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

March 4, 2009

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 2008 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the period ending December 31, 2008.

Executive Summary

- The Deposit Insurance Fund (DIF) balance (unaudited) decreased by 45.4 percent ($15.699 billion) to $18.889 billion during the fourth quarter of 2008. The fourth quarter 2008 decrease was primarily due to the $17.550 billion increase in the provision for insurance losses mainly related to anticipated failures, offset by a $996 million increase in assessment revenue, a $551 million increase in the unrealized gain on available-for-sale securities, a $302 million increase in the realized gain on sale of securities, and a $277 million increase in interest earned on investment securities.

- The DIF reserve ratio is 0.40 percent as of December 31, 2008, which is 82 basis points lower than the 1.22 percent reserve ratio at year-end 2007. This is the lowest reserve ratio for the combined bank and thrift insurance fund since June 30, 1993, when the reserve ratio was 0.28 percent.

- During the fourth quarter of 2008, the FDIC was named receiver for 12 failed institutions: Main Street Bank of Northville, Michigan; Meridian Bank of Eldred, Illinois; Alpha Bank & Trust of Alpharetta, Georgia; Freedom Bank of Bradenton, Florida; Security Pacific Bank of Los Angeles, California; Franklin Bank, SSB of Houston, Texas; The Community Bank of Loganville, Georgia; Downey Savings & Loan, FA, of Newport Beach, California; PFF Bank & Trust of Pomona, California; First Georgia Community Bank of Jackson, Georgia; Sanderson State Bank of Sanderson, Texas; and Haven Trust Bank of Duluth, Georgia. The combined assets at inception for these institutions totaled approximately $25 billion with an estimated loss totaling $4 billion. The corporate cash outlay during the fourth quarter for these failures was $7 billion. Additionally, the FDIC and the acquirer of both Downey Savings and PFF Bank entered into a loss share agreement.

- For the year ending December 31, 2008, Corporate Operating and Investment related expenditures ran below budget by 1 percent ($12 million) and 13 percent ($4 million), respectively. The variance with respect to the Corporate Operating Budget was primarily the result of lower spending for contractual services in the Ongoing Operations component of the budget.

- Spending in the Ongoing Operations component was 1 percent ($12 million) under the approved budget, while spending in the Receivership Funding component exceeded the approved budget by approximately 0.3 percent ($464,000). Receivership Funding spending during December substantially exceeded prior month spending levels largely due to increased expenses associated with failures that occurred during the first nine months of the year.

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	The Temporary Liquidity Guarantee Program (TLGP) will have no financial impact to the DIF. Any losses incurred by the DIF will be recovered first from fees collected from institutions participating in the TLGP and second (only if TLGP revenue proves insufficient) from systemic risk based assessments imposed on all insured depository institutions. The 2008 financial results of the TLGP are summarized below. • The FDIC collected $2.425 billion of guarantee fees from participating institutions on newly issued senior unsecured debt under the Debt Guarantee Program (DGP) in 2008 and recorded a $974 million receivable for fees under this program at year-end. • The total amount of guaranteed debt outstanding is $224 billion as of December 31, 2008. If all eligible entities issued debt up to the program's allowable limit, the maximum loss exposure would be $940 billion. The FDIC cannot reliably estimate the future losses associated with the DGP at this time since the program has been operating for a relatively short time and no losses have yet been incurred. • The FDIC recorded a $665 million contingent liability associated with non-interest bearing transaction accounts for the anticipated failure of insured institutions participating in the Transaction Account Guarantee Program (TAG) as of December 31, 2008. • During 2008, the FDIC paid the guaranteed claims of depositors under the TAG program in the amount of $70 million upon the failure of ten participating institutions.

Trends and Outlook	
Financial Results	Comments
II. Investments	• The DIF investment portfolio's amortized cost (book value) decreased dramatically by $23.889 billion during 2008, and totaled $26.580 billion on December 31, 2008. The decline was primarily the result of funding 25 failed institution resolutions during 2008. At year end, the DIF investment portfolio yield was 4.59 percent, down 13 basis points from its December 31, 2007, yield of 4.72 percent. The yield decline stemmed largely from the sale of higher yielding securities during the third and fourth quarters. In addition, the DIF ended the year with a relatively high overnight investment balance of $971 million, earning ultra-low yields. The relatively high year-end overnight investment balance was largely attributable to the receipt of $867 million in assessment revenue on December 30, 2008. • The newly established Debt Guarantee Program investment portfolio totaled $2.425 billion on December 31, 2008, with all funds invested in overnight investments. • Conventional Treasury market yields declined dramatically during the fourth quarter of 2008. The deepening economic crisis and financial market turmoil prompted a flight to quality with burgeoning investor demand for Treasury securities; the yield declines also reflect the fact that during the fourth quarter, the Federal Open Market Committee (FOMC) cut the federal funds target rate three times, reducing it from 2 percent to a range of zero to 25 basis points. During the first quarter of 2009, Treasury yields are expected to continue to be volatile as market participants gauge whether financial and economic market turmoil is subsiding, prompting Treasury prices to fall with corresponding higher Treasury market yields; or whether financial and economic market turmoil is deepening, prompting further flight-to-quality Treasury price rallies and corresponding lower Treasury yields.

