2008 Annual Report

DIF DEPOSITORS INSURANCE FUND

No matter the amount, you’re covered.

NO DEPOSITOR HAS EVER LOST A PENNY IN A BANK INSURED BY BOTH THE FDIC AND THE DIF.

Depositors Insurance Fund Annual Report Year ended October 31, 2008

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Annual Meeting

April 2, 2009; Sheraton Framingham Hotel, Framingham, Massachusetts; 10:00 a.m.

Banker's Note

All historical references to industry financial data in this report reflect the current Massachusetts savings bank industry.

Depositors Insurance Fund

The Depositors Insurance Fund (DIF) is a private, industry-sponsored insurance company that insures all deposits in Massachusetts-chartered savings banks over the FDIC insurance limits.

DIF Member Banks

Athol Savings Bank
Avidia Bank
Bank of Canton
BankFive
Barre Savings Bank
Bay State Savings Bank
Belmont Savings Bank
Benjamin Franklin Bank
Berkshire Bank
Bridgewater Savings Bank
Bristol County Savings Bank
Cambridge Savings Bank
Cape Ann Savings Bank
Cape Cod Five Cents Savings Bank
Chicopee Savings Bank
Citizens-Union Savings Bank
Clinton Savings Bank
Country Bank
Danversbank
Dedham Institution for Savings
Eagle Bank
East Boston Savings Bank
East Bridgewater Savings Bank
East Cambridge Savings Bank
Easthampton Savings Bank
Florence Savings Bank
Granite Savings Bank
Greenfield Savings Bank
Hampden Bank
Hingham Institution for Savings
Hoosac Bank
Hyde Park Savings Bank
Institution for Savings
Lee Bank
Legacy Banks
The Lowell Five Cent Savings Bank
Marblehead Bank
Marlborough Savings Bank
Martha's Vineyard Savings Bank
Merrimac Savings Bank
Middlesex Savings Bank
Millbury Savings Bank
Monson Savings Bank
Newburyport Five Cents Savings Bank
North Brookfield Savings Bank
North Easton Savings Bank
North Middlesex Savings Bank
Pentucket Bank
PeoplesBank
The Provident Bank
Randolph Savings Bank
RiverBank
Salem Five Bank
Seamen's Bank
South Adams Savings Bank
South Coastal Bank
South Shore Savings Bank
Southbridge Savings Bank
Spencer Savings Bank
Stoneham Savings Bank
Strata Bank
The Savings Bank
UniBank
Washington Savings Bank
Watertown Savings Bank
Webster Five
Williamstown Savings Bank
Winchester Savings Bank

At April 2, 2009

Since 1934 the Depositors Insurance Fund has provided deposit insurance and a range of support services to Massachusetts-chartered savings banks. The DIF delivers in multiple ways for its member banks and their depositors.

Officers and Board of Directors

Officers

William G. Gothorpe
Chairman

Kenneth J. Redding
Vice Chairman

David Elliott
President and Chief Executive Officer

Mark S. Medvin
Executive Vice President,
Chief Operating Officer
and Treasurer

Edward J. Geary
Senior Vice President

John J. D'Alessandro
Vice President

Kara M. McNamara
Assistant Vice President

Board of Directors

Maura O. Banta
Regional Manager, Corporate Citizenship
and Corporate Affairs
IBM Corporation

Kevin T. Bottomley
President and Chief Executive Officer
Danversbank

Karl E. Case
Katharine Coman and A. Barton Hepburn
Professor of Economics
Wellesley College

Richard M. Donovan
President and Chief Executive Officer
Stoneham Savings Bank

J. Williar Dunlaevy
Chairman and Chief Executive Officer
Legacy Banks

William G. Gothorpe
President and Chief Executive Officer
Dedham Institution for Savings

E. Dennis Kelly, Jr.
President and Chief Executive Officer
Bristol County Savings Bank

William H. Mitchelson
Chairman
Salem Five Bank

Michael H. Mulhern
Executive Director
MBTA Retirement Fund

Charles P. O'Brien
President and Chief Executive Officer
South Adams Savings Bank

Kenneth J. Redding
President and Chief Executive Officer
UniBank

K. Michael Robbins
President and Chief Executive Officer
Spencer Savings Bank

Norman S. Seppala
President and Chief Executive Officer
Granite Savings Bank

Marvin Siflinger
Chairman
Housing Partners, Inc.

Arthur C. Spears
President and Chief Executive Officer
East Cambridge Savings Bank

William J. Wagner
President and Chief Executive Officer
Chicopee Savings Bank

Board of Directors as of October 31, 2008

Depositors Insurance Fund Highlights

For the year ended October 31, 2008

Deposit Insurance Fund

Deposit Insurance Fund	2008
Annual Assessments (year ended October 31)	$1,895,801
Dividend (calendar year)	2.40%
Funds Available	$351,671,036
Insured Excess Deposits	$5,703,119,807
Coverage Ratio[1]*	6.17%

[1] The Coverage Ratio is equal to the DIF's liquid assets available for the insurance of deposits (Funds Available) divided by its Insured Excess Deposits.

* Including $100 million of reinsurance, the Coverage Ratio would be 7.92%.

Liquidity Fund

Liquidity Fund	2008
Fund Balance	$6,495,638
Dividend (calendar year)	6.86%

SECURE

At a member bank of the Depositors Insurance Fund, all your deposits and accrued interest are secure thanks to full deposit insurance.

