4

CHAPTER FOUR

FINANCIAL STATEMENTS AND NOTES

Deposit Insurance Fund (DIF)

DEPOSIT INSURANCE FUND BALANCE SHEET AT DECEMBER 31

Dollars in Thousands

	2008	2007
Assets		
Cash and cash equivalents – unrestricted	$1,011,430	$4,244,547
Cash and cash equivalents – restricted – systemic risk (Note 14)	2,377,387	0
Investment in U.S. Treasury obligations, net: (Note 3)		
Held-to-maturity securities	0	38,015,174
Available-for-sale securities	27,859,080	8,572,800
Assessments receivable, net (Note 8)	1,018,486	244,581
Receivable – systemic risk (Note 14)	1,138,132	0
Interest receivable on investments and other assets, net	405,453	768,292
Receivables from resolutions, net (Note 4)	15,765,465	808,072
Property and equipment, net (Note 5)	368,761	351,861
Total Assets	**$49,944,194**	**$53,005,327**
Liabilities		
Accounts payable and other liabilities	$185,079	$151,857
Liabilities due to resolutions (Note 6)	4,671,980	0
Guarantee obligations – systemic risk (Note 14)	2,077,880	0
Postretirement benefit liability (Note 11)	114,124	116,158
Contingent liabilities for: (Note 7)		
Anticipated failure of insured institutions	23,981,204	124,276
Systemic risk (Note 14)	1,437,638	0
Litigation losses	200,000	200,000
Total Liabilities	**32,667,905**	**592,291**
Commitments and off-balance-sheet exposure (Note 12)		
Fund Balance		
Accumulated net income	15,001,272	52,034,503
Unrealized gain on available-for-sale securities, net (Note 3)	2,250,052	358,908
Unrealized postretirement benefit gain (Note 11)	24,965	19,625
Total Fund Balance	**17,276,289**	**52,413,036**
Total Liabilities and Fund Balance	**$49,944,194**	**$53,005,327**

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

DEPOSIT INSURANCE FUND STATEMENT OF INCOME AND FUND BALANCE FOR THE YEARS ENDED DECEMBER 31

Dollars in Thousands

	2008	2007
Revenue		
Interest on U.S. Treasury obligations	$2,072,317	$2,540,061
Assessments (Note 8)	2,964,518	642,928
Systemic risk revenue (Note 14)	1,463,537	0
Realized gain on sale of securities	774,935	0
Other revenue	31,017	13,244
Total Revenue	**7,306,324**	**3,196,233**
Expenses and Losses		
Operating expenses (Note 9)	1,033,490	992,570
Systemic risk expenses (Note 14)	1,463,537	0
Provision for insurance losses (Note 10)	41,838,835	95,016
Insurance and other expenses	3,693	3,370
Total Expenses and Losses	**44,339,555**	**1,090,956**
Net (Loss) Income	**(37,033,231)**	**2,105,277**
Unrealized gain on available-for-sale securities, net (Note 3)	1,891,144	125,086
Unrealized postretirement benefit gain (Note 11)	5,340	17,366
Comprehensive (Loss) Income	**(35,136,747)**	**2,247,729**
Fund Balance – Beginning	**52,413,036**	**50,165,307**
Fund Balance – Ending	**$17,276,289**	**$52,413,036**

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

DEPOSIT INSURANCE FUND STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

Dollars in Thousands

	2008	2007
Operating Activities		
Net (Loss) Income:	$(37,033,231)	$2,105,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury obligations	457,289	571,267
Treasury inflation-protected securities (TIPS) inflation adjustment	(271,623)	(313,836)
Gain on sale of U.S. Treasury obligations	(774,935)	0
Depreciation on property and equipment	55,434	63,115
Loss on retirement of property and equipment	447	153
Provision for insurance losses	41,838,835	95,016
Unrealized gain on postretirement benefits	5,340	17,366
Systemic risk expenses	(2,352)	0
Change In Operating Assets and Liabilities:		
(Increase) in assessments receivable, net	(773,905)	(244,581)
Decrease/(Increase) in interest receivable and other assets	402,225	(20,442)
(Increase) in receivables from resolutions	(28,283,491)	(350,309)
(Increase) in receivable – systemic risk	(21,285)	0
(Decrease) in accounts payable and other liabilities	(34,667)	(39,580)
(Decrease) in postretirement benefit liability	(2,034)	(13,748)
Increase in guarantee obligations – systemic risk	2,377,387	0
Net Cash (Used by) Provided by Operating Activities	**(22,060,566)**	**1,869,698**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	3,304,350	6,401,000
Maturity of U.S. Treasury obligations, available-for-sale	3,930,226	1,225,000
Sale of U.S. Treasury obligations	13,974,732	0
Used by:		
Purchase of property and equipment	(4,472)	(1,607)
Purchase of U.S. Treasury obligations, held-to-maturity	0	(7,706,117)
Purchase of U.S. Treasury obligations, available-for-sale	0	(497,422)
Net Cash Provided by (Used by) Investing Activities	**21,204,836**	**(579,146)**
Net (Decrease)/Increase in Cash and Cash Equivalents	**(855,730)**	**1,290,552**
Cash and Cash Equivalents - Beginning	**4,244,547**	**2,953,995**
Unrestricted Cash and Cash Equivalents – Ending	*1,011,430*	*4,244,547*
Restricted Cash and Cash Equivalents –Ending	*2,377,387*	*0*
Cash and Cash Equivalents - Ending	**$3,388,817**	**$4,244,547**

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

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. An active institution's primary federal supervisor is generally determined by the institution's charter type. Commercial and savings banks are supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board, while thrifts are supervised by the Office of Thrift Supervision.

The FDIC is the administrator of the Deposit Insurance Fund (DIF). The DIF 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 the deposit insurance fund 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. The systemic risk provision requires the FDIC to recover any related losses to the DIF through one or more emergency special assessments from all insured depository institutions. See Note 14 for a detailed explanation of 2008 systemic risk transactions.

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 Resolution Trust Corporation. The DIF and the FRF are maintained separately to carry out their respective mandates.

Recent Legislation

The Emergency Economic Stabilization Act of 2008 (EESA), legislation to help stabilize the financial markets, was enacted on October 3, 2008, and significantly affects the FDIC. The legislation requires that the FDIC participate, through a consultation role, in the establishment of the troubled asset relief program (known as TARP) and provides that the FDIC is eligible to act as an asset manager for residential mortgage loans and residential mortgage-backed securities on a reimbursable basis.

In addition, the legislation identifies the FDIC as a Federal property manager with respect to mortgage loans and mortgage-backed securities held by any bridge depository institution pursuant to section 11(n) of the FDI Act. As a Federal property manager, the FDIC is responsible for implementing a plan that maximizes assistance for homeowners and encourages servicers to take advantage of programs to minimize foreclosures for the affected assets.

The legislation also directly affects the FDIC as deposit insurer by providing for 1) a temporary increase in FDIC deposit insurance coverage from $100,000 to $250,000 from the date of enactment of the legislation through December 31, 2009 and 2) a temporary removal of limitations on borrowing in sections 14(a) and 15(c) of the FDI Act for purposes of carrying out the increase in the maximum deposit insurance amount for the duration of the increased coverage. EESA expressly provides that the temporary deposit insurance increase is not to be taken into account by the FDIC in setting assessments under section 7(b) of the FDI Act. (See Note 15, Subsequent Events – Legislative Update.)

The Federal Deposit Insurance Reform Act of 2005 (Title II, Subtitle B of Public Law 109-171, 120 Stat. 9) and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Public Law 109-173, 119 Stat. 3601) were enacted in February 2006. Pursuant to this legislation (collectively, the Reform Act), the Bank Insurance Fund and the Savings Association Insurance Fund were merged into the DIF, and the FDIC permanently increased coverage for certain retirement accounts to

$250,000. Additionally, the Reform Act: 1) provides the FDIC with greater discretion to charge insurance assessments and to impose more sensitive risk-based pricing; 2) annually permits the designated reserve ratio (DRR) to vary between 1.15 and 1.50 percent of estimated insured deposits; 3) generally requires the declaration and payment of dividends from the DIF if the reserve ratio of the DIF equals or exceeds 1.35 percent of estimated insured deposits at the end of a calendar year; 4) grants a one-time assessment credit for each eligible insured depository institution or its successor based on an institution's proportionate share of the aggregate assessment base of all eligible institutions at December 31, 1996; and 5) allows the FDIC to increase all deposit insurance coverage, under certain circumstances, to reflect inflation every five years beginning January 1, 2011. See Note 8 for additional discussion on the reforms related to assessments. (See Note 15, Subsequent Events – Legislative Update.)

Operations of the DIF

The primary purpose of the DIF is to: 1) insure the deposits and protect the depositors of DIF-insured institutions and 2) resolve DIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the DIF.

The DIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources, if necessary, are borrowings from the U.S. Treasury, Federal Financing Bank (FFB), Federal Home Loan Banks, and insured depository institutions. The FDIC has borrowing authority from the U.S. Treasury up to $30 billion and a Note Purchase Agreement with the FFB not to exceed $100 billion to enhance DIF's ability to fund deposit insurance obligations. (See Note 15, Subsequent Events – Legislative Update.)

