



February 6, 2008

MEMORANDUM TO: The Board of Directors

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

 Bret D. Edwards
 Director, Division of Finance

SUBJECT: Fourth Quarter 2007 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending December 31, 2007.

Executive Summary

- The Deposit Insurance Fund (DIF) balance grew by one percent to \$52.413 billion during the fourth quarter of 2007. DIF's comprehensive income grew by \$659 million during the fourth quarter of 2007, increasing the year-to-date (YTD) comprehensive income to \$2.248 billion. Comprehensive income for the fourth quarter 2007 is primarily composed of interest earned on investment securities of \$585 million, assessment revenue of \$239 million, and an unrealized gain on available-for-sale (AFS) securities of \$138 million, less operating expenses of \$263 million and a provision for insurance losses of \$39 million.
- On October 4, 2007, the Ohio Superintendent of Financial Institutions closed Miami Valley Bank of Lakeview, Ohio, and named the FDIC as receiver. DIF recorded a \$56 million receivable from the receivership for the payments made by DIF to cover obligations to insured depositors. In addition, an allowance for loss of \$3 million was recorded against the resolution receivable. The Miami Valley receivership retained assets of approximately \$83 million.
- For the twelve months ending December 31, 2007, total Corporate Operating and Investment Budget related expenditures ran below budget by 10 percent and 18 percent, respectively. The variance with respect to the Corporate Operating Budget expenditures was primarily the result of limited resolutions and receivership activity in the Receivership Funding component of the budget during the year. Detailed quarterly reports are provided separately to the Board by the Capital Investment Review Committee (CIRC) for those information technology projects that are included in the Investment Budget.

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

Trends and Outlook	
Financial Results	Comments
I. Financial Statements	<ul style="list-style-type: none"> • During the 4th quarter of 2007, DIF’s contingent liability for anticipated failures increased by \$54 million to \$124 million at year-end 2007 due to the deterioration in banking industry financial conditions. Despite this increase, the contingent liability represents less than one quarter of 1 percent of the fund balance. <p>Significant challenges have confronted the banking industry in 2007 arising from a slowdown in the housing market and rising defaults on subprime loans. Consequently, during 2007, the number of institutions on the FDIC's "Problem List" increased by 26 to 77. These institutions had \$22.2 billion in assets as of December 31, 2007, representing a 261 percent increase in problem assets from a year earlier. However, these challenges did not cause a large number of failures in 2007 – three FDIC-insured institutions failed with total assets of \$2.3 billion and estimated losses of \$120 million. These were the first failures since June 2004.</p> <p>Current market volatility may continue to hurt the performance of institutions with significant exposure to the residential mortgage market – especially those mortgage lenders that relied heavily on the “originate and sell” business model. However, many financial institutions entered 2007 with strong profitability and capital levels. As of September 30, 2007, risk-based capital ratios in the industry averaged 10.2 percent.</p>
II. Investments	<ul style="list-style-type: none"> • The DIF investment portfolio’s amortized cost (book value) increased by three percent during 2007, and totaled \$50.469 billion on December 31, 2007. At year end, the DIF’s portfolio yield was 4.72 percent, appearing to have dropped 17 basis points from 4.89 percent as of December 31, 2006. However, this decline stems from the extremely low, anomalous 1.25 percent overnight investment bond equivalent yield earned on December 31, 2007. At quarter end, overnight investments totaled \$4.240 billion, or about 8.1 percent of the total portfolio as measured by market value. The overall portfolio yield would have been in the neighborhood of 4.93 percent had the month-end overnight investment yield reflected the much more representative 3.96 percent average overnight investment yield earned between December 11, 2007 (the date of the then-most recent meeting of the Federal Reserve’s Federal Open Market Committee (FOMC) when it lowered the federal funds target rate) and December 30, 2007. This more representative 4.93 percent portfolio yield is four basis points higher than the portfolio’s yield at year-end 2006, reflecting the fact that during 2007, newly purchased securities had higher average yields than those of maturing securities.

Trends and Outlook	
Financial Results	Comments
	<ul style="list-style-type: none"> Treasury market yields should continue to decline and trade at comparatively low levels over the next several months, as many investors are expecting further reductions in the federal funds target rate and are concerned with the prospect that the U.S. economy may be falling into a recession. Expectations are for Treasury yields to gradually and modestly rise during the latter half of 2008 and into early 2009. This, coupled with a growing DIF portfolio balance, should lead to increased interest revenue over the long run. Over the short run, any decrease in yields would add to the existing net unrealized gains on available-for-sale (AFS) securities. Conversely, any subsequent increase in yields would accelerate the decline of the existing net unrealized gains on AFS securities. Moreover, regardless of changes in yields, existing net unrealized gains will be reduced due to the passage of time (that is, any unrealized gains or losses vanish as AFS securities approach their maturity dates).
III. Budget	<ul style="list-style-type: none"> Approximately \$982 million was spent in the Ongoing Operations component of the 2007 Corporate Operating Budget, which was \$51 million (5 percent) below the budget for the twelve months ending December 31, 2007. The Outside Services - Personnel expense category was \$29 million (16 percent) below its year-to-date budget, and represented 58 percent of the total Ongoing Operations variance. Approximately \$20 million was spent in the Receivership Funding component of the 2007 Corporate Operating Budget, which was \$55 million (74 percent) below the budget for the year. The Outside Services - Personnel expense category was \$49 million (79 percent) below its budget, and represented 88 percent of the total Receivership Funding variance.