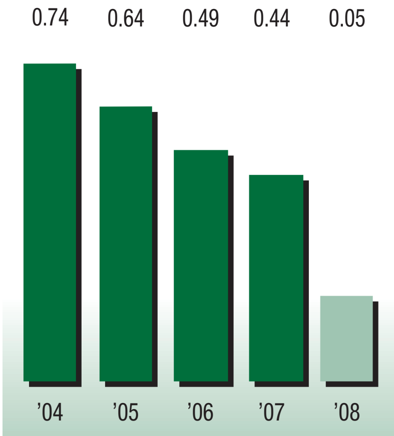
Industry Highlights

(In thousands, calendar year)

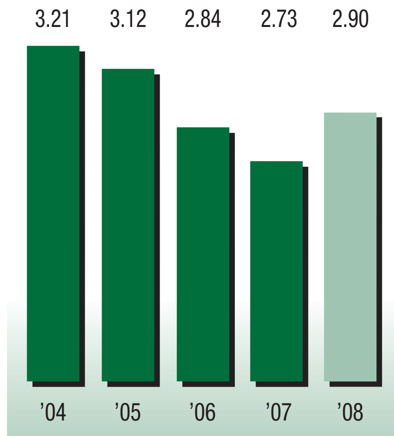
	2008	2007
Assets:		
Securities	$11,467,057	$11,929,370
Loans (net)	33,211,134	30,751,016
Other	4,602,988	4,262,032
Total Assets	49,281,179	46,942,418
Liabilities:		
Deposits	36,314,833	35,068,033
Borrowed Funds	7,635,876	6,533,548
Other and Minority Interest	519,150	430,930
Total Liabilities	44,469,859	42,032,511
Equity Capital	4,811,320	4,909,907
Total Liabilities and Equity Capital	$49,281,179	$46,942,418
Selected Ratios:		
Total Operating Expense/Average Total Assets	2.49%	2.51%
Total Operating Earnings/Average Total Assets	0.37%	0.38%
Return on Average Assets	0.05%	0.44%
Nonperforming Assets/Equity Capital & Allowance	7.72%	3.78%
Nonperforming Assets/Total Assets	0.80%	0.42%

Industry Financial Performance

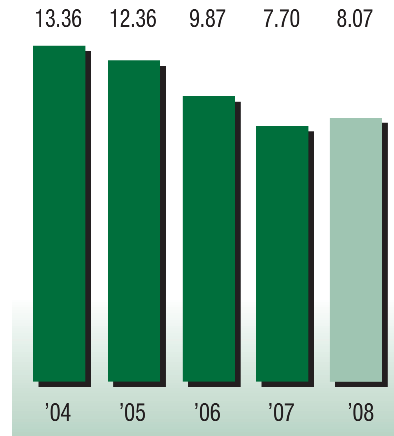
Return on Average Assets



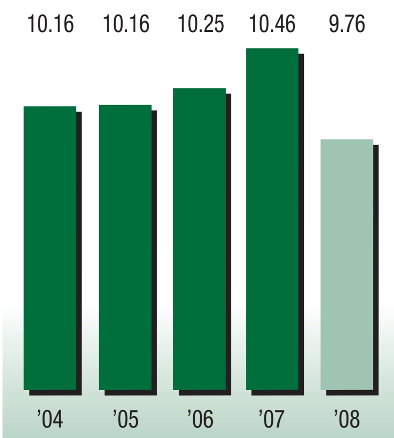
Net Interest Margin



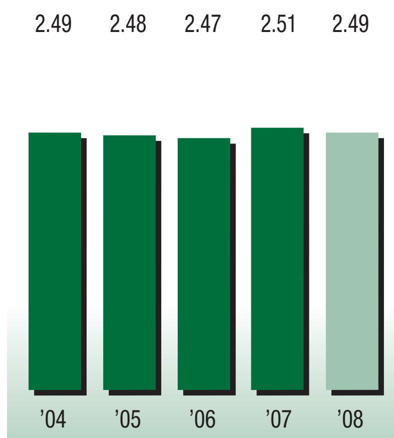
Loan Growth



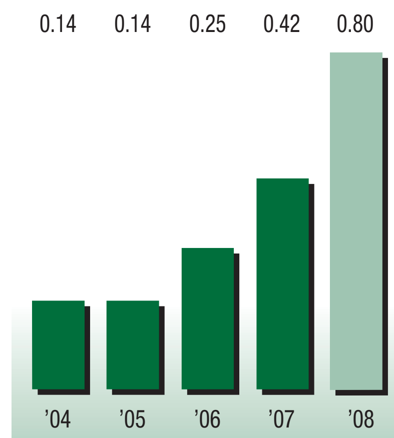
Equity Capital as % of Total Assetts



Operating Expense as % of Average Total Assets



Nonperforming Assets as % of Total Assets



SAFE

The combination of FDIC primary insurance and DIF excess deposit insurance means that all deposits, no matter how large, are safe and sound.

2008 will go down as one of the most financially challenging years in our nation's history as the crisis that began with defaults in the U.S. subprime mortgage market mushroomed into a global recession.

Some of the nation's largest and most recognizable financial institutions—Bear Stearns, Lehman Brothers, Merrill Lynch, Fannie Mae, Freddie Mac, Citigroup, and American International Group—plus other significant but less-storied names like IndyMac, Washington Mutual, and Wachovia—disappeared into history, had to be taken over, or required huge injections of capital from the federal government to continue operating.

I have often said that DIF insurance is a "rainy day product"—when times are good, few people think about it, but when the health of our financial institutions becomes an issue, safety of deposits is on everyone's mind. This was certainly borne out by last year's experience. The DIF received numerous telephone calls, emails, and letters from depositors as well as local and national media inquiring about DIF insurance, and I know that many of our members received increased inquiries as well. Depositors in DIF member banks were reassured that their banks were strong and their deposits were fully insured through the combination of FDIC and DIF insurance. The strength of the Massachusetts savings bank industry and the DIF provided an important level of confidence for depositors during this very difficult period.

The deteriorating condition of the nation's largest financial institutions was only one manifestation of the growing financial crisis. The Dow Jones Industrial Average plunged 33.8 percent in its poorest performance since 1931. The broader S&P 500 lost 38.5 percent, its worst year since 1937. Equity market volatility was startling, with some of the biggest single-day gains and losses in history occurring in the last four months of 2008.