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 U.S. Treasury. The MOL for the DIF was $69.0 billion and $83.6 billion as of December 31, 2008 and 2007, respectively. The EESA of 2008 provides that, in connection with the new, temporary increase in the basic deposit insurance coverage limit from $100,000 to $250,000, the FDIC may borrow from the U.S. Treasury to carry out the increase in the maximum deposit insurance amount without regard to the MOL or the $30 billion limit.

Receivership and Conservatorship 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 and conservatorship entities, and the claims against them, are accounted for separately from DIF assets and liabilities to ensure that receivership and conservatorship proceeds are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to receiverships and conservatorships are accounted for as transactions of those entities. Both 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). These statements do not include reporting for assets and liabilities of closed banks and thrifts for which the FDIC acts as receiver or conservator. Periodic and final accountability reports of the FDIC's activities as receiver or conservator are furnished to courts, supervisory authorities, and others as required.

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, the estimated losses for anticipated failures, systemic risk and litigation, 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 U.S. Treasury must approve all such investments in excess of $100,000. The Secretary has granted 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.

DIF's investments in U.S. Treasury obligations are classified as available-for-sale. Securities designated as available-for-sale are shown at market value, which approximates 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 method.

Prior to 2008, DIF's investments in U.S. Treasury obligations were classified as either held-to-maturity or available-for-sale based on the FDIC's assessment of funding needs. Securities designated as held-to-maturity were shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations were computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which were amortized to the first call date.

See Note 3 for an explanation of the transfer of DIF's held-to-maturity securities to the available-for-sale category.

Revenue Recognition for Assessments

The FDIC collects deposit insurance premiums from each insured depository institution at the end of the quarter following the period of insurance coverage. As a result, assessment revenue for the insured period is recognized 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.

The estimated revenue amounts are adjusted when actual premiums are collected at quarter end. Total assessment income recognized for the year includes estimated revenue for the October-December assessment period. See Note 8 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 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 life.

Disclosure about Recent Accounting Pronouncements

Effective as of January 1, 2008, DIF adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, on a prospective basis. The Statement defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value, and expands financial statement disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction

between market participants at the measurement date. In measuring fair value, the Standard requires the use of fair value valuation techniques consistent with the market, income, and/or cost approach. The Statement establishes a three-level hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Assets and liabilities are classified within this hierarchy in their entirety based on the lowest level of any input that is significant to the fair value measurement. See Note 13 for specifics regarding fair value measurements.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. SFAS No. 159 creates a fair value option allowing, but not requiring, an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities with changes in fair value recognized in earnings as they occur. The Statement requires entities to separately display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. As of December 31, 2008, the FDIC has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with GAAP.

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. Investment in U.S. Treasury Obligations, Net

As of December 31, 2008 and 2007, investments in U.S. Treasury obligations, net, were $27.9 billion and $46.6 billion, respectively. As of December 31, 2008, the DIF held $2.7 billion 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). Additionally, the fair value of callable U.S. Treasury bonds held at December 31, 2008 is $3.0 billion. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

In June 2008, the Corporation transferred all of DIF's held-to-maturity investments to the available-for-sale category. Management determined that it no longer had the positive intent and ability to hold its investment in securities classified as held-to-maturity for an indefinite period of time because of significant actual and potential resolution-related outlays for DIF-insured institutions. The securities transferred had a total amortized cost of $34.5 billion, fair value of $36.1 billion, and unrealized gains of $1.6 billion, which were recorded as other comprehensive income at the time of transfer.

For the year ended December 31, 2008, available-for-sale securities were sold for total proceeds of $14.1 billion. The gross realized gains on these sales totaled $775 million. To determine gross realized gains, the cost of securities sold is based on specific identification. Net unrealized holding gains on available-for-sale securities of $1.9 billion are included in other comprehensive income.

U.S. TREASURY OBLIGATIONS AT DECEMBER 31, 2008

Dollars in Thousands

Maturity[a]	Yield at Purchase[b]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses[c]	Fair Value
Available-for-Sale						
U.S. Treasury notes and bonds						
Within 1 year	4.25%	$6,192,000	$6,350,921	$130,365	$0	$6,481,286
After 1 year through 5 years	4.72%	9,503,000	9,451,649	1,030,931	0	10,482,580
After 5 years through 10 years	4.79%	6,130,000	7,090,289	1,142,753	0	8,233,042
U.S. Treasury inflation-protected securities						
Within 1 year	3.82%	726,550	726,561	0	(5,627)	720,934
After 1 year through 5 years	3.14%	1,973,057	1,989,608	0	(48,370)	1,941,238
Total Investment in U.S. Treasury Obligations, Net						
Total		**$24,524,607**	**$25,609,028**	**$2,304,049**	**$(53,997)**	**$27,859,080**

(a) For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

(b) For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2008.

(c) The unrealized losses on the U.S. Treasury inflation-protected securities (TIPS) is attributable to the two month delay in adjusting TIPS' principal for changes in the November and December Consumer Price Index for all Urban Consumers. As the losses occurred over a period less than a year and the December 31, 2008 unrealized losses converted to unrealized gains by February 28, 2009, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2008.

U.S. TREASURY OBLIGATIONS AT DECEMBER 31, 2007

Dollars in Thousands

Maturity[a]	Yield at Purchase[b]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses[c]	Market Value
Held-to-Maturity						
U.S. Treasury notes and bonds						
Within 1 year	4.49%	$5,600,000	$5,651,699	$30,313	$(469)	$5,681,543
After 1 year through 5 years	4.50%	12,920,000	13,310,856	416,031	0	13,726,887
After 5 years through 10 years	4.81%	11,550,000	12,856,888	764,723	0	13,621,611
After 10 years	5.02%	3,500,000	4,626,945	286,889	0	4,913,834
U.S. Treasury inflation-protected securities						
Within 1 year	3.86%	258,638	258,620	349	0	258,969
After 1 year through 5 years	3.16%	1,288,950	1,310,166	52,927	0	1,363,093
Total		**$35,117,588**	**$38,015,174**	**$1,551,232**	**$(469)**	**$39,565,937**
Available-for-Sale						
U.S. Treasury notes and bonds						
After 1 year through 5 years	4.79%	$500,000	$498,260	$10,100	$ 0	$508,360
U.S. Treasury inflation-protected securities						
Within 1 year	3.92%	1,700,545	1,700,397	2,325	0	1,702,722
After 1 year through 5 years	3.75%	6,004,277	6,015,235	346,483	0	6,361,718
Total		**$8,204,822**	**$8,213,892**	**$358,908**	**$ 0**	**$8,572,800**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$43,322,410**	**$46,229,066**	**$1,910,140**	**$(469)**	**$48,138,737**

(a) For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

(b) For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2007.

(c) All unrealized losses occurred as a result of changes in market interest rates. FDIC had the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary. However, all of the $469 thousand reported as total unrealized losses is recognized as unrealized losses occuring over a period of 12 months or longer with a market value of $1.1 billion applied to the affected securities.

As of December 31, 2008 and 2007, the unamortized premium, net of the unamortized discount, was $1.1 billion and $2.9 billion, respectively.

4. Receivables From Resolutions, Net

RECEIVABLES FROM RESOLUTIONS, NET AT DECEMBER 31
Dollars in Thousands

	2008	2007
Receivables from closed banks	$27,389,467	$4,991,003
Receivables from operating banks	9,406,278	0
Allowances for losses	(21,030,280)	(4,182,931)
Total	**$15,765,465**	**$808,072**

The receivables from resolutions include payments made by the DIF to cover obligations to insured depositors, advances to receiverships and conservatorships for working capital, and administrative expenses paid on behalf of receiverships and conservatorships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by DIF receiverships and conservatorships are the main source of repayment of the DIF's receivables from resolutions. As of December 31, 2008, there were 41 active receiverships, including 25 from institution failures that occurred in the current year, and one active conservatorship resulting from the IndyMac Bank resolution.

As of December 31, 2008 and 2007, DIF receiverships and conservatorships held assets with a book value of $45.8 billion and $1.2 billion, respectively (including cash, investments, and miscellaneous receivables of $5.1 billion and $363 million, respectively). The large increase in DIF receivership and conservatorship assets is due to the 2008 failures. These comprised $40.2 billion or 99% of the current $40.7 billion in assets in liquidation book values. Due to the sudden increase of receivership and conservatorship assets since May 2008, the FDIC modified its process of computing the allowance for loss.

For those receiverships established prior to May 2008, the estimated cash recoveries from the management and disposition of assets that are used to derive the allowance for losses were based on a sampling of receivership assets in liquidation. Sampled assets were generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounted using current market-based risk factors applicable to a given asset's type and quality. Resultant recovery estimates were extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable.

Estimated cash recoveries on those receiverships and conservatorships established since May 2008 are based on asset recovery rates derived from several sources including: actual or pending institution-specific asset liquidation data; failed institution-specific asset valuation data; aggregate asset valuation data on several recently failed or troubled institutions; and empirical asset recovery data based on failures as far back as 1990. The resulting estimated cash recoveries are then used to derive the allowance for loss on the receivables from these resolutions. Ninety-nine percent of total receivership assets in liquidation were valued by this methodology.

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

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The main source of repayment of DIF's receivables from resolutions are assets held by DIF receiverships. Excluding the assets of the IndyMac Bank resolution (see below), the majority of the $15.0 billion in assets in liquidation are concentrated in commercial loans ($2.8 billion), commercial real estate ($6.2 billion), and residential loans ($2.6 billion), which were primarily retained from institutions that failed in 2008. Eighty-six percent of the assets in these three asset types were retained from failed banks located in Nevada ($4.0 billion), Texas ($2.9 billion), Georgia ($2.2 billion), and Arkansas ($.9 billion). The assets of the IndyMac Federal Bank, FSB conservatorship are excluded from this analysis since the FDIC signed a letter of intent at year-end 2008 to sell the banking operations of IndyMac Federal Bank to a thrift holding company (see below).

