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

February 14, 2006

MEMORANDUM TO: The Board of Directors

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

Fred Selby
Director, Division of Finance

SUBJECT: Fourth Quarter 2005 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the twelve-month period ending December 31, 2005.

Executive Summary

- Recently enacted deposit insurance reform legislation calls for the merger of the BIF and SAIF no later than July 1, 2006. The FDIC will merge the funds on March 31, 2006, and begin reporting on the combined fund—the Deposit Insurance Fund (DIF)—at that time. If deposit insurance reform legislation had already been in effect on September 30, 2005, the reserve ratio for the DIF would have been 1.27 percent.

- In 2005, BIF and SAIF reported comprehensive income of $680 million and $409 million, respectively, which represent year-over-year declines of 32 percent (BIF) and 15 percent (SAIF). These reductions in earning are part of a multi-year trend: BIF's comprehensive income has decreased by 61 percent since 2003, whereas SAIF's has declined by 50 percent since 2002. These earnings reductions are largely the result of higher unrealized losses on available-for-sale (AFS) securities and lower recoveries of prior years' provisions for insurance losses.

- Increases in overnight and short-term Treasury yields and the inflation compensation on Treasury Inflation-Protection Securities (TIPS) resulted in higher interest revenue on U.S. Treasury obligations for both BIF and SAIF. However, the rise in Treasury market yields on short- to intermediate-maturity available-for-sale securities resulted in an increase to unrealized losses.

- For the twelve months ending December 31, 2005, operating- and investment-related expenditures ran below budget by 10 percent and 20 percent, respectively. The variance with respect to the operating budget expenditures was primarily the result of limited resolutions and receivership activities in the Receivership Funding component of the operating budget during 2005.

The following is an assessment of each of the three major finance areas: financial statements, investments, and budget.

<table>
<tr><th colspan="2">Trends and Outlook</th></tr>
<tr><th>Financial Results</th><th>Comments</th></tr>
<tr><td>I. Financial Statements</td><td>Deposit insurance fund reserve ratios remain at or above the 1.25 percent designated reserve ratio (as of September 30, 2005); however, if estimated insured deposits continue to increase in line with recent growth rates, it is likely that the funds’ reserve ratios (and that of the DIF once the funds are merged) will trend lower absent the implementation of across-the-board deposit insurance assessments.
As of December 31, 2005, the BIF’s and SAIF’s coverage ratios (interest revenues/operating expenses) were 2.02 and 5.23 respectively. For the combined funds, the ratio would have been 2.42 at year-end.
No BIF-insured or SAIF-insured institutions failed during 2005—making it the first calendar year in FDIC’s history with no failure activity. The contingent liability for anticipated failures for both deposit insurance funds remain at or near historically low levels given the current and projected health of the banking and thrift industries ($2 million and $4 million for BIF and SAIF, respectively).</td></tr>
<tr><td>II. Investments</td><td>For 2005, the BIF and SAIF portfolios’ combined book values increased by $1.845 billion or 4.1 percent. Moreover, during 2005 the BIF portfolio’s yield increased by 14 basis points, rising to 4.80 percent, while the SAIF portfolio’s yield increased by 19 basis points, rising to 4.88 percent.
Due to the maturation in 2006 of a large number of U.S. Treasury securities that were purchased several years ago when yields were significantly higher, it is unlikely that overall portfolio yields will increase over the next twelve months.
Expectations are for Treasury market yields to rise, which should lead to increased interest revenue over the long run. Over the short run, increasing 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.</td></tr>
<tr><td>III. Budget</td><td>Approximately $979 million was spent in the Ongoing Operations component of the Corporate Operating Budget, which was $48 million (5 percent) below the budget for 2005. The Salary and Compensation expense category, which comprises 67 percent of the Ongoing Operations’ budget, was nearly $30 million (4 percent) below its budget.</td></tr>
</table>

Trends and Outlook	
Financial Results	Comments
Overall	• During 2005, the deposit insurance fund balance sheets and income statements continue to show solid results. • Both insurance funds continue to experience strong cash flows. • Both the bank and thrift industries are projected to remain relatively healthy during 2006. • A merger of the funds in early 2006 will result in a single deposit insurance fund that is financially strong.

I. <u>Corporate Fund Financial Statement Results</u> (See pages 9 - 10 for detailed data and charts.)

BIF

The BIF fund balance was $35.5 billion as of December 31, 2005, compared to $34.8 billion at year-end 2004, which reflects a year-over-year increase of approximately 2.0 percent.

