2016 ANNUAL REPORT

FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

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FEDERAL DEPOSIT INSURANCE CORPORATION

FEDERAL DEPOSIT INSURANCE CORPORATION
550 17th Street NW, Washington, DC 20429

OFFICE OF THE CHAIRMAN

February 15, 2017

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,
- the Reports Consolidation Act of 2000, and
- the provisions of the Fraud Reduction and Data Analytics Act of 2015,

the Federal Deposit Insurance Corporation (FDIC) is pleased to submit its *2016 Annual Report* (also referred to as the *Performance and Accountability Report*), which includes the audited financial statements of the Deposit Insurance Fund and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund.

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. However, the U.S. Government Accountability Office did identify information technology issues that aggregate to a significant deficiency. The FDIC has efforts underway to address this deficiency. We are committed to maintaining effective internal controls corporate-wide in 2017.

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 AND SUPERVISING INSTITUTIONS ♦ MAKING LARGE AND COMPLEX FINANCIAL INSTITUTIONS RESOLVABLE ♦ 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.

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 and 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.

FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

MESSAGE FROM THE CHAIRMAN

For 83 years, the FDIC has carried out its mission of maintaining public confidence and stability in the U.S. financial system. The FDIC does this by insuring deposits; supervising and examining financial institutions for safety, soundness, and consumer protection; and managing receiverships when banks fail.

At the end of September 2016, the FDIC insured deposits of $6.8 trillion in almost 600 million accounts at nearly 6,000 institutions, supervised 3,827 institutions, and managed 404 active receiverships having total assets of $3.759 billion.

The U.S. economy and the banking industry continued to improve in 2016. After experiencing the most severe financial crisis and economic downturn since the 1930s, the United States is now well into the recovery. The economy is expanding, although the pace of economic growth has been weaker than the long-term trend, and bank profitability remains lower than pre-crisis levels. Still, the industry has been strengthening balance sheets by building capital and enhancing liquidity.

Stronger balance sheets indicate ample capacity for FDIC-insured institutions to continue to support the economic recovery. During the 12 months ended September 30, loan balances at banks increased by $591 billion, the largest 12-month dollar gain since the year ending June 2008. Moreover, that growth was broad-based, with all major loan categories posting increases, and more than three-quarters of all institutions reporting larger loan balances. Loan growth was strongest at community banks, which posted a 9.4 percent gain versus 6.8 percent for the industry overall. Rising loan demand and a recent pickup in the pace of economic activity are creating favorable conditions for FDIC-insured institutions, although the global economic outlook remains uncertain and poses a potential downside risk for the U.S. economy and financial system.

The number of both failed and problem institutions declined again in 2016, and the Deposit Insurance Fund (DIF) balance, which was almost $21 billion in the red during the financial crisis, was $83.2 billion in the black at year-end.

The FDIC is working to wind down the receiverships of failed institutions, address emerging supervisory challenges and cybersecurity threats, and support the formation of new banks. This shift is indicative of the move from a post-crisis recovery environment to one of expanding economic growth and financial activity. Following is an overview of the FDIC's important accomplishments over the past year, as well as the strategic challenges we face.

REBUILDING THE DIF AND RESOLVING FAILED BANKS

Under a restoration plan that reflects Dodd-Frank Act requirements to rebuild the DIF, the fund balance has increased every quarter since the end of 2009, when it reached an all-time low. In 2016, the DIF balance increased to $83.2 billion, owing primarily to assessment income, as well as lower than estimated losses for past bank failures. On September 30, 2016, the reserve ratio—the ratio of the DIF balance to estimated insured deposits—was 1.18 percent, the highest level in more than eight years.

The Dodd-Frank Act raised the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent,

and requires that the reserve ratio reach that level by September 30, 2020. The Dodd-Frank Act also makes banks with $10 billion or more in total assets responsible for the increase.

To ensure that the reserve ratio reaches 1.35 percent by the statutory deadline, the FDIC adopted a rule in March 2016 that imposes a temporary surcharge on banks with at least $10 billion in assets. The surcharge is 4.5 cents per $100 of each bank's assessment base per annum, after making certain adjustments. The rule became effective on July 1 of this year. As a result, the FDIC expects the reserve ratio to reach 1.35 percent in approximately two years, well ahead of the statutory deadline.

The FDIC also has worked to ensure that the costs of maintaining a strong Deposit Insurance Fund are better allocated across the industry. In early 2011, the FDIC adopted a rule that reduces regular assessment rates for all banks when the reserve ratio reaches 1.15 percent. In April of this year, the FDIC reaffirmed that decision with a rule that revises the FDIC's methodology for determining risk-based assessments to better reflect risks and to help ensure that banks that take on greater risks pay more for deposit insurance than their less risky counterparts. The rule went into effect on July 1 of this year, after the reserve ratio surpassed 1.15 percent, and resulted in lower assessment rates for approximately 93 percent of banks with less than $10 billion in assets.

Bank failures in 2016 totaled five, down dramatically from a peak of 157 in 2010, while the number of banks on the problem bank list (banks rated 4 or 5 on the CAMELS rating scale) fell to 132 at the end of September 2016 from a high of 888 in March 2011. The United States continues to approach pre-crisis levels for failed banks and problem banks.

During 2016, the FDIC successfully used various resolution strategies to protect insured depositors of failed institutions at the least cost to the DIF. The FDIC actively marketed failing institutions and sold them 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.

MANAGING FDIC RESOURCES

As the banking industry continues to recover, the FDIC requires fewer resources. The agency's authorized workforce for 2016 was 6,533 full-time equivalent positions compared with 6,886 the year before. The 2016 FDIC Operating Budget was $2.21 billion, a decrease of 4.7 percent from 2015.

The FDIC remains committed to fulfilling its mission while prudently managing costs. We reduced our budget for 2017 from the prior year by 2.4 percent to $2.16 billion and reduced authorized staffing by approximately 2.6 percent to 6,363 positions, in anticipation of a further drop in bank failure activity in the years ahead. This is the seventh consecutive reduction in the FDIC's annual operating budget. However, contingent resources are included in the budget to ensure readiness should economic conditions unexpectedly deteriorate.

FOCUSING ON INTEREST-RATE RISK AND CREDIT RISK

While the banking industry continues to improve, evidence of growing interest-rate risk and credit risk merit attention. In an effort to alleviate the impact of low interest rates and increase net interest margins, banks have been investing in longer-term assets and increasing the mismatch between asset and liability maturities. Lending in higher-risk loan categories has been growing as well. The recent Shared National Credits review of large syndicated loans noted that credit risk in the portfolio remains elevated. Such risk stems from the "high inherent risk in the leveraged loan portfolio and growing credit risk in the oil and gas (O&G) portfolio," the Shared National Credits report, issued in July 2016, said.

At the same time risk profiles have been rising, banks have not seen corresponding growth in overall revenue.

These examples of increasing interest-rate risk and credit risk are noteworthy as it is during this phase of the credit cycle when underwriting and investment decisions are made that may lead to losses in the future. Addressing these risks before losses materialize will benefit banks and contribute to the stability and resilience of the industry. We will continue to focus our supervisory attention on these risk areas going forward.

STRENGTHENING BANK RESILIENCE AND PUBLIC CONFIDENCE

During the financial crisis, a number of large banking organizations failed, or experienced serious difficulties, in part because of severe liquidity problems. In May 2016, the FDIC and other banking agencies proposed a rule that would reduce the vulnerability of large banking organizations to liquidity risk. The Net Stable Funding Ratio Rule would require certain large banks to maintain sufficient levels of stable funding, including capital, long-term debt, and other stable sources over a one-year window, to account for the liquidity risks arising from their assets, derivatives, and off-balance-sheet activities.

In addition, the FDIC with four other federal agencies established margin requirements for non-cleared swaps. The margin rule, applicable to dealers and major participants in swaps, was finalized in October 2015 and began to be phased in starting in September 2016. The margin requirements promote financial stability and help ensure the safety and soundness of banks engaging in significant swap activity.

At the same time, the FDIC must be prepared to provide depositors with prompt access to their funds in the event of a large bank failure. This is essential to maintaining public confidence in the banking system. For the typical bank resolved by the FDIC, insured deposits are available the next business day. However, for a bank with a large number of deposit accounts, payment might be delayed if the bank's records are unclear or incomplete.

To address this type of scenario, the FDIC in November issued a final rule requiring depository institutions with more than two million deposit accounts to improve the quality of their deposit data and make certain changes to their information systems. This rule bolsters the FDIC's ability to provide depositors at banks with a large number of deposit accounts the same rapid access to their insured funds in the case of a failure as the FDIC does in smaller resolutions. We will work closely with institutions as they develop new capabilities, and intend to issue functional design assistance for system programming prior to the effective date to aid in this process.

ADDRESSING CYBERSECURITY RISK

The rapidly evolving nature of cybersecurity risks reinforces the need for regulators, financial institutions, and critical technology service providers to have appropriate procedures to effectively respond to cybersecurity risk. The FDIC collaborates with other federal agencies, law enforcement, and a number of government groups and industry coordinating councils to analyze and respond to emerging cyber threats, security breaches, and other harmful or disruptive technology-related incidents.

In October 2016, the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (OCC) issued an Advance Notice of Proposed Rulemaking inviting comment on a proposed set of enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected entities under their supervision. The standards would apply to services provided by third parties to these firms as well. Feedback on the notice will inform development of a proposed rule.

Throughout the year, the FDIC added to the cybersecurity risk-management resources it provides to the industry.

- We produced a new video, "Vendor Management – Outsourcing Technology Services," to

help community bank directors and senior management develop a comprehensive vendor-management program and understand their responsibilities and regulatory requirements when outsourcing technology services.

- We enhanced our "Cyber Challenge: A Community Bank Cyber Exercise," a tool that can help start an important dialogue between bank management and staff about operational risk and techniques to mitigate it.
- We co-authored updates to the FFIEC *Information Technology Examination Handbook*. The new version, published in September 2016, outlines a framework for assessing security risks in information systems and evaluating an information security program's integration into overall risk management. Other updates to the handbook focus on risks associated with mobile financial services.
- Finally, in conjunction with National Consumer Protection Week, we launched an expanded cybersecurity awareness website that provides access to a wide range of presentations, brochures, and tips to help consumers understand and avoid cybersecurity risks.

The FDIC monitors cybersecurity issues on a regular basis through on-site bank examinations. In July 2016, we introduced the Information Technology Risk Examination (InTREx) program to enhance our ability to identify, assess, and validate information technology and operations risks in financial institutions. The program also gathers data about information technology that the FDIC can use to improve industry-wide safety and soundness. The InTREx program will allow the FDIC to provide more granular ratings with respect to information technology, which can help financial institutions address the most important examination recommendations first.

Information security is critical to the FDIC's ability to carry out its mission of maintaining stability and public confidence in the nation's financial system.

This year, the FDIC also implemented policies and technologies to strengthen its own cybersecurity posture.

For example, the FDIC:

- expanded our use of multi-factor authentication for securely downloading assessment invoices and official FDIC correspondence, and performing other secure file exchanges;
- discontinued individuals' ability to copy information to removable media such as CDs, DVDs, external hard drives, and thumb drives;
- signed a memorandum of understanding to migrate to an intrusion prevention, detection, and monitoring system from the Department of Homeland Security that will help detect and block outside cyber threats;
- launched an Insider Threat and Counterintelligence Program as part of the FDIC's efforts to safeguard employees, information, operations, and facilities;
- implemented new controls to limit printing of sensitive information and better monitor information printed in the highest risk areas; and
- engaged an independent, third-party firm to conduct an end-to-end assessment of the FDIC IT security and privacy programs.

These actions are in addition to protections that were already in place, such as:

- encryption of some of our most sensitive information;
- encrypted laptop hard drives; and
- a Data Loss Prevention program that monitors information in emails, information being transferred to websites, and information printed.

The FDIC requires employees to take annual security and privacy training so they are aware of our security standards. This is also supplemented by periodic phishing tests to help ensure employees stay watchful to possible outside threats.

Information security will remain a top priority at the FDIC. We will continue to enhance our security controls in light of the changing threat landscape.

REVIEWING REGULATION

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires that regulations adopted by the Federal Financial Institutions Examination Council (FFIEC) and the federal banking agencies, including the FDIC, be reviewed by the agencies at least once every 10 years. The current cycle began in late 2014, and a report to Congress with findings and recommendations will be issued by the agencies soon. The purpose of this review is to identify and eliminate, as appropriate, outdated or otherwise unnecessary regulatory requirements that are imposed on insured depository institutions, while, at the same time, ensuring that safety and soundness and consumer compliance standards are maintained.

The regulatory review process is one we take very seriously. Over the course of the review, the federal banking agencies hosted six public outreach meetings nationwide to hear firsthand from insured depository institutions, trade associations, consumer and community groups, and other interested parties. The agencies received numerous oral and written comments from panelists and the public at these outreach meetings. In addition, the agencies sought comment through the issuance of four *Federal Register* notices, which garnered more than 230 comment letters. The agencies have summarized and reviewed these comments, and considered appropriate changes to reduce regulatory burdens on institutions. The FDIC recognizes that regulatory burden does not result solely from statutes and regulations, so we also explored opportunities to improve the transparency and clarity of our supervisory policies and procedures, especially as they apply to community banks.

Together with the other federal banking agencies on the FFIEC, we have already taken significant steps to reduce the regulatory burden on supervised institutions. For example, the agencies finalized revisions to streamline the Call Report and proposed a new, streamlined Call Report for institutions that do not have a foreign office and hold total assets of less than $1 billion. This new Call Report would take effect March 31, 2017, would be optional for eligible small institutions, would reduce the length of the Call Report for eligible small institutions from 85 pages to 61 pages, and would remove approximately 40 percent of the data items currently required by the Call Report for all institutions with domestic offices only.

In addition to streamlining the Call Report, in December of this year, the agencies finalized a rule to increase the number of small banks and savings associations eligible for an 18-month examination cycle rather than a 12-month cycle. As a result, approximately 4,800 well-capitalized and well-managed banks and savings associations are now eligible for the expanded examination cycle.

The federal banking agencies also are jointly developing simplifications to the regulatory capital rules, including modifications of high volatility commercial real estate (HVCRE) and select other revisions to the agencies' generally applicable capital rules, and would seek industry comment on these changes through the notice and comment process. In addition, the agencies are developing a proposal to increase the threshold for requiring an appraisal on commercial real estate loans to reduce regulatory burden in a manner consistent with safety and soundness.

The FFIEC agencies also revisited and issued revised guidance on the Community Reinvestment Act (CRA) this year. In July, the FFIEC issued the revised guidance which aims to:

- Improve consistency of examinations across and within the agencies,
- Clarify the activities considered to meet the test for qualifying economic development activities,
- Distinguish between community development services and retail products tailored to meet the needs of low- and moderate-income individuals, and

- Provide examples of the types of activities that are eligible for CRA consideration.

We are also working jointly with the other federal banking agencies on flood insurance guidance, amendments to the rules implementing Depository Institution Management Interlocks Act, and guidance on Regulation O.

The FDIC has also taken independent action this year to reduce regulatory burden. For example, a particular interest to the FDIC is the impact of our regulations on new banks. In 2016, we reduced the period of enhanced supervision for newly insured depository institutions (i.e., *de novo* banks) from seven years to three. We also issued updated guidance on the deposit insurance application process and identified subject matter experts in each of the Regional Offices to assist with deposit insurance applications.

We also implemented an electronic pre-examination planning tool for both risk-management and compliance examinations that allows examiners to tailor request lists to ensure that only those items that are necessary for the examination process are requested from each institution, minimizing the burden for supervised institutions and reducing on-site examination hours.

In 2016, we also enhanced our information technology (IT) examination procedures to require less pre-examination information from bankers. The revised IT Officer's Questionnaire that is completed by bankers prior to an examination, asks 65 percent fewer questions, reducing the amount of time needed to prepare for an examination. We also established a process to allow for our institutions to submit audit reports electronically, eliminating the need for institutions to mail hard copies.

In addition, we issued a Financial Institution Letter (FIL) to supervised institutions, clarifying our treatment of requests from S-corporation institutions to pay dividends to their shareholders to cover taxes on their pass-through share of bank earnings. We told banks that, unless there are significant safety and soundness concerns, we will generally approve those requests.

COMMUNITY BANKING INITIATIVE

Community banks are critically important to our economy and the banking system. Community banks account for 13 percent of the banking assets in the United States, but also account for 43 percent of the small loans to businesses and farms made by all banks, making them key partners in supporting local economic development and job creation. Because the FDIC is the primary federal supervisor of the majority of community banks in the United States, community banking will continue to be an important focus of FDIC supervision, technical assistance, and research.

In 2016, the FDIC hosted a conference that brought together community bankers, regulators, researchers, and others to discuss the community banking model, regulatory developments affecting community banks, management of technology challenges, and ownership structure and succession planning. We also hosted a Joint Mutual Forum with the OCC to promote and support the operations of mutual depository institutions and discuss industry trends, the economic outlook, technology challenges, and regulatory compliance topics. The community banking sector continues to demonstrate resilience and innovation in meeting new challenges and competing in an evolving financial marketplace.

The FDIC's Community Banking Initiative includes an extensive technical assistance program for bank directors, officers, and employees. We continue to expand and enhance our series of online videos to help community bankers better understand their responsibilities. New or updated videos in 2016 address corporate governance, vendor management, outsourcing technology services, interest-rate risk, mortgage rules, and flood insurance. We also distributed a *Community Bank Resource Kit*, which includes a variety of useful tools for community bankers, to FDIC-supervised institutions.

In addition, this year, we launched an online resource, the Affordable Mortgage Lending Center, which

community bankers can use to understand and compare the mortgage-lending products and services offered by federal and state housing finance agencies, the Federal Home Loan Banks, and government-sponsored enterprises.

Further, in 2016, the FDIC launched a new survey regarding banks' small business lending practices. This survey is designed to provide information on the general characteristics of banks' small business borrowers, the types of credit offered to small businesses, and the relative importance of commercial lending for banks of different sizes and business models. It is important to understand how banks of all sizes are lending to small businesses, which is crucial to job creation. I look forward to seeing the results of the survey in 2017.

Finally, the FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met three times during 2016 with the FDIC Board, is composed of 15 community bank CEOs from around the country. It is a valuable resource for input on a wide variety of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues.

Supporting *De Novo* Banks

De novo institutions fill important gaps in local banking markets, provide credit and services to communities that may be overlooked by larger institutions, and help to preserve the vitality of the community banking sector. The FDIC is committed to working with, and providing support to, any group with an interest in starting a *de novo* bank, and welcomes applications for deposit insurance.

The current environment, with low interest rates and narrow net interest margins, is challenging for the formation of new banks. Nevertheless, we have seen tentative signs of an uptick in *de novo* formations, including increased interest from prospective organizing groups in filing applications for new insured depository institutions. To encourage this interest and help organizing groups navigate the application process, this year the FDIC hosted outreach meetings throughout the country to discuss FDIC requirements for new bank applications and highlight strategies for successful business models, supplemented its Deposit Insurance Q&As, and issued for public comment a handbook to guide organizing groups through the application process.

In April, the FDIC reduced from seven years to three years the period of enhanced supervisory monitoring of state nonmember *de novo* institutions. The seven-year period was established during the financial crisis in response to the disproportionate number of *de novo* institutions that were experiencing difficulties or failing. In the current environment, and in light of strengthened, forward-looking supervision, it is appropriate to return to the three-year period.

RESOLUTION OF SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC continues to make progress toward developing strategies to facilitate the orderly failure of large, complex, systemically important financial institutions without taxpayer support and market breakdowns.

Living Wills

In 2016, the FDIC remained committed to carrying out the statutory mandate that systemically important financial institutions (SIFIs) demonstrate a clear path to an orderly failure under bankruptcy at no cost to taxpayers. Under the Dodd-Frank Act, bankruptcy is the statutory first option for resolving a SIFI, and the largest bank holding companies and certain non-bank financial companies are required to prepare resolution plans, also referred to as "living wills." These living wills must demonstrate that the firm could be resolved under bankruptcy without severe adverse

consequences for the financial system or the U.S. economy.

The FDIC and the Federal Reserve Board are charged with reviewing and assessing each firm's resolution plan. In 2016, we reviewed the resolution plans submitted by the eight U.S. SIFIs in 2015 and provided firm-specific feedback on the plans. The agencies jointly determined that five of those plans were not credible or would not facilitate an orderly resolution under the Bankruptcy Code. The agencies issued joint notices of deficiencies in July 2016 to the five firms detailing the deficiencies in their plans and the actions the firms must take to address them. Each firm was required to remedy its deficiencies by October 1, 2016, or risk being subject to more stringent prudential requirements or to restrictions on activities, growth, or operations.

The agencies received and reviewed those submissions, and determined that four of the firms had satisfactorily remediated their deficiencies. The agencies jointly determined that one firm did not adequately remedy two of the firm's three deficiencies. In light of the nature of the deficiencies and the resolvability risks posed by the firm's failure to remedy them, the agencies jointly determined to impose restrictions on the growth of international and non-bank activities of the firm and its subsidiaries. The firm is expected to file a revised submission addressing the remaining deficiencies by March 31, 2017 or risk facing limits to the size of the firm's non-bank and broker-dealer assets.

All eight SIFIs must submit their next plan in July 2017, in which they must address identified shortcomings and additional guidance from the agencies.

With the release of the joint findings, the agencies took a number of important steps to make the resolution planning process more transparent to the public and the market. This is important because it allows for the development of realistic market expectations about how the resolution of a SIFI might proceed. To this end, the Federal Reserve Board as the holding company supervisor released to the public decision letters regarding the 2015 submissions and remediation of the 2016 joint deficiencies, which included the actions the eight U.S. firms are required to take. Further, the agencies released the assessment framework under which the Federal Reserve Board and the FDIC review each firm's plan and the guidance provided by the agencies to the firms to assist them with the development of their 2017 plans.

These actions have provided transparency to both firms and the public regarding the agencies' assessment framework, the important changes firms have made to their structure and operations to improve resolvability, and the agencies' expectations for further improvement in these plans. Our expectation is that these collaborative efforts will continue, and that the agencies will continue to prioritize transparency for firms and the public.

Overall, the living will process has proved to be an important means for identifying and implementing measures to enhance SIFIs' resolvability. We have seen firms make significant changes, including restructurings, operational continuity planning, and options for separating assets, business lines, and entities from a failing company. Firms also have improved their management information systems capabilities, financial resource measurement and process development, and resolution planning governance, all of which are key elements for enhancing resolvability.

Orderly Liquidation Authority

Given the challenges and the uncertainty surrounding any particular failure scenario, Title II of the Dodd-Frank Act provides the Orderly Liquidation Authority, which is a public-sector special resolution regime, as a backstop to the bankruptcy process for institutions whose failure or distress would pose significant risks to U.S. financial stability.

The Orderly Liquidation Authority is the mechanism for ensuring that policymakers will not be faced with the same poor choices they faced in 2008. Its tools are intended to enable the FDIC to carry out the process of winding down and liquidating the firm

in an orderly way, while ensuring that shareholders, creditors, and culpable management are held accountable and taxpayers do not bear losses. In the years since enactment of Dodd-Frank, the FDIC has made significant progress in developing the operational capabilities to carry out a resolution if needed.

As in the United States, the other leading jurisdictions of the world have enacted expanded authorities for the resolution of SIFIs. The FDIC has worked closely with all the major financial jurisdictions, including the United Kingdom, the European Banking Union, Switzerland, and Japan.

In 2016, the FDIC hosted a Trilateral Principals Level Exercise involving the United States, the United Kingdom, and the European Banking Union. The purpose of the exercise was to identify issues and address obstacles to cross-border resolution. U.S. participants included senior officials from the Treasury Department, the Board of Governors of the Federal Reserve System, the OCC, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Federal Reserve Bank of New York. Participants from Europe included senior officials from HM Treasury, the Bank of England, the U.K. Prudential Regulation Authority, the Single Resolution Board, the European Commission, and the European Central Bank. Deepening our relationships with key foreign jurisdictions is an ongoing priority for the FDIC's work on systemic resolution, and includes not only this exercise, but also our continuing engagement in cross-border Working Groups, Crisis Management Groups, and Resolution Colleges.

In September, the FDIC Board and senior staff from across the agency took part in an operational exercise designed to test and enhance our policies and protocols for the liquidation and wind down of a systemically important financial institution. The 2016 operational exercise followed a similar event held in 2015, and highlighted the agency's significant ongoing progress in this vital area.

EXPANDING ACCESS TO BANKING SERVICES AND PROTECTING CONSUMERS

Expanding access to mainstream banking services helps strengthen confidence in the nation's financial system, a fundamental component of the FDIC's mission. This year, we released the 2015 FDIC National Survey of Unbanked and Underbanked Households, a biennial survey conducted with the U.S. Census Bureau that provides detailed national, state, and local data to inform economic inclusion efforts. There were positive indications for consumers: The unbanked rate fell to 7 percent in 2015, down from 8.2 percent in 2011. The decline occurred broadly, across population segments, and outpaces what one would expect even in light of improving economic conditions.

The survey also made significant findings about the role of mobile banking in economic inclusion. Underbanked households are more likely to own a smartphone, more likely to use it to access their bank account, and more likely to use it as their primary means of managing their account than fully banked households. These findings echo a report released at a meeting of the FDIC's Advisory Committee on Economic Inclusion this year, which found that mobile financial services may help banks address many of the core financial service needs of underserved consumers, including more timely information about balances and transactions and more control over their financial lives.

The FDIC is committed to ensuring that all U.S. households have access to safe and affordable banking services. In 2016 we provided information and technical assistance on safe and affordable transaction and savings accounts, otherwise known as SAFE Accounts, to local initiatives in more than 28 communities in 23 states. We also partnered with the Cities for Financial Empowerment Fund and the Bank On programs to provide outreach to representatives of more than 300 community-based organizations and more than 230 bankers at 14

outreach events across the country. Bringing these groups together creates opportunities to identify strategies to reach unbanked populations by lowering the barriers to accessing banking services.

As of the end of 2016, nearly nine out of every 10 people in the United States lives in a county with a full-service branch of a bank that offers a SAFE transaction account. The Model SAFE account can be accessed through a convenient card without overdraft or insufficient funds fees, while including low initial and monthly maintenance costs and transparent disclosures.

We also continued our efforts to provide and promote effective financial education for young people. For example, through our Youth Savings Pilot Program, we have been able to study the financial education programs offered by 21 banks in partnership with local schools over a two-year period. These programs tie financial education with the opportunity to open a safe, low-cost savings account at bank branches, some of which are located in the schools and run by students. Many of these programs employ the FDIC's *Money Smart for Young People* financial education curriculum, as well as the Model SAFE account template. A recent symposium brought together representatives from banks, non-profits, and school partners to discuss lessons learned from the pilot. We gathered these insights for a report we plan to publish in early 2017 that will offer a roadmap for banks and schools that are teaming up to link financial education with opportunities to save.

Our *Money Smart* program is one example of our ongoing efforts to collaborate with other federal agencies to develop and promote financial education. For example, *Money Smart for Older Adults*, a resource developed jointly by the FDIC and the Consumer Financial Protection Bureau, was enhanced this year to help people age 62 and older guard against financial exploitation and make informed financial decisions.

We also partnered with the U.S. Small Business Administration to make enhancements to *Money Smart for Small Business*, a resource that provides practical guidance for starting and managing a business. In response to feedback from the small business community, three new modules were added: managing cash flow, planning for a healthy business, and determining if owning a business is a good fit. The Strategic Alliance Memorandum between the FDIC and SBA ensures this collaboration will continue through 2018.

Money Smart for Young People, a curriculum that involves educators, parents/caregivers, and young people in the learning process and is available in English and Spanish, continues to be well received. There have been more than 39,000 downloads of the curriculum since its launch in 2015. We also have begun to identify how our *Money Smart* resources can be helpful to workforce development organizations in providing financial education to young people.

CONCLUSION

During 2016, the U.S. banking industry continued its recovery from the recent financial crisis. The industry benefited from stronger balance sheets, fewer problem banks and bank closings, increased lending activity, and a larger balance in the DIF. At the same time, it remains important for bankers and supervisors to heed the lessons of the recent crisis by maintaining a steady focus on risk management.

In 2017, the FDIC will continue to work to fulfill its mission of maintaining public confidence and stability in the nation's financial system.

The workforce of the FDIC remains committed to the agency's mission. I am very grateful to the dedicated professionals of the FDIC for their commitment to public service and for the high level at which they carry out their important responsibilities.

Sincerely,

Martin J. Gruenberg

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the FDIC's 2016 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 25 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 the execution of sound financial management and in providing reliable financial data.

The DIF balance (the net worth of the Fund) rose to a record $83.2 billion as of December 31, 2016, an increase of $10.6 billion over the year-end 2015 balance of $72.6 billion. The Fund balance increase was primarily due to assessment revenue, interest on U.S. Treasury securities, and reductions in estimated losses for current and prior year bank failures.

FINANCIAL AND PROGRAM RESULTS FOR 2016

For 2016, DIF comprehensive income totaled $10.6 billion compared to comprehensive income of $9.8 billion during 2015. The $741 million year-over-year increase was primarily due to a $1.2 billion increase in assessment revenue ($10.0 billion in 2016 as compared to $8.8 billion in 2015) and a $248 million increase in interest revenue ($671 million in 2016 as compared to $423 million in 2015). These amounts were partially offset by a $683 million lower negative provision for insurance losses (negative $1.6 billion in 2016 as compared to negative $2.3 billion in 2015).

In 2016, the FDIC continued its efforts to reduce operating costs and prudently manage the funds that it administers. The FDIC Operating Budget for 2016 totaled approximately $2.21 billion, which represented a decrease of $108 million (5 percent) from 2015. Actual 2016 spending totaled approximately $1.95 billion. On December 13, 2016, the FDIC Board of Directors approved a 2017 FDIC Operating Budget totaling $2.16 billion, down $53 million (2 percent) from the 2016 budget. Including 2017, the annual operating budget has declined for seven consecutive years, consistent with a steadily declining workload.

The FDIC continues to reduce staffing levels, as conditions in the banking industry improve and the FDIC requires fewer resources. The FDIC's authorized full-time equivalent staffing dropped in 2016 from 6,886 to 6,533, a 5 percent reduction. In 2017, we project further reductions in the overall

workforce. However, we will maintain a workforce capable of handling our supervision, insurance, and bank failure functions.

In 2016, five banks failed, down from eight in 2015. Even though the number of bank failures is relatively low, we will continue to prudently manage the risks to the DIF, including interest rate, fiscal, and global economic risks. We will remain focused on sound financial management techniques, and maintain our enterprise-wide risk management and internal control program.

Sincerely,

Steven O. App

2016

I.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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THE YEAR IN REVIEW

OVERVIEW

The FDIC continued to fulfill its mission-critical responsibilities during 2016. Insuring deposits, examining and supervising financial institutions, and managing receiverships are the core responsibilities of the FDIC. The agency adopted and issued final rules on key regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and engaged in several community banking and community development initiatives. Cybersecurity remained a high priority for the FDIC in 2016; the agency worked to strengthen cybersecurity oversight, help financial institutions mitigate increasing risks, and respond to cyber threats. The sections below highlight these and other accomplishments during the year.

FDIC Chairman Martin J. Gruenberg talks with an attendee at FDIC's Community Banking Conference, one of several FDIC community banking initiatives.

IMPLEMENTATION OF KEY REGULATIONS

Alternatives to Credit Ratings in the FDIC's International Banking Regulations

In June 2016, the FDIC issued a Notice of Proposed Rulemaking (NPR) to conform the FDIC's international banking regulations (Part 347) to the requirements of Section 939A of the Dodd-Frank Act, which directs each federal agency to review and modify regulations that reference credit ratings. The NPR would replace references to credit ratings in Part 347's definition of "investment grade" with a standard of creditworthiness that has been adopted in other federal regulations. The NPR would also amend the FDIC's asset pledge requirement for insured U.S. branches of foreign banks by revising the eligibility criteria for the types of assets that may be pledged to the FDIC.

Banking Activities and Investments

In September 2016, the FDIC, OCC, and FRB submitted to Congress and the Financial Stability Oversight Council (FSOC), a study required under Section 620 of the Dodd-Frank Act of investments and activities that a banking entity may engage in under federal and state law. The study considers the types of activities in which banking entities may engage and investments they may make, associated risks, and risk mitigation activities undertaken by the banking entities with regard to those risks. In addition, each of the federal banking agencies provided recommendations and considerations for future regulatory action or supervisory guidance.

Minimum Reserve Ratio

In March 2016, the FDIC approved a final rule to implement Section 334 of the Dodd-Frank Act, which increased the minimum reserve ratio of the Deposit Insurance Fund from 1.15 percent to 1.35 percent, requires that the reserve ratio reach that level by September 30, 2020, and mandates that the FDIC offset the effect of the increase on insured depository institutions (IDIs) with assets of less than $10 billion. The final rule imposes surcharges on IDIs with $10 billion or more in assets and provides credits to IDIs with assets below $10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15 percent and 1.35 percent. This rule is discussed in greater detail in the section on Deposit Insurance.

Volcker Rule Frequently Asked Questions

The "Volcker Rule" is a provision of the Dodd-Frank Act that contains restrictions and prohibitions on the ability of banks and their affiliates to engage in proprietary trading and have interests in, or relationships with, a hedge fund or a private equity fund. Banking entities that are subject to the rule are permitted to retain investments in certain collateralized debt obligations (CDOs) backed primarily by trust preferred securities. In March 2016, the FDIC, Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), Securities and Exchange Commission (SEC), and Commodity Futures Trading Commission (CFTC) updated their Frequently Asked Questions (FAQs) about the Volcker Rule to clarify the capital treatment of permitted investments in those CDOs.

External Audits of Internationally Active U.S. Financial Institutions

In January 2016, the FDIC, OCC, and FRB issued an advisory to indicate their support for the principles and expectations set forth in the Basel Committee on Banking Supervision's (BCBS) March 2014 guidance on "external audits of banks." The advisory also explains the agencies' supervisory expectations regarding how internationally active U.S. financial institutions should address differences between the standards and practices followed in the United States and the principles and expectations in the BCBS external audit guidance. For purposes of the advisory, internationally active U.S. financial institutions include insured depository institutions with consolidated total assets of $250 billion or more or consolidated total on-balance-sheet foreign exposure of $10 billion or more.

Expanded Eligibility of 18-Month Examination Cycle

In December 2016, the FDIC, OCC, and FRB jointly finalized the interim final rule that increased the number of small banks and savings associations eligible for an 18-month examination cycle rather than a 12-month cycle. Under the final rules, qualifying well-capitalized and well-managed banks and savings associations with less than $1 billion in total assets are eligible for an 18-month examination cycle. Previously, only banks and savings associations with less than $500 million in total assets could be eligible for the expanded examination cycle. The examination cycle changes also apply to qualifying well-capitalized and well-managed U.S. branches and agencies of foreign banks with less than $1 billion in total assets.

The final rules increase the number of institutions that may qualify for an 18-month examination cycle by more than 600 to approximately 4,800 banks and savings associations. In addition, the final rules increase the number of U.S. branches and agencies of foreign banks that may qualify for an 18-month examination cycle by 30 branches and agencies, to a total of 89.

Use of Evaluations in Certain Real Estate-Related Financial Transactions

In March 2016, the FDIC, OCC, and FRB issued an advisory to clarify expectations for the use of property evaluations by banking institutions. The advisory responds to questions about the use of evaluations and appraisals that were raised during outreach meetings held by the agencies pursuant to the Economic Growth and Regulatory Paperwork Reduction Act. Among other things, the advisory states that regardless of the approach or method used to estimate the market value of real property, an evaluation report should contain sufficient information and analysis to support the value conclusion and the institution's decision to engage in the transaction.

Issuance of Prepaid Cards

In March 2016, the FDIC, OCC, FRB, National Credit Union Administration (NCUA), and the Financial Crimes Enforcement Network (FinCEN) developed and issued guidance to clarify the requirements for customer identification programs (CIPs) and regulatory expectations for depository

institutions that issue certain prepaid cards. The guidance addresses the establishment of a formal account relationship and when the depository institution is responsible for collecting CIP information.

Funds Transfer Pricing Related to Funding and Contingent Liquidity Risk

In March 2016, the FDIC, OCC, and FRB issued joint guidance on Funds Transfer Pricing (FTP) to banks with assets of $250 billion or more. The guidance describes four key principles that should comprise an FTP framework and includes examples for implementing these principles.

Net Stable Funding Ratio

In May 2016, the FDIC, OCC, and FRB jointly issued a proposed rule that would implement a liquidity requirement consistent with the net stable funding ratio agreed to by the Basel Committee on Banking Supervision and complementary to the Liquidity Coverage Ratio rule issued by the agencies in 2014. The proposal would require large, internationally active banking organizations to maintain a minimum level of stable funding over a one-year time horizon. This measure would reduce the likelihood that disruptions to a banking organization's regular sources of funding would compromise its liquidity position. The proposal also would promote improvements in the measurement and management of liquidity risk and enhance financial stability. The comment period closed on August 5, 2016, and the agencies are collaborating on a final rulemaking.

Margin and Capital Requirements for Covered Swaps

In August 2016, the FDIC, OCC, FRB, Federal Housing Finance Agency, and Farm Credit Administration issued a final rule that exempts certain commercial and financial end users from margin requirements for certain swaps not cleared through a clearinghouse. Specifically, the final rule exempts non-cleared swaps of small banks, savings associations, Farm Credit System institutions, and credit unions with $10 billion or less in total assets. This exemption parallels an exemption from a mandate in the Dodd-Frank Act to clear standardized swaps.

New Accounting Standard on Financial Instruments – Credit Losses

In June 2016, the FDIC, OCC, FRB, and NCUA issued a joint statement on the new accounting standard released by the Financial Accounting Standards Board (FASB) regarding Financial Instruments – Credit Losses. The statement summarizes key elements of the new standard, which introduces the current expected credit losses methodology for estimating allowances for credit losses. It also provides initial supervisory views regarding the implementation of the new accounting standard.

Qualified Master Netting Agreements

In October 2016, the FDIC issued a final rule that changes the regulatory capital and liquidity coverage ratio (LCR) rules to ensure consistency with new International Swaps and Derivatives Association (ISDA) Resolution Stay Protocols. The protocols impose a stay on cross-default and early termination rights within standard ISDA derivatives contracts. The final rule also revised the definition of "qualifying master netting agreement" and other related definitions, under the regulatory capital rules and the LCR, to reflect the recent changes to the ISDA Master Agreement. The FDIC action followed earlier rulemakings by the OCC and FRB.

