

March 2011

FINANCIAL AUDIT

Federal Deposit
Insurance Corporation
Funds' 2010 and 2009
Financial Statements



G A O

Accountability * Integrity * Reliability

Why GAO Did This Study

Created in 1933 to insure bank deposits and promote sound banking practices, the Federal Deposit Insurance Corporation (FDIC) plays an important role in maintaining public confidence in the nation's financial system. FDIC administers the Deposit Insurance Fund (DIF), which protects bank and savings deposits, and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), which was created to close out the business of the former FSLIC.

Section 17 of the Federal Deposit Insurance Act, as amended, requires GAO to annually audit the financial statements of the DIF and the FRF. GAO is responsible for obtaining reasonable assurance about whether FDIC's financial statements for the DIF and the FRF are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles, and whether FDIC maintained effective internal control over financial reporting, and for testing FDIC's compliance with selected laws and regulations.

What GAO Recommends

GAO is not making recommendations in this report, but will be reporting separately on matters identified during its audit, along with recommendations for strengthening the corporation's internal controls. In commenting on a draft of this report, FDIC discussed its efforts to resolve the previously reported material weakness and significant deficiency, and emphasized its dedication to sound financial management.

View [GAO-11-412](#) or key components. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2010 and 2009 Financial Statements

What GAO Found

In GAO's opinion, FDIC fairly presented, in all material respects, the 2010 and 2009 financial statements for the two funds it administers—DIF and FRF. Also, in GAO's opinion, FDIC had effective internal control over financial reporting. Further, GAO did not find any reportable instances of noncompliance with provisions of the laws and regulations it tested.

The slowly recovering economy continued to challenge the soundness of many DIF-insured institutions. In 2010, 157 banks with combined assets of approximately \$93 billion failed, costing the DIF an estimated \$24 billion. FDIC identified additional risk that could result in up to \$25 billion in further estimated losses to the DIF should potentially vulnerable insured institutions fail. FDIC continues to evaluate the risks to affected institutions and the effect of such risks on the DIF. Actual losses, if any, will largely depend on future economic conditions and could differ materially from FDIC's estimates. From January 1 through March 14, 2011, 25 institutions failed.

As of December 31, 2010, the DIF had a negative fund balance of \$7.4 billion, and it had a negative 0.12 percent ratio of reserves to estimated insured deposits. In contrast, at December 31, 2009, the DIF had a negative fund balance of \$20.9 billion, and its ratio of reserves to estimated insured deposits was a negative 0.39 percent. The improvement in 2010 was primarily attributable to lower losses from 2010 bank failures than projected at December 31, 2009, and lower estimates of losses from anticipated failures at December 31, 2010. During 2010, FDIC continued the use of loss-share agreements with acquirers of failed institutions as a mean of both conserving the initial cash outlay and as a longer-term means of attempting to further minimize losses to the DIF. In addition to the DIF's existing resources, which include advanced assessments FDIC charged the industry in 2009, FDIC can borrow up to \$100 billion each from the U.S. Treasury and the Federal Financing Bank, subject to statutory limits.

The Dodd-Frank Act, enacted in July 2010, contains significant provisions related to assessments and capitalization of the DIF. Such provisions include redefining the assessment base; increasing the statutory minimum designated reserve ratio from 1.15 percent to not less than 1.35 percent; increasing the standard deposit insurance coverage from \$100,000 to \$250,000 and extending unlimited deposit insurance coverage for noninterest-bearing transaction accounts to the end of 2012; and authorizing FDIC to undertake enforcement actions against depository institution holding companies if their conduct or threatened conduct poses a risk of loss to the DIF.

During 2010, FDIC took corrective actions that effectively resolved a material weakness in its internal control related to estimating losses on loss-share agreements and a significant deficiency in internal control related to security over its information systems, both of which GAO reported in its audit of the FDIC funds' 2009 financial statements. Nonetheless, GAO identified areas in which FDIC's internal controls could be further improved and will be reporting separately to FDIC management on these matters.

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Abbreviations

CFO	Chief Financial Officer
DIF	Deposit Insurance Fund
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation

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

March 18, 2011

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

This report presents the results of our audits of the financial statements of the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF) as of and for the years ending December 31, 2010, and 2009. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the two funds.

This report contains our (1) unqualified opinions on the DIF's and the FRF's financial statements; (2) opinion that FDIC's internal control over financial reporting was effective as of December 31, 2010; and (3) conclusion that we found no reportable compliance issues during 2010 with provisions of laws and regulations we tested. This report also discusses actions FDIC took during 2010 to resolve a material weakness in its internal control related to its process for estimating losses on loss-share agreements and to resolve a significant deficiency in its internal control related to security over its information systems, both of which we reported in our audit of the FDIC funds' 2009 financial statements.

This report also discusses the significant challenges faced by FDIC-insured financial institutions and the related impact on the DIF. As of December 31, 2010, the DIF had a negative fund balance of \$7.4 billion and its ratio of reserves to estimated insured deposits was a negative 0.12 percent. In response to the Dodd-Frank Wall Street Reform and Consumer Protection Act, FDIC has adopted a restoration plan intended to enable the DIF to meet the statutory minimum designated reserve ratio of not less than 1.35 percent of estimated insured deposits or the comparable percentage of the new assessment base. The act requires that FDIC take such steps as may be

necessary to achieve this minimum designated reserve ratio by September 30, 2020.

We are sending copies of this report to the Chairman of the Board of Directors of FDIC, the Chairman of the FDIC Audit Committee, the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Director of the Office of Thrift Supervision, the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. This report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.



Steven J. Sebastian
Director
Financial Management and Assurance



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

To the Board of Directors
The Federal Deposit Insurance Corporation

In accordance with section 17 of the Federal Deposit Insurance Act, as amended, we are responsible for conducting audits of the financial statements of the funds administered by the Federal Deposit Insurance Corporation (FDIC). In our audits of the Deposit Insurance Fund's (DIF) and the FSLIC Resolution Fund's (FRF) financial statements¹ for 2010 and 2009, we found

- the financial statements as of and for the years ended December 31, 2010, and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FDIC's internal control over financial reporting was effective as of December 31, 2010; and
- no reportable noncompliance with provisions of laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our audit objectives, scope, and methodology; and (3) agency comments and our evaluation.

Opinion on the DIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the DIF's assets, liabilities, and fund balance as of December 31, 2010, and 2009, and its income and fund balance and its cash flows for the years then ended.

As discussed in note 8 to the DIF's financial statements, FDIC-insured financial institutions continued to face significant challenges in 2010. The slowly recovering economy and credit environment continued to challenge the soundness of many DIF-insured institutions. In 2010, 157 banks with combined assets of approximately \$93 billion failed, costing the DIF an

¹A third fund to be managed by FDIC, the Orderly Liquidation Fund, established by section 210 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, 1506 (July 21, 2010), is unfunded and conducted no transactions during the fiscal years covered by this audit.

estimated \$24 billion—this cost was generally recognized in the DIF’s 2009 financial statements. Regulatory and market data suggest that the banking industry will continue to experience elevated levels of stress over the coming year. In addition to the losses reflected on the DIF’s financial statements, FDIC has identified additional risk as of year-end 2010 that could result in further estimated losses to the DIF of up to approximately \$25 billion should other potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the ongoing risks to affected institutions in light of current economic and financial conditions, and the effect of such risks on the DIF. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from FDIC’s estimates. As discussed in note 17 to the DIF’s financial statements, through March 14, 2011, 25 institutions failed during 2011.

As of December 31, 2010, the DIF had a negative fund balance of \$7.4 billion and its ratio of reserves to estimated insured deposits was a negative 0.12 percent. In contrast, at December 31, 2009, the DIF had a negative fund balance of \$20.9 billion and its ratio of reserves to estimated insured deposits was a negative 0.39 percent. The improvement in 2010 was primarily attributable to lower losses from 2010 bank failures than projected at December 31, 2009, and lower estimates of losses from anticipated failures at December 31, 2010. During 2010, FDIC continued its efforts to maintain the DIF’s ability to resolve problem institutions. As discussed in notes 4 and 7 of DIF’s financial statements, FDIC continued the use of purchase and assumption resolution transactions containing loss-share agreements with acquirers of failed institutions as a means of both conserving the initial cash outlay required by the DIF in resolving a troubled institution and as a longer-term means of attempting to further minimize the ultimate losses to the DIF. Under such agreements, which typically cover a 5- to 10- year period, an acquiring institution assumes all of the deposits and purchases most, if not all, of the assets of a failed institution. FDIC, in turn, agrees to cover a large percentage of any losses on assets covered under the agreements up to a stated threshold. During 2010, 130 of the 157 institutions that failed and were resolved by FDIC were handled through the use of loss-share agreements with acquirers of these institutions.

The DIF has a variety of resources available to carry out its insurance responsibilities. At December 31, 2010, the DIF had \$12.4 billion in investments in U.S. Treasury obligations in addition to \$27 billion in cash and cash equivalents, which provide a ready source of funds for its insurance activities. These funds were primarily obtained through FDIC’s

charging the industry approximately 3 years of advanced assessments at the end of 2009. In addition, as discussed in note 1 to DIF's financial statements, FDIC can borrow up to \$100 billion from the U.S. Treasury and it also has a note agreement with the Federal Financing Bank enabling it to borrow up to \$100 billion. However, the total amount that FDIC can borrow from these sources for the DIF would be subject to the DIF's statutory maximum obligation limitation, which equaled \$106.3 billion as of December 31, 2010.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)² contains significant provisions related to assessments and capitalization of the DIF. One of these provisions requires FDIC to define the assessment base as average consolidated total assets minus average tangible equity. This contrasts with the previous assessment base consisting of domestic deposits. This change will broaden the assessment base and is intended to better measure the risk that a bank poses to the DIF. The act also sets the statutory minimum designated reserve ratio of not less than 1.35 percent of estimated insured deposits, or the comparable percentage of the new assessment base, and requires that FDIC take such steps as may be necessary to achieve this reserve ratio by September 30, 2020. This change, intended to strengthen the DIF, increases the minimum designated reserve ratio from 1.15 percent, but as noted above, extends the target date for the DIF to achieve this minimum designated reserve ratio from December 31, 2016. FDIC adopted a new restoration plan on October 19, 2010 in response to the above requirements. In addition, the act provides for a permanent increase in the standard deposit insurance coverage amount from \$100,000 to \$250,000 (retroactive to January 1, 2008) and unlimited deposit insurance coverage for noninterest-bearing transaction accounts for 2 years to the end of 2012. The act also authorizes FDIC to undertake enforcement actions against depository institution holding companies if their conduct or threatened conduct poses a risk of loss to the DIF.

The DIF continues to face some exposure as a result of actions taken pursuant to the systemic risk determination made in 2008 by the Department of the Treasury, in consultation with the President and upon recommendation of the Boards of FDIC and the Federal Reserve. As discussed in note 16 to the DIF's financial statements, FDIC established the Temporary Liquidity Guarantee Program (TLGP). The TLGP consists of the

²Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

(1) Debt Guarantee Program, under which FDIC guaranteed newly issued senior unsecured debt up to prescribed limits issued by insured institutions and certain holding companies, and (2) Transaction Account Guarantee Program (TAGP), under which, through December 31, 2010, FDIC provided unlimited coverage for noninterest-bearing transaction accounts held by participating insured institutions. FDIC charged fees to participants that are to be used to cover any losses under both guarantee programs. The unlimited deposit insurance coverage for noninterest-bearing transaction accounts under the Dodd-Frank Act essentially replaces the TAGP, except that FDIC will not charge a separate assessment fee for insuring the transaction accounts. As discussed in note 16, as of December 31, 2010, the amount of debt guaranteed by FDIC under the Debt Guarantee Program was \$267 billion.

