FDIC

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

May 17, 2010

MEMORANDUM TO: The Board of Directors

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

Bret D. Edwards
Director, Division of Finance

SUBJECT: First Quarter 2010 CFO Report to the Board

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

**Executive Summary**

- For the first quarter of 2010, the Deposit Insurance Fund (DIF) balance increased by $145 million to negative $20.7 billion. This increase was primarily due to $3.3 billion in assessments earned, offset by $3.0 billion in the provision for insurance losses. This is the first quarterly increase in the fund balance since the first quarter of 2008.

- During the first quarter of 2010, the FDIC was named receiver for 41 failed institutions. The combined assets at inception for these institutions totaled approximately $22.3 billion with a total estimated loss of $6.3 billion.

- For the period ending March 31, 2010, expenditures from the Corporate Operating Budget ran below budget by 9 percent ($79.4 million). This variance was primarily the result of lower spending for contractual services and vacancies in budgeted positions in both the Receivership Funding and the Ongoing Operations components.

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

| Trends and Outlook | |
|---|---|
| Financial Results | Comments |
| **I. Financial Statements** | • Since the fourth quarter 2008, the FDIC has resolved 128 institutions using a Whole Bank Purchase and Assumption resolution transaction with an accompanying Loss Share Agreement on the assets purchased by the acquirer. Under the terms of the agreements, losses on the covered assets are shared between the acquirer and the FDIC in its capacity as receiver of the failed institution. As of March 31, 2010, DIF receiverships are estimated to pay approximately $25.7 billion over the life of these loss-share agreements (typically 5 to 10 years) on approximately $143.0 billion in total covered assets. The estimated liability for loss-share is accounted for by the receiver and is considered in the determination of the DIF's allowance for loss against the corporate receivable from the resolution. To date, 65 receiverships have made loss-share payments totaling $2.6 billion. |

| Trends and Outlook | |
|---|---|
| Financial Results | Comments |
| **II. Investments** | • The total liquidity (total market value plus accrued interest) of all DIF-related investment portfolios stood at $63.3 billion on March 31, 2010, down from $66.1 billion on December 31, 2009, led primarily by the decline in the DIF investment portfolio as discussed below.<br><br>• The DIF investment portfolio's amortized cost (book value) decreased by $2.2 billion during the first quarter of 2010, and totaled $57.1 billion on March 31, 2010. The decrease was the result of having to fund 41 bank failures during the quarter, although it should be noted that 35 of these failures were resolved as loss-share transactions (in which the acquirers purchased substantially all of the failed institutions' assets and the FDIC and the acquirers entered into loss-share agreements) requiring little or no initial resolution funding, thus helping to mitigate the decline in the DIF portfolio's balance. Moreover, during the quarter, the DIF received $3.4 billion in dividends, repayment of borrowings, and expense reimbursements from its receiverships. This also helped to mitigate the DIF portfolio's decline. Nevertheless, the DIF portfolio's balance is expected to decline considerably over the next several quarters.<br><br>• At the end of the first quarter, the DIF investment portfolio's yield was 0.49 percent; this is unchanged from its December 31, 2009 yield. While during the quarter, $1.4 billion in higher yielding securities matured, this was offset by an increase in the yield on overnight investments, rising from 0.02 percent on December 31, 2009 to 0.13 percent on March 31, 2010.<br><br>• Short-maturity conventional Treasury market yields increased modestly during the first quarter of 2010, while most intermediate- to longer-maturity conventional Treasury yields declined modestly (after having increased during the fourth quarter of 2009). The longer-maturity declines appeared to reflect such factors as subdued inflation trends and stable inflation expectations; the ultra-low federal funds target rate and continuing investor expectations that the rate will remain low for some time; and some concerns over the strength and longevity of the nascent economic expansion. According to consensus expectations, Treasury yields are expected to increase modestly during the remainder 2010 and 2011. |

| Trends and Outlook | |
|---|---|
| Financial Results | Comments |
| **III. Budget** | • Approximately $303.4 million was spent in the Ongoing Operations component of the 2010 Corporate Operating Budget, which was $42.7 million (12 percent) below the budget for the three months ending March 31, 2010. Actual expenses in the Salaries and Compensation and Outside Services – Personnel categories were $22.5 million and $11.6 million, respectively, below their year-to-date budgets and accounted for most of this variance.<br><br>• Approximately $455.3 million was spent in the Receivership Funding component of the 2010 Corporate Operating Budget, which was $36.6 million (7 percent) below the budget for the three months ending March 31, 2010. |

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

### Deposit Insurance Fund (DIF)

- For the three months ending March 31, 2010, the DIF's comprehensive income totaled $145 million compared to a comprehensive loss of $4.3 billion for the same period last year. This $4.4 billion increase in the year-over-year amounts was mostly due to a $3.6 billion decrease in the provision for insurance losses and a $663 million increase in assessment revenue.

- The provision for insurance losses was $3.0 billion for the first quarter of 2010. The total provision consists mainly of the decrease in the provision for future failures ($3.3 billion) and the losses estimated at failure for the 41 resolutions occurring during 2010 ($6.3 billion).

- The fair value of the trust preferred securities increased by $178 million to $2.1 billion as of March 31, 2010, representing 96 percent of the $2.2 billion par value of these securities.

