved. See pgs. 16-17.
		Completed reviews of resolution plans.	Complete, with the FRB and in accordance with prescribed time frames, the review of holding company and IDI resolution plans submitted under Section 165(d) of DFA.	Achieved. See pgs. 16-17.

2012 SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS (continued)				
Strategic Goal:* *Consumers' rights are protected and FDIC-supervised institutions invest in their communities.				
#	**Annual Performance Goal**	**Indicator**	**Target**	**Results**
6	Conduct on-site CRA and compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions.	Percentage of examinations conducted in accordance with the time frames prescribed by FDIC policy.	Conduct 100 percent of required examinations within the time frames established by FDIC policy.	Achieved. See pg. 19.
7	Take prompt and effective supervisory action to address problems identified during compliance examinations of FDIC-supervised institutions that receive a composite 3, 4, or 5 rating for compliance with consumer protection and fair lending laws. Ensure that each institution is fulfilling the requirements of any corrective program that has been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination.	Percentage of follow-up examinations or on-site visits of 3-, 4-, and 5-rated institutions conducted within required time frames.	Conduct follow-up examinations or on-site visits for any unfavorably rated (3, 4, or 5) institution within 12 months of completion of the prior examination.	Achieved. See pgs. 19-20.
8	Establish an effective working relationship with the new Consumer Financial Protection Bureau (CFPB).	Transfer of complaint processing responsibilities.	Complete the transfer of consumer compliant processing responsibilities within the purview of the CFPB within approved time frames.	Achieved. See pgs. 29-30.
9	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.	Timely responses to written consumer complaints and inquiries.	Respond to 95 percent of written consumer complaints and inquiries within time frames established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.	Achieved. See pg. 29.

2012 SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS (continued)

Strategic Goal: *Consumers' rights are protected and FDIC-supervised institutions invest in their communities.*

#	Annual Performance Goal	Indicator	Target	Results
10	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/ community affairs initiatives.	Completion of planned initiatives.	Complete and publish results of the second biennial ***National Survey of Unbanked and Underbanked Households and Banks' Efforts to Serve the Unbanked and Underbanked.***	Achieved. See pg. 25.
			Plan and hold meetings of the Advisory Committee on Economic Inclusion to gain feedback and advice on FDIC efforts to promote inclusion.	Achieved. See pg. 25.
			Coordinate 25 CRA community forums nationwide to facilitate community development opportunities for financial institutions.	Achieved. See pg. 26.

2012 RECEIVERSHIP MANAGEMENT PROGRAM RESULTS				
Strategic Goal: *Resolutions are orderly and receiverships are managed effectively.*				
#	**Annual Performance Goal**	**Indicator**	**Target**	**Results**
1	Market failing institutions to all known qualified and interested potential bidders.	Scope of qualified and interested bidders solicited.	Contact all known qualified and interested bidders.	Achieved. See pg. 31.
2	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Percentage of the assets marketed for each failed institution.	For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales).	Achieved. See pg. 31.
3	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments, within three years of the date of failure.	Achieved. See pg. 46.
4	Complete reviews of all loss-share and Limited Liability Corporation (LLC) agreements to ensure full compliance with the terms and conditions of the agreements.	Percentage of reviews of loss-share and LLC agreements completed and action plans implemented.	Complete reviews of 100 percent of the loss-share and LLC agreements active as of December 31, 2011, to ensure full compliance with the terms and conditions of the agreements. Review the final report and implement an action plan to address the report's finding and recommendations for 80 percent of the loss-share reviews and 70 percent of the LLC reviews.	Achieved. See pg. 46. Achieved. See pg. 46.
5	Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim.	For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.	Achieved. See pg. 46.

PRIOR YEARS' PERFORMANCE RESULTS

Refer to the respective full Annual Report of prior years for more information on performance results for those years. Minor wording changes may have been made to reflect current goals and targets. (Shaded areas indicate no such target existed for that respective year.)

INSURANCE PROGRAM RESULTS			
***Strategic Goal:** Insured depositors are protected from loss without recourse to taxpayer funding.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
1. Respond promptly to all financial institution closings and related emerging issues.			
♦ Depositors have access to insured funds within one business day if the failure occurs on a Friday.	Achieved.	Achieved.	Achieved.
♦ Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	Achieved.	Achieved.	Achieved.
♦ There are no depositor losses on insured deposits.	Achieved.	Achieved.	Achieved.
♦ No appropriated funds are required to pay insured depositors.	Achieved.	Achieved.	Achieved.
2. Identify and address risks to the Deposit Insurance Fund (DIF).			
♦ Assess the insurance risks in large (all for 2008–2009) insured depository institutions and adopt appropriate strategies.			Achieved.
♦ Identify and follow up on all material issues raised through off-site review and analysis.			Achieved.
♦ Identify and analyze existing and emerging areas of risk, including non-traditional and subprime mortgage lending, declines in housing market values, mortgage-related derivatives/collateralized debt obligations (CDOs), hedge fund ownership of insured institutions, commercial real estate lending, international risk, and other financial innovations.			Achieved.
3. Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.			
♦ Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	Achieved.	Achieved.	Achieved.
♦ Industry outreach activities are undertaken to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	Achieved.	Achieved.	Achieved.
4. Effectively administer temporary financial stability programs.			
♦ Provide liquidity to the banking system by guaranteeing noninterest-bearing transaction deposit account and new senior unsecured debt issued by eligible institutions under the TLGP.			Achieved.
♦ Implement an orderly phase-out of new guarantees under the program when the period for issuance of new debt expires.			Achieved.
♦ Substantially complete by September 30, 2009, the review of and recommendations to the Department of Treasury on CPP applications from FDIC-supervised institutions.			Achieved.
♦ Expeditiously implement procedures for the LLP, including the guarantee to be provided for debt issued by Public Private Investment Funds, and provide information to financial institutions and private investors potentially interested in participating.			Achieved.
♦ Expeditiously implement procedures to review the use of CPP funds, TLGP guarantees, and other resources made available under financial stability programs during examinations of participating FDIC-supervised institutions.			Achieved.

INSURANCE PROGRAM RESULTS (continued)			
Strategic Goal:* *Insured depositors are protected from loss without recourse to taxpayer funding.			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
5. Set assessment rates to restore the insurance fund reserve ratio to the statutory minimum of 1.35 percent of estimated insured deposits by September 30, 2020.			
♦ Provide updated fund projections to the FDIC Board of Directors by June 30, 2011, and December 31, 2011.	Achieved.		
♦ Recommend changes to deposit insurance assessment rates for the DIF to the FDIC Board as necessary.	Achieved.		
♦ Provide updates to the FDIC Board by June 30, 2011, and December 31, 2011.	Achieved.		
6. Set assessment rates to restore the insurance fund reserve ratio to the statutory minimum of at least 1.15% of estimated insured deposits by year-end 2016, in accordance with the Amended Restoration Plan.			
♦ Provide updated fund projections to the FDIC Board of Directors by June 30, 2010, and December 31, 2010.		Achieved.	
♦ Recommend deposit insurance assessment rates for the DIF to the FDIC Board, as necessary.		Achieved.	
♦ Provide updates to the FDIC Board by June 30, 2010, and December 31, 2010.		Achieved.	
7. Maintain and improve the deposit insurance system.			
♦ Adopt and implement revisions to the pricing regulations that provide for greater risk differentiation among insured depository institutions reflecting both the probability of default and loss in the event of default.			Achieved.
♦ Revise the guidelines and enhance the additional risk measures used to adjust assessment rates for large institutions.			Achieved.
♦ Ensure/enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly.			Achieved.
♦ Set assessment rates to maintain the insurance fund reserve ratio between 1.15 and 1.50 percent of estimated insured deposits. Restore to 1.15 percent by year-end 2015.			Achieved.
♦ Monitor progress in achieving the restoration plan.			Achieved.
8. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.			
♦ Conduct at least three sets of deposit insurance seminars/teleconferences (per quarter in 2009) for bankers.			Achieved.
♦ Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	Achieved.		
♦ Conduct at least 12 telephone or in-person seminars for bankers on deposit insurance coverage.	Achieved.		Achieved.
♦ Enter into deposit insurance education partnerships with consumer organizations to educate consumers.			Achieved.

INSURANCE PROGRAM RESULTS (continued)			
***Strategic Goal:** Insured depositors are protected from loss without recourse to taxpayer funding.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
♦ Expand avenues for publicizing deposits insurance rules and resources to consumers through a variety of media.			Achieved.
9. Expand and strengthen the FDIC's participation and leadership role in providing technical guidance, training, consulting services, and information to international governmental banking and deposit insurance organizations; and in supporting robust international deposit insurance and banking systems.			
♦ Undertake outreach activities to inform and train foreign bank regulators and deposit insurers.	Achieved.	Achieved.	Achieved.
♦ Foster strong relationships with international banking regulators and associations that promote sound banking supervision and regulation, failure resolutions, and deposit insurance practices.	Achieved.	Achieved.	Achieved.
♦ Develop methodology and lead the International Association of Deposit Insurers training on the methodology for assessing compliance with implementation of the *Core Principles for Effective Deposit Insurance Systems.*	Achieved.	Achieved.	

SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS			
Strategic Goal: *FDIC-supervised institutions are safe and sound.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
1. Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions.			
♦ One hundred percent of required risk management examinations are conducted on schedule.		Achieved.	Achieved.
♦ Conduct 100 percent of required risk management examinations within the time frames prescribed by statute and FDIC policy.	Achieved.		
2. For all institutions that are assigned a composite Uniform Financial Institutions Rating of 3, 4, or 5, conduct on-site visits within six months after implementation of a corrective program. Ensure during these visits and subsequent examinations that the institution is fulfilling the requirements of the corrective program that has been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination.			
♦ Conduct 100 percent of required on-site visits within six months after implementation of a corrective program.	Achieved.		
3. Complete the transfer of personnel and supervisory responsibility for state-chartered thrifts from the Office of Thrift Supervision to the FDIC in accordance with approved plans and statutory requirements.			
♦ Complete the transfer of supervisory responsibility for state-chartered thrifts by July 21, 2011.	Achieved.		
♦ Identify the OTS employees to be transferred and complete the transfer of those employees to the FDIC no later than 90 days after July 21, 2011.	Achieved.		
4. Take prompt and effective supervisory action to address unresolved problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "3", "4", or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.			
♦ One hundred percent of required on-site visits are conducted within six months of completion of the prior examination to confirm that the institution is fulfilling the requirements of the corrective program.		Achieved.	
♦ One hundred percent of follow-up examinations are conducted within 12 months of completion of the prior examination to confirm that identified problems have been corrected.		Achieved.	Achieved.
5. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.			
♦ Conduct 100 percent of required Bank Secrecy Act examinations within the time frames prescribed by statute and FDIC policy.	Achieved.	Achieved	Achieved.
6. More closely align regulatory capital with risks and ensure that capital is maintained at prudential levels.			
♦ Complete by June 30, 2011, the final rule addressing capital floors for banking organizations.	Achieved.		
♦ Complete by September 30, 2011, the Basel III Notice of Proposed Rulemaking (NPR) for the new definition of capital, the July 2009 enhancements to resecuritizations risk weights, and securitization disclosures.	Deferred.		

SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS (continued)			
Strategic Goal: *FDIC-supervised institutions are safe and sound.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
♦ Complete by September 30, 2011, the Basel NPR for the new leverage ratio.	Deferred.		
♦ Complete by September 30, 2011 the Basel NPR for the new liquidity requirements.	Deferred.		
♦ Complete by December 31, 2011, the final rule on the Market Risk Amendment (includes finalizing alternatives to the use of credit ratings in accordance with DFA requirements).	Deferred.		
♦ Complete by September 30, 2011, the NPR for the Standardized Framework.	Deferred.		
♦ Conduct analyses of early results of the performance of new capital rules in light of recent financial turmoil as information becomes available.			Achieved.
♦ Workings domestically and internationally, develop improvements to regulatory capital requirements based on the experience of the recent financial market turmoil.			Achieved.
7. More closely align regulatory capital with risk and ensure that capital is maintained at prudential levels.			
♦ Complete by December 31, 2010, the rulemaking for implementing the Standardized Approach for an appropriate subset of U.S. banks.		Deferred.	
♦ Complete by December 31, 2010, the rulemaking for amending the floors for banks that calculate their risk-based capital requirements under the Advanced Approaches Capital rule to ensure capital requirements meet safety-and-soundness objectives.		Not Achieved.	
♦ Complete by December 31, 2010, the rulemaking for implementing revisions to the Market Risk Amendment of 1996.		Deferred.	
♦ Complete by December 31, 2010, the rulemaking for implementing revisions to regulatory capital charges for resecuritizations and asset-backed commercial paper liquidity facilities.		Deferred.	
8. Identify and address risks in financial institutions designated as systemically important.			
♦ Establish an ongoing FDIC monitoring program for all covered financial institutions.	Achieved.		
♦ Complete rulemaking to establish (with the Board of Governors of the Federal Reserve System) criteria for resolution plans to be submitted by systemically important institutions.	Achieved.		
9. Facilitate more effective regulatory compliance so as to reduce regulatory burden on the banking industry, where appropriate, while maintaining the independence and integrity of the FDIC's risk management and consumer compliance supervisory programs.			
♦ Issue by March 31, 2011, a revised corporate directive on the issuance of Financial Institution Letters (FILs) that includes a requirement that all FILs contain an informative section as to their applicability to smaller institutions (total assets under $1 billion).	Achieved.		
♦ Complete by June 30, 2011, a review of all recurring questionnaires and information requests to the industry and submit a report to FDIC management with recommendations on improving efficiency and ease of use, including a scheduled plan for implementing these revisions. Carry out approved recommendations in accordance with the plan.	Achieved.		

SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS (continued)			
Strategic Goal: *Consumers' rights are protected and FDIC-supervised institutions invest in their communities.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
1. Conduct on-site CRA and compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institution.			
♦ Conduct 100 percent of required examinations within the time frames established by FDIC policy.	Achieved.		
♦ One hundred percent of required examinations are conducted on schedule.		Achieved.	Achieved.
2. Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that received an overall "3", "4", or "5" rating for compliance with consumer protection and fair lending laws.			
♦ One hundred percent of follow-up examinations or visitations are conducted within 12 months from the date of a formal enforcement action to confirm compliance with the prescribed enforcement action.		Achieved.	Not Achieved.
♦ For all institutions that are assigned a compliance rating of 3, 4, or 5, conduct follow-up examinations or on-site visits within 12 months to ensure that each institution is fulfilling the requirements of any corrective programs that have been implemented and that the actions taken are effectively addressing the underlying concerns identified during the examination.	Achieved.		
3. Complete the transfer of personnel and supervisory responsibility for compliance examinations of FDIC supervised institutions with more than $10 billion in assets and their affiliates from the FDIC to the new Consumer Financial Protection Bureau (CFPB) in accordance with statutory requirements.			
♦ Complete by July 21, 2011, the transfer of supervisory responsibility from the FDIC to the CFPB.	Achieved.		
♦ Identify the FDIC employees to be transferred to the CFPB and transfer them in accordance with established time frames.	Achieved.		
4. Scrutinize evolving consumer products, analyze their current or potential impact on consumers, and identify potentially harmful or illegal practices. Promptly institute a supervisory response program across FDIC-supervised institutions when such practices are identified.			
♦ Proactively identify and respond to harmful or illegal practices associated with evolving consumer products.			Achieved.
5. Provide effective outreach related to the CRA, fair lending, and community development.			
♦ Conduct 50 technical assistance (examination support) efforts or banker/community outreach activities related to CRA, fair lending, and community development.			Achieved.
♦ Evaluate the ***Money Smart*** initiative and curricula for necessary updates and enhancements, such as games for young people, information on elder financial abuse, and additional language versions, if needed.			Achieved.
♦ Initiate the longitudinal survey project to measure the effectiveness of the ***Money Smart for Young Adults*** curriculum.			Achieved.
♦ Provide technical assistance, support, and consumer outreach activities in all six FDIC regions to at least eight local NeighborWorks® America affiliates or local coalitions that are providing foreclosure mitigation counseling in high need areas.			Achieved.

SUPERVISION AND CONSUMER PROTECTION PROGRAM RESULTS (continued)			
Strategic Goal: *Consumers' rights are protected and FDIC-supervised institutions invest in their communities.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
6. Continue to expand the FDIC's national leadership role in development and implementation of programs and strategies to encourage and promote broader economic inclusion within the nation's banking system.			
♦ Expand the number of AEI coalitions by two.			Achieved.
♦ Analyze quarterly data submitted by participating institutions to identify early trends and potential best practices.			Achieved.
7. Educate consumers about their rights and responsibilities under consumer protection laws and regulations.			
♦ Expand the use of media, such as the Internet, videos, and MP3 downloads, to disseminate information to the public on their rights and responsibilities as consumers.			Achieved.
8. Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.			
♦ Responses are provided to 95 percent of written consumer complaints and inquiries within time frames established by policy, with all complaints and inquiries receiving at least an initial acknowledgment within two weeks.	Achieved.	Achieved.	Achieved.
9. Establish, in consultation with the FDIC's Advisory Committee on Economic Inclusion and other regulatory agencies, national objectives and methods for reducing the number of unbanked and underbanked individuals.			
♦ Launch the FDIC Model Safe Accounts Pilot, begin data collection on the accounts from banks, and start reporting on results of the pilot.	Achieved.		
♦ Continue to promote the results of the FDIC Small-Dollar Loan Pilot and research opportunities for bringing small-dollar lending programs to scale, including exploring a test of employer-based lending using the federal workforce.	Achieved.		
♦ Engage in efforts to support safe mortgage lending in low- and moderate-income communities.	Achieved.		
♦ Facilitate completion of final recommendation on the initiatives identified in the Advisory Committee's strategic plan.		Achieved.	
♦ Implement, or establish plans to implement, Advisory Committee recommendations approved by the FDIC for further action, including new research, demonstration and pilot projects, and new and revised supervisory and public policies.		Achieved.	

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS			
Strategic Goal: *Recovery to creditors of receiverships is achieved.*			
Annual Performance Goals and Targets	**2011**	**2010**	**2009**
1. Market failing institutions to all known qualified and interested potential bidders.			
♦ Contact all known qualified and interested bidders.	Achieved.	Achieved.	Achieved.
2. Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.			
♦ Ninety percent of the book value of a failed institution's marketable assets is marketed within 90 days of failure.			Achieved.
♦ For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales).	Achieved.	Achieved.	
♦ Implement enhanced reporting capabilities from the Automated Procurement System.		Achieved.	
♦ Ensure that all newly designated oversight managers and technical monitors receive training in advance of performing contract administration responsibilities.		Achieved.	
♦ Optimize the effectiveness of oversight managers and technical monitors by restructuring work assignments, providing enhanced technical support, and improving supervision.		Achieved.	
♦ Identify and implement program improvements to ensure efficient and effective management of the contract resources used to perform receivership management functions.			Achieved.
3. Manage the receivership estate and its subsidiaries toward an orderly termination.			
♦ Terminate within three years of the date of failure, at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments.	Achieved.	Achieved.	Achieved.
4. Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.			
♦ For 80 percent of all claim areas, a decision is made to close or pursue professional liability claims within 18 months of the failure date of an insured depository institution.	Achieved.	Achieved.	Achieved.
5. Complete reviews of all loss-share and Limited Liability Corporation (LLC) agreements to ensure full compliance with the terms and conditions of the agreements.			
♦ Complete on-site field work for reviews of 100 percent of the loss-share and LLC agreements active as of December 31, 2010, to ensure full compliance with the terms and conditions of the agreements.	Achieved.		
♦ Review the final report and implement an action plan to address the report's finding and recommendations for 75 percent of the loss-share reviews and 50 percent of the LLC reviews, including all reviews of agreements totaling more than $1.0 billion (gross book value).	Achieved.		

IV. Financial Statements and Notes

DEPOSIT INSURANCE FUND (DIF)

FEDERAL DEPOSIT INSURANCE CORPORATION
DEPOSIT INSURANCE FUND BALANCE SHEET AT DECEMBER 31
Dollars in Thousands

	2012	2011
Assets		
Cash and cash equivalents	$3,100,361	$3,277,839
Cash and investments - restricted - systemic risk (Note 16) *(Includes cash/cash equivalents of $0 at December 31, 2012 and $1,627,073 at December 31, 2011)*	0	4,827,319
Investment in U.S. Treasury obligations, net (Note 3)	34,868,688	33,863,245
Trust preferred securities (Note 5)	2,263,983	2,213,231
Assessments receivable, net (Note 9)	1,006,852	282,247
Receivables and other assets - systemic risk (Note 16)	0	1,948,151
Interest receivable on investments and other assets, net	433,592	488,179
Receivables from resolutions, net (Note 4)	23,119,554	28,548,396
Property and equipment, net (Note 6)	392,880	401,915
Total Assets	**$65,185,910**	**$75,850,522**
Liabilities		
Accounts payable and other liabilities	$349,620	$374,164
Unearned revenue - prepaid assessments (Note 9)	1,576,417	17,399,828
Refunds of prepaid assessments (Note 9)	5,675,199	0
Liabilities due to resolutions (Note 7)	21,173,785	32,790,512
Debt Guarantee Program liabilities - systemic risk (Note 16)	0	117,027
Deferred revenue - systemic risk (Note 16)	0	6,639,954
Postretirement benefit liability (Note 13)	224,225	187,968
Contingent liabilities for:		
Anticipated failure of insured institutions (Note 8)	3,220,697	6,511,321
Systemic risk (Note 16)	0	2,216
Litigation losses (Note 8)	8,200	1,000
Total Liabilities	**32,228,143**	**64,023,990**
Commitments and off-balance-sheet exposure (Note 14)		
Fund Balance		
Accumulated Net Income	32,682,237	11,560,990
Accumulated Other Comprehensive Income		
Unrealized gain on U.S. Treasury investments, net (Note 3)	33,819	47,697
Unrealized postretirement benefit loss (Note 13)	(60,448)	(33,562)
Unrealized gain on trust preferred securities (Note 5)	302,159	251,407
Total Accumulated Other Comprehensive Income	**275,530**	**265,542**
Total Fund Balance	**32,957,767**	**11,826,532**
Total Liabilities and Fund Balance	**$65,185,910**	**$75,850,522**

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND (DIF)

FEDERAL DEPOSIT INSURANCE CORPORATION
DEPOSIT INSURANCE FUND STATEMENT OF INCOME AND FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2012	2011
Revenue		
Assessments (Note 9)	$12,397,022	$13,498,587
Interest on U.S. Treasury obligations	159,214	127,621
Systemic risk revenue (Note 16)	(161,135)	(131,141)
Other revenue (Note 10)	6,127,211	2,846,929
Total Revenue	**18,522,312**	**16,341,996**
Expenses and Losses		
Operating expenses (Note 11)	1,777,513	1,625,351
Systemic risk expenses (Note 16)	(161,135)	(131,141)
Provision for insurance losses (Note 12)	(4,222,595)	(4,413,629)
Insurance and other expenses	7,282	3,996
Total Expenses and Losses	**(2,598,935)**	**(2,915,423)**
Net Income	**21,121,247**	**19,257,419**
Other Comprehensive Income		
Unrealized (loss) gain on U.S. Treasury investments, net	(13,878)	20,999
Unrealized postretirement benefit loss (Note 13)	(26,886)	(15,059)
Unrealized gain (loss) on trust preferred securities (Note 5)	50,752	(84,587)
Total Other Comprehensive Income (Loss)	**9,988**	**(78,647)**
Comprehensive Income	**21,131,235**	**19,178,772**
Fund Balance - Beginning	**11,826,532**	**(7,352,240)**
Fund Balance - Ending	**$32,957,767**	**$11,826,532**

The accompanying notes are an integral part of these financial statements.