At the center of the storm, home values continued to fall, spurring foreclosures and contributing to a substantial decline in consumer spending. In the fourth quarter, the nation's Gross Domestic Product fell at an annualized rate of 6.2 percent.

With recession perceived as the prime threat, the Federal Reserve cut its key fed funds rate seven times in 2008, from 4.25 percent at the start of the year down to a target range of 0 – 0.25 percent at year-end, a historic low and a level that effectively eliminated its further use as a tool to stimulate the economy.

As the recession deepened, the ranks of the unemployed surged. Nationally, the unemployment rate stood at 7.2 percent at year-end, up from 4.9 percent in 2007. The Massachusetts rate was 6.4 percent, compared to 4.5 percent at the close of 2007.

Home sales and prices continued their multi-year slide both nationally and in the Commonwealth. The nationwide median sales price for an existing home plunged 15.3 percent to $175,400, the biggest drop on record. Massachusetts single-family home sales declined 13 percent and the median price fell 10 percent to $311,000. Condominium sales were down 21 percent, with the median price falling 3.7 percent to $271,500.

Massachusetts savings banks were affected by the sharp economic downturn even though they largely steered clear of the higher-risk loans that hurt other banks. Return on assets was five basis points, down from 44 basis points last year. Losses from write-downs on investment securities totaled 34 basis points and was the primary cause of the decline in ROA.

Despite the 2008 bottom line, the Massachusetts savings bank industry remains financially sound. The industry is well-capitalized with equity capital equal to 9.76 percent of total assets at the end of 2008. Although ROA was down, the industry earned 37 basis points on an operating basis, essentially the same as last year. The net interest margin, which has been under pressure for many years, improved 17 basis points to 2.90 percent, the first such increase in five years and only the second in the last 10 years. Loans grew at a rate of 8.07 percent in 2008, an increase over 2007's growth rate of 7.70 percent. And although nonperforming assets increased from .42 percent of total assets to .80 percent, overall the level remains relatively low given the financial turmoil.

The Depositors Insurance Fund also continues to be in a very sound financial condition. At October 31, 2008, the Deposit Insurance Fund held $352 million in funds available for the insurance of deposits. All investments held by the Fund were U.S. Treasury or Agency obligations, or were fully guaranteed as to principal and interest by the U.S. Government. The DIF has not had to take any write-downs on any of its investments due to impairment of value.

The strength of the Deposit Insurance Fund was enhanced by Congress's action, effective in October, temporarily increasing the FDIC insurance limit to $250,000 per depositor until December 31, 2009. The change resulted in a reduction in DIF-insured excess deposits to $5.7 billion at October 31, 2008, from $9.5 billion a year ago. At the time of this writing, the increase in FDIC coverage is temporary, but there are indications that Congress might make the increase permanent.

The reduction in insured excess deposits is reflected in the Fund's coverage ratio. The coverage ratio was 6.17 percent, up from 3.59 percent at the end of 2007. The DIF continues to maintain its $100 million reinsurance policy with National Union Fire Insurance Company of Pittsburgh. The policy is scheduled to expire in June of 2009, and we are reviewing the costs and benefits of seeking a new policy within the context of an FDIC insurance level of $250,000 per depositor. Taking into account the reinsurance, the coverage ratio increases to 7.92 percent, up from 4.64 percent a year ago.

For several years now, the Deposit Insurance Fund has maintained a loss reserve in the amount of $10 million. The reserve was not reflective of any specifically identified problem banks, but rather was a minimum reserve established by DIF policy. During 2008, management, in consultation with our auditors, determined that reversal of the liability was appropriate

TRUST

Trust is the foundation of all financial relationships. At DIF member banks, families, retirees, businesses and municipalities enjoy peace of mind, knowing their deposits are fully insured.

and, further, that the adjustment in the reserve was attributable to the operating results of years prior to 2008. Accordingly, the Deposit Insurance Fund's 2008 audited financial statements reflect a reduction of the loss reserve to zero and a corresponding $10 million increase in the fund balance.

The well-publicized failure of IndyMac Bank in July amid the deepening financial crisis prompted unprecedented demand from member banks for DIF pamphlets, annual reports, and other informational materials. Many member banks also ran newspaper, television, and radio ads directly promoting the advantages of full deposit insurance. The DIF's Advertising Reimbursement Program returned a record $95,000 to member banks in 2008 for ads that included the DIF logo and informational deposit insurance language.

The DIF's Board of Directors approved, and in December the Deposit Insurance Fund paid, a 2.40 percent dividend to all member banks. The dividend totaled $1.6 million in the aggregate and was approved by the Commissioner of Banks.

The Board also declared two semi-annual dividends from the Liquidity Fund: a 3.81 percent dividend totaling $120,789 was paid in May, and a 3.05 percent dividend totaling $94,785 was paid in November.

Two directors will be leaving the Board effective with our annual meeting. I wish to express my appreciation to Bill Wagner and Ken Redding for their dedicated service to the DIF.

Bill Wagner was elected to the Board in 2003. This was Bill's second stint on the Board, having previously served a term in the late 1980s. During his most recent tenure, he served on the Executive, Audit, Investment, and Nominating Committees. I would like to thank Bill for his commitment and his many years of distinguished service to the DIF.

Ken Redding was elected to the Board in 2005. He served on the Executive, Audit, and Long Range Planning Committees, as well as serving as Vice Chairman in 2008. Always willing to assume new challenges and responsibilities, Ken hit the ground running and made many contributions to the DIF.

Both Bill and Ken have been conscientious Board members and took an active role in DIF affairs. Their participation on the DIF Board will be missed by me and all the DIF's officers.

