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

January 31, 2007

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: Fourth Quarter 2006 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the twelve-month period ending December 31, 2006.

Executive Summary

- The Deposit Insurance Fund (DIF) fund balance grew by approximately 3 percent to $50.2 billion during 2006, versus a 2 percent increase during 2005. The DIF's 2006 comprehensive income of $1.6 billion compares favorably to $1.1 billion for 2005. Seventy-two percent ($345 million) of this year-over-year increase is attributable to recognizing the former SAIF's restricted exit fee revenue (and cumulative interest earned on that revenue) as income upon the merger of the BIF and SAIF on March 31, 2006, as called for in the recently enacted deposit insurance reform legislation.

- In October 2006, Preliminary Statements of One-Time Assessment Credit were made available to all insured depository institutions in accordance with the final rule implementing the one-time assessment credit as called for under deposit insurance reform legislation. Institutions had until December 18, 2006, to submit a request for review if they disagreed with any of the information presented on the Preliminary Statement, such as the December 31, 1996, assessment base or the credit eligibility criteria. Claims as to the Preliminary Statement relying on the de facto provisions also were subject to the December 18, 2006, deadline. The FDIC received 89 requests for review of the one-time assessment credit that were postmarked on or before December 18, 2006. Of these 89 requests for review, staff has identified 23 that did not actually dispute the credit amounts. Of the remaining 66 requests for review, the FDIC is performing reviews and is issuing written determinations on their findings. Institutions have 30 days from the date of the written notification to submit an appeal to the FDIC Assessment Appeals Committee.

- The DIF's 2006 interest earned on investment securities was $2.241 billion, a decline of $101 million from 2005 interest totaling $2.342 billion. The decline is attributable to lower inflation compensation related to the DIF's holdings of Treasury Inflation-Protected Securities (TIPS). In fact, a measure of the DIF's core interest earnings—that is, interest earned excluding TIPS inflation compensation—increased by $135 million in 2006 to $2.131 billion, reflecting somewhat higher average investment security yields and a larger investment security balance. The TIPS inflation compensation declined by $236 million in 2006, from $345 million in 2005 to $109 million in 2006. TIPS inflation compensation is the additional revenue earned reflecting (lagged) increases in the overall Consumer Price Index for All Urban Consumers (CPI-U). For the 12-month period corresponding to 2005 TIPS inflation compensation, the CPI-U increased 4.3 percent, largely stemming from higher consumer energy prices over that period. In contrast, for the 12-month period corresponding to 2006 TIPS inflation compensation, the CPI-U increased only 1.3 percent, largely stemming from declining consumer energy prices over this more recent period.

- For the twelve months ending December 31, 2006, expenditures under the Corporate Operating Budget ran 8 percent below budget, and expenditures under the Investment Budget ran 9 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 throughout the year. Detailed quarterly reports are provided separately to the Board for the IT projects included in the Investment Budget by the Capital Investment Review Committee.

- Approximately $6.7 million (74 percent) of the $9.05 million supplemental budget approved by the Board of Directors in March for the implementation of deposit insurance reform was spent through December 31, 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	• During the past three years, the DIF has reported negative loss provisions totaling $466 million that resulted from reductions in the estimated losses for active receiverships. This amount has contributed more than 1 basis point to the current reserve ratio of 1.22 percent (as reported as of 9/30/06, the most recent period for which the ratio is available). The downward adjustments to these estimated losses stemmed from unanticipated recoveries from tax refunds, criminal restitution orders, and professional liability claims that were not reflected in the receiverships' estimated losses due to significant uncertainties surrounding collection. In addition, another factor that contributed to the lower estimated losses was reductions in the receiverships' potential liabilities for litigation and guarantees. In future years, absent any new, substantial failure activity, the DIF is not expected to recognize additional negative loss provisions of this magnitude since two-thirds of the remaining 25 active DIF receiverships are expected to substantially complete liquidation activities in 2007.
II. Investments	• The DIF portfolio’s book value (amortized historical cost) increased by 3.9 percent during 2006, and totaled $48.858 billion on December 31, 2006. Moreover, while the securities that were purchased during 2006 had slightly lower yields than maturing securities, this factor was more than offset by higher yielding overnight investments. Consequently, the DIF portfolio’s yield increased by 7 basis points during 2006, rising to 4.89 percent as of December 31, 2006, from 4.82 percent as of December 31, 2005.

