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

February 11, 2011

MEMORANDUM TO: The Board of Directors

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

Craig Jarvill
Acting Director, Division of Finance

SUBJECT: Fourth Quarter 2010 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending December 31, 2010.

Executive Summary

- During the fourth quarter of 2010, the Deposit Insurance Fund (DIF) balance increased by $657 million to negative $7.4 billion. This increase was primarily due to a $3.5 billion increase in assessments earned, offset by a $2.4 billion increase in provision for insurance losses and a $452 million increase in operating expenses.

- During the fourth quarter of 2010, the FDIC was named receiver for 30 failed institutions. The combined assets at inception for these institutions totaled approximately $8.9 billion with a total estimated loss of $2.1 billion. The corporate cash outlay during the fourth quarter for these failures was approximately $2.2 billion.

- Year-to-date through December 31, 2010, Corporate Operating Budget expenditures were below budget by 14 percent ($567.9 million). This variance was primarily the result of lower spending for contractual services and vacancies in budgeted positions in both the Receivership Funding and the Ongoing Operations components.

The following is an assessment of each of the three major finance areas: financial statements, investments, and budget.

Trends and Outlook	
Financial Results	Comments
I. Financial Statements	• While the number of resolutions per year has increased since 2008, the start of the current crisis, through 2010, the average assets at inception and the average estimated loss per resolution has declined. Only 25 institutions failed in 2008, however, the average total assets per institution were $2.6 billion (excluding Washington Mutual Bank, which was resolved at no cost to the DIF), compared with $594 million per institution in 2010 for the 157 failures. In addition to the decline in the size of the failed institutions, as measured by average total assets, the loss estimates on those assets also declined during that period.

Trends and Outlook	
Financial Results	Comments
II. Investments	• The total liquidity (total market value plus accrued interest) of all DIF-related investment portfolios stood at $46.2 billion on December 31, 2010, down from $66.1 billion on December 31, 2009, led primarily by the decline in the DIF investment portfolio as discussed below. • The DIF investment portfolio's amortized cost (book value) decreased by $19.8 billion during 2010, and totaled $39.5 billion on December 31, 2010. The decrease was primarily the result of having to fund 157 bank failures during 2010, although it should be noted that 130 of these failures were resolved as cash-conserving loss-share transactions (in which the acquirers purchased substantially all of the failed institutions' assets and the FDIC and the acquirers entered into loss-share agreements) requiring lower initial resolution funding, thus helping to mitigate the decline in the DIF portfolio's balance. Moreover, during 2010, the DIF received $13.6 billion in dividends and other payments from its receiverships. These payments also helped to mitigate the DIF portfolio's decline. Nevertheless, the DIF portfolio's balance is expected to continue to decline over the next few quarters. • On December 31, 2010, the DIF investment portfolio's yield was 0.40 percent, down 9 basis points from its December 31, 2009, yield of 0.49 percent. A primary negative factor was that $3.1 billion in relatively high yielding Treasury notes and bonds matured during the period. However, a somewhat offsetting positive factor was that overnight investment yields increased modestly, rising from 0.02 percent on December 31, 2009, to 0.05 percent on December 31, 2010—and the ultra-low yielding overnight investments comprised a considerably larger percentage of the DIF portfolio at the beginning of the year. • During the fourth quarter of 2010, short-maturity Treasury bill (T-Bill) yields were little changed while longer-maturity Treasury yields posted dramatic increases. Treasury yields remain at historically low levels, reflecting such factors as subdued inflation trends and stable inflation expectations, as well as the ultra-low federal funds target rate and continuing investor expectations that the rate will remain low for some time. However, the recent increases in longer-maturity Treasury yields appeared to reflect factors such as investor expectations for a strengthening economy and concerns over growing debt levels. According to consensus expectations, Treasury yields are expected to increase, albeit modestly, during 2011.

Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $1.4 billion was spent in the Ongoing Operations component of the 2010 Corporate Operating Budget, which was $65.3 million (4 percent) below the annual budget for the year ending December 31, 2010. Actual expenses were below annual budgets in the Outside Services – Personnel expense category (by $32.5 million), and the Salaries & Compensation expense category (by $29.9 million). • Approximately $2.0 billion was spent in the Receivership Funding component of the 2010 Corporate Operating Budget, which was $502.7 million (20 percent) below the annual budget for the year. Actual expenses were significantly less than budget in the Outside Services – Personnel (by $427.9 million), Salaries & Compensation (by $68.8 million), and Buildings (by $47.3 million) expense categories, but were partially offset by overspending in the Outside Services – Other (by $40.2 million) and Other Expenses (by $30.0 million) expense categories.

I. <u>Corporate Fund Financial Results</u> (See pages 12 - 13 for detailed data and charts.)

Deposit Insurance Fund (DIF)

- For 2010, the DIF's comprehensive income was $13.5 billion compared to a comprehensive loss of $38.1 billion during 2009. This year-over-year change of $51.6 billion was primarily due to a $58.6 billion decline in the provision for insurance losses partially offset by a $4.1 billion decrease in assessments earned (which is largely attributable to the 2009 special assessment).

- The provision for insurance losses was negative $848 million for 2010, compared to a positive $57.7 billion for 2009. The 2009 provision reflected the significant losses estimated to be incurred by the DIF from the 2009 and future failures. In contrast, the 2010 negative provision is primarily impacted by a reduction in the contingent loss reserve due to the improvement in the financial condition of institutions that were previously identified to fail and adjustments to the estimated losses for banks that have failed.

