Message from the Chief Financial Officer

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) *2010 Annual Report* (also referred to as the *Performance and Accountability Report*). The report covers financial and program performance information, and summarizes our successes for the year. The FDIC takes pride in providing timely, reliable, and meaningful information to its many stakeholders.

For the nineteenth consecutive year, the U.S. Government Accountability Office (GAO) issued unqualified audit opinions for the two funds administered by the Corporation: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). These unqualified audit opinions validate our efforts to ensure that the financial statements of the funds for which we are stewards are fairly presented. I applaud the hard work and dedication of the FDIC staff.

At the conclusion of 2010 and moving forward into 2011, the DIF balance remains negative. The DIF's 2010 financial statements reflect the effect of a difficult banking environment, in which 157 banks failed. This total exceeds all bank failures between 1993 and 2008, and is the highest annual number since 1992, when 179 failures occurred.

Financial Results for 2010

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

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

The DIF's total liquidity declined by $19.9 billion, or 30 percent, to $46.2 billion during 2010. The decrease was primarily the result of disbursing $28.8 billion to fund 157 bank failures during 2010, although it should be noted that 130 of these failures were resolved as cash-conserving loss-share transactions (in which the acquirers purchased substantially all of the failed institutions' assets and the FDIC and the acquirers entered into loss-share agreements) requiring lower initial resolution funding. Moreover, during 2010, the DIF received $13.6 billion in dividends and other payments from its receiverships, which helped to mitigate the DIF liquidity's decline.

In accordance with the requirements of the Federal Managers' Financial Integrity Act of 1982, the FDIC's management conducted its annual assessment and concluded that the system of internal controls, taken as a whole, complies with internal control standards prescribed by GAO and provides reasonable assurance that the related objectives are being met. In 2009, GAO identified a material weakness in internal controls related to estimating losses to the DIF from resolution transactions involving loss-share agreements, in addition to a significant deficiency existing over information systems. The FDIC worked hard during 2010, implementing control improvements and comprehensive control enhancements to address these issues. I am proud to report that these are not repeat findings for 2010.

Our performance in 2010 gives us confidence that we can meet the challenges of an ever-changing banking industry. In 2011, we will continue to focus on effective cost management, and maintaining a strong enterprise-wide risk management and internal control program. These include identifying and addressing risks to the insurance fund; implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act; and providing Congress, other regulatory agencies, insured depository institutions, and the public with critical and timely information and analyses on the financial condition of both the banking industry and the FDIC-managed funds.

Sincerely,

Steven O. App

Steven O. App