FDIC Federal Deposit Insurance Corporation

Deputy to the Chairman and Chief Financial Officer

May 18, 2023

MEMORANDUM TO:	The Board of Directors
FROM:	Bret D. Edwards Deputy to the Chairman and Chief Financial Officer
SUBJECT:	First Quarter 2023 CFO Report to the Board

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

Executive Summary

- During the first quarter of 2023, the Deposit Insurance Fund (DIF) balance decreased to $116.1 billion as of March 31, 2023, down $12.1 billion from the year-end 2022 balance of $128.2 billion. The quarterly decrease was primarily due to an increase in provision for insurance losses of $16.4 billion.

- The reserve ratio decreased to 1.11 percent, due to a 2.5% increase in insured deposits and the decrease in the DIF balance.

- During the first quarter of 2023, the FDIC was named receiver for 2 failed institutions. The combined assets at inception for these institutions totaled approximately $319 billion with a total estimated loss of $18.5 billion. The corporate cash outlay during the first quarter for these institutions was $28.8 billion. By statute, the FDIC is required to recover $15.8 billion attributable to the cost of covering uninsured deposits as a result of the systemic risk determination through one or more special assessments.

- Through March 31, 2023, overall FDIC Operating Budget expenditures were below the year-to-date budget by about $55.4 million, or nine percent. This was due to underspending of $67.7 million in the Ongoing Operations budget component, with spending below 90 percent of the YTD budget in every non-salary expense category. Receivership Funding expenditures exceeded the YTD budget by $10.8 million (96 percent), largely due to overspending for contractual services by both DRR and CISR in connection with the failures of Silicon Valley Bank and Signature Bank in March.

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

Deposit Insurance Fund

- For the first quarter of 2023, the DIF's comprehensive loss totaled $12.1 billion compared to a comprehensive loss of $102 million for the same period last year. This year-over-year change was primarily due to a $16.4 billion increase in provision for insurance losses and a $1.7 billion realized loss on the sale of U. S. Treasury (UST) securities, partially offset by a $1.4 billion increase in assessment revenue and a $2.5 billion unrealized gain on UST securities.

- The provision for insurance losses was $16.4 billion for the first quarter of 2023 primarily resulting from a $13.7 billion increase in the contingent liability for anticipated failures and the $2.7 billion initial estimated losses for Silicon Valley Bank (SVB) and Signature Bank failures.

- The year-over-year increase in assessment revenue was largely attributable to a 2 basis point increase in assessment rates beginning with first quarter 2023 insurance coverage as mandated by the amended restoration plan.

- The DIF recognized a realized loss of $1.7 billion in March as a result of the sale of UST securities to support resolution efforts. Additionally, the $2.5 billion unrealized gain on UST securities in the first quarter 2023 is reflective of an increase in the market value of the remaining investment portfolio as a result of a decrease in yields in the longer end of the curve.

- The DIF recorded a special assessments receivable totaling $15.8 billion for a systemic risk exception covering the uninsured deposits for the SVB and Signature Bank failures.

Assessments

- During March, the DIF recognized assessment revenue of $3.2 billion for the estimate of first quarter 2023 insurance coverage. Additionally, the DIF recognized a $109 million adjustment for higher-than-estimated collections for the fourth quarter 2022 insurance coverage, which increased assessment revenue.

- On March 30, 2023, the FDIC collected $2.3 billion in DIF assessments for fourth quarter 2022 insurance coverage.

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

DIF Investment Portfolio

- On March 31, 2023, the total liquidity (also total market value) of the DIF investment portfolio stood at $100.19 billion, down $25.52 billion from its December 31, 2022, balance of $125.71 billion. During the quarter, resolution-related outlays and operating expenses exceeded deposit insurance assessment collections, interest revenue and receivership dividends.

- On March 31, 2023, the DIF investment portfolio's yield was 3.163 percent, up 130 basis points from its 1.865 percent yield on December 31, 2022.

- In accordance with the approved first quarter 2023 DIF portfolio investment strategy, staff purchased 14 conventional Treasury securities with a total par value of $13.5 billion, a weighted average yield of 4.279 percent, and a weighted average maturity of 2.90 years.