FSLIC Resolution Fund (FRF)

- In December 2010, the FDIC, as manager of the FRF, received $5.6 million in tax benefit recoveries under the terms of an assistance agreement with the former FSLIC.

II. Investments

Investment Results (See pages 14 - 15 for detailed data and charts.)

DIF Investment Portfolio

- The amortized cost (book value) of the DIF investment portfolio decreased by $19.8 billion during 2010, or by 33.4 percent, from $59.3 billion on December 31, 2009, to $39.5 billion on December 31, 2010. Similarly, the DIF portfolio's primary reserve (total market value including accrued interest) decreased by $19.9 billion, or by 33.4 percent, from $59.5 billion on December 31, 2009, to $39.6 billion on December 31, 2010. During the year, resolution outlays and operating expenses greatly exceeded receivership payments, assessment collections, and other inflows.

- The DIF investment portfolio's total return for 2010 was 0.20 percent, 502 basis points lower than the 5.22 percent total return of its benchmark, the Merrill Lynch 1-10 Year Treasury Index (Index). Given that most longer-maturity Treasury yields declined (that is, Treasury security prices rose) over the full one-year period, the DIF portfolio's large balances of comparatively low yielding overnight investments and short-maturity Treasury securities were a drag on performance relative to the Index's longer-duration conventional Treasury securities.

- In accordance with the approved fourth quarter 2010 investment strategy, which strove to balance the need for liquidity against the desire to pick up some yield by investing in short-maturity Treasuries, staff purchased a total of seven short-maturity Treasury securities on two occasions during the fourth quarter of 2010. The seven securities had a total par value of $6.0 billion, a weighted average yield-at-cost of 0.28 percent, and a weighted average maturity (WAM) of 0.81 years (a little under 10 months).

Other Corporate Investment Portfolios

- On December 31, 2010, the Debt Guarantee Program (DGP) investment portfolio stood at $6.6 billion (total market value), an increase from $6.4 billion on December 31, 2009. During 2010, although the DGP reimbursed a net amount of $273 million to the DIF for claims against the Transaction Account Guarantee (TAG) Program, the DGP received a total of $481 million in reimbursements from TAG Program assessments during the period, hence the net increase in the DGP portfolio. In accordance with the approved fourth quarter 2010 investment strategy for the DGP portfolio, staff purchased four short-maturity Treasury securities during the fourth quarter of 2010. The securities had a total par value of $1.0 billion, a weighted average yield-at-cost of 0.30 percent, and a WAM of 0.85 years (a little over 10 months).

- During 2010, as mentioned above, the FDIC collected about $481 million in fees related to the TAG Program under the Temporary Liquidity Guarantee Program. Again, these funds were immediately transferred to the DGP investment portfolio for reimbursement of claims and expenses, so the TAG Program investment portfolio had no balance on December 31, 2010.

The Treasury Market

- During the fourth quarter of 2010, short-maturity T-Bill yields were little changed while longer-maturity Treasury yields posted dramatic increases. The three-month T-Bill yield decreased by 3 basis points, while the yield on the six-month T-Bill decreased by 1 basis point. The one-year T-Bill yield increased by 1 basis point. The two-year Treasury note yield, which is sensitive not only to actual as well as anticipated changes in the federal funds rate, but also to changes in investor sentiment, increased by 17 basis points. Intermediate- to longer-maturity Treasury security yields increased considerably during the fourth quarter. The yield on the five-year Treasury note increased by 75 basis points, while the yield on the ten-year Treasury note increased by 78 basis points. The conventional Treasury yield curve remained relatively steep during the fourth quarter of 2010. On December 31, 2010, the two-year to ten-year yield curve had a 270-basis point positive spread (higher than the 209-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 135 basis points.

Prospective Strategies

- Similar to the fourth quarter 2010 investment strategy, the first quarter 2011 DIF investment strategy calls for purchasing up to $20.0 billion of short-term Treasury securities with maturities between April 1, 2011, and December 31, 2013. This strategy attempts to balance the need to maintain sufficient portfolio liquidity for the funding of potential near-term resolutions against the yield pick-up that can be obtained by investing in short-maturity Treasury securities. The maturity dates eligible for investment were extended from December 31, 2011, to December 31, 2013, so as to take advantage of the recent increases in Treasury yields.

- For the Debt Guarantee Program, the first quarter 2011 investment strategy calls for purchasing up to $3 billion (par value) of available-for-sale securities with maturity dates between April 1, 2011, and December 31, 2013. Again, this strategy attempts to balance the need to maintain sufficient portfolio liquidity against the yield pick-up that can be obtained by investing in short-maturity securities. The maturity dates eligible for investment were extended from December 31, 2011, to December 31, 2013, so as to take advantage of the recent increases in Treasury yields.

III. <u>Budget Results</u> (See pages 16 - 17 for detailed data.)

Approved Budget Modifications

The 2010 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2010 Corporate Operating Budget. The following budget reallocations were made during the fourth quarter in accordance with the authority delegated by the Board of Directors. (None of these modifications changed the total 2010 Corporate Operating Budget approved by the Board in December 2009.)