DEPOSIT INSURANCE FUND (DIF)

FEDERAL DEPOSIT INSURANCE CORPORATION DEPOSIT INSURANCE FUND STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31 Dollars in Thousands		
	2012	**2011**
Operating Activities		
Net Income:	**$21,121,247**	**$19,257,419**
Adjustments to reconcile net income to net cash (used by) operating activities:		
Amortization of U.S. Treasury obligations	854,195	388,895
Treasury Inflation-Protected Securities inflation adjustment	(98,050)	(25,307)
Depreciation on property and equipment	76,365	77,720
Loss on retirement of property and equipment	14	1,326
Provision for insurance losses	(4,222,595)	(4,413,629)
Unrealized Loss on postretirement benefits	(26,886)	(15,059)
Change in Operating Assets and Liabilities (Net of Provision for Losses):		
(Increase) in assessments receivable, net	(724,605)	(64,354)
Decrease (Increase) in interest receivable and other assets	51,181	(227,962)
Decrease (Increase) in receivables from resolutions	6,371,418	(5,802,003)
Decrease in receivables - systemic risk	1,948,151	321,271
(Decrease) in accounts payable and other liabilities	(24,543)	(140,123)
Increase in postretirement benefit liability	36,258	22,094
(Decrease) in contingent liabilities - systemic risk	(2,216)	(117,777)
(Decrease) in contingent liabilities - litigation losses	0	(276,000)
(Decrease) Increase in liabilities due to resolutions	(11,616,727)	2,278,635
(Decrease) Increase in Debt Guarantee Program liabilities - systemic risk	(117,027)	87,693
(Decrease) in unearned revenue - prepaid assessments	(15,823,411)	(12,657,206)
(Decrease) in deferred revenue - systemic risk	(6,513,828)	(2,399,644)
Increase in refunds of prepaid assessments	5,675,199	0
Net Cash (Used) by Operating Activities	**(3,035,860)**	**(3,704,011)**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations	32,132,623	12,976,273
Sale of U.S. Treasury obligations	2,554,781	0
Used by:		
Purchase of property and equipment	(67,344)	(64,896)
Purchase of U.S. Treasury obligations	(33,388,751)	(36,409,429)
Net Cash Provided (Used) by Investing Activities	**1,231,309**	**(23,498,052)**
Net (Decrease) in Cash and Cash Equivalents	**(1,804,551)**	**(27,202,063)**
Cash and Cash Equivalents - Beginning	**4,904,912**	**32,106,975**
Unrestricted Cash and Cash Equivalents - Ending	**3,100,361**	**3,277,839**
Restricted Cash and Cash Equivalents - Ending	**0**	**1,627,073**
Cash and Cash Equivalents - Ending	**$3,100,361**	**$4,904,912**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

DEPOSIT INSURANCE FUND
December 31, 2012 and 2011

1. OPERATIONS OF THE DEPOSIT INSURANCE FUND

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions) from loss due to institution failures. In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the DIF. Commercial banks, savings banks and savings associations (known as "thrifts") are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

The FDIC is also the administrator of the FSLIC Resolution Fund (FRF). The FRF is a resolution fund responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation. The DIF and the FRF are maintained separately by the FDIC to support their respective functions.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the FDIC is the manager of the Orderly Liquidation Fund (OLF). Established as a separate fund in the U.S. Treasury (Treasury), the OLF is inactive and unfunded until the FDIC is appointed as receiver for a covered financial company (a failing financial company, such as a bank holding company or nonbank financial company for which a systemic risk determination has been made as set forth in section 203 of the Dodd-Frank Act).

The Dodd-Frank Act granted the FDIC authority to establish a widely available program to guarantee obligations of solvent insured depository institutions (IDIs) or solvent depository institution holding companies (including affiliates) upon the systemic determination of a liquidity event during times of severe economic distress. The program would not be funded by the DIF but rather by fees and assessments paid by all participants in the program. If fees are insufficient to cover losses or expenses, the FDIC must impose a special assessment on participants as necessary to cover the shortfall. Any excess funds at the end of the liquidity event program would be deposited in the General Fund of the Treasury. The Dodd-Frank Act limits the FDIC's systemic risk determination authority under section 13 of the FDI Act to IDIs for which the FDIC has been appointed receiver. Prior to this change, the authority permitted open bank assistance and the creation of the Temporary Liquidity Guarantee Program (TLGP) that expired on December 31, 2012 (see Note 16).

The Dodd-Frank Act also created the Financial Stability Oversight Council (FSOC) of which the Chairman of the FDIC is a member and expanded the FDIC's responsibilities to include supervisory review of resolution plans (known as living wills) and backup examination authority for systemically important bank holding companies and nonbank financial companies. The living wills provide for an entity's rapid and orderly resolution in the event of material financial distress or failure.

Operations of the DIF

The primary purposes of the DIF are to 1) insure the deposits and protect the depositors of IDIs and 2) resolve failed IDIs upon appointment of the FDIC as receiver, in a manner that will result in the least possible cost to the DIF (unless a systemic risk determination is made).

The DIF is primarily funded from deposit insurance assessments. Other available funding sources, if necessary,

are borrowings from the Treasury, the Federal Financing Bank (FFB), Federal Home Loan Banks, and IDIs. The FDIC has borrowing authority of $100 billion from the Treasury and a Note Purchase Agreement with the FFB, not to exceed $100 billion, to enhance the DIF's ability to fund deposit insurance.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the DIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the Treasury. The MOL for the DIF was $132.9 billion and $114.4 billion as of December 31, 2012 and 2011, respectively.

Operations of Resolution Entities

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, pass-through conservatorships, and bridge institutions (collectively, resolution entities), and the claims against them, are accounted for separately from the DIF assets and liabilities to ensure that proceeds from these entities are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to resolution entities are accounted for as transactions of those entities. Resolution entities are billed by the FDIC for services provided on their behalf.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements pertain to the financial position, results of operations, and cash flows of the DIF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). As permitted by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the FDIC prepares financial statements in accordance with standards promulgated by the Financial Accounting Standards Board (FASB). These statements do not include reporting for assets and liabilities of resolution entities because these entities are legally separate and distinct, and the DIF does not have any ownership interests in them. Periodic and final accountability reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The more significant estimates include the valuation of trust preferred securities; the assessments receivable and associated revenue; the allowance for loss on receivables from resolutions (including shared-loss agreements); guarantee obligations for structured transactions; refunds of prepaid assessments; the postretirement benefit obligation; and the estimated losses for anticipated failures, litigation, and representations and indemnifications.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

Investment in U.S. Treasury Obligations

The DIF funds are required to be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Secretary of the Treasury must approve all such investments in excess of $100,000 and has granted the FDIC approval to invest the DIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Bureau of the Public Debt's Government Account Series program.

The DIF's investments in U.S. Treasury obligations are classified as available-for-sale. Securities designated as available-for-sale are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of net income. Income on securities is

calculated and recorded on a daily basis using the effective interest or straight-line method depending on the maturity of the security.

Revenue Recognition for Assessments

Assessment revenue is recognized for the quarterly period of insurance coverage based on an estimate. The estimate is derived from an institution's risk-based assessment rate and assessment base for the prior quarter adjusted for the current quarter's available assessment credits, certain changes in supervisory examination ratings for larger institutions, and a modest assessment base growth factor. At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution (see Note 9).

Capital Assets and Depreciation

The FDIC buildings are depreciated on a straight-line basis over a 35- to 50-year estimated life. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated useful life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated useful life.

Reporting on Variable Interest Entities

FDIC receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that were guaranteed by the FDIC in its corporate capacity (see Note 8, Contingent Liabilities for: FDIC Guaranteed Debt of Structured Transactions). As the guarantor of note obligations for several structured transactions, the FDIC in its corporate capacity is the holder of a variable interest in a number of variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by Accounting Standards Codification (ASC) Topic 810, *Consolidation*. These assessments are conducted to determine if the FDIC in its corporate capacity has 1) power to direct the activities that most significantly impact the economic performance of the VIE and 2) an obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When a variable interest holder has met both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. In accordance with the provisions of ASC 810, an assessment of the terms of the legal agreement for each VIE was conducted to determine whether any of the terms had been activated or modified in a manner which would cause the FDIC in its corporate capacity to be characterized as a primary beneficiary. In making that determination, consideration was given to which, if any, activities were significant to each VIE. Often, the right to service collateral, to liquidate collateral, or to unilaterally dissolve the limited liability company (LLC) or trust was determined to be the most significant activity. In other cases, it was determined that the structured transactions did not include such significant activities and that the design of the entity was the best indicator of which party was the primary beneficiary. The results of each analysis identified a party other than the FDIC in its corporate capacity as the primary beneficiary.

The conclusion of these analyses was that the FDIC in its corporate capacity has not engaged in any activity that would cause the FDIC in its corporate capacity to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2012 and 2011. Therefore, consolidation is not required for the 2012 and 2011 DIF financial statements. In the future, the FDIC in its corporate capacity may become the primary beneficiary upon the activation of provisional contract rights that extend to the Corporation if payments are made on guarantee claims. Ongoing analyses will be required in order to monitor consolidation implications under ASC 810.

The FDIC's involvement with VIEs, in its corporate capacity, is fully described in Note 8.

Related Parties

The nature of related parties and a description of related-party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Disclosure about Recent Relevant Accounting Pronouncements

Recent accounting pronouncements have been deemed to be not applicable or material to the financial statements as presented.

3. INVESTMENT IN U.S. TREASURY OBLIGATIONS, NET

As of December 31, 2012 and 2011, investments in U.S. Treasury obligations, net, were $34.9 billion and $33.9 billion, respectively. As of December 31, 2012 and 2011, the DIF held $5.3 billion and $5.0 billion, respectively, of Treasury Inflation-Protected Securities (TIPS), which are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). During 2012, the FDIC sold securities designated as available-for-sale for total proceeds of $2.6 billion. The gross realized gains and losses on these sales were $878 thousand and $241 thousand, respectively, which resulted in a total net gain of $637 thousand. The cost of these securities sold was determined based on specific identification. Since these securities were purchased on behalf of the TLGP, the realized gain was recognized in the "Deferred revenue - systemic risk" line item on the Balance Sheet.

TOTAL INVESTMENT IN U.S. TREASURY OBLIGATIONS, NET AT DECEMBER 31, 2012
Dollars in Thousands

Maturity	Yield at Purchase[1]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	0.34%	$24,800,000	$25,228,393	$19,871	$0	$25,248,264
After 1 year through 5 years	0.32%	4,050,000	4,341,814	4,569	0	4,346,383
U.S. Treasury Inflation-Protected Securities						
Within 1 year	-0.86%	1,650,000	1,813,291	0	(9,788)[2]	1,803,503
After 1 year through 5 years	-0.87%	2,900,000	3,451,371	19,167	0	3,470,538
Total		**$33,400,000**	**$34,834,869**	**$43,607**	**$(9,788)**	**$34,868,688**

[1] For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.0 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2012.

[2] The unrealized losses occurred as a result of temporary changes in market interest rates. These unrealized losses occurred over a period of less than a year. The FDIC does not intend to sell the TIPS and is not likely to be required to sell them before their maturity in 2013, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2012.

TOTAL INVESTMENT IN U.S. TREASURY OBLIGATIONS, NET AT DECEMBER 31, 2011
Dollars in Thousands

Maturity	Yield at Purchase[1]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	0.27%	$24,500,000[2]	$24,889,547	$17,842	$(93)	$24,907,296
After 1 year through 5 years	0.93%	3,900,000	3,923,428	38,778	0	3,962,206
U.S. Treasury Inflation-Protected Securities						
Within 1 year	0.51%	1,200,000	1,537,664	659	(8)	1,538,315
After 1 year through 5 years	-0.92%	3,050,000	3,464,909	0	(9,481)	3,455,428
Total		**$32,650,000**	**$33,815,548**	**$57,279**	**$(9,582)[3]**	**$33,863,245**

[1] For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 1.8 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2011.

[2] Includes one Treasury note totaling $1.8 billion which matured on Saturday, December 31, 2011. Settlement occurred on the next business day, January 3, 2012.

[3] All unrealized losses occurred as a result of temporary changes in market interest rates. These unrealized losses occurred over a period of less than a year. Unrealized losses related to the TIPS converted to unrealized gains by January 31, 2012, and unrealized losses related to the U.S. Treasury notes and bonds existed on just one security that matured with no unrealized loss on January 31, 2012, and thus the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2011.

4. RECEIVABLES FROM RESOLUTIONS, NET

RECEIVABLES FROM RESOLUTIONS, NET AT DECEMBER 31 Dollars in Thousands		
	2012	2011
Receivables from closed banks	$116,940,999	$121,369,428
Allowance for losses	(93,821,445)	(92,821,032)
Total	**$23,119,554**	**$28,548,396**

The receivables from resolutions result from payments made by the DIF to cover obligations to insured depositors (subrogated claims), advances to resolution entities for working capital, and administrative expenses paid on behalf of resolution entities. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Estimated future payments on losses incurred on assets sold to an acquiring institution under a shared-loss agreement (SLA) are factored into the computation of the expected repayment. Assets held by DIF resolution entities (including structured transaction-related assets; see Note 8) are the main source of repayment of the DIF's receivables from resolutions.

As of December 31, 2012, there were 463 active receiverships, including 51 established in 2012. As of December 31, 2012 and 2011, DIF resolution entities held assets with a book value of $53.5 billion and $71.4 billion, respectively (including $36.5 billion and $50.5 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables). Ninety-nine percent of the current asset book value of $53.5 billion is held by resolution entities established since the beginning of 2008.

Estimated cash recoveries from the management and disposition of assets that are used to determine the allowance for losses are based on asset recovery rates from several sources including actual or pending institution-specific asset disposition data, failed institution-specific asset valuation data, aggregate asset valuation data on several recently failed or troubled institutions, sampled asset valuation data, and empirical asset recovery data based on failures as far back as 1990. Methodologies for determining the asset recovery rates incorporate estimating future cash recoveries, net of applicable liquidation cost estimates, and discounting based on market-based risk factors applicable to a given asset's type and quality. The resulting estimated cash recoveries are then used to derive the allowance for loss on the receivables from these resolutions.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying SLA, the projected future shared-loss payments and recoveries on the covered assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. The shared-loss cost projections are based on the covered assets' intrinsic value which is determined using financial models that consider the quality, condition and type of covered assets, current and future market conditions, risk factors and estimated asset holding periods. For year-end 2012 financial reporting, the shared-loss cost estimates were updated for the majority (93% or 276) of the 298 active shared-loss agreements; the remaining 22 were based on recent loss estimates. The updated shared-loss cost projections for the larger agreements were primarily based on new third-party valuations estimating the cumulative loss of covered assets. The remaining agreements were stratified by receivership age. A random sample of institutions within each age stratum was selected for new third-party loss estimations, and valuation results from the sample institutions were aggregated and extrapolated to institutions within the like age stratum based on asset type and performance status.

Note that estimated asset recoveries are regularly evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions. Continuing economic uncertainties could cause the DIF's actual recoveries to vary significantly from current estimates.

Whole Bank Purchase and Assumption Transactions with Shared-Loss Agreements

Since the beginning of 2008, the FDIC resolved 301 failures using whole bank purchase and assumption resolution transactions with accompanying SLAs on total assets of $214.6 billion purchased by the financial institution acquirers. The acquirer typically assumes all of the deposits and

purchases essentially all of the assets of a failed institution. The majority of the commercial and residential loan assets are purchased under an SLA, where the FDIC agrees to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement. SLAs are used by the FDIC to keep assets in the private sector and to minimize disruptions to loan customers.

Losses on the covered assets are shared between the acquirer and the FDIC in its receivership capacity of the failed institution when losses occur through the sale, foreclosure, loan modification, or write-down of loans in accordance with the terms of the SLA. The majority of the agreements cover a five- to 10-year period with the receiver covering 80 percent of the losses incurred by the acquirer and the acquiring bank covering 20 percent. Prior to March 26, 2010, most SLAs included a threshold amount, above which the receiver covered 95 percent of the losses incurred by the acquirer. As mentioned above, the estimated shared-loss liability is accounted for by the receiver and is included in the calculation of the DIF's allowance for loss against the corporate receivable from the resolution. As shared-loss claims are asserted and proven, DIF receiverships satisfy these shared-loss payments using available liquidation funds and/or by drawing on amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 7).

As of December 31, 2012, 286 receiverships have made shared-loss payments totaling $23.3 billion. In addition, DIF receiverships are estimated to pay an additional $18.1 billion over the duration of these SLAs on $103.7 billion in total remaining covered assets.

Concentration of Credit Risk

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of the DIF's receivables from resolutions is primarily influenced by recoveries on assets held by DIF receiverships and payments on the covered assets under SLAs. The majority of the $120.7 billion in remaining assets in liquidation ($17.0 billion) and current shared-loss covered assets ($103.7 billion) are concentrated in commercial loans ($60.0 billion), residential loans ($43.6 billion), securities ($3.1 billion), and structured transaction-related assets as described in Note 8 ($12.1 billion). Most of the assets in these asset types originated from failed institutions located in California ($34.3 billion), Florida ($14.1 billion), Puerto Rico ($10.9 billion), Illinois ($10.5 billion), Georgia ($9.8 billion) and Alabama ($9.0 billion).

5. TRUST PREFERRED SECURITIES

Pursuant to a systemic risk determination, the Treasury, the FDIC, and the Federal Reserve Bank of New York executed terms of a guarantee agreement on January 15, 2009 with Citigroup to provide loss protection on a pool of approximately $301.0 billion of assets that remained on the balance sheet of Citigroup. In consideration for its portion of the shared-loss guarantee at inception, the FDIC received $3.025 billion of Citigroup's preferred stock. All shares of the preferred stock were subsequently converted to Citigroup Capital XXXIII trust preferred securities (TruPs) with a liquidation amount of $1,000 per security and a distribution rate of 8 percent per annum payable quarterly. The principal amount is due in 2039.

On December 23, 2009, Citigroup terminated the guarantee agreement, citing improvements in its financial condition. The FDIC incurred no loss from the guarantee prior to the termination of the agreement. In connection with the early termination of the agreement, the FDIC agreed to reduce its portion of the $3.025 billion in TruPs by $800 million. However, pursuant to an agreement between the Treasury and the FDIC, the Treasury agreed to return $800 million in TruPs on behalf of the FDIC from its portion of Citigroup TruPs holdings received as a result of the shared-loss agreement. The FDIC retained the $800 million of Citigroup TruPs as security in the event payments were required to be made by the DIF for guaranteed debt instruments issued by Citigroup and its affiliates under the TLGP. Because no payments were required prior to expiration of the TLGP on December 31, 2012, the FDIC transferred the $800 million in Citigroup TruPs and $183 million in related dividends and interest to the Treasury.

The remaining $2.225 billion (liquidation amount) of TruPs is classified as available-for-sale debt securities in accordance with FASB ASC Topic 320, *Investments – Debt and Equity Securities*. At December 31, 2012, the fair value of the TruPs was $2.264 billion (see Note 15). An unrealized holding gain of $302 million is included in accumulated other comprehensive income.

6. PROPERTY AND EQUIPMENT, NET

PROPERTY AND EQUIPMENT, NET AT DECEMBER 31 Dollars in Thousands		
	2012	2011
Land	$37,352	$37,352
Buildings (including leasehold improvements)	313,221	316,129
Application software (includes work-in-process)	135,059	130,718
Furniture, fixtures, and equipment	152,280	159,120
Accumulated depreciation	(245,032)	(241,404)
Total	**$392,880**	**$401,915**

The depreciation expense was $76 million and $78 million for 2012 and 2011, respectively.

7. LIABILITIES DUE TO RESOLUTIONS

As of December 31, 2012 and 2011, the DIF recorded liabilities totaling $21.1 billion and $32.7 billion, respectively, to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/ bridge institutions for use in funding the deposits assumed by the acquirers/ bridge institutions. Ninety-one percent of these liabilities are due to failures resolved under whole-bank purchase and assumption transactions, most with an accompanying SLA. The DIF satisfies these liabilities either by directly sending cash to the receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when the receivership declares a dividend.

In addition, there was $56 million and $80 million in unpaid deposit claims related to multiple receiverships as of December 31, 2012 and 2011, respectively. The DIF pays these liabilities when the claims are approved.

