IV. Financial Section

DEPOSIT INSURANCE FUND (DIF)

FEDERAL DEPOSIT INSURANCE CORPORATION
DEPOSIT INSURANCE FUND BALANCE SHEET AT DECEMBER 31
Dollars in Thousands

	2013	2012
Assets		
Cash and cash equivalents	$3,543,270	$3,100,361
Investment in U.S. Treasury obligations (Note 3)	38,510,500	34,868,688
Trust preferred securities (Note 10)	0	2,263,983
Assessments receivable, net (Note 8)	2,227,735	1,006,852
Interest receivable on investments and other assets, net	511,428	433,592
Receivables from resolutions, net (Note 4)	16,344,991	23,119,554
Property and equipment, net (Note 5)	377,223	392,880
Total Assets	**$61,515,147**	**$65,185,910**
Liabilities		
Accounts payable and other liabilities	$300,575	$349,620
Unearned revenue - prepaid assessments (Note 8)	0	1,576,417
Refunds of prepaid assessments (Note 8)	0	5,675,199
Liabilities due to resolutions (Note 6)	12,625,982	21,173,785
Postretirement benefit liability (Note 13)	193,591	224,225
Contingent liabilities for:		
Anticipated failure of insured institutions (Note 7)	1,198,960	3,220,697
Litigation losses (Note 7)	5,200	8,200
Total Liabilities	**14,324,308**	**32,228,143**
Commitments and off-balance-sheet exposure (Note 14)		
Fund Balance		
Accumulated Net Income	47,186,974	32,682,237
Accumulated Other Comprehensive Income		
Unrealized gain on U.S. Treasury investments, net (Note 3)	20,215	33,819
Unrealized postretirement benefit loss (Note 13)	(16,350)	(60,448)
Unrealized gain on trust preferred securities (Note 10)	0	302,159
Total Accumulated Other Comprehensive Income	**3,865**	**275,530**
Total Fund Balance	**47,190,839**	**32,957,767**
Total Liabilities and Fund Balance	**$61,515,147**	**$65,185,910**

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

DEPOSIT INSURANCE FUND (DIF)

FEDERAL DEPOSIT INSURANCE CORPORATION
DEPOSIT INSURANCE FUND STATEMENT OF INCOME AND FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2013	2012
Revenue		
Assessments (Note 8)	$9,734,173	$12,397,022
Interest on U.S. Treasury obligations	103,363	159,214
Systemic risk revenue	0	(161,135)
Other revenue (Note 9)	163,154	6,127,211
Gain on sale of trust preferred securities (Note 10)	458,176	0
Total Revenue	**10,458,866**	**18,522,312**
Expenses and Losses		
Operating expenses (Note 11)	1,608,717	1,777,513
Systemic risk expenses	0	(161,135)
Provision for insurance losses (Note 12)	(5,659,388)	(4,222,595)
Insurance and other expenses	4,799	7,282
Total Expenses and Losses	**(4,045,872)**	**(2,598,935)**
Net Income	**14,504,738**	**21,121,247**
Other Comprehensive Income		
Unrealized loss on U.S. Treasury investments, net	(13,604)	(13,878)
Unrealized postretirement benefit gain (loss) (Note 13)	44,097	(26,886)
Unrealized (loss) gain on trust preferred securities (Note 10)	(302,159)	50,752
Total Other Comprehensive (Loss) Income	**(271,666)**	**9,988**
Comprehensive Income	**14,233,072**	**21,131,235**
Fund Balance - Beginning	**32,957,767**	**11,826,532**
Fund Balance - Ending	**$47,190,839**	**$32,957,767**

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

DEPOSIT INSURANCE FUND (DIF)

FEDERAL DEPOSIT INSURANCE CORPORATION
DEPOSIT INSURANCE FUND STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2013	2012
Operating Activities		
Provided by:		
Assessments	$7,111,902	$1,525,414
Interest on U.S. Treasury obligations	1,080,157	1,088,697
Dividends and interest on trust preferred securities	154,393	360,754
Recoveries from financial institution resolutions	5,696,453	4,937,738
Miscellaneous receipts	79,773	69,285
Used by:		
Operating expenses	(1,558,229)	(1,703,278)
Disbursements for financial institution resolutions	(3,857,214)	(8,998,978)
Refunds of prepaid assessments (Note 8)	(5,850,135)	0
Temporary Liquidity Guarantee Program debt obligations	0	(117,708)
Dividends and interest on trust preferred securities transferred to U.S. Treasury	0	(182,754)
Miscellaneous disbursements	(17,228)	(15,030)
Net Cash Provided (Used) by Operating Activities	**2,839,872**	**(3,035,860)**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations	27,704,523	32,132,623
Sale of U.S. Treasury obligations (Note 3)	0	2,554,781
Sale of trust preferred securities (Note 10)	2,420,000	0
Used by:		
Purchase of property and equipment	(57,390)	(67,344)
Purchase of U.S. Treasury obligations	(32,464,096)	(33,388,751)
Net Cash (Used) Provided by Investing Activities	**(2,396,963)**	**1,231,309**
Net Increase (Decrease) in Cash and Cash Equivalents	**442,909**	**(1,804,551)**
Cash and Cash Equivalents - Beginning	**3,100,361**	**4,904,912**
Cash and Cash Equivalents - Ending	**$3,543,270**	**$3,100,361**

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

Notes to the Financial Statements

DEPOSIT INSURANCE FUND
December 31, 2013 and 2012

1. 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, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions) from loss due to institution failures. In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the DIF. Commercial banks, savings banks and savings associations (known as "thrifts") are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

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

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

The Dodd-Frank Act (Public Law 111-203) granted the FDIC authority to establish a widely available program to guarantee obligations of solvent insured depository institutions (IDIs) or solvent depository institution holding companies (including affiliates) upon the systemic determination of a liquidity event during times of severe economic distress. The program would not be funded by the DIF but rather by fees and assessments paid by all participants in the program. If fees are insufficient to cover losses or expenses, the FDIC must impose a special assessment on participants as necessary to cover the shortfall. Any excess funds at the end of the liquidity event program would be deposited in the General Fund of the Treasury.

The Dodd-Frank Act limits the FDIC's systemic risk determination authority under section 13 of the FDI Act to IDIs for which the FDIC has been appointed receiver. Prior to this change, the authority permitted open bank assistance and the creation of the Temporary Liquidity Guarantee Program (TLGP) that expired on December 31, 2012 (see Note 9).

The Dodd-Frank Act also created the Financial Stability Oversight Council (FSOC) of which the Chairman of the FDIC is a member and expanded the FDIC's responsibilities to include supervisory review of resolution plans (known as living wills) and backup examination authority for systemically important bank holding companies and nonbank financial companies. The living wills provide for an entity's rapid and orderly resolution in the event of material financial distress or failure.

OPERATIONS OF THE DIF

The primary purposes of the DIF are to 1) insure the deposits and protect the depositors of IDIs and 2) resolve failed IDIs upon appointment of the FDIC as receiver in a

manner that will result in the least possible cost to the DIF (unless a systemic risk determination is made).

The DIF is primarily funded from deposit insurance assessments. Other available funding sources, if necessary, are borrowings from the Treasury, the Federal Financing Bank (FFB), Federal Home Loan Banks, and IDIs. The FDIC has borrowing authority of $100 billion from the Treasury and a Note Purchase Agreement with the FFB, not to exceed $100 billion, to enhance the DIF's ability to fund deposit insurance.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the DIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the Treasury. The MOL for the DIF was $146.0 billion and $132.9 billion as of December 31, 2013 and 2012, respectively.

OPERATIONS OF RESOLUTION ENTITIES

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, pass-through conservatorships, and bridge institutions (collectively, resolution entities), and the claims against them, are accounted for separately from the DIF assets and liabilities to ensure that proceeds from these entities are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to resolution entities are accounted for as transactions of those entities. Resolution entities are billed by the FDIC for services provided on their behalf.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

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

USE OF ESTIMATES

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such potential changes in estimates have been disclosed. The more significant estimates include the assessments receivable and associated revenue; the allowance for loss on receivables from resolutions (including shared-loss agreements); guarantee obligations for structured transactions; the postretirement benefit obligation; and the estimated losses for anticipated failures, litigation, and representations and indemnifications.