Trends and Outlook	
Financial Results	Comments
	• Treasury market yields are expected to continue to generally trade within the range exhibited during the fourth quarter of 2006, but with consensus expectations for a modest rise from year-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 Treasury market yields will accelerate the erosion of existing net unrealized gains on AFS securities. Moreover, regardless of changes in yields, existing net unrealized gains will be reduced due to the passage of time.
III. Budget	• Approximately $961 million was spent in the Ongoing Operations component of the 2006 Corporate Operating Budget, which was $23 million (2 percent) below the budget for the twelve months ending December 31, 2006. Expenses in the Outside Services – Personnel expense category were nearly $16 million (10 percent) below the annual budget, and expenses in the Equipment category were approximately $1 million (3 percent) over the annual budget. • Approximately $12 million was spent in the Receivership Funding component of the 2006 Corporate Operating Budget, which was $63 million (84 percent) below the budget for the twelve months ending December 31, 2006. Expenses in the Outside Services – Personnel category were $51 million (82 percent) below the annual 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)

- The DIF 2006 financial statements reflect the implementation of a new accounting standard (SFAS No. 158) that amends the recognition and reporting requirements for FDIC's obligation associated with providing postretirement benefits other than pensions (that is, life and dental insurance). The pronouncement requires the separate reporting of this liability on the balance sheet as well as the cumulative unrealized postretirement gains/losses (that arise from changes in actuarial assumptions and plan provisions) in the income statement as an addition/subtraction to comprehensive income. As a result of implementing this new pronouncement, DIF reported a postretirement benefit liability (present value of expected benefit payments) of $130 million and an unrealized gain of $2 million as of December 31, 2006. Prior to this change, the net postretirement benefit liability totaling $127 million (comprised of both the benefit obligation and the unrealized gains/losses) was included in the "Accounts payable and other liabilities" line item. Hence, this reporting change had little net effect on the DIF's financial condition as these amounts were previously reflected in the DIF's statements. For your information, we have included a graph at the bottom of page 10 that presents recent data related to this liability and the associated gains/losses.

- DIF's comprehensive income rose by $173 million in the fourth quarter of 2006, down from $224 million for the same quarter last year. This $51 million decrease is largely attributable to a lower negative provision for insurance losses of $30 million partially offset by higher earnings on U.S. Treasury obligations of $16 million (interest income plus unrealized losses).

- For 2006, DIF's comprehensive income totaled $1.6 billion compared to $1.1 billion for 2005, an increase of 44 percent. Excluding the recognition of exit fees earned of $345 million (a one-time adjustment), comprehensive income rose by $133 million from a year ago. This year-over-year increase is primarily due to a decrease in the unrealized loss on available-for-sale (AFS) securities of $348 million, which was offset by decreases in both interest earned on U.S. Treasury obligations of $101 million and the negative provision for insurance losses of $108 million.

- As noted above, DIF reported a 4.3 percent ($101 million) decrease in interest income and a 66.8 percent ($348 million) decrease in unrealized losses during 2006 compared to a year ago. The decline in interest income resulted from lower inflation compensation related to the DIF's holdings of Treasury Inflation-Protected Securities (TIPS). The lower unrealized loss on AFS securities stemmed from a combination of a smaller total market value of AFS securities and a smaller increase in market yields, in addition to a lower duration for these securities held in the DIF's investment portfolio.

FSLIC Resolution Fund (FRF)

- FRF's net loss was $203 million compared to an $826 million loss for 2005. This change is primarily due to: 1) payments for Goodwill settlements of $195 million in 2006 vs. $625 million a year ago, 2) the net effect of $175 million in payments for Guarini litigation settlements and the reversal of $230 million loss reserves in 2006 for these same cases, 3) estimated losses for Goodwill litigation of $252 million, and 4) a $53 million increase in interest income on U.S. Treasury obligations.

- During the fourth quarter of 2006, FRF accrued a $252 million contingent liability and offsetting receivable from the U.S. Treasury for judgments for two Goodwill cases that were fully adjudicated as of year end. These funds were paid in January 2007. For the year ending December 31, 2006, FRF paid or accrued a total of $447 million in Goodwill litigation expenses to resolve six cases, compared with a total payment of $625 million on seven Goodwill cases during 2005.

<u>II. Investment Results</u> (See pages 12 – 13 for detailed data and charts.)

DIF

- During 2006, the book value (amortized historical cost) of the DIF investment portfolio increased by $1.820 billion or by 3.87 percent—from $47.038 billion on December 31, 2005, to $48.858 billion on December 31, 2006 ($345 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 in 2006).

- The DIF investment portfolio's total return for 2006 was 4.06 percent, approximately 49 basis points higher than the return of the benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which earned 3.57 percent during the same period. The outperformance relative to the benchmark can be primarily attributed to two 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 2006, the DIF portfolio's conventional securities slightly outperformed the Index. Second, during much of 2006, the DIF's overnight investment balances typically exceeded 4 percent of the DIF portfolio. This was a result of the decision, particularly over the second half of 2006, to keep larger than normal balances in high yielding overnight investments. On a total return basis, overnight investments outperformed the longer-maturity conventional Treasury securities included in the Index during this period.