- Staff sold 30 conventional Treasury securities with a total par value of $39.6 billion and realized a loss of $1.67 billion.

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

Approved Budget Modifications

The 2023 Budget Resolution delegated to the Chief Financial Officer (CFO) the authority to make certain modifications to the 2023 FDIC Operating Budget. In January, the CFO approved the reallocation of about $84 million from the Corporate Unassigned contingency reserve in the Ongoing Operations budget component to the Salaries and Compensation budgets of individual divisions and offices to fund pay changes related to the Compensation Agreement finalized in January 2023.

Approved Staffing Modifications

The 2023 Budget Resolution delegated to the CFO the authority to modify approved 2023 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved Ongoing Operations or Receivership Funding components of the 2023 FDIC Operating Budget.

- In January, the CFO approved an increase of one authorized permanent position in the Division of Risk Management Supervision (RMS) to provide expertise on climate-related financial risks.

- In February, the CFO approved several staffing adjustments to meet various program and mission needs:

    - An increase of one authorized non-permanent position in RMS to support succession management in the Dallas Regional Office.

    - An increase of five authorized non-permanent positions in Corporate University (CU) to support the temporary hiring of retired examiners to serve as examiner instructors in the Examiner Learning Programs Section.

    - An increase of two permanent authorized positions in the Executive Offices, one in the Office of the Vice Chairman and one in the Office of the Appointed Director, to provide for additional staff support in those offices.

    - A net increase of five authorized Supervisory Examiner (SE) positions in RMS, including an increase of nine authorized permanent SE positions and a reduction of four authorized non-permanent SE positions as the result of an annual supervisory span-of-control analysis jointly conducted by RMS and the Division of Finance (DOF).

    - A net increase of four SE positions in the Division of Depositor and Consumer Protection (DCP), including an increase of nine authorized permanent SE positions and a reduction of five authorized non-permanent SE positions as the result of an annual supervisory span-of-control analysis jointly conducted by DCP and DOF.

Subsequent to these adjustments, authorized 2023 staffing for the FDIC totaled 6,328 positions (6,176 permanent and 152 non-permanent), a net increase of 18 positions.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the quarter ending March 31, 2023, are defined as those that either (1) exceeded the YTD budget for a major expense category or division/office by more than $5 million and represented more than three percent of the major expense category or total division/office budget; or (2) were under the YTD budget for a major expense category or division/office by more than $15 million and represented more than 15 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were no significant spending variances in the first quarter in any major expense category of the Ongoing Operations budget component.

Receivership Funding

The Receivership Funding component of the 2023 FDIC Operating Budget includes funding for expenses that are incurred in connection with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for the salaries and benefits of permanent employees assigned to the receivership management function and other expenses required to ensure readiness without regard to whether failures occur.

Overall spending for the Receivership Funding budget component was $22.1 million, or 196 percent of the YTD budget. The overspending occurred primarily in the Outside Services-Personnel major expense category. Outside Services-Personnel expenses were $20.9 million, or 201 percent of the YTD budget. The variance was largely attributable to overspending in the Division of Complex Institution Supervision and Resolution (CISR) and Division of Resolutions and Receiverships (DRR) to resolve the failures of Silicon Valley Bank and Signature Bank in March 2023. Based on preliminary expense estimates for those failures and the subsequent failure of First Republic Bank, a Board case will be submitted soon to the Board of Directors requesting a substantial increase in the current 2023 Receivership Funding budget.

Office of Inspector General

There were no significant spending variances in the first quarter in any major expense category of the Office of Inspector General (OIG) budget component.