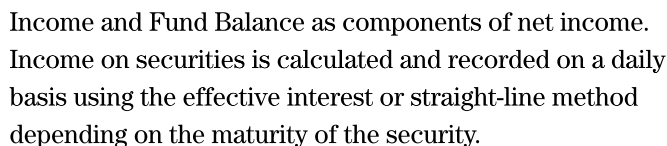
CASH EQUIVALENTS

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

INVESTMENT IN U.S. TREASURY OBLIGATIONS

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

The DIF's investments in U.S. Treasury obligations are classified as available-for-sale. Securities designated as available-for-sale are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Realized gains and losses are included in the Statement of



Income and Fund Balance as components of net income. Income on securities is calculated and recorded on a daily basis using the effective interest or straight-line method depending on the maturity of the security.

REVENUE RECOGNITION FOR ASSESSMENTS

Assessment revenue is recognized for the quarterly period of insurance coverage based on an estimate. The estimate is derived from an institution's risk-based assessment rate and assessment base for the prior quarter adjusted for the current quarter's available assessment credits, certain changes in supervisory examination ratings for larger institutions, as well as modest assessment base growth and average assessment rate adjustment factors. At the subsequent quarter-end, the estimated revenue amounts are adjusted when actual assessments for the covered period are determined for each institution (see Note 8).

CAPITAL ASSETS AND DEPRECIATION

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

REPORTING ON VARIABLE INTEREST ENTITIES

FDIC receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that were guaranteed by the FDIC in its corporate capacity (see Note 7, Contingent Liabilities for: FDIC Guaranteed Debt of Structured Transactions). As the guarantor of note obligations for several structured transactions, the FDIC in its corporate capacity is the holder of a variable interest in a number of variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by Accounting Standards Codification (ASC) Topic 810, *Consolidation*. These assessments are conducted to determine if the FDIC in its corporate capacity has 1) power to direct the activities that most significantly impact the economic performance of the VIE and 2) an obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When a variable interest holder has met both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. In accordance with the provisions of ASC 810, an assessment of the terms of the legal agreement for each VIE was conducted to determine whether any of the terms had been activated or modified in a manner which would cause the FDIC in its corporate capacity to be characterized as a primary beneficiary. In making that determination, consideration was given to which, if any, activities were significant to each VIE. Often, the right to service collateral, to liquidate collateral, or to unilaterally dissolve the limited liability company (LLC) or trust was determined to be the most significant activity. In other cases, it was determined that the structured transactions did not include such significant activities and that the design of the entity was the best indicator of which party was the primary beneficiary. The results of each analysis identified a party other than the FDIC in its corporate capacity as the primary beneficiary.

The conclusion of these analyses was that the FDIC in its corporate capacity has not engaged in any activity that would cause the FDIC in its corporate capacity to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2013 and 2012. Therefore, consolidation is not required for the 2013 and 2012 DIF financial statements. In the future, the FDIC in its corporate capacity may become the primary beneficiary upon the activation of provisional contract rights that extend to the Corporation if payments are made on guarantee claims. Ongoing analyses will be required in order to monitor consolidation implications under ASC 810.

The FDIC's involvement with VIEs, in its corporate capacity, is fully described in Note 7.

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.

PRESENTATION OF STATEMENT OF CASH FLOWS

To enhance cash flow information for operating activities of the DIF, in 2013, the FDIC changed the method of presenting the DIF's Statement of Cash Flows from the indirect method to the direct method, which is preferable and is encouraged by the Financial Accounting Standards Board. Accordingly, the DIF's 2012 Statement of Cash Flows has been conformed to this method of presentation for comparative purposes. For 2013 and 2012, the reconciliation of net income to net cash from operating activities is presented in Note 16.

DISCLOSURE ABOUT RECENT RELEVANT ACCOUNTING PRONOUNCEMENTS

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

3. INVESTMENT IN U.S. TREASURY OBLIGATIONS

As of December 31, 2013 and 2012, investments in U.S. Treasury obligations, were $38.5 billion and $34.9 billion, respectively. As of December 31, 2013 and 2012, the DIF held $4.6 billion and $5.3 billion, respectively, of Treasury Inflation-Protected Securities (TIPS), which are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U).

In 2012, the FDIC sold securities designated as available-for-sale for total proceeds of $2.6 billion. The gross realized gains and losses on these sales were $878 thousand and $241 thousand, respectively, which resulted in a total net gain of $637 thousand. The cost of these securities sold was determined based on specific identification. Since these securities were purchased on behalf of the TLGP, the realized gain was recognized in the "Systemic risk revenue" line item on the Statement of Income and Fund Balance (see Note 9).

TOTAL INVESTMENT IN U.S. TREASURY OBLIGATIONS AT DECEMBER 31, 2013
Dollars in Thousands

Maturity	Yield at Purchase[1]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	0.23%	$14,300,000	$14,552,418	$4,167	$(31)	$14,556,554
After 1 year through 5 years	0.70%	18,351,209	19,382,202	24,408	(14,013)	19,392,597
U.S. Treasury Inflation-Protected Securities						
Within 1 year	-0.86%	2,150,000	2,464,330	1,050	(1,130)	2,464,250
After 1 year through 5 years	-0.99%	1,800,000	2,091,335	5,788	(24)	2,097,099
Total		**$36,601,209**	**$38,490,285**	**$35,413**	**$(15,198)[2]**	**$38,510,500**

[1] 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 2.0 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2013.

[2] The unrealized losses occurred as a result of temporary changes in market interest rates. These unrealized losses occurred over a period of less than a year. The FDIC does not intend to sell the securities and is not likely to be required to sell them before their maturity date, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2013.

TOTAL INVESTMENT IN U.S. TREASURY OBLIGATIONS AT DECEMBER 31, 2012
Dollars in Thousands

Maturity	Yield at Purchase[1]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	0.34%	$24,800,000	$25,228,393	$19,871	$0	$25,248,264
After 1 year through 5 years	0.32%	4,050,000	4,341,814	4,569	0	4,346,383
U.S. Treasury Inflation-Protected Securities						
Within 1 year	-0.86%	1,650,000	1,813,291	0	(9,788)[2]	1,803,503
After 1 year through 5 years	-0.87%	2,900,000	3,451,371	19,167	0	3,470,538
Total		**$33,400,000**	**$34,834,869**	**$43,607**	**$(9,788)**	**$34,868,688**

[1] 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 2.0 percent, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2012.

[2] The unrealized losses occurred as a result of temporary changes in market interest rates. These unrealized losses occurred over a period of less than a year. The FDIC does not intend to sell the TIPS and is not likely to be required to sell them before their maturity in 2013, thus, the FDIC does not consider these securities to be other than temporarily impaired at December 31, 2012.

4. RECEIVABLES FROM RESOLUTIONS, NET

RECEIVABLES FROM RESOLUTIONS, NET AT DECEMBER 31
Dollars in Thousands

	2013	2012
Receivables from closed banks	$106,291,226	$116,940,999
Allowance for losses	(89,946,235)	(93,821,445)
Total	$16,344,991	$23,119,554

The receivables from resolutions result from payments made by the DIF to cover obligations to insured depositors (subrogated claims), advances to resolution entities for working capital, and administrative expenses paid on behalf of resolution entities. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Estimated future payments on losses incurred on assets sold to an acquiring institution under a shared-loss agreement (SLA) are factored into the computation of the expected repayment. Assets held by DIF resolution entities (including structured transaction-related assets; see Note 7) are the main source of repayment of the DIF's receivables from resolutions.

As of December 31, 2013, there were 479 active receiverships, including 24 established in 2013. As of December 31, 2013 and 2012, DIF resolution entities held assets with a book value of $38.4 billion and $53.5 billion, respectively (including $27.1 billion and $36.5 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables). Ninety-nine percent of the current asset book value of $38.4 billion is held by resolution entities established since the beginning of 2008.

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

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying SLA, the projected future shared-loss payments and recoveries on the covered assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. The shared-loss cost projections are based on the covered assets' intrinsic value which is determined using financial models that consider the quality, condition and type of covered assets, current and future market conditions, risk factors and estimated asset holding periods. For year-end 2013 financial reporting, the shared-loss cost estimates were updated for the majority (98% or 285) of the 290 active SLAs; the remaining 5 were based on recent loss estimates. The updated shared-loss cost projections for the larger agreements were primarily based on new third-party valuations estimating the cumulative loss of covered assets. The remaining agreements were stratified by either receivership age or geographic location. A random sample of institutions within each stratum was selected for new third-party loss estimations, and valuation results from the sample institutions were aggregated and extrapolated to institutions within the like stratum based on asset type and performance status.