IndyMac Federal Bank

On July 11, 2008, IndyMac Bank, FSB, Pasadena, CA was closed by the Office of Thrift Supervision, with the FDIC named receiver. IndyMac Bank was the third largest insolvency in FDIC history with $28.0 billion in total assets at failure. The FDIC transferred the insured deposits and substantially all the assets of the failed bank to IndyMac Federal Bank, FSB, a newly-chartered federal institution that the FDIC operated as a conservator to maximize the value of the institution for a future sale.

Through December 31, 2008, the DIF disbursed $5.8 billion to fund the obligations to insured depositors of IndyMac Bank and $9.4 billion to the conservatorship to fund its operations under a $12 billion line of credit. These amounts are included in the chart above in the receivables from closed banks and operating banks, respectively. Additionally, DIF recorded a $10.7 billion allowance for loss against these receivables.

On December 31, 2008, the FDIC signed a letter of intent to sell the banking operations of IndyMac Federal Bank to a thrift holding company controlled by IMB Management Holdings LP, a limited partnership, for $13.9 billion. On March 19, 2009, the FDIC completed the sale of IndyMac Federal Bank, FSB, to One West Bank, FSB (One West), a newly formed Pasadena, California-based federal savings bank organized by IMB HoldCo LLC. One West purchased all deposits and approximately $20.7 billion in assets at a discount of $4.7 billion. The FDIC retained the remaining assets for later disposition.

The sale includes a provision wherein the IndyMac receiver will share losses on a $13 billion portfolio of whole mortgage loans with the buyer fully assuming the first 20 percent of losses after which the receiver will share 80 percent for the next 10 percent of losses and 95 percent thereafter, with the buyer responsible for the remainder. The shared loss agreement will expire on the earlier of: 1) 10 years, 2) the date the buyer liquidates the portfolio, or 3) when the remaining outstanding balance reaches 10 percent of the closing date balances. The liability for loss sharing is accounted for by the IndyMac receiver and is considered in the determination of the DIF's allowance for loss of $10.7 billion against the corporate receivable from this resolution. The FDIC will also retain an 80 percent interest of cash flows in a separate $2.4 billion portfolio of mostly construction loans.

In addition, the FDIC offered representations and warranties on loan sales from the conservatorship. The total amount of loans sold subject to representations and warranties was $3.2 billion. No contingent liabilities associated with these representations and warranties were recorded at December 31, 2008. However, future losses could be incurred through the expiration date of the contracts offering the representations and warranties, some as late as 2048. Furthermore, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the DIF from outstanding contracts with unasserted representation and warranty claims. The FDIC believes it is possible that additional losses may be incurred by the DIF from the universe of outstanding contracts with unasserted representation and warranty claims.

5. Property and Equipment, Net

PROPERTY AND EQUIPMENT, NET AT DECEMBER 31
Dollars in Thousands

	2008	2007
Land	$37,352	$37,352
Buildings (including leasehold improvements)	281,401	276,626
Application software (includes work-in-process)	173,872	145,693
Furniture, fixtures, and equipment	84,574	71,138
Accumulated depreciation	(208,438)	(178,948)
Total	**$368,761**	**$351,861**

The depreciation expense was $55 million and $63 million for December 31, 2008 and 2007, respectively.

6. Liabilities Due to Resolutions

As of December 31, 2008, DIF recorded liabilities totaling $4.7 billion to three receiverships (IndyMac Bank, Downey Savings & Loan, and PFF Bank & Trust) representing the value of assets transferred from the receiverships to the acquirer/conservator for use in funding the deposits assumed by the acquirer/conservator.

7. 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 within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes 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. In addition, institution-specific analysis is performed on those institutions where failure is imminent absent institution management resolution of existing problems, or where additional information is available that may affect the estimate of losses. Due to the rapid deterioration in industry conditions, the FDIC modified the process of establishing the loss reserve by identifying vulnerable institutions deemed likely to have failure risks similar to those on the problem bank list based on certain financial ratios and other risk measures. The FDIC also increased loss rates for institutions included in the reserve to reflect the results of recent valuations of loan portfolios of imminent failures and current year resolutions. As of December 31, 2008 and 2007, the contingent liabilities for anticipated failure of insured institutions were $24.0 billion and $124.3 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified risk in the financial services industry that could result in an additional loss 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 up to approximately $25.1 billion. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2008, financial market disruptions evolved into a crisis that challenged the soundness and profitability of some FDIC-insured institutions. Declining housing and equity prices, financial market turmoil, and deteriorating economic conditions exerted significant stress on banking industry performance and threatened the viability of some institutions, particularly those that had significant exposure to higher risk residential mortgages or residential construction loans. In 2008, 25 banks with combined assets of about $361 billion failed. It is uncertain how long and how deep this downturn will be. 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 deterioration in economic and financial conditions, and the effect of such risks will continue to put stress on the resources of the insurance fund.

Litigation Losses

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. The FDIC recorded a probable litigation loss of $200 million and has determined that there are no reasonably possible losses from unresolved cases.

Other Contingencies

Representations and Warranties

As part of the FDIC's efforts to maximize the return from the sale of assets from bank and thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. With the exception of the IndyMac resolution described in Note 4, there were

no loans sold subject to representations and warranties, and guarantees during 2008. As of December 31, 2008, the total amount of loans sold subject to unexpired representations and warranties, and guarantees was $8.1 billion. There were no contingent liabilities from any of the outstanding claims asserted in connection with representations and warranties at December 31, 2008 and 2007, respectively.

In addition, future losses could be incurred until the contracts offering the representations and warranties, and guarantees have expired, some as late as 2032. Consequently, the FDIC believes it is possible that additional losses may be incurred by the DIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the DIF from outstanding contracts with unasserted representation and warranty claims.

Purchase and Assumption Indemnification

In connection with Purchase and Assumption agreements for resolutions in 2008 and 2007, 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 receiver 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 2008 and 2007, the FDIC in its Corporate capacity has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees (see Note 15).

8. Assessments

Effective January 1, 2007, the Reform Act requires payment of assessments by all insured depository institutions and continues to require a risk-based assessment system. The Act allows the FDIC discretion in defining risk and, by regulation, the FDIC has established several assessment risk categories based upon supervisory and capital evaluations. Other significant changes mandated by the Reform Act and the implementing regulations included:

- ★ granting a one-time assessment credit of approximately $4.7 billion to certain eligible insured depository institutions (or their successors) based on the assessment base of the institution as of December 31, 1996, as compared to the combined aggregate assessment base of all eligible institutions;
- ★ establishing a range for the DRR from 1.15 to 1.50 percent of estimated insured deposits. The FDIC is required to annually publish the DRR and has set the DRR at 1.25 percent for 2009. As of December 31, 2008, the DIF reserve ratio was 0.36 percent of estimated insured deposits;
- ★ requiring the FDIC to adopt a DIF restoration plan to return the reserve ratio to 1.15 percent generally within five years, if the reserve ratio falls below 1.15 percent or is expected to fall below 1.15 percent within six months. On October 7, 2008, the FDIC established a Restoration Plan for the DIF (see Note 15);
- ★ requiring the FDIC to annually determine if a dividend should be paid, based on the statutory requirement generally to declare dividends if the reserve ratio exceeds 1.35 percent at the end of a calendar year. The Reform Act permits dividends for one-half of the amount required to maintain the reserve ratio at 1.35 percent when the reserve ratio is between 1.35 and 1.50 percent and all amounts required to maintain the reserve ratio at 1.50 percent when the reserve ratio exceeds 1.50 percent. On December 2, 2008, the FDIC issued a final rule specifying that the FDIC Board will declare any dividend on or before May 10th of the year following the calendar year-end trigger, subject to statutory factors limiting or suspending the dividend. Dividends declared will be offset against the June 30th assessment payment and any remaining dividend amount will result in a payment to the depository institution.

The assessment rate averaged approximately 4.18 cents and .93 cents per $100 of assessable deposits for 2008 and 2007, respectively. At December 31, 2008, the “Assessments Receivable, net” line item of $1.02 billion represents the estimated gross premiums due from insured depository institutions for the fourth quarter of the year, net of $144 million in estimated one-time assessment credits. The actual deposit insurance assessments for the fourth quarter was billed and collected at the end of the first quarter of 2009. During 2008 and 2007, $2.96 billion and $643 million, respectively, were recognized as assessment income from institutions.

DIF ASSESSMENTS REVENUE FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2008	2007
Gross assessments	$4,410,455	$3,730,886
Less: One-time assessment credits applied	(1,445,937)	(3,087,958)
Assessment Revenue	**$2,964,518**	**$642,928**

Of the $4.7 billion in one-time assessment credits granted, $200 million (4.3 percent) remained as of December 31, 2008. The use of assessment credits is limited to no more than 90 percent of the gross assessments for assessment periods that provide deposit insurance coverage through 2010. Credits are restricted for institutions that are not adequately capitalized or exhibit financial, operational or compliance weaknesses. The credits can only be used to offset future deposit insurance assessments and, therefore, do not represent a liability to the DIF. They are transferable among institutions, do not expire, and cannot be used to offset Financing Corporation (FICO) payments.