- In October 2010, the CFO approved a $1,000,000 reallocation in the Outside Services – Personnel expense category of the Ongoing Operations budget to the Office of Enterprise Risk Management (OERM) from the Corporate Unassigned budget. The purpose of this budget authority reallocation was to assist the Risk Steering Committee in preparing a Board case that included the organization structure options and operating model choices for the risk management organization, and initial view of the organizational design, staffing level and their costs for the proposed Office of the Corporate Risk Management.

- In October 2010, the CFO approved the reallocation of existing budget authority within the Salaries & Compensation expense category of the Ongoing Operations and Receivership Funding components of the 2010 Corporate Operating Budget to reflect updated salary and benefit expense estimates for several divisions and offices. This reallocation was based upon an analysis of actual spending for salaries, bonuses, and fringe benefits through September 30, 2010. In conjunction with these reallocations, the Corporate Unassigned budgets were increased by $8,357,797 and $13,816,111 in the Ongoing Operations and Receivership Funding budget components, respectively.

- In October 2010, the CFO approved the reallocation of budget authority within the Salaries & Compensation expense category of the Ongoing Operations and Receivership Funding components of the Corporate Unassigned budget to fund the change in the awards policy for Corporate Managers (CMs). The realignment increased budget authority in several divisions and offices and decreased the Corporate Unassigned budget for Ongoing Operations and Receivership Funding by $627,063 and $137,866, respectively.

- In December 2010, the CFO approved the reallocation of $655,000 in budget authority in the Ongoing Operations component from the Corporate Unassigned budget to the Outside Services – Personnel budget of the Office of Diversity and Economic Opportunity (ODEO) in support of efforts to fund the expanded Corporate Outreach and asset purchaser efforts as well as to fund the use of sign language interpreters.

- In December 2010, the CFO approved the reallocation of existing budget authority within the Salaries & Compensation expense category of the Ongoing Operations component of the 2010 Corporate Operating Budget from the Corporate Unassigned budget (-$6,350,751) to the budgets of the Division of Supervision and Consumer Protection (+$5,976,672), Division of Resolutions and Receiverships (+$237,286), Executive Offices (+$90,000), Office of the Ombudsman (+$24,206), and Office of International Affairs (+$22,587). This reallocation was based upon an analysis of actual spending for salaries, bonuses, and fringe benefits through November 30, 2010, and on-board staffing estimates through year-end.

- In December 2010, the CFO approved the reallocation of $1,050 in existing budget authority in the Executive Offices from the Travel expense category to the Outside Services – Other expense category of the Ongoing Operations component of the 2010 Corporate Operating Budget.

  Following these budget reallocations, the amounts remaining available within the Corporate Unassigned budgets for the Ongoing Operations and Receivership Funding budget components were $9,524,119 and $197,191,989, respectively.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the year ending December 31, 2010, are defined as those that either (a) exceed the annual budget for a major expense category or total division/office budget, or

(b) are under the annual budget for a major expense category or division/office by an amount that exceeds $1 million and represents more than 3 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were significant spending variances in six major expense categories for the year in the Ongoing Operations component of the 2010 Corporate Operating Budget:

- Outside Services – Personnel expenditures were $32.5 million, or 14 percent, less than budgeted. The largest components of this variance include the following. The Division of Administration (DOA) spent $6.3 million less than budgeted, largely due to lower-than-anticipated costs for background investigations; delays in the hiring of Human Resources support contractors; lower-than-expected spending on records retention and destruction; and, significant savings from developing the Human Capital plan internally. The CIO Council's spending for systems development and discretionary small enhancements was $5.7 million less than budgeted. Department of Justice expenses for the goodwill litigation were $4.9 million lower than budgeted through the fourth quarter. The Division of Resolutions & Receiverships (DRR) spent $3.6 million less than budgeted due to the diversion of resources to train and assimilate new staff, thus delaying the issuance of a Blanket Ordering Agreement solicitation. The Office of Inspector General (OIG) spent $3.0 million less than budgeted due to the delay in awarding new contracts due to operating under a Continuing Resolution. The Division of Information Technology's (DIT) spending for internal operations was nearly $2.2 million less than budgeted and the Office of Complex Financial Institutions (OCFI) spent $1.0 million less than budgeted, as no OCFI staff was on-board to initiate outside contractor work in 2010.

- Travel expenditures were $0.1 million, or less than 1 percent, greater than budgeted, due to an increase in the number of examinations conducted and an increase in the number of examination staff. Those examination costs were largely, but not fully offset by the lower-than-projected travel for Corporate Employee Program (CEP) and Corporate University personnel, and lower than anticipated investigative and audit workload in the OIG.

- Buildings expenditures were $0.2 million, or less than 1 percent, greater than budgeted, largely due to slightly greater-than-estimated expenses associated with implementation of the 2010 Headquarters Space Realignment Plan.

- Equipment expenditures were approximately $5.2 million, or 6 percent, greater than budgeted. DIT spent $1.8 million more than budgeted as funds were re-prioritized to purchase security software to facilitate compliance with GAO audit findings, and the CIO Council spent $1.8 million more than budgeted largely on hardware and software purchases at year end. In addition, DOA spent $1.5 million more than budgeted due to unanticipated expenses related to furnishing an additional floor at the Courthouse building, unanticipated carpet replacement expenses at Virginia Square, and un-accrued expenses from 2009 that were paid in 2010.