- BIF's comprehensive income (net income plus current period unrealized gains/losses on AFS securities) was $680 million in 2005, which is substantially lower than the $1.004 billion reported in 2004. This 32 percent reduction is primarily due to an increase in unrealized losses of $280 million on AFS securities, lower recoveries of prior years' provisions for insurance losses of $143 million, an increase in operating expenses of $24 million, and a decrease in assessment revenues of $42 million, offset by an increase of $161 million in interest revenue on U.S. Treasury obligations.

- BIF's provision for insurance losses was a negative $138 million in 2005 compared to a negative $281 million at year-end 2004. This lower recovery of prior years' provisions for insurance losses resulted largely from a significantly smaller reduction in 2005 in the estimated losses for anticipated failures.

SAIF

The SAIF fund balance was $13.1 billion as of December 31, 2005, compared to $12.7 billion at year-end 2004, which reflects a year-over-year increase of approximately 3.2 percent.

- SAIF's comprehensive income was $409 million in 2005 compared to $480 million in 2004. This 15 percent reduction is due to an increase in unrealized losses on AFS securities of $94 million and lower recoveries of prior years' provisions for insurance losses of $50 million that were partially offset by a $73 million increase in interest revenue on U.S. Treasury obligations.

- SAIF's provision for insurance losses was a negative $22 million in 2005 compared to a negative $72 million in 2004. This lower recovery of prior years' provisions for insurance losses resulted from a significantly smaller reduction in 2005 in the estimated loss for the Superior receivership.

FRF

- The FRF paid $625 million as a result of judgments and settlements in seven Goodwill cases during 2005, compared to $5 million for one Goodwill case in 2004. These payments by FRF were funded by the U.S. Treasury through a separate, indefinite appropriation.

- The FRF also paid two Guarini settlements in 2005 totaling $76.8 million and established a contingent liability of $257 million at year-end 2005 for the remaining four Guarini cases. Unlike the Goodwill cases, the U.S. Treasury does not fund these payments.

- During 2005, the FRF received approximately $46 million in tax benefit recoveries from FSLIC assistance agreements and going forward could realize additional recoveries from these agreements of between $144 million to $224 million. Three tax benefit cases were terminated in 2005 and five such cases remain active as of December 31, 2005.

II. Investments Results and Prospective Strategies (See pages 11 – 12 for detailed data and charts.)

BIF

- During 2005, the book value of the BIF investment portfolio increased by $1.177 billion or by 3.5 percent—from $33.231 billion on December 31, 2004, to $34.408 billion on December 31, 2005.

- The BIF investment portfolio's total return for 2005 was 2.04 percent, approximately 46 basis points higher than the return of the benchmark, the Merrill Lynch 1 - 10 Year U.S. Treasury Index (Index), which earned 1.58 percent during 2005. The strong performance relative to the benchmark can be attributed to two factors. First, the BIF investment portfolio’s conventional securities have a slightly lower average duration than those in the Index, and consequently, as yields generally increased over the course of the year, the BIF portfolio’s conventional securities outperformed the Index. Second, during this period, about 5 percent of the portfolio was invested in overnight investments. Although overnight investments might not yield as much as longer-term securities, 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 2005.

- During the fourth quarter of 2005, staff purchased new securities with a total par value of $1.205 billion, a weighted average maturity (WAM) of 9.73 years, a weighted average modified duration of 6.63 years, and a weighted average yield to maturity (YTM) of 4.66 percent. On December 31, 2005, the effective duration of the BIF portfolio was 2.53 years.

SAIF

- During 2005, the book value of the SAIF investment portfolio increased by $668 million or by 5.6 percent—from $11.962 billion on December 31, 2004, to $12.630 billion on December 31, 2005.

- The SAIF investment portfolio's return for 2005 was 1.92 percent, approximately 34 basis points higher than the return of the benchmark, the aforementioned Index, which earned 1.58 percent during same period. As with BIF, the SAIF investment portfolio's strong performance relative to the benchmark can be attributed to the same two factors, the portfolio's better performing conventional securities and its relatively large amounts of overnight investments, both of which on a total return basis outperformed the longer-maturity conventional Treasury securities included in the Index.

- During the fourth quarter of 2005, staff purchased new securities for the SAIF portfolio with a total par value of $325 million, a WAM of 9.70 years, a weighted average modified duration of 6.61 years, and a weighted average YTM of 4.66 percent. At the end of the quarter, the effective duration of the SAIF portfolio was 2.55 years.

