

Message from the Chief Financial Officer • Steven O. App



I am pleased to join Chairman Bair in presenting our *2007 Annual Report*. The report provides our stakeholders with meaningful financial and program performance information and summarizes our accomplishments. Our priority is to provide timely, reliable and useful information.

The U.S. Government Accountability Office (GAO) issued unqualified audit opinions for the two funds administered by the Corporation: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). This marks the sixteenth consecutive year that we have received unqualified audit opinions, and demonstrates our continued dedication to sound financial management. It is also indicative of the financial statements being fairly presented. Achieving this major milestone attests to the hard work of the FDIC's employees, and I applaud their efforts.

The FDIC's financial highlights during 2007 include:

For the twelve months ending December, 31, 2007, DIF's comprehensive income totaled \$2.2 billion compared to \$1.6 billion for the previous year, an increase of 38 percent. Excluding the recognition of exit fees earned of \$345 million (a one-time adjustment) from the 2006 results, comprehensive income rose by \$1.02 billion, or 84 percent, from a year ago. This year-over-year increase was primarily due to a \$611 million increase in assessment revenue, a \$299 million increase in interest revenue, a \$298 million decrease in the unrealized loss on available-for-sale (AFS) securities, offset by a \$42 million increase in operating expenses and a \$147 million increase in the provision for insurance losses.

The \$611 million increase in assessment revenue resulted from significant changes to the risk-based assessment system beginning in 2007 (see footnote 7 to DIF's financial statements for a detailed explanation). For 2007, DIF recognized \$643 million in assessment revenue, representing \$3.7 billion in gross premiums due from insured depository institutions, net of \$3.1 billion in assessment credits used. Assessment revenue increased from \$94 million in the first quarter to \$245 million in the fourth quarter. The increased revenue each quarter primarily resulted from a reduction in the assessment credits used by financial institutions to offset gross assessments. This trend towards higher assessment income is expected to continue as institutions deplete their available credits. Of the \$4.7 billion in one-time assessment credits granted, \$1.6 billion (34 percent) remained as of December 31, 2007.

In 2007, we continued our efforts to reduce operating costs and prudently manage the funds that the FDIC administers. Annual budgeted operating expenditures for 2007 totaled approximately \$1.00 billion, which represents an increase of \$29 million (3 percent) from 2006. On December 19, 2007, the FDIC Board of Directors approved a 2008 Corporate Operating Budget totaling \$1.14 billion, a slight increase over the 2007 budget, largely due to the cost of employee pay increases negotiated for 2008.

Capital investment spending decreased significantly in 2007 to approximately \$12 million, roughly 48 percent of 2006 levels. This decrease is largely attributable to the completion of two major investment projects in 2006. The FDIC now has four active investment projects remaining. Investment spending is projected to be \$17 million in 2008.

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

Our performance in 2007 gives us confidence that we can meet the challenges of an ever-changing banking industry. In 2008, we will continue to focus on cost effective management of both the DIF and the FRF, while maintaining a strong enterprise-wide risk management and internal control program.

Sincerely,

A handwritten signature in blue ink that reads "Steven O. App". The signature is written in a cursive style with a large initial 'S' and 'A'.

Steven O. App