- Outside Services – Other expenditures were $4.8 million, or 22 percent, less than budgeted. DOA spent $2.4 million less than budgeted, largely due to lower unit shipping costs resulting from the decision to incorporate General Services Administration's (GSA) Strategic Source Initiative; significant savings from establishing ground service as the default for express mail services; and, lower-than-budgeted spending for insurance. In addition, the Office of Public Affairs (OPA) spent $1.9 million less than budgeted for its advertising and media campaigns due to the office's need to redirect its attention to more urgent matters relating to the implementation of Dodd-Frank legislation.

- Other Expenses expenditures were $3.6 million, or 24 percent, less than budgeted. The Division of Supervision and Consumer Protection (DSC) spent $2.4 million less than budgeted due to lower PLA participation as a result of workload demands, unused funds related to the cancellation of the Economic Inclusion Conference, and lower-than-projected expenses for the Interagency Accounting, Assistant Regional Director (ARD) and National Field Supervisor (FS) conferences.

Receivership Funding

The Receivership Funding component of the 2010 Corporate Operating Budget includes funding for expenses that are incurred in conjunction with insured institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships, except for salary and benefits expenses for permanent employees assigned to the receivership management function.

There were significant spending variances in all of the seven major expense categories through the fourth quarter in the Receivership Funding component of the 2010 Corporate Operating Budget:

- Salaries & Compensation ($68.8 million, or 22 percent, less than budgeted).
- Outside Services – Personnel ($427.9 million, or 26 percent, less than budgeted).
- Travel ($18.0 million, or 30 percent, less than budgeted).
- Buildings ($47.3 million, or 19 percent, less than budgeted).
- Equipment ($10.9 million, or 24 percent, less than budgeted).
- Outside Services – Other ($40.2 million, or 149 percent, more than budgeted).
- Other Expenses ($30.0 million, or 16 percent, more than budgeted).

The variances in the Outside Services – Personnel expense category were attributable to fewer-than-anticipated resolutions through the fourth quarter of 2010. The variance in the Salaries & Compensation category was attributable to slower than projected hiring of non-permanent staff. Lower-than-budgeted spending occurred in the Buildings and Other Expense categories as a result of shorter than expected operations at receivership locations and the fewer-than-anticipated number of field sites in operation. The variance in the Travel category was also due to the lower-than-anticipated number of resolutions through the fourth quarter of 2010. The variance in the Equipment category was primarily attributable to lower laptop prices and lower-than-anticipated costs for the Midwest Temporary Satellite Office (MWTSO). The variance in the Outside Services – Other expense category reflected approximately $43.3 million in unbudgeted guarantee fee costs that were incurred in conjunction with a Limited Liability Company (LLC) transaction. The variance in the Other Expense category was attributable to the extensive time required to facilitate the transfer of banking operations and the disposition of the failed bank assets.

Significant Spending Variances by Division/Office[1]

Twelve organizational units had significant spending variances through the end of the fourth quarter:

- DRR spent $279.5 million, or 13 percent, less than budgeted, mostly due to less-than-budgeted spending for resolution and receivership workload activities for the reasons identified above. This was slightly offset by the payment of a large, unbudgeted guarantee fee and greater-than-budgeted expenses in the Other Expense category in connection with disposition of failed bank assets.

- DIT spent $20.9 million, or 8 percent, less than budgeted. The majority of this variance was in the Receivership Funding budget component and was largely attributable to less-than-projected bank closing activities and associated contractor support; and lower-than-anticipated expenses for the MWTSO facility and laptops. Vacancies in budgeted positions significantly contributed to the $2.8 million variance in the Ongoing Operations budget component, where excluding the Salaries & Compensation expense category, the net variance for internal operations was only $0.5 million.

- The Legal Division spent $12.3 million, or 4 percent, less than budgeted. This variance included approximately $8.5 million in under spending for Salaries & Compensation due to slower-than-projected hiring to fill budgeted positions.

- OIG spent $6.5 million, or 17 percent, less than budgeted. The OIG was operating under a continuing resolution for the first quarter of fiscal year 2010, which delayed spending during the following quarter. The OIG again operated under a continuing resolution in the first quarter of the fiscal year 2011, which effectively froze OIG spending at its fiscal year 2010 appropriated level. These funding limitations precluded the OIG from filling vacant authorized positions and executing certain procurement actions, thus resulting in less-than-anticipated expenditures in the fourth quarter.

- Government Litigation was $4.9 million, or 74 percent, less than budgeted. This variance was attributable to lower than expected expense payments to the Department of Justice for litigation expenses on the goodwill cases.

- Executive Support Offices spent $4.2 million, or 11 percent, less than budgeted. This variance was mostly attributable to lower-than-budgeted expenses for advertising and media campaign costs in the Office of Public Affairs due to the office's need to redirect its attention to more urgent matters relating to the implementation of Dodd-Frank legislation.

- The CIO Council spent $3.9 million, or 6 percent, less than budgeted. This variance was primarily attributable to under-spending of discretionary funds by divisions and offices for small enhancements.

- The Division of Finance (DOF) spent $3.9 million, or 10 percent, less than budgeted. This variance was attributable to lower-than-expected requirements for contractor services for temporary DOF accounting and auditing work, and slower-than-expected hiring.

[1] Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

- CU – Corporate spent $3.9 million, or 16 percent, less than budgeted. This variance is primarily due to unanticipated schedule adjustments for several major initiatives within the College of Corporate Business.

- The OCFI spent $2.4 million, or 100 percent, less than budgeted. This variance was due to delays in officially staffing this new office in 2010.