Fact Sheet on Foreign Correspondent Banking

In August 2016, the U.S. Department of the Treasury issued a Fact Sheet developed jointly with the FDIC, OCC, FRB, and NCUA that outlines the agencies' anti-money laundering and economic sanctions positions with respect to foreign correspondent banking. The Fact Sheet summarizes the U.S. regulators' existing expectations regarding foreign correspondent banking relationships, the supervisory

examination process, and instances in which enforcement actions might be taken.

Enhanced Cyber Risk Management Standards

In October 2016, the FDIC, OCC, and FRB issued a joint Advance Notice of Proposed Rulemaking (ANPR) seeking comment on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected entities under their supervision. The standards also would apply to services provided by third parties to these firms. The agencies are considering applying the enhanced standards to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more, the U.S. operations of foreign banking organizations with total U.S. assets of $50 billion or more, and financial market infrastructure companies and nonbank financial companies supervised by the FRB. The standards would be tiered, with an additional set of higher standards for systems that provide critical functionality to the financial sector. For these sector-critical systems, the agencies are considering requiring firms to mitigate substantially the risk of a disruption or failure due to a cyber event. The comment period will close on February 17, 2017, and the agencies will collaborate in the review of comments received.

Recordkeeping for Deposit Accounts

In November 2016, the FDIC approved a rule establishing recordkeeping requirements for FDIC-insured institutions with a large number of deposit accounts to facilitate rapid payment of insured deposits to customers if the institutions were to fail. The FDIC anticipates that the rule will become effective on April 1, 2017. The FDIC will work closely with institutions as they develop new capabilities, and intends to issue functional design assistance for system programming prior to the effective date to aid in this process.

Proposed Guidelines for Appeals of Material Supervisory Determinations

In July 2016, the FDIC published for public comment a proposal to amend its Guidelines for Appeals of Material Supervisory Determinations. The amendments were proposed to give institutions additional avenues of redress with respect to supervisory determinations and to make the FDIC's appeals process more consistent with those of the other federal banking agencies. The comment period ended on October 3, 2016. The comments have been reviewed by the FDIC, and final action is anticipated in early 2017.

DEPOSIT INSURANCE

As insurer of bank and savings association deposits, 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 DIF 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. That plan complements the Restoration Plan, originally adopted in 2008 and subsequently revised, designed to ensure that the reserve ratio (the ratio of the fund balance to estimated insured deposits) reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act. The plan includes a reduction in assessment rates to take effect when the reserve ratio reaches 1.15 percent, which occurred in the second quarter of 2016 (as discussed in the *Deposit Insurance Fund Reserve Ratio* section).

Under the long-term DIF management plan, to increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the FDIC Board set the Designated Reserve Ratio (DRR) of the DIF at 2.0 percent. In September 2016, the Board voted to maintain the 2.0 percent ratio for 2017. 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.

Additionally, as part of the long-term DIF management plan, the FDIC has suspended dividends indefinitely when the fund reserve ratio exceeds 1.5 percent. Instead, 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 much the same function as dividends, but provide more stable and predictable effective assessment rates over time.

State of the Deposit Insurance Fund

Estimated losses to the DIF from bank failures that occurred in 2016 totaled $47 million. The fund balance continued to grow through 2016, as it has every quarter after the end of 2009. Assessment revenue was the primary contributor to the increase in the fund balance in 2016. The fund reserve ratio rose to 1.18 percent at September 30, 2016, from 1.09 percent a year earlier.

Deposit Insurance Fund Reserve Ratio

On June 30, 2016, the DIF reserve ratio rose to 1.17 percent from 1.13 percent on March 31, 2016. FDIC regulations provide for three major changes to deposit insurance assessments the quarter after the reserve ratio first reaches or exceeds 1.15 percent. Beginning the third quarter of 2016:

- the range of initial regular assessment rates for all institutions declined (from 5-35 basis points to 3-30 basis points) based on final rules approved by the FDIC Board on February 7, 2011, and April 26, 2016;
- surcharges on insured depository institutions with total consolidated assets of $10 billion or more (large banks) began, pursuant to a final rule approved by the Board on March 15, 2016 (discussed in the *Minimum Reserve Ratio* section below); and
- a revised method to calculate risk-based assessment rates for established small banks went into effect, pursuant to the final rule approved by the FDIC Board on April 26, 2016, (discussed in the *Deposit Insurance Assessment System* section).

Minimum Reserve Ratio

Section 334 of the Dodd-Frank Act, which increased the minimum reserve ratio of the DIF from 1.15 percent to 1.35 percent, requires that the reserve ratio reach that level by September 30, 2020. Section 334 also mandates that the FDIC "offset the effect of [the increase in the minimum reserve ratio] on insured depository institutions (IDIs) with total consolidated assets of less than $10 billion." In March 2016, the FDIC approved a final rule to implement these requirements. The final rule imposes surcharges on the quarterly assessments of IDIs with total consolidated assets of $10 billion or more. The surcharges will continue through the quarter in which the reserve ratio first reaches or exceeds 1.35 percent. The surcharge equals an annual rate of 4.5 basis points applied to an institution's regular quarterly deposit insurance assessment base after subtracting $10 billion, with certain exceptions for banks with affiliated insured depository institutions. The FDIC expects that eight quarterly surcharges will be needed for the reserve ratio to reach 1.35 percent.

If, contrary to the FDIC's expectations, the reserve ratio does not reach 1.35 percent by December 31, 2018 (but is still at least 1.15 percent), under the final rule the FDIC will impose a shortfall assessment on IDIs with total consolidated assets of $10 billion or more on March 31, 2019.

Because the Dodd-Frank Act requires that the FDIC offset the effect of the increase in the reserve ratio from 1.15 percent to 1.35 percent on IDIs with total consolidated assets of less than $10 billion, the final rule exempts these smaller banks from the surcharges and provides assessment credits to these institutions for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15 percent and 1.35 percent. Credits will be automatically applied to these small banks' assessments when the reserve ratio is at or above 1.38 percent.

Deposit Insurance Assessment System

In April 2016, the FDIC approved a final rule to improve the risk-based deposit insurance assessment system applicable to established small banks to reflect risk more accurately. The final rule incorporates data from the recent financial crisis and bases assessment rates for all established small banks (generally, those with less than $10 billion in total assets that have been federally insured for at least five years) in a statistical model that estimates a bank's probability of failure within three years. The revisions went into effect the third quarter of 2016. The final rule maintains the previously adopted ranges of assessment rates that apply once the DIF reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent, and was implemented so that aggregate assessment revenue collected from established small banks under the final rule was approximately the same as would have been collected under the small bank pricing method being replaced.

SUPERVISION

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of, and public confidence in, the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised financial institutions, 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, 2016, the FDIC was the primary federal regulator (PFR) for 3,790 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System [generally referred to as "state nonmember" (SNM) 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.

As of December 31, 2016, the FDIC conducted 1,727 statutorily required risk management examinations and all required follow-up examinations for FDIC-supervised problem institutions within prescribed time frames. The FDIC also conducted 1,311 statutorily required CRA/compliance examinations (709 joint CRA/compliance examinations, 594 compliance-only examinations, and 8 CRA-only examinations). In addition, the FDIC performed 3,854 specialty examinations (which include reviews for Bank Secrecy Act (BSA) compliance within prescribed time frames).

The table on page 25 compares the number of examinations by type, conducted from 2014 through 2016.

Risk Management

All risk management examinations have been conducted in accordance with statutorily-established timeframes. As of September 30, 2016, 132 insured institutions with total assets of $24.9 billion were designated as problem institutions for safety and soundness purposes (defined as those institutions having a composite CAMELS[1] rating of 4 or 5), compared to the 203 problem institutions with total assets of $51.1 billion on September 30, 2015. This is a 35 percent decline in the number of problem institutions and a 51 percent decrease in problem institution assets. For the 12 months ending September 30, 2016, 82 institutions with aggregate assets of $27.1 billion were removed from the list of problem financial institutions, while 11 institutions with aggregate assets of $2.3 billion were added to the list. The FDIC is the PFR for 91 of the 132 problem institutions, with total assets of $15.7 billion.

In 2016, the FDIC's Division of Risk Management Supervision initiated 170 formal enforcement actions

[1] 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).

FDIC EXAMINATIONS 2014-2016			
	2016	2015	2014
Risk Management (Safety and Soundness):			
State Nonmember Banks	1,563	1,665	1,881
Savings Banks	164	206	206
State Member Banks	0	0	0
Savings Associations	0	0	0
National Banks	0	0	0
Subtotal – Risk Management Examinations	1,727	1,871	2,087
CRA/Compliance Examinations:			
Compliance/Community Reinvestment Act	709	859	1,019
Compliance-only	594	478	376
CRA-only	8	10	11
Subtotal – CRA/Compliance Examinations	1,311	1,347	1,406
Specialty Examinations:			
Trust Departments	351	365	428
Information Technology and Operations	1,742	1,886	2,113
Bank Secrecy Act	1,761	1,906	2,126
Subtotal – Specialty Examinations	3,854	4,157	4,667
TOTAL	**6,892**	**7,375**	**8,160**

and 121 informal enforcement actions. Enforcement actions against institutions included, but were not limited to, 23 actions under Section 8(b) of the FDI Act (22 consent orders and 1 notice of charges), and 121 MOUs. Of these enforcement actions against institutions, 20 consent orders, and 22 MOUs were based, in whole or in part, on apparent violations of BSA and anti-money laundering (AML) laws and regulations. In addition, enforcement actions were also initiated against individuals. These actions included, but were not limited to, 95 removal and prohibition actions under Section 8(e) of the FDI Act (87 consent orders and 8 notices of intention to remove/prohibit), 3 actions under Section 8(b) of the FDI Act (1 notice of charges to pay restitution and 2 personal cease and desist orders), and 28 civil money penalties (CMPs) (25 orders to pay and 3 notices of assessment).

The FDIC has heightened its focus on forward-looking supervision aimed at ensuring that risks are mitigated before they lead to financial deterioration.

Compliance

As of December 31, 2016, 50 insured SNM institutions, about 1 percent of all supervised institutions, with total assets of $72 billion, were problem institutions for compliance, CRA, or both. All of the problem institutions for compliance were rated "4" for compliance purposes, with none rated "5." For CRA purposes, the majority were rated "Needs to Improve," and only four were rated "Substantial Noncompliance." As of December 31, 2016, all follow-up examinations for problem institutions were performed on schedule.

As of December 31, 2016, the FDIC conducted all required compliance and CRA examinations

and, when violations were identified, completed follow-up visits and implemented appropriate enforcement actions in accordance with FDIC policy. In completing these activities, the FDIC substantially met its internally established time standards for the issuance of final examination reports and enforcement actions.

Overall, banks demonstrated strong consumer compliance programs. The most significant consumer protection issue that emerged from the 2016 compliance examinations involved banks' failure to adequately monitor third-party vendors. For example, the FDIC found violations involving unfair or deceptive acts or practices relating to issues such as failure to disclose material information about product features and limitations, deceptive marketing and sales practices, and misrepresentations about the costs of products. As a result, the FDIC issued orders requiring the payment of CMPs.

As of December 31, 2016, the FDIC's Division of Depositor and Consumer Protection initiated 15 formal enforcement actions and 23 informal enforcement actions to address compliance concerns (see chart on page 140). This included 4 consent orders, 2 removal and prohibition orders addressing safety and soundness concerns and breaching fiduciary duty, 9 CMPs, and 23 MOUs. Restitution orders are formal actions that require institutions to pay restitution in the form of consumer refunds for different violations of law. As of December 31, 2016, there were no restitution orders that required institutions to refund consumers. The CMPs totaled over $332,654.

Large Bank Supervision Program

The FDIC also established the Large Bank Supervision Program within the Division of Risk Management Supervision to address the growing complexity of large banking organizations with assets exceeding $10 billion and not assigned to the CFI Program. This group is responsible for both supervisory oversight and ongoing monitoring, and resolution planning, while supporting the insurance business line. For SNM banks over $10 billion, the FDIC generally applies a continuous examination program, whereby dedicated staff conducts ongoing onsite supervisory examinations and institution monitoring. At institutions where the FDIC is not the primary federal regulator, FDIC has dedicated onsite examination staff at select banks, working closely with other financial institution regulatory authorities to identify emerging risks and assess the overall risk profile of large institutions.

The Large Insured Depository Institution (LIDI) Program remains the primary instrument for off-site monitoring of IDIs with $10 billion or more in total assets. The LIDI Program provides a comprehensive process to standardize data capture and reporting through nationwide quantitative and qualitative risk analysis of large and complex institutions. In 2016, the LIDI Program covered 92 institutions with total assets of $5.4 trillion. The comprehensive LIDI Program supports effective large bank supervision because it aids the Division in using individual institution information to deploy resources most effectively to high-risk areas, determine the need for supervisory action, and support insurance assessments and resolution planning.

The Shared National Credit (SNC) Program is an interagency initiative administered jointly by the FDIC, OCC, and FRB to ensure consistency in the regulatory review of large, syndicated credits, as well as identify risk in this market, which comprises a large volume of domestic commercial lending. In 2016, outstanding credit commitments identified in the SNC Program totaled $4.1 trillion. The FDIC, OCC, and FRB issued a joint press release detailing the results of the review in July 2016. The latest review showed the level of adversely rated assets remained higher than in previous periods of economic expansion, raising the concern that future losses and problem loans could rise considerably in the next credit cycle. The elevated level of risk observed during the recent SNC examination stems from the high inherent risk in the leveraged loan portfolio and growing credit risk in the oil and gas portfolio. Notwithstanding the riskiness

of the existing portfolio, the agencies noted improved underwriting and risk management practices related to the most recent leveraged loan originations, as underwriters continued to better align practices with regulatory expectations, and as investor risk appetite moderated away from transactions at the lower end of the credit spectrum.

Information Technology, Cyber Fraud, and Financial Crimes

To address the specialized nature of technology- and operations-related supervision, cyber risks, and controls in the banking industry, the FDIC routinely conducts information technology (IT) and operations examinations at FDIC-supervised institutions.

IT Examinations

The FDIC conducts regular IT and operations risk examinations at all FDIC-supervised financial institutions and assigns an examination rating based on the Federal Financial Institutions Examination Council's (FFIEC's) Uniform Rating System for Information Technology (URSIT). The URSIT rating is incorporated into the Management component of the Safety and Soundness rating in Reports of Examination. In 2016, the FDIC conducted 1,742 IT and operations examinations at financial institutions and technology service providers (TSPs).

In 2016, the FDIC continued to enhance its IT supervision and improve its programs to fight cyber fraud and financial crimes more generally. This year, the FDIC released updated IT and operations risk examination procedures that are more efficient and risk-focused, include a cybersecurity preparedness assessment, and provide more detailed examination results to institutions. This enhanced Information Technology Risk Examination program, or InTREx, helps ensure that financial institution management promptly identifies and effectively addresses IT and cybersecurity risks. The InTREx work program and training was completed on June 24, 2016, and fully implemented by September 30, 2016.

Supervision for Technology Service Providers

The FDIC and other banking agencies also conduct IT and operations risk examinations of TSPs, that support financial institutions. During 2016, the FDIC, OCC, and FRB piloted the newly developed Interconnectivity Horizontal Review Program with three of the largest TSPs. The program focused on the IT risks of large and complex supervised institutions and TSPs. This new program will help strengthen the FDIC's supervision of TSPs that present the most risk to the banking industry.

Other Activities

The FDIC continues to provide resources to raise awareness of cyber risks and to encourage practices that help protect the financial institutions it supervises. For example, in 2016, the FDIC hosted an industry webinar titled "Cybersecurity Resources to Help Your Customers Protect Themselves," and made available brochures with tips on how to conduct business safely online. Financial institutions can reprint these brochures for their retail banking and business customers.

Additionally, the FDIC monitors cybersecurity issues in the banking industry through regulatory and intelligence reports. The FDIC works with the Financial and Banking Information Infrastructure Committee, the Financial Services Sector Coordinating Council for Critical Infrastructure Protection, Homeland Security, the Financial Services Information Sharing and Analysis Center (FS-ISAC), other regulatory agencies, law enforcement, and others to share information regarding emerging issues and to coordinate responses.

During 2016, the FDIC served as chair of the Cybersecurity and Critical Infrastructure Working Group (CCIWG) of the FFIEC Task Force on Supervision. The CCIWG serves as a forum to address policy related to cybersecurity and critical infrastructure, enables members to communicate and collaborate on activities to support and strengthen the resilience of the financial services

sector, and provides input to FFIEC principal members regarding cybersecurity matters.

Major interagency accomplishments as a member of the FFIEC included the following:

- Collaborated with the FRB and OCC to develop a Cybersecurity Evaluation Tool to be used during TSP examinations, and piloted the tool during the first quarter of 2016.
- Served as the event manager for a conference of IT supervisors from more than 20 countries. Participants provided updates and national perspectives on three IT supervision themes: FinTech, cybersecurity, and supervision of third-party providers.
- Conducted a workshop to consider the value and merits of cyber insurance as a risk transfer vehicle.
- Published a joint statement on safeguarding the cybersecurity of interbank messaging and wholesale payment networks.
- Issued an appendix to the Retail Payment Systems booklet of the *FFIEC Information Technology Examination Handbook* entitled "Mobile Financial Services." The booklet is part of the IT Examination Handbook series. The appendix contains guidance on the risks associated with mobile financial services and emphasizes an enterprise-wide risk management approach to effectively manage and mitigate those risks.
- Revised the Information Security booklet of the *FFIEC IT Examination Handbook* to provide an overview of information security operations, including the need for effective threat identification, assessment and monitoring, and incident identification, assessment, and response.
- Hosted two industry webinars in recognition of October as National Cybersecurity Awareness Month. The first webinar, *Mobile Financial Services, Appendix E of the Retail Payment System Booklet,* provided information about the risks associated with mobile financial services and risk management approaches, and answered related questions from participants. The second webinar, *Executive Leadership of Cybersecurity: Threat Intelligence and Getting the Most Out of Your FS-ISAC Membership,* provided insight on how financial institutions can strengthen their use of cyber intelligence.
- Improved information sharing on technology risks among the IT examination workforces of the FFIEC member agencies through discussions at the March 2016 annual Supervisory Strategy Meeting.

Enhancing the FDIC's IT Security

Information security is critical to the FDIC's ability to carry out its mission of maintaining stability and public confidence in the nation's financial system. In 2016, the FDIC implemented policies and technologies to strengthen its own cybersecurity posture by initiating an aggressive 60-day plan to improve information security and an FDIC IT Action Plan to lay the foundation for modernizing the agency's IT services to ensure scalability and resilience. Steps taken included:

- completely revised the Data Breach Management Guide to incorporate policy guidance promulgated in the Office of Management and Budget Memorandum (M-16-03);
- phased in a new incident tracking system that automates, centralizes, and greatly enhances management and oversight of incident response and breach-related activities;
- discontinued individuals' ability to copy information to removable media such as CD's, DVDs, external hard drives, and thumb drives;
- implemented new controls to limit printing of sensitive information and better monitor information printed in the highest risk areas;
- signed a memorandum of understanding to migrate to an intrusion prevention, detection, and monitoring system from the Department of Homeland Security that will help detect and block outside cyber threats;

- initiated efforts to implement Digital Rights Management software to protect the most sensitive FDIC data; and
- engaged an independent, third-party firm to conduct an end-to-end assessment of the FDIC's information security and privacy programs. This assessment encompassed key areas of the FDIC's information security program including network security, software security, host security, data protection, etc.

These actions are in addition to protections that were already in place, such as:

- encryption of some of our most sensitive information;
- encrypted laptop hard drives; and
- a Data Loss Prevention program that monitors information in emails, information being transferred to websites, and information printed.

The FDIC requires employees to take annual security and privacy training so they are aware of FDIC security standards. This is supplemented by periodic phishing tests to help ensure employees stay watchful to possible outside threats.

The FDIC will remain alert and continue to adjust security controls in light of the changing threat landscape.

Access Control Program and Personal Identity Verification Card Implementation

The FDIC's Access Control Program (ACP) was established to ensure the agency's compliance with the *Homeland Security Presidential Directive 12 (HSPD-12): Policy for a Common Identification Standard for Federal Employees and Contractors*. HSPD-12 requires the use of Personal Identity Verification (PIV) cards—smart card credentials containing data that allow the cardholder to be granted access to facilities and information systems—to assure appropriate levels of security and offer enhanced protection by requiring multifactor authentication (MFA). MFA requires two or more of the following verification mechanisms to access a user's work station or network:

- something one knows (e.g., password, personal identification number, secret question/answer),
- something one has (e.g., PIV card, security token, cell phone), or
- something one is (e.g., biometrics such as fingerprints, retina pattern).

In 2016, the FDIC expanded use of MFA for securely downloading assessment invoices and official FDIC correspondence, and performing other secure file exchanges.

This year, the FDIC successfully issued PIV cards to more than 5,300 eligible employees and contractors by partnering with the General Services Administration (GSA) USAccess program. In order to track and manage the rollout of the PIV card issuance effectively, the agency developed an Inventory Executive Dashboard by division, region, and office. By year-end 2016, approximately 94 percent of eligible FDIC employees and contractors have been issued a PIV card.

The FDIC also enforced the use of PIV cards to access the FDIC network (i.e., logical access). As of year-end 2016, PIV-based authentication is required to access the FDIC network across the agency. ACP's global communications and organizational change management efforts have resulted in approximately 90 percent of FDIC staff and contractors using their cards for logical access.

Insider Threat Program

During 2016, in support of the National Insider Threat Policy, the FDIC established an Insider Threat and Counterintelligence Program (ITCIP) to strengthen and develop new processes and technologies to combat insider threats.

An insider threat is a concern or risk posed to the FDIC that involves an individual who misuses or betrays, wittingly or unwittingly, his or her authorized access to FDIC resources. This individual may have access to sensitive, personally identifiable information and/or privileged access to critical infrastructure and/or business sensitive information (e.g., bank data).

The ITCIP blends both physical and logical safeguards to minimize the risk, likelihood, and impact of an executed insider threat.

An ITCIP Working Group was established to focus on detecting, identifying, assessing, mitigating, and preventing insider threat or external threat activity through the centralized and integrated analysis of threat information. An ITCIP Executive Committee also was established to support planning and provide oversight in the implementation of the program.

Further, the FDIC designated a senior Executive as the Senior Agency Official principally responsible for establishing a process to gather, integrate, centrally analyze, and respond to relevant information indicative of a potential insider threat.

Bank Secrecy Act/Anti-Money Laundering

In 2016, the Financial Action Task Force (FATF) completed a mutual evaluation of the U.S. anti-money laundering (AML) regime. The FDIC provided input through on-site discussions regarding the U.S. banking industry's AML supervision and enforcement and provided comments on final documents addressing the U.S. banking industry's compliance with the FATF AML standards.

Examiner Development

The FDIC has undertaken a multi-year project to expand and strengthen its examiner development programs for specialty examinations, such as information technology, BSA/AML, trust, capital markets, accounting, and anti-fraud. Due to the increased complexity of institutions, specialty skills are becoming paramount in risk assessment. In addition, this initiative is an important component of succession planning; proactively addressing knowledge transfer will enable the FDIC to mitigate the impact of the future retirement of senior technical experts.

The goal of this project is to standardize nationwide the skills needed to examine banks of varying levels of risk and complexity in each specialty area, and then to develop on-the-job training programs to provide opportunities for examiners to develop higher level competencies in these specialty areas. This initiative will:

- offer a road map to assist employees in career planning;
- identify the skills needed for career development and potential advancement;
- provide tools to support career development;
- deliver structured training programs that include assignments designed to develop higher level competencies;
- enhance the value of a subject matter expert designation by creating a consistent definition and application; and
- provide more observable, objective, and measurable criteria for job descriptions in specialty areas.

In 2016, the FDIC validated competency models in the BSA/AML, trust, and capital markets areas, began developing specialty on-the-job training programs in BSA/AML and trust, and made progress in developing information technology and accounting competency models.

Minority Depository Institution Activities

The preservation of minority depository institutions (MDIs) remains a high priority for the FDIC. In 2016, the FDIC continued to support MDI and Community Development Financial Institution (CDFI) industry-led strategies for success. These strategies include: increased collaboration between MDI and CDFI bankers; partnering to share costs, raise capital, or pool loans; and making innovative use of federal programs. The FDIC supports this effort by providing technical assistance to MDI and CDFI bankers.

In 2016, the FDIC sponsored a discussion between trade groups representing MDIs and CDFIs and representatives of potential bank partners, focusing on CRA partnerships. In addition, the FDIC provided technical assistance to a group seeking to develop a

private equity fund to invest in MDIs. The FDIC's assistance addressed how the proposed structure might be considered under the Basel Capital Rules as well as the CRA. Both community banks and larger insured financial institutions have valuable incentives under the CRA to undertake ventures with MDIs, including capital investment and loan participations.

In 2016, the FDIC, OCC, and FRB co-hosted a webinar on strategic planning attended by approximately 50 MDIs, and began planning the 2017 Interagency MDI and CDFI Bank Conference, which the agencies will co-sponsor. The conference will be held in Los Angeles where there is a significant concentration of MDIs. The conference will feature an interactive panel with FDIC Chairman Martin J. Gruenberg, a Federal Reserve Board Governor, and Comptroller of the Currency Thomas J. Curry.

The FDIC continued its efforts to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. The FDIC maintains active outreach with MDI trade groups and offers to arrange annual meetings between FDIC regional management and each MDI's board of directors to discuss issues of interest. The FDIC routinely contacts MDIs to offer return visits and technical assistance following the conclusion of FDIC safety and soundness, compliance, CRA, and specialty examinations to assist bank management in understanding and implementing examination recommendations. These return visits, normally conducted 90 to 120 days after the examination, are intended to provide useful recommendations or feedback for improving operations, not to identify new issues. The FDIC's website encourages and provides contact information for any MDI to request technical assistance at any time.

In 2016, the FDIC provided 135 individual technical assistance sessions on approximately 66 risk management and compliance topics, including:

- accounting;
- Bank Secrecy Act and Anti-Money Laundering;
- Basel III Capital Rules;
- brokered deposits/waivers;
- capital planning;
- commercial real estate concentrations;
- Community Reinvestment Act;
- funding and liquidity;
- high volatility commercial real estate;
- information technology risk management and cybersecurity;
- interest-rate risk;
- loan underwriting and administration;
- mortgage lending rules;
- strategic planning; and
- third-party risk management.

The FDIC's regional offices also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. In 2016, topics of discussion for these sessions included many of those listed above, as well as the FDIC's National MDI Program, the FDIC's Community Banking Initiative, and the availability of Technical Assistance Videos on corporate governance, strategic planning, director responsibilities, community banking initiatives, compliance guidance, concentration risk management, and bank merger and acquisition.

Mutual Institutions

In August 2016, the FDIC and OCC co-hosted the Joint Agency Mutual Forum, which was open to all mutual banking institutions regardless of charter type. Mutually-owned related institutions represent about 9 percent of all FDIC-insured institutions and are among the oldest form of depository institution. Attended by approximately 125 participants, the forum provided an opportunity for the mutual bankers to learn about current trends and engage in a dialogue on the strengths of and challenges facing mutual institutions. The forum featured presentations and banker panels covering topics of interest relating to the mutual industry, including an economic outlook, strategic planning, cyber challenges,

regulatory compliance update, and an opportunity for each agency to hold an agency-specific session to address other current matters and respond to banker inquiries.

Cyber Fraud and Financial Crimes

The Cyber Fraud and Financial Crimes Section leads the FDIC's efforts to protect the banking industry from criminal financial activities. These efforts include managing the FDIC's background investigations for banking applications, leading financial crimes-related training programs, and assisting financial institutions in identifying and shutting down "phishing" websites that attempt to obtain fraudulently and use an individual's confidential personal or financial information. This Section serves a leading role in education and outreach, including through the development of webinars and informational publications. During 2016, the Cyber Fraud and Financial Crimes Section hosted a banking industry webinar (titled "Cybersecurity Resources to Help Your Customers Protect Themselves") held in conjunction with National Consumer Protection Week, and authored a special edition of the FDIC's *Consumer News* focused on consumer cybersecurity awareness. The Department of Homeland Security shared the *Consumer News* edition with more than 58,000 partners during October 2016 in observation of National Cybersecurity Awareness Month.

Supervision Policy

Brokered Deposits

In June 2016, the FDIC finalized updates to its FAQs regarding brokered deposits. The FAQs were updated in response to numerous questions regarding brokered deposit determinations. The FAQs address supervisory expectations for identifying, accepting, and reporting broked deposits. The answers are based on Section 29 of the FDI Act and Section 337.6 of the FDIC Rules and Regulations, as well as explanations provided to the industry through published advisory opinions and the FDIC's Study on Core Deposits and Brokered Deposits, issued in July 2011.

Applications for Deposit Insurance

In April 2016, the FDIC issued guidance in the form of supplemental "Questions and Answers" (Q&As) to aid applicants in developing applications for deposit insurance. The supplemental Q&As provide additional transparency to the application process and supplement guidance previously issued in November 2014.

Prudent Risk Management of Oil and Gas Exposures

In July 2016, the FDIC issued guidance to remind FDIC-supervised institutions with direct or indirect oil and gas exposures to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies. When oil and gas related borrowers experience financial difficulties, the FDIC encourages financial institutions to work constructively with borrowers to strengthen the credits and to mitigate losses where possible.

Third-Party Lending

In July 2016, the FDIC issued a request for public comment on proposed guidance for third-party lending. The proposed guidance sets forth safety and soundness and consumer compliance measures FDIC-supervised institutions should follow when lending through a business relationship with a third party. The proposed guidance is intended to supplement the FDIC's existing *Guidance for Managing Third-Party Risk*, which is applicable to a number of third-party arrangements, including lending through a third party. Public comments are being evaluated as part of the process of developing the final guidance.

FDIC Examination Findings

In July 2016, the FDIC issued guidance to emphasize the importance of open communication regarding supervisory findings. An open dialogue with bank

management is critical to ensuring the supervisory process is effective in promoting an institution's strong financial condition and safe and sound operation. The FDIC encourages bank management to provide feedback on FDIC supervisory activities and engage FDIC personnel in discussions to ensure a full understanding of the FDIC's supervisory findings and recommendations. If an institution disagrees with examination findings, there are several informal and formal avenues available to raise its concerns.

Regulatory Relief

During 2016, the FDIC issued 11 financial institution letters providing guidance to help financial institutions and to facilitate recovery in areas affected by tornadoes, flooding, wild fires, landslides, mudslides, and other severe events. In these letters, the FDIC encouraged banks to work constructively with borrowers experiencing financial difficulties as a result of natural disasters. The letters also 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.

COMMUNITY BANKING INITIATIVE

Community banks provide traditional, relationship-based banking services in their local communities. As defined in recent FDIC research, community banks made up almost 93 percent of all FDIC-insured institutions at mid-year 2016. While they hold just 13 percent of banking industry assets, community banks are of critical importance to the U.S. economy and local communities across the nation. Community banks hold 43 percent of the industry's small loans to farms and businesses, making them the lifeline to entrepreneurs and small enterprises of all types. They also hold the majority of bank deposits in U.S. rural counties and micropolitan counties with populations up to 50,000. In fact, as of June 2016, community banks held more than 75 percent of deposits in more than 1,200 U.S. counties. In more than 600 of these counties, the *only* banking offices available to consumers were those operated by community banks.

The FDIC is the primary federal supervisor for the majority of community banks, in addition to being the insurer of deposits held by all U.S. banks and thrifts. Accordingly, the FDIC has a particular responsibility for the safety and soundness of community banks, as well as a particular interest in and a commitment to the role they play in the banking system and the challenges and opportunities they face. In 2012, the FDIC launched a Community Banking Initiative focused on publishing new research on issues of importance to community banks and providing resources that will be useful to their efforts to manage risks, enhance the expertise of their staff, and better understand changes in the regulatory environment.

Community Banking Research

The FDIC continues to pursue an agenda of research and outreach focused on community banking issues. Since the 2012 publication of the *FDIC Community Banking Study*, FDIC researchers have published 10 additional studies on topics ranging from small business financing to the factors that have driven industry consolidation over the past 30 years. The Community Bank Performance section of the *FDIC Quarterly Banking Profile* (QBP), first introduced in 2014, continues to provide a detailed statistical picture of the community banking sector that can be accessed by analysts, other regulators, and bankers themselves. The most recent report shows that net income at community banks continued to grow at a healthy annual rate through the first three quarters of 2016, while total loans and leases at these institutions grew at a rate that was 2.9 percentage points higher than the rate for noncommunity banks.

Community Banking Conference

In April 2016, the FDIC hosted a community banking conference entitled "Strategies for Long-Term Success." About 250 community bankers and industry participants took part in a daylong discussion about what the future holds for community banks in the United States. In addition to addresses by FDIC Chairman Martin J. Gruenberg and Vice Chairman

FDIC Chairman Martin J. Gruenberg gave the opening and closing remarks at the Community Banking Conference in April 2016.

Thomas M. Hoenig, the conference featured four expert panels that covered, in turn, the community banking model, regulatory developments, managing technology challenges, and ownership structure and succession planning.

De Novo Banks

The FDIC is committed to working with, and providing support to, any group with interest in starting a community bank. In his remarks at the Community Banking Conference, FDIC Chairman Gruenberg discussed the FDIC's efforts to facilitate the formation of de novo banks. The FDIC has:

- Designated professional staff in each regional office to serve as subject matter experts for deposit insurance applications. These individuals are points of contact to FDIC staff, other banking agencies, industry professionals, and prospective organizing groups. These specialists serve as an important industry resource to address the FDIC's processes, generally, and to respond to specific questions.
- Reduced from seven years to three years the period of enhanced supervisory monitoring of newly insured depository institutions. The FDIC had established the seven-year period during the financial crisis in response to the disproportionate number of newly insured institutions that were experiencing difficulties or failing. In the current environment, and in light of strengthened, forward-looking supervision, the FDIC determined it was appropriate to return to the three-year period.

As an outgrowth from the conference, the FDIC expanded on existing initiatives to facilitate the formation of *de novos* and undertook two new initiatives to support the long-term success of community banks.

During the fall, the FDIC held *de novo* outreach meetings in San Francisco, New York, and Atlanta to ensure that interested parties and industry participants are well informed about the FDIC's application process and the tools and resources available to assist organizing groups. Each of the outreach meetings addressed FDIC requirements for new bank applications, and highlighted strategies for successful formation. Based on a recommendation from the FDIC's Advisory Committee on Community Banking, the FDIC incorporated into each outreach meeting a roundtable discussion with Chief Executive Officers (CEOs) of successful *de novo* institutions. These CEO discussions were a highlight of each outreach meeting, as the CEOs provided the attendees with practical advice based on their personal experiences. Similar outreach meetings will be held in the remaining three regions during 2017.

In December 2016, the FDIC issued for public comment a publication entitled *Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions* that is intended to help organizers become familiar with the deposit insurance application process and describe the path to obtaining deposit insurance. The handbook incorporates information on topics raised during the *de novo* outreach meetings, including advice from the CEO panels.

Continuing Community Banking Initiative Activities

To learn more about how educators and bankers can partner in developing the next generation of bankers, the FDIC hosted a roundtable discussion with more than a dozen institutions of higher education

and other industry representatives. The roundtable explored community banking educational programs and discussed challenges and best practices of these programs with the goal of exploring strategies for the industry's long-term success.

Community Bank Advisory Committee

The FDIC's Advisory Committee on Community Banking is an ongoing forum for discussing current issues and receiving valuable feedback from the industry. The committee, which met three times during 2016, is composed of 13 community bank CEOs from around the country. It is a valuable resource for input on a wide variety of topics, including examination policies and procedures, capital and other supervisory issues, credit and lending practices, deposit insurance assessments and coverage, and regulatory compliance issues. To learn more about how community banks could attract the next generation of customers, the FDIC conducted a panel discussion with millennial FDIC employees at the July 2016 meeting. The employees discussed how community banks can successfully address millennial preferences.

Community Bank Resource Kit

In preparation for the Community Banking Conference, the FDIC developed a Community Bank Resource Kit for distribution to the conference attendees. The Resource Kit contains: a copy of the FDIC's *Pocket Guide for Directors*; *Supervisory Insights* articles related to corporate governance, interest-rate risk, and cybersecurity; two cybersecurity brochures that banks may reprint and share with their customers to enhance cybersecurity savvy; a copy of the FDIC's Cyber Challenge exercise; and several pamphlets that provide information about the FDIC resources available to bank management and board members. The Community Bank Resource Kit was subsequently distributed to all FDIC-supervised institutions.

Technical Assistance Program

As part of the Community Banking Initiative, the FDIC continued to provide an extensive technical assistance program for bank directors, officers, and

At the April 2016 Community Banking Conference, FDIC Chief Economist Richard Brown (second from left) summarizes findings of a recent FDIC study.

employees to improve communication generally and provide technical training on a range of topics. The technical assistance program includes Directors' College events held across the country, industry teleconferences, and a video program.

In 2016, the FDIC hosted Directors' College events in each of its six regions. These events were typically conducted jointly with state trade associations and addressed issues such as corporate governance, regulatory capital, community banking, concentrations management, consumer protection, the Bank Secrecy Act, and interest-rate risk, among others.

In addition, the FDIC hosted 12 industry teleconferences or webinars on a range of topics of interest to community bankers, including cybersecurity, overdraft protection rules, mobile financial services, commercial real estate, and the Real Estate Settlement Procedures Act. In addition, the FDIC offered 11 deposit insurance coverage seminars for bank officers and employees in 2016. These free seminars, which were offered nationwide, particularly benefitted smaller institutions that have limited training resources. The FDIC also released three deposit insurance seminar training videos on the FDIC's website and YouTube channel.

The FDIC offers a series of banker events, intended to maintain open lines of communication to keep bank management and staff up-to-date on important banking regulatory and emerging issues in the

compliance and consumer protection area. In 2016, the FDIC offered three interagency webinars focused on the following topics: requirements and best practices regarding bank overdraft programs; interagency Community Reinvestment Act questions and answers; and Military Lending Act regulations.