I. Corporate Fund Financial Statement Results (See pages 11 - 12 for detailed data and charts.)

DIF

- For 2007, DIF's comprehensive income totaled \$2.248 billion compared to \$1.568 billion for last year. Excluding the recognition of exit fees earned of \$345 million (a one-time adjustment) from the 2006 results, comprehensive income rose by \$1.025 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 higher contribution from unrealized gain/loss on AFS securities of \$298 million, offset by a \$42 million increase in operating expenses and a \$147 million increase in the provision for insurance losses.
- During the fourth quarter of 2007, DIF's receivables from resolutions, net, decreased by \$1.249 billion to \$808 million primarily due to \$1.289 billion in dividends from the NetBank receivership. This decrease was in part offset by a \$53 million increase in the net receivable resulting from the Miami Valley Bank closing on October 4, 2007.

- The DIF portfolio's interest revenue was \$2.540 billion in 2007, or \$299 million higher than the \$2.241 billion of interest revenue earned in 2006. The largest contributor to the overall increase in 2007 interest revenue was TIPS inflation compensation of \$314 million, which was \$205 million more than the amount earned in 2006. This increased inflation compensation reflected the comparatively large increases in the CPI during 2007 stemming from rising energy and food prices. The remaining \$94 million year-over-year increase in interest revenue resulted from: 1) slightly higher average portfolio yields in 2007 as newly purchased securities continued to have somewhat higher yields than those of maturing securities; and 2) a growing investment portfolio balance. The DIF's AFS portfolio reported a \$125 million unrealized gain in 2007 compared with a \$173 million unrealized loss in 2006. During 2007, conventional Treasury yields and TIPS real yields decreased, resulting in higher market prices. In contrast, these yields increased during 2006, resulting in market price declines.

FSLIC Resolution Fund (FRF)

- FRF's net income for 2007 was \$64 million compared to a \$203 million loss for 2006. This change is primarily due to an increase in criminal restitution income of \$19 million, an increase in the recovery of tax benefits of \$33 million, and a decrease in Goodwill/Guarini litigation expenses of \$215 million.
- During the fourth quarter of 2007, FRF accrued a \$35 million contingent liability and offsetting receivable from the U.S. Treasury for judgments for two Goodwill cases that were fully adjudicated as of year-end. These funds were paid in January 2008. For the year ending December 31, 2007, FRF paid or accrued a total of \$440 million in Goodwill litigation expenses to resolve eight cases, compared with a total of \$447 million on six Goodwill cases during 2006.
- FRF paid \$225 million to the Resolution Funding Corporation (REFCORP) on October 10, 2007, bringing total payments to REFCORP to \$4.797 billion. Subsequent to year-end 2007, FRF paid an additional \$225 million to REFCORP on January 10, 2008. The FDIC must transfer to the REFCORP the net proceeds from the sale of FRF-RTC assets (once all liabilities of the FRF-RTC have been provided for) to pay the interest on REFCORP bonds, which were issued to fund early Resolution Trust Corporation resolutions. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds.

II. DIF Investment Results (See pages 13 – 14 for detailed data and charts.)

- During 2007, the amortized cost (book value) of the DIF investment portfolio increased by \$1.611 billion or by three percent—from \$48.858 billion on December 31, 2006, to \$50.469 billion on December 31, 2007. Moreover, during the period, the DIF portfolio's market value increased by \$3.340 billion or by seven percent, from \$49.038 billion on December 31, 2006, to \$52.378 billion on December 31, 2007.
- The DIF investment portfolio's total return for 2007 was 8.63 percent, approximately 23 basis points less than its benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which had a total return of 8.86 percent during the same period. Given the significant rise in

Treasury security prices during the year reflecting lower market yields, the DIF portfolio's large cash balance acted as a drag on relative total return performance.

- During the fourth quarter of 2007, consistent with the approved quarterly Corporate investment strategy, staff deferred purchases of Treasury securities in light of the comparatively low Treasury yields available during the quarter. On December 31, 2007, the DIF portfolio's overnight investment balance was \$4.240 billion, well above its \$150 million target floor balance.