8. CONTINGENT LIABILITIES FOR:

Anticipated Failure of Insured Institutions

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail, absent some favorable event such as obtaining additional capital or merging, when the liability is probable and reasonably estimable. The contingent liability is derived by applying expected failure rates and loss rates to the institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

Banking industry performance continued to recover in 2012 at a gradual, steady pace. According to the quarterly financial data submitted by IDIs, the industry reported total net income of $107.4 billion for the first three quarters of 2012, an increase of 14.9% over the first three quarters of 2011. Improving credit performance, which has led to lower loan loss provisions, has been primarily responsible for most of the improvement in earnings. Losses to the DIF from failures that occurred in 2012 fell short of the amount reserved at the end of 2011, as the aggregate number and size of institution failures in 2012 were less than anticipated. The removal from the reserve of institutions that did fail in 2012, as well as projected favorable trends in bank supervisory downgrade and failure rates, all contributed to a decline by $3.3 billion to $3.2 billion in the contingent liability for anticipated failures of insured institutions at December 31, 2012.

In addition to these recorded contingent liabilities, the FDIC has identified risk in the financial services industry that could result in additional losses to the DIF should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of up to $6.3 billion for year-end 2012 as compared to $10.2 billion for year-end 2011. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2012, 51 institutions failed with combined assets at the date of failure of $11.8 billion. Supervisory and market data suggest that the financial performance of the banking industry should continue to improve over the coming year. However, ongoing asset quality problems and limited opportunities for earnings growth will continue to be sources of stress on the industry. In addition, two key risks continue to weigh on the economic outlook. First, uncertain prospects for the European economy have increased volatility in the global financial markets, which could trigger increased volatility in the U.S. financial markets and adversely affect the U.S. economy. Second, the outcome of continued

negotiations on the federal debt limit and the federal budget in 2013 could significantly affect the U.S. economy and, in turn, IDIs. The FDIC continues to evaluate the ongoing risks to affected institutions in light of existing economic and financial conditions, and the extent to which such risks will continue to put stress on the resources of the insurance fund.

Litigation Losses

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. The FDIC recorded probable litigation losses of $8 million and $1 million for the DIF as of December 31, 2012 and 2011, respectively, and has determined that there are no reasonably possible losses from unresolved cases.

Other Contingencies

IndyMac Federal Bank Representation and Indemnification Contingent Liability

On March 19, 2009, the FDIC as receiver of IndyMac Federal Bank (IMFB) and certain subsidiaries (collectively, sellers) sold substantially all of the assets of IMFB and the respective subsidiaries, including mortgage loans and mortgage loan servicing rights, to OneWest Bank and its affiliates. To maximize sale returns, the sellers made certain representations customarily made by commercial parties regarding the assets and agreed to indemnify the acquirers for losses incurred as a result of breaches of such representations, losses incurred as a result of the failure to obtain contractual counterparty consents to the sale, and third party claims arising from pre-sale acts and omissions of the sellers or the failed bank. Although the representations and indemnifications were made by or are obligations of the sellers, the FDIC, in its corporate capacity, guaranteed the receivership's indemnification obligations under the sale agreements. The representations relate generally to ownership of and right to sell the assets; compliance with applicable law in the origination of the loans; accuracy of the servicing records; validity of loan documents; and servicing of the loans serviced for others. Until the periods for asserting claims under these arrangements have expired and all indemnification claims quantified and paid, losses could continue to be incurred by the receivership and, in turn, the DIF, either directly, as a result of the FDIC corporate guaranty of the receivership's indemnification obligations, or indirectly, as a result of a reduction in the receivership's assets available to pay the DIF's claims as subrogee for insured accountholders. The acquirers' rights to assert claims to recover losses incurred as a result of breaches of loan seller representations extend out to March 19, 2019 for the Fannie Mae and Ginnie Mae reverse mortgage servicing portfolios (unpaid principal balance of $16.2 billion at December 31, 2012 compared to $16.7 billion at December 31, 2011), and March 19, 2014 for the Fannie Mae, Freddie Mac and Ginnie Mae mortgage servicing portfolios (unpaid principal balance of $34.3 billion at December 31, 2012 compared to $38.5 billion at December 31, 2011). The acquirers' rights to assert claims to recover losses incurred as a result of other third party claims (including due to pre-March 19, 2009 acts or omissions) and breaches of servicer representations, including liability with respect to the Fannie Mae, Ginnie Mae and Freddie Mac portfolios as well as the private mortgage servicing portfolio and whole loans (unpaid principal balance of $53.9 billion at December 31, 2012 compared to $62.0 billion at December 31, 2011) expired on March 19, 2011. As of the expiration date of this claim period, notices relating to potential defects were received, but they require review to determine whether a valid defect exists and, if so, the identification and costing of possible cure actions. It is highly unlikely that all of these potential defects will result in losses.

The IndyMac receivership has paid a cumulative total of $14 million in approved claims through December 31, 2012 and a cumulative total of $5 million through December 31, 2011. Additional claims asserted, but under review, were accrued in the amount of $1 million as of December 31, 2012 and $2 million as of December 31, 2011. Alleged breaches of origination and servicing representations exist, and it is probable that the IndyMac receivership and its subsidiary Financial Freedom Senior Funding Corporation may incur up to $80 million in losses; these estimated losses have been accrued as of December 31, 2012. In addition, review and evaluation is in process for approximately $32 million in reasonably possible liabilities with respect to alleged breaches of representations and warranties. Potential losses relating to origination and servicing representations, which currently cannot be quantified, may also be incurred under other agreements with investors.

The FDIC believes it is likely that additional losses will be

incurred, however quantifying the contingent liability associated with the representations and the indemnification obligations is subject to a number of uncertainties, including (1) borrower prepayment speeds, (2) the occurrence of borrower defaults and resulting foreclosures and losses, (3) the assertion by third party investors of claims with respect to loans serviced for them, (4) the existence and timing of discovery of breaches and the assertion of claims for indemnification for losses by the acquirer, (5) the compliance by the acquirer with certain loss mitigation and other conditions to indemnification, (6) third party sources of loss recovery (such as title companies and insurers), (7) the ability of the acquirer to refute claims from investors without incurring reimbursable losses, and (8) the cost to cure breaches and respond to third party claims. The difficulty in assessing losses is exacerbated further by the inability to use historical default and loss rates as a metric given recent economic events. Because of these and other uncertainties that surround the liability associated with indemnifications and the quantification of possible losses, the FDIC has determined that while additional losses are probable, the amount is not estimable.

Purchase and Assumption Indemnification

In connection with purchase and assumption agreements for resolutions, the FDIC in its receivership capacity generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC in its corporate capacity is a secondary guarantor if a receivership is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2012 and 2011, the FDIC in its corporate capacity made no indemnification payments under such agreements, and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC Guaranteed Debt of Structured Transactions

The FDIC as receiver uses three types of structured transactions to dispose of certain performing and non-performing residential mortgage loans, commercial loans, construction loans, and mortgage-backed securities held by the receiverships. The three types of structured transactions are 1) limited liability companies (LLCs), 2) securitizations, and 3) structured sale of guaranteed notes (SSGNs).

LLCs

Under the LLC structure, the FDIC in its receivership capacity contributes a pool of assets to a newly-formed LLC and offers for sale, through a competitive bid process, some of the equity in the LLC. The day-to-day management of the LLC transfers to the highest bidder along with the purchased equity interest. In many instances, the FDIC in its corporate capacity guarantees notes issued by the LLCs. In exchange for a guarantee, the DIF receives a guarantee fee in either 1) a lump-sum, up-front payment based on the estimated duration of the note or 2) a monthly payment based on a fixed percentage multiplied by the outstanding note balance. The terms of these guarantee agreements generally stipulate that all cash flows received from the entity's collateral be used to pay, in the following order, 1) operational expenses of the entity, 2) the FDIC's contractual guarantee fee, 3) the guaranteed notes (or, if applicable, fund the related defeasance account for payoff of the notes at maturity), and 4) the equity investors. If the FDIC is required to perform under these guarantees, it acquires an interest in the cash flows of the LLC equal to the amount of guarantee payments made plus accrued interest thereon. Once all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments, the equity holders receive any remaining cash flows.

Since 2009, private investors have purchased a 40- to 50-percent ownership interest in the LLC structures for $1.6 billion in cash and the LLCs issued notes of $4.4 billion to the receiverships to partially fund the purchase of the assets. The receiverships hold the remaining 50- to 60-percent equity interest in the LLCs and, in most cases, the guaranteed notes. The FDIC in its corporate capacity guarantees the timely payment of principal and interest due on the notes. The terms of the note guarantees extend until the earlier of 1) payment in full of the notes or 2) two years following the maturity date

of the notes. The note with the longest term matures in 2020. In the event of note payment default, the FDIC as guarantor is entitled to exercise or cause the exercise of certain rights and remedies including: 1) accelerating the payment of the unpaid principal amount of the notes; 2) selling the assets held as collateral; or 3) foreclosing on the equity interests of the debtor.

Securitizations and SSGNs

Securitizations and SSGNs (collectively, "trusts") are transactions in which certain assets or securities from failed institutions are pooled and transferred into a trust structure. The trusts issue 1) senior and/or subordinated debt instruments and 2) owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

Since 2010, private investors purchased the senior notes issued by the trusts for $5.7 billion in cash. The receiverships hold 100 percent of the subordinated debt instruments and owner trust or residual certificates. The FDIC in its corporate capacity guarantees the timely payment of principal and interest due on the senior notes, the latest maturity of which is 2050. In exchange for the guarantee, the DIF receives a monthly payment based on a fixed percentage multiplied by the outstanding note balance. These guarantee agreements generally stipulate that all cash flows received from the entity's collateral be used to pay, in the following order, 1) operational expenses of the entity, 2) the FDIC's contractual guarantee fee, 3) interest on the guaranteed notes, 4) principal of the guaranteed notes, and 5) the holders of the subordinated notes and owner trust or residual certificates. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest thereon. Once all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments, the subordinated note holders and owner trust or residual certificates holders receive the remaining cash flows.

All Structured Transactions with FDIC Guaranteed Debt

Through December 31, 2012, the receiverships have transferred a portfolio of loans with an unpaid principal balance of $16.4 billion and mortgage-backed securities with a book value of $8.1 billion to 14 LLCs and 9 trusts. The LLCs and trusts subsequently issued notes guaranteed by the FDIC in an original principal amount of $10.1 billion. As of December 31, 2012 and 2011, the DIF collected guarantee fees totaling $218 million and $203 million, respectively, and recorded a receivable for additional guarantee fees of $95 million and $106 million, respectively, included in the "Interest receivable on investments and other assets, net" line item on the Balance Sheet. All guarantee fees are recorded as deferred revenue, included in the "Accounts payable and other liabilities" line item, and recognized as revenue primarily on a straight-line basis over the term of the notes. At December 31, 2012 and 2011, the amount of deferred revenue recorded was $101 million and $134 million, respectively. The DIF records no other structured-transaction-related assets or liabilities on its balance sheet.

The estimated loss to the DIF from the guarantees is derived from an analysis of the net present value (using a discount rate of 3 percent) of the expected guarantee payments by the FDIC, reimbursements to the FDIC for guarantee payments, and guarantee fee collections. The FDIC believes that it is reasonably possible that the DIF could incur an estimated loss for one transaction of $5.7 million in 2020, net of expected guarantee fees of $4.2 million. This estimated loss may vary over time as conditions change. For all of the remaining transactions, the cash flows from the LLC or trust assets provide sufficient coverage to fully pay the debts. To date, the FDIC in its corporate capacity has not provided, and does not intend to provide, any form of financial or other type of support to a trust or LLC that it was not previously contractually required to provide.

As of December 31, 2012 and 2011, the maximum loss exposure was $2.2 billion and $3.7 billion for LLCs and $3.2 billion and $3.9 billion for trusts, respectively, representing the sum of all outstanding debt guaranteed by the FDIC in its corporate capacity. Some transactions have established defeasance accounts to pay off the notes at maturity. As of December 31, 2012 and 2011, a total of $1.6 billion and $2.2 billion, respectively, has been deposited into these accounts.

9. ASSESSMENTS

The Dodd-Frank Act provided for significant assessment and capitalization reforms for the DIF. In response, the FDIC implemented several changes to the assessment system and developed a comprehensive, long-term fund management plan. The plan is

designed to restore and maintain a positive fund balance for the DIF even during a banking crisis and achieve moderate, steady assessment rates throughout any economic cycle. Summarized below are actions taken to implement assessment system changes and provisions of the comprehensive plan.

Restoration Plan

In October 2010, the FDIC adopted a Restoration Plan to ensure that the ratio of the DIF fund balance to estimated insured deposits (reserve ratio) reaches 1.35 percent by September 30, 2020 in lieu of the previous target of 1.15 percent by the end of 2016. In addition, the Plan provides for the FDIC to 1) pursue rulemaking regarding the method that will be used to offset the impact of the increased reserve ratio on small institutions (less than $10 billion in assets) and 2) update, at least semiannually, its loss and income projections for the fund and, if needed, increase or decrease assessment rates, following notice-and-comment rulemaking, if required.

Designated Reserve Ratio

In December 2012, the FDIC adopted a final rule maintaining the designated reserve ratio (DRR) at 2 percent, effective January 1, 2013. The DRR is an integral part of the FDIC's comprehensive, long-term management plan for the DIF and is viewed as a long-range, minimum target for the reserve ratio.

Calculation of Assessment

In February 2011, the FDIC adopted a final rule, effective on April 1, 2011, amending part 327 of title 12 of the Code of Federal Regulations to 1) redefine the assessment base used for calculating deposit insurance assessments from adjusted domestic deposits to average consolidated total assets minus average tangible equity (measured as Tier 1 capital); 2) change the assessment rate adjustments; 3) lower the initial base rate schedule and the total base rate schedule for all IDIs to collect approximately the same revenue for the DIF as would have been collected under the old assessment base; 4) suspend dividends indefinitely, and, in lieu of dividends, adopt lower assessment rate schedules when the reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent; and 5) change the risk-based assessment system for large IDIs (generally, those institutions with at least $10 billion in total assets). Specifically, the final rule eliminates risk categories and the use of long-term debt issuer ratings for large institutions and combines CAMELS ratings and certain forward-looking financial measures into two scorecards: one for most large institutions and another for large institutions that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex IDIs).

In October 2012, the FDIC adopted a final rule which amends and clarifies some definitions of higher-risk assets as used in the deposit insurance pricing scorecards for large and highly complex IDIs by 1) revising the definitions of certain higher-risk assets, specifically leveraged loans and subprime consumer loans, 2) clarifying when an asset must be identified as higher risk, and 3) clarifying the way securitizations are identified as higher risk. The goal of this final rule is to ensure that the assessment system captures the risk inherent in higher-risk assets without imposing an unnecessary reporting burden. The final rule will become effective on April 1, 2013 and provides that, until then, large and highly complex IDIs will continue to report higher-risk assets using existing guidance.

Assessment Revenue

Annual assessment rates averaged approximately 10.1 cents per $100 and 11.1 cents per $100 of the new assessment base (as described above) for all of 2012 and the last three quarters of 2011, respectively. The annual assessment rate averaged approximately 17.6 cents per $100 of the adjusted domestic deposits assessment base for the first quarter of 2011.

In December 2009, a majority of IDIs prepaid $45.7 billion of estimated quarterly risk-based assessments to address the DIF's liquidity need to pay for projected failures and to ensure that the deposit insurance system remained industry-funded. For the fourth quarter 2009 and each subsequent quarter, an institution's risk-based deposit insurance assessment was offset by the available amount of prepaid assessments, thereby reducing that institution's prepaid assessment balance. By regulation, any remaining prepaid assessments must be refunded to the institutions after collection of the amount due on June 30, 2013. The final prepaid offset will occur in June 2013 for the assessment period ending March 31, 2013. Therefore, at December 31, 2012, the "Unearned revenue – prepaid assessments" line item on the Balance Sheet of $1.6 billion represents the final estimated prepaid offset and the "Refunds of prepaid assessments" line item reflects the estimate of $5.7 billion that will

be returned to the institutions in June 2013. Though the combined total for both the prepaid offset and refunds will remain unchanged, the estimated amount for each component may vary considerably because of the uncertainty inherent in projecting the assessment rate and base for IDIs beyond the customary 90-day period.

For those institutions that did not prepay assessments or whose prepaid assessments have been exhausted, the "Assessments receivable, net" line item on the Balance Sheet of $1.0 billion and $282 million as of December 31, 2012 and 2011, respectively, represents the estimated premiums due from IDIs for the fourth quarter of 2012 and 2011, respectively.

Reserve Ratio

As of September 30, 2012, the DIF reserve ratio was 0.35 percent of estimated insured deposits.

Assessments Related to FICO

Assessments continue to be levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the former FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the DIF and is separate from deposit insurance assessments. The FDIC, as administrator of the DIF, acts solely as a collection agent for the FICO. During 2012 and 2011, approximately $797 million and $795 million, respectively, was collected and remitted to the FICO.

10. OTHER REVENUE

OTHER REVENUE FOR THE YEARS ENDED DECEMBER 31 Dollars in Thousands		
	2012	**2011**
Temporary Liquidity Guarantee Program revenue (Note 16)	$5,885,330	$2,569,579
Dividends and interest on Citigroup trust preferred securities (Note 5)	177,831	178,000
Guarantee fees for structured transactions (Note 8)	57,206	92,229
Other	6,844	7,121
Total	**$6,127,211**	**$2,846,929**

Temporary Liquidity Guarantee Program Revenue

Pursuant to a systemic risk determination in October 2008, the FDIC established the TLGP (see Note 16). In exchange for guarantees issued under the TLGP, the DIF received fees that were set aside, as deferred revenue, for potential TLGP losses. As losses occurred, the DIF recognized the losses as systemic risk expenses and offset the losses by recognizing an equivalent portion of the deferred revenue as systemic risk revenue. This accounting practice isolated systemic risk activities from the normal operating activities of the DIF.

In accordance with FDIC policy, the DIF recognized revenue during the guarantee period when guarantee fees held were determined to be in excess of amounts needed to cover potential losses, and, for all remaining TLGP assets held as deferred revenue, upon expiration of the TLGP on December 31, 2012. As a result, the DIF recognized total revenue of $5.9 billion and $2.6 billion in 2012 and 2011, respectively.

11. OPERATING EXPENSES

Operating expenses were $1.8 billion and $1.6 billion for 2012 and 2011, respectively. The chart below lists the major components of operating expenses.

OPERATING EXPENSES FOR THE YEARS ENDED DECEMBER 31 Dollars in Thousands		
	2012	**2011**
Salaries and benefits	$1,300,697	$1,320,991
Outside services	337,379	342,502
Travel	106,897	115,135
Buildings and leased space	91,631	93,630
Software/Hardware maintenance	63,108	58,981
Depreciation of property and equipment	76,365	77,720
Other	21,137	46,652
Subtotal	**1,997,214**	**2,055,611**
Services billed to resolution entities	(219,701)	(430,260)
Total	**$1,777,513**	**$1,625,351**

12. PROVISION FOR INSURANCE LOSSES

Provision for insurance losses was negative $4.2 billion for 2012, compared to negative $4.4 billion for 2011. The negative provision for 2012 primarily resulted from a reduction of $1.4 billion in the contingent loss reserve due to the improvement in the financial condition of institutions that were previously identified to fail and a decrease of $2.8 billion in the estimated losses for institutions that failed in the current and prior years.

13. EMPLOYEE BENEFITS

Pension Benefits and Savings Plans

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the DIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The DIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to 5 percent. Under the Federal Thrift Savings Plan (TSP), the FDIC provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP, but they do not receive agency matching contributions.

PENSION BENEFITS AND SAVINGS PLANS EXPENSES FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2012	2011
Civil Service Retirement System	$5,960	$6,140
Federal Employees Retirement System (Basic Benefit)	97,517	95,846
FDIC Savings Plan	37,700	36,645
Federal Thrift Savings Plan	34,555	33,910
Total	**$175,732**	**$172,541**

Postretirement Benefits other than Pensions

The DIF has no postretirement health insurance liability since all eligible retirees are covered by the Federal Employees Health Benefits (FEHB) program. The FEHB is administered and accounted for by the OPM. In addition, OPM pays the employer share of the retiree's health insurance premiums.

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life and dental insurance coverage are those who have qualified due to 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverage to direct-pay plans. For the dental coverage, retirees are responsible for a portion of the dental premium.

The FDIC has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (the difference between the accumulated postretirement benefit obligation and the plan assets at fair value) as a liability. Since there are no plan assets, the plan's benefit liability is equal to the accumulated postretirement benefit obligation. At December 31, 2012 and 2011, the liability was $224 million and $188 million, respectively, which is recognized in the "Postretirement benefit liability" line item on the Balance Sheet. The cumulative actuarial losses (changes in assumptions and plan experience) and prior service costs (changes to plan provisions that increase benefits) were $60 million and $34 million at December 31, 2012 and 2011, respectively. These amounts are reported as accumulated other comprehensive income in the "Unrealized postretirement benefit loss" line item on the Balance Sheet.

The DIF's expenses for postretirement benefits for 2012 and 2011 were $14 million and $12 million, respectively, which are included in the current and prior year's operating expenses on the Statement of Income and Fund Balance. The changes in the actuarial

losses and prior service costs for 2012 and 2011 of $27 million and $15 million, respectively, are reported as other comprehensive income in the "Unrealized postretirement benefit loss" line item on the Statement of Income and Fund Balance. Key actuarial assumptions used in the accounting for the plan include the discount rate of 3.75 percent, the rate of compensation increase of 4.0 percent, and the dental coverage trend rate of 5.6 percent. The discount rate of 3.75 percent is based upon rates of return on high-quality fixed income investments whose cash flows match the timing and amount of expected benefit payments.

14. COMMITMENTS AND OFF-BALANCE-SHEET EXPOSURE

Commitments:

Leased Space

The FDIC's lease commitments total $216 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The DIF recognized leased space expense of $54 million and $56 million for the years ended December 31, 2012 and 2011, respectively.