- During the fourth quarter of 2006, staff purchased Treasury securities on four occasions, including the purchase of a five-year Treasury Inflation-Protection Security (TIPS), the first such TIPS purchase since August 2001. Staff purchased eight securities with a total par value of $3.019 billion, a weighted average maturity of 4.62 years, a weighted average duration of 3.55 years, and a weighted average yield-to-maturity of 4.76 percent. Notwithstanding the high dollar amount of new investment purchases, staff continued its recent practice of deferring purchases of longer-maturity securities and holding excess funds in higher yielding overnight investments from a strategic investment perspective. On December 31, 2006, the DIF portfolio's overnight investment balance was $2.949 billion, well above its $150 million target floor, and higher than the $2.312 billion balance on September 30, 2006.

- Treasury market yields are expected to continue to generally trade within their current range, but with consensus expectations for a modest rise from year-end levels. Similar to our strategy during the fourth 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 fourth quarter of 2006, conventional Treasury yields increased modestly across all maturity sectors, reflecting recent economic developments as well as reflecting market expectations that while the Federal Reserve may have concluded its most recent interest rate tightening cycle, it may not be reducing rates until sometime later in 2007. The yields on three-month and six-month Treasury bills increased by 14 and 8 basis points, respectively. The two-year note yield, which is also sensitive to actual as well as anticipated changes in the federal funds rate, increased by 13 basis points. Intermediate-term Treasuries also increased modestly, with the five-year Treasury note up 11 basis points and the ten-year note up 7 basis points. The Treasury yield curve ended the fourth quarter very flat and slightly inverted; on December 31, 2006, the ten-year to two-year yield curve spread was a negative 11 basis points (compared to a negative 5 basis point spread at end of the third quarter). From a historical perspective, the curve remains significantly flatter; over the past five years, this spread has averaged 133 basis points.

- During the fourth quarter 2006, the TIPS real yield curve underwent a twist, with the shortest-maturity TIPS real yields decreasing dramatically while intermediate- to longer-maturity TIPS real yields increased modestly. The real yield on the DIF portfolio's shortest-maturity TIPS maturing in January 2008 decreased by 42 basis points, while the real yield on the portfolio's five-year TIPS increased by 13 basis points. The shorter-maturity TIPS real yield decline in particular reflected near-term inflation expectations. The real yield on the ten-year TIPS maturing on January 15, 2016, increased by 14 basis points.

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 first quarter of 2007. Similar to the fourth 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 first quarter 2007 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 be remain at $10 billion for the first quarter of 2007. The target limit for TIPS will also remain at its $10 billion target, while the AFS security target limit is being reduced from $8.8 billion to $8.7 billion (see attached Approved Investment Strategy).

III. <u>Budget Results</u> (See pages 14 - 15 for detailed data.)

Modifications to Approved Budgets/Authorized Staffing

One modification was made to the 2006 Corporate Operating Budget, in accordance with delegated authority by the Board of Directors in the 2006 Budget Resolution, since the Third Quarter 2006 CFO Report to the Board:

- The Division of Information Technology reallocated $6.5 million from Outside Services – Personnel to the Equipment expense category. This re-distribution of budgeted funds was for the expansion of the mid-tier/UNIX computing environment in support of existing and developing application systems and is part of the Corporation's target enterprise architecture. Funds were available in the Outside Services – Personnel category for reallocation due to the delays in the award of contracts and task orders for systems development work.

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 December 31, 2006, was as follows:

- Approximately $4.9 million was spent for system development and enhancement activities related to deposit insurance reform as of December 31, 2006. About $0.7 million of additional work was approved by the Change Control Board, but will occur in 2007. Funding for continuing systems development and enhancement activities to be undertaken during 2007 in support of deposit insurance reform is included in the 2007 Corporate Operating Budget.

- Approximately $1.8 million was spent through December 31, 2006, for printing and distribution of updated deposit insurance brochures. Additional funds to further update the brochures following the completion of all rulemaking for deposit insurance reform are included in the 2007 Corporate Operating Budget approved by the Board on December 5, 2006.

- No funds were spent in 2006 for the additional staff that the Board authorized to support deposit insurance pricing. The Division of Insurance and Research (DIR) deferred hiring for those positions until final determinations were made about the new deposit insurance assessment system. The 2007 Corporate Operating Budget and authorized staffing included staffing and related funding for this purpose.