In the long history of the DIF, 2008 will rank as an extraordinary year. The DIF's directors and staff responded to the challenge with a tremendous effort to meet the needs and concerns of depositors, our member banks, regulatory authorities, and the media. I extend my thanks to everyone for their dedication and service this past year.

David Elliott
President and Chief Executive Officer

2008 Financial Statements

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To the Board of Directors of the Depositors Insurance Fund:

We have audited the consolidated statement of condition of the Deposit Insurance Fund (the "Fund") and subsidiary as of October 31, 2008, and the related consolidated statements of operations, changes in fund balance and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Deposit Insurance Fund and subsidiary as of October 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Wolf & Company, P.C.

Boston, Massachusetts
January 12, 2009

October 31, 2008

Assets	
Cash and cash equivalents	$ 5,773,172
Investment securities available for sale, at fair value	340,454,518
Trading securities	3,277,784
Federal Home Loan Bank stock	1,181,170
Accrued interest receivable	3,719,256
Other assets	642,322
Total assets	$355,048,222
Liabilities and Fund Balance	
Accrued expenses and other liabilities	$ 1,553,694
Total liabilities	1,553,694
Commitments and contingencies (Notes 5 and 7)	
Undistributed fund balance	349,776,925
Accumulated other comprehensive income	3,717,603
Total fund balance	353,494,528
Total liabilities and fund balance	$355,048,222

See accompanying notes to consolidated financial statements.

Year Ended October 31, 2008

Income	
Interest and dividends on investments	$15,160,286
Net gain on investments	57,412
Total income	15,217,698
Expenses	
Salaries, employee benefits and related expenses	1,802,004
Reinsurance	780,000
Professional and contract services	464,496
Technology	238,537
Deposit insurance materials	325,949
Meetings and travel	173,884
Employee incentive plan	159,000
Occupancy	84,637
Other insurance	64,505
Legal	30,410
Other operating expenses	116,939
	4,240,361
Expenses allocated to Liquidity Fund	(35,886)
Total expenses, net	4,204,475
Net income	$11,013,223

See accompanying notes to consolidated financial statements.

Year Ended October 31, 2008

	Undistributed Fund Balance	Accumulated Other Comprehensive Income	Total Fund Balance
Fund balance at October 31, 2007, as previously reported	$329,883,528	$ 2,009,289	$331,892,817
Adjustment applicable to prior periods (Note 3)	10,000,000	—	10,000,000
Fund balance at October 31, 2007, as restated	339,883,528	2,009,289	341,892,817
Net income	11,013,223	—	11,013,223
Other comprehensive income:			
Net unrealized gain on investment securities available for sale, net of reclassification adjustment for gains realized in income of $114,025	—	2,292,945	2,292,945
Net change in unrecognized defined benefit plan losses and transition assets	—	(584,631)	(584,631)
Total comprehensive income			12,721,537
Assessments from member banks	1,895,801	—	1,895,801
Dividends to member banks	(3,015,627)	—	(3,015,627)
Fund balance at October 31, 2008	$349,776,925	$ 3,717,603	$353,494,528

See accompanying notes to consolidated financial statements.

Year Ended October 31, 2008

Cash flows from operating activities	
Net income	$ 11,013,223
Adjustments to reconcile net income to net cash provided by operating activities:	
Maturities and paydowns on trading securities	10,255,400
Net unrealized loss on trading securities	56,613
Net gain on sale of investment securities available for sale	(114,025)
Net amortization of investment securities available for sale	88,885
Increase in accrued interest receivable	(69,022)
Decrease in other assets	687,998
Decrease in accrued expenses and other liabilities	(128,619)
Net cash provided by operating activities	21,790,453
Cash flows from investing activities	
Proceeds from sales of investment securities available for sale	29,939,538
Proceeds from maturities and paydowns of investment securities available for sale	120,741,622
Purchases of investment securities available for sale	(168,885,100)
Purchase of Federal Home Loan Bank stock	(1,260)
Net cash used by investing activities	(18,205,200)
Cash flows from financing activities	
Assessments from member banks	1,895,801
Dividends paid to member banks	(3,015,627)
Net cash used by financing activities	(1,119,826)
Net increase in cash	2,465,427
Cash and cash equivalents at beginning of year	3,307,745
Cash and cash equivalents at end of year	$ 5,773,172

See accompanying notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund (the "DIF"), which did business under the name Mutual Savings Central Fund, Inc. until February 1993, was established by the Massachusetts Legislature in 1932 and is now comprised of the Liquidity Fund and the Deposit Insurance Fund and its subsidiary. The two Funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The Liquidity Fund and the Deposit Insurance Fund share office space and personnel. Costs incurred are generally paid by the Deposit Insurance Fund and allocated to the Liquidity Fund. The DIF is an organization described under Section 501(c)(14) of the Internal Revenue Code and is exempt on related income under Section 501(a) of the Code.

In the event a member bank obtains a federal charter or merges into a nonmember, its membership in the DIF is terminated and the DIF retains all amounts paid into the DIF by the bank. Banks whose membership in the DIF has been terminated as a result of obtaining a federal charter may reapply for excess deposit insurance. There are currently no federal member banks in the DIF.

Deposit Insurance Fund

The Deposit Insurance Fund was established in 1934, two years after the DIF was chartered, for the insurance of all deposits in Massachusetts savings banks. All Massachusetts savings banks are now members of the FDIC. Therefore, the Deposit Insurance Fund currently insures only those deposits in excess of the FDIC limit as defined by the FDIC ("excess deposits").

In consideration for the insurance provided, the Deposit Insurance Fund charges assessments at rates determined by the Board of Directors and approved by the Commissioner of Banks of the Commonwealth of Massachusetts (the "Commissioner"). The assessments are based upon the excess deposits of each bank insured by the Deposit Insurance Fund and the assessment rate may vary based on risk classifications assigned to each bank.