Opinion on the FRF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's assets, liabilities, and resolution equity as of December 31, 2010, and 2009, and its income and accumulated deficit and its cash flows for the years then ended.

Opinion on Internal Control

FDIC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, which provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Resolution of Prior Year Material Weakness

In our 2009 audit report³ we reported a material weakness⁴ in FDIC's controls over its process for deriving and reporting estimates of losses to the DIF from resolution transactions involving loss-share agreements⁵ because existing controls were not fully effective in preventing or detecting and correcting errors in developing and reporting loss-share loss amounts in FDIC's draft 2009 financial statements of the DIF. As described in our audit report, we identified weaknesses in FDIC's controls over (1) the development of initial loss-share loss estimates, including verifying the accuracy of the calculations; (2) managerial review and oversight of the initial loss-share estimation process and its underlying assumptions; and (3) reporting of the loss-share loss estimates as part of the allowance for losses against the *Receivables from resolutions, net* on the DIF's balance sheet. We subsequently provided further details of the control deficiencies related to this material weakness as well as recommendations for corrective actions in a separate report to FDIC management.⁶ To correct these control deficiencies, we recommended that FDIC officials (1) establish mechanisms for monitoring implementation of newly issued policies and procedures over the process for calculating initial loss-share loss estimates; (2) develop specific procedures for documenting assumptions underlying initial loss-share loss estimates, including periodic managerial review and approval of assumptions and changes over time; and (3) establish and document detailed procedures for ensuring the completeness and accuracy of the overall allowance for loss calculations, including loss-share related losses.

³GAO, *Financial Audit: Federal Deposit Insurance Corporation Funds' 2009 and 2008 Financial Statements*, [GAO-10-705](#) (Washington, D.C.: June 25, 2010).

⁴A material weakness is a deficiency, or a combination of deficiencies, in internal control 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.

⁵In 2009, and continuing in 2010, FDIC increasingly used whole bank purchase and assumption transactions with accompanying loss-share agreements as the primary means of resolving failed financial institutions. Under such an agreement, FDIC sells a failed institution to an acquirer with an agreement that FDIC, through the DIF, will share in losses the acquirer experiences in servicing and disposing of assets purchased and covered under the loss-share agreement.

⁶GAO, *Management Report: Opportunities for Improvements in FDIC's Internal Controls and Accounting Procedures*, [GAO-11-23R](#) (Washington, D.C.: Nov. 30, 2010).

In response to the material weakness in internal control, FDIC developed and implemented a corrective action plan that included additional controls to address the control deficiencies we identified. Specifically, FDIC

- implemented a new review process and documentation procedures over the development of initial loss-share loss amounts;
- established additional monitoring and review of loss-share estimates with the creation of the Closed Bank Financial Risk Committee dedicated to oversight of the loss-share agreement process, including approval of underlying assumptions in loss-share related calculations and ongoing periodic reviews of initial and updated loss-share loss estimates; and
- enhanced controls over both the inclusion of loss-share related losses in the allowance for loss determination and the overall process for calculating the allowance for loss related to the *Receivables from resolutions, net* line item on the DIF's balance sheet.

During our audit, we found that FDIC's actions significantly reduced the risk that a material misstatement would not be detected and timely corrected, and concluded that remaining control deficiencies in FDIC's process of deriving and reporting estimates of losses involving loss-share agreements do not individually or collectively constitute a material weakness or significant deficiency.⁷

Although FDIC made significant improvements to its controls over its process for estimating losses related to loss-share agreements, it continues to face risk because of ongoing financial institution failures and the highly manual process FDIC employs in its loss-share estimation process. Although improved, FDIC's current loss-share estimation process is complex, is not fully documented, and involves multiple manual data entries. As a result, the process relies heavily on effective reviews and oversight for ensuring data accuracy. The determination of the overall allowance for losses associated with receivables from resolution activity equally depends upon a highly complex series of integrated spreadsheets that draw information from multiple, often manually input, data sources,

⁷A significant deficiency is a control deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

and thus also relies heavily on effective supervisory review and oversight for ensuring data accuracy. Because of the nature of this process, FDIC will need to continue to provide effective review and oversight controls to accurately report estimated loss-share losses and the overall allowance for loss related to resolution activity on the DIF's financial statements.

Resolution of Prior Year Significant Deficiency

In our 2009 audit report, we reported a significant deficiency concerning the effectiveness of FDIC's security over its information systems, which reduced FDIC's ability to ensure that authorized users had only the access needed to perform their assigned duties, and that its systems were sufficiently protected from unauthorized access. The audit report highlighted the control issues that constituted the significant deficiency. Specifically, FDIC did not (1) adequately control access to its computer systems; (2) enforce its policies and procedures governing the assignment, use, and monitoring of mainframe user identifications (IDs); (3) appropriately configure certain key systems, potentially allowing the systems to be manipulated by internal users without detection; (4) have policies and procedures in place to prevent users from having inappropriate or incompatible access to multiple applications; and (5) effectively test and verify that all system interfaces were properly configured for major changes to some important accounting and system administrative applications. Subsequently, we provided more details on these issues and reported additional underlying control weaknesses, along with recommendations for corrective actions, to FDIC management.⁸

During 2010, FDIC made substantial progress in correcting many of the underlying control issues that constituted the significant deficiency. Specifically, FDIC did the following:

- Corrected weaknesses in controls over access to computer systems and a business application that had not effectively limited individuals' access to only those functions and data necessary to perform their assigned duties. For example, FDIC strengthened network configurations such that users are now prevented from obtaining unauthorized access to network controls and control information. Additionally, FDIC addressed weaknesses that had resulted in granting

⁸GAO, *Information Security: Federal Deposit Insurance Corporation Needs to Mitigate Control Weaknesses*, [GAO-11-29](#) (Washington, D.C.: Nov. 30, 2010).

users inappropriate and excessive access privileges to a business application supporting resolution and receivership activities.

- Corrected weaknesses in enforcing revised policies and procedures governing the assignment, use, and monitoring of mainframe user IDs intended to support technical assistance to business processes. FDIC also greatly reduced the incidence of the use of access privileges that provide a limited number of system administrators full access to all data and programs on the mainframe.
- Corrected the configuration of certain key systems, significantly reducing the potential for the misuse of powerful mainframe programs.
- Made progress in resolving deficiencies in controls designed to prevent users from having inappropriate or incompatible access to multiple applications.
- Corrected deficiencies in the interfaces of two applications that increased the risk of errors in data as it is transferred from one system to another.

As a result of the improvements we noted in FDIC's information system controls, we concluded that the remaining unresolved prior year issues and new issues identified in our 2010 audit do not individually or collectively constitute a material weakness or significant deficiency. In order to sustain the progress FDIC has made in improving its information system controls, it will be important for FDIC to continue to place a high level of emphasis on this area, especially with respect to continuous and periodic monitoring activities.

During our 2010 audit, we identified other deficiencies in FDIC's system of internal control that we do not consider to be material weaknesses or significant deficiencies but merit FDIC management's attention and correction. We have communicated these matters to FDIC management and as appropriate, will be reporting them in writing to FDIC separately, along with recommendations for corrective actions.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the

objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness; and (3) complying with applicable laws and regulations. Management evaluated the effectiveness of FDIC's internal control over financial reporting as of December 31, 2010, based on criteria established under FMFIA. FDIC management provided an assertion concerning the effectiveness of its internal control over financial reporting (see app. I).

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) FDIC management maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010. We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by FDIC management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of FDIC and its operations, including its internal control over financial reporting;
- considered FDIC's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA;

-
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;
 - tested relevant internal control over financial reporting;
 - evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
 - tested compliance with certain laws and regulations, including selected provisions of the Federal Deposit Insurance Act, as amended; and
 - performed such other procedures as we considered necessary in the circumstances.

An entity's internal control over financial reporting is a process affected 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 conformity 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 laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting. Because of inherent limitations in internal control, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. 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 policies and procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those laws and regulations that have a direct and material effect on the financial statements for the year ended December 31, 2010. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) noted that he was pleased that FDIC had received unqualified opinions on the DIF's and FRF's 2010 and 2009 financial statements. He noted that over the past year, FDIC had worked diligently to resolve the material weakness and significant deficiency that we had reported in our 2009 audit. In particular, he cited significant steps taken to strengthen controls over the loss-share estimation process and over information systems security. The CFO stated that FDIC would continue to make improvements in these areas in the coming year, and stressed that FDIC's dedication to sound financial management remains a top priority.

The complete text of FDIC's comments and its Management Report containing its assertion on the effectiveness of its internal control over financial reporting are reprinted in appendix I.



Steven J. Sebastian
Director
Financial Management and Assurance

March 14, 2011

Deposit Insurance Fund's Financial Statements

Balance Sheet

Deposit Insurance Fund

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2010	2009
Assets		
Cash and cash equivalents	\$ 27,076,606	\$ 54,092,423
Cash and investments - restricted - systemic risk (Note 16) <i>(Includes cash/cash equivalents of \$5,030,369 at December 31, 2010 and \$6,430,589 at December 31, 2009)</i>	6,646,968	6,430,589
Investment in U.S. Treasury obligations, net (Note 3)	12,371,268	5,486,799
Assessments receivable, net (Note 9)	217,893	280,510
Receivables and other assets - systemic risk (Note 16)	2,269,422	3,298,819
Trust preferred securities (Note 5)	2,297,818	1,961,824
Interest receivable on investments and other assets, net	259,683	220,588
Receivables from resolutions, net (Note 4)	29,532,545	38,408,622
Property and equipment, net (Note 6)	416,065	388,817
Total Assets	\$ 81,088,268	\$ 110,568,991
Liabilities		
Accounts payable and other liabilities	\$ 514,287	\$ 273,338
Unearned revenue - prepaid assessments (Note 9)	30,057,033	42,727,101
Liabilities due to resolutions (Note 7)	30,511,877	34,711,726
Deferred revenue - systemic risk (Note 16)	9,054,541	7,847,447
Postretirement benefit liability (Note 13)	165,874	144,952
<i>Contingent liabilities for:</i>		
Anticipated failure of insured institutions (Note 8)	17,687,569	44,014,258
Systemic risk (Note 16)	149,327	1,411,966
Litigation losses (Note 8)	300,000	300,000
Total Liabilities	88,440,508	131,430,788
<i>Commitments and off-balance-sheet exposure (Note 14)</i>		
Fund Balance		
Accumulated Net Loss	(7,696,428)	(21,001,312)
Unrealized Gain on U.S. Treasury investments, net (Note 3)	26,698	142,127
Unrealized postretirement benefit Loss (Note 13)	(18,503)	(2,612)
Unrealized Gain on trust preferred securities (Note 5)	335,993	0
Total Fund Balance	(7,352,240)	(20,861,797)
Total Liabilities and Fund Balance	\$ 81,088,268	\$ 110,568,991