### FSLIC Resolution Fund (FRF)

- The FRF paid Goodwill judgments for two cases in the aggregate amount of $11.1 million that were accrued in 2009.

## II. <u>Investments</u>

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

### DIF Investment Portfolio

- The amortized cost (book value) of the DIF investment portfolio decreased by $2.2 billion during the first quarter of 2010, or by 3.7 percent, from $59.3 billion on December 31, 2009, to $57.1 billion on March 31, 2010. Similarly, the DIF portfolio's primary reserve (total market value plus accrued interest) decreased by $2.3 billion or by 3.9 percent, from $59.5 billion on December 31, 2009, to $57.2 billion on March 31, 2010. During the quarter, resolution outlays and operating expenses exceeded receivership payments and assessment collections.

- The DIF investment portfolio's total return for the first quarter of 2010 was 0.06 percent, approximately 107 basis points lower than its benchmark, the Merrill Lynch 1 – 10 Year U.S. Treasury Index (Index), which had a total return of 1.13 percent during the same period. Given that most longer-maturity Treasury yields declined during the first quarter (that is, their prices rose), the DIF portfolio’s large cash balance invested in low-yielding overnight investments was a drag on performance relative to the Index’s longer-duration conventional Treasury securities.

- In accordance with the approved first quarter 2010 investment strategy, which strove to balance the need for liquidity against the desire to pick up some yield by investing in short-maturity Treasuries, staff purchased a total of nine short-maturity Treasury bills (T-Bills) during the first quarter of 2010. The nine securities had a total par value of $11.7 billion, a weighted average yield-at-cost of 0.22 percent, and a weighted average maturity (WAM) of 0.48 years.

**Other Corporate Investment Portfolios**

- During the first quarter of 2010, the book value of the Debt Guarantee Program (DGP) investment portfolio decreased from $6.4 billion on December 31, 2009, to $6.1 billion on March 31, 2010. Although the DGP portfolio received $207 million in reimbursements from the Transaction Account Guarantee (TAG) Program assessments at quarter end, the DGP reimbursed $562 million to the DIF portfolio for claims against the TAG program during the quarter. In accordance with the approved first quarter 2010 investment strategy for the DGP portfolio, staff purchased two short-maturity T-Bills for the portfolio. The securities had a total par value of $1.4 billion, a weighted average yield-at-cost of 0.24 percent, and a WAM of 0.57 years.

- On March 31, 2010, as mentioned above, the FDIC collected about $207 million in fees related to the TAG Program under the Temporary Liquidity Guarantee Program. Again, these funds were immediately transferred to the DGP investment portfolio for reimbursement of claims and expenses, so the TAG Program investment portfolio had no balance at quarter end.

**National Liquidation Fund Investment Portfolio**

- During the first quarter of 2010, the National Liquidation Fund (NLF) investment portfolio balance increased by a substantial $4.5 billion, or by 62.6%, from $7.2 billion on December 31, 2009, to $11.7 billion on March 31, 2010, as asset sales and funds from additional resolutions exceeded dividends and expenses. Moreover, during the first quarter of 2010, the NLF made approximately $3.4 billion in dividend and other related payments to the DIF.

**The Treasury Market**

- Short-maturity conventional Treasury market yields increased modestly during the first quarter of 2010, but most longer-maturity conventional Treasury yields declined modestly (after having increased during the fourth quarter of 2009). The three-month T-Bill yield increased by 6 basis points, while the six-month T-Bill increased by 4 basis points. The yield on the two-year Treasury note, which also is very sensitive to actual and anticipated changes in the federal funds rate, declined by a modest 12 basis points, still reflecting consensus forecasts for no significant change in the federal funds target rate over the near term. Intermediate- to longer-maturity Treasury security yields declined, albeit modestly. The yield on the five-year Treasury note decreased by 14 basis points, while the yield on the ten-year Treasury note decreased by just 1 basis point. The thirty-year Treasury bond yield actually increased by 7 basis points. The conventional Treasury yield curve steepened further during the first quarter. On March 31, 2010, the two-year to ten-year yield curve had a 281-basis point positive spread (slightly higher than the 270-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 102 basis points.

**Prospective Strategies**

- Similar to the first quarter investment strategy, although with smaller investment security maturity limits, the approved second quarter 2010 DIF investment strategy calls for purchasing up to $15.0 billion of shorter-term Treasury securities with maturities between July 1, 2010, and March 31, 2011. This strategy attempts to balance the need to maintain sufficient portfolio liquidity for the funding of potential near-term resolutions against the yield pick-up that can be obtained by investing in short-maturity Treasury securities.

- For the Debt Guarantee Program, similar to its first quarter investment strategy, the second quarter 2010 investment strategy calls for purchasing up to $2.0 billion of Treasury securities with maturities between July 1, 2010, and March 31, 2011. Again, this strategy attempts to balance the need to maintain sufficient portfolio liquidity against the yield pick-up that can be obtained by investing in short-maturity Treasury securities.

