V.
FINANCIAL SECTION

Federal Deposit Insurance Corporation

Deposit Insurance Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2020		2019
ASSETS				
Cash and cash equivalents	$	3,310,527	$	5,990,765
Investment in U.S. Treasury securities (Note 3)		110,464,342		100,071,880
Assessments receivable (Note 10)		1,948,516		1,241,968
Interest receivable on investments and other assets, net		1,159,130		1,020,947
Receivables from resolutions, net (Note 4)		1,366,736		2,669,270
Property and equipment, net (Note 5)		321,080		329,828
Operating lease right-of-use assets (Note 6)		112,453		0
Total Assets	**$**	**118,682,784**	**$**	**111,324,658**
LIABILITIES				
Accounts payable and other liabilities	$	250,617	$	214,451
Operating lease liabilities (Note 6)		119,459		0
Liabilities due to resolutions (Note 7)		814		346,271
Postretirement benefit liability (Note 13)		335,977		289,462
Contingent liabilities:				
Anticipated failure of insured institutions (Note 8)		78,952		93,505
Guarantee payments and litigation losses (Notes 8 and 9)		200		34,031
Total Liabilities		**786,019**		**977,720**
Off-balance-sheet exposure (Note 14)				
FUND BALANCE				
Accumulated Net Income		116,924,738		109,820,102
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gain on U.S. Treasury securities, net (Note 3)		1,069,949		587,268
Unrealized postretirement benefit (loss) (Note 13)		(97,922)		(60,432)
Total Accumulated Other Comprehensive Income		**972,027**		**526,836**
Total Fund Balance		**117,896,765**		**110,346,938**
Total Liabilities and Fund Balance	**$**	**118,682,784**	**$**	**111,324,658**

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

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Income and Fund Balance

For the Years Ended December 31

(Dollars in Thousands)	2020	2019
REVENUE		
Assessments (Note 10)	$ 7,093,175	$ 4,939,063
Interest on U.S. Treasury securities	1,683,063	2,116,504
Other revenue	20,240	39,745
Total Revenue	**8,796,478**	**7,095,312**
EXPENSES AND LOSSES		
Operating expenses (Note 11)	1,846,491	1,795,605
Provision for insurance losses (Note 12)	(157,309)	(1,285,531)
Insurance and other expenses	2,660	3,149
Total Expenses and Losses	**1,691,842**	**513,223**
Net Income	**7,104,636**	**6,582,089**
OTHER COMPREHENSIVE INCOME		
Unrealized gain on U.S. Treasury securities, net	482,681	1,202,817
Unrealized postretirement benefit (loss) (Note 13)	(37,490)	(46,892)
Total Other Comprehensive Income	**445,191**	**1,155,925**
Comprehensive Income	**7,549,827**	**7,738,014**
Fund Balance - Beginning	**110,346,938**	**102,608,924**
Fund Balance - Ending	**$ 117,896,765**	**$ 110,346,938**

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

Federal Deposit Insurance Corporation

Deposit Insurance Fund Statement of Cash Flows

For the Years Ended December 31

(Dollars in Thousands)	2020	2019
OPERATING ACTIVITIES		
Provided by:		
Assessments	$ 6,375,350	$ 5,079,563
Interest on U.S. Treasury securities	3,742,956	1,988,763
Recoveries from financial institution resolutions	1,439,452	1,665,574
Miscellaneous receipts	17,972	27,895
Used by:		
Operating expenses	(1,745,171)	(1,746,598)
Disbursements for financial institution resolutions	(320,501)	(247,490)
Miscellaneous disbursements	(9,485)	(2,262)
Net Cash Provided by Operating Activities	**9,500,573**	**6,765,445**
INVESTING ACTIVITIES		
Provided by:		
Maturity of U.S. Treasury securities	54,575,000	34,250,000
Used by:		
Purchase of U.S. Treasury securities	(66,714,039)	(40,749,953)
Purchase of property and equipment	(41,772)	(48,722)
Net Cash (Used) in Investing Activities	**(12,180,811)**	**(6,548,675)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(2,680,238)**	**216,770**
Cash and Cash Equivalents - Beginning	**5,990,765**	**5,773,995**
Cash and Cash Equivalents - Ending	**$ 3,310,527**	**$ 5,990,765**

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

DEPOSIT INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with 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 (IDIs) by identifying, monitoring, and addressing risks to the DIF. Federally chartered IDIs are supervised by the Office of the Comptroller of the Currency; state chartered IDIs that are members of the Federal Reserve are supervised by the Federal Reserve and their state supervisors; and state chartered IDIs that are not members of the Federal Reserve are supervised by the FDIC and their state supervisors.

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

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the FDIC also manages 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 covered financial company is a failing financial company (for example, 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 IDIs or solvent depository institution holding companies (including affiliates) upon the systemic risk 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 also created the Financial Stability Oversight Council 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 supervised by the Federal Reserve Board. 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 FDIC, as administrator of the DIF, insures the deposits of IDIs and resolves failed IDIs upon appointment of the FDIC as receiver in a manner that will result in the least possible cost to the DIF.

The DIF is primarily funded from deposit insurance assessments and interest earned on investments in U.S. Treasury securities. 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 $217.2 billion and $209.5 billion as of December 31, 2020 and 2019, respectively.

OPERATIONS OF RESOLUTION ENTITIES

The FDIC, as receiver, is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receiverships, 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 according to applicable laws and regulations. Therefore, income and expenses attributable to resolution entities are accounted for as transactions of those entities. The FDIC, as administrator of the DIF, bills resolution entities for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include 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). 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

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. 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; the guarantee obligations for structured transactions; the postretirement benefit obligation; and the estimated losses for anticipated failures.

CASH EQUIVALENTS

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

INVESTMENT IN U.S. TREASURY SECURITIES

The FDI Act requires that the DIF funds 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 Treasury's Bureau of the Fiscal Service's Government Account Series program.

The DIF's investments in U.S. Treasury securities are classified as available-for-sale (AFS). Securities designated as AFS are shown at fair value. Unrealized gains and losses are reported as other comprehensive income. Any 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 daily using the effective interest or straight-line method depending on the maturity of the security (see Note 3).

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 regular risk-based assessment rate and assessment base for the prior quarter adjusted for certain changes in supervisory examination ratings for larger institutions, modest assessment base growth and average assessment rate adjustment factors, and assessment credits expected to be applied. 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 10).

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. Computer equipment is depreciated on a straight-line basis over a three-year estimated useful life (see Note 5).

LEASES

The Balance Sheet presents operating leases in the "Operating lease right-of-use assets" and "Operating lease liabilities" line items. Operating lease liabilities and right-of-use (ROU) assets are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The FDIC has elected to use its risk-free rate at the commencement date in determining the present value of future payments.