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

**Deposit Insurance Fund's Financial
Statements**

Statement of Income and Fund Balance

Deposit Insurance Fund

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2010	2009
Revenue		
Interest on U.S. Treasury obligations	\$ 204,871	\$ 704,464
Assessments (Note 9)	13,610,436	17,717,374
Systemic risk revenue (Note 16)	(672,818)	1,721,626
Realized gain on sale of securities	0	1,389,285
Other revenue (Note 10)	237,425	3,173,611
Total Revenue	13,379,914	24,706,360
Expenses and Losses		
Operating expenses (Note 11)	1,592,641	1,271,099
Systemic risk expenses (Note 16)	(672,818)	1,721,626
Provision for insurance losses (Note 12)	(847,843)	57,711,772
Insurance and other expenses	3,050	4,447
Total Expenses and Losses	75,030	60,708,944
Net Income (Loss)	13,304,884	(36,002,584)
Unrealized Loss on U.S. Treasury investments, net	(115,429)	(2,107,925)
Unrealized postretirement benefit Loss (Note 13)	(15,891)	(27,577)
Unrealized Gain on trust preferred securities (Note 5)	335,993	0
Comprehensive Income (Loss)	13,509,557	(38,138,086)
Fund Balance - Beginning	(20,861,797)	17,276,289
Fund Balance - Ending	\$ (7,352,240)	\$ (20,861,797)

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

**Deposit Insurance Fund's Financial
Statements**

Statement of Cash Flows

**Deposit Insurance Fund
Federal Deposit Insurance Corporation**

Deposit Insurance Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2010	2009
Operating Activities		
Net Income (Loss):	\$ 13,304,884	\$ (36,002,584)
Adjustments to reconcile net income to net cash (used by) provided by operating activities:		
Amortization of U.S. Treasury obligations	(5,149)	210,905
Treasury inflation-protected securities inflation adjustment	(23,051)	10,837
Gain on sale of U.S. Treasury obligations	0	(1,389,285)
Depreciation on property and equipment	68,790	70,488
Loss on retirement of property and equipment	620	924
Provision for insurance losses	(847,843)	57,711,772
Unrealized Loss on postretirement benefits	(15,891)	(27,577)
Guarantee termination fee from Citigroup	0	(1,961,824)
Change In Operating Assets and Liabilities:		
Decrease in assessments receivable, net	62,617	737,976
(Increase) Decrease in interest receivable and other assets	(34,194)	192,750
(Increase) in receivables from resolutions	(16,607,671)	(60,229,760)
Decrease (Increase) in receivable - systemic risk	1,029,397	(2,160,688)
Increase in accounts payable and other liabilities	240,949	140,740
Increase in postretirement benefit liability	20,922	30,828
(Decrease) in contingent liabilities - systemic risk	(1,262,639)	(25,672)
(Decrease) Increase in liabilities due to resolutions	(4,199,849)	29,987,265
(Decrease) Increase in unearned revenue - prepaid assessments	(12,670,068)	42,727,101
Increase in deferred revenue - systemic risk	1,203,936	5,769,567
Net Cash (Used by) Provided by Operating Activities	(19,734,240)	35,793,763
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations	21,558,000	6,382,027
Sale of U.S. Treasury obligations	0	15,049,873
Used by:		
Purchase of property and equipment	(96,659)	(91,468)
Purchase of U.S. Treasury obligations	(30,143,138)	0
Net Cash (Used by) Provided by Investing Activities	(8,681,797)	21,340,432
Net (Decrease) Increase in Cash and Cash Equivalents	(28,416,037)	57,134,195
Cash and Cash Equivalents - Beginning	60,523,012	3,388,817
Unrestricted Cash and Cash Equivalents - Ending	27,076,606	54,092,423
Restricted Cash and Cash Equivalents - Ending	5,030,369	6,430,589
Cash and Cash Equivalents - Ending	\$ 32,106,975	\$ 60,523,012

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

Notes to the Financial Statements

Notes to the Financial Statements
Deposit Insurance Fund
December 31, 2010 and 2009

1. Legislation and Operations of the Deposit Insurance Fund

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq.*) In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations (insured depository institutions), and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the Deposit Insurance Fund (DIF). An active institution's primary federal supervisor is generally determined by the institution's charter type. Commercial and savings banks are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board, while savings associations (known as "thrifts") are supervised by the Office of Thrift Supervision (OTS). (See "Recent Legislation" below for certain OTS functional responsibilities to be transferred to the FDIC in the future).

The FDIC is the administrator of the DIF and is responsible for protecting insured bank and thrift depositors from loss due to institution failures. The FDIC is required by 12 U.S.C. 1823(c) to resolve troubled institutions in a manner that will result in the least possible cost to DIF unless a systemic risk determination is made that compliance with the least-cost test would have serious adverse effects on economic conditions or financial stability and any action or assistance taken under the systemic risk determination would avoid or mitigate such adverse effects. A systemic risk determination under this statutory provision can only be invoked by the Secretary of the Treasury, in consultation with the President, and upon the written recommendation of two-thirds of both the FDIC Board of Directors and the Board of Governors of the Federal Reserve System. Until passage of recent legislation (see "Recent Legislation" below), a systemic risk determination could permit open bank assistance. As explained below, such open bank assistance is no longer available. The systemic risk provision requires the FDIC to recover any related losses to the DIF through one or more special assessments from all insured depository institutions and, with the concurrence of the Secretary of the Treasury, depository institution holding companies (see Note 16).

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

Pursuant to the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) on July 21, 2010 (see "Recent Legislation" below), the FDIC is the manager of the Orderly Liquidation Fund (OLF). Established as a separate fund in the U.S. Treasury (Treasury), the OLF is inactive and unfunded until the FDIC is appointed as receiver for a covered financial company (a failing financial company, such as a bank holding company or nonbank financial company for which a systemic risk determination has been made as set forth in section 203 of the Dodd-Frank Act). At the commencement of an orderly liquidation of a

Deposit Insurance Fund

covered financial company, the FDIC may borrow funds required by the receivership from the Treasury, up to the Maximum Obligation Limitation for each covered financial company and in accordance with an Orderly Liquidation and Repayment Plan. Borrowings will be deposited in the OLF and repaid to the Treasury with the proceeds of asset sales. If such proceeds are insufficient, any remaining shortfall must be recovered from assessments imposed on financial companies as specified in the Dodd-Frank Act.

Recent Legislation

The Dodd-Frank Act (Public Law 111-203) provides comprehensive reform of the supervision and regulation of the financial services industry. Under this legislation, the FDIC's new responsibilities include: 1) broad authority to liquidate failing systemic financial firms in an orderly manner as manager of the newly created OLF; 2) issuing regulations, jointly with the Federal Reserve Board (FRB), requiring that nonbank financial companies supervised by the FRB and bank holding companies with assets equal to or exceeding \$50 billion provide the FRB, the FDIC, and the Financial Stability Oversight Council (FSOC) a plan for their rapid and orderly resolution in the event of material financial distress or failure; 3) serving as a voting member of the FSOC; 4) back-up examination authority for nonbank financial companies supervised by the FRB and bank holding companies with at least \$50 billion in assets; 5) back-up enforcement actions against depository institution holding companies if their conduct or threatened conduct poses a risk of loss to the DIF; and 6) federal oversight of state-chartered thrifts upon the transfer of such authority from OTS (between 12 and 18 months after enactment of the Dodd-Frank Act, currently set for July 21, 2011).

The Dodd-Frank Act limits the systemic risk determination authority under 12 U.S.C. 1823(c) to DIF-insured depository institutions for which the FDIC has been appointed receiver and requires that any action taken or assistance provided under this authority must be for the purpose of winding up the insured depository institution in receivership. Under Title XI of the Act, the FDIC is granted new authority to establish a widely available program to guarantee obligations of solvent insured depository institutions or solvent depository institution holding companies (including affiliates) upon systemic determination of a liquidity event during times of severe economic distress. This program would not be DIF-funded; it would be funded 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 insufficiency. Any excess funds at the end of the liquidity event program would be deposited in the General Fund of the Treasury.

The new law also makes changes related to the FDIC's deposit insurance mandate. These changes include a permanent increase in the standard deposit insurance amount to \$250,000 (retroactive to January 1, 2008) and unlimited deposit insurance coverage for non-interest bearing transaction accounts for two years, from December 31, 2010 to the end of 2012. Additionally, the legislation changes the assessment base (from a deposits-based formula to one based on assets) and establishes new reserve ratio requirements (see Note 9).

Operations of the DIF

The primary purposes of the DIF are to: 1) insure the deposits and protect the depositors of DIF-insured institutions and 2) resolve failed DIF-insured institutions upon appointment of the FDIC as receiver, in a manner that will result in the least possible cost to the DIF (unless a systemic

Deposit Insurance Fund

risk determination is made).

The DIF is primarily funded from deposit insurance assessments. Other available funding sources, if necessary, are borrowings from the Treasury, the Federal Financing Bank (FFB), Federal Home Loan Banks, and insured depository institutions. 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 obligations.

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 \$106.3 billion and \$118.2 billion as of December 31, 2010 and 2009, 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 DIF assets and liabilities to ensure that proceeds from these entities are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to resolution entities are accounted for as transactions of those entities. Resolution entities are billed by the FDIC for services provided on their behalf.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such 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 (including loss-share agreements); liabilities due to resolutions; the estimated losses for anticipated failures, litigation, and representations and warranties; guarantee obligations for the Temporary Liquidity Guarantee

Deposit Insurance Fund

Program and structured transactions; the valuation of trust preferred securities; and the postretirement benefit obligation.

Cash Equivalents

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

Investment in U.S. Treasury Obligations

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

The DIF's investments in U.S. Treasury obligations are classified as available-for-sale. Securities designated as available-for-sale are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of net income. Income on securities is calculated and recorded on a daily basis using the effective interest or straight-line method depending on the maturity of the security.

Revenue Recognition for Assessments

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

Capital Assets and Depreciation

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

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

- Accounting Standards Update (ASU) No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, modified Accounting Standards

Deposit Insurance Fund

Codification (ASC) Topic 810, *Consolidation*, to incorporate the provisions of former Statement of Financial Accounting Standards (SFAS) No. 167, *Amendments to FASB Interpretation No. 46(R)*, effective for reporting periods beginning after November 15, 2009. The provisions of ASC 810 require that an enterprise make qualitative assessments of its relationship with a variable interest entity (VIE) based on the enterprise's 1) power to direct the activities that most significantly impact the economic performance of the VIE and 2) obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If the relationship causes the variable interest holder to have both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. During 2010, selected FDIC receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that were guaranteed by the FDIC in its corporate capacity (see Note 8). In accordance with the provisions of ASC 810, an analysis of each structured transaction was performed to determine whether the terms of the legal agreements extended rights that would cause the FDIC in its corporate capacity to be characterized as the primary beneficiary. The conclusion of these analyses was that the FDIC in its corporate capacity did not have the power to direct the significant activities of any entity with which it was involved at December 31, 2010 and therefore, there is no current consolidation requirement for the DIF 2010 financial statements. 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 LLC or trust was determined to be the most significant activity. In other cases, it was determined that there were no significant ongoing activities and that the design of the entity was the best indicator of which party was the primary beneficiary. The results of each analysis identified a party other than the FDIC in its corporate capacity as the primary beneficiary. In the future, the FDIC in its corporate capacity may become the primary beneficiary upon the activation of provisional contract rights that extend to the corporation if payments are made on guarantee claims. Ongoing analyses will be required in order to monitor implications for ASC 810 provisions.

