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

March 3, 2010

MEMORANDUM TO: The Board of Directors

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

Bret D. Edwards
Director, Division of Finance

SUBJECT: Fourth Quarter 2009 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending December 31, 2009.

Executive Summary

- The year-end financial results presented in this report are unaudited. We expect our external auditor, the U. S. Government Accountability Office, to conclude their audits of the FDIC financial statements in April.

- For the fourth quarter of 2009, the Deposit Insurance Fund (DIF) balance decreased by $12.6 billion (153 percent) to negative $20.9 billion. This decrease was primarily due to a $17.8 billion increase in the provision for insurance losses, which was partially offset by a $3.1 billion increase in assessment revenue. Although the fund balance decreased in the fourth quarter, the unrestricted cash and cash equivalents increased by $45.5 billion, primarily due to the collection of prepaid assessments.

- During the fourth quarter of 2009, the FDIC was named receiver for 45 failed institutions. The combined assets at inception for these institutions totaled approximately $64.9 billion with a total estimated loss of $10.0 billion. The corporate cash outlay during the fourth quarter for these failures was $7.8 billion. The FDIC entered into loss-share agreements with the acquiring institution for 34 of these receiverships, with expected loss-share payments due to the acquirers of approximately $6.4 billion over the length of the agreements.

- For the year ending December 31, 2009, expenditures from the Corporate Operating Budget and the Investment Budget ran below budget by 9 percent ($226.8 million) and 2 percent ($0.1 million), respectively. The variance with respect to the Corporate Operating Budget was primarily the result of lower spending for contractual services in the Receivership Funding component of the budget. For the information technology projects that make up the Investment Budget, detailed quarterly reports are provided separately to the Board by the Capital Investment Review Committee.

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	• Although the DIF's fund balance declined by $38.1 billion during 2009, the DIF's liquidity was significantly enhanced by prepaid assessments inflows–cash and marketable securities stood at $66.0 billion at year-end. Hence, the DIF is well positioned to fund resolution activity in 2010 and beyond. • As of December 31, 2009, the DIF's exposure, as a result of resolving many failed institutions utilizing whole bank with loss-share transactions, has increased substantially. DIF receiverships' remaining loss-share payment exposure is approximately $21.3 billion over the term of the loss-share agreements. The estimated liability for loss sharing is accounted for by the individual receiverships and is considered in the determination of the DIF's allowance for loss against the corporate receivable from the resolution. • During 2009, the FDIC in its corporate capacity offered guarantees on loans issued by newly-formed limited liability companies (LLCs) that were created to dispose of certain residential mortgage loans, construction loans, and other assets of two receiverships. As of December 31, 2009, the DIF is not expected to take any losses on these guarantees.

Trends and Outlook	
Financial Results	Comments
II. Investments	• The DIF investment portfolio's amortized cost (book value) increased by $32.7 billion during 2009, and totaled $59.3 billion on December 31, 2009. To a large extent, the increase was the result of the portfolio receiving almost $45.7 billion in prepaid deposit insurance assessments and $3.2 billion in regular deposit insurance assessments at the end of December 2009. Prior to the receipt of those funds, the DIF investment portfolio had declined significantly over the course of the year due to funding 140 failed institution resolutions during 2009. However, it should be noted that 90 of these bank and thrift failures were resolved as 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 little or no initial resolution funding, thus helping to mitigate the DIF portfolio's decline. At year-end, the DIF investment portfolio's yield was 0.49 percent, down 410 basis points from its December 31, 2008, yield of 4.59 percent. The yield decline stemmed from several factors; in addition to the sale and maturity of generally higher-yielding securities during much of the year, the DIF investment portfolio received a total of $48.9 billion in insurance assessments at year-end, and all of those new funds were placed in overnight investments. Consequently, the DIF portfolio ended the year with a very high $53.9 billion overnight investment balance earning an ultra-low 0.02 percent yield. • Most conventional Treasury market yields increased during the fourth quarter of 2009—particularly longer-maturity conventional Treasury yields—after having declined during the third quarter of 2009. The yield increases probably reflected investors' growing confidence of an economic turnaround; moreover, longer-maturity Treasury yields appear to be subject to upward pressure as increasing amounts of new Treasuries are issued to help finance Federal budget deficits. Nevertheless, Treasury yields remain relatively low from a historical perspective, largely reflecting the still comparatively weak U.S. economy, the ultra-low federal funds target rate, and investors' modest inflationary expectations. During the first quarter of 2010, Treasury yields are expected to continue to trade within a range around current levels, and to gradually rise over the next several quarters, allowing that the economic recovery continues to take hold and solidify.

Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $1.2 billion was spent in the Ongoing Operations component of the 2009 Corporate Operating Budget, which was $24.3 million (2 percent) below the budget for the year. Spending exceeded budgeted levels by a combined $7.7 million in the Travel and Equipment expense categories, but this was offset by a combined $32.0 million in under spending in all of the remaining expense categories. • Approximately $1.1 billion was spent in the Receivership Funding component of the 2009 Corporate Operating Budget, which was $202.5 million (16 percent) below the budget for the year. Most of the under spending ($101.5 million) occurred in the Outside Services – Personnel expense category. • Authorized staffing increased by 12 percent, from 6,269 at the beginning of the year to 7,010 at the end of 2009. Similar to last year, this increase was attributable primarily to increased resolution and receivership management activity and the elevated examination workload that resulted from a rise in the number of troubled institutions. In December, the Board approved a further increase in authorized staffing for 2010 to 8,653. Approximately 93 percent of the additional positions for 2009 and 2010 are non-permanent. On board staff increased from 4,988 at the beginning of the year to 6,557 at the end of 2009, primarily due to the hiring in the Division of Resolutions and Receiverships, Division of Supervision and Consumer Protection, and the Legal Division.

I. <u>Corporate Fund Financial Results</u> (See pages 11 - 12 for detailed data and charts.)

Deposit Insurance Fund (DIF)

- For 2009, the DIF's comprehensive loss was $38.1 billion compared to a comprehensive loss of $35.1 billion during 2008. This year-over-year change of $3.0 billion was primarily due to a $15.9 billion increase in the provision for insurance losses, a $4.0 billion increase in the unrealized loss on U.S. Treasury investments, and a $1.4 billion decrease in interest earned on U.S. Treasury obligations, partially offset by a $14.8 billion increase in assessment revenue and a $3.4 billion increase in other revenue.
- Other revenue was $3.4 billion for 2009 primarily due to guarantee termination fees of $2.3 billion and the collection of debt issuance surcharges under the Temporary Liquidity Guarantee Program (TLGP) of $872 million. In connection with the termination of the loss-share agreement with Bank of America and Citigroup, the FDIC received a termination fee of $92 million from Bank of America and recognized revenue of $2.2 billion for the carrying amount of the Citigroup trust preferred securities received as consideration for the guarantee.
- The provision for insurance losses was $57.7 billion in 2009. The total provision consists mainly of the increase in the provision for future failures ($20.0 billion) and the losses estimated at failure for the 140 resolutions occurring during 2009 ($35.6 billion).

- On December 30, 2009, the FDIC collected prepaid assessments of $45.7 billion for the coverage period of October 2009 through December 2012. The DIF recognized the amount collected as both an asset (cash) and an offsetting liability (unearned revenue). Hereafter, the DIF will recognize revenue for the regular risk-based assessments quarterly as it is earned.

II. Investments

Investment Results (See pages 13 - 14 for detailed data and charts.)

DIF Investment Portfolio

- The amortized cost (book value) of the DIF investment portfolio increased by $32.7 billion during 2009, or by 123 percent, from $26.6 billion on December 31, 2008, to $59.3 billion on December 31, 2009. Similarly, the DIF portfolio's market value increased by $30.6 billion, or by 106 percent, from $28.8 billion on December 31, 2008, to $59.4 billion on December 31, 2009. During the year, deposit insurance assessment collections—including the $45.7 billion in prepaid assessment collected at the end of December 2009—and other cash inflows exceeded operating expenses and resolution-related cash outlays.

- The DIF investment portfolio's total return for 2009 was 0.306 percent, approximately 172 basis points higher than that of its benchmark, the Merrill Lynch 1 – 10 Year U.S. Treasury Index (Index), which had a total return of -1.411 percent during the same period. The DIF portfolio's higher-yielding Treasury Inflation-Protected Securities (TIPS) considerably outperformed the Index's conventional Treasury securities. In addition, because the DIF's conventional Treasury securities have a lower average duration than the securities held in the Index—and given the substantial increase in yields over the course of the year on longer-duration securities—the DIF's conventional Treasury securities outperformed those in the Index. Finally, the DIF portfolio's high cash balances helped contribute to the positive relative return.

- During the fourth quarter of 2009, staff did not need to sell any Treasury securities to help fund resolution-related cash outlays, as the DIF had received about $8.7 billion at the end of the third quarter of 2009 from regular quarterly deposit insurance assessments and special assessments. Although there were 45 bank failures during the fourth quarter, resolution outlays were relatively low, as several of the larger failures were resolved as whole bank transactions with loss-share agreements.

Other Corporate Investment Portfolios

- During 2009, the book value of the Debt Guarantee Program investment portfolio increased substantially, from $2.4 billion on December 31, 2008 to $6.4 billion on December 31, 2009. The funds in this portfolio are from the guarantee fees related to the Debt Guarantee Program under the TLGP. More recently, during the fourth quarter, the book value of the Debt Guarantee Program investment portfolio decreased from $7.0 billion on September 30, 2009, to the aforementioned $6.4 billion. The recent decline in funds was due to the fact that new Debt Guarantee Program fees received were less than the transfer of funds that were used to reimburse the DIF for claims under the TLGP's Transaction Account Guarantee Program.