The Treasury Market

- During the fourth quarter of 2007, conventional Treasury yields decreased substantially, reflecting two 25-basis point cuts in federal funds target rate during the quarter, and reflecting market sentiment for additional cuts in the target rate during the first quarter and second quarters of 2008. In addition, Treasuries also rallied in response to "flight to quality" trades by investors seeking the relative safety of Treasury securities. In the fourth quarter, yields on three-month and six-month T-Bills decreased by 56 basis points and 69 basis points, respectively. The two-year note yield, which is also sensitive to actual as well as anticipated changes in the federal funds rate, decreased by 93 basis points, again, reflecting the aforementioned 50-basis point cut in the federal funds rate and reflecting expectations for additional rate cuts. Intermediate-maturity Treasury yields also decreased over the course of the quarter. The yield on the five-year Treasury note decreased by 80 basis points; the yield on the ten-year Treasury note decreased by 57 basis points. The conventional Treasury yield curve steepened during the fourth quarter of 2007; on December 31, 2007, the two-year to ten-year yield curve had a 97-basis point positive spread (compared to positive 61-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 99 basis points.
- During the fourth quarter of 2007, Treasury Inflation-Protected Securities' (TIPS) real yields decreased dramatically, reflecting lower actual and anticipated interest rates and concerns over weak economic growth. In addition, as the magnitude of the declines in many cases were larger than those of comparable maturity conventional Treasury yields, such real yield declines reflect some modest concerns over growing inflationary pressures. The real yield of the DIF portfolio's short-maturity TIPS (with a maturity of a little over one-year at the end of the quarter) decreased by 130 basis points during the quarter. The real yield on the portfolio's longest-maturity TIPS (with a maturity of just over four years) decreased by 107 basis points. The real yield on the 10-year TIPS maturing on January 15, 2017, decreased by 57 basis points.

Prospective Strategies

- The current DIF investment strategy provides for purchasing AFS conventional with maturities of six years or less, for purchasing AFS TIPS, and for holding excess overnight investments, depending on Treasury market conditions and developments during the first quarter of 2008. During the quarter, if appropriate, staff will take advantage of any instances when yields rise toward the upper end of the recent trading range by purchasing short- to intermediate-maturity conventional Treasury securities and TIPS. Any securities purchased during the quarter will be designated AFS. As with recent quarterly investment strategies, conventional AFS securities will be limited to maturities of six years or less, as a means to help control fund balance volatility. (See attached Approved Investment Strategy.)

- As part of the DIF portfolio's approved fourth quarter investment strategy, an objective was established to reach a \$15 billion primary reserve target floor balance over the near term, with the understanding that this goal would not be reached until at least the first quarter of 2008. At the end of the fourth quarter of 2007, the primary reserve stood at \$14.317 billion. The DIF portfolio's first quarter 2008 investment strategy continues to include this primary reserve target objective.

III. Budget Results (See pages 15 - 16 for detailed data.)

Approved Budget and Staffing Modifications

During the fourth quarter of 2007, three modifications were made to the 2007 Corporate Operating Budget, in accordance with the authority delegated by the Board of Directors in the 2007 Budget Resolution:

- In October 2007, the Chief Financial Officer approved a reallocation of \$3.7 million and \$0.5 million, respectively, from the Salaries and Compensation expense category in the ongoing operations components of the budgets of the Division of Supervision and Consumer Protection (DSC) and the Division of Information Technology (DIT) to the Equipment expense category in DIT's budget. The additional \$4.2 million in equipment funding was required to support the procurement of application software and equipment for the new Java/Unix platform and to upgrade or replace obsolete equipment. This funding reallocation reduced DIT's projected 2008 budget requirements. Funds were available for reallocation in the DSC and DIT Salary and Compensation budgets because a large number of vacancies in those organizations were not filled as quickly as projected.
- In October 2007, funding was reallocated within the individual budgets for the Executive Offices to better align those budgets with projected personnel, travel, and other expenses for each office. There was no net change to the total budget for any major expense category in the combined Executive Offices budget.
- In December 2007, DIT reallocated \$343,000 within the ongoing operations component of its budget from the Equipment expense category to the Buildings expense category in order to properly account for expenses related to the installation of a wireless antenna at the Seidman Center. These expenses were initially budgeted in and charged to the Equipment category, but it was subsequently determined that they should have been charged to the Buildings category and treated as a capital improvement to the complex. This reallocation resulted in no net change to the total approved DIT budget.

A 2007 Investment Budget spending projection for the Legal Information Management System (LIMS) project was also revised during the quarter. The 2007 spending estimate for LIMS was reduced by \$206,380, to be consistent with a revised project plan for the project. That amount will remain available for use by the LIMS project in 2008, in accordance with approved Investment Budget procedures.

Status of Spending for the Implementation of Deposit Insurance Reform

The 2007 Corporate Operating Budget approved by the Board of Directors in December 2006 included funding for the continued implementation of Deposit Insurance Reform. Excluding internal Salaries and Compensation expenses, \$4.9 million was spent on systems changes required in conjunction with Deposit Insurance Reform in 2006, and \$1.8 million was spent on printing and distribution costs. During 2007, an additional \$4.9 million (excluding internal salaries and compensation expenses) was spent to support Deposit Insurance Reform implementation, as follows:

- Approximately \$4.3 million was spent for system development and enhancement activities. All of the targeted systems have now been upgraded and are fully functional for the deposit insurance reform implementation.
- Approximately \$0.6 million was spent for additional printing and distribution of updated deposit insurance brochures. All updates of printed materials that were required to support the implementation of deposit insurance reform were completed and distributed by year-end 2007.

In addition, DIR hired in mid-2007 two new employees to support deposit insurance pricing on an ongoing basis, as authorized by the Board in March 2006. Estimated 2007 Salary and Compensation expenses for these employees were approximately \$170 thousand.