The Treasury Market

- Conventional Treasury yields increased dramatically across all maturity sectors during the fourth quarter of 2005 (except for the 30-year maturity sector). The largest increases were posted by short-maturity Treasury bills; moreover, real yields on Treasury Inflation-Protected Securities (TIPS) also increased significantly, particularly on shorter-maturity TIPS. Three- and six-month Treasury bill yields were up 54 and 45 basis points, respectively, largely reflecting increases in the federal funds target rate. The two-year note yield, which is also sensitive to actual as well as anticipated changes in the federal funds rate, increased by 23 basis points. Intermediate- to longer-maturity Treasury security yields also increased over the course of the fourth quarter, although yield movements were fairly volatile, reflecting a number of technical and fundamental factors. The five-year Treasury note's yield increased by 16 basis points, while the ten-year Treasury's yield was up a more modest seven basis points. The Treasury yield curve continued to flatten during the fourth quarter, and on December 31, 2005, was slightly inverted: the spread between the two-year and ten-year maturity sectors was negative one basis point. This contrasts with the modest 15 basis point positive spread at the end of the third quarter of 2005. From a historical perspective, the curve remains significantly flatter; over the past five years, the spread has averaged 157 basis points.

- Interestingly, during the fourth quarter, real yields on TIPS increased rather dramatically, supporting the contention that both shorter-term and longer-term inflation expectations declined during the fourth quarter. For instance, the real yield on the BIF and SAIF's portfolios' TIPS with about two years to maturity increased by 125 basis points, while the real yield on the portfolios' longest-maturity TIPS (with a maturity of about five years) increased by 57 basis points. Moreover, the real yield of the "on-the-run" (that is, the most recently auctioned) ten-year TIPS increased by 29 basis points.

Prospective Strategies

- The current investment strategies provide 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 2006. Similar to the fourth quarter 2005 investment strategies, 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 2006 strategies provide the flexibility to purchase comparatively higher-yielding, longer-maturity Treasury securities.

- During the first quarter of 2006, the BIF portfolio primary reserve target floor remains at $8 billion; for the SAIF portfolio, the respective amount is $2.5 billion.

III. Budget Results (See pages 13 - 14 for detailed data.)

Note: Significant spending variances for the twelve months ending December 31, 2005, are defined as those that either: (1) exceed by any amount the authorized annual budget for a major expense category or the total budget for a division/office; or (2) are under the authorized annual 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

Ongoing Operations

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

- Salary & Compensation expenditures were approximately $30 million, or 4 percent, less than budgeted, primarily due to positions that were budgeted but subsequently abolished as a result of buyout separations.

- Outside Services-Personnel expenditures were approximately $13 million, or 9 percent, less than budgeted, primarily due to lower-than-budgeted payments to the Department of Justice for litigation services, limited spending for general services in support of the resolution and receivership program, miscoded $1.5 million in costs to the Outside Services-Other expense category, and delayed spending for new training courses that were planned for development.

- Buildings expenditures were $3 million, or 3 percent, greater than budgeted, primarily due to unanticipated building improvement needs, energy cost increases, and higher property taxes on owned buildings.

- Equipment expenditures were $5 million, or 12 percent, less than budgeted, primarily due to a delay in the purchase of a mainframe processor and related software.

- Outside Services-Other expenditures were $0.1 million, or 1 percent, greater than budgeted, primarily due to an increase in the number of hand-held devices and phone lines, higher-than-projected usage of data lines for examinations, and the miscoding of $1.5 million in services to this expense category. These overages were partially offset by printing and postage cost savings and reduced cost from the temporary closure of the cafeteria at Virginia Square.

- Other Expenses expenditures were $2 million, or 18 percent, less than budgeted, primarily due to the Division of Supervision and Consumer Protection not accruing for conferences held in late 2005 and the shift to in-house training.

Receivership Funding

There were four major expense categories in which a significant spending variance occurred through the fourth 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 & Compensation[1] ($3 million, or 99 percent, less than budgeted),

- Outside Services-Personnel **(**$53 million, or 86 percent, less than budgeted),

- Travel **(**$4 million, or 81 percent, less than budgeted), and

- Buildings **(**$2 million, or 91 percent, less than budgeted).

Significant Spending Variances by Division/Office[2]

There were six organizations that had a significant spending variance through the fourth quarter:

- The Division of Resolutions and Receiverships spent $63 million, or 47 percent, less than budgeted. This was largely because expenses for contractual services, travel, and overtime were lower than budgeted during the year due to the low level of resolution and receivership management workload.

- The Division of Administration spent $17 million, or 7 percent, less than budgeted, including under spending of $7 million for Ongoing Operations, $2 million for Receivership Funding, and $8 million for approved Investment projects. The spending variance in Ongoing Operations was primarily due to buyout separations, delays in filling authorized vacancies, and printing and postage savings. Expenses for the Virginia Square – Phase II project were lower than estimated for the calendar year 2005, although this unused budget authority will continue to be available for use in future years, if necessary.