The operating lease ROU asset also includes lease prepayments and excludes lease incentives received. The lease term includes options to extend or terminate the lease when it is reasonably certain that the FDIC will exercise that option. For the DIF, the FDIC recognizes lease expense on a straight-line basis over the lease term. For lease arrangements that contain both lease and nonlease components, the FDIC has elected to account for them as a single lease component for all classes of underlying assets.

PROVISION FOR INSURANCE LOSSES

The provision for insurance losses primarily represents changes in the allowance for losses on receivables from resolutions and the contingent liability for anticipated failure of insured institutions (see Note 12).

REPORTING ON VARIABLE INTEREST ENTITIES

The receiverships engaged in structured transactions, some of which resulted in the issuance of note obligations that the FDIC guaranteed, in its corporate capacity. As the guarantor of note obligations for several structured transactions, the FDIC, in its corporate capacity, holds an interest in many variable interest entities (VIEs). The FDIC conducts a qualitative assessment of its relationship with each VIE as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation*. These assessments are conducted to determine if the FDIC, in its corporate capacity, has (1) the power to direct the activities that most significantly affect 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 FASB ASC Topic 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 that would cause the FDIC, in its corporate capacity, to be characterized as a primary beneficiary. In making that determination, management considered which, if any, activities were significant to each VIE. Often, the right to service collateral, to liquidate collateral, or to unilaterally dissolve the VIE 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 conclusion of these analyses was that the FDIC, in its corporate capacity, has not engaged in any activity that would cause the FDIC to be characterized as a primary beneficiary to any VIE with which it was involved as of December 31, 2020 and 2019. Therefore, consolidation is not required for the December 31, 2020 and 2019, 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 FDIC if it makes payments on guarantee claims. Ongoing analyses will be required to monitor consolidation implications under FASB ASC Topic 810.

Note 9 under FDIC Guaranteed Debt of Structured Transactions fully describes the FDIC's involvement with VIEs.

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.

APPLICATION OF RECENT ACCOUNTING STANDARDS

The FDIC adopted ASU 2016-02, *Leases (Topic 842)*, as of January 1, 2020 (see Note 6). Other recent accounting standards have been deemed not applicable or material to the financial statements as presented.

PRESENTATION OF STATEMENT OF CASH FLOWS

In 2020, the FDIC changed the presentation of the DIF's receipt of receivership dividends to enhance the transparency of the Statement of Cash Flows. For comparative purposes, the FDIC conformed 2019 to the new presentation; as such, the FDIC reduced the recoveries from and disbursements for financial institution resolutions line items by $9 million with no net impact to the DIF's cash provided by operating activities.

3. Investment in U.S. Treasury Securities

The "Investment in U.S. Treasury securities" line item on the Balance Sheet consisted of the following components by maturity (dollars in millions).

December 31, 2020 Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	1.23%	$ 56,100	$ 57,122	$ 280	$ (4)	$ 57,398
After 1 year through 5 years	1.05%	51,000	52,272	796	(2)	53,066
Total		**$ 107,100**	**$ 109,394**	**$ 1,076**	**$ (6)** [(a)]	**$ 110,464**

(a) These unrealized losses occurred over a period of less than a year as a result of temporary changes in market interest rates. 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, 2020. The aggregate related fair value of securities with unrealized losses was $12.8 billion as of December 31, 2020.

December 31, 2019 Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
U.S. Treasury notes and bonds						
Within 1 year	1.93%	$ 45,550	$ 45,928	$ 50	$ (11)	$ 45,967
After 1 year through 5 years	2.08%	52,900	53,557	555	(7)	54,105
Total		**$ 98,450**	**$ 99,485**	**$ 605**	**$ (18)** [(a)]	**$ 100,072**

(a) These unrealized losses occurred as a result of temporary changes in market interest rates. 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, 2019. As of December 31, 2019, securities with a continuous unrealized loss position of less than 12 months had an aggregate related fair value and unrealized loss of $8.6 billion and $8 million, respectively. For those with a continuous unrealized loss position of 12 months or longer, their aggregate related fair value and unrealized losses were $13.1 billion and $10 million, respectively.

4. Receivables from Resolutions, Net

The receivables from resolutions result from DIF payments 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. Assets held by resolution entities (including structured transaction-related assets; see Note 9) are the main source of repayment of the DIF's receivables from resolutions. The "Receivables from resolutions, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

	December 31 2020	December 31 2019
Receivables from resolutions	$ 61,340,917	$ 63,981,989
Allowance for losses	(59,974,181)	(61,312,719)
Total	**$ 1,366,736**	**$ 2,669,270**

As of December 31, 2020, the FDIC, as receiver, managed 234 active receiverships; four new receiverships were established in 2020. The resolution entities held assets with a book value of $2.1 billion as of December 31, 2020, and $3.4 billion as of December 31, 2019 (including $1.8 billion and $2.9 billion, respectively, of cash, investments, receivables due from the DIF, and other receivables).

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, which may include the following: 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 since 2007. 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.

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, which may cause the DIF's actual recoveries to vary significantly from current estimates.

For failed institutions resolved using a whole bank purchase and assumption transaction with an accompanying shared-loss agreement (SLA), the FDIC agreed to share in future losses and recoveries experienced by the acquirer on those assets covered under the agreement. The projected shared-loss payments and the end of agreement true-up recoveries on the covered residential and commercial loan assets sold to the acquiring institution under the agreement are considered in determining the allowance for loss on the receivables from these resolutions. True-up recoveries are projected to be received at expiration in accordance with the terms of the SLA, if actual losses at expiration are lower than originally estimated.

For December 31, 2020, the shared-loss cost estimates were updated for 19 receiverships. Note that all commercial asset shared-loss coverage expired as of year-end 2018 and the last residential SLA expires in December 2022. The updated cost projections on the $3.1 billion of remaining residential shared-loss covered assets were based on the FDIC's historical loss experience that also factors in the remaining time period of shared-loss coverage as well as assessments of final claim certificates for expired agreements.

The estimated shared-loss liability is accounted for by the receiverships 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, 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 7).

Receivership shared-loss transactions are summarized as follows (dollars in thousands).

		December 31 2020		December 31 2019
Remaining shared-loss covered assets	$	3,099,750	$	4,205,256
Shared-loss payments made to date, net of recoveries		28,649,769		29,116,846
Estimated remaining shared-loss liability	$	26,609	$	31,458
Estimated true-up recoveries	$	(18,361)	$	(477,130)
Projected shared-loss payments, net of true-up recoveries	$	8,248	$	(445,672)

The $1.1 billion reduction in the remaining shared-loss covered assets from 2019 to 2020 is primarily due to the liquidation of covered assets from active SLAs and natural or early termination of SLAs impacting 40 receiverships during 2020. As of December 31, 2020, the shared-loss coverage period has expired for $3 billion or 98 percent of the total remaining covered assets, however, related balances are included in the above table pending disposition of final claim certificates. In contrast with 2019, projected remaining shared-loss payments exceed estimated end-of-agreement true-up recoveries at year-end 2020 due to the receipt of $468 million in true-up recoveries from the natural or early termination of SLAs in 2020.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the DIF to concentrations of credit risk are receivables from resolutions. The repayment of these receivables is primarily influenced by recoveries on assets held by receiverships. As of December 31, 2020, the majority of the $277 million of assets in liquidation is concentrated in residual certificates collateralized by underlying residential mortgage-backed securities or loans (see Note 9).