Trends and Outlook	
Financial Results	Comments
III. Budget	• Approximately $1.05 billion was spent in the Ongoing Operations component of the 2008 Corporate Operating Budget, which was $12 million (1 percent) below the budget for the year. Spending in the Outside Services - Personnel expense category, which was approximately $11 million below the annual budget, accounted for most of this variance. • Approximately $150.5 million was spent in the Receivership Funding component of the 2008 Corporate Operating Budget, which exceeded the approved annual budget by $0.5 million (0.3 percent). More than half of the annual spending occurred during the fourth quarter, although the majority (53 percent) was for continuing receivership management workload associated with failures that occurred during the first nine months of the year. • Authorized staffing increased by 19 percent, from 4,810 at the beginning of the year to 5,721 at the end of 2008. This increase was attributable primarily to increased resolution and receivership management activity and the elevated examination workload that resulted from a rise in the number of troubled institutions. In December 2008, the Board approved a further increase in authorized staffing for 2009, to 6,269. Approximately 78 percent of the additional positions approved for 2008 and 2009 are non-permanent.

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

Deposit Insurance Fund (DIF)

- The accounting for the transactions of the TLGP will have no impact to the DIF. Any losses incurred by the DIF will be recovered from fees collected from participating institutions in the TLGP as well as any special assessments imposed on all insured depository institutions. Fees received/accrued by FDIC as a result of the program will be held in reserve (deferred revenue) and used solely for the payment of any losses arising from the program. However, when losses are recognized the amount will be charged to expense and an equal amount of deferred revenue will be recognized as revenue to cover the loss.

- For 2008, the DIF's comprehensive loss was $33.524 billion compared to comprehensive income of $2.248 billion during 2007. This year-over-year decrease of $35.772 billion was primarily due to a $40.131 billion increase in the provision for insurance losses offset in part by a $2.322 billion increase in assessment revenue; a $1.766 billion increase in the unrealized gain on available-for-sale securities; and a $775 million increase in the realized gain on sale of securities.

- The provision for insurance losses was $40.226 billion in 2008. The total provision consists mainly of the provision for future failures ($22.244 billion) and the losses estimated at failure for the 25 resolutions occurring during 2008 ($17.873 billion), the largest of which was the $10.725 billion estimated loss for the IndyMac resolution.

- Assessment revenue was $2.965 billion for 2008 compared with $643 million for 2007. This increase of $2.322 billion was mostly due to the reduction in the amount of one-time assessment credits available for use. In 2008, $1.446 billion in one-time credits offset $4.410 billion in gross assessment premiums; whereas in the previous year, $3.088 billion in one-time credits were applied against $3.731 billion in gross assessment premiums.

- Net receivables from resolutions increased by $1.352 billion to $15.766 billion during the fourth quarter of 2008. This increase was mostly due to an increase of $2.360 billion in net subrogated accounts (claims against the receivership) for the 12 failures in the fourth quarter and $1 billion in funding provided to the IndyMac conservatorship. Partially offsetting these increases was a $1.825 billion increase in the allowance for loss on the IndyMac resolution.

FSLIC Resolution Fund (FRF)

- FRF's net loss was $63 million for the fourth quarter of 2008 compared to a $74 million net loss during the prior quarter. The net loss was primarily due to the recognition of $87 million in losses for three Goodwill judgments, offset by $17 million in tax benefit recoveries.

II. Investments

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

- The amortized cost (book value) of the DIF investment portfolio decreased dramatically, dropping by $23.889 billion, or 47.3 percent, from $50.469 billion on December 31, 2007, to $26.580 billion on December 31, 2008. The DIF portfolio's market value dropped by $23.548 billion or by 45.0 percent, from $52.378 billion on December 31, 2007, to $28.830 billion on December 31, 2008. The declines were primarily the result of funding failed institution resolutions during 2008.

- The DIF investment portfolio's total return for 2008 was 8.55 percent, approximately 278 basis points less than its benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which had a total return of 11.33 percent during 2008. The DIF portfolio's large cash balances held during the first half of the year acted as a drag on total return performance. In addition, the DIF portfolio's Treasury Inflation-Protected Securities (TIPS) considerably underperformed the Index's conventional Treasury securities. Finally, as the DIF conventional Treasury securities have a lower average duration than the securities held in the Index, the extraordinary conventional Treasury security rally during the second half of 2008, which certainly benefited the DIF's return, benefited the Index's return even more as a result of its longer average duration.

- During the fourth quarter of 2008, to help fund resolution-related cash outlays, staff sold a total of 19 securities on three occasions. These securities had a total book value of $4.328 billion, a total market value of $4.630 billion, a weighted average duration of 6.09 years, a weighted average maturity of 8.12 years, and a weighted average effective yield-at-cost of 4.95 percent. These security sales resulted in a realized gain of $302 million. On December

31, 2008, the DIF portfolio's overnight investment balance was $971.1 million, largely reflecting the receipt of $867 million in assessments on December 30, 2008.