All requirements for the initial implementation of Deposit Insurance Reform, as outlined in the case presented to the Board in March 2006, have now been completed. Accordingly, this will be the final quarterly report on expenses incurred in connection with those requirements. As of December 31, 2007, the Corporation had spent a total of approximately \$9.8 million over two years to support the initial implementation of Deposit Insurance Reform (excluding Salary and Compensation expenses for the two new DIR employees).¹

Spending Variances

Significant spending variances by major expense category and division/office for the year ending December 31, 2007, are discussed below. Significant spending variances are defined as those that either (1) exceed the annual budget; or (2) are under the total annual budget by \$1 million or more and represent more than three percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There were four major expense categories in which there were significant spending variances for the year in the Ongoing Operations component of the 2007 Corporate Operating Budget:

¹Additional systems development work will be required after the Board completes rulemaking on the payment of dividends from the new Deposit Insurance Fund (currently projected to occur no sooner than the first half of 2009). At such time as those requirements are defined, they will be funded through DIT's annual ongoing operating budget for information technology projects and will be accounted for as a separate project.

- Outside Services-Personnel expenditures were \$29 million, or 16 percent, less than budgeted. The variance was largely due to lower-than-budgeted payments to the Department of Justice for litigation services; less-than-anticipated spending for IT-systems development, operations, and maintenance support; lower net costs for the Student Residence Center (because of increased proceeds derived from outside use of the facility); and lower-than-budgeted spending on human resources contractual services.
- Travel expenditures were \$3 million, or 5 percent, less than budgeted. Overall corporate travel costs were lower because DRR staff participated in fewer compliance examinations than initially projected and CEP rotation schedules were adjusted, resulting in less travel for CEP participants. In addition, lower-than-projected travel costs were incurred for supervision, field oversight and litigation activities in the Legal Division.
- Outside Services-Other expenditures were almost \$2 million, or 10 percent, less than budgeted. This variance reflected successful negotiations to lower insurance rates, lower-than-anticipated outside printing costs, and a reduction in the number of local telephone lines needed for examinations as a result of the deployment of wireless data cards to examiners.
- Other Expenses were \$3 million, or 28 percent, less than budgeted. This variance was largely due to (a) lower-than-projected spending by employees under the first year of the new Professional Learning Accounts program; and (b) charges of expenses for some off-site conferences to the Travel expense category rather than the Other Expenses expense category.

Receivership Funding

The Receivership Funding component of the Corporate Operating Budget includes budgeted funding for non-personnel expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships. There were four major expense categories in which significant spending variances occurred during the year in the Receivership Funding component of the 2007 Corporate Operating Budget:

- Salary and Compensation² (\$2 million, or 71 percent, less than budgeted).
- Outside Services-Personnel (\$49 million, or 79 percent, less than budgeted).
- Travel (\$4 million, or 64 percent, less than budgeted).
- Buildings (\$0.2 million, or 7 percent, more than budgeted).

Variances in the first three expense categories were attributable to the limited receivership and resolution activity that occurred during the year. The overspending variance in the Buildings category was due to incorrect coding of charges totaling \$1.7 million (the expenses should have been charged to the Outside Services-Personnel category).

² Overtime is the only account budgeted in the Salary and Compensation expense category of the Receivership Funding component of the Corporate Operating Budget in 2007. All staff salaries are budgeted and expensed in the Ongoing Operations budget component.

Significant Spending Variances by Division/Office³

There were significant spending variances from total approved 2007 budgets for nine organizations during the year:

- DRR spent \$43 million, or 43 percent, less than budgeted. This variance was mostly attributable to under spending in the Receivership Funding component of its operating budget due to the limited receivership and resolution activity that occurred during the year.
- The Legal Division spent \$18 million, or 20 percent, less than budgeted. This variance was largely attributable to under spending in the Receivership Funding component of its operating budget due to the limited receivership and resolution activity that occurred during the year.
- DIT spent \$11 million, or 5 percent, less than budgeted for 2007. DIT spent \$8.6 million less than budgeted in the ongoing operations component of its budget, primarily due to lower-than-projected spending for application development, operations, and maintenance activities. It also spent \$2.6 million less than estimated in 2007 from the approved Investment Budget projects that are monitored and reported to the Board separately by the CIRC. These latter variances were attributable primarily to delays in project schedules.
- The Division of Administration spent \$7 million, or 5 percent, less than budgeted. This variance was largely attributable to (a) lower-than-anticipated net costs for the Student Residence Center (due to higher-than-projected proceeds received in connection with use of the facility by outside parties), and (b) less use of compensation and consulting services on human resource matters than originally projected for 2007.
- DIR spent \$3 million, or 9 percent, less than budgeted. This variance was attributable to the large number of budgeted positions that were vacant during the year and a significant reduction in the FDIC's share of the costs for enhancements to the Central Deposit Repository under the cost sharing agreement with the other bank regulatory agencies.
- The Inspector General spent \$2 million, or 8 percent, less than budgeted. This variance was primarily attributable to the fact that the OIG's on-board staffing was below its authorized staffing level throughout the year.
- DOF spent \$2 million, or 6 percent, less than budgeted. This variance was largely attributable to a larger-than-projected number of vacancies due to unanticipated management and staff departures during the year.
- Executive Support Offices spent nearly \$2 million, or 10 percent, less than budgeted. This variance was largely attributable to budgeted positions that were vacant during the year in the Office of Diversity and Economic Opportunity and the Office of the Ombudsman.
- CU spent \$1 million, or 4 percent, less than budgeted. This variance was attributable to (a) lower-than-budgeted spending for travel as a result of adjustments to the travel requirements for CEP participants; and (b) reduced spending for contractor services as a

³ Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

result of performance issues with a contractor related to the development of the DRR training and commissioning program, which have since been resolved.