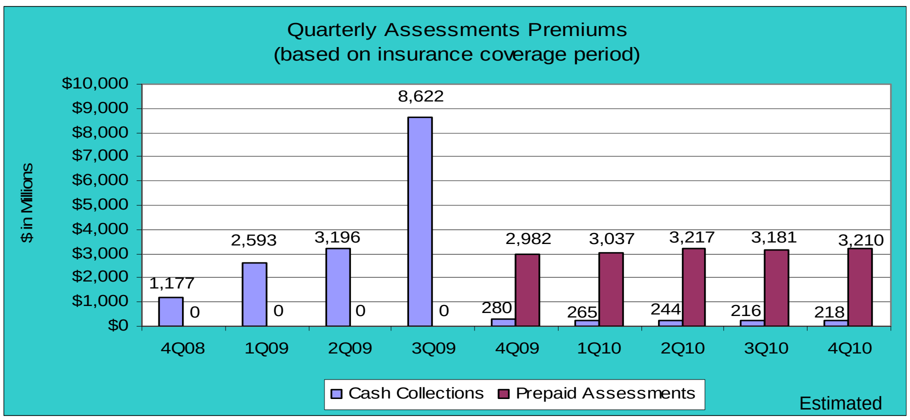
- CU – CEP spent $2.2 million, or 9 percent, less than budgeted. This variance included spending approximately $1.6 million less than budgeted for travel expenses and approximately $0.5 million less than budgeted for Salaries & Compensation expenses for Financial Institution Specialists due to a slightly adjusted average class size.

- The Corporate Unassigned budget of $206.7 million lapsed unused on December 31, 2010. This source of funds was established to provide an unallocated contingency reserve to meet unanticipated or unbudgeted resource requirements.

Fund Financial Results

($ in Millions)

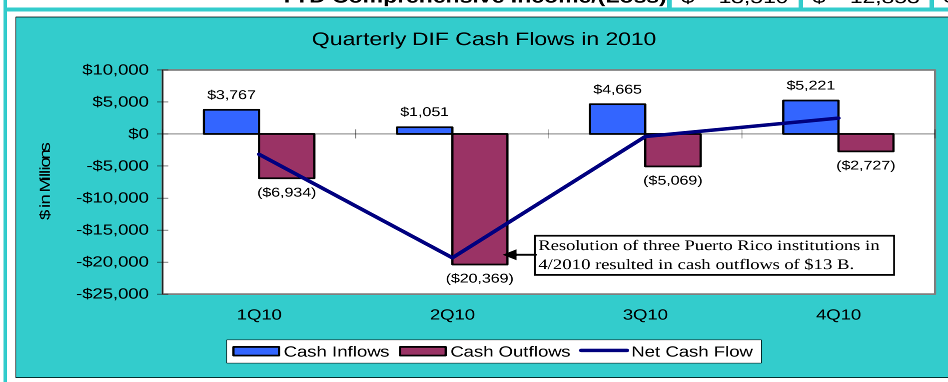
	Unaudited Dec-10	Unaudited Sep-10	Quarterly Change	Audited Dec-09	Year-Over-Year Change
Cash & cash equivalents - unrestricted	$ 27,077	$ 22,701	$ 4,376	$ 54,092	$ (27,015)
Cash & investments - restricted - systemic risk	6,647	6,158	489	6,431	216
Investment in U.S. Treasury obligations, net	12,371	14,727	(2,356)	5,487	6,884
Trust preferred securities	2,298	2,315	(17)	1,962	336
Assessments receivable, net	218	248	(30)	281	(63)
Receivables and other assets, net - systemic risk	2,269	3,007	(738)	3,299	(1,030)
Interest receivable on investments and other assets, net	260	163	97	220	40
Receivables from resolutions, net	29,533	49,684	(20,151)	38,409	(8,876)
Property, buildings and other capitalized assets, net	416	387	29	388	28
Total Assets	$ 81,089	$ 99,390	$ (18,301)	$ 110,569	$ (29,480)
Accounts payable and other liabilities	514	370	144	274	240
Unearned revenue - prepaid assessments	30,057	33,370	(3,313)	42,727	(12,670)
Liabilities due to resolutions	30,512	42,796	(12,284)	34,712	(4,200)
Deferred revenue - systemic risk	9,055	8,729	326	7,847	1,208
Postretirement benefit liability	166	145	21	145	21
Contingent Liabilities: future failures	17,688	21,267	(3,579)	44,014	(26,326)
Contingent Liabillties: systemic risk	149	422	(273)	1,412	(1,263)
Contingent Liabilities: litigation losses & other	300	300	-	300	-
Total Liabilities	$ 88,441	$ 107,399	$ (18,958)	$ 131,431	$ (42,990)
FYI: Unrealized gain/(loss) on U.S. Treasury investments, net	27	40	(13)	142	(115)
FYI: Unrealized gain/(loss) on trust preferred securities	336	353	(17)	-	336
FYI: Unrealized postretirement benefit gain/(loss)	(19)	(3)	(16)	(3)	(16)
FUND BALANCE	$ (7,352)	$ (8,009)	$ 657	$ (20,862)	$ 13,510



• Cash collections in 2010 are from institutions that did not prepay assessments at year-end 2009.
• Third quarter 2009 assessment collections include a $5.5 billion special assessment.
• DIF collected $45.7 billion in prepaid assessments on 12/30/09, which was recorded as a liability and is recognized as revenue quarterly as it is earned.