Significant Spending Variances by Division/Office[1]

There were two organizations with significant spending variances through the end of first quarter:

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

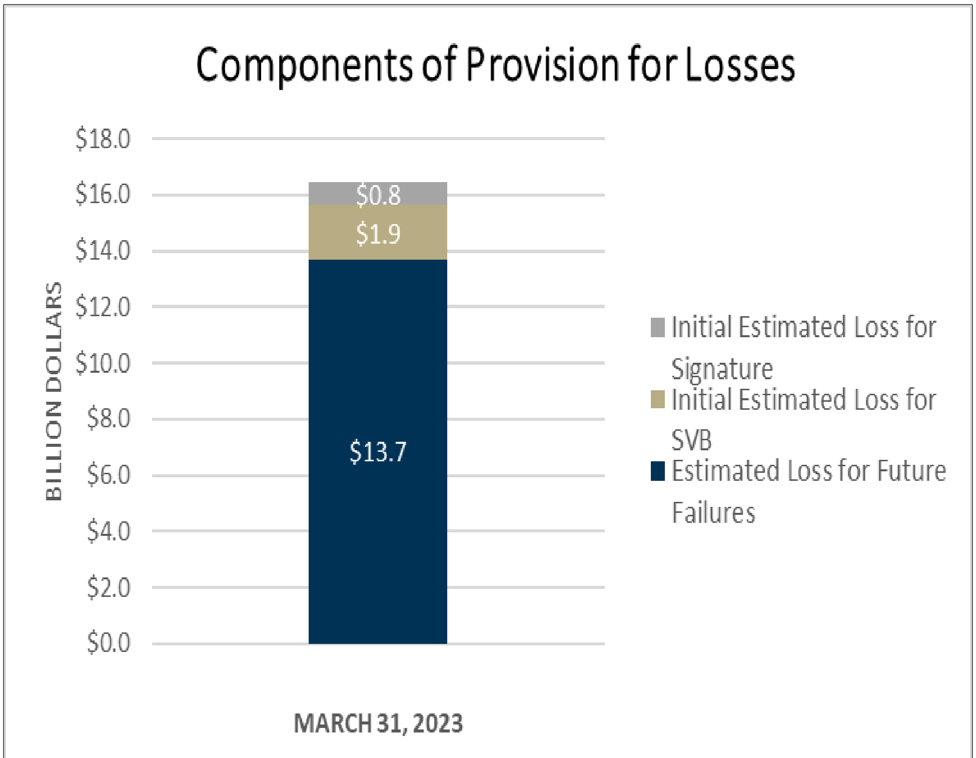
- The Division of Information Technology (DIT) underspent its YTD budget by $20.6 million, or 19 percent, primarily attributable to underspending in the Ongoing Operations budget component. This included $9.6 million in the Equipment major expense category due to delays in the receipt of hardware purchases, lower-than-budgeted costs for some subscriptions, and misalignment of the budget to the actual timing of subscription billings and software maintenance contract renewals; $7.2 million in the Outside Services – Personnel major expense category due to delayed onboarding of contractor personnel, service credits, and project reassessment and re-prioritization; and $2.2 million in the Salaries and Compensation major expense category due to continued vacancies in budgeted positions.

- CISR overspent its YTD budget by $12.7 million, or 47 percent, primarily attributable to overspending of $13.7 million in the Outside Services – Personnel expense category of its Receivership Funding budget, due to unbudgeted expenses for the two bank failures in March of 2023.

Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Mar-23	Dec-22	Quarterly Change	Mar-22	Year-Over-Year Change
Cash and cash equivalents	$ 18,088	$ 2,599	$ 15,489	$ 5,802	$ 12,286
Investment in U.S. Treasury securities	81,717	122,442	(40,725)	114,230	(32,513)
Assessments receivable	3,187	2,159	1,028	1,818	1,369
Special Assessments receivable	15,776	0	15,776	0	15,776
Interest receivable on investments and other assets, net	416	688	(272)	776	(360)
Receivables from resolutions, net	86,590	521	86,069	815	85,775
Property and equipment, net	361	360	1	326	35
Operating lease right-of-use assets	85	93	(8)	80	5
Total Assets	$ 206,220	$ 128,862	$ 77,358	$ 123,847	$ 82,373
Accounts payable and other liabilities	270	268	2	245	25
Operating lease liabilities	105	111	(6)	85	20
Liabilities due to resolutions	75,828	1	75,827	1	75,827
Postretirement benefit liability	232	232	0	332	(100)
Contingent liability for anticipated failures	13,713	31	13,682	145	13,568
Contingent liability for litigation losses	1	1	0	0	1
Total Liabilities	$ 90,149	$ 644	$ 89,505	$ 808	$ 89,341
FYI: Unrealized gain (loss) on U.S. Treasury securities, net	(535)	(2,985)	2,450	(1,835)	1,300
FYI: Unrealized postretirement benefit (loss) gain	27	27	0	(83)	110
Fund Balance	$ 116,071	$ 128,218	$ (12,147)	$ 123,039	$ (6,968)