- The Legal Division spent $17 million, or 17 percent, less than budgeted. This was primarily because outside counsel services were about $13 million lower than budgeted during the year in the Receivership Funding portion of the Legal Division's budget due to the low level of resolution and receivership management workload.

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[1] Overtime is the only account in the Salary & Compensation expense category of Receivership Funding in 2005. 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.

- The Division of Insurance and Research spent $4 million, or 11 percent, less than budgeted. This was largely due to reduced maintenance costs for the Central Data Repository due to a delay in the originally planned implementation date.

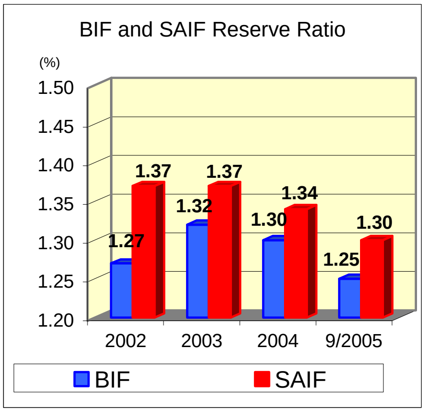
- The Office of Inspector General spent $3 million, or 9 percent, less than budgeted. This was largely attributed to less reliance on contractors than had been initially anticipated for audit work and the decision not to fill 27 authorized positions.

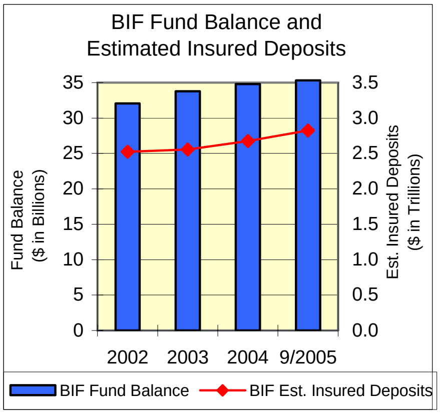
- The Division of Finance (DOF) spent slightly more than budgeted ($4 thousand) during 2005 due to spending more than estimated on the Asset Servicing Technology Enhancement Project (ASTEP). However, DOF spending on ASTEP did not cause the overall ASTEP project to exceed its 2005 spending estimate, nor was the DOF overspending a true variance. The resolution approving the ASTEP investment project budget permitted the project manager to shift authorized funds among divisions and years, and it is not anticipated at this time that the ASTEP project will exceed its total authorized multi-year budget. A detailed quarterly report on the status of IT Investment projects, including the ASTEP project, is provided separately to the Board by the Capital Investment Review Committee.

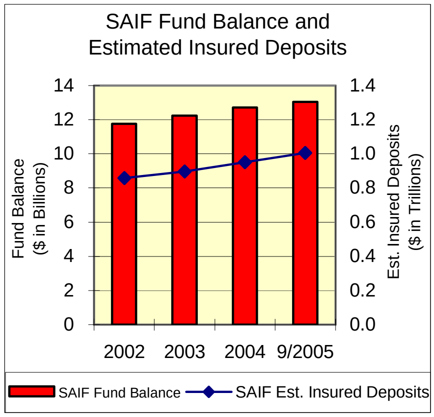
Fund Financial Results

($ in millions – All data is unaudited)

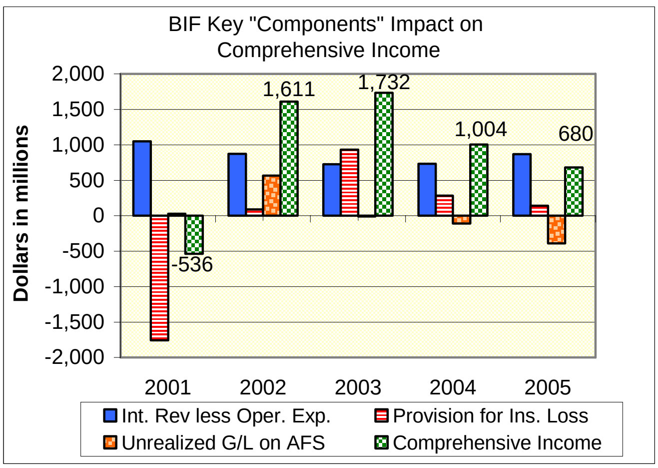
Balance Sheet	BIF Dec-05	BIF Dec-04	SAIF Dec-05	SAIF Dec-04
Cash & cash equivalents - unrestricted	$ 2,412	$ 1,822	$ 798	$ 644
Cash & other assets - restricted for SAIF member exit fees	na	na	342	328
Investment in US Treasury obligations, net	32,300	32,108	11,941	11,556
Interest receivable on investments and other assets, net	546	602	191	201
Receivables from resolutions, net	299	375	234	347
Property, buildings and other capitalized assets, net	378	357	na	na
Total Assets	**$ 35,935**	**$ 35,264**	**$ 13,506**	**$ 13,076**
Accounts payable and other liabilities	266	269	31	26
Contingent Liabilities: future failures	2	8	4	2
Contingent Liabilities: litigation losses & other	200	200	0	0
SAIF member exit fees & investment proceeds held in escrow	na	na	342	328
Total Liabilities	**$ 468**	**$ 477**	**$ 377**	**$ 356**
FYI: Unrealized gain on available-for-sale securities	298	690	108	238
FUND BALANCE	**$ 35,467**	**$ 34,787**	**$ 13,129**	**$ 12,720**