Assessments continue to be levied on institutions for payments of the interest on obligations issued by the FICO. The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the DIF and is separate from deposit insurance assessments. The FDIC, as administrator of the DIF, acts solely as a collection agent for the FICO. During 2008 and 2007, $785 million each year was collected and remitted to the FICO.

9. Operating Expenses

Operating expenses were $1 billion for 2008, compared to $993 million for 2007. The chart below lists the major components of operating expenses.

OPERATING EXPENSES FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2008	2007
Salaries and benefits	$702,040	$640,294
Outside services	159,170	137,812
Travel	67,592	55,281
Buildings and leased space	53,630	61,377
Software/Hardware maintenance	29,312	28,542
Depreciation of property and equipment	55,434	63,115
Other	32,198	23,640
Services billed to receiverships	(59,608)	(17,491)
Services billed to conservatorships	(6,278)	0
Total	**$1,033,490**	**$992,570**

10. Provision for Insurance Losses

Provision for insurance losses was $41.8 billion for 2008 and $95 million for 2007. 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

	2008	2007
Valuation Adjustments		
Closed banks and thrifts	$17,974,530	$81,229
Other assets	7,377	286
Total Valuation Adjustments	$17,981,907	$81,515
Contingent Liabilities Adjustments		
Anticipated failure of insured institutions	23,856,928	13,501
Total Contingent Liabilities Adjustments	23,856,928	13,501
Total	**$41,838,835**	**$95,016**

11. Employee Benefits

Pension Benefits and Savings Plans

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

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. Under the Federal Thrift Savings Plan (TSP), 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, CSRS employees do not receive agency matching contributions.

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

	2008	2007
Civil Service Retirement System	$6,204	$6,698
Federal Employees Retirement System (Basic Benefit)	44,073	40,850
FDIC Savings Plan	21,786	21,008
Federal Thrift Savings Plan	16,659	15,938
Severance Pay	0	59
Total	**$88,722**	**$84,553**

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 coverages 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, 2008 and 2007, the liability was $114.1 million and $116.2 million, respectively, which is recognized in the "Postretirement benefit liability" line item on the Balance Sheet. The cumulative actuarial gains/losses (changes in assumptions and plan experience) and prior service costs/credits (changes to plan provisions that increase or decrease benefits) were $25.0 million and $19.6 million at December 31, 2008 and 2007, respectively. These amounts are reported as accumulated other comprehensive income in the "Unrealized postretirement benefit gain" line item on the Balance Sheet.

The DIF's expenses for postretirement benefits for 2008 and 2007 were $7.7 million and $7.2 million, respectively, which are included in the current and prior year's operating expenses on the Statement of Income and Fund Balance. The changes in the actuarial gains/losses and prior service costs/credits for 2008 and 2007 of $5.3 million and $17.4 million, respectively, are reported as other comprehensive income in the "Unrealized postretirement benefit gain" line item. Key actuarial assumptions used in the accounting for the plan include the discount rate of 6.5 percent, the rate of compensation increase of 4.10 percent, and the dental coverage trend rate of 7.0 percent. The discount rate of 6.5 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.

12. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The FDIC's lease commitments total $130 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 $21 million and $22 million for the years ended December 31, 2008 and 2007, respectively.

LEASED SPACE COMMITMENTS
Dollars in Thousands

2009	2010	2011	2012	2013	2014/ Thereafter
$24,608	$52,251	$21,750	$14,975	$9,195	$7,037

Off-Balance-Sheet Exposure:

Deposit Insurance

As of December 31, 2008, the estimated insured deposits for DIF were $4.8 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.

13. 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) and the investment in U.S. Treasury obligations (Note 3). The following table presents the DIF's financial assets measured at fair value as of December 31, 2008.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2008

Dollars in Thousands

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents (Special U.S. Treasuries)[1]	$1,011,430	$0	$0	$1,011,430
Investment in U.S. Treasury Obligations (Available-for- Sale)[2]	27,859,080	0	0	27,859,080
Total Assets	**$28,870,510**	**$0**	**$0**	**$28,870,510**

(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.

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, and accounts payable and other liabilities.

The net receivables from resolutions primarily include the DIF's subrogated claim arising from payments to insured depositors. The receivership and conservatorship 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 net 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 receivership and conservatorship 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 receivership and conservatorship payments to the DIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership and conservatorship assets. Therefore, the effect of discounting used by receiverships and conservatorships 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 assets and liabilities associated with systemic risk transactions (see Note 14).

14. Systemic Risk Transactions

The FDIC resolves troubled institutions in the least costly manner to the DIF as required by 12 U.S.C. 1823 (c) 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 can only be invoked by the Secretary of the U.S. Treasury, in consultation with the President, and upon the written recommendation of two-thirds of the FDIC Board of Directors and two-thirds of the Board of Governors of the Federal Reserve System.

Any loss incurred by the DIF as a result of actions taken or assistance provided pursuant to a systemic risk determination must be recovered from all insured depository institutions through one or more emergency special assessments. The special assessment will be based on the amount of each insured depository institution's average total assets during the assessment period, minus the sum of the amount of the institution's average total tangible equity and the amount of the institution's average total subordinated debt.

Pursuant to a systemic risk determination invoked during 2008, the FDIC established the Temporary Liquidity Guarantee Program (TLGP) for insured depository institutions and certain holding companies. The FDIC received consideration in exchange for guarantees issued under the TLGP.

The DIF has 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 in accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45)*. Pursuant to FIN 45, at inception, the fair value of the non-contingent obligation is measured at the amount of consideration received in exchange for issuing the guarantee. This liability is reported as "Guarantee obligations-systemic risk" and any related asset received as consideration is designated for systemic risk on the balance sheet. As guarantee

expenses are incurred (including contingent liabilities), the DIF will reduce the recorded non-contingent liability and recognize an offsetting amount as 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 remaining consideration at the end of the term of the guarantee will be recognized as income 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, and (2) the Transaction Account Guarantee Program. Eligible entities were permitted to irrevocably opt out of the TLGP entirely or either component no later than December 5, 2008. The final rule for the program was published in the Federal Register on November 26, 2008 and codified in part 370 of title 12 of the Code of Federal Regulations (12 CFR Part 370).

Debt Guarantee Program

The Debt Guarantee Program (DGP) guarantees newly-issued senior unsecured debt up to prescribed limits issued by insured depository institutions and certain holding companies between October 14, 2008 and June 30, 2009, with the guarantee expiring on or before June 30, 2012. (See Note 15, "Subsequent Events – TGLP" for extensions and other modification of the DGP.) Generally with specified exceptions, the maximum amount of outstanding debt guaranteed under the debt guarantee program is limited to 125 percent of the par value of an entity's senior unsecured debt on September 30, 2008 or, if applicable, two percent of its consolidated total liabilities as of September 30, 2008.

Fees for participation in the DGP depend on the maturity of debt issued. The cost of the guarantee to insured depository institutions is 50 basis points for debt with maturities of 180 days or less, 75 basis points for debt with maturities of 181 days to 364 days, and 100 basis points for debt with maturities 365 days or greater. Other eligible entities are required to pay an additional 10 basis points if, as of September 30, 2008, the combined assets of all insured depository institutions affiliated with such entity represent less than 50 percent of consolidated holding company assets.

The FDIC's payment obligation under the DGP will be 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. The debtholder or representative must assign to the FDIC the right to receive any and all distributions on the guaranteed debt from any insolvency proceeding, including the proceeds of any receivership or bankruptcy estate, to the extent of payments made under the guarantee.

Debt guarantee fees collected during 2008 of $2.2 billion are included in the "Cash and cash equivalents – restricted – systemic risk" line item and recognized as "Guarantee obligations-systemic risk" on the Balance Sheet. As of December 31, 2008, the total amount of guaranteed debt outstanding is $224 billion. If all eligible entities issued debt up to the program's allowable limit, the maximum exposure would be $940 billion. At this time, the program has been operating for a relatively short time and no losses have yet been incurred. The FDIC continuously evaluates the financial condition and prospects of eligible entities through its supervisory process. The program is adjusted as appropriate based on each institution's profile.

Upon notification to the FDIC no later than December 5, 2008, a participating entity could elect to issue senior unsecured non-guaranteed debt with maturities beyond June 30, 2012, at any time, in any amount, and without regard to the guarantee limit. This election required a nonrefundable fee equal to 37.5 basis points applied to the outstanding amount of the entity's eligible senior unsecured debt as of September 30, 2008 with a maturity date on or before June 30, 2009. As of December 31, 2008, the FDIC collected nonrefundable fees of $195 million and reflected a receivable of $974 million in the "Receivable – systemic risk" line item. The nonrefundable fees are designated for TLGP expected losses and payments.

Transaction Account Guarantee Program

The Transaction Account Guarantee Program (TAG) provides unlimited coverage for non-interest

bearing transaction accounts held by insured depository institutions until December 31, 2009. Beginning November 13, 2008, each participating entity will pay an annualized 10 basis point TAG fee on all deposit amounts exceeding the fully insured limit (generally $250,000). The TAG fees will be collected along with a participating entity's quarterly deposit insurance payment and will be earmarked for TLGP expected losses and payments.