The total initial estimated losses for the SVB and Signature Bank failures are $16.1 billion and $2.4 billion, respectively. However, only 12% ($1.9 billion) and 33% ($0.8 billion) of those total estimated losses covered insured deposits and impacted the DIF balance. The remaining portions of the estimated losses that are attributable to uninsured deposits will be recovered from the banking industry through a special assessment ($14.2 billion and $1.6 billion, respectively).

Fund Financial Results - continued

($ in Millions)

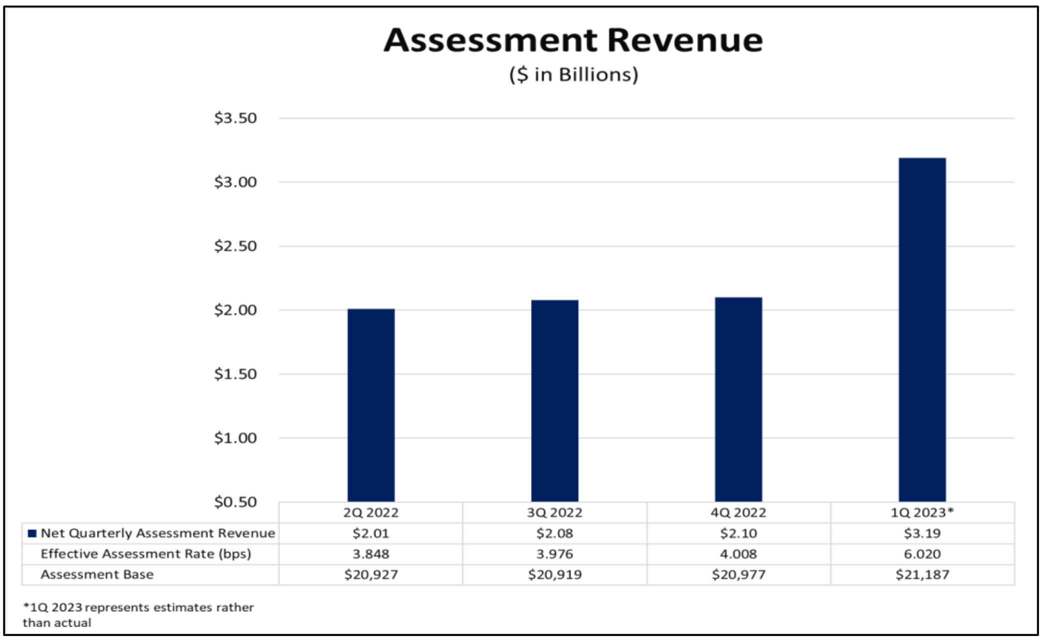
Income Statement (year-to-date)	Mar-23	Dec-22	Quarterly Change	Mar-22	Year-Over-Year Change
			Deposit Insurance Fund		
Assessments	$ 3,306	$ 8,311		$ 1,938	$ 1,368
Interest on U.S. Treasury securities	661	1,246		191	470
Return of unclaimed insured deposits	14	38		6	8
Other revenue	3	12		2	1
Total Revenue	$ 3,984	$ 9,607		$ 2,137	$ 1,847
Operating expenses	508	1,883		453	55
Provision for insurance losses	16,402	(83)		100	16,302
Insurance and other expenses	5	4		0	5
Realized loss on sale of investments	1,666	0		0	1,666
Total Expenses and Losses	$ 18,581	$ 1,804		$ 553	$ 18,028
Net Income	$ (14,597)	$ 7,803		$ 1,584	$ (16,181)
Unrealized gain (loss) on U.S. Treasury securities, net	2,450	(2,836)		(1,686)	4,136
Unrealized postretirement benefit gain (loss)	0	110		0	0
Comprehensive Income	$ (12,147)	$ 5,077		$ (102)	$ (12,045)

