Federated®

President's Message and Semi-Annual Shareholder Report

June 30, 2011

Federated Capital Income Fund II

A Portfolio of Federated Insurance Series

President's Message

Dear Valued Shareholder,

Enclosed is the Semi-Annual Shareholder Report for Federated Capital Income Fund II covering the period from January 1, 2011 through June 30, 2011. In this report, you will find performance information, financial statements and a complete listing of your fund's holdings.

In addition, our recently enhanced website, FederatedInvestors.com, offers easy access to Federated resources that include timely fund updates, economic and market insights from our investment strategists, and financial planning tools. We invite you to register to take full advantage of its capabilities.

Thank you for investing with Federated. I hope you find this information useful and look forward to keeping you informed.

Sincerely,

John B. Fisher
President
August 15, 2011

Federated®

Semi-Annual Shareholder Report

June 30, 2011

Federated Capital Income Fund II

A Portfolio of Federated Insurance Series

Financial Highlights

(For a Share Outstanding Throughout Each Period)

	Six Months Ended (unaudited) 6/30/2011	Year Ended December 31, 2010	2009	2008	2007	2006
Net Asset Value, Beginning of Period	**$9.15**	**$8.67**	**$7.25**	**$9.62**	**$9.74**	**$8.94**
Income From Investment Operations:						
Net investment income	0.35	0.39[1]	0.46[1]	0.45[1]	0.42[1]	0.44[1]
Net realized and unrealized gain (loss) on investments, written options, futures contracts, swap contracts and foreign currency transactions	0.10	0.61	1.45	(2.32)	(0.05)	0.91
TOTAL FROM INVESTMENT OPERATIONS	0.45	1.00	1.91	(1.87)	0.37	1.35
Less Distributions:						
Distributions from net investment income	(0.36)	(0.52)	(0.49)	(0.50)	(0.49)	(0.55)
Net Asset Value, End of Period	**$9.24**	**$9.15**	**$8.67**	**$7.25**	**$9.62**	**$9.74**
Total Return[2]	4.89%	12.08%	28.28%	(20.38)%	3.93%	15.76%
Ratios to Average Net Assets:						
Net expenses	1.13%[3,4]	1.13%[4]	1.13%[4]	1.13%[4]	1.13%[4]	1.10%[4]
Net investment income	7.36%[3]	4.50%	6.03%	5.23%	4.38%	4.85%
Expense waiver/reimbursement[5]	0.26%[3]	0.33%	0.68%	0.38%	0.19%	0.20%
Supplemental Data:						
Net assets, end of period (000 omitted)	$53,318	$54,450	$36,913	$32,549	$49,498	$61,673
Portfolio turnover	28%	96%	69%	95%	76%	85%
Portfolio turnover (excluding purchases and sales from dollar-roll transactions)	27%	96%	69%	94%	68%	63%

1 *Per share numbers have been calculated using the average shares method.*

2 *Based on net asset value. Total returns do not reflect any additional fees or expenses that may be imposed by separate accounts of insurance companies or in connection with any variable annuity or variable life insurance contract. Total returns for periods of less than one year are not annualized.*

3 *Computed on an annualized basis.*

4 *The net expense ratio is calculated without reduction for fees paid indirectly for expense offset arrangements. The net expense ratios are 1.13%, 1.11%, 1.12%, 1.13%, 1.13% and 1.10% for the six months ended June 30, 2011 and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, respectively, after taking into account these expense reductions.*

5 *This expense decrease is reflected in both the net expense and the net investment income ratios shown above.*

See Notes which are an integral part of the Financial Statements

Shareholder Expense Example (unaudited)

As a shareholder of the Fund, you incur ongoing costs, including management fees and to the extent applicable, distribution (12b-1) fees and/or shareholder services fees and other Fund expenses. This Example is intended to help you to understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other funds used as variable investment options. It is based on an investment of $1,000 invested at the beginning of the period and held for the entire period from January 1, 2011 to June 30, 2011.

ACTUAL EXPENSES

The first section of the table below provides information about actual account values and actual expenses. You may use the information in this section, together with the amount you invested, to *estimate* the expenses that you incurred over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first section under the heading entitled "Expenses Paid During Period" to estimate the expenses attributable to your investment during this period.

HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES

The second section of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an *assumed* rate of return of 5% per year before expenses, which is not the Fund's actual return. Thus, you should *not* use the hypothetical account values and expenses to estimate the actual ending account balance or your expenses for the period. Rather, these figures are required to be provided to enable you to compare the ongoing costs of investing in the Fund with other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only. Therefore, the second section of the table is useful in comparing ongoing costs only, and will not help you determine the relative *total* costs of owning different funds.

	Beginning Account Value 1/1/2011	Ending Account Value 6/30/2011	Expenses Paid During Period[1]
Actual	$1,000	$1,048.90	$5.74
Hypothetical (assuming a 5% return before expenses)	$1,000	$1,019.19	$5.66

1 *Expenses are equal to the Fund's annualized net expense ratio of 1.13%, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half-year period). The expenses shown in the table do not include the charges and expenses imposed by the insurance company under the variable insurance product contract. Please refer to the variable insurance product prospectus for a complete listing of these expenses.*

Portfolio of Investments Summary Tables (unaudited)

At June 30, 2011, the Fund's portfolio composition[1] was as follows:

Portfolio Composition	Percentage of Total Net Assets
Domestic Equity Securities	30.3%
Domestic Fixed-Income Securities	29.0%
International Fixed-Income Securities	22.5%
International Equity Securities	13.5%
U.S. Treasury Securities	0.2%
Other Securities[2,3]	0.0%
Derivative Contracts[3,4]	(0.0)%
Cash Equivalents[5]	1.5%
Other Assets and Liabilities—Net[6]	3.0%
TOTAL	**100.0%**

At June 30, 2011, the Fund's sector composition[7] for its equity securities was as follows:

Sector Composition of Equity Holdings	Percentage of Equity Securities
Financials	21.7%
Utilities	15.8%
Energy	13.9%
Consumer Staples	12.6%
Health Care	11.0%
Telecommunication Services	10.6%
Industrials	7.0%
Materials	3.0%
Consumer Discretionary	2.4%
Information Technology	2.0%
TOTAL	**100.0%**

1 *See the Fund's Prospectus and Statement of Additional Information for a description of the types of securities in which the Fund invests. As of the date specified above, the Fund owned shares of one or more affiliated investment companies. For purposes of this table, the affiliated investment company (other than an affiliated money market mutual fund) is not treated as a single portfolio security, but rather the Fund is treated as owning a pro rata portion of each security and each other asset and liability owned by the affiliated investment company. Accordingly, the percentages of total net assets shown in the table will differ from those presented on the Portfolio of Investments.*

2 *Other Securities include purchased call options.*

3 *Represents less than 0.1%.*

4 *Based upon net unrealized appreciation (depreciation) or value of the derivative contracts as applicable. Derivative contracts may consist of futures, forwards, options and swaps. The impact of a derivative contract on the Fund's performance may be larger than its unrealized appreciation (depreciation) or value may indicate. In many cases, the notional value or amount of a derivative contract may provide a better indication of the contract's significance to the portfolio. More complete information regarding the Fund's direct investments in derivative contracts, including unrealized appreciation (depreciation), value and notional values or amounts of such contracts, can be found in the table at the end of the Portfolio of Investments included in this Report.*

5 *Cash Equivalents include any investments in money market mutual funds and/or overnight repurchase agreements.*

6 *Assets, other than investments in securities and derivative contracts, less liabilities. See Statement of Assets and Liabilities.*

7 *Sector classifications are based upon, and individual portfolio securities are assigned to, the classifications of the Global Industry Classification Standard (GICS) except that the Adviser assigns a classification to securities not classified by the GICS and to securities for which the Adviser does not have access to the classification made by the GICS.*

Portfolio of Investments

June 30, 2011 (unaudited)