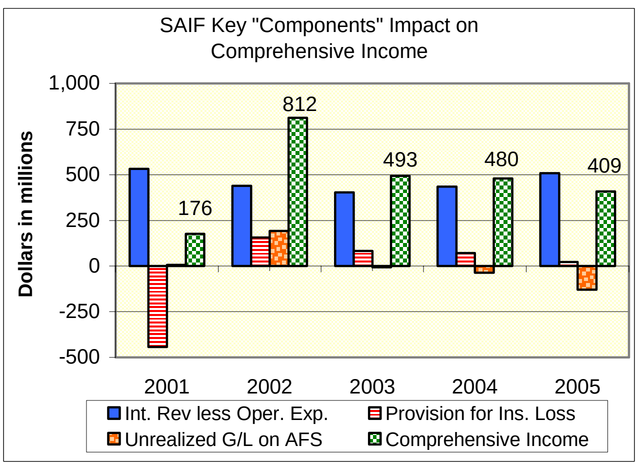






Income Statement	BIF Dec-05	BIF Dec-04	SAIF Dec-05	SAIF Dec-04
Assessments earned	$ 53	$ 95	$ 8	$ 9
Interest earned on investment securities	1,713	1,552	628	555
Other revenue	17	28	1	0
Total Revenue	**$ 1,783**	**$ 1,675**	**$ 637**	**$ 564**
Operating expenses (includes depreciation expense)	846	822	120	120
Provision for insurance losses	(138)	(281)	(22)	(72)
Other expenses	3	18	0	0
Total Expenses & Losses	**$ 711**	**$ 559**	**$ 98**	**$ 48**
Net Income	**$ 1,072**	**$ 1,116**	**$ 539**	**$ 516**
Unrealized (loss) on available-for-sale securities	(392)	(112)	(130)	(36)
YTD Comprehensive Income	**$ 680**	**$ 1,004**	**$ 409**	**$ 480**

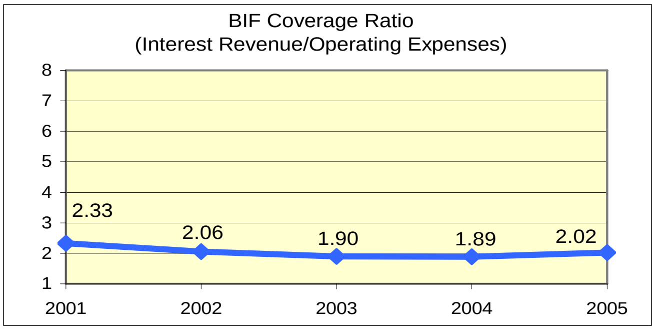


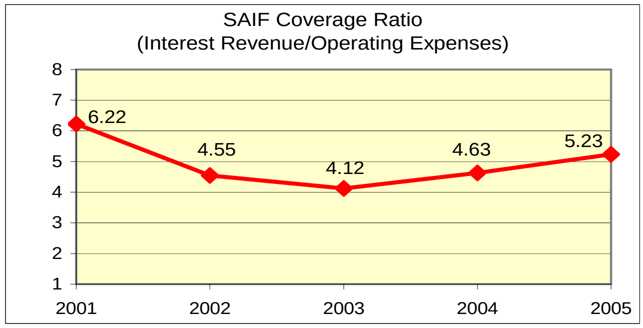


Fund Financial Results - continued

($ in millions – All data is unaudited)

Income Statement - (continued)