Upon the failure of a participating insured depository institution, the FDIC will pay the guaranteed claims of depositors for funds in a non-interest bearing transaction account as soon as possible in accordance with regulations governing the payment

SYSTEMIC RISK ACTIVITY AT DECEMBER 31, 2008

Dollars in Thousands

	Cash and cash equivalents - Restricted - Systemic Risk	Receivable - Systemic Risk	Guarantee obligations - Systemic Risk	Contingent Liability - Systemic Risk	Systemic Risk - Revenue/ Expenses
Debt guarantee fees collected	$ 2,229,875		$ (2,229,875)		
Non-guaranteed debt fees collected	194,695		(194,695)		
Debt guarantee fees receivable		53,336	(53,336)		
Receivable for fees on senior unsecured non-guaranteed debt		973,534	(973,534)		
Receivable for TAG fees		89,977	(89,977)		
Receivable for non-interest bearing transaction accounts of failures in 2008	(44,831)	44,831			
Estimated losses for non-interest bearing transaction accounts of failures in 2008		(23,546)	23,546		23,546
Contingent liability for non-interest bearing transaction accounts for anticipated failures			1,437,638	(1,437,638)	1,437,638
Reimbursement to DIF for TLGP operating expenses incurred	(2,352)		2,352		2,352
Totals	**$ 2,377,387**	**$ 1,138,132**	**$ (2,077,881)[a]**	**$ (1,437,638)**	**$ 1,463,536[a]**

a) *The total does not equal the line item due to rounding.*

of insured deposits. Upon payment of such claims, the FDIC will be subrogated to the claims of depositors against the failed entity.

At December 31, 2008, the "Receivable – systemic risk" line item includes $90 million of estimated TAG fees due from insured depository institutions. This receivable was collected at the end of the first quarter of 2009. At December 31, 2008, the TLGP contingent liability associated with non-interest bearing transaction accounts for the anticipated failure of insured institutions participating in the TAG is $1.4 billion. During 2008, the DIF recorded estimated losses of $23.5 million for non-interest bearing transaction accounts of the 2008 failures. Both amounts are recorded as "Systemic risk expenses" and a corresponding amount of guarantee fees was recognized as "Systemic risk revenue."

As of December 31, 2008, the maximum estimated exposure under the TAG is $680 billion.

15. Subsequent Events

Amendment to FDIC Restoration Plan

Due to the extraordinary circumstances of the current enormous strains on banks and the financial system as well as the likelihood of a prolonged and severe economic recession, a *Notice of FDIC Amended Restoration Plan* was issued on March 4, 2009, amending its Restoration Plan initially adopted on October 7, 2008 (see Note 8 for additional discussion on establishing a DIF restoration plan). The period of the Plan is extended to seven years (December 31, 2015) and the FDIC is adopting assessment rates that will reflect this extended period accordingly. At least semiannually the FDIC will adjust assessment rates, if needed to ensure that the fund reserve ratio reaches 1.15 percent within the seven-year period.

Risk-Based Assessments

On February 27, 2009, the Board approved for issuance a final rule on Assessments amending the risk-based assessment system to: 1) make it fairer and more sensitive to risk, 2) improve the way the risk-based assessment system differentiates risk among insured institutions, 3) increase deposit insurance assessment rates (initial base assessment rates at 12 to 45 basis points) to raise assessment revenue to help meet the requirements of the Restoration Plan, and 4) make technical and other changes to the rules governing the risk-based assessment system.

Emergency Special Assessment

On March 3, 2009, an interim rule was issued that imposes an emergency special assessment equal to 20 basis points of an institution's assessment base on June 30, 2009, with collection on September 30, 2009, in order to raise assessment revenue to help meet the requirements of the Restoration Plan. FDIC projects that the combination of regular quarterly assessments and the 20 basis points special assessment will prevent the fund reserve ratio from falling to a level that would adversely affect public confidence or to a level close to zero or negative. However, the FDIC and the Congress simultaneously pursued an increase in FDIC's borrowing authority with the U.S. Treasury (currently $30 billion), which could allow the FDIC to substantially reduce the special assessment below the proposed rate of 20 basis points (see Legislative Update below).

FDIC recognizes that there is considerable uncertainty about its projections for losses and insured deposit growth, and, therefore, of future fund reserve ratios. To further ensure that the fund reserve ratio does not decline to a level that could undermine public confidence in federal deposit insurance, the interim rule would also permit the Board to impose an emergency special assessment of up to 10 basis points on all insured depository institutions whenever, after June 30, 2009, the reserve ratio of the DIF is estimated to fall to a level that the Board believes would adversely affect public confidence or to a level which shall be close to zero or negative. The earliest possible date for such a special assessment is September 30, 2009, with collection on December 31, 2009.

Systemic Risk Transactions

Assistance to Citigroup

On January 15, 2009, the U.S. Treasury, the FDIC and the Federal Reserve executed a final agreement to provide guarantees, liquidity access, and capital to Citigroup. Under the agreement, the U.S. Treasury will invest $20 billion in Citigroup from the Troubled Asset Relief Program. In addition, the Treasury and the FDIC will provide protection against the possibility of unusually large losses on an asset pool of loans and securities backed by residential and commercial real estate and other such assets that would remain on the balance sheet of Citigroup.

The asset pool amount that is included in the loss-share agreement is $300.8 billion. Citigroup is solely responsible for the first $39.5 billion of losses incurred on the covered asset pool. Asset pool losses exceeding $39.5 billion will be split with 10 percent to Citigroup and 90 percent to the Treasury up to the first $5 billion, and 10 percent to Citigroup and 90 percent to the FDIC for the next $10 billion. If losses exceed the maximum amounts provided by Treasury and the FDIC, Citigroup can request borrowing from the Federal Reserve Bank of New York for 90 percent of the remaining values of the pool of assets through a non-recourse loan. The term of the loss-share guarantee is 10 years for residential assets and 5 years for non-residential assets.

In consideration for its portion of the loss-share guarantee, the FDIC received 3,025 shares of Citigroup's designated cumulative perpetual preferred stock (Series G), with a liquidation preference of $1,000,000 per share, for a total of $3.025 billion. Quarterly dividends are payable to the FDIC at a rate of 8 percent annually.

Assistance to Bank of America

On January 16, 2009, the U.S. Treasury, the FDIC and the Federal Reserve reached agreement in principle to provide guarantees, liquidity access, and capital to Bank of America. It was announced that the U.S. Treasury would purchase $20 billion in Bank of America preferred stock under the Troubled Asset Relief Program. In addition, the Treasury and the FDIC would provide protection against the possibility of unusually large losses on an asset pool of approximately $118 billion of loans and securities backed by residential and commercial real estate and other such assets that would remain on the balance sheet of Bank of America. For additional losses not covered by Treasury or the FDIC, Bank of America could receive funding through a non-recourse loan from the Federal Reserve Bank of New York.

Bank of America will be solely responsible for the first $10 billion of losses incurred on the covered asset pool. Asset pool losses exceeding $10 billion will be split with 10 percent to Bank of America and 90 percent to the Treasury and FDIC. The Treasury and the FDIC will cover their share of losses pro rata in proportions of 75 percent for Treasury and 25 percent for the FDIC. The FDIC exposure to loss is capped at $2.5 billion and the Treasury exposure is capped at $7.5 billion. If losses exceed the maximum amounts provided by the FDIC and the Treasury, Bank of America can request borrowing from the Federal Reserve Bank of New York for 90 percent of additional loss amounts incurred on the pool of assets. The term of the loss-share guarantee is 10 years for residential assets and 5 years for non-residential assets.

In consideration for its portion of the loss-share guarantee, the FDIC will receive a projected liquidation preference amount of $1 billion in Bank of America preferred stock and warrants. The preferred stock will have an 8 percent dividend rate.

Temporary Liquidity Guarantee Program

Mandatory Convertible Debt

On February 27, 2009, the FDIC issued an interim rule with request for comments to modify the debt guarantee component of the TLGP to include certain issuances of mandatory convertible debt (MCD). (See Note 14 for further details on the TLGP.) Currently, the TLGP regulation, at Section 370.2(e)(5) of Title 12 of the Code of Federal Regulations, precludes a FDIC guarantee for any "convertible debt." The amendment provides for the FDIC to guarantee newly issued senior unsecured debt with a feature that mandates conversion of the debt into common shares of the issuing entity at a specified date no later than the expiration date of the FDIC's guarantee. The MCD must be newly

issued on or after February 27, 2009, and must provide for the mandatory conversion of the debt instrument into common shares of the issuing entity on a specified date that is on or before June 30, 2012. The amount of the guarantee fee for the FDIC's guarantee of MCD is based on the time period from issuance of the MCD until its mandatory conversion date.

Amendment of the TLGP to Extend the Debt Guarantee Program (DGP) and to Impose Surcharges on Assessments for Certain Debt Issued on or after April 1, 2009

An *Interim Rule with request for comments*, issued on March 23, 2009, amends the TLGP by providing a limited four-month extension of the DGP for insured depository institutions participating in the DGP as well as other participating entities (bank and certain savings and loan holding companies and certain FDIC-approved affiliates). The interim rule permits entities that participate in the extended DGP to issue FDIC-guaranteed debt from June 30, 2009 through October 31, 2009 and extends the FDIC guarantee, set to expire no later than June 30, 2012 under the existing program, to no later than December 31, 2012 for debt issued on or after April 1, 2009.