The Treasury Market

- During the fourth quarter of 2008, conventional Treasury market yields decreased dramatically; along with the impact of the FOMC's three rate cuts, the deepening economic crisis and financial market turmoil prompted a flight to quality with burgeoning investor demand for Treasury securities. The three-month Treasury bill (T-Bill) and the six-month T-Bill yields decreased by 82 basis points and 135 basis points, respectively. The two-year Treasury note, which also is very sensitive to actual and anticipated changes in the federal funds rate, as well as to flight-to-quality concerns, posted a yield decline of 120 basis points during the fourth quarter. Intermediate- to longer-maturity Treasury security yields declined even more than shorter-maturity securities, with investors' abating inflationary concerns contributing to the yield declines. The yield on the five-year Treasury note declined by 143 basis points, while the yield on the ten-year note dropped by 161 basis points. The conventional Treasury yield curve flattened during the fourth quarter of 2008, reflecting the dramatic drop in yields on longer-maturity Treasuries; on December 31, 2008, the two- to ten-year yield curve had a 154-basis point positive spread (compared to positive 186-basis point spread at the beginning of the quarter). Over the past five years, this spread has averaged 85 basis points.

Prospective Strategies

- The first quarter 2009 DIF investment strategy calls for placing all net proceeds from deposit insurance assessments, maturing securities, coupon and other interest payments, and receivership dividends into overnight investments and/or short-term T-Bills in anticipation of potential resolution activity. (See attached Approved Investment Strategy.)

- For the newly established Debt Guarantee Program investment portfolio the first quarter 2009 investment strategy calls for investing all available funds in overnight investments, and/or in conventional or callable Treasury securities with effective maturity dates not to exceed June 30, 2012. An investment strategy likely to be implemented during the first and second quarters of 2009 will be to start developing a relatively even laddered maturity distribution out to June 30, 2012.

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

Approved Budget and Staffing Modifications

The Deputy to the Chairman and Chief Financial Officer (CFO) approved five modifications to the 2008 Corporate Operating Budget and/or authorized staffing during the quarter, in accordance with authority delegated by the Board of Directors in the 2008 Budget Resolution:

- In October 2008, the CFO approved an increase of 100 authorized positions for the Legal Division, of which 76 were to support increased resolutions and receivership management workload. A total of 94 of the 100 new positions are non-permanent.

- The CFO also approved in October 2008 the reallocation of existing budget authority among eight divisions/offices and among most major expense categories within the Receivership Funding budget component to reflect updated 2008 expense projections. The most significant was the reallocation of $6.5 million in budget authority from the Division of Resolutions and Receiverships (DRR) to the Division of Information Technology (DIT) to contract for data management services in conjunction with the large volume of downloaded data from insured institutions. In addition, approximately $2.9 million in budget authority was reallocated from the Legal Division to five divisions and offices to provide additional resources for Salaries and Compensation and Travel in those organizations.

- In November 2008, the CFO approved a request to reallocate approximately $1.2 million of budget authority within the Receivership Funding budget component of the Corporate Operating Budget from the Buildings expense category of the Division of Administration (DOA) budget to the Equipment expense category of the DIT budget. These funds were required to purchase equipment for the new temporary West Coast Satellite Office (WCSO).

- In December 2008, the CFO approved a request to reallocate $2.6 million of budget authority among divisions and offices within the Salaries and Compensation expense category of the Ongoing Operations budget. The Division of Supervision and Consumer Protection (DSC) received $2.1 million to cover unbudgeted expenses associated with the 2008 Annual Leave Buy-Back Program. Corporate University (CU) received $350,000 for unbudgeted Salaries and Compensation expenses for detailees to CU from other organizations and for the extended assignment of Financial Institutions Specialists in the first year Corporate Employee Program to DRR to assist with increased bank closing activities. Three smaller organizations received a combined total of $150,000 for projected shortfalls also caused by detailees and other factors. Offsetting reductions were made in the budgets of the Legal Division ($1.0 million), DRR ($1.0 million), and the Division of Finance ($600,000). Funds were available in the budgets of these organizations because of vacancies in budgeted positions.

- In December 2008, the CFO approved a request to add $17 million in Receivership Funding budget authority to the Outside Services – Personnel expense category of the DRR budget. This was offset by reductions of $13 million in DRR's budget for Salaries and Compensation, $1.5 million in the Legal Division's budget for Salaries and Compensation, and $2.5 million in the Legal Division's Outside Services – Personnel budget. The reallocated budget authority from the Salaries and Compensation expense category was available due to vacancies in budgeted positions. The excess budget authority in the Legal Division's Outside Services – Personnel budget was attributable to lower-than-anticipated spending for outside legal counsel services.

One modification was made during the fourth quarter to estimated 2008 spending for an approved Investment Budget project. In November 2008, estimated 2008 spending for the CDR Call Development investment project was reduced by approximately $644,000. These funds are available for use in future years in accordance with the Board resolution establishing the multi-year investment budget for the project. A detailed quarterly report on the status of IT investment projects, including the CDR Call Development project, is provided separately to the Board by the Capital Investment Review Committee (CIRC).