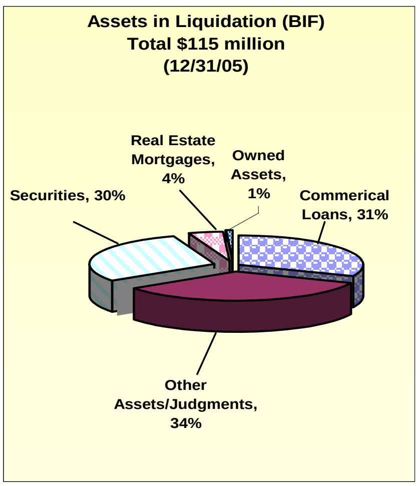


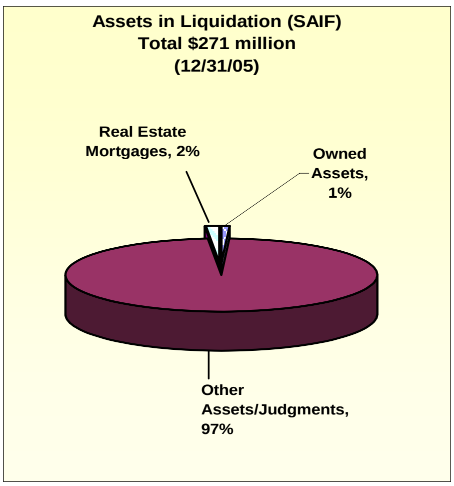
Statements of Cash Flows

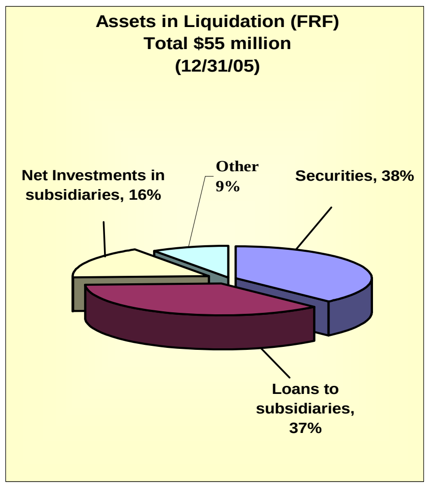
	BIF		SAIF	
	Dec-05	Dec-04	Dec-05	Dec-04
Net Income	**$ 1,072**	**$ 1,117**	**$ 539**	**$ 516**
Amortization of U.S. Treasury obligations (unrestricted)	614	737	220	262
TIPS Inflation Adjustment	(258)	(182)	(87)	(61)
Depreciation on property and equipment	55	54	na	na
Provision for insurance losses	(138)	(281)	(22)	(72)
Terminations/adjustments of work-in-process accounts	0	1	na	na
Net change in operating assets and liabilities	231	209	173	(2)
Net Cash Provided by Operating Activities	**$ 1,576**	**$ 1,655**	**$ 823**	**$ 643**
Investments matured and sold	7,850	9,175	2,200	3,050
Investments purchased (includes purchase of property and equipment)	(8,836)	(11,553)	(2,905)	(4,051)
Net Cash (Used) by Investing Activities	**$ (986)**	**$ (2,378)**	**$ (705)**	**$ (1,001)**
Net Decrease in Cash and Cash Equivalents	590	(723)	118	(358)
Cash and Cash Equivalents at beginning of year	1,821	2,544	701	1,059
Unrestricted Cash and Cash Equivalents - Ending	na	na	**$ 798**	**$ 644**
Restricted Cash and Cash Equivalents - Ending	na	na	**$ 21**	**$ 57**
Cash and Cash Equivalents - Ending	**$ 2,411**	**$ 1,821**	**$ 819**	**$ 701**

FSLIC Resolution Fund (FRF) - Statements of Cash Flows

	Dec-05	Dec-04
Net (Loss)/Income	$ (826)	$ 158
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for losses	241	(13)
Net change in operating assets and liabilities	62	(43)
Net Cash (Used by) Provided by Operating Activities	**(523)**	**102**
Investment in securitization-related assets acquired from receivership	0	116
Net Cash Provided by Investing Activities	**0**	**116**
Net Cash Provided by Financing Activities	**625**	**5**
Net Increase in Cash and Cash Equivalents	102	223
Cash and Cash Equivalents at beginning of year	3,501	3,278
Cash and Cash Equivalents - Ending	**$ 3,603**	**$ 3,501**







Corporate Investment Portfolio Summary
(Dollar Values in Millions)