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

WHOLE BANK PURCHASE AND ASSUMPTION TRANSACTIONS WITH SHARED-LOSS AGREEMENTS

Since the beginning of 2008, the FDIC resolved 304 failures using whole bank purchase and assumption resolution transactions with accompanying SLAs on total assets of $216.6 billion purchased by the financial institution acquirers. The acquirer typically assumes all of the

deposits and purchases essentially all of the assets of a failed institution. The majority of the commercial and residential loan assets are purchased under an SLA, where the FDIC agrees to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement. SLAs are used by the FDIC to keep assets in the private sector and to minimize disruptions to loan customers.

Losses on the covered assets are shared between the acquirer and the FDIC in its receivership capacity of the failed institution when losses occur through the sale, foreclosure, loan modification, or write-down of loans in accordance with the terms of the SLA. The majority of the agreements cover a five- to 10-year period with the receiver covering 80 percent of the losses incurred by the acquirer and the acquiring bank covering 20 percent. Prior to March 26, 2010, most SLAs included a threshold amount, above which the receiver covered 95 percent of the losses incurred by the acquirer. As mentioned above, the estimated shared-loss liability is accounted for by the receiver and is included in the calculation of the DIF's allowance for loss against the corporate receivable from the resolution. As shared-loss claims are asserted and proven, DIF receiverships satisfy these shared-loss payments using available liquidation funds and/or by drawing on amounts due from the DIF for funding the deposits assumed by the acquirer (see Note 6).

As of December 31, 2013, 300 receiverships have made shared-loss payments totaling $26.4 billion. At December 31, 2013 and 2012, estimates of additional payments by DIF receiverships over the duration of the SLAs were $12.3 billion and $18.1 billion, respectively, on total remaining covered assets of $78.2 billion and $103.7 billion, respectively.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of the DIF's receivables from resolutions is primarily influenced by recoveries on assets held by DIF receiverships and payments on the covered assets under SLAs. The majority of the remaining assets in liquidation ($11.2 billion) and current shared-loss covered assets ($78.2 billion) which total $89.4 billion are concentrated in commercial loans ($40.1 billion), residential loans ($37.4 billion), securities ($2.8 billion), and structured transaction-related assets as described in Note 7 ($7.5 billion). Most of the assets originated from failed institutions located in California ($27.1 billion), Florida ($10.2 billion), Puerto Rico ($8.7 billion), Alabama ($6.8 billion), Illinois ($6.6 billion) and Georgia ($6.3 billion).

5. PROPERTY AND EQUIPMENT, NET

PROPERTY AND EQUIPMENT, NET AT DECEMBER 31
Dollars in Thousands

	2013	2012
Land	$37,352	$37,352
Buildings (including building and leasehold improvements)	314,775	313,221
Application software (includes work-in-process)	149,115	135,059
Furniture, fixtures, and equipment	142,621	152,280
Accumulated depreciation	(266,640)	(245,032)
Total	**$377,223**	**$392,880**

The depreciation expense was $73 million and $76 million for 2013 and 2012, respectively.

6. LIABILITIES DUE TO RESOLUTIONS

As of December 31, 2013 and 2012, the DIF recorded liabilities totaling $12.6 billion and $21.1 billion, respectively, to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/bridge institutions for use in funding the deposits assumed by the acquirers/bridge institutions. Ninety-one percent of these liabilities are due to failures resolved under whole-bank purchase and assumption transactions, most with an accompanying SLA. The DIF satisfies these liabilities either by directly sending cash to the receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when the receivership declares a dividend.

In addition, the DIF recorded liabilities of $29 million and $56 million in unpaid deposit claims related to multiple receiverships, which are offset by receivables included in the "Receivables from resolutions, net" line item of the Balance Sheet as of December 31, 2013 and 2012, respectively. The DIF pays these liabilities when the claims are approved.

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, absent some favorable event such as obtaining additional capital or merging, when the liability is probable and reasonably estimable. The contingent liability is derived by applying expected failure rates and loss rates to the institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

The banking industry continued to improve in 2013 at a gradual, steady pace. According to the quarterly financial data submitted by DIF-insured institutions, the industry reported total net income of $154.7 billion for full-year 2013, an increase of 9.6 percent over 2012. The downward trend in loan loss provisions that has coincided with the ongoing improvement in asset quality was responsible for most of the improvement in earnings.

Losses to the DIF from failures that occurred in 2013 were lower than the contingent liability at the end of 2012, as the aggregate number and size of institution failures in 2013 were less than anticipated. The removal from the contingent liability of institutions that did fail in 2013, as well as projected favorable trends in bank supervisory downgrade and failure rates, all contributed to a decline by $2.0 billion to $1.2 billion in the contingent liability for anticipated failures of insured institutions at December 31, 2013.

In addition to the recorded contingent liabilities, the FDIC has identified risks in the financial services industry that could result in additional losses to the DIF, should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of approximately $3.0 billion as of year-end 2013 as compared to $6.3 billion as of year-end 2012. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2013, 24 institutions failed with combined assets of $5.8 billion at the date of failure. Recent trends in supervisory ratings and market data suggest that the financial performance and condition of the banking industry should continue to improve over the coming year. However, exposure to interest rate risk, reliance on short-term sources of funding, and limited opportunities for earnings growth will continue to stress the industry. Additionally, key risks continue to weigh on the economic outlook as well, including the impact of rising interest rates as they return to more normal levels; fiscal challenges at federal, state, and local levels; and global economic risks. The FDIC continues to evaluate ongoing risks to affected institutions in light of existing economic and financial conditions, and the extent to which such risks may put stress on the resources of the insurance fund.

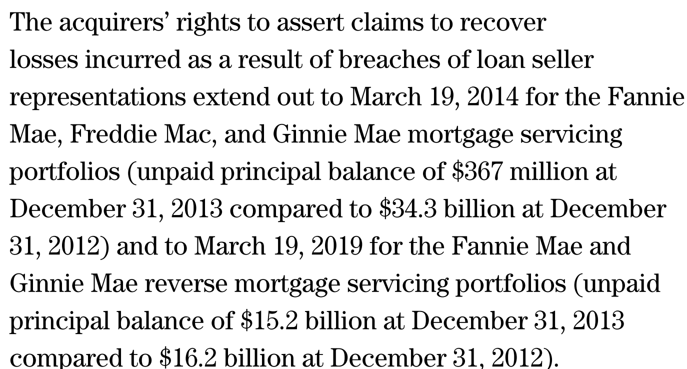
LITIGATION LOSSES

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 probable litigation losses of $5 million and $8 million for the DIF as of December 31, 2013 and 2012, respectively, and has determined that losses from unresolved cases totaling $125 thousand are reasonably possible for year-end 2013.

OTHER CONTINGENCIES

IndyMac Federal Bank Representation and Indemnification Contingent Liability

On March 19, 2009, the FDIC as receiver of IndyMac Federal Bank (IMFB) and certain subsidiaries (collectively, sellers) sold substantially all of the assets, which included mortgage loans and servicing rights, of IMFB and its respective subsidiaries to OneWest Bank and its affiliates. The sellers made certain representations customarily made by commercial parties regarding the assets and agreed to indemnify the acquirers for losses incurred as a result of breaches of such representations, losses incurred as a result of the failure to obtain contractual counterparty consents to the sale, and third party claims arising from pre-sale acts and omissions of the sellers or the failed bank. The FDIC, in its corporate capacity, guaranteed the receivership's indemnification obligations under the sale agreements. Until the periods for asserting claims under these arrangements have expired and all indemnification claims are quantified and paid, losses could continue to be incurred by the receivership and, in turn, the DIF.



The acquirers' rights to assert claims to recover losses incurred as a result of breaches of loan seller representations extend out to March 19, 2014 for the Fannie Mae, Freddie Mac, and Ginnie Mae mortgage servicing portfolios (unpaid principal balance of $367 million at December 31, 2013 compared to $34.3 billion at December 31, 2012) and to March 19, 2019 for the Fannie Mae and Ginnie Mae reverse mortgage servicing portfolios (unpaid principal balance of $15.2 billion at December 31, 2013 compared to $16.2 billion at December 31, 2012).