Shares or Principal Amount		Value
	COMMON STOCKS—32.0%	
	Consumer Discretionary—0.6%	
5,655	Leggett and Platt, Inc.	$ 137,869
3,115	National CineMedia, Inc.	52,675
9,295	Regal Entertainment Group	114,793
	TOTAL	305,337
	Consumer Staples—4.9%	
13,525	Altria Group, Inc.	357,195
1,600	British American Tobacco PLC, ADR	140,800
2,595	ConAgra Foods, Inc.	66,977
33,215	Foster's Group Ltd., Sponsored ADR	183,679
4,810	Heinz (H.J.) Co.	256,277
6,165	Imperial Tobacco Group PLC, ADR	410,404
3,805	Kimberly-Clark Corp.	253,261
1,180	Lorillard, Inc.	128,467
5,650	Philip Morris International, Inc.	377,250
11,515	Reynolds American, Inc.	426,631
	TOTAL	2,600,941
	Energy—5.3%	
12,015	ARC Resources Ltd.	311,571
5,915	Baytex Energy Corp.	323,333
10,905	Bonavista Energy Corp.	323,040
5,820	ConocoPhillips	437,606
6,930	Crescent Point Energy Corp.	320,255
4,520	Royal Dutch Shell PLC	321,508
7,215	Seadrill Ltd.	254,545
3,940	Ship Finance International Ltd.	70,999
2,275	Total SA, ADR	131,586
6,535	Vermilion Energy, Inc.	345,570
	TOTAL	2,840,013
	Financials—3.7%	
16,415	Brandywine Realty Trust	190,250
7,320	Cincinnati Financial Corp.	213,598
7,215	CommonWealth REIT	186,436
6,855	Government Properties Income Trust	185,222
19,110	Hospitality Properties Trust	463,417
4,035	Mack-Cali Realty Corp.	132,913
5,460	Mercury General Corp.	215,615
4,575	National Retail Properties, Inc.	112,133
8,425	Senior Housing Properties Trust	197,229
2,095	Sun Life Financial Services of Canada	63,018
	TOTAL	1,959,831
	Health Care—4.8%	
2,760	AstraZeneca Group PLC, ADR	138,193
13,496	Bristol-Myers Squibb Co.	390,844
14,860	GlaxoSmithKline PLC, ADR	637,494
11,630	Lilly (Eli) & Co.	436,474
10,445	Merck & Co., Inc.	368,604

Shares or Principal Amount		Value
	COMMON STOCKS—continued	
	Health Care—continued	
28,535	Pfizer, Inc.	$ 587,821
	TOTAL	2,559,430
	Industrials—2.6%	
5,990	BAE Systems PLC, ADR	122,615
7,975	Deluxe Corp.	197,062
10,095	Donnelley (R.R.) & Sons Co.	197,963
33,080	General Electric Co.	623,889
5,140	Pitney Bowes, Inc.	118,169
1,780	United Parcel Service, Inc.	129,815
	TOTAL	1,389,513
	Information Technology—0.8%	
760	International Business Machines Corp.	130,378
2,395	Maxim Integrated Products, Inc.	61,216
3,660	Microchip Technology, Inc.	138,751
4,185	Paychex, Inc.	128,563
	TOTAL	458,908
	Materials—0.4%	
2,430	MeadWestvaco Corp.	80,944
5,910	RPM International, Inc.	136,048
	TOTAL	216,992
	Telecommunication Services—4.6%	
23,079	AT&T, Inc.	724,912
11,345	BCE, Inc.	445,745
10,475	CenturyLink, Inc.	423,504
13,175	Deutsche Telekom AG-ADR	205,925
10,835	Verizon Communications	403,387
9,675	Vodafone Group PLC, ADR	258,516
	TOTAL	2,461,989
	Utilities—4.3%	
6,900	Ameren Corp.	198,996
1,665	American Electric Power Co., Inc.	62,737
8,500	DPL, Inc.	256,360
4,025	DTE Energy Co.	201,330
1,685	FirstEnergy Corp.	74,393
3,905	Integrys Energy Group, Inc.	202,435
6,685	National Grid PLC, ADR	330,440
9,650	NiSource, Inc.	195,413
12,890	Pepco Holdings, Inc.	253,031
3,230	SCANA Corp.	127,165
10,735	Scottish & Southern Energy PLC, ADR	241,752
3,460	Southern Co.	139,715
	TOTAL	2,283,767
	TOTAL COMMON STOCKS (IDENTIFIED COST $15,222,682)	17,076,721
	PREFERRED STOCKS—11.7%	
	Consumer Discretionary—0.5%	
4,470	Goodyear Tire & Rubber Co., Conv. Pfd., 5.875%, 4/1/2014, Annual Dividend $2.94	248,621
	Consumer Staples—0.6%	
2,000	Bunge Ltd., Pfd., Conv. Pfd., 4.875%, 12/31/2049, Annual Dividend $4.88	200,700

Shares or Principal Amount		Value
	PREFERRED STOCKS—continued	
	Consumer Staples—continued	
10,705	[1,2]Dole Food Automatic Exch, Conv. Pfd., 7.00%, 11/01/2012, Annual Dividend $0.88	$ 133,277
	TOTAL	333,977
	Energy—0.8%	
2,900	Apache Corp., Conv. Pfd., 6.00%, 8/1/2013, Annual Dividend $3.00	191,168
4,800	El Paso Energy Capital Trust, Conv. Pfd., 4.75%, 3/31/2028, Annual Dividend $2.38	213,696
	TOTAL	404,864
	Financials—5.8%	
9,270	Citigroup, Inc., Conv. Pfd., 7.50%, 12/15/2012, Annual Dividend $7.50	1,113,790
4,200	[3]Credit Suisse Equity Linked Notes (PNC), Pfd., 3.00%, 4/14/2015	250,530
7,300	Hartford Financial, Conv., Conv. Bond, Series F, Pfd., 7.250%, 4/1/2013, Annual Dividend $1.81	190,238
3,700	New York Community Bancorp, Inc., Conv. Pfd., 6.00%, 11/01/2051, Annual Dividend $3.00	178,296
250	Wells Fargo Co, Series L, Pfd., 7.50%, 12/31/2049, Annual Dividend $75.00	265,000
3,500	Wintrust Financial Corp., Conv Pfd., 7.50% 12/15/2013, Annual Dividend $3.75	183,842
31,060	XL Capital, Ltd., Conv. Pfd, 10.75%, 8/15/2011, Annual Dividend $2.69	924,346
	TOTAL	3,106,042
	Industrials—0.5%	
6,300	Continental Finance Trust II, Conv. Pfd., 6.00%,11/15/2030, Annual Dividend $3.00	239,362
	Materials—0.9%	
9,905	Anglogold Ashanti Holding, Conv. Pfd. 6.00%, 9/15/2013, Annual Dividend $3.00	494,161
	Utilities—2.6%	
9,165	AES Trust III, Conv. Pfd., 6.75%, 10/15/2029, Annual Dividend $3.38	451,468
3,830	Great Plains Energy, Inc., Conv. Pfd, 12.00%, 06/15/2012, Annual Dividend $6.00	249,869
5,000	Nextera Energy Inc., Conv. Pfd. 8.375%, 6/1/2012, Annual Dividend $4.19	259,250
7,780	PPL Corp., Conv. Pfd., 9.50%, 7/1/2013, Annual Dividend $4.75	434,902
	TOTAL	1,395,489
	TOTAL PREFERRED STOCKS (IDENTIFIED COST $6,179,127)	6,222,516
	ADJUSTABLE RATE MORTGAGE—0.2%	
$ 86,418	Federal National Mortgage Association, 5.790%, 9/1/2037 (IDENTIFIED COST $87,039)	92,824
	CORPORATE BONDS—8.0%	
	Banking—0.2%	
100,000	[1,2]Banco Credito del Peru, Sr. Note, Series 144A, 5.375%, 09/16/2020	95,750
	Broadcast Radio & TV—0.4%	
200,000	Grupo Televisa S.A., Sr. Unsecd. Note, 6.625%, 01/15/2040	208,332
	Building Materials—0.3%	
150,000	[1,2]Rearden G Holdings EINS GmbH, Company Guarantee, Series 144A, 7.875%, 03/30/2020	164,250
	Cable & Wireless Television—0.3%	
150,000	Net Servicos de Comunicacao SA, Company Guarantee, 7.500%, 01/27/2020	172,350
	Capital Markets—0.5%	
216,000	MF Global Holdings Ltd., Conv. Bond, 9.000%, 06/20/2038	251,694
	Conglomerates—0.4%	
200,000	Votorantim, Series REGS, 6.625%, 9/25/2019	211,260
	Financial Institution—Banking—0.3%	
150,000	JPMorgan Chase Capital XVIII, Company Guarantee, Series AA, 7.000%, 11/01/2039	150,353
	Insurance—0.5%	
214,000	Old Republic International Corp., Conv. Bond, 8.000%, 05/15/2012	241,146
	Marine—0.2%	
125,000	Dryships, Inc., Conv. Bond, 5.000%, 12/01/2014	112,833