5. Property and Equipment, Net

Depreciation expense was $50 million and $49 million for 2020 and 2019, respectively. The "Property and equipment, net" line item on the Balance Sheet consisted of the following components (dollars in thousands).

		December 31 2020		December 31 2019
Land	$	37,352	$	37,352
Buildings (including building and leasehold improvements)		344,002		342,071
Application software (includes work-in-process)		129,410		108,006
Furniture, fixtures, and equipment		58,363		66,970
Accumulated depreciation		(248,047)		(224,571)
Total	**$**	**321,080**	**$**	**329,828**

6. Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which increased the transparency and comparability of accounting for leases. As such, the ASU, and its related amendments, requires lessees to report substantially all leases on the balance sheet through the recognition of an ROU asset and a corresponding lease liability. The ASU also requires expanded quantitative and qualitative disclosures and key information regarding leasing arrangements.

The FDIC adopted ASU 2016-02 prospectively, as of January 1, 2020, and elected the optional transition method to apply a cumulative-effect adjustment at the beginning of the year of adoption. As a result, no previously reported amounts have been adjusted for adoption of the guidance. Additionally, the FDIC elected the practical expedients to (1) not reassess whether contracts are or contain leases and (2) retain the classification of existing leases as operating. Because of the adoption of ASU 2016-02, the DIF recognized operating lease ROU assets of $132 million and lease liabilities of $139 million as of January 1, 2020. The related operating lease ROU assets differ from operating lease liabilities due to differences between accrued lease expenses and actual payments made.

The FDIC has operating leases for office space, a data center, and certain equipment. The lease agreements generally contain escalation clauses resulting in adjustments, usually on an annual basis. Many leases contain one or more options to extend, with renewal terms that can extend the lease term from one to five years, and some leases may include options to terminate. The following table provides relevant information regarding FDIC operating leases for the year ended December 31, 2020 (dollars in thousands).

		December 31 2020
Operating lease cost	$	48,481
Cash paid for amounts included in the measurement of operating leases	$	48,263
ROU assets obtained in exchange for new operating lease liabilities	$	22,817
Weighted Average		
Remaining lease term (in years)		3.35
Discount rate		1.38%

The following table provides a maturity analysis of the FDIC's operating lease liabilities as of December 31, 2020 (dollars in thousands).

		December 31 2020
2021	$	45,012
2022		31,093
2023		22,856
2024		20,046
2025		3,295
2026/Thereafter		0
Total future minimum lease payments	**$**	**122,302**
Less: Imputed interest		(2,843)
Total operating lease liabilities	**$**	**119,459**

In 2019, the DIF leased space expense totaled $45 million. As of December 31, 2019, total lease commitments totaled $134 million for future years. Future minimum lease commitments in 2019 were as follows (dollars in thousands).

2020	2021	2022	2023	2024	2025/Thereafter
$42,603	$33,603	$20,774	$18,304	$16,824	$1,724

7. Liabilities Due to Resolutions

The DIF records liabilities 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. The DIF satisfies these liabilities either by sending cash directly to a receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when a receivership declares a dividend. The liabilities decreased from $343 million at year-end 2019 to $14 thousand at year-end 2020 primarily due to receivership dividends of $298 million.

In addition, there were $800 thousand and $3 million in unpaid deposit claims related to multiple receiverships as of December 31, 2020 and 2019, respectively. The DIF pays these liabilities when the claims are approved.

8. Contingent Liabilities

ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail when the liability is probable and reasonably estimable, absent some favorable event such as obtaining additional capital or merging. 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.

Due to elevated risk and uncertainty arising from the effects of the COVID-19 pandemic on the banking industry, the FDIC supplemented its methodology for calculating the contingent liability to capture vulnerable institutions deemed likely to have failure risk not identified by the standard approach. This supplemental methodology incorporated a number of factors, including lending concentrations and various financial metrics, and resulted in an additional $44 million in estimated losses for anticipated failures.

The banking industry's financial condition and performance was affected by economic stress related to the COVID-19 pandemic during the first nine months of 2020. According to the third quarter 2020 financial data submitted by DIF-insured institutions, the banking industry reported net income for the first nine months of $88.4 billion, a decline of 51 percent from a year ago. The decline in net income was primarily the result of higher provision expenses.

Provisions for credit losses increased $88 billion to $129 billion in the first nine months of 2020 as compared to the same time period a year ago, reflecting the economic uncertainties caused by the COVID-19 pandemic as well as adoption of the new Current Expected Credit Losses accounting guidance. Despite this increase, credit quality metrics remain favorable. The total noncurrent loan rate was 1.17 percent as of September 30, 2020, below the most recent high of 5.46 percent in March 31, 2010.

In addition, the low interest-rate environment created challenges for banks. During third quarter 2020, the average quarterly net interest margin (NIM) for the banking industry declined to 2.68 percent, the lowest NIM ever reported in the FDIC's Quarterly Banking Profile.

Despite a decline in net income, risk-based capital levels improved in 2020, as compared to the same period in 2019, due to growth in low-risk assets, such as cash, with total risk-based capital increasing 69 basis points to 15.36 percent. This current level is 16 basis points below the highest level recorded in first quarter 2011.

Due to fiscal and monetary policy, as well as economic uncertainty, deposits grew by almost $3 trillion, or 20 percent, since September 30, 2019.

While the COVID-19 pandemic created stresses on the banking industry in 2020, the contingent liability remained relatively stable as of December 31, 2020 compared to December 31, 2019. The DIF recorded contingent liabilities totaling $79 million and $94 million as of December 31, 2020 and 2019, respectively.

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 $1.1 billion as of December 31, 2020, compared to $57 million at year-end 2019. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

Four financial institutions failed in 2020, with total assets of $455 million and an estimated loss to the DIF at December 31, 2020, of $99 million.

The deterioration in economic activity and the effects of the COVID-19 pandemic poses challenges to the banking industry. Interest rates declined to near zero in March 2020, placing pressure on net interest margins. The unemployment rate is elevated, GDP and consumer spending are below trend, and the COVID-19 pandemic has adversely affected global economies. Continued economic uncertainty may require additional provisions for credit losses, which already have been substantial. Despite these challenges, the banking industry maintained strong capital and liquidity levels during the first nine months of 2020. 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 $200 thousand for the DIF as of December 31, 2020 and 2019. In addition, the FDIC has identified reasonably possible losses from unresolved cases of $650 thousand and zero as of December 31, 2020 and 2019, respectively.