On March 19, 2011, the acquirers' rights to assert claims to recover losses incurred as a result of other third party claims and breaches of servicer representations expired. As of the expiration date of this claim period, notices relating to potential defects were received, but they require review to determine whether a valid defect exists and, if so, the identification and resolution of possible cure actions. It is highly unlikely that all of these potential defects will result in losses. Therefore, while additional potential losses relating to servicing representations may be incurred, those losses cannot currently be quantified.

The IndyMac receivership has paid cumulative claims totaling $15 million through December 31, 2013 and $14 million through December 31, 2012. Additional claims asserted, but under review, were accrued in the amount of $7 million and $1 million as of December 31, 2013 and December 31, 2012, respectively. Review and evaluation is in process for approximately $32 million in reasonably possible liabilities with respect to alleged breaches of representations and warranties as of December 31, 2013 and 2012. Potential losses relating to origination and servicing representations, which also cannot currently be quantified, may also be incurred under other agreements with investors.

As a result of existing origination and servicing representation provisions, the IndyMac receivership and the wholly-owned subsidiary Financial Freedom Senior Funding Corporation have repurchased loans with an aggregate principal balance of $308 million and $100 million respectively. Estimated losses of up to $48 million could be incurred on these portfolios. Because these loans have been repurchased and are now considered receivership or receivership subsidiary assets, the resulting estimated losses are reflected in the "Receivables from resolutions, net" line item on the Balance Sheet.

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

Purchase and Assumption Indemnification

In connection with purchase and assumption agreements for resolutions, the FDIC in its receivership capacity generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC in its corporate capacity is a secondary guarantor if a receivership is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2013 and 2012, the FDIC in its corporate capacity made no indemnification payments under such agreements, and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC Guaranteed Debt of Structured Transactions

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

LLCs

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

Since 2009, private investors have purchased a 40- to 50-percent ownership interest in the LLC structures for $1.6 billion in cash and the LLCs issued notes of $4.4 billion to the receiverships to partially fund the purchase of the assets. The receiverships hold the remaining 50- to 60-percent equity interest in the LLCs and, in most cases, the guaranteed notes. The FDIC in its corporate capacity guarantees the timely payment of principal and interest due on the notes. The terms of the note guarantees extend until the earlier of 1) payment in full of the notes or 2) two years following the maturity date of the notes. The note with the longest term matures in 2020. In the event of note payment default, the FDIC as guarantor is entitled to exercise or cause the exercise of certain rights and remedies including: 1) accelerating the payment of the unpaid principal amount of the notes; 2) selling the assets held as collateral; or 3) foreclosing on the equity interests of the debtor.

Securitizations and SSGNs

Securitizations and SSGNs (collectively, "trusts") are transactions in which certain assets or securities from failed institutions are pooled and transferred into a trust structure. The trusts issue 1) senior and/or subordinated debt instruments and 2) owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

Since 2010, private investors purchased the senior notes issued by the trusts for $6.2 billion in cash. The receiverships hold 100 percent of the subordinated debt instruments and owner trust or residual certificates. The FDIC in its corporate capacity guarantees the timely payment of principal and interest due on the senior notes, the latest maturity of which is 2050. In exchange for the guarantee, the DIF receives a monthly payment based on a fixed percentage multiplied by the outstanding note balance. These guarantee agreements generally stipulate that all cash flows received from the entity's collateral be used to pay, in the following order, 1) operational expenses of the entity, 2) the FDIC's contractual guarantee fee, 3) interest on the guaranteed notes, 4) principal of the guaranteed notes, and 5) the holders of the subordinated notes and owner trust or residual certificates. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest thereon. Once all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments, the subordinated note holders and owner trust or residual certificates holders receive the remaining cash flows.

All Structured Transactions with FDIC Guaranteed Debt

Through December 31, 2013, the receiverships have transferred a portfolio of loans with an unpaid principal balance of $16.4 billion and mortgage-backed securities with a book value of $8.8 billion to 14 LLCs and 11 trusts. The LLCs and trusts subsequently issued notes guaranteed by the FDIC in an original principal amount of $10.6 billion. As of December 31, 2013 and 2012, the DIF collected guarantee fees totaling $231 million and $218 million, respectively, and recorded a receivable for additional guarantee fees of $66 million and $95 million, respectively, included in the "Interest receivable on investments and other assets, net" line item on the Balance Sheet. All guarantee fees are recorded as deferred revenue, included in the "Accounts payable and other liabilities" line item, and recognized as revenue primarily on a straight-line basis over the term of the notes. At December 31, 2013 and 2012, the amount of deferred revenue recorded was $66 million and $101 million, respectively. The DIF records no other structured-transaction-related assets or liabilities on its balance sheet.

The estimated loss to the DIF from the guarantees is derived from an analysis of the net present value (using a discount rate of 3.7 percent) of the expected guarantee payments by the FDIC, reimbursements to the FDIC for guarantee payments, and guarantee fee collections. It is reasonably possible that the DIF could be required to make a guarantee payment of approximately $27 million for an SSGN transaction at note maturity in 2020. Any guarantee payment made would be fully reimbursed from the proceeds of the liquidation of the SSGN's underlying collateral. For all of the remaining transactions, the cash flows from the LLC or trust assets provide sufficient coverage to fully pay the debts. To date, the FDIC in its corporate capacity has not provided, and does not intend to provide, any form of financial or other type of support to a trust or LLC that it was not previously contractually required to provide.

As of December 31, 2013 and 2012, the maximum loss exposure was $99 million and $2.2 billion for LLCs and $2.8 billion and $3.2 billion for trusts, respectively, representing the sum of all outstanding debt guaranteed by the FDIC in its corporate capacity. Some transactions have established defeasance accounts to pay off the notes at maturity. As of December 31, 2013 and 2012, a total of $78 million and $1.6 billion, respectively, has been deposited into these accounts.

8. ASSESSMENTS

The framework for the FDIC deposit insurance assessment system is mandated by section 7 of the FDI Act and the provisions for implementation are contained in part 327 of title 12 of the Code of Federal Regulations. The FDI Act requires a risk-based assessment system and payment of assessments by all IDIs.

In response to the Dodd-Frank Act, the FDIC implemented several changes to the assessment system and developed a comprehensive, long-term fund management plan. The plan is designed to restore and maintain a positive fund balance for the DIF even during a banking crisis and achieve moderate, steady assessment rates throughout any economic cycle. Summarized below are actions taken to implement assessment system changes and provisions of the comprehensive plan.

- The FDIC adopted a Restoration Plan to ensure that the ratio of the DIF fund balance to estimated insured deposits (reserve ratio) reaches 1.35 percent by September 30, 2020. The FDIC will update, at least semiannually, its loss and income projections for the fund and, if needed, increase or decrease assessment rates, following notice-and-comment rulemaking, if required.
- The FDIC adopted a final rule which suspends dividends indefinitely, and, in lieu of dividends, adopts lower assessment rate schedules when the reserve ratio reaches 1.15 percent, 2 percent, and 2.5 percent.
- The FDIC adopted a final rule which amends and clarifies some definitions of higher-risk assets as used in deposit insurance pricing for large and highly complex IDIs by 1) revising the definitions of certain higher-risk assets, specifically leveraged loans and subprime consumer loans, 2) clarifying when an asset must be identified as higher risk, and 3) clarifying the way securitizations are identified as higher risk. The final rule became effective on April 1, 2013.
- The Federal Deposit Insurance Act (FDI Act) requires that the FDIC Board of Directors designate a reserve ratio for the DIF and publish the designated reserve ratio (DRR)

before the beginning of each calendar year. Accordingly, in October 2013, the FDIC adopted a final rule maintaining the DRR at 2 percent for 2014. The DRR is an integral part of the FDIC's comprehensive, long-term management plan for the DIF and is viewed as a long-range, minimum target for the reserve ratio.

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 7.8 cents per $100 and 10.1 cents per $100 of the assessment base for 2013 and 2012, respectively. The assessment base is generally defined as the average consolidated total assets minus the average tangible equity (measured as Tier 1 capital) of the IDI during the assessment period.