Income Statement (year-to-date) — **Deposit Insurance Fund**

	Unaudited Dec-10	Unaudited Sep-10	Quarterly Change	Audited Dec-09	Year-Over-Year Change
Assessments earned	$ 13,610	$ 10,112	$ 3,498	$ 17,717	$ (4,107)
Systemic risk revenue	(673)	(418)	(255)	1,722	(2,395)
Interest earned on U.S. Treasury obligations	205	166	39	704	(499)
Realized gain on sale of securities	-	-	-	1,389	(1,389)
Other revenue	238	173	65	3,174	(2,936)
Total Revenue	$ 13,380	$ 10,033	$ 3,347	$ 24,706	$ (11,326)
Operating expenses (includes depreciation expense)	1,593	1,141	452	1,271	322
Systemic risk expenses	(673)	(418)	(255)	1,722	(2,395)
Provision for insurance losses	(848)	(3,294)	2,446	57,712	(58,560)
Other expenses	3	2	1	4	(1)
Total Expenses & Losses	$ 75	$ (2,569)	$ 2,644	$ 60,709	$ (60,634)
Net Income/(Loss)	13,305	12,602	703	(36,003)	49,308
Unrealized gain/(loss) on U.S. Treasury investments, net	(115)	(102)	(13)	(2,108)	1,993
Unrealized gain/(loss) on trust preferred securities	336	353	(17)	-	336
Unrealized postretirement benefit gain/(loss)	(16)	-	(16)	(27)	11
YTD Comprehensive Income/(Loss)	$ 13,510	$ 12,853	$ 657	$ (38,138)	$ 51,648



• During 2010, the DIF's liquidity decreased by $20.4 B (cash inflows of $14.7 B and cash outflows of $35.1 B).

• Cash inflows consist of gross dividends, interest revenue, and assessments. Cash outflows consist of resolution-related outlays and operating expenses.

• Resolutions-related outlays comprised 95% of all DIF cash outflows. These outlays include initial wires to acquirers, initial wire payments to receiverships, payoffs of brokered deposits, loss-share payments to receiverships, and deposit payouts.

Fund Financial Results - continued

($ in Millions)

Statements of Cash Flows (year-to-date) — **Deposit Insurance Fund**

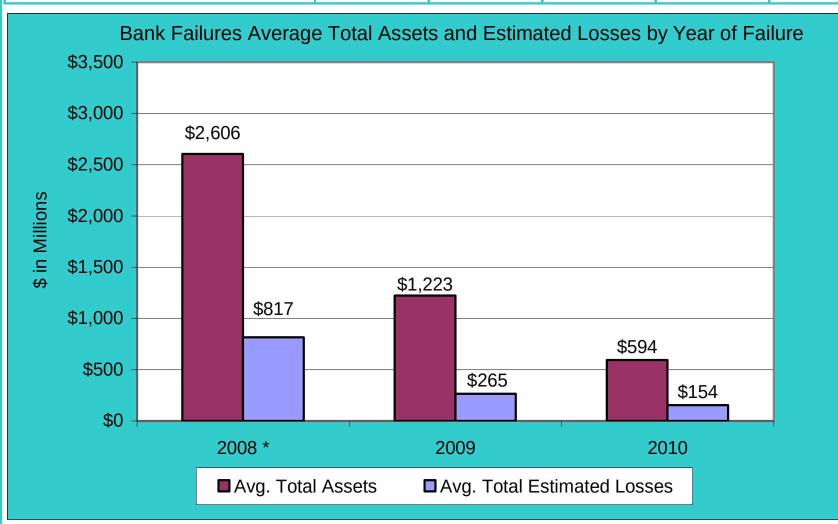
	Unaudited Dec-10	Unaudited Sep-10	Quarterly Change	Audited Dec-09	Year-Over-Year Change
Net Income/(Loss)	$ 13,305	$ 12,602	$ 703	$ (36,003)	$ 49,308
Amortization of U.S. Treasury obligations (unrestricted)	(5)	(4)	(1)	211	(216)
TIPS Inflation Adjustment	(23)	(17)	(6)	11	(34)
Depreciation on property and equipment	69	50	19	70	(1)
Loss on retirement of property and equipment	1	-	1	1	-
Provision for insurance losses	(848)	(3,294)	2,446	57,712	(58,560)
Unrealized (loss)/gain on postretirement benefits	(16)	-	(16)	(27)	11
Gain on sale of UST obligations	-	-	-	(1,389)	1,389
Guarantee termination fee from Citigroup	-	-	-	(1,962)	1,962
Systemic risk expenses	-	-	-	-	-
Net change in operating assets and liabilities	(32,217)	(31,634)	(583)	17,170	(49,387)
Net Cash Provided by/(Used by) Operating Activities	$ (19,734)	$ (22,297)	$ 2,563	$ 35,794	$ (55,528)
Investments matured and sold	21,558	11,858	9,700	21,432	126
Investments purchased (includes purchase of property and equipment)	(30,240)	(23,125)	(7,115)	(92)	(30,148)
Net Cash Provided by/(Used by) Investing Activities	$ (8,682)	$ (11,267)	$ 2,585	$ 21,340	$ (30,022)
Net (Decrease)/Increase in Cash and Cash Equivalents	(28,416)	(33,564)	5,148	57,134	(85,550)
Cash and Cash Equivalents at beginning of year	60,523	60,523	-	3,389	57,134
Unrestricted Cash and Cash Equivalents - Ending	27,077	22,701	4,376	54,092	(27,015)
Restricted Cash and Cash Equivalents - Ending	5,030	4,258	772	6,431	(1,401)
Cash and Cash Equivalents - Ending	$ 32,107	$ 26,959	$ 5,148	$ 60,523	$ (28,416)