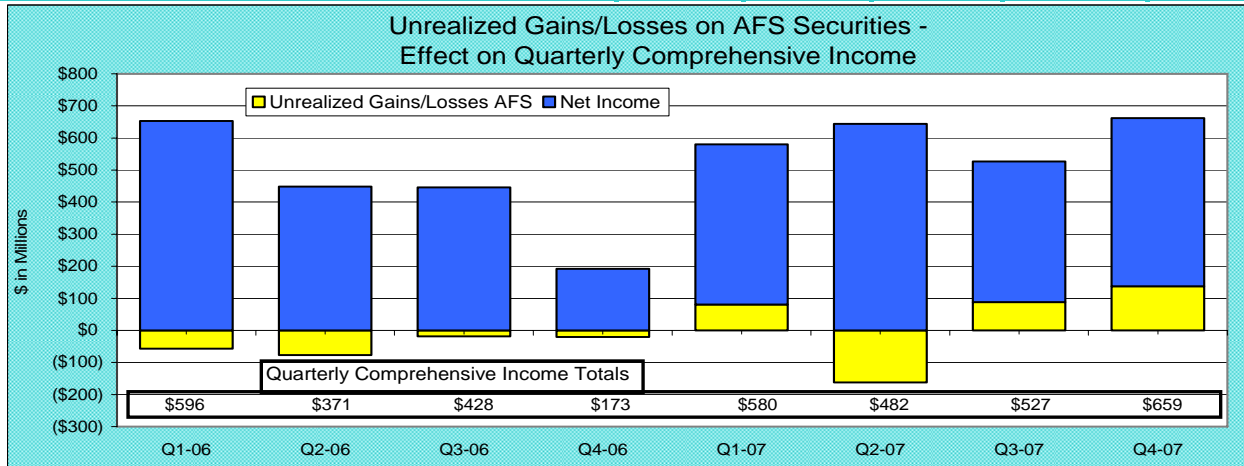
FDIC CFO REPORT TO THE BOARD – Fourth Quarter 2007

Fund Financial Results

(\$ in Millions)

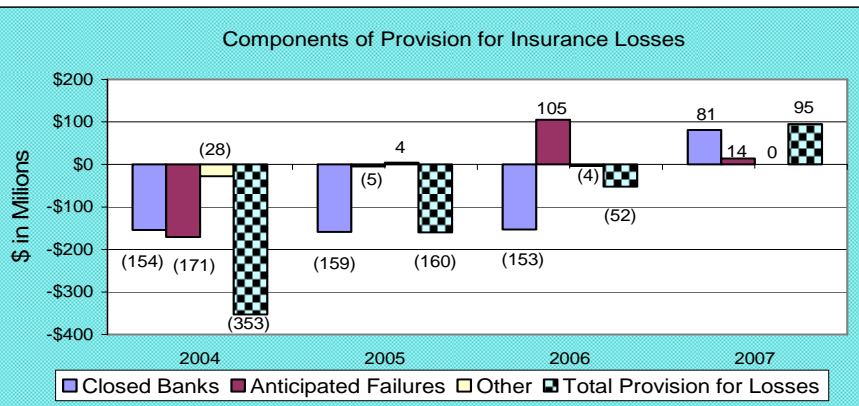
Balance Sheet

	Deposit Insurance Fund				
	(audited) Dec-07	(unaudited) Sep-07	Quarterly Change	(audited) Dec-06	Year-Over-Year Change
Cash & cash equivalents	\$ 4,245	\$ 2,854	\$ 1,391	\$ 2,954	\$ 1,291
Investment in U.S. Treasury obligations, net	46,588	47,933	(1,345)	46,142	446
Assessments receivable, net	245	173	72	0	245
Interest receivable on investments and other assets, net	768	706	62	748	20
Receivables from resolutions, net	808	2,057	(1,249)	539	269
Property, buildings and other capitalized assets, net	351	357	(6)	377	(26)
Total Assets	\$ 53,005	\$ 54,080	\$ (1,075)	\$ 50,760	\$ 2,245
Accounts payable and other liabilities	152	1,942	(1,790)	154	(2)
Postretirement benefit liability	116	114	2	130	(14)
Contingent Liabilities: future failures	124	70	54	111	13
Contingent Liabilities: litigation losses & other	200	200	0	200	0
Total Liabilities	\$ 592	\$ 2,326	\$ (1,734)	\$ 595	\$ (3)
FYI: Unrealized gain on available-for-sale securities, net	359	221	138	234	125
FYI: Unrealized postretirement benefit gain	19	22	(3)	2	17
FUND BALANCE	\$ 52,413	\$ 51,754	\$ 659	\$ 50,165	\$ 2,248