LEASED SPACE COMMITMENTS
Dollars in Thousands

2013	2014	2015	2016	2017	2018/ Thereafter
$52,160	$46,521	$36,496	$33,509	$29,068	$18,511

Off-Balance-Sheet Exposure:

Deposit Insurance

Estimates of insured deposits are derived primarily from quarterly financial data submitted by IDIs to the FDIC and represent the accounting loss that would be realized if all IDIs were to fail and the acquired assets provided no recoveries. As of September 30, 2012 and December 31, 2011, estimated insured deposits for the DIF were $7.3 trillion and $7.0 trillion, respectively, including $1.5 trillion and $1.4 trillion, respectively, of noninterest-bearing transaction deposits that exceeded the basic limit of $250,000 per account. Under the Dodd-Frank Act, noninterest-bearing transaction deposits received unlimited deposit insurance coverage from December 31, 2010 through December 31, 2012. Upon expiration of this unlimited coverage on December 31, 2012, these deposits pose no further exposure to the DIF.

15. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets recognized and measured at fair value on a recurring basis at each reporting date include cash equivalents (Note 2), the investment in U.S. Treasury obligations (Note 3) and trust preferred securities (Note 5). The following tables present the DIF's financial assets measured at fair value as of December 31, 2012 and 2011.

In exchange for prior shared-loss guarantee coverage provided to Citigroup, the FDIC and the Treasury received TruPs (see Note 5). At December 31, 2012, the fair value of the securities in the amount of $2.264 billion was classified as a Level 2 measurement based on an FDIC-developed model using observable market data for traded Citigroup securities to determine the expected present value of future cash flows. Key inputs include market yields on U.S. dollar interest rate swaps and discount rates for default, call, and liquidity risks that are derived from traded Citigroup securities and modeled pricing relationships.

Some of the DIF's financial assets and liabilities are not recognized at fair value but are recorded at amounts that approximate fair value due to their short maturities and/or comparability with current interest rates. Such items include interest receivable on investments, assessments receivable, other short-term receivables, refunds of prepaid assessments, accounts payable, and other liabilities.

The net receivables from resolutions primarily include the DIF's subrogated claim arising from obligations to insured depositors. The resolution entity assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the DIF's allowance for loss against the receivables from resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of resolution entity assets (see Note 4), such valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate a fair value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of resolution entity payments to the DIF on the subrogated claim does not necessarily correspond with the timing of collections on resolution entity assets. Therefore, the effect of discounting used by resolution entities should not necessarily be viewed as producing an estimate of fair value for the net receivables from resolutions.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2012
Dollars in Thousands

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$3,091,778			$3,091,778
Available-for-Sale Debt Securities				
Investment in U.S. Treasury obligations[2]	34,868,688			34,868,688
Trust preferred securities		$2,263,983		2,263,983
Total Assets	**$37,960,466**	**$2,263,983**	**$0**	**$40,224,449**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt.

[2] The investment in U.S. Treasury obligations is measured based on prevailing market yields for federal government entities.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2011
Dollars in Thousands

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$3,266,631			$3,266,631
Available-for-Sale Debt Securities				
Investment in U.S. Treasury obligations[2]	33,863,245			33,863,245
Trust preferred securities		$2,213,231		2,213,231
Trust preferred securities held for UST (Note 5)		795,769		795,769
Total Assets	**$37,129,876**	**$3,009,000**	**$0**	**$40,138,876**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt.

[2] The investment in U.S. Treasury obligations is measured based on prevailing market yields for federal government entities.

16. SYSTEMIC RISK TRANSACTIONS

Pursuant to a systemic risk determination, the FDIC established the TLGP (codified in part 370 of title 12 of the Code of Federal Regulations) for IDIs, designated affiliates and certain holding companies on October 14, 2008, in an effort to counter the system-wide crisis in the nation's financial sector. The DIF received fees in exchange for guarantees issued under the TLGP and set aside, as deferred revenue, all fees for potential TLGP losses. As systemic risk expenses were incurred, the DIF reduced deferred revenue and recognized an offsetting amount as systemic risk revenue. Also, DIF recognized systemic risk revenue when guarantee fees held were determined to be in excess of amounts needed to cover potential losses. As a result, systemic risk activities were isolated from the normal operating activities of the DIF.

At its inception, the TLGP consisted of two components: 1) the Transaction Account Guarantee Program (TAG) and 2) the Debt Guarantee Program (DGP). The TAG provided unlimited coverage for noninterest-bearing transaction accounts held by IDIs on all deposit amounts exceeding the fully insured limit of $250,000 through December 31, 2010. During its existence, the FDIC collected TAG fees of $1.2 billion. Total subrogated claims arising from obligations to depositors with noninterest-bearing transaction accounts were $8.8 billion, with estimated losses of $2.1 billion.

The DGP permitted participating entities to issue FDIC-guaranteed senior unsecured debt through October 31, 2009. The FDIC's guarantee for all such debt expired no later than December 31, 2012. Through the end of the debt issuance period, the DIF collected $8.3 billion of guarantee fees and received additional fees of $1.2 billion from participating entities that elected to issue senior unsecured non-guaranteed debt. During the program, guaranteed debt issued totaled $618.0 billion and the FDIC paid $153 million in claims for principal and interest arising from the default of guaranteed debt obligations of six debt issuers.

The expiration of the guarantee period for the DGP on December 31, 2012 marked the conclusion of the TLGP. As established under terms of the TLGP, all excess funds were transferred to the DIF. Since inception, the DIF recognized total "Other revenue" of $8.5 billion (see Note 10). In 2012, the DIF received $5.2 billion of cash and a net receivable of $693 million included in "Receivables from resolutions, net". The net receivable represents estimated recoveries on payments under the TLGP to cover obligations. In 2011, the DIF received $2.6 billion of cash and U.S. Treasury obligations.

TLGP SUMMARY (INCEPTION THROUGH DECEMBER 31, 2012) Dollars in Thousands		
Collections:		
Transaction Account Guarantee Program fees		$1,156,332
Debt Guarantee Program fees		9,490,993
Interest earned on TLGP funds		42,293
Total TLGP Fees and Interest Earned		**$10,689,618**
Payments:		
Transaction Account Guarantee Program claims	$(8,769,873)	
Less: Receipts of receivership dividends	6,016,597	
Net Transaction Account Guarantee Program claims		(2,753,276)
Debt Guarantee Program claims paid		(153,127)
TLGP operating expenses		(6,707)
Total TLGP Claims and Expenses Paid		**$(2,913,110)**
Cash Transferred to the DIF		**7,776,508**
Estimated Recovery on TAG Claims Paid		693,248
Excess TLGP Assets Transferred to the DIF		**$8,469,756**

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2013, the date the financial statements are available to be issued.

2013 Failures through February 14, 2013

Through February 14, 2013, two insured institutions failed in 2013 with total losses to the DIF estimated to be $43 million.

FSLIC RESOLUTION FUND (FRF)

FEDERAL DEPOSIT INSURANCE CORPORATION
FSLIC RESOLUTION FUND BALANCE SHEET AT DECEMBER 31
Dollars in Thousands

	2012	2011
Assets		
Cash and cash equivalents	$3,594,007	$3,533,410
Receivables from thrift resolutions and other assets, net (Note 3)	5,456	65,163
Receivables from U.S. Treasury for goodwill litigation (Note 4)	356,455	356,455
Total Assets	**$3,955,918**	**$3,955,028**
Liabilities		
Accounts payable and other liabilities	$2,442	$3,544
Contingent liabilities for goodwill litigation (Note 4)	356,455	356,455
Total Liabilities	**358,897**	**359,999**
Resolution Equity (Note 5)		
Contributed capital	128,056,656	127,875,656
Accumulated deficit	(124,459,635)	(124,280,627)
Total Resolution Equity	**3,597,021**	**3,595,029**
Total Liabilities and Resolution Equity	**$3,955,918**	**$3,955,028**

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND (FRF)

FEDERAL DEPOSIT INSURANCE CORPORATION
FSLIC RESOLUTION FUND STATEMENT OF INCOME AND ACCUMULATED DEFICIT
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2012	2011
Revenue		
Interest on U.S. Treasury obligations	$2,458	$1,361
Other revenue	2,549	3,257
Total Revenue	**5,007**	**4,618**
Expenses and Losses		
Operating expenses	4,165	4,660
Provision for losses	(1,408)	(8,578)
Goodwill litigation expenses (Note 4)	181,000	82,960
Recovery of tax benefits	0	(18,373)
Other expenses	258	205
Total Expenses and Losses	**184,015**	**60,874**
Net Loss	**(179,008)**	**(56,256)**
Accumulated Deficit - Beginning	**(124,280,627)**	**(124,224,371)**
Accumulated Deficit - Ending	**$(124,459,635)**	**$(124,280,627)**

The accompanying notes are an integral part of these financial statements.

FSLIC RESOLUTION FUND (FRF)

FEDERAL DEPOSIT INSURANCE CORPORATION
FSLIC RESOLUTION FUND STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2012	2011
Operating Activities		
Net Loss	**$(179,008)**	**$(56,256)**
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Provision for losses	(1,408)	(8,578)
Change in Operating Assets and Liabilities:		
Decrease (Increase) in receivables from thrift resolutions and other assets	61,115	(33,177)
(Decrease) Increase in accounts payable and other liabilities	(1,102)	554
Increase in contingent liabilities for goodwill litigation	0	32,960
Net Cash (Used) by Operating Activities	**(120,403)**	**(64,497)**
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill litigation (Note 4)	181,000	50,000
Net Cash Provided by Financing Activities	**181,000**	**50,000**
Net Increase (Decrease) in Cash and Cash Equivalents	**60,597**	**(14,497)**
Cash and Cash Equivalents - Beginning	**3,533,410**	**3,547,907**
Cash and Cash Equivalents - Ending	**$3,594,007**	**$3,533,410**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

FSLIC RESOLUTION FUND
December 31, 2012 and 2011

1. OPERATIONS/DISSOLUTION OF THE FSLIC RESOLUTION FUND

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the DIF. Commercial banks, savings banks and savings associations (known as "thrifts") are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board. In addition, the FDIC, through administration of the FSLIC Resolution Fund (FRF), is responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The DIF and the FRF are maintained separately by the FDIC to support their respective functions.

The U.S. Congress created the FSLIC through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FRF, and transferred the assets and liabilities of the FSLIC to the FRF-except those assets and liabilities transferred to the newly created RTC-effective on August 9, 1989. Further, the FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions.

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

Operations/Dissolution of the FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay the interest on the REFCORP bonds. In addition, the FRF-FSLIC has available until expended $602 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities. Some of the issues and items that remain open in FRF are 1) criminal restitution orders (generally have from 1 to 13 years remaining to enforce); 2) collections of settlements and judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have from 2 to 14 years remaining to enforce, unless the judgments are renewed, which will result in significantly longer periods for collection for some judgments); 3) a few assistance agreements entered into by the former FSLIC (FRF could continue to receive or refund overpayments of tax benefits sharing through 2014); 4) goodwill litigation (no final date for resolution has been established; see Note 4); and 5) affordable housing program monitoring (requirements can exceed 25 years). The FRF could potentially realize recoveries from tax benefits sharing of up to approximately $40 million; however, any associated recoveries are not reflected in

FRF's financial statements given the significant uncertainties surrounding the ultimate outcome. The FDIC will consider returning a portion of the FRF-FSLIC's remaining funds of $3.4 billion to the U.S. Treasury in 2013.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from FRF assets and liabilities to ensure that receivership proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Receiverships are billed by the FDIC for services provided on their behalf.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements pertain to the financial position, results of operations, and cash flows of the FRF and are presented in accordance with U.S. generally accepted accounting principles (GAAP). As permitted by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the FDIC prepares financial statements in accordance with standards promulgated by the Financial Accounting Standards Board (FASB). These statements do not include reporting for assets and liabilities of receivership entities because these entities are legally separate and distinct, and the FRF does not have any ownership interests in them. Periodic and final accountability reports of receivership entities are furnished to courts, supervisory authorities, and others upon request.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed. The more significant estimates include the allowance for losses on receivables from thrift resolutions and the estimated losses for litigation.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments consisting primarily of U.S. Treasury Overnight Certificates.

Provision for Losses

The provision for losses represents the change in the estimation of the allowance for losses related to the receivables from thrift resolutions and other assets.

Related Parties

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Disclosure about Recent Relevant Accounting Pronouncements

Recent accounting pronouncements have been deemed to be not applicable or material to the financial statements as presented.

3. RECEIVABLES FROM THRIFT RESOLUTIONS AND OTHER ASSETS, NET

Receivables from Thrift Resolutions

The receivables from thrift resolutions include payments made by the FRF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by the FDIC in its receivership capacity for the former RTC are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2012, three of the 850 FRF receiverships remain active until their liability-related impediments are resolved.

The FRF receiverships held assets with a book value of $13 million and $15 million as of December 31, 2012 and 2011, respectively (which primarily consist of cash held for non-FRF, third party creditors).

Other Assets

Other assets decreased by $59 million to $3 million primarily due to the collection of a receivable for tax benefits sharing of $44 million and the release of the credit enhancement

reserves of $13 million (see Note 4, Contingent Liabilities for: Guarantees). The tax benefits sharing collection represented the FRF's share of tax savings by entities that either entered into assistance agreements with the former FSLIC, or have subsequently purchased financial institutions that had prior agreements with the FSLIC.

RECEIVABLES FROM THRIFT RESOLUTIONS AND OTHER ASSETS, NET AT DECEMBER 31 Dollars in Thousands		
	2012	2011
Receivables from closed thrifts	$869,917	$1,800,417
Allowance for losses	(867,208)	(1,797,154)
Receivables from Thrift Resolutions, Net	**2,709**	**3,263**
Other assets	2,747	61,900
Total	**$5,456**	**$ 65,163**

4. CONTINGENT LIABILITIES FOR:

Goodwill Litigation

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States.

On July 22, 1998, the Department of Justice's (DOJ's) Office of Legal Counsel (OLC) concluded that the FRF is legally available to satisfy all judgments and settlements in the goodwill litigation involving supervisory action or assistance agreements. OLC determined that nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. On July 23, 1998, the U.S. Treasury determined, based on OLC's opinion, that the FRF is the appropriate source of funds for payments of any such judgments and settlements. The FDIC General Counsel concluded that, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements or judgments arising out of the goodwill litigation.

The FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) such sums as may be necessary for the payment of judgments and compromise settlements in the goodwill litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any estimated liability for goodwill litigation should have a corresponding receivable from the U.S. Treasury and therefore have no net impact on the financial condition of the FRF.

For the year ended December 31, 2012, the FRF paid $181 million as a result of a settlement in one goodwill case compared to $50 million for one goodwill case in 2011. The FRF received appropriations from the U.S. Treasury to fund these payments.

As of December 31, 2012, two remaining cases are active and pending against the United States based on alleged breaches of the agreements stated above. Of these two remaining cases, a contingent liability and an offsetting receivable of $356 million was recorded for one case as of December 31, 2012 and 2011. This case is currently before the lower court pending remand following appeal. It is reasonably possible that for this case the FRF could incur additional estimated losses of $63 million, representing additional damages contended by the plaintiff. For the other remaining active case, no awards were given to the plaintiffs by the appellate court. This case is fully adjudicated but the Court of Federal Claims is considering awarding litigation costs to the United States.

At December 31, 2011, there were five active cases. For three of the cases considered active at year end 2011, one was settled and paid during 2012 and two were fully adjudicated with no award; in one of these two cases the Court of Federal Claims awarded litigation costs of $231 thousand to the United States, which was paid in 2012.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred

by the DOJ, the entity that defends these lawsuits against the United States, based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and the DOJ. FRF-FSLIC pays in advance the estimated goodwill litigation expenses. Any unused funds are carried over and applied toward the next fiscal year (FY) charges. In 2012, FRF-FSLIC did not provide any additional funding to the DOJ because the unused funds from prior fiscal years were sufficient to cover estimated FY 2013 expenses.

Guarini Litigation

Paralleling the goodwill cases were similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements allegedly contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs from the FSLIC, even though the FSLIC provided the plaintiffs with tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

All eight of the original Guarini cases have been settled. However, a case settled in 2006 further obligates the FRF-FSLIC as a guarantor for all tax liabilities in the event the settlement amount is determined by tax authorities to be taxable. The maximum potential exposure under this guarantee is approximately $81 million. However, the FDIC believes that it is very unlikely the settlement will be subject to taxation. More definitive information may be available during 2013, after the Internal Revenue Service (IRS) completes its Large Case Program audit on the affected entity's 2006 returns; this audit remains ongoing. As of December 31, 2012, no liability has been recorded. The FRF does not expect to fund any payment under this guarantee.

Guarantees

On May 21, 2012, the FDIC, in its capacity as manager of the FRF, entered into an agreement with Fannie Mae for the release of $13 million of credit enhancement reserves to the FRF in exchange for indemnifying Fannie Mae for all future losses incurred on 76 multi-family mortgage loans. The former RTC supplied Fannie Mae with the credit enhancement reserves in the form of cash collateral to cover future losses on these mortgage loans through 2020. The maximum exposure on this indemnification is the current unpaid principal balance of the remaining 73 multi-family loans totaling $10 million. Based on a contingent liability assessment of this portfolio, the average loan-to-value ratio is 21%, the majority of the loans are at least 60% amortized, and all are scheduled to mature within three to eight years. Since all of the loans are currently in performing status and no losses have occurred since 2001, future payments on this indemnification are not expected. As a result, the FRF has not recorded a contingent liability for this indemnification as of December 31, 2012.

5. RESOLUTION EQUITY

As stated in the Overview section of Note 1, the FRF is comprised of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

RESOLUTION EQUITY AT DECEMBER 31, 2012
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$46,126,319	$81,749,337	$127,875,656
Add: U.S. Treasury payment for goodwill litigation	181,000	0	181,000
Contributed capital - ending	**46,307,319**	**81,749,337**	**128,056,656**
Accumulated deficit	(42,882,341)	(81,577,294)	(124,459,635)
Total	**$3,424,978**	**$172,043**	**$3,597,021**

Contributed Capital

The FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively, to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the Financing Corporation (a mixed-ownership government corporation established to function solely as a financing vehicle for the FSLIC) and the RTC issued

$31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates.

FRF-FSLIC received $181 million in U.S. Treasury payments for goodwill litigation in 2012. Furthermore, $356 million was accrued for as receivables as of December 31, 2012 and 2011. Through December 31, 2012, the FRF has received or established a receivable for a total of $2.2 billion of goodwill appropriations, the effect of which increases contributed capital.

Through December 31, 2012, the FRF-RTC has returned $4.6 billion to the U.S. Treasury and made payments of $5.0 billion to the REFCORP. These actions serve to reduce contributed capital. The most recent payment to the REFCORP was in January of 2008 for $225 million.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses and losses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.8 billion and $87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by $13.1 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.3 billion, since their dissolution dates.

6. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the FRF's financial assets measured at fair value on a recurring basis as of December 31, 2012 and 2011.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2012
Dollars in Thousands

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$3,425,097			$3,425,097
Total Assets	**$3,425,097**	**$0**	**$0**	**$3,425,097**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt. Cash equivalents are included in the "Cash and cash equivalents" line item.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2011
Dollars in Thousands

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$3,377,203			$3,377,203
Credit enhancement reserves[2]		$14,431		14,431
Total Assets	$3,377,203	$14,431	$0	$3,391,634

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Bureau of Public Debt. Cash equivalents are included in the "Cash and cash equivalents" line item.

[2] Credit enhancement reserves are valued by performing projected cash flow analyses using market-based assumptions.

Some of the FRF's financial assets and liabilities are not recognized at fair value but are recorded at amounts that approximate fair value due to their short maturities and/or comparability with current interest rates. Such items include other short-term receivables and accounts payable and other liabilities.

The net receivable from thrift resolutions is influenced by the underlying valuation of receivership assets. This corporate receivable is unique and the estimate presented is not necessarily indicative of the amount that could be realized in a sale to the private sector. Such a sale would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. Consequently, it is not practicable to estimate its fair value.

GOVERNMENT ACCOUNTABILITY OFFICE'S AUDIT OPINION

United States Government Accountability Office
Washington, D.C. 20548

Independent Auditor's Report

To the Board of Directors
The Federal Deposit Insurance Corporation

In our audits of the 2012 and 2011 financial statements of the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF), both of which are administered by the Federal Deposit Insurance Corporation (FDIC)[1], we found

- the financial statements of the DIF and the FRF as of and for the years ended December 31, 2012, and 2011, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2012; and
- no reportable noncompliance with provisions of laws and regulations we tested.

The following sections discuss in more detail (1) our reports on the financial statements and internal control, including two matters of emphasis related to improvements in the banking industry's and the DIF's financial condition, and the expiration of the Temporary Liquidity Guarantee Program; (2) our report on compliance with laws and regulations; and (3) agency comments and our evaluation.

Reports on the Financial Statements and Internal Control

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended, and the Government Corporation Control Act, we have audited the financial statements of the DIF and FRF, both of which are administered by FDIC. The DIF statements comprise the balance sheets as of December 31, 2012 and 2011; the related statements of income and fund balance, and cash flows for the years then ended; and the related

[1]A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, 1506 (July 21, 2010), is unfunded and did not have any transactions during 2012 or 2011.

notes to the financial statements. The FRF statements comprise the balance sheets as of December 31, 2012 and 2011; the related statements of income and accumulated deficit, and cash flows for the years then ended; and the related notes to the financial statements. We also have audited FDIC's internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2012, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

FDIC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (3) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (4) providing its assertion about the effectiveness of internal control over financial reporting as of December 31, 2012, based on its evaluation, included in the accompanying Management Report on Internal Control over Financial Reporting in Appendix 1.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements and opinions on FDIC's internal control over financial reporting relevant to the DIF and the FRF based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects as of December 31, 2012.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control based on the assessed risk, and testing relevant internal control over financial reporting. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.[2]

Definitions and Inherent Limitations of Internal Control

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally

[2]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion:

- The DIF's financial statements present fairly, in all material respects, the DIF's financial position as of December 31, 2012, and 2011; the results of its operations; and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.
- The FRF's financial statements present fairly, in all material respects, the FRF's financial position as of December 31, 2012, and 2011; the results of its operations; and its cash flows for the years then ended, in accordance with U.S generally accepted accounting principles.
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2012, based on criteria established under FMFIA.
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2012, based on criteria established under FMFIA.

