



August 15, 2005

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: Second Quarter 2005 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for both the three-month and six-month periods ending June 30, 2005.

Executive Summary

- Overall, the deposit insurance funds remained financially sound and exhibited healthy earnings during both the first and second quarters of 2005. Additionally, estimated losses from probable failures at the end of the second quarter remain at or near historically low levels for both deposit insurance funds. Reserve ratios remain moderately above the 1.25 designated reserve ratio (DRR), however, if insured deposit growth continues to increase in line with recent historical average rates, it is likely that the funds' reserve ratios will trend lower going forward. As of March 31, 2005, BIF's and SAIF's reserve ratios were 1.27 percent and 1.32 percent, respectively. (Estimated insured deposit data as of June 30, 2005, are not yet available.)
- BIF's and SAIF's operating expense (OPEX) coverage ratios (Interest Revenue/Operating Expenses), which had generally been on the decline since 2001, have modestly increased during the second quarter of 2005 and may increase further going forward with the potential for generally steady-to-higher investment portfolio interest revenue and steady-to-lower operating expenses.
- Market 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 the existing net unrealized gains on available-for sale (AFS) securities held in both funds' investment portfolios. Moreover, regardless of changes in yields, existing net unrealized gains will be reduced due to the passage of time.
- For the six months ending June 30, 2005, operating- and investment-related expenditures ran below budget by approximately six percent and five percent, respectively. The variance with respect to the operating budget was primarily the result of limited resolutions and receivership activity in the Receivership Funding component of the operating budget through the second quarter.
- A total of 565 employees accepted the Corporation's recent buyout, with 480 employees separating from the Corporation by June 30, 2005, (the departures of the remaining 85 employees

were delayed due to workload considerations, but all are scheduled to leave the Corporation by September 30, 2006.) The number of employees accepting buyouts in the Division of Information Technology (DIT) substantially exceeded expectations, permitting the Corporation to avoid a reduction-in-force in DIT. The cost of buyout payments caused the Corporation to exceed its year-to-date budget for the Salaries and Compensation category, but we expect all divisions to be within their budgets for this category by the end of 2005 as we realize the savings from buyout-related departures in the latter half of the year.

- The core financial modules of the New Financial Environment (NFE) and interfacing legacy systems were successfully implemented in early May of 2005. This implementation was the result of a multi-year effort by the FDIC to modernize its aging, highly-customized, and complex financial systems environment. The NFE project scope involved implementing 14 PeopleSoft® modules and tool sets of financial business functionality, changing 23 existing financially-related systems to work with the new business processes and accounting codes, absorbing the functions performed by 37 legacy systems into the new PeopleSoft® modules, and coordinating closely with other information systems development efforts that interface with the NFE.

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

Summary Trends and Results	
Financial Results	Comments
I. Financial Statements	<ul style="list-style-type: none"> • Deposit insurance fund reserve ratios remain moderately above the 1.25 designated reserve ratio (DRR), however, if insured deposit growth rates continue to increase in line with recent historical averages, it is likely that the funds' reserve ratios will trend lower going forward. As of March 31, 2005, BIF's and SAIF's reserve ratios were 1.27 percent and 1.32 percent respectively. (The June 30, 2005, estimated insured deposit data is not yet available.) • BIF's fund balance increased by a modest \$270 million during the second quarter of 2005 (by approximately 0.8 percent) to \$35.1 billion while SAIF's fund balance increased by \$136 million (1.1 percent) to \$12.9 billion. As noted above, these rates of fund growth may not be sufficient to offset the growth in BIF's and SAIF's estimated insured deposits, thus resulting in lower reserve ratios in the future. • BIF's and SAIF's OPEX coverage ratios (Interest Revenue/Operating Expenses), which had generally been on the decline since 2001, have modestly increased during the first six months of 2005 and may increase further going forward with the potential for generally steady-to-higher investment portfolio interest revenue and steady-to-lower operating expenses.

