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

November 7, 2006

MEMORANDUM TO: The Board of Directors

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

Frederick S. Selby
Director, Division of Finance

SUBJECT: Third Quarter 2006 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the nine-month period ending September 30, 2006.

Executive Summary

- The DIF fund balance grew by approximately 3 percent to $50.0 billion during the nine-month period ending September 30, 2006, versus a 2 percent increase for the comparative period last year. The DIF reported comprehensive income of $1.4 billion for the first nine months of 2006 compared to $866 million for the same period in 2005.

- For the past four consecutive years as well as the first nine-month period of 2006, the total return on DIF’s investment portfolio has exceeded the return of its benchmark Merrill Lynch 1-10 year Treasury Index (Index) by an average of 62 basis points. The Treasury Inflation-Protected Securities (TIPS) segment of portfolio outperformed the Index in 2002 through 2004 by an average of 522 basis points. However beginning in 2005, as rates increased all along the yield curve, overnight investments have been the best performing segment of the portfolio; the average return on overnights has beaten the Index by 129 basis points.

- For the nine months ending September 30, 2006, expenditures under the Corporate Operating Budget ran 10 percent below budget and expenditures under the Investment Budget ran 14 percent below budget. The variance with respect to the Corporate Operating Budget was primarily the result of limited spending on resolutions and receivership activities in the Receivership Funding component of the budget through the third quarter 2006. Detailed quarterly reports are provided separately to the Board for those projects included in the Investment Budget, either by the Capital Investment Review Committee (for all information technology projects) or by the Division of Administration (for the Virginia Square – Phase II project).

- Approximately $5.6 million (62 percent) of the $9.05 million supplemental budget approved by the Board of Directors in March of 2006 for the implementation of deposit insurance reform was spent through September 30, 2006.

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	• Reforms enacted under the Federal Deposit Insurance Reform Act of 2005 will lead to significant changes in the risk-based assessment system beginning in 2007. On November 2, 2006, the FDIC Board approved a risk-based assessment rate schedule ranging from 5 to 43 basis points. The FDIC Board may adjust rates uniformly up to a maximum of 3 basis points higher or lower than the base rates (which are 2 to 40 basis points) without the need for further notice-and-comment rulemaking, provided that any single adjustment from one quarter to the next cannot move rates by more than 3 basis points and rates cannot be negative. Based on the new assessment rates, the net assessment revenue for 2007 is estimated at just over $600 million (compared to $61 million earned in 2005) after applying almost $3.2 billion of the aggregate one-time assessment credit of $4.7 billion. Furthermore, beginning in the first quarter of 2007, the FDIC is changing from a system in which each institution's assessment is determined in advance of the period being insured to one in which the assessment is determined after each quarter being insured. (This operational change should not materially affect the reserve ratio because, consistent with the concepts of generally accepted accounting principles, FDIC will recognize assessment revenue in advance of receipt based on a reliable estimate.) • The FDIC projects that insured deposits will increase 6.6 percent in 2006 and result in a year-end reserve ratio of 1.21 percent. (The early estimate for the reserve ratio as of September 30, 2006 is 1.22 percent.) In 2007, the FDIC expects insured deposit growth to moderate to 5 percent. This rate of growth is still expected to modestly outpace the growth in the fund balance (taking into account new assessments and credit use), resulting in a further projected decline in the reserve ratio to 1.20 percent as of year-end 2007.
II. Investments	• The Deposit Insurance Fund (DIF) portfolio's par value increased by 2.9 percent during the first nine months of 2006. Moreover, while the securities that were purchased during this period had lower yields than maturing securities, this factor was more than offset by higher yielding overnight investments. Consequently, the DIF portfolio's yield increased by six basis points during the first nine months of 2006, rising to 4.88 percent from 4.82 percent. • Expectations are for Treasury market yields to continue to trade within the range exhibited during the third quarter of 2006, but with consensus expectations for a modest rise from third quarter-end levels. This, coupled with a growing DIF portfolio balance, should lead to increased interest revenue over the long run. Over the short run, any increase in yields will accelerate the erosion of existing net unrealized gains on available-for-sale (AFS) securities. Moreover, regardless of changes in yields, existing net

Trends and Outlook	
Financial Results	**Comments**
	unrealized gains will be reduced due to the passage of time.
III. Budget	• Approximately $685 million was spent in the Ongoing Operations component of the 2006 Corporate Operating Budget, which was $29 million (four percent) below the budget for the nine months ending September 30, 2006. Expenses in the Outside Services – Personnel expense category were nearly $26 million (23 percent) below the year-to-date budget, and expenses in the Equipment category were approximately $4 million (13 percent) under the year-to-date budget. • Approximately $11 million was spent in the Receivership Funding component of the 2006 Corporate Operating Budget, which was $46 million (81 percent) below the budget for the nine months ending September 30, 2006. Expenses in the Outside Services – Personnel category were $37 million (79 percent) below the year-to-date budget due to limited receivership and resolution activity during the year.