Significant Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the year ending December 31, 2008, are defined as those that either (a) exceed the annual budget for a major expense category or total division/office budget, or (b) are under the annual budget for a major expense category or division/office by an amount that exceeds $1 million and represents 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 significant spending variances in six major expense categories for the year in the Ongoing Operations component of the 2008 Corporate Operating Budget:

- Salaries and Compensation expenditures were $293,000 greater than budgeted. This overage equates to only 0.04 percent of the budget in this expense category.

- Outside Services-Personnel expenditures were approximately $11 million, or 6 percent, less than budgeted. The variance was largely due to lower-than-anticipated litigation expenses reimbursed to the U.S. Department of Justice for the Goodwill cases; a decision by DIT to reduce contract spending on discretionary IT efforts because of competing workload priorities; the continuing delay in starting the interagency SNC Modernization project; and the deferral of plans to conduct an Identity Theft Media Campaign.

- Buildings expenditures were $804,000, or 1 percent, greater than budgeted, largely due to significant increases in property taxes and utilities that could not be fully absorbed within the approved budget authority for this expense category.

- Equipment expenditures were approximately $2 million, or 5 percent, more than budgeted, primarily due to higher-than-expected maintenance costs for commercial software licenses required to support the large increase in FDIC's staff and contractors during 2008.

- Outside Services-Other expenditures were approximately $3 million, or 13 percent, less than budgeted. The variance was largely due to delayed execution of contracts for the FDIC's 75th Anniversary Public Education and public service announcement campaigns.

- Other Expenses were approximately $1 million, or 10 percent, less than budgeted. The variance was largely due to under spending of budgeted allowances for Professional Learning Accounts.

Receivership Funding

The Receivership Funding component of the 2008 Corporate Operating Budget includes funding for expenses that are incurred in conjunction with institution failures and the management and disposition of the assets and liabilities of the ensuing receiverships. There were five major expense categories in which significant spending variances occurred for the year in the Receivership Funding component of the 2008 Corporate Operating Budget:

- Outside Services-Personnel expenditures were approximately $7 million, or 8 percent, greater than budgeted. This variance largely reflected the high level of contractor expenses paid by DRR for receivership management support during the fourth quarter for institutions that failed during the first nine months of the year. Substantially higher contract expenses were paid in December for the receiverships associated with those failures than were paid in October and November. This appears to reflect a failure to track obligations that had been incurred earlier in the year and to enter invoices promptly into the accounting system for processing. As a result, no additional budget authority was requested to cover these contractor expenses. DRR, DOA, and the Division of Finance (DOF) are working together to improve tracking and coding of contract expenses for receivership management contracts in 2009.

- Buildings expenditures were approximately $3 million, or 22 percent, less than budgeted due to delays in the build-out of the temporary WCSO.

- Equipment expenditures were $59,000, or 0.5 percent, greater than budgeted, due to the purchase of IT equipment to support the temporary WCSO.

- Outside Services-Other expenditures were approximately $1 million, or 64 percent, greater than budgeted, primarily due to the unanticipated increases in various receivership and resolution expenses during the year. These expenses included telephone lines for call-in centers, real estate and personal property taxes, filing fees and other court costs, advertising costs, and bank service fees.

- Other Expenses were approximately $5 million, or 53 percent, less than budgeted, primarily due to under spending in the Other Expenses account for miscellaneous receivership costs.

Significant Spending Variances by Division/Office[1]

Seven organizations had significant spending variances for the full 2008 fiscal year:

- DRR spent approximately $10.9 million, or 7 percent, more than budgeted, including $9.9 million more than budgeted in the Receivership Funding component of its 2008 operating budget. This was attributable primarily to higher contractor expenses than expected. DRR also spent approximately $0.7 million, or 776 percent, more than estimated during 2008 for approved investment projects, including both the 4C and Claims Administration System (CAS) investment projects.[2]

- Executive Support Offices spent approximately $3.3 million, or 11 percent, less than budgeted. This variance was largely due to delayed execution of contracts for the FDIC's 75th Anniversary Public Education and public service announcement campaigns.

---

[1] Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.
[2] A detailed quarterly report on the status of IT investment projects, including the CAS and 4C projects, is provided separately to the Board by the CIRC.

- The Office of Inspector General spent approximately $2.4 million, or 9 percent, less than budgeted. This variance was primarily due to vacancies in budgeted positions during the year.

- The Executive Offices spent approximately $1.2 million, or 14 percent, less than budgeted. This variance was primarily due to lower-than-anticipated costs for the annual audit by GAO.

- DSC spent approximately $0.2 million, or 0.04 percent, more than budgeted.