- ASU No. 2009-16, *Accounting for Transfers of Financial Assets* modified ASC Topic 860, *Transfers and Servicing*, to incorporate the provisions of former SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, effective for reporting periods beginning after November 15, 2009. The provisions of ASC 860 remove the concept of a qualifying special purpose entity, change the requirements for derecognizing financial assets and require additional disclosures about a transferor's continuing involvement with transferred assets. The DIF has not engaged in any transfers of financial assets or financial liabilities; thus, there is no current impact to these financial statements for 2010.
- ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*, requires enhanced disclosures for significant transfers into and out of Level 1 (measured using quoted prices in active markets) and Level 2 (measured using other observable inputs) of the fair value measurement hierarchy. These disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The required disclosures are included in Note 15. Separate disclosure of the gross purchases, sales, issuances, and settlements

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activity for Level 3 (measured using unobservable inputs) fair value measurements will become effective for fiscal years beginning after December 15, 2010. Currently, the additional disclosures are not expected to impact the DIF.

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

3. Investment in U.S. Treasury Obligations, Net

As of December 31, 2010 and 2009, investments in U.S. Treasury obligations, net, were \$12.4 billion and \$5.5 billion, respectively. As of December 31, 2010 and 2009, the DIF held \$2.0 billion and \$2.1 billion, respectively, of Treasury Inflation-Protected Securities (TIPS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U).

Total Investment in U.S. Treasury Obligations, Net at December 31, 2010						
Dollars in Thousands						
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	0.73%	\$ 3,000,000	\$ 3,052,503	\$ 2,048	\$ (31)	\$ 3,054,520
U.S. Treasury Inflation-Protected Securities						
Within 1 year	3.47%	1,375,955	1,375,967	1,391	0	1,377,358
After 1 year through 5 years	2.41%	615,840	621,412	22,381	0	643,793
U.S. Treasury bills						
Within 1 year	0.19%	7,300,000	7,294,688	909	0	7,295,597
Total		\$ 12,291,795	\$ 12,344,570	\$ 26,729	\$ (31)	\$ 12,371,268

(a) 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 2010.

Deposit Insurance Fund's Financial Statements

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Total Investment in U.S. Treasury Obligations, Net at December 31, 2009

Dollars in Thousands

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	5.04%	\$ 3,058,000	\$ 3,062,038	\$ 48,602	\$ 0	\$ 3,110,640
After 1 year through 5 years	4.15%	300,000	302,755	11,648	0	314,403
U.S. Treasury Inflation-Protected Securities						
After 1 year through 5 years	3.14%	1,968,744	1,979,879	81,877	0	2,061,756
Total		\$ 5,326,744	\$ 5,344,672	\$ 142,127	\$ 0	\$ 5,486,799

(a) 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 was 1.1 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2009.

4. Receivables from Resolutions, Net

Receivables from Resolutions, Net at December 31

Dollars in Thousands

	2010	2009
Receivables from closed banks	\$ 115,896,763	\$ 98,647,508
Allowance for losses	(86,364,218)	(60,238,886)
Total	\$ 29,532,545	\$ 38,408,622

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

As of December 31, 2010, there were 336 active receiverships which include 157 established in 2010. As of December 31, 2010 and 2009, DIF resolution entities held assets with a book value of \$49.9 billion and \$49.3 billion, respectively (including cash, investments, and miscellaneous receivables of \$22.9 billion and \$7.7 billion, respectively). Ninety-nine percent of the current asset book value of \$49.9 billion are held by resolution entities established since 2008.

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

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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 loss-share agreement, the projected future loss-share payments, recoveries, and monitoring costs on the covered assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. The loss-share cost projections are based on the covered assets' intrinsic value which is determined using financial models that consider the quality and type of covered assets, current and future market conditions, risk factors and estimated asset holding periods. For year-end 2010 financial reporting, the loss-share cost estimates were updated for the majority (62% or 137) of the 222 active loss-share agreements; the remaining 85 were already based on recent loss estimates. The updated loss projections for the larger loss-share agreements were primarily based on new third-party valuations estimating the cumulative loss of loss-share covered assets. For the smaller loss-share agreements, the loss projections were based on a financial model that applies recent aggregate asset valuation recovery rates against current loss-share covered asset balances.

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

Whole Bank Purchase and Assumption Transactions with Loss-Share Agreements

Since the beginning of 2008, the FDIC resolved 223 failures using a Whole Bank Purchase and Assumption resolution transaction with an accompanying loss-share agreement on assets purchased by the financial institution acquirer. The acquirer typically assumes all of the deposits and purchases essentially all of the assets of a failed institution. The majority of the commercial and residential loan assets are purchased under a loss-share agreement, where the FDIC agrees to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement. Loss-share agreements are used by the FDIC to keep assets in the private sector and minimize disruptions to loan customers.

Losses on the covered assets are shared between the acquirer and the FDIC in its capacity as receiver of the failed institution when losses occur through the sale, foreclosure, loan modification, or write-down of loans in accordance with the terms of the loss-share agreement. The majority of the agreements cover a five- to 10-year period with the receiver covering 80 percent of the losses incurred by the acquirer up to a stated threshold amount (which varies by agreement) and the acquiring bank covering 20 percent. Typically, any losses above the stated threshold amount will be reimbursed by the receiver at 95 percent of the losses booked by the acquirer. (For agreements executed after March 26, 2010, the threshold was eliminated and generally 80% of all losses are covered by the receiver.) As mentioned above, the estimated loss-share 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 loss-share claims are asserted and proven, DIF receiverships will satisfy these loss-share payments using available liquidation funds and/or by drawing on amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 7).

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Through December 31, 2010, DIF receiverships are estimated to pay approximately \$38.8 billion over the duration of these loss-share agreements on approximately \$193.0 billion in total covered assets at the inception date of these agreements. To date, 158 receiverships have made loss-share payments totaling \$8.3 billion.

Concentration of Credit Risk

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of DIF's receivables from resolutions is primarily influenced by recoveries on assets held by DIF receiverships and payments on the covered assets under loss-sharing agreements. The majority of the \$184.4 billion in remaining assets in liquidation (\$27.0 billion) and current loss-share covered assets (\$157.4 billion) are concentrated in commercial loans (\$104.4 billion), residential loans (\$56.3 billion), and structured transaction-related assets as described in Note 8 (\$12.8 billion). Most of the assets in these asset types originated from failed institutions located in California (\$53.4 billion), Florida (\$20.8 billion), Illinois (\$15.7 billion), Puerto Rico (\$15.3 billion), and Alabama (\$14.6 billion).

5. Trust Preferred Securities

On January 15, 2009, subject to a systemic risk determination, the Treasury, the FDIC and the Federal Reserve Bank of New York executed terms of a guarantee agreement with Citigroup to provide loss protection on a pool of approximately \$301.0 billion of assets that remained on the balance sheet of Citigroup.

In consideration for its portion of the loss-share guarantee at inception, the FDIC received \$3.025 billion of Citigroup's preferred stock (Series G). On July 30, 2009, all shares of preferred stock initially received were exchanged for 3,025,000 Citigroup Capital XXXIII trust preferred securities (TruPs) with a liquidation amount of \$1,000 per security and a distribution rate of 8 percent per annum payable quarterly. The principal amount is due in 2039. The Treasury initially received \$4.034 billion in preferred stock for its loss-share protection and received an equivalent, aggregate amount of \$4.034 billion in trust preferred securities at the time of the exchange for TruPs.

On December 23, 2009, Citigroup terminated the loss-share agreement citing improvements in its financial condition and in financial market stability. The FDIC incurred no loss from the guarantee prior to termination of the agreement. In connection with the early termination of the guarantee program, the Treasury and the FDIC agreed that Citigroup would reduce the combined \$7.1 billion liquidation amount of the TruPs by \$1.8 billion. Pursuant to an agreement between the Treasury and the FDIC, TruPs held by the Treasury were reduced by \$1.8 billion and the FDIC initially retained all of its TruPs holdings of \$3.025 billion. The FDIC will transfer an aggregate liquidation amount of \$800 million in TruPs to the Treasury, plus any related interest, less any payments made or required to be made by the FDIC for guaranteed debt instruments issued by Citigroup or any of its affiliates under the Temporary Liquidity Guarantee Program (TLGP; see Note 16). This transfer will occur within five days of the date on which no Citigroup debt remains outstanding under the TLGP. The fair value of these TruPs and related interest are recorded as systemic risk assets as described in Note 16.

**Deposit Insurance Fund's Financial
Statements**

Deposit Insurance Fund

The remaining \$2.225 billion (liquidation amount) of TruPs held by the FDIC is classified as available-for-sale debt securities in accordance with FASB ASC Topic 320, *Investments – Debt and Equity Securities*. Upon termination of the guarantee agreement, the DIF recognized revenue in 2009 of \$1.962 billion for the fair value of the TruPs (see Note 10). At December 31, 2010, the fair value of the TruPs was \$2.298 billion (see Note 15). An unrealized holding gain of \$336 million in 2010 is included in other comprehensive income.

6. Property and Equipment, Net

Property and Equipment, Net at December 31			
Dollars in Thousands			
	2010		2009
Land	\$ 37,352	\$	37,352
Buildings (including leasehold improvements)	312,173		295,265
Application software (includes work-in-process)	122,736		179,479
Furniture, fixtures, and equipment	144,661		117,430
Accumulated depreciation	(200,857)		(240,709)
Total	\$ 416,065	\$	388,817

The depreciation expense was \$69 million and \$70 million for 2010 and 2009, respectively.

7. Liabilities Due to Resolutions

As of December 31, 2010 and 2009, the DIF recorded liabilities totaling \$30.4 billion and \$34.5 billion 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. Eighty-nine percent of these liabilities are due to failures resolved under a whole bank purchase and assumption transaction, most with an accompanying loss-share agreement. The DIF satisfies these liabilities either by directly sending cash to the receiverships to fund loss-share and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend.

In addition, there was \$80 million and \$150 million in unpaid deposit claims related to multiple receiverships as of December 31, 2010 and 2009, respectively. The DIF pays these liabilities when the claims are approved.

8. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

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

The banking industry continued to face significant problems in 2010. The slowly recovering economic and credit environment challenged the soundness of many DIF-insured institutions.

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The ongoing weakness in housing and commercial real estate markets led to continuing asset quality problems, which hurt banking industry performance and weakened many institutions with significant portfolios of residential and commercial mortgages. Despite the challenging conditions evident in certain business lines and markets, the losses to the DIF from failures that occurred in 2010 fell short of the amount reserved at the end of 2009, as the aggregate number and size of institution failures in 2010 were less than anticipated. The removal from the reserve of banks that did fail in 2010, as well as projected favorable trends in bank supervisory downgrade and failure rates and the smaller size of institutions that remain troubled, all contribute to a decline by \$26.3 billion to \$17.7 billion in the contingent liability for anticipated failures of insured institutions at the end of 2010.

