United States Government Accountability Office

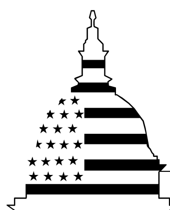
GAO

Report to the Congress

March 2006

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2005 and 2004 Financial Statements



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Accountability * Integrity * Reliability

GAO-06-146

Highlights of GAO-06-146, a report to the Congress

March 2006

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2005 and 2004 Financial Statements

Why GAO Did This Study

GAO is required to annually audit the financial statements of the Bank Insurance Fund (BIF), Savings Association Insurance Fund (SAIF), and FSLIC Resolution Fund (FRF), which are administered by the Federal Deposit Insurance Corporation (FDIC). GAO is responsible for obtaining reasonable assurance about whether FDIC's financial statements for BIF, SAIF, and FRF are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles, and whether FDIC maintained effective internal control over financial reporting and compliance. Also, GAO is responsible for testing FDIC's compliance with selected laws and regulations.

Created in 1933 to insure bank deposits and promote sound banking practices, FDIC plays an important role in maintaining public confidence in the nation's financial system. In 1989, legislation to reform the federal deposit insurance system created three funds to be administered by FDIC: BIF and SAIF, which protect bank and savings deposits, and FRF, which was created to close out the business of the former Federal Savings and Loan Insurance Corporation.

www.gao.gov/cgi-bin/getrpt?GAO-06-146.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

What GAO Found

In GAO's opinion, FDIC fairly presented the 2005 and 2004 financial statements for the three funds it administers—the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. GAO also found that, although certain controls should be improved, FDIC had effective internal control over financial reporting and compliance for each fund. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

On February 8, 2006, the President signed into law the Federal Deposit Insurance Reform Act of 2005. Among its provisions, the Act calls for merging the Bank Insurance and Savings Association Insurance Funds into a single Deposit Insurance Fund no later than July 1, 2006.

Last year, GAO reported on progress FDIC made in addressing long-standing issues related to weaknesses in its information system controls, which GAO had been reporting as a reportable condition. Based on the progress FDIC had made, GAO had concluded in its 2004 audit report that the remaining issues related to information system controls no longer constituted a reportable condition. GAO noted in that report, however, that FDIC's implementation of a new financial system during 2005 would significantly change its information systems environment and the related information systems controls necessary for their effective operation.

GAO found that FDIC, in implementing its new financial system during 2005, did not ensure that adequate controls were in place to accommodate its new systems environment. During its review, GAO identified information system control weaknesses that increased the risk of unauthorized modification and disclosure of critical FDIC financial and sensitive personnel information, disruption of critical operations, and loss of assets. These weaknesses, which constitute a reportable condition in 2005, affected FDIC's ability to ensure that users only had the access needed to perform their assigned duties and that its systems were sufficiently protected from unauthorized users.

FDIC acknowledged but did not share GAO's assessment regarding the severity of the risks or the magnitude of the vulnerability posed by the issues identified during the audit. However, GAO continues to believe the weaknesses represent significant vulnerabilities in FDIC's information system controls.

In addition to the reportable condition related to FDIC's information systems controls, GAO noted other less significant matters involving FDIC's internal controls. GAO will be reporting separately to FDIC management on these matters.

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Abbreviations

BIF	Bank Insurance Fund
CFO	Chief Financial Officer
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
SAIF	Savings Association Insurance Fund

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Comptroller General
of the United States

United States Government Accountability Office
Washington, D.C. 20548

March 2, 2006

The President of the Senate
The Speaker of the House of Representatives

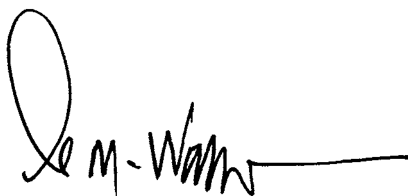
This report presents our opinions on whether the financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF) are presented fairly for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents (1) our opinion on the effectiveness of FDIC's internal control over financial reporting and compliance for each of the funds as of December 31, 2005, and (2) our evaluation of FDIC's compliance with selected laws and regulations during 2005.

The provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827), require GAO to conduct an annual audit of BIF, SAIF, and FRF in accordance with U.S. generally accepted government auditing standards. These provisions also stipulate that GAO report on the results of its annual audit of the three funds' financial statements no later than July 15 of the year following the year under audit, or 6½ months after the end of the reporting period. However, for the third consecutive year, and at the request of FDIC management, GAO completed its audits of the three funds' financial statements on a significantly accelerated reporting time frame. This would not have been possible without the tremendous cooperation and dedicated efforts of both FDIC management and staff and the GAO team conducting the audits.

We are sending copies of this report to the Chairman and Ranking Minority Member of the Senate Committee on Banking, Housing, and Urban Affairs; the Chairman and Ranking Minority Member of the House Committee on Financial Services; the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Chairman of the Board of Governors of the Federal Reserve System; the Comptroller of the Currency; the Director of the Office of Thrift Supervision; the Secretary of the Treasury; the Director of the Office of Management and Budget; and other interested parties. In addition, this report will be available at no charge on GAO's Web site at http://www.gao.gov.

This report was prepared under the direction of Steven J. Sebastian, Director, Financial Management and Assurance, who can be reached on

(202) 512-3406 or sebastians@gao.gov. If I can be of further assistance, please call me at (202) 512-5500. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.



David M. Walker
Comptroller General
of the United States

To the Board of Directors
The Federal Deposit Insurance Corporation

We have audited the balance sheets as of December 31, 2005 and 2004, for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, FDIC had effective internal control over financial reporting and compliance with laws and regulations for each fund; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our conclusions in more detail. They also present information on the scope of our audits and our evaluation of FDIC management's comments on a draft of this report.

Opinion on BIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, BIF's financial position as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended.

As discussed in note 1 to BIF's financial statements, on February 8, 2006, the President signed into law the Federal Deposit Insurance Reform Act of 2005. Among its provisions, the Act calls for the merger of BIF and SAIF into a single Deposit Insurance Fund no later than the first day of the first calendar quarter that begins after the end of the 90-day period beginning on the date of enactment, which would be July 1, 2006.

Opinion on SAIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SAIF's financial position as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended.

As discussed in note 1 to SAIF's financial statements, on February 8, 2006, the President signed into law the Federal Deposit Insurance Reform Act of 2005. Among its provisions, the Act calls for the merger of SAIF and BIF into a single Deposit Insurance Fund no later than the first day of the first calendar quarter that begins after the end of the 90-day period beginning on the date of enactment, which would be July 1, 2006.

Opinion on FRF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's financial position as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended.

Opinion on Internal Control

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2005, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to FDIC's financial statements of each fund would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d) [commonly known as the Federal Managers' Financial Integrity Act (FMFIA)].

Weaknesses that we identified in FDIC's information system controls, which we consider to be a reportable condition, are described in a later section of this report. The reportable condition in information system controls, although not considered material, represents a significant deficiency in the design or operation of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Although the weaknesses did not materially affect the 2005 financial statements of each of the three funds, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weaknesses.

In addition to the reportable condition concerning information system controls, we noted other less significant matters involving FDIC's internal controls. We will be reporting separately to FDIC management on these matters.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are the following:

- financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the financial statements;

- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;

- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;

- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and

- tested compliance with certain laws and regulations, including selected provisions of the Federal Deposit Insurance Act, as amended, and the Chief Financial Officers Act of 1990.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those laws and regulations that could have a direct and material effect on the financial statements for the year ended December 31, 2005. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

Reportable Condition

In connection with our audits of the financial statements of the three funds administered by FDIC, we reviewed FDIC's information system controls. Effective information system controls are essential to safeguarding financial data, protecting computer application programs, providing for the integrity of system software, and ensuring continued computer operations in case of unexpected interruption. These controls include the corporatewide security management program, access controls, system software, application development and change control, segregation of duties, and service continuity controls.