In our 2011 audit report[3] we reported a significant deficiency[4] concerning the effectiveness of controls over FDIC's process for deriving and

[3]GAO, Financial Audit: Federal Deposit Insurance Corporation Funds' 2011 and 2010 Financial Statements, GAO-12-416, (Washington, D.C.: Apr. 19, 2012).

[4]A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

reporting estimates of losses to the DIF from resolution transactions involving shared loss agreements.[5] During 2012, FDIC corrected the underlying control issues that constituted the significant deficiency.

During our 2012 audit, we identified deficiencies in FDIC's internal control that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

Emphasis of Matters

Improvement in the Banking Industry's and the DIF's Financial Condition

As discussed in note 8 to DIF's financial statements, the banking industry continued to recover in 2012. During 2012, 51 insured institutions with combined assets of $11.8 billion failed. The losses to the DIF from failures that occurred in 2012 were lower than the amount reserved at the end of 2011, as the aggregate number and size of institution failures in 2012—and their estimated cost to the DIF—were less than anticipated. DIF's contingent liability for anticipated failures declined from $6.5 billion at December 31, 2011 to $3.2 billion at December 31, 2012. As discussed in note 17 to the DIF's financial statements, through February 14, 2013, two institutions have failed thus far during 2013.

As of December 31, 2012, the DIF had a fund balance of $33 billion, compared to a fund balance of $11.8 billion at December 31, 2011. The DIF's ratio of reserves to estimated insured deposits as of the end of September of 2012 was 0.35 percent, compared to 0.17 percent at the end of 2011. This improvement was primarily attributable to increased revenue in 2012 and, as noted above, lower losses from failed institutions than estimated at December 31, 2011, and a reduction in estimated losses from anticipated failures at December 31, 2012. FDIC'S long-range target is to maintain the reserve ratio at a minimum 2 percent.

[5]Under shared loss agreements FDIC sells a failed institution to an acquirer with an agreement that FDIC, through the DIF, will share in any losses the acquirer experiences in servicing and disposing of assets purchased and covered under the shared loss agreement. Typically these agreements are structured such that FDIC assumes 80 percent of any such losses.

Expiration of the Temporary Liquidity Guarantee Program

As discussed in note 16 to the DIF's financial statements, in an effort to counter the system-wide crisis in the nation's financial sector, FDIC established the Temporary Liquidity Guarantee Program (TLGP) on October 14, 2008, for insured depository institutions, designated affiliates and certain holding companies. At its inception, the TLGP consisted of two components: (1) the Transaction Account Guarantee Program (TAG) and (2) the Debt Guarantee Program (DGP). The TAG provided unlimited coverage for noninterest-bearing transaction accounts held by insured depository institutions on all deposit amounts exceeding the fully insured limit of $250,000 through December 31, 2010. The DGP permitted participating entities to issue FDIC-guaranteed senior unsecured debt through October 31, 2009. FDIC's guarantee for all such debt expired on December 31, 2012. The expiration of the guarantee period for the DGP marked the conclusion of the TLGP. As established under terms of the TLGP, all excess funds were transferred to the DIF. Accordingly, in 2012, the DIF recognized total "Other revenue" of $5.9 billion related to the TLGP. This revenue consisted of $5.2 billion of cash and a net receivable of $693 million included in "Receivables from resolutions, net." The net receivable represents estimated recoveries on payments made under the TLGP to cover obligations.

Our opinion on the DIF's financial statements is not modified with respect to these matters.

Report on Compliance with Laws and Regulations

In connection with our audits of the financial statements of the DIF and the FRF, both of which are administered by the FDIC, we have tested compliance with selected provisions of laws and regulations that have a direct and material effect on the DIF and FRF financial statements. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FDIC management is responsible for complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to selected

provisions of laws and regulations that have a direct and material effect on the financial statements for the year ended December 31, 2012. We caution that noncompliance may occur and not be detected by these tests.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws and Regulations

The purpose of this report is solely to describe the scope of our testing of compliance with laws and regulations, and the results of that testing, and not to provide an opinion on compliance with laws and regulations. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance with laws and regulations. Accordingly, this report on compliance with laws and regulations is not suitable for any other purpose.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, the FDIC's Chief Financial Officer (CFO) noted that the agency was pleased that we provided unmodified (unqualified) opinions on the DIF and FRF financial statements and that we reported that it had effective internal control over financial reporting and complied with tested provisions of laws and regulations.

FDIC's CFO also stated that FDIC is pleased that we acknowledged the agency's efforts to resolve the prior year significant deficiency related to estimating losses to DIF from shared-loss agreements. He also commented that FDIC will continue to focus on strengthening and improving its internal control environment, and that FDIC will continue its

dedication to establishing sound financial management as a top priority in helping achieve the agency's mission.

James R. Dalkin
Director
Financial Management and Assurance

February 14, 2013

Appendix I

MANAGEMENT'S RESPONSE

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

Deputy to the Chairman and CFO

February 14, 2013

Mr. James Dalkin
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2012 Financial Statements Audit Report

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's **(GAO's) draft report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2012 and 2011 Financial Statements**, GAO-13-291. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified (unqualified) opinions for the twenty-first consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). Also, GAO reported that the FDIC had effective internal control over financial reporting and that there was no reportable noncompliance with provisions of laws and regulations that were tested. Additionally, FDIC is pleased that GAO acknowledged our efforts to resolve the prior year significant control deficiency related to estimating losses to the DIF from shared-loss agreements.

During the audit year, the FDIC management and staff continued to take steps to strengthen and improve the internal control environment and will continue to focus on this area in the coming audit year. FDIC recognizes the important role a strong internal control program plays in an agency achieving its mission. Our dedication to sound financial management has been and will remain a top priority.

In complying with audit standards that require management to provide a written assertion about the effectiveness of its internal control over financial reporting, the FDIC has prepared **Management's Report on Internal Control over Financial Reporting** (see attachment). The report acknowledges management's responsibility for establishing and maintaining internal control over financial reporting and provides the FDIC's conclusion regarding the effectiveness of its internal control.

We want to thank the GAO staff for their professionalism and dedication during the audit and look forward to a productive and successful relationship during the 2013 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Steven O. App

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

Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles (GAAP), and compliance with applicable laws and regulations.

The objective of the FDIC's internal control over financial reporting is to reasonably assure that (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws and regulations that could have a direct and material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the FDIC's internal control over financial reporting as of December 31, 2012 through its corporate risk management program that seeks to comply with the spirit of the following standards, among others: Federal Managers' Financial Integrity Act of 1982 (FMFIA); Chief Financial Officers Act (CFO Act); Government Performance and Results Act (GPRA); Federal Information Security Management Act (FISMA); and OMB Circular A-123. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control - Integrated Framework* and the U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government.*

Based on the above assessment, management concluded that, as of December 31, 2012, FDIC's internal control over financial reporting is effective based upon the criteria established in FMFIA.

Federal Deposit Insurance Corporation
February 14, 2013

OVERVIEW OF THE INDUSTRY

The 7,181 FDIC-insured commercial banks and savings institutions that filed financial results for the first nine months of 2012 reported net income of $106.9 billion, an increase of 15.0 percent compared to the first nine months of 2011. This is the third consecutive year that industry earnings have registered a year-over-year increase. The improvement in earnings was attributable to lower expenses for loan-loss provisions, increased noninterest income, higher realized gains on securities and other assets, and growth in net interest income. Two out of every three institutions reported year-over-year increases in net income, and the percentage of institutions with negative net income for the first nine months of the year fell to 10.7 percent, down from 15.9 percent a year earlier.

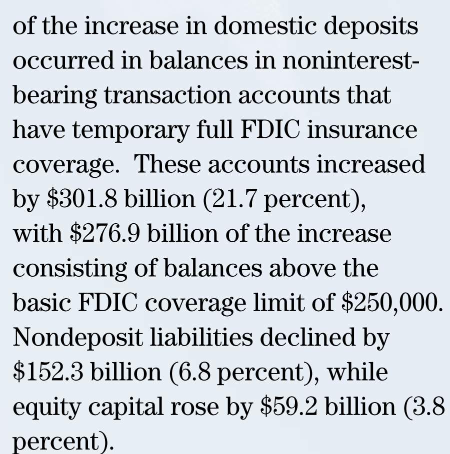
The average return on assets (ROA) for the first nine months was 1.02 percent, up from 0.92 percent for the same period of 2011. This is the highest nine-month industry ROA since 2007. More than half of insured institutions (57.7 percent) had higher ROAs in 2012 than in 2011. Insured institutions set aside $43.3 billion in provisions for loan and lease losses during the first nine months of 2012, a decline of $14.4 billion (25.0 percent) compared to the same period in 2011. The industry's total noninterest income increased by $10.3 billion (5.9 percent), as income from loan sales rose by $9.3 billion (201.9 percent). Total noninterest expenses were $9.3 billion (3.0 percent) higher, led by a $6.6 billion (5.0-percent) increase in salary and benefit expenses.

A challenging environment of low short-term interest rates combined with a flat yield curve contributed to a decline in the industry's net interest margin in 2012. The average margin fell from 3.61 percent in the first three quarters of 2011 to 3.46 percent for the first three quarters of 2012. However, the industry's interest-earning assets grew by 4.6 percent from the end of September 2011 through the end of September 2012, helping to boost net interest income by $1.9 billion (0.6 percent).

Indicators of asset quality continued to improve in 2012. In the twelve months ended September 30, total noncurrent loans and leases -- those that were 90 days or more past due or in nonaccrual status – declined by $22.2 billion (7.1 percent). Loans secured by real estate properties accounted for more than half ($13.0 billion) of the reduction in noncurrent loans. New accounting and reporting guidelines resulted in a $14.9 billion (8.1 percent) increase in the amount of noncurrent 1-4 family residential real estate loan balances reported, but this increase did not represent deterioration in the underlying performance of these loans. Noncurrent real estate construction and development loans fell by $17.0 billion (45.9 percent), and noncurrent real estate loans secured by nonfarm nonresidential properties declined by $8.2 billion (19.6 percent). Noncurrent balances in all other major loan categories declined, led by loans to commercial and industrial (C&I) borrowers (down $5.0 billion, or 26.1 percent). Net charge-offs of loans and leases (NCOs) totaled $64.4 billion in the first three quarters of 2012, a decline of $23.5 billion (26.7 percent) over the same period in 2011. Credit card NCOs registered the largest year-over-year decline, falling by $9.3 billion (31.4 percent). Net charge-offs of real estate construction and development loans declined by $4.0 billion (56.4 percent), C&I NCOs were $2.8 billion (32.6 percent) lower than in the first nine months of 2011, and NCOs in all other major loan categories also posted significant declines. At the end of September 2012, there were 694 institutions on the FDIC's "Problem List," down from 844 "problem" institutions a year earlier.

Asset growth remained modest in 2012, but loan balances increased, after three consecutive years of contraction. During the 12 months ended September 30, total assets of insured institutions increased by $411.0 billion (3.0 percent). Loans and leases accounted for more than half of the increase in total assets, rising by $267.8 billion (3.7 percent). C&I loans increased by $173.6 billion (13.5 percent), residential mortgage loans rose by $33.2 billion (1.8 percent), auto loans increased by $19.8 billion (6.7 percent) and real estate loans secured by multifamily residential properties were up by $10.9 billion (5.0 percent). In contrast, real estate construction and development loans fell by $44.3 billion (17.4 percent), and home equity loans declined by $41.0 billion (6.7 percent).

Growth in deposits outpaced the increase in total assets. In the 12 months ended September 30, total deposits of insured institutions increased by $504.0 billion (5.0 percent). Deposits in domestic offices rose by $554.9 billion, (6.5 percent), while foreign office deposits fell by $50.9 billion. Much



of the increase in domestic deposits occurred in balances in noninterest-bearing transaction accounts that have temporary full FDIC insurance coverage. These accounts increased by $301.8 billion (21.7 percent), with $276.9 billion of the increase consisting of balances above the basic FDIC coverage limit of $250,000. Nondeposit liabilities declined by $152.3 billion (6.8 percent), while equity capital rose by $59.2 billion (3.8 percent).

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V. Corporate Management Control

The FDIC uses several means to maintain comprehensive internal controls, ensure the overall effectiveness and efficiency of operations, and otherwise comply as necessary with the following federal standards, among others:

- ♦ Chief Financial Officers' Act (CFO Act)
- ♦ Federal Managers' Financial Integrity Act (FMFIA)
- ♦ Federal Financial Management Improvement Act (FFMIA)
- ♦ Government Performance and Results Act (GPRA)
- ♦ Federal Information Security Management Act (FISMA)
- ♦ OMB Circular A-123
- ♦ GAO's Standards for Internal Control in the Federal Government

As a foundation for these efforts, the Corporate Management Control Branch in DOF [formerly the Office of Enterprise Risk Management (OERM)] traditionally has overseen a corporate-wide program of relevant activities by establishing policies and working with management in each division and office in the FDIC. The FDIC has made a concerted effort to ensure that operational risks have been identified and that corresponding control needs are being incorporated into day-to-day operations. The program also requires that comprehensive procedures be documented, employees be thoroughly trained, and supervisors be held accountable for performance and results. Compliance monitoring is carried out through periodic management reviews and by the distribution of various activity reports to all levels of management. Conscientious attention is also paid to the implementation of audit recommendations made by the FDIC Office of the Inspector General, the GAO, the Treasury Department's Special Inspector General for the TARP program, and other providers of external/audit scrutiny. The FDIC has received unmodified/unqualified opinions on its financial statement audits for 21 consecutive years, and these and other positive results reflect the effectiveness of the overall management control program.

Significantly, since the beginning of the financial crisis, the FDIC expanded the range of issues receiving close management scrutiny to encompass crisis-related challenges. As the severity of the crisis has subsided over the past two years, the focus of controls has shifted, specifically to encompass downsizing activities and the transfer of workloads due to the closing of temporary offices.

We are developing plans for 2013 and beyond to ensure the continuation of a smooth transition of operations as we move toward a post-crisis operating environment. Among other things, program evaluation activities in the coming year will focus not only on new responsibilities associated with the Dodd-Frank Act and other internal organizational changes, but on the closing of additional temporary

satellite offices and the downsizing of staffing in general. Continued emphasis and management scrutiny also will be applied to contracting oversight, the accuracy and integrity of transactions, the expansion of performance metrics, and oversight of systems development efforts in general.

MANAGEMENT REPORT ON FINAL ACTIONS

As required under amended Section 5 of the Inspector General Act of 1978, the FDIC must report information on final action taken by management on certain audit reports. The tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period October 1, 2011, through September 30, 2012.

TABLE 1:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR FISCAL YEAR 2012
Dollars in Thousands

	Audit Reports	Number of Reports	Disallowed Costs
A.	Management decisions – final action not taken at beginning of period	2	$31,476
B.	Management decisions made during the period	6	$30,683
C.	**Total reports pending final action during the period (A and B)**	8	$62,159
D.	Final action taken during the period:		
	1. Recoveries:		
	(a) Collections & offsets	7	$37,971
	(b) Other	0	$0
	2. Write-offs	3	$23,460
	3. Total of 1 & 2	7[1]	$61,431[2]
E.	Audit reports needing final action at the end of the period	2[3]	$3,794

[1] Three reports have both collections and write-offs, thus the total of 1(a), 1(b), and 2 is seven.

[2] Amount collected in D3 included excess recoveries of $2.8 million not reflected in line E.

[3] One report had a recovery, however, one recommendation remains open; thus, the number of reports needing final action is two.

TABLE 2:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR FISCAL YEAR 2012
Dollars in Thousands

	Audit Reports	Number of Reports	Funds Put To Better Use
A.	Management decisions – final action not taken at beginning of period	0	$0
B.	Management decisions made during the period	0	$0
C.	Total reports pending final action during the period (A and B)	0	$0
D.	Final action taken during the period:		
	1. Value of recommendations implemented (completed)	0	$0
	2. Value of recommendations that management concluded should not or could not be implemented or completed	0	$0
	3. Total of 1 and 2	0	$0
E.	Audit reports needing final action at the end of the period	0	$0

TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2012
MANAGEMENT ACTION IN PROCESS

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
EVAL-11-006 09/30/2011	OIG recommends that the FDIC, FRB, and OCC agency heads review the matters for consideration presented in this report and work through the Financial Stability Oversight Council to determine whether the Prompt Regulatory Action legislation or implementing regulations should be modified. As a recap, FDIC should increase the minimum Prompt Corrective Action (PCA) capital levels, and continue to refine the deposit insurance system for banks with assets under $10 billion to assess greater premiums commensurate with risk-taking.	A working group is reviewing PGA and other tools in consultation with stakeholders to identify non-capital indicators of potential problems and opportunities for early supervisory intervention. The working group's analysis will be presented to Executive Management for review and consideration. Expected completion date: March 31, 2012 FDIC will evaluate comments on the agencies notices of proposed rulemaking that would revise and replace the agencies' current capital rules along with considering modifications to the PCA capital triggers as well as other potential changes designed to strengthen the PCA framework. Expected completion date: June 30, 2013	$0

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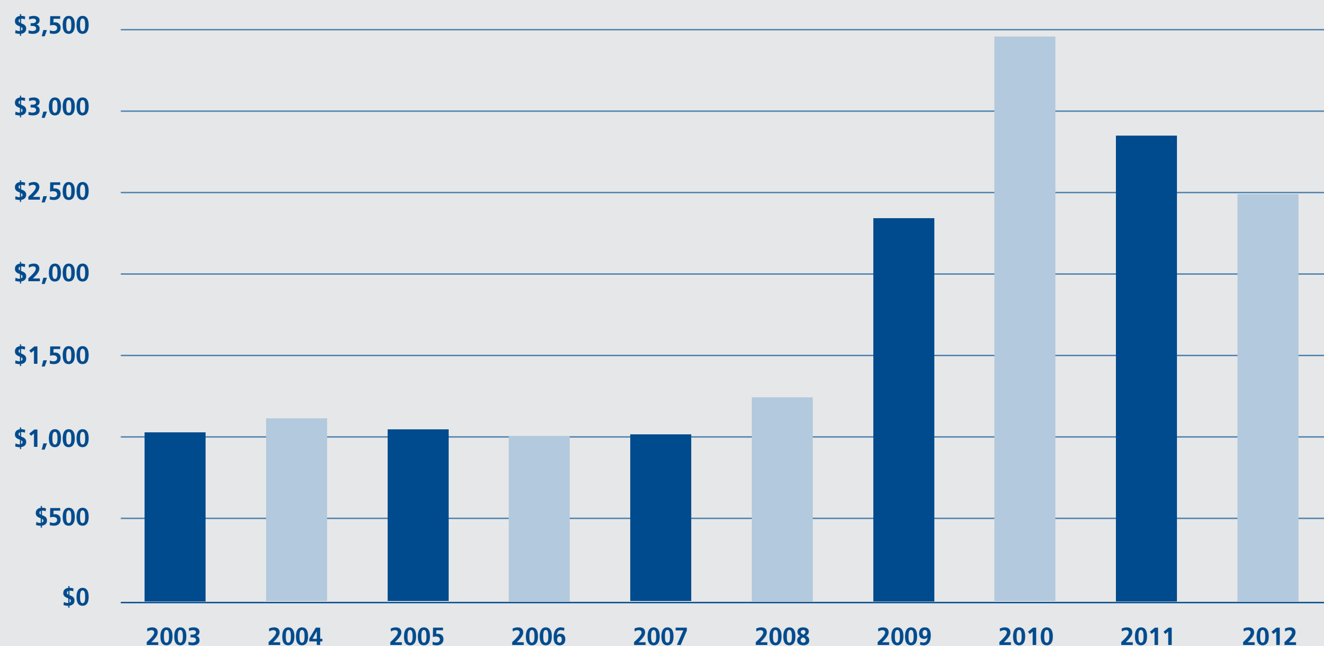
VI. Appendices

A. KEY STATISTICS

FDIC EXPENDITURES 2003–2012
Dollars in Millions



The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2012 aggregate budget (for corporate, receivership, and investment spending) was $3.3 billion, while actual expenditures for the year were $2.5 billion, about $0.3 billion less than 2011 expenditures.

Over the past decade, the FDIC's expenditures have varied in response to workload. During the last several years, expenditures have risen, largely due to increasing resolution and receivership activity. To a lesser extent, increased expenses have resulted from supervision-related costs associated with the oversight of more troubled institutions.

FDIC ACTIONS ON FINANCIAL INSTITUTIONS APPLICATIONS 2010–2012	2012	2011	2010
Deposit Insurance	6	10	16
Approved[1]	6	10	16
Denied	0	0	0
New Branches	570	442	461
Approved	570	442	459
Denied	0	0	2
Mergers	238	206	182
Approved	238	206	182
Denied	0	0	0
Requests for Consent to Serve[2]	674	876	839
Approved	674	875	839
Section 19	10	24	10
Section 32	661	851	829
Denied	3	1	0
Section 19	1	0	0
Section 32	2	1	0
Notices of Change in Control	26	21	33
Letters of Intent Not to Disapprove	26	21	33
Disapproved	0	0	0
Brokered Deposit Waivers	97	84	66
Approved	95	83	65
Denied	2	1	1
Savings Association Activities[3]	21	30	31
Approved	21	30	31
Denied	0	0	0
State Bank Activities/Investments[4]	7	9	3
Approved	7	9	3
Denied	0	0	0
Conversion of Mutual Institutions	8	6	2
Non-Objection	8	6	2
Objection	0	0	0

[1] Includes deposit insurance application filed on behalf of (1) newly organized institutions, (2) existing uninsured financial services companies seeking establishment as an insured institution, and (3) interim institutions established to facilitate merger or conversion transactions, and applications to facilitate the establishment of thrift holding companies.

[2] Under Section 19 of the Federal Deposit Insurance (FDI) Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

[3] Amendments to Part 303 of the FDIC Rules and Regulations changed FDIC oversight responsibility in October 1998. In 1998, Part 303 changed the Delegations of Authority to act upon applications.

[4] Section 24 of the FDI Act, in general, precludes a federally insured state bank from engaging in an activity not permissible for a national bank and requires notices to be filed with the FDIC.