Summary Trends and Results	
Financial Results	Comments
II. Investments	<ul style="list-style-type: none"> • For the year to date, the BIF and SAIF portfolios' book values increased \$845 million, or 1.87 percent. Moreover, through June 30, 2005, the BIF portfolio's yield increased by nine basis points, rising to 4.75 percent; similarly, the SAIF portfolio's yield also increased by 12 basis points, rising to 4.81 percent. • Consensus 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 held in both funds' investment portfolios. Moreover, regardless of changes in yields, existing net unrealized gains will be reduced due to the passage of time.
III. Budget	<ul style="list-style-type: none"> • Approximately \$491 million was spent in the Ongoing Operations component of the Corporate Operating Budget, which was approximately \$2 million (0.5 percent) greater than the budget for the six months ending June 30, 2005. This variance is attributable to almost \$22 million that was expensed during that period for separation incentives under the recently-completed employee buyout program. Those buyout costs caused Salary and Compensation expenses through June 30, 2005, to exceed the year-to-date budget by more than \$9 million. This variance will be offset by net Salary and Compensation savings from the buyout during the third and fourth quarters. • Approximately \$4 million was spent in the Receivership Funding component of the Corporate Operating Budget, which was about \$33 million (89 percent) below the budgeted level through the second quarter because of the low level of resolutions and receivership management activity during the first half of 2005. • Spending on approved investment projects was \$33 million, which was \$2 million (five percent) below estimated 2005 spending through the second quarter on those 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 (DOA) for the Virginia Square Phase II project. • The table on page 13 compares actual expenditures to the approved Corporate Operating Budget by major expense category and budget component for the six months ending June 30, 2005. The table on page 14 compares actual expenditures by each division/office to its combined operating and investment budget/spending estimates for the same period.

Summary Trends and Results	
Financial Results	Comments
Overall	<ul style="list-style-type: none"> • During the first half of 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 for the remainder of 2005. • In the absence of a deceleration in the recent growth rate of estimated insured deposits, the BIF reserve ratio may fall below the designated reserve ratio, perhaps before the end of 2005.

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

BIF

- For the six months ending June 30, 2005, BIF's comprehensive income was \$307 million compared to \$328 million for the same six-month period last year. This year-over-year decrease of \$21 million is due to a decrease of \$23 million in unrealized gains on available-for-sale securities (caused by a rise in Treasury yields) that was partially offset by a slight increase in net income of \$2 million. The BIF balance stood at \$35.1 billion as of June 30, 2005.
- For the six months ending June 30, 2005, BIF's provision for insurance losses was a negative \$52 million. This decline can be attributed primarily to a downward adjustment to the estimated allowance for losses for four failed bank receiverships.
- The BIF contingent liability for future failures stands at \$2 million as of June 30, 2005, approximately \$6 million less than at the beginning of 2005. This reduction is a result of a combination of fewer institutions on the contingent loss reserve list and lower failure probability assumptions for those institutions that remain on the list.

SAIF

- For the six months ending June 30, 2005, SAIF's comprehensive income was \$209 million, compared to \$171 million for the same six-month period last year. This increase of \$38 million is the result of a \$47 million increase in net income that was partially offset by a \$9 million reduction in unrealized gains on available-for-sale securities. The increase in SAIF's net income primarily resulted from an increase in interest revenue on U.S. Treasury obligations of \$29 million and a reduction in the provision for estimated insurance losses of \$23 million. The SAIF fund balance stood at \$12.9 billion at June 30, 2005.
- The SAIF contingent liability for future failures stands at \$1 million for the quarter ending June 30, 2005, which is a decrease of \$9 million from the \$10 million level at March 31, 2005. Similar to the BIF, this decrease is due primarily to a reduction of the number of institutions on the contingent loss reserve list.

FRF

- During the quarter ending June 30, 2005, there was one Goodwill settlement for \$1million which was \$22.6 million less than what the plaintiff was seeking. While the FRF reimburses the U.S. Department of Justice for reasonable defense-related costs incurred in defending the U.S Government in these Goodwill cases, actual judgments and/or settlement amounts paid to plaintiffs are funded by the U.S. Treasury through a separate, indefinite appropriation account.
- During the quarter ending June 30, 2005, two former Resolution Trust Corporation (RTC) receiverships were terminated. There are now 33 FRF-RTC receiverships remaining.

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

BIF

- During the first six months of 2005, the book value of the BIF investment portfolio increased by \$494 million or 1.49 percent—from \$33.231 billion on December 31, 2004, to \$33.725 billion on June 30, 2005.
- The BIF investment portfolio's return for the first half of 2005 was 1.45 percent, approximately seven basis points less than the return of the benchmark, the Merrill Lynch 1 – 10 Year U.S. Treasury Index, which earned 1.52 percent during the first half of 2005. The lagging performance relative to the benchmark can be attributed to two factors. Approximately 19 percent of the BIF investment portfolio consists of TIPS, which underperformed relative to conventional Treasury securities during this period. In addition, during the period, on average, about four percent of the portfolio was invested in lower yielding overnight investments, which in an upward sloping yield environment acts as a drag on investment returns compared to the longer-maturity conventional Treasury securities included in the Merrill Lynch 1 – 10 Year U.S. Treasury Index.
- During the second quarter of 2005, \$120 million (about 25%) of the BIF's \$483 million in interest earned on investment securities was due to its TIPS inflation adjustment. Due mostly to energy price increases, the CPI-U—to which the TIPS principal value is indexed—has increased at a rate above recent historical levels in 2005.
- During the second quarter of 2005, staff purchased new securities for the BIF portfolio with a total par value of \$2.065 billion, a weighted average maturity (WAM) of 2.55 years, and a weighted average yield-to-maturity (YTM) of 3.74 percent. At the end of the quarter, the effective duration of the BIF portfolio was 2.52 years.