**III. <u>Budget Results</u>** (See pages 15 - 16 for detailed data.)

**Approved Budget Modifications**

The 2010 Budget Resolution delegated to the Chief Financial Officer (CFO) and selected other officials the authority to make certain modifications to the 2010 Corporate Operating Budget. The following budget reallocations were made during the first quarter in accordance with the authority delegated by the Board of Directors (these reallocations did not change the total 2010 Corporate Operating Budget approved by the Board):

- In January 2010, the Division of Supervision and Consumer Protection (DSC), the Division of Information Technology (DIT), the Division of Administration (DOA), the Chief Information Officer (CIO) Council, and the Office of International Affairs (OIA) reallocated budget authority among major expense categories within their approved budgets. The most significant realignments within the Ongoing Operations budget component increased the Equipment budget authority in DIT by $1.6 million, funded largely by reductions in Outside Services – Personnel. DSC reduced its budget for Travel by $2.1 million, primarily to provide increased budget authority for the Outside Services – Personnel and Other Expenses expense categories. DIT and DOA also made realignments within the Receivership Funding budget component, the most significant of which was a $20.1 million reduction in Equipment by DIT to reallocate those funds to the Outside Services – Personnel, and Outside Services – Other expense categories.

- In January 2010, in support of efforts to increase the FDIC's outreach to Minority and Women Owned Businesses (MWOBs), the CFO approved the reallocation of $1.1 million in budget authority from the Corporate Unassigned budget to the Outside Services - Personnel budget of the Office of Diversity and Economic Opportunity (ODEO). The realignment decreased the available balance in the Corporate Unassigned budget from $15.0 million to $13.9 million.

- In February 2010, the CFO approved the reallocation of budget authority within the Ongoing Operations budget component to provide funding for an increase in authorized staffing for the Office of Inspector General (OIG) approved by the Chairman. The reallocations reduced the Corporate Unassigned budget by over $1.1 million and increased the OIG's Salaries and Compensation budget by the same amount. The realignment further decreased the available balance in the Corporate Unassigned budget from $13.9 million to approximately $12.8 million. Thus, the total amount in the Corporate Unassigned budget at the end of the first quarter was $12.8 million in Ongoing Operations and $175.8 million in Receivership Funding (as approved by the Board of Directors in December 2009), for a corporate total of $188.6 million.

**Approved Staffing Modifications**

The 2010 Budget Resolution delegated to the CFO the authority to modify Authorized 2010 Staffing for divisions and offices, as long as those modifications did not increase the total approved 2010 Corporate Operating Budget. The following changes were approved by the CFO in accordance with the authority delegated to him by the Board of Directors:

- In January 2010, the CFO approved an increase of six permanent positions and a decrease of six non-permanent positions in DIT's authorized 2010 staffing to correct for the misclassification of those positions during the 2010 budget formulation process. No budget adjustment was necessary in conjunction with this corrective action.

- In February 2010, following the Chairman's approval of an amended budget request for the OIG, the CFO approved an increase of 30 positions (6 permanent, 24 non-permanent) in the OIG. These additional positions are required to address projected increases in the OIG's workload and are consistent with the Fiscal Year 2011 appropriation request submitted to the Congress by the OIG. A budget adjustment was also made in conjunction with this approval (see above).

- In February 2010, the CFO approved the increase of one authorized permanent position in the Office of Legislative Affairs (OLA). The additional position was needed to address the current elevated legislative workload that is expected to continue indefinitely. A reallocation of existing budget authority is expected to be made to fund this staffing increase after the end of the first quarter.

- In March 2010, the CFO approved an increase of four authorized non-permanent positions in the Office of the Ombudsman (OO). The additional positions will allow OO to perform duties in the newly-established temporary Midwest Satellite Office. A reallocation of existing budget authority is expected to be made to fund this staffing increase after the end of the first quarter.

- In March 2010, the CFO approved a net increase of seven authorized positions in DSC. This included 11 new permanent positions in the Complex Financial Institutions Branch to enhance Large Insured Depository Institution (LIDI) and other offsite analyses of large insured institutions and one new permanent Senior Policy Analyst position in the Policy Branch. These increases were partially offset by the elimination of five previously-approved positions (4 permanent, 1 non-permanent) for Capital Markets Expert and Large Bank Specialist positions that DSC did not fill in 2009. A reallocation of existing budget authority is expected to be made to fund this staffing increase after the end of the first quarter.

**Spending Variances**

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the three months ending March 31, 2010, are defined as those that either (1) exceed the YTD budget by $3 million and represent more than 5 percent for a major expense category or total division/office budget; or (2) are under the YTD budget for a major expense category or division/office by an amount that exceeds $5 million and represents more than 10 percent of the major expense category or total division/office budget.

**Significant Spending Variances by Major Expense Category**

Ongoing Operations

There was a significant spending variance in only one major expense category during the first quarter in the Ongoing Operations component of the 2010 Corporate Operating Budget:

- Outside Services - Personnel expenditures were $11.6 million, or 21 percent, less than budgeted. The variance was largely due to under spending of the IT budget by the CIO Council and DIT. The CIO Council's spending for systems maintenance and discretionary small enhancements was $4 million less than budgeted, and DIT's spending for internal operations was nearly $4 million under budget. These variances were largely attributable to Federal holidays and weather-related office closings in the Washington, DC, area and delays in starting some internal DIT initiatives during the first quarter. Slower-than-anticipated spending on human resources contractor support services and scheduling adjustments related to the roll-out of the FDIC strategic human capital plan and the EM/CM PMR program also contributed to the variance in this category by DOA.