COMPLIANCE, ENFORCEMENT, AND OTHER RELATED LEGAL ACTIONS 2010–2012

	2012	2011	2010
Total Number of Actions Initiated by the FDIC	557	550	758
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination			
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	3	7	4
Sec. 8q Deposits Assumed	4	2	1
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued[1]	0	7	3
Orders to Pay Restitution	9	N/A	N/A
Consent Orders	120	183	372
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	8	11	10
Consent Orders	108	100	111
Sec. 8g Suspension/Removal When Charged With Crime	0	1	0
Civil Money Penalties Issued			
Sec. 7a Call Report Penalties	1	0	0
Sec. 8i Civil Money Penalties	164	193	212
Sec. 8i Civil Money Penalty Notices of Assessment	5	5	8
Sec. 10c Orders of Investigation	16	29	15
Sec. 19 Waiver Orders			
Approved Section 19 Waiver Orders	119	10	24
Denied Section 19 Waiver Orders	0	1	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	0	0	0
Truth-in-Lending Act Reimbursement Actions			
Denials of Requests for Relief	0	0	0
Grants of Relief	0	0	0
Banks Making Reimbursement[1]	126	84	64
Suspicious Activity Reports (Open and closed institutions)[1]	139,102	125,460	126,098
Other Actions Not Listed	0	8	1

[1] These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2012[1]
Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions[2]				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2012	$250,000	$9,084,802	$7,250,693	79.8	$25,223.9	0.28	0.35
2011	250,000	8,782,165	6,981,569	79.5	11,826.5	0.13	0.17
2010	250,000	7,887,733	6,307,607	80.0	(7,352.2)	(0.09)	(0.12)
2009	250,000	7,705,353	5,407,773	70.2	(20,861.8)	(0.27)	(0.39)
2008	100,000	7,505,409	4,750,783	63.3	17,276.3	0.23	0.36
2007	100,000	6,921,678	4,292,211	62.0	52,413.0	0.76	1.22
2006	100,000	6,640,097	4,153,808	62.6	50,165.3	0.76	1.21
2005	100,000	6,229,823	3,891,000	62.5	48,596.6	0.78	1.25
2004	100,000	5,724,775	3,622,213	63.3	47,506.8	0.83	1.31
2003	100,000	5,224,030	3,452,606	66.1	46,022.3	0.88	1.33
2002	100,000	4,916,200	3,383,720	68.8	43,797.0	0.89	1.29
2001	100,000	4,565,068	3,216,585	70.5	41,373.8	0.91	1.29
2000	100,000	4,211,895	3,055,108	72.5	41,733.8	0.99	1.37
1999	100,000	3,885,826	2,869,208	73.8	39,694.9	1.02	1.38
1998	100,000	3,817,150	2,850,452	74.7	39,452.1	1.03	1.38
1997	100,000	3,602,189	2,746,477	76.2	37,660.8	1.05	1.37
1996	100,000	3,454,556	2,690,439	77.9	35,742.8	1.03	1.33
1995	100,000	3,318,595	2,663,873	80.3	28,811.5	0.87	1.08
1994	100,000	3,184,410	2,588,619	81.3	23,784.5	0.75	0.92
1993	100,000	3,220,302	2,602,781	80.8	14,277.3	0.44	0.55
1992	100,000	3,275,530	2,677,709	81.7	178.4	0.01	0.01
1991	100,000	3,331,312	2,733,387	82.1	(6,934.0)	(0.21)	(0.25)
1990	100,000	3,415,464	2,784,838	81.5	4,062.7	0.12	0.15
1989	100,000	3,412,503	2,755,471	80.7	13,209.5	0.39	0.48
1988	100,000	2,337,080	1,756,771	75.2	14,061.1	0.60	0.80
1987	100,000	2,198,648	1,657,291	75.4	18,301.8	0.83	1.10
1986	100,000	2,162,687	1,636,915	75.7	18,253.3	0.84	1.12
1985	100,000	1,975,030	1,510,496	76.5	17,956.9	0.91	1.19
1984	100,000	1,805,334	1,393,421	77.2	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2012[1] (continued)
Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions[2]				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.4	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.4	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.6	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2012[1] (continued)
Dollars in Millions (except Insurance Coverage)

		Deposits in Insured Institutions[2]				Insurance Fund as a Percentage of	
Year	Insurance Coverage[2]	Total Domestic Deposits	Est. Insured Deposits	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934	5,000	40,060	18,075	45.1	291.7	0.73	1.61

[1] For 2012, figures are as of September 30, all prior years are as of December 31. Prior to 1989, figures are for the Bank Insurance Fund (BIF) only and exclude insured branches of foreign banks. For 1989 to 2005, figures represent sum of the BIF and Savings Association Insurance Fund (SAIF) amounts; for 2006 to 2012, figures are for DIF. Amounts for 1989 - 2012 include insured branches of foreign banks. Prior to year-end 1991, insured deposits were estimated using percentages determined from June Call and Thrift Financial Reports.

[2] The year-end 2008 coverage limit and estimated insured deposits do not reflect the temporary increase to $250,000 then in effect under the Emergency Economic Stabilization Act of 2008. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) made this coverage limit permanent. The year-end 2009 coverage limit and estimated insured deposits reflect the $250,000 coverage limit. The Dodd-Frank Act also temporarily provided unlimited coverage for non-interest bearing transaction accounts for two years beginning December 31, 2010. Coverage for certain retirement accounts increased to $250,000 in 2006. Initial coverage limit was $2,500 from January 1 to June 30, 1934.

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2012
Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
Total	$191,227.8	$127,776.5	$11,392.9	$74,844.2		$158,831.1	$126,258.4	$23,134.4	$9,438.3	$139.5	$32,536.2
2012	18,522.3	12,397.2	0.2	6,125.3	0.1013%	(2,599.0)	(4,222.6)	1,777.5	(153.9)	0	21,121.3
2011	16,342.0	13,499.5	0.9	2,843.4	0.1110%	(2,915.4)	(4,413.6)	1,625.4	(127.2)	0	19,257.4
2010	13,379.9	13,611.2	0.8	(230.5)	0.1772%	75.0	(847.8)	1,592.6	(669.8)	0	13,304.9
2009	24,706.4	17,865.4	148.0	6,989.0	0.2330%	60,709.0	57,711.8	1,271.1	1,726.1	0	(36,002.6)
2008	7,306.3	4,410.4	1,445.9	4,341.8	0.0418%	44,339.5	41,838.8	1,033.5	1,467.2	0	(37,033.2)
2007	3,196.2	3,730.9	3,088.0	2,553.3	0.0093%	1,090.9	95.0	992.6	3.3	0	2,105.3
2006	2,643.5	31.9	0.0	2,611.6	0.0005%	904.3	(52.1)	950.6	5.8	0	1,739.2
2005	2,420.5	60.9	0.0	2,359.6	0.0010%	809.3	(160.2)	965.7	3.8	0	1,611.2
2004	2,240.3	104.2	0.0	2,136.1	0.0019%	607.6	(353.4)	941.3	19.7	0	1,632.7
2003	2,173.6	94.8	0.0	2,078.8	0.0019%	(67.7)	(1,010.5)	935.5	7.3	0	2,241.3
2002	2,384.7	107.8	0.0	2,276.9	0.0023%	719.6	(243.0)	945.1	17.5	0	1,665.1
2001	2,730.1	83.2	0.0	2,646.9	0.0019%	3,123.4	2,199.3	887.9	36.2	0	(393.3)
2000	2,570.1	64.3	0.0	2,505.8	0.0016%	945.2	28.0	883.9	33.3	0	1,624.9
1999	2,416.7	48.4	0.0	2,368.3	0.0013%	2,047.0	1,199.7	823.4	23.9	0	369.7
1998	2,584.6	37.0	0.0	2,547.6	0.0010%	817.5	(5.7)	782.6	40.6	0	1,767.1
1997	2,165.5	38.6	0.0	2,126.9	0.0011%	247.3	(505.7)	677.2	75.8	0	1,918.2
1996	7,156.8	5,294.2	0.0	1,862.6	0.1622%	353.6	(417.2)	568.3	202.5	0	6,803.2
1995	5,229.2	3,877.0	0.0	1,352.2	0.1238%	202.2	(354.2)	510.6	45.8	0	5,027.0
1994	7,682.1	6,722.7	0.0	959.4	0.2192%	(1,825.1)	(2,459.4)	443.2	191.1	0	9,507.2
1993	7,354.5	6,682.0	0.0	672.5	0.2157%	(6,744.4)	(7,660.4)	418.5	497.5	0	14,098.9
1992	6,479.3	5,758.6	0.0	720.7	0.1815%	(596.8)	(2,274.7)	614.8[3]	1,063.1	35.4	7,111.5
1991	5,886.5	5,254.0	0.0	632.5	0.1613%	16,925.3	15,496.2	326.1	1,103.0	42.4	(10,996.4)
1990	3,855.3	2,872.3	0.0	983.0	0.0868%	13,059.3	12,133.1	275.6	650.6	56.1	(9,147.9)
1989	3,494.8	1,885.0	0.0	1,609.8	0.0816%	4,352.2	3,811.3	219.9	321.0	5.6	(851.8)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0825%	7,588.4	6,298.3	223.9	1,066.2	0	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	0	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0787%	2,963.7	2,827.7	180.3	(44.3)	0	296.4
1985	3,385.5	1,433.5	0.0	1,952.0	0.0815%	1,957.9	1,569.0	179.2	209.7	0	1,427.6
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	0	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	0	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	0	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	0	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	0	1,226.8

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2012 (continued)
Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	0	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	0	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	0	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4[4]	3.9	0	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	0	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	0	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	0	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	65.7	10.1	49.6	6.0[5]	0	401.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	0	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3[6]	0.0	0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	0	120.7

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2012 (continued)
Dollars in Millions

	Income					Expenses and Losses					
Year	Total	Assessment Income	Assessment Credits	Investment and Other	Effective Assessment Rate[1]	Total	Provision for Ins. Losses	Admin. and Operating Expenses[2]	Interest & Other Ins. Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	0	(3.0)

[1] Figures represent only BIF-insured institutions prior to 1990, BIF- and SAIF-insured institutions from 1990 through 2005, and DIF-insured institutions beginning in 2006. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. The effective assessment rate is calculated from annual assessment income (net of assessment credits), excluding transfers to the Financing Corporation (FICO), Resolution Funding Corporation (REFCORP) and FSLIC Resolution Fund, divided by the four quarter average assessment base. The effective rates from 1950 through 1984 varied from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 varied because the FDIC exercised new authority to increase assessments above the statutory minimum rate when needed. Beginning in 1993, the effective rate was based on a risk-related premium system under which institutions paid assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25 percent. As a result, BIF assessment rates were reduced to a range of 0.04 percent to 0.31 percent of assessable deposits, effective June 1995, and assessments totaling $1.5 billion were refunded in September 1995. Assessment rates for the BIF were lowered again to a range of 0 to 0.27 percent of assessable deposits, effective the start of 1996. In 1996, the SAIF collected a one-time special assessment of $4.5 billion. Subsequently, assessment rates for the SAIF were lowered to the same range as the BIF, effective October 1996. This range of rates remained unchanged for both funds through 2006. As part of the implementation of the Federal Deposit Insurance Reform Act of 2005, assessment rates were increased to a range of 0.05 percent to 0.43 percent of assessable deposits effective at the start of 2007, but many institutions received a one-time assessment credit ($4.7 billion in total) to offset the new assessments. For the first quarter of 2009, assessment rates were increased to a range of 0.12 to 0.50 percent of assessable deposits. From the second quarter of 2009 through the first quarter of 2011, initial assessment rates ranged between 0.12 and 0.45 percent of assessable deposits. Initial rates are subject to further adjustments. Beginning in the second quarter of 2011, the assessment base changed to average total consolidated assets less average tangible equity (with certain adjustments for banker's banks and custodial banks), as required by the Dodd-Frank Act. The FDIC implemented a new assessment rate schedule at the same time to conform to the larger assessment base. Initial assessment rates were lowered to a range of 0.05 to 0.35 percent of the new base. The annualized assessment rates averaged approximately 17.6 cents per $100 of assessable deposits for the first quarter of 2011 and 11.1 cents per $100 of the new base for the last three quarters of 2011 (which is the figure shown in the table). The effective assessment rate for 2012 was based on full year accrued assessment income, actual assessment base figures for the first three quarters of 2012, and an estimate for the assessment base for fourth quarter 2012. On June 30, 2009, a special assessment was imposed on all insured banks and thrifts, which amounted in aggregate to approximately $5.4 billion. For 8,106 institutions, with $9.3 trillion in assets, the special assessment was 5 basis points of each institution's assets minus tier one capital; 89 other institutions, with assets of $4.0 trillion, had their special assessment capped at 10 basis points of their second quarter assessment base.

[2] These expenses, which are presented as operating expenses in the Statement of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and do not include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Resolutions, net" line on the Balance Sheet. The narrative and graph presented in the "Corporate Planning and Budget" section of this report (page 111) show the aggregate (corporate and receivership) expenditures of the FDIC.

[3] Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits (1992).

[4] Includes a $106 million net loss on government securities (1976).

[5] This amount represents interest and other insurance expenses from 1933 to 1972.

[6] Includes the aggregate amount of $81 million of interest paid on capital stock between 1933 and 1948.

NUMBER, ASSETS, DEPOSITS, LOSSES, AND LOSS TO FUNDS OF INSURED THRIFTS TAKEN OVER OR CLOSED BECAUSE OF FINANCIAL DIFFICULTIES, 1989 THROUGH 1995[1]
Dollars in Thousands

Year	Total	Assets	Deposits	Estimated Receivership Loss[2]	Loss to Funds[3]
Total	748	$393,986,574	$317,501,978	$75,977,702	$81,577,294
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	6,147,962	4,881,461	267,595	65,212
1992	59	44,196,946	34,773,224	3,286,957	3,832,195
1991	144	78,898,904	65,173,122	9,235,906	9,734,202
1990	213	129,662,498	98,963,962	16,062,552	19,257,446
1989[4]	318	134,519,630	113,168,009	47,085,028	48,645,890

[1] Beginning in 1989 through July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of the thrift closing activity from 1989 through 1995 are now reflected on FRF's books. Year is the year of failure, not the year of resolution.

[2] The estimated losses represent the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF and unpaid advances to receiverships from the FRF.

[3] The Loss to Funds represents the total resolution cost of the failed thrifts in the FRF-RTC fund, which includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, and interest revenue on advances to receiverships, in addition to the estimated losses for receiverships.

[4] Total for 1989 excludes nine failures of the former FSLIC.

FDIC-INSURED INSTITUTIONS CLOSED DURING 2012
Dollars in Thousands

Codes for Bank Class:

NM = State-chartered bank that is not a member of the Federal Reserve System
N = National Bank
SB = Savings Bank
SI = Stock and Mutual Savings Bank
SM = State-chartered bank that is a member of the Federal Reserve System
SA = Savings Association

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[1]	Total Deposits[1]	Insured Deposit Funding and Other Disbursements	Estimated Loss to the DIF[2]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Purchase and Assumption – All Deposits								
Fort Lee Federal Savings Bank, FSB Fort Lee, NJ	SA	882	$48,861	$47,786	$48,938	$18,311	04/20/12	Alma Bank Astoria, NY
Montgomery Bank & Trust Ailey, GA	NM	7,153	$153,208	$164,181	$171,459	$75,228	07/06/12	Ameris Bank Moultrie, GA
Second Federal SLA of Chicago Chicago, IL	SA	13,801	$190,891	$171,627	$195,896	$76,851	07/20/12	Hinsdale Bank & Trust Company Hinsdale, IL
Whole Bank Purchase and Assumption – All Deposits								
American Eagle Savings Bank Boothwyn, PA	SA	1,467	$19,259	$17,548	$18,730	$7,027	01/20/12	Capital Bank, N.A. Rockville, MD
Central Florida State Bank Belleview, FL	NM	2,433	$71,485	$71,080	$71,596	$30,740	01/20/12	CenterState Bank of Florida, N.A. Winter Haven, FL
The First State Bank Stockbridge, GA	NM	32,773	$516,760	$509,065	$509,638	$219,086	01/20/12	Hamilton State Bank Hoschton, GA
BankEast Knoxville, TN	SM	7,795	$261,947	$259,571	$249,604	$76,798	01/27/12	U.S. Bank National Association Cincinnati, OH
First Guaranty Bank & Trust of Jacksonville Jacksonville, FL	NM	10,733	$397,082	$378,309	$371,225	$89,662	01/27/12	CenterState Bank of Florida, N.A. Winter Haven, FL
Patriot Bank Minnesota Forest Lake, MN	NM	4,897	$105,029	$102,833	$100,870	$42,651	01/27/12	First Resource Bank Savage, MN
Tennessee Commerce Bank Franklin, TN	NM	12,437	$1,009,154	$1,037,716	$1,056,017	$374,555	01/27/12	Republic Bank & Trust Company Louisville, KY
Charter National Bank & Trust Hoffman Estates, IL	N	7,053	$93,894	$89,485	$92,749	$25,974	02/10/12	Barrington Bank & Trust Company, N.A. Barrington, IL
SCB Bank Shelbyville, IN	SA	7,848	$182,561	$171,365	$169,673	$41,513	02/10/12	First Merchants Bank, N.A. Muncie, IN
Central Bank of Georgia Ellaville, GA	NM	9,991	$278,860	$266,589	$262,985	$69,584	02/24/12	Ameris Bank Moultrie, GA
Global Commerce Bank Doraville, GA	NM	5,006	$143,678	$116,813	$118,373	$33,001	03/02/12	Metro City Bank Doraville, GA

FDIC-INSURED INSTITUTIONS CLOSED DURING 2012 (continued)
Dollars in Thousands

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SM = State-chartered bank that is a member of the Federal Reserve System
SA = Savings Association

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[1]	Total Deposits[1]	Insured Deposit Funding and Other Disbursements	Estimated Loss to the DIF[2]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Covenant Bank & Trust Rock Spring, GA	NM	2,340	$95,725	$90,632	$87,210	$38,847	03/23/12	Stearns Bank, N.A. St. Cloud, MN
Premier Bank Wilmette, IL	NM	3,097	$268,703	$198,953	$196,298	$64,177	03/23/12	International Bank of Chicago Chicago, IL
Fidelity Bank Dearborn, MI	NM	22,179	$818,237	$747,640	$713,322	$96,013	03/30/12	The Huntington National Bank Columbus, OH
Harvest Bank of Maryland Gaithersburg, MD	NM	3,174	$163,019	$145,534	$141,811	$28,010	04/27/12	Sonabank McLean, VA
Inter Savings Bank, FSB D/B/A InterBank, FSB Maple Grove, MN	SA	13,528	$463,840	$458,053	$456,244	$120,949	04/27/12	Great Southern Bank Reeds Spring, MO
Palm Desert National Bank Palm Desert, CA	N	2,905	$129,253	$129,023	$123,485	$30,892	04/27/12	Pacific Premier Bank Costa Mesa, CA
Plantation Federal Bank Pawleys Island, SC	SA	13,816	$433,512	$415,943	$420,208	$87,831	04/27/12	First Federal Bank Charleston, SC
Security Bank, National Association North Lauderdale, FL	N	2,322	$101,026	$99,067	$99,650	$18,472	05/04/12	Banesco USA Coral Gables, FL
Alabama Trust Bank, National Association Sylacauga, AL	N	2,719	$51,553	$45,149	$44,121	$14,065	05/18/12	Southern States Bank Anniston, AL
Carolina Federal Savings Bank Charleston, SC	SA	3,458	$54,373	$53,082	$54,557	$20,566	06/08/12	Bank of North Carolina Thomasville, NC
Farmers' and Traders' State Bank Shabbona, IL	NM	3,010	$43,077	$42,302	$39,719	$13,403	06/08/12	First State Bank Mendota, IL
First Capital Bank Kingfisher, OK	NM	2,422	$44,448	$44,828	$47,726	$9,883	06/08/12	F & M Bank Edmond, OK
Waccamaw Bank Whiteville, NC	SM	22,381	$533,114	$472,704	$462,747	$60,442	06/08/12	First Community Bank Bluefield, VA
Putnam State Bank Palatka, FL	NM	8,035	$169,489	$160,024	$156,122	$43,255	06/15/12	Harbor Community Bank Indiantown, FL
Security Exchange Bank Marietta, GA	NM	2,832	$150,962	$147,896	$148,018	$42,430	06/15/12	Fidelity Bank Atlanta, GA

FDIC-INSURED INSTITUTIONS CLOSED DURING 2012 (continued)
Dollars in Thousands

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SA = Savings Association

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[1]	Total Deposits[1]	Insured Deposit Funding and Other Disbursements	Estimated Loss to the DIF[2]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
The Farmers Bank of Lynchburg Lynchburg, TN	NM	9,293	$163,859	$156,402	$153,177	$35,720	06/15/12	Clayton Bank and Trust Knoxville, TN
Glasgow Savings Bank Glasgow, MO	NM	2,176	$22,341	$21,809	$22,627	$3,081	07/13/12	Regional Missouri Bank Marceline, MO
First Cherokee State Bank Woodstock, GA	NM	9,617	$209,021	$182,114	$180,780	$40,998	07/20/12	Community & Southern Bank Atlanta, GA
Georgia Trust Bank Buford, GA	NM	2,404	$116,890	$114,748	$116,810	$24,782	07/20/12	Community & Southern Bank Atlanta, GA
Heartland Bank Leawood, KS	NM	1,965	$96,002	$89,723	$86,811	$7,161	07/20/12	Metcalf Bank Lees Summit, MO
The Royal Palm Bank of Florida Naples, FL	NM	2,303	$78,771	$78,876	$78,836	$16,406	07/20/12	First National Bank of the Gulf Coast Naples, FL
Jasper Banking Company Jasper, GA	NM	10,984	$206,672	$204,238	$198,872	$62,319	07/27/12	Stearns Bank, N.A St. Cloud, MN
Waukegan Savings Bank Waukegan, IL	SB	5,737	$83,679	$73,001	$73,716	$22,435	08/03/12	First Midwest Bank Itasca, IL
First Commerical Bank Bloomington, MN	NM	3,642	$215,867	$206,809	$198,028	$65,923	09/07/12	Republic Bank & Trust Company Louisville, KY
Truman Bank St. Louis, MO	SM	9,526	$282,338	$245,716	$237,573	$36,710	09/14/12	Simmons First National Bank Pine Bluff, AR
First United Bank Crete, IL	NM	23,002	$328,422	$316,877	$321,680	$50,686	09/28/12	Old Plank Trail Community Bank, N.A. New Lenox, IL
Excel Bank Sedalia, MO	NM	10,023	$186,113	$173,670	$170,087	$44,297	10/19/12	Simmons First National Bank Pine Bluff, AR
First East Side Savings Bank Tamarac, FL	SA	1,242	$65,686	$64,888	$66,403	$12,348	10/19/12	Stearns Bank, N.A. St. Cloud, MN
GulfSouth Private Bank Destin, FL	NM	1,896	$139,391	$131,579	$128,540	$38,932	10/19/12	SmartBank Pigeon Forge, TN

FDIC-INSURED INSTITUTIONS CLOSED DURING 2012 (continued)
Dollars in Thousands

Codes for Bank Class:

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SA = Savings Association

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets[1]	Total Deposits[1]	Insured Deposit Funding and Other Disbursements	Estimated Loss to the DIF[2]	Date of Closing or Acquisition	Receiver/Assuming Bank and Location
Citizens First National Bank Princeton, IL	N	59,696	$923,959	$869,440	$840,261	$47,650	11/02/12	Heartland Bank & Trust Company Bloomington, IL
Heritage Bank of Florida Lutz, FL	NM	6,664	$225,477	$223,309	$220,586	$67,786	11/02/12	Centennial Bank Conway, AR
Hometown Community Bank Braselton, GA	NM	3,158	$124,561	$108,931	$105,207	$39,125	11/16/12	CertusBank, N.A. Easley, SC
Community Bank of the Ozarks Sunrise Beach, MO	NM	2,864	$42,816	$41,881	$40,247	$12,415	12/14/12	Bank of Sullivan Sullivan, MO
Insured Deposit Transfer/Purchase & Assumption								
Bank of the Eastern Shore Cambridge, MD	SM	9,691	$162,460	$150,951	$166,270	$52,968	04/27/12	Federal Deposit Insurance Corporation
Insured Deposit Payoff								
Home Savings of America Little Falls, MN	SA	12,025	$434,111	$432,223	$481,476	$83,646	02/24/12	Federal Deposit Insurance Corporation
New City Bank Chicago, IL	NM	850	$71,202	$72,399	$78,269	$20,082	03/09/12	Federal Deposit Insurance Corporation
Nova Bank Berwyn, PA	SB	12,390	$444,710	$395,248	$439,261	$91,238	10/26/12	Federal Deposit Insurance Corporation

[1] Total Assets and Total Deposits data are based upon the last Call Report filed by the institution prior to failure.