In December 2009, a majority of IDIs prepaid $45.7 billion of estimated quarterly risk-based assessments to address the DIF's liquidity need to pay for projected failures and to ensure that the deposit insurance system remained industry-funded. For each interim quarter, an institution's risk-based deposit insurance assessment was offset by the available amount of prepaid assessments. The final offset of prepaid assessments occurred for the period ending March 31, 2013, and in June 2013, as required by regulation, the DIF refunded $5.9 billion of unused prepaid assessments to IDIs.

The "Assessments receivable, net" line item on the Balance Sheet of $2.2 billion and $1.0 billion as of December 31, 2013 and 2012, respectively, represents the estimated premiums due from IDIs for the fourth quarter of 2013 and 2012, respectively. The actual deposit insurance assessments for the fourth quarter of 2013 will be billed and collected at the end of the first quarter of 2014. During 2013 and 2012, $9.7 billion and $12.4 billion, respectively, were recognized as assessment revenue from institutions.

RESERVE RATIO

As of December 31, 2013 and 2012, the DIF reserve ratio was 0.79 percent and 0.44 percent, respectively, of estimated insured deposits.

ASSESSMENTS RELATED TO FICO

Assessments continue to be levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the former FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the DIF and is separate from deposit insurance assessments. The FDIC, as administrator of the DIF, acts solely as a collection agent for the FICO. During 2013 and 2012, approximately $792 million and $797 million, respectively, was collected and remitted to the FICO.

9. OTHER REVENUE

OTHER REVENUE
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2013	2012
Temporary Liquidity Guarantee Program revenue	$0	$5,885,330
Dividends and interest on Citigroup trust preferred securities (Note 10)	124,726	177,831
Guarantee fees for structured transactions (Note 7)	33,051	57,206
Other	5,377	6,844
Total	**$163,154**	**$6,127,211**

TEMPORARY LIQUIDITY GUARANTEE PROGRAM (TLGP) REVENUE

Pursuant to a systemic risk determination in October 2008, the FDIC established the TLGP. In exchange for guarantees issued under the TLGP, the DIF received fees that were set aside, as deferred revenue, for potential TLGP losses. As losses occurred, the DIF recognized the losses as systemic risk expenses and offset the losses by recognizing an equivalent portion of the deferred revenue as systemic risk revenue.

In accordance with FDIC policy, the DIF recognized revenue when guarantee fees held were determined to be in excess of amounts needed to cover potential losses, and, for all remaining TLGP assets held as deferred revenue, upon expiration of the TLGP on December 31, 2012. The DIF recognized revenue of $5.9 billion in 2012.

10. GAIN ON SALE OF TRUST PREFERRED SECURITIES

Pursuant to a systemic risk determination, the Treasury, the FDIC, and the Federal Reserve Bank of New York executed terms of a guarantee agreement on January 15, 2009 with Citigroup to provide loss protection on a pool of approximately $301.0 billion of assets that remained on the balance sheet of Citigroup. In consideration for its portion of the shared-loss guarantee at inception, the FDIC received $3.025 billion of Citigroup's preferred stock. All shares of the preferred stock were subsequently converted to Citigroup Capital XXXIII trust preferred securities (TruPS) with a liquidation amount of $1,000 per security and a distribution rate of 8 percent per annum payable quarterly.

On December 23, 2009, Citigroup terminated the guarantee agreement, citing improvements in its financial condition. The FDIC incurred no losses as a result of the guarantee and retained $2.225 billion (liquidation amount) of the $3.025 billion in TruPS as consideration for the period of guarantee coverage. The DIF recorded the TruPS at their fair value and recognized revenue of $1.962 billion upon termination of the agreement. In lieu of the FDIC returning the remaining $800 million (liquidation amount) of TruPS to Citigroup, the Treasury agreed to return $800 million in TruPS on behalf of the FDIC from its portion of Citigroup TruPS holdings received as a result of the shared-loss agreement. The FDIC held $800 million of TruPS as security for guaranteed debt instruments issued by Citigroup and its affiliates under the TLGP. Pursuant to the agreement between the Treasury and the FDIC, the FDIC transferred the $800 million in TruPS (plus related dividends and interest of $183 million) to the Treasury on December 28, 2012, upon maturity of Citigroup's last outstanding debt instruments.

To facilitate a sale of the retained TruPS, the FDIC exchanged the TruPS on September 9, 2013 for $2.420 billion (principal amount) of Citigroup marketable subordinated notes. The exchange resulted in a realized gain to the DIF of $458 million reported in the "Gain on sale of trust preferred securities" line item on the Statement of Income and Fund Balance. FDIC reclassified the $458 million out of accumulated other comprehensive income to "Gain on sale of trust preferred securities", representing the sum of unrealized gains recorded as of December 31, 2012 ($302 million) and holding gains arising during the current period ($156 million). The resulting net effect on the DIF Statement of Income and Fund Balance was a $156 million increase to the 2013 comprehensive income.

On September 10, 2013, the subordinated notes were sold to the institutional fixed income market for the principal amount of $2.420 billion. The FDIC received $1.6 million for one day of accrued interest on the subordinated notes, which is included in the "Other revenue" line item on the Statement of Income and Fund Balance (see Note 9). Also included in the "Other revenue" line item is $123.1 million for dividends and interest earned on the TruPS in 2013 prior to their disposition (see Note 9).

11. OPERATING EXPENSES

Operating expenses were $1.6 billion and $1.8 billion for December 31, 2013 and 2012, respectively. The chart below lists the major components of operating expenses.

OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2013	2012
Salaries and benefits	$1,292,551	$1,300,697
Outside services	326,040	337,379
Travel	96,056	106,897
Buildings and leased space	91,469	91,631
Software/Hardware maintenance	56,297	63,108
Depreciation of property and equipment	72,828	76,365
Other	29,505	21,137
Subtotal	**1,964,746**	**1,997,214**
Less: Services billed to resolution entities	(356,029)	(219,701)
Total	**$1,608,717**	**$1,777,513**

12. PROVISION FOR INSURANCE LOSSES

The provision for insurance losses was negative $5.7 billion for 2013, compared to negative $4.2 billion for 2012. The negative provision for 2013 primarily resulted from a reduction of $1.0 billion in the contingent liability for

anticipated failures due to the improvement in the financial condition of troubled institutions and a decrease of $4.8 billion in the estimated losses for institutions that failed in prior years.

As described in Note 4, the estimated recoveries from assets held by receiverships and estimated payments related to assets sold by receiverships to acquiring institutions under shared-loss agreements are used to derive the loss allowance on the receivables from resolutions. Consequently, the $4.8 billion reduction in the estimated losses from failures was primarily attributable to three components. The first component of this change was a $2.8 billion decrease in the receiverships' shared-loss liability that resulted from lower loss estimates in the underlying commercial and residential loans due to improvements in regional economies. The second factor was unanticipated recoveries of $1.3 billion in professional liability claims, litigation settlements and tax refunds by the receiverships, which are not recognized until the cash is received since there are significant uncertainties surrounding their recovery. Lastly, the remainder is primarily due to asset recoveries that exceeded projections and higher valuations on receivership assets.

13. EMPLOYEE BENEFITS

PENSION BENEFITS AND SAVINGS PLANS

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement 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 5 percent. Under the Federal Thrift Savings Plan (TSP), the FDIC provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP, but they do not receive agency matching contributions.

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

	2013	2012
Civil Service Retirement System	$5,430	$5,960
Federal Employees Retirement System (Basic Benefit)	99,553	97,517
FDIC Savings Plan	37,816	37,700
Federal Thrift Savings Plan	35,686	34,555
Total	**$178,485**	**$175,732**

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

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

The FDIC has elected not to fund the postretirement life and dental benefit liabilities. As a result, the DIF recognized the underfunded status (the 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, 2013 and 2012, the liability was $194 million and $224 million, respectively, which is recognized in the "Postretirement benefit liability" line item on the Balance Sheet. The cumulative actuarial losses (changes in assumptions and plan experience) and prior service costs (changes to plan provisions that increase benefits) were $16 million and $60 million at December 31, 2013 and 2012, respectively. These amounts are reported as accumulated other comprehensive income in the "Unrealized postretirement benefit loss" line item on the Balance Sheet.