Income Statement

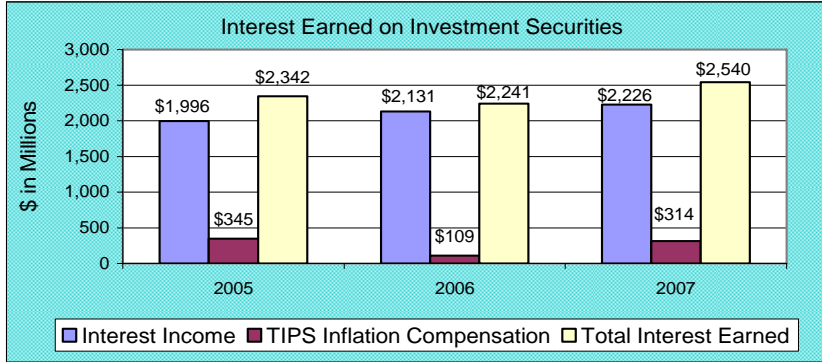
	Deposit Insurance Fund				
	(audited) Dec-07	(unaudited) Sep-07	Quarterly Change	(audited) Dec-06	Year-Over-Year Change
Assessments earned	\$ 643	\$ 404	\$ 239	\$ 32	\$ 611
Interest earned on investment securities	2,540	1,955	585	2,241	299
Exit fees earned	0	0	0	345	(345)
Other revenue	14	11	3	26	(12)
Total Revenue	\$ 3,197	\$ 2,370	\$ 827	\$ 2,644	\$ 553
Operating expenses (includes depreciation expense)	993	730	263	951	42
Provision for insurance losses	95	56	39	(52)	147
Other expenses	3	2	1	6	(3)
Total Expenses & Losses	\$ 1,091	\$ 788	\$ 303	\$ 905	\$ 186
Net Income	\$ 2,106	\$ 1,582	\$ 524	\$ 1,739	\$ 367
Unrealized gain/(loss) on available-for-sale securities, net	125	(13)	138	(173)	298
Unrealized postretirement benefit gain/(loss)	17	20	(3)	2	15
YTD Comprehensive Income	\$ 2,248	\$ 1,589	\$ 659	\$ 1,568	\$ 680



Over the last three years, the provision for insurance losses added to net income as estimated losses that had been previously booked for both existing receiverships and potential failures were reversed. During 2007, this trend had reversed.

Fund Financial Results - continued

(\$ in Millions)



Statements of Cash Flows

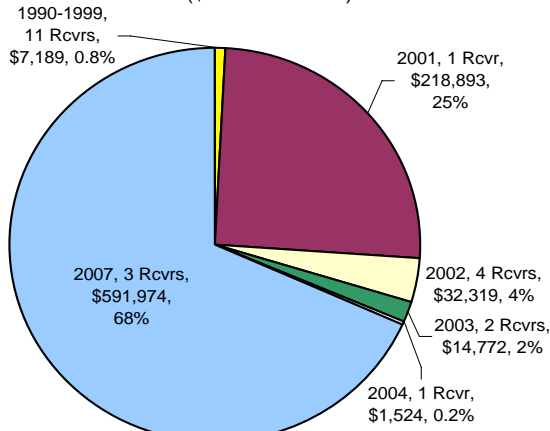
Deposit Insurance Fund

	(audited) Dec-07	(unaudited) Sep-07	Quarterly Change	(audited) Dec-06	Year-Over-Year Change
Net Income	\$ 2,106	\$ 1,582	\$ 524	\$ 1,739	\$ 367
Amortization of U.S. Treasury obligations (unrestricted)	571	431	140	599	(28)
TIPS Inflation Adjustment	(314)	(286)	(28)	(109)	(205)
Depreciation on property and equipment	63	40	23	53	10
Provision for insurance losses	95	56	39	(52)	147
Exit fees earned	0	0	0	(345)	345
Unrealized gain on postretirement benefits	17	20	(3)	0	17
Net change in operating assets and liabilities	(668)	5	(673)	101	(769)
Net Cash Provided by Operating Activities	\$ 1,870	\$ 1,848	\$ 22	\$ 1,986	\$ (116)
Investments matured and sold	7,626	6,256	1,370	6,800	826
Investments purchased (includes purchase of property and equipment)	(8,205)	(8,204)	(1)	(9,062)	857
Net Cash (Used) by Investing Activities	\$ (579)	\$ (1,948)	\$ 1,369	\$ (2,262)	\$ 1,683
Net Increase (Decrease) in Cash and Cash Equivalents	1,291	(100)	1,391	(276)	1,567
Cash and Cash Equivalents at beginning of year	2,954	2,954	0	3,230	(276)
Cash and Cash Equivalents - Ending	\$ 4,245	\$ 2,854	\$ 1,391	\$ 2,954	\$ 1,291