I. **<u>Corporate Fund Financial Statement Results</u>** (See pages 10 - 11 for detailed data and charts.)

Deposit Insurance Fund (DIF)

- DIF's comprehensive income rose by $428 million in the third quarter of 2006, up from $350 million for the same quarter last year. This $78 million increase is largely attributable to higher earnings on U.S. Treasury obligations of $115 million (interest income plus unrealized losses on AFS securities) offset by lower negative provision for insurance losses of $15 million.

- For the first nine months of 2006, DIF's comprehensive income totaled $1.4 billion compared to $866 million last year, an increase of 61 percent. Excluding the recognition of exit fees earned of $345 million (a one-time adjustment), comprehensive income rose by $184 million from a year ago. This year-over-year increase is primarily due to an increase in interest earned on U.S. Treasury obligations of $97 million and a decrease in the unrealized loss on AFS securities of $134 million, which were slightly offset by a $40 million decrease in the negative provision for insurance losses.

- As noted above, DIF reported a 6 percent ($97 million) increase in interest income and a 47 percent ($134 million) decline in unrealized losses in the first nine months of 2006 compared to same period last year. The increase in interest income resulted from a larger average investment portfolio during the current period being invested at generally higher interest rates. The lower unrealized loss stemmed from a combination of a smaller total market value of AFS securities invested during the period and a lower duration for the AFS securities held in the DIF's investment portfolio.

FSLIC Resolution Fund (FRF)

- FRF's net income was $6 million for the first nine months of the year, compared to a $322 million loss for the same period last year. This change is primarily due to: 1) payments for Goodwill settlements of $195 million in 2006 vs. $391 million a year ago, 2) the net effect of a $99 million payment for a Guarini litigation settlement and the reversal of a $154 million loss reserve in the second quarter of 2006 for this same case, and 3) a $44 million increase in interest income on U.S. Treasury obligations.

- During the third quarter of 2006, FRF paid a Goodwill settlement of $16 million and a Guarini judgment of $6 million. For the year, FRF has paid a total of approximately $370 million in Goodwill and Guarini judgments/settlements ($195 million and $175 million, respectively). The FRF payments for the Goodwill settlements were funded by the U.S. Treasury through a separate, indefinite appropriation; however, the FRF funds the Guarini litigation payments.

II. Investments Results (See pages 12 – 13 for detailed data and charts.)

DIF

- During the first nine months of 2006, the par value of the DIF investment portfolio increased by $1.31 billion or by 2.92 percent—from $44.904 billion on December 31, 2005, to $46.216 billion on September 30, 2006 ($322 million of this increase was due to the depositing of the SAIF Exit Fee portfolio into the DIF on March 31, 2006, in accordance with the deposit insurance reform legislation enacted earlier this year).

- The DIF investment portfolio's total return for the first nine months of 2006 was 3.28 percent, 50 basis points higher than the return of the benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which earned 2.78 percent during the same period. The outperformance relative to the benchmark can be attributed to three factors. First, the DIF investment portfolio's conventional securities have a slightly lower average duration than those in the Index, and consequently, as yields increased over the course of the first nine months of 2006, the DIF portfolio's conventional securities slightly outperformed the Index (while yields declined in the third quarter of 2006, yields still have increased over the longer nine-month year-to-date period). Second, during this period, the DIF's Treasury Inflation-Protected Securities (TIPS) portfolio also outperformed the Index's conventional securities. And third, during much of the first nine months of 2006, the DIF's overnight investment balances typically exceeded 4 percent of the DIF portfolio. Besides overnight investments now realizing very attractive returns given the flat yield curve, in a rising yield environment, longer-term securities experience price declines. Accordingly, on a total return basis, overnight investments outperformed the longer-maturity conventional Treasury securities included in the Index during this period.

- During the third quarter of 2006, due to a significant drop in yields, no new longer-term securities were purchased. Proceeds from coupons and maturing investments were invested in higher-yielding overnight investments. In line with consensus expectations, yields should continue to trade within their current range, rising modestly from the low yields exhibited at the end of the third quarter. Staff will take advantage of instances when yields rise toward the upper end of this trading range and accordingly will deploy funds into longer-maturity higher-yielding securities.

The Treasury Market

- During the third quarter of 2006, conventional Treasury yields decreased across all maturity sectors, reflecting recent economic developments as well as reflecting strong market expectations that the Federal Reserve has concluded its most recent interest rate tightening cycle. The largest yield decreases were posted by intermediate-maturity securities, with three-, five-, and ten-year note yields all declining by 51 basis points. The two-year note yield, which is also sensitive to actual as well as anticipated changes in the federal funds rate, decreased by 47 basis points. The Treasury yield curve ended the quarter very flat and slightly inverted; on September 30, 2006, the ten-year to two-year yield curve spread was a negative 5 basis points (compared to a negative two basis point spread at end of the second quarter). From a historical perspective, the curve remains significantly flatter; over the past five years, this spread has averaged 143 basis points.