- DIT spent approximately $4.2 million, or 15 percent, less than estimated for investment projects during the year. This was primarily attributable to $3.9 million in under spending for the multi-year CAS investment project due to delays by the contractor in meeting project milestones. [Note: This unused Investment Budget authority will be carried over for use in future periods, but may be used only for CAS.][3]

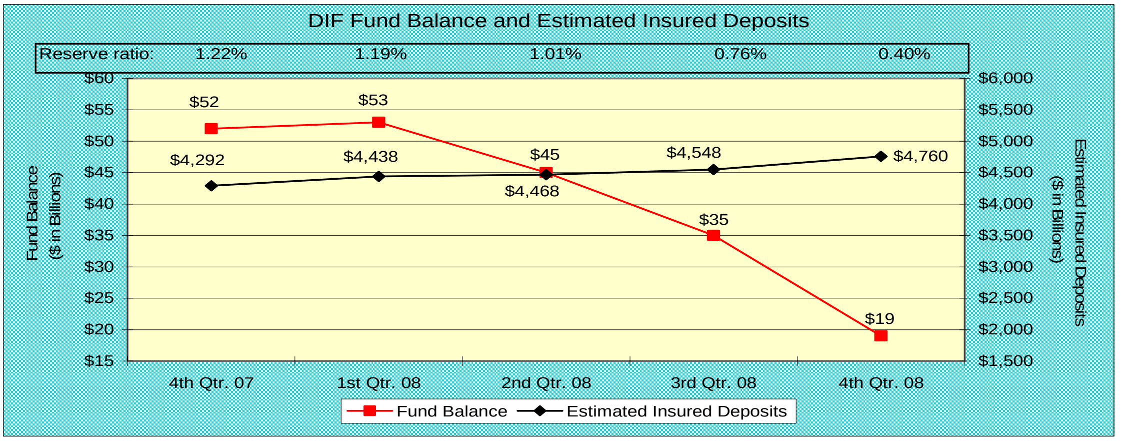
- The Division of Insurance and Research (DIR) spent approximately $0.1 million, or 15 percent, more than estimated for investment projects. This was attributable to spending slightly more than estimated for 2008 on the CDR Call Development investment project.[4] However, total spending for the project is within the multi-year investment budget approved for this project.

[3] A detailed quarterly report on the status of IT investment projects, including the CAS, is provided separately to the Board by the CIRC.
[4] A detailed quarterly report on the status of IT investment projects, including the CDR Call Development project, is provided separately to the Board by the CIRC.

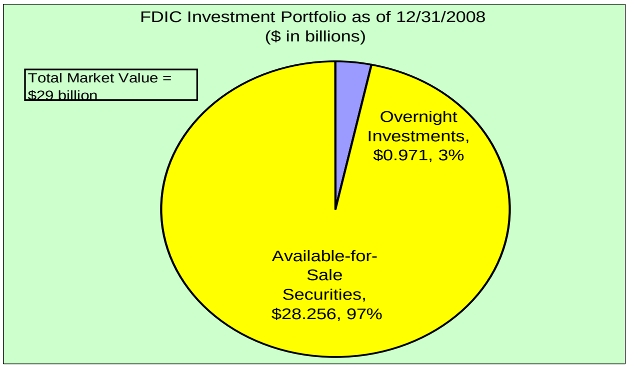
Fund Financial Results

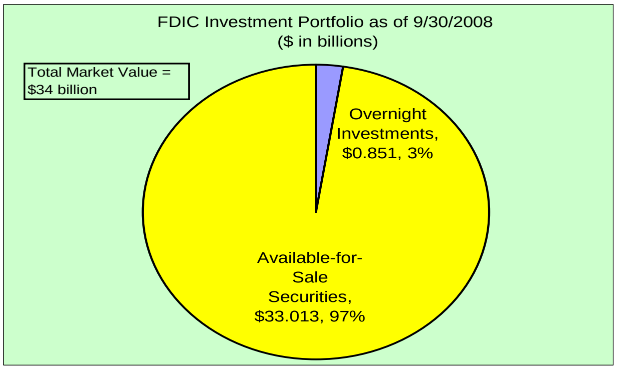
($ in Millions) - Unaudited

Balance Sheet	Deposit Insurance Fund				
	Unaudited Dec-08	Sep-08	Quarterly Change	Dec-07	Year-Over-Year Change
Cash & cash equivalents - unrestricted	$ 1,011	$ 854	$ 157	$ 4,245	$ (3,234)
Cash & cash equivalents - restricted - systemic risk	2,377	0	2,377	0	2,377
Investment in U.S. Treasury obligations, net	27,859	32,559	(4,700)	46,588	(18,729)
Assessments receivable, net	1,019	890	129	245	774
Receivables - systemic risk	1,138	0	1,138	0	1,138
Interest receivable on investments and other assets, net	405	472	(67)	768	(363)
Receivables from resolutions, net	15,766	14,414	1,352	808	14,958
Property, buildings and other capitalized assets, net	369	364	5	351	18
Total Assets	$ 49,944	$ 49,553	$ 391	$ 53,005	$ (3,061)
Accounts payable and other liabilities	4,857	2,923	1,934	152	4,705
Deferred revenue - systemic risk	2,827	0	2,827	0	2,827
Postretirement benefit liability	114	116	(2)	116	(2)
Contingent Liabilities: future failures	22,368	11,726	10,642	124	22,244
Contingent Liabillties: systemic risk	689	0	689	0	689
Contingent Liabilities: litigation losses & other	200	200	0	200	0
Total Liabilities	$ 31,055	$ 14,965	$ 16,090	$ 592	$ 30,463
FYI: Unrealized gain on available-for-sale securities, net	2,250	1,699	551	359	1,891
FYI: Unrealized postretirement benefit gain	25	19	6	19	6
FUND BALANCE	$ 18,889	$ 34,588	$ (15,699)	$ 52,413	$ (33,524)