Consistent with the approved quarterly investment strategy, all Debt Guarantee Program investment portfolio funds were invested in overnight investments during the quarter.

- During 2009, the Other Systemic Risk Reserves investment portfolio increased from $0 on December 31, 2008, to $191.6 million on December 31, 2009, reflecting the receipt over the course of the year of three dividend payments totaling $191.6 million on the $3.0 billion of Citigroup trust preferred securities held by the DIF. As a result of an agreement executed on December 23, 2009 that terminated the FDIC's guarantee against losses on a portfolio of Citigroup assets, the entire balance of funds held in the Other Systemic Risk Reserves investment portfolio were transferred to the DIF, effective December 31, 2009.

- On December 31, 2009, the FDIC collected $188.7 million in fees related to the Transaction Account Guarantee Program under the TLGP. However, these funds were then immediately transferred to the Debt Guarantee Program investment portfolio for reimbursement of claims and expenses, so the Transaction Account Guarantee Program investment portfolio had no balance at year end.

The Treasury Market

- During the fourth quarter of 2009, most conventional Treasury yields increased, with the largest increases seen in longer-maturity securities. The three-month Treasury bill (T-Bill) yield actually declined by 6 basis points, while the six-month T-Bill increased by 2 basis points. The yield on the two-year Treasury note, which also is very sensitive to actual and anticipated changes in the federal funds rate, increased by 19 basis points, still reflecting consensus forecasts for no significant changes in the federal funds target rate over the near term. Intermediate- to longer-maturity Treasury security yields increased more substantially; the yield on the five-year Treasury note increased by 37 basis points, and the yield on the ten-year Treasury note increased by 53 basis points. Finally, the 30-year Treasury bond yield increased by 59 basis points. The conventional Treasury yield curve steepened further during the fourth quarter. On December 31, 2009, the two- to ten-year yield curve had a 270-basis point positive spread (higher than the 236-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 93 basis points.

Prospective Strategies

- In light of the large cash infusion received during the fourth quarter of 2009, the first quarter 2010 DIF investment strategy calls for purchasing up to $25.0 billion of shorter-term Treasury securities with maturities between April 1, 2010, and December 31, 2010. 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 securities.

- Similar to the first quarter 2010 DIF investment strategy outlined above, for the Debt Guarantee Program investment portfolio, staff will consider purchasing up to $3.0 billion of Treasury securities with maturities between April 1, 2010, and December 31, 2010. 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.

III. **Budget Results** (See pages 15 - 16 for detailed data.)

Approved Budget Modifications

The 2009 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2009 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 2009 Corporate Operating Budget approved by the Board in December 2008.

- In November 2009, existing budget authority within the Ongoing Operations Budget component was reallocated among certain Executive Offices and between expense categories. All reallocations were less than $25,000 between expense categories and less than $12,000 between offices.

- In December 2009, the CFO approved the reallocation of existing budget authority within the Salaries and Compensation expense category of the Ongoing Operations component of the 2009 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 November 30, 2009, and on-board staffing estimates through year-end.

- In December 2009, the CFO approved the reallocation of $103,000 in existing budget authority in the Executive Offices within the Travel expense category of the Ongoing Operations component of the 2009 Corporate Operating Budget.

Approved Staffing Modifications

The 2009 Budget Resolution delegated to the CFO the authority to modify approved 2009 staffing authorizations for divisions and offices, as long as those modifications did not increase the total approved 2009 Corporate Operating Budget. The following change was approved by the CFO in accordance with the authority delegated to him by the Board of Directors:

- In November 2009, one position was transferred from the COO to the CFO within the Executive Offices. This authorized position will assist with duties that have been recently transferred to the CFO.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the year ending December 31, 2009, 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 2009 Corporate Operating Budget:

- Outside Services – Personnel expenditures were approximately $9.9 million, or 5 percent, less than budgeted. Approximately $4.6 million (46 percent) of this variance was attributable to under spending for contract support for DIT internal operations and systems development and maintenance activities overseen by the CIO Council. Under spending for DIT operations was largely attributable to delays in project startups as attention was redirected to failed financial institution closing support. In addition, the Legal Division spent $3.2 million less than budgeted largely due to an earlier-than-planned reduction in contracting support for the Tier 2 Deposit Insurance Call Center. The Office of Inspector General (OIG) also spent $1.3 million less than budgeted due to lower levels of contract work than was expected during the year.

- Travel expenditures were $2.9 million, or 4 percent, greater than budgeted, largely due to the increase in the number of examinations conducted and the rapid increase in the number of examination staff.

- Buildings expenditures were $8.0 million, or 11 percent, less than budgeted, largely due to tenant improvement allowance savings in the New York Regional Office, Boston Area and field offices, and the Chicago Regional Office.

- Equipment expenditures were approximately $4.8 million, or 7 percent, more than budgeted, primarily due to increased security software licensing costs attributable to the larger number of FDIC employees and contractors on board and software purchased by the CIO Council in support of the E-Discovery project; the purchase of FF&E for an expanded number of staff in the newly-leased New York Regional Office and many field offices; and increased costs for online library services.