SAIF

- During the first six months of 2005, the book value of the SAIF investment portfolio increased by \$351 million or 2.93 percent—from \$11.962 billion on December 31, 2004, to \$12.313 billion on June 30, 2005.
- The SAIF investment portfolio's return for the first half of 2005 was 1.43 percent,

approximately nine basis points less than the return of the benchmark, the Merrill Lynch 1 – 10 Year U.S. Treasury Index, which earned 1.52 percent during the first half of 2005. As with BIF, the SAIF investment portfolio's lagging performance relative to the benchmark can be attributed to two factors. Approximately 19 percent of the SAIF investment portfolio consists of TIPS, which underperformed relative to conventional Treasury securities during this period. In addition, during the period, on average, about four percent of the portfolio was invested in lower yielding overnight investments, which in an upward sloping yield environment acts as a drag on investment returns compared to the longer-maturity conventional Treasury securities included in the Merrill Lynch 1 – 10 Year U.S. Treasury Index.

- During the second quarter of 2005, \$41 million (about 23%) of the SAIF's \$175 million in interest earned on investment securities was due to its TIPS inflation adjustment. Due mostly to energy price increases, the CPI-U—to which the TIPS principal value is indexed—has increased at a rate above recent historical levels in 2005.
- During the second quarter of 2005, staff purchased new securities for the SAIF portfolio with a total par value of \$645 million, a WAM of 2.50 years, and a weighted average YTM of 3.73 percent. At the end of the quarter, the effective duration of the SAIF portfolio was 2.67 years.

The Treasury Market

- During the second quarter of 2005, Treasury bill yields increased, reflecting increases in the federal funds target rate, while shorter-maturity Treasury note yields declined modestly, and longer-term Treasury note yields declined more substantially. The yield on the five-year Treasury note decreased 47 basis points while the yield decrease for the ten-year note was an even more substantial 57 basis points. In contrast to the yield declines on most conventional Treasury securities, the yield on the five-year TIPS increased by nine basis points, with shorter TIPS exhibiting even greater yield increases. The Treasury yield curve continued to flatten during the second quarter, with the spread between two- and ten-year securities at just 28 basis points, lower than the 70 basis point spread at the end of first quarter of 2005, and substantially below its five-year average of 153 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 third quarter of 2005, while at the same time ensuring that the portfolios maintain sufficient liquidity. Given the current sound condition of the banking and thrift industries, staff continues to reduce both the BIF and SAIF portfolios' primary reserve target floors (previously referred to as target floor liquidity balances). During the third quarter, the BIF portfolio primary reserve target floor was reduced to \$8 billion, from \$10 billion during the second quarter; for the SAIF portfolio, the respective amounts are \$2.5 billion reduced from \$2.7 billion.
- Similar to the first and second quarter investment strategies, if higher yields become available—either as a result of an upward shift in the yield curve or because of significant price volatility—the third quarter strategies provide the flexibility to purchase comparatively higher-yielding, longer-maturity Treasury securities.

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

Note: Significant Spending Variances for the six months ending June 30, 2005, are defined as those that exceeded the YTD budget by \$2 million and represent more than three percent of a budget category or the total budget for a division/office, or those that are under the YTD budget by more than \$3 million and represent more than five percent of a budget category or the total budget for a division/office.

Significant Spending Variances by Major Expense Category

Ongoing Operations

There was only one Major Expense Category in which a Significant Spending Variance occurred through the second quarter in the Ongoing Operations component of the Corporate Operating Budget:

- Outside Services-Personnel expenditures were approximately \$4 million, or seven percent, less than budgeted, primarily due to lower-than-anticipated services provided to the resolution and receivership program, reduced maintenance costs for the Central Data Repository (FFIEC Call Modernization project) due to a delay in the originally-planned system implementation date, and delays and cancellations in the development of new training courses.

Receivership Funding

There was only one Major Expense Category in which a Significant Spending Variance occurred through the second quarter in the Receivership Funding component of the Corporate Operating Budget:

- Outside Services-Personnel expenditures were \$28 million, or 90 percent, less than budgeted, because there was less resolution and receivership management activity than budgeted through the second quarter.