In years prior to our 2004 financial audit, we reported on weaknesses we identified in FDIC's information system controls, which we considered to be a reportable condition. Over a period of years, FDIC made progress in correcting these information system control weaknesses and, in 2004, made substantial progress by correcting most of the weaknesses we had identified in prior years, including taking steps to fully establish a comprehensive information security program. These improvements enabled us to conclude that the remaining issues related to information system controls no longer constituted a reportable condition. However, we noted in our 2004 audit report[1] that FDIC's implementation of a new financial system in 2005 would significantly change its information systems environment and the related information system controls necessary for their effective operation and that, consequently, continued commitment to an effective information security program would be essential to ensure that the corporation's financial and sensitive information would be adequately protected in the new environment.

FDIC implemented its new financial system in May 2005. However, in doing so, FDIC did not ensure that controls were adequate to accommodate its new systems environment. Our audit identified information system control weaknesses, which we consider to be a reportable condition that increased the risk of unauthorized modification and disclosure of critical FDIC financial and sensitive personnel information, disruption of critical operations, and loss of assets.

[1]GAO, *Financial Audit: Federal Deposit Insurance Corporation Funds' 2004 and 2003 Financial Statements*, GAO-05-281 (Washington, D.C.: Feb. 11, 2005).

Specifically, FDIC did not (1) adequately restrict access to critical financial programs and data; (2) ensure incompatible systems-related functions, duties, and capabilities were appropriately segregated; and (3) sufficiently monitor access to system programs and data. Such weaknesses affected FDIC's ability to ensure that users only had the access needed to perform their assigned duties and that its systems were sufficiently protected from unauthorized users.

We determined that other management controls mitigated the effect of the information system control weaknesses on the preparation of the funds' financial statements for 2005. However, it is important going forward that FDIC work to address these weaknesses to ensure its information system controls appropriately safeguard the integrity of its financial and other data. Because of their sensitive nature, the details surrounding these weaknesses will be reported separately to FDIC management, along with recommendations for corrective actions.

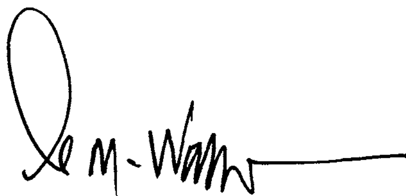
FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) was pleased to receive unqualified opinions on BIF's, SAIF's, and FRF's 2005 and 2004 financial statements, and to note that there were no material weaknesses identified during the 2005 audits. With respect to our reporting as a reportable condition in 2005 weaknesses in information system controls, FDIC's CFO acknowledged but did not share our assessment regarding the severity of the risks or the magnitude of the vulnerability posed by the issues identified during the audit. The CFO expressed confidence in the sufficiency of the FDIC's information systems environment and related controls based on the corporation's view that it had a deliberate, comprehensive program designed to integrate not only system controls, but procedural, managerial, and audit controls into a balanced and cost-effective control framework. The CFO nonetheless acknowledged that the corporation would work diligently with us over the next audit cycle to both reconcile the two differing viewpoints and, where it feels changes are appropriate, to augment the corporation's program.

We are pleased that FDIC's CFO has pledged his commitment to work with us on these matters during the 2006 audits. However, the issues we identified during our 2005 audits, including (1) lack of adequate restriction of access to critical financial programs and data; (2) inappropriate segregation of incompatible systems-related functions, duties, and capabilities; and (3) lack of an effective process to sufficiently monitor access to systems programs and data, collectively, we believe, create a

significant risk that critical financial and sensitive personnel information could be inappropriately disclosed and modified, assets lost, and critical systems operations disrupted. While we acknowledge that certain management controls FDIC had in place were able to mitigate the effect of these weaknesses with respect to preparation of the three funds' 2005 financial statements, the weaknesses nonetheless represent significant vulnerabilities in FDIC's information system controls and thus constitute a reportable condition.

The complete text of FDIC's comments is reprinted in appendix I.