Spending Variances

Significant spending variances by major expense category and division/office are discussed below. Significant spending variances for the twelve months ending December 31, 2006, are defined as those that either (1) exceed the annual authorized budget by any amount for a major expense category or for a division/office; or (2) are under the annual authorized budget for a major expense category or division/office by an amount that exceeds $1 million and represents more than 3 percent of the major expense category or total division/office budget.

Significant Spending Variances by Major Expense Category

<u>Ongoing Operations</u>

There were four major expense categories in which a significant spending variance occurred for the year in the Ongoing Operations component of the Corporate Operating Budget:

- Outside Services-Personnel expenditures were $16 million, or 10 percent, less than budgeted, largely due to contracting delays that impacted several large IT projects; delays in initiating contract requests to support the Identity Theft Media Campaign, the revised Money Smart curriculum, and the Gulf Coast Recovery initiative; lower-than-anticipated expenses for corporate services and human resource contracts for benefits and consulting; and a delay in rewriting the Acquisition Policy Manual.

- Equipment expenditures were $1 million, or 3 percent, more than budgeted because the Division of Information Technology (DIT) exceeded its Equipment budget by $2.6 million. Due to growing corporate-wide user demands to store information electronically, DIT decided in late 2006 to acquire additional, unbudgeted data storage equipment when it became apparent that it would not spend all of its Outside Services – Personnel budget. This equipment would otherwise have had to be purchased in 2007. Although DIT exceeded its budget for the Equipment category, it did not exceed its total 2006 operating budget. Furthermore, the overspending by DIT in this category was partially offset in the overall corporate budget for Equipment by the Division of Administration's deferral of regional furniture, fixtures and equipment (FF&E) purchases until 2007.

- Outside Services-Other expenditures were $1.5 million, or 11 percent, less than budgeted, largely due to increased utilization of in-house printing rather than outside printing services and printing orders placed but not received by year end.

- Other Expenses were $2 million, or 18 percent, less than budgeted, largely due to lower-than-anticipated expenses for training.

Receivership Funding

The Receivership Funding component includes budgeted funding for non-personnel expenses that are incurred in conjunction with an institution failure and the management and disposition of the assets and liabilities of the ensuing receivership. There were five major expense categories in which a significant spending variance occurred for the year 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 ($51 million, or 82 percent, less than budgeted).

- Travel ($5 million, or 83 percent, less than budgeted).

- Buildings ($2 million, or 93 percent, less than budgeted).

- Other Expenses ($1 million, or 89 percent, less than budgeted).

Significant Spending Variances by Division/Office[2]

There were seven organizations that had significant spending variances for the year:

- The Division of Resolutions and Receiverships (DRR) spent $48 million, or 49 percent, less than budgeted. This variance was fully attributable to under spending in the Receivership Funding component of DRR's operating budget and was primarily due to declining resolution and receivership management workload and a corresponding need for less contract support than budgeted for the year.

- The Legal Division spent $16 million, or 18 percent, less than budgeted. More than $13 million of the variance was in the Receivership Funding component of its operating budget and was largely due to declining resolution and receivership management workload, which was reflected primarily in reduced outside counsel expenses.

- The Division of Administration (DOA) spent $6 million, or 4 percent, less than budgeted, including under spending of $7.5 million for corporate operations. DOA spent less than anticipated for national administrative services; human resources education and training services; equipment; printing; and administrative activities related to the resolution of failed institutions. DOA also spent $1.3 million more than estimated in 2006 from its budget for the

[1] Overtime is the only account budgeted in the Salary & 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.

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

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 the reportable variance criteria, it is not a true variance since the Board resolution permits the project manager to shift authorized funds among years, and this now-completed project did not exceed its total authorized multi-year budget.

- The Corporate University spent $4 million, or 12 percent, less than budgeted. This was mostly due to projects being deferred until 2007 and anticipated relocation and travel costs for the Corporate Employee Program that were not claimed in 2006.

- The Division of Insurance and Research spent $3 million, or 7 percent, less than budgeted. This was due to lower-than-anticipated spending in both the Investment Budget and Corporate Operating Budget on enhancements to and maintenance and operations of the Central Data Repository.

- The Executive Offices spent $66 thousand, or 1 percent, more than budgeted. This was largely due to the cost of the GAO annual audit being somewhat greater than anticipated.