Receivership Funding

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

There were significant spending variances in six of the seven major expense categories during the first quarter in the Receivership Funding component of the 2010 Corporate Operating Budget:

- Salaries and Compensation ($18.7 million, or 32 percent, less than budgeted).

- Outside Services – Personnel ($88.5 million, or 25 percent, less than budgeted).
- Travel ($5.8 million, or 40 percent, less than budgeted).
- Buildings ($15.9 million, or 45 percent, more than budgeted).
- Outside Services – Other ($41.6 million, or 691 percent, more than budgeted).
- Other Expenses ($17.7 million, or 114 percent, more than budgeted).

The variance in the Outside Services – Personnel and Travel expense categories were attributable to fewer-than-anticipated resolutions during the first quarter of 2010. The variance in the Salaries and Compensation category was attributable to timing in the hiring of non-permanent staff. Greater-than-budgeted spending occurred in the Buildings and Other Expenses categories as a result of longer than expected operations at receivership locations and the greater number of field sites in operation. This included approximately $43.6 million in unbudgeted guarantee fee costs, incurred in conjunction with a Limited Liability Company (LLC) transaction that were recorded to the Outside Services – Other expense category during the first quarter.

**Significant Spending Variances by Division/Office[1]**

Two organizations had significant spending variances through the end of the first quarter:

- DIT spent $10.5 million, or 18 percent, less than budgeted. This variance was largely attributable to delays in receiving hardware/software maintenance purchases, postponement of contractor services due to inclement weather and delays in beginning some internal initiatives, budgeted positions that remained vacant at the end of the quarter, and other salary budget timing issues.

- DOA spent $8.1 million, or 13 percent, less than budgeted. This variance was largely attributable to fewer resolutions than anticipated during the first quarter, budgeted positions that remained vacant and other salary budget timing issues, and lower-than-budgeted spending for contractor support expenses for hiring and staffing-related services. Scheduling adjustments related to the roll-out of the FDIC strategic human capital plan and the EM/CM PMR program also contributed to the variance.

**Other Matters**

In accordance with the requirements of the 2010 Budget Resolution, an analysis of 2010 funding requirements for employee salaries and compensation was completed after the close of the first quarter. The analysis determined that those costs had been over-estimated during the preparation of the 2010 Corporate Operating Budget by approximately $10.4 million and $3.9 million in the Ongoing Operations and Receivership Funding budget components, respectively. The CFO elected to reserve this surplus budget authority in the Corporate Unassigned budget as a contingency to address possible unbudgeted requirements later this year. This budget

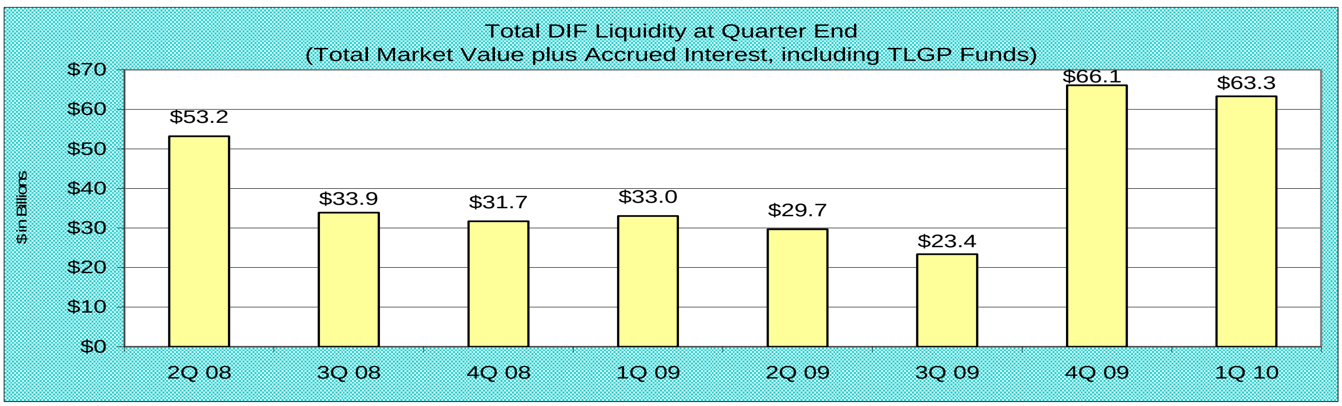
[1] Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

authority could be needed if the pending financial reform legislation is enacted and expands the FDIC's existing statutory responsibilities or if additional funding is needed for temporary examiner promotions or the 2010 leave buyback program.  These figures will be included in the second quarter CFO Report to the Board.