Shares or Principal Amount		Value
	CORPORATE BONDS—continued	
	Metals & Mining—0.2%	
$ 100,000	[1,2]Bumi Investment PTE Ltd., Company Guarantee, Series 144A, 10.750%, 10/06/2017	$ 114,120
	Mortgage Banks—0.3%	
150,000	[1,2]Credito Real, S.A. de C.V., Sr. Note, Series 144A, 10.250%, 04/14/2015	161,250
	Oil & Gas—2.1%	
200,000	Ecopetrol SA, Note, 7.625%, 07/23/2019	240,500
82,803	Gazprom International SA, Series REGS, 7.201%, 02/01/2020	91,191
250,000	[1,2]Gazprom, Note, Series 144A, 8.625%, 04/28/2034	312,812
150,000	PEMEX, Company Guarantee, Series WI, 8.000%, 5/03/2019	185,733
250,000	Petrobras, Company Guarantee, 7.875%, 3/15/2019	303,816
	TOTAL	1,134,052
	Telecommunications & Cellular—1.1%	
100,000	[1]Digicel Ltd., Sr. Note, Series 144A, 8.250%, 09/01/2017	104,250
200,000	[1,2]Qtel International Finance Ltd., Bank Guarantee, Series 144A, 5.000%, 10/19/2025	187,810
100,000	[1,2]Telemovil Finance Co., Ltd., Company Guarantee, Series 144A, 8.000%, 10/01/2017	105,850
200,000	[1,2]Vimpelcom, Company Guarantee, Series 144A, 7.504%, 03/01/2022	201,200
	TOTAL	599,110
	Utilities—1.2%	
150,000	[1,2]Dubai Electricity & Water, Sr. Unsecd. Note, Series 144A, 7.375%, 10/21/2020	155,062
260,000	Majapahit Holding BV, Company Guarantee, Series REGS, 7.750%, 01/20/2020	305,175
150,000	Power Sector Assets & Liabilities Management Corp., Company Guarantee, Series REGS, 7.390%, 12/02/2024	176,803
	TOTAL	637,040
	TOTAL CORPORATE BONDS (IDENTIFIED COST $4,009,121)	4,253,540
	FOREIGN GOVERNMENTS/AGENCIES—14.2%	
	Sovereign—14.2%	
263,454	Argentina, Government of, Note, Series $dis, 8.280%, 12/31/2033	232,498
1,500,000	Argentina, Government of, Note, Series $GDP, 1.000%, 12/15/2035	196,500
400,000	Argentina, Government of, Sr. Unsecd. Note, 7.000%, 10/03/2015	394,800
70,000	Brazil, Government of, Bond, 8.250%, 01/20/2034	96,601
184,333	Brazil, Government of, Note, 8.000%, 01/15/2018	221,569
200,000	Brazil, Government of, Unsub., 11.000%, 08/17/2040	273,400
300,000	Colombia, Government of, Note, 7.375%, 01/27/2017	369,750
350,000	[1,2]Indonesia, Government of, Series 144A, 8.500%, 10/12/2035	469,875
400,000	Indonesia, Government of, Series REGS, 6.625%, 02/17/2037	442,220
400,000	Panama, Government of, 6.700%, 01/26/2036	469,547
386,000	Peru, Government of, 6.550%, 03/14/2037	430,390
250,000	Peru, Government of, Sr. Unsecd. Note, Series REGS, 7.840%, 08/12/2020	100,174
839,050	Russia, Government of, Unsub., Series REGS, 7.500%, 03/31/2030	989,492
100,000	South Africa, Government of, Sr. Unsecd. Note, 6.875%, 05/27/2019	119,750
100,000	[1,2]Sri Lanka, Government of, Sr. Unsecd. Note, Series 144A, 6.250%, 10/04/2020	100,500
350,000	Turkey, Government of, 7.000%, 9/26/2016	403,375
150,000	Turkey, Government of, Note, 7.375%, 2/05/2025	178,575
500,000	United Mexican States, Note, 5.125%, 01/15/2020	538,064
350,000	Uruguay, Government of, 7.625%, 3/21/2036	444,500
100,000	Uruguay, Government of, Note, 8.000%, 11/18/2022	129,750
900,000	Venezuela, Government of, 9.375%, 01/13/2034	643,500
480,000	Venezuela, Government of, Note, 7.65%, 4/21/2025	312,480
	TOTAL FOREIGN GOVERNMENTS/AGENCIES (IDENTIFIED COST $6,505,054)	7,557,310

Shares or Principal Amount		Value
	MORTGAGE-BACKED SECURITIES—5.2%	
	Federal Home Loan Mortgage Corporation—4.6%	
$ 233,463	Federal Home Loan Mortgage Corp. Pool A56495, 5.500%, 30 Year, 1/1/2037	$ 252,536
127,170	Federal Home Loan Mortgage Corp. Pool A65290, 6.500%, 30 Year, 9/1/2037	142,890
249,040	Federal Home Loan Mortgage Corp. Pool A88194, 5.500%, 30 Year, 9/1/2039	268,802
396,743	Federal Home Loan Mortgage Corp. Pool A96406, 4.000%, 30 Year, 1/1/2041	396,482
469,316	Federal Home Loan Mortgage Corp. Pool C03424, 6.000%, 30 Year, 10/1/2039	514,797
141,078	Federal Home Loan Mortgage Corp. Pool G04468, 5.000%, 30 Year, 7/1/2038	149,748
245,477	Federal Home Loan Mortgage Corp. Pool G08402, 5.000%, 30 Year, 6/1/2040	260,333
187,468	Federal Home Loan Mortgage Corp. Pool J07260, 4.500%, 15 Year, 3/1/2023	198,938
246,214	Federal Home Loan Mortgage Corp. Pool J14732, 4.000%, 15 Year, 3/1/2026	256,382
	TOTAL	2,440,908
	Federal National Mortgage Association—0.6%	
294,632	Federal National Mortgage Association Pool AD1998, 5.000%, 30 Year, 1/1/2040	312,946
	TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST $2,666,943)	2,753,854
	PURCHASED CALL OPTIONS—0.0%	
2,300,000	EURO PUT/USD CALL, Strike Price $1.15, Expiration Date 12/30/2011	4,600
2,300,000	GBP PUT/USD CALL, Strike Price $1.35 Expiration Date 12/30/2011	3,450
	TOTAL PURCHASED CALL OPTIONS (IDENTIFIED COST $41,688)	8,050
	U.S. TREASURY—0.2%	
82,143	U.S. Treasury Inflation-Protected Bond, 2.125%, 2/15/2041 (IDENTIFIED COST $87,440)	89,324
	MUTUAL FUND—24.4%	
1,946,090	[4]Federated High Income Bond Fund II, Primary Shares (IDENTIFIED COST $11,548,990)	13,038,802
	REPURCHASE AGREEMENT—1.4%	
769,000	Interest in $5,180,000,000 joint repurchase agreement 0.050%, dated 6/30/2011 under which Bank of America, N.A. will repurchase securities provided as collateral for $5,180,007,194 on 7/1/2011. The securities provided as collateral at the end of the period were U.S. Government Agency securities with various maturities to 4/15/2040 and the market value of those underlying securities was $5,285,257,156. (AT COST)	769,000
	TOTAL INVESTMENTS—97.3% (IDENTIFIED COST $47,117,084)[5]	51,861,941
	OTHER ASSETS AND LIABILITIES-NET—2.7%[6]	1,455,874
	TOTAL NET ASSETS—100%	$ 53,317,815

At June 30, 2011, the Fund had the following outstanding futures contracts:

Description	Number of Contracts	Notional Value	Expiration Date	Unrealized Depreciation
[3]United States Treasury Note 5-Year Short Futures	38	$4,529,422	September 2011	$(2,895)

Unrealized Depreciation on Futures Contracts is included in "Other Assets and Liabilities—Net."

1 *Denotes a restricted security that either: (a) cannot be offered for public sale without first being registered, or being able to take advantage of an exemption from registration, under the Securities Act of 1933; or (b) is subject to a contractual restriction on public sales. At June 30, 2011, these restricted securities amounted to $2,306,006, which represented 4.3% of total net assets.*

2 *Denotes a restricted security that may be resold without restriction to "qualified institutional buyers" as defined in Rule 144A under the Securities Act of 1933 and that the Fund has determined to be liquid under criteria established by the Fund's Board of Trustees (the "Trustees"). At June 30, 2011, these liquid restricted securities amounted to $2,201,756, which represented 4.1% of total net assets.*

3 *Non-income producing security.*

4 *Affiliated holding.*

5 *The cost of investments for federal tax purposes amounts to $47,123,017.*

6 *Assets, other than investments in securities, less liabilities. See Statement of Assets and Liabilities.*

Note: The categories of investments are shown as a percentage of total net assets at June 30, 2011.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in the three broad levels listed below:

Level 1—quoted prices in active markets for identical securities, including investment companies with daily net asset values, if applicable.

Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Also includes securities valued at amortized cost.