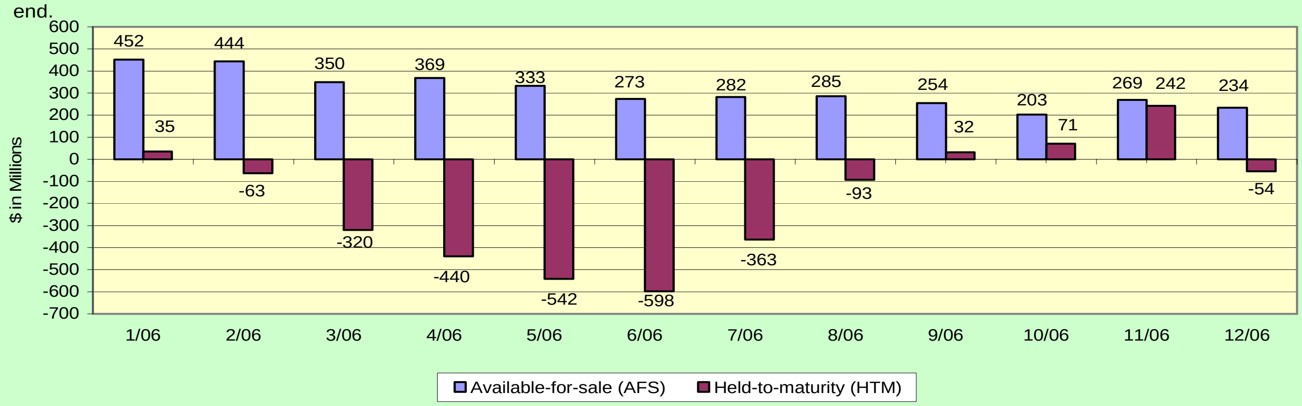
- In the Investment Budget, the Division of Information Technology spent $2 million, or 18 percent, less than estimated for various projects in 2006. While this amount technically falls within our reportable variance criteria, it is not a true variance since the Board resolution permits the project manager to carry over unused authorized budgeted funds into future years to complete the project. A detailed quarterly report is provided separately to the Board by the Capital Investment Review Committee for all information technology investment projects.

Fund Financial Results

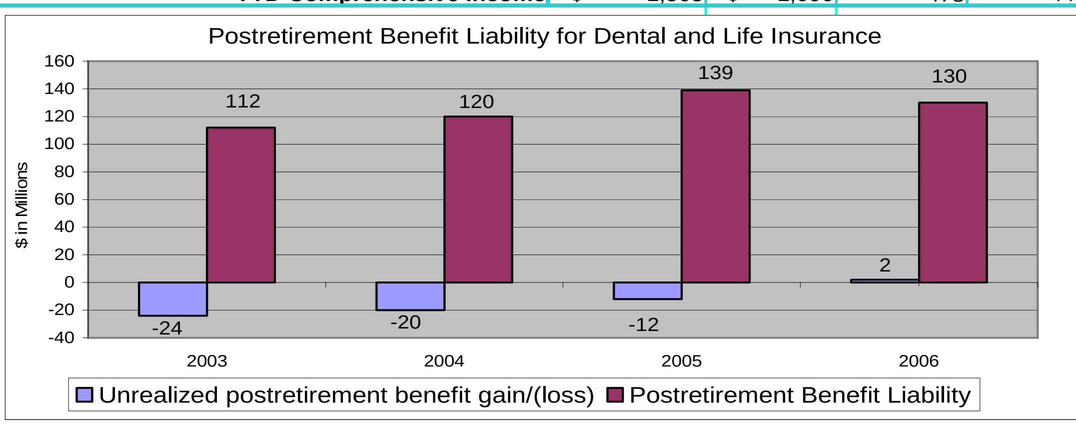
($ in millions – All data is unaudited)

Balance Sheet	Deposit Insurance Fund			
	Dec-06	Dec-05	Change	% Change
Cash & cash equivalents - unrestricted	$ 2,954	$ 3,209	(255)	(8%)
Cash & other assets - restricted for SAIF member exit fees	0	342	(342)	(100%)
Investment in U.S. Treasury obligations, net	46,142	44,240	1,902	4%
Interest receivable on investments and other assets, net	748	738	10	1%
Receivables from resolutions, net	539	534	5	1%
Property, buildings and other capitalized assets, net	377	378	(1)	0%
Total Assets	$ 50,760	$ 49,441	1,319	3%
Accounts payable and other liabilities	154	297	(143)	(48%)
Postretirement benefit liability	130	0	130	0%
Contingent Liabilities: future failures	111	5	106	2120%
Contingent Liabilities: litigation losses & other	200	200	0	0%
SAIF member exit fees & investment proceeds held in escrow	0	342	(342)	(100%)
Total Liabilities	$ 595	$ 844	(249)	(30%)
FYI: Unrealized gain on available-for-sale securities	234	407	(173)	(43%)
FYI: Unrealized postretirement benefit gain/(loss)	2	n/a	n/a	n/a
FUND BALANCE	$ 50,165	$ 48,597	1,568	3%

As the AFS portion of the DIF's investment portfolio's unrealized gain steadily declined during 2006, the HTM portion's unrealized loss peaked at mid-year and subsequently reversed, resulting in a nominal net unrealized gain for the entire DIF investment portfolio at year end.

