Message from the Chief Financial Officer
Steven O. App

I am pleased to report that overall, the deposit insurance funds remained financially sound and exhibited healthy earnings throughout 2005. Additionally, estimated losses from probable failures for both the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) remain at or near historically low levels for both deposit insurance funds.

For the fourteenth consecutive year, the U.S. Government Accountability Office (GAO) issued unqualified audit opinions on the three funds administered by the FDIC (BIF, SAIF and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund). We are especially proud of this record and have dedicated ourselves to ensuring that it continues in 2006 and beyond.

Financial highlights during 2005 include:

The BIF reported comprehensive income (net income plus current period unrealized gains/losses on available-for-sale (AFS) securities) of $680 million in 2005 compared to $1.004 billion in 2004. This reduction of $324 million was primarily due to an increase in unrealized losses on AFS securities of $279 million, lower recoveries of prior years' provisions for insurance losses of $143 million, an increase in operating expenses of $25 million, and a decrease in assessment revenues of $43 million, offset by an increase of $161 million in interest revenue on U.S. Treasury obligations. As of December 31, 2005, the fund balance was $35.5 billion, up from $34.8 billion at year-end 2004.

The SAIF reported comprehensive income of $409 million in 2005, compared to $480 million in 2004. This reduction of $71 million was primarily due to an increase in unrealized losses on AFS securities of $93 million and lower recoveries of prior years' provisions for insurance losses of $50 million, offset by a $73 million increase in interest revenue on U.S. Treasury obligations. As of December 31, 2005, the fund balance was $13.1 billion, up from $12.7 billion at year-end 2004.

For both BIF and SAIF, higher interest revenue on U.S. Treasury obligations stemmed from higher overnight and short-term Treasury yields, as well as higher inflation compensation on Treasury Inflation-Protected Securities. However, the higher interest revenue was more than offset by an increase in unrealized losses that resulted from a rise in Treasury market yields on short- to intermediate-maturity AFS securities during 2005.

During 2005, we continued our efforts to provide effective stewardship of the resources of the funds managed by the FDIC. The 2006 Corporate Operating Budget, approved by the FDIC Board of Directors on December 5, 2005, is 5 percent less than the 2005 Corporate Operating budget. Projected savings were achieved primarily through significant staff reductions. Additionally, the completion of a number of major capital investment projects will permanently reduce the Corporation's cost base going forward. We are especially proud of our staff for successfully managing, to near completion, the Virginia Square facility expansion. The project is expected to be completed in early 2006 both on time and under budget and will result in substantial savings over our current leased space headquarters' facilities.

The FDIC successfully implemented the New Financial Environment (NFE), modernizing our aging, highly customized and complex financial systems environment. This major systems modernization is part of our corporate-wide initiative to achieve greater operational efficiencies, as well as to reduce the high costs of maintaining the expensive and outdated legacy systems that were replaced or eliminated as a result of implementing NFE.

We successfully consolidated numerous existing information technology (IT) contracts into fewer, longer-term strategic contracts. These ten-year agreements encompass a broad range of IT services including infrastructure management, application development and maintenance, organizational and management support, data management and software process improvement. This IT contract consolidation initiative is expected to reduce costs, improve services and provide enhanced accountability.

With respect to the requirements of the Federal Managers' Financial Integrity Act of 1982, the FDIC's management made an assessment and concluded that the system of internal controls, taken as a whole, complies with internal control standards prescribed by the GAO and provides reasonable assurance that the related objectives are being met.

During 2006, we will continue to work toward achieving the Corporation's strategic goals and objectives. These include identifying and addressing risks to the insurance funds, improving the deposit insurance system, and providing Congress, other regulatory agencies, insured depository institutions, and the public with critical and timely information and analysis on the financial condition of both the banking industry and the FDIC-managed funds.

Sincerely,

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