Significant Spending Variances by Division/Office¹

There were three organizations that had Significant Spending Variances through the second quarter:

- The Division of Resolutions and Receiverships (DRR) spent \$26 million, or 38 percent, less than budgeted. This was largely because expenses for contractual services were \$22 million lower-than-budgeted through the second quarter in the Receivership Funding portion of DRR's budget, due to less resolution and receivership management workload than budgeted.
- The Legal Division spent \$4 million, or nine percent, less than budgeted. This was primarily because contractual services were about \$6 million lower-than-budgeted through the second quarter in the Receivership Funding portion of the Legal Division's budget, due to less resolution and receivership management workload than budgeted. Salary and Compensation costs were slightly higher than budgeted due to employee buyouts, which offset a portion of this variance.

¹ Information on division/office variances reflects variances in both the Corporate Operating and Investment Budgets.

These buyout costs will be offset by net Salary and Compensation savings from the buyout during the third and fourth quarters.

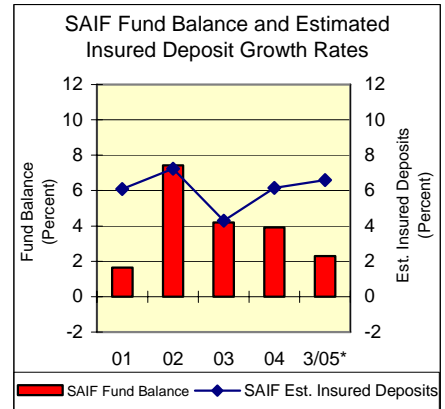
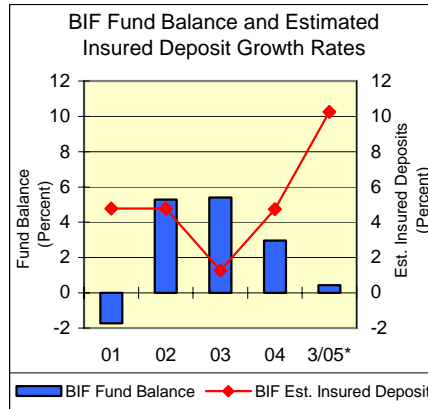
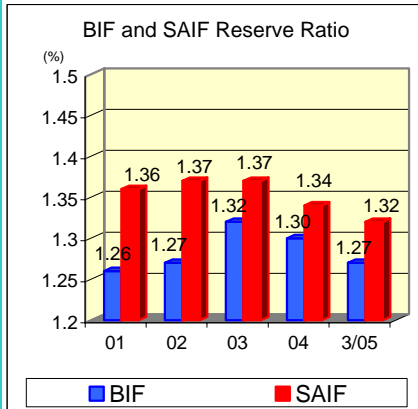
- The Division of Information Technology spent about \$1 million, or 1 percent, less than budgeted through June 30, 2005, in its combined Corporate Operating and Investment Budgets. It exceeded its Corporate Operating Budget by \$3.4 million, or four percent, but spent about \$4.7 million, or 35 percent, less than estimated in the Investment Budget. (These variances would ordinarily have been treated as Significant Spending Variances requiring explanation if they had not offset one another.) The overspending in the Ongoing Operations component of the Corporate Operating Budget was primarily due to higher Salary and Compensation costs resulting from employee buyouts. These buyout expenses will be offset by net Salary and Compensation savings in the third and fourth quarters. The Investment Budget spending variance was due to lower-than-estimated spending to date for the Infrastructure Modernization and New Financial Environment projects. A detailed quarterly report on the status of those projects is provided separately to the Board by the Capital Investment Review Committee.