David M. Walker
Comptroller General
of the United States

January 31, 2006

Bank Insurance Fund's Financial Statements

Balance Sheet

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2005	2004
Assets		
Cash and cash equivalents	$ 2,411,828	$ 1,821,776
Investment in U.S. Treasury obligations, net: (Note 3)		
Held-to-maturity securities	24,678,611	22,637,330
Available-for-sale securities	7,620,733	9,470,605
Interest receivable on investments and other assets, net	546,202	601,498
Receivables from bank resolutions, net (Note 4)	299,317	375,303
Property and equipment, net (Note 5)	378,064	357,106
Total Assets	**$ 35,934,755**	**$ 35,263,618**
Liabilities		
Accounts payable and other liabilities	$ 265,687	$ 268,451
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	1,591	8,261
Litigation losses and other	200,435	200,301
Total Liabilities	**467,713**	**477,013**
Commitments and off-balance-sheet exposure (Note 11)		
Fund Balance		
Accumulated net income	35,168,698	34,096,676
Unrealized gain on available-for-sale securities, net (Note 3)	298,344	689,929
Total Fund Balance	**35,467,042**	**34,786,605**
Total Liabilities and Fund Balance	**$ 35,934,755**	**$ 35,263,618**

The accompanying notes are an integral part of these financial statements.

Statement of Income and Fund Balance

Federal Deposit Insurance Corporation

Bank Insurance Fund Statement of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2005	2004
Revenue		
Interest on U.S. Treasury obligations	$ 1,713,316	$ 1,552,576
Assessments (Note 7)	52,570	95,268
Other revenue	17,587	27,547
Total Revenue	**1,783,473**	**1,675,391**
Expenses and Losses		
Operating expenses (Note 8)	846,183	821,341
Provision for insurance losses (Note 9)	(138,181)	(281,390)
Insurance and other expenses	3,449	18,662
Total Expenses and Losses	**711,451**	**558,613**
Net Income	**1,072,022**	**1,116,778**
Unrealized loss on available-for-sale securities, net	(391,585)	(112,368)
Comprehensive Income	**680,437**	**1,004,410**
Fund Balance - Beginning	**34,786,605**	**33,782,195**
Fund Balance - Ending	**$ 35,467,042**	**$ 34,786,605**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2005	2004
Operating Activities		
Net Income:	$ 1,072,022	$ 1,116,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury obligations	613,971	737,439
Treasury inflation-protected securities (TIPS) inflation adjustment	(257,829)	(181,650)
Depreciation on property and equipment	55,989	54,424
Provision for insurance losses	(138,181)	(281,390)
Terminations/adjustments of work-in-process accounts	178	817
Change in Operating Assets and Liabilities:		
(Increase) in interest receivable and other assets	(3,398)	(24,411)
Decrease in receivables from bank resolutions	211,955	218,693
Increase in accounts payable and other liabilities	21,860	15,590
(Decrease) in contingent liabilities for litigation losses and other	(182)	(1,047)
Net Cash Provided by Operating Activities	**1,576,385**	**1,655,243**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	6,290,000	3,365,000
Maturity of U.S. Treasury obligations, available-for-sale	1,560,000	5,810,000
Used by:		
Purchase of property and equipment	(47,197)	(104,502)
Purchase of U.S. Treasury obligations, held-to-maturity	(8,789,136)	(10,026,597)
Purchase of U.S. Treasury obligations, available-for-sale	0	(1,421,649)
Net Cash Used by Investing Activities	**(986,333)**	**(2,377,748)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**590,052**	**(722,505)**
Cash and Cash Equivalents - Beginning	**1,821,776**	**2,544,281**
Cash and Cash Equivalents - Ending	**$ 2,411,828**	**$ 1,821,776**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Financial Statements and Notes

Bank Insurance Fund
Notes to the Financial Statements December 31, 2005 and 2004

1. Legislation and Operations of the Bank Insurance Fund

Overview
The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds. The FDIC is the administrator of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), which are maintained separately to carry out their respective mandates. The BIF and the SAIF are insurance funds responsible for protecting insured bank and thrift depositors from loss due to institution failures. These insurance funds must be maintained at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant. The FRF is a resolution fund responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation.

An active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of BIF-member institutions are generally insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision.

In addition to traditional banks and thrifts, several other categories of institutions exist. A member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. In addition, SAIF-member thrifts can convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. Likewise, BIF-member banks can convert to a thrift charter and retain their BIF membership.

Operations of the BIF
The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured institutions and 2) resolve BIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the BIF. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System.