The Deposit Insurance Fund insures depositors for the amount of their excess deposits in the event the Commissioner determines a member bank to be insolvent. In addition, the Deposit Insurance Fund is empowered to provide assistance to a member bank when the Commissioner determines it is inadvisable or inexpedient for the member bank to continue to transact business without receiving financial assistance from the Deposit Insurance Fund.

A member bank that is determined by the Board of Directors of the DIF to pose a greater than normal loss exposure risk to the Deposit Insurance Fund can, with the approval of the Commissioner, be required to take action(s) to mitigate the risk. As an alternative to taking any such action(s), the bank can withdraw from membership in the DIF. In such event (i) the DIF retains all amounts paid into the DIF by the bank, and the bank retains its rights to share in any dividends paid by the DIF and the proceeds of any liquidation of the Deposit Insurance Fund; and (ii) the Deposit Insurance Fund continues to insure the term excess deposits in the bank as of the date of withdrawal until their maturity and all other excess deposits in the bank on such date for one year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Deposit Insurance Fund include the accounts of the Deposit Insurance Fund and its wholly-owned subsidiary, JAE Corporation, organized to hold and liquidate certain assets of a failed institution. All intercompany balances have been eliminated. Income and expenses of the Deposit Insurance Fund and its subsidiary are recognized on the accrual method of accounting.

The accounting and reporting policies of the DIF conform to accounting principles generally accepted in the United States of America.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the reserve for insurance losses. (See Note 5 – Anticipated Insurance Losses.)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Deposit Insurance Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investment Securities Available for Sale and Trading Securities

Investments that are purchased and held principally for the purpose of selling them in the near term are classified as “trading” and carried at fair value, with unrealized gains and losses included in earnings. Investments not classified as “trading” are classified as “available for sale” and carried at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of the fund balance. Premiums and discounts are recognized in income by the interest method over the terms of the securities. The cost of securities sold is determined on a specific-identification basis. A charge to operations is recognized on investment securities when a decline in value is considered other than temporary.

The DIF has an agreement with an unrelated investment advisor whereby the advisor provides investment management services to the Deposit Insurance Fund. Investment authority has been granted to the investment advisor within prescribed limits on allowable investments. At October 31, 2008, assets under management had a fair value of $235,225,000.

Assessments

Assessments are recorded as additions to fund balance in the statement of changes in fund balance in the year in which the insurance to which they apply is provided to depositors.

Dividends

The Deposit Insurance Fund pays an annual discretionary dividend which requires approval from the DIF Board of Directors and Commissioner of Banks. Dividends are accrued by a charge to the undistributed fund balance when all approvals are received.

Anticipated Insurance Losses on Member Banks

An accrued liability for anticipated insurance losses may be recorded with respect to certain banks determined by DIF management, in consultation with regulatory authorities, to be experiencing serious financial difficulties, as well as general losses based on many factors such as historical experience and current economic conditions. Substantial weight is accorded to indications from regulatory authorities that a member bank has an extremely high or near-term possibility of failure. See Note 5 – Anticipated Insurance Losses.

Pension Plan

The compensation cost of an employee's pension benefit is recognized on the net periodic pension cost method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes. The Deposit Insurance Fund recognizes in its statement of condition the funded status of the pension plan, measures the plan's assets and its obligations that determine its funded status as of the end of the DIF's fiscal year, and recognizes, through other comprehensive income, changes in the funded status of the pension plan that are not recognized as net periodic benefit cost.

Fair Values of Financial Instruments

The following methods and assumptions were used by the Deposit Insurance Fund in estimating its fair value disclosures for financial instruments:

- *Cash*
  The fair value of cash approximates its carrying amount as reported in the statement of condition.
- *Investments and Accrued Interest Receivable*
  The fair values of investments are based on quoted market prices. If no such price is reported, the valuation is determined by a price obtained from a reputable broker. The fair value of accrued interest receivable approximates its carrying amount as reported in the statement of condition.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and unrecognized pension benefit cost elements, are reported as a separate component of the fund balance section of the statement of condition, such items, along with net income, are components of comprehensive income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(concluded)*

Comprehensive Income *(concluded)*

The components of accumulated other comprehensive income, included in fund balance, at October 31, 2008 are as follows:

Net unrealized gain on securities available for sale	$4,126,871
Unrecognized actuarial loss pertaining to defined benefit pension plan	(434,466)
Unrecognized transition asset pertaining to defined benefit pension plan	25,198
	$3,717,603

The following table summarizes the amounts included in accumulated other comprehensive income at October 31, 2008 expected to be recognized as components of net periodic benefit cost in the next year.

Amortization of transition asset to be recognized in fiscal 2009	$ 6,296
Amortization of loss to be recognized in fiscal 2009	27,157

Reinsurance

The DIF has entered into a reinsurance agreement to reduce the loss to the Deposit Insurance Fund that may arise in the event of one or more bank failures. Reinsurance expense is recorded in the consolidated statement of operations on a pro rata basis over the term of the policy to which it applies. See Note 8 – Reinsurance Agreement.

Expense Allocation

Expenses of the Deposit Insurance Fund are allocated to the Liquidity Fund based on a formula of 2% of all expenses, excluding those expenses directly related only to the Deposit Insurance Fund.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for the Deposit Insurance Fund on November 1, 2008, and is not expected to have a material impact on the Deposit Insurance Fund's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for the Deposit Insurance Fund on November 1, 2008, and is not expected to have a material impact on the Deposit Insurance Fund's consolidated financial statements.

3. RESTATEMENT

For the past several years, the Deposit Insurance Fund had maintained a liability for anticipated insurance losses in the amount of $10,000,000, based on a minimum reserve level required by internal policy. During 2008, management determined that reversal of the liability was appropriate and that restatement of the opening undistributed fund balance properly reflected the adjustment as being attributable to the operating results of prior years. The liability had not been previously reduced as it was deemed immaterial to the Deposit Insurance Fund's total assets. Accordingly, the undistributed fund balance at October 31, 2007 has been restated to reflect the increase of $10,000,000 resulting from the respective reduction of the liability for anticipated insurance losses.