The FDIC released six videos as part of its Technical Assistance Video Program, which offers in-depth technical training for bank directors, officers, and employees to view at their convenience. Updated videos were published relating to interest-rate risk (two videos), corporate governance, the ability-to-repay/qualified mortgages rule, and flood insurance. During 2016, the FDIC released a new video on outsourcing technology services.

Economic Growth and Regulatory Paperwork Reduction Act

During 2016, the FDIC, along with the other federal banking agencies and the FFIEC, continued a cooperative, three-year effort to review all of their regulations. The purpose of the regulatory review, which is mandated no less frequently than once every 10 years by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), is to identify and eliminate, as appropriate, outdated or otherwise unnecessary regulatory requirements that are imposed on insured depository institutions.

To facilitate the review, the agencies categorized their regulations into 12 separate groups. Over the course of two years, the groups of regulations were published for comment, through a series of *Federal Register* notices, providing industry participants, consumer and community groups, and other interested parties an opportunity to respond and identify regulatory requirements they believe are no longer needed or should be modified. The agencies also held six public outreach meetings across the country to provide an opportunity for individual bankers, consumer and community group representatives, and other interested persons to present their views directly to agency senior management and staff of the FFIEC and the federal banking agencies on any of the regulations subject to EGRPRA review.

The agencies received 234 comment letters directly in response to the *Federal Register* notices and also received a number of additional oral and written comments from panelists and the public at the outreach meetings. The agencies have reviewed these comments and comments received during outreach meetings and will summarize the significant issues raised and the relative merits of such issues in a report that will be issued through the FFIEC to Congress.

In addition, due in part to feedback received during the EGRPRA review, the FDIC and the other FFIEC member entities are undertaking a community bank Call Report burden-reduction initiative. The objective of this initiative, which comprises actions in five areas, is to streamline and simplify regulatory reporting requirements for community banks.

As an initial step, the banking agencies, under the auspices of the FFIEC, published proposed Call Report revisions in September 2015. The agencies began implementing these revisions, which include a limited set of burden-reducing changes, in the third quarter of 2016.

As a second action, the banking agencies accelerated the start of a statutorily mandated review of the existing Call Report data items, which otherwise would have commenced in 2017. In support of this review, users of Call Report data at the FFIEC member entities are participating in a series of nine surveys of groups of Call Report schedules conducted over the 19-month period from mid-July 2015 until early February 2017. Users participating in these surveys have been asked to explain fully the need for each Call Report item they deem essential.

A third action for the FFIEC members is to understand better, through industry dialogue, the aspects of community banks' Call Report preparation processes that are significant sources of reporting burden. This outreach effort included on-site visits to nine community banks during the third quarter

of 2015. In the first quarter of 2016, two bank trade groups organized conference call meetings with small groups of community bankers in which representatives from the FFIEC members participated. During these bank visits and conference call meetings, the bankers explained how they prepare their Call Reports, identified which schedules or data items take a significant amount of time or manual processes to complete, and described the reasons for this.

Fourth, building on the outcomes of the preceding two actions, the FFIEC and its member entities developed a separate, shorter, and more streamlined Call Report to be completed by eligible small institutions, as well as certain burden-reducing revisions to two other existing versions of the Call Report. The banking agencies, under the auspices of the FFIEC, published the proposal on August 15, 2016, with a proposed effective date of March 31, 2017. After considering the comments received, the FDIC and the other FFIEC members made certain modifications to the proposal. The FFIEC notified institutions about the outcome of the proposal on December 30, 2016.

Finally, the FFIEC and the agencies will offer periodic banker training by teleconference and webinar to explain upcoming reporting changes and provide guidance on Call Report requirements that bankers find challenging.

The FDIC also streamlined and clarified certain regulations through the Office of Thrift Supervision (OTS) rule integration process. Under Section 316(b) of the Dodd-Frank Act, rules transferred from the former OTS to the FDIC and other successor agencies remain in effect "until modified, terminated, set aside, or superseded in accordance with applicable law" by the relevant successor agency, by a court of competent jurisdiction, or by operation of law. When the FDIC republished the transferred OTS regulations as new FDIC regulations applicable to state savings associations, the FDIC stated in the *Federal Register* notice that its staff would evaluate the transferred OTS rules and might later recommend incorporating the transferred OTS regulations into other FDIC rules, amending them, or rescinding them. This process began in 2013 and continues, involving publication in the *Federal Register* of a series of NPRs and final rules. In 2016, the FDIC issued an NPR to remove one transferred OTS rule, Minimum Security Procedures, and to make technical amendments to related FDIC rules for applicability to state savings associations. The FDIC removed a former OTS rule, Frequency of Safety and Soundness Examination, because it became unnecessary after FDIC rules were amended to bring insured state savings associations within its scope. Finally, in November 2016, the FDIC's Board approved the issuance of an NPR that proposes the removal of another OTS rule, *Consumer Protection in Sales of Insurance,* and corresponding revisions to the FDIC's rule at 12 CFR Part 343 to ensure that Part 343 applies to FDIC-supervised state banks and savings associations.

ACTIVITIES RELATED TO SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

The FDIC is committed to addressing the unique challenges associated with the supervision, insurance with respect to the related insured depository institutions, and potential resolution of large and complex financial institutions. The FDIC's ability to analyze and respond to risks in these institutions is particularly important, as they comprise a significant share of banking industry assets and deposits. The FDIC's programs provide for a consistent approach to large and complex bank supervision nationwide, allow for the identification and analysis of industry-wide and institution-specific risks and emerging issues, and enable a quick response to these risks. The FDIC has segregated these activities in two groups to both ensure that supervisory attention is risk-focused and tailored to the risks presented by the nation's largest banks and meet the FDIC's responsibilities under the FDI Act and the Dodd-Frank Act.

Complex Financial Institutions Program

The Dodd-Frank Act expanded the FDIC's responsibilities pertaining to systemically important

financial institutions (SIFIs) and nonbank financial companies designated by the FSOC. The FDIC's Complex Financial Institution (CFI) program within the Division of Risk Management Supervision (RMS) performs ongoing risk monitoring of SIFIs and FSOC-designated nonbank financial companies, provides backup supervision of the firms' related insured depository institutions (IDIs), and evaluates the firms' required resolution plans. The CFI program also performs certain analyses that support the FDIC's role as an FSOC member.

Resolution Plans – Living Wills

Title I of the Dodd-Frank Act requires that certain large banking organizations and nonbank financial companies designated by the FSOC for supervision by the FRB periodically submit resolution plans to the FRB and the FDIC. Each Title I resolution plan, commonly known as a living will, must describe the company's strategy for rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure of the company.

Large Bank Holding Companies with Substantial Nonbank Assets

Companies subject to the rule are divided into three groups: companies with $250 billion or more in nonbank assets, companies with nonbank assets between $100 billion and $250 billion, and all other companies with total consolidated assets of $50 billion or more. Companies in the first and second group were required to submit their resolution plans by July 1, 2015. These firms included Bank of America Corporation, Bank of New York Mellon Corporation, JP Morgan Chase & Co., State Street Corporation, Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, and Citigroup, Inc.

In April 2016, the FDIC and FRB jointly announced determinations and provided firm-specific feedback on the resolution plans submitted in July 2015. The agencies also made public the Resolution Plan Assessment Framework, which explains the resolution plan requirement, provides further information on the determinations, and demonstrates the agencies' processes for reviewing the plans. Additionally, the agencies released new guidance for the July 2017 submissions.

Regarding the July 2015 submissions, the FDIC and FRB jointly determined that each of the resolution plans of Bank of America Corporation, Bank of New York Mellon Corporation, JP Morgan Chase & Co., State Street Corporation, and Wells Fargo & Company was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, the statutory standard established in the Dodd-Frank Act. The agencies issued joint notices of deficiencies to these five firms detailing the deficiencies in their plans and the actions the firms must take to address them. Each firm was required remediate its deficiencies by October 1, 2016. Failure to remedy the deficiencies could subject the firms to more stringent capital, leverage, or liquidity requirements, or restrictions on the growth, activities, or operations of the firms as provided in the statute.

The agencies jointly identified weaknesses in the 2015 resolution plans of Goldman Sachs Group, Inc. and Morgan Stanley that the firms must address, but did not make joint determinations regarding the plans and their deficiencies. The FDIC determined that the plan submitted by Goldman Sachs Group, Inc. was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, and identified deficiencies. The FRB identified a deficiency in Morgan Stanley's plan and found that the plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

Neither agency found that Citigroup, Inc.'s 2015 resolution plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, although the agencies did identify shortcomings that the firm must address.

All of the banking organizations that received feedback in April provided updates to their plans in October 2016. The FDIC and the FRB determined in December that Bank of America Corporation,

Bank of New York Mellon Corporation, JP Morgan Chase & Co., and State Street Corporation adequately remediated the deficiencies cited in their 2015 resolution plans.

The agencies jointly determined that Wells Fargo & Company did not adequately remedy two of the firm's three deficiencies. In light of the nature of the deficiencies and the resolvability risks posed by the firm's failure to remedy them, the agencies imposed restrictions on the growth of international and nonbank activities of Wells Fargo & Company and its subsidiaries. The firm is expected to file a revised submission addressing the remaining deficiencies by March 31, 2017. If, after reviewing the March submission, the agencies jointly determine that the deficiencies have not been adequately remedied, the agencies will limit the size of the firm's nonbank and broker-dealer assets to levels in place on September 30, 2016. If Wells Fargo & Company has not adequately remedied the deficiencies within two years, the statute provides that the agencies, in consultation with the FSOC, may jointly require the firm to divest certain assets or operations to facilitate an orderly resolution of the firm in bankruptcy.

Four foreign banking organizations (FBOs) also filed resolution plans in July 2015. The FDIC and FRB are currently reviewing those plans.

Other Large Bank Holding Company Filers

In December 2015, the third group of filers represented by 122 firms with total consolidated assets of $50 billion or more submitted resolution plans to the agencies. Of these, 34 resolution plans were either full or tailored plans that were required to take into account guidance provided by the agencies. The FDIC and FRB are jointly developing letters with feedback to these firms and guidance for their next resolution plan submissions on December 31, 2017.

The remaining 88 resolution plans were streamlined plans that required the firms to focus on material changes to their 2014 resolution plans, actions taken to strengthen the effectiveness of those plans, and, where applicable, actions to ensure any subsidiary insured depository institution would be adequately protected from the risk arising from the activities of nonbank affiliates of the firm. In May 2016, the agencies notified 84 firms that they would be permitted to file streamlined resolution plans for year-ends 2016 through 2018.

In December 2016, the agencies received 86 resolution plans from new filers or filers of streamlined plans. These plans include four full or tailored plans and 82 streamlined plans.

Nonbank Firms

Nonbank financial firms designated as systemically important by FSOC also are required to submit resolution plans for review by the FDIC and FRB. During December 2015, three nonbank firms— American International Group, Inc. (AIG), General Electric Capital Corporation, Inc. (GECC), and Prudential, Inc.— submitted their resolution plans for review. On June 28, 2016, GECC's systemically important financial institution designation was rescinded, and the joint review of its plan ceased. The agencies are expected to provide feedback on the remaining plans in early 2017.

In August 2016, the FDIC and FRB, in order to afford adequate time for the agencies to provide thorough feedback to the firms, and for the firms to develop responsive submissions, jointly in letters to AIG and Prudential, Inc., stated the agencies' decision to extend their 2016 annual resolution plan submission date to December 31, 2017, and indicated that their 2016 resolution plan requirement would be satisfied by the submission of the 2017 resolution plan.

MetLife, which was designated as systemically important on December 18, 2014, challenged its designation in federal court and won a ruling on March 30, 2016, that rescinded its designation. The Department of Justice on behalf of the FSOC has appealed that decision. The U.S. Court of Appeals heard oral arguments in October 2016. MetLife will not be required to submit a resolution plan unless its designation is reinstated.

Extended Deadline for Submissions for Certain Organizations' Plans

In April 2016, the FDIC and FRB jointly announced determinations and provided firm-specific feedback on the 2015 resolution plans of eight systemically important, domestic banking institutions. The deadline for the next full plan submission for all eight domestic SIFIs is extended to July 1, 2017.

In July 2016, the FDIC and FRB jointly granted one-year filing extensions to four FBOs. These FBOs will be required to submit their next resolution plans on July 1, 2017.

In August 2016, the FDIC and FRB jointly granted one-year filing extensions to 36 domestic bank holding companies and foreign banking organizations, as well as two nonbank financial companies designated by the FSOC. These firms will be required to submit their next resolution plans on December 31, 2017.

Insured Depository Institution Resolution Plans

Part 360.10 of the FDIC Rules and Regulations requires an IDI with total assets of $50 billion or more to periodically submit to the FDIC a plan for its resolution in the event of its failure (IDI Rule). The IDI Rule requires each IDI meeting the criteria to submit a resolution plan that should allow the FDIC, as receiver, to resolve the IDI under Sections 11 and 13 of the Federal Deposit Insurance Act (FDI Act) in an orderly manner that enables prompt access to insured deposits, maximizes the return from the sale or disposition of the failed IDI's assets, and minimizes losses realized by creditors. The resolution plan must also describe how a selected strategy will be least costly to the Deposit Insurance Fund.

In September 2015, the FDIC received 10 IDI resolution plans and in December 2015, an additional 26 resolution plans. The FDIC's review of these plans focused on the insolvency scenario, strategy and funding, readiness, corporate governance, and the guidance that the FDIC issued in December 2014 for resolution plans required by the IDI Rule. Under the guidance, a covered IDI must provide a fully developed discussion and analysis of a range of realistic resolution strategies. To assist IDIs in writing their plans, the guidance includes direction regarding the elements that should be discussed in a fully developed resolution strategy and the cost analysis, clarification regarding assumptions made in the plan, and a list of significant obstacles to an orderly and least costly resolution that IDIs should address. The guidance applies to the resolution plans of the IDIs covered by the IDI Rule, as well as any new IDI meeting the threshold, commencing with the 2015 resolution plan submissions.

In August 2016, the FDIC extended the deadline for 10 IDI resolution plans from September 1, 2016 to October 1, 2017, and extended the deadline for 26 IDI resolution plans from December 31, 2016 to December 31, 2017. The FDIC is developing letters to these firms with feedback on their plans and guidance for their next resolution plan submissions.

In December 2016, the FDIC received two IDI plans from banks that are new filers.

Orderly Liquidation Authority – Resolution Strategy Development

Under the Dodd-Frank Act, failed or failing financial companies are expected to file for reorganization or liquidation under the U.S. Bankruptcy Code, just as any failed or failing nonfinancial company would file. If resolution under the Bankruptcy Code would result in serious adverse effects to U.S. financial stability, the Orderly Liquidation Authority (OLA) set out in Title II of the Dodd-Frank Act provides a backup authority to the bankruptcy process. There are strict parameters on its use, however, and it can only be invoked under a statutorily prescribed recommendation and determination process, coupled with an expedited judicial review process.

The FDIC has been developing resolution strategies to carry out its orderly liquidation authorities. Firm-specific resolution strategies are under development

and are informed by the Title I plan submissions. In addition, preliminary work has begun to develop resolution strategies for the nonbank resolution plan filers and financial market utilities, particularly central counterparties (CCPs).

In September 2016, the FDIC conducted a second operational exercise to validate the steps involved in carrying out a Title II resolution. The first operational exercise conducted in December of 2015, focused on the initial appointment of the FDIC as receiver of a SIFI and the stabilization phase immediately following appointment. This year's exercise covered the operation of the bridge financial company and the wind down and liquidation of the firm. Both operational exercises validated the systemic resolution framework and identified areas for further work.

Monitoring and Measuring Systemic Risks

The FDIC monitors risks related to SIFIs both at the firm level and industry wide, to inform supervisory planning and response, policy and guidance considerations, and resolution planning efforts. As part of this monitoring, the FDIC analyzes each company's risk profile, governance and risk management capabilities, structure and interdependencies, business operation and activities, management information system capabilities, and recovery and resolution capabilities.

The FDIC continues to work closely with other Federal regulators to analyze institution-specific and industry-wide conditions and trends, emerging risks and outliers, risk management, and the potential risk posed to financial stability by SIFIs and nonbank financial companies. To support risk monitoring that informs supervisory and resolution planning efforts, the FDIC has developed systems and reports that make extensive use of structured and unstructured data. SIFI monitoring reports are prepared on a routine and ad-hoc basis and cover a variety of aspects that include risk components, business lines and activity, market trends, and product analysis.

Additionally, the FDIC has implemented and continues to expand upon various monitoring systems, including the Systemic Monitoring System (SMS). The SMS provides an individual risk profile and assessment for each SIFI by evaluating the level and change in metrics that serve as important barometers of overall risk. The SMS supports the identification of emerging risks within individual firms and the prioritization of supervisory and monitoring activities. The SMS also serves as an early warning system of financial vulnerability by gauging a firm's proximity and speed to resolution event. Information from FDIC-prepared reports and systems are used to prioritize activities relating to SIFIs and to coordinate and communicate with the FRB and OCC.

The FDIC also has conducted semi-annual "Day of Risk" meetings to present, discuss, and prioritize the review of emerging risks. For each major risk, executive management discussed the nature of the risk, exposures of SIFIs, and planned supervisory efforts.

Backup Supervision Activities for IDIs of Systemically Important Financial Institutions

Risk monitoring is enhanced by the FDIC's backup supervision activities. In its backup supervisory role, as outlined in Sections 8 and 10 of the FDI Act, the FDIC has expanded resources and developed and implemented policies and procedures to guide backup supervisory activities. These activities include performing analyses of industry conditions and trends, insurance pricing support, participating in supervisory activities with other regulatory agencies, and exercising examination and enforcement authorities when necessary. At institutions for which the FDIC is not the primary federal regulator, staff works closely with other regulatory authorities to identify emerging risk and assess the overall risk profile of large and complex institutions. The FDIC, OCC, and FRB operate under a Memorandum of Understanding that establishes guidelines for coordination and cooperation to carry out their

respective responsibilities, including the FDIC's role as insurer. Under this agreement, the FDIC has assigned dedicated staff to IDI subsidiaries of systemically important financial institutions to enhance risk-identification capabilities and facilitate the communication of supervisory information. These individuals work with the staff of the FRB and OCC in monitoring risk at their assigned institutions. In 2016, staff from the FDIC's Division of Risk Management Supervision participated in 102 targeted examination activities with the FRB and 53 targeted examination activities with the OCC. The reviews included, but were not limited to, engagement in Comprehensive Capital Analysis and Reviews, Dodd-Frank Act Stress Testing, quantitative model reviews, swaps margin model reviews, credit risk-related reviews, and the Shared National Credit Reviews.

Cross-Border Efforts

Advance planning and cross-border coordination for the resolution of Global-SIFIs (G-SIFIs) is essential to minimizing disruptions to global financial markets. Recognizing that the resolution of a G-SIFI creates complex international legal and operational concerns, the FDIC continues to work with foreign regulators to establish frameworks for effective cross-border cooperation.

In October 2016, the FDIC hosted the second in an ongoing series of planned exercises to enhance coordination on cross-border resolution. The exercise was the culmination of planning since late 2015 and built on ongoing work by the international authorities in the area of cross-border resolution, including a staff-level exercise conducted earlier in July 2016. The exercise also coincided with the annual international meetings in Washington, DC, sponsored by the World Bank and International Monetary Fund. Participants in the exercise included senior financial officials representing authorities in the United States, United Kingdom, and Europe, including the U.S. Department of Treasury, FRB, OCC, SEC, CFTC, Federal Reserve Bank of New York, HM Treasury, Bank of England (BOE), U.K. Prudential Regulation Authority, the Single Resolution Board, European Commission, and European Central Bank.

The FDIC serves as a co-chair for all of the cross-border crisis management groups (CMGs) of supervisors and resolution authorities for the United States. In addition, the FDIC participates as a host authority in CMGs for foreign G-SIFIs. The FDIC and the European Commission continued their engagement through the joint Working Group, which is composed of senior executives at the FDIC and European Commission who meet to focus on both resolution and deposit insurance issues. In 2016, the Working Group discussed cross-border bank resolution and resolution of CCPs, among other topics. FDIC staff also participated in the Joint EU-US Financial Regulatory Forum (formerly the Financial Markets Regulatory Dialogue) with representatives of the European Commission and other participating European Union authorities, including the Single Resolution Board and the European Banking Authority, and staffs of the Treasury Department, FRB, SEC, CFTC, and other participating U.S. agencies.

The FDIC continued to advance its working relationships with other jurisdictions that regulate G-SIFIs, including those in Switzerland, Japan, and Germany. In 2016, the FDIC had significant staff-level engagements with these countries to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIFI.

Systemic Resolution Advisory Committee

The FDIC created the Systemic Resolution Advisory Committee (SRAC) in 2011 to receive advice and recommendations on a broad range of issues regarding the resolution of systemically important financial companies pursuant to the Dodd-Frank Act. Over the years, the SRAC has provided important advice to the FDIC regarding systemic resolutions and advised the FDIC on a variety of issues, including the following:

- 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 systemically important company has international operations.

Members of the SRAC have a wide range of experience, including managing complex firms, administering bankruptcies, and working in the legal system, accounting field, and academia. The SRAC met on April 14, 2016, and worked through an agenda that addressed the status of Title I Living Wills, an update on Title II Orderly Liquidation Authority, and developments in the European Union. The SRAC heard from Dr. Elke König, the first Chair of the European Union's Single Resolution Board, on developments within the EU and efforts to collaborate with the United States. and other jurisdictions.

Financial Stability Oversight Council

The FSOC was created by the Dodd-Frank Act in July 2010 to promote the financial stability of the United States. It is composed of 10 voting members, including the Chairperson of the FDIC, and five non-voting members.

The FSOC's responsibilities include the following:

- identifying risks to financial stability, responding to emerging threats in the financial system, and promoting market discipline;
- identifying and assessing threats that institutions may pose to financial stability and, if appropriate, designating a nonbank financial company to be supervised by the FRB and subject to heightened prudential standards;
- designating financial market utilities 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;
- monitoring domestic and international financial regulatory proposals and advising Congress and making recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets; and
- producing annual reports describing, among other things, the Council's activities and potential emerging threats to financial stability.

In 2016, the FSOC issued its sixth annual report. Generally, at each of its meetings, the FSOC discusses various risk issues. In 2016, the FSOC meetings addressed, among other topics, U.S. fiscal issues, interest-rate risk, credit risk, the FRB and European bank stress tests, the United Kingdom's vote to leave the European Union (i.e., Brexit), cybersecurity, nonbank financial company designations, and housing reform.

DEPOSITOR AND CONSUMER PROTECTION

A major component of the FDIC's mission is to ensure that financial institutions treat consumers and depositors fairly and operate in compliance with federal consumer protection, anti-discrimination, and community reinvestment laws. The FDIC also promotes economic inclusion to build and strengthen positive connections between insured financial institutions and consumers, depositors, small businesses and communities.

Guidance

Loans in Areas Having Special Flood Hazards

In April 2016, the FDIC, OCC, FRB, NCUA, and Farm Credit Administration jointly issued interagency

examination procedures pertaining to force placement of flood insurance, escrowing of flood insurance premiums and fees, exemptions to the mandatory flood insurance purchase requirement for detached structures, and civil money penalties.

Uniform Interagency Consumer Compliance Rating System

In 2016, the FFIEC finalized changes to the Uniform Interagency Consumer Compliance Rating System to reflect regulatory, supervisory, technological, and market changes since the system was established. The Consumer Compliance Rating System is a supervisory policy for evaluating financial institutions' adherence to consumer compliance requirements. The revisions are designed to align the rating system more fully with the FFIEC agencies' current risk-based, tailored examination approaches. The FFIEC new rating system will apply to all exams starting after March 31, 2017.

Interagency Guidance on Deposit-Reconciliation Practices

In May 2016, the FDIC, OCC, FRB, NCUA, and Consumer Financial Protection Bureau (CFPB) issued guidance to alert financial institutions to supervisory expectations regarding deposit-reconciliation practices that may be detrimental to customers. This guidance addresses a set of situations in which customers make deposits to accounts and the dollar amount that the financial institution credits to that account differs from the total of the items deposited. Such discrepancies may arise in a variety of situations, including inaccuracies on the deposit slip, encoding errors, or poor image-capture. The result may be a detriment to the customer and a benefit to the financial institution if not appropriately reconciled.

Community Reinvestment Act

In July 2016, the FDIC, OCC, and FRB (i.e., the federal bank regulatory agencies with responsibility for CRA rulemaking) published final revisions to "Interagency Questions and Answers Regarding Community Reinvestment." The Q&A provides additional guidance to financial institutions and the public regarding the agencies' CRA regulations in the following areas: availability and effectiveness of retail banking services; innovative or flexible lending practices; community development-related issues; and responsiveness and innovativeness of an institution's loans, qualified investments, and community development services.

Privacy of Consumer Financial Information

In October 2016, the FDIC released revised interagency examination procedures for privacy of consumer financial information that reflect the statutory amendments made by the Fixing America's Surface Transportation Act (FAST Act) to the Gramm-Leach-Bliley Act annual privacy notice requirements. The procedures contain new guidance on an exception to the annual privacy notice requirement.

Military Lending Act

In October 2016, the FDIC released revised interagency examination procedures that reflect the Department of Defense's 2015 amendments to the implementing regulations of the Military Lending Act of 2006 (MLA) and its August 2016 interpretive rule that provides guidance on compliance with the MLA rule. The FDIC also provided accompanying guidance on its initial supervisory expectations in connection with its examinations of financial institutions for compliance with the MLA rule.

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) provides the FDIC with advice and recommendations on important initiatives focused on expanding access to mainstream banking services to underserved populations. This may include reviewing basic retail financial services such as low-cost, safe transaction accounts, affordable small-dollar loans, savings accounts, and other services that promote individual asset accumulation and financial stability. In May 2016, ComE-IN met to discuss payment system modernization, banks' efforts to serve the unbanked and underbanked, new savings accounts designed to assist individuals with disabilities, and next steps planned to explore the potential of mobile financial services to further economic inclusion.

FDIC National Survey of Unbanked and Underbanked Households and Related Research

As part of its ongoing commitment to expanding economic inclusion in the United States, the FDIC works to fill the research and data gap regarding household participation in mainstream banking and the use of nonbank financial services. In addition, Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 mandates that the FDIC regularly report on underserved populations and bank efforts to bring individuals and families into the conventional banking system. In response, the FDIC regularly conducts and reports on surveys of households and banks to inform the public and enhance the understanding of financial institutions, policymakers, regulators, researchers, academics, and others.

At the 16th Annual Bank Research Conference, FDIC Chairman Martin J. Gruenberg presented findings from the 2015 National Survey of Unbanked and Underbanked Households.

During 2016, the FDIC prepared a report on the *2015 FDIC National Survey of Unbanked and Underbanked Households*, in partnership with the U.S. Census Bureau. The survey focused on basic checking and savings account ownership, but it also explored household use of alternative financial services to better understand the extent to which families are meeting their financial needs outside of mainstream financial institutions. In addition, the survey incorporated questions designed to assess the typical monthly financial services consumption patterns and to better understand households' use of bank and nonbank consumer credit instruments. A full report was issued by the FDIC to the public on October 20, 2016. Those results are available on economicinclusion.gov.

In 2016, the FDIC also published two qualitative research projects to develop further understanding of this area. In the first, the FDIC studied the economic inclusion potential of mobile financial services. The findings confirmed and provided more detailed insights into the opportunity of mobile financial services to improve the sustainability of banking relationships. As a follow-up to this report, the FDIC requested comments on opportunities to demonstrate empirically the benefits of mobile financial services. In the second project, the FDIC interviewed bankers

and other stakeholders to understand better the programs, products, and strategies that banks are finding useful for attracting and retaining unbanked households as customers. In addition to summarizing findings from these interviews, the paper suggests several implications that banks and their partners can use to enhance these efforts.

Community and Small Business Development and Affordable Mortgage Lending

In 2016, the FDIC provided technical assistance to banks and community organizations through 61 outreach events designed to increase shared knowledge and support collaboration between financial institutions and other community, housing, and small business development resources and to improve knowledge about the Community Reinvestment Act.

The FDIC's work particularly emphasized sharing information to support bank efforts to provide prudent access to responsible, affordable mortgage credit. In 2016, the FDIC released the *Affordable Mortgage Lending Guide* and launched the Affordable Mortgage Lending Center, an online resource. These resources are designed to provide a comprehensive overview of the programs and services available to community banks to support affordable mortgage lending, particularly to low- and moderate-income borrowers. By year-end 2016, the *Guide* had already been downloaded more than 3,500 times, and more than 20,000 visitors have viewed the online Affordable Mortgage Lending Center.

Also in 2016, the FDIC, other federal regulators, and federal and state housing agencies hosted 10 affordable mortgage lending forums to offer technical assistance to help expand access to mortgage credit for low-or moderate-income (LMI) households. During these events, banks and program managers shared experiences with federal mortgage guarantee and secondary market programs and state and local down payment assistance and counseling programs. They offered details of their work so that audiences could gain a better understanding of how to address challenges and identify opportunities for expanding participation in these programs.

In addition, the FDIC sponsored sessions with interagency partners covering basic and advanced CRA training for banks. The agencies also offered CRA basics for community-based organizations as well as seminars on establishing effective bank-community collaborations for community development in more than 45 communities. The FDIC had a particular focus on encouraging community development initiatives in rural communities, including workshops that highlighted housing needs and programs, economic development programs, and community development financial institution collaborations, including those serving Native American communities.

Advancing Financial Education

Financial education helps consumers understand and use bank products effectively and sustain a banking relationship over time. The FDIC continued to be a leader in developing high-quality, free financial education resources and pursuing collaborations to use those tools to educate the public. The FDIC's work during 2016 dealt primarily with young people, consistent with the Financial Literacy and Education Commission focus on *Starting Early for Financial Success.*

Money Smart for Young People

Money Smart for Young People, a standards-aligned curriculum designed to involve teachers, students, and parents/caregivers in the learning process about money, was downloaded more than 39,000 times since its launch. In addition, 189 educators from 26 school districts received professional development training to assist them in using *Money Smart for Young People* as part of a small pilot project. The FDIC used stakeholder input to enhance the curriculum, such as by making it available to download on a lesson-by-lesson basis.

Money Smart for Older Adults

The FDIC also worked with the CFPB to launch an enhanced version of *Money Smart for Older Adults*, a free financial education curriculum first released in 2013 to help prevent elder financial exploitation. The 2016 enhancements include technical updates and revisions to the material based on input from trainers. The newly updated resource includes an expanded discussion on common types of elder financial exploitation such as tax, charity, debt collection, and grandchild imposter scams. The resource also incorporates federal resources that can be helpful on topics such as how to research an investment advisor.

Money Smart for Small Business

The FDIC continues to strengthen collaboration with the Small Business Administration (SBA) and other small business resources beyond training. In 2016, each of the six FDIC regional Community Affairs teams sponsored regional events for banks, the SBA, and the SBA Resource Partner Network (comprised of SCORE, Small Business Development Centers, Women's Business Centers, and Veteran's Business Outreach Centers) to convene and collaborate or provide technical assistance to small business leaders. Moreover, new training resources were released to encourage expanded use of *Money Smart for Small Business*, and the group of training providers identified as *Money Smart for Small Business* Alliance members continued to grow, reaching 143 at year-end.

Youth Savings Pilot Program

The FDIC continues to collaborate with the CFPB to promote youth financial capability by giving teachers trusted resources to teach financial education, empowering parents and caregivers to discuss financial topics with their children, and emphasizing hands-on activities. To promote hands-on learning, the FDIC completed a report on the two-year Youth Savings Pilot Program in 2016. The pilot was designed to identify and highlight promising approaches to linking financial education to opportunities for school-aged children to open safe, low-cost savings accounts. The report, which draws from the experiences of 21 participating banks, describes three model approaches that have been used to build financial education programs and can be a resource for banks, schools, and others. Lessons learned from the pilot also were presented at the October 20 meeting of ComE-IN. In addition, FDIC hosted a symposium on October 21 to bring together representatives of the banks, schools, and non-profit partners that participated in the Youth Savings Pilot to discuss lessons learned and promising practices.

The FDIC also developed and began to implement strategies to improve financial education and access to mainstream financial services for youth participating in youth employment programs funded through the Workforce Innovation and Opportunity Act (WIOA). For workforce providers and their partners teaching financial education, FDIC developed a tool to map *Money Smart* to WIOA's financial education element, and drafted a *Money Smart* supplement to prepare youth to open their first accounts. The FDIC also led three webinars in collaboration with the Department of Labor to increase awareness of *Money Smart* among organizations that receive federal funding for youth employment. In addition, FDIC participated in three regional events in collaboration with the Department of Labor and FRB to strengthen the capacity of workforce development organizations to work with financial institutions on financial capability initiatives.

Financial Education Webinars for Teachers

In 2016, the FDIC enhanced its Teacher Online Resource Center, a repository of resources from the FDIC and CFPB, to help teachers provide youth financial education. Five new videos that overview the key features of the curriculum were added. There were more than 27,000 visits to the site during the year. The FDIC continued to collaborate with strategic partners to increase awareness of the FDIC's free resources. For example, more than 600 people participated in four conference call/webinars held in collaboration with the Jump$tart Coalition to make educators feel more comfortable using the curriculum.

Partnerships for Access to Mainstream Banking

The FDIC supports broadening access to mainstream banking for consumers and small business through work with the Alliances for Economic Inclusion (AEI), *Bank On* initiatives, local and state governments, and in collaboration with federal partners and many local and national organizations. The FDIC also collaborates with other financial regulatory agencies to provide information and technical assistance on community development to banks and community leaders across the country.

Local collaborations are many and diverse. The FDIC sponsored or co-sponsored more than 125 events during 2016 that provided opportunities for partners to collaborate on increasing access to bank accounts and credit services, opportunities to build savings and improve credit histories, and initiatives to strengthen significantly the financial capability of community service providers who directly serve LMI consumers and very small businesses.

During 2016, the FDIC helped convene financial institutions, community organizations, local, state, and federal agencies, and other partners to support coalitions that bring unbanked and underbanked consumers and owners of small businesses into the financial mainstream through a wide range of partnership organizations. In the 14 AEI communities and in other areas, the FDIC helped committees and working groups of bankers and community leaders develop responses to the financial capability and services needs in their communities. To integrate financial capability into community services more effectively, the FDIC supported seminars and training sessions for community service providers and asset building organizations, workshops for financial coaches and counselors, promotion of savings opportunities for LMI people and communities, initiatives to expand access to savings accounts for all ages, outreach to bring larger numbers of people to expanded tax preparation assistance sites, and education for business owners to help them become bankable.

The FDIC also provided information and technical assistance in the development of safe and affordable transaction and savings accounts and worked to connect unbanked consumers to those accounts. The FDIC provided technical assistance to local *Bank On* initiatives and asset-building coalition activities designed to reduce barriers to banking and increase access to the financial mainstream in more than 28 communities and in 23 states. For example, the FDIC collaborated with the Cities for Financial Empowerment Fund to support its national efforts to work with local government and other partners to increase the access of LMI consumers to safe and affordable financial products and services. During 2016, in collaboration with Cities for Financial Empowerment and local coalitions, the FDIC worked in seven *Bank On* cities to convene 14 forums and roundtables designed to advance strategies to expand access to safe deposit accounts. The FDIC also supported efforts to link consumers to financial education and savings through activities organized for designated *Money Smart* or "financial fitness" weeks or months, involving hundreds of consumer outreach events. Moreover, working with the national, local, state, and targeted (i.e., youth, military, and minority consumer-focused) *America Saves* campaigns, the FDIC continued to link banking companies to active efforts for engaging consumers with setting savings goals at tax time and year-round.

The FDIC designed strategies to reach two particular segments of the population that the *National Survey of Unbanked and Underbanked Consumers* revealed are disproportionately unbanked and underbanked: people with disabilities and low- and moderate-income young people. The Advisory Committee on Economic Inclusion was engaged in discussions of financial education and outreach initiatives to promote economic inclusion of people with disabilities. The FDIC discussed its efforts to work with federal, nonprofit, and bank partners on the tax-advantaged savings accounts (known as ABLE Accounts), being launched by state governments. The FDIC also expanded efforts with local partners through 14 community events to bring

banks and organizations representing people with disabilities together at the state and local level.

Youth benefiting from employment programs under the WIOA, who are generally low- or moderate-income, are required to be offered financial education. To support grantees of the Department of Labor and local initiatives, the FDIC developed train-the-trainer resources and delivered webinars to enhance the capability of youth-serving employment organizations. Workforce development organizations, banks, the FRB and other partners convened in two communities to expand opportunities for young people to become financially capable and banked.

Consumer Complaints and Inquiries

The FDIC helps consumers by receiving, investigating, and responding to consumer complaints about FDIC-supervised institutions and answering inquiries about banking laws and regulations, FDIC operations, and other related topics. In addition, the FDIC provides analytical reports and information on complaint data for internal and external use, and conducts outreach activities to educate consumers.

The FDIC recognizes that consumer complaints and inquiries play an important role in the development of strong public and supervisory policy. Assessing and resolving these matters helps the agency identify trends or problems affecting consumer rights, understand the public perception of consumer protection issues, formulate policy that aids consumers, and foster confidence in the banking system by educating consumers about the protection they receive under certain consumer protection laws and regulations.

Consumer Complaints by Product and Issue

The FDIC receives complaints and inquiries by telephone, fax, U.S. mail, email, and online through the FDIC's website. In 2016, the FDIC handled 19,251 written and telephonic complaints and inquiries. Of this total, 10,884 related to FDIC-supervised institutions. The FDIC responded to nearly 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. As part of the complaint and inquiry handling process, the FDIC works with the other federal financial regulatory agencies to ensure that complaints and inquiries are forwarded to the appropriate agencies for response. The FDIC carefully analyzes the products and issues involved in complaints about FDIC-supervised institutions. The number of complaints received about a specific bank product and issue can serve as a red flag to prompt further review of practices that may raise consumer protection or supervisory concerns.

In 2016, the four most frequently identified consumer product complaints and inquiries about FDIC-supervised institutions concerned credit cards (24 percent), consumer loans (14 percent), residential real estate (12 percent), and checking accounts (11 percent). Credit card complaints and inquiries most frequently described issues with collection practices and billing disputes, while the issues most commonly cited in correspondence about consumer loans were concerns with the reporting of erroneous information. Complaints and inquiries on residential real estate related to repossession/foreclosure and loan modification. The largest share of correspondence about checking accounts cited discrepancies in deposit accounts and refusal to cash checks or provide services.