The DIF's expenses for postretirement benefits for 2013 and 2012 were $18 million and $14 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 losses and prior service costs for 2013 and 2012 of $44 million and negative $27 million, respectively, are reported as other comprehensive income in the "Unrealized postretirement benefit gain (loss)" line item on the Statement of Income and Fund Balance. Key actuarial assumptions used in the accounting for the plan include the discount rate of 4.75 percent, the rate of compensation increase of 4.0 percent, and the dental coverage trend rate of 4.5 percent. The discount rate of 4.75 percent is based upon rates of return on high-quality fixed income investments whose cash flows match the timing and amount of expected benefit payments.

14. COMMITMENTS AND OFF-BALANCE-SHEET EXPOSURE

COMMITMENTS:

Leased Space

The FDIC's lease commitments total $193 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 $52 million and $54 million for 2013 and 2012, respectively.

LEASED SPACE COMMITMENTS
Dollars in Thousands

2014	2015	2016	2017	2018	2019/ Thereafter
$48,013	$39,879	$36,208	$31,586	$20,123	$17,687

OFF-BALANCE-SHEET EXPOSURE:

Deposit Insurance

Estimates of insured deposits are derived primarily from quarterly financial data submitted by IDIs to the FDIC and represent the accounting loss that would be realized if all IDIs were to fail and the acquired assets provided no recoveries. As of December 31, 2013 and 2012, estimated insured deposits for the DIF were $6.0 trillion and $7.4 trillion, respectively.

15. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets recognized and measured at fair value on a recurring basis at each reporting date include cash equivalents (see Note 2) and the investment in U.S. Treasury obligations (see Note 3). The following tables present the DIF's financial assets measured at fair value as of December 31, 2013 and 2012.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2013
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[1]	$3,534,305			$3,534,305
Available-for-Sale Debt Securities				
Investment in U.S. Treasury Obligations[2]	38,510,500			38,510,500
Total Assets	**$42,044,805**	**$0**	**$0**	**$42,044,805**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Bureau of the Fiscal Service.

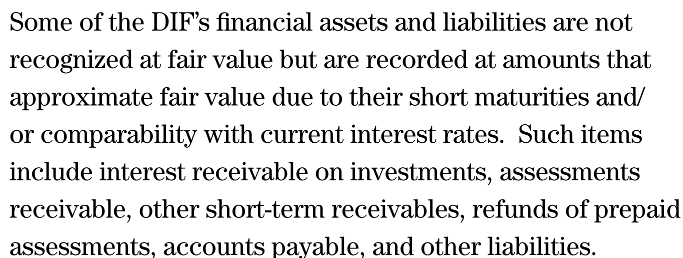
[2] The investment in U.S. Treasury obligations is measured based on prevailing market yields for federal government entities.

ASSETS MEASURED AT FAIR VALUE AT DECEMBER 31, 2012
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[1]	$3,091,778			$3,091,778
Available-for-Sale Debt Securities				
Investment in U.S. Treasury Obligations[2]	34,868,688			34,868,688
Trust preferred securities		$2,263,983		2,263,983
Total Assets	**$37,960,466**	**$2,263,983**	**$0**	**$40,224,449**

[1] Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Bureau of the Fiscal Service.

[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, assessments receivable, other short-term receivables, refunds of prepaid assessments, accounts payable, and other liabilities.

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

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

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

At December 31, 2012, the fair value of the TruPS in the amount of $2.264 billion was classified as a Level 2 measurement based on an FDIC-developed model using observable market data for traded Citigroup securities to determine the expected present value of future cash flows. Key inputs included market yields on U.S. dollar interest rate swaps and discount rates for default, call, and liquidity risks that were derived from traded Citigroup securities and modeled pricing relationships.

16. INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES FOR THE YEARS ENDED DECEMBER 31 Dollars in Thousands		
	2013	**2012**
Operating Activities		
Net Income:	**$14,504,738**	**$21,121,247**
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Amortization of U.S. Treasury obligations	1,139,456	854,195
Treasury Inflation-Protected Securities inflation adjustment	(35,300)	(98,050)
Gain on sale of trust preferred securities	(458,176)	0
Depreciation on property and equipment	72,829	76,365
Loss on retirement of property and equipment	220	14
Provision for insurance losses	(5,659,388)	(4,222,595)
Unrealized gain (loss) on postretirement benefits	44,097	(26,886)
Change in Assets and Liabilities:		
(Increase) in assessments receivable, net	(1,220,883)	(724,605)
(Increase) Decrease in interest receivable and other assets	(75,014)	51,181
Decrease in receivables from resolutions	10,406,392	6,371,418
Decrease in receivables - systemic risk	0	1,948,151
(Decrease) in accounts payable and other liabilities	(49,045)	(24,543)
(Decrease) Increase in postretirement benefit liability	(30,635)	36,258
(Decrease) in contingent liabilities - systemic risk	0	(2,216)
(Decrease) in liabilities due to resolutions	(8,547,803)	(11,616,727)
(Decrease) in Debt Guarantee Program liabilities - systemic risk	0	(117,027)
(Decrease) in unearned revenue - prepaid assessments	(1,576,417)	(15,823,411)
(Decrease) in deferred revenue - systemic risk	0	(6,513,828)
(Decrease) Increase in refunds of prepaid assessments	(5,675,199)	5,675,199
Net Cash Provided (Used) by Operating Activities	**$2,839,872**	**$(3,035,860)**

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 6, 2014, the date the financial statements are available to be issued.

2014 FAILURES THROUGH MARCH 6, 2014

Through March 6, 2014, five insured institutions failed in 2014 with total losses to the DIF estimated to be $92 million.

FSLIC RESOLUTION FUND (FRF)

FEDERAL DEPOSIT INSURANCE CORPORATION
FSLIC RESOLUTION FUND BALANCE SHEET AT DECEMBER 31
Dollars in Thousands

	2013	2012
Assets		
Cash and cash equivalents (Note 1)	$871,612	$3,594,007
Receivables from thrift resolutions and other assets, net (Note 3)	1,183	5,456
Receivables from U.S. Treasury for goodwill litigation (Note 4)	356,455	356,455
Total Assets	**$1,229,250**	**$3,955,918**
Liabilities		
Accounts payable and other liabilities	$790	$2,442
Contingent liabilities for goodwill litigation (Note 4)	356,455	356,455
Total Liabilities	**357,245**	**358,897**
Resolution Equity (Note 5)		
Contributed capital	125,332,156	128,056,656
Accumulated deficit	(124,460,151)	(124,459,635)
Total Resolution Equity	**872,005**	**3,597,021**
Total Liabilities and Resolution Equity	**$1,229,250**	**$3,955,918**

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

FSLIC RESOLUTION FUND (FRF)

FEDERAL DEPOSIT INSURANCE CORPORATION
FSLIC RESOLUTION FUND STATEMENT OF INCOME AND ACCUMULATED DEFICIT
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2013	2012
Revenue		
Interest on U.S. Treasury obligations	$1,196	$2,458
Other revenue	1,953	2,549
Total Revenue	**3,149**	**5,007**
Expenses and Losses		
Operating expenses	2,350	4,165
Provision for losses	(1,255)	(1,408)
Goodwill litigation expenses (Note 4)	500	181,000
Other expenses	2,070	258
Total Expenses and Losses	**3,665**	**184,015**
Net Loss	**(516)**	**(179,008)**
Accumulated Deficit - Beginning	**(124,459,635)**	**(124,280,627)**
Accumulated Deficit - Ending	**$(124,460,151)**	**$(124,459,635)**

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

FSLIC RESOLUTION FUND (FRF)

FEDERAL DEPOSIT INSURANCE CORPORATION
FSLIC RESOLUTION FUND STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
Dollars in Thousands

	2013	2012
Operating Activities		
Provided by:		
Interest on U.S. Treasury obligations	$1,196	$2,458
Recoveries from financial institution resolutions	5,148	19,074
Recovery of tax benefits	130	44,445
Miscellaneous receipts	52	365
Used by:		
Operating expenses	(3,921)	(5,718)
Payments for goodwill litigation (Note 4)	(500)	(181,000)
Miscellaneous disbursements	0	(27)
Net Cash Provided (Used) by Operating Activities	**2,105**	**(120,403)**
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill litigation (Note 4)	500	181,000
Used by:		
Return of U.S. Treasury funds (Note 5)	(2,600,000)	0
Payment to Resolution Funding Corporation (Note 5)	(125,000)	0
Net Cash (Used) Provided by Financing Activities	**(2,724,500)**	**181,000**
Net (Decrease) Increase in Cash and Cash Equivalents	**(2,722,395)**	**60,597**
Cash and Cash Equivalents - Beginning	**3,594,007**	**3,533,410**
Cash and Cash Equivalents - Ending	**$871,612**	**$3,594,007**

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

Notes to the Financial Statements

FSLIC RESOLUTION FUND
December 31, 2013 and 2012

1. OPERATIONS/DISSOLUTION OF THE FSLIC RESOLUTION 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, the FDIC, as administrator of the Deposit Insurance Fund (DIF), insures the deposits of banks and savings associations (insured depository institutions). In cooperation with other federal and state agencies, the FDIC promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the DIF. Commercial banks, savings banks and savings associations (known as "thrifts") are supervised by either the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board. In addition, the FDIC, through administration of the FSLIC Resolution Fund (FRF), is responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The DIF and the FRF are maintained separately by the FDIC to support their respective functions.