9. Other Contingencies

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 2020 and 2019, 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, used structured transactions (securitizations and structured sales of guaranteed notes (SSGNs) or collectively, "trusts") to dispose of residential mortgage loans, commercial loans, and mortgage-backed securities held by the receiverships.

For these transactions, certain loans or securities from failed institutions were pooled and transferred into a trust structure. The trusts issued senior and/or subordinated debt instruments and owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

From March 2010 through March 2013, the receiverships transferred a portfolio of loans with an unpaid principal balance of $2.4 billion and mortgage-backed securities with a book value of $6.4 billion to the trusts. Private investors purchased the senior notes issued by the trusts for $6.2 billion in cash and the receiverships held the subordinated debt instruments and owner trust or residual certificates. In exchange for a fee, the FDIC, in its corporate capacity, guarantees the timely payment of principal and interest due on the senior notes, with the last guarantee expected to terminate in 2022. 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. The subordinated note holders and owner trust or residual certificate holders receive cash flows from the trust only after all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments.

The following table provides the maximum loss exposure to the FDIC, as guarantor, total guarantee fees collected, guarantee fees receivable, and other information related to the FDIC guaranteed debt for the trusts as of December 31, 2020 and 2019 (dollars in millions).

	December 31 2020	December 31 2019
Number of trusts		
Initial	11	11
Current	3	6
Trust collateral balances		
Initial	$ 8,780	$ 8,780
Current	$ 459	$ 878
Guaranteed note balances		
Initial	$ 6,196	$ 6,196
Current (maximum loss exposure)	$ 46	$ 195
Guarantee payments made by the DIF	$ 4	$ 0
Guarantee fees collected to date	$ 167	$ 166
Amounts recognized in *Interest receivable on investments and other assets, net*		
Receivable for guarantee fees	$ 0	$ 1
Receivable for guarantee payments, net	$ 0	$ 32
Amounts recognized in *Contingent liabilities: Guarantee payments and litigation losses*		
Contingent liability for guarantee payments	$ 0	$ 34
Amounts recognized in *Accounts payable and other liabilities*		
Deferred revenue for guarantee fees[a]	$ 0	$ 1

(a) All guarantee fees are recorded as deferred revenue and recognized as revenue primarily on a straight-line basis over the term of the notes.

Except as presented above, the DIF records no other structured transaction-related assets or liabilities on its balance sheet.

In December 2020, the DIF made a $4 million guarantee payment for one SSGN transaction, which represented the shortfall of proceeds required to retire the guaranteed senior note. The shortfall resulted because the proceeds from the liquidation of the collateral by the Trustee were insufficient to pay the note upon maturity. This unreimbursed guarantee payment resulted in an actual loss of $4 million compared to the estimated loss of $2 million at year-end 2019. Once the DIF made the guarantee payment and the note was paid in full, the guarantee agreement terminated, and the FDIC's relationship as guarantor with and variable interest in the Trust concluded.

Any estimated loss to the DIF from the guarantees is based on an analysis of the expected guarantee payments by the FDIC. For the three active transactions, the estimated cash flows from the 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 for structured transactions that it was not previously contractually required to provide.

10. Assessments

The FDIC deposit insurance assessment system is mandated by section 7 of the FDI Act and governed by part 327 of title 12 of the Code of Federal Regulations (12 CFR Part 327). The risk-based system requires the payment of quarterly 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 long-term fund management 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. The DIF reserve ratio, which is the ratio of the DIF balance to estimated insured deposits, is a key measure of fund adequacy. Summarized below are key longer-term provisions of the plan.

- The FDIC Board of Directors designates a reserve ratio for the DIF and publishes the designated reserve ratio (DRR) before the beginning of each calendar year, as required by the FDI Act. Accordingly, in November 2020, the FDIC published a notice maintaining the DRR at 2 percent for 2021. 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 goal for the reserve ratio.

- The FDIC suspended dividends indefinitely, and, in lieu of dividends, prescribes progressively lower assessment rates when the reserve ratio exceeds 2 percent and 2.5 percent.

The Dodd-Frank Act increased the minimum reserve ratio for the DIF to 1.35 percent, up from the previous statutory minimum of 1.15 percent. This minimum was required to be achieved by September 30, 2020, and the Dodd-Frank Act mandated that the FDIC offset the effect of increasing the minimum reserve ratio on institutions with less than $10 billion in total assets (small banks). To implement this requirement, the FDIC imposed a surcharge to the regular quarterly assessments of IDIs with $10 billion or more in total consolidated assets (large banks) beginning with the quarter ending September 30, 2016, and provided for credits to small banks for their contribution to the growth in the reserve ratio from 1.15 percent to 1.35 percent. As of September 30, 2018, the reserve ratio of the DIF exceeded the required minimum of 1.35 percent by reaching 1.36 percent. As a result, the surcharge assessment on large banks ended and the FDIC awarded small bank assessment credits of $765 million. The FDIC began applying the small bank credits to reduce quarterly assessments beginning with the second quarter 2019 assessment collection. As of year-end 2020, all credits have been used ($206 million in 2020 and $559 million in 2019).

As a result of the impact on the economy from the COVID-19 pandemic and related stimulus programs, the FDIC took several actions, including stimulus program offsets. The FDIC issued a final rule to mitigate the deposit insurance assessment effects of IDIs participating in certain stimulus programs, such as the Paycheck Protection Program. Absent the changes permitted by the final rule, some IDIs' assessments would have increased. In accordance with the final rule, the FDIC applied the changes to IDI assessments starting in the second quarter of 2020.

If the reserve ratio falls below 1.35 percent, or the FDIC projects that it will within six months, the FDIC generally must implement a Restoration Plan that will return the DIF to 1.35 percent within eight years. In September 2020, the FDIC established a Restoration Plan when the reserve ratio fell below 1.35 percent, to 1.30 percent, due to extraordinary insured deposit growth in the first and second quarters of 2020. Under the Restoration Plan, the FDIC will maintain the current schedule of assessment rates for all IDIs and closely monitor the factors affecting the reserve ratio, updating the plan as necessary. To determine whether the reserve ratio has reached the statutory minimum, the FDIC will rely on the reserve ratio as of September 30, 2028.

ASSESSMENT REVENUE

Annual assessment rates averaged approximately 4.0 cents and 3.1 cents per $100 of the assessment base in 2020 and

2019, respectively. The assessment base is generally defined as average consolidated total assets minus average tangible equity (measured as Tier 1 capital) of an IDI during the assessment period.

The "Assessments receivable" line item on the Balance Sheet of $1.9 billion and $1.2 billion represents the estimated premiums due from IDIs for the fourth quarter of 2020 and 2019, respectively. The actual deposit insurance assessments for the fourth quarter of 2020 will be billed and collected at the end of the first quarter of 2021. The DIF recognized $7.1 billion and $4.9 billion as assessment revenue from institutions during 2020 and 2019, respectively.