FDIC CFO REPORT TO THE BOARD – Second Quarter 2005

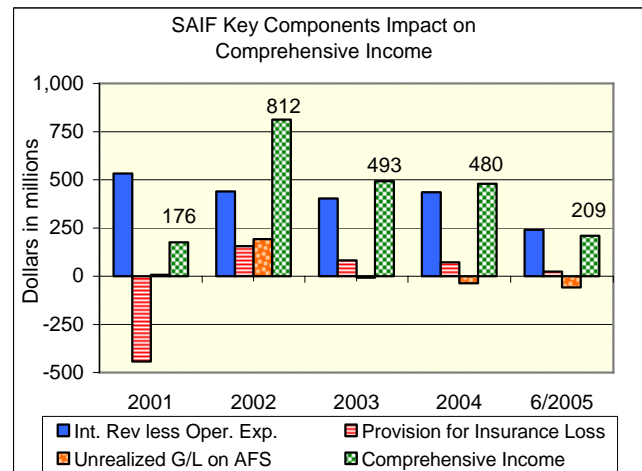
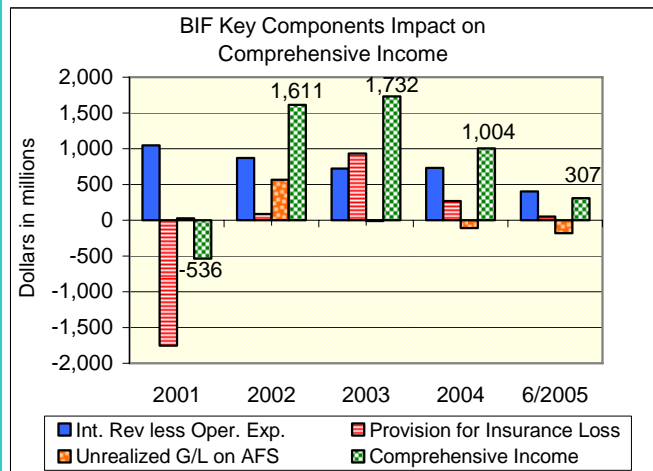
Fund Financial Results

(\$ in millions – All data is unaudited)

Balance Sheet	BIF		SAIF	
	Jun-05	Dec-04	Jun-05	Dec-04
Cash & cash equivalents - unrestricted	\$ 997	\$ 1,822	\$ 314	\$ 644
Cash & other assets - restricted for SAIF member exit fees	na	na	335	328
Investment in U.S. Treasury obligations, net:	33,245	32,108	12,179	11,556
Interest receivable on investments and other assets, net	557	602	199	201
Receivables from resolutions, net	403	375	257	347
Property, buildings and other capitalized assets, net	373	357	na	na
Total Assets	\$ 35,575	\$ 35,264	\$ 13,284	\$ 13,076
Accounts payable and other liabilities	279	269	19	26
Contingent Liabilities: future failures	2	8	1	2
Contingent Liabilities: litigation losses & other	200	200	0	0
SAIF member exit fees & investment proceeds held in escrow	na	na	335	328
Total Liabilities	\$ 481	\$ 477	\$ 355	\$ 356
FYI: Unrealized gain on available-for-sale securities	509	690	179	238
FUND BALANCE	\$ 35,094	\$ 34,787	\$ 12,929	\$ 12,720

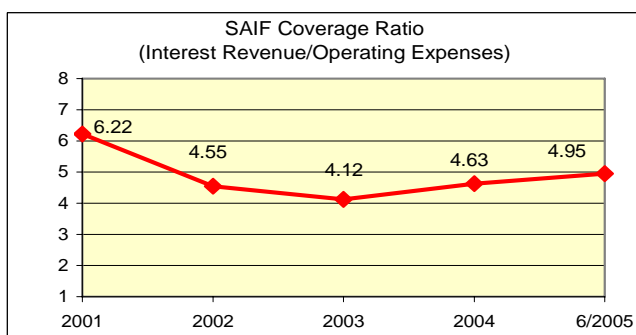
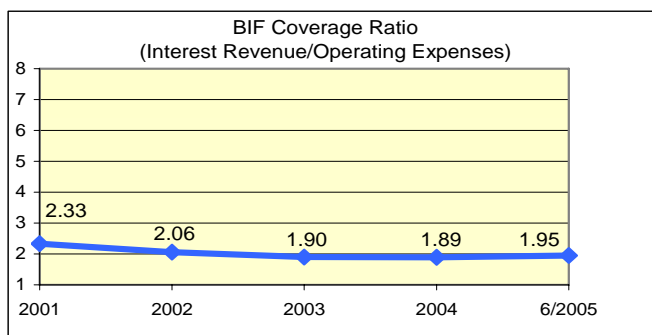


Income Statement	BIF		SAIF	
	Jun-05	Jun-04	Jun-05	Jun-04
Assessments earned	\$ 25	\$ 38	\$ 3	\$ 6
Interest earned on investment securities	829	764	302	273
Other revenue	9	14	0	0
Total Revenue	\$ 863	\$ 816	\$ 305	\$ 279
Operating expenses (includes depreciation expense)	426	397	61	59
Provision for insurance losses	(52)	(69)	(24)	(1)
Other expenses	2	3	0	0
Total Expenses & Losses	\$ 376	\$ 331	\$ 37	\$ 58
Net Income	\$ 487	\$ 485	\$ 268	\$ 221
Unrealized (loss)/gain on available-for-sale securities	(180)	(157)	(59)	(50)
YTD Comprehensive Income	\$ 307	\$ 328	\$ 209	\$ 171



*BIF and SAIF Fund Balance and Estimated Insured Deposit Growth Rates for March 31, 2005 have been annualized.