4. INVESTMENTS

The amortized cost, fair value, and unrealized gains and losses of investment securities classified as available for sale at October 31, 2008, by contractual maturity, are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury obligations and guarantees:				
Due in one year or less	$ 45,601,632	$ 571,721	$ (1,560)	$ 46,171,793
Due after one year through five years	68,077,214	2,920,177	(129,490)	70,867,901
Due after five years through ten years	7,621,451	20,892	(9,208)	7,633,135
	121,300,297	3,512,790	(140,258)	124,672,829
U.S. government-sponsored enterprise obligations:				
Due in one year or less	34,353,095	281,281	(2,172)	34,632,204
Due after one year through five years	120,169,868	1,308,130	(497,787)	120,980,211
	154,522,963	1,589,411	(499,959)	155,612,415
Mortgage- and asset-backed securities:				
Due after one year through five years	3,241,529	9,663	(8,102)	3,243,090
Due after five years through ten years	18,169,193	46,100	(214,291)	18,001,002
Due after ten years	39,093,665	153,552	(322,035)	38,925,182
	60,504,387	209,315	(544,428)	60,169,274
	$336,327,647	$5,311,516	$(1,184,645)	$340,454,518

Proceeds from sales of investment securities available for sale during 2008 were $29,939,538. During 2008, gross gains of $121,401 and gross losses of $7,376 were realized.

The components of net gain on investments included in the statement of operations for the year ended October 31, 2008 are as follows:

Gain on sale of securities available for sale, net	$114,025
Unrealized holding loss on trading securities, net	(56,613)
Net gain on investments	$ 57,412

INVESTMENTS *(continued)*

Gross unrealized losses on investment securities available for sale and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at October 31, 2008 were as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and guarantees	$13,121,055	$ 140,258	$ —	$ —	$ 13,121,055	$ 140,258
U.S. government-sponsored enterprise obligations	48,425,981	499,959	—	—	48,425,981	499,959
Mortgage- and asset-backed securities	35,850,445	383,797	6,243,685	160,631	42,094,130	544,428
	$97,397,481	$1,024,014	$6,243,685	$160,631	$103,641,166	$1,184,645

The unrealized losses on the Deposit Insurance Fund's investment securities were caused by interest rate increases. The principal and accrued interest on all mortgage and asset-backed securities is guaranteed by the U.S. Government, an agency of the U.S. Government, or both. Because the Deposit Insurance Fund has the ability and intent to hold these investments until a recovery of fair value, which may be at maturity, management does not consider these investments to be other-than-temporarily impaired at October 31, 2008.

Trading securities are comprised entirely of U.S. Treasury obligations and mortgage-backed securities issued by U.S. government-sponsored enterprises. The fair values of investment securities classified as trading at October 31, 2008, by contractual maturity, are as follows:

Due after one year through five years	$ 378,343
Due after five years through ten years	211,408
Due after ten years	2,688,033
	$3,277,784

Federal Home Loan Bank Stock

The DIF is a member of the Federal Home Loan Bank of Boston ("FHLBB"). As a condition of membership, the DIF is required to maintain an investment in FHLBB stock determined based on the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations. At October 31, 2008, the DIF's required investment in FHLBB stock was $1,203,500 of which $1,181,170 was allocated to the Deposit Insurance Fund. FHLBB stock is allocated between the Liquidity Fund and the Deposit Insurance Fund based on the portion of the FHLBB stock requirement that was attributable to each fund's U.S. Treasury and government-sponsored enterprise obligations.

Additional stock purchases are required based on growth of the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations and/or usage of FHLBB advances and related services.

The DIF also has a master agreement with the FHLBB to provide advances. Advances are secured by the DIF's FHLBB stock and specifically pledged securities. As of October 31, 2008, the DIF had no outstanding advances from the FHLBB and, accordingly, no securities have been specifically pledged. FHLBB advances would be allocated to the Liquidity Fund and the Deposit Insurance Fund based on the portion of advances applicable to each fund.

5. ANTICIPATED INSURANCE LOSSES

In fulfilling its insurance responsibilities described in Note 1, the Deposit Insurance Fund may sustain losses in subsequent accounting periods as a result of honoring claims associated with excess deposits in insolvent banks. In addition, there are several types of assistance which may be given when it appears that a bank should not continue to transact business unaided or as an independent institution. It is possible that the Deposit Insurance Fund could sustain losses in subsequent accounting periods as a result of providing assistance to members. Any such losses could be material. Because many of the factors that might contribute to future losses in the Deposit Insurance Fund are beyond the Deposit Insurance Fund's control, the amount of such losses, if any, generally cannot be determined or reasonably estimated (and, accordingly, are not reflected in the accrued liability for anticipated losses).

Assessing the adequacy of the accrued liability for anticipated losses on member banks involves substantial uncertainties and is based upon management's evaluation, after weighing various factors, of the amount required to meet estimated future losses for payment to depositors in insolvent banks having excess deposits. DIF management monitors the condition of insured member banks by reviewing their financial statements and regulatory examination reports and by meeting regularly with officials of the FDIC and the Commonwealth of Massachusetts Division of Banks to discuss industry conditions and specific problem banks. Substantial weight is accorded to indications from regulatory authorities that a member bank has an extremely high or near-term possibility of failure. Among the other factors management may consider regarding member banks are the amount of excess deposits, the amount of nonperforming assets in relation to regulatory capital and total loans and leases, the capital ratio, the recency of regulatory examinations, current economic conditions, and trends in the amount of excess deposits at banks which have failed. Ultimate losses may vary from current estimates. As of October 31, 2008, management had not recorded a liability for anticipated insurance losses in the Deposit Insurance Fund's consolidated financial statements.