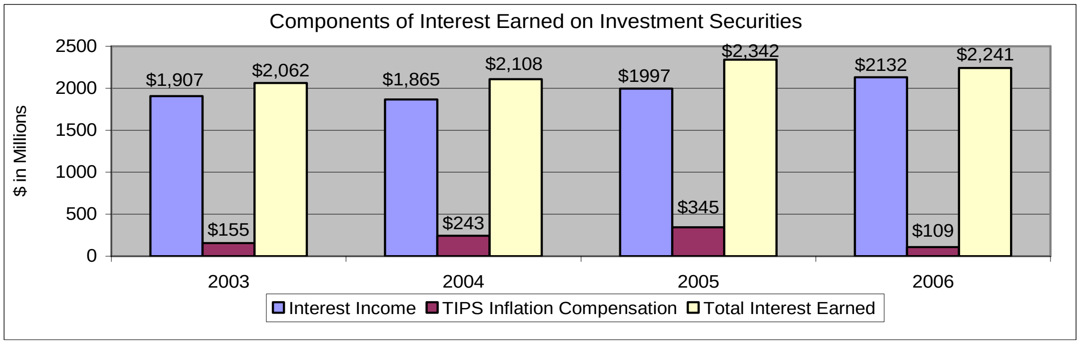


Income Statement	Deposit Insurance Fund			
	Dec-06	Dec-05	Year-Over-Year Change	% Change
Assessments earned	$ 32	$ 61	(29)	(48%)
Interest earned on investment securities	2,241	2,342	(101)	(4%)
Exit fees earned	345	0	345	0%
Other revenue	26	18	8	44%
Total Revenue	$ 2,644	$ 2,421	223	9%
Operating expenses (includes depreciation expense)	951	966	(15)	(2%)
Provision for insurance losses	(52)	(160)	108	68%
Other expenses	6	4	2	50%
Total Expenses & Losses	$ 905	$ 810	95	12%
Net Income	$ 1,739	$ 1,611	128	8%
Unrealized (loss) on available-for-sale securities	(173)	(521)	348	67%
Unrealized postretirement benefit gain/(loss)	2	n/a	2	0%
YTD Comprehensive Income	$ 1,568	$ 1,090	478	44%



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

Income Statement - (continued)

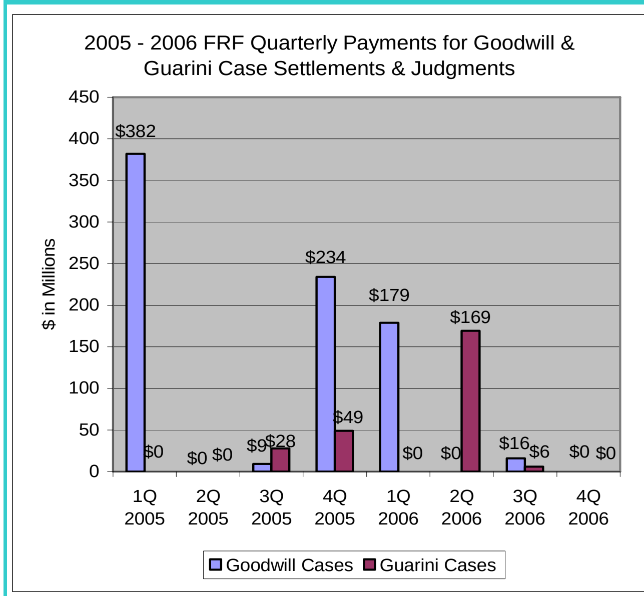


Statements of Cash Flows — Deposit Insurance Fund

	Dec-06	Dec-05	Year-Over-Year Change	% Change
Net Income	$ 1,739	$ 1,611	128	8%
Amortization of U.S. Treasury obligations (unrestricted)	599	834	(235)	(28%)
TIPS Inflation Adjustment	(109)	(345)	236	68%
Depreciation on property and equipment	53	55	(2)	(4%)
Provision for insurance losses	(52)	(160)	108	68%
Exit fees earned	(345)	0	(345)	0%
Net change in operating assets and liabilities	100	404	(304)	(75%)
Net Cash Provided by Operating Activities	$ 1,985	$ 2,399	(414)	(17%)
Investments matured and sold	6,800	10,050	(3,250)	(32%)
Investments purchased (includes purchase of property and equipment)	(9,062)	(11,741)	2,679	(23%)
Net Cash (Used) by Investing Activities	$ (2,262)	$ (1,691)	(571)	34%
Net Increase (Decrease) in Cash and Cash Equivalents	(277)	708	(985)	(139%)
Cash and Cash Equivalents at beginning of year	3,231	2,523	708	28%
Cash and Cash Equivalents - Ending	$ 2,954	$ 3,231	(277)	(9%)