Selected Financial Data	Mar-23	Dec-22	Quarterly Change	Mar-22	Year-Over-Year Change
			FSLIC Resolution Fund		
Cash and cash equivalents	$ 932	$ 922	$ 10	$ 908	$ 24
Accumulated deficit	(124,537)	(124,547)	10	(124,562)	25
Total resolution equity	933	922	11	908	25
Total revenue	10	15		0	10
Operating expenses	0	0		0	0
Losses related to thrift resolutions	0	0		0	0
Net Income (Loss)	$ 10	$ 15		$ 0	$ 10

Receivership Selected Statistics March 2023 vs. March 2022

	DIF			**FRF**			**ALL FUNDS**		
($ in millions)	Mar-23	Mar-22	*Change*	Mar-23	Mar-22	*Change*	Mar-23	Mar-22	*Change*
Total Receiverships	127	188	(61)	0	0	0	127	188	(61)
Assets in Liquidation	27,741[1]	$ 86	$ 27,655	$ 0	$ 0	$ 0	$ 27,741	$ 86	$ 27,655
YTD Collections	14	$ 34	$ (20)	$ 0	$ 0	$ (1)	$ 14	$ 34	$ (20)
YTD Dividend/Other	$ 40,039	$ 103	$ 39,936	$ 0	$ 0	$ 0	$ 40,039	$ 103	$ 39,936

[1] Does not include all of the assets retained by the SVB and Signature Bank receiverships until further analysis can be completed on various asset types.



1Q23 assessment revenue rose by $1.1B due to a 2 basis point increase in assessment rates as mandated by the amended restoration plan.

Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	3/31/23	12/31/22	Change
Par Value	$102,315	$129,036	($26,721)
Amortized Cost	$100,317	$128,188	($27,871)
Total Market Value (including accrued interest)	$100,188	$125,706	($25,518)
Primary Reserve [1]	$100,188	$125,706	($25,518)
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Yield-to-Maturity	3.163%	1.865%	1.298%
Weighted Average Maturity (in years)	1.22	1.21	0.01
Effective Duration (in years)			
Total Portfolio	1.17	1.16	0.01
Available-for-Sale Securities [2]	1.43	1.22	0.21

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

[2] Excludes any overnight investments.

Summary of Other Corporate Investment Portfolios (Dollar Values in Millions)			
	3/31/23	12/31/22	Change
FRF-FSLIC			
Book Value [3]	$907	$897	$10
Yield-to-Maturity	4.69%	3.95%	0.74%
Weighted Average Maturity	overnight	overnight	no change

[3] Due to the current short-term nature of this portfolio, its respective Par, Book, and Market Values are identical for reporting purposes.

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)			
	3/31/23	12/31/22	Change
Book Value [4]	$5,301	$924	$4,377
Effective Annual Yield	4.73%	3.73%	100%
Weighted Average Maturity (in days)	10	55	(45)

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

Investment Strategies	
DEPOSIT INSURANCE FUND	**Strategy for the 1st Quarter 2023**
	Invest up to $21 billion (par value) in AFS securities with maturities between June 30, 2023 and January 1, 2028.
	Strategy Changes for the 2nd Quarter 2023
	Maintain a minimum balance of $8 billion in the overnight account. Excess funds will be used to purchase overnight securities only.
NATIONAL LIQUIDATION FUND	**Strategy for the 1st Quarter 2023**
	Maintain a minimum of $200 million in the Government Money Market Mutual Funds and a maximum of $600 million in Agency Discount Notes.
	Strategy Changes for the 2nd Quarter 2023
	Maintain a minimum balance of $1.0 billion in the FHLBNY overnight account. Invest excess funds in Government MMFs and agency discount notes of less than 6-month maturities.