Bank Insurance Fund

The BIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are U.S. Treasury and Federal Financing Bank (FFB) borrowings, if necessary. The FDIC has borrowing authority from the U.S. Treasury up to $30 billion for insurance purposes on behalf of the BIF and the SAIF.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the BIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the BIF was $57.2 billion and $57.0 billion as of December 31, 2005 and 2004, respectively.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from BIF assets and liabilities to ensure that receivership proceeds are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Receiverships are billed by the FDIC for services provided on their behalf.

Recent Legislative Initiatives

The Deposit Insurance Reform Act of 2005 (Title II of Public Law 109-171) was enacted on February 8, 2006. The companion legislation, the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Public Law 109-173), was enacted on February 15, 2006. The legislation: 1) merges the BIF and the SAIF into a new fund, the Deposit Insurance Fund (DIF); 2) annually permits the designated reserve ratio to vary between 1.15 and 1.50 of estimated insured deposits, thereby eliminating the fixed designated reserve ratio of 1.25; 3) requires the declaration of dividends from the DIF for the full amount of the reserve ratio in excess of 1.50 percent or, if less than 1.50 percent, one-half of the amount between 1.35 and 1.50 percent; 4) grants a one-time assessment credit for each eligible institution or its successor based on an institution's proportionate share of the aggregate assessment base at December 31, 1996; and 5) immediately increases coverage for certain retirement accounts to $250,000 and indexes all deposit insurance coverage every five years beginning January 1, 2011.

2. Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the BIF and are presented in conformity with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed banks for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed. The more significant estimates include allowance for loss on receivables from bank resolutions, the estimated losses for anticipated failures and litigation, and the postretirement benefit obligation.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investment in U.S. Treasury Obligations

BIF funds are required to be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States; the Secretary of the U.S. Treasury must approve all such investments in excess of $100,000. The Secretary has granted approval to invest BIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Bureau of the Public Debt's Government Account Series (GAS) program.

BIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of Net Income. Income on both types of securities is calculated and recorded on a daily basis using the effective interest method.

Cost Allocations Among Funds

Operating expenses not directly charged to the BIF, the SAIF, and the FRF are allocated to all funds using workload-based allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Capital Assets and Depreciation

The FDIC has designated the BIF as administrator of property and equipment used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges the other funds usage fees representing an allocated share of its annual depreciation expense. These usage fees are recorded as cost recoveries, which reduce operating expenses.

The FDIC buildings are depreciated on a straight-line basis over a 35 to 50 year estimated life. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

Disclosure about Recent Accounting Pronouncements

Recent accounting pronouncements have been adopted or deemed to be not applicable to the financial statements as presented.

Related Parties

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Reclassifications

Reclassifications have been made in the 2004 financial statements to conform to the presentation used in 2005. These reclassifications include the reallocation of amounts from "Provision for insurance losses" to "Insurance and other expenses" for assets acquired from assisted banks and terminated receiverships. The reclassifications, which were based on the restructuring of accounts, had no impact on the prior year's net income or fund balance.

3. Investment in U.S. Treasury Obligations, Net

As of December 31, 2005 and 2004, the book value of investments in U.S. Treasury obligations, net, was $32.3 billion and $32.1 billion, respectively. As of December 31, 2005, the BIF held $6.5 billion of Treasury inflation-protected securities (TIPS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the BIF held $5.4 billion of callable U.S. Treasury bonds at December 31, 2005. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

U.S. Treasury Obligations at December 31, 2005

Dollars in Thousands

Maturity●	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses■	Market Value
Held-to-Maturity						
Within 1 year	5.30%	$ 4,300,000	$ 4,313,711	$ 23,194	$ (13,557)	$ 4,323,348
After 1 year thru 5 years	4.40%	13,150,000	14,028,186	123,794	(135,647)	14,016,333
After 5 years thru 10 years	4.51%	3,980,000	4,227,166	44,264	(10,065)	4,261,365
After 10 years	4.72%	1,105,000	1,440,710	24,669	0	1,465,379
Treasury Inflation-Protected After 1 year thru 5 years	3.82%	668,008	668,838	33,252	0	702,090
Total		**$ 23,203,008**	**$ 24,678,611**	**$ 249,173**	**$ (159,269)**	**$ 24,768,515**
Available-for-Sale						
Within 1 year	3.85%	$ 675,000	$ 713,006	$ 629	$ (4,849)	$ 708,786
After 1 year thru 5 years	3.64%	1,010,000	1,092,280	3,429	(16,448)	1,079,261
Treasury Inflation-Protected After 1 year thru 5 years	3.94%	3,891,165	3,896,133	211,924	0	4,108,057
After 5 years thru 10 years	3.39%	1,613,689	1,620,970	103,659	0	1,724,629
Total		**$ 7,189,854**	**$ 7,322,389**	**$ 319,641**	**$ (21,297)**	**$ 7,620,733**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 30,392,862**	**$ 32,001,000**	**$ 568,814**	**$ (180,566)**	**$ 32,389,248**