In addition to these recorded contingent liabilities, the FDIC has identified risk in the financial services industry that could result in additional losses to the DIF should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of up to approximately \$24.5 billion. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2010, 157 banks with combined assets of \$93.2 billion failed. Supervisory and market data suggest that the banking industry will continue to experience elevated levels of stress over the coming year. The FDIC continues to evaluate the ongoing risks to affected institutions in light of the existing economic and financial conditions, and the extent to which such risks will continue to put stress on the resources of the insurance fund.

Litigation Losses

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. Probable litigation losses of \$300 million were recorded for both December 31, 2010 and 2009, and the FDIC has determined that there are no reasonably possible losses from unresolved cases.

Other Contingencies

IndyMac Federal Bank Representation and Indemnification Contingent Liability

On March 19, 2009, the FDIC as receiver of IndyMac Federal Bank (IMFB) and certain subsidiaries (collectively, sellers) sold substantially all of the assets of IMFB and the respective subsidiaries, including mortgage loans and mortgage loan servicing rights, to OneWest Bank and its affiliates. To maximize sale returns, the sellers made certain customary representations regarding the assets and have certain obligations to indemnify the acquirers for losses incurred as a result of breaches of such representations, losses incurred as a result of the failure to obtain contractual counterparty consents to the sale, and third party claims arising from pre-sale acts and omissions of the sellers or the failed bank. Although the representations and indemnifications were made by or are obligations of the sellers, the FDIC, in its corporate capacity, guaranteed the receivership's indemnification obligations under the sale agreements. The representations relate generally to ownership of and right to sell the assets; compliance with applicable law in the origination of the loans; accuracy of the servicing records; validity of loan documents; and servicing of the loans serviced for others. Until the period for asserting claims under these arrangements have expired and all indemnification claims quantified and paid, losses

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could continue to be incurred by the receivership and, in turn, the DIF either directly, as a result of the FDIC corporate guaranty of the receivership's indemnification obligations, or indirectly, as a result of a reduction in the receivership's assets available to pay the DIF's claims as subrogee for insured accountholders. The acquirers' rights to assert actual and potential breaches extend out to March 19, 2019 for the Fannie Mae and Ginnie Mae reverse mortgage servicing portfolios (unpaid principal balance of \$21.7 billion at December 31, 2010 and 2009), March 19, 2014 for the Fannie Mae, Freddie Mac and Ginnie Mae mortgage servicing portfolios (unpaid principal balance of \$45.3 billion at December 31, 2010 compared to \$62.1 billion at December 31, 2009), and March 19, 2011 for the remaining (private) mortgage servicing portfolio and whole loans (unpaid principal balance of \$74.2 billion at December 31, 2010 compared to \$104.4 billion at December 31, 2009).

As of December 31, 2010, the IndyMac receivership has paid \$2.8 million in approved claims and has accrued an additional \$2.6 million liability for claims asserted but unpaid. The FDIC believes it is likely that additional losses will be incurred, however quantifying the contingent liability associated with the representations and the indemnification obligations is subject to a number of uncertainties, including 1) borrower prepayment speeds, 2) the occurrence of borrower defaults and resulting foreclosures and losses, 3) the assertion by third party investors of claims with respect to loans serviced for them, 4) the existence and timing of discovery of breaches and the assertion of claims for indemnification for losses by the acquirer, 5) the compliance by the acquirer with certain loss mitigation and other conditions to indemnification, 6) third party sources of loss recovery (such as title companies and insurers), 7) the ability of the acquirer to refute claims from investors without incurring reimbursable losses, and 8) the cost to cure breaches and respond to third party claims. Because of these and other uncertainties that surround the liability associated with indemnifications and the quantification of possible losses, the FDIC has determined that while additional losses are probable, the amount is not estimable.

Purchase and Assumption Indemnification

In connection with purchase and assumption agreements for resolutions, the FDIC in its receivership capacity generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC in its corporate capacity is a secondary guarantor if and when 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 2010 and 2009, 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

During 2009 and 2010, the FDIC as receiver used three types of structured transactions to dispose of certain performing and non-performing residential mortgage loans, commercial loans, construction loans, and mortgage backed securities held by the receiverships. The three types of structured transactions are: 1) limited liability companies (LLCs), 2) securitizations, and 3) structured sale guaranteed notes (SSGNs).

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LLCs

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

Private investors purchased a 40 or 50 percent ownership interest in the LLC structures for \$1.6 billion in cash and the LLCs issued notes of \$4.4 billion to the receiverships to partially fund the purchase of the assets. The receiverships hold the remaining 50 or 60 percent equity interest in the LLCs and, in most cases, the guaranteed notes. The FDIC in its corporate capacity guarantees the timely payment of principal and interest for the notes. The terms of the note guarantees extend until the earliest of 1) payment in full of the notes or 2) two years following the maturity date of the notes. The note with the longest term matures in 2020. In the event of note payment default by a LLC, the FDIC in its corporate capacity can take one or more of the following remedies: 1) accelerate the payment of the unpaid principal amount of the notes; 2) sell the assets held as collateral; or 3) foreclose on the equity interests of the debtor.

Securitizations and SSGNs

Securitizations and SSGNs (collectively, "Trusts") are transactions in which certain assets or securities from failed institutions are pooled into a trust structure. The Trusts issued senior notes, subordinate notes, and owner trust certificates collateralized by the mortgage-backed securities or loans that are transferred to the Trusts.

Private investors purchased the senior notes issued by the Trusts for \$4.6 billion in cash. The receiverships hold 100 percent of the subordinate notes and owner trust certificates ("OTCs"). The FDIC in its corporate capacity guarantees the timely payment of principal and interest for the senior notes. The terms of these guarantees generally stipulate that all cash flows received from the entity's collateral be used in the following order to: 1) pay operational expenses of the entity, 2) pay FDIC its contractual guarantee fee, 3) pay interest on the guaranteed notes, 4) pay down the guaranteed notes, and 5) pay the holders of the subordinate notes and owner trust certificates. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest thereon. As mentioned above, this interest is senior to all interests of subordinate note holders and OTC holders and thus will be reimbursed, in full, prior to these holders receiving a return on

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any remaining investment. Once all expenses have been paid, the guaranteed notes have been satisfied, and FDIC has been reimbursed for any guarantee payments, the subordinate note holders and OTC holders receive the remaining cash flows.

All Structured Transactions

Through December 31, 2010, 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 \$6.8 billion to the LLCs and Trusts which have issued notes guaranteed by the FDIC. To date, the DIF has collected guarantee fees totaling \$128 million and recorded a receivable for additional guarantee fees of \$170 million, included in the "Interest receivable on investments and other assets, net" line item. All guarantee fees are recorded as deferred revenue, included in the "Accounts payable and other liabilities" line item, and recognized as revenue primarily on a straight-line basis over the term of the notes. At December 31, 2010, the amount of deferred revenue recognized on the balance sheet was \$249 million. The DIF records no other structured transaction related assets or liabilities on its balance sheet.

The estimated loss on the guarantees to the DIF is based on the discounted present value of the expected guarantee payments by the FDIC, reimbursements to the FDIC for guarantee payments, and guarantee fee collections. Under both a base case and a more stressful modeling scenario, the cash flows from the LLC/Trust assets provide sufficient coverage to fully pay the debts by their maturity dates. Therefore, the estimated loss to the DIF from these guarantees is zero. To date, FDIC in its corporate capacity has not provided, and does not intend to provide, any form of financial or other support to a Trust or LLC that it was not previously contractually required to provide.

As of December 31, 2010, the maximum exposure to loss is \$8.3 billion, the sum of all outstanding debt issued by LLCs and Trusts that is guaranteed by the FDIC in its corporate capacity. The \$8.3 billion is comprised of \$4.2 billion issued by LLCs, \$3.8 billion issued by SSGNs, and \$.3 billion issued by the securitization. Some transactions have established defeasance accounts to pay off the notes at maturity. A total of \$756 million has been deposited into these accounts.

9. Assessments

The Dodd-Frank Act, enacted on July 21, 2010, provides for significant DIF assessment and capitalization reforms. As a result, the FDIC issued proposed regulations and adopted a new Restoration Plan. The following presents the required DIF reforms and the related FDIC actions taken to:

- define the assessment base generally as average consolidated total assets minus average tangible equity (the new assessment base).

To amend its regulations, the FDIC issued a proposed rulemaking to redefine the assessment base used for calculating deposit insurance assessments from adjusted domestic deposits to average consolidated total assets minus average tangible equity (measured as Tier 1 capital).

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- annually establish and publish a designated reserve ratio (DRR) at the statutory minimum percentage of not less than 1.35 percent of estimated insured deposits or the comparable percentage of the new assessment base. In addition, the FDIC must annually determine if a dividend should be paid, based on the statutory requirement generally to declare dividends if the DIF reserve ratio exceeds 1.50 percent of estimated insured deposits. The Board of Directors is given sole discretion to suspend or limit dividends and must prescribe relevant regulations.

In order to implement these requirements, the FDIC proposed a comprehensive long-range plan for deposit insurance fund management with the intent of maintaining a positive fund balance and moderate, steady assessment rates. The proposed rulemaking would set the DRR at 2 percent as a long-term minimum goal and adopt a lower assessment rate schedule when the reserve ratio reaches 1.15. To increase the probability that the fund reserve ratio will reach a level sufficient to withstand a future crisis, the proposed rulemaking would suspend dividends permanently when the fund reserve ratio exceeds 1.5 percent and, in lieu of dividends, adopt lower assessment rate schedules when the reserve ratio reaches 2 percent and 2.5 percent so that average rates would decline about 25 percent and 50 percent, respectively. In December 2010, the FDIC issued a final rule related to the DRR portion of the proposed rulemaking, setting the DRR at 2 percent effective on January 1, 2011.

- return the reserve ratio to 1.35 percent of estimated insured deposits by September 30, 2020.

To comply with this mandate, the FDIC adopted a new Restoration Plan that provides for the following: 1) the period of the Restoration Plan is extended from the end of 2016 to September 30, 2020; 2) the FDIC will maintain the current schedule of assessment rates, foregoing the uniform 3 basis point increase previously scheduled to take effect on January 1, 2011; 3) institutions may continue to use assessment credits without additional restriction during the term of the Restoration Plan; 4) the FDIC will pursue rulemaking in 2011 regarding the method that will be used to offset the effect on small institutions (less than \$10 billion in assets) of the statutory requirement that the fund reserve ratio increase from 1.15 percent to 1.35 percent by September 30, 2020; and 5) at least semiannually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease rates, following notice-and-comment rulemaking, if required.

In addition, the FDIC issued a proposed rulemaking to revise the assessment system applicable to large insured depository institutions (IDIs) to better capture risk at the time an IDI assumes the risk, to better differentiate IDIs during periods of good economic and banking conditions based on how they would fare during periods of stress or economic downturns, and to better take into account the losses that the FDIC may incur if such an IDI fails. Specifically, proposed changes include eliminating risk categories and the use of long-term debt issuer ratings for large IDIs and combining CAMELS ratings and forward-looking financial measures into two scorecards: one

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for most large IDIs and another for large IDIs that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex IDIs).