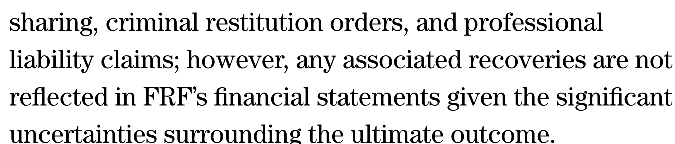
The U.S. Congress created the FSLIC through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FRF, and transferred the assets and liabilities of the FSLIC to the FRF—except those assets and liabilities transferred to the newly created 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 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.

OPERATIONS/DISSOLUTION OF THE FRF

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

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities. Some of the issues and items that remain open in FRF are 1) criminal restitution orders (generally have from 1 to 17 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 7 years remaining to enforce, unless the judgments are renewed or are covered by the Federal Debt Collections Procedures Act, which will result in significantly longer periods for collection for some judgments); 3) a few assistance agreements entered into by the former FSLIC (FRF could continue to receive or refund overpayments of tax benefits sharing in future years); 4) goodwill litigation (no final date for resolution has been established; see Note 4); and 5) affordable housing program monitoring (requirements can exceed 25 years). The FRF could potentially realize recoveries from tax benefits



sharing, criminal restitution orders, and professional liability claims; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

After evaluating FRF's remaining assets and liabilities in 2013, the FDIC returned $2.6 billion to the U.S. Treasury on behalf of FRF-FSLIC and paid $125 million to REFCORP on behalf of FRF-RTC (see Note 5). More transfers are expected to continue as remaining assets wind down and liabilities are satisfied.

RECEIVERSHIP OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

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

USE OF ESTIMATES

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

CASH EQUIVALENTS

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

PROVISION FOR LOSSES

The provision for losses represents the change in the estimation of the allowance for losses related to the receivables from thrift resolutions and other assets.

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.

PRESENTATION OF STATEMENT OF CASH FLOWS

To enhance cash flow information for operating activities of the FRF, in 2013, the FDIC changed the method of presenting the FRF's Statement of Cash Flows from the indirect method to the direct method, which is preferable and is encouraged by the Financial Accounting Standards Board. Accordingly, the FRF's 2012 Statement of Cash Flows has been conformed to this method of presentation for comparative purposes. For 2013 and 2012, the reconciliation of net income to net cash from operating activities is presented in Note 7.

DISCLOSURE ABOUT RECENT RELEVANT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update No. 2013-07, *Presentation of Financial Statements - Liquidation Basis of Accounting*, modifies Accounting Standards Codification Topic 205, *Presentation of Financial Statements*, to require an entity to prepare its financial statements using the liquidation

basis of accounting when liquidation is imminent. The amendments are effective during annual reporting periods beginning after December 15, 2013. As the remaining issues of the FRF continue to wind down (see Note 1), the FDIC will evaluate the applicability of this standard to the FRF. At this time, the FDIC has no approved liquidation plan for the final dissolution of the FRF.

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

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, 2013, only one of the 850 FRF receiverships remains active and is expected to terminate in 2014.

The FRF receiverships held assets with a book value of $2 million and $13 million as of December 31, 2013 and 2012, respectively (which primarily consist of cash held for non-FRF, third party creditors).

OTHER ASSETS

Other assets primarily consist of assets that were acquired from terminated receiverships.

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

	2013	2012
Receivables from closed thrifts	$35	$869,917
Allowance for losses	0	(867,208)
Receivables from Thrift Resolutions, Net	**35**	**2,709**
Other assets, net	1,148	2,747
Total	**$1,183**	**$5,456**

4. CONTINGENT LIABILITIES FOR:

GOODWILL LITIGATION

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

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 can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) such sums as may be necessary for the payment of judgments and compromise settlements in the

goodwill litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any estimated liability for goodwill litigation should have a corresponding receivable from the U.S. Treasury and therefore have no net impact on the financial condition of the FRF.

The FRF paid $500 thousand and $181 million to the plaintiffs in one goodwill case in 2013 and 2012, respectively. The $500 thousand represents a reimbursement for a tax liability of the plaintiffs as a result of the $181 million settlement received in 2012. The FRF received appropriations from the U.S. Treasury to fund these payments.

As of December 31, 2013, one case is active and pending against the United States based on alleged breaches of the agreements stated above. For this case, a contingent liability and an offsetting receivable of $356 million was recorded as of December 31, 2013 and 2012. This case is currently before the lower court pending remand following appeal. It is reasonably possible that for this case the FRF could incur additional estimated losses of $63 million, representing additional damages contended by the plaintiff. For a case that was fully adjudicated, an estimated loss of $8 million, which represents estimated tax liabilities, is also reasonably possible.

For the second of the two cases active at year-end 2012, the United States' Motion for Costs was denied by the trial court and the United States did not seek further review of this denial. This case is now concluded.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by the DOJ, the entity that defends these lawsuits against the United States, based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and the DOJ. FRF-FSLIC pays in advance the estimated goodwill litigation expenses. Any unused funds are carried over and applied toward the next fiscal year (FY) charges. In 2013, FRF-FSLIC did not provide any additional funding to the DOJ because the unused funds from prior fiscal years were sufficient to cover estimated FY 2014 expenses.

GUARINI LITIGATION

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

All eight of the original Guarini cases have been settled. However, a case settled in 2006 further obligates the FRF-FSLIC as a guarantor for all tax liabilities in the event the settlement amount is determined by tax authorities to be taxable. The maximum potential exposure under this guarantee is approximately $81 million. However, the FDIC believes that it is very unlikely the settlement will be subject to taxation. The Internal Revenue Service concluded an examination of the affected entity's 2006 return without an assertion of taxation for an issue covered by the guarantee. The 2006 return was subsequently amended, and the amended return is under further administrative review. As of December 31, 2013, no liability has been recorded. The FRF does not expect to fund any payment under this guarantee.

GUARANTEES

On May 21, 2012, the FDIC, in its capacity as manager of the FRF, entered into an agreement with Fannie Mae for the release of $13 million of credit enhancement reserves to the FRF in exchange for indemnifying Fannie Mae for all future losses incurred on 76 multi-family mortgage loans. The former RTC supplied Fannie Mae with the credit enhancement reserves in the form of cash collateral to cover future losses on these mortgage loans through 2020. The maximum exposure on this indemnification is the current unpaid principal balance of the remaining 60 multi-family loans totaling $7 million. Based on a contingent liability assessment of this portfolio, the majority of the loans are at least 65% amortized, and all are scheduled to

mature within two to seven years. Since all of the loans are currently in performing status and no losses have occurred since 2001, future payments on this indemnification are not expected. As a result, the FRF has not recorded a contingent liability for this indemnification as of December 31, 2013.