- Outside Services – Other expenditures were approximately $1.7 million, or 8 percent, less than budgeted. The variance was largely due to significant under spending for the deposit insurance awareness campaign. All remaining campaign elements are expected to be completed before the existing support contract expires on March 31, 2010.

- Other Expenses were approximately $3.1 million, or 23 percent, less than budgeted. The variance was fully attributable to under spending of budgeted allowances for Professional Learning Accounts.

Receivership Funding

The Receivership Funding component of the 2009 Corporate Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships. It does not, however, include salary and benefits expenses for permanent employees who form the base staffing platform for potential resolution and receivership management activity. Those expenses are included in the Ongoing Operations component of the operating budget.

Significant spending variances occurred in all seven major expense categories for the year in the Receivership Funding component of the 2009 Corporate Operating Budget:

- Salaries and Compensation ($16.6 million, or 15 percent, less than budgeted).
- Outside Services – Personnel ($101.5 million, or 12 percent, less than budgeted).
- Travel ($32.6 million, or 54 percent, less than budgeted).
- Buildings ($18.5 million, or 13 percent, less than budgeted).
- Equipment ($12.5 million, or 28 percent, less than budgeted).
- Outside Services – Other ($5.7 million, or 27 percent, less than budgeted).
- Other Expenses ($15.1 million, or 31 percent, less than budgeted).

These variances were all attributable to lower-than-planned resolutions and receivership activity during the fourth quarter. The Receivership Funding component of the budget was increased by $300 million in December 2009 to ensure that ample budget authority existed to fund the continuing costs of active receiverships, the management of assets already in inventory, and the resolution of all bank failures that were potentially expected to occur through year-end. Although actual failures and their resultant expenses were substantial and exceeded the original 2009 Receivership Funding budget authority, these expenses fell short of the additional budgeted authority provided by the Board. Such variances occur frequently in the Receivership Funding component of the budget due to the need to maintain adequate funding for sudden and unexpected failure resolution expenses.

Significant Spending Variances by Division/Office[1]

Seven organizations had significant spending variances for the year:

- The Division of Resolutions and Receiverships spent approximately $179.2 million, or 15 percent, less than budgeted. The variance was attributable to lower-than-budgeted spending in the Receivership Funding budget component, as explained above.

- The Division of Administration spent approximately $19.6 million, or 8 percent, less than budgeted. This variance was largely due to spending nearly $14.4 million less than budgeted in the combined Buildings expense categories of the Ongoing Operations and Receivership Funding Budget components. This was attributable to lower expenses resulting from landlord concessions as well as unused Receivership Funding Budget authority for unexpected administrative support requirements related to the resolution of failed institutions.

- The Division of Information Technology spent approximately $10.1 million, or 4 percent, less than budgeted for the year. Nearly $8.5 million of this variance was in the Receivership Funding budget component and was primarily the result of lower-than-planned resolutions and receivership activity in the fourth quarter.

- The OIG spent approximately $3.8 million, or 13 percent, less than budgeted. The variance was principally due to the fact that the OIG operated for virtually all of the fourth quarter under a continuing resolution, which effectively froze OIG spending at its FY 2009 appropriation level, which was 38 percent below the level authorized under the FY 2010 appropriation.

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

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.

- Corporate University spent approximately $3.6 million, or 7 percent, less than budgeted. This variance was primarily due to fewer travel and overtime expenses for Financial Institution Specialists to participate in closings and other receivership related matters as well as adjustments to client project timeframes.

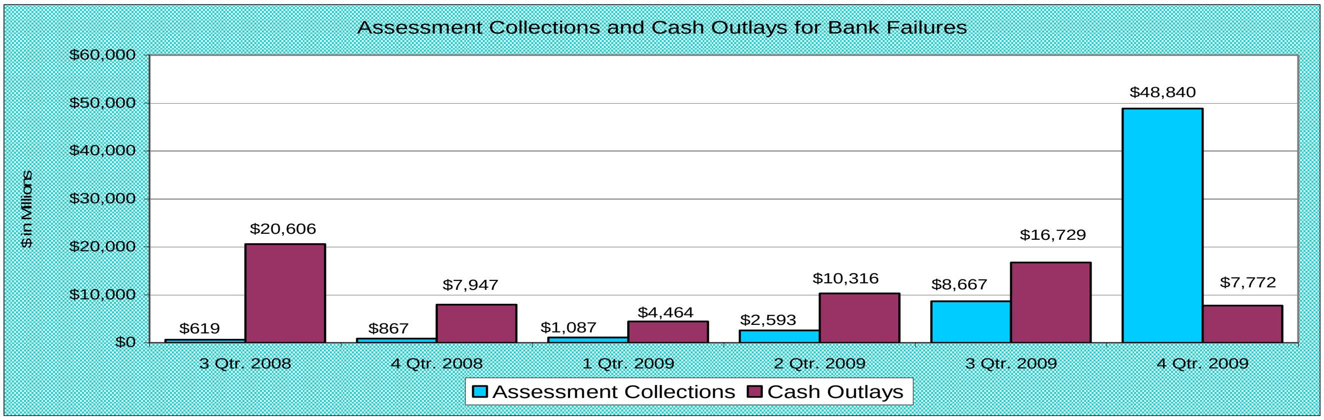
- The Executive Support spent approximately $3.1 million, or 11 percent, less than budgeted. This variance was largely due to lower-than-budgeted spending on the deposit insurance awareness campaign by the Office of Public Affairs and unspent Receivership Funding budget authority of $1.1 million for Salaries and Compensation in the Office of the Ombudsman due to delays in hiring staff at the temporary satellite offices.