The FDIC also investigated 84 Fair Lending complaints alleging discrimination during 2016. The number of discrimination complaints investigated has fluctuated over the past several years but averaged approximately 84 complaints per year between 2011 and 2016. Over this period, nearly 45 percent of the complaints investigated alleged discrimination based on the race, color, national origin, or ethnicity of the applicant or borrower; 24 percent related to discrimination allegations based on age; nearly 9 percent involved the sex of the borrower or applicant; and roughly 5 percent concerned disability.

Consumer refunds generally involve the financial institution offering a voluntary credit to the consumer's account, often as a direct result of complaint investigations and identification of a banking error or violation of law. In 2016, consumers received more than $531,349 in refunds from financial institutions as a result of the assistance provided by the FDIC's Consumer Affairs Program.

Public Awareness of Deposit Insurance Coverage

An important part of the FDIC's deposit insurance mission is to ensure 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 2016. For example, as of December 31, 2016, the FDIC conducted six telephone seminars for bankers on deposit insurance coverage, reaching an estimated 5,282 bankers participating at approximately 1,509 bank sites throughout the country. The FDIC also created

During the height of the financial crisis, more than three million copies of the brochure "Your Insured Deposits" were distributed across the nation.

FDIC Division of Insurance Director Diane Ellis opens the 16th Annual Bank Reserch Conference.

deposit insurance training videos that are available on the FDIC's website and YouTube channel.

As of December 31, 2016, the FDIC received and answered approximately 90,412 telephone inquiries from consumers and bankers regarding deposit insurance-related inquiries. The FDIC Call Center addressed 40,374 of these inquiries, and deposit insurance subject matter experts handled the other 50,038. In addition to telephone inquiries about deposit insurance coverage, the FDIC received 1,966 written inquiries from consumers and bankers. Of these inquiries, 99 percent received responses within two weeks, as required by corporate policy.

Center for Financial Research

The FDIC's Center for Financial Research (CFR) encourages and supports innovative research on topics that are important to the FDIC's roles as deposit insurer and bank supervisor. Research from CFR staff was accepted during the year for publication in leading banking, finance, and economics journals, and was presented at banking and finance seminars at major conferences, regulatory institutions, and universities.

In 2016, the CFR and the Journal of Financial Services Research jointly sponsored the 16th Annual Bank Research Conference. The conference

organizers received more than 550 submissions for the 20 available presentation slots. Douglas Diamond, the Merton H. Miller Distinguished Service Professor of Finance at the University of Chicago, was the keynote speaker. CFR researchers also produced a number of new working papers in 2016. In addition, the CFR is administering the Small Business Lending Survey. Analysis and results of this survey will be made available in 2017.

RECEIVERSHIP MANAGEMENT

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 deposits in an FDIC-insured institution due to a failure. When an institution closes, its chartering authority—the state for state-chartered institutions and the OCC for national banks and federal savings associations—typically appoints the FDIC receiver, responsible for resolving the failed institution.

The FDIC employs a variety of strategies and business practices to resolve a failed institution. These strategies and practices are typically associated with either the resolution process or the receivership process. Depending on the characteristics of the institution, the FDIC may utilize 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 (if any) 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 efficiently as possible. The FDIC uses two basic resolution methods: purchase and assumption transactions and deposit payoffs.

The purchase and assumption (P&A) transaction is the most commonly used resolution method. Typically, in a P&A transaction, a healthy institution purchases certain assets and assumes certain liabilities of the failed institution. However, a variety of P&A transactions can be used. Because each failing bank situation is different, P&A transactions provide flexibility to structure deals that result in obtaining the highest value for the failed institution. For each possible P&A transaction, the acquirer may acquire either all of the failing institution's deposits or only the insured portion of the deposits.

From 2008 through 2013, loss sharing was offered by the FDIC in connection with P&A transactions. In a loss-share transaction, the FDIC, as receiver, agrees to share losses on certain assets with the acquirer, absorbing a significant portion (typically 80 percent) of future losses on assets that have been designated as "shared-loss assets" for a specific period of time (e.g., five to 10 years). The economic rationale for these transactions is that keeping assets in the banking sector and resolving them over an extended period of time can produce a better net recovery than the FDIC's immediate liquidation of these assets. However, in recent years, as the markets have improved and begun to function more normally with both capital and liquidity returning to the banking industry, acquirers have become more comfortable with bidding on failing bank franchises without the protection of loss share.

The FDIC continues to monitor compliance with shared-loss agreements by validating the appropriateness of loss-share claims; reviewing acquiring institutions' efforts to maximize recoveries; ensuring consistent application of policies and procedures across both shared-loss and legacy portfolios; and confirming that the acquirers have sufficient internal controls, including adequate staff, reporting, and recordkeeping systems. At year-end 2016, there were 148 receiverships with active shared-loss agreements and $20.8 billion in total shared-loss covered assets remained.

Deposit payoffs are only executed if all bids received for a P&A transaction (if any) are more costly to the DIF than liquidation. In the instance where no acceptable bids are received, the FDIC in its corporate capacity, makes sure that the customers of the failed institution receive the full amount of their insured deposits "as soon as possible."

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, uninsured depositors, and other creditors of the receivership. In its role as receiver, the FDIC uses a wide variety of strategies and tools to manage and sell retained assets. These include, but are not limited to, asset sales, securitizations, and structured transactions.

Financial Institution Failures

During 2016, there were five institution failures compared to eight failures in 2015.

In all five transactions, the FDIC successfully contacted all known, qualified, and interested bidders to market these institutions, and also made insured funds available to all depositors within one business day of the failure. There were no losses on insured deposits, and no appropriated funds were required to pay insured deposits.

The following chart provides a comparison of failure activity over the past three years.

FAILURE ACTIVITY 2014–2016
Dollars in Billions

	2016	2015	2014
Total Institutions	5	8	18
Total Assets of Failed Institutions*	$0.3	$6.7	$2.9
Total Deposits of Failed Institutions*	$0.3	$4.9	$2.7
Estimated Loss to the DIF	$0.05	$0.9	$0.4

*Total assets and total deposits data are based on the last quarterly Call Report or Thrift Financial Report (TFR) filed by the institution prior to failure.

Asset Management and Sales

As part of its resolution process, the FDIC tries to sell as many assets-in-liquidation as possible to an assuming institution. Assets that are retained by the receivership are promptly valued and liquidated in order to maximize the return to the receivership estate. For 95 percent of 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.

Cash sales of assets for banks that failed in 2016 totaled $28.0 million in book value.

As a result of the FDIC's marketing and collection efforts, the book value of assets in inventory decreased by $1.5 billion (31 percent) in 2016.

The following chart shows the assets-in-liquidation inventory of these assets by asset type.

ASSETS-IN-LIQUIDATION INVENTORY BY ASSET TYPE
Dollars in Millions

Asset Type	12/31/16	12/31/15	12/31/14
Securities	$183	$393	$470
Consumer Loans	8	22	36
Commercial Loans	19	62	123
Real Estate Mortgages	85	173	697
Other Assets/ Judgments	268	398	957
Owned Assets	40	113	120
Net Investments in Subsidiaries	100	122	123
Structured and Securitized Assets	2,614	3,524	5,150
TOTAL	**$3,317**	**$4,807**	**$7,676**

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 its liabilities extinguished, the final distribution of any proceeds is made, and the FDIC terminates the receivership. In 2016, the number of receiverships under management decreased by 68 (15 percent) to 378. The significant increase in termination activity from 2015 was driven by the early termination of shared-loss agreements.

The following chart shows overall receivership activity for the FDIC in 2016.

RECEIVERSHIP ACTIVITY	
Active Receiverships as of 12/31/15	446
New Receiverships	5
Receiverships Terminated	73
Active Receiverships as of 12/31/16	378

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 receivership creditors, including depositors whose accounts exceeded the insurance limit. During 2016, the FDIC paid dividends of $1.0 million to depositors whose accounts exceeded the insurance limit.

Professional Liability and Financial Crimes Recoveries

The FDIC works to identify potential claims against directors, officers, securities underwriters and issuers, fidelity bond insurance carriers, appraisers, attorneys, accountants, mortgage loan brokers, title insurance companies, and other professionals who may have caused losses to an insured depository institution. Once a claim is determined to be meritorious and is expected to be cost-effective, the FDIC pursues those claims against the appropriate parties.

During 2016, the FDIC recovered $463 million from professional liability claims and settlements. The FDIC also authorized lawsuits related to one failed institutions against six individuals for director and officer liability, and authorized another lawsuit for fidelity bond, liability insurance, attorney malpractice, appraiser malpractice, and securities law violations for residential mortgage-backed securities. As of December 31, 2016, the FDIC's caseload included 28 professional liability lawsuits (down from 50 at year-end 2015), 42 residential mortgage malpractice and fraud lawsuits (down from 87), and 173 open investigations (down from 264). The FDIC seeks to complete professional liability investigations and make decisions expeditiously on whether to pursue potential professional liability claims. During 2016, it completed investigations and made decisions on 91 percent of the investigations related to failures that reached the 18-month point after the institution's failure date, exceeding its annual performance target.

As part of the sentencing process for those convicted of criminal wrongdoing against an insured institution 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 $7.1 million from criminal restitution and forfeiture orders through December 31, 2016. Also as of that date, there were 3,991 active restitution and forfeiture orders (up from 3,831 at year-end 2015). This includes 111 orders held by the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, (i.e., orders arising out of failed financial institutions that were in receivership or conservatorship by the FSLIC or the Resolution Trust Corporation).

MINORITY AND WOMEN INCLUSION

Consistent with the provisions of the Dodd-Frank Act, the FDIC continues to enhance its longstanding commitment to promote diversity and inclusion in

employment opportunities and all business areas of the agency. The Office of Minority and Women Inclusion supports the FDIC's mission through outreach efforts to ensure the fair inclusion and utilization of minority- and women-owned businesses, law firms, and investors in contracting and investment opportunities.

The FDIC relies on contractors to help meet its mission. In 2016, the FDIC awarded 287 (24 percent) contracts to minority- and women-owned businesses (MWOBs) out of a total of 1,181 issued. The FDIC awarded contracts with a combined value of $509 million in 2016, of which 18 percent ($94 million) were awarded to MWOBs, compared to 25 percent for all of 2015. The FDIC paid $112 million of its total contract payments (27 percent) to MWOBs, under 461 active contracts. Referrals to minority- and women-owned law firms (MWOLFs) accounted for 44 percent of all legal referrals in 2016. Total payments to MWOLFs were $11 million in 2016 which is 14 percent of all payments to outside counsel, compared to 12 percent for all of 2015.

In 2016, the FDIC participated in five minority bar association conferences and two stakeholder events in support of maximizing the participation of MWOLFs in FDIC legal contracting. Pursuant to Section 342 of the Dodd-Frank Act, which requires an assessment of legal contractors' internal workforce diversity practices, the Legal Division refined and continued to implement a system of compliance reviews of the top ten billing law firms (both majority-owned and MWOLFs). In addition, the FDIC advised the National Association of Credit Unions, the Federal Home Loan Bank Board, and State Farm Life Insurance Company on developing MWOLF outreach programs that mirror the FDIC's.

In 2016, the FDIC participated in a total of 38 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting MWOBs and MWOLFs, these efforts also targeted veteran-owned and small, disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (a principal database for vendors interested in doing business with the FDIC).

During 2016, the FDIC's Office of Minority and Women Inclusion (OMWI) and the Division of Resolutions and Receiverships (DRR) collaborated to present three FDIC-sponsored asset purchaser workshops that were marketed extensively to minority- and women-owned investors and companies interested in learning about DRR's sales processes. DRR speakers with strong backgrounds in their respective programs provided details on the various tools used by DRR to market assets and presented information to attendees on how to participate in the transactions and bid on assets offered for sale.

The asset purchaser workshops were held in San Juan, PR, Memphis, TN, and Jackson, TN. The events were attended by 76 prospective investors and included a special focus on owned real estate (ORE) investment opportunities to support a DRR auction of real estate properties scheduled after the outreach workshop. A segment regarding contracting services was also part of the event. Information regarding the Minority and Women Outreach Program can be found on the FDIC's website at www.fdic.gov/mwop.

In addition, OMWI worked closely with the OMWIs of the OCC, FRB, CFPB, NCUA, and SEC to implement further Section 342(b)(2)(C) of the Dodd-Frank Act, which requires the agencies to develop standards to assess the diversity policies and practices of the entities they regulate. After finalizing of the Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies, the OMWI agencies received approval from the Office of Management and Budget (OMB) on February 18, 2016, as required by the Paperwork Reduction

Act of 1995, to collect information from their regulated entities. Regulated entities were notified of the collection approval through the *Federal Register* on July 13, 2016, and they may now submit self-assessments of their diversity policies and practices to the OMWI Director of their primary federal financial regulator.

To facilitate uniform and systematic collection of information, OMWI developed and sought public comment on a diversity self-assessment template for regulated entities to use as they voluntarily assess their diversity policies and practices. When the comment period closed, OMWI requested approval to use the template from OMB. In the meantime, some regulated entities began submitting voluntary self-assessments to the FDIC OMWI Director in October 2016. The FDIC plans to use self-assessment information provided by its regulated entities to monitor progress and trends in the financial services industry, and to identify and publicize promising diversity policies and practices.

INTERNATIONAL OUTREACH

In 2016, the FDIC continued to play a leading role in supporting and promoting the global development of effective deposit insurance, bank supervision, and resolution regimes as integral components of the financial safety net. The FDIC worked with several standard-setting, regulatory, supervisory, and multi-lateral organizations, such as the Association of Supervisors of Banks of the Americas (ASBA), BCBS, Financial Services Volunteer Corps (FSVC), Financial Stability Board (FSB), International Association of Deposit Insurers (IADI), International Monetary Fund (IMF), and World Bank. FDIC staff also: facilitated training for several hundred participants from counterpart agencies around the world; participated in technical assistance missions to several countries; and conducted secondment programs to further the international community's understanding and implementation of best practices in deposit insurance, bank supervision, and failure resolutions.

International Association of Deposit Insurers

The IADI contributes to global financial stability by promoting international cooperation in the field of deposit insurance; providing guidance for establishing new, and enhancing existing, deposit insurance systems; and encouraging wide international contact among deposit insurers and other interested parties. IADI is now recognized as the standard-setting body for deposit insurance by major international financial institutions, including the FSB, BCBS, IMF, World Bank, and the European Community. Since its founding in 2002, IADI has grown from 26 members to 83 deposit insurers from nearly 80 jurisdictions. FDIC Chairman Martin J. Gruenberg served as the President of IADI and Chair of its Executive Council from November 2007 to October 2012. In October 2015, FDIC Vice Chairman Thomas M. Hoenig was elected to a two-year term to serve as President of IADI and Chair of its Executive Council.

IADI and the BCBS jointly issued the *Core Principles for Effective Deposit Insurance Systems* in 2009 and completed the accompanying *Compliance Assessment Methodology for the Core Principles* in 2010 (together, the *Core Principles*). The FSB later included the *Core Principles* as part of its Compendium of Key Standards for Sound Financial Systems. During the fall of 2014, IADI's Executive Council and the FSB approved a revised set of *Core Principles* that replaced the original (2009) version.

Subsequently, an IADI drafting team, led by FDIC staff, revised the *Handbook for the Assessment of Compliance with the Core Principles*. The handbook, which was approved by IADI in early 2016, is designed as a "how-to" guide, providing additional guidance on assessing a jurisdiction's compliance with the *Core Principles* and includes lessons learned from collaboration with IMF and World Bank Financial Sector Assessment Program (FSAP) review teams, IADI Core Principles Regional Workshops, and IADI Self-Assessment Technical Assistance Program (SATAP) reviews.

The IMF and World Bank use the *Core Principles* and handbook in the context of the FSAP reviews, to assess the effectiveness of jurisdictions' deposit insurance systems and practices. This represents an important milestone in the growing global acceptance of the role of effective deposit insurance systems in maintaining financial stability. IADI, under FDIC leadership of the Training and Conference Committee, has trained more than 300 staff members from more than 74 jurisdictions in conducting self-assessments for compliance with the *Core Principles*. FDIC executives and subject-matter experts partnered with IADI to develop and deliver several international programs in 2016. In April 2016, for example, Vice Chairman Thomas M. Hoenig joined global bank resolution and deposit insurance leaders at a conference jointly hosted by IADI's North American, Latin American, and Caribbean Regional Committees entitled the "First Americas Deposit Insurance Forum." The conference explored key issues related to safety net relationships and resolution. In addition, as IADI President and Chair of its Executive Council, the Vice Chairman led IADI's 15th Annual General Meeting and Conference in October 2016, in Seoul, Korea. In supporting the Vice Chairman in this role, FDIC staff provides strategic guidance and leadership to multiple IADI standing committees, subcommittees, and working groups.

Association of Supervisors of Banks of the Americas

The FDIC has been a member of ASBA since its founding in 1999 and supports ASBA's mission of promoting sound bank supervision and regulation throughout the Western Hemisphere. ASBA represents bank supervisors from 36 jurisdictions. The FDIC strives to lead the development of strong supervisory policies in this hemisphere through actively engaging with the ASBA Board, chairing ASBA's Training and Technical Committee, and providing leadership in many of the Association's research and guidance working groups.

In 2016, senior FDIC staff chaired the ASBA Training and Technical Committee, which is responsible for designing and implementing ASBA's training strategy that advances the adoption of sound bank supervision policies and practices among members. ASBA's training program reaches more than 600 members annually, with FDIC support, both as chair and training provider.

Basel Committee on Banking Supervision

The FDIC supported the development of sound regulatory policy through effective participation in the BCBS and its relevant groups, subgroups, and task forces. Major work areas for the BCBS include those conducted by the:

- Policy Development Group (PDG) and its:
  - Coherence and Calibration Task Force
  - Working Group on Capital
  - Trading Book Group
  - Leverage Ratio Group
  - Working Group on Liquidity
  - Risk Measurement Group
  - Ratings and Securitization Work Stream
  - Task Force on Standardized Approaches
  - Task Force on Interest Rate Risk in the Banking Book
  - Task Force on Scope of Regulatory Consolidation
  - Research Task Force
  - Quantitative Impact Study Working Group
- Supervision and Implementation Group and its:
  - Working Group on Operational Risk
  - Standards Implementation Group – Banking Book
  - Standards Implementation Group – Trading Book
  - Task Force on Supervisory Colleges
  - Task Force on Pillar 2
- Macroprudential Supervision Group
- Accounting Experts Group and its:
  - Audit Subgroup

Participants in the FDIC 101 class held in October 2016.

- Anti-Money Laundering Expert Group
- Task Force on Simplicity and Comparability
- Task Force on Sovereign Exposures
- Working Group on Margining Requirements
- Over-the-Counter (OTC) Derivatives Regulators' Forum
- OTC Derivatives Supervisor Group
- OTC Derivatives Assessment Team
- Joint Central Counterparties Task Force
- Task Force on Securitization Markets

International Derivatives Work

For many years, the FDIC has been actively engaged, in cooperation with market, prudential, and financial stability authorities, in policy development and regulatory activities in the derivatives markets. The FDIC also participates in the work of Derivatives Regulators' Forum and the OTC Derivatives Supervisors Group.

International Capacity Building

The FDIC's international efforts supporting the development of effective deposit insurance systems, bank supervisory practices, and bank resolution strategies continued to grow in 2016. FDIC staff contributed to international capacity building by providing study tours, secondments, and technical assistance to foreign counterparts. These engagements resulted in an enhanced dialogue between the FDIC and foreign counterparts in significant areas such as bank supervision and regulatory developments post crisis, the legal framework and operations for bank resolutions, and optimal funding strategies for deposit insurers.

FDIC management and staff hosted study tours for 267 individuals representing 28 jurisdictions during the year. In addition, the FDIC's Corporate University provided training in bank supervision and information technology to 78 foreign delegates from 16 jurisdictions. In 2015, the FDIC launched a new training program for foreign regulatory officials, *FDIC 101: An Introduction to Deposit Insurance, Bank Supervision, and Resolutions* (FDIC 101), designed to provide a structured and comprehensive view of how the FDIC executes its key business functions. The FDIC held two sessions of FDIC 101 in 2016, which were attended by 62 students representing 31 jurisdictions and the World Bank.

The FDIC contributes to global and domestic bank supervision, deposit insurance, and resolution initiatives by providing staff to support long-term projects and technical assistance missions led by the IMF, U.S. Treasury Department, FSVC, and World Bank. The FDIC continued longstanding programs for staffing details with the Treasury Department's Office of International Banking and Securities Markets and secondments with FSVC to assist other

countries with financial regulation development. While at Treasury, FDIC detailees lend expertise in supervision, resolutions, deposit insurance, policy-making, and regulation for international banking. FSVC programs are often funded by other U.S. government offices and included project work on anti-money laundering during the year.

The FDIC also completed short-term technical assistance missions to Greece and Kosovo to provide consultative assistance. The FDIC partnered with the World Bank to provide technical assistance to the Indonesia Deposit Insurance Corporation and with the Association of Supervisors of Banks of the Americas to provide training in deposit insurance and resolution systems to ASBA member countries.

The FDIC expands and strengthens international engagement by providing secondment opportunities to foreign officials to engage in long-term consultation with FDIC subject matter experts in areas related to bank supervision, deposit insurance, and resolutions. In 2016, two officials from the Deposit Insurance Corporation of Japan and the Korea Deposit Insurance Corporation concluded their secondments to the FDIC, and two new secondees from these agencies joined the FDIC, each for one-year assignments. Singapore also began a secondment with the FDIC in 2016.

Key International Engagements

The FDIC continued to advance policy making priorities and strengthen its relationships with key jurisdictions worldwide through its participation in a number of interagency dialogues in 2016. Jurisdictions participating in these dialogues included China, India, and member countries of the North American Free Trade Agreement (NAFTA).

EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES

The FDIC recognizes that it must effectively manage its human, financial, and technological resources to carry out its mission successfully 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. Following are the FDIC's major accomplishments in improving operational efficiency and effectiveness during 2016.

Human Capital Management

The FDIC's human capital management programs are designed to attract, train and develop, reward, and retain a highly skilled, diverse, and results-oriented workforce. In 2016, the FDIC workforce planning initiatives emphasized the need to plan for employees to fulfill current and future capabilities and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities and prepared to fulfill its mission in the years ahead.

Strategic Workforce Planning and Readiness

During 2016, the FDIC continued to develop and implement the Workforce Development Initiative, an integrated strategy to address workforce challenges and opportunities. The effort is focused on four broad objectives:

1. attract and develop talented employees across the agency;
2. enhance the capabilities of employees through training and diverse work experiences;
3. encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and
4. build on and strengthen the FDIC's operations to support these efforts.

In 2016, the FDIC continued to develop the infrastructure, governance, programs, and processes to help meet its long-term workforce and leadership needs. The FDIC is committed to building and

FDIC's Workplace Development Initiative Ambassadors meet at headquarters, joining a nationwide outreach effort.

expanding its talent pipeline to ensure succession challenges are met. To that end, the agency expanded its succession planning review process in 2016 to include all managers. The effort began with a survey to assess the level of aspiration among current managers. More than two-thirds of current managers reported that they were interested in seeking higher-level positions at the FDIC, demonstrating their ongoing interest in leadership development. Senior FDIC leaders from across the agency then convened to discuss leadership needs and strategies to address them, including efforts to develop the pipeline of the FDIC's aspiring leadership pool.

As a result of the succession planning review process, FDIC managers received recommendations to participate in diverse programs to enhance their leadership capabilities, including the Leadership Mentoring Program, external educational opportunities through Harvard's Kennedy School of Government, executive coaching, and enriched management training.

The FDIC also continued to focus on ensuring the availability of a workforce equipped to meet today's responsibilities, while simultaneously preparing for future capability needs. The FDIC furthered development of a Career Paths initiative, targeted at non-supervisory employees at all levels, to promote the acquisition of cross-organizational skills and knowledge. Additional support is provided to employees seeking professional development opportunities through expanded career management services.

The FDIC's strategic workforce planning initiatives require a long-term and sustained focus to identify future workforce and leadership needs, assess current capabilities, support aspiration to management and leadership roles, and develop and source the talent to meet emerging workforce needs. Through further development of its human capital strategies, the FDIC will work to ensure that the future FDIC workforce is as prepared, capable, and dedicated as the one it has today.

Corporate Employee Program

The FDIC's Corporate Employee Program (CEP) sponsors the development of newly hired Financial Institution Specialists (FISs) in entry-level positions. The CEP encompasses major FDIC divisions where FISs are trained to become part of a highly effective workforce. During the first-year rotation within the program, FISs gain experience and knowledge in the core business of the FDIC, including the Division of Depositor and Consumer Protection (DCP), the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships (DRR), and the Division of Insurance (DIR). At the conclusion of the rotation period, FISs are placed within RMS, DCP, or DRR, where they continue

their career path to become commissioned examiners or resolutions and receiverships specialists.

The CEP is an essential part of the FDIC's ability to provide continual cross-divisional staff mobility. Since the CEP's inception in 2005, 1,600 individuals have joined the FDIC through this multi-discipline program, and more than 770 have become commissioned examiners after successfully completing the program's requirements.

The FDIC continues to sponsor the Financial Management Scholars Program (FMSP), an additional hiring source for the CEP. Participants in the FMSP complete an internship with the FDIC the summer following the conclusion of their junior year in college. The program serves as an additional venue to recruit talent.

Employee Learning and Development

The FDIC is committed to the learning and development of its employees throughout their careers to enrich technical proficiency and leadership capacity, supporting career progression and succession management. In 2016, the FDIC focused on developing and implementing comprehensive curricula for its business lines to prepare employees to meet new challenges. Such training, which includes both classroom and online instruction for maximum flexibility, is a critical part of workforce and succession planning as more experienced employees become eligible for retirement.

The FDIC also offers a comprehensive leadership development program that combines core courses, electives, and other enrichment opportunities to develop employees at all levels. From new employees to new executives, the FDIC provides employees with targeted leadership development opportunities that align with key leadership competencies. In addition to a broad array of internally developed and administered courses, the FDIC also provides its employees with funds and/or time to participate in external training to support their career development.

Corporate Risk Management

During 2016, the Office of Corporate Risk Management (OCRM) worked with divisions and offices to advance common agency-wide processes for identifying, managing, and mitigating risks to the FDIC. OCRM assisted and supported the Enterprise Risk Committee, Executive Management Committee, External Risk Forum, and Management Risk Roundtable in reviewing risks across the agency. OCRM monitors material risks and mitigation activities, including the following:

- Risks posed by national and international economic, regulatory, and technological trends and developments that could potentially affect consumers, depositors, and the safety and soundness of the financial services industry.
- Risks to the agency's ability to conduct its mission essential functions under all threats and conditions, as described in its Continuity of Operations Plan and Business Continuity Plan.
- Risks to the financial system posed by the extended current low level of interest rates.
- Risks posed by the analytical models used by the FDIC in identifying and managing risk. During 2016, OCRM and FDIC model owners developed tailored validation programs for all corporate models and began a series of model validations to assure soundness and mitigate model risk.
- Risks associated with governance and development of large-scale IT projects.
- Risks posed to the agency and to the financial services industry by concerted attempts to penetrate, compromise, and disrupt the information systems that are essential to their effective operation.

Employee Engagement

The FDIC continually evaluates its human capital programs and strategies to ensure that the agency remains an employer of choice and that all of its

Photo credit: Audrey Lew Photography

Director of the Division of Administration Arleas Upton Kea and Deputy to the Chairman and Chief Operating Officer Barbara A. Ryan accept the award for Best Places to Work in the Federal Government for mid-sized federal agencies from Max Stier, President and CEO of Partnership for Public Service.

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. In December 2016, the FDIC received an award from the Partnership for Public Service for being ranked number one among mid-sized federal agencies on the *Best Places to Work in the Federal Government*® list. Effective leadership is the primary factor driving employee satisfaction and commitment in the federal workplace, according to a report by the Partnership for Public Service.

The FDIC's Workplace Excellence (WE) program plays an important role in helping the FDIC engage employees. The WE program is composed of a national-level WE Steering Committee and Division/Office WE Councils that are focused on maintaining, enhancing, and institutionalizing a positive workplace environment throughout the agency. In addition to the WE program, the FDIC-National Treasury Employees Union 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 engagement, and improves employee empowerment.

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PERFORMANCE RESULTS SUMMARY

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SUMMARY OF 2016 PERFORMANCE RESULTS BY PROGRAM

The FDIC successfully achieved all of the 37 annual performance targets established in its 2016 Annual Performance Plan. There were no instances in which 2016 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 (DIF) at the March and September meetings. ♦ Briefed the FDIC Board of Directors in March and September on progress in meeting the goals of the Restoration Plan. ♦ Published a final rule, which was adopted by the FDIC Board of Directors, to increase the reserve ratio of the DIF from 1.15 percent to 1.35 percent by September 30, 2020, by imposing a surcharge on insured depository institutions with assets of $10 billion or more. ♦ Published a revenue-neutral final rule, which was adopted by the FDIC Board of Directors, to improve the risk-based deposit insurance assessment system applicable to established small banks to more accurately reflect risk. ♦ Completed reviews of the recent accuracy of the contingent loss reserves. ♦ 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 DIF. ♦ 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 691,375 user sessions in 2016.

Program Area	Performance Results
Supervision	♦ A total of 395 institutions were assigned a composite CAMELS rating of 2 and had Matters Requiring Board Attention (MRBAs) identified in the examination reports. To ensure that MRBAs are being appropriately addressed at these institutions, the FDIC timely reviews progress reports and follows up with bank management as needed. More specifically, within six months of issuing the examination reports, the FDIC conducted appropriate follow up and review of these MRBAs at 381 (96 percent) of these institutions. Follow up and review of the MRBAs at the remaining 14 institutions (4 percent) occurred more than six months after issuing the examination reports primarily due to delayed responses from some banks as well as the need for additional information in order to complete a full review. ♦ Participated in the examinations of selected financial institutions, for which the FDIC is not the primary federal regulator, to assess risk to the DIF. ♦ Implemented the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the expanded availability of SAFE accounts and the responsible use of technology, to expand banking services to the underbanked. ♦ Published an edition of *Supervisory Insights* that included information on strategic planning in an evolving earnings environment, new requirements related to investments in securitizations as a result of the Dodd-Frank Act, and recently released regulations and supervisory guidance.
Receivership Management	♦ 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. ♦ Continued to enhance the FDIC's ability to administer deposit insurance claims at large insured deposit institutions. ♦ Evaluated within 120 days all termination offers from Limited Liability Corporation (LLC) managing members to determine whether to pursue dissolution of those LLCs that are determined to be in the best overall economic interest of the participating receiverships.

PERFORMANCE RESULTS BY PROGRAM AND STRATEGIC GOAL

2016 INSURANCE PROGRAM RESULTS				
Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.				
#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Respond promptly to all insured financial institution closings and related emerging issues.	Number of business days after an institution failure that depositors have access to insured funds.	Depositors have access to insured funds within one business day if the failure occurs on a Friday.	ACHIEVED. SEE PG. 52.
			Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.	ACHIEVED. SEE PG. 52.
		Insured depositor losses resulting from a financial institution failure.	Depositors do not incur any losses on insured deposits.	ACHIEVED. SEE PG. 52.
			No appropriated funds are required to pay insured depositors.	ACHIEVED. SEE PG. 52.
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.	Scope and timeliness of information dissemination on identified or potential issues and risks.	Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED. SEE PG. 65.
			Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	ACHIEVED. SEE PG. 65.
3	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, 2016, and December 31, 2016.	ACHIEVED. SEE PG. 65.
			Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED. SEE PG. 65.
		Demonstrated progress in achieving the goals of the Restoration Plan.	Provide progress reports to the FDIC Board of Directors by June 30, 2016, and December 31, 2016.	ACHIEVED. SEE PG. 65.

2016 INSURANCE PROGRAM RESULTS (continued)

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

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
4	Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.	Activities to expand and strengthen engagement with foreign jurisdictions and advance the FDIC's global leadership and participation.	Foster strong relationships with international banking regulators, deposit insurers, and other relevant authorities by engaging with strategically important jurisdictions and organizations on key international financial safety net issues.	**ACHIEVED. SEE PGS. 55-58.**
			Continue to play leadership roles within key international organizations and associations and promote sound deposit insurance, bank supervision, and resolution practices.	**ACHIEVED. SEE PGS. 56-58.**
		Provision of technical assistance to foreign counterparts.	Promote continued enhancement of international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.	**ACHIEVED. SEE PGS. 55-56.**
			Develop and foster closer relationships with bank supervisors in the reviews through the provision of technical assistance and by leading governance efforts in the Association of Supervisors of Banks of the Americas (ASBA).	**ACHIEVED. SEE PGS. 56-57.**
5	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. 52.**
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. 50.**
		Initiatives to increase public awareness of deposit insurance coverage changes.	Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.	**ACHIEVED. SEE PG. 50.**

2016 SUPERVISION 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. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.	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. 24.
		Follow-up actions on identified problems.	For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies "Matters Requiring Board Attention" (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED. SEE PG. 66.
2	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. 24.
3	More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.	U.S. implementation of internationally agreed regulatory standards.	Publish in 2016, a Notice of (proposed) Rulemaking on the Basel III Net Stable Funding Ratio.	ACHIEVED. SEE PG. 21.
4	Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry.	Enhancements to IT supervision program.	Establish a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service Providers (TSPs).	ACHIEVED. SEE PG. 27.
			Complete by June 30, 2016, examiner training and implement by September 30, 2016, the new IT examination work program to enhance focus on information security, cybersecurity, and business continuity.	ACHIEVED. SEE PG. 27.

2016 SUPERVISION PROGRAM RESULTS (continued)

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

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.	Percentage of examinations conducted in accordance with the time frames prescribed by FDIC policy.	Conduct all required examinations within the time frames established by FDIC policy.	**ACHIEVED. SEE PGS. 25-26.**
		Implementation of corrective programs.	Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.	**ACHIEVED. SEE PGS. 25-26.**
2	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. 49.**
3	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.	Completion of planned initiatives.	Publish the results of the 2015 *FDIC National Survey of Unbanked and Underbanked Households.*	**ACHIEVED. SEE PGS. 45-46.**
			Promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.	**ACHIEVED. SEE PG. 48.**
			Complete and present to the Advisory Committee on Economic Inclusions (ComE-IN) a report on the pilot Youth Savings Program (YSP) conducted jointly with the CFPB.	**ACHIEVED. SEE PG. 47.**

2016 SUPERVISION PROGRAM RESULTS (continued)

Strategic Goal: Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	Identify and address risks in large, complex financial institutions, including those designated as systemically important.	Completion of statutory and regulatory requirements under Title I of the DFA and Section 360.10 of the FDIC Rules and Regulations.	In collaboration with the FRB continue to review all resolution plans subject to the requirements of Section 165(d) of the DFA to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments in those plans to resolution under the Bankruptcy Code.	**ACHIEVED. SEE PGS. 38-39.**
			Continue to review all resolution plans subject to the requirements of Section 360.10 of the IDI rule to ensure their conformance to statutory and other regulatory time frames. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.	**ACHIEVED. SEE PG. 40.**
		Risk monitoring of large, complex financial institutions, bank holding companies and designated nonbanking firms.	Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	**ACHIEVED. SEE PG. 39.**

2016 RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: Resolutions are orderly and receiverships are managed effectively.

#	ANNUAL PERFORMANCE GOAL	INDICATOR	TARGET	RESULTS
1	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 failure date (for structured sales).	**ACHIEVED** **SEE PG. 52.**
2	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. 66.**
3	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. 53.**
4	Ensure the FDIC's operational readiness to administer the resolution of large, financial institutions, including those designated as systemically important.	Establishment of resolution plans and strategies.	Refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions including those designated as systemically important.	**ACHIEVED.** **SEE PGS. 40-41.**
		Meetings of the Systemic Resolution Advisory Committee (SRAC).	Hold a meeting of the Systemic Resolution Advisory Committee in early 2016 to obtain feedback on resolving SIFIs.	**ACHIEVED.** **SEE PGS. 42-43.**
		Enhanced cross-border coordination and cooperation in resolution planning.	Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.	**ACHIEVED.** **SEE PG. 42.**

PRIOR YEARS' PERFORMANCE RESULTS

Refer to the respective full Annual Report of prior years, located on the FDIC's website for more information on performance results for those years. 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	**2015**	**2014**	**2013**
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.
♦ Depositors do not incur any losses on insured deposits.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ No appropriated funds are required to pay insured depositors.	ACHIEVED.	ACHIEVED.	ACHIEVED.
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.			
♦ Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. 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.			
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.	ACHIEVED.		
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.		ACHIEVED.	
♦ Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2013, and December 31, 2013.			ACHIEVED.
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2015, and December 31, 2015.	ACHIEVED.		
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2014, and December 31, 2014.		ACHIEVED.	
♦ Provide progress reports to the FDIC Board of Directors by June 30, 2013, and December 31, 2013.			ACHIEVED.
♦ Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.	ACHIEVED.	ACHIEVED.	ACHIEVED.