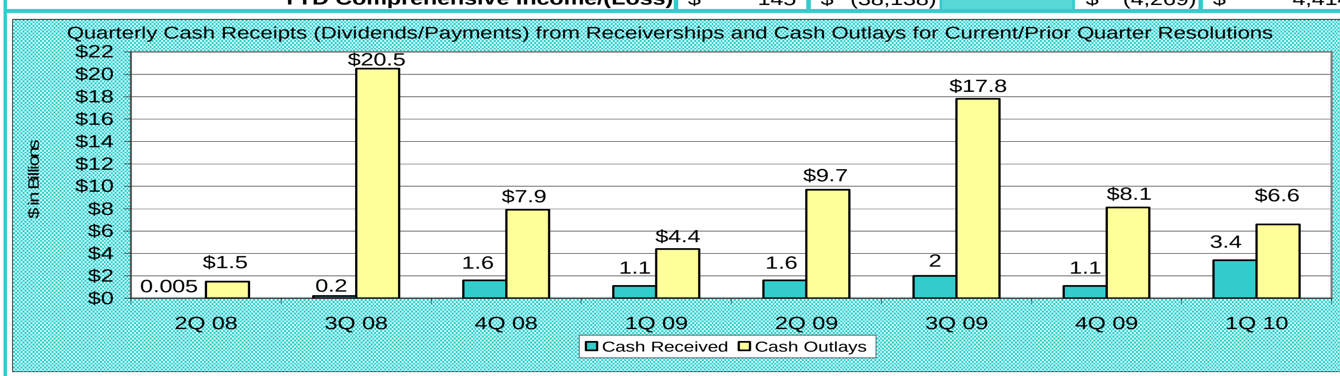
## Fund Financial Results

*($ in Millions)*

| Balance Sheet | Deposit Insurance Fund | | | | |
|---|---|---|---|---|---|
| | Unaudited Mar-10 | Unaudited Dec-09 | Quarterly Change | Unaudited Mar-09 | Year-Over-Year Change |
| Cash & cash equivalents - unrestricted | $ 41,094 | $ 54,092 | $ (12,998) | $ 1,636 | $ 39,458 |
| Cash & investments - restricted - systemic risk | 6,077 | 6,431 | (354) | 6,086 | (9) |
| Investment in U.S. Treasury obligations, net | 15,792 | 5,487 | 10,305 | 24,909 | (9,117) |
| Trust preferred securities | 2,140 | 1,962 | 178 | - | 2,140 |
| Assessments receivable, net | 268 | 280 | (12) | 2,550 | (2,282) |
| Receivables and other assets, net - systemic risk | 3,165 | 3,299 | (134) | 3,708 | (543) |
| Interest receivable on investments and other assets, net | 134 | 221 | (87) | 342 | (208) |
| Receivables from resolutions, net | 39,091 | 38,409 | 682 | 18,145 | 20,946 |
| Property, buildings and other capitalized assets, net | 386 | 388 | (2) | 372 | 14 |
| **Total Assets** | $ 108,147 | $ 110,569 | $ (2,422) | $ 57,748 | $ 50,399 |
| Accounts payable and other liabilities | 351 | 274 | 77 | 753 | (402) |
| Unearned revenue - prepaid assessments | 39,718 | 42,727 | (3,009) | - | 39,718 |
| Liabilities due to resolutions | 38,362 | 34,712 | 3,650 | 5,420 | 32,942 |
| Deferred revenue - systemic risk | 7,999 | 7,847 | 152 | 8,396 | (397) |
| Postretirement benefit liability | 145 | 145 | - | 114 | 31 |
| Contingent Liabilities: future failures | 40,720 | 44,014 | (3,294) | 28,459 | 12,261 |
| Contingent Liabillties: systemic risk | 1,269 | 1,412 | (143) | 1,399 | (130) |
| Contingent Liabilities: litigation losses & other | 300 | 300 | - | 200 | 100 |
| **Total Liabilities** | $ 128,864 | $ 131,431 | $ (2,567) | $ 44,741 | $ 84,123 |
| FYI: Unrealized gain/(loss) on U.S. Treasury investments, net | 113 | 142 | (29) | 1,919 | (1,806) |
| FYI: Unrealized gain/(loss) on trust preferred securities | 178 | - | 178 | - | 178 |
| FYI: Unrealized postretirement benefit gain/(loss) | (3) | (3) | - | 25 | (28) |
| **FUND BALANCE** | $ (20,717) | $ (20,862) | $ 145 | $ 13,007 | $ (33,724) |




| **Income Statement** (year-to-date) | Deposit Insurance Fund | | | | |
|---|---|---|---|---|---|
| | Unaudited Mar-10 | Unaudited Dec-09 | | Unaudited Mar-09 | Year-Over-Year Change |
| Assessments earned | $ 3,278 | $ 17,717 | | $ 2,615 | $ 663 |
| Systemic risk revenue | 49 | 1,722 | | 73 | (24) |
| Interest earned on U.S. Treasury obligations | 62 | 704 | | 212 | (150) |
| Realized gain on sale of securities | - | 1,389 | | 136 | (136) |
| Other revenue | 23 | 3,174 | | 2 | 21 |
| **Total Revenue** | $ 3,412 | $ 24,706 | | $ 3,038 | $ 374 |
| Operating expenses (includes depreciation expense) | 345 | 1,271 | | 266 | 79 |
| Systemic risk expenses | 49 | 1,722 | | 73 | (24) |
| Provision for insurance losses | 3,021 | 57,712 | | 6,637 | (3,616) |
| Other expenses | 1 | 4 | | - | 1 |
| **Total Expenses & Losses** | $ 3,416 | $ 60,709 | | $ 6,976 | $ (3,560) |
| **Net Income/(Loss)** | (4) | (36,003) | | (3,938) | 3,934 |
| Unrealized gain/(loss) on U.S. Treasury investments, net | (29) | (2,108) | | (331) | 302 |
| Unrealized gain/(loss) on trust preferred securities | 178 | - | | - | 178 |
| Unrealized postretirement benefit gain/(loss) | - | (27) | | - | - |
| **YTD Comprehensive Income/(Loss)** | $ 145 | $ (38,138) | | $ (4,269) | $ 4,414 |