5. RESOLUTION EQUITY

As stated in the Overview 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, 2013
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$46,307,319	$81,749,337	$128,056,656
Less: Payment to REFCORP	0	(125,000)	(125,000)
Less: Return of U.S. Treasury funds	(2,600,000)	0	(2,600,000)
Add: U.S. Treasury payment for goodwill litigation	500	0	500
Contributed capital - ending	**43,707,819**	**81,624,337**	**125,332,156**
Accumulated deficit	(42,879,951)	(81,580,200)	(124,460,151)
Total	**$827,868**	**$44,137**	**$872,005**

RESOLUTION EQUITY AT DECEMBER 31, 2012
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$46,126,319	$81,749,337	$127,875,656
Add: U.S. Treasury payment for goodwill litigation	181,000	0	181,000
Contributed capital - ending	**46,307,319**	**81,749,337**	**128,056,656**
Accumulated deficit	(42,882,341)	(81,577,294)	(124,459,635)
Total	**$3,424,978**	**$172,043**	**$3,597,021**

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.

FRF-FSLIC received $500 thousand and $181 million in U.S. Treasury payments for goodwill litigation in 2013 and 2012, respectively. Furthermore, $356 million was accrued for as receivables as of December 31, 2013 and 2012, respectively. Through December 31, 2013, the FRF has received or established a receivable for a total of $2.2 billion of goodwill appropriations, the effect of which increases contributed capital.

Through December 31, 2013, the FRF-RTC has returned $4.6 billion to the U.S. Treasury and made payments of $5.1 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2013 for $125 million. In addition, the FDIC returned $2.6 billion to the U.S. Treasury on behalf of the FRF-FSLIC in 2013. These actions serve to reduce contributed capital.

ACCUMULATED DEFICIT

The accumulated deficit represents the cumulative excess of expenses and losses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.8 billion and $87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by $13.1 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.3 billion, since their dissolution dates.

6. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 31, 2013 and 2012, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents of $826 million and $3.4 billion, respectively. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the Bureau of the Fiscal Service. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets.

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.

7. INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING ACTIVITIES FOR THE YEARS ENDED DECEMBER 31 Dollars in Thousands		
	2013	**2012**
Operating Activities		
Net Loss:	$(516)	$(179,008)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for insurance losses	(1,255)	(1,408)
Change in Assets and Liabilities:		
Decrease in receivables from resolutions and other assets	5,528	61,115
(Decrease) in accounts payable and other liabilities	(1,652)	(1,102)
Net Cash Provided (Used) by Operating Activities	**$2,105**	**$(120,403)**

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 6, 2014, the date the financial statements are available to be issued, and management determined that there are no items to disclose.

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Board of Directors
The Federal Deposit Insurance Corporation

In our audits of the 2013 and 2012 financial statements of the Deposit Insurance Fund (DIF) and of the FSLIC Resolution Fund (FRF), both of which are administered by the Federal Deposit Insurance Corporation (FDIC),[1] we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2013, and 2012, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2013; and
- no reportable noncompliance for 2013 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, including an emphasis of matter related to improvements in the banking industry's and the DIF's financial condition; (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

[1]A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, 1506 (July 21, 2010), is unfunded and did not have any transactions during 2013 or 2012.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with Section 17 of the Federal Deposit Insurance Act, as amended, and the Government Corporation Control Act, we have audited the financial statements of the DIF and of the FRF, both of which are administered by FDIC. The financial statements for the DIF comprise the balance sheets as of December 31, 2013, and 2012; the related statements of income and fund balance and cash flows for the years then ended; and the related notes to the financial statements. The financial statements for the FRF comprise the balance sheets as of December 31, 2013, and 2012; the related statements of income and accumulated deficit and cash flows for the years then ended; and the related notes to the financial statements. We also have audited FDIC's internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2013, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

FDIC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (3) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (4) providing its assertion about the effectiveness of internal control over financial reporting as of December 31, 2013, based on its evaluation, included in the accompanying Management Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements and opinions on FDIC's internal control over financial reporting relevant to the DIF and to the FRF based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective

internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal control over financial reporting. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not

identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.[2]

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions on Financial Statements

In our opinion:

- The DIF's financial statements present fairly, in all material respects, the DIF's financial position as of December 31, 2013, and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.
- The FRF's financial statements present fairly, in all material respects, the FRF's financial position as of December 31, 2013, and 2012, and the results of its operations and its cash flows for the years then

[2] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Improvement in the Banking Industry's and the DIF's Financial Condition

As discussed in note 7 to the DIF's financial statements, the banking industry continued to improve in 2013. During 2013, 24 insured institutions with combined assets of $5.8 billion failed. The losses to the DIF from failures that occurred in 2013 were lower than the amount accrued at the end of 2012, as the aggregate number and size of institution failures in 2013—and their estimated cost to the DIF—were less than anticipated. The DIF's contingent liability for anticipated failures declined from $3.2 billion at December 31, 2012, to $1.2 billion at December 31, 2013. As discussed in note 17 to the DIF's financial statements, through March 6, 2014, 5 institutions have failed thus far during 2014.

As of December 31, 2013, the DIF had a fund balance of $47.2 billion, compared to a fund balance of $33 billion at December 31, 2012. The DIF's ratio of reserves to estimated insured deposits as of December 31, 2013, was 0.79 percent, compared to 0.44 percent at December 31, 2012. This improvement was primarily attributable to revenue earned in 2013 and, as noted above, lower losses from failed institutions than estimated at December 31, 2012, and lower estimated losses for institutions that failed in prior years. FDIC's long-range plan is to maintain the reserve ratio at a minimum 2 percent.

Our opinion on the DIF's financial statements is not modified with respect to this matter.

Opinions on Internal Control over Financial Reporting

In our opinion:

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2013, based on criteria established under FMFIA.
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2013, based on criteria established under FMFIA.

During our 2013 audit, we identified deficiencies in FDIC's internal control over financial reporting that we do not consider to be material

weaknesses or significant deficiencies.[3] Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the financial statements of the DIF and the FRF, both of which are administered by the FDIC, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

FDIC management is responsible for complying with applicable laws, regulations, contracts, and grant agreements.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements of the DIF and the FRF, and perform certain other limited procedures. Accordingly, we did not test FDIC's compliance with all applicable laws, regulations, contracts, and grant agreements.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for 2013 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

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

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) noted that the agency was pleased that we provided unmodified opinions on the DIF's and the FRF's financial statements and that we reported that FDIC had effective internal control over financial reporting and complied with tested provisions of applicable laws, regulations, contracts, and grant agreements.

FDIC's CFO also stated that FDIC will continue to take steps to strengthen and improve its internal control environment, and that FDIC will continue its dedication to establishing sound financial management as a top priority in helping achieve the agency's mission.

James R. Dalkin
Director
Financial Management and Assurance

March 6, 2014

Appendix I

MANAGEMENT'S RESPONSE

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

Deputy to the Chairman and CFO

March 6, 2014

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

Re: FDIC Management Response to the GAO 2013 Financial Statements Audit Report

Dear Mr. Dalkin:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's **(GAO's) draft report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2013 and 2012 Financial Statements, GAO-14-303**. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified (unqualified) opinions for the twenty-second consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). Also, GAO reported that the FDIC had effective internal control over financial reporting, and that there was no reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements that were tested.

During the audit year, the FDIC management and staff continued to take steps to strengthen and improve the internal control environment and will continue to concentrate on this area in the coming audit year. FDIC recognizes the important role a strong internal control program plays in an agency achieving its mission. Our dedication to sound financial management has been and will remain a top priority.

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

We want to thank the GAO staff for their professionalism and dedication during the audit and look forward to a productive and successful relationship during the 2014 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

Attachment

Management's Report on Internal Control Over Financial Reporting

The Federal Deposit Insurance Corporation's (FDIC's) internal control over financial reporting relevant to the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF) is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements.

FDIC management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FDIC management evaluated the effectiveness of the FDIC's internal control over financial reporting relevant to the DIF and the FRF as of December 31, 2013, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA). FDIC management performed this evaluation through its corporate risk management program that seeks to comply with the spirit of the following laws, standards, and guidance from the Office of Management and Budget (OMB) among others: FMFIA; Chief Financial Officers Act (CFO Act); Government Performance and Results Act (GPRA); Federal Information Security Management Act (FISMA); and OMB Circular A-123. In addition, other standards that the FDIC considers are the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control – Integrated Framework* and the U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government.*

Based on the above evaluation, management concludes that, as of December 31, 2013, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.

Federal Deposit Insurance Corporation
March 6, 2014