FSLIC Resolution Fund

	(audited) Dec-07	(unaudited) Sep-07	Quarterly Change	(audited) Dec-06	Year-Over-Year Change
Cash and cash equivalents	\$ 3,617	\$ 3,764	\$ (147)	\$ 3,616	\$ 1
Accumulated deficit, net	(123,770)	(123,836)	66	(123,834)	64
Resolution equity	3,648	3,790	(142)	3,620	28
Total revenue	\$ 188	\$ 150	\$ 38	\$ 169	\$ 19
Operating expenses	3	2	1	12	(9)
Goodwill/Guarini litigation expenses	196	178	18	411	(215)
Net (loss)/income	\$ 64	\$ (2)	\$ 66	\$ (203)	\$ 267

DIF Active Receiverships - Remaining Assets-in-Liquidation by Year of Receivership Failure (\$ in Thousands)



Active Receiverships = 22
Total Assets-in-Liquidation = \$866,671

Summary of Goodwill & Guarini Litigation (Inception-to-Date) \$ in Millions

	Goodwill		Guarini	
	# of Cases	Amount Paid/Accrued	# of Cases	Amount Paid
Dismissals/Time	43	N/A	0	N/A
Settlements	18	\$149	3	\$121
Judgments	42	\$1,238*	5	\$153
Pending	19	N/A	0	N/A
Totals	122	\$1,387	8	\$274

* Four institutions account for 65% of the total Goodwill payments (Glendale Federal Bank - \$382 million, Westfed Holdings, Inc. - \$211 million, LaSalle Talman Bank - \$155 million, and Home Savings of America - \$150 million).

Deposit Insurance Fund Portfolio Summary

(in millions)

	12/31/07	12/31/06	Change
Par Value	\$47,562	\$46,483	\$1,079
Amortized Cost	\$50,469	\$48,858	\$1,611
Market Value	\$52,378	\$49,038	\$3,340
Primary Reserve ¹	\$14,317	\$13,911	\$406
Primary Reserve Target Floor ²	\$15,000	\$10,000	\$5,000
Primary Reserve % of Total Portfolio	26.9%	28.0%	(1.1%)
Year-to-Date Total Return (Portfolio)	8.629%	4.056%	not applicable
Year-to-Date Total Return (Benchmark) ³	8.861%	3.571%	not applicable
Total Return Variance (in basis points)	(23.2)	48.5	not applicable
Yield-to-Maturity ⁴	4.72%	4.89%	(0.17%)
Weighted Average Maturity (in years)	4.06	3.57	0.49
Effective Duration (in years) ⁵			
Total Portfolio	3.19	2.82	0.37
Available-for-Sale Securities	1.29	1.80	(0.51)
Held-to-Maturity Securities	3.94	3.29	0.65

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

² This primary reserve target floor was increased from the third quarter's \$10 billion target, although when adopted it was understood that the target floor would not be reached until at least the first quarter of 2008.

³ The benchmark is the total return of the Merrill Lynch 1-10 Year U.S. Treasury Index.

⁴ The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assumes an average 2.2% annual increase in the CPI over the remaining life of each TIPS.

⁵ For each TIPS, an estimated 80% "yield beta" factor is applied to its real yield duration to arrive at an estimated effective duration.

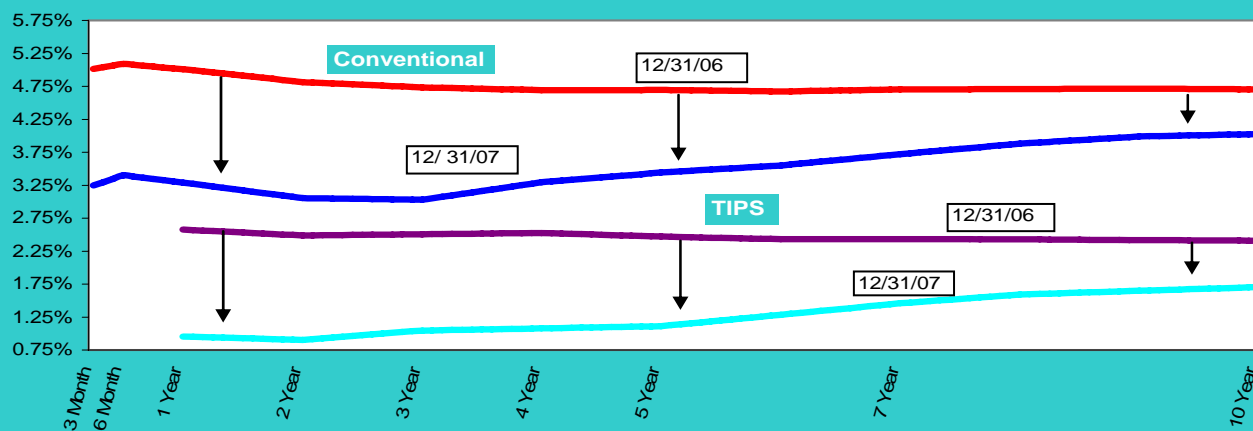
National Liquidation Fund (NLF) Investment Portfolio Summary

(Dollar Values in Millions)

	12/31/07	12/31/06	Change
Book Value ⁶	\$393	\$381	(\$12)
Yield-to-Maturity	4.22%	5.37%	(1.15%)
Weighted Average Maturity (in days)	19	13	6

⁶ Due to the short-term nature of the NLF, the portfolio's Book and Market Values are identical for reporting purposes.