PENDING LITIGATION FOR UNDERPAID ASSESSMENTS

On January 9, 2017, the FDIC filed suit in the United States District Court for the District of Columbia (and amended this complaint on April 7, 2017), alleging that Bank of America, N.A. (BoA) underpaid its insurance assessments for multiple quarters based on the underreporting of counterparty exposures. In total, the FDIC alleges that BoA underpaid insurance assessments by $1.12 billion, including interest for the quarters ending March 2012 through December 2014. The FDIC invoiced BoA for $542 million and $583 million representing claims in the initial suit and the amended complaint, respectively. BoA has failed to pay these past due amounts. Pending resolution of this matter, BoA has fully pledged security with a third-party custodian pursuant to a security agreement with the FDIC. As of December 31, 2020, the total amount of unpaid assessments (including accrued interest) was $1.19 billion. For the years ending December 31, 2020 and 2019, the impact of this litigation is not reflected in the financial statements of the DIF.

RESERVE RATIO

As of September 30, 2020 and December 31, 2019, the DIF reserve ratio was 1.30 percent and 1.41 percent, respectively.

11. Operating Expenses

The "Operating expenses" line item on the Statement of Income and Fund Balance consisted of the following components (dollars in thousands).

	December 31 2020	December 31 2019
Salaries and benefits	$ 1,299,792	$ 1,225,753
Outside services	271,885	268,093
Travel	24,990	80,684
Buildings and leased space	90,496	89,552
Software/Hardware maintenance	103,341	94,761
Depreciation of property and equipment	49,902	48,547
Other	26,227	27,175
Subtotal	**1,866,633**	**1,834,565**
Less: Expenses billed to resolution entities and others	(20,142)	(38,960)
Total	**$ 1,846,491**	**$ 1,795,605**

12. Provision for Insurance Losses

The "Provision for insurance losses" line item on the Statement of Income and Fund Balance is impacted by the Balance Sheet line item activity depicted in the table below.

The table primarily analyzes the changes in estimated losses for actual and anticipated failures (dollars in millions).

December 31, 2020				Contingent Liabilities for:	
	Provision for Insurance Losses	Receivables from Resolutions	Allowance for Losses	Anticipated Failures	Guarantee Payments and Litigation Losses
Balance at January 1, 2020	**$ 0**	**$ 63,982**	**$ (61,313)**	**$ (94)**	**$ (34)**
Estimated losses for current year failures	99		(99)		
Change in contingent liability for anticipated failures, net [1]	(15)			15	
Adjustments to estimated losses for prior year failures	(237)		237		
Disbursements for failures		167			
Recoveries from resolutions[2]		(1,564)			
Write-offs for inactivated receiverships	0	(1,145)	1,145		
Other	(4)	(99)	56		34
Balance at December 31, 2020	**$ (157)**	**$ 61,341**	**$ (59,974)**	**$ (79)**	**$ 0**

[1]Represents institutions that were added or removed from the contingent liability, as well as the change in the contingent liability for institutions that remained in the liability year-over-year.
[2]Includes $298 million of non-cash recoveries from receiverships (see Note 7).

December 31, 2019				Contingent Liabilities for:	
	Provision for Insurance Losses	Receivables from Resolutions	Allowance for Losses	Anticipated Failures	Guarantee Payments and Litigation Losses
Balance at January 1, 2019	**$ 0**	**$ 68,268**	**$ (65,209)**	**$ (114)**	**$ (34)**
Estimated losses for current year failures	31		(31)		
Change in contingent liability for anticipated failures, net [1]	(20)			20	
Adjustments to estimated losses for prior year failures	(1,287)		1,287		
Disbursements for failures		222			
Recoveries from resolutions[2]		(1,836)			
Write-offs for inactivated receiverships	(4)	(2,491)	2,495		
Other	(6)	(181)	145		0
Balance at December 31, 2019	**$ (1,286)**	**$ 63,982**	**$ (61,313)**	**$ (94)**	**$ (34)**

[1]Represents institutions that were added or removed from the contingent liability, as well as the change in the contingent liability for institutions that remained in the liability year-over-year.
[2]Includes $366 million of non-cash recoveries from receiverships (see Note 7).

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).

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. Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred 401(k) savings plan with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. The expenses for these plans are presented in the table below (dollars in thousands).

		December 31 2020		December 31 2019
Civil Service Retirement System	$	1,189	$	1,806
Federal Employees Retirement System (Basic Benefit)		137,989		116,899
Federal Thrift Savings Plan		37,149		36,149
FDIC Savings Plan		39,578		39,873
Total	**$**	**215,905**	**$**	**194,727**

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 for converting optional coverage to direct-pay plans. For the dental coverage, retirees are responsible for a portion of the 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.

Postretirement benefit obligation, gain and loss, and expense information included in the Balance Sheet and Statement of Income and Fund Balance are summarized as follows (dollars in thousands).

		December 31 2020		December 31 2019
Accumulated postretirement benefit obligation recognized in *Postretirement benefit liability*	**$**	**335,977**	**$**	**289,462**
Cumulative net actuarial (loss) recognized in accumulated other comprehensive income: *Unrealized postretirement benefit (loss)*	**$**	**(97,922)**	**$**	**(60,432)**
Amounts recognized in other comprehensive income: *Unrealized postretirement benefit (loss)*				
Actuarial (loss)	$	(37,490)	$	(47,277)
Prior service credit		0		385
Total	**$**	**(37,490)**	**$**	**(46,892)**
Net periodic benefit costs recognized in *Operating expenses*				
Service cost	$	5,106	$	3,775
Interest cost		8,766		10,360
Net amortization out of other comprehensive income		2,364		385
Total	**$**	**16,236**	**$**	**14,520**

The year-over-year increase in the accumulated postretirement benefit obligation of $47 million is primarily attributable to a decrease in the discount rate used to present value expected benefit payments. The discount rate decreased from 3.46 percent to 2.65 percent at year-end 2020 to reflect changes in the economic environment and the transition to a yield curve with rates of return that better match the timing and amount of expected benefit payments.

The annual postretirement contributions and benefits paid are included in the table below (dollars in thousands).

		December 31 2020		December 31 2019
Employer contributions	$	7,211	$	7,885
Plan participants' contributions	$	1,091	$	871
Benefits paid	$	(8,302)	$	(8,756)

The expected contributions for the year ending December 31, 2021, are $10 million. Expected future benefit payments for each of the next 10 years are presented in the following table (dollars in thousands).

2021	2022	2023	2024	2025	2026-2030
$8,641	$9,187	$9,725	$10,287	$10,806	$61,208

Assumptions used to determine the amount of the accumulated postretirement benefit obligation and the net periodic benefit costs are summarized as follows.