The interim rule also imposes surcharges on assessments for certain FDIC-guaranteed debt issued on or after April 1, 2009. The limited extension, coupled with the surcharge provisions, is intended to facilitate an orderly transition period for participating institutions to return to the non-guaranteed debt market and to reduce the potential for market disruption when the TLGP ends.

Legacy Loans Program

On March 23, 2009, the FDIC and the U.S. Treasury announced the creation of the Legacy Loans Program (LLP) as part of the Public-Private Investment Program (a program to address the challenge of legacy (distressed or troubled) assets). Legacy assets are comprised of real estate loans held directly on the books of insured banks and thrifts. The assets have created uncertainty on the balance sheets of insured banks and thrifts, compromising their ability to raise capital and their willingness to increase lending.

To cleanse insured banks and thrifts balance sheets of troubled legacy loans and reduce the overhang of uncertainty associated with these assets, the LLP attempts to attract private capital to purchase eligible legacy loans from participating insured banks and thrifts through the provision of FDIC debt guarantees and Treasury equity co-investment. Thus, the program is intended to boost private demand for distressed assets that are currently held by insured banks and thrifts and facilitate market-priced sales of troubled assets.

The FDIC will provide oversight for the formation, funding, and operation of a number of Public-Private Investment Funds (PPIFs) that will purchase assets from insured banks and thrifts. The Treasury and private investors will invest equity capital in Legacy Loans PPIFs and the FDIC will provide a guarantee for debt financing issued by the PPIFs to fund asset purchases. The FDIC's guarantee will be collateralized by the purchased assets and the FDIC will receive a fee in return for its guarantee. On March 26, 2009, the FDIC requested comments from interested parties on the critical aspects of the proposed LLP.

Supervisory Capital Assessment Program

As part of U.S. Treasury's Capital Assistance Program, the federal bank regulatory agencies have conducted forward-looking economic assessments of the 19 largest U.S. bank holding companies (assets greater than $100 billion). These assessments are known as the Supervisory Capital Assessment Program (SCAP). The agencies worked with the institutions to estimate the range of possible future losses and the resources to absorb such losses over a two-year period.

On May 7, 2009, a detailed summary of the results of the SCAP was released in which the supervisory agencies identified the potential losses, resources available to absorb losses, and resulting capital buffer needed for the 19 participating bank holding companies. Any institution needing to augment its capital buffer will have until June 8, 2009 to develop a detailed capital plan and until November 9, 2009 to implement that capital plan.

Financial Stability Plan

In an effort to address the foreclosure problems, the Administration developed the Homeowner Affordability and Stability Plan (HASP) as part of the President's broad strategy to move the economy back on track. The three key elements of the plan are: 1) allowing 4 million to 5 million homeowners with little equity in their homes to refinance into less expensive mortgages; 2) a $75 billion program to keep 3 million to 4 million homeowners out of foreclosure; and 3) a doubling of the government's commitment to Fannie Mae and Freddie Mac to $400 billion.

Legislative Update

Helping Families Save Their Homes Act of 2009, was enacted on May 20, 2009. This legislation provides for: extending the FDIC's deposit insurance coverage at $250,000 until 2013, extending the generally applicable time limit from 5 years to 8 years for an FDIC Restoration Plan to rebuild the reserve ratio of the DIF, permanently increasing the FDIC's authority to borrow from the U.S. Treasury from $30 billion to $100 billion, and if necessary, up to $500 billion through 2010, and allowing FDIC to charge systemic risk special assessments by rulemaking on both insured depository institutions and depository institution holding companies (see Note 1).

Purchase and Assumption Indemnification

In late March 2009, the FDIC was named in a lawsuit in its corporate and receivership capacities and could be subject to potential losses of approximately $4 billion as a result of an indemnification clause in a purchase and assumption agreement associated with the resolution of Washington Mutual Bank on September 25, 2008. The Washington Mutual Receiver currently has approximately $1.9 billion and the remaining exposure of $2.1 billion would be borne by the DIF. As of December 31, 2008, the DIF has not recorded a provision for this matter as the ultimate outcome of this litigation cannot presently be determined (see Note 7).

2009 Failures Through May 20, 2009

Through May 20, 2009, 33 insured institutions failed with total losses to the DIF estimated to be $4.5 billion. These estimated losses were included in the December 31, 2008, contingent liability for anticipated failures.

FSLIC Resolution Fund (FRF)

FSLIC RESOLUTION FUND BALANCE SHEET AT DECEMBER 31
Dollars in Thousands

	2008	2007
Assets		
Cash and cash equivalents	$3,467,227	$3,617,133
Receivables from thrift resolutions and other assets, net (Note 3)	34,952	34,812
Receivables from U.S. Treasury for goodwill judgments (Note 4)	142,305	35,350
Total Assets	**$3,644,484**	**$3,687,295**
Liabilities		
Accounts payable and other liabilities	$8,066	$4,276
Contingent liabilities for litigation losses and other (Note 4)	142,305	35,350
Total Liabilities	**150,371**	**39,626**
Resolution Equity (Note 5)		
Contributed capital	127,442,179	127,417,582
Accumulated deficit	(123,948,066)	(123,769,913)
Total Resolution Equity	**3,494,113**	**3,647,669**
Total Liabilities and Resolution Equity	**$3,644,484**	**$3,687,295**

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

FSLIC RESOLUTION FUND STATEMENT OF INCOME AND ACCUMULATED DEFICIT FOR THE YEARS ENDED DECEMBER 31

Dollars in Thousands

	2008	2007
Revenue		
Interest on U.S. Treasury obligations	$56,128	$156,034
Other revenue	7,040	31,558
Total Revenue	**63,168**	**187,592**
Expenses and Losses		
Operating expenses	3,188	3,364
Provision for losses	(891)	(10,135)
Goodwill/Guarini litigation expenses (Note 4)	254,247	195,939
Recovery of tax benefits	(26,846)	(68,217)
Other expenses	11,623	2,757
Total Expenses and Losses	**241,321**	**123,708**
Net (Loss)/Income	**(178,153)**	**63,884**
Accumulated Deficit - Beginning	**(123,769,913)**	**(123,833,797)**
Accumulated Deficit - Ending	**$(123,948,066)**	**$(123,769,913)**

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

FSLIC RESOLUTION FUND STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

Dollars in Thousands

	2008	2007
Operating Activities		
Net (Loss)/Income	$(178,153)	$63,884
Adjustments to reconcile net (loss)/income to net cash used by operating activities:		
Provision for losses	(891)	(10,135)
Change in Operating Assets and Liabilities		
Decrease in receivables from thrift resolutions and other assets	751	12,053
Increase/(Decrease) in accounts payable and other liabilities	3,791	(1,221)
Increase/(Decrease) in contingent liabilities for litigation losses and other	106,954	(243,977)
Net Cash Used by Operating Activities	**(67,548)**	**(179,396)**
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill litigation (Note 4)	142,642	405,063
Used by:		
Payments to Resolution Funding Corporation (Note 5)	(225,000)	(225,000)
Net Cash (Used)/Provided by Financing Activities	**(82,358)**	**180,063**
Net (Decrease)/Increase in Cash and Cash Equivalents	**(149,906)**	**667**
Cash and Cash Equivalents - Beginning	**3,617,133**	**3,616,466**
Cash and Cash Equivalents - Ending	**$3,467,227**	**$3,617,133**

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

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 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 $602.2 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 and is continuing to explore approaches for concluding FRF's activities. Some of the issues and items that remain open in FRF are: 1) criminal restitution orders (generally have from 4 to 9 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 up to 11 years remaining to enforce); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax-sharing benefits through year 2013); 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 substantial recoveries from the tax-sharing benefits of up to $320 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 conformity with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

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.

Provision for Losses

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

Disclosure about Recent Accounting Pronouncements

1) The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements.

2) In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.* SFAS No. 159 creates a fair value option allowing, but not requiring, an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities with changes in fair value recognized in earnings as they occur. Management has chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with GAAP.

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, 2008, 8 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including goodwill matters.

As of December 31, 2008 and 2007, FRF receiverships held assets with a book value of $20 million and $22 million, respectively (including cash, investments, and miscellaneous receivables of $17 million and $18 million at December 31, 2008 and 2007, respectively). The estimated cash recoveries from the management and disposition of these assets are used to derive the allowance for losses. The FRF receivership assets are valued by discounting projected cash flows, net of liquidation costs using current market-based risk factors applicable to a given asset's type and quality. These estimated asset recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the FRF's actual recoveries to vary from current estimates.

Other Assets

Other assets primarily include credit enhancement reserves valued at $21.2 million and $20.2 million as of December 31, 2008 and 2007, 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 reserves may cover future credit losses through 2020.

RECEIVABLES FROM THRIFT RESOLUTIONS AND OTHER ASSETS, NET AT DECEMBER 31
Dollars in Thousands

	2008	2007
Receivables from closed thrifts	$5,725,450	$8,367,078
Allowance for losses	(5,717,740)	(8,359,347)
Receivables from Thrift Resolutions, Net	**7,710**	**7,731**
Other assets	27,242	27,081
Total	**$34,952**	**$34,812**

4. Contingent Liabilities for:

Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. As of December 31, 2008 and 2007, respectively, $142.3 million and $35.4 million were recorded as probable losses. Additionally, at December 31, 2008, the FDIC has determined that there are no losses from unresolved legal cases considered to be reasonably possible.