INSURANCE PROGRAM RESULTS (continued)			
Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.			
Annual Performance Goals and Targets	**2015**	**2014**	**2013**
4. Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.			
♦ Maintain open dialogue with counterparts in strategically important jurisdictions, international financial organizations and institutions, and partner U.S. agencies; and actively participate in bilateral interagency regulatory dialogues.	**ACHIEVED.**		
♦ Maintain a leadership position in the International Association of Deposit Insurers (IADI) by conducting workshops and performing assessments of deposit insurance systems based on the methodology for assessment of compliance with the IADI *Core Principles for Effective Deposit Insurance Systems (Core Principles*), developing and conducting training on priority topics identified by IADI members, and actively participating in IADI's Executive Council and Standing Committees.	**ACHIEVED.**	**ACHIEVED.**	
♦ Maintain open dialogue with the Association of Supervisors of Banks of the Americas (ASBA) to develop and foster relationships with bank supervisors in the region by providing assistance when necessary.	**ACHIEVED.**		
♦ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions and contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group (ReSG).	**ACHIEVED.**		
♦ Support visits, study tours, secondments, and longer-term technical assistance and training programs for representatives for foreign jurisdictions to strengthen their deposit insurance organizations, central banks, bank supervisors, and resolution authorities.	**ACHIEVED.**		
♦ Maintain open dialogue with counterparts in strategically important countries as well as international financial institutions and partner U.S. agencies.		**ACHIEVED.**	
♦ Engage with authorities responsible for resolutions and resolutions planning in priority foreign jurisdictions.		**ACHIEVED.**	
♦ Contribute to the resolution-related agenda of the Financial Stability Board (FSB) through active participation in the FSB's Resolution Steering Group and its working groups.		**ACHIEVED.**	
♦ Actively participate in bilateral interagency regulatory dialogues.		**ACHIEVED.**	
♦ Support visits, study tours, and longer-term technical assistance and training programs for foreign jurisdictions to strengthen their deposit insurance organizations, central banks, bank supervisors, and resolution authorities.		**ACHIEVED.**	

INSURANCE PROGRAM RESULTS (continued)			
Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.			
Annual Performance Goals and Targets	**2015**	**2014**	**2013**
5. Expand and strengthen the FDIC's participation and leadership role in supporting robust international deposit insurance and banking systems.			
♦ Maintain open dialogue with counterparts in strategically important countries as well as international financial institutions and partner U.S. agencies.			**ACHIEVED.**
♦ Conduct workshops and assessments of deposit insurance systems based on the methodology for assessment of compliance with the Basel Committee on Bank Supervision (BCBS) and the International Association of Depositor Insurers (IADI) *Core Principles for Effective Deposit Insurance Systems.*			**ACHIEVED.**
♦ Support visits, study tours, and longer-term technical assistance and training programs for foreign jurisdictions to strengthen their deposit insurance organizations, central banks, and bank supervisors.			**ACHIEVED.**
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.			
♦ Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.	**ACHIEVED.**	**ACHIEVED.**	**ACHIEVED.**
♦ Conduct at least 4 telephone or in-person seminars for bankers on deposit insurance coverage.	**ACHIEVED.**		
♦ Complete and post on the FDIC website videos for bankers and consumers on deposit insurance coverage.	**ACHIEVED.**		
♦ Conduct at least 12 telephone or in-person seminars for bankers on deposit insurance coverage.		**ACHIEVED.**	
♦ Conduct at least 15 telephone or in-person seminars for bankers on deposit insurance coverage.			**ACHIEVED.**

SUPERVISION PROGRAM RESULTS

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

Annual Performance Goals and Targets	2015	2014	2013
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. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected.			
♦ Conduct all required risk management examinations within the time frames prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.
♦ For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies "Matters Requiring Board Attention" (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.	ACHIEVED.		
♦ Implement formal or informal enforcement actions within 60 days for at least 90 percent of all institutions that are newly downgraded to a composite Uniform Financial Institutions Rating of 3, 4, or 5.		SUBSTANTIALLY ACHIEVED.	SUBSTANTIALLY ACHIEVED.[1]
2. Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.			
♦ Conduct all Bank Secrecy Act examinations within the time frames prescribed by statute and FDIC policy.	ACHIEVED.	ACHIEVED.	ACHIEVED.
3. More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.			
♦ Publish by December 31, 2015, an interagency Notice of Proposed Rulemaking on implementation of the Basel III Net Stable Funding Ratio.	NOT ACHIEVED.		
♦ Finalize Basel III reporting instructions in time to ensure that institutions that are using the advanced approaches can implement Basel III in the first quarter of 2014 and that all IDIs can implement the standardized approach in the first quarter of 2015.		ACHIEVED.	
♦ Publish a final Basel Liquidity Coverage Rule, in collaboration with other regulators by December 31, 2014.		ACHIEVED.	
♦ Publish a final rule implementing the Basel III capital accord in collaboration with other regulators, by December 31, 2014.		ACHIEVED.	
♦ Finalize, in collaboration with other regulators, an enhanced U.S. supplementary leverage ratio standard by December 31, 2014.		ACHIEVED.	

[1] Erroneously reported as "Achieved" in the 2013 Annual Report.

SUPERVISION PROGRAM RESULTS (continued)

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

Annual Performance Goals and Targets	2015	2014	2013
♦ Complete by June 30, 2013, the review of comments and impact analysis of June 2012 proposed interagency changes to regulatory capital rules.			ACHIEVED.
♦ Issue by December 31, 2013, final regulatory capital rules.			ACHIEVED.
4. Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry.			
♦ Enhance the technical expertise of the IT supervisory workforce.	ACHIEVED.		
♦ Working with FFIEC counterparts, update and strengthen IT guidance to the industry on cybersecurity preparedness.	ACHIEVED.		
♦ Working with the FFIEC counterparts, update and strengthen IT examination work programs for institutions and technology service providers (TSPs) to evaluate cybersecurity preparedness and cyber resiliency.	ACHIEVED.		
♦ Improve information sharing on identified technology risks among the IT examination workforces of FFIEC member agencies.	ACHIEVED.		
5. Identify and address risks in financial institutions designated as systemically important.			
♦ Conduct ongoing risk analysis and monitoring of SIFIs to understand their structure, business activities and risk profiles, and their resolution and recovery capabilities.		ACHIEVED.	
♦ Complete, in collaboration with the Federal Reserve Board and in accordance with statutory and regulatory time frames, all required actions associated with the review of resolution plans submitted by financial companies subject to the requirements of Section 165(d) of the Dodd-Frank Act.		ACHIEVED.	
♦ Hold at least one meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.		ACHIEVED.	
♦ Complete, in collaboration with the Federal Reserve Board and in accordance with statutory and regulatory time frames, all required actions associated with the review of Section 165(d) resolution plans submitted under Title 1 of DFA.			ACHIEVED.
♦ Hold at least one meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving systemically important financial companies.			ACHIEVED.
6. Implement strategies to promote enhanced cybersecurity within the banking industry.			
♦ In coordination with the FFIEC, implement recommendations to enhance the FDIC's supervision of the IT risks at insured depository institutions and their technology service providers.		ACHIEVED.	

SUPERVISION PROGRAM RESULTS (continued)

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

Annual Performance Goals and Targets	2015	2014	2013
1. Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.			
♦ Conduct all required examinations within the time frames established by FDIC policy.	**ACHIEVED.**		
♦ Conduct 100 percent of required examinations within the time frames established by FDIC policy.		**SUBSTANTIALLY ACHIEVED.**	**ACHIEVED.**
♦ Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.	**ACHIEVED.**		**ACHIEVED.**
♦ Conduct visits and/or follow-up examinations in accordance with established FDIC policies and ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.		**ACHIEVED.**	
2. Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.			
♦ 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 acknowledgment within two weeks.	**ACHIEVED.**	**ACHIEVED.**	**ACHIEVED.**
3. Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.			
♦ Revise, test, and administer the 2015 *FDIC National Survey of Unbanked and Underbanked Households.*	**ACHIEVED.**		
♦ Support the Advisory Committee on Economic Inclusion in expanding the availability and awareness of low-cost transaction accounts, consistent with the FDIC's SAFE account template.	**ACHIEVED.**		
♦ In partnership with the Consumer Financial Protection Bureau, enhance financial capability among school-age children through (1) development and delivery of tailored financial education materials; (2) resources and outreach targeted to youth, parents, and teachers; and (3) implementation of a pilot youth savings program.	**ACHIEVED.**		
♦ Publish the results of the 2013 FDIC *National Survey of Unbanked and Underbanked Households* (conducted jointly with the U.S. Census Bureau).		**ACHIEVED.**	

SUPERVISION PROGRAM RESULTS (continued)

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

Annual Performance Goals and Targets	2015	2014	2013
♦ Implement the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the expanded availability of Safe accounts and the responsible use of technology, to expand banking services to the underbanked.		**ACHIEVED.**	
♦ Facilitate opportunities for banks and community stakeholders to address issues concerning access to financial services, community development, and financial education.		**ACHIEVED.**	
♦ Conduct the third biennial FDIC *National Survey of Unbanked and Underbanked Households* (conducted jointly with the U.S. Census Bureau).			**ACHIEVED.**
♦ Initiate work on the Survey of Banks' Efforts to Serve the Unbanked and Underbanked.			**DEFERRED.**
♦ Implement the strategy outlined in the work plan approved by the Advisory Committee on Economic Inclusion to support the responsible use of technology to expand banking services to the unbanked.			**ACHIEVED.**
Strategic Goal: Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.			
1. Identify and address risks in large and complex financial institutions designated as systemically important.			
♦ Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.	**ACHIEVED.**		
♦ Complete, in collaboration with the FRB and in accordance with statutory and regulatory time frames, a review of resolution plans submitted by individual financial companies subject to the requirements of section 165 (d) of DFA and Part 360.10 of the FDIC Rules and Regulations.	**ACHIEVED.**		

RECEIVERSHIP MANAGEMENT PROGRAM RESULTS

Strategic Goal: Resolutions are orderly and receiverships are managed effectively.

Annual Performance Goals and Targets	2015	2014	2013
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.			
♦ 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.	ACHIEVED.
3. Manage the receivership estate and its subsidiaries toward an orderly termination.			
♦ 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.	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, make a decision to close or pursue professional liability claims within 18 months of the failure date of an insured depository institution.	ACHIEVED.	ACHIEVED.	ACHIEVED.
5. Ensure the FDIC's operational readiness to resolve a large, complex financial institution using the orderly liquidation authority in Title II of the DFA			
♦ Update and refine firm-specific resolutions plans and strategies and develop operational procedures for the administration of a Title II receivership.	ACHIEVED.		
♦ Prepare for an early 2016 meeting of the Systemic Resolution Advisory Committee to obtain feedback on resolving SIFIs.	ACHIEVED.		
♦ Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.	ACHIEVED.		

III.

FINANCIAL HIGHLIGHTS

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In its role as deposit insurer of financial institutions, the FDIC promotes the safety and soundness of IDIs. The following financial highlights address the performance of the Deposit Insurance Fund.

DEPOSIT INSURANCE FUND PERFORMANCE

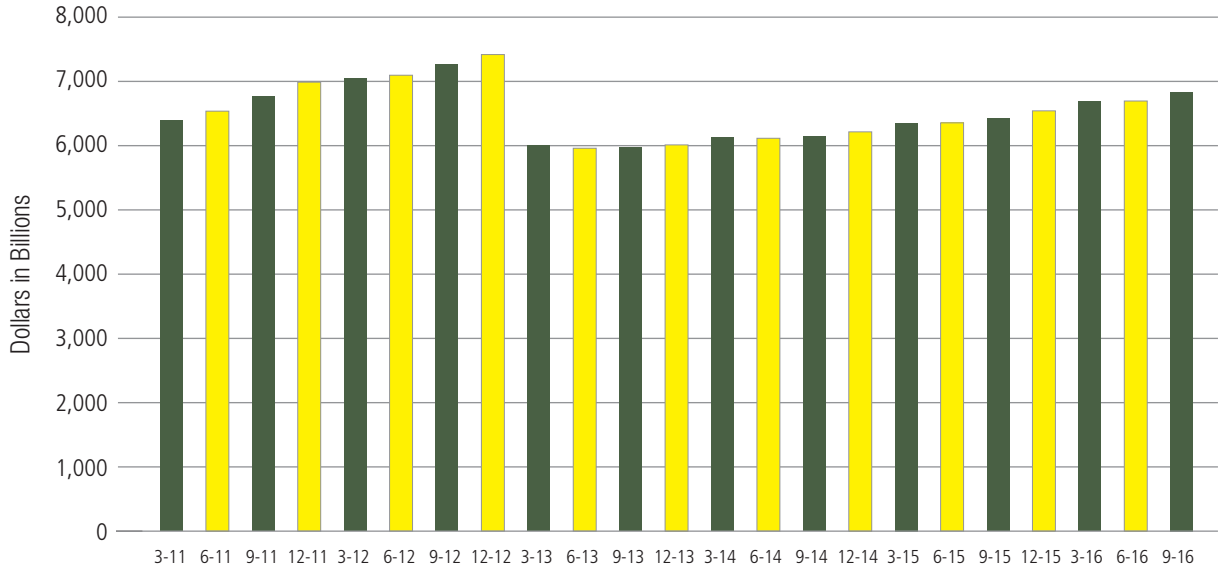
The DIF balance was $83.2 billion at year-end 2016, an increase of $10.6 billion from $72.6 billion at year-end 2015. The DIF's comprehensive income totaled $10.6 billion for 2016 compared to comprehensive income of $9.8 billion during 2015. The $741 million year-over-year increase was primarily due to a $1.2 billion increase in assessment revenue and a $248 million increase in interest revenue, partially offset by a $683 million lower negative provision for insurance losses.

Assessment revenue was $10.0 billion for 2016, as compared to $8.8 billion for 2015. The combination of assessment surcharges on larger institutions and lower regular assessment rates for all IDIs resulted in the net increase in assessment revenue of $1.2 billion.

The DIF's interest revenue on U.S. Treasury securities for 2016 was $671 million compared to interest revenue of $423 million in 2015. The $248 million year-over-year increase reflects not only a larger investment portfolio balance, but also new, higher-yielding investments. The DIF's cash and U.S. Treasury investment portfolio balance was $74.8 billion at year-end 2016, an increase of $11.4 billion from the year-end 2015 balance of $63.4 billion that was primarily due to assessment collections of $9.5 billion and recoveries from resolutions of $3.6 billion, less operating expenses paid of $1.7 billion and resolution disbursements of $503 million.

The provision for insurance losses was negative $1.6 billion for 2016, compared to negative $2.3 billion for 2015. The negative provision for 2016 primarily resulted from a decrease of $1.7 billion in the estimated losses for institutions that failed in current and prior years, partially offset by an increase of $97 million in the contingent liability for anticipated failures. The $1.7 billion decrease in the estimated losses from failures was primarily attributable to (1) unanticipated recoveries of $545 million in litigation settlements, professional liability claims, and tax refunds by the receiverships; (2) a $584 million decrease in the receiverships' shared-loss liability; (3) a $406 million decrease in projected future receivership expenses and receivership legal and representation and warranty liabilities; and (4) a $231 million decrease resulting from greater-than-anticipated collections from receiverships' asset sales and updated estimated recovery rates applied to the remaining assets in liquidation. For the receiverships' shared-loss liability, the decrease in 2016 was primarily due to both the early termination of numerous shared-loss agreements (SLAs) during the period, which resulted in lower-than-anticipated losses on covered assets, and the unanticipated recoveries from SLAs where the commercial loss coverage has expired but the recovery period remains active.

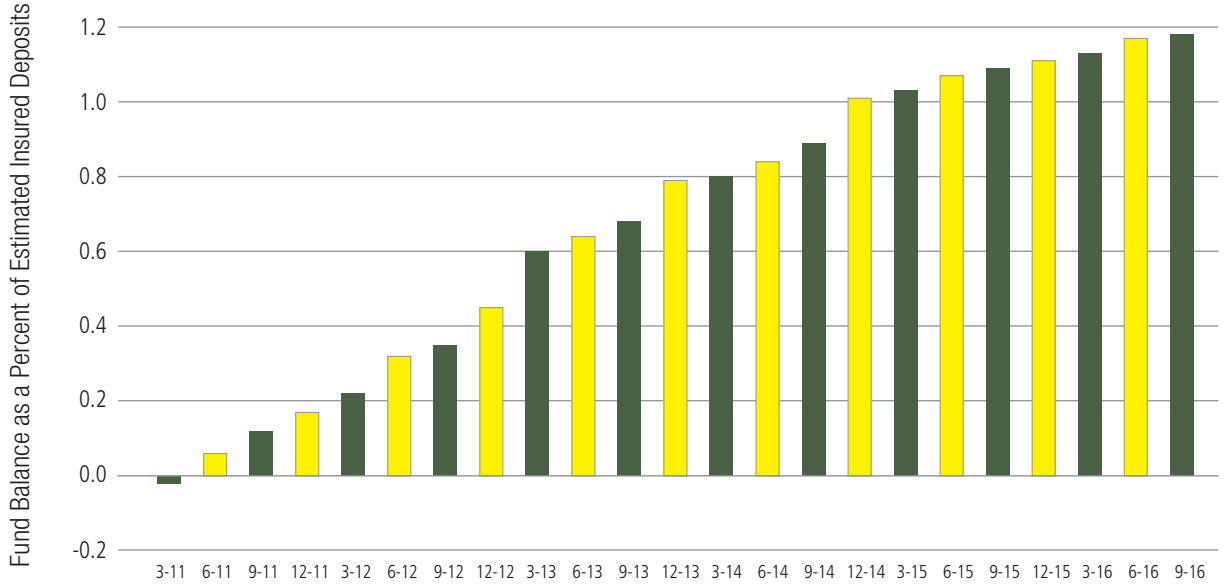
ESTIMATED DIF INSURED DEPOSITS



SOURCE: Commercial Bank Call and Thrift Financial Reports

Note: Beginning in fourth quarter 2010 through fourth quarter 2012, 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		
	2016	2015	2014
Financial Results			
Revenue	$10,674	$9,304	$8,965
Operating Expenses	1,715	1,687	1,664
Insurance and Other Expenses (includes provision for losses)	(1,564)	(2,240)	(8,299)
Net Income	10,524	9,857	15,600
Comprehensive Income	10,561	9,820	15,589
Insurance Fund Balance	$83,162	$72,600	$62,780
Fund as a Percentage of Insured Deposits (reserve ratio)	1.18%[3]	1.11%	1.01%
Selected Statistics			
Total DIF-Member Institutions[1]	5,980[3]	6,182	6,509
Problem Institutions	132[3]	183	291
Total Assets of Problem Institutions	$24,917[3]	$46,780	$86,712
Institution Failures	5	8	18
Total Assets of Failed Institutions in Year[2]	$277	$6,706	$2,914
Number of Active Failed Institution Receiverships	378	446	481

[1] Commercial banks and savings institutions. Does not include U.S. insured branches of foreign banks.

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

[3] As of September 30, 2016.

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IV.

BUDGET AND SPENDING

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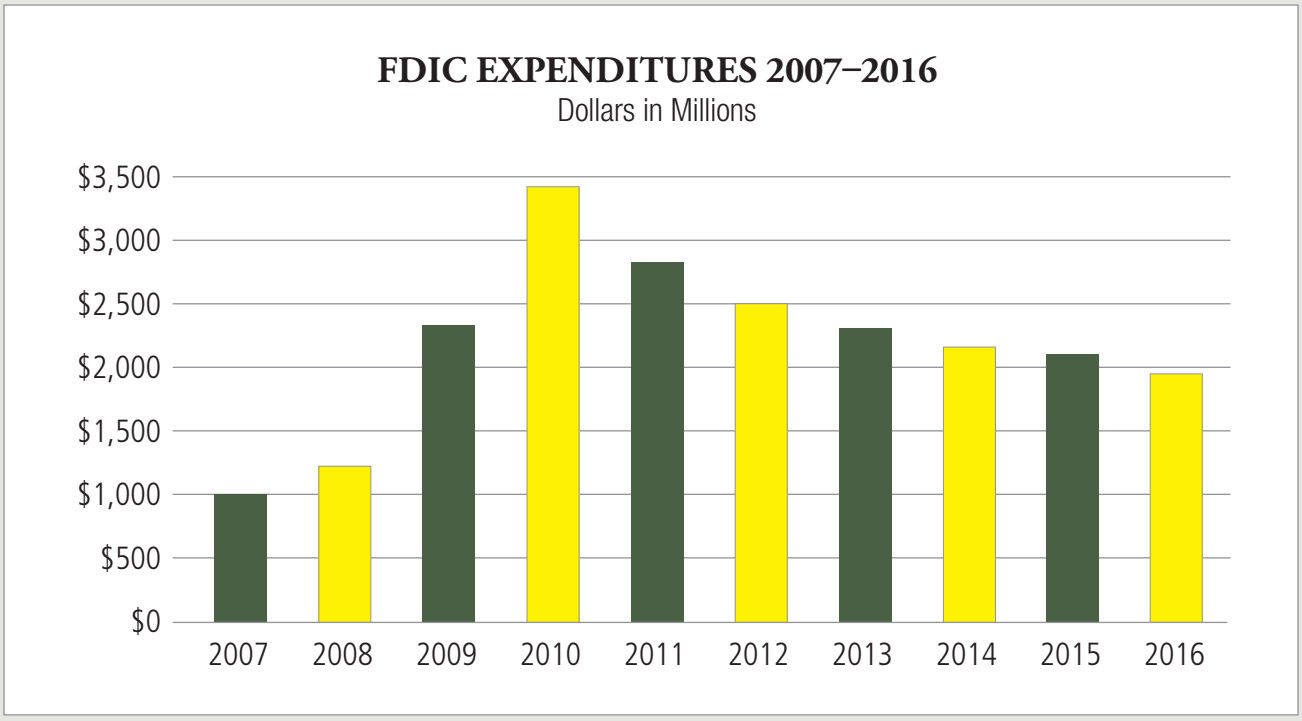
FDIC OPERATING BUDGET

The FDIC segregates its 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. FDIC operating expenses totaled $1.9 billion in 2016, including $1.7 billion in ongoing operations and $260 million in receivership funding. This represented approximately 93 percent of the approved budget for ongoing operations and 65 percent of the approved budget for receivership funding for the year.[3]

The approved 2017 FDIC Operating Budget of approximately $2.2 billion is segregated into three components, consisting of $1.8 billion for ongoing operations, $300 million for receivership funding, and $37 million for the Office of Inspector General (OIG). The level of approved ongoing operations budget for 2017 is approximately $45 million (3 percent) higher than the 2016 ongoing operations budget excluding the OIG, while the approved receivership funding budget is $100 million (25 percent) lower than the 2016 receivership funding budget.

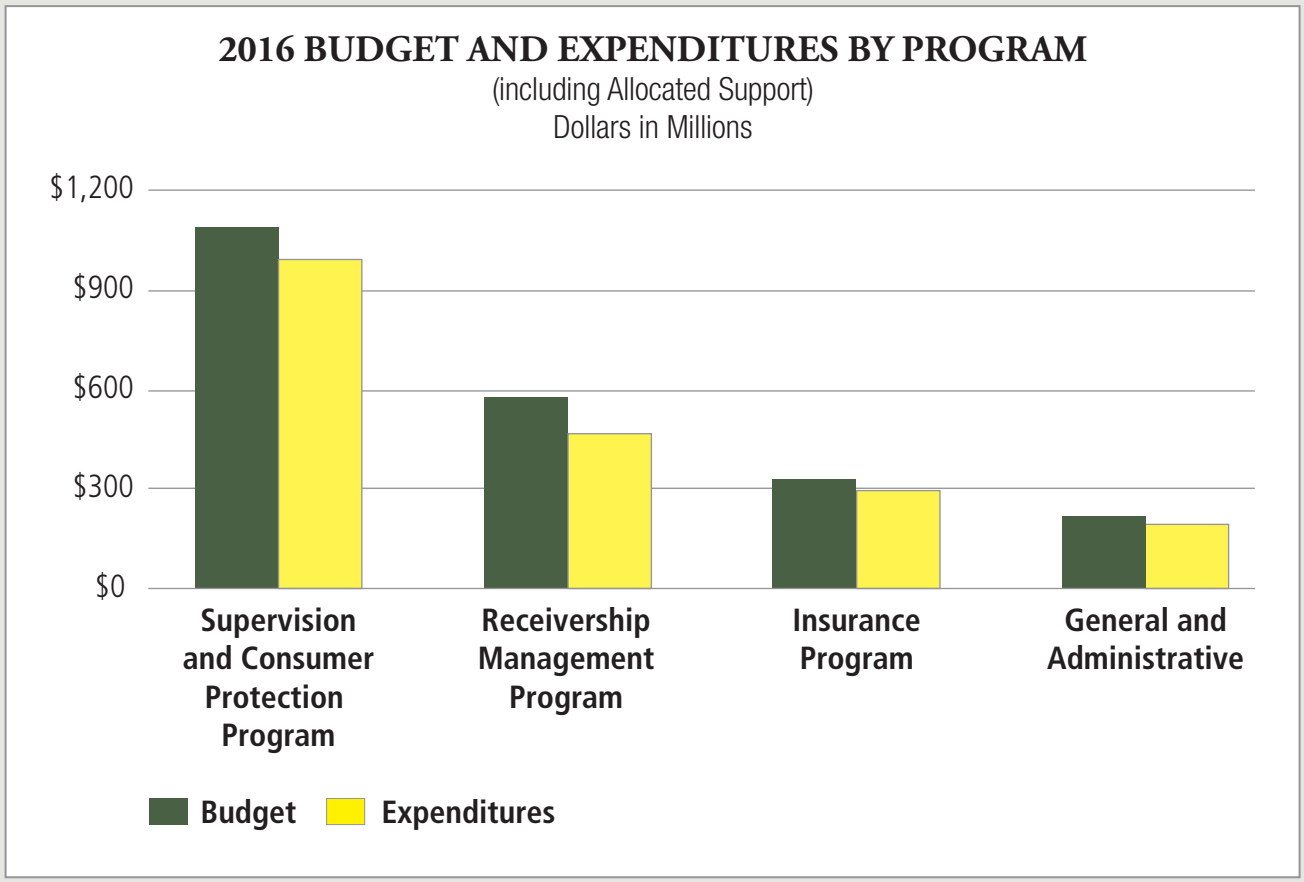
As in prior years, the 2017 budget was formulated primarily on the basis of an analysis of projected workload for each of the Corporation's three major business lines and its program support functions. The most significant factor contributing to the decrease in the FDIC Operating Budget is the improving health of the industry and the resultant reduction in failure related workload. Although savings in this area are being realized, the 2017 receivership funding budget provides resources for contractor support as well as non-permanent staffing for DRR, 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 because of differences in how items are classified.

The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2016 aggregate budget (for corporate, receivership, and investment spending) was $2.2 billion, while actual expenditures for the year were under $2.0 billion, about $0.1 billion less than 2015 expenditures.

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



2016 BUDGET AND EXPENDITURES BY PROGRAM

(Excluding Investments)

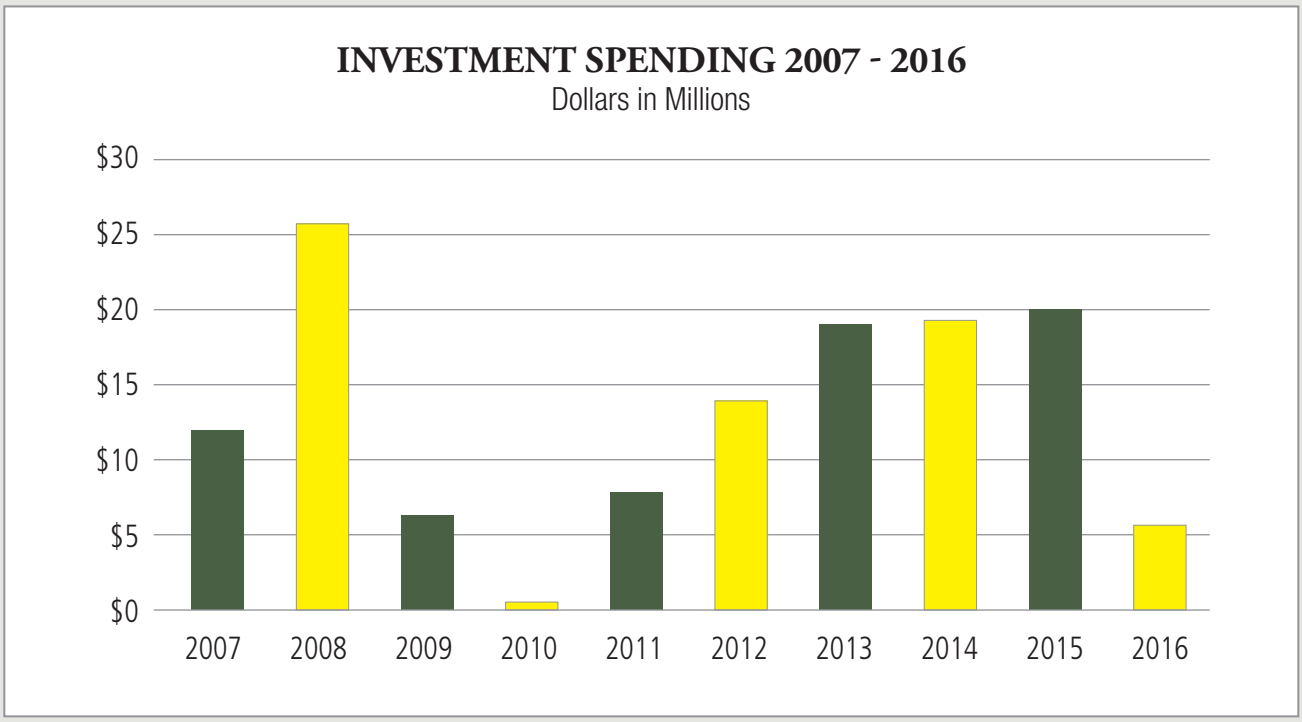
The FDIC budget for 2016 totaled $2.2 billion. Budget amounts were allocated as follows: $1.1 billion or 49 percent, to the Supervision and Consumer Protection program; $575 million or 26 percent, to the Receivership Management program; $331 million, or 15 percent, to the Insurance program; and $221 million, or 10 percent, to Corporate General and Administrative expenditures.

Actual expenditures for the year totaled $1.9 billion. Actual expenditures amounts were allocated as follows: $995 million, or 51 percent, to the Supervision and Consumer Protection program; $468 million, or 24 percent, to the Receivership Management program; $292 million, or 15 percent, to the Insurance program; and $195 million, or 10 percent, to Corporate General and Administrative expenditures.

INVESTMENT SPENDING

The FDIC instituted a separate Investment Budget in 2003 to provide enhanced governance of major multi-year development efforts. The FDIC 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 Corporation'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 on a quarterly basis.

From 2007-2016 investment spending totaled $130 million, and is estimated at $11 million for 2017.



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2016

V.

FINANCIAL SECTION

DEPOSIT INSURANCE FUND (DIF)

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2016		2015
ASSETS				
Cash and cash equivalents	$	1,332,966	$	876,344
Investment in U.S. Treasury securities (Note 3)		73,511,953		62,496,959
Assessments receivable, net (Note 9)		2,666,267		2,172,472
Interest receivable on investments and other assets, net		526,195		417,871
Receivables from resolutions, net (Note 4)		7,790,403		11,578,079
Property and equipment, net (Note 5)		357,575		378,250
Total Assets	$	**86,185,359**	$	**77,919,975**
LIABILITIES				
Accounts payable and other liabilities	$	238,322	$	272,571
Liabilities due to resolutions (Note 6)		2,073,375		4,419,195
Postretirement benefit liability (Note 12)		232,201		233,000
Contingent liabilities:				
Anticipated failure of insured institutions (Note 7)		477,357		394,588
Litigation losses and other (Notes 7 and 8)		2,589		386
Total Liabilities		**3,023,844**		**5,319,740**
Commitments and off-balance-sheet exposure (Note 13)				
FUND BALANCE				
Accumulated Net Income		83,166,991		72,643,474
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gain (loss) on U.S. Treasury securities, net (Note 3)		20,271		(9,191)
Unrealized postretirement benefit loss (Note 12)		(25,747)		(34,048)
Total Accumulated Other Comprehensive Income (Loss)		**(5,476)**		**(43,239)**
Total Fund Balance		**83,161,515**		**72,600,235**
Total Liabilities and Fund Balance	$	**86,185,359**	$	**77,919,975**

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)	2016	2015
REVENUE		
Assessments (Note 9)	$ 9,986,615	$ 8,846,843
Interest on U.S. Treasury securities	671,377	422,782
Other revenue	16,095	33,913
Total Revenue	**10,674,087**	**9,303,538**
EXPENSES AND LOSSES		
Operating expenses (Note 10)	1,715,011	1,687,234
Provision for insurance losses (Note 11)	(1,567,950)	(2,251,320)
Insurance and other expenses	3,509	10,936
Total Expenses and Losses	**150,570**	**(553,150)**
Net Income	**10,523,517**	**9,856,688**
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on U.S. Treasury securities, net	29,462	(60,333)
Unrealized postretirement benefit gain (Note 12)	8,301	23,703
Total Other Comprehensive Income (Loss)	**37,763**	**(36,630)**
Comprehensive Income	**10,561,280**	**9,820,058**
Fund Balance - Beginning	**72,600,235**	**62,780,177**
Fund Balance - Ending	**$ 83,161,515**	**$ 72,600,235**

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)	2016	2015
OPERATING ACTIVITIES		
Provided by:		
Assessments	$ 9,488,215	$ 8,677,795
Interest on U.S. Treasury securities	1,523,215	2,064,836
Recoveries from financial institution resolutions	3,601,149	6,329,454
Miscellaneous receipts	16,057	147,001
Used by:		
Operating expenses	(1,671,768)	(1,631,297)
Disbursements for financial institution resolutions	(502,716)	(2,282,721)
Miscellaneous disbursements	(8,998)	(107,478)
Net Cash Provided by Operating Activities	**12,445,154**	**13,197,590**
INVESTING ACTIVITIES		
Provided by:		
Maturity of U.S. Treasury securities	26,517,122	19,590,780
Used by:		
Purchase of U.S. Treasury securities	(38,474,320)	(33,766,067)
Purchase of property and equipment	(31,334)	(60,479)
Net Cash (Used) by Investing Activities	**(11,988,532)**	**(14,235,766)**
Net Increase (Decrease) in Cash and Cash Equivalents	**456,622**	**(1,038,176)**
Cash and Cash Equivalents - Beginning	**876,344**	**1,914,520**
Cash and Cash Equivalents - Ending	**$ 1,332,966**	**$ 876,344**

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

DEPOSIT INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with 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 (IDIs) 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 to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). The FRF is a resolution fund responsible for the sale of the remaining assets and the satisfaction of the liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation. The FDIC maintains the DIF and the FRF separately to support their respective functions.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the FDIC also manages 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 covered financial company is a failing financial company (for example, 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 (Public Law 111-203) granted the FDIC authority to establish a widely available program to guarantee obligations of solvent IDIs or solvent depository institution holding companies (including affiliates) upon the systemic risk 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 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.

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 $182.1 billion and $171.0 billion as of December 31, 2016 and 2015, 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 according to applicable laws and regulations. Therefore,

income and expenses attributable to resolution entities are accounted for as transactions of those entities. The FDIC bills resolution entities for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include 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). 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 or beneficial interests in them. Periodic and final accounting reports of resolution entities are furnished to courts, supervisory authorities, and others upon request.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. 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 assessments receivable and associated revenue; the allowance for loss on receivables from resolutions (which considers the impact of shared-loss agreements); the guarantee obligations for structured transactions; the postretirement benefit obligation; and the estimated losses for anticipated failures 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 SECURITIES

The FDI Act requires that the DIF funds 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 Fiscal Service's Government Account Series program.

The DIF's investments in U.S. Treasury securities are classified as available-for-sale (AFS). Securities designated as AFS 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 daily using the effective interest or straight-line method depending on the maturity of the security (see Note 3).

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 regular 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, as well as modest assessment base growth and average assessment rate adjustment factors. Beginning July 1, 2016, the estimate includes a surcharge for institutions with greater than $10 billion in total consolidated assets (see Note 9). At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution.

CAPITAL ASSETS AND DEPRECIATION

The FDIC buildings are depreciated on a straight-line basis over a 35- to 50-year estimated life. Building improvements are capitalized and depreciated over the estimated useful life of the improvements. 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. Computer equipment is depreciated on a straight-line basis over a three-year estimated useful life (see Note 5).

PROVISION FOR INSURANCE LOSSES

The provision for insurance losses primarily represents changes in the allowance for losses on receivables from closed banks and the contingent liability for anticipated failures of insured institutions (see Note 11).

REPORTING ON VARIABLE INTEREST ENTITIES

The 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. As the guarantor of note obligations for several structured transactions, the FDIC, in its corporate capacity, holds an interest in many variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by the Financial Accounting Standards Board (FASB) 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 affect

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 FASB ASC Topic 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 that 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 VIE 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 conclusion of these analyses was that the FDIC, in its corporate capacity, has not engaged in any activity that would cause the FDIC to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2016 and 2015. Therefore, consolidation is not required for the 2016 and 2015 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 FDIC if payments are made on guarantee claims. Ongoing analyses will be required to monitor consolidation implications under FASB ASC Topic 810.

The FDIC's involvement with VIEs is fully described in Note 8 under FDIC Guaranteed Debt of Structured Transactions.

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

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments through targeted changes to existing guidance. The FDIC has determined that the ASU, which is effective for the DIF beginning on January 1, 2019, will not have a material effect on the financial position of the DIF or its results of operations.

In February 2016, the FASB issued ASU 2016-02*, Leases (Topic 842)*. The new guidance requires that substantially all leases will be reported on the balance sheet through the recognition of a right-of-use asset and a corresponding lease liability. The ASU also requires lessees and lessors to expand qualitative and quantitative disclosures and key information regarding their leasing arrangements. The standard is effective for the DIF on January 1, 2020, with early adoption allowed. The FDIC does not expect the ASU to have a material effect on the DIF's financial position or its results of operations. The FDIC will continue analyzing the full impact of the ASU.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will replace the *incurred* loss impairment model with a new *expected* credit loss model for financial assets measured at amortized cost and for off-balance-sheet credit exposures. The guidance also amends the AFS debt securities impairment model by requiring the use of an allowance to record estimated credit losses (and subsequent recoveries) related to AFS debt securities. The ASU is effective for the DIF on January 1, 2021. The FDIC is assessing the effect the ASU will have on the DIF's financial position and results of operations.

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

3. Investment in U.S. Treasury Securities

The "Investment in U.S. Treasury securities" line item on the Balance Sheet consisted of the following components by maturity (in millions).

December 31, 2016

Maturity	Yield at Purchase[a]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	0.87%	$ 32,031 [b]	$ 32,365	$ 25	$ (5)	$ 32,385
After 1 year through 5 years	1.38%	40,525	40,707	92	(94)	40,705
Subtotal		$ 72,556	$ 73,072	$ 117	$ (99)	$ 73,090
U.S. Treasury Inflation-Protected Securities						
After 1 year through 5 years	-0.14%	400	420	2	0	422
Subtotal		$ 400	$ 420	$ 2	$ 0	$ 422
Total		**$ 72,956**	**$ 73,492**	**$ 119**	**$ (99)** [c]	**$ 73,512**

(a) The Treasury Inflation-Protected Securities (TIPS) are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). 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 2016.

(b) Includes two Treasury notes totaling $3.4 billion which matured on Saturday, December 31, 2016. Settlements occurred the next business day, January 3, 2017.

(c) These unrealized losses occurred over a period of less than a year as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2016. The aggregate related fair value of securities with unrealized losses was $31.4 billion as of December 31, 2016.