Assessment Revenue

The assessment rate averaged approximately 17.72 cents per \$100 and 23.32 cents per \$100 of the assessment base, as defined in part 327.5(b) of FDIC Rules and Regulations, for 2010 and 2009, respectively. During 2010 and 2009, \$13.6 billion and \$17.7 billion were recognized as assessment revenue from institutions. For those institutions that did not prepay assessments as described below, the "Assessments receivable, net" line item of \$218 million represents the estimated premiums due from IDIs for the fourth quarter of 2010. The actual deposit insurance assessments for the fourth quarter will be billed and collected at the end of the first quarter of 2011.

During 2009, the FDIC implemented actions to supplement DIF's revenue through a special assessment and its liquidity through prepaid assessments from IDIs:

- On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each IDI's total assets minus Tier 1 capital as reported in its report of condition as of June 30, 2009. The special assessment of \$5.5 billion was collected on September 30, 2009.
- On November 12, 2009, the FDIC adopted a final rule to address the DIF's liquidity needs to pay for projected near-term failures and to ensure that the deposit insurance system remained industry-funded. Pursuant to the final rule, on December 30, 2009, a majority of IDIs prepaid estimated quarterly risk-based assessments of \$45.7 billion for the period October 2009 through December 2012. An institution's quarterly risk-based deposit insurance assessment thereafter is offset by the amount prepaid until that amount is exhausted or until June 30, 2013, when any amount remaining would be returned to the institution. At December 31, 2010, the remaining prepaid amount of \$30.1 billion is included in the "Unearned revenue – prepaid assessments" line item on the Balance Sheet.

Prepaid assessments were mandatory for all institutions, but the FDIC exercised its discretion as supervisor and insurer to exempt an institution from the prepayment requirement if the FDIC determined that the prepayment would adversely affect the safety and soundness of the institution.

Reserve Ratio

As of December 31, 2010, the DIF reserve ratio was -0.12 percent of estimated insured deposits.

Assessments Related to FICO

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

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solely as a collection agent for the FICO. During 2010 and 2009, approximately \$796 million and \$784 million, respectively, was collected and remitted to the FICO.

10. Other Revenue

Other Revenue for the Years Ended December 31			
Dollars in Thousands			
	2010		2009
Guarantee termination fees	\$ 0	\$	2,053,825
Dividends and interest on Citigroup trust preferred securities	177,675		231,227
Guarantee fees for structured transactions	44,557		3,465
Debt guarantee surcharges	0		871,746
Other	15,193		13,348
Total	\$ 237,425	\$	3,173,611

Guarantee Termination Fees and Dividends and Interest on TruPs

Bank of America

In January 2009, the FDIC, the Treasury, and the Federal Reserve Bank of New York (federal parties) signed a Summary of Terms (Term Sheet) with Bank of America to guarantee or lend against a pool of up to \$118.0 billion of financial instruments owned by Bank of America. In May 2009, prior to completing definitive documentation, Bank of America announced its intention to terminate negotiations with respect to the loss-share guarantee arrangement contemplated in the Term Sheet. Bank of America paid a termination fee of \$425 million to compensate the federal parties for the guarantee from the date of the signing of the Term Sheet through the termination date. Of this amount, the FDIC received and recognized revenue of \$92 million for the DIF in 2009. No losses were borne by the FDIC prior to the termination.

Citigroup

In connection with the termination of a loss-share agreement with Citigroup on December 23, 2009 (see Note 5), the DIF recognized revenue of \$1.962 billion for the fair value of the trust preferred securities received as consideration for the guarantee. The DIF recognized \$178 million and \$231 million of dividends and interest on the securities for 2010 and 2009, respectively.

Guarantee Fees for Structured Transactions

The FDIC in its corporate capacity participated in structured transactions as guarantor of the principal and interest due on certain notes issued by related limited liability companies and Trusts (see Note 8). The transactions were formed to maximize recoveries on assets purchased by these entities from receiverships. In exchange for the guarantees, the DIF receives guarantee fees that are recognized as revenue over the term of each guarantee on a straight line basis. The DIF recognized revenue in the amount of \$45 million and \$3 million during 2010 and 2009, respectively.

Surcharges on FDIC-Guaranteed Debt

The DIF collected a surcharge on all debt issued under the Temporary Liquidity Guarantee Program (TLGP) after March 31, 2009 in an effort to provide an incentive for all participants to return to the non-guaranteed debt market. Unlike other TLGP fees (see Note 16), which are reserved for projected TLGP losses, the surcharges collected were deposited into the DIF.

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During 2009, the DIF collected surcharges in the amount of \$872 million. No surcharges were collected in 2010.

11. Operating Expenses

Operating expenses were \$1.6 billion for 2010, compared to \$1.3 billion for 2009. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31				
Dollars in Thousands				
	2010		2009	
Salaries and benefits	\$	1,184,523	\$	901,836
Outside services		360,880		244,479
Travel		111,110		97,744
Buildings and leased space		85,137		65,286
Software/Hardware maintenance		50,575		40,678
Depreciation of property and equipment		68,790		70,488
Other		35,384		37,563
Services reimbursed by TLGP		(242)		(3,613)
Services billed to resolution entities		(303,516)		(183,362)
Total	\$	1,592,641	\$	1,271,099

12. Provision for Insurance Losses

Provision for insurance losses was a negative \$848 million for 2010, compared to a positive \$57.7 billion for 2009. The 2010 negative provision is primarily due to lower-than-anticipated loss estimates at time of failure for banks that have failed and leveling off of estimated losses to the DIF from banks expected to fail. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31				
Dollars in Thousands				
	2010		2009	
Valuation Adjustments				
Closed banks and thrifts	\$	25,483,252	\$	37,586,603
Other assets		(4,406)		(7,885)
Total Valuation Adjustments		25,478,846		37,578,718
Contingent Liabilities Adjustments				
Anticipated failure of insured institutions		(26,326,689)		20,033,054
Litigation		0		100,000
Total Contingent Liabilities Adjustments		(26,326,689)		20,133,054
Total	\$	(847,843)	\$	57,711,772

13. Employee Benefits

Pension Benefits and Savings Plans

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement

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System (CSRS) or the Federal Employees Retirement System (FERS). Although the DIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The DIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management (OPM).

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

Pension Benefits and Savings Plans Expenses for the Years Ended December 31			
Dollars in Thousands		2010	2009
Civil Service Retirement System	\$	6,387	\$ 6,401
Federal Employees Retirement System (Basic Benefit)		78,666	56,451
FDIC Savings Plan		30,825	25,449
Federal Thrift Savings Plan		28,679	20,503
Total	\$	144,557	\$ 108,804

Postretirement Benefits Other Than Pensions

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

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

The FDIC has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (difference between the accumulated postretirement benefit obligation and the plan assets at fair value) as a liability. Since there are no plan assets, the plan's benefit liability is equal to the accumulated postretirement benefit obligation. At December 31, 2010 and 2009, the liability was \$166 million and \$145 million, respectively, which is recognized in the "Postretirement benefit liability" line item on the Balance Sheet. The cumulative actuarial losses (changes in assumptions and plan experience) and prior service costs (changes to plan provisions that increase benefits) were \$19 million and \$3 million at December 31, 2010 and 2009, respectively. These amounts are reported as accumulated other comprehensive income in the "Unrealized postretirement benefit loss" line item on the Balance Sheet.

The DIF's expenses for postretirement benefits for 2010 and 2009 were \$9 million and \$8 million, respectively, which are included in the current and prior year's operating expenses on

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the Statement of Income and Fund Balance. The changes in the actuarial losses and prior service costs for 2010 and 2009 of \$16 million and \$28 million, respectively, are reported as other comprehensive income in the "Unrealized postretirement benefit loss" line item. Key actuarial assumptions used in the accounting for the plan include the discount rate of 5.0 percent, the rate of compensation increase of 4.1 percent, and the dental coverage trend rate of 7.0 percent. The discount rate of 5.0 percent is based upon rates of return on high-quality fixed income investments whose cash flows match the timing and amount of expected benefit payments.

14. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The FDIC's lease commitments total \$204 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The DIF recognized leased space expense of \$45 million and \$29 million for the years ended December 31, 2010 and 2009, respectively.

Leased Space Commitments					
Dollars in Thousands					
2011	2012	2013	2014	2015	2016/Thereafter
\$54,086	\$48,047	\$37,005	\$28,035	\$19,731	\$17,229

Off-Balance-Sheet Exposure:

Deposit Insurance

As of December 31, 2010, the estimated insured deposits for DIF were \$6.2 trillion. This estimate is derived primarily from quarterly financial data submitted by insured depository institutions to the FDIC. This estimate represents the accounting loss that would be realized if all insured depository institutions were to fail and the acquired assets provided no recoveries. The amount of \$6.2 trillion includes noninterest-bearing transaction accounts that received coverage under the Dodd-Frank Act beginning on December 31, 2010 to the end of 2012.

15. Disclosures About the Fair Value of Financial Instruments

Financial assets recognized and measured at fair value on a recurring basis at each reporting date include cash equivalents (Note 2), the investment in U.S. Treasury obligations (Note 3) and trust preferred securities (Note 5). The following tables present the DIF's financial assets measured at fair value as of December 31, 2010 and 2009.

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Assets Measured at Fair Value at December 31, 2010				
Dollars in Thousands				
Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash and cash equivalents (Special U.S. Treasuries) ¹	\$ 27,076,606			\$ 27,076,606
Available for Sale Debt Securities				
Investment in U.S. Treasury Obligations ²	12,371,268			12,371,268
Trust preferred securities		2,297,818		2,297,818
Trust preferred securities held for UST (Note 16)		826,182		826,182
Total Assets	\$ 39,447,874	\$ 3,124,000	\$ 0	\$ 42,571,874

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

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

In exchange for prior loss-share guarantee coverage provided to Citigroup as described in Note 5, the FDIC and the Treasury received TruPs. At December 31, 2010, the fair value of the securities in the amount of \$3.124 billion was classified as a Level 2 measurement based on an FDIC developed model using observable market data for traded Citigroup securities to determine the expected present value of future cash flows. Key inputs include market yields on U.S. Dollar interest rate swaps and discount rates for default, call and liquidity risks that are derived from traded Citigroup securities and modeled pricing relationships.

Assets Measured at Fair Value at December 31, 2009				
Dollars in Thousands				
Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash and cash equivalents (Special U.S. Treasuries) ¹	\$ 54,092,423			\$ 54,092,423
Available for Sale Debt Securities				
Investment in U.S. Treasury Obligations	5,486,799			5,486,799
Trust preferred securities			1,961,824	1,961,824
Trust preferred securities held for UST (Note 16)			705,375	705,375
Total Assets	\$ 59,579,222	\$ 0	\$ 2,667,199	\$ 62,246,421

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

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

At December 31, 2009 the fair value of the TruPs in the amount of \$2.667 billion was classified as a Level 3 measurement and was derived from a proprietary valuation model developed by the Treasury to estimate the value of financial instruments obtained as consideration for actions taken to stabilize the financial system under the Troubled Asset Relief Program. The change in fair value classification from Level 3 to Level 2 between 2009 and 2010 was due to a greater

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reliance on observable inputs. The table below reconciles the beginning and ending Level 3 balances for 2010.