Level 3—significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used, as of June 30, 2011, in valuing the Fund's assets carried at fair value:

Valuation Inputs

	Level 1—Quoted Prices and Investments in Mutual Funds	Level 2—Other Significant Observable Inputs	Level 3—Significant Unobservable Inputs	Total
Equity Securities:				
Common Stock				
Domestic	$11,495,733	$ —	$—	$11,495,733
International	5,580,988	—	—	5,580,988
Preferred Stocks				
Domestic	3,801,844	801,465[1]	—	4,603,309
International	1,619,207	—	—	1,619,207
Debt Securities:				
Adjustable Rate Mortgage	—	92,824	—	92,824
Corporate Bonds	—	4,253,540	—	4,253,540
Foreign Governments/Agencies	—	7,557,310	—	7,557,310
Mortgage-Backed Securities	—	2,753,854	—	2,753,854
U.S. Treasury	—	89,324	—	89,324
Purchased Call Options	—	8,050	—	8,050
Mutual Fund	13,038,802	—-	—	13,038,802
Repurchase Agreement	—	769,000	—	769,000
TOTAL SECURITIES	$35,536,574	$16,325,367	$—	$51,861,941
OTHER FINANCIAL INSTRUMENTS[2]	$ (2,895)	$ —	$—	$ (2,895)

1 *Includes $194,250 of a security transferred from Level 1 to Level 2 because the security ceased trading during the period and fair value was obtained using valuation techniques utilizing observable market data. Transfer shown represents the value of the security at the beginning of the period.*

2 *Other financial instruments include futures contracts.*

The following acronyms are used throughout this portfolio:

ADR —American Depositary Receipt
REIT —Real Estate Investment Trust

See Notes which are an integral part of the Financial Statements

Statement of Assets and Liabilities

June 30, 2011 (unaudited)

Assets:		
Total investments in securities, at value including $13,038,802 of investments in an affiliated holding (Note 5) (identified cost $47,117,084)		$ 51,861,941
Cash		846,281
Cash denominated in foreign currencies (identified cost $147,415)		154,384
Income receivable		425,334
Receivable for investments sold		88,401
Receivable for shares sold		8,090
Receivable for daily variation margin		11,578
TOTAL ASSETS		53,396,009
Liabilities:		
Payable for shares redeemed	$46,536	
Payable for custodian fees	4,019	
Payable for transfer and dividend disbursing agent fees and expenses	2,655	
Payable for auditing fees	13,761	
Payable for portfolio accounting fees	6,353	
Payable for printing and postage	3,531	
Accrued expenses	1,339	
TOTAL LIABILITIES		78,194
Net assets for 5,773,079 shares outstanding		$ 53,317,815
Net Assets Consist of:		
Paid-in capital		$ 56,990,427
Net unrealized appreciation of investments, futures contracts and translation of assets and liabilities in foreign currency		4,749,145
Accumulated net realized loss on investments, written options, swap contracts and foreign currency transactions		(10,421,876)
Undistributed net investment income		2,000,119
TOTAL NET ASSETS		$ 53,317,815
Net Asset Value, Offering Price and Redemption Proceeds Per Share:		
$53,317,815 ÷ 5,773,079 shares outstanding, no par value, unlimited shares authorized		$9.24

See Notes which are an integral part of the Financial Statements

Statement of Operations

Six Months Ended June 30, 2011 (unaudited)

Investment Income:			
Dividends (including $1,072,004 received from an affiliated holding (Note 5) and net of foreign taxes withheld of $15,499)			$1,758,429
Interest			538,507
TOTAL INCOME			2,296,936
Expenses:			
Investment adviser fee (Note 5)		$202,884	
Administrative fee (Note 5)		74,384	
Custodian fees		8,094	
Transfer and dividend disbursing agent fees and expenses		8,193	
Directors'/Trustees' fees		1,205	
Auditing fees		13,761	
Legal fees		3,742	
Portfolio accounting fees		42,646	
Printing and postage		18,848	
Insurance premiums		2,081	
Miscellaneous		1,968	
TOTAL EXPENSES		377,806	
Waivers, Reimbursement and Reduction:			
Waiver/reimbursement of investment adviser fee (Note 5)	$(58,678)		
Waiver of administrative fee (Note 5)	(12,126)		
Fees paid indirectly from directed brokerage arrangements (Note 6)	(191)		
TOTAL WAIVERS, REIMBURSEMENT AND REDUCTION		(70,995)	
Net expenses			306,811
Net investment income			1,990,125
Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Swap Contracts and Foreign Currency Transactions:			
Net realized gain/loss on investments and foreign currency transactions (including realized gain of $242,919 on investments in an affiliated holding (Note 5))			1,568,034
Net realized loss on swap contracts			(9,708)
Net change in unrealized appreciation of investments and translation of assets and liabilities in foreign currency			(924,342)
Net change in unrealized depreciation of futures contracts			(2,895)
Net change in unrealized depreciation of swap contracts			10,018
Net realized and unrealized gain on investments, futures contracts, swap contracts and foreign currency transactions			641,107
Change in net assets resulting from operations			$2,631,232

See Notes which are an integral part of the Financial Statements

Statement of Changes in Net Assets

	Six Months Ended (unaudited) 6/30/2011	Year Ended 12/31/2010
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	$ 1,990,125	$ 2,270,870
Net realized gain on investments, written options, swap contracts and foreign currency transactions	1,558,326	3,460,069
Net change in unrealized appreciation/depreciation of investments, futures contracts, swap contracts and translation of assets and liabilities in foreign currency	(917,219)	(28,500)
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS	2,631,232	5,702,439
Distributions to Shareholders:		
Distributions from net investment income	(2,077,694)	(2,161,759)
Share Transactions:		
Proceeds from sale of shares	1,917,994	5,935,057
Proceeds from shares issued in connection with the tax-free transfer of assets from Federated Equity Income Fund II	—	19,979,519
Net asset value of shares issued to shareholders in payment of distributions declared	2,077,694	2,161,759
Cost of shares redeemed	(5,681,297)	(14,079,899)
CHANGE IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS	(1,685,609)	13,996,436
Change in net assets	(1,132,071)	17,537,116
Net Assets:		
Beginning of period	54,449,886	36,912,770
End of period (including undistributed net investment income of $2,000,119 and $2,087,688, respectively)	$53,317,815	$ 54,449,886

See Notes which are an integral part of the Financial Statements

Notes to Financial Statements

June 30, 2011 (unaudited)

1. ORGANIZATION

Federated Insurance Series (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Trust consists of seven portfolios. The financial statements included herein are only those of Federated Capital Income Fund II (the "Fund"), a diversified portfolio. The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. Each portfolio pays its own expenses. Fund shares are available exclusively as a funding vehicle for life insurance companies writing variable life insurance policies and variable annuity contracts. The investment objective of the Fund is to achieve high current income and moderate capital appreciation.

On March 12, 2010, the Fund acquired all of the net assets of Federated Equity Income Fund II (the "Acquired Fund"), an open-end investment company in a tax-free reorganization in exchange for shares of the Fund, pursuant to a plan of reorganization approved by the Acquired Fund's shareholders on February 19, 2010. The purpose of the transaction was to combine two portfolios managed by Federated Equity Management Company of Pennsylvania with comparable investment objectives and strategies. For financial reporting purposes, assets received and shares issued by the Fund were recorded at fair value; however, the cost basis of the investments received from the Acquired Fund was carried forward to align ongoing reporting of the Fund's realized and unrealized gains and losses with amounts distributable to shareholders for tax purposes.

Assuming the acquisition had been completed on January 1, 2010, the beginning of the annual reporting period of the Fund, the Fund's pro forma results of operations for the year ended December 31, 2010, are as follows:

Net investment income*	$2,468,243
Net realized and unrealized gain on investments, written options and swap contracts	$3,614,861
Net increase in net assets resulting from operations	$6,083,104

* *Net investment income includes $1,562 of pro forma eliminated expenses.*

Because the combined investment portfolios have been managed as a single integrated portfolio since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of the Acquired Fund that has been included in the Fund's Statement of Operations since March 12, 2010. The Fund received net assets from the Acquired Fund as the result of the tax-free reorganization as follows:

Shares of the Fund Issued	Acquired Fund Net Assets Received	Unrealized Appreciation[1]	Net Assets of the Fund Immediately Prior to Combination	Net Assets of the Fund Immediately After Combination
2,375,696	$19,979,519	$2,070,856	$36,300,833	$56,280,352

1 *Unrealized Appreciation is included in the Acquired Fund Net Assets Received amount shown above.*

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with U.S. generally accepted accounting principles (GAAP).