FSLIC Resolution Fund (FRF)

	Dec-06	Dec-05	Year-Over-Year Change	% Change
Cash and cash equivalents	$ 3,616	$ 3,602	14	0%
Accumulated deficit, net	(123,834)	(123,631)	(203)	0%
Resolution equity	3,620	3,376	244	7%
Total revenue	$ 169	$ 122	47	39%
Operating expenses	12	25	(13)	(52%)
Expenses for Goodwill/Guarini litigation	411	976	(565)	(58%)
Net (loss)	(203)	(826)	623	75%



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

	Goodwill		Guarini	
	# of Cases	Amount Paid/ Accrued	# of Cases	Amount Paid
Dismissals/ Time Barred	43	N/A	0	N/A
Settlements	18	$149 million	2	$99 million
Judgments	35	$1,050 million*	5	$153 million
Pending	26	N/A	1	N/A
Totals	122	$1,199 million	8	$252 million

* Three institutions account for 71% 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)

	12/31/06	12/31/05	Change
Par Value	$46,483	$44,904	$1,579
Amortized Cost	$48,858	$47,038	$1,820
Market Value	$49,038	$47,610	$1,428
Primary Reserve [1]	$13,911	$14,246	($335)
Primary Reserve Target Floor	$10,000	$10,500	($500)
Primary Reserve % of Total Portfolio	28.0%	29.5%	(1.5%)
Year-to-Date Total Return (Portfolio)	4.06%	2.01%	not applicable
Year-to-Date Total Return (Benchmark) [2]	3.57%	1.58%	not applicable
Total Return Variance (in basis points)	49	43	not applicable
Yield-to-Maturity [3]	4.89%	4.82%	0.07%
Weighted Average Maturity (in years)	3.57	3.29	0.28
Effective Duration (in years) [4]			
Total Portfolio	2.82	2.53	0.29
Available-for-Sale Securities	1.80	1.85	(0.05)
Held-to-Maturity Securities	3.29	2.97	0.32

[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.

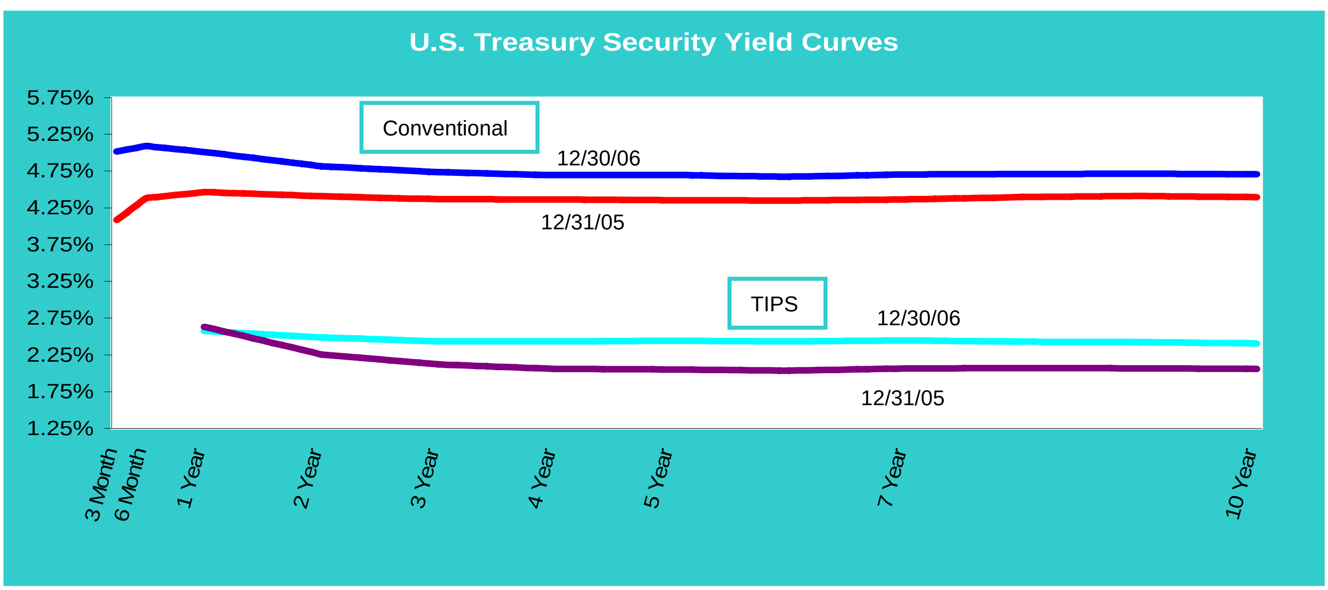
[3] The Yield-to-Maturity includes the potential yield of Treasury Inflation-Protected securities (TIPS), which assume an average year-over-year increase in CPI of 2.2%.