The DIF has no independent authority to examine member banks, nor does it have independent authority to pay depositors or provide assistance unless the Commissioner has acted to close the member bank or to approve the assistance, respectively. Examinations of DIF members are conducted by the Massachusetts Division of Banks and the FDIC. Regulatory policy has generally been for an examination to be performed at least once within every twelve-month period, except that banks with assets not exceeding $500 million that are considered to be "well-capitalized" under FDIC regulations are generally examined once within every eighteen-month period.

During fiscal 2008, no member banks were closed by the Commissioner, and no deposit insurance payments were made by the DIF from the Deposit Insurance Fund.

6. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

Certain employees of the DIF participate in a defined benefit pension plan offered and administered by the Savings Banks Employees Retirement Association ("SBERA" or the "Association"). Employees become eligible to participate in the plan after reaching 21 years of age and completing one year of service, and become 100% vested after completing three years of service. The DIF's policy is to fund the plan within the allowable range under current law, determined on a discretionary basis. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The plan's funded status as of October 31, 2008 was as follows:

Projected benefit obligation	$(3,077,867)
Plan assets at fair value, primarily invested in equities and bonds	1,958,349
Funded (unfunded) status	$(1,119,518)
Accrued pension cost recognized in statement of condition	$ 1,119,518
Accumulated benefit obligation	$(2,368,622)

The following table presents certain assumptions used in determining the benefit obligation at October 31, 2008 and the benefit cost for the year then ended:

Discount rate - funded status	7.00%
Discount rate - benefit cost	6.00
Rate of increase in compensation levels	5.00
Expected long-term rate of return	8.00

In general, the DIF's assumption with respect to the expected long-term rate of return is based on prevailing yields on high-quality, fixed-income investments increased by a premium for equity return expectations.

The following table discloses additional information regarding the pension plan for the year ended October 31, 2008:

Benefit cost	$128,658
Employer contribution	270,868
Benefits paid	107,799

The benefits expected to be paid for each of the following five fiscal years and the aggregate for the five fiscal years thereafter are as follows:

Year Ending October 31,	Amount
2009	$ 748,261
2010	107,758
2011	107,709
2012	531,481
2013	5,926
2014-2018	1,419,558

The DIF expects to contribute $388,000 to the plan during the fiscal year ending October 31, 2009.

SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in the Association. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range from 40% to 64% of total portfolio assets. The remainder of the portfolio is allocated to fixed income from 15% to 25% and other investments including global asset allocation and hedge funds from 20% to 36%. The approximate investment allocation of the portfolio is shown in the table below. The Trustees of SBERA, through the Association's Investment Committee, select investment managers for the common and collective trust portfolio. A professional investment advisory firm is retained by the Investment Committee to provide allocation analysis, performance measurement and to assist with manager searches. The overall investment objective is to diversify equity investments across a spectrum of investment types (e.g., small cap, large cap, international, etc.) and styles (e.g., growth, value, etc.).

The composition of pension assets as of October 31, 2008 is as follows:

Fixed income (including money market)	25.8%
Equity investments	45.8
Other investments	28.4
Total	100.0%

Defined Contribution Pension Plan

In addition, certain employees of the DIF participate in a defined contribution pension plan offered and administered by SBERA. The plan was implemented on January 1, 1995. Employees become eligible to participate in the plan upon employment. Participating employees make contributions to the plan based on a percentage of their income. The DIF matches a percentage of the amounts contributed by employees. Employees become 100% vested in the DIF's matching contributions immediately. In 2008, the DIF's matching contribution expenses for the defined contribution pension plan was $45,372.

7. COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the DIF's financial statements, as follows.

Employment Agreement

The DIF has entered into an employment agreement with its President and Chief Executive Officer that generally provides for a specified minimum annual compensation. However, such employment may be terminated for cause, as defined, without incurring any continuing obligations. The agreement has a continual expiration date of 3 years until January 17, 2010, at which time the expiration date will be one year, as set forth in the agreement.

Severance Program

The DIF has a Severance Program that covers substantially all employees of the DIF. The program provides salary and benefits to employees in the event of "triggering events" related to a liquidation, mandated downsizing, change of control, merger, or reorganization of the Deposit Insurance Fund. Benefit amounts are dependent upon years of service and salary grade levels, with a maximum benefit of one year's salary and qualifying benefits.

COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS *(concluded)*

Operating Lease Commitments

The DIF has a lease providing for the use of its office space. The lease is cancelable by the DIF or the lessor. Total rent expense amounted to $74,276 for the year ended October 31, 2008.

8. REINSURANCE AGREEMENT

The DIF has a reinsurance agreement pursuant to which the reinsurer will pay up to $100,000,000 of the Deposit Insurance Fund's excess deposit insurance liability arising as a result of one or more "covered failures of scheduled financial institutions" in which the Deposit Insurance Fund's combined ultimate aggregate net loss exceeds $100,000,000. The Deposit Insurance Fund is primarily liable to its depositors for any losses that are incurred to the extent the reinsurer is unable to meet its obligations. The reinsurance agreement expires in June 2009. Insurance premiums are expensed over the term of the policy. The policy contains a premium escalator provision that applies when insured excess deposits increase by 25% over specified "base amounts."

9. RELATED PARTY TRANSACTIONS

A majority of the DIF's sixteen directors are associated with member banks.

To the Board of Directors of the Depositors Insurance Fund:

We have audited the statement of condition of the Liquidity Fund (the "Fund") as of October 31, 2008, and the related statements of operations, changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liquidity Fund as of October 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Wolf & Company, P.C.