U.S. Treasury Security Yield Curves



Approved Investment Strategy

DEPOSIT INSURANCE FUND Current Strategy as of 4th Quarter 2007

Maintain a \$150 million target floor overnight investment balance.

Strategically invest all available funds in excess of the target overnight investment balance, which may include purchasing conventional Treasury securities within the zero- to six-year maturity sector, purchasing Treasury Inflation-Protected Securities (TIPS) within the two- to ten-year maturity sector, and/or purchasing callable Treasury securities with final maturities not to exceed eight years, subject to the following limitations:

- All newly purchased Treasury securities shall be designated available-for-sale (AFS).
- Newly purchased AFS conventional Treasury securities should have maturities of six years or less.

Increase the portfolio's primary reserve balance, with a goal of reaching a \$15 billion target floor balance over the near term.

Strategy Changes for 1st Quarter 2008

No changes in strategy

NATIONAL LIQUIDATION FUND Current Strategy as of 4th Quarter 2007

Maintain a target overnight investment balance between \$20 million and \$25 million.

Strategically invest the remaining funds in the zero- to 12-month maturity sector.

Strategy Changes for 1st Quarter 2008

No changes in strategy

**Executive Summary of 2007 Budget and Expenditures
by Major Expense Category
Through December 31, 2007
(Dollars in Thousands)**

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
<i>Ongoing Operations</i>				
Salaries & Compensation	\$650,116	\$638,428	98%	(\$11,688)
Outside Services - Personnel	179,424	150,034	84%	(29,390)
Travel	56,719	53,738	95%	(2,981)
Buildings	68,290	67,076	98%	(1,214)
Equipment	49,563	49,201	99%	(362)
Outside Services - Other	15,723	14,158	90%	(1,565)
Other Expenses	12,655	9,172	72%	(3,483)
Total Ongoing Operations	\$1,032,490	\$981,807	95%	(\$50,683)
<i>Receivership Funding</i>				
Salaries & Compensation	\$3,420	\$990	29%	(\$2,430)
Outside Services - Personnel	61,347	12,827	21%	(48,520)
Travel	5,646	2,046	36%	(3,600)
Buildings	2,300	2,471	107%	171
Equipment	226	31	14%	(195)
Outside Services - Other	543	185	34%	(358)
Other Expenses	1,518	1,156	76%	(362)
Total Receivership Funding	\$75,000	\$19,706	26%	(\$55,294)
Total Corporate Operating Budget	\$1,107,490	\$1,001,513	90%	(\$105,977)
Investment Budget ¹	\$14,496	\$11,946	82%	(\$2,550)
Grand Total	\$1,121,986	\$1,013,459	90%	(\$108,527)

1) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2007 spending estimates for approved projects. Detailed quarterly reports on the status of those projects are provided separately to the Board by the Capital Investment Review Committee.

**Executive Summary of 2007 Budget and Expenditures
by Budget Component and Division/Office
Through December 31, 2007
(Dollars in Thousands)**

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
<i>Corporate Operating Budget</i>				
Supervision & Consumer Protection	\$390,408	\$385,455	99%	(\$4,953)
Information Technology	194,687	186,054	96%	(8,633)
Administration	159,340	152,143	95%	(7,197)
Resolutions & Receiverships	98,377	55,688	57%	(42,689)
Legal	90,619	72,314	80%	(18,305)
Insurance & Research	37,088	33,780	91%	(3,308)
Finance	30,891	28,895	94%	(1,996)
Inspector General	24,938	22,867	92%	(2,071)
Corporate University	30,899	29,898	97%	(1,001)
Executive Support ¹	17,797	16,100	90%	(1,697)
Executive Offices ²	7,446	6,514	87%	(932)
Government Litigation	25,000	11,805	47%	(13,195)
Total, Corporate Operating Budget	\$1,107,490	\$1,001,513	90%	(\$105,977)
<i>Investment Budget ³</i>				
Information Technology	\$13,871	\$11,283	81%	(\$2,588)
Resolutions & Receiverships	227	358	158%	131
Insurance & Research	278	305	110%	27
Corporate University	120	0	0%	(120)
Total, Investment Budget ³	\$14,496	\$11,946	82%	(\$2,550)
<i>Combined Division/Office Budgets</i>				
Supervision & Consumer Protection	\$390,408	\$385,455	99%	(\$4,953)
Information Technology	208,558	197,337	95%	(11,221)
Administration	159,340	152,143	95%	(7,197)
Resolutions & Receiverships	98,604	56,046	57%	(42,558)
Legal	90,619	72,314	80%	(18,305)
Insurance & Research	37,366	34,085	91%	(3,281)
Finance	30,891	28,895	94%	(1,996)
Inspector General	24,938	22,867	92%	(2,071)
Corporate University	31,019	29,898	96%	(1,121)
Executive Support ¹	17,797	16,100	90%	(1,697)
Executive Offices ²	7,446	6,514	87%	(932)
Government Litigation	25,000	11,805	47%	(13,195)
Grand Total	\$1,121,986	\$1,013,459	90%	(\$108,527)

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

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

3) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2007 spending estimates for approved projects. Detailed quarterly reports on the status of those projects are provided separately to the Board by the Capital Investment Review Committee.