- During the third quarter 2006, the TIPS yield curve underwent a noticeable twist, with the shortest-maturity TIPS real yields increasing dramatically while longer-maturity TIPS real yields declined, albeit modestly compared to the nominal yield declines experienced by similar-maturity conventional Treasury securities. The real yield on the DIF portfolio's shortest-maturity TIPS maturing in January 2007 increased by 47 basis points, while the real yield on the portfolio's longest-maturity TIPS (with a maturity of a little over four years) declined by nine basis points. The real yield on the ten-year TIPS maturing on January 15, 2016, declined by 19 basis points. The short-dated TIPS real yield increases are reflecting market consensus views that the overall Consumer Price Index (CPI) should be negative over the near term due to a dramatic decline in energy prices, while the more modest decline on the long end reflects market consensus views that inflation should remain contained.

Prospective Strategies

- The current DIF investment strategy provides the flexibility to purchase a wide range of different Treasury securities with varying maturities, depending on Treasury market conditions and developments during the fourth quarter of 2006. Similar to the third quarter 2006 investment strategy, if higher yields become available—either as a result of an upward shift in the yield curve or because of potential yield volatility—the fourth quarter 2006 strategy provides the flexibility to purchase comparatively higher-yielding, longer-maturity Treasury securities. Given the flat Treasury yield curve, purchasing short- and intermediate-maturity Treasuries may also make sense.

- The DIF portfolio's primary reserve target floor balance will remain at $10 billion for the fourth quarter of 2006. The target limit for TIPS is being increased from $9.0 billion to $10.0 billion, while the AFS target limit is being reduced from $9.4 billion to $8.8 billion (see attached Approved Investment Strategy on page 13).

III. Budget Results (See pages 14 - 15 for detailed data.)

Modifications to Approved Budgets/Authorized Staffing

The Chief Financial Officer approved various modifications to the 2006 Corporate Operating Budget and/or authorized staffing during and subsequent to the third quarter, in accordance with authority delegated to him by the Board of Directors in the 2006 Budget Resolution:

- Authorized staffing was increased by a net of 24 positions for the following divisions: the Division of Supervision and Consumer Protection (19 positions), the Division of Information Technology (2 positions), the Division of Insurance and Research (2 positions), the Division of Resolutions and Receiverships (1 position), the Corporate University (1 position), and the Legal Division (minus 1 position). All of the new positions were filled by surplus staff through voluntary and involuntary reassignments, similar to the authorization of 13 new positions for the Division of Administration approved and reported to the Board for the second quarter. These reassignments were part of a comprehensive effort to resolve as many employee surpluses as possible by assigning employees to new positions where new work has emerged for which there is insufficient authorized staffing. Many of the new positions authorized involve high-profile areas of the FDIC's mission, including consumer protection, Gulf Coast relief activities, Money Smart financial education, the New Alliance Task Force, and the Corporate Employee Program. No additional funds will be required in 2006 for this staffing increase.

- Authorized staffing was increased by a net of one position for the Office of Diversity and Economic Opportunity. Two new positions for sign language interpreters were approved to meet the needs of FDIC hearing impaired employees. That increase was offset by an earlier decision to abolish a Senior EEO Specialist position. No additional funding is required in 2006 for this staffing increase, because the additional funds required for the new sign language interpreters will be more than offset by savings from contracted sign language interpreter services.

- The transfer of four authorized staffing positions from the Division of Insurance and Research to the newly-created Office of International Affairs (OIA) was approved. (A request for two additional authorized positions for OIA will be included in the 2007 Corporate Operating Budget proposal submitted to the Board of Directors for consideration in December.)

- The transfer of one authorized staffing position from the Legal Division to the Corporate University (CU) in conjunction with a transfer of responsibility for the Legal Division's continuing legal education program to CU was approved.

- A mid-year Corporate Operating Budget adjustment was approved to reallocate funds among several division and office budgets and multiple expense categories. Most notable was the reallocation of $5.7 million to the Division of Information Technology (DIT), largely for the funding of planned systems development projects and to complete the transition to the new Information Technology Application Services (ITAS) contracts. This mid-year adjustment impacted all major expense categories except Salary and Compensation and Buildings. It was funded from the Corporate-Unassigned budget. (Note: Due to delays in getting task orders in place to start projects, DIT subsequently determined that it would be unable to fully utilize all of the reallocated funds and reprogrammed the funds to purchase equipment and software that would be needed for many of these projects when they are placed into production in 2007.)

- We previously reported in the 2nd Quarter CFO Report to the Board that we would perform an analysis in October of salaries and fringe benefit expenses and, if necessary, realign the budget accordingly. Subsequent to the end of the third quarter of 2006, the Chief Financial Officer (CFO) approved a Corporate Operating Budget realignment of $2.25 million to the Salary and Compensation expense category to meet projected budgeted shortfalls in several divisions and offices due to the under-estimation of regular salary and fringe benefit costs when the 2006 budget was formulated and to cover substantial charges to the Corporate University (CU) salary and benefit accounts by employees on detail to CU to perform special projects. The CFO also approved additional budget adjustments among expense categories and divisions and offices as follows: the Salary and Compensation budget was increased by $2.18 million to cover the cost of executive bonuses paid earlier this year that were not accrued at the end of 2005; the Division of Information Technology budget was increased by $2 million to purchase servers in 2006 rather than 2007 (the proposed 2007 budget was reduced by an equal amount); the Outside Services – Personnel budget of the Division of Resolutions and Receiverships budget was increased by $600 thousand for contract services related to an update of receivership service billing benchmarks; the budget for Government Litigation was reduced by $7 million and reprogrammed for other uses based upon information received from the Department of Justice that indicated that these funds would not be used in 2006; and the $33 thousand remaining in the funds set aside in the Corporate-Unassigned budget was reprogrammed for other purposes.