December 31, 2015

Maturity	Yield at Purchase[a]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	0.54%	$ 21,495	$ 21,816	$ 3	$ (18)	$ 21,801
After 1 year through 5 years	1.19%	39,881	39,952	55	(44)	39,963
Subtotal		$ 61,376	$ 61,768	$ 58	$ (62)	$ 61,764
U.S. Treasury Inflation-Protected Securities						
Within 1 year	-0.80%	$ 300	$ 324	$ 0	$ (2)	$ 322
After 1 year through 5 years	-0.14%	400	414	0	(3)	411
Subtotal		$ 700	$ 738	$ 0	$ (5)	$ 733
Total		**$ 62,076**	**$ 62,506**	**$ 58**	**$ (67)** [b]	**$ 62,497**

(a) The Treasury Inflation-Protected Securities (TIPS) are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). 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 2015.

(b) These unrealized losses occurred over a period of less than a year as a result of temporary changes in market interest rates. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2015. The aggregate related fair value of securities with unrealized losses was $38.7 billion as of December 31, 2015.

4. Receivables from Resolutions, Net

The receivables from resolutions result from DIF payments 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. The "Receivables from resolutions, net" line item on the Balance Sheet consisted of the following components (in thousands).

	December 31 2016	December 31 2015
Receivables from closed banks	$ 80,314,038	$ 88,858,877
Allowance for losses	(72,523,635)	(77,280,798)
Total	**$ 7,790,403**	**$ 11,578,079**

As of December 31, 2016, the FDIC had 378 active receiverships, including five established in 2016. The DIF resolution entities held assets with a book value of $14.9 billion as of December 31, 2016, and $20.8 billion as of December 31, 2015 (including $11.6 billion and $16.0 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables). Ninety-nine percent of the current asset book value of $14.9 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 since 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 on the covered residential and commercial loan 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 2016, the shared-loss cost estimates were updated for all 148 receiverships with active SLAs. The updated shared-loss cost projections for the larger residential shared-loss agreements were primarily based on third-party valuations estimating the cumulative loss of covered assets. The updated shared-loss cost projections on the remaining residential shared-loss agreements were based on a stratified random sample of institutions selected for third-party loss estimations, and valuation results from the sampled institutions were aggregated and extrapolated to the non-sampled institutions by asset type and performance status. For the remaining commercial covered assets, shared-loss cost projections were based on the FDIC's historical loss experience that also factors in the time period based on the life of the agreement.

Also reflected in the allowance for loss calculation are end-of-agreement SLA "true-up" recoveries. True-up recoveries are projected to be received at expiration in accordance with the terms of the SLA, if actual losses at expiration are lower than originally estimated.

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, which may 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 through 2013, the FDIC resolved 304 failures using whole bank purchase and assumption resolution transactions with accompanying SLAs on total assets of $216.5 billion purchased by the financial institution acquirers. The acquirer typically assumed all of the deposits and purchased essentially all of the assets of a failed institution. The majority of the commercial and residential loan assets were purchased under an SLA, where the FDIC agreed to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement.

Losses on the covered assets of failed institutions are shared between the acquirer and the FDIC, in its receivership capacity, when losses occur through the sale, foreclosure, loan modification, or charge-off of loans under the terms of the SLA. The majority of the agreements cover commercial and single-family loans over a five- to ten-year shared-loss period, respectively, with the receiver covering 80 percent of the losses incurred by the acquirer and the acquiring institution 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. Recoveries by the acquirer on covered commercial and single-family SLA losses are also shared over an eight- to ten-year period, respectively. Note that future recoveries on SLA losses are not factored into the DIF allowance for loss calculation because the amount and timing of such receipts are not determinable.

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 6).

Shared-loss transactions are summarized as follows (in thousands).

	December 31 2016	December 31 2015
Payments for shared-loss agreements to date	$ 34,149,990	$ 33,475,276
Recoveries from shared-loss agreements to date	(5,161,366)	(4,468,296)
Net shared-loss payments made to date	**$ 28,988,624**	**$ 29,006,980**
Projected shared-loss payments, net of "true-up" recoveries	$ 966,063	$ 1,560,124
Total remaining shared-loss covered assets	$ 20,807,196	$ 31,478,451

The $10.7 billion reduction in the remaining shared-loss covered assets from 2015 to 2016 is primarily due to the liquidation of covered assets from active SLAs, expiration of loss coverage for 42 commercial loan SLAs, and early termination of SLAs impacting 67 receiverships during 2016.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of these receivables is primarily influenced by recoveries on assets held by DIF receiverships and payments on the covered assets under SLAs. The majority of the remaining assets in liquidation ($3.3 billion) and current shared-loss covered assets ($20.8 billion), which together total $24.1 billion, are concentrated in commercial loans ($1.0 billion), residential loans ($19.8 billion), and structured transaction-related assets ($2.6 billion) as

described in Note 8. Most of the assets originated from failed institutions located in California ($11.7 billion), Florida ($2.6 billion), Puerto Rico ($2.5 billion), Ohio ($2.3 billion), Texas ($1.5 billion), and Illinois ($0.7 billion).

5. Property and Equipment, Net

Depreciation expense was $50 million and $52 million for 2016 and 2015, respectively. The "Property and equipment, net" line item on the Balance Sheet consisted of the following components (in thousands).

	December 31 2016	December 31 2015
Land	$ 37,352	$ 37,352
Buildings (including building and leasehold improvements)	348,008	342,267
Application software (includes work-in-process)	127,113	132,280
Furniture, fixtures, and equipment	69,624	73,432
Accumulated depreciation	(224,522)	(207,081)
Total	**$ 357,575**	**$ 378,250**

6. Liabilities Due to Resolutions

As of December 31, 2016 and 2015, the DIF recorded liabilities totaling $2.1 billion and $4.4 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. Seventy-eight 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 sending cash directly to a receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend.

7. Contingent Liabilities

ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail when the liability is probable and reasonably estimable, absent some favorable event such as obtaining additional capital or merging. 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.

The banking industry's financial condition and performance were generally positive in 2016. According to the quarterly financial data submitted by DIF-insured institutions, the industry's capital levels continued to improve, and the percentage of total loans that were noncurrent at September 30 fell to its lowest level since year-end 2007. The industry reported total net income of $128 billion for the first nine months of 2016, an increase of 3.8 percent over the comparable period one year ago.

Losses to the DIF from failures that occurred in 2016 were lower than the contingent liability at the end of 2015, as the aggregate number and cost of institution failures were less than anticipated. However, the contingent liability increased from $395 million at December 31, 2015 to $477 million at December 31, 2016, due to the deterioration in the financial condition of certain troubled institutions.

In addition to the recorded contingent liabilities, the FDIC has identified risks 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 approximately $919 million as of December 31, 2016, as compared to $800 million as of year-end 2015. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2016, five institutions failed with combined assets of $265 million at the date of failure. Recent trends in supervisory ratings and market data suggest that the financial performance and condition of the banking industry should continue to improve over the coming year. However, the operating environment remains challenging for banks. Interest rates have been exceptionally low for an extended period, and there are signs of growing credit and liquidity risk. Revenue growth has been modest and margins continue to narrow despite banks' investments in longer-term assets to mitigate the effect of low rates. Additionally, key risks to the U.S. economic outlook include the effect of increases in interest rates on economic growth; weakness in energy and commodity prices; and slowing growth in several advanced and emerging market economies. The FDIC continues to evaluate ongoing risks to affected institutions in light of existing economic and financial conditions, and the extent to which such risks may 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 $200 thousand and $386

thousand for the DIF as of December 31, 2016 and 2015, respectively. In addition, the FDIC has determined that there are $1 million of reasonably possible losses from unresolved cases as of year-end 2016, compared to $555 thousand at year-end 2015.

8. Other Contingencies

INDYMAC FEDERAL BANK REPRESENTATION AND INDEMNIFICATION CONTINGENT LIABILITY

On March 19, 2009, the FDIC as receiver for IndyMac Federal Bank (IMFB) and certain subsidiaries (collectively, Sellers) sold substantially all of the assets, which included mortgage loans and servicing rights, to OneWest Bank (following a merger is now known as CIT Bank) and its affiliates (collectively, Acquirers). The Sellers made certain representations customarily made by commercial parties in similar transactions. Under the sale agreements, the Acquirers have rights to assert claims to recover losses incurred as a result of third-party claims and breaches of representations. The FDIC, in its corporate capacity, guaranteed the Sellers' indemnification obligations under the sale agreements. Until all indemnification claims are asserted, quantified and paid, losses could continue to be incurred by the receivership and in turn, the DIF.

The unpaid principal balances of loans in the servicing portfolios sold subject to representation and warranty indemnification totaled $171.6 billion at the time of sale. The IndyMac receivership has paid cumulative claims totaling $30 million and $21 million through December 31, 2016 and 2015, respectively. Quantified claims asserted and under review have been accrued in the amount of $18 million and $1 million as of December 31, 2016 and 2015, respectively.

The Sellers and Acquirers have been conducting negotiations with Fannie Mae regarding the terms of a financial settlement to address indemnification obligations for conventional and reverse mortgage loan portfolios. The settlement for the conventional mortgage loans in the Fannie Mae portfolio has been concluded, but negotiations for the reverse mortgage portfolio continue. The receivership's payment for settlement of the conventional loans and the estimated loss for the reverse mortgage loans are reflected in the "Receivables from resolutions, net" line item on the Balance Sheet.

The FDIC is evaluating the likelihood of additional losses that may arise as a result of indemnification claims based upon breaches or third party claims. As the Acquirers or Government Sponsored Entities (GSEs) – Fannie Mae, Freddie Mac and Ginnie Mae incur or expect to incur losses, they will assert claims. These claims will be reviewed to determine whether there is a basis for indemnification or reimbursement and, if so, whether any Acquirer may have liability for any portion of the claimed loss as a result of its acts or omissions. While many loans are subject to notices of alleged breaches and a number of third party claims have been asserted, not all breach allegations or third party claims will result in a loss and certain losses may be allocable to the Acquirers. As a result, potential losses, and the Sellers' share of such losses, cannot be estimated. However, it is probable that future losses will be incurred given the following:

- The Acquirers' ability to submit breach notices was subject to contractual bar dates that have passed. In addition, their entitlement to reimbursement for certain third party claims is dependent upon those claims having been submitted prior to other contractual dates, some of which have also passed. However, the Acquirers retain the right to assert indemnification claims for losses over the life of those loans for which breach notices were timely submitted.

- The Acquirers retain the right to seek reimbursement for losses incurred as a result of claims alleging breaches of loan seller representations asserted by Fannie Mae or Ginnie Mae on or prior to March 19, 2019, for their reverse mortgage servicing portfolios (unpaid principal balance of $11.7 billion at December 31, 2016, compared to $12.9 billion at December 31, 2015).

- The GSEs have the right to assert certain claims directly against the Sellers for the mortgage servicing portfolios without regard to any contractual claims bar date.

- Potential losses could be incurred for failures by the Sellers to initiate and pursue foreclosure within prescribed timeframes for certain government guaranteed loans, resulting in the refusal of the guarantor to pay interest owed to the investors. Fannie Mae has asserted a claim for $64 million of interest curtailments with respect to reverse loans. Any amounts paid to Fannie Mae will be allocated between the Sellers and the Acquirers. A review of the causes of this claimed loss as well as an allocation of this loss between the Sellers and the Acquirers is in the initial stages.

For all these reasons, the FDIC believes it is likely that additional losses will be incurred. However, quantifying the contingent liability associated with the liabilities to investors and the Acquirers is subject to a number of uncertainties, including market conditions, the occurrence of borrower defaults and resulting foreclosures and losses,

and the allocation of liability between the Sellers and the Acquirers. Because of the uncertainties the FDIC has determined that, while additional losses are probable, the amount is not currently 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 2016 and 2015, 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 limited liability companies (LLCs), securitizations, and structured sale of guaranteed notes (SSGNs).

Under the LLC structure, the FDIC, in its receivership capacity, contributed a pool of assets to a newly formed LLC and offered for sale, through a competitive bid process, some of the equity in the LLC. Since 2009, private investors purchased a 40- to 50-percent ownership interest in the LLC structures for $1.6 billion in cash. The LLCs issued notes of $4.4 billion to the receiverships to partially fund the purchase of the assets; these notes were guaranteed by the FDIC, in its corporate capacity. As of December 31, 2016 and 2015, no guaranteed LLC notes remain.

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 senior and/or subordinated debt instruments and 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 $6.2 billion in cash and the receiverships hold the subordinated debt instruments and owner trust or residual certificates. In exchange for a fee, 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. 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. The subordinated note holders and owner trust or residual certificate holders receive cash flows from the entity only after all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments.

All Structured Transactions with FDIC Guaranteed Debt

Through December 31, 2016, 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 $8.8 billion to 14 LLCs and 11 trusts. The LLCs and trusts subsequently issued notes guaranteed by the FDIC in an original principal amount of $10.6 billion. Since March 2013, there have been no new guarantee transactions. As of December 31, 2016 and 2015, the DIF collected guarantee fees totaling $275 million and $265 million, respectively, and recorded a receivable for additional guarantee fees of $14 million and $26 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 on the Balance Sheet, and recognized as revenue primarily on a straight-line basis over the term of the notes. As of December 31, 2016 and 2015, the amount of deferred revenue recorded was $14 million and $26 million, respectively. Except as discussed below, the DIF records no other structured transaction-related assets or liabilities on its balance sheet.

Any estimated loss to the DIF from the guarantees is based on an analysis of the expected guarantee payments by the FDIC, reimbursements to the FDIC for guarantee payments, and guarantee fee collections. As of December 31, 2016, the FDIC recorded a contingent liability for guarantee payments totaling $2 million for an SSGN transaction beginning in November 2019 up to note maturity in December 2020, and an offsetting receivable due to expected reimbursements. The contingent liability and related receivable are included in the "Contingent liabilities: Litigation losses and other" and "Interest receivable on investments and other assets, net" line items, respectively, on the Balance Sheet. For the same SSGN transaction, as of December 31, 2016, it is reasonably possible that the DIF would be required to make a final guarantee payment of $28 million at note maturity, as compared to payments of

$25 million through note maturity as of December 31, 2015. The FDIC expects that all guarantee payments made would be fully reimbursed from the proceeds of the liquidation of the SSGN's underlying collateral.

For all of the remaining transactions, the estimated cash flows from the 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 for structured transactions that it was not previously contractually required to provide.

As of December 31, 2016 and 2015, the maximum loss exposure was zero for LLCs and $1.1 billion and $1.6 billion for trusts, respectively, representing the sum of all outstanding debt guaranteed by the FDIC.

9. Assessments

The FDIC deposit insurance assessment system is mandated by section 7 of the FDI Act and governed by part 327 of title 12 of the Code of Federal Regulations (12 CFR Part 327). The risk-based system requires the payment of quarterly assessments by all IDIs.

In response to the Dodd-Frank Act, the FDIC implemented several changes to the assessment system, amended its Restoration Plan (which is required when the ratio of the DIF balance to estimated insured deposits (reserve ratio) is below the statutorily mandated minimum), 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 requirements of the Dodd-Frank Act and provisions of the comprehensive, long-term fund management plan.

- The FDIC amended the Restoration Plan, which is intended to ensure that the reserve ratio reaches 1.35 percent by September 30, 2020, as required by the Dodd-Frank Act, in lieu of the previous statutory minimum of 1.15 percent by the end of 2016. The FDIC updates, at least semiannually, its loss and income projections for the fund and, if needed, increases or decreases assessment rates, following notice-and-comment rulemaking, if required.

- The FDIC Board of Directors designates a reserve ratio for the DIF and publishes the designated reserve ratio (DRR) before the beginning of each calendar year, as required by the FDI Act. Accordingly, in September 2016, the FDIC adopted a final rule maintaining the DRR at 2 percent for 2017. 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.

- The FDIC adopted a final rule that suspends dividends indefinitely, and, in lieu of dividends, adopts lower assessment rate schedules when the reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent.

As of June 30, 2016, the reserve ratio of the DIF reached 1.17 percent. As a result of the ratio exceeding 1.15 percent, assessment rates were modified as follows, beginning with the quarter ending September 30, 2016.

- Lower regular assessment rates became effective for all IDIs pursuant to final rules published in February 2011 and May 2016.

- A new risk-based method for calculating assessment rates became effective for institutions with less than $10 billion in total assets (small banks) pursuant to the final rule published in May 2016. The revised method is designed to be revenue-neutral, but helps ensure that banks that take on greater risks pay more for deposit insurance.

Additionally, the Dodd-Frank Act requires that the FDIC offset the effect of increasing the minimum reserve ratio from 1.15 percent to 1.35 percent on small banks. To implement this requirement, the FDIC imposed a surcharge to the regular quarterly assessments of IDIs with $10 billion or more in assets (larger institutions), beginning with the quarter ending September 30, 2016. Pursuant to a final rule published in March 2016:

- The surcharge generally equals an annual rate of 4.5 basis points applied to a larger institution's regular quarterly assessment base (with certain adjustments). The FDIC projects that surcharges will last eight quarters.

- The FDIC will impose a shortfall assessment on larger institutions to achieve the minimum reserve ratio of 1.35 percent by the September 30, 2020 statutory deadline, if the reserve ratio has not reached 1.35 percent by the end of 2018.

- The FDIC will provide assessment credits to small banks for the portion of their assessments that contribute to the growth in the reserve ratio between 1.15 percent and 1.35 percent to ensure

that the effect of reaching 1.35 percent is fully borne by the larger institutions. The assessment credits will be determined and allocated as soon as practicable after the reserve ratio reaches 1.35 percent. In each quarter that the reserve ratio is at least 1.38 percent, the credits will be used to fully offset a small institution's quarterly insurance assessment, until credits are exhausted.

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 6.6 cents per $100 of the assessment base through June 30, 2016. Annual assessment rates averaged approximately 7.4 cents per $100 for the second half of 2016, reflecting both lower regular assessment rates for all IDIs and assessment surcharges on larger institutions. While the assessment rate schedule applicable to all IDIs decreased, some IDIs' rates increased because of the small bank pricing method change and/or the deterioration of their financial condition. Annual assessment rates averaged approximately 6.5 cents per $100 of the assessment base during 2015. The assessment base is generally defined as average consolidated total assets minus average tangible equity (measured as Tier 1 capital) of an IDI during the assessment period.

The "Assessments receivable, net" line item on the Balance Sheet of $2.7 billion and $2.2 billion represents the estimated premiums due from IDIs for the fourth quarter of 2016 and 2015, respectively. The actual deposit insurance assessments for the fourth quarter of 2016 will be billed and collected at the end of the first quarter of 2017. During 2016 and 2015, $10.0 billion and $8.8 billion, respectively, were recognized as assessment revenue from institutions, including $2.4 billion in surcharges from large IDIs in 2016.

RESERVE RATIO

As of September 30, 2016 and December 31, 2015, the DIF reserve ratio was 1.18 percent and 1.11 percent, respectively.

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. As of December 31, 2016 and 2015, approximately $794 million and $798 million, respectively, was collected and remitted to the FICO.

10. Operating Expenses

The "Operating expenses" line item on the Statement of Income and Fund Balance consisted of the following components (in thousands).

	December 31 2016	December 31 2015
Salaries and benefits	$ 1,235,244	$ 1,248,146
Outside services	265,492	280,050
Travel	92,126	97,819
Buildings and leased space	93,518	90,945
Software/Hardware maintenance	64,757	62,604
Depreciation of property and equipment	50,403	52,233
Other	26,191	28,314
Subtotal	**1,827,731**	**1,860,111**
Less: Expenses billed to resolution entities and others	(112,720)	(172,877)
Total	**$ 1,715,011**	**$ 1,687,234**

11. Provision for Insurance Losses

The provision for insurance losses was a negative $1.6 billion for 2016, compared to negative $2.3 billion for 2015. The negative provision for 2016 primarily resulted from a decrease of $1.7 billion in the estimated losses for institutions that failed in current and prior years, partially offset by an increase of $97 million in the contingent liability for anticipated failures.

As described in Note 4, the estimated recoveries from assets held by receiverships and estimated payments related to assets sold by receiverships to acquiring institutions under shared-loss agreements (SLAs) are used to derive the loss allowance on the receivables from resolutions. The $1.7 billion decrease in the estimated losses from failures was primarily attributable to four components. The first component was unanticipated recoveries of $545 million in litigation settlements, professional liability claims, and tax refunds by the receiverships. These are typically not recognized until the cash is received since significant uncertainties surround their recovery.

The second component was a decrease of $584 million in the receiverships' shared-loss liability primarily due to both the early termination of numerous SLAs during the period, which resulted in lower-than-anticipated losses on covered assets, and the unanticipated recoveries from SLAs where the commercial loss coverage has expired but the recovery period remains active. The third component was a $406

million decrease in the estimated losses from failures that resulted from a reduction in projected future receivership expenses and legal and representation and warranty liabilities. The final component was a $231 million decrease resulting from greater-than-anticipated collections from receiverships' asset sales and updated estimated recovery rates applied to the remaining assets in liquidation.

12. 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).

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. Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to 5 percent. The expenses for these plans are presented in the table below (in thousands).

	December 31 2016	December 31 2015
Civil Service Retirement System	$ 3,230	$ 3,949
Federal Employees Retirement System (Basic Benefit)	111,368	108,056
Federal Thrift Savings Plan	34,966	35,140
FDIC Savings Plan	37,499	39,767
Total	**$ 187,063**	**$ 186,912**

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 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.

Postretirement benefit obligation, gain and loss, and expense information included in the Balance Sheet and Statement of Income and Fund Balance are summarized as follows (in thousands).

	December 31 2016	December 31 2015
Accumulated postretirement benefit obligation recognized in *Postretirement benefit liability*	**$ 232,201**	**$ 233,000**
Amounts recognized in accumulated other comprehensive income: *Unrealized postretirement benefit loss*		
Cumulative net actuarial loss	$ (24,212)	$ (31,938)
Prior service cost	(1,535)	(2,110)
Total	**$ (25,747)**	**$ (34,048)**
Amounts recognized in other comprehensive income: *Unrealized postretirement benefit gain*		
Actuarial gain	$ 7,726	$ 23,193
Prior service credit	575	510
Total	**$ 8,301**	**$ 23,703**
Net amortization out of other comprehensive income included in net periodic benefit cost	**$ 1,567**	**$ 3,842**

Expected amortization of accumulated other comprehensive income into net periodic benefit cost is summarized as follows (in thousands).

December 31, 2017		
Prior service costs	$	575
Net actuarial loss		79
Total	**$**	**654**

The annual postretirement contributions and benefits paid are included in the table below (in thousands).

	December 31 2016	December 31 2015
Employer contributions	$ 6,388	$ 6,064
Plan participants' contributions	$ 739	$ 728
Benefits paid	$ (7,126)	$ (6,792)

The expected contributions for the period ending December 31, 2017, are $7.5 million. Expected future benefit payments for each of the next 10 years are presented in the following table (in thousands).

2017	2018	2019	2020	2021	2022-2026
$6,720	$7,195	$7,686	$8,226	$8,780	$53,075

Assumptions used to determine the amount of the accumulated postretirement benefit obligation and the net periodic benefit costs are summarized as follows (in thousands).

	December 31 2016	December 31 2015
Discount rate for future benefits (benefit obligation)	4.67%	4.29%
Rate of compensation increase	3.90%	3.70%
Discount rate (benefit cost)	4.29%	4.00%
Dental health care cost-trend rate		
Assumed for next year	4.50%	4.70%
Ultimate	4.50%	4.50%
Year rate will reach ultimate	2017	2017

13. Commitments and Off-Balance-Sheet Exposure

COMMITMENTS:

Leased Space

The DIF leased space expense totaled $48 million and $47 million for 2016 and 2015, respectively. The FDIC's lease commitments total $165 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. Future minimum lease commitments are as follows (in thousands).

2017	2018	2019	2020	2021	2022/Thereafter
$43,715	$34,262	$30,681	$16,283	$11,632	$28,337

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, 2016 and December 31, 2015, estimated insured deposits for the DIF were $6.8 trillion and $6.5 trillion, respectively.

14. 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 (see Note 2) and the investment in U.S. Treasury securities (see Note 3). The DIF's financial assets measured at fair value consisted of the following components (in millions).

December 31, 2016

	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]	$ 1,326			$ 1,326
Available-for-Sale Debt Securities				
Investment in U.S. Treasury securities[2]	73,512			73,512
Total Assets	**$ 74,838**	**$ 0**	**$ 0**	**$ 74,838**

(1) Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Bureau of the Fiscal Service.

(2) The investment in U.S. Treasury securities is measured based on prevailing market yields for federal government entities.

December 31, 2015

	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents[1]	$ 862			$ 862
Available-for-Sale Debt Securities				
Investment in U.S. Treasury securities[2]	62,497			62,497
Total Assets	**$ 63,359**	**$ 0**	**$ 0**	**$ 63,359**

(1) Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Bureau of the Fiscal Service.

(2) The investment in U.S. Treasury securities is measured based on prevailing market yields for federal government entities.

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 assessments receivable, interest receivable on investments, other short-term receivables, and 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 the 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.

15. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (in thousands).

	December 31 2016	December 31 2015
Operating Activities		
Net Income:	**$ 10,523,517**	**$ 9,856,688**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury securities	977,245	1,411,376
Treasury Inflation-Protected Securities inflation adjustment	(5,578)	12,465
Depreciation on property and equipment	50,403	52,233
Loss on retirement of property and equipment	1,607	2,415
Provision for insurance losses	(1,567,950)	(2,251,320)
Unrealized gain on postretirement benefits	8,301	23,703
Change in Assets and Liabilities:		
(Increase) in assessments receivable	(493,795)	(169,048)
(Increase) Decrease in interest receivable and other assets	(107,749)	242,128
Decrease in receivables from resolutions	5,437,632	7,425,888
(Decrease) in accounts payable and other liabilities	(34,249)	(18,435)
(Decrease) in postretirement benefit liability	(799)	(10,419)
Increase in contingent liabilities - litigation losses and other	2,389	0
(Decrease) in liabilities due to resolutions	(2,345,820)	(3,380,084)
Net Cash Provided by Operating Activities	**$ 12,445,154**	**$ 13,197,590**

16. Subsequent Events

Subsequent events have been evaluated through February 8, 2017, the date the financial statements are available to be issued.

FDIC v. BANK OF AMERICA, N.A.

On January 9, 2017, the FDIC filed suit in the United States District Court for the District of Columbia alleging that Bank of America, N.A. (BoA) underpaid its insurance assessment from the second quarter of 2013 through the fourth quarter of 2014 by approximately $542 million, inclusive of interest. During this period, the FDIC alleges that BoA understated its counterparty exposure which resulted in the significant underpayment of insurance assessments. The FDIC reserved its right to amend the complaint to include additional monies believed to be owed for periods prior to this time frame. As of December 31, 2016 and 2015, the impacts of this pending litigation are not reflected in the financial statements of the DIF.

DEPOSIT INSURANCE FUND

2017 FAILURES THROUGH FEBRUARY 8, 2017

Through February 8, 2017, two insured institutions failed in 2017 with total losses to the DIF estimated to be $80 million.

FSLIC RESOLUTION FUND (FRF)

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2016		2015
ASSETS				
Cash and cash equivalents	$	874,174	$	871,037
Other assets, net		4,391		760
Total Assets	$	**878,565**	$	**871,797**
LIABILITIES				
Accounts payable and other liabilities	$	26	$	624
Total Liabilities		**26**		**624**
RESOLUTION EQUITY (NOTE 5)				
Contributed capital		125,489,317		125,489,317
Accumulated deficit		(124,610,778)		(124,618,144)
Total Resolution Equity		**878,539**		**871,173**
Total Liabilities and Resolution Equity	$	**878,565**	$	**871,797**

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)	2016	2015
REVENUE		
Interest on U.S. Treasury securities	$ 2,070	$ 298
Other revenue	3,278	2,309
Total Revenue	**5,348**	**2,607**
EXPENSES AND LOSSES		
Operating expenses	2,725	3,064
Goodwill litigation expenses (Note 3)	0	157,161
Losses related to thrift resolutions (Note 6)	(993)	(153)
Recovery of tax benefits	(3,750)	0
Total Expenses and Losses	**(2,018)**	**160,072**
Net Income (Loss)	**7,366**	**(157,465)**
Accumulated Deficit - Beginning	**(124,618,144)**	**(124,460,679)**
Accumulated Deficit - Ending	**$ (124,610,778)**	**$ (124,618,144)**

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)	2016	2015
OPERATING ACTIVITIES		
Provided by:		
Interest on U.S. Treasury securities	$ 2,070	$ 298
Recoveries from thrift resolutions	2,270	2,555
Department of Justice's return of unused goodwill legal expense funds (Note 3)	2,162	0
Miscellaneous receipts	0	24
Used by:		
Operating expenses	(3,363)	(2,783)
Payments for goodwill litigation (Note 3)	0	(513,616)
Miscellaneous disbursements	(2)	0
Net Cash Provided (Used) by Operating Activities	**3,137**	**(513,522)**
FINANCING ACTIVITIES		
Provided by:		
U.S. Treasury payments for goodwill litigation (Note 3)	0	513,616
Net Cash Provided by Financing Activities	**0**	**513,616**
Net Increase in Cash and Cash Equivalents	**3,137**	**94**
Cash and Cash Equivalents - Beginning	**871,037**	**870,943**
Cash and Cash Equivalents - Ending	**$ 874,174**	**$ 871,037**

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

FSLIC RESOLUTION FUND
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with 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 (IDIs) by identifying, monitoring, and addressing risks to the DIF.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). As such, the FDIC 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 FDIC maintains the DIF and the FRF separately to support their respective functions.

The FSLIC was created 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 and created the FRF. At that time, the assets and liabilities of the FSLIC were transferred 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 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 extensively reviewed and cataloged the FRF's remaining assets and liabilities. Some of the unresolved issues are:

- criminal restitution orders (generally have from 1 to 21 years remaining to enforce);
- collections of judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have up to 10 years remaining to enforce, unless the judgments are renewed or are covered by the Federal Debt Collections Procedures Act, which will result in significantly longer periods for collection of some judgments);
- liquidation/disposition of residual assets purchased by the FRF from terminated receiverships;
- two remaining issues related to assistance agreements entered into by the former FSLIC (FRF could continue to receive or refund overpayments of tax benefits sharing in future years);
- goodwill litigation (reimbursement of a potential tax liability; see Note 3); and
- Affordable Housing Disposition Program monitoring (the last agreement expires no later than 2045; see Note 4).

The FRF could realize recoveries from tax benefits sharing, criminal restitution orders, and professional liability claims. However, any potential recoveries are not reflected in the FRF's financial statements, given the significant uncertainties surrounding the ultimate outcome.

On April 1, 2014, the FDIC concluded its role as receiver of FRF receiverships when the last active receivership was terminated. In total, 850 receiverships were liquidated by the FRF and the RTC. To facilitate receivership terminations, the FRF, in its corporate capacity, acquired the remaining receivership assets. These assets are included in the "Other assets, net" line item on the Balance Sheet.

During the years of receivership activity, the assets held by receivership entities, and the claims against them, were accounted for separately from the FRF's assets and liabilities to ensure that receivership proceeds were distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships were accounted for as transactions of those receiverships. The FDIC billed receiverships for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include 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). During the years of receivership activity, these statements did not include reporting for assets and liabilities of receivership entities because these entities were legally separate and distinct, and the FRF did not have any ownership or beneficial interest in them.

The FRF is a limited-life entity, however, it does not meet the requirements for presenting financial statements using the liquidation basis of accounting. According to Accounting Standards Codification Topic 205, *Presentation of Financial Statements*, a limited-life entity should apply the liquidation basis of accounting only if a change in the entity's governing plan has occurred since its inception. By statute, the FRF is a limited-life entity whose dissolution will occur upon the satisfaction of all liabilities and the disposition of all assets. No changes to this statutory plan have occurred since inception of the FRF.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. 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 valuation estimate for other assets is considered significant.

CASH EQUIVALENTS

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

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

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will replace the *incurred* loss impairment model with a new *expected* credit loss model for financial assets measured at amortized cost and for off-balance-sheet credit exposures. The ASU is effective for the FRF on January 1, 2021. The FDIC is assessing the effect the ASU will have on the FRF's financial position and results of operations.

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

RECLASSIFICATION

Reclassifications have been made in 2015 financial statements to conform to the presentation used in 2016.

3. 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. The contingent liability associated with the nonperformance of these agreements was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC.

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 will have a corresponding receivable from the U.S. Treasury and therefore have no net impact on the financial condition of the FRF.

In 2015, the FRF paid $513.6 million to resolve the remaining active goodwill case using appropriations from the U.S. Treasury. For another case fully adjudicated in 2012, an estimated loss of $8 million for the court-ordered reimbursement of potential tax liabilities to the plaintiff is reasonably possible.

The FRF-FSLIC paid goodwill litigation expenses incurred by the Department of Justice (DOJ), the entity that defended these lawsuits against the United States, based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and the DOJ. These expenses were paid in advance by the FRF-FSLIC and any unused funds were carried over by the DOJ and applied toward the next fiscal year charges. In September 2016, the DOJ returned $2 million of unused funds to the FRF-FSLIC and retained $250 thousand to cover future administrative expenses. The returned funds were recognized in the "Other revenue" line item on the Statement of Income and Accumulated Deficit.

4. Guarantees

TAX LIABILITY INDEMNIFICATION

Similar to the goodwill cases discussed in Note 3, there were additional cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. All eight of those cases have been settled. A case settled in 2006 obligated the FRF-FSLIC as a guarantor for potential tax liabilities. The Internal Revenue Service (IRS) audited the relevant tax return and during the audit did not raise concerns of taxability for the settlement receipts covered under the indemnification agreement. The normal audit period for the IRS to propose adjustments expired in 2016 and the FDIC has no expectation of any further audit or related exposure concerning this matter.

FANNIE MAE GUARANTEE

On May 21, 2012, the FDIC, in its capacity as administrator 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 from 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. Based on the most current data available, as of September 30, 2016, the maximum exposure on this indemnification is the current unpaid principal balance of the remaining 33 multi-family loans totaling $2 million. Based on a contingent liability assessment of this portfolio as of September 30, 2016, the majority of the loans are at least 86 percent amortized, and all are scheduled to mature within one to four years. Since all of the loans are performing and no losses have occurred since 2001, future payments on this indemnification are not expected. No contingent liability for this indemnification has been recorded as of December 31, 2016 and 2015.

AFFORDABLE HOUSING DISPOSITION PROGRAM

Required by FIRREA under section 501, the Affordable Housing Disposition Program (AHDP) was established in 1989 to ensure the preservation of affordable housing for low-income households. The FDIC, in its capacity as administrator of the FRF-RTC, assumed responsibility for monitoring property owner compliance with land use restriction agreements (LURAs). To enforce the property owners' LURA obligation, the RTC, prior to its dissolution, entered into Memoranda of Understanding with 28 monitoring agencies to oversee these LURAs. The FDIC, through the FRF, has agreed to indemnify the monitoring agencies for all losses related to LURA legal enforcement proceedings.

Since 2006, the FDIC entered into two litigations against property owners and paid $23 thousand in legal expenses, which was fully reimbursed due to successful litigation. The maximum potential exposure to the FRF cannot be estimated as it is contingent upon future legal proceedings. However, loss mitigation factors include: (1) the indemnification may become void if the FDIC is not immediately informed upon receiving notice of any legal proceedings and (2) the FDIC is entitled to reimbursement of any legal expenses incurred for successful litigation against a property owner. AHDP guarantees will continue until the termination of the last LURA, or 2045 (whichever occurs first). As of December 31, 2016 and 2015, no contingent liability for this indemnification has been recorded.

5. Resolution Equity

As stated in the Overview section of Note 1, the FRF is composed 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.

Contributed capital, accumulated deficit, and resolution equity consisted of the following components by each pool (in thousands).

December 31, 2016

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Contributed capital - ending	**43,864,980**	**81,624,337**	**125,489,317**
Accumulated deficit	(43,029,200)	(81,581,578)	(124,610,778)
Total Resolution Equity	**$ 835,780**	**$ 42,759**	**$ 878,539**

December 31, 2015

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 43,707,819	$ 81,624,337	$ 125,332,156
Add: U.S. Treasury payment in excess of prior year receivable	157,161	0	157,161
Contributed capital - ending	**43,864,980**	**81,624,337**	**125,489,317**
Accumulated deficit	(43,036,684)	(81,581,460)	(124,618,144)
Total Resolution Equity	**$ 828,296**	**$ 42,877**	**$ 871,173**

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.

The FRF-FSLIC received $513.6 million in U.S. Treasury payments for goodwill litigation in 2015, of which $356.4 million was accrued as a receivable at year-end 2014. The $157.2 million difference increased contributed capital in 2015. Through December 31, 2016, the FRF received a total of $2.3 billion in goodwill appropriations, the effect of which increased contributed capital.

Through December 31, 2016, the FRF-RTC had returned $4.6 billion to the U.S. Treasury and made payments of $5.1 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2013 for $125 million. In addition, the FDIC returned $2.6 billion to the U.S. Treasury on behalf of the FRF-FSLIC in 2013. These actions reduced contributed capital.

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. Since the dissolution dates, the FRF-FSLIC accumulated deficit increased by $13.2 billion, whereas the FRF-RTC accumulated deficit decreased by $6.3 billion.

6. Losses Related to Thrift Resolutions

Losses related to thrift resolutions represent changes in the estimated losses on assets acquired from terminated receiverships, as well as expenses for the disposition and administration of these assets.

These losses were a negative $993 thousand for 2016 compared to negative $153 thousand for 2015. The 2016 balance primarily resulted from a $1 million reduction in the estimated losses due to better-than-anticipated recoveries upon disposition of an asset during 2016.

7. Disclosures about the Fair Value of Financial Instruments

At December 31, 2016 and 2015, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents of $831 million and $828 million, respectively. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Bureau of the Fiscal Service. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets.

Accounts payable and other 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 interest rates.

Assets purchased by the FRF from terminated receiverships (see Note 1) and included in the "Other assets, net" line item on the Balance Sheet are primarily valued using projected cash flow analyses; however, these valuations do not represent an estimate of fair value. These assets (ranging in age between 22 to 27 years) could not be liquidated during the life of the receiverships due to restrictive clauses and other impediments. Because these impediments remain,

there is no market for these assets. Consequently, it is not practicable to provide an estimate of fair value.

8. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income/(loss) to net cash from operating activities (in thousands).

	December 31 2016	December 31 2015
Operating Activities		
Net Income (Loss):	$ 7,366	$ (157,465)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Losses related to thrift resolutions (only includes provision for losses)	0	(260)
Change in Assets and Liabilities:		
(Increase) Decrease in other assets	(3,631)	404
(Decrease) Increase in accounts payable and other liabilities	(598)	254
(Decrease) in contingent liabilities for goodwill litigation	0	(356,455)
Net Cash Provided (Used) by Operating Activities	$ **3,137**	$ **(513,522)**

9. Subsequent Events

Subsequent events have been evaluated through February 8, 2017, the date the financial statements are available to be issued, and management determined that there are no items to disclose.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Board of Directors
The Federal Deposit Insurance Corporation

In our audits of the 2016 and 2015 financial statements of the Deposit Insurance Fund (DIF) and of the Federal Savings and Loan Insurance Corporation (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 of the FRF as of and for the years ended December 31, 2016, and 2015, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2016; and
- with respect to the DIF and to the FRF, no reportable noncompliance for 2016 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting and other information[2] included with the financial statements; (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended,[3] and the Government Corporation Control Act,[4] we have audited the financial statements of the DIF and of the FRF, both of which are administered by FDIC. The financial statements for the DIF comprise the balance sheets as of December 31, 2016, and 2015; the related statements of income and fund balance and of cash flows for the years then ended; and the related notes to the financial statements. The financial statements for the FRF comprise the balance sheets as of December 31, 2016, and 2015; the related statements of income and accumulated deficit and of 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 to the FRF as of December 31, 2016, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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[1]A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210(n) 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 from its inception in 2010 through 2016.

[2]Other information consists of information included with the financial statements, other than the auditor's report.

[3]Act of September 21, 1950, Pub. L. No. 797, § 2[17], 64 Stat. 873, 890, *classified as amended at* 12 U.S.C. § 1827.

[4]31 U.S.C. §§ 9101-9110.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

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) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements; (3) 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; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) providing its assessment about the effectiveness of internal control over financial reporting as of December 31, 2016, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

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 to 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. We are also responsible for applying certain limited procedures to other information included with the financial statements.

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 involves performing procedures to obtain evidence about whether a material weakness exists.[5] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal

[5]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.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

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.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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 accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 on Financial Statements

In our opinion:

- The DIF's financial statements present fairly, in all material respects, the DIF's financial position as of December 31, 2016, and 2015, and 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, 2016, and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

In our opinion, although certain internal controls could be improved,

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2016, based on criteria established under FMFIA.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2016, based on criteria established under FMFIA.

As discussed in greater detail later in this report, our 2016 audit identified deficiencies in FDIC's information systems controls that collectively represent a significant deficiency in FDIC's internal control over financial reporting.[6]

Although the significant deficiency in internal control did not affect our opinions on the 2016 financial statements of the DIF and of the FRF, misstatements may occur in other financial information reported by the DIF and the FRF and not be prevented or detected and corrected on a timely basis because of this significant deficiency.

In addition to the significant deficiency in information systems controls, we identified other deficiencies in FDIC's internal control over financial reporting 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.

Significant Deficiency in Information Systems Controls

During our 2016 audit, we identified new deficiencies in information systems controls that along with unresolved control deficiencies from prior audits, collectively represent a significant deficiency in FDIC's internal control over financial reporting. Specifically, the deficiencies relate to general information systems controls in the areas of access and configuration management controls.

FDIC did not sufficiently implement controls to limit or detect access to computer resources. Specifically, FDIC did not have sufficient boundary protection controls on its network to fully isolate sensitive financial systems from other parts of its network. According to FDIC, a plan to fully isolate sensitive systems on a secure network segment had been made, but implementation of the plan had been delayed because of other competing priorities. Until it appropriately isolates its sensitive financial systems, FDIC faces increased risk that unauthorized or malicious attempts to communicate with its financial systems could go undetected.

FDIC did not consistently implement configuration management controls. Configuration management controls are intended to prevent unauthorized changes to information system resources and provide reasonable assurance that systems are configured and operating securely and as intended. Effective configuration management depends on the maintenance of a complete, accurate inventory of information system components. However, we identified deficiencies in FDIC's implementation of these controls, placing its information and systems at increased risk of modification, loss, or disclosure. Specifically, see the following:

- Although FDIC used multiple data sources to keep track of its inventory of network assets, it did not have a single, authoritative, complete, and accurate inventory of all network assets in its environment. This occurred because FDIC had not established a process to reasonably assure that a complete, accurate inventory was developed and maintained. Until FDIC develops and implements a process to maintain a complete, accurate inventory of its

[6]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.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

network assets, its ability to identify potential vulnerabilities in unidentified assets may be limited, posing unnecessary risks to information systems.

- FDIC did not consistently scan its servers for vulnerabilities. FDIC policy states that servers are scanned for vulnerabilities weekly, vulnerability reports are produced monthly, and systems may not go unscanned for more than 2 consecutive months. However, FDIC had not scanned 51 servers in one of its general support systems during the 3-month time period (July, August, and September 2016) that we reviewed. According to FDIC officials, this occurred because FDIC did not have an authoritative or complete inventory of its network assets and also because its legacy scanning and discovery tool failed to identify all servers. Officials also stated that the scanning and discovery tool has been replaced. In addition, the FDIC Office of Inspector General (OIG) has identified similar concerns. In its November 2016 report on the effectiveness of FDIC's information security program in accordance with the requirements of the Federal Information Security Modernization Act of 2014,[7] the OIG reported that at the time of its audit, FDIC was not performing vulnerability scans for more than 900 production servers within another of its general support systems.[8] Without regularly scanning all servers, FDIC cannot reasonably assure that vulnerabilities in its servers are identified and corrected in a timely manner, increasing the risk that FDIC's systems and information may be compromised.

During 2016, FDIC made progress addressing previously reported control deficiencies related to its information systems. Key corrective actions included improving controls for authorizing users' access to financial applications and for logging and monitoring financial applications to detect potentially malicious activity. However, other previously reported control deficiencies in FDIC's information security continued to exist. For example, FDIC (1) had not fully implemented agency-wide configuration baselines and (2) did not always effectively monitor changes to critical server files.[9]

The cumulative effect of the control risks created by FDIC's new and previously reported information security control deficiencies, while not collectively considered a material weakness, is important enough to merit the attention of those charged with governance of FDIC and therefore represents a significant deficiency in FDIC's internal control over financial reporting as of December 31, 2016. Continued and consistent management commitment and attention will be essential to addressing existing deficiencies and continually improving FDIC's information system controls. Until FDIC takes the necessary steps to address these new and previously reported control deficiencies, its sensitive financial information and resources will remain at increased risk of inadvertent or deliberate misuse, improper modification, unauthorized disclosure, or destruction.

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[7]Pub. L. No. 113-283, 128 Stat. 3073 (Dec. 18, 2014), *codified as amended at* 44 U.S.C. §§ 3551-3558.

[8]Federal Deposit Insurance Corporation, Office of Inspector General, *Audit of the FDIC's Information Security Program—2016*, AUD-17-001 (Arlington, Va.: November 2016).

[9]GAO, *Information Security: FDIC Implemented Controls over Financial Systems, but Further Improvements Are Needed*, GAO-16-605 (Washington, D.C.: June 29, 2016).

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

Other Matters

Other Information

FDIC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming opinions on the DIF and the FRF financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the financial statements of the DIF and of the FRF, both of which are administered by FDIC, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. 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, regulations, contracts, and grant agreements.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements of the DIF and of the FRF, and perform certain other limited procedures. Accordingly, we did not test FDIC's compliance with all applicable laws, regulations, contracts, and grant agreements.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for 2016 that would be reportable, with respect to the DIF and to the FRF, under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

Agency Comments

In commenting on a draft of this report, FDIC stated that it was pleased to receive unmodified opinions on the DIF's and the FRF's financial statements, and noted that we reported that FDIC had effective internal control over financial reporting and that there was no reportable noncompliance with tested provisions of applicable laws, regulations, contracts, and grant agreements.

FDIC also noted that we reported deficiencies in FDIC's information systems controls that collectively represent a significant deficiency. FDIC stated that it will work to improve its internal control environment and will focus additional management attention to address and remediate the identified information system control deficiencies, recognizing the essential role a strong internal control program plays in achieving an agency's mission. Further, FDIC stated that dedication to sound financial management has been and will remain a top priority. The complete text of FDIC's response is reprinted in appendix II.

James R. Dalkin
Director
Financial Management and Assurance

February 8, 2017

Appendix I

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Office of the Chairman

Management's Report on Internal Control Over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting relevant to the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF) 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 accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

FDIC management is responsible for 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. FDIC management evaluated the effectiveness of the FDIC's internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2016, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)). FDIC management performed this evaluation through its corporate risk management program that seeks to comply with the spirit of the following laws, standards, and guidance from the Office of Management and Budget (OMB) among others: 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 *Standards for Internal Control in the Federal Government.*

Based on the above evaluation, management concludes that, as of December 31, 2016, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.

Martin J. Gruenberg
Chairman

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

February 8, 2017

Appendix II

MANAGEMENT'S RESPONSE TO THE AUDITOR'S REPORT

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

February 8, 2017

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

Re: FDIC Management Response to the GAO 2016 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' 2016 and 2015 Financial Statements, GAO-17-299R. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified (unqualified) opinions for the twenty-fifth 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 applicable laws, regulations, contracts, and grant agreements that were tested. GAO did report deficiencies in FDIC's information systems controls that collectively represent a significant deficiency.

We appreciated GAO's acknowledgement of the progress made in addressing the challenges in the information technology area. FDIC management and staff will work to improve the internal control environment and will focus additional management attention to address and remediate the identified information system control deficiencies. FDIC recognizes the essential 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 assessment about the effectiveness of its internal control over financial reporting, the FDIC has prepared Management's Report on Internal Control Over Financial Reporting. 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 another productive and successful relationship during the 2017 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

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

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VI.

CORPORATE MANAGEMENT CONTROL

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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 Division of Finance Corporate Management Control Branch oversees 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 financial, reputational, and 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 Inspector General, the GAO, and other providers of external/audit scrutiny. The FDIC has received unmodified/unqualified opinions on its financial statement audits for 25 consecutive years, and these and other positive results reflect the effectiveness of the overall management control program.

In 2016, efforts were focused on failed bank data; the Identity, Credential and Access Control Program; systems development associated with the Capital Investment Review Committee; the Workforce Development Initiative; and systems security. Considerable energy was devoted to ensuring that the FDIC's processes and systems of control have kept pace with the workload, and that the foundation of controls throughout the FDIC remained strong.

During 2017, among other things, program evaluation activities will focus on data mining, continuity of operations, process mapping, process improvements, internal controls of outsourced service providers, continuation of efforts on failed bank data, and systems security. Continued emphasis and management scrutiny also will be applied to the accuracy and integrity of transactions and oversight of systems development efforts in general.

FRAUD REDUCTION AND DATA ANALYTICS ACT OF 2015

The Fraud Reduction and Data Analytics Act of 2015 was signed into law on June 30, 2016. The law is intended to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

The FDIC's enterprise risk management and internal control program considers the potential for fraud and incorporates elements of Principle 8 – Assess Fraud Risk, of the GAO Standards of Internal Control in the Federal Government. The FDIC implemented a Fraud Risk Assessment Framework as a basis for identifying potential financial fraud risks and schemes, ensuring that preventive and detective controls are present and working as intended. Examples of fraud risks are contractor payments, wire transfers, travel card purchases, and theft of cash receipts.

As part of the Framework, potential fraud areas are identified and key controls are evaluated/implemented as proactive measures to fraud prevention. Although no system of internal control provides absolute assurance, the FDIC's system of internal control can provide reasonable assurance that key controls are adequate and working as intended. Monitoring activities include supervisory approvals, management reports, and exception reporting.

FDIC management performs due diligence in areas of suspected or alleged fraud. At the conclusion of due diligence, the matter is either dropped or referred to the Office of Inspector General for investigation.

During 2016, there has been no systemic fraud identified within the FDIC.

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, 2015, through September 30, 2016.

TABLE 1:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR FISCAL YEAR 2016
Dollars in Thousands

	Audit Reports	Number of Reports	Disallowed Costs
A.	Management decisions – final action not taken at beginning of period	0	$0
B.	Management decisions made during the period	1	$55
C.	**Total reports pending final action during the period (A and B)**	**1**	**$55**
D.	1. Recoveries:		
	(a) Collections & offsets	0	$0
	(b) Other	0	$0
	2. Write-offs	0	$0
	3. Total of 1 & 2	**0**	**$0**
E.	Audit reports needing final action at the end of the period	1	$55

TABLE 2:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR FISCAL YEAR 2016
Dollars in Thousands

(There were no audit reports in this category.)

TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2016

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
AUD-14-002 11/21/2013	The Director, Division of Administration (DOA) should coordinate with Division of Information Technology (DIT) and FDIC division and office officials, as appropriate, to address potential gaps that may exist between the 12-hour timeframe required to restore mission essential functions following an emergency and the 72-hour recovery time objective for restoring mission-critical applications.	The Chief Information Officer Organization will prepare a briefing for the Board by June 16, 2017 on the status of the Continuity of Operations (COOP) effort and a Board Case by end of third quarter 2017 that lays out the approach for meeting the COOP objectives and how it addresses the risk associated with meeting the FEMA Category II requirements. Due Date: 10/11/2017	$0
AUD-15-003 03/30/2015	The Director, RMS should review and update, as appropriate, supervisory guidance and associated training related to newly insured banks to address the lessons learned and issues described in this report, including the need for: a) thorough and timely (at least quarterly) monitoring of changes and deviations in bank business plans; b) prompt communication to bank management regarding issues involving the adequacy of business plans; c) clear expectations regarding the timing, type, and documentation of supervisory monitoring activities pertaining to business plan compliance; and d) proactive supervisory action when banks materially deviate from their approved business plans without regulatory approval.	RMS is finalizing new de novo supervision guidance. The Regional Director memo, which outlines supervisory expectations, including monitoring of business plan changes, is in final processing and expected to be issued by December 31, 2016. Due Date: 3/31/2017	$0

TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2016
(continued)

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
AUD-15-007 09/03/2015	The Director, RMS, should update guidance for placing an institution on a targeted examination schedule to define dates to be used for purposes of complying with FDI Act examination frequency requirements.	RMS is presently updating and consolidating its supervisory policies and procedures for large banks. As part of that effort, RMS will provide technical instructions for determining the examination "as of" date for an initial examination activity under the continuous examination program and for recording that information in its inventory systems to document compliance with the examination frequency requirements of Section 10(d) of the FDI Act. RMS will complete this action by March 31, 2017. Due Date: 3/31/2017	$0
	The Director, RMS, should issue or revise policy guidance to document the requirements and responsibilities of Regional Accountants for developing and communicating a comprehensive analysis and related conclusions for complex and/or unique accounting transactions, or for escalating such analysis to the Washington Office Policy staff, as appropriate.	RMS recently held a conference call with Regional Accountants to discuss updates to existing guidance. RMS has also reached out to the OCC and FRB for information on those agencies' handling of complex accounting questions. Additional time will be needed in order for the update to the responsibilities of the Regional Accountant to be consistent with the ongoing Accounting SME Project, which is an integral part of the communication channel for handling complex accounting questions. The timeline for the Accounting SME Project has been tentatively extended through March 31, 2017. Due Date: 3/31/2017	$0

TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS OVER ONE YEAR OLD FOR FISCAL YEAR 2016
(continued)

Report No. and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
AUD-15-008 09/16/2015	The Directors, RMS and DCP, should coordinate to review and clarify, as appropriate, existing policy and guidance pertaining to the provision and termination of banking services to ensure it adequately addresses banking products other than deposit accounts, such as credit products.	Additional time is required to approve and issue several RMS Regional Director Memorandums, which will include the following topics: delegations of authority, communications with bankers, matters requiring board attention and other supervisory recommendations, large bank operating procedures, processing requests for review (bank appeals), and third-party lending. Due Date: 3/31/2017	$0
	The Directors, RMS and DCP, should coordinate to assess the effectiveness of the FDIC's supervisory policy and approach with respect to the issues and risks discussed in this report after a reasonable period of time is allowed for implementation.	RMS' Internal Control and Review section will conduct horizontal and regional office reviews to assess compliance with the FDIC's actions to address the issues discussed in the report. The FDIC will also continue to report to the Board on deposit account terminations; highlight supervisory guidance in outreach events; and monitor inquiries and comments from the Office of the Ombudsman. Due Date: 6/30/2017	$0
	The Directors, RMS and DCP, should coordinate with the Legal Division to review and clarify, as appropriate, existing supervisory policy and guidance to ensure it adequately defines moral suasion in terms of the types and circumstances under which it is used to address supervisory concerns, whether it is subject to sufficient scrutiny and oversight, and whether meaningful remedies exist should moral suasion be misused.	Additional time is required to approve and issue several RMS Regional Director Memorandums, which will include the following topics: delegations of authority, communications with bankers, matters requiring board attention and other supervisory recommendations, large bank operating procedures, processing requests for review (bank appeals), and third-party lending. Due Date: 3/31/2017	$0

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VII.

APPENDICES

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A. KEY STATISTICS

FDIC ACTIONS ON FINANCIAL INSTITUTIONS APPLICATIONS 2014–2016			
	2016	2015	2014
Deposit Insurance	**7**	**5**	**2**
Approved[1]	7	5	2
Denied	0	0	0
New Branches	**507**	**548**	**520**
Approved	507	548	520
Denied	0	0	0
Mergers	**245**	**270**	**251**
Approved	245	270	251
Denied	0	0	0
Requests for Consent to Serve[2]	**167**	**240**	**327**
Approved	164	239	327
Section 19	9	7	7
Section 32	155	232	320
Denied	3	1	0
Section 19	0	0	0
Section 32	3	1	0
Notices of Change in Control	**14**	**20**	**15**
Letters of Intent Not to Disapprove	14	20	15
Disapproved	0	0	0
Brokered Deposit Waivers	**14**	**20**	**46**
Approved	13	20	46
Denied	1	0	0
Savings Association Activities	**0**	**1**	**4**
Approved	0	1	4
Denied	0	0	0
State Bank Activities/Investments[3]	**5**	**10**	**14**
Approved	5	10	14
Denied	0	0	0
Conversion of Mutual Institutions	**5**	**4**	**4**
Non-Objection	5	4	4
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] Section 24 of the FDI Act, in general, prohibits 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.

COMBINED RISK AND CONSUMER ENFORCEMENT ACTIONS 2014–2016

	2016	2015	2014
Total Number of Actions Initiated by the FDIC	**259**	**268**	**320**
Termination of Insurance	**0**	**11**	**3**
Involuntary Termination	0	**0**	**0**
Sec. 8a For Violations, Unsafe/Unsound Practices or Conditions	0	0	0
Voluntary Termination	**5**	**11**	**3**
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	5	6	3
Sec. 8q Deposits Assumed	0	5	0
Sec. 8b Cease-and-Desist Actions	**30**	**48**	**57**
Notices of Charges Issued	2	3	1
Orders to Pay Restitution	0	9	7
Consent Orders	26	36	48
Personal Cease and Desist Orders	2	0	1
Sec. 8e Removal/Prohibition of Director or Officer	**97**	**88**	**101**
Notices of Intention to Remove/Prohibit	8	4	4
Consent Orders	89	84	97
Sec. 8g Suspension/Removal When Charged With Crime	**0**	**0**	**2**
Civil Money Penalties Issued	**37**	**45**	**66**
Sec. 7a Call Report Penalties	0	0	0
Sec. 8i Civil Money Penalties	34	36	62
Sec. 8i Civil Money Penalty Notices of Assessment	3	9	4
Sec. 10c Orders of Investigation	**10**	**19**	**16**
Sec. 19 Waiver Orders	**72**	**51**	**69**
Approved Section 19 Waiver Orders	72	51	68
Denied Section 19 Waiver Orders	0	0	1
Sec. 32 Notices Disapproving Officer/Director's Request for Review	1	**0**	**0**
Truth-in-Lending Act Reimbursement Actions	**83**	**64**	**69**
Denials of Requests for Relief	0	0	0
Grants of Relief	0	0	0
Banks Making Reimbursement*	83	64	69
Suspicious Activity Reports (Open and closed institutions)*	**222,836**	**189,505**	**164,777**
Other Actions Not Listed	**7**	**6**	**6**

* 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, 2016[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 Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2016	$250,000	$11,505,053	$6,822,885	59.3	80,704.0	0.70	1.18
2015	250,000	10,950,090	6,528,125	59.6	72,600.2	0.66	1.11
2014	250,000	10,408,187	6,201,915	59.6	62,780.2	0.60	1.01
2013	250,000	9,825,479	5,999,191	61.1	47,190.8	0.48	0.79
2012	250,000	9,474,720	7,402,053	78.1	32,957.8	0.35	0.45
2011	250,000	8,782,292	6,973,483	79.4	11,826.5	0.13	0.17
2010	250,000	7,887,858	6,301,542	79.9	(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	7,505,408	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	6,229,753	3,890,930	62.5	48,596.6	0.78	1.25
2004	100,000	5,724,621	3,622,059	63.3	47,506.8	0.83	1.31
2003	100,000	5,223,922	3,452,497	66.1	46,022.3	0.88	1.33
2002	100,000	4,916,078	3,383,598	68.8	43,797.0	0.89	1.29
2001	100,000	4,564,064	3,215,581	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

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2016[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 Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
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
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

ESTIMATED INSURED DEPOSITS AND THE DEPOSIT INSURANCE FUND, DECEMBER 31, 1934, THROUGH SEPTEMBER 30, 2016[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 Domestic Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
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
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 2016, figures are as of September 30; all other 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 the sum of the BIF and Savings Association Insurance Fund (SAIF) amounts; for 2006 to 2016, figures are for DIF. Amounts for 1989-2016 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, 2016

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	**$230,629.4**	**$165,000.2**	**$11,392.9**	**$77,022.1**		**$147,747.9**	**$108,474.3**	**$29,809.6**	**$9,464.0**	**$139.5**	**$83,021.0**
2016	10,674.1	9,986.6	0.0	687.5	0.0699%	150.6	(1,567.9)	1,715.0	3.5	0	10,523.5
2015	9,303.5	8,846.8	0.0	456.7	0.0647%	(553.2)	(2,251.3)	1,687.2	10.9	0	9,856.7
2014	8,965.1	8,656.1	0.0	309.0	0.0663%	(6,634.7)	(8,305.5)	1,664.3	6.5	0	15,599.8
2013	10,458.9	9,734.2	0.0	724.7	0.0775%	(4,045.9)	(5,659.4)	1,608.7	4.8	0	14,504.8
2012	18,522.3	12,397.2	0.2	6,125.3	0.1012%	(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	0.1115%	(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, 2016 (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 Resolu-tion 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
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

INCOME AND EXPENSES, DEPOSIT INSURANCE FUND, FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 2016 (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 Resolu-tion Fund	Net Income/ (Loss)
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. 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. 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 annualized assessment rate for 2016 is based on full year assessment income divided by a four quarter average of 2016 quarterly assessment base amounts. The assessment base for fourth quarter 2016 was estimated using the third quarter 2016 assessment base and an assumed quarterly growth rate of one percent. Beginning July 1, 2016 initial assessment rates were lowered from a range of 5 basis points to 35 basis points to a range of 3 basis points to 30 basis points, and an additional surcharge was imposed on large banks (generally institutions with $10 billion or more in assets) of 4.5 basis points of their assessment base (after making adjustments).

[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 on page 89 of this report shows 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.

FDIC INSURED INSTITUTIONS CLOSED DURING 2016

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								
Trust Company Bank Memphis, TN	NM	614	$18,998	$20,148	$21,119	$10,931	04/29/16	The Bank of Fayette County Piperton, TN
Whole Bank Purchase and Assumption - All Deposits								
North Milwaukee State Bank Milwaukee, WI	NM	2,548	$67,115	$61,493	$59,864	11,846	03/11/16	First-Citizens Bank & Trust Company Raleigh, NC
First CornerStone Bank King of Prussia, PA	NM	2,372	$103,307	$101,040	$97,455	12,482	05/06/16	First-Citizens Bank & Trust Company Raleigh, NC
The Woodbury Banking Company Woodbury, GA	NM	1,358	$21,426	$21,122	$20,475	$5,225	08/19/16	United Bank Zebulon, GA
Allied Bank Mulberry, AR	SM	4,081	$66,336	$64,713	$61,271	$6,880	09/23/16	Today's Bank Huntsville, AR

[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 December 31, 2016. 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.

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2016

Dollars in Thousands

Bank and Thrift Failures[1]

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Funding[4]	Recoveries[5]	Estimated Additional Recoveries	Final and Estimated Losses[6]
	2,615	**$941,561,675**	**$708,551,440**	**$582,315,734**	**$412,100,104**	**$63,283,794**	**$106,931,836**
2016	5	$277,182	$268,516	260,184	0	212,820	47,364
2015	8	6,706,038	4,870,464	4,559,009	730,994	2,921,111	906,904
2014	18	2,913,503	2,691,485	2,679,230	387,559	1,899,750	391,921
2013	24	6,044,051	5,132,246	5,019,216	217,015	3,549,064	1,253,137
2012	51	11,617,348	11,009,630	11,035,242	1,647,257	6,913,768	2,474,217
2011	92	34,922,997	31,071,862	30,705,964	2,847,739	21,329,461	6,528,764
2010[7]	157	92,084,988	78,290,185	82,295,469	55,153,961	10,678,036	16,463,472
2009[7]	140	169,709,160	137,835,121	136,056,847	94,312,538	14,205,363	27,538,946
2008[7]	25	371,945,480	234,321,715	205,822,476	184,374,984	3,146,441	18,301,051
2007	3	2,614,928	2,424,187	1,920,576	1,461,932	297,359	161,285
2006	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2004	4	170,099	156,733	139,182	134,978	287	3,917
2003	3	947,317	901,978	883,772	812,933	8,192	62,647
2002	11	2,872,720	2,512,834	1,567,805	1,711,173	(493,685)	350,317
2001	4	1,821,760	1,661,214	21,131	1,138,677	(1,410,011)	292,465
2000	7	410,160	342,584	297,313	265,175	0	32,138
1999	8	1,592,189	1,320,573	1,308,225	711,758	9,324	587,143
1998	3	290,238	260,675	292,921	58,248	11,819	222,854
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	14,541,476	10,866,760	567	3,674,149
1991	124	64,556,512	52,972,034	21,501,145	15,496,730	4,128	6,000,287
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 - 2016

Dollars in Thousands

Assistance Transactions[1]

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Funding[4]	Recoveries[5]	Estimated Additional Recoveries	Final and Estimated Losses[6]
	154	**$3,317,099,253**	**$1,442,173,417**	**$11,630,356**	**$6,199,875**	**0**	**$5,430,481**
2016	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0
2013	0	0	0	0	0	0	0
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[8]	8	1,917,482,183	1,090,318,282	0	0	0	0
2008[8]	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

RECOVERIES AND LOSSES BY THE DEPOSIT INSURANCE FUND ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 - 2016 (continued)

Dollars in Thousands

Assistance Transactions[1]

Year[2]	Number of Banks/ Thrifts	Total Assets[3]	Total Deposits[3]	Funding[4]	Recoveries[5]	Estimated Additional Recoveries	Final and Estimated Losses[6]
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
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 for which the FDIC is appointed receiver, 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 2016, figures are for the DIF.

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

[4] Funding represents the amounts provided by the DIF to receiverships for subrogated claims, advances for working capital, and administrative expenses paid on their behalf. Beginning in 2008, the DIF resolves failures using whole-bank purchase and assumption transactions, most with an accompanying shared-loss agreement (SLA). The DIF satifies any resulting liabilities by offsetting receivables from resolutions when receiverships declare a dividend and/or sending cash directly to receiverships to fund an SLA and other expenses.

[5] Recoveries represent cash received and dividends (cash and non-cash) declared by receiverships.

[6] Final losses represent actual losses for unreimbursed subrogated claims of inactivated receiverships. Estimated losses represent the difference between the amount paid by the DIF to cover obligations to insured depositors and the estimated recoveries from the liquidation of receivership assets.

[7] Includes amounts related to transaction account coverage under the Transaction Account Guarantee Program (TAG). The estimated losses as of December 31, 2016, for TAG accounts in 2010, 2009, and 2008 are $381 million, $1.1 billion, and $13 million, respectively.

[8] Includes institutions where assistance was provided under a systemic risk determination.

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 Fund[3]
Total	**748**	**$393,986,574**	**$318,328,770**	**$75,977,846**	**$81,581,578**
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	5,708,253	267,595	65,212
1992	59	44,196,946	34,773,224	3,286,908	3,832,145
1991	144	78,898,904	65,173,122	9,235,967	9,734,263
1990	213	129,662,498	98,963,962	16,062,685	19,257,578
1989[4]	318	134,519,630	113,168,009	47,085,027	48,650,031

[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 the FRF's books. Year is the year of failure, not the year of resolution.

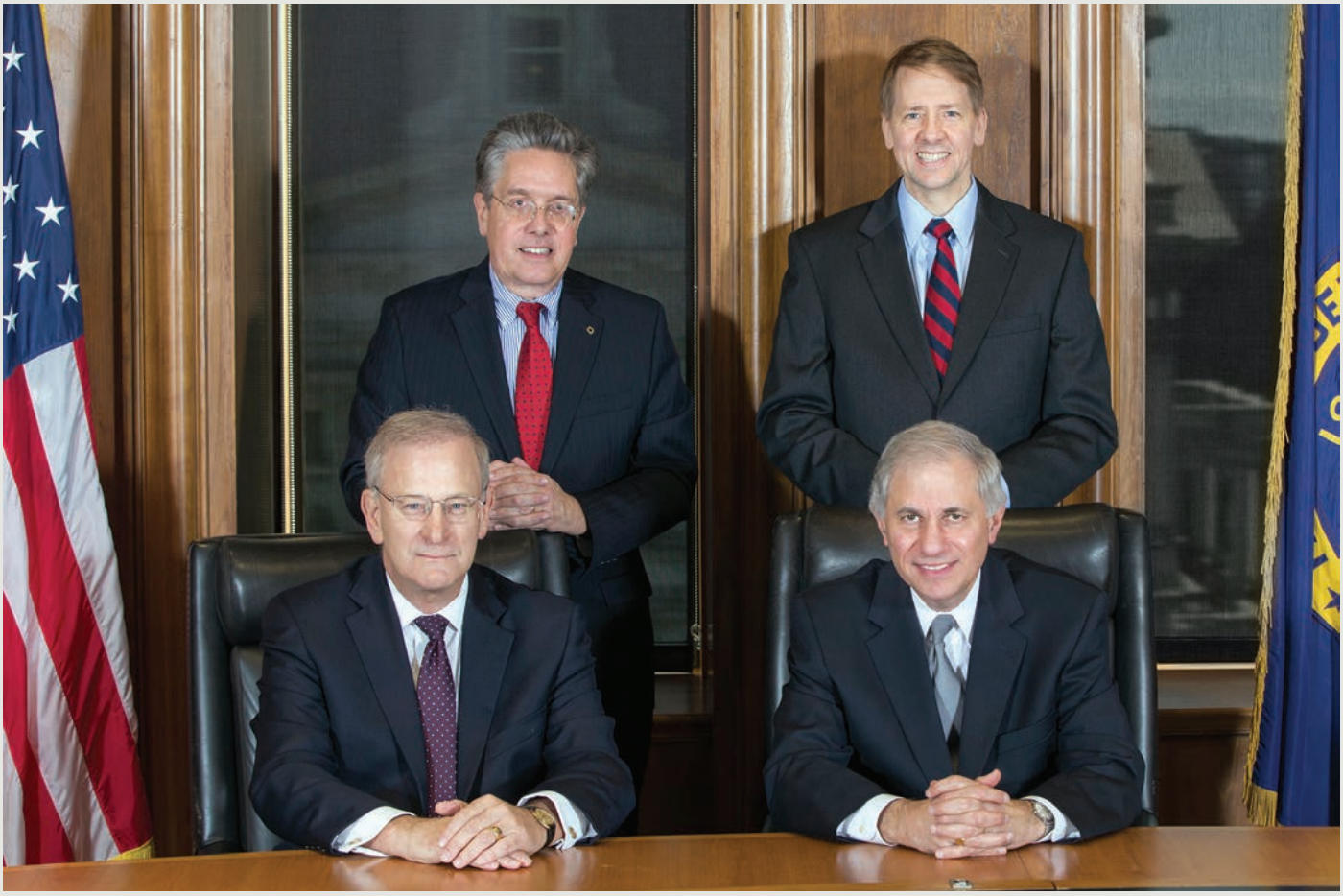
[2] The Estimated Receivership Loss represents the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF and unpaid advances to receiverships from the FRF.

[3] The Final Loss to Fund represents the total resolution cost of the failed thrifts in the FRF-RTC fund. In addition to the estimated losses for receiverships, the final loss 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.

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

B. MORE ABOUT THE FDIC

FDIC BOARD OF DIRECTORS



Seated (left to right): Thomas M. Hoenig and Martin J. Gruenberg.
Standing (left to right): Thomas J. Curry and 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 served as Vice Chairman and Member of the FDIC Board of Directors from August 22, 2005, until his confirmation as Chairman. He served 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.

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 approximately 1,700 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 is a Director of NeighborWorks® America where he served as Chairman from March 2014 through June 2016, and also a member of the Federal Financial Institutions Examination Council (FFIEC) where he served as Chairman for a two-year term from April 2013 until April 2015.

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.

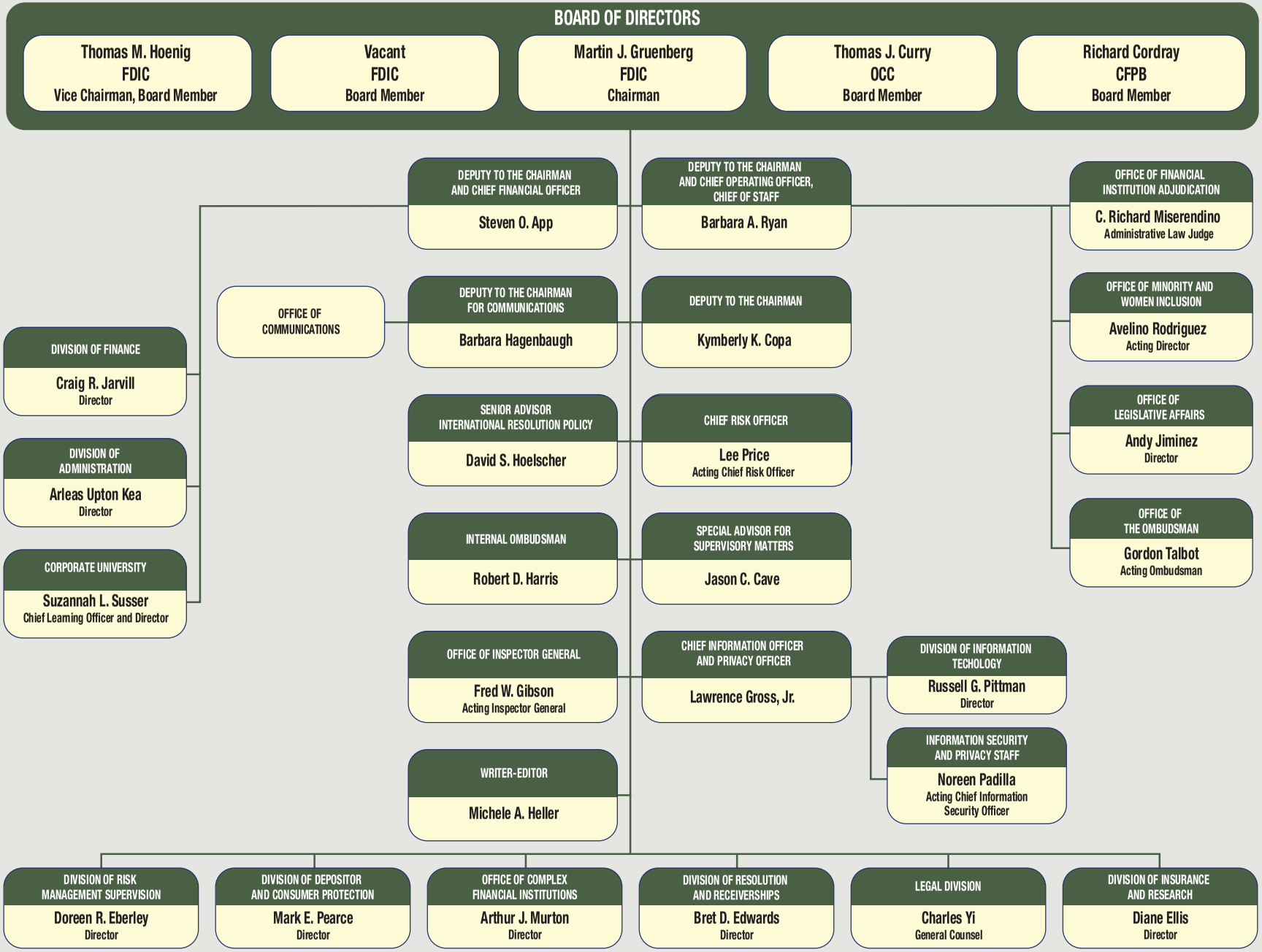
Prior to joining the Bureau, Mr. Cordray served on the front lines of consumer protection as Ohio's Attorney General. Mr. Cordray recovered more than $2 billion for Ohio's retirees, investors, and business owners, and took major steps to help protect its consumers from fraudulent foreclosures and financial 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.