Boston, Massachusetts
January 12, 2009

October 31, 2008

Assets	
Cash	$ 114,745
Investment securities available for sale, at fair value	6,352,064
Accrued interest receivable	101,284
Federal Home Loan Bank stock	22,330
Total assets	$6,590,423
Liabilities and Fund Balance	
Dividends payable	$ 94,785
Total liabilities	94,785
Undistributed fund balance	6,440,775
Accumulated other comprehensive income	54,863
Total fund balance	6,495,638
Total liabilities and fund balance	$6,590,423

See accompanying notes to financial statements.

Year Ended October 31, 2008

Income	
Interest and dividends on investments	$251,499
Expenses	
Expenses allocated from the Deposit Insurance Fund	35,886
Net income	$215,613

See accompanying notes to financial statements.

Year Ended October 31, 2008

	Undistributed Fund Balance	Accumulated Other Comprehensive Income	Total Fund Balance
Fund balance at October 31, 2007	$ 6,440,736	$ 20,052	$ 6,460,788
Net income	215,613	—	215,613
Other comprehensive income:			
Unrealized gain on investment securities available for sale	—	34,811	34,811
Total comprehensive income			250,424
Dividends to member banks	(215,574)	—	(215,574)
Fund balance at October 31, 2008	$ 6,440,775	$ 54,863	$ 6,495,638

See accompanying notes to financial statements.

Year Ended October 31, 2008

Cash flows from operating activities	
Net income	$ 215,613
Adjustments to reconcile net income to net cash provided by operating activities:	
Net amortization of investment securities	31,972
Increase in accrued interest receivable	(11,641)
Net cash provided by operating activities	235,944
Cash flows from investing activities	
Maturities of investment securities available for sale	3,977,000
Purchases of investment securities available for sale	(3,958,650)
Purchase of Federal Home Loan Bank stock	(14,240)
Net cash provided by investing activities	4,110
Cash flows from financing activities	
Dividends paid to member banks	(253,244)
Net cash used by financing activities	(253,244)
Net decrease in cash	(13,190)
Cash at beginning of year	127,935
Cash at end of year	$ 114,745

See accompanying notes to financial statements.

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund ("DIF"), which did business under the name Mutual Savings Central Fund, Inc. until February 1993, was established by the Massachusetts Legislature in 1932 and is now comprised of the Liquidity Fund (the "Fund") and the Deposit Insurance Fund. The two Funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The Liquidity Fund and the Deposit Insurance Fund share office space and personnel. Costs incurred are generally paid by the Deposit Insurance Fund and allocated to the Liquidity Fund. The DIF is an organization described under Section 501(c)(14) of the Internal Revenue Code and is exempt on related income under Section 501(a) of the Code.

Liquidity Fund

The Liquidity Fund was established in 1932 for the purpose of providing temporary liquidity to member banks by making loans to them secured by assets of the borrowing banks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

Income and expenses of the Liquidity Fund are recognized on the accrual method of accounting.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investment Securities Available for Sale

All investment securities are classified as "available for sale" and carried at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of the fund balance. Premiums and discounts are recognized in income by the interest method over the terms of the securities. The cost of securities sold is determined on a specific-identification basis. A charge to operations is recognized on investment securities when a decline in value is considered other than temporary.

Federal Home Loan Bank Stock

Federal Home Loan bank stock is a restricted equity security and is carried at cost.

Dividends

The Fund pays discretionary dividends on a semi-annual basis which are accrued by a charge to the undistributed fund balance when approved by the DIF Board of Directors.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the fund balance section of the statement of condition, such items, along with net income, are components of comprehensive income.

Expense Allocation

The Fund shares office space and personnel with the Deposit Insurance Fund, and 2% of the Deposit Insurance Fund's expenses, excluding those expenses directly related only to the Deposit Insurance Fund, are allocated to the Liquidity Fund.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* ("SFAS 157") which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for the Fund on November 1, 2008, and is not expected to have a material impact on the Fund's financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for the Fund on November 1, 2008, and is not expected to have a material impact on the Fund's financial statements.

3. INVESTMENTS

Available-for-sale Securities

The amortized cost, fair value, and unrealized gains and losses of investment securities classified as available for sale at October 31, 2008, by contractual maturity, are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury obligations:				
Due in one year or less	$ 1,037,922	$ 10,781	$ —	$ 1,048,703
Due after one year through five years	2,896,859	32,014	—	2,928,873
	3,394,781	42,795	—	3,977,576
U.S. government-sponsored enterprise obligations:				
Due in one year or less	2,362,420	12,068	—	2,374,488
	$ 6,297,201	$ 54,863	$ —	$ 6,352,064

There were no sales of securities during the year ended October 31, 2008.

continued

INVESTMENTS *(concluded)*

Federal Home Loan Bank Stock

The DIF is a member of the Federal Home Loan Bank of Boston ("FHLBB"). As a condition of membership, the DIF is required to maintain an investment in FHLBB stock determined based on the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations. At October 31, 2008, the DIF's required investment in FHLBB stock was $1,203,500 of which $22,330 was allocated to the Liquidity Fund. FHLBB stock is allocated between the Liquidity Fund and the Deposit Insurance Fund based on the portion of the FHLBB stock requirement that was attributable to each fund's U.S. Treasury and government-sponsored enterprise obligations.

Additional stock purchases are required based on growth of the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations and/or usage of FHLBB advances and related services.

The DIF also has a master agreement with the FHLBB to provide advances. Advances are secured by the DIF's FHLBB stock and specifically pledged securities. As of October 31, 2008, the DIF had no outstanding advances from the FHLBB and, accordingly, no securities have been specifically pledged. FHLBB advances would be allocated to the Liquidity Fund and the Deposit Insurance Fund based on the portion of advances applicable to each.

4. RELATED PARTY TRANSACTIONS

A majority of the DIF's sixteen directors are associated with member banks.

DIF DEPOSITORS INSURANCE FUND

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