Status of Spending for the Implementation of Deposit Insurance Reform

The Board of Directors approved in March 2006 a $9.05 million increase in the 2006 Corporate Operating Budget for unbudgeted expenses related to the implementation of Deposit Insurance Reform. This included $6.5 million for system changes, $2.25 million for the printing and distribution of revised deposit insurance brochures for banks and the public; and $0.3 million to fill two new staff positions in the Division of Insurance and Research (DIR). The status of these funds through September 30, 2006, was as follows:

- Approximately $3.8 million was spent for system development and enhancement activities related to deposit insurance reform as of September 30, 2006. DIT continues to estimate that about $5.7 million of the $6.5 million in 2006 funding approved for this purpose will be spent this year. Funding for continuing systems development and enhancement activities to be undertaken next year in support of deposit insurance reform will be included in the 2007 Corporate Operating Budget request submitted later this year.

- Approximately $1.8 million was spent for the 2006 printing and distribution of updated deposit insurance brochures and no further spending is anticipated in 2006. Additional funds to further update the brochures once all rulemaking for deposit insurance reform has been completed will be included in the proposed 2007 Corporate Operating Budget.

- No funds have yet been spent for additional staff to support deposit insurance pricing. DIR is awaiting the completion of rulemaking activities before determining what additional skills will be needed. No funds are expected to be spent for this purpose in 2006, but funding for the two additional staff positions in DIR will be included in the proposed 2007 Corporate Operating Budget.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the nine months ending September 30, 2006, are defined as those that either (1) exceed the YTD budget by $1 million and represent more than 2 percent for a major expense category or for a division/office; or (2) are under the YTD budget for a major expense category or division/office by an amount that exceeds $2 million and represents more than 4 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There were two major expense categories in which a significant spending variance occurred through the third quarter in the Ongoing Operations component of the Corporate Operating Budget:

- Outside Services-Personnel expenditures were $26 million, or 23 percent, less than budgeted, largely due to delays in starting several IT projects; delays in rolling out the Identity Theft and other media campaigns; delays in the Money Smart initiative; and, lower-than-anticipated expenses for the national administrative services contract and human resource contracts for benefits and consulting.

- Equipment expenditures were $4 million, or 13 percent, less than budgeted, largely due to delays in purchasing security-related equipment and mainframe software; and savings associated with on-line library services due to vendor competition.

<u>Receivership Funding</u>

The Receivership Funding component includes budgeted funding for non-personnel expenses that are incurred in conjunction with an institution failure and the subsequent management and disposition of the assets and liabilities of the ensuing receivership. There were three major expense categories in which a significant spending variance occurred through the third quarter in the Receivership Funding component of the Corporate Operating Budget. All of these variances were attributable to the limited receivership and resolution activity that occurred during the year. The major expense categories were:

- Salary and Compensation[1] ($3 million, or nearly 100 percent, less than budgeted).

- Outside Services-Personnel ($37 million, or 79 percent, less than budgeted).

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[1] Overtime is the only account budgeted in the Salary and Compensation expense category of the Receivership Funding component of the Corporate Operating Budget in 2006. All staff salaries are budgeted and expensed in the Ongoing Operations budget component.

- Travel ($4 million, or 83 percent, less than budgeted).

Significant Spending Variances by Division/Office[2]

There were five organizations that had significant spending variances through the third quarter:

- The Division of Resolutions and Receiverships (DRR) spent $35 million, or 48 percent, less than budgeted. This significant spending variance was fully attributable to under spending in the Receivership Funding component of DRR's operating budget and was primarily due to the declining resolution and receivership management workload and a corresponding need for less contract support than budgeted through the third quarter.

- The Division of Information Technology spent $20 million, or 14 percent, less than budgeted, including under spending of $17 million for Ongoing Operations and $3 million for approved Investment projects. The variance in Ongoing Operations was primarily due to delays in starting several IT projects. The Investment Budget variance resulted from lower-than-estimated expenditures for the Asset Servicing Technology Enhancement Project (ASTEP) through the third quarter. The ASTEP project now anticipates using less funds than previously estimated in 2006, but plans on spending those funds in 2007.

- The Legal Division spent $12 million, or 18 percent, less than budgeted. Approximately $10 million of the variance was in the Receivership Funding component of its operating budget and was largely due to the declining resolution and receivership management workload, which was reflected primarily in reduced outside counsel expenses.

- The Office of Inspector General spent $2 million, or 13 percent, less than budgeted. This was mostly due to a large number of vacancies in budgeted positions within the office.