Income Statement - (continued)



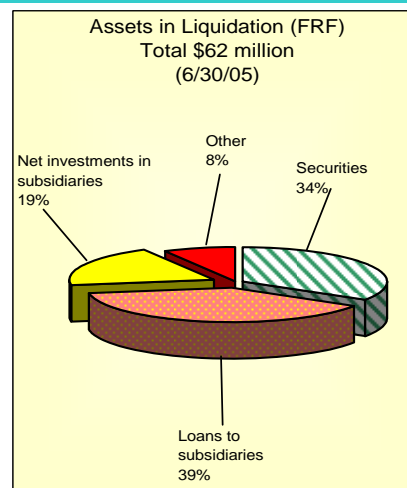
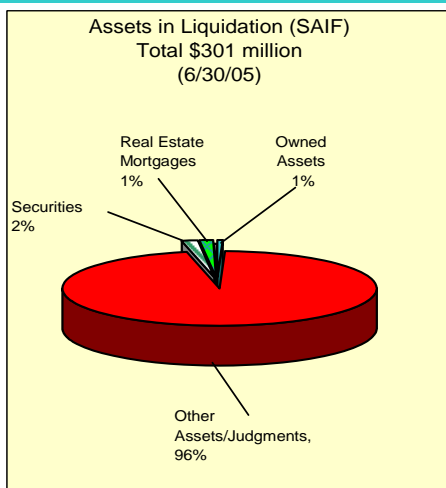
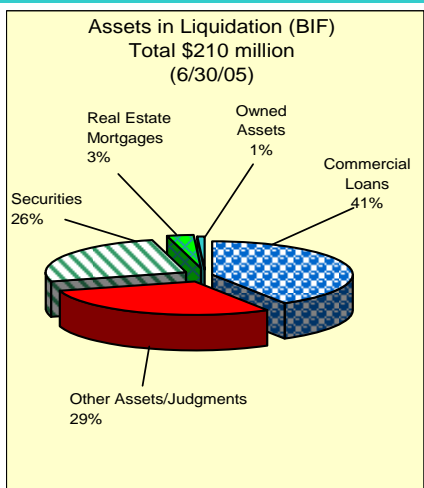
Statements of Cash Flows

	BIF		SAIF	
	Jun-05	Jun-04	Jun-05	Jun-04
Net Income	\$ 487	\$ 485	\$ 268	\$ 221
Amortization of U.S. Treasury obligations - unrestricted	341	393	122	139
TIPS Inflation Adjustment	(114)	(92)	(39)	(31)
Depreciation on property and equipment	25	27	na	na
Provision for insurance losses	(52)	(69)	(24)	(1)
Terminations/adjustments of work-in-process accounts	0	0	na	na
Net change in operating assets and liabilities	75	119	118	(16)
Net Cash Provided by Operating Activities	\$ 762	\$ 863	\$ 445	\$ 312
Investments matured and sold	3,975	4,250	1,130	1,180
Investments purchased (includes purchase of property and equipment)	(5,562)	(5,961)	(1,948)	(1,960)
Net Cash (Used) by Investing Activities	\$ (1,587)	\$ (1,711)	\$ (818)	\$ (780)
Net Decrease in Cash and Cash Equivalents	(825)	(848)	(373)	(468)
Cash and Cash Equivalents at beginning of year	1,822	2,544	701	1,059
Unrestricted Cash and Cash Equivalents - Ending	na	na	\$ 313	\$ 434
Restricted Cash and Cash Equivalents - Ending	na	na	\$ 15	\$ 157
Cash and Cash Equivalents - Ending	\$ 997	\$ 1,696	\$ 328	\$ 591

FSLIC Resolution Fund (FRF) -

Statements of Cash Flows

	Jun-05	Jun-04
Net (Loss)/Income	\$ (335)	\$ 83
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for insurance losses	(1)	(3)
Net change in operating assets and liabilities	34	(61)
Net Cash (Used) by Operating Activities	(302)	19
Investment in securitization-related assets acquired from receiverships	0	82
Net Cash Provided by Investing Activities	0	82
Net Cash Provided by Financing Activities	382	0
Net Increase in Cash and Cash Equivalents	80	101
Cash and Cash Equivalents at beginning of year	3,501	3,278
Cash and Cash Equivalents - Ending	\$ 3,581	\$ 3,379



Corporate Investment Portfolio Summary

(Dollar Values in Millions)