Executive Summary of 2023 Budget and Expenditures by Budget Component and Major Expense Category Through March 31, 2023 (Dollars in Thousands)

Major Expense Category	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Ongoing Operations					
Salaries & Compensation	$1,502,850	$374,579	$352,707	94%	($21,872)
Outside Services - Personnel	383,941	90,172	77,190	86%	(12,981)
Travel	92,789	22,827	9,735	43%	(13,093)
Buildings	124,212	24,925	18,138	73%	(6,787)
Equipment	151,775	41,584	30,668	74%	(10,916)
Outside Services - Other	14,928	3,477	2,209	64%	(1,268)
Other Expenses	15,499	5,761	4,941	86%	(820)
Total Ongoing Operations *	**$2,285,994**	**$563,325**	**$495,589**	**88%**	**($67,737)**
Receivership Funding					
Salaries & Compensation	329	71	235	332%	164
Outside Services - Personnel	71,491	10,417	20,921	201%	10,504
Travel	336	76	417	551%	341
Buildings	205	38	32	83%	(7)
Equipment	1,890	471	464	99%	(7)
Outside Services - Other	175	40	14	34%	(27)
Other Expenses	574	141	4	3%	(137)
Total Receivership Funding *	**$75,000**	**$11,254**	**$22,086**	**196%**	**$10,832**
Office of Inspector General					
Salaries & Compensation	41,500	11,249	11,225	100%	(23)
Outside Services - Personnel	1,484	313	230	73%	(84)
Travel	1,594	310	319	103%	9
Buildings	0	0	0	0%	0
Equipment	2,198	487	2,215	455%	1,728
Outside Services - Other	0	0	0	0%	0
Other Expenses	1,309	165	78	47%	(87)
Total Office of Inspector General *	**$48,085**	**$12,524**	**$14,066**	**112%**	**$1,543**
Total FDIC Operating Budget *	**$2,409,079**	**$587,103**	**$531,741**	**91%**	**($55,362.04)**

* Totals may not foot due to rounding.

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

Division/Office	Annual Budget	YTD Budget	YTD Expenditures	% of YTD Budget Used	YTD Variance
FDIC Operating Budget					
Risk Management Supervision	$ 651,544	$ 164,183	$ 146,234	89%	$ (17,949)
Information Technology	415,989	111,076	90,456	81%	(20,620)
Administration	357,171	83,131	71,736	86%	(11,395)
Depositor & Consumer Protection	213,669	52,365	47,381	90%	(4,984)
Legal	171,698	42,567	35,401	83%	(7,166)
Resolutions & Receiverships	130,975	32,716	31,761	97%	(955)
Complex Institution Supervision & Resolution	115,095	27,163	39,844	147%	12,681
Insurance & Research	67,164	16,474	14,738	89%	(1,736)
Inspector General	48,085	12,524	14,066	112%	1,542
Chief Information Security Officer	52,598	12,506	11,085	89%	(1,421)
Executive Support [1]	46,524	9,602	7,877	82%	(1,725)
Finance	40,866	10,334	10,110	98%	(224)
Corporate University - Corporate	28,088	6,725	6,268	93%	(457)
Executive Offices [2]	14,773	3,514	2,542	72%	(972)
Risk Management & Internal Control	9,693	2,223	2,242	101%	19
Corporate Unassigned [3]	45,147	0	0	0%	0
Total FDIC Operating Budget [4]	**$ 2,409,079**	**$ 587,103**	**$ 531,741**	**91%**	**$ (55,362)**

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

2) Executive Offices include the offices of the Chairman, Vice Chairman, Independent Director, Deputy to the Chairman and Chief Operating Officer, Deputy to the Chairman and Chief Financial Officer, Deputy to the Chairman for Policy, Deputy to the Chairman for External Affairs, Deputy to the Chairman for Financial Stability, and Chief Information Officer/Chief Privacy Officer.

3) This includes a $15.0 million contingency reserve in the Ongoing Operations budget component and a $30.1 million contingency reserve in the Receivership Funding budget component to meet unanticipated budget requirements that may arise during the year.

4) Totals may not foot due to rounding.