[2] Estimated losses are as of 12/31/12. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries. Represents the estimated loss to the DIF from deposit insurance obligations. This amount does not include the estimated loss allocable to the Transaction Account Guarantee and Debt Guarantee Program claims.

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 – 2012
Dollars in Thousands

Bank and Thrift Failures[1]							
Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Insured Deposit Funding and Other Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
	2,560	**$925,620,900**	**$695,536,729**	**$572,325,121**	**$395,365,464**	**$54,971,765**	**$121,987,892**
2012	51	11,617,348	11,009,630	11,034,508	499,565	7,788,019	2,746,924
2011	92	34,922,997	31,071,862	31,686,966	2,230,090	20,693,288	8,763,588
2010[4]	157	92,084,987	78,290,185	82,210,860	50,082,606	10,796,927	21,331,327
2009[4]	140	169,709,160	137,783,121	135,926,307	86,969,627	12,869,470	36,087,210
2008[4]	25	371,945,480	234,321,715	205,447,245	183,261,881	2,279,073	19,906,291
2007	3	2,614,928	2,424,187	1,917,998	1,369,413	322,914	225,671
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	4	170,099	156,733	138,926	134,978	31	3,917
2003	3	947,317	901,978	883,772	812,933	8,192	62,647
2002	11	2,872,720	2,512,834	2,127,047	1,704,030	7,556	415,461
2001	4	1,821,760	1,661,214	1,605,249	1,128,577	184,367	292,305
2000	7	410,160	342,584	297,313	265,175	0	32,138
1999	8	1,592,189	1,320,573	1,307,260	711,758	5,583	589,919
1998	3	290,238	260,675	292,691	58,248	11,644	222,799
1997	1	27,923	27,511	25,546	20,520	0	5,026
1996	6	232,634	230,390	201,533	140,918	0	60,615
1995	6	802,124	776,387	609,043	524,571	0	84,472
1994	13	1,463,874	1,397,018	1,224,769	1,045,718	0	179,051
1993	41	3,828,939	3,509,341	3,841,658	3,209,012	0	632,646
1992	120	45,357,237	39,921,310	14,541,102	10,866,760	309	3,674,033
1991	124	64,556,512	52,972,034	21,499,326	15,500,130	4,392	5,994,804
1990	168	16,923,462	15,124,454	10,812,484	8,040,995	0	2,771,489
1989	206	28,930,572	24,152,468	11,443,281	5,247,995	0	6,195,286
1988	200	38,402,475	26,524,014	10,432,655	5,055,158	0	5,377,497
1987	184	6,928,889	6,599,180	4,876,994	3,014,502	0	1,862,492
1986	138	7,356,544	6,638,903	4,632,121	2,949,583	0	1,682,538
1985	116	3,090,897	2,889,801	2,154,955	1,506,776	0	648,179
1984	78	2,962,179	2,665,797	2,165,036	1,641,157	0	523,879
1983	44	3,580,132	2,832,184	3,042,392	1,973,037	0	1,069,355
1982	32	1,213,316	1,056,483	545,612	419,825	0	125,787
1981	7	108,749	100,154	114,944	105,956	0	8,988
1980	10	239,316	219,890	152,355	121,675	0	30,680
1934 - 1979	558	8,615,743	5,842,119	5,133,173	4,752,295	0	380,878

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 – 2012 (continued)
Dollars in Thousands

Assistance Transactions							
Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Insured Deposit Funding and Other Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
	154	**$3,317,099,253**	**$1,442,173,417**	**$11,630,356**	**$6,199,875**	**$0**	**$5,430,481**
2012	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0
2009[5]	8	1,917,482,183	1,090,318,282	0	0	0	0
2008[5]	5	1,306,041,994	280,806,966	0	0	0	0
2007	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	0	0	0	0	0	0	0
2003	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0
2001	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0
1999	0	0	0	0	0	0	0
1998	0	0	0	0	0	0	0
1997	0	0	0	0	0	0	0
1996	0	0	0	0	0	0	0
1995	0	0	0	0	0	0	0
1994	0	0	0	0	0	0	0
1993	0	0	0	0	0	0	0
1992	2	33,831	33,117	1,486	1,236	0	250
1991	3	78,524	75,720	6,117	3,093	0	3,024
1990	1	14,206	14,628	4,935	2,597	0	2,338
1989	1	4,438	6,396	2,548	252	0	2,296
1988	80	15,493,939	11,793,702	1,730,351	189,709	0	1,540,642
1987	19	2,478,124	2,275,642	160,877	713	0	160,164
1986	7	712,558	585,248	158,848	65,669	0	93,179
1985	4	5,886,381	5,580,359	765,732	406,676	0	359,056
1984	2	40,470,332	29,088,247	5,531,179	4,414,904	0	1,116,275
1983	4	3,611,549	3,011,406	764,690	427,007	0	337,683

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 – 2012 (continued)

Dollars in Thousands

Assistance Transactions

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Insured Deposit Funding and Other Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
1982	10	10,509,286	9,118,382	1,729,538	686,754	0	1,042,784
1981	3	4,838,612	3,914,268	774,055	1,265	0	772,790
1980	1	7,953,042	5,001,755	0	0	0	0
1934 - 1979	4	1,490,254	549,299	0	0	0	0

[1] Institutions closed by the FDIC, including deposit payoff, insured deposit transfer, and deposit assumption cases.

[2] For 1990 through 2005, amounts represent the sum of BIF and SAIF failures (excluding those handled by the RTC); prior to 1990, figures are only for the BIF. After 1995, all thrift closings became the responsibility of the FDIC and amounts are reflected in the SAIF. For 2006 to 2012, figures are for the DIF.

[3] Assets and deposit data are based on the last Call Report or TFR filed before failure.

[4] Includes amounts related to transaction account coverage under the Transaction Account Guarantee Program (TAG). The estimated losses as of 12/31/10 for TAG accounts in 2010, 2009, and 2008 are $519 million, $1,526 million, and $15 million, respectively.

[5] Includes institutions where assistance was provided under a systemic risk determination. Any costs that exceed the amounts estimated under the least cost resolution requirement would be recovered through a special assessment on all FDIC-insured institutions.

B. MORE ABOUT THE FDIC

FDIC BOARD OF DIRECTORS

Seated *(left to right): Thomas M. Hoenig, Martin J. Gruenberg, Jeremiah O. Norton* **Standing** *(left to right): Thomas J. Curry, Richard Cordray*

Martin J. Gruenberg

Martin J. Gruenberg is the 20th Chairman of the FDIC, receiving Senate confirmation on November 15, 2012, for a five-year term. Mr. Gruenberg has served on the FDIC Board of Directors since August 22, 2005, including as Acting Chairman from July 9, 2011, to November 15, 2012, and also from November 16, 2005, to June 26, 2006.

Mr. Gruenberg joined the FDIC Board after broad congressional experience in the financial services and regulatory areas. He served as Senior Counsel to Senator Paul S. Sarbanes (D-MD) on the staff of the Senate Committee on Banking, Housing, and Urban Affairs from 1993 to 2005. Mr. Gruenberg advised the Senator on issues of domestic and international financial regulation, monetary policy, and trade. He also served as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy, from 1987 to 1992. Major legislation in which Mr. Gruenberg played an active role during his service on the Committee includes the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA); the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA); the Gramm-Leach-Bliley Act; and the Sarbanes-Oxley Act of 2002.

Mr. Gruenberg served as Chairman of the Executive Council and President of the International Association of Deposit Insurers (IADI) from November 2007 to November 2012.

Mr. Gruenberg holds a J.D. from Case Western Reserve Law School and an A.B. from Princeton University, Woodrow Wilson School of Public and International Affairs.

Thomas M. Hoenig

Thomas M. Hoenig was confirmed by the Senate as Vice Chairman of the FDIC on November 15, 2012. He joined the FDIC on April 16, 2012, as a member of the Board of Directors of the FDIC for a six-year term. He is also a member of the Executive Board of the International Association of Deposit Insurers.

Prior to serving on the FDIC Board, Mr. Hoenig was the President of the Federal Reserve Bank of Kansas City and a member of the Federal Reserve System's Federal Open Market Committee from 1991 to 2011.

Mr. Hoenig was with the Federal Reserve for 38 years, beginning as an economist, and then as a senior officer in banking supervision during the U.S. banking crisis of the 1980s. In 1986, he led the Kansas City Federal Reserve Bank's Division of Bank Supervision and Structure, directing the oversight of more than 1,000 banks and bank holding companies with assets ranging from less than $100 million to $20 billion. He became President of the Kansas City Federal Reserve Bank on October 1, 1991.

Mr. Hoenig is a native of Fort Madison, Iowa, and received a doctorate in economics from Iowa State University.

Jeremiah O. Norton

Jeremiah O. Norton was sworn in on April 16, 2012, as a member of the FDIC Board of Directors for the remainder of a term expiring July 15, 2013.

Prior to joining the FDIC's Board, Mr. Norton was an Executive Director at J.P. Morgan Securities LLC, in New York, NY.

Mr. Norton was in government for a number of years before joining the FDIC Board, most recently as the Deputy Assistant Secretary for Financial Institutions Policy at the U.S. Treasury Department. Mr. Norton also was a Legislative Assistant and professional staff member for U.S. Representative Edward R. Royce.

Mr. Norton received a J.D. from the Georgetown University Law Center and an A.B. in economics from Duke University.

Thomas J. Curry

Thomas J. Curry was sworn in as the 30th Comptroller of the Currency on April 9, 2012. The Comptroller of the Currency is the administrator of national banks and federal savings associations, and chief officer of the Office of the Comptroller of the Currency (OCC). The OCC supervises more than 2,000 national banks and federal savings associations and about 50 federal branches and agencies of foreign banks in the United States. These institutions comprise nearly two-thirds of the assets of the commercial banking system. The Comptroller also is a Director of NeighborWorks® America.

Prior to becoming Comptroller of the Currency, Mr. Curry served as a Director of the FDIC Board since January 2004, and as the Chairman of the NeighborWorks® America Board of Directors.

Prior to joining the FDIC's Board of Directors, Mr. Curry served five Massachusetts Governors as the Commonwealth's Commissioner of Banks from 1990 to 1991 and from 1995 to 2003. He served as Acting Commissioner from February 1994 to June 1995. He previously served as First Deputy Commissioner and Assistant General Counsel within the Massachusetts Division of Banks. He entered state government in 1982 as an attorney with the Massachusetts' Secretary of State's Office.

Mr. Curry served as the Chairman of the Conference of State Bank Supervisors from 2000 to 2001, and served two terms on the State Liaison Committee of the Federal Financial Institutions Examination Council, including a term as Committee Chairman.

He is a graduate of Manhattan College (summa cum laude), where he was elected to Phi Beta Kappa. He received his law degree from the New England School of Law.

Richard Cordray

Richard Cordray serves as the first Director of the Consumer Financial Protection Bureau. He previously led the Bureau's Enforcement Division.

Prior to joining the Bureau, Mr. Cordray served on the front lines of consumer protection as Ohio's Attorney General. Mr. Cordray recovered more than $2 billion for Ohio's retirees, investors, and business owners, and took major steps to help protect its consumers from fraudulent foreclosures and financial predators. In 2010, his office responded to a record number of consumer complaints, but Mr. Cordray went further and opened that process for the first time to small businesses and nonprofit organizations to ensure protections for even more Ohioans.

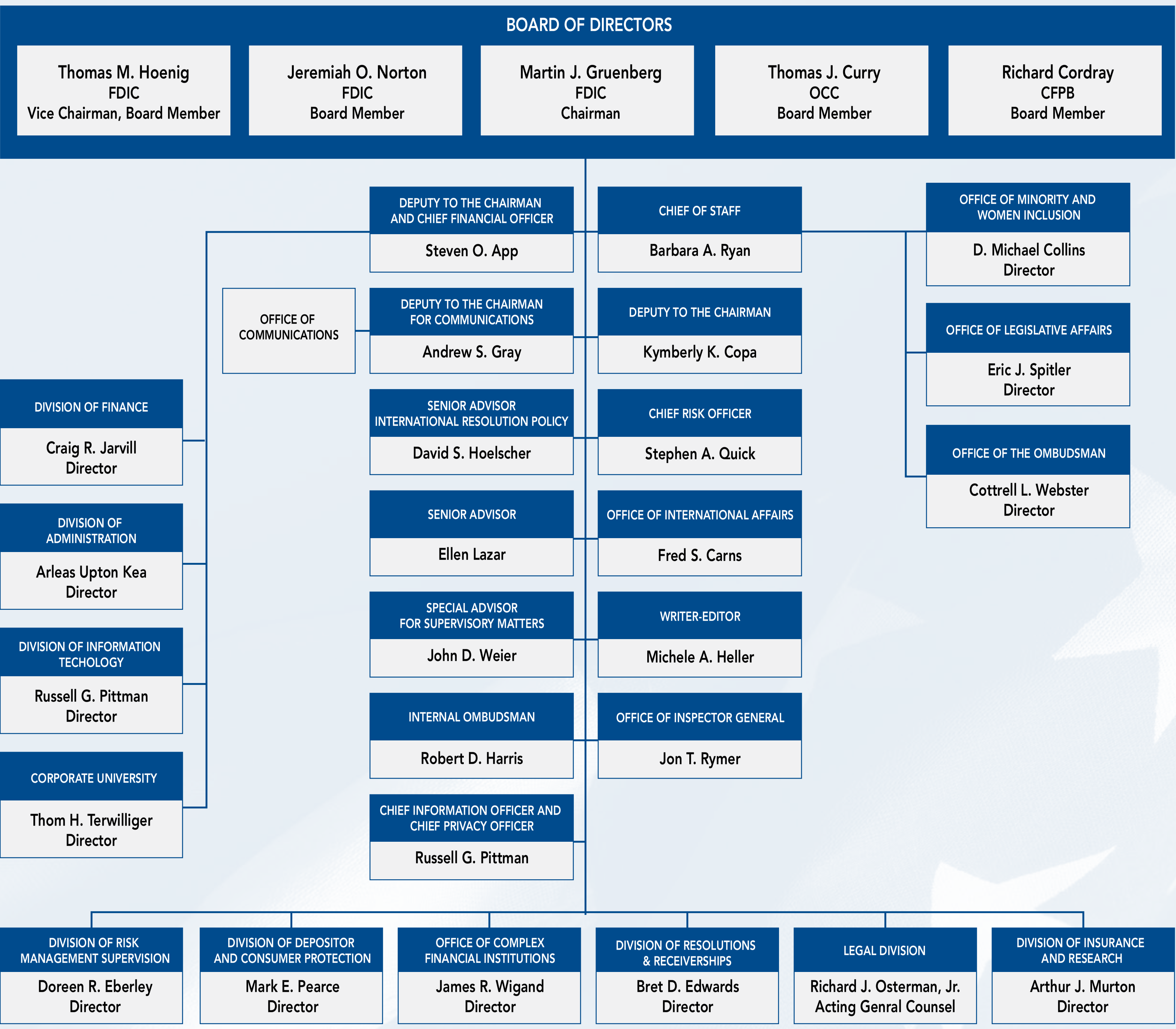
To recognize his work on behalf of consumers as Attorney General, the Better Business Bureau presented Mr. Cordray with an award for promoting an ethical marketplace.

Mr. Cordray also served as Ohio Treasurer and Franklin County Treasurer, two elected positions in which he led state and county banking, investment, debt, and financing activities. As Ohio Treasurer, he resurrected a defunct economic development program that provides low-interest loan assistance to small businesses to create jobs, re-launched the original concept as GrowNOW, and pumped hundreds of millions of dollars into access for credit to small businesses. Mr. Cordray simultaneously created a Bankers Advisory Council to share ideas about the program with community bankers across Ohio.

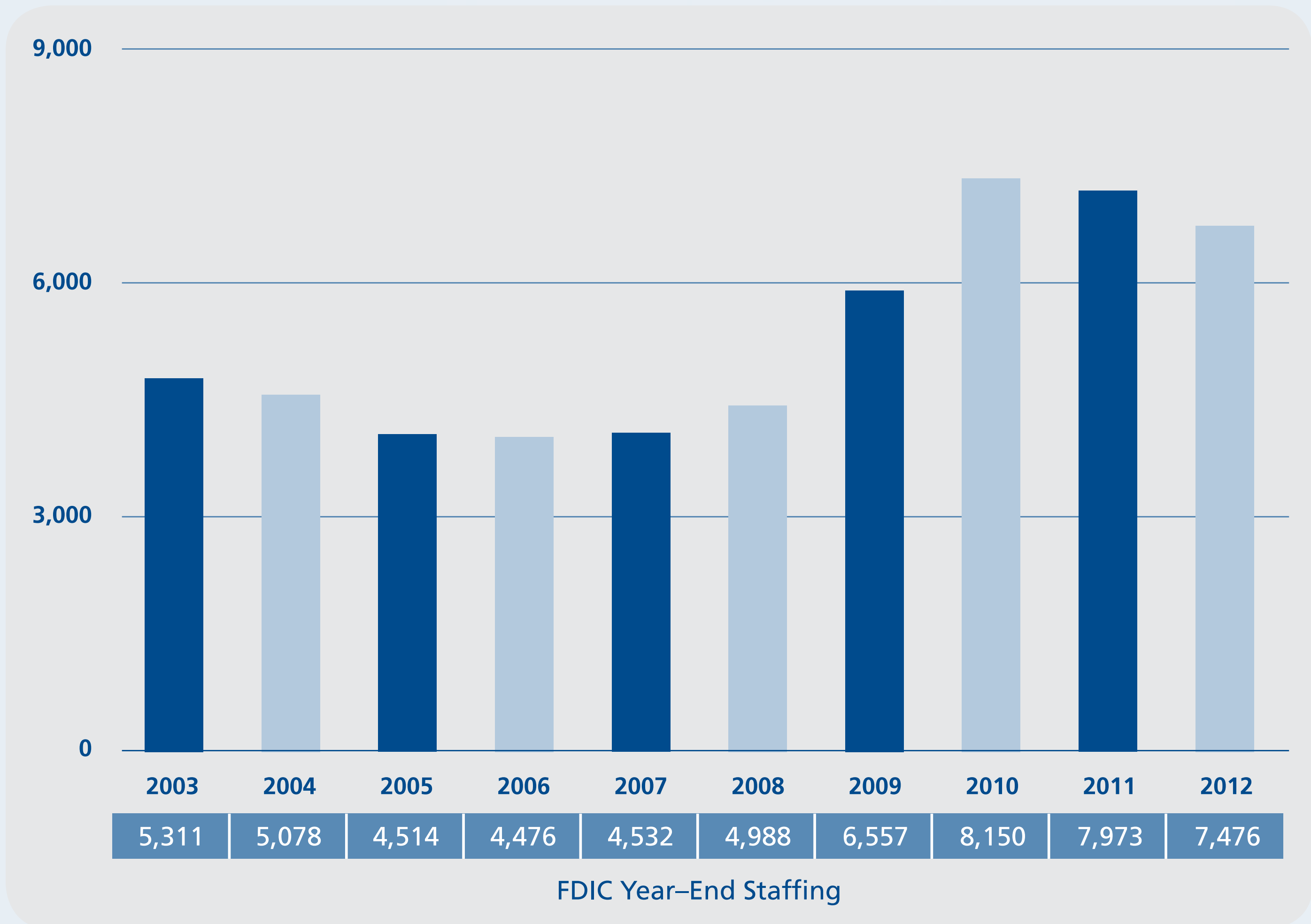
Earlier in his career, Mr. Cordray was an adjunct professor at the Ohio State University College of Law, served as a State Representative for the 33rd Ohio House District, was the first Solicitor General in Ohio's history, and was a sole practitioner and Counsel to Kirkland & Ellis. Mr. Cordray has argued seven cases before the United States Supreme Court, by special appointment of both the Clinton and Bush Justice Departments. He is a graduate of Michigan State University, Oxford University, and the University of Chicago Law School. Mr. Cordray was Editor-in-Chief of the University of Chicago Law Review and later clerked for U.S. Supreme Court Justices Byron White and Anthony Kennedy.