	December 31 2020	December 31 2019
Discount rate for future benefits (benefit obligation)	2.65%	3.46%
Rate of compensation increase	2.20%	3.49%
Discount rate (benefit cost)	3.46%	4.81%
Dental health care cost-trend rate		
Assumed for next year	3.50%	3.50%
Ultimate	3.50%	3.50%
Year rate will reach ultimate	2021	2020

14. 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 September 30, 2020 and December 31, 2019, estimated insured deposits for the DIF were $8.9 trillion and $7.8 trillion, respectively.

15. Fair Value of Financial Instruments

As of December 31, 2020 and 2019, financial assets recognized and measured at fair value on a recurring basis include cash equivalents (see Note 2) of $3.3 billion and $6 billion, respectively, and the investment in U.S. Treasury securities (see Note 3) of $110.5 billion and $100.1 billion, respectively. The valuation is considered a Level 1 measurement in the fair value hierarchy, representing quoted prices in active markets for identical assets. Other financial assets and liabilities, measured at amortized cost, are the receivables from resolutions, assessments receivable, interest receivable on investments, other short-term receivables, and accounts payable and other liabilities.

16. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2020	December 31 2019
Operating Activities		
Net Income:	**$ 7,104,636**	**$ 6,582,089**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury securities	2,229,257	339,247
Depreciation on property and equipment	49,902	48,547
Retirement of property and equipment	617	(1,124)
Provision for insurance losses	(157,309)	(1,285,531)
Unrealized (loss) on postretirement benefits	(37,490)	(46,892)
Change in Assets and Liabilities:		
(Increase) Decrease in assessments receivable	(706,548)	134,373
(Increase) in interest receivable and other assets	(138,038)	(470,766)
Decrease in receivables from resolutions	1,445,147	1,653,681
(Increase) in operating lease right-of-use assets	(112,453)	0
Increase in accounts payable and other liabilities	36,166	16,379
Increase in operating lease liabilities	119,459	0
Increase in postretirement benefit liability	46,515	53,527
(Decrease) Increase in contingent liabilities - guarantee payments and litigation losses	(33,831)	420
(Decrease) in liabilities due to resolutions	(345,457)	(258,505)
Net Cash Provided by Operating Activities	**$ 9,500,573**	**$ 6,765,445**

17. Subsequent Events

Subsequent events have been evaluated through February 11, 2021, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet

As of December 31

(Dollars in Thousands)		2020		2019
ASSETS				
Cash and cash equivalents	$	906,835	$	922,911
Other assets		612		525
Total Assets	$	**907,447**	$	**923,436**
LIABILITIES				
Accounts payable and other liabilities	$	17	$	16
Total Liabilities		**17**		**16**
RESOLUTION EQUITY (NOTE 5)				
Contributed capital		125,469,317		125,489,317
Accumulated deficit		(124,561,887)		(124,565,897)
Total Resolution Equity		**907,430**		**923,420**
Total Liabilities and Resolution Equity	$	**907,447**	$	**923,436**

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

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit

For the Years Ended Deccember 31

(Dollars in Thousands)		2020		2019
REVENUE				
Interest on U.S. Treasury securities	$	3,314	$	18,673
Other revenue (Note 6)		721		1,775
Total Revenue		**4,035**		**20,448**
EXPENSES AND LOSSES				
Operating expenses		320		523
Recovery of tax benefits (Note 7)		0		(1,200)
Losses related to thrift resolutions		(295)		4
Total Expenses and Losses		**25**		**(673)**
Net Income		**4,010**		**21,121**
Accumulated Deficit - Beginning		**(124,565,897)**		**(124,587,018)**
Accumulated Deficit - Ending	$	**(124,561,887)**	$	**(124,565,897)**

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

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows

For the Years Ended Deccember 31

(Dollars in Thousands)	2020	2019
OPERATING ACTIVITIES		
Provided by:		
Interest on U.S. Treasury securities	$ 3,314	$ 18,673
Recovery of tax benefits	0	1,200
Recoveries from thrift resolutions	941	1,835
Used by:		
Operating expenses	(331)	(358)
Miscellaneous disbursement	0	(1)
Net Cash Provided by Operating Activities	**3,924**	**21,349**
FINANCING ACTIVITIES		
Used by:		
Payment to Resolution Funding Corporation (Note 5)	$ (20,000)	$ 0
Net Cash (Used) in Financing Activities	**(20,000)**	**0**
Net (Decrease) Increase in Cash and Cash Equivalents	**(16,076)**	**21,349**
Cash and Cash Equivalents - Beginning	**922,911**	**901,562**
Cash and Cash Equivalents - Ending	**$ 906,835**	**$ 922,911**

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

FSLIC RESOLUTION FUND

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 FDIC's operations are generally found in the Federal Deposit Insurance (FDI) Act, as amended (12 U.S.C. 1811, *et seq*). In accordance with 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.

In addition to being the administrator of the DIF, the FDIC is the administrator of the FSLIC Resolution Fund (FRF). As such, the FDIC 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 FDIC maintains the DIF and the FRF separately to support their respective functions.

The FSLIC was created 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 and created the FRF. At that time, the assets and liabilities of the FSLIC were transferred 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 by authorizing REFCORP to issue debt obligations. The REFCORP issued debt obligations in the form of long-term bonds ranging in maturity from 2019 to 2030.

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 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 extensively reviewed and cataloged the FRF's remaining assets and liabilities. Some of the unresolved issues are:

- criminal restitution orders (generally have from 1 to 27 years remaining to enforce);
- collections of judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (generally have up to 10 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 of some judgments);
- liquidation/disposition of residual assets purchased by the FRF from terminated receiverships;
- a potential tax liability associated with a fully adjudicated goodwill litigation case (see Note 3); and
- Affordable Housing Disposition Program monitoring (the last agreement expires no later than 2045; see Note 4).

The FRF could realize recoveries from criminal restitution orders and professional liability claims. However, any potential recoveries are not reflected in the FRF's financial statements, given the significant uncertainties surrounding the ultimate outcome.

On April 1, 2014, the FDIC concluded its role as receiver, on behalf of the FRF, when the last active receivership was terminated. In total, 850 receiverships were liquidated by the FRF and the RTC. To facilitate receivership terminations, the FRF, in its corporate capacity, acquired the remaining receivership assets that could not be liquidated during the life of the receiverships due to restrictive clauses and other impediments. These assets are included in the "Other assets" line item on the Balance Sheet.

During the years of receivership activity, the assets held by receivership entities, and the claims against them, were accounted for separately from the FRF's assets and liabilities to ensure that receivership proceeds were distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships were accounted for as transactions of those receiverships. The FDIC, as administrator of the FRF, billed receiverships for services provided on their behalf.

2. Summary of Significant Accounting Policies

GENERAL

The financial statements include 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). During the years of receivership activity, these statements did not include reporting for assets and liabilities of receivership entities because these entities were legally separate and distinct, and the FRF did not have any ownership or beneficial interest in them.