[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)

	12/31/06	12/31/05	Change
Book Value [5]	$381	$489	($108)
Yield-to-Maturity	5.37%	4.33%	1.04%
Weighted Average Maturity (in days)	13	40	(27)

[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 4th 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 $10.0 billion (adjusted par value) by quarter end;
- → Available-for-sale (AFS) securities should not total more than $8.8 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 1st Quarter 2007

AFS securities target limit decreased from $8.8 billion to $8.7 billion.

NATIONAL LIQUIDATION FUND

Current Strategy as of 4th 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 1st Quarter 2007

None

Executive Summary of 2006 Budget and Expenditures
by Major Expense Category
Through December 31, 2006
(Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$629,985	$625,781	99%	($4,204)
Outside Services - Personnel	157,832	142,220	90%	(15,612)
Travel	49,923	48,709	98%	(1,214)
Buildings	68,773	68,346	99%	(427)
Equipment	51,432	52,893	103%	1,461
Outside Services - Other	15,338	13,875	90%	(1,463)
Other Expenses	10,843	8,919	82%	(1,924)
Total Ongoing Operations	**$984,126**	**$960,743**	**98%**	**($23,383)**
Receivership Funding				
Salaries & Compensation	$3,420	$15	0%	($3,405)
Outside Services - Personnel	61,347	10,771	18%	(50,576)
Travel	5,646	980	17%	(4,666)
Buildings	2,300	162	7%	(2,138)
Equipment	226	2	1%	(224)
Outside Services - Other	543	28	5%	(515)
Other Expenses	1,518	166	11%	(1,352)
Total Receivership Funding	**$75,000**	**$12,124**	**16%**	**($62,876)**
Total Corporate Operating Budget	**$1,059,126**	**$972,867**	**92%**	**($86,259)**
Investment Budget [1]	**$27,114**	**$24,719**	**91%**	**($2,395)**
Grand Total	**$1,086,240**	**$997,586**	**92%**	**($88,654)**

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.

Executive Summary of 2006 Budget and Expenditures by Budget Component and Division/Office Through December 31, 2006 (Dollars in Thousands)				
Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$376,917	$369,945	98%	($6,972)
Information Technology	180,037	178,311	99%	(1,726)
Administration	162,298	154,751	95%	(7,547)
Resolutions & Receiverships	98,172	50,427	51%	(47,745)
Legal	88,648	72,959	82%	(15,689)
Insurance & Research	34,723	33,350	96%	(1,373)
Finance	27,131	26,891	99%	(240)
Inspector General	23,686	22,739	96%	(947)
Corporate University	29,938	26,520	89%	(3,418)
Executive Support [1]	13,503	13,371	99%	(132)
Executive Offices [2]	6,073	6,139	101%	66
Government Litigation	18,000	17,464	97%	(536)
Total, Corporate Operating Budget	**$1,059,126**	**$972,867**	**92%**	**($86,259)**
Investment Budget [3]				
Information Technology	$11,557	$9,419	82%	($2,138)
Administration [4]	12,422	13,776	111%	1,354
Resolutions & Receiverships	514	214	42%	(300)
Insurance & Research	2,493	1,337	54%	(1,156)
Finance [5]	15	(27)	-180%	(42)
Corporate University	113	0	0%	(113)
Total, Investment Budget [3]	**$27,114**	**$24,719**	**91%**	**($2,395)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$376,917	$369,945	98%	($6,972)
Information Technology	191,594	187,730	98%	(3,864)
Administration [4]	174,720	168,527	96%	(6,193)
Resolutions & Receiverships	98,686	50,641	51%	(48,045)
Legal	88,648	72,959	82%	(15,689)
Insurance & Research	37,216	34,687	93%	(2,529)
Finance	27,146	26,864	99%	(282)
Inspector General	23,686	22,739	96%	(947)
Corporate University	30,051	26,520	88%	(3,531)
Executive Support [1]	13,503	13,371	99%	(132)
Executive Offices [2]	6,073	6,139	101%	66
Government Litigation	18,000	17,464	97%	(536)
Grand Total	**$1,086,240**	**$997,586**	**92%**	**($88,654)**

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.

4) The budget for the Virginia Square - Phase II investment project is included in the totals of the Division of Administration. This project is now completed and will be removed from the investment budget in early 2007.

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.