Investment Valuation

In calculating its net asset value (NAV), the Fund generally values investments as follows:

- Equity securities listed on an exchange or traded through a regulated market system are valued at their last reported sale price or official closing price in their principal exchange or market.
- Fixed-income securities acquired with remaining maturities greater than 60 days are fair valued using price evaluations provided by a pricing service approved by the Trustees.
- Fixed-income securities acquired with remaining maturities of 60 days or less are valued at their cost (adjusted for the accretion of any discount or amortization of any premium), which approximates market value.
- Shares of other mutual funds are valued based upon their reported NAVs.
- Derivative contracts listed on exchanges are valued at their reported settlement or closing price.
- Over-the-counter (OTC) derivative contracts are fair valued using price evaluations provided by a pricing service approved by the Trustees.
- For securities that are fair valued in accordance with procedures established by and under the general supervision of the Trustees, certain factors may be considered such as: the purchase price of the security; information obtained by contacting the issuer; analysis of the issuer's financial statements or other available documents; fundamental analytical data; the nature and duration of restrictions on disposition; the movement of the market in which the security is normally traded; and public trading in similar securities of the issuer or comparable issuers.

If the Fund cannot obtain a price or price evaluation from a pricing service for an investment, the Fund may attempt to value the investment based upon the mean of bid and asked quotations or fair value the investment based on price evaluations, from one or more dealers. If any price, quotation, price evaluation or other pricing source is not readily available when the NAV is calculated, the Fund uses the fair value of the investment determined in accordance with the procedures described below. There can be no assurance that the Fund could purchase or sell an investment at the price used to calculate the Fund's NAV.

Fair Valuation and Significant Events Procedures

The Trustees have authorized the use of pricing services to provide evaluations of the current fair value of certain investments for purposes of calculating the NAV. Factors considered by pricing services in evaluating an investment include the yields or prices of investments of comparable quality, coupon, maturity, call rights and other potential prepayments, terms and type, reported transactions, indications as to values from dealers and general market conditions. Some pricing services provide a single price evaluation reflecting the bid-side of the market for an investment (a "bid" evaluation). Other pricing services offer both bid evaluations and price evaluations indicative of a price between the prices bid and asked for the investment (a "mid" evaluation). The Fund normally uses bid evaluations for U.S. Treasury and Agency securities, mortgage-backed securities and municipal securities. The Fund normally uses mid evaluations for other types of fixed-income securities and OTC derivative contracts. In the event that market quotations and price evaluations are not available for an investment, the fair value of the investment is determined in accordance with procedures adopted by the Trustees.

The Trustees also have adopted procedures requiring an investment to be priced at its fair value whenever the Adviser determines that a significant event affecting the value of the investment has occurred between the time as of which the price of the investment would otherwise be determined and the time as of which the NAV is computed. An event is considered significant if there is both an affirmative expectation that the investment's value will change in response to the event and a reasonable basis for quantifying the resulting change in value. Examples of significant events that may occur after the close of the principal market on which a security is traded, or after the time of a price evaluation provided by a pricing service or a dealer, include:

- With respect to securities traded in foreign markets, significant trends in U.S. equity markets or in the trading of foreign securities index futures or options contracts;
- With respect to price evaluations of fixed-income securities determined before the close of regular trading on the NYSE, actions by the Federal Reserve Open Market Committee and other significant trends in U.S. fixed-income markets;
- Political or other developments affecting the economy or markets in which an issuer conducts its operations or its securities are traded; and
- Announcements concerning matters such as acquisitions, recapitalizations, litigation developments, a natural disaster affecting the issuer's operations or regulatory changes or market developments affecting the issuer's industry.

The Trustees have approved the use of a pricing service to determine the fair value of equity securities traded principally in foreign markets when the Adviser determines that there has been a significant trend in the U.S. equity markets or in index futures trading. For other significant events, the Fund may seek to obtain more current quotations or price evaluations from alternative pricing sources. If a reliable alternative pricing source is not available, the Fund will determine the fair value of the investment using another method approved by the Trustees.

Repurchase Agreements

The Fund may invest in repurchase agreements for short-term liquidity purposes. It is the policy of the Fund to require the other party to a repurchase agreement to transfer to the Fund's custodian or sub-custodian eligible securities or cash with a market value (after transaction costs) at least equal to the repurchase price to be paid under the repurchase agreement. The eligible securities are transferred to accounts with the custodian or sub-custodian in which the Fund holds a "securities entitlement" and exercises "control" as those terms are defined in the Uniform Commercial Code. The Fund has established procedures for monitoring the market value of the transferred securities and requiring the transfer of additional eligible securities if necessary to equal at least the repurchase price. These procedures also allow the other party to require securities to be transferred from the account to the extent that their market value exceeds the repurchase price or in exchange for other eligible securities of equivalent market value.

The insolvency of the other party or other failure to repurchase the securities may delay the disposition of the underlying securities or cause the Fund to receive less than the full repurchase price. Under the terms of the repurchase agreement, any amounts received by the Fund in excess of the repurchase price and related transaction costs must be remitted to the other party.

The Fund may enter into repurchase agreements in which eligible securities are transferred into joint trading accounts maintained by the custodian or sub-custodian for investment companies and other clients advised by the Fund's Adviser and its affiliates. The Fund will participate on a pro rata basis with the other investment companies and clients in its share of the securities transferred under such repurchase agreements and in its share of proceeds from any repurchase or other disposition of such securities.

Investment Income, Gains and Losses, Expenses and Distributions

Investment transactions are accounted for on a trade-date basis. Realized gains and losses from investment transactions are recorded on an identified-cost basis. Interest income and expenses are accrued daily. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Foreign dividends are recorded on the ex-dividend date or when the Fund is informed of the ex-dividend date. Distributions of net investment income are declared and paid annually. Non-cash dividends included in dividend income, if any, are recorded at fair value.

Premium and Discount Amortization/Paydown Gains and Losses

All premiums and discounts on fixed-income securities, other than mortgage-backed securities, are amortized/accreted using the effective interest rate method. Gains and losses realized on principal payment of mortgage-backed securities (paydown gains and losses) are classified as part of investment income.

Federal Taxes

It is the Fund's policy to comply with the Subchapter M provision of the Internal Revenue Code (the "Code") and to distribute to shareholders each year substantially all of its income. Accordingly, no provision for federal income tax is necessary. As of and during the six months ended June 30, 2011, the Fund did not have a liability for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to tax liabilities as income tax expense in the Statement of Operations. As of June 30, 2011, tax years 2007 through 2010 remain subject to examination by the Fund's major tax jurisdictions, which include the United States of America and the Commonwealth of Massachusetts.

The Fund may be subject to taxes imposed by governments of countries in which it invests. Such taxes are generally based on either income or gains earned or repatriated. The Fund accrues and applies such taxes to net investment income, net realized gains and net unrealized gains as income and/or gains are earned.

When-Issued and Delayed Delivery Transactions

The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities on the trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date. Losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract.

The Fund may transact in To Be Announced Securities (TBAs). As with other delayed delivery transactions, a seller agrees to issue TBAs at a future date. However, the seller does not specify the particular securities to be delivered. Instead, the Fund agrees to accept any security that meets specified terms such as issuer, interest rate and terms of underlying mortgages. The Fund records TBAs on the trade date utilizing information associated with the specified terms of the transaction as opposed to the specific mortgages. TBAs are marked to market daily and begin earning interest on the settlement date. Losses may occur due to the fact that the actual underlying mortgages received may be less favorable than those anticipated by the Fund.

Dollar-Roll Transactions

The Fund engages in dollar-roll transactions in which the Fund sells mortgage-backed securities with a commitment to buy similar (same type, coupon and maturity), but not identical mortgage-backed securities on a future date at a lower price. Normally, one or both securities involved are TBA mortgage-backed securities. The Fund treats dollar-roll transactions as purchases and sales. Dollar-rolls are subject to interest rate risks and credit risks.

Futures Contracts

The Fund purchases and sells financial futures contracts to manage cash flows, enhance yield and to potentially reduce transaction costs. Upon entering into a financial futures contract with a broker, the Fund is required to deposit in a segregated account a specified amount of cash or U.S. government securities which is shown as Restricted Cash in the Statement of Assets and Liabilities. Futures contracts are valued daily and unrealized gains or losses are recorded in a “variation margin” account. Daily, the Fund receives from or pays to the broker a specified amount of cash based upon changes in the variation margin account. When a contract is closed, the Fund recognizes a realized gain or loss. Futures contracts have market risks, including the risk that the change in the value of the contract may not correlate with the changes in the value of the underlying securities. There is minimal counterparty risk to the Fund since futures are exchange traded and the exchange’s clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default.

Futures contracts outstanding at period end are listed after the Fund’s Portfolio of Investments.