- The Executive Offices spent $1.2 million, or 13 percent, less than budgeted, due to vacancies in budgeted positions in certain offices during the year and unspent Travel budget authority in Office of the Chief Operating Officer.

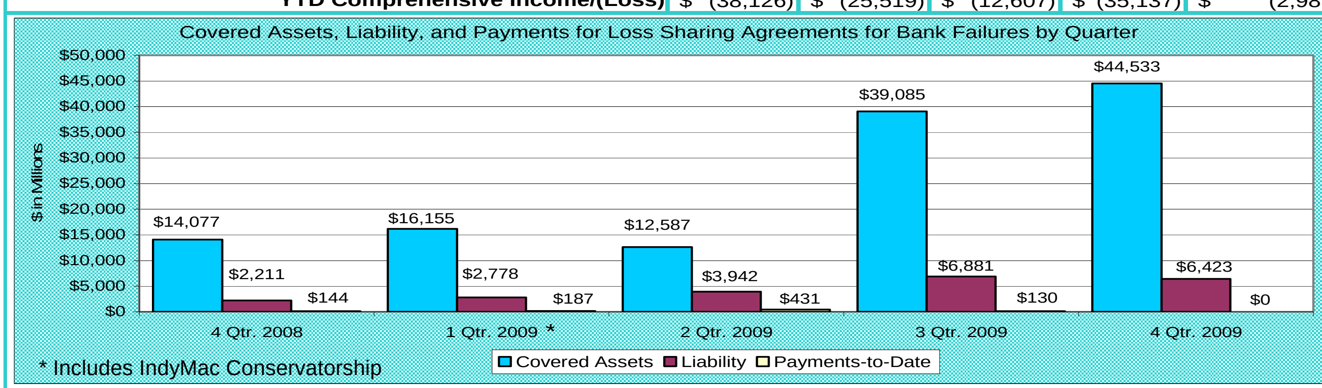
Fund Financial Results

($ in Millions)

Balance Sheet	Deposit Insurance Fund				
	Unaudited Dec-09	Unaudited Sep-09	Quarterly Change	Audited Dec-08	Year-Over-Year Change
Cash & cash equivalents - unrestricted	$ 54,092	$ 8,546	$ 45,546	$ 1,011	$ 53,081
Cash & cash equivalents - restricted - systemic risk	6,431	7,141	(710)	2,377	4,054
Investment in U.S. Treasury obligations, net	5,487	7,590	(2,103)	27,859	(22,372)
Trust preferred securities	1,962	-	1,962	-	1,962
Assessments receivable, net	365	3,353	(2,988)	1,018	(653)
Receivables and other assets, net - systemic risk	3,301	5,110	(1,809)	1,138	2,163
Interest receivable on investments and other assets, net	207	159	48	405	(198)
Receivables from resolutions, net	38,399	30,321	8,078	15,765	22,634
Property, buildings and other capitalized assets, net	388	375	13	370	18
Total Assets	$ 110,632	$ 62,595	$ 48,037	$ 49,943	$ 60,689
Accounts payable and other liabilities	274	198	76	184	90
Unearned revenue - prepaid assessments	42,776	-	42,776	-	42,776
Liabilities due to resolutions ($470M-TLGP's liability)	34,712	20,106	14,606	4,672	30,040
Deferred revenue - systemic risk	8,526	10,316	(1,790)	2,078	6,448
Postretirement benefit liability	145	114	31	114	31
Contingent Liabilities: future failures	44,014	38,933	5,081	23,981	20,033
Contingent Liabillties: systemic risk	735	871	(136)	1,438	(703)
Contingent Liabilities: litigation losses & other	300	300	0	200	100
Total Liabilities	$ 131,482	$ 70,838	$ 60,644	$ 32,667	$ 98,815
FYI: Unrealized gain/(loss) on U.S. Treasury investments, net	142	192	(50)	2,250	(2,108)
FYI: Unrealized gain/(loss) on trust preferred securities	(263)	-	(263)	-	(263)
FYI: Unrealized postretirement benefit gain/(loss)	(3)	25	(28)	25	(28)
FUND BALANCE	$ (20,850)	$ (8,243)	$ (12,607)	$ 17,276	$ (38,126)