	BIF			SAIF		
	12/31/05	12/31/04	Change	12/31/05	12/31/04	Change
Par Value	$32,800	$32,198	$602	$12,104	$11,599	$505
Book Value	$34,408	$33,231	$1,177	$12,630	$11,962	$668
Market Value	$34,796	$34,623	$173	$12,814	$12,529	$285
Primary Reserve [1]	$10,814	$12,872	($2,058)	$3,432	$3,827	($395)
Primary Reserve Target Floor	$8,000	$11,000	($3,000)	$2,500	$3,000	($500)
Primary Reserve % of Total Portfolio	30.6%	36.6%	(6%)	26.4%	30.1%	(3.7%)
Year-to-Date Total Return (Portfolio)	2.042%	2.831%	NA	1.920%	2.862%	NA
Year-to-Date Total Return (Benchmark) [2]	1.578%	1.964%	NA	1.578%	1.964%	NA
Total Return Variance (in basis points)	46	87	NA	34	90	NA
Yield-to-Maturity [3]	4.80%	4.66%	0.14%	4.88%	4.69%	0.19%
Weighted Average Maturity (in years)	3.30	2.98	0.32	3.26	3.22	0.04
Effective Duration (in years) [4]						
Total Portfolio	2.53	2.30	0.23	2.55	2.53	0.02
Available-for-Sale Securities	1.82	2.09	(0.27)	1.91	2.27	(0.36)
Held-to-Maturity Securities	2.99	2.57	0.42	2.91	2.79	0.12

[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.

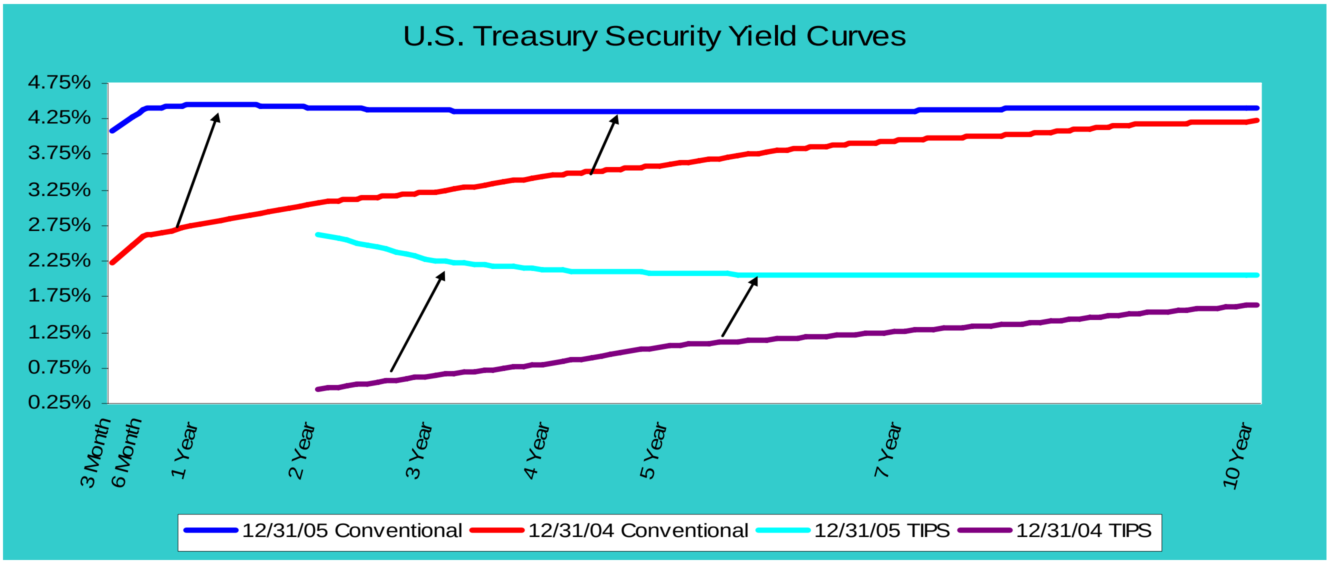
[3] The yield-to-maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assume an average year-over-year increase in the CPI of 2.2%.

[4] For each TIPS, a 60% factor is applied to its real yield duration to arrive at an estimated effective duration.

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

	12/31/05	12/31/04	Change
Book Value [5]	$489	$612	($123)
Yield-to-Maturity	4.33%	2.25%	2.08%
Weighted Average Maturity (in days)	40	41	(1)

[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

BANK INSURANCE FUND
Current Strategy as of 4th Quarter 2005

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 $6.5 billion (adjusted par value) by quarter-end;
- → Available-for-sale (AFS) securities should not total more than $7.2 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 an $8 billion target floor primary reserve balance.