Restricted Securities

The Fund may purchase securities which are considered restricted. Restricted securities are securities that either: (a) cannot be offered for public sale without first being registered, or being able to take advantage of an exemption from registration, under the Securities Act of 1933; or (b) are subject to contractual restrictions on public sales. In some cases, when a security cannot be offered for public sale without first being registered, the issuer of the restricted security has agreed to register such securities for resale, at the issuer’s expense, either upon demand by the Fund or in connection with another registered offering of the securities. Many such restricted securities may be resold in the secondary market in transactions exempt from registration. Restricted securities may be determined to be liquid under criteria established by the Trustees. The Fund will not incur any registration costs upon such resales. The Fund’s restricted securities are valued at the price provided by dealers in the secondary market or, if no market prices are available, at the fair value as determined in accordance with procedures established by and under the general supervision of the Trustees.

Additional information on restricted securities, excluding securities purchased under Rule 144A, if applicable, that have been deemed liquid by the Trustees, held at June 30, 2011, is as follows:

Security	Acquisition Date	Cost	Market Value
Digicel Ltd., Sr. Note, Series 144A, 8.250%, 09/01/2017	11/23/2009	$98,625	$104,250

Swap Contracts

Swap contracts involve two parties that agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments, indices or other measures. The gross returns to be exchanged or “swapped” between parties are generally calculated with respect to a “notional amount” for a predetermined period of time. The Fund enters into interest rate, total return, credit default, currency and other swap agreements. Risks may arise upon entering into swap agreements from the potential inability of the counterparties to meet the terms of their contract from unanticipated changes in the value of the swap agreement.

The Fund uses credit default swaps to manage exposure to a given issuer or sector by either selling protection to increase exposure, or buying protection to reduce exposure. The “buyer” in a credit default swap is obligated to pay the “seller” a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the full notional value, or the “par value,” of the reference obligation in exchange for the reference obligation. In connection with these agreements, securities may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency. Recovery values are assumed by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is typically determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specific valuation method, are used to calculate the settlement value.

Upfront payments received or paid by the Fund will be reflected as an asset or liability on the Statement of Assets and Liabilities. Changes in the value of swap contracts are included in Swaps, at value on the Statement of Assets and Liabilities, and periodic payments are reported as Net realized gain (loss) on swap contracts in the Statement of Operations.

At June 30, 2011, the Fund had no outstanding swap contracts.

Foreign Exchange Contracts

The Fund enters into foreign exchange contracts for the delayed delivery of securities or foreign currency exchange transactions. The Fund enters into foreign exchange contracts to protect assets against adverse changes in foreign currency exchange rates or exchange control regulations. Purchased contracts are used to acquire exposure to foreign currencies, whereas, contracts to sell are used to hedge the Fund's securities against currency fluctuations. Risks may arise upon entering into these transactions from the potential inability of counterparties to meet the terms of their commitments and from unanticipated movements in security prices or foreign exchange rates. The foreign exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the settlement date.

At June 30, 2011, the Fund had no outstanding foreign exchange contracts.

Foreign Currency Translation

The accounting records of the Fund are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies (FCs) are translated into U.S. dollars based on the rates of exchange of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of FCs, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate.

Option Contracts

The Fund buys or sells put and call options to provide income and protection from extreme reductions in the market value of certain securities. The seller (writer) of an option receives a payment or premium, from the buyer, which the writer keeps regardless of whether the buyer exercises the option. When the Fund writes a put or call option, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. Premiums received from writing options which expire are treated as realized gains. The Fund, as a writer of an option, bears the market risk of an unfavorable change in the price of the underlying reference instrument. When the Fund purchases a put or call option, an amount equal to the premium paid is recorded as an increase to the cost of the investment and subsequently marked to market to reflect the current value of the option purchased. Premiums paid for purchasing options which expire are treated as realized losses. Premiums received/paid for writing/purchasing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying reference instrument to determine the realized gain or loss. The risk associated with purchasing put and call options is limited to the premium paid. Options can trade on securities or commodities exchanges. In this case, the exchange sets all the terms of the contract except for the price. Most exchanges require investors to maintain margin accounts through their brokers to cover their potential obligations to the exchange. This protects investors against potential defaults by the counterparty.

At June 30, 2011, the Fund had no outstanding written option contracts.

Additional Disclosure Related to Derivative Instruments

Fair Value of Derivative Instruments

	Asset	
	Statement of Assets and Liabilities Location	**Fair Value**
Derivatives not accounted for as hedging instruments under ASC Topic 815		
Interest rate contracts	Receivable for daily variation margin	$(2,895)*

* *Includes cumulative appreciation/depreciation of futures contracts as reported in the footnotes to the Portfolio of Investments. Only the current day's variation margin is reported within the Statement of Assets and Liabilities.*

The Effect of Derivative Instruments on the Statement of Operations for the Six Months Ended June 30, 2011

Amount of Realized Gain or (Loss) on Derivatives Recognized in Income

	Credit Default Swaps
Credit contracts	$(9,708)

Change in Unrealized Appreciation or (Depreciation) on Derivatives Recognized in Income

	Credit Default Swaps	Futures	Options Purchased	Total
Credit contracts	$10,018	$ —	$ —	$ 10,018
Interest rate contracts	—	(2,895)	—	(2,895)
Foreign exchange contracts	—	—	(33,638)	(33,638)
TOTAL	$10,018	$(2,895)	$(33,638)	$(26,515)

Other

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, expenses and revenues reported in the financial statements. Actual results could differ from those estimated.

3. SHARES OF BENEFICIAL INTEREST

The following table summarizes share activity:

	Six Months Ended 6/30/2011	Year Ended 12/31/2010
Shares sold	207,257	700,644
Shares issued in connection with the tax-free transfer of assets from Federated Equity Income Fund II	—	2,375,696
Shares issued to shareholders in payment of distributions declared	230,343	257,693
Shares redeemed	(615,389)	(1,641,687)
NET CHANGE RESULTING FROM FUND SHARE TRANSACTIONS	(177,789)	1,692,346

4. FEDERAL TAX INFORMATION

At June 30, 2011, the cost of investments for federal tax purposes was $47,123,017. The net unrealized appreciation of investments for federal tax purposes excluding any unrealized appreciation/depreciation resulting from changes in foreign currency exchange rates and futures contracts was $4,738,924. This consists of net unrealized appreciation from investments for those securities having an excess of value over cost of $5,240,584 and net unrealized depreciation from investments for those securities having an excess of cost over value of $501,660.

At December 31, 2010, the Fund had a capital loss carryforward of $11,143,689 which will reduce the Fund's taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Code and thus will reduce the amount of distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal income tax. Pursuant to the Code, such capital loss carryforward will expire as follows:

Expiration Year	Expiration Amount
2015	$2,501,645
2016	$5,924,422
2017	$2,717,622

As a result of the tax-free transfer of assets from Federated Equity Income Fund II, the utilization of certain capital loss carryforwards listed above may be limited.

Under the recently enacted Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010, for an unlimited period. However, any losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

5. INVESTMENT ADVISER FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Investment Adviser Fee

Federated Equity Management Company of Pennsylvania is the Fund's investment adviser (the "Adviser"). The advisory agreement between the Fund and the Adviser provides for an annual fee equal to 0.75% of the Fund's average daily net assets. Subject to the terms described in the Expense Limitation note, the Adviser may voluntarily choose to waive any portion of its fee. For the six months ended June 30, 2011, the Adviser voluntarily waived $19,637 of its fee.

Certain of the Fund's assets are managed by Federated Investment Management Company (the "Sub-Adviser"). Under the terms of a sub-advisory agreement between the Adviser and the Sub-Adviser, the Sub-Adviser receives an allocable portion of the Fund's adviser fee. The fee is paid by the Adviser out of its resources and is not an incremental Fund expense. For the six months ended June 30, 2011, the Sub-Adviser earned a fee of $35,251.

Administrative Fee

Federated Administrative Services (FAS), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. The fee paid to FAS is based on the average aggregate daily net assets of certain Federated funds as specified below:

Administrative Fee	Average Aggregate Daily Net Assets of the Federated Funds
0.150%	on the first $5 billion
0.125%	on the next $5 billion
0.100%	on the next $10 billion
0.075%	on assets in excess of $20 billion

The administrative fee received during any fiscal year shall be at least $150,000 per portfolio and $40,000 per each additional class of Shares. Subject to the terms described in the Expense Limitation note, FAS may voluntarily choose to waive any portion of its fee. For the six months ended June 30, 2011, FAS waived $12,126 of its fee. The net fee paid to FAS was 0.230% of average daily net assets of the Fund. The Fund is currently being charged the minimum administrative fee; therefore the fee as a percentage of average daily net assets is greater than the amounts presented in the chart above.