Selected Financial Data — **FSLIC Resolution Fund**

	Unaudited Dec-10	Unaudited Sep-10	Quarterly Change	Audited Dec-09	Year-Over-Year Change
Cash and cash equivalents	$ 3,548	$ 3,541	$ 7	$ 3,470	$ 78
Accumulated deficit, net	(124,224)	(124,233)	9	(124,348)	124
Resolution equity	3,568	3,560	8	3,499	69
Total revenue	13	11	2	8	5
Operating expenses	4	3	1	5	(1)
Goodwill litigation expenses	(53)	2	(55)	409	(462)
Recovery of tax benefits	(63)	(58)	(5)	(10)	(53)
Net Income/(Loss)	$ 124	$ 60	$ 64	$ (400)	$ 524

Receivership Selected Statistics December 2010 vs. December 2009

	DIF			FRF			ALL FUNDS		
($ in millions)	Dec-10	Dec-09	*Change*	Dec-10	Dec-09	*Change*	Dec-10	Dec-09	*Change*
Total Receiverships	336	179	157	8	8	-	344	187	157
Assets in Liquidation	$ 26,974	$ 41,325	$(14,351)	$ 25	$ 31	$ (6)	$ 26,999	$ 41,356	$(14,357)
YTD Collections	$ 25,456	$ 10,301	$ 15,155	$ 17	$ 9	$ 8	$ 25,473	$ 10,310	$ 15,163
YTD Dividends Paid - Cash	$ 7,363	$ 4,698	$ 2,665	$ -	$ -	$ -	$ 7,363	$ 4,698	$ 2,665



Year of Failures	Bank Failures	Total Assets $ in millions	Total Estimated Losses $ in millions
2008*	24	$62,545	$19,604
2009	140	$171,220	$37,122
2010	157	$93,218	$24,180

* Excludes WAMU with total assets of $299 billion and zero losses.

Deposit Insurance Fund Portfolio Summary

(Dollar Values in Millions)

	12/31/10	12/31/09	Change
Par Value	$39,430	$59,268	($19,838)
Amortized Cost	$39,483	$59,286	($19,803)
Market Value	$39,510	$59,428	($19,918)
Primary Reserve [1]	$39,550	$59,525	($19,975)
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Year-to-Date Total Return (Portfolio)	0.196%	0.306%	not applicable
Year-to-Date Total Return (Benchmark) [2]	5.219%	(1.411%)	not applicable
Total Return Variance (in basis points)	(502.3)	171.7	not applicable
Yield-to-Maturity [3]	0.40%	0.49%	(0.09%)
Weighted Average Maturity (in years)	0.16	0.08	0.08
Effective Duration (in years) [4]			
Total Portfolio	0.15	0.06	0.09
Available-for-Sale Securities	0.46	0.66	(0.20)
Held-to-Maturity Securities [5]	not applicable	not applicable	not applicable

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

[2] The benchmark is the total return of the Merrill Lynch 1-10 Year U.S. Treasury Index.

[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which presently assumes an average 1.8 percent annual increase in the CPI over the remaining life of each TIPS.

[4] For each TIPS, an estimated 80 percent "yield beta" factor is applied to its real yield duration to arrive at an estimated effective duration.

[5] In early August 2008, management reclassified all of the DIF portfolio's HTM securities as AFS securities effective as of June 30, 2008, because the FDIC could no longer assert it had the positive intent and ability to hold its HTM securities until their maturity dates.

Summary of Other Corporate Investment Portfolios

(Dollar Values in Millions)

	12/31/10	12/31/09	Change
Debt Guarantee Program			
Par Value	$6,630	$6,431	$199
Book Value	$6,646	$6,431	$215
Market Value	$6,646	$6,431	$215
Yield-to-Maturity	0.10%	0.02%	0.08%
Weighted Average Maturity	0.14	overnight	0.14
Transaction Account Guarantee Program			
Book Value [6]	$0	$0	$0
Yield-to-Maturity	not applicable	not applicable	not applicable
Weighted Average Maturity	not applicable	not applicable	not applicable
Other Systemic Risk Reserves [7]			
Book Value [6]	$0	$192	($192)
Yield-to-Maturity	not applicable	0.02%	not applicable
Weighted Average Maturity	not applicable	overnight	not applicable
FRF-FSLIC			
Book Value [6]	$3,397	$3,330	$67
Yield-to-Maturity	0.05%	0.02%	0.03%
Weighted Average Maturity	overnight	overnight	no change

[6] Due to the current short-term nature of these portfolios, each of their respective Par, Book, and Market Values are identical for reporting purposes.

[7] All funds in this portfolio ($192 million) were transferred to the DIF investment portfolio on January 7, 2010, as a result of the December 23, 2009, termination agreement of the Citigroup asset guarantee program.