The FRF is a limited-life entity, however, it does not meet the requirements for presenting financial statements using the liquidation basis of accounting. According to Accounting Standards Codification Topic 205, *Presentation of Financial Statements*, a limited-life entity should apply the liquidation basis of accounting only if a change in the entity's governing plan has occurred since its inception. By statute, the FRF is a limited-life entity whose dissolution will occur upon the satisfaction of all liabilities and the disposition of all assets. No changes to this statutory plan have occurred since inception of the FRF.

USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosure of contingent liabilities. 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 estimates for other assets, goodwill litigation, and indemnifications are considered significant.

CASH EQUIVALENTS

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

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.

APPLICATION OF RECENT ACCOUNTING STANDARDS

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

3. 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. The contingent liability associated with the nonperformance of these agreements was transferred to the FRF on August 9, 1989, upon the dissolution of the 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.

The last remaining goodwill case was resolved in 2015. However, for another case fully adjudicated in 2012, an estimated loss for the court-ordered reimbursement of potential tax liabilities to the plaintiff was considered remote as of December 31, 2020, compared to a $4 million reasonably possible loss as of year-end 2019. The remote consideration was based on a series of assessed circumstances and conditions that render a loss unlikely.

4. Affordable Housing Disposition Program

Required by FIRREA under section 501, the Affordable Housing Disposition Program (AHDP) was established in 1989 to ensure the preservation of affordable housing for low-income households. The FDIC, in its capacity as administrator of the FRF-RTC, assumed responsibility for monitoring property owner compliance with land use restriction agreements (LURAs). To enforce the property owners' LURA obligation, the RTC, prior to its dissolution, entered into Memoranda of Understanding with 34 monitoring agencies to oversee these LURAs. As of December 31, 2020, 23 monitoring agencies oversee these LURAs. The FDIC, through the FRF, has agreed to indemnify the monitoring agencies for all losses related to LURA legal enforcement proceedings.

From 2006 through 2018, two lawsuits against property owners resulted in $23 thousand in legal expenses, which were fully reimbursed due to successful litigation. In 2019, new litigation against two property owners has thus far resulted in legal expenses of $12 thousand. The maximum potential exposure to the FRF cannot be estimated as it is contingent upon future legal proceedings. However, loss mitigation factors include: (1) the indemnification may become void if the FDIC is not immediately informed upon receiving notice of any legal proceedings and (2) the FDIC is entitled to reimbursement of any legal expenses incurred for successful litigation against a property owner. AHDP guarantees will continue until the termination of the last LURA, or 2045 (whichever occurs first). As of December 31, 2020 and 2019, no contingent liability for this indemnification has been recorded.

5. Resolution Equity

As stated in the Overview section of Note 1, the FRF is composed 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.

Contributed capital, accumulated deficit, and resolution equity consisted of the following components by each pool (dollars in thousands).

December 31, 2020	FRF-FSLIC	FRF RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Less: Payment to REFCORP	0	(20,000)	(20,000)
Contributed capital - ending	**43,864,980**	**81,604,337**	**125,469,317**
Accumulated deficit	(42,982,914)	(81,578,973)	(124,561,887)
Total Resolution Equity	**$ 882,066**	**$ 25,364**	**$ 907,430**

December 31, 2019	FRF-FSLIC	FRF RTC	FRF Consolidated
Contributed capital - beginning	$ 43,864,980	$ 81,624,337	$ 125,489,317
Contributed capital - ending	**43,864,980**	**81,624,337**	**125,489,317**
Accumulated deficit	(42,986,401)	(81,579,496)	(124,565,897)
Total Resolution Equity	**$ 878,579**	**$ 44,841**	**$ 923,420**

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. Through December 31, 2020, the FRF-FSLIC received a total of $2.3 billion in goodwill appropriations, the effect of which increased contributed capital.

Through December 31, 2020, the FRF-RTC had returned $4.6 billion to the U.S. Treasury and made payments of $5.2 billion to the REFCORP. The most recent payment to the REFCORP was in July of 2020 for $20 million. In addition, the FDIC returned $2.6 billion to the U.S. Treasury on behalf of the FRF-FSLIC in 2013. These actions reduced 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. Since the dissolution dates, the FRF-FSLIC accumulated deficit increased by $13.2 billion, whereas the FRF-RTC accumulated deficit decreased by $6.3 billion.

6. Other Revenue

Other revenue primarily represents recoveries from assets acquired from terminated receiverships, such as professional liability and criminal restitution claims, and unclaimed property escheatments. Other revenue was $721 thousand for 2020, compared to $2 million for 2019.

7. Recovery of Tax Benefits

Recovery of tax benefits represents receipts based on underlying tax provisions from entities that either entered into assistance agreements with the former FSLIC, or have subsequently purchased financial institutions that had prior agreements with the FSLIC. In 2019, FRF received $1 million from the settlement of the last remaining FSLIC tax benefits sharing agreement.

8. Fair Value of Financial Instruments

At December 31, 2020 and 2019, the FRF's financial assets measured at fair value on a recurring basis are cash equivalents (see Note 2) of $882 million and $878 million, respectively. Cash equivalents are Special U.S. Treasury Certificates with overnight maturities valued at prevailing interest rates established by the U.S. Treasury's 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.

9. Information Relating to the Statement of Cash Flows

The following table presents a reconciliation of net income to net cash from operating activities (dollars in thousands).

	December 31 2020	December 31 2019
Operating Activities		
Net Income:	$ 4,010	$ 21,121
Change in Assets and Liabilities:		
(Increase) Decrease in other assets	(87)	221
Increase in accounts payable and other liabilities	1	7
Net Cash Provided by Operating Activities	$ **3,924**	$ **21,349**

10. Subsequent Events

Subsequent events have been evaluated through February 11, 2021, the date the financial statements are available to be issued. Based on management's evaluation, there were no subsequent events requiring disclosure.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

GAO@100 U.S. GOVERNMENT ACCOUNTABILITY OFFICE
A Century of Non-Partisan Fact-Based Work

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 2020 and 2019 financial statements of the Deposit Insurance Fund (DIF) and of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), both of which the Federal Deposit Insurance Corporation (FDIC) administers,[1] we found

- the financial statements of the DIF and of the FRF as of and for the years ended December 31, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF and to the FRF as of December 31, 2020; and
- with respect to the DIF and to the FRF, no reportable noncompliance for 2020 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 and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

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,[3] and the Government Corporation Control Act,[4] we have audited the financial statements of the DIF and of the FRF, both of which FDIC administers. The financial statements of the DIF comprise the balance sheets as of December 31, 2020, and 2019; the related statements of income and fund balance and of cash flows for the years then ended; and the related notes to the financial statements. The financial statements of the FRF comprise the balance sheets as of December 31, 2020, and 2019; the related statements of income and accumulated deficit and of 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, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

---

[1]A third fund managed by FDIC, the Orderly Liquidation Fund, established by Section 210(n) 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 from its inception in 2010 through 2020.