Expense Limitation

The Adviser and its affiliates (which may include FAS) have voluntarily agreed to waive their fees and/or reimburse expenses so that the total annual fund operating expenses (as shown in the financial highlights) paid by the Fund (after the voluntary waivers and reimbursements) will not exceed 1.13% (the "Fee Limit"), up to but not including the later of (the "Termination Date"): (a) May 1, 2012; or (b) the date of the Fund's next effective Prospectus. While the Adviser and its affiliates currently do not anticipate terminating or increasing these arrangements prior to the Termination Date, these arrangements may only be terminated or the Fee Limit increased prior to the Termination Date with the agreement of the Trustees.

General

Certain Officers and Trustees of the Fund are Officers and Directors or Trustees of the above companies.

Transactions Involving Affiliated Holdings

Affiliated holdings are mutual funds which are managed by the Adviser or an affiliate of the Adviser. The Adviser has agreed to reimburse the Fund for certain investment adviser fees as a result of transactions in other affiliated mutual funds. For the six months ended June 30, 2011, the Adviser reimbursed $39,041. Transactions involving the affiliated holding during the six months ended June 30, 2011, were as follows:

	Federated High Income Bond Fund II, Primary Shares
Balance of Shares Held 12/31/2010	2,016,405
Purchases/Additions	328,104
Sales/Reductions	398,419
Balance of Shares Held 6/30/2011	1,946,090
Value	$13,038,802
Dividend Income	$ 1,072,004

6. EXPENSE REDUCTION

The Fund directs portfolio trades to a broker that in turn pays a portion of the Fund's operating expenses. For the six months ended June 30, 2011, the Fund's expenses were reduced by $191 under these arrangements.

7. INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding long-term U.S. government securities and short-term obligations, for the six months ended June 30, 2011, were as follows:

Purchases	$11,052,383
Sales	$15,403,067

8. CONCENTRATION OF RISK

The Fund invests in securities of non-U.S. issuers. Political or economic developments may have an effect on the liquidity and volatility of portfolio securities and currency holdings.

At June 30, 2011, the diversification of countries was as follows:

Country	Percentage of Net Assets
United States	37.8%
Great Britain	4.9%
Canada	4.0%
Brazil	2.7%
Russia	2.6%
Indonesia	2.5%
Mexico	2.1%
Venezuela	1.8%
Switzerland	1.7%
Argentina	1.5%
Bermuda	1.2%
Colombia	1.2%
Peru	1.2%
Turkey	1.1%
Uruguay	1.1%
Panama	0.9%
Germany	0.4%
Netherlands	0.4%
Qatar	0.4%
Australia	0.3%
France	0.3%
Philippines	0.3%
United Arab Emirates	0.3%
El Salvador	0.2%
Marshall Islands	0.2%
South Africa	0.2%
Sri Lanka	0.2%

9. LINE OF CREDIT

The Fund participates in a $100,000,000 unsecured, uncommitted revolving line of credit (LOC) agreement with PNC Bank. The LOC was made available for extraordinary or emergency purposes, primarily for financing redemption payments. Borrowings are charged interest at a rate offered to the Fund by PNC Bank at the time of the borrowing. As of June 30, 2011, there were no outstanding loans. During the six months ended June 30, 2011, the Fund did not utilize the LOC.

10. INTERFUND LENDING

Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the Fund, along with other funds advised by subsidiaries of Federated Investors, Inc., may participate in an interfund lending program. This program provides an alternative credit facility allowing the Fund to borrow from other participating affiliated funds. As of June 30, 2011, there were no outstanding loans. During the six months ended June 30, 2011, the program was not utilized.

11. SUBSEQUENT EVENTS

On April 14, 2011, the Trustees approved the reorganization of Managed Portfolio, a portfolio of EquiTrust Variable Insurance Series Fund, into the Fund. The transfer of assets from Managed Portfolio into the Fund occurred after the close of business on July 15, 2011.

Additionally, the May 1, 2012 date in the definition of "Termination Date," as presented on page 18 of this Semi-Annual Report under the section entitled "Expense Limitation", shall be deemed changed to June 1, 2012.

Management has evaluated subsequent events through the date the financial statements were issued, and determined that no additional events have occurred that require disclosure.

Evaluation and Approval of Advisory Contract – May 2011

FEDERATED CAPITAL INCOME FUND II (THE "FUND")

The Fund's Board reviewed the Fund's investment advisory and subadvisory contracts at meetings held in May 2011. The Board's decision regarding these contracts reflects the exercise of its business judgment on whether to continue the existing arrangements.

In this connection, the Federated Funds' Board had previously appointed a Senior Officer, whose duties include specified responsibilities relating to the process by which advisory fees are to be charged to a Federated fund. The Senior Officer has the authority to retain consultants, experts, or staff as may be reasonably necessary to assist in the performance of his duties, reports directly to the Board, and may be terminated only with the approval of a majority of the independent members of the Board. The Senior Officer prepared and furnished to the Board an independent, written evaluation that covered topics discussed below (the "Evaluation"). The Board considered that Evaluation, along with other information, in deciding to approve the advisory and subadvisory contracts.

During its review of these contracts, the Board considered compensation and benefits received by the Adviser and subadviser. This included the fees received for services provided to the Fund by other entities in the Federated organization and research services (if any) received by the Adviser from brokers that execute Federated fund trades, as well as advisory fees. The Board is also familiar with and considered judicial decisions concerning allegedly excessive investment advisory fees, which have indicated that the following factors may be relevant to an Adviser's fiduciary duty with respect to its receipt of compensation from a fund: the nature and quality of the services provided by the Adviser, including the performance of the fund; the Adviser's cost of providing the services; the extent to which the Adviser may realize "economies of scale" as a fund grows larger; any indirect benefits that may accrue to the Adviser and its affiliates as a result of the Adviser's relationship with a fund; performance and expenses of comparable funds; and the extent to which the independent Board members are fully informed about all facts the Board deems relevant bearing on the Adviser's services and fees. The Board further considered management fees (including any components thereof) charged to institutional and other clients of the Adviser and subadviser for what might be viewed as like services, and the cost to the Adviser and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit and profit margins of the Adviser and its affiliates for supplying such services. The Board was aware of these factors and was guided by them in its review of the Fund's advisory and subadvisory contracts to the extent it considered them to be appropriate and relevant, as discussed further below.

The Board considered and weighed these circumstances in light of its substantial accumulated experience in governing the Fund and working with Federated on matters relating to the Federated funds, and was assisted in its deliberations by independent legal counsel. Throughout the year, the Board has requested and received substantial and detailed information about the Fund and the Federated organization that was in addition to the extensive materials that comprise and accompany the Senior Officer's Evaluation. Federated provided much of this information at each regular meeting of the Board, and furnished additional information in connection with the particular meeting at which the Board's formal review of the advisory and subadvisory contracts occurred. Between regularly scheduled meetings, the Board also received information on particular matters as the need arose. Thus, the Board's consideration of the advisory and subadvisory contracts included review of the Senior Officer's Evaluation, accompanying data and additional information covering such matters as: the Adviser's and subadviser's investment philosophy, revenue, profitability, personnel and processes; investment and operating strategies; the Fund's short- and long-term performance (in absolute terms, both on a gross basis and net of expenses, as well as in relationship to its particular investment program and certain competitor or "peer group" funds and/or other benchmarks, as appropriate), and comments on the reasons for performance; the Fund's investment objectives; the Fund's expenses (including the advisory fee itself and the overall expense structure of the Fund, both in absolute terms and relative to similar and/or competing funds, with due regard for contractual or voluntary expense limitations); the use and allocation of brokerage commissions derived from trading the Fund's portfolio securities (if any); and the nature, quality and extent of the advisory and other services provided to the Fund by the Adviser and its affiliates. The Board also considered the preferences and expectations of Fund shareholders and their relative sophistication; the continuing state of competition in the mutual fund industry and market practices; the range of comparable fees for similar funds in the mutual fund industry; the Fund's relationship to the Federated family of funds which include a comprehensive array of funds with different investment objectives, policies and strategies which are available for exchange without the incurrence of additional sales charges; compliance and audit reports concerning the Federated funds and the Federated companies that service them (including communications from regulatory agencies), as well as Federated's responses to any issues raised therein; and relevant developments in the mutual fund industry and how the Federated funds and/or Federated are responding to them. The Board's evaluation process is evolutionary. The criteria considered and the emphasis placed on relevant criteria change in recognition of changing circumstances in the mutual fund marketplace.