	BIF			SAIF		
	6/30/05	12/31/04	Change	6/30/05	12/31/04	Change
Par Value	\$32,229	\$32,198	\$31	\$11,796	\$11,599	\$197
Book Value	\$33,725	\$33,231	\$494	\$12,313	\$11,962	\$351
Market Value	\$34,792	\$34,623	\$169	\$12,760	\$12,529	\$231
Primary Reserve ¹	\$10,858	\$12,872	(\$2,014)	\$3,108	\$3,827	(\$719)
Primary Reserve Target Floor	\$10,000	\$11,000	(\$1,000)	\$3,000	\$3,000	\$0
Primary Reserve % of Total Portfolio	30.7%	36.6%	(5.9%)	24.0%	30.1%	(6.1%)
Year-to-Date Total Return (Portfolio)	1.447%	2.831%	NA	1.431%	2.862%	NA
Year-to-Date Total Return (Benchmark) ²	1.518%	1.964%	NA	1.518%	1.964%	NA
Total Return Variance (in basis points)	(7)	87	NA	(9)	90	NA
Yield-to-Maturity ³	4.75%	4.66%	0.09%	4.81%	4.69%	0.12%
Weighted Average Maturity (in years)	3.25	2.98	0.27	3.38	3.22	0.16
Effective Duration (in years) ⁴						
Total Portfolio	2.52	2.30	0.22	2.67	2.53	0.14
Available-for-Sale Securities	2.01	2.09	(0.08)	2.17	2.27	(0.10)
Held-to-Maturity Securities	2.79	2.57	0.22	2.87	2.79	0.08

¹ Primary Reserve (previously referred to as "Portfolio Liquidity") 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%.

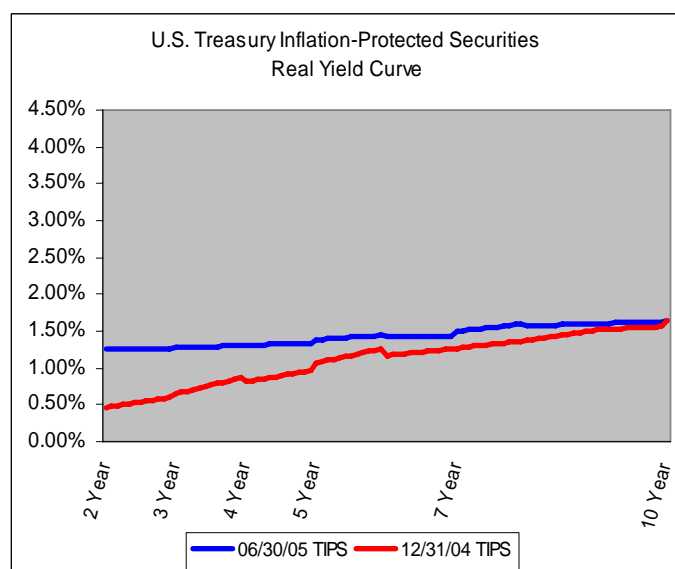
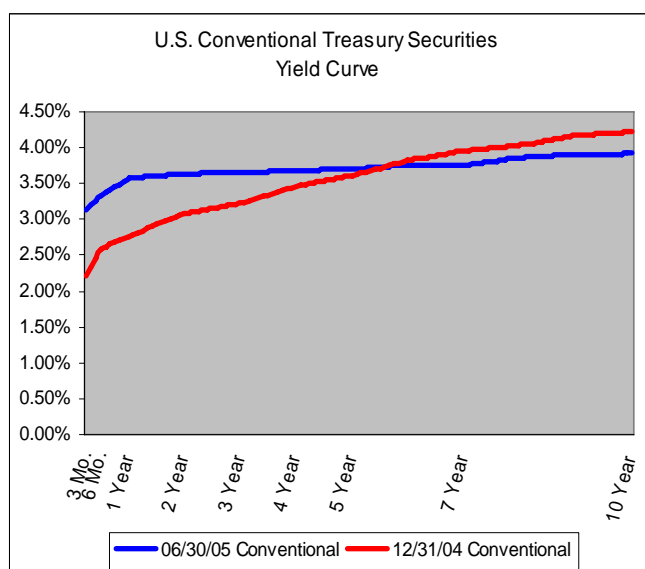
⁴ For each TIPS, a 60% factor is applied to its real yield duration to arrive at an estimated effective duration.

National Liquidation Fund (NLF) Investment Portfolio Summary

(Dollar Values in Millions)

	6/30/05	12/31/04	Change
Book Value ⁵	\$633	\$612	\$21
Yield-to-Maturity	3.18%	2.25%	0.93%
Weighted Average Maturity (in days)	22	41	(19)

⁵ Due to the short-maturity structure of the NLF portfolio, its Book and Market Values are identical for reporting purposes.