● For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

▼ For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2%, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2005.

■ All unrealized losses occurred as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary. However, of the $181 million reported as total unrealized losses, $86 million is recognized as unrealized losses occurring over a period of 12 months or longer with a market value of $3.7 billion applied to the affected securities.

Bank Insurance Fund

U.S. Treasury Obligations at December 31, 2004

Dollars in Thousands

Maturity[•]	Yield at Purchase[▾]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses[■]	Market Value
Held-to-Maturity						
Within 1 year	3.93%	$ 6,290,000	$ 6,486,753	$ 50,757	$ (11,129)	$ 6,526,381
After 1 year thru 5 years	4.94%	10,575,000	11,135,043	399,365	(10,104)	11,524,304
After 5 years thru 10 years	4.76%	4,360,000	4,374,344	197,842	(1,336)	4,570,850
Treasury Inflation-Protected After 1 year thru 5 years	3.82%	640,107	641,190	76,255	0	717,445
Total		**$ 21,865,107**	**$ 22,637,330**	**$ 724,219**	**$ (22,569)**	**$ 23,338,980**
Available-for-Sale						
Within 1 year	3.65%	$ 1,560,000	$ 1,598,564	$ 10,129	$ (3,051)	$ 1,605,642
After 1 year thru 5 years	3.72%	1,685,000	1,893,380	31,116	(11,945)	1,912,551
Treasury Inflation-Protected After 1 year thru 5 years	3.81%	2,270,854	2,268,756	236,566	0	2,505,322
After 5 years thru 10 years	3.75%	3,004,072	3,019,976	427,114	0	3,447,090
Total		**$ 8,519,926**	**$ 8,780,676**	**$ 704,925**	**$ (14,996)**	**$ 9,470,605**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 30,385,033**	**$ 31,418,006**	**$ 1,429,144**	**$ (37,565)**	**$ 32,809,585**

[•] For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

[▾] For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2%, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2004.

[■] All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary.

As of December 31, 2005 and 2004, the unamortized premium, net of the unamortized discount, was $1.6 billion and $1 billion, respectively.

4. Receivables from Bank Resolutions, Net

The receivables from bank resolutions include payments made by the BIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by BIF receiverships are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2005, there were 24 active receiverships, with no failures in the current year.

As of December 31, 2005 and 2004, BIF receiverships held assets with a book value of $357 million and $504 million, respectively (including cash, investments, and miscellaneous receivables of $251 million and $269 million at December 31, 2005 and 2004, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets in liquidation. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the BIF's actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	2005	2004
Receivables from closed banks	$ 4,366,308	$ 4,621,702
Allowance for losses	(4,066,991)	(4,246,399)
Total	**$ 299,317**	**$ 375,303**

As of December 31, 2005, an allowance for loss of $4.1 billion, or 93 percent of the gross receivable, was recorded. Of the remaining seven percent of the gross receivable, the amount of credit risk is limited since 71 percent of the receivable will be repaid from receivership cash and investments.