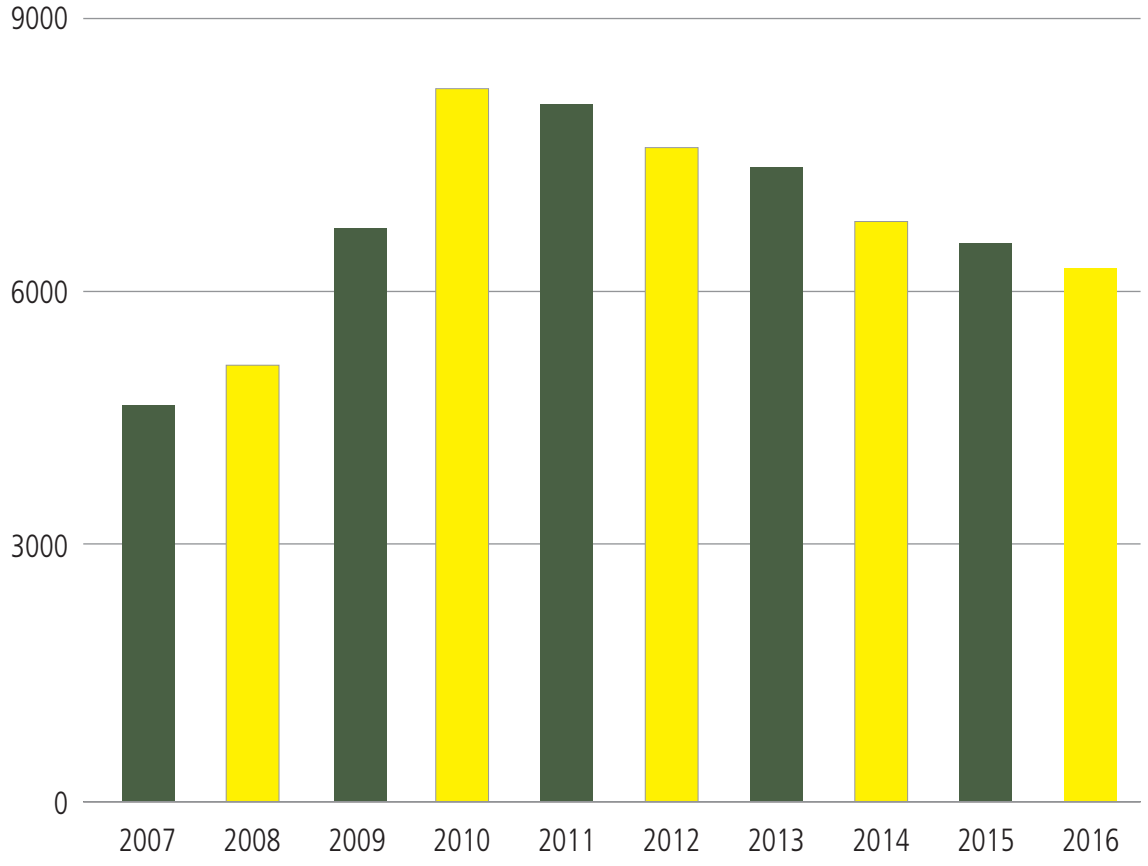
Earlier in his career, Mr. Cordray was an adjunct professor at the Ohio State University College of Law, served as a State Representative for the 33rd Ohio House District, was the first Solicitor General in Ohio's history, and was a sole practitioner and Counsel to Kirkland & Ellis. Mr. Cordray has argued 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 2007-2016



2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
4,532	4,988	6,557	8,150	7,973	7,476	7,254	6,631	6,385	6,096

FDIC Year–End On-Board Staffing

Note: 2007–2016 staffing totals reflect year-end full time equivalent staff. Prior to 2008, staffing totals reflect total employees on-board.

NUMBER OF EMPLOYEES BY DIVISION/OFFICE 2015 AND 2016 (YEAR-END)[1]

	Total		Washington		Regional/Field	
Division or Office:	2016	2015	2016	2015	2016	2015
Division of Risk Management Supervision	2,627	2,683	204	208	2,423	2,475
Division of Depositor and Consumer Protection	838	841	116	122	722	719
Division of Resolutions and Receiverships	537	719	138	149	399	570
Legal Division	531	564	340	356	191	208
Division of Administration	370	367	256	251	114	116
Division of Information Technology	301	319	237	252	64	67
Corporate University	210	194	202	187	8	7
Division of Insurance and Research	193	205	153	163	40	42
Division of Finance	167	171	164	169	3	2
Information Security and Privacy Staff	34	36	34	36	0	0
Office of Inspector General	122	119	76	74	47	46
Office of Complex Financial Institutions	67	62	50	52	17	10
Executive Offices[2]	22	22	22	22	0	0
Executive Support Offices [3]	79	84	72	76	7	8
TOTAL	**6,096**	**6,385**	**2,062**	**2,115**	**4,034**	**4,270**

[1] The FDIC reports staffing totals using a full-time equivalent 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] Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, and Chief Information Officer.

[3] Includes the Offices of Legislative Affairs, Communications, 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 bank 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 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, which is 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://catalog.fdic.gov

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.

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Idaho
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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) identifies the management and performance challenges facing the FDIC and provides its assessment to the Corporation for inclusion in the FDIC's annual performance and accountability report. In doing so, we keep in mind the FDIC'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. The OIG believes that for the foreseeable future, the FDIC faces challenges in the critical areas listed below, a number of which carry over from past years. A challenge of particular emphasis this year is *Maintaining Strong Information Security and Governance Practices*. We would point out that all of these challenges may well be impacted by changes brought on by a new Administration during 2017.

Maintaining Strong Information Security and Governance Practices

Essential to achieving the FDIC's mission of maintaining stability and public confidence in the nation's financial system is safeguarding sensitive information, including personally identifiable information that the FDIC collects and manages in its role as employer, federal deposit insurer, regulator of state nonmember financial institutions, and receiver of failed institutions. Materials that the FDIC possesses related to its Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) responsibilities contain some of the most sensitive information that the FDIC maintains and safeguarding it from unauthorized access or disclosure is critically important. Equally important to the FDIC and the Nation is the defense of critical infrastructure, which includes financial systems and associated computer network operations. In that regard, the Federal Information Security Modernization Act (FISMA) of 2014 establishes standards to assess information security government wide. The OIG's FISMA work is intended not only to ensure compliance with those standards but also to help defend the critical infrastructure against those who would attack it.

The FDIC has recently come under increased scrutiny by the Congress for specific actions it has taken related to protecting sensitive information and has been criticized for its reporting of breaches of such information, as required by FISMA and related Office of Management and Budget (OMB) guidance. The Corporation's continuing challenge will be to restore confidence both in its ability to protect the sensitive information it possesses and its actions to fully report major security incidents within prescribed timeframes, as required by law. Our office reported and testified before the Committee on Science, Space, and Technology, U.S. House of Representatives, on our work in two areas in this regard, and we continue to conduct work on related matters.

One audit dealt with the FDIC's process for identifying and reporting major information security incidents and focused on an incident where a former FDIC employee copied a large quantity of sensitive FDIC information, including personally identifiable information, to removable media and took this information when departing the FDIC's employment in October 2015. The FDIC detected the incident through its Data Loss Prevention tool. Although the FDIC had established various incident response policies, procedures, guidelines, and processes, these controls did not provide reasonable assurance that major incidents were identified and reported in a timely manner. We recommended actions to provide the FDIC with greater assurance that major incidents are identified and reported consistent with relevant guidance.

In a second audit, we reviewed the Corporation's controls for mitigating the risk of an unauthorized release of highly sensitive resolution plans. In September 2015, an FDIC employee abruptly resigned from the Corporation and took copies of sensitive components of resolution plans without authorization and in violation of FDIC policy. A number of factors contributed to this security incident. Most notably, an insider threat program was not in place that would have better enabled the FDIC to deter, detect, and mitigate the risks posed by the employee. Additionally, a key security control designed to prevent employees with access to sensitive resolution plans from copying electronic information to removable media failed to operate as intended. To address these concerns, we recommended that the FDIC establish a corporate-wide insider threat program and take other steps to better protect sensitive resolution plans. On September 20, 2016, the Corporation issued a policy formally establishing its Insider Threat and Counterintelligence Program and finalized a governance charter and implementation plan for the program.

As noted earlier, more broadly speaking, the OIG looks to its annual work under FISMA to identify the Corporation's information security successes and its ongoing challenges. Our most recent FISMA work determined that the FDIC had established a number of information security program controls and practices that were generally consistent with FISMA requirements, OMB policy and guidelines, and applicable National Institute of Standards and Technology (NIST) standards and guidelines. The FDIC had also taken steps to strengthen its security program controls following our 2015 FISMA work. Among other things, the FDIC: restricted (with limited exceptions) the ability of employees and contractor personnel to copy information to removable media in response to the major information security incidents involving the unauthorized exfiltration of sensitive information by departing employees; identified and reported its high value assets to the Department of Homeland Security (DHS); and updated its security control framework to address changes introduced by NIST guidance related to security and privacy controls for federal information systems and organizations.

Notwithstanding these actions, our FISMA audit found security control weaknesses that impaired the effectiveness of the FDIC's information security program and practices and placed the confidentiality, integrity, and availability of the FDIC's information systems and data at elevated risk. Some findings were identified during the current year and others were identified in prior reports issued by the OIG or the Government Accountability Office. Areas of notable weakness that continue to pose challenges for the Corporation include strategic planning, vulnerability scanning, the FDIC's information security manager program, configuration management, third-party software patching, multifactor authentication, and contingency planning.

The FDIC is working to strengthen the effectiveness of its information security program controls in a number of other areas. For example, the FDIC is working to improve its incident response capabilities; more effectively protect its sensitive information by improving the effectiveness of its Data Loss Prevention tool and adopting Digital Rights Management software; complete an end-to-end assessment of its information security and privacy programs; hire a permanent Chief Information Security Officer (CISO); and begin addressing action items identified during a Cyber Stat Review with OMB and DHS officials aimed at improving the FDIC's cybersecurity posture.

Other ongoing challenges for the Corporation that we pointed out involve a risk related to the performance of the vendor that supports the FDIC's infrastructure services and an observation on the frequent turnover in the CISO position and whether the CISO's authorities enable the CISO to effectively address the responsibilities defined in FISMA.

Going forward, a challenging priority for the FDIC will be to maintain effective communication with the Congress and collaboration among all parties

involved in protecting sensitive information and the Nation's critical infrastructure. Doing so will require strong leadership and an effective IT governance structure. In addition, in confronting its information security challenges, competing priorities must be carefully considered, and sound decision-making will be critical to the Corporation's success. Given the substantial financial investment in FDIC systems, security features, and related human resources, the Corporation needs to consider the cost-effectiveness and measurable business value outcomes in its decisions to fund major IT projects to ensure proper stewardship of millions of dollars in IT investments.

Carrying Out Dodd-Frank Act Responsibilities

The Dodd-Frank Act created a comprehensive new regulatory and resolution framework designed to avoid the severe consequences of financial instability. Under current law, Title I of the Dodd-Frank Act provides tools for regulators to impose enhanced supervision and prudential standards on systemically important financial institutions (SIFI). Title II provides the FDIC with a new orderly liquidation authority for SIFIs, subject to a systemic risk determination by statutorily designated regulators.

The FDIC has made progress toward implementing its systemic resolution authorities under the Dodd-Frank Act, but challenges remain. These challenges involve the FDIC fulfilling its insurance, supervisory, receivership management, and resolution responsibilities as it meets the requirements of the Dodd-Frank Act. These responsibilities are cross-cutting and require collaborative efforts among staff throughout the Corporation's headquarters and regional divisions and offices in implementing Titles I and II, including the Office of Complex Financial Institutions (OCFI), Division of Risk Management Supervision (RMS), Division of Resolutions and Receiverships (DRR), and Legal Division.

Of note with respect to the challenge of Dodd-Frank Act responsibilities, in April 2016, the FDIC and the Federal Reserve Board (FRB) announced a significant step forward in the use of the "living will" authority to require systemically important financial institutions to demonstrate they can fail in an orderly way at no cost to taxpayers. Specifically, following eight firms' submission of their living wills or resolution plans in July 2015, the FDIC and the Federal Reserve announced findings based on their review of the plans and conveyed required actions that firms needed to take for remediation. For five firms, the agencies jointly determined that the plans were not credible or would not facilitate an orderly resolution under bankruptcy. The FDIC and FRB jointly identified a number of deficiencies in those plans, as required by statute. Those five firms were required to remedy the deficiencies by October 1, 2016. If not, the firms could be subject to more stringent capital, leverage, or liquidity requirements, or restrictions on growth, activities, or operations. On December 13, 2016, the FDIC and the FRB announced that four of the five firms had adequately remediated deficiencies in their 2015 plans.

For two other firms, the FDIC and the FRB did not make a joint determination, but did find separately that in the two cases, the plans were not credible and would not facilitate an orderly resolution under bankruptcy. For the eighth and final firm, the shortcomings did not rise to the level of the statutory standard for a joint determination of non-credibility. In addition to the October deadline for the five plans referenced above, all shortcomings in the plans must be addressed by July 1, 2017.

Those involved in Dodd-Frank Act activities will continue to evaluate the resolution plans submitted by the largest bank holding companies and other SIFIs under Title I, develop strategies for resolving SIFIs under Title II, work to promote cross-border coordination and cooperation for the orderly resolution of a global SIFI, and coordinate with the other regulators in developing policy to implement the provisions of the Act.

Also, the FDIC will need to ensure that staff have the needed knowledge and experience to continue

to carry out risk assessments to identify supervisory, resolution, and insurance pricing-related risks in all insured depository institutions with more than $10 billion in assets, including those for which the FDIC is not the primary federal regulator, in addition to systemically important bank holding companies and nonbank financial companies subject to Title I of the Dodd-Frank Act.

Maintaining Effective Supervision and Preserving Community Banking

The FDIC's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for 3,790 FDIC-insured, state-chartered institutions that are not members of the Board of Governors of the Federal Reserve System. As such, the FDIC is the lead federal regulator for the majority of community banks. In the case of "de novo" institutions, the FDIC needs to continue to emphasize that these new banks satisfactorily address statutory factors, including adequacy of capital, future earnings prospects, and the general character and fitness of bank management.

We have pointed out in our past work that a key lesson from the crisis is the need for earlier regulatory response when risks are building. Even now, for example, as they operate in a post-crisis environment, banks may be tempted to take additional risks, engage in imprudent concentrations, or loosen underwriting standards. Some banks are also introducing new products or lines of business or seeking new sources for non-interest income, all of which can lead to interest rate risk, credit risk, operational risk, and reputational risk. Such risks need to be managed and addressed early-on during the "good times" before a period of downturn. RMS has continued to reinforce the importance of forward-looking supervision to assess the potential impact of an institution's new and/or growing risks and ensure early mitigation when necessary.

FDIC examiners need to continue to identify problems; bring them to bank management's attention; follow up on problems; bring enforcement actions as needed; ban individuals from banking, as appropriate; and be alert to such risks as Bank Secrecy Act and anti-money-laundering issues. In doing so, the Corporation needs to execute its supervisory authority in a fair, consistent manner. With respect to important international concerns, the FDIC also needs to support development of sound global regulatory policy through participation on the Basel Committee on Bank Supervision and other related sub-groups.

In light of technological changes, increased use of technology service providers (TSP), new delivery channels, and cyber threats, we have pointed out in past work that the FDIC's IT examination program needs to be proactive and bankers and Boards of Directors need to ensure a strong control environment and sound risk management and governance practices in their institutions. Importantly, with respect to TSPs, one TSP can service hundreds or even thousands of financial institutions, so the impact of security incidents in one TSP can have devastating ripple effects on those institutions. Controls need to be designed not only to protect sensitive customer information at banks and TSPs, but also to guard against intrusions that can compromise the integrity and availability of operations, information and transaction processing systems, data, and business continuity. Given the complexities of the range of cyber threats, the FDIC needs to ensure its examination workforce has the needed expertise to effectively carry out its IT examination function.

An article in the FDIC's Winter 2015 issue of *Supervisory Insights* highlights a number of steps the Corporation has taken to increase industry awareness of cyber risks and to provide practical tools to help mitigate the risk of cyber attacks. Among those, the FDIC has urged institutions to avail themselves of existing resources to identify and mitigate cyber risks; developed the "Cyber Challenge" exercise for community banks to use in assessing their preparedness for a cyber-related incident; offered a cybersecurity awareness training program for FDIC-supervised institutions and FDIC supervision staff

and management in each of the FDIC's regional offices; continued participation on the Federal Financial Institutions Examination Council's (FFIEC) Cybersecurity Critical Infrastructure Working Group to determine how well banks manage cyber security and assess banks' preparedness to mitigate cyber risks; and assisted in updating the FFIEC's IT Examination Handbook and related guidance.

In the coming months, the Corporation needs to continue efforts, along with the other regulators, to address these and other emerging risks and use all available supervisory and legal authorities to ensure the continued safety and soundness of financial institutions and affiliated third-party entities. It also needs to ensure effective information-sharing about security incidents with regulatory parties and other federal groups established to combat cyber threats in an increasingly interconnected world.

The FDIC Chairman continues to emphasize 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. Local communities and small businesses rely heavily on community banks for credit and other essential financial services. These banks foster economic growth and help to ensure that the financial resources of the local community are put to work on its behalf. Consolidations and other far-reaching changes in the U.S. financial sector in recent decades have made community banks a smaller part of the U.S. financial system. Still, over the last several years, they have made up a larger percentage of all FDIC-insured banks and thrifts than at any other time over the last three decades. Their share of total industry loans has also remained relatively constant over the past decade.

The FDIC has sought to identify and implement changes to improve the efficiency and effectiveness of the community bank risk management and compliance examination processes, while still maintaining supervisory standards. To ensure the continued strength of the community banks, the Corporation will also need to sustain initiatives such as ongoing research, technical assistance to the banks by way of training videos on key risk management and consumer compliance matters, continuous outreach and dialogue with community banking groups, and attention to strengthening minority depository institutions.

Maintaining a strong examination program, conducting forward-looking supervisory activities for both small and large banks, applying lessons learned, being attuned to harmful cyber threats in financial institutions and technology service providers, and preserving community banking will be critical to ensuring stability and continued confidence in the financial system going forward.

Carrying Out Current and Future Resolution and Receivership Responsibilities

One of the FDIC's most important roles is acting as the receiver or liquidating agent for failed FDIC-insured institutions. The FDIC's responsibilities include planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient administration of failing and failed financial institutions in order to maintain confidence and stability in our financial system.

As part of the resolution process, the FDIC values a failing federally insured depository institution, markets it, solicits and accepts bids for the sale of the institution, considers the least costly resolution method, determines which bid to accept, and works with the acquiring institution through the closing process. The receivership process involves performing the closing function at the failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims. The FDIC seeks to close out or pursue professional liability claims within 18 months of an insured institution's failure, which can prove challenging as well.

The FDIC places great emphasis on promptly marketing and selling the assets of failed institutions and terminating the receivership quickly. Although

the number of institution failures has fallen dramatically since the crisis, these activities still pose challenges to the Corporation. As of December 31, 2016, DRR was managing 378 active receiverships with assets in liquidation totaling about $3.3 billion.

In addition, through purchase and assumption agreements with acquiring institutions, the Corporation has entered into shared-loss agreements (SLA). Since loss sharing began during the most recent crisis in November 2008, the Corporation has resolved 304 failures with accompanying SLAs. Under these agreements, the FDIC agrees to absorb a portion of the loss—generally 80 to 95 percent—which may be experienced by the acquiring institution with regard to those assets, for a period of up to 10 years. The FDIC entered into 304 SLAs from November 2008 through September 30, 2013, with an initial asset base of $216.5 billion. As of December 31, 2016, FDIC recoveries totaled $5.2 billion, representing 15.2 percent of the $34.1 billion in FDIC SLA payments.

As another resolution strategy, the FDIC entered into 35 structured sales transactions involving 43,315 assets with a total unpaid principal balance of $26.2 billion. Under these arrangements, the FDIC receiverships retain a participation interest in future net positive cash flows derived from third-party management of these assets. As of December 31, 2016, the unpaid principal balance in 26 active arrangements was $1.5 billion. The Corporation will continue to evaluate termination offers from limited liability company (LLC) managing members in deciding whether to pursue dissolution of the LLCs if in the best economic interest of the receiverships.

As time passes and recovery from the crisis continues, these risk sharing agreements will continue to wind down and certain active receiverships will be terminated. Given the substantial dollar value and risks associated with the risk-sharing activities and other receivership operations, the FDIC needs to ensure continuous monitoring and effective oversight to protect the FDIC's financial interests. As an example, a large number of commercial SLAs have reached their 5-year mark, resulting in the end of FDIC loss-share coverage but not the end of the commercial SLAs, which last 8 years. The last 3 years of commercial SLA coverage is for recoveries only. Acquiring institutions may not pursue recoveries as vigorously as they should because they may only share in a relatively small percentage of recoveries. The FDIC needs to be sure that acquiring institutions identify and remit recoveries to the Corporation.

While conditions in the economy and financial system have improved since the peak of the financial crisis, bank failures continue to occur. The Corporation has reshaped its workforce and adjusted its budget and resources in line with the trend of far fewer failures. Notably, in the case of the FDIC's resolutions and receiverships workforce, authorized staffing decreased dramatically from a peak of 2,460 in 2010 to authorized staffing of 564 for 2016. As of December 31, 2016, DRR on-board staffing totaled 537. DRR will continue to substantially reduce its nonpermanent staff each year, based on declining workload.

These staff reductions bring with them a loss of specialized experience and expertise that could impact the success of future, large-scale resolution and receivership activities. As discussed in connection with Dodd-Frank Act responsibilities, for example, the Corporation must continue to review the resolution plans of large bank holding companies and designated nonbank holding companies to ensure their resolvability under the Bankruptcy Code, if necessary, and in cases where their failure would threaten financial stability, administer their orderly liquidation. Carrying out such activities could pose significant challenges to those remaining staff in DRR who could be called upon to lead critical resolution activities.

Ensuring the Continued Strength 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.

Continuing to replenish the Deposit Insurance Fund (DIF) in a post-crisis environment is a critical activity for the FDIC. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds. A broad goal for the FDIC is that institutions that pose the greatest risk to the DIF have deposit insurance rates that are commensurate with that risk.

The DIF balance had dropped below negative $20 billion during the worst time of the crisis. As of December 31, 2016, the DIF balance had risen to $83.2 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 and administer the insurance coverage that depositors have come to rely upon. This is true for insured depositors at small banks as well as for claims at large depository institutions.

In response to the Dodd-Frank Act and in the interest of protecting and insuring depositors, the Corporation has designed a long-term DIF management plan. This plan complements the Restoration Plan, which is designed to ensure that the DIF reserve ratio will reach 1.35 percent by September 30, 2020. As of September 30, 2016, the reserve ratio had reached 1.18 percent, the highest reserve ratio in 8 years.

In February 2011, the FDIC Board decided to reduce overall assessment rates when the reserve ratio reached 1.15 and the Board reaffirmed that position in April 2016. Now a large majority of banks will pay lower deposit insurance assessments. Assessment rates for approximately 93 percent of banks with less than $10 billion in assets declined. Regular quarterly assessments declined on average by about one-third for these smaller institutions.

Additionally, since the ratio has reached 1.15 percent, banks with $10 billion or more in assets began paying temporary surcharges to bring the reserve ratio up to statutory minimums. Even with the surcharges, about one-third of large banks still pay lower total assessments because of the reduction in regular assessment rates. The FDIC is taking a balanced approach to restoring the health of the DIF as it seeks to reduce the risk that it will need to raise rates unexpectedly to address a future crisis and to help ensure stable and predictable assessments across the board.

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. In the face of such threats, the FDIC needs to continue to disseminate data and analysis on issues and risks affecting the financial services industry to bankers, supervisors, and the public.

As part of its efforts, the FDIC also needs to continue collaborating with others involved in helping to ensure financial stability and protect the DIF. One important means of doing so is through participation with other financial regulators on the Financial Stability Oversight Council, created under the Dodd-Frank Act. This Council was established to provide comprehensive monitoring of stability in the U.S. financial system by identifying and responding to emerging risks to U.S. financial stability and by promoting market discipline.

The FDIC will also be challenged to contribute to global financial stability by continuing its engagement with strategically important foreign jurisdictions and playing a leadership role in international organizations that support robust, effective deposit insurance systems, crisis management and resolution programs, and bank supervision practices around the globe.

Promoting Consumer Protections and Economic Inclusion

The FDIC carries out its consumer protection role by providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations. Its Consumer Response Center serves an important function in this regard. Similarly,

initiatives like the FDIC's Money Smart and Youth Savings programs go a long way towards educating the public about important consumer and financial matters. Importantly, the FDIC also examines the banks for which it is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, fair lending, and community investment. These activities require effective examiner training and regular collaboration with other regulatory agencies.

The Dodd-Frank Act consolidated many of the consumer financial protection authorities previously shared by several federal agencies into the Consumer Financial Protection Bureau (CFPB) and granted the CFPB authority to conduct rulemaking, supervision, and enforcement with respect to federal consumer financial laws; handle consumer complaints and inquiries; promote financial education; research consumer behavior; and monitor financial markets for risks to consumers. The FDIC coordinates with the CFPB on consumer issues of mutual interest and to meet statutory requirements for consultation relating to rulemakings in mortgage lending and other types of consumer financial services and products. The FDIC will need to continue to assess the impact of such rulemakings on supervised institutions, communicate key changes to stakeholders, and train examination staff accordingly.

The FDIC continues to work 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. One of the challenges articulated by the FDIC Chairman is to continue to develop and implement targeted strategies to expand access to mainstream financial institutions by populations that are disproportionately likely to be unbanked or underbanked.

The FDIC conducts national surveys of unbanked and underbanked households every 2 years, in conjunction with the Census Bureau, to inform those strategies. The most recent survey, for example, determined that the share of unbanked households in the U.S. dropped in 2015 to 7.0 percent, representing a significant decline from the 7.7 unbanked rate reported in 2013 and the 8.2 unbanked rate in 2011. The survey also revealed a growth pattern in consumer use of mobile and online banking. For the unbanked households, smart phones are often the primary means of managing their accounts. The FDIC is further exploring the economic inclusion potential of mobile financial services.

In addition, the FDIC's Advisory Committee on Economic Inclusion, composed of bankers, community and consumer organizations, and academics, will continue to explore ways of bringing the unbanked into the financial mainstream. The FDIC's Alliance for Economic Inclusion initiative seeks to collaborate with financial institutions; community organizations; local, state, and federal agencies; and other partners to form broad-based coalitions to bring unbanked and underbanked consumers and small businesses into the financial mainstream.

The FDIC will need to sustain ongoing efforts to carry out required compliance and community reinvestment examinations, coordinate with the other financial regulators and CFPB on regulatory matters involving financial products and services, and pursue and measure the success of economic inclusion initiatives to the benefit of the American public.

Implementing Workforce Changes and Budget Reductions

The Corporation continues to reassess its current and projected workload along with trends within the banking industry and the broader economy. Based on that review, the FDIC expects a continuation of steady improvements in the global economy, a small number of insured institution failures, gradual reductions in post-failure receivership management workload, and further reductions in the number of 3-, 4-, and 5-rated institutions. While the FDIC will continue to need some temporary and term

employees over the next several years to complete the residual workload from the financial crisis, industry trends continue to confirm that there will be a steadily decreasing need for nonpermanent employees over the next several years.

Given those circumstances, the FDIC Board of Directors approved a $2.16 billion FDIC Operating Budget for 2017, 2.4 percent lower than the 2016 budget. In conjunction with its approval of the 2017 budget, the Board also approved an authorized 2017 staffing level of 6,363 positions for 2017, a 2.6 percent decrease from 2016 and 32 percent lower than the peak in 2011. This was the seventh consecutive reduction in the FDIC's annual operating budget.

As conditions improve throughout the industry and the economy, the FDIC will continue its efforts to achieve the appropriate level of resources; at the same time, however, it needs to remain mindful of ever-present risks and other uncertainties in the economy that may prompt the need for additional resources and new skill sets and expertise that may be challenging to obtain. The need for these new skill sets comes at a time when the Corporation is focusing on succession management, in light of a substantial number of FDIC staff, many "baby boomers," who are retiring. In that regard, the FDIC is continuing to work toward integrated workforce development processes as it seeks to bring on the best people to meet its changing needs and priorities, and do so in a timely manner. In all of its hiring efforts, the Corporation needs to ensure fairness and integrity in its processes and hiring practices and decisions. Most recently, the Corporation has emphasized its Workforce Development Initiative as a means of fulfilling the FDIC's future leadership and workforce capability needs. It has also focused on addressing resource needs to address the many challenges in divisions such as OCFI, RMS, and DRR, as previously discussed.

With respect to leadership at the uppermost levels of the Corporation, it is important to note that a vacancy currently exists on the FDIC Board of Directors—Jeremiah Norton left the FDIC in June 2015 and his seat on the Board remains vacant. The current FDIC Chairman's term is set to expire in November 2017, which would leave another position vacant. The FDIC Board has experienced such vacancies in the past and the FDIC IG at the time strongly advocated filling those Board positions. Now, given the myriad financial and economic concerns, emerging risks, Dodd-Frank Act responsibilities, important priorities and challenges facing the FDIC, and the advent of a new Administration, strong and sustained senior leadership is even more essential.

The FDIC has long promoted diversity and inclusion initiatives in the workplace. Section 342 of the Dodd-Frank Act reiterates the importance of standards for assessing diversity policies and practices and developing procedures to ensure the fair inclusion and utilization of women and minorities in the FDIC's contractor workforce. The Dodd-Frank Act also points to the Office of Minority and Women Inclusion as being instrumental in diversity and inclusion initiatives within the FDIC working environment. This office needs to ensure that it has the proper staff, expertise, and organizational structure to successfully carry out its advisory responsibilities to ensure diversity and inclusion throughout the Corporation.

The FDIC needs to sustain its emphasis on fostering employee engagement and morale on the part of all staff in headquarters, regions, and field locations. It looks to the annual Federal Employee Viewpoint Survey to provide a candid assessment of employee views of the FDIC workplace. The Corporation's diversity and inclusion goals and initiatives, Workplace Excellence Program, and Workforce Development Initiative are positive steps that should continue to help create a workplace that promotes diversity and equal opportunity.

Finally, an organization's overall corporate culture is essential to its success and, in July/August 2016, prompted in part by earlier OIG work, the FDIC Board of Directors reaffirmed the Corporation's

Code of Conduct and the six core values that underlie it: integrity, competence, teamwork, effectiveness, accountability, and fairness. The Chairman emphasized that these values apply not only to internal conduct but also externally, as FDIC leadership and staff interact with bankers, consumers, and other members of the public. In further support of these values, the Board prohibits retaliation against an employee who raises concern about conduct that appears to violate laws, rules, or the FDIC's supervisory policy. In that connection, the Chairman also underscored the importance of whistleblower protection in a message to all FDIC staff on the occasion of the U.S. Senate passing Resolution 522 on July 7, 2016, designating July 30, 2016, National Whistleblower Appreciation Day. This Resolution acknowledges and commemorates the contributions of whistleblowers to combat waste, fraud, and violations of law. As noted by the Chairman, the Resolution encouraged executive federal agencies to inform employees and contractors about the legal rights to "blow the whistle" by honest and good faith reporting of misconduct, fraud, misdemeanors, or other crimes to the appropriate authorities.

Ensuring Effective Enterprise Risk Management Practices

Enterprise risk management is a critical aspect of governance at the FDIC. Notwithstanding a stronger economy and financial services industry, the FDIC's enterprise risk management framework and related activities need to be attuned to emerging risks, both internal and external to the FDIC, that can threaten key business processes and corporate success. As evidenced in the challenges discussed above, certain difficult issues may fall within the purview of a single division or office, while many others are cross-cutting within the FDIC, and still others involve coordination with the other financial regulators and other external parties.

The Corporation needs to maintain effective controls, mechanisms, and risk models that can address a wide range of concerns—from specific, everyday risks such as those posed by use of corporate purchase or travel cards and records management activities, for example, to the far broader concerns of the ramifications of an unwanted and harmful cyber attack or the failure of a large bank or systemically important financial institution.

In July 2016, the Office of Management and Budget updated Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. This circular defines management's responsibility for enterprise risk management (ERM) and internal control. It emphasizes the need to coordinate risk management and strong and effective internal control into existing business activities as an integral part of governing and managing an agency. Notwithstanding existing corporate risk management resources and mechanisms in place, the Corporation would be well served to examine and adopt those principles and practices embodied in the circular that make sense for the FDIC and ensure they are institutionalized, as intended by the circular. Doing so can help ensure that the Corporation's risk management processes and systems identify challenges early on, bring them to the attention of corporate leadership, and develop solutions. Given the range, complexity, and importance of many of the Corporation's current endeavors—for example, the personal identification validation project, email and hard copy records management practices, data breach prevention measures, personnel security initiatives, and the like, such an approach could help ensure more effective project management and other controls and strengthen oversight of often costly investments and mission-critical activities.

The Corporation's stakeholders—including the Congress, American people, media, and others—expect effective governance, sound risk management practices, and vigilant regulatory oversight of the financial services industry. The Corporation needs to maintain the trust and confidence that it has instilled over the years. The FDIC Board of Directors, senior

management, and individuals at every working level throughout the FDIC need to acknowledge, understand, and take ownership of current and emerging risks to the FDIC mission and be prepared to take necessary steps to mitigate those risks as changes occur and challenging scenarios that can undermine the FDIC's short- and long-term success present themselves. A corporate culture marked by integrity, efficiency, and transparency is essential to that end.

D. ACRONYMS

ACP	Access Control Program
AHDP	Affordable Housing Disposition Program
AEI	Alliance for Economic Inclusion
AFS	Available for Sale
AIG	American International Group, Inc.
AML	Anti-Money Laundering
ASBA	Association of Supervisors of Banks of the Americas
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BCBS	Basel Committee on Banking Supervision
BOE	Bank of England
BSA	Bank Secrecy Act
Call Report	Consolidated Reports of Condition and Income
CAMELS rating scale	**C**apital adequacy; **A**sset quality; **M**anagement quality; **E**arnings; **L**iquidity; **S**ensitivity to market risks
CCIWG	Cybersecurity and Critical Infrastructure Working Group
CCP	Central Counterparties
CDFI	Community Development Financial Institution
CDOs	Collateralized Debt Obligations
CEO	Chief Executive Officer
CEP	Corporate Employee Program
CFI	Complex Financial Institution
CFO Act	Chief Financial Officers' Act
CFPB	Consumer Financial Protection Bureau
CFR	Center for Financial Research
CFTC	Commodity Futures Trading Commission
CIP	Customer Identification Program
CISO	Chief Information Security Officer
CMG	Crisis Management Group
CMP	Civil Money Penalty
ComE-IN	Advisory Committee on Economic Inclusion
CPI-U	Consumer Price Index for All Urban Consumers
CRA	Community Reinvestment Act
CSRS	Civil Service Retirement System
DCP	Division of Depositor and Consumer Protection
DFA	Dodd-Frank Act
DHS	Department of Homeland Security
DIF	Deposit Insurance Fund
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DOA	Division of Administration
DOJ	Department of Justice
DRM	Digital Rights Management
DRR	Designated Reserve Ratio
DRR (FDIC)	Division of Resolution and Receiverships
EDIE	Electronic Deposit Insurance Estimator
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act of 1996
ERM	Enterprise Risk Management
FAQs	Frequently Asked Questions
FASB	Financial Accounting Standards Board
FBO	Foreign Bank Organization
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FHFA	Federal Housing Finance Agency
FICO	Financing Corporation
FIL	Financial Institution Letters
FinCEN	Financial Crimes Enforcement Network
FIRREA	Financial Institution Reform, Recovery and Enforcement Act of 1989
FIS	Financial Institution Specialist
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act
FMSP	Financial Management Scholars Program
FRB	Board of Governors of the Federal Reserve System

FRF	FSLIC Resolution Fund
FRF-FSLIC	Assets & Liabilities of FSLIC transferred to the FRF Upon the Dissolution of FSLIC
FRF-RTC	RTC Assets & Liabilities
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FS-ISAC	Financial Services Information Sharing and Analysis Center
FSLIC	Federal Savings and Loan Insurance Corporation
FSOC	Financial Stability Oversight Council
FSVC	Financial Services Volunteer Corps
FTE	Full-time employee
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GECC	General Electric Capital Corporation, Inc.
GPRA	Government Performance and Results Act
GSA	General Services Administration
GSEs	Government Sponsored Entities
G-SIFIs	Global SIFIs
HSPD	Homeland Security Presidential Directive
HVRE	High Volatility Commercial Real Estate
IADI	International Association of Deposit Insurers
IDI	Insured depository institution
IMF	International Monetary Fund
InTREx	Information Technology Risk Examination
IRS	Internal Revenue Service
ISDA	International Swaps and Derivatives Association
IT	Information technology
ITCIP	Insider Threat and Counterintelligence Program
LCR	Liquidity coverage ratio
LIDI	Large Insured Depository Institution
LLC	Limited Liability Company
LMI	Low- or moderate-income
LURAs	Land Use Restriction Agreements
MDIs	Minority depository institutions
MFA	Multifactor Authentication
MLA	Military Lending Act of 2006
MOL	Maximum Obligation Limitation
MOU	Memorandum of Understanding
MRBA	Matters Requiring Board Attention
MWOB	Minority- and women-owned business
NAFTA	North American Free Trade Agreement
NCUA	National Credit Union Administration
NIST	National Institute of Standards and Technology
NPR	Notice of proposed rulemaking
OCC	Office of the Comptroller of the Currency
OCFI	Office of Complex Financial Institutions
OCRM	Office of Corporate Risk Management
O&G	Oil and Gas
OIG	Office of Inspector General
OLA	Orderly Liquidation Authority
OLF	Orderly Liquidation Fund
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OO	Office of the Ombudsman
OPM	Office of Personnel Management
ORE	Owned Real Estate
OTC	Over-the-counter
OTS	Office of Thrift Supervision
P&A	Purchase and assumption
PDG	Policy Development Group
PFR	Primary federal regulator
PIV	Personal Identity Verification
QBP	Quarterly Banking Profile
REFCORP	Resolution Funding Corporation
ReSG	FSB's Resolution Steering Committee
RMS	Division of Risk Management Supervision
RTC	Resolution Trust Corporation
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SIFI	Systemically important financial institution
SLA	Shared-loss agreement
SMS	Systemic Monitoring System
SNC Program	Shared National Credit Program
SNM	State Nonmember
SRAC	Systemic Resolution Advisory Committee
SSGNs	Securitizations, and Structured Sale of Guaranteed Notes

TIPS	Treasury Inflation-Protected Securities
TSP	Federal Thrift Savings Plan
TSP (IT-related)	Technology service providers
URSIT	Uniform Rating System for Information Technology
U.S.	United States
VIEs	Variable Interest Entities
WE	Workplace Excellence
WIOA	Workforce Innovation Opportunity Act
YSP	Youth Savings Program

NOTES

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2016
Federal Deposit Insurance Corporation

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