Fair Value Measurements Using Unobservable Inputs (Level 3) - Trust Preferred Securities at December 31, 2010			
Dollars in Thousands			
	2010		2009
Beginning balance	\$	2,667,199	\$ 0
Total gains or losses		0	0
Transfers in and/or out of Level 3		(2,667,199)	2,667,199
Total	\$	0	\$ 2,667,199

(a) The Corporation's policy is to recognize Level 3 transfers as of the beginning of the reporting period.

(b) The transfer from Level 3 to Level 2 was due to adoption of observable market data for these securities.

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

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

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

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

There is no readily available market for guarantees associated with systemic risk (see Note 16).

16. Systemic Risk Transactions

Pursuant to systemic risk determinations, the FDIC established the Temporary Liquidity Guarantee Program (TLGP) for insured depository institutions, designated affiliates and certain holding companies during 2008, and provided loss-share guarantee assistance to Citigroup on a pool of covered assets in 2009, which was subsequently terminated as described in Note 5. The

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FDIC received consideration in exchange for guarantees issued under the TLGP and guarantee assistance provided to Citigroup.

At inception of the guarantees, the DIF recognized a liability for the non-contingent fair value of the obligation the FDIC has undertaken to stand ready to perform over the term of the guarantees. As required by FASB ASC 460, *Guarantees*, this non-contingent liability was measured at the amount of consideration received in exchange for issuing the guarantee. As systemic risk expenses are incurred (including contingent liabilities and valuation allowances), the DIF will reduce deferred revenue and recognize an offsetting amount as systemic risk revenue. Revenue recognition will also occur during the term of the guarantee if a supportable and documented analysis has determined that the consideration and any related interest/dividend income received exceeds the projected systemic risk losses. Any deferred revenue not absorbed by losses during the guarantee period will be recognized as revenue to the DIF.

Temporary Liquidity Guarantee Program

The FDIC established the TLGP on October 14, 2008 in an effort to counter the system-wide crisis in the nation's financial sector. The TLGP consists of two components: 1) the Debt Guarantee Program (DGP), and 2) the Transaction Account Guarantee Program (TAG). The program is codified in part 370 of title 12 of the Code of Federal Regulations (12 CFR Part 370).

Debt Guarantee Program

The DGP permitted participating entities to issue FDIC-guaranteed senior unsecured debt through October 31, 2009. The FDIC's guarantee for all such debt expires on the earliest of the conversion date for mandatory convertible debt, the stated date of maturity, or December 31, 2012.

All fees for participation in the DGP are reserved for possible TLGP losses. Through the end of the debt issuance period, the DIF collected \$8.3 billion of guarantee fees and fees of \$1.2 billion from participating entities that elected to issue senior unsecured non-guaranteed debt. The fees are included in the "Cash and investments – restricted – systemic risk" line item and recognized as "Deferred revenue-systemic risk" on the Balance Sheet.

Additionally, as described in Note 5, the FDIC holds \$800 million (liquidation amount) of Citigroup TruPs (and any related interest) as security in the event payments are required to be made by the DIF for guaranteed debt instruments issued by Citigroup or any of its affiliates under the TLGP. At December 31, 2010, the fair value of these securities totaled \$826 million, and was determined using the valuation methodology described in Note 15 for other Citigroup TruPs held by the DIF. There is an offsetting liability in "Deferred Revenue- Systemic Risk", representing amounts to be transferred to the Treasury or, if necessary, paid for guaranteed debt instruments issued by Citigroup or its affiliates under the TLGP. Consequently, there is no impact on the fund balance to the DIF.

The FDIC's payment obligation under the DGP is triggered by a payment default. In the event of default, the FDIC will continue to make scheduled principal and interest payments under the terms of the debt instrument through its maturity, or in the case of mandatory convertible debt, through the mandatory conversion date. The debtholder or representative must assign to the FDIC the right to receive any and all distributions on the guaranteed debt from any insolvency

Deposit Insurance Fund

proceeding, including the proceeds of any receivership or bankruptcy estate, to the extent of payments made under the guarantee.

Since inception of the program, \$618 billion in total guaranteed debt has been issued. Through December 31, 2010, the FDIC has paid \$8 million in claims for principal and interest arising from guaranteed debt default by three debt issuers. Sixty-six financial entities (39 insured depository institutions and 27 affiliates and holding companies) had \$267.1 billion in guaranteed debt outstanding at year end. This reported outstanding debt at year end is derived from data submitted by debtholders. At December 31, 2010, the contingent liability for this guarantee of \$149 million is included in the "Contingent liability for systemic risk" line item. The FDIC believes that it is reasonably possible that additional estimated losses of approximately \$545 million could occur under the DGP. Given the magnitude of outstanding debt and the uncertainty surrounding future possible losses, the FDIC believes it is appropriate to continue its current practice of deferring income recognition for the remaining \$9.1 billion of "Deferred Revenue-Systemic Risk."

Transaction Account Guarantee Program

The Transaction Account Guarantee Program, implemented under the TLGP, provided unlimited coverage through December 31, 2010 for non-interest bearing transaction accounts held by insured depository institutions on all deposit amounts exceeding the fully insured limit of \$250,000. During 2010 and 2009, the FDIC collected TAG fees of \$481 million and \$639 million, respectively, which are earmarked for TLGP possible losses and payments. At December 31, 2010, the "Receivables and other assets – systemic risk" line item includes \$50 million of estimated TAG fees due from insured depository institutions on March 31, 2011.

Upon the failure of a participating insured depository institution, payment of guaranteed claims of depositors with non-interest bearing transaction accounts were funded with TLGP restricted cash. The FDIC is subrogated to these claims of depositors against the failed entity, and dividend payments by the receivership are deposited back into TLGP restricted accounts.

Since inception of the TAG, covered claims were estimated to be \$8.8 billion with estimated losses of \$2.3 billion as of December 31, 2010.

Deposit Insurance Fund's Financial Statements

Deposit Insurance Fund

Systemic Risk Activity at December 31, 2010

Dollars in Thousands

	Cash and investments - restricted - systemic risk (1)	Receivables and other assets - systemic risk	Deferred revenue - systemic risk	Contingent liability - systemic risk	Revenue/Expenses - systemic risk
Balance at 01-01-10	\$ 6,430,589	\$ 3,298,819	\$ (7,847,447)	\$ (1,411,966)	\$
TAG fees collected	480,781	(187,541)	(293,240)		
DGP assessments collected	3		(3)		
Receivable for TAG fees		50,235	(50,235)		
Receivable for TAG accounts at failed institutions		(493,128)			
Dividends and overnight interest on TruPs held for UST		63,856	(63,856)		
Market value adjustment on TruPs held for UST		120,807	(120,807)		
Estimated losses for TAG accounts at failed institutions		(583,626)	583,626		583,626
Provision for TLGP losses in future failures			(1,262,639)	1,262,639	(1,262,639)
Guaranteed debt obligations paid	(7,970)		7,970		5,953
U.S. investment interest collected	12,063		(12,063)		
Interest receivable on U.S. Treasury obligations	720		(720)		
Amortization of U.S. Treasury obligations	2,191		(2,191)		
Accrued interest purchased	(6,822)		6,822		
Unrealized gain on U.S. Treasury obligations	247		(247)		
TLGP operating expenses			489		242
Reimbursement to DIF for TAG claims and TLGP operating expenses incurred	(264,834)				
Totals	\$ 6,646,968	\$ 2,269,422	\$ (9,054,541)	\$ (149,327)	\$ (672,818)

(1) As of December 31, 2010, the fair value of investments in U.S. Treasury obligations held by TLGP was \$1.6 billion. An unrealized gain of \$247 thousand is reported in the "Deferred revenue - systemic risk" line item.

17. Subsequent Events

Subsequent events have been evaluated through March 14, 2011, the date the financial statements are available to be issued.

2011 Failures through March 14, 2011

Through March 14, 2011, 25 insured institutions failed in 2011 with total losses to the DIF estimated to be \$1.8 billion.

Assessments

On February 7, 2011, the FDIC adopted a Final Rule, *Assessments, Large Bank Pricing*, which becomes effective on April 1, 2011. The Rule amends 12 CFR 327 to implement revisions to the FDI Act made by the Dodd-Frank Act to: 1) redefine the assessment base used for calculating deposit insurance assessments; 2) change the assessment rate adjustments; 3) lower the initial base rate schedule and the total base rate schedule for all insured depository institutions to collect approximately the same revenue for the DIF under the new assessment base as would have been collected under the former assessment base; 4) provide progressively lower assessment rate

**Deposit Insurance Fund's Financial
Statements**

Deposit Insurance Fund

schedules when the reserve ratio of the DIF reaches certain enumerated levels and suspend dividends indefinitely; and 5) change the risk-based assessment system for large insured depository institutions (generally, those institutions with at least \$10 billion in total assets).

During the last quarter of 2010, FDIC issued three Notices of Proposed Rulings (NPRs) in order to propose revisions to the FDI Act, as amended (see Note 9). This Final Rule encompasses all of the proposals contained in the NPRs, except the proposal setting the Designated Reserve Ratio (DRR), which was covered in the DRR Final Rule issued in December 2010.

FSLIC Resolution Fund's Financial Statements

Balance Sheet

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet at December 31

Dollars in Thousands	2010	2009
Assets		
Cash and cash equivalents	\$ 3,547,907	\$ 3,470,125
Receivables from thrift resolutions and other assets, net (Note 3)	23,408	32,338
Receivables from U.S. Treasury for goodwill litigation (Note 4)	323,495	405,412
Total Assets	\$ 3,894,810	\$ 3,907,875
Liabilities		
Accounts payable and other liabilities	\$ 2,990	\$ 2,972
Contingent liabilities for goodwill litigation (Note 4)	323,495	405,412
Total Liabilities	326,485	408,384
Resolution Equity (Note 5)		
Contributed capital	127,792,696	127,847,696
Accumulated deficit	(124,224,371)	(124,348,205)
Total Resolution Equity	3,568,325	3,499,491
Total Liabilities and Resolution Equity	\$ 3,894,810	\$ 3,907,875

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

**FSLIC Resolution Fund's Financial
Statements**

Statement of Income and Accumulated Deficit

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit for the Years Ended December 31

Dollars in Thousands	2010		2009
Revenue			
Interest on U.S. Treasury obligations	\$ 3,876	\$	3,167
Other revenue	9,393		5,276
Total Revenue	13,269		8,443
Expenses and Losses			
Operating expenses	3,832		4,905
Provision for losses	(945)		2,051
Goodwill litigation expenses (Note 4)	(53,266)		408,997
Recovery of tax benefits	(63,256)		(10,279)
Other expenses	3,070		2,908
Total Expenses and Losses	(110,565)		408,582
Net Income (Loss)	123,834		(400,139)
Accumulated Deficit - Beginning	(124,348,205)		(123,948,066)
Accumulated Deficit - Ending	\$ (124,224,371)	\$	(124,348,205)

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

**FSLIC Resolution Fund's Financial
Statements**

Statement of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands	2010	2009
Operating Activities		
Net Income (Loss)	\$ 123,834	\$ (400,139)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Provision for losses	(945)	2,051
Change in Operating Assets and Liabilities:		
Decrease in receivables from thrift resolutions and other assets	9,875	563
Increase (Decrease) in accounts payable and other liabilities	18	(5,094)
(Decrease) Increase in contingent liabilities for goodwill litigation	(81,917)	263,107
Net Cash Provided (Used) by Operating Activities	50,865	(139,512)
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill litigation (Note 4)	26,917	142,410
Net Cash Provided by Financing Activities	26,917	142,410
Net Increase in Cash and Cash Equivalents	77,782	2,898
Cash and Cash Equivalents - Beginning	3,470,125	3,467,227
Cash and Cash Equivalents - Ending	\$ 3,547,907	\$ 3,470,125

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

Notes to the Financial Statements

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 2010 and 2009

1. Legislative History and Operations/Dissolution of the FSLIC Resolution Fund

Legislative History

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq.*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance fund established in the FDI Act, as amended. In addition, FDIC is charged with responsibility 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 U.S. Congress created the FSLIC through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF-except those assets and liabilities transferred to the RTC-effective on August 9, 1989. Further, the FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions.