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2005	2004
Land	$ 37,352	$ 37,352
Buildings (includes construction-in-process)	272,861	221,494
Application software (includes work-in-process)	241,424	223,149
Furniture, fixtures, and equipment	140,728	133,556
Accumulated depreciation	(273,789)	(258,445)
Retirements	(40,512)	0
Total	**$ 378,064**	**$ 357,106**

The depreciation expense was $56 million and $54 million for December 31, 2005 and 2004, respectively.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records a contingent liability and a loss provision for BIF-insured institutions (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and loss rates to institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels. In addition, institution-specific analysis is performed on those institutions where failure is imminent absent institution management resolution of existing problems, or where additional information is available that may affect the estimate of losses. As of December 31, 2005 and 2004, the contingent liabilities for anticipated failure of insured institutions were $2 million and $8 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in an additional loss to the BIF should potentially vulnerable financial institutions ultimately fail. This risk results from the presence of various high-risk banking business activities that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding such conditions in the future, there are institutions other than those with losses included in the contingent liability for which the risk of failure is less certain, but still considered reasonably possible. As a result of these risks, the FDIC believes that it is reasonably possible that the BIF could incur additional estimated losses up to approximately $0.3 billion.

The accuracy of these estimates will largely depend on future economic and market conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

There remains uncertainty about the effect of the 2005 hurricane season on the deposit insurance fund balances. The economic dislocations as well as the potential adverse effects on collateral values and the repayment capacity of borrowers resulting from the hurricanes may stress the balance sheets of a few, small institutions that are located in the areas of greatest devastation. The FDIC continues to evaluate the risks to affected institutions in light of economic conditions, the amount of insurance proceeds that will protect institution collateral, and the level of government disaster relief. At this point, however, the FDIC cannot estimate the impact of such risks on the insurance funds.

Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $1.2 million are reasonably possible.

Other Contingencies

Representations and Warranties

As part of the FDIC's efforts to maximize the return from the sale of assets from bank resolutions, representations and warranties, and guarantees were offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $3.4 billion as of December 31, 2005. There were no contingent liabilities from any of the outstanding claims asserted in connection with representations and warranties at December 31, 2005 and 2004, respectively.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years or more. Consequently, the FDIC believes it is possible that additional losses may be incurred by the BIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the BIF from outstanding contracts with unasserted representation and warranty claims.

7. Assessments

In compliance with provisions of the FDI Act, as amended, the FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories based on capital ratios and supervisory examination data. Due to the continuing health of the banking industry, the majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 11 cents and 22 cents per $100 of assessable deposits for 2005 and 2004, respectively. During 2005 and 2004, $53 million and $95 million were recognized as assessment income from BIF-member institutions, respectively. On November 8, 2005, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2006. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the BIF's obligations. If necessary, the Board may impose more frequent rate adjustments or emergency special assessments.

The FDIC is required to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). If the reserve ratio falls below the DRR, the FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates are set, or in accordance with a recapitalization schedule of fifteen years or less. As of September 30, 2005, the BIF reserve ratio was 1.25 percent of estimated insured deposits.

Assessments are also levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the BIF and is separate from the regular deposit insurance assessments. The FDIC, as administrator of the BIF, acts solely as a collection agent for the FICO. During 2005 and 2004, $620 million and $631 million, respectively, were collected from BIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses were $846 million for 2005, compared to $821 million for 2004. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2005	2004
Salaries and benefits	$ 567,936	$ 575,100
Outside services	97,863	84,947
Travel	40,918	36,089
Buildings and leased space	62,807	60,693
Software/Hardware maintenance	21,803	10,778
Depreciation of property and equipment	55,989	54,424
Other	19,093	19,879
Services billed to receiverships	(20,226)	(20,569)
Total	**$ 846,183**	**$ 821,341**

9. Provision for Insurance Losses

Provision for insurance losses was a negative $138 million for 2005 and a negative $281 million for 2004. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2005	2004
Valuation Adjustments:		
Closed banks	$ (136,305)	$ (82,758)
Other assets	4,479	(25,282)
Total Valuation Adjustments	**(131,826)**	**(108,040)**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(6,670)	(170,005)
Litigation losses	174	(3,998)
Other contingencies	141	653
Total Contingent Liabilities Adjustments	**(6,355)**	**(173,350)**
Total	**$ (138,181)**	**$ (281,390)**

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits
Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the BIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The BIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. The BIF pays its share of the employer's portion of all related costs.