Income Statement	Deposit Insurance Fund				
	Unaudited Dec-08	Sep-08	Quarterly Change	Dec-07	Year-Over-Year Change
Assessments earned	$ 2,965	$ 1,969	$ 996	$ 643	$ 2,322
Systemic risk revenue	715	0	0	0	715
Interest earned on investment securities	2,072	1,795	277	2,540	(468)
Other revenue	31	18	13	14	17
Realized gain on sale of securities	775	473	302	0	775
Total Revenue	$ 6,558	$ 4,255	$ 2,303	$ 3,197	$ 3,361
Operating expenses (includes depreciation expense)	1,033	743	290	993	40
Systemic risk expenses	715	0	715	0	715
Provision for insurance losses	40,226	22,676	17,550	95	40,131
Other expenses	4	1	3	3	1
Total Expenses & Losses	$ 41,978	$ 23,420	$ 18,558	$ 1,091	$ 40,887
Net (Loss)/Income	$ (35,420)	$ (19,165)	$ (16,255)	$ 2,106	$ (37,526)
Unrealized gain/(loss) on available-for-sale securities, net	1,891	1,340	551	125	1,766
Unrealized postretirement benefit gain/(loss)	5	0	5	17	(12)
YTD Comprehensive (Loss)/Income	$ (33,524)	$ (17,825)	$ (15,699)	$ 2,248	$ (35,772)





Fund Financial Results - continued

($ in Millions) - Unaudited

Statements of Cash Flows — Deposit Insurance Fund

Statements of Cash Flows	Unaudited Dec-08	Sep-08	Quarterly Change	Dec-07	Year-Over-Year Change
Net (Loss)/Income	$ (35,420)	$ (19,165)	$ (16,255)	$ 2,106	$ (37,526)
Amortization of U.S. Treasury obligations (unrestricted)	457	370	87	571	(114)
TIPS Inflation Adjustment	(272)	(313)	41	(314)	42
Depreciation on property and equipment	55	41	14	63	(8)
Provision for insurance losses	40,226	22,676	17,550	95	40,131
Unrealized gain on postretirement benefits	5	0	5	0	5
(Gain) on sale of UST obligations	(775)	(473)	(302)	17	(792)
Systemic risk expenses	(2)	0	(2)	0	(2)
Net change in operating assets and liabilities	(26,336)	(22,308)	(4,028)	(668)	(25,668)
Net Cash (Used by) Provided by Operating Activities	$ (22,062)	$ (19,172)	$ (2,890)	$ 1,870	$ (23,932)
Investments matured and sold	21,209	15,784	5,425	7,626	13,583
Investments purchased (includes purchase of property and equipment)	(4)	(3)	(1)	8,205	(8,209)
Net Cash Provided by (Used by) Investing Activities	$ 21,205	$ 15,781	$ 5,424	$ (579)	$ 21,784
Net Increase (Decrease) in Cash and Cash Equivalents	(857)	(3,391)	2,534	1,291	(2,148)
Cash and Cash Equivalents at beginning of year	4,245	4,245	0	2,954	1,291
Unrestricted Cash and Cash Equivalents - Ending	1,011	854	157	4,245	(3,234)
Restricted Cash and Cash Equivalents - Ending	2,377	0	2,377	0	2,377
Cash and Cash Equivalents - Ending	$ 3,388	$ 854	$ 2,534	$ 4,245	$ (857)

Selected Financial Data — FSLIC Resolution Fund

Selected Financial Data	Unaudited Dec-08	Sep-08	Quarterly Change	Dec-07	Year-Over-Year Change
Cash and cash equivalents	$ 3,467	$ 3,459	$ 8	$ 3,617	$ (150)
Accumulated deficit, net	(123,948)	(123,885)	(63)	(123,770)	(178)
Resolution equity	3,494	3,470	24	3,648	(154)
Total revenue	$ 63	$ 60	$ 3	$ 188	$ (125)
Operating expenses	3	4	(1)	3	0
Goodwill/Guarini litigation expenses	254	167	87	196	58
Net (Loss)/Income	$ (178)	$ (115)	$ (63)	$ 64	$ (242)