Approved Investment Strategy

BANK INSURANCE FUND

Current Strategy as of 2nd 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 \$8.0 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 liquidity balance.

Strategy Changes for 3rd Quarter 2005

AFS securities limit lowered to \$7.6 billion and target floor primary reserve balance (previously referred to as target floor liquidity balance) lowered to \$8 billion.

SAVINGS ASSOCIATION INSURANCE FUND

Current Strategy as of 2nd 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 \$2.7 billion target floor liquidity balance.

Strategy Changes for 3rd Quarter 2005

Target floor primary reserve balance (previously referred to as target floor liquidity balance) lowered to \$2.5 billion.

NATIONAL LIQUIDATION FUND

Current Strategy as of 2nd 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 3rd Quarter 2005

None

**Executive Summary of 2005 Budget and Expenditures
by Major Expense Category
Through June 30, 2005
(Dollars in Thousands)**

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
<i>Ongoing Operations</i>				
Salaries & Compensation	\$344,597	\$354,094	103%	\$9,497
Outside Services - Personnel	55,807	50,781	91%	(5,026)
Travel	21,592	21,796	101%	204
Buildings	38,643	40,519	105%	1,876
Equipment	16,638	13,802	83%	(2,836)
Outside Services - Other	7,003	4,908	70%	(2,095)
Other Expenses	4,629	4,009	87%	(620)
Total Ongoing Operations	\$488,909	\$489,909	100%	\$1,000
<i>Receivership Funding</i>				
Salaries & Compensation	\$1,710	\$8	0%	(\$1,702)
Outside Services - Personnel	31,175	3,066	10%	(28,109)
Travel	2,587	483	19%	(2,104)
Buildings	900	69	8%	(831)
Equipment	113	0	0%	(113)
Outside Services - Other	270	58	21%	(212)
Other Expenses	745	530	71%	(215)
Total Receivership Funding	\$37,500	\$4,214	11%	(\$33,286)
Total Corporate Operating Budget	\$526,409	\$494,123	94%	(\$32,286)
Investment Budget ¹	\$35,355	\$33,432	95%	(\$1,923)
Grand Total	\$561,764	\$527,555	94%	(\$34,209)

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 June 30, 2005
(Dollars in Thousands)**

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
<i>Corporate Operating Budget</i>				
Supervision & Consumer Protection	\$186,150	\$184,015	99%	(\$2,135)
Information Technology	77,092	80,487	104%	3,395
Administration	103,222	104,687	101%	1,465
Resolutions & Receiverships	67,377	41,850	62%	(25,527)
Legal	48,102	43,926	91%	(4,176)
Insurance & Research	17,412	14,923	86%	(2,489)
Finance	14,778	16,213	110%	1,435
Inspector General	14,394	13,730	95%	(664)
Corporate University	6,225	4,653	75%	(1,572)
Executive Support ¹	7,197	7,512	104%	315
Executive Offices ²	2,089	2,314	111%	225
Government Litigation	1,000	387	39%	(613)
Total, Corporate Operating Budget	\$526,409	\$494,123	94%	(\$32,286)
<i>Investment Budget</i> ³				
Supervision & Consumer Protection	\$116	\$17	15%	(\$99)
Information Technology	13,460	8,739	65%	(4,721)
Resolutions & Receiverships	604	136	23%	(468)
Legal	40	0	0%	(40)
Insurance & Research	2,243	3,630	162%	1,387
Finance	263	336	128%	73
Administration ⁴	18,629	20,574	110%	1,945
Total, Investment Budget ³	\$35,355	\$33,432	95%	(\$1,923)
<i>Combined Division/Office Budgets</i>				
Supervision & Consumer Protection	\$186,266	\$184,032	99%	(\$2,234)
Information Technology	90,552	89,226	99%	(1,326)
Administration ⁴	103,222	104,687	101%	1,465
Resolutions & Receiverships	67,981	41,986	62%	(25,995)
Legal	48,142	43,926	91%	(4,216)
Insurance & Research	19,655	18,553	94%	(1,102)
Finance	15,041	16,549	110%	1,508
Inspector General	14,394	13,730	95%	(664)
Corporate University	6,225	4,653	75%	(1,572)
Executive Support ¹	7,197	7,512	104%	315
Executive Offices ²	2,089	2,314	111%	225
Government Litigation	1,000	387	39%	(613)
Grand Total	\$561,764	\$527,555	94%	(\$34,209)

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 DOA.