

Message from the Chief Financial Officer • Steven O. App



I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) *2009 Annual Report* (also referred to as the *Performance and Accountability Report*). The report covers financial and program performance information, and summarizes our successes for the year. The FDIC takes pride in providing timely, reliable, and meaningful information to its many stakeholders.

For the eighteenth consecutive year, the U.S. Government Accountability Office (GAO) issued unqualified audit opinions for the two funds administered by the Corporation: the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). These unqualified audit opinions validate our efforts to ensure that the financial statements of the funds for which we

are stewards are fairly presented. I applaud the hard work and dedication of the FDIC staff.

At the conclusion of 2009 and moving forward into 2010, the DIF balance remains negative, although there were indications by the end of the first quarter of 2010 that the condition of the banking industry may be stabilizing. The DIF's 2009 financial statements reflect the impact of a difficult banking environment, in which 140 banks failed. This total exceeds all bank failures between 1994 and 2008, and is the highest annual number since 1992, when 179 failures occurred.

Financial Results for 2009

The DIF's comprehensive loss totaled \$38.1 billion for 2009 compared to a comprehensive loss of \$35.1 billion for the previous year. As a result, the DIF balance declined from \$17.3 billion to negative \$20.9 billion as of December 31, 2009. The year-over-year increase of \$3.0 billion in comprehensive loss was primarily due to a \$15.9 billion increase in the provision for insurance losses, a \$4.0 billion increase in the unrealized loss on U.S. Treasury (UST) investments, and a \$1.4 billion decrease in the interest earned on UST obligations, partially offset by a \$14.8 billion increase in assessment revenue and a \$3.1 billion increase in other revenue (primarily from guarantee termination fees and debt guarantee surcharges).

The provision for insurance losses was \$57.7 billion in 2009. The total provision consists primarily of the provision for future failures (\$20.0 billion) and the losses estimated at failure for the 140 resolutions occurring during 2009 (\$35.6 billion).

Assessment revenue was \$17.7 billion for 2009. This is a \$14.8 billion increase from 2008, and is due to the collection of a \$5.5 billion special

assessment in September 2009 and significantly higher regular assessment revenue. Major factors contributing to the increase in regular assessment revenue included changes to the risk-based assessment regulations, ratings downgrades of many institutions (which pushed them into higher assessment rate categories), the decline of the one-time assessment credit, and a larger assessment base.

Although the DIF ended the year with a negative \$20.9 billion fund balance, the DIF's liquidity was significantly enhanced by prepaid assessment inflows of \$45.7 billion. Cash and marketable securities stood at \$66.0 billion at year-end, including \$6.4 billion in cash and marketable securities related to the Temporary Liquidity Guarantee Program (TLGP). Hence, the DIF is well positioned to fund resolution activity in 2010 and beyond. The prepaid assessments, while increasing DIF cash upon receipt, did not initially affect the fund balance, since the funds collected were initially recorded as an offsetting liability; they are subsequently recognized quarterly as revenue when earned.

In accordance with the requirements of the Federal Managers' Financial Integrity Act of 1982, the FDIC's management conducted its annual assessment and concluded that the system of internal controls, taken as a whole, complies with internal control standards prescribed by GAO and provides reasonable assurance that the related objectives are being met, with the exception of a material weakness in internal controls related to estimating losses to the DIF from resolution transactions involving loss-share agreements, which was identified by GAO during the course of the financial statement audit. Separately, GAO determined that a significant

deficiency existed over information systems. The FDIC believes that additional resources added throughout 2009, control improvements implemented during the fourth quarter of 2009, and control enhancements to be completed by the end of the second quarter of 2010, will largely address GAO's concerns in these areas. The FDIC is confident about the comprehensiveness of these control enhancements and does not expect GAO to identify repeat findings for 2010. We will continue to enhance our control environment throughout the year.

During 2010, we will keep working toward achieving the Corporation's strategic goals and objectives. These include identifying and addressing risks to the insurance funds, continuing work on U.S. government initiatives to strengthen the financial system, and providing Congress, other regulatory agencies, insured depository institutions, and the public with critical and timely information and analyses on the financial condition of both the banking industry and the FDIC-managed funds.

Sincerely,



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