With respect to the Fund's performance and expenses in particular, the Board has found the use of comparisons to other mutual funds with comparable investment programs to be relevant, given the high degree of competition in the mutual fund business. The Board focused on comparisons with other similar mutual funds more heavily than non-mutual fund products or services because it is believed that they are more relevant. For example, other mutual funds are the products most like the Fund, they are readily available to Fund shareholders as alternative investment vehicles, and they are the type of investment vehicle in fact chosen and maintained by the Fund's investors. The range of their fees and expenses therefore appears to be a generally reliable indication of what consumers have found to be reasonable in the precise marketplace in which the Fund competes. The Fund's ability to deliver competitive performance when compared to its peer group was a useful indicator of how the Adviser is executing the Fund's investment program, which in turn assisted the Board in reaching a conclusion that the nature, extent, and quality of the Adviser's investment management services were such as to warrant continuation of the advisory contract. In this regard, the Senior Officer has reviewed Federated's fees for providing advisory services to products outside the Federated family of funds (e.g., institutional and separate accounts). He concluded that mutual funds and institutional accounts are inherently different products. Those differences include, but are not limited to, different types of targeted investors; being subject to different laws and regulations; different legal structures; different average account sizes; different associated costs; different portfolio management techniques made necessary by different cash flows; and portfolio manager time spent in review of securities pricing. The Senior Officer did not consider these fee schedules to be determinative in judging the appropriateness of mutual fund advisory contracts.

The Senior Officer reviewed information compiled by Federated, using data supplied by independent fund ranking organizations, regarding the performance of, and fees charged by, other mutual funds, noting his view that comparisons to fund peer groups are relevant in judging the reasonableness of proposed fees.

For the one-year, three-year and five-year periods covered by the Evaluation, the Fund's performance was above the median of the relevant peer group.

The Board also received financial information about Federated, including information regarding the compensation and benefits Federated derived from its relationships with the Federated funds. This information covered not only the fees under the advisory contracts, but also fees received by Federated's subsidiaries for providing other services to the Federated funds under separate contracts (e.g., for serving as the Federated funds' administrator). The information also detailed any indirect benefit Federated may derive from its receipt of research services from brokers who execute Federated fund trades. In addition, the Board considered the fact that, in order for a fund to be competitive in the marketplace, Federated and its affiliates frequently waived fees and/or reimbursed expenses and have disclosed to fund investors and/or indicated to the Board their intention to do so in the future, where appropriate. Moreover, the Board receives regular reporting as to the institution or elimination of these voluntary waivers.

Federated furnished information, requested by the Senior Officer, that reported revenues on a fund-by-fund basis and made estimates of the allocation of expenses on a fund-by-fund basis, using allocation methodologies specified by the Senior Officer. The Senior Officer noted that, although they may apply consistent allocation processes, the inherent difficulties in allocating costs (and the unavoidable arbitrary aspects of that exercise) and the lack of consensus on how to allocate those costs may render such allocation information unreliable. The allocation information was considered in the analysis by the Board but was determined to be of limited use.

The Board and the Senior Officer also reviewed information compiled by Federated comparing profitability information for Federated to other publicly held fund management companies. In this regard, the Senior Officer noted the limited availability of such information, but nonetheless concluded that Federated's profit margins did not appear to be excessive and the Board agreed.

The Senior Officer's Evaluation also discussed the notion of possible realization of "economies of scale" as a fund grows larger. The Board considered in this regard that the Adviser has made significant and long-term investments in areas that support all of the Federated funds, such as personnel and processes for the portfolio management, compliance, internal audit, and risk management functions; and systems technology; and that the benefits of these efforts (as well as any economies, should they exist) were likely to be enjoyed by the fund complex as a whole. Finally, the Board also noted the absence of any applicable regulatory or industry guidelines on this subject, which (as discussed in the Senior Officer's Evaluation) is compounded by the lack of any common industry practice or general pattern with respect to structuring fund advisory fees with "breakpoints" that serve to reduce the fee as the fund attains a certain size. The Senior Officer did not recommend institution of breakpoints in pricing Federated's fund advisory services at this time.

It was noted in the materials for the Board meeting that for the period covered by the Evaluation, the Fund's investment advisory fee, after waivers and expense reimbursements, if any, was below the median of the relevant peer group. The Board reviewed the fees and other expenses of the Fund with the Adviser and was satisfied that the overall expense structure of the Fund remained competitive.

The Senior Officer noted that, considering the totality of the circumstances, and all of the factors referenced within his Evaluation, he had concluded that, subject to comments and recommendations made within his Evaluation, his observations and the information accompanying the Evaluation supported a finding by the Board that the management fees for each of the funds are reasonable and that Federated appeared to provide appropriate administrative services to the Fund for the fees paid. Under these circumstances, no changes were recommended to, and no objection was raised to, the continuation of the Fund's advisory and subadvisory contracts. The Board concluded that the nature, quality and scope of services provided the Fund by the Adviser and its affiliates were satisfactory.

In its decision to continue an existing investment advisory contract, the Board was mindful of the potential disruptions of the Fund's operations and various risks, uncertainties and other effects that could occur as a result of a decision to terminate or not renew an advisory contract. In particular, the Board recognized that many shareholders have invested in the Fund on the strength of the Adviser's industry standing and reputation and with the expectation that the Adviser will have a continuing role in providing advisory services to the Fund. Thus, the Board's approval of the advisory contract reflected the fact that it is the shareholders who have effectively selected the Adviser by virtue of having invested in the Fund.

The Board based its decision to approve the advisory and subadvisory contracts on the totality of the circumstances and relevant factors and with a view to past and future long-term considerations. Not all of the factors and considerations identified above were necessarily relevant to the Fund, nor did the Board consider any one of them to be determinative. With respect to the factors that were relevant, the Board's decision to approve the contract reflects its determination that Federated's performance and actions provided a satisfactory basis to support the decision to continue the existing arrangements.

Voting Proxies on Fund Portfolio Securities

A description of the policies and procedures that the Fund uses to determine how to vote proxies, if any, relating to securities held in the Fund's portfolio is available, without charge and upon request, by calling 1-800-341-7400. A report on "Form N-PX" of how the Fund voted any such proxies during the most recent 12-month period ended June 30 is available from Federated's website at FederatedInvestors.com. To access this information from the home page, select "View All" next to "Find Products." Select a fund name and share class, if applicable, to go to the Fund Overview page. On the Fund Overview page, select the "Documents" tab. At the bottom of that page, select "Proxy Voting Record Report (Form N-PX)." Form N-PX filings are also available at the SEC's website at www.sec.gov.

Quarterly Portfolio Schedule

The Fund files with the SEC a complete schedule of its portfolio holdings, as of the close of the first and third quarters of its fiscal year, on "Form N-Q." These filings are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. (Call 1-800-SEC-0330 for information on the operation of the Public Reference Room.) You may also access this information from the "Products" section of Federated's website at FederatedInvestors.com. From the home page, select "View All" next to "Find Products." Select a fund name and share class, if applicable, to go to the Fund Overview page. On the Fund Overview page, select the "Documents" tab. At the bottom of that page, select "Form N-Q."

Variable investment options are not bank deposits or obligations, are not guaranteed by any bank and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. Investment in variable investment options involves investment risk, including the possible loss of principal.

This Report is authorized for distribution to prospective investors only when preceded or accompanied by the Fund's Prospectus, which contains facts concerning its objective and policies, management fees, expenses and other information.

IMPORTANT NOTICE ABOUT FUND DOCUMENT DELIVERY

In an effort to reduce costs and avoid duplicate mailings, the Fund(s) intend to deliver a single copy of certain documents to each household in which more than one shareholder of the Fund(s) resides (so-called "householding"), as permitted by applicable rules. The Fund's "householding" program covers its/their Prospectus and Statement of Additional Information, and supplements to each, as well as Semi-Annual and Annual Shareholder Reports and any Proxies or information statements. Shareholders must give their written consent to participate in the "householding" program. The Fund is also permitted to treat a shareholder as having given consent ("implied consent") if (i) shareholders with the same last name, or believed to be members of the same family, reside at the same street address or receive mail at the same post office box, (ii) the Fund gives notice of its intent to "household" at least sixty (60) days before it begins "householding" and (iii) none of the shareholders in the household have notified the Fund(s) or their agent of the desire to "opt out" of "householding." Shareholders who have granted written consent, or have been deemed to have granted implied consent, can revoke that consent and opt out of "householding" at any time: shareholders who purchased shares through an intermediary should contact their representative; other shareholders may call the Fund at 1-800-341-7400.

Federated®

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Federated Investors Funds
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Contact us at **FederatedInvestors.com**
or call 1-800-341-7400.

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