Strategy Changes for 1st Quarter 2006

AFS securities limit lowered from $7.2 billion to $7.1 billion.

SAVINGS ASSOCIATION INSURANCE FUND
Current Strategy as of 4th Quarter 2005

Maintain a $50 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 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 $2.4 billion (adjusted par value) by quarter-end;
- → AFS securities should not total more than $2.3 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 $2.5 billion target floor primary reserve balance.

Strategy Changes for 1st Quarter 2006

None

NATIONAL LIQUIDATION FUND
Current Strategy as of 4th Quarter 2005

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 2006

None

Executive Summary of 2005 Budget and Expenditures by Major Expense Category Through December 31, 2005 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$691,373	$661,679	96%	($29,694)
Outside Services - Personnel	147,398	134,040	91%	(13,358)
Travel	45,568	45,182	99%	(386)
Buildings	77,211	79,873	103%	2,662
Equipment	40,871	35,875	88%	(4,996)
Outside Services - Other	13,590	13,703	101%	113
Other Expenses	10,381	8,481	82%	(1,900)
Total Ongoing Operations	**$1,026,392**	**$978,833**	**95%**	**($47,559)**
Receivership Funding				
Salaries & Compensation	$3,420	$26	1%	($3,394)
Outside Services - Personnel	62,349	8,873	14%	(53,476)
Travel	5,175	963	19%	(4,212)
Buildings	1,800	163	9%	(1,637)
Equipment	226	0	0%	(226)
Outside Services - Other	540	85	16%	(455)
Other Expenses	1,490	1,142	77%	(348)
Total Receivership Funding	**$75,000**	**$11,252**	**15%**	**($63,748)**
Total Corporate Operating Budget	**$1,101,392**	**$990,085**	**90%**	**($111,307)**
Investment Budget [1]	**$77,457**	**$62,091**	**80%**	**($15,366)**
Grand Total	**$1,178,849**	**$1,052,176**	**89%**	**($126,673)**

1) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2005 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.

Executive Summary of 2005 Budget and Expenditures
by Budget Component and Division/Office
Through December 31, 2005
(Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$375,861	$367,717	98%	($8,144)
Information Technology	167,404	167,205	100%	(199)
Administration	170,885	162,097	95%	(8,788)
Resolutions & Receiverships	134,320	71,252	53%	(63,068)
Legal	97,362	80,807	83%	(16,555)
Insurance & Research	35,454	32,405	91%	(3,049)
Finance	30,125	30,119	100%	(6)
Inspector General	29,044	26,477	91%	(2,567)
Corporate University	13,910	13,578	98%	(332)
Executive Support [1]	14,577	13,692	94%	(885)
Executive Offices [2]	6,015	5,942	99%	(73)
Government Litigation	26,435	18,794	71%	(7,641)
Total, Corporate Operating Budget	**$1,101,392**	**$990,085**	**90%**	**($111,307)**
Investment Budget [3]				
Supervision & Consumer Protection	$116	$17	15%	($99)
Information Technology	17,943	11,666	65%	(6,277)
Administration [4]	53,166	45,327	85%	(7,839)
Resolutions & Receiverships	883	1,079	122%	196
Legal	60	1	2%	(59)
Insurance & Research	5,025	3,727	74%	(1,298)
Finance	264	274	104%	10
Total, Investment Budget [3]	**$77,457**	**$62,091**	**80%**	**($15,366)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$375,977	$367,734	98%	($8,243)
Information Technology	185,347	178,871	97%	(6,476)
Administration [4]	224,051	207,424	93%	(16,627)
Resolutions & Receiverships	135,203	72,331	53%	(62,872)
Legal	97,422	80,808	83%	(16,614)
Insurance & Research	40,479	36,132	89%	(4,347)
Finance	30,389	30,393	100%	4
Inspector General	29,044	26,477	91%	(2,567)
Corporate University	13,910	13,578	98%	(332)
Executive Support [1]	14,577	13,692	94%	(885)
Executive Offices [2]	6,015	5,942	99%	(73)
Government Litigation	26,435	18,794	71%	(7,641)
Grand Total	**$1,178,849**	**$1,052,176**	**89%**	**($126,673)**

1) Executive Support includes the Offices of Diversity and Economic Opportunity, Public Affairs, Ombudsman, Legislative Affairs, and Enterprise Risk Management.

2) Executive Offices include the Chairman, Vice Chairman, Board of Directors, Chief Operating Officer, and Chief Financial Officer.

3) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2005 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 Virginia Square Phase II project, previously reported as a separate organization, is included in the totals of the Division of Administration.