## Fund Financial Results - continued

($ in Millions)

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

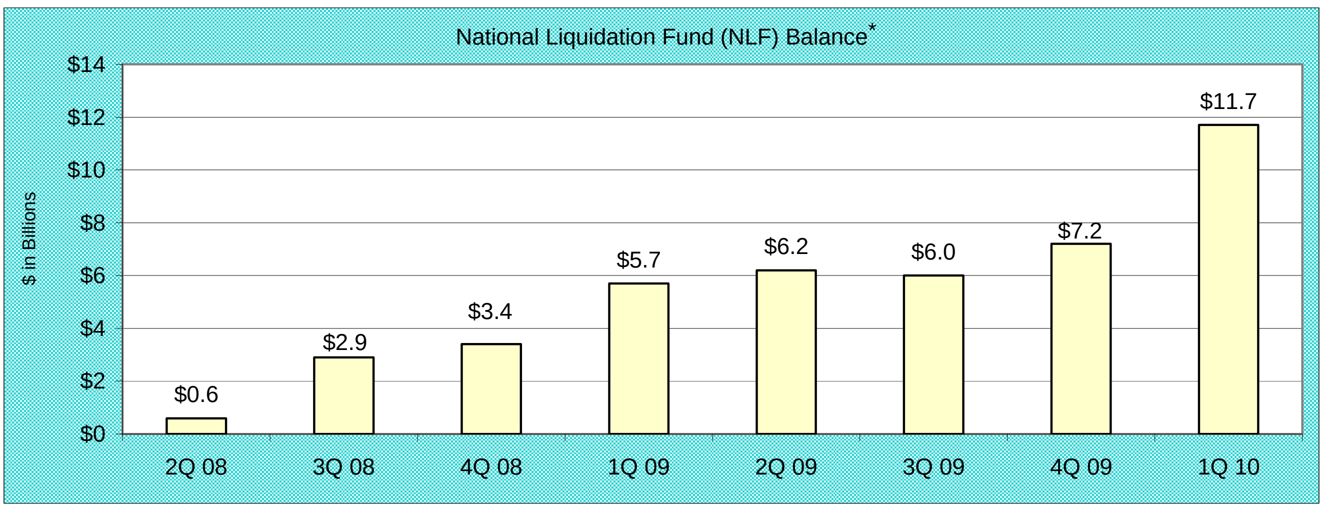
| | Unaudited Mar-10 | Unaudited Dec-09 | | Unaudited Mar-09 | Year-Over-Year Change |
|---|---|---|---|---|---|
| **Net (Loss)/Income** | $ (4) | $ (36,003) | | $ (3,938) | $ 3,934 |
| Amortization of U.S. Treasury obligations (unrestricted) | 3 | 212 | | 80 | (77) |
| TIPS Inflation Adjustment | (4) | 11 | | 57 | (61) |
| Depreciation on property and equipment | 18 | 71 | | 15 | 3 |
| Loss on retirement of property and equipment | - | 1 | | - | - |
| Provision for insurance losses | 3,021 | 57,712 | | 6,637 | (3,616) |
| Unrealized (loss)/gain on postretirement benefits | - | (28) | | - | - |
| (Gain) on sale of UST obligations | - | (1,389) | | (136) | 136 |
| Guarantee termination fee from Citigroup | - | (1,962) | | - | - |
| Systemic risk expenses | - | - | | 32 | (32) |
| Net change in operating assets and liabilities | (4,656) | 17,081 | | (1,031) | (3,625) |
| **Net Cash Provided by/(Used by) Operating Activities** | $ (1,622) | $ 35,706 | | $ 1,716 | $ (3,338) |
| Investments matured and sold | 1,355 | 21,432 | | 2,619 | (1,264) |
| Investments purchased (includes purchase of property and equipment) | (13,085) | (4) | | (2) | (13,083) |
| **Net Cash Provided by/(Used by) Investing Activities** | $ (11,730) | $ 21,428 | | $ 2,617 | $ (14,347) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | (13,352) | 57,134 | | 4,333 | (17,685) |
| Cash and Cash Equivalents at beginning of year | 60,523 | 3,389 | | 3,389 | 57,134 |
| Unrestricted Cash and Cash Equivalents - Ending | 41,094 | 54,092 | | 1,636 | 39,458 |
| Restricted Cash and Cash Equivalents - Ending | 6,077 | 6,431 | | 6,086 | (9) |
| **Cash and Cash Equivalents - Ending** | $ 47,171 | $ 60,523 | | $ 7,722 | $ 39,449 |

**Selected Financial Data** — **FSLIC Resolution Fund**

| | Unaudited Mar-10 | Unaudited Dec-09 | Quarterly Change | Unaudited Mar-09 | Year-Over-Year Change |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 3,476 | $ 3,470 | $ 6 | $ 3,467 | $ 9 |
| Accumulated deficit, net | (124,328) | (124,348) | 20 | (123,944) | (384) |
| Resolution equity | 3,520 | 3,500 | 20 | 3,498 | 22 |
| Total revenue | 6 | 8 | | 5 | 1 |
| Operating expenses | 1 | 5 | | 1 | - |
| Goodwill/Guarini litigation expenses | - | 409 | | - | - |
| **Net (Loss)/Income** | $ 20 | $ (400) | | $ 4 | $ 16 |