- The Division of Administration (DOA) spent $1 million, or 8 percent, more than estimated for Investment Budget spending in 2006 on the Virginia Square - Phase II investment project due to the negotiated cost of change order requests during the final months of construction. While this amount technically falls within our reportable variance criteria, it is not a true variance since the Board resolution permits the project manager to shift authorized funds among years, and it is not anticipated that this project will exceed its total authorized multi-year budget. A detailed quarterly report is provided separately to the Board by DOA for the Virginia Square – Phase II project.

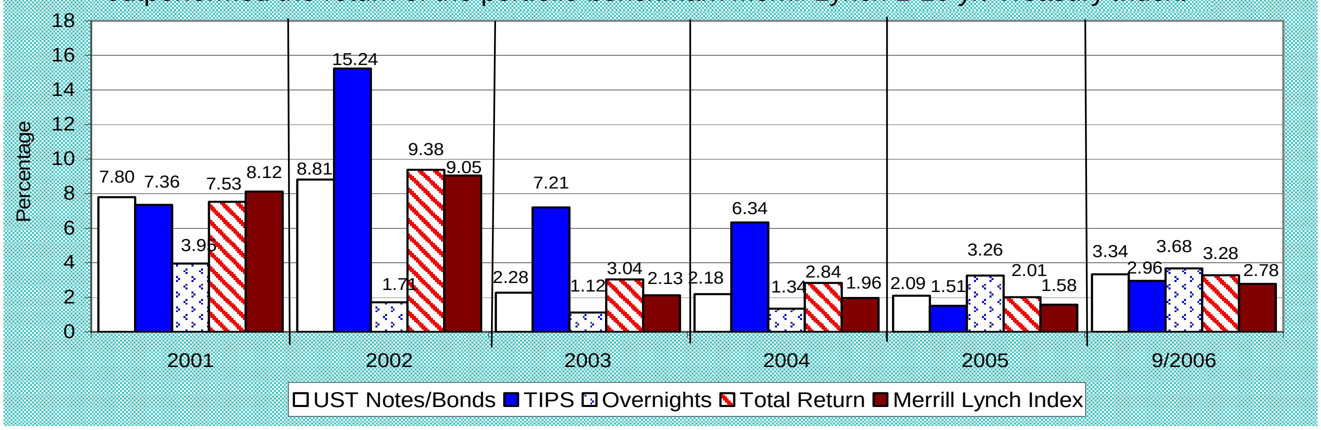
[2] Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

Fund Financial Results

($ in millions – All data is unaudited)

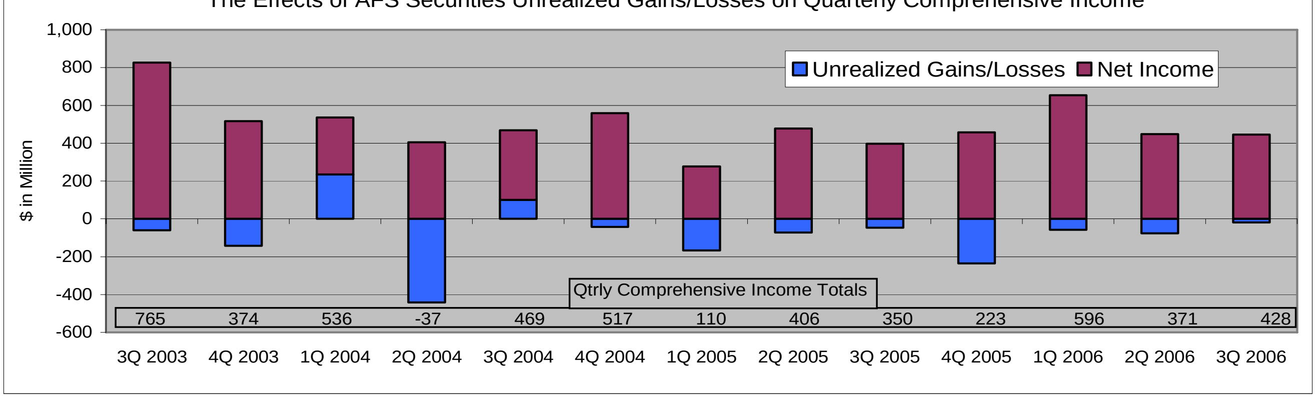
Balance Sheet	Deposit Insurance Fund				
	Sep-06	Dec-05	Change	% Change	Sep-05
Cash & cash equivalents - unrestricted	$ 2,312	$ 3,209	(897)	(28%)	$ 1,617
Cash & other assets - restricted for SAIF member exit fees	0	342	(342)	(100%)	338
Investment in U.S. Treasury obligations, net	46,554	44,240	2,314	5%	45,545
Interest receivable on investments and other assets, net	707	738	(31)	(4%)	793
Receivables from resolutions, net	509	534	(25)	(5%)	521
Property, buildings and other capitalized assets, net	367	378	(11)	(3%)	376
Total Assets	$ 50,449	$ 49,441	1,008	2%	$ 49,190
Accounts payable and other liabilities	253	297	(44)	(15%)	274
Contingent Liabilities: future failures	4	5	(1)	(20%)	5
Contingent Liabilities: litigation losses & other	200	200	0	0%	200
SAIF member exit fees & investment proceeds held in escrow	0	342	(342)	(100%)	338
Total Liabilities	$ 457	$ 844	(387)	(46%)	$ 817
FYI: Unrealized gain on available-for-sale securities	255	407	(152)	(38%)	642
FUND BALANCE	$ 49,992	$ 48,597	1,395	3%	$ 48,373

Since 2002, DIF's (BIF & SAIF combined) total rate of return on investments has outperformed the return of the portfolio benchmark Merrill Lynch 1-10 yr. Treasury Index.