Receivership Selected Statistics December 2008 vs. December 2007

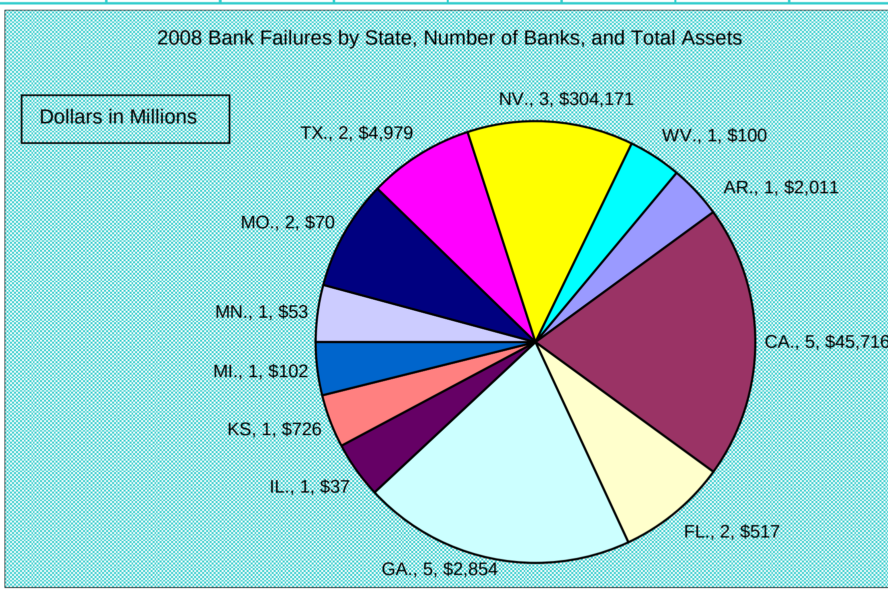
	DIF			FRF			ALL FUNDS		
Year-to-Date ($ in millions)	Dec-08	Dec-07	*Change*	Dec-08	Dec-07	*Change*	Dec-08	Dec-07	*Change*
Total Receiverships	41	22	19	8	13	(5)	49	35	14
Assets in Liquidation	$ 15,073	$ 875	14,198	$ 34	$ 32	2	$ 15,107	$ 907	14,200
Collections	$ 1,858	$ 1,207	651	$ 7	$ 39	(32)	$ 1,865	$ 1,246	619
Dividends Paid-Cash	$ 1,553	$ 1,647	(94)	$ 4	$ 5	(1)	$ 1,557	$ 1,652	(95)

Total number of bank failures for 2008 was 25.

The combined total assets for all bank failures was $361 billion.

The combined total estimated losses was $18 billion.

The majority of the assets that were retained are concentrated in commercial loans ($2.8 billion), commercial real estate ($6.2 billion), and ressidential loans ($2.6 billion).



Deposit Insurance Fund Portfolio Summary (Dollar Values in Millions)			
	12/31/08	12/31/07	Change
Par Value	$25,496	$47,562	($22,066)
Amortized Cost	$26,580	$50,469	($23,889)
Market Value	$28,830	$52,378	($23,548)
Primary Reserve [1]	$29,227	$14,317	$14,910
Primary Reserve % of Total Portfolio	100.0%	26.9%	73.1%
Year-to-Date Total Return (Portfolio)	8.550%	8.629%	not applicable
Year-to-Date Total Return (Benchmark) [2]	11.334%	8.861%	not applicable
Total Return Variance (in basis points)	(278.4)	(23.2)	not applicable
Yield-to-Maturity [3]	4.59%	4.72%	(0.13%)
Weighted Average Maturity (in years)	3.34	4.06	(0.72)
Effective Duration (in years) [4]			
Total Portfolio	2.85	3.19	(0.34)
Available-for-Sale Securities	2.94	1.29	1.65
Held-to-Maturity Securities [5]	not applicable	3.94	

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

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

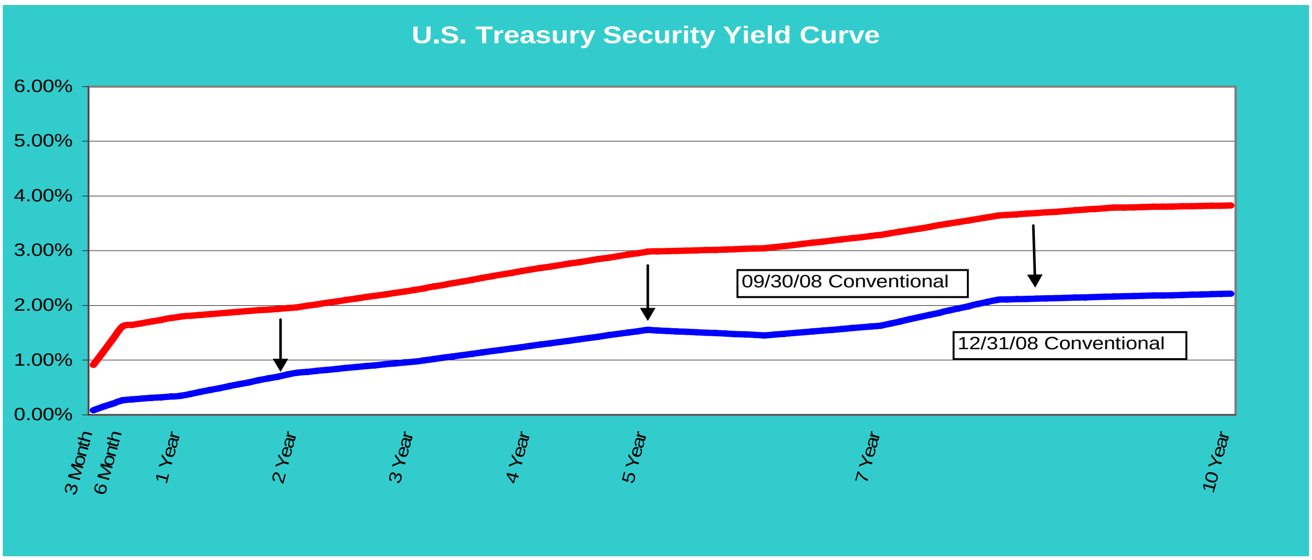
[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assumes an average 2.2% annual increase in the CPI over the remaining life of each TIPS.