**Receivership Selected Statistics March 2010 vs. March 2009**

| | DIF | | | FRF | | | ALL FUNDS | | |
|---|---|---|---|---|---|---|---|---|---|
| *Year-to-Date ($ in millions)* | Mar-10 | Mar-09 | *Change* | Mar-10 | Mar-09 | *Change* | Mar-10 | Mar-09 | *Change* |
| Total Receiverships | 220 | 61 | 159 | 8 | 8 | - | 228 | 69 | 159 |
| Assets in Liquidation | $ 36,843 | $ 16,061 | $ 20,782 | $ 29 | $ 34 | $ (5) | $ 36,872 | $ 16,095 | $ 20,777 |
| Collections | $ 7,285 | $ 1,614 | $ 5,671 | $ 8 | $ 4 | $ 4 | $ 7,293 | $ 1,618 | $ 5,675 |
| Dividends Paid - Cash | $ 3,256 | $ 3,838 | $ (582) | $ - | $ - | $ - | $ 3,256 | $ 3,838 | $ (582) |




*The NLF includes all funds held by the FDIC in its receivership capacity.

## Deposit Insurance Fund Portfolio Summary
(Dollar Values in Millions)

| | 3/31/10 | 12/31/09 | Change |
|---|---|---|---|
| Par Value | $57,065 | $59,268 | ($2,203) |
| Amortized Cost | $57,068 | $59,286 | ($2,218) |
| Market Value | $57,181 | $59,428 | ($2,247) |
| Primary Reserve [1] | $57,214 | $59,525 | ($2,311) |
| Primary Reserve % of Total Portfolio | 100.0% | 100.0% | 0.0% |
| Year-to-Date Total Return (Portfolio) | 0.056% | 0.306% | not applicable |
| Year-to-Date Total Return (Benchmark) [2] | 1.133% | (1.411%) | not applicable |
| Total Return Variance (in basis points) | (107.7) | 171.7 | not applicable |
| Yield-to-Maturity [3] | 0.49% | 0.49% | 0.00% |
| Weighted Average Maturity (in years) | 0.15 | 0.08 | 0.07 |
| Effective Duration (in years) [4] | | | |
| Total Portfolio | 0.14 | 0.06 | 0.08 |
| Available-for-Sale Securities | 0.49 | 0.66 | (0.17) |
| Held-to-Maturity Securities [5] | not applicable | not applicable | not applicable |

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

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

[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assumes an average 1.1% annual increase in the CPI over the remaining life of each TIPS.

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

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

## Summary of Other Corporate Investment Portfolios
**(Dollar Values in Millions)**

| | 3/31/10 | 12/31/09 | Change |
|---|---|---|---|
| *Debt Guarantee Program* | | | |
| Par Value | $6,079 | $6,431 | ($352) |
| Book Value | $6,077 | $6,431 | ($354) |
| Market Value | $6,077 | $6,431 | ($354) |
| Yield-to-Maturity | 0.16% | 0.02% | 0.14% |
| Weighted Average Maturity | overnight | overnight | no change |
| *Transaction Account Guarantee Program* | | | |
| Book Value [6] | $0 | $0 | $0 |
| Yield-to-Maturity | not applicable | not applicable | not applicable |
| Weighted Average Maturity | not applicable | not applicable | not applicable |
| *Other Systemic Risk Reserves* [7] | | | |
| Book Value [6] | $0 | $192 | ($192) |
| Yield-to-Maturity | not applicable | 0.02% | not applicable |
| Weighted Average Maturity | not applicable | overnight | not applicable |
| *FRF-FSLIC* | | | |
| Book Value [6] | $3,329 | $3,330 | ($1) |
| Yield-to-Maturity | 0.13% | 0.02% | 0.11% |
| Weighted Average Maturity | overnight | overnight | no change |

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

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

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

| | 3/31/10 | 12/31/09 | Change |
|---|---|---|---|
| Book Value [8] | $11,741 | $7,223 | $4,518 |
| Effective Annual Yield | 0.09% | 0.11% | (0.02%) |
| Weighted Average Maturity (in days) | 22 | 5 | 17 |

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

## Investment Strategies

### DEPOSIT INSURANCE FUND
### Strategy as of 1st Quarter 2010

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

### Strategy Changes for 2nd Quarter 2010

Purchase up to <u>$15 billion</u> (par value) of available-for-sale (AFS) securities with maturity dates between <u>July 1, 2010, and March 31, 2011</u>, subject to the following additional restrictions: no more than <u>$10 billion</u> (par value) of such securities shall have maturity dates beyond <u>September 30, 2010</u>; and no more than <u>$5 billion</u> (par value) of such securities shall have maturity dates beyond <u>December 31, 2010</u>.

### DEBT GUARANTEE PROGRAM
### Strategy as of 1st Quarter 2010

Purchase up to $3 billion (par value) of AFS securities with maturity dates between April 1, 2010, and December 31, 2010.

### Strategy Changes for 2nd Quarter 2010

Purchase up to <u>$2 billion</u> (par value) of AFS securities with maturity dates between <u>July 1, 2010, and March 31, 2011</u>.