Income Statement (year-to-date)	Deposit Insurance Fund				
	Unaudited Dec-09	Unaudited Sep-09	Quarterly Change	Audited Dec-08	Year-Over-Year Change
Assessments earned	$ 17,753	$ 14,675	$ 3,078	$ 2,965	$ 14,788
Systemic risk revenue	1,043	972	71	1,464	(421)
Interest earned on U.S. Treasury obligations	704	628	76	2,072	(1,368)
Realized gain on sale of securities	1,389	1,389	-	775	614
Other revenue	3,437	699	2,738	31	3,406
Total Revenue	$ 24,326	$ 18,363	$ 5,963	$ 7,307	$ 17,019
Operating expenses (includes depreciation expense)	1,271	892	379	1,033	238
Systemic risk expenses	1,043	972	71	1,464	(421)
Provision for insurance losses	57,722	39,946	17,776	41,839	15,883
Other expenses	17	14	3	4	13
Total Expenses & Losses	$ 60,053	$ 41,824	$ 18,229	$ 44,340	$ 15,713
Net Income/(Loss)	(35,727)	(23,461)	(12,266)	(37,033)	1,306
Unrealized gain/(loss) on U.S. Treasury investments, net	(2,108)	(2,058)	(50)	1,891	(3,999)
Unrealized gain/(loss) on trust preferred securities	(263)	-	(263)	0	(263)
Unrealized postretirement benefit gain/(loss)	(28)	-	(28)	5	(33)
YTD Comprehensive Income/(Loss)	$ (38,126)	$ (25,519)	$ (12,607)	$ (35,137)	$ (2,989)



Fund Financial Results - continued

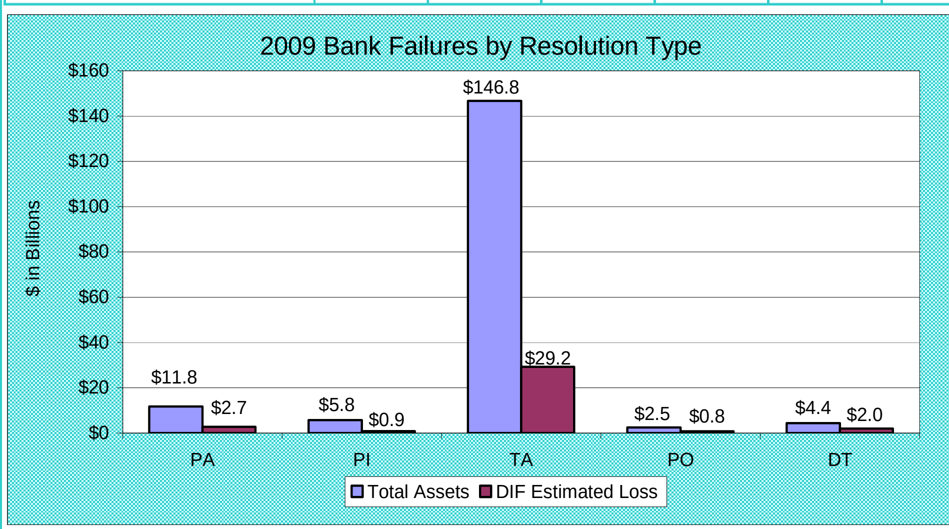
($ in Millions)

Statements of Cash Flows (year-to-date)	Deposit Insurance Fund				
	Unaudited Dec-09	Unaudited Sep-09	Quarterly Change	Audited Dec-08	Year-Over-Year Change
Net (Loss)/Income	$ (35,728)	$ (23,461)	$ (12,267)	$ (37,033)	$ 1,305
Amortization of U.S. Treasury obligations (unrestricted)	211	191	20	457	(246)
TIPS Inflation Adjustment	11	18	(7)	(271)	282
Depreciation on property and equipment	71	50	21	55	16
Loss on retirement of property and equipment	1	1	-	-	1
Provision for insurance losses	57,723	39,946	17,777	41,839	15,884
Unrealized (loss)/gain on postretirement benefits	(28)	-	(28)	5	(33)
(Gain) on sale of UST obligations	(1,389)	(1,389)	-	(775)	(614)
Guarantee termination fee from Citigroup	(2,225)	-	(2,225)	-	(2,225)
Systemic risk expenses	-	-	-	(2)	2
Net change in operating assets and liabilities	17,059	(22,444)	39,503	(26,336)	43,395
Net Cash Provided by/(Used by) Operating Activities	$ 35,706	$ (7,088)	$ 42,794	$ (22,061)	$ 57,767
Investments matured and sold	21,432	19,391	2,041	21,209	223
Investments purchased (includes purchase of property and equipment)	(4)	(3)	(1)	(4)	-
Net Cash Provided by/(Used by) Investing Activities	$ 21,428	$ 19,388	$ 2,040	$ 21,205	$ 223
Net Increase/(Decrease) in Cash and Cash Equivalents	57,134	12,300	44,834	(856)	57,990
Cash and Cash Equivalents at beginning of year	3,388	3,388	-	4,245	(857)
Unrestricted Cash and Cash Equivalents - Ending	54,092	8,546	45,546	1,011	53,081
Restricted Cash and Cash Equivalents - Ending	6,431	7,141	(710)	2,377	4,054
Cash and Cash Equivalents - Ending	$ 60,522	$ 15,688	$ 44,834	$ 3,389	$ 57,133