In December 2008, FDIC concluded a 13 ½ year old legal case (FDIC v. Hurwitz) arising from the December 30, 1988 failure of United Savings Association of Texas. In August 2005, the District Court ordered sanctions against the FDIC in the amount of $72 million. However, in August 2008, the Fifth Circuit Court of Appeals reversed $57 million of the sanctions, but remanded the remaining $15 million to the District Court to determine what portion should be paid. Subsequently, in November 2008, an agreement was reached between the parties, whereas the FDIC would pay $10 million to settle the case. On December 17, 2008, the settlement agreement was fully executed and the settlement funds were paid. The $10 million payment is recognized in the "Other expenses" line item.

Additional Contingency

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. Approximately 13 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 goodwill lawsuits are against the United States and as such are defended by the DOJ. On December 16, 2008, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the likely aggregate contingent liability resulting from the *Winstar*-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the goodwill litigation. Based on representations from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the goodwill litigation. However, 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 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.

The FRF paid $142.6 million as a result of judgments and settlements in four goodwill cases for the year ended December 31, 2008, compared to $405.1 million for six goodwill cases for the year ended December 31, 2007. As described above, the FRF received appropriations from the U.S. Treasury to fund these payments. At December 31, 2008, the FRF accrued a $142.3 million contingent liability and offsetting receivable from the U.S. Treasury for judgments in three additional cases that were fully adjudicated as of year end.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by DOJ based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $4.3 million and $11.4 million to DOJ for fiscal years (FY) 2009 and 2008, respectively. As in prior years, DOJ carried over and applied all unused funds toward current FY charges. At September 30, 2008, DOJ had an additional $5.3 million in unused FY 2008 funds that were applied against FY 2009 charges of $9.6 million.

Guarini Litigation

Paralleling the goodwill cases are 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.

The last of the original eight Guarini cases concluded in 2007 with a settlement of $23 million being paid. Additionally, 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 late 2009 or early 2010, after the IRS completes its Large Case Program audit on the institution's 2006 returns. Therefore, 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 is $18.7 million. 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, 2008 and 2007, 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, 2008
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$45,443,245	$81,974,337	$127,417,582
Add: U.S. Treasury payments/receivable for goodwill litigation	249,597	0	249,597
Less: REFCORP payments	0	(225,000)	(225,000)
Contributed capital - ending	**45,692,842**	**81,749,337**	**127,442,179**
Accumulated deficit	(42,367,645)	(81,580,421)	(123,948,066)
Total	**$3,325,197**	**$168,916**	**$3,494,113**

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, 2008, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $5.022 billion to the REFCORP. These actions serve to reduce contributed capital.

FRF-FSLIC received $142.6 million in U.S. Treasury payments for goodwill litigation in 2008. Furthermore, $142.3 million and $35.4 million were accrued for as receivables at year-end 2008 and 2007, respectively. The effect of this activity was an increase in contributed capital of $249.6 million in 2008.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses 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 $12.5 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.3 billion, since their dissolution dates.

6. Employee Benefits

Pension Benefits

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF 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. The FRF's pension-related expenses were $169 thousand and $252 thousand for 2008 and 2007, respectively.

Postretirement Benefits Other Than Pensions

The FRF no longer records a liability for the postretirement benefits of life and dental insurance (a long-term liability), due to the expected dissolution of the FRF. The liability is recorded by the DIF. However, the FRF does continue to pay its proportionate share of the yearly claim expenses associated with these benefits.

7. Disclosures About the Fair Value of Financial Instruments

The financial asset recognized and measured at fair value on a recurring basis at each reporting date is cash equivalents. The following table presents the FRF's financial asset measured at fair value as of December 31, 2008.

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.

Other assets primarily consist of credit enhancement reserves, which are valued by performing projected cash flow analyses using market-based assumptions (see Note 3).

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2008
Dollars in Thousands

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Assets				
Cash equivalents (Special U.S. Treasuries)[1]	$ 3,467,227	$ 0	$ 0	$ 3,467,227

(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.

GOVERNMENT ACCOUNTABILITY OFFICE'S AUDIT OPINION

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 two 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 statements for 2008 and 2007, we found

- the financial statements as of and for the years ended December 31, 2008, and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FDIC had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations for each fund as of December 31, 2008; and
- no reportable noncompliance with 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 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, DIF's assets, liabilities, and fund balance as of December 31, 2008, and 2007, and its income and fund balance and its cash flows for the years then ended.

As discussed in note 7 to DIF's financial statements, FDIC's insured financial institutions faced increased challenges in 2008. Financial market disruptions evolved into a crisis that impacted the condition of the industry as a whole and the soundness of some FDIC-insured institutions. Declining housing and equity prices, financial market turmoil, and deteriorating economic conditions exerted significant stress on banking industry performance, contributing to the failure of some institutions and threatening the viability of others, particularly those having significant exposure to high risk residential mortgages or residential construction loans. In 2008, 25 insured institutions with combined assets of about $361 billion failed, costing the DIF an estimated $18 billion. Further, at year-end,

the DIF recognized losses totaling an estimated $24 billion associated with insured institutions the banking regulators have determined are likely to fail. Supervisory 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 as of December 31, 2008, FDIC has identified additional risk that could result in further estimated losses to the DIF of $25.1 billion should potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the ongoing risks to affected institutions in light of the deterioration in 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 15 to DIF's financial statements, through May 20, 2009, 33 institutions have failed during 2009 at an estimated cost to the DIF of $4.5 billion.

At December 31, 2008, the DIF's fund balance was $17.3 billion, and its ratio of reserves to estimated insured deposits was 0.36 percent. In accordance with the Federal Deposit Insurance Reform Act of 2005, FDIC adopted a restoration plan in October 2008 calling for an increase in the assessment rates charged to insured institutions to replenish the fund's reserves to the minimum ratio of 1.15 percent of insured deposits within a 5-year period. In March 2009, the FDIC amended the restoration plan to extend to 7 years the period to replenish the DIF's reserves to the statutory minimum ratio, and announced its intent to charge an emergency special assessment to raise assessment revenue to help meet the requirements of the restoration plan.[2] In addition to assessment revenue, the DIF has other resources available to carry out its insurance responsibilities. At December 31, 2008, the DIF had $27.9 billion in investments in U.S. Treasury obligations that provide a ready source of funds to carry out its insurance activities. In addition, as discussed in note 1 to DIF's financial statements, FDIC has a note agreement with the Federal Financing Bank enabling it to borrow up to $100 billion, and, until recently, it had authority to borrow up to $30 billion from the U.S. Treasury. However, the actual amount that can be borrowed from these entities is limited by a statutory formula. Application of this formula, based on the DIF's December 31, 2008 financial statements, effectively limits the amount DIF can borrow from these sources to $69 billion. Recently enacted legislation increased its borrowing authority with

[2]Congress recently extended the restoration plan period to eight years. Pub. L. No. 111-22, div. A, title II, §204 (b) (May 20, 2009).

the U.S. Treasury to up to $100 billion, and provides for additional authority to temporarily increase this amount to up to $500 billion if such amounts are deemed necessary for DIF to carry out its insurance responsibilities.[3]

The deteriorating economic and market conditions in 2008 resulted in the federal government taking extraordinary measures to avoid further adverse effects on economic conditions and financial stability. The Department of the Treasury, in consultation with the President and upon recommendation of the boards of the FDIC and the Federal Reserve, invoked a provision of the Federal Deposit Insurance Corporation Improvement Act of 1991—the "systemic risk" provision—during 2008 to counter identified systemwide crises in the nation's financial sector. As discussed in note 14 to DIF's financial statements, following a systemic risk determination in October 2008, FDIC established the Temporary Liquidity Guarantee Program, consisting of a (1) Debt Guarantee Program, under which FDIC would guarantee newly issued senior unsecured debt up to prescribed limits issued by insured institutions and certain holding companies, and (2) Transaction Account Guarantee Program, under which FDIC would provide unlimited coverage for non-interest bearing transaction accounts held by insured institutions. FDIC charges fees to participants that are to be used to cover any losses under both guarantee programs. As of December 31, 2008, the amount of debt guaranteed by FDIC under the Debt Guarantee Program was $224 billion, while FDIC's maximum exposure under the Transaction Account Guarantee Program was $680 billion. Consequently, the total exposure under the Temporary Liquidity Guarantee Program was $904 billion as of December 31, 2008. Another systemic risk determination, made in November 2008 and finalized in January 2009, involved FDIC, in conjunction with the U.S. Treasury and the Federal Reserve, providing guarantees against potential losses on a portfolio of Citigroup's assets in exchange for 3,025 shares of preferred stock with a liquidation preference value of $1 million per share. Under the agreement, FDIC's maximum exposure under the guarantee is $10 billion. Subsequent to 2008, FDIC, in conjunction with the U.S. Treasury and the Federal Reserve, reached agreement to provide guarantees against potential losses on a portfolio of Bank of America's assets in exchange for a projected liquidation preference amount of $1 billion in preferred stock and warrants. Under the tentative agreement, FDIC's maximum exposure under the guarantee would be $2.5 billion.

[3]Pub. L. No. 111-22, div. A, title II, §204 (c) (May 20, 2009).