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

The FDIC is the administrator of the FRF and the Deposit Insurance Fund. These funds are maintained separately to carry out their respective mandates.

Operations/Dissolution of the FRF

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

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities. Some of the issues and items that remain open in FRF are: 1) criminal restitution orders (generally have from 3 to 13 years remaining to enforce); 2) collections of settlements and judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have from one to 10 years remaining to enforce, unless the judgments are renewed, which will result in significantly longer periods for

FSLIC Resolution Fund

collection for some judgments); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax benefits sharing through the year 2012); 4) goodwill litigation (no final date for resolution has been established; see Note 4); and 5) affordable housing program monitoring (requirements can exceed 25 years). The FRF could potentially realize recoveries from tax benefits sharing of up to approximately \$52 million; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

Receivership Operations

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

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

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

Provision for Losses

The provision for losses represents the change in the valuation of the receivables from thrift resolutions and other assets.

FSLIC Resolution Fund

Disclosure about Recent Relevant Accounting Pronouncements

- ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*, requires enhanced disclosures for significant transfers into and out of Level 1 (measured using quoted prices in active markets) and Level 2 (measured using other observable inputs) of the fair value measurement hierarchy. These disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, but did not impact the FRF in 2010. Separate disclosure of the gross purchases, sales, issuances, and settlements activity for Level 3 (measured using unobservable inputs) fair value measurements will become effective for fiscal years beginning after December 15, 2010. Currently, the additional disclosures are not expected to impact the FRF.

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

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.

3. Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions

The receivables from thrift resolutions include payments made by the FRF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by the FDIC in its receivership capacity for the former RTC are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2010, eight of the 850 FRF receiverships remain active. Half of these receiverships are expected to complete their liquidation efforts during 2011. The remaining four receiverships will remain active until their goodwill litigation or liability-related impediments are resolved.

The FRF receiverships held assets with a book value of \$18 million and \$20 million as of December 31, 2010 and 2009, respectively (which primarily consist of cash, investments, and miscellaneous receivables). At December 31, 2010, \$13 million of the \$18 million in assets in the FRF receiverships was cash held for non-FRF, third party creditors.

Other Assets

Other assets primarily include credit enhancement reserves valued at \$17 million and \$21 million as of December 31, 2010 and 2009, respectively. The credit enhancement reserves resulted from swap transactions where the former RTC received mortgage-backed securities in exchange for single-family mortgage loans. The RTC supplied credit enhancement reserves for the mortgage loans in the form of cash collateral to cover future credit losses over the remaining life of the loans. These cash reserves, which may cover future credit losses through 2020, are valued by estimating credit losses on the underlying loan portfolio and then discounting cash flow projections using market-based rates.

FSLIC Resolution Fund's Financial Statements

FSLIC Resolution Fund

Receivables From Thrift Resolutions and Other Assets, Net at December 31			
Dollars in Thousands			
	2010		2009
Receivables from closed thrifts	\$ 5,763,949	\$	5,744,509
Allowance for losses	(5,762,186)		(5,736,737)
Receivables from Thrift Resolutions, Net	1,763		7,772
Other assets	21,645		24,566
Total	\$ 23,408	\$	32,338

4. Contingent Liabilities for:

Goodwill Litigation

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

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

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

For the year ended December 31, 2010, the FRF paid \$27 million as a result of judgments and settlements in four goodwill cases compared to \$142 million for four goodwill cases for the year ended December 31, 2009. Of the four goodwill cases paid during 2010, only one was active at December 31, 2009 due to ongoing litigation. The FRF received appropriations from the U.S. Treasury to fund these payments.

The contingent liability and offsetting receivable from the U.S. Treasury as of December 31, 2010 was \$323 million for one case compared with \$405 million for six cases as of December

FSLIC Resolution Fund

31, 2009. No new cases were accrued during 2010. The one case comprising the contingent liability and offsetting receivable at December 31, 2010 was accrued prior to 2010 following an appellate decision for a specific monetary amount. This case is currently before the lower court pending on remand following appeal and is still considered active.

Based on representations from the DOJ, the entity that defends these lawsuits against the United States, the FDIC is unable to estimate a range of loss to the FRF-FSLIC for the remaining five goodwill cases considered active as of December 31, 2010. Three of these cases were not accrued because court decisions are still pending. In the other two cases the appellate courts decided to award nothing, but the cases are still active due to continued legal proceedings.

Six goodwill cases were active as of December 31, 2010 compared with eight active cases as of December 31, 2009. Of the cases considered active at year end 2009, one was fully adjudicated with no award and one was settled and paid during 2010.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by the DOJ based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and the DOJ. Under the terms of the MOU, the FRF-FSLIC paid \$2 million and \$4 million to the DOJ for fiscal years (FY) 2011 and 2010, respectively. As in prior years, the DOJ carried over and applied all unused funds toward current FY charges. At December 31, 2010, the DOJ had an additional \$3 million in unused FY 2010 funds that were applied against FY 2011 charges of \$5 million.

Guarini Litigation

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

All eight of the original Guarini cases have been settled. However, a case settled in 2006 further obligates the FRF-FSLIC as a guarantor for all tax liabilities in the event the settlement amount is determined by tax authorities to be taxable. The maximum potential exposure under this guarantee is approximately \$81 million. However, the FDIC believes that it is very unlikely the settlement will be subject to taxation. More definitive information may be available during 2011, after the Internal Revenue Service (IRS) completes its Large Case Program audit on the affected Corporation's 2006 returns; this audit is currently underway. The FRF is not expected to fund any payment under this guarantee and no liability has been recorded.

Representations and Warranties

As part of the RTC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. The majority of loans subject to these agreements have been paid off, refinanced, or the period for filing claims has expired. The FDIC's estimate of maximum potential exposure to the FRF

FSLIC Resolution Fund's Financial Statements

FSLIC Resolution Fund

is zero. No claims in connection with representations and warranties have been asserted since 1998 on the remaining open agreements. Because of the age of the remaining portfolio and lack of claim activity, the FDIC does not expect new claims to be asserted in the future. Consequently, the financial statements at December 31, 2010 and 2009, do not include a liability for these agreements.

5. Resolution Equity

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

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

Resolution Equity at December 31, 2010				
Dollars in Thousands				
	FRF-FSLIC	FRF-RTC	FRF Consolidated	
Contributed capital - beginning	\$ 46,098,359	\$ 81,749,337	\$ 127,847,696	
Contributed capital - ending	46,043,359	81,749,337	127,792,696	
Accumulated deficit	(42,643,726)	(81,580,645)	(124,224,371)	
Total	\$ 3,399,633	\$ 168,692	\$ 3,568,325	

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.

Through December 31, 2010, the FRF-RTC has returned \$4.6 billion to the U.S. Treasury and made payments of \$5.0 billion to the REFCORP. These actions serve to reduce contributed capital. The most recent payment to the REFCORP was in January of 2008 for \$225 million.

FRF-FSLIC received \$27 million in U.S. Treasury payments for goodwill litigation in 2010. Furthermore, \$323 million and \$405 million were accrued for as receivables at December 31, 2010 and 2009, respectively.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses and losses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately \$29.8 billion and \$87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by \$12.8 billion, whereas the FRF-RTC accumulated deficit has decreased by \$6.3 billion, since

FSLIC Resolution Fund's Financial Statements

FSLIC Resolution Fund

their dissolution dates.

6. Disclosures About the Fair Value of Financial Instruments

The financial assets recognized and measured at fair value on a recurring basis at each reporting date are cash equivalents and credit enhancement reserves. The following table presents the FRF's financial assets measured at fair value as of December 31, 2010 and 2009.

Dollars in Thousands

	Fair Value Measurements Using				Total Assets at Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets					
Cash and cash equivalents (Special U.S. Treasuries) ¹	\$ 3,547,907	\$	\$	\$	3,547,907
Credit enhancement reserves ²		17,378			17,378
Total Assets	\$ 3,547,907	\$ 17,378	\$	\$	3,565,285

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

(2) Credit enhancement reserves are valued by performing projected cash flow analyses using market-based assumptions (see Note 3).

Assets Measured at Fair Value at December 31, 2009

Dollars in Thousands

	Fair Value Measurements Using				Total Assets at Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets					
Cash equivalents (Special U.S. Treasuries) ¹	\$ 3,470,125	\$	\$	\$	3,470,125
Credit enhancements reserves ²		21,278			21,278
Total Assets	\$ 3,470,125	\$ 21,278	\$	\$	3,491,403

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

(2) Credit enhancement reserves are valued by performing projected cash flow analyses using market-based assumptions (see Note 3).

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

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

Comments from the Federal Deposit Insurance Corporation



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

Deputy to the Chairman and CFO

March 14, 2011

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

Re: FDIC Management Response on the GAO 2010 Financial Statements Audit Report

Dear Mr. Sebastian:

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' 2010 and 2009 Financial Statements, GAO-11-412**. We are pleased that the Federal Deposit Insurance Corporation (FDIC) received an unqualified opinion for the nineteenth 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 compliance with laws and regulations for each fund, and there was no reportable noncompliance with the laws and regulations that were tested.

During the audit year, the FDIC management and staff worked diligently to resolve the material weakness and significant deficiency internal control issues that were reported in the 2009 audit. We took significant steps to strengthen controls over the loss share estimation process and the information systems security and will continue to make improvements in these areas in the coming audit year. Our dedication to sound financial management remains a top priority.

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

We want to thank the GAO staff for their professionalism and dedication during the audit and look forward to a productive and successful relationship during the 2011 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Steven O. App".

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

**Appendix I
Comments from the Federal Deposit
Insurance Corporation**

Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in conformity with U.S. generally accepted accounting principles (GAAP), and compliance with applicable laws and regulations. The objective of the FDIC's internal control over financial reporting is to reasonably assure that (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws and regulations that could have a direct and material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the FDIC's internal control over financial reporting as of December 31, 2010, through its enterprise risk management program that seeks to comply with the spirit of the following standards, among others: Federal Managers' Financial Integrity Act of 1982 (FMFIA); Chief Financial Officers Act (CFO Act); Government Performance and Results Act (GPRA); Federal Information Security Management Act (FISMA); and OMB Circular A-123. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control - Integrated Framework* and the U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*.

Based on the above assessment, management concluded that, as of December 31, 2010, FDIC's internal control over financial reporting is effective based on the criteria established in FMFIA.

Federal Deposit Insurance Corporation
March 14, 2011

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