National Liquidation Fund (NLF) Investment Portfolio Summary

(Dollar Values in Millions)

	12/31/10	12/31/09	Change
Book Value [8]	$17,506	$7,223	$10,283
Effective Annual Yield	0.13%	0.11%	0.02%
Weighted Average Maturity (in days)	6	5	1

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

Investment Strategies

DEPOSIT INSURANCE FUND	**Strategy as of 4th Quarter 2010**	Purchase up to $20 billion (par value) of available-for-sale (AFS) securities with maturity dates between January 1, 2011, and December 31, 2011, subject to the following additional restrictions: no more than $15 billion (par value) of such securities shall have maturity dates beyond March 31, 2011; and no more than $10 billion (par value) of such securities shall have maturity dates beyond June 30, 2011.
	Strategy Changes for 1st Quarter 2011	Purchase up to $20 billion (par value) of available-for-sale (AFS) securities with maturity dates between <u>April 1, 2011, and December 31, 2013</u>, subject to the following additional restrictions: no more than $15 billion (par value) of such securities shall have maturity dates beyond <u>September 30, 2011</u>; and no more than $10 billion (par value) of such securities shall have maturity dates beyond <u>March 31, 2012</u>.
DEBT GUARANTEE PROGRAM	**Strategy as of 4th Quarter 2010**	Purchase up to $2 billion (par value) of AFS securities with maturity dates between January 1, 2011, and December 31, 2011.
	Strategy Changes for 1st Quarter 2011	Purchase up to <u>$3 billion</u> (par value) of AFS securities with maturity dates between <u>April 1, 2011, and December 31, 2013</u>.
NATIONAL LIQUIDATION FUND	**Strategy as of 4th Quarter 2010**	Maintain an overnight deposit target floor balance within a range of $100 million to $300 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector.
	Strategy Changes for 1st Quarter 2011	Maintain an overnight deposit target floor balance within a range of $100 million to $300 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Executive Summary of 2010 Budget and Expenditures by Major Expense Category Through December 31, 2010 (Dollars in Thousands)				
Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$962,073	$932,189	97%	($29,884)
Outside Services - Personnel	240,699	208,154	86%	(32,545)
Travel	88,454	88,558	100%	104
Buildings	76,894	77,087	100%	193
Equipment	84,527	89,717	106%	5,190
Outside Services - Other	21,650	16,880	78%	(4,770)
Other Expenses	14,983	11,417	76%	(3,566)
Total Ongoing Operations	**$1,489,280**	**$1,424,002**	**96%**	**($65,278)**
Receivership Funding				
Salaries & Compensation	$315,072	$246,313	78%	($68,759)
Outside Services - Personnel	1,615,331	1,187,417	74%	(427,914)
Travel	59,566	41,534	70%	(18,032)
Buildings	254,172	206,880	81%	(47,292)
Equipment	44,759	33,905	76%	(10,854)
Outside Services - Other	26,985	67,207	249%	40,222
Other Expenses	184,116	214,094	116%	29,978
Total Receivership Funding	**$2,500,000**	**$1,997,350**	**80%**	**($502,650)**
Total Corporate Operating Budget	**$3,989,280**	**$3,421,352**	**86%**	**($567,928)**
Investment Budget [1]	**$1,089**	**$413**	**38%**	**($676)**
Grand Total	**$3,990,369**	**$3,421,765**	**86%**	**($568,604)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2010 spending estimates for approved projects. The YTD expenditures amount includes a credit for reimbursed costs from a prior period.

Executive Summary of 2010 Budget and Expenditures by Budget Component and Division/Office Through December 31, 2010 (Dollars in Thousands)				
Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$594,626	$588,987	99%	($5,639)
Information Technology	259,375	239,363	92%	(20,012)
Administration	285,485	275,688	97%	(9,797)
Resolutions & Receiverships	2,077,539	1,797,820	87%	(279,719)
Legal	277,582	265,281	96%	(12,301)
Insurance & Research	42,541	41,385	97%	(1,156)
Finance	37,321	33,426	90%	(3,895)
Inspector General	39,271	32,726	83%	(6,545)
Corporate University - CEP	25,988	23,740	91%	(2,248)
Corporate University - Corporate	25,027	21,115	84%	(3,912)
Executive Support [1]	37,286	33,134	89%	(4,152)
Executive Offices [2]	10,522	9,871	94%	(651)
Complex Financial Institutions	2,357	2	0%	(2,355)
Government Litigation	6,700	1,767	26%	(4,933)
CIO Council	60,944	57,047	94%	(3,897)
Corporate Unassigned	206,716	0	0%	(206,716)
Total, Corporate Operating Budget	**$3,989,280**	**$3,421,352**	**86%**	**($567,928)**
Investment Budget [3]				
Information Technology	$1,001	$118	12%	($883)
Resolutions & Receiverships	63	270	428%	207
Insurance & Research	25	25	100%	0
Total, Investment Budget [3]	**$1,089**	**$413**	**38%**	**($676)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$594,626	$588,987	99%	($5,639)
Information Technology	260,376	239,481	92%	(20,895)
Administration	285,485	275,688	97%	(9,797)
Resolutions & Receiverships	2,077,602	1,798,090	87%	(279,512)
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Government Litigation	6,700	1,767	26%	(4,933)
CIO Council	60,944	57,047	94%	(3,897)
Corporate Unassigned	206,716	0	0%	(206,716)
Grand Total	**$3,990,369**	**$3,421,765**	**86%**	**($568,604)**

1) Executive Support includes the Offices of Diversity and Economic Opportunity, Public Affairs, Ombudsman, Legislative Affairs, Enterprise Risk Management, and International Affairs.

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

3) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2010 spending estimates for approved projects.