Selected Financial Data	FSLIC Resolution Fund				
	Unaudited Dec-09	Unaudited Sep-09	Quarterly Change	Audited Dec-08	Year-Over-Year Change
Cash and cash equivalents	$ 3,470	$ 3,454	$ 16	$ 3,467	$ 3
Accumulated deficit, net	(123,959)	(123,959)	-	(123,948)	(11)
Resolution equity	3,499	3,483	16	3,494	5
Total revenue	8	8	-	63	(55)
Operating expenses	5	4	1	3	2
Goodwill/Guarini litigation expenses	19	4	15	254	(235)
Net (Loss)/Income	$ (11)	$ (11)	$ -	$ (178)	$ 167

Receivership Selected Statistics December 2009 vs. December 2008

	DIF			FRF			ALL FUNDS		
Year-to-Date ($ in millions)	Dec-09	Dec-08	*Change*	Dec-09	Dec-08	*Change*	Dec-09	Dec-08	*Change*
Total Receiverships	179	41	138	8	8	-	187	49	138
Assets in Liquidation	$ 41,325	$ 15,073	$ 26,252	$ 31	$ 34	$ (3)	$ 41,356	$ 15,107	$ 26,249
Collections	$ 10,301	$ 1,858	$ 8,443	$ 9	$ 7	$ 2	$ 10,310	$ 1,865	$ 8,445
Dividends Paid - Cash	$ 4,698	$ 1,553	$ 3,145	$ -	$ 4	$ (4)	$ 4,698	$ 1,557	$ 3,141



(Total Resolutions = 140)
PA: Purchase & Assumption - All Deposits **(22)**
PI: Purchase & Assumption - Insured Deposits **(5)**
TA: Whole Bank Purchase & Assumption - All Deposits **(104)**
PO: Direct Payoff **(5)**
DT: Deposit Transfer **(4)**

Deposit Insurance Fund Portfolio Summary
(Dollar Values in Millions)

	12/31/09	12/31/08	Change
Par Value	$59,268	$25,496	$33,772
Amortized Cost	$59,286	$26,580	$32,706
Market Value	$59,428	$28,830	$30,598
Primary Reserve [1]	$59,525	$29,227	$30,298
Primary Reserve % of Total Portfolio	100.0%	100.0%	0.0%
Year-to-Date Total Return (Portfolio)	0.306%	8.550%	not applicable
Year-to-Date Total Return (Benchmark) [2]	(1.411%)	11.334%	not applicable
Total Return Variance (in basis points)	171.7	(278.4)	not applicable
Yield-to-Maturity [3]	0.49%	4.59%	(4.10%)
Weighted Average Maturity (in years)	0.08	3.34	(3.26)
Effective Duration (in years) [4]			
Total Portfolio	0.06	2.85	(2.79)
Available-for-Sale Securities	0.66	2.94	(2.28)
Held-to-Maturity Securities [5]	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 assumes an average 1.1% 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)

	12/31/09	12/31/08	Change
Debt Guarantee Program			
Book Value [6]	$6,431	$2,425	$4,006
Yield-to-Maturity	0.02%	0.11%	(0.09%)
Weighted Average Maturity	overnight	overnight	no change
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			
Book Value [6]	$192	$0	$192
Yield-to-Maturity	0.02%	not applicable	not applicable
Weighted Average Maturity	overnight	not applicable	not applicable
FRF-FSLIC			
Book Value [6]	$3,330	$3,325	$5
Yield-to-Maturity	0.02%	0.11%	(0.09%)
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.

National Liquidation Fund (NLF) Investment Portfolio Summary
(Dollar Values in Millions)

	12/31/09	12/31/08	Change
Book Value [7]	$7,223	$3,447	$3,776
Effective Annual Yield	0.11%	1.21%	(1.10%)
Weighted Average Maturity (in days)	5	23	(18)

[7] 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 2009

Invest all proceeds from deposit insurance assessments, Temporary Liquidity Guarantee Program surcharges, maturing securities, coupon and other interest payments, and receivership dividends in overnight investments and/or in short-term Treasury bills in anticipation of using such funds for resolution activities.

Strategy Changes for 1st Quarter 2010

Purchase up to $25 billion (par value) of available-for-sale (AFS) securities with maturity dates between April 1, 2010, and December 31, 2010, subject to the following additional restrictions: no more than $20 billion (par value) of such securities shall have maturity dates beyond June 30, 2010; and no more than $10 billion (par value) of such securities shall have maturity dates beyond September 30, 2010.