On March 23, 2009, the Treasury announced the Public-Private Investment Program, under which it will make targeted investments in multiple Public-Private Investment Funds (PPIF) that will purchase qualifying real-estate assets from participating financial institutions. Under this program, the objective of which is to remove troubled real-estate loans and securities backed by loan portfolios from the balance sheets of financial institutions to stimulate the flow of credit, the PPIFs will purchase and manage pools of such assets, using a combination of private sector and Treasury-investment equity to purchase the assets. As discussed in note 15 to DIF's financial statements, under the Legacy Loans component of this program, FDIC will provide a guarantee of the PPIF's debt financing to purchase the loans, in exchange for a debt guarantee fee. The FDIC guarantee will be collateralized by the PPIF loan pools. The total exposure to FDIC, and to the DIF, under this proposed program is unknown at this time.

Opinion on 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, 2008, and 2007, and its income and accumulated deficit and its cash flows for the years then ended.

Opinion on Internal Control

FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2008, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements for each fund would be prevented or detected 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 (FMFIA).

We did identify certain control deficiencies during our 2008 audits. However, we do not consider these control deficiencies to be significant deficiencies.[4] We will be reporting separately to FDIC management on these matters.

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, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met and evaluating the effectiveness of internal control over financial reporting; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained, in all material respects, effective internal control, the objectives of which are the following:

- financial reporting—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
- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

[4]A 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. A 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.

We are also responsible for (1) expressing an opinion on FDIC's internal control over financial reporting based on our audit and (2) testing compliance with selected provisions of laws and regulations that could 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 management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;
- assessed the risk that a material misstatement exists;
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control based on the assessed risk;
- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA;
- tested compliance with certain laws and regulations, including selected provisions of the Federal Deposit Insurance Act, as amended, and the Federal Deposit Insurance Reform Act of 2005; and
- performed such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinions.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, internal control may not

prevent, or detect and correct, misstatements. We also caution that projecting our evaluation 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 controls 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 we judged could have a direct and material effect on the financial statements for the year ended December 31, 2008. 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 work in accordance with U.S. generally accepted government auditing standards.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) reported the agency was pleased to receive unqualified opinions on the DIF and FRF financial statements and that we reported it had effective control over financial reporting and compliance with laws and regulations for each fund. FDIC's CFO also stated that as FDIC commits additional resources to further the recovery of the financial markets and economy, the agency will continue to ensure that effective financial management remains a priority. Furthermore, the CFO added that FDIC recognizes the significance that internal control plays in an agency achieving its mission and goals, and therefore, will seek continual improvement in its internal control environment.

The complete text of FDIC's comments is reprinted in appendix I.

Steven J. Sebastian
Director
Financial Management and Assurance

May 20, 2009

Appendix I

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

Deputy to the Chairman and Chief Financial Officer

May 20, 2009

Mr. Gene L. Dodaro
Acting Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2008 Financial Statements Audit Report

Dear Mr. Dodaro:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft report titled, **Financial Audit: Federal Deposit Insurance Corporation Funds' 2008 and 2007 Financial Statements, GAO-09-535**. We are pleased that the Federal Deposit Insurance Corporation (FDIC) received an unqualified opinion for the seventeenth consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). The unqualified opinion demonstrates our continued dedication to sound financial management.

The GAO reported that the funds' financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP); FDIC had effective 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. In addition, the GAO reported that there were no material weaknesses or significant deficiencies identified during the 2008 audits.

During 2008, new audit standards were issued that require management to provide a written assertion about the effectiveness of its internal control over financial reporting. In complying with this requirement, the FDIC 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 FDIC's conclusion regarding the effectiveness of its internal control.

This past year has been unusually challenging with greater emphasis and focus being concentrated on stabilizing the financial industry and promoting economic recovery. However, as FDIC commits additional resources to further the recovery of the financial markets and economy, we will continue to ensure that effective financial management remains a priority. Also, FDIC recognizes the significance that internal control plays in an agency achieving its mission and goals, and therefore, will seek continual improvement in its internal control environment.

As always, we appreciate the professionalism and dedication of the GAO staff during the audit. We look forward to continuing our productive and successful relationship during the 2009 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

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

Management's Report on Internal Control over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles (GAAP), and compliance with applicable laws and regulations. FDIC's internal control over financial reporting and compliance 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 FDIC's internal control over financial reporting as of December 31, 2008, through its enterprise risk management program that seeks to comply with the spirit of the following standards, among others: Federal Managers' Financial Integrity Act (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 FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control - Integrated Framework* and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*. Based on that assessment, management concluded that, as of December 31, 2008, FDIC's internal control over financial reporting is effective based on the criteria established in FMFIA.

Federal Deposit Insurance Corporation
May 20, 2009

Overview of the Industry

The 8,305 FDIC-insured commercial banks and savings institutions that reported financial results at the end of 2008 had total net income of $10.2 billion, a decline of $89.8 billion (89.8 percent) from the $100 billion that the industry earned in 2007. This is the smallest annual net income total for the industry since 1989. The primary cause of the decline in earnings was increased provisions for loan losses, which were $105.2 billion (152 percent) higher than in 2007. Insured institutions set aside $174.4 billion for losses in 2008, up from $69.2 billion a year earlier. Loss provisions absorbed 30.9 percent of the industry's net operating revenue (net interest income plus total noninterest income) in 2008, compared to only 11.8 percent in 2007. Almost three out of every four insured institutions (73.9 percent) reported increased loss provisions in 2008.

Failures and merger transactions had a significant effect on the industry's income and expense totals for 2008. Sizable losses incurred by a number of large institutions that failed or were acquired before the end of 2008 were not carried forward to full-year results. If these losses had been included in the industry's results for the year, the industry would have reported a net loss in 2008.

The average return on assets (ROA) for 2008 was 0.08 percent, considerably below the 0.81 percent average of a year earlier. More than two-thirds of all institutions (68 percent) reported year-over-year ROA declines. Only 37 percent of institutions reported higher net income, and 23.6 percent reported net losses for the year. During 2007, only 12.1 percent were unprofitable.

In addition to the higher expenses for loan-loss provisions, industry earnings in 2008 were held down by reduced noninterest income, which was $25.6 billion (11 percent) lower than in 2007. The largest contributors to the decline in noninterest income were a negative $5.8-billion swing in trading revenues, from a positive $4.1 billion in 2007 to a negative $1.8 billion in 2008, and a $5.8-billion (27.4-percent) decline in securitization income. Most of the decline in trading revenue and securitization occurred at a few large institutions. A majority of insured institutions (59 percent) reported increased noninterest income in 2008.

Net income was also negatively affected by realized losses on securities and other assets, which totaled $15.0 billion, compared to net losses of $1.4 billion a year ago. Finally, expenses for goodwill impairment and other intangible asset charges were $12.6 billion (67.8 percent) greater than a year earlier.

One of the few positive trends in industry earnings was net interest income, which increased by $5 billion (1.4 percent). The average net interest margin (NIM) in 2008 was 3.18 percent, below the 3.29 percent average of a year earlier; this is the lowest full-year NIM for the industry since 1984. A majority of institutions – 57.4 percent – reported lower NIMs in 2008. The improvement in net interest income was attributable to a 4.1-percent increase in the industry's interest-bearing assets during 2008.

Asset quality indicators worsened in 2008. The amount of loans and leases that were noncurrent (90 days or more past due or in nonaccrual status) increased by $120.1 billion (108.5 percent); at the end of the year, the percent of the industry's total loans and leases that were noncurrent stood at 2.93 percent, the highest level since 1992. Noncurrent 1-4 family residential mortgage loans increased by $48.4 billion in 2008, while noncurrent real estate construction and development loans rose by $30.2 billion. Noncurrent levels increased in all other major loan categories as well.

Net charge-offs of loans and leases totaled $99.5 billion, more than double the $44.1 billion that insured institutions charged off during 2007. Residential real estate loans and construction and development loans led the rise in charge-offs. Net charge-offs of home equity lines of credit were $6.9 billion higher than in 2007, while charge-offs of other loans secured by 1-4 family residential properties increased by $12 billion. Net charge-offs of real estate construction and development loans were up by $13.7 billion. While loans secured by real estate led the rise in charge-off activity, all of the other major loan categories had higher charge-offs as well. The net charge-off rate for the industry in 2008 was 1.28 percent, the highest annual rate since 1991.

Asset growth slowed in 2008. Total assets of insured institutions increased by $813.2 billion (6.2 percent), led by a $499.3-billion increase in balances due from Federal Reserve banks. The total amount of loan and lease balances declined by $31.3 billion in 2008, the first time since 1993 that reported balances have had a 12-month decline. Closed-end real estate loans secured by 1-4 family residential properties declined by $196.6 billion (8.8 percent) during the 12-month period, while real estate construction and development loans fell by $39.3 billion (6.2 percent). Most other loan categories posted moderate increases. Only 57.1 percent of the increase in industry assets ($464.0 billion) consisted of interest-earning assets.

Total deposits increased by $620.3 billion (7.4 percent), with interest-bearing deposits in domestic offices rising by $351.9 billion (6.2 percent), and domestic noninterest-bearing deposits growing by $231.6 billion (19.4 percent). Deposits in foreign offices increased by $36.7 billion (2.4 percent) during this period. Nondeposit liabilities were up by $244.1 billion (7.5 percent).

The number of insured commercial banks and savings institutions on the FDIC's "Problem List" rose from 76 institutions with $22 billion in assets to 252 institutions with $159 billion in assets in 2008. This is the largest number of "problem" institutions since the middle of 1995, and the largest amount of assets since the end of 1993. At the end of 2008, more than 97 percent of all FDIC-insured institutions, representing more than 98 percent of all insured institution assets, met or exceeded the highest federal regulatory capital standards.

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