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

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

National Liquidation Fund (NLF) Investment Portfolio Summary (Dollar Values in Millions)			
	12/31/08	12/31/07	Change
Book Value [6]	$3,447	$393	$3,054
Yield-to-Maturity	1.21%	4.22%	(3.01%)
Weighted Average Maturity (in days)	23	19	4

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



Approved Investment Strategies

DEPOSIT INSURANCE FUND

Strategy as of 4th Quarter 2008

Invest all proceeds from deposit insurance assessments, maturing securities, coupon and other interest payments, and receivership dividends in overnight investments and/or in short-term Treasury bills in anticipation of using such funds for resolution activities.

Strategy Changes for 1st Quarter 2009

No changes in strategy.

DEBT GUARANTEE PROGRAM

Strategy as of 4th Quarter 2008

Invest all debt guarantee fee proceeds in overnight investments and/or in short-term Treasury bills.

Strategy Changes for 1st Quarter 2009

Strategically invest all available funds in overnight investments and/or in conventional or callable Treasury securities with effective maturity dates not to exceed June 30, 2012.

NATIONAL LIQUIDATION FUND

Strategy as of 4th Quarter 2008

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 2009

No changes in strategy.

Executive Summary of 2008 Budget and Expenditures by Major Expense Category Through December 31, 2008 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$691,665	$691,958	100%	$293
Outside Services - Personnel	173,735	162,658	94%	(11,077)
Travel	64,080	63,945	100%	(135)
Buildings	55,607	56,411	101%	804
Equipment	45,382	47,656	105%	2,274
Outside Services - Other	24,259	21,188	87%	(3,071)
Other Expenses	12,076	10,882	90%	(1,194)
Total Ongoing Operations	**$1,066,804**	**$1,054,698**	**99%**	**($12,106)**
Receivership Funding				
Salaries & Compensation	$12,912	$12,280	95%	($632)
Outside Services - Personnel	92,648	99,999	108%	7,351
Travel	9,771	9,487	97%	(284)
Buildings	11,910	9,254	78%	(2,656)
Equipment	12,440	12,499	100%	59
Outside Services - Other	1,759	2,886	164%	1,127
Other Expenses	8,560	4,059	47%	(4,501)
Total Receivership Funding	**$150,000**	**$150,464**	**100%**	**$464**
Total Corporate Operating Budget	**$1,216,804**	**$1,205,162**	**99%**	**($11,642)**
Investment Budget [1]	**$29,444**	**$25,687**	**87%**	**($3,757)**
Grand Total	**$1,246,248**	**$1,230,849**	**99%**	**($15,399)**

1) Budgets for investment projects are approved on a multi-year basis; the year-to-date budget amount reflects the 2008 spending estimates for approved projects.

Executive Summary of 2008 Budget and Expenditures
by Budget Component and Division/Office
Through December 31, 2008
(Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$422,165	$422,336	100%	$171
Information Technology	209,078	208,758	100%	(320)
Administration	172,655	167,204	97%	(5,451)
Resolutions & Receiverships	150,889	161,094	107%	10,205
Legal	86,269	85,939	100%	(330)
Insurance & Research	34,092	33,052	97%	(1,040)
Finance	29,391	28,604	97%	(787)
Inspector General	26,296	23,872	91%	(2,424)
Corporate University	37,741	37,042	98%	(699)
Executive Support [1]	29,015	25,709	89%	(3,306)
Executive Offices [2]	8,194	7,041	86%	(1,153)
Government Litigation	11,019	4,511	41%	(6,508)
Total Corporate Operating Budget	**$1,216,804**	**$1,205,162**	**99%**	**($11,642)**
Investment Budget [3]				
Information Technology	$28,571	$24,350	85%	($4,221)
Resolutions & Receiverships	85	745	876%	660
Insurance & Research	513	592	115%	79
Corporate University	275	0	0%	(275)
Total Investment Budget [3]	**$29,444**	**$25,687**	**87%**	**($3,757)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$422,165	$422,336	100%	$171
Information Technology	237,649	233,108	98%	(4,541)
Administration	172,655	167,204	97%	(5,451)
Resolutions & Receiverships	150,974	161,839	107%	10,865
Legal	86,269	85,939	100%	(330)
Insurance & Research	34,605	33,644	97%	(961)
Finance	29,391	28,604	97%	(787)
Inspector General	26,296	23,872	91%	(2,424)
Corporate University	38,016	37,042	97%	(974)
Executive Support [1]	29,015	25,709	89%	(3,306)
Executive Offices [2]	8,194	7,041	86%	(1,153)
Government Litigation	11,019	4,511	41%	(6,508)
Grand Total	**$1,246,248**	**$1,230,849**	**99%**	**($15,399)**

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 2008 spending estimates for approved projects.