Message from the Chief Financial Officer • *Steven O. App*

I am pleased to join Chairman Bair in presenting our 2006 Annual Report. The report covers financial and program performance information and summarizes our successes for the year. The FDIC takes pride in providing timely, reliable and meaningful information to its many stakeholders.

As a result of the passage of deposit insurance reform legislation, the Bank Insurance Fund and the Savings Association Insurance Fund were merged on March 31, 2006, to create the Deposit Insurance Fund (DIF). Overall, the combined fund remained financially sound throughout the year and I can proudly report that the U.S. Government Accountability Office (GAO), for the fifteenth consecutive year, issued unqualified audit opinions on the annual financial statements for both funds administered by the FDIC – the DIF and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. These unqualified audit opinions validate our efforts to ensure that the financial statements of the funds for which we are stewards are fairly presented. This achievement also exemplifies the hard work and dedication of the FDIC staff.

FDIC's financial highlights during 2006 include:

In 2006, DIF's comprehensive income totaled $1.6 billion compared to $1.1 billion in 2005, a year-over-year increase of approximately 44 percent. Excluding the recognition of exit fees earned of $345 million (a one-time adjustment), comprehensive income rose by $133 million from a year ago. This year-over-year increase is primarily due to a decrease in the unrealized loss on available-for-sale (AFS) securities of $348 million, which was offset by decreases in both interest earned on U.S. Treasury obligations of $101 million and the negative provision for insurance losses of $108 million.

The significantly lower unrealized loss on AFS securities primarily resulted from: 1) a smaller total market value of AFS securities, 2) a lower average duration for the AFS securities, and 3) a smaller increase in the market yields of the AFS securities. However, the lower unrealized loss was partially offset by a decrease in interest revenue on U.S. Treasury obligations that resulted from lower inflation compensation on Treasury Inflation-Protected Securities.

During 2006, we continued our efforts to control costs and to prudently manage the funds administered by the FDIC. Annual budgeted operating expenditures in 2006 totaled approximately $973 million, which represents a decline of $17 million (1.7 percent) from 2005. As Chairman Bair indicates in her message, the FDIC has an exceptional record of controlling its budgeted operational spending, which declined by $216 million (18 percent) from 2002 to 2006. The FDIC Board of Directors, on December 5, 2006, approved a 2007 Corporate Operating Budget totaling $1.1 billion, a modest 4.6 percent increase over the 2006 budget, largely due to the cost of employee pay increases negotiated for 2007.

Capital investment spending also declined substantially in 2006 to $25 million. In 2006, we completed two major investment projects, the Virginia Square Phase II building and the New Financial Environment (NFE) (an integrated state-of-the-art financial system), reducing to three the inventory of active investment projects. This is down from a high of ten active projects in 2003 and 2004. In late 2006, the FDIC Board approved a new investment project, an insurance claims determination system. It is the first new investment project approved since 2003. Investment spending is projected to total between $19 million and $23 million in 2007.

We are especially proud of our staff for the successful completion of Virginia Square Phase II – an outstanding facility that should serve the Corporation well for years to come. The project was completed on time and under budget, and has begun to yield substantial cost savings for the FDIC. We are also beginning to explore how to leverage the enhanced capabilities of the NFE to continue to improve our financial and cost management.

In accordance with the requirements of the Federal Managers' Financial Integrity Act of 1982, the FDIC's management conducted its annual assessment and concluded that the system of internal controls, taken as a whole, complies with internal control standards prescribed by the GAO and provides reasonable assurance that the related objectives are being met.

Looking ahead to 2007, the FDIC will continue to work toward sound management of the Corporation's financial and other resources.

Sincerely,

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