Mr. Cordray lives in Grove City, Ohio, with his wife Peggy—a Professor at Capital University Law School in Columbus—and twin children Danny and Holly.

FDIC ORGANIZATION CHART/OFFICIALS



CORPORATE STAFFING
STAFFING TRENDS 2003–2012



Note: 2008-2012 staffing totals reflect year-end full time equivalent staff. Prior to 2008, staffing totals reflect total emplyees on-board.

NUMBER OF EMPLOYEES BY DIVISION/OFFICE 2011 AND 2012 (YEAR-END)[1]						
	Total		Washington		Regional/Field	
Division or Office:	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Division of Risk Management Supervision	2,763	2,900	169	168	2,593	2,732
Division of Depositor and Consumer Protection	848	819	119	95	729	724
Division of Resolutions and Receiverships	1,428	1,811	165	139	1,263	1,672
Legal Division	716	774	384	354	332	420
Division of Administration	403	431	248	243	156	188
Division of Information Technology	358	354	280	271	78	83
Corporate University	194	176	176	163	18	13
Division of Insurance and Research	195	185	145	134	51	51
Division of Finance[2]	176	177	174	172	2	5
Office of Inspector General	126	117	81	77	46	40
Office of Complex Financial Institutions	148	115	87	64	61	51
Executive Offices[3]	20	20	20	20	0	0
Executive Support Offices [4]	102	94	89	77	13	17
Total	**7,476**	**7,973**	**2,135**	**1,977**	**5,341**	**5,996**

[1] The FDIC reports staffing totals using a full-time equivalent (FTE) methodology, which is based on an employee's scheduled work hours. Division/Office staffing has been rounded to the nearest whole FTE. Totals may not foot due to rounding.

[2] On January 1, 2012 the Office of the Enterprise Risk Management was merged into the Division of Finance.

[3] Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, and External Affairs.

[4] Includes the Offices of the Legislative Affairs, Communications, International Affairs, Ombudsman, Minority and Women Inclusion, and Corporate Risk Management.

SOURCES OF INFORMATION

FDIC Website

www.fdic.gov

A wide range of banking, consumer, and financial information is available on the FDIC's website. This includes the FDIC's Electronic Deposit Insurance Estimator (EDIE), which estimates an individual's deposit insurance coverage; the Institution Directory, which contains financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports, which are banks' reports of condition and income; and *Money Smart*, a training program to help individuals outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches, and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

Phone: 877-275-3342 (877-ASK-FDIC)
703-562-2222

Hearing Impaired: 800-925-4618
703-562-2289

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public, and FDIC employees. The Call Center directly, or in concert with other FDIC subject-matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also refers callers to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m., Eastern Time, Monday – Friday, and 9:00 a.m. to 5:00 p.m., Saturday – Sunday. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

As a customer service, the FDIC Call Center has many bilingual Spanish agents on staff and has access to a translation service able to assist with over 40 different languages.

Public Information Center

3501 Fairfax Drive
Room E-1021
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC),
703-562-2200

Fax: 703-562-2296

FDIC Online Catalog:
https://vcart.velocitypayment.com/fdic/

E-mail: publicinfo@fdic.gov

Publications such as *FDIC Quarterly* and *Consumer News*, and a variety of deposit insurance and consumer pamphlets are available at www.fdic.gov or may be ordered in hard copy through the FDIC online catalog. Other information, press releases, speeches and congressional testimony, directives to financial institutions, policy manuals, and FDIC documents are available on request through the Public Information Center. Hours of operation are 9:00 a.m. to 4:00 p.m., Eastern Time, Monday – Friday.

Office of the Ombudsman

3501 Fairfax Drive
Room E-2022
Arlington, VA 22226

Phone: 877-275-3342 (877-ASK-FDIC)

Fax: 703-562-6057

E-mail: ombudsman@fdic.gov

The Office of the Ombudsman (OO) is an independent, neutral, and confidential resource and liaison for the banking industry and the general public. The OO responds to inquiries about the FDIC in a fair, impartial, and timely manner. It researches questions and fields complaints from bankers and bank customers. OO representatives are present at all bank closings to provide accurate information to bank customers, the media, bank employees, and the general public. The OO also recommends ways to improve FDIC operations, regulations, and customer service.

REGIONAL AND AREA OFFICES

Atlanta Regional Office

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Atlanta, Georgia 30309
(678) 916-2200

Alabama

Florida

Georgia

North Carolina

South Carolina

Virginia

West Virginia

Chicago Regional Office

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Suite 1700
Chicago, Illinois 60606

(312) 382-6000

Illinois

Indiana

Kentucky

Michigan

Ohio

Wisconsin

Dallas Regional Office

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Dallas, Texas 75201
(214) 754-0098

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New Mexico

Oklahoma

Texas

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Louisiana

Mississippi

Tennessee

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Nebraska

North Dakota

South Dakota

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District of Columbia

Maryland

New Jersey

New York

Pennsylvania

Puerto Rico

Virgin Islands

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Maine

Massachusetts

New Hampshire

Rhode Island

Vermont

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San Francisco, California 94105
(415) 546-0160

Alaska

Arizona

California

Guam

Hawaii

Idaho

Montana

Nevada

Oregon

Utah

Washington

Wyoming

C. OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF THE MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE FDIC

Under the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is required to identify the most significant management and performance challenges facing the Corporation and provide its assessment to the Corporation for inclusion in the FDIC's annual performance and accountability report. The OIG conducts this assessment annually and identifies specific areas of challenge facing the Corporation at the time. In doing so, we keep in mind the Corporation's overall program and operational responsibilities; financial industry, economic, and technological conditions and trends; areas of congressional interest and concern; relevant laws and regulations; the Chairman's priorities and corresponding corporate goals; and ongoing activities to address the issues involved. In looking at the recent past and the current environment and anticipating—to the extent possible—what the future holds, the OIG believes that the FDIC faces challenges in the areas listed below.

Implementing New Systemic Resolution Responsibilities

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) has given the FDIC significant new authorities to help address the risks in systemically important financial companies or institutions (SIFIs). The FDIC's Office of Complex Financial Institutions (OCFI) is focusing on three areas to carry out its new responsibilities: monitoring risk within and across these large, complex firms from the standpoint of resolution; conducting resolution planning and developing strategies to respond to potential crisis situations; and coordinating with regulators overseas regarding the significant challenges associated with cross-border resolution.

Importantly, under Title I of the Dodd-Frank Act, bank holding companies with more than $50 billion in assets and other firms designated as systemic must develop their own resolution plans or "living wills." The firms must show how they could be resolved under the bankruptcy code without disrupting the financial system and the economy. The first resolution plans were submitted in early July 2012 by the nine largest companies with nonbank assets of over $250 billion. The FDIC and the Federal Reserve Board are reviewing those plans for completeness and compliance with related rulemaking requirements.

OCFI has also been developing its own resolution plans to be ready to resolve a failing systemic financial company. These internal FDIC resolution plans apply many of the same powers that the FDIC has long used to manage failed-bank receiverships to a failing SIFI. If the FDIC is appointed as receiver of such an institution, it will face the challenge of carrying out an orderly liquidation in a manner that maximizes the value of the company's assets and ensures that creditors and shareholders appropriately bear any losses. The goal is to close the institution without putting the financial system at risk.

The coming months will continue to be challenging for the FDIC and all of the regulatory agencies as they continue to carry out the mandates of the Dodd-Frank Act, develop rules to implement key sections, and fulfill their responsibilities as members of the Financial Stability Oversight Council (FSOC). With respect to the FDIC's OCFI, in particular, it will need to ensure that it has the needed expertise and resources to build its capabilities, integrate its operations and systems within the FDIC's infrastructure and established control environment, and supplement existing controls, as warranted, to ensure the success of the FDIC's activities with respect to SIFIs. This is especially important, given the significance of OCFI's responsibilities, the sensitivity of the information it is handling, and the potential consequences of any unauthorized disclosure of such information.

Resolving Failed Institutions and Managing Receiverships

The Corporation continues to handle a demanding resolution and receivership workload. From 2008 through 2012, 465 institutions failed with total assets (as of their final Call Reports) of $680 billion. Estimated losses resulting from the failures total approximately $86.8 billion. As of December 31, 2012, the number of institutions on the FDIC's "Problem List" was 651, indicating the potential of more failures to come, albeit with far less frequency, and an increased asset disposition workload. Total assets of problem institutions were $233 billion as of year-end 2012.

The FDIC frequently enters into shared-loss agreements (SLAs) with acquiring institutions (AIs) of failed bank assets. These agreements guarantee that the FDIC will share in a portion of future asset losses and recoveries for a specific time period.

In return, the AI agrees to manage the failed bank assets consistently with its legacy assets, pursue residential loan modifications on qualified loans, and work to minimize losses. Since loss sharing began in November 2008, through June 30, 2012, the Corporation had entered into more than 290 SLAs involving $212.7 billion in covered assets.

The FDIC has established controls over its SLA monitoring program, which help protect the FDIC's interests and meet the goals of the program. We have pointed out that the FDIC should place additional emphasis on monitoring commercial loan extension decisions to ensure that AIs do not inappropriately reject loan modification requests as SLAs approach termination. Additionally, the FDIC needs to formulate a better strategy for mitigating the impact of impending portfolio sales and SLA terminations on the Deposit Insurance Fund (DIF) so that the FDIC will be prepared to address a potentially significant volume of asset sale requests.

As another resolution strategy, the FDIC has entered into 34 structured sales transactions involving 42,900 assets with a total unpaid principal balance of about $26.0 billion. Under these arrangements, the FDIC retains a participation interest in future net positive cash flows derived from third-party management of the assets. Such transactions involve selling assets to third parties that are not regulated financial institutions. Differences in controls in place for regulated financial institutions, in contrast to private capital investors with unregulated systems of internal control that are not subject to regular oversight by banking supervisors, can present challenges. Such arrangements need to be closely monitored to ensure compliance with all terms and conditions of the agreements. Compliance with the agreements is important to ensure that the FDIC receives the cash flows to which it is entitled.

Other post-closing asset management activities will continue to require much FDIC attention. FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through SLAs or involved in structured sales. As of December 31, 2012, the Division of Resolutions and Receiverships (DRR) was managing 466 active receiverships (including three FSLIC-related) with assets totaling about $17.0 billion. These assets include securities, delinquent commercial real-estate and single-family loans, and participation loans. Post-closing asset managers are responsible for managing many of these assets and rely on receivership assistance contractors to perform day-to-day asset management functions. Since these loans are often sub-performing or nonperforming, workout and asset disposition efforts can be intensive and challenging.

Maintaining the Viability of the Deposit Insurance Fund

Insuring deposits remains at the heart of the FDIC's commitment to maintain stability and public confidence in the nation's financial system. The Dodd-Frank Act made permanent the increase in the coverage limit to $250,000. It also provided deposit insurance coverage on the entire balance of noninterest-bearing transaction accounts at all insured depository institutions (IDIs) until December 31, 2012. A priority and ongoing challenge for the FDIC is to ensure that the DIF remains viable to protect all insured depositors. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

In the aftermath of the financial crisis, FDIC-insured institutions continue to make gradual but steady progress. Commercial banks and savings institutions insured by the FDIC reported aggregate net income of $37.6 billion in the third quarter of 2012, a $2.3 billion improvement from the $35.2 billion in profits the industry reported in the third quarter of 2011. This is the 12th consecutive quarter that earnings have registered a year-over-year increase. Also noteworthy with respect to the viability of the fund was the decline in the number of banks on the FDIC's "Problem List" from 813 in the fourth quarter of 2011 to 651 in the fourth quarter of 2012. The fourth quarter marked the seventh consecutive quarter that the number of problem banks has fallen. As noted earlier, total assets of "problem" institutions also declined year-over-year between 2011 and 2012 from $319.4 billion to $233 billion. Eight insured institutions failed during the fourth quarter—the smallest number of failures in a quarter since the second quarter of 2008, when there were two.

In light of such progress, the DIF balance has continued to increase. During 2012, the DIF balance increased by $21.2 billion, from $11.8 billion to $33.0 billion. Over the twelve consecutive quarters since the beginning of 2010, the fund balance has increased a total of $53.8 billion.

While the fund is considerably stronger than it has been, the FDIC must continue to monitor the emerging risks that can threaten fund solvency in the interest of continuing to provide the insurance coverage that depositors have come to rely upon. Given the volatility of the global markets and financial systems, new risks can emerge without warning and threaten the safety and soundness of U.S. financial institutions and the viability of the DIF. The FDIC must be prepared for such a possibility.

Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised IDIs. The FDIC is the primary federal regulator for approximately 4,500 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve Board (FRB)—generally referred to as "state non-member" institutions. As such, the FDIC is the lead federal regulator for the majority of community banks. The Chairman has made it clear that one of the FDIC's most important priorities is the future of community banks and the critical role they play in the financial system and the U.S. economy as a whole. The Corporation has undertaken a number of initiatives to further its understanding of the challenges and opportunities facing community banks, including a conference, a comprehensive study, and an assessment of both risk-management and compliance supervision practices to see if there are ways to make the supervisory processes more efficient. It will continue its efforts in this regard going forward.

Through the FDIC's examination program, examiners assess the adequacy of the bank's management and internal control systems to identify, measure, monitor, and control risks; and bank examiners judge the safety and soundness of a bank's operations. When the FDIC determines that an institution's condition is less than satisfactory, it may take a variety of supervisory actions, including informal and formal enforcement actions against the institution or its directors and officers and others associated with the institution, to address identified deficiencies and, in some cases, ultimately ban individuals from banking. Generally, the FDIC pursues enforcement actions for violations of laws, rules, or regulations; unsafe or unsound banking practices; breaches of fiduciary duty; and violations of final orders, conditions imposed in writing, or written agreements. In addition, the FDIC has the statutory authority to terminate the deposit insurance of any IDI for violation of a law, rule, regulation, condition imposed in writing, or written agreement, or for being in an unsafe or unsound condition or engaging in unsafe or unsound banking practices.

Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act (BSA), which requires financial institutions to develop and implement a BSA compliance program to monitor for suspicious activity and mitigate associated money laundering risks within the financial institution. This includes keeping records and filing reports on certain financial transactions. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of a Bank Secrecy Act examination. Maintaining a strong examination program, vigilant supervisory activities, and effective enforcement action processes for all institutions and applying lessons learned in light of the recent crisis will be critical to ensuring stability and continued confidence in the financial system going forward.

Another challenging supervisory issue that concerns the FDIC, and community banks in particular, relates to Basel III and recently proposed changes to the federal banking agencies' regulatory capital requirements. In June 2012, the federal banking agencies issued for public comment three separate Notices of Proposed Rulemaking (NPR), proposing changes to the regulatory capital requirements. The agencies proposed the NPRs to address deficiencies in bank capital requirements that became evident in the recent banking crisis. The FDIC is reviewing the more than 2,000 comments it has received so that it can address concerns about the costs and potential unintended consequences of various aspects of the proposals. As the primary federal supervisor for the majority of community banks, the FDIC is particularly focused on ensuring that community banks are able to properly analyze the capital proposals and assess their impact. The basic purpose of the Basel III framework is to strengthen the long-term quality and quantity of the capital base of the U.S. banking system. The FDIC's challenge is to achieve that goal in a way that is responsive to the concerns expressed by community banks about the potential for unintended consequences, and the FDIC will be

carefully considering such issues in the coming months.

Protecting and Educating Consumers and Ensuring an Effective Compliance Program

The FDIC serves a number of key roles in the financial system and among the most important is its work in ensuring that banks serve their communities and treat consumers fairly. The FDIC carries out its role by providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations and examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, fair lending, and community investment. During early 2011, in response to the Dodd-Frank Act and in conjunction with creation of the Consumer Financial Protection Bureau (CFPB), the FDIC established its new Division of Depositor and Consumer Protection. This Division is responsible for the Corporation's compliance examination and enforcement program as well as the depositor protection and consumer and community affairs activities that support that program. It has also adopted a new coordinating role with CFPB on consumer issues of mutual interest.

Historically, turmoil in the credit and mortgage markets has presented regulators, policymakers, and the financial services industry with serious challenges. The FDIC has been committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs of consumers and the economy, especially the needs of creditworthy households that may experience distress. A challenging priority articulated by the Chairman is to continue to increase access to financial services for the unbanked and underbanked in the United States. Successful activities in pursuit of this priority will continue to require effort on the part of the Corporation going forward.

Consumers today are also concerned about data security and financial privacy at their banks, and the FDIC needs to promote effective controls within the banks to protect consumers. Banks are also increasingly using third-party servicers to provide support for core information and transaction processing functions, and the sensitive information servicers handle can be vulnerable. The FDIC must continue to ensure that financial institutions protect the privacy and security of information about customers under applicable U.S. laws and regulations. New cyber threats emerge frequently, and financial institutions and their servicers face continuing challenges safeguarding highly sensitive information from unauthorized disclosure that can cause financial and personal distress or ruin.

Effectively Managing the FDIC Workforce and Other Corporate Resources

The FDIC must effectively and economically manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, information technology (IT), and physical resources. These resources have been stretched during the past years of the recent crisis, and the Corporation will continue to face challenges as it returns to a steadier state of operations and carries out its mission in both headquarters and regional office locations. New responsibilities, reorganizations, and changes in senior leadership and in the makeup of the FDIC Board have affected the entire FDIC workforce over the past few years. Efforts to promote sound governance and effective stewardship of its core business processes and the IT systems supporting those processes, along with attention to human and physical resources, will be key to the Corporation's success in the months ahead.

As the number of financial institution failures continues to decline, the Corporation is reshaping its workforce and adjusting its budget and resources accordingly. The FDIC closed the West Coast Office and the Midwest Office in January 2012 and September 2012, respectively, and plans to close the East Coast Office in 2014. In this connection, authorized staffing for DRR, in particular, has fallen from a peak of 2,460 in 2010 to 1,463 proposed for 2013, which reflects a reduction of 393 positions from 2012 and 997 positions over three years. DRR contractor funding also has fallen from a peak of $1.34 billion in 2010 to about $457 million proposed for 2013, a reduction of about $319 million from 2012 and nearly $885 million (66 percent) over three years. Still, the significant surge in failed-bank assets and associated contracting activities will continue to require effective and efficient contractor oversight management and technical monitoring functions.

With the number of troubled FDIC-supervised institutions also on

the decline, the FDIC has reduced authorized nonpermanent examination staff as well. Risk management examination staffing has declined from a peak of 2,237 in 2011 to 1,966 proposed for 2013, a reduction of 271 nonpermanent positions. The number of compliance examination staff as well has begun to decline, though not as much—from a peak of 572 in 2012 to 522 proposed for 2013, a reduction of 50 nonpermanent positions.

To fund operations, the FDIC Board of Directors recently approved a $2.7 billion Corporate Operating Budget for 2013, about 18 percent lower than the 2012 budget. In conjunction with its approval of the 2013 budget, the Board also approved an authorized 2013 staffing level of 8,026 employees, down from 8,713 previously authorized, a net reduction of 687 positions, with further reductions projected in 2014 and future years. The FDIC's operating expenses are paid from the DIF, and consistent with sound corporate governance principles, the Corporation's financial management efforts must continuously seek to be efficient and cost-conscious, particularly in a government-wide environment that is facing severe budgetary constraints.

As conditions improve throughout the industry and the economy, the Corporation and staff are adjusting to a new work environment and workplace. The closing of the two temporary offices and the plans for closing the third can disrupt current workplace conditions. These closings can also introduce risks, as workload, responsibilities, and files are transferred and employees depart to take other positions—sometimes external to the FDIC. Fewer risk management and compliance examiners can also pose challenges to the successful accomplishment of the FDIC's examination responsibilities. Further, the ramping up of the new Office of Complex Financial Institutions, with hiring from both internal and external sources will continue to require attention—with respect to on-boarding, training, and retaining staff with requisite skills for the challenging functions of that office. For all employees, in light of a transitioning workplace, the Corporation will seek to sustain its emphasis on fostering employee engagement and morale. Its new Workplace Excellence Program is a step in that direction.

From an IT perspective, amidst the heightened activity in the industry and economy, the FDIC has engaged in in massive amounts of information sharing, both internally and with external partners. This is also true with respect to sharing of highly sensitive information with other members of the FSOC formed pursuant to the Dodd-Frank Act. As noted earlier with respect to OCFI, FDIC systems contain voluminous amounts of critical data. The Corporation needs to ensure the integrity, availability, and appropriate confidentiality of bank data, personally identifiable information, and other sensitive information in an environment of increasingly sophisticated security threats and global connectivity. In a related vein, continued attention to ensuring the physical security of all FDIC resources is also a priority. The FDIC needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

Finally, a key component of corporate governance at the FDIC is the FDIC Board of Directors. With the confirmations of the FDIC Chairman and Vice Chairman, along with appointments of others to fill Board positions over the past year, the Board is now operating at full strength. The Board will likely face challenges in leading the organization, accomplishing the Chairman's priorities, and coordinating with the other regulatory agencies on issues of mutual concern and shared responsibility. Enterprise risk management is a related aspect of governance at the FDIC. Notwithstanding a stronger economy and financial services industry, the FDIC's enterprise risk management activities need to be attuned to emerging risks, both internal and external to the FDIC, and the Corporation as a whole needs to be ready to take necessary steps to mitigate those risks as changes occur and challenging scenarios present themselves.

2012
Federal Deposit Insurance Corporation

This Annual Report was produced by talented and dedicated staff. To these individuals, we would like to offer our sincere thanks and appreciation. Special recognition is given to the following for their contributions:

- Jannie F. Eaddy
- Barbara Glasby
- Financial Reporting Unit
- Division and Offices' Points-of-Contact

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC ANNUAL REPORT 2012

FEDERAL DEPOSIT INSURANCE CORPORATION

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