### NATIONAL LIQUIDATION FUND
### Strategy as of 1st Quarter 2010

Maintain an overnight deposit target floor balance within a range of $15 million to $25 million. Strategically invest the remaining funds in the zero- to 12-month maturity sector.

### Strategy Changes for 2nd Quarter 2010

No changes to strategy.

## Executive Summary of 2010 Budget and Expenditures by Major Expense Category Through March 31, 2010 (Dollars in Thousands)

| Major Expense Category | YTD Budget | YTD Expenditures | % of Budget Used | Variance |
|---|---|---|---|---|
| **Corporate Operating Budget** | | | | |
| ***Ongoing Operations*** | | | | |
| Salaries & Compensation | $226,461 | $203,971 | 90% | ($22,490) |
| Outside Services - Personnel | 54,968 | 43,331 | 79% | (11,637) |
| Travel | 20,654 | 18,391 | 89% | (2,263) |
| Buildings | 18,300 | 16,680 | 91% | (1,620) |
| Equipment | 17,620 | 15,207 | 86% | (2,413) |
| Outside Services - Other | 4,597 | 3,199 | 70% | (1,398) |
| Other Expenses | 3,511 | 2,583 | 74% | (928) |
| **Total Ongoing Operations** | **$346,111** | **$303,362** | **88%** | **($42,749)** |
| ***Receivership Funding*** | | | | |
| Salaries & Compensation | $58,126 | $39,422 | 68% | ($18,704) |
| Outside Services - Personnel | 356,099 | 267,582 | 75% | (88,517) |
| Travel | 14,539 | 8,763 | 60% | (5,776) |
| Buildings | 35,493 | 51,357 | 145% | 15,864 |
| Equipment | 6,150 | 7,349 | 119% | 1,199 |
| Outside Services - Other | 6,021 | 47,635 | 791% | 41,614 |
| Other Expenses | 15,525 | 33,241 | 214% | 17,716 |
| **Total Receivership Funding** | **$491,953** | **$455,349** | **93%** | **($36,604)** |
| | | | | |
| **Total Corporate Operating Budget** | **$838,064** | **$758,711** | **91%** | **($79,353)** |
| | | | | |
| **Investment Budget** [1] | **$1,089** | **$721** | **66%** | **($368)** |
| | | | | |
| **Grand Total** | **$839,153** | **$759,432** | **90%** | **($79,721)** |

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

| Executive Summary of 2010 Budget and Expenditures<br>by Budget Component and Division/Office<br>Through March 31, 2010<br>(Dollars in Thousands) | | | | |
|---|---|---|---|---|
| Division/Office | YTD Budget | YTD Expenditures | % of Budget Used | Variance |
| ***Corporate Operating Budget*** | | | | |
| Supervision & Consumer Protection | $138,883 | $125,876 | 91% | ($13,007) |
| Information Technology | 55,629 | 45,524 | 82% | (10,105) |
| Administration | 63,960 | 55,867 | 87% | (8,093) |
| Resolutions & Receiverships | 454,287 | 419,151 | 92% | (35,136) |
| Legal | 58,558 | 57,281 | 98% | (1,277) |
| Insurance & Research | 9,679 | 8,639 | 89% | (1,040) |
| Finance | 9,705 | 7,103 | 73% | (2,602) |
| Inspector General | 9,068 | 7,029 | 78% | (2,039) |
| Corporate University - CEP FIS | 7,485 | 7,318 | 98% | (167) |
| Corporate University - Other | 4,223 | 4,074 | 96% | (149) |
| Executive Support [1] | 8,140 | 6,973 | 86% | (1,167) |
| Executive Offices [2] | 2,201 | 1,574 | 72% | (627) |
| CIO Council | 16,246 | 12,302 | 76% | (3,944) |
| **Total, Corporate Operating Budget** | **$838,064** | **$758,711** | **91%** | **($79,353)** |
| ***Investment Budget*** [3] | | | | |
| Information Technology | $1,001 | $649 | 65% | ($352) |
| Resolutions & Receiverships | 63 | 67 | 106% | 4 |
| Insurance & Research | 25 | 5 | 20% | (20) |
| **Total, Investment Budget** [3] | **$1,089** | **$721** | **66%** | **($368)** |
| ***Combined Division/Office Budgets*** | | | | |
| Supervision & Consumer Protection | $138,883 | $125,876 | 91% | ($13,007) |
| Information Technology | 56,630 | 46,173 | 82% | (10,457) |
| Administration | 63,960 | 55,867 | 87% | (8,093) |
| Resolutions & Receiverships | 454,350 | 419,218 | 92% | (35,132) |
| Legal | 58,558 | 57,281 | 98% | (1,277) |
| Insurance & Research | 9,704 | 8,644 | 89% | (1,060) |
| Finance | 9,705 | 7,103 | 73% | (2,602) |
| Inspector General | 9,068 | 7,029 | 78% | (2,039) |
| Corporate University - CEP FIS | 7,485 | 7,318 | 98% | (167) |
| Corporate University - Other | 4,223 | 4,074 | 96% | (149) |
| Executive Support [1] | 8,140 | 6,973 | 86% | (1,167) |
| Executive Offices [2] | 2,201 | 1,574 | 72% | (627) |
| CIO Council | 16,246 | 12,302 | 76% | (3,944) |
| **Grand Total** | **$839,153** | **$759,432** | **90%** | **($79,721)** |

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

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

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