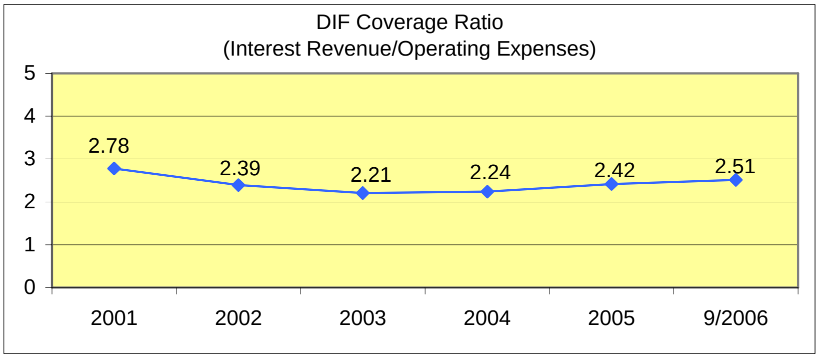
Income Statement	Deposit Insurance Fund			
	Sep-06	Dec-05	Sep-05	Year-Over-Year Change
Assessments earned	$ 22	$ 61	$ 47	(25)
Interest earned on investment securities	1,765	2,342	1,668	97
Exit fees earned	345	0	0	345
Other revenue	22	18	14	8
Total Revenue	$ 2,154	$ 2,421	$ 1,729	425
Operating expenses (includes depreciation expense)	703	966	715	(12)
Provision for insurance losses	(101)	(160)	(141)	40
Other expenses	5	4	3	2
Total Expenses & Losses	$ 607	$ 810	$ 577	30
Net Income	$ 1,547	$ 1,611	$ 1,152	395
Unrealized (loss) on available-for-sale securities	(152)	(521)	(286)	134
YTD Comprehensive Income	$ 1,395	$ 1,090	$ 866	529

The Effects of AFS Securities Unrealized Gains/Losses on Quarterly Comprehensive Income



Fund Financial Results - continued ($ in millions – All data is unaudited)

Income Statement - (continued)



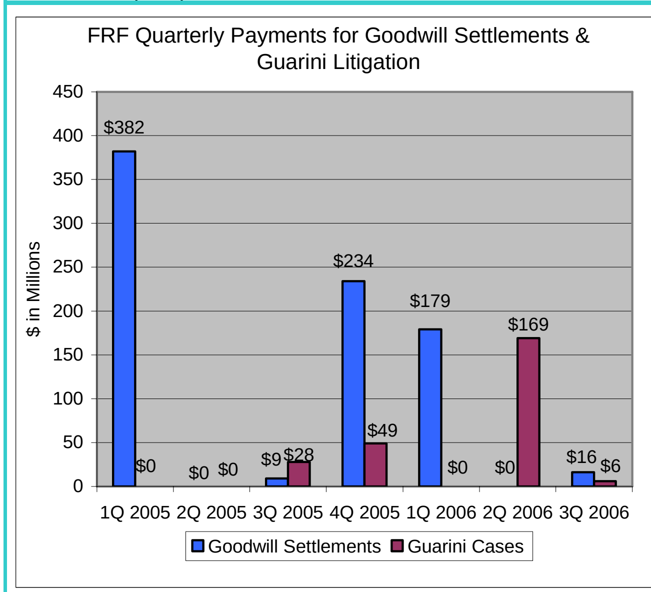
Statements of Cash Flows

Deposit Insurance Fund

	Sep-06	Dec-05	Sep-05	Year-Over-Year Change
Net Income	$ 1,547	$ 1,611	$ 1,152	395
Amortization of U.S. Treasury obligations (unrestricted)	454	834	666	(212)
TIPS Inflation Adjustment	(178)	(345)	(187)	9
Depreciation on property and equipment	39	55	36	3
Provision for insurance losses	(101)	(160)	(141)	40
Net change in operating assets and liabilities	(241)	404	331	(572)
Net Cash Provided by Operating Activities	$ 1,520	$ 2,399	$ 1,857	(337)
Investments matured and sold	3,480	10,050	6,920	(3,440)
Investments purchased (includes purchase of property and equipment)	(5,919)	(11,741)	(9,667)	3,748
Net Cash (Used) by Investing Activities	$ (2,439)	$ (1,691)	$ (2,747)	308
Net Increase (Decrease) in Cash and Cash Equivalents	(919)	708	(890)	(29)
Cash and Cash Equivalents at beginning of year	3,231	2,523	2,523	708
Cash and Cash Equivalents - Ending	$ 2,312	$ 3,231	$ 1,633	679

FSLIC Resolution Fund (FRF)