[2]Other information consists of information included with the financial statements, other than the auditor's report.

[3]Act of September 21, 1950, Pub. L. No. 797, § 2[17], 64 Stat. 873, 890, *classified as amended at* 12 U.S.C. § 1827.

[4]31 U.S.C. §§ 9101-9110.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

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) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements; (3) 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; (4) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (5) its assessment about the effectiveness of internal control over financial reporting as of December 31, 2020, included in the accompanying Management's 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. We are also responsible for applying certain limited procedures to other information included with the financial statements.

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 involves performing procedures to obtain evidence about whether a material weakness exists.[5] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FDIC's process for evaluating and reporting on internal control

[5]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.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

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.

Definition 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 provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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, 2020, and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles, and
- the FRF's financial statements present fairly, in all material respects, the FRF's financial position as of December 31, 2020, and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Opinions on Internal Control over Financial Reporting

In our opinion, although certain internal controls could be improved,

- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the DIF as of December 31, 2020, based on criteria established under FMFIA, and
- FDIC maintained, in all material respects, effective internal control over financial reporting relevant to the FRF as of December 31, 2020, based on criteria established under FMFIA.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

As discussed below in more detail, our 2020 audit identified deficiencies in FDIC's controls over contract payment review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting.[6] We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on the DIF's and the FRF's financial statements.

Although the significant deficiency in internal control did not affect our opinions on the 2020 financial statements of the DIF and of the FRF, misstatements may occur in unaudited financial information reported internally and externally by FDIC because of this significant deficiency.

In addition to the significant deficiency in internal control over contract payment review processes, we also identified other deficiencies in FDIC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FDIC management's attention. We have communicated these matters to FDIC management and, where appropriate, will report on them separately.

Significant Deficiency in Internal Control over Contract Payment Review Processes

During our 2020 audit, we identified deficiencies in contract payment review processes that collectively represent a significant deficiency in FDIC's internal control over financial reporting. Specifically, FDIC did not consistently implement controls over contract payment review processes. FDIC oversight managers are responsible for verifying that contractors deliver purchased goods or services and perform their work according to contracts and delivery schedules. Oversight managers also monitor the expenditures of funds in relation to contract dollar ceilings and approve invoices for payment. We identified deficiencies in FDIC's implementation of these internal controls that increased the risks that improper payments could occur and operating expenses and accounts payable could be misstated. For example:

- A Disbursement Operations Section processor incorrectly entered a manually calculated payment discount into FDIC's New Financial Environment, which was in addition to the discount automatically applied by the financial system. The oversight manager and Disbursement Operations Section approver did not detect the payment error,[7] and FDIC made an improper payment to the contractor.
- An oversight manager approved a contractor invoice, even though supporting documentation was inconsistent with FDIC's total payment. While we were able to obtain evidence that the proper amount was paid, the oversight manager did not investigate, resolve, and document the inconsistencies before approving and paying the invoice.
- We found two additional instances where the oversight managers approved contract payments without sufficient documentation to support the invoices; one of these instances involved a small payment error.

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

[7]The Disbursement Operations Section approver is responsible for reviewing and approving the payment entered into FDIC's New Financial Environment for processing, which then automatically routes to the oversight manager for final approval.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

According to GAO's *Standards for Internal Control in the Federal Government*,[8] agency management is responsible for establishing and maintaining effective internal control to serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Further, GAO's *Framework for Assessing the Acquisition Function for Federal Agencies*,[9] states that when financial data are not useful, relevant, timely, or reliable, the acquisition function is at risk of inefficient or wasteful business practices. Without adequate contract payment review processes, FDIC cannot reasonably assure that internal controls over contract payments are operating effectively, which increases the risks of improper payments and misstatements in the financial statements.

While these deficiencies do not individually or collectively constitute a material weakness, FDIC's deficiencies related to contract payment review processes are important enough to merit the attention of those charged with governance of FDIC. Thus, these deficiencies represent a significant deficiency in FDIC's internal control over financial reporting as of December 31, 2020. Management commitment and attention will be essential to addressing these deficiencies and improving FDIC's controls over contract payment review processes.

Other Matters

Other Information

FDIC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming opinions on the DIF's and the FRF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

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

In connection with our audits of the financial statements of the DIF and of the FRF, both of which FDIC administers, 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.

---

[8]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

[9]GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO-05-218G (Washington, D.C.: September 2005).

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT (continued)

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 of the FRF and to 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 2020 that would be reportable, with respect to the DIF and to the FRF, 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.

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 stated that it was pleased to receive unmodified opinions on the DIF's and the FRF's financial statements. In regard to the significant deficiency in internal control over contract payment review processes, FDIC stated that it began taking steps to address this issue and will work to enhance control activities and expand monitoring capabilities in this area. Further, FDIC stated that it recognizes the essential role a strong internal control program plays in an agency achieving its mission. FDIC added that its commitment to sound financial management has been and will remain a top priority. The complete text of FDIC's response is reprinted in appendix II.

James R. Dalkin
Director
Financial Management and Assurance

February 11, 2021

Appendix I
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Office of the Chairman

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 provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

FDIC management is responsible for establishing and 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, 2020, 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 Modernization 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 *Standards for Internal Control in the Federal Government.*

Based on the above evaluation, management concludes that, as of December 31, 2020, FDIC's internal control over financial reporting relevant to the DIF and the FRF was effective.

Jelena McWilliams

Jelena McWilliams
Chairman

BRET EDWARDS Digitally signed by BRET EDWARDS

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer

February 11, 2021

Appendix II
MANAGEMENT'S RESPONSE TO THE AUDITOR'S REPORT

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

February 11, 2021

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

Re: FDIC Management Response to the 2020 and 2019 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' 2020 and 2019 Financial Statements, GAO-21-284R. We are pleased that the Federal Deposit Insurance Corporation (FDIC) has received unmodified opinions for the twenty-ninth consecutive year on the financial statements of its funds: the Deposit Insurance Fund (DIF) and the FSLIC Resolution Fund (FRF). GAO also reported that although internal controls can be improved, the FDIC maintained, in all material respects, 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. GAO did report a significant deficiency in internal control over contract payment review processes.

During the audit year, the FDIC began taking steps to address issues concerning the contract payment review process. In the coming year, the FDIC will work to enhance the control activities and will expand monitoring capabilities in this area to address the identified weakness. The FDIC recognizes the essential role a strong internal control program plays in an agency achieving its mission. Our commitment to sound financial management has been and will remain a top priority.

In complying with audit standards that require management to provide a written assessment about the effectiveness of its internal control over financial reporting, the FDIC has prepared Management's Report on Internal Control over Financial Reporting. 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 another positive and productive relationship during the 2021 audit. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

BRET EDWARDS Digitally signed by BRET EDWARDS

Bret D. Edwards
Deputy to the Chairman
and Chief Financial Officer