DEBT GUARANTEE PROGRAM
OTHER SYSTEMIC RISK RESERVES
Strategy as of 4th Quarter 2009

For the Debt Guarantee Program portfolio, in anticipation of potentially using these funds on an as needed basis to fund DIF resolutions, all funds will be invested in overnight investments and/or short-term Treasury bills. For the Other Systemic Risk Reserves portfolio, strategically invest all available funds in overnight investments and/or in conventional or callable Treasury securities with effective maturity dates not to exceed December 31, 2012.

Strategy Changes for 1st Quarter 2010

For the Debt Guarantee Program portfolio, purchase up to $3 billion (par value) of AFS securities with maturity dates between April 1, 2010, and December 31, 2010. For the Other Systemic Risk Reserves portfolio, there is no first quarter 2010 strategy because all of the portfolio's funds were transferred to the DIF portfolio on January 7, 2010 (effective as of December 31, 2009).

NATIONAL LIQUIDATION FUND
Strategy as of 4th Quarter 2009

Maintain an overnight deposit balance within a target range of $15 million to $25 million.

Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Strategy Changes for 1st Quarter 2010

Maintain an overnight deposit <u>target floor</u> balance within a range of $15 million to $25 million.

Executive Summary of 2009 Budget and Expenditures by Major Expense Category Through December 31, 2009 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$816,151	$806,790	99%	($9,361)
Outside Services - Personnel	186,345	176,427	95%	(9,918)
Travel	80,318	83,195	104%	2,877
Buildings	73,179	65,208	89%	(7,971)
Equipment	69,055	73,896	107%	4,841
Outside Services - Other	21,162	19,448	92%	(1,714)
Other Expenses	13,570	10,479	77%	(3,091)
Total Ongoing Operations	**$1,259,780**	**$1,235,443**	**98%**	**($24,337)**
Receivership Funding				
Salaries & Compensation	$111,818	$95,196	85%	($16,622)
Outside Services - Personnel	868,998	767,456	88%	(101,542)
Travel	60,254	27,693	46%	(32,561)
Buildings	143,610	125,063	87%	(18,547)
Equipment	45,106	32,656	72%	(12,450)
Outside Services - Other	21,044	15,391	73%	(5,653)
Other Expenses	49,170	34,055	69%	(15,115)
Total Receivership Funding	**$1,300,000**	**$1,097,510**	**84%**	**($202,490)**
Total Corporate Operating Budget	**$2,559,780**	**$2,332,953**	**91%**	**($226,827)**
Investment Budget [1]	**$6,249**	**$6,150**	**98%**	**($99)**
Grand Total	**$2,566,029**	**$2,339,103**	**91%**	**($226,926)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2009 spending estimates for approved projects.

Executive Summary of 2009 Budget and Expenditures by Budget Component and Division/Office Through December 31, 2009 (Dollars in Thousands)				
Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$500,826	$499,168	100%	($1,658)
Information Technology	268,138	258,076	96%	(10,062)
Administration	243,760	224,120	92%	(19,640)
Resolutions & Receiverships	1,203,292	1,024,134	85%	(179,158)
Legal	157,432	154,795	98%	(2,637)
Insurance & Research	36,442	35,171	97%	(1,271)
Finance	31,068	30,336	98%	(732)
Inspector General	29,354	25,593	87%	(3,761)
Corporate University	48,911	45,311	93%	(3,600)
Executive Support [1]	27,412	24,341	89%	(3,071)
Executive Offices [2]	9,665	8,428	87%	(1,237)
Government Litigation	3,480	3,480	100%	0
Total, Corporate Operating Budget	**$2,559,780**	**$2,332,953**	**91%**	**($226,827)**
Investment Budget [3]				
Information Technology	$5,306	$5,272	99%	($34)
Resolutions & Receiverships	231	144	62%	(87)
Insurance & Research	712	734	103%	22
Total, Investment Budget [3]	**$6,249**	**$6,150**	**98%**	**($99)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$500,826	$499,168	100%	($1,658)
Information Technology	273,444	263,348	96%	(10,096)
Administration	243,760	224,120	92%	(19,640)
Resolutions & Receiverships	1,203,523	1,024,278	85%	(179,245)
Legal	157,432	154,795	98%	(2,637)
Insurance & Research	37,154	35,905	97%	(1,249)
Finance	31,068	30,336	98%	(732)
Inspector General	29,354	25,593	87%	(3,761)
Corporate University	48,911	45,311	93%	(3,600)
Executive Support [1]	27,412	24,341	89%	(3,071)
Executive Offices [2]	9,665	8,428	87%	(1,237)
Government Litigation	3,480	3,480	100%	0
Grand Total	**$2,566,029**	**$2,339,103**	**91%**	**($226,926)**

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 2009 spending estimates for approved projects.