	Sep-06	Dec-05	Sep-05	Year-Over-Year Change
Cash and cash equivalents	$ 3,565	$ 3,602	$ 3,643	(78)
Accumulated deficit, net	(123,625)	(123,631)	(123,127)	(498)
Resolution equity	3,577	3,376	3,675	(98)
Total revenue	$ 124	$ 122	$ 86	38
Operating expenses	12	25	20	(8)
Expenses for Goodwill/Guarini litigation	387	718	437	(50)
Net income (loss)	6	(826)	(322)	328



Summary of Goodwill & Guarini Litigations (Inception-to-Date)

	Goodwill		Guarini	
	# of Cases	Amount Paid	# of Cases	Amount Paid
Dismissals/ Time Barred	43		0	
Settlements	17	$149 million	2	$99 million
Judgements	33	$798 million*	5	$153 million
Pending	29		1	
Totals	122	$947 million	8	$252 million

* Three institutions account for 78% of the total Goodwill payments (Glendale Federal Bank - $382 million, Westfed Holdings, Inc. - $211 million, and Home Savings of America - $150 million).

Deposit Insurance Fund Portfolio Summary
(in millions)

	9/30/06	12/31/05	Change
Par Value	$46,216	$44,904	$1,312
Amortized Cost	$48,612	$47,038	$1,574
Market Value	$48,898	$47,610	$1,288
Primary Reserve [1]	$14,872	$14,246	$626
Primary Reserve Target Floor	$10,000	$10,500	($500)
Primary Reserve % of Total Portfolio	30.0%	29.5%	0.5%
Year-to-Date Total Return (Portfolio)	3.28%	2.01%	not applicable
Year-to-Date Total Return (Benchmark) [2]	2.78%	1.58%	not applicable
Total Return Variance (in basis points)	50	43	not applicable
Yield-to-Maturity [3]	4.88%	4.82%	0.06%
Weighted Average Maturity (in years)	3.54	3.29	0.25
Effective Duration (in years) [4]			
Total Portfolio	2.81	2.53	0.28
Available-for-Sale Securities	1.89	1.85	0.04
Held-to-Maturity Securities	3.23	2.97	0.26

[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.

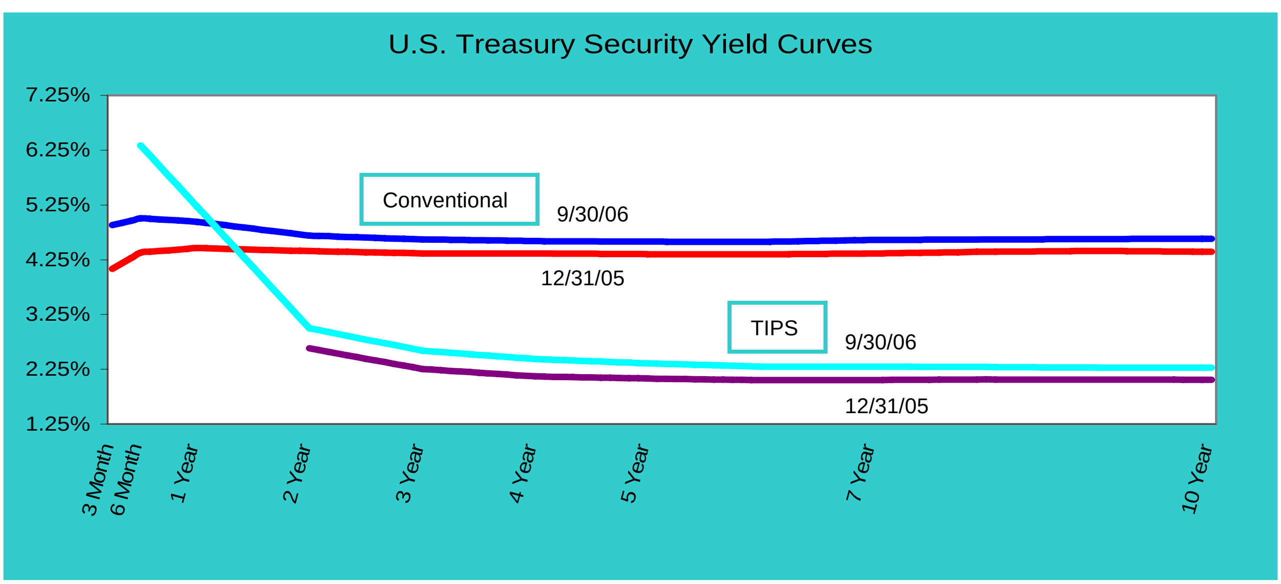
[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assume an average year-over-year increase in CPI of 2.2%.

[4] For each TIPS, a 80% factor is applied to its real yield duration to arrive at an estimated effective duration (note: factor updated in September 2006 to reflect recent past experience).

National Liquidation Fund (NLF) Investment Portfolio Summary
(Dollar Values in Millions)

	9/30/06	12/31/05	Change
Book Value [5]	$348	$489	($141)
Yield-to-Maturity	5.48%	4.33%	1.15%
Weighted Average Maturity (in days)	2	40	(38)

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



Approved Investment Strategy

DEPOSIT INSURANCE FUND

Current Strategy as of 3rd Quarter 2006

Maintain a $150 million target floor overnight investment balance.

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

- → TIPS should not total more than $9.0 billion (adjusted par value) by quarter end;
- → Available-for-sale (AFS) securities should not total more than $9.4 billion (par value) by quarter end; and
- → All newly purchased AFS securities should have maturities of six years or less.

Moreover, staff will strive to maintain a $10 billion target floor primary reserve balance.

Strategy Changes for 4th Quarter 2006

TIPS target limit increased from $9.0 billion to $10.0 billion.
AFS securities target limit decreased from $9.4 billion to $8.8 billion.

NATIONAL LIQUIDATION FUND

Current Strategy as of 3rd Quarter 2006

Maintain a $30 million target floor overnight investment balance.

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

Strategy Changes for 4th Quarter 2006

None

Executive Summary of 2006 Budget and Expenditures by Major Expense Category Through September 30, 2006 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$467,972	$469,437	100%	$1,465
Outside Services - Personnel	110,241	84,715	77%	(25,526)
Travel	36,721	35,153	96%	(1,568)
Buildings	53,199	53,811	101%	612
Equipment	28,054	24,472	87%	(3,582)
Outside Services - Other	10,094	10,814	107%	720
Other Expenses	7,666	6,443	84%	(1,223)
Total Ongoing Operations	**$713,947**	**$684,845**	**96%**	**($29,102)**
Receivership Funding				
Salaries & Compensation	$2,565	$12	0%	($2,553)
Outside Services - Personnel	46,010	9,461	21%	(36,549)
Travel	4,237	730	17%	(3,507)
Buildings	1,725	142	8%	(1,583)
Equipment	169	1	1%	(168)
Outside Services - Other	407	22	5%	(385)
Other Expenses	1,139	151	13%	(988)
Total Receivership Funding	**$56,252**	**$10,519**	**19%**	**($45,733)**
Total Corporate Operating Budget	**$770,199**	**$695,364**	**90%**	**($74,835)**
Investment Budget [1]	**$23,422**	**$20,103**	**86%**	**($3,319)**
Grand Total	**$793,621**	**$715,467**	**90%**	**($78,154)**

1) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2006 spending estimates for approved projects. Detailed quarterly reports on the status of those projects are provided separately to the Board by the Capital Investment Review Committee for all information technology projects and by the Division of Administration for the Virginia Square - Phase II project.

Executive Summary of 2006 Budget and Expenditures by Budget Component and Division/Office Through September 30, 2006 (Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$280,222	$276,188	99%	($4,034)
Information Technology	129,056	112,410	87%	(16,646)
Administration	119,445	117,102	98%	(2,343)
Resolutions & Receiverships	73,498	38,428	52%	(35,070)
Legal	68,029	55,712	82%	(12,317)
Insurance & Research	25,391	24,984	98%	(407)
Finance	20,282	20,323	100%	41
Inspector General	19,091	16,651	87%	(2,440)
Corporate University	19,147	18,596	97%	(551)
Executive Support [1]	10,307	9,923	96%	(384)
Executive Offices [2]	4,731	5,043	107%	312
Government Litigation	1,000	4	0%	(996)
Total, Corporate Operating Budget	**$770,199**	**$695,364**	**90%**	**$74,835**
Investment Budget [3]				
Information Technology	$8,647	$5,554	64%	($3,093)
Administration [4]	12,423	13,451	108%	1,028
Resolutions & Receiverships	365	327	90%	(38)
Insurance & Research	1,882	797	42%	(1,085)
Finance [5]	11	(26)	(236%)	(37)
Corporate University	94	0	0%	(94)
Total, Investment Budget [3]	**$23,422**	**$20,103**	**86%**	**($3,319)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$280,222	$276,188	99%	($4,034)
Information Technology	137,703	117,964	86%	(19,739)
Administration [4]	131,868	130,553	99%	(1,315)
Resolutions & Receiverships	73,863	38,755	52%	(35,108)
Legal	68,029	55,712	82%	(12,317)
Insurance & Research	27,273	25,781	95%	(1,492)
Finance	20,293	20,297	100%	4
Inspector General	19,091	16,651	87%	(2,440)
Corporate University	19,241	18,596	97%	(645)
Executive Support [1]	10,307	9,923	96%	(384)
Executive Offices [2]	4,731	5,043	107%	312
Government Litigation	1,000	4	0%	(996)
Grand Total	**$793,621**	**$715,467**	**90%**	**($78,154)**

1) Executive Support includes the Offices of Diversity and Economic Opportunity, Public Affairs, Ombudsman, Legislative Affairs, and Enterprise Risk Management (Note: No budget will be established for the new Office of International Affairs until 2007).

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 2006 spending estimates for approved projects. Detailed quarterly reports on the status of those projects are provided separately to the Board by the Capital Investment Review Committee for all information technology projects and by DOA for the Virginia Square - Phase II project.

4) The budget for the Virginia Square - Phase II investment project is included in the totals of the Division of Administration.

5) The credit balance in the YTD Expenditures column for the Division of Finance is a result of a $32,000 correction for expenditures incorrectly charged to the ASTEP project in 2005.