The FDIC offered a voluntary employee buyout program to a majority of its employees during 2004 and conducted a reduction-in-force (RIF) during 2005 in an effort to further reduce identified staffing excesses. Consequently, 578 employees left or will leave the FDIC as a result of the buyout program and an additional 62 employees left due to the RIF. Termination benefits included compensation of fifty percent of the current salary for voluntary departures and severance pay for employees that left due to the RIF. The total cost of the buyout program and the RIF to the FDIC was $32.6 million, with BIF's share totaling $28 million, which is included in the "Operating expenses" line item for 2005 and 2004.

Pension Benefits, Savings Plans Expenses and Postemployment Benefits for the Years Ended December 31

Dollars in Thousands

	2005	2004
Civil Service Retirement System	$ 6,659	$ 7,958
Federal Employees Retirement System (Basic Benefit)	33,867	33,638
FDIC Savings Plan	18,358	19,604
Federal Thrift Savings Plan	13,421	13,715
Separation Incentive Payment	19,463	6,082
Severance Pay	2,301	198
Total	**$ 94,069**	**$ 81,195**

Postretirement Benefits Other Than Pensions
The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity.

At December 31, 2005 and 2004, the BIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was $110 million and $104 million, respectively. In addition, the BIF's expense for these benefits in 2005 and 2004 was $9.0 million and $9.3 million, respectively, which is included in the current and prior year's operating expenses. Key actuarial assumptions used in the accounting for the plan include the discount rate, the rate of compensation increase, and the dental coverage trend rate.

11. Commitments and Off-Balance-Sheet Exposure

Commitments

Leased Space
The BIF's allocated share of the FDIC's lease commitments totals $78.6 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the BIF and the SAIF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $34 million and $36 million for the years ended December 31, 2005 and 2004, respectively.

Leased Space Commitments
Dollars in Thousands

2006	2007	2008	2009	2010	2011/Thereafter
$ 27,412	$ 18,392	$ 13,159	$ 11,445	$ 5,019	$ 3,189

Off-Balance-Sheet Exposure

Deposit Insurance
As of September 30, 2005, the estimated insured deposits for BIF were $2.8 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

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12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

The net receivables from bank resolutions primarily include the BIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the BIF's allowance for loss against the net receivables from bank resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 4), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the BIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from bank resolutions.

Savings Association Insurance Fund's Financial Statements

Balance Sheet

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2005	2004
Assets		
Cash and cash equivalents	$ 797,616	$ 644,346
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) (Includes cash and cash equivalents of $20.9 million and $56.5 million at December 31, 2005 and 2004, respectively)	341,656	328,394
Investment in U.S. Treasury obligations, net: (Note 4)		
Held-to-maturity securities	9,574,627	8,835,964
Available-for-sale securities	2,366,489	2,720,315
Interest receivable on investments and other assets, net	191,364	200,204
Receivables from thrift resolutions, net (Note 5)	234,157	346,923
Total Assets	**$ 13,505,909**	**$ 13,076,146**
Liabilities		
Accounts payable and other liabilities	$ 30,854	$ 25,568
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	3,775	1,957
Litigation losses	65	39
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	341,656	328,394
Total Liabilities	**376,350**	**355,958**
Commitments and off-balance-sheet exposure (Note 11)		
Fund Balance		
Accumulated net income	13,021,364	12,482,227
Unrealized gain on available-for-sale securities, net (Note 4)	108,195	237,961
Total Fund Balance	**13,129,559**	**12,720,188**
Total Liabilities and Fund Balance	**$ 13,505,909**	**$ 13,076,146**

The accompanying notes are an integral part of these financial statements.

Statement of Income and Fund Balance

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statement of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2005	2004
Revenue		
Interest on U.S. Treasury obligations	$ 628,189	$ 555,592
Assessments (Note 7)	8,315	8,891
Other revenue	485	294
Total Revenue	**636,989**	**564,777**
Expenses and Losses		
Operating expenses (Note 8)	119,468	119,998
Provision for insurance losses (Note 9)	(21,988)	(72,385)
Insurance and other expenses	372	713
Total Expenses and Losses	**97,852**	**48,326**
Net Income	**539,137**	**516,451**
Unrealized loss on available-for-sale securities, net	(129,766)	(36,328)
Comprehensive Income	**409,371**	**480,123**
Fund Balance - Beginning	**12,720,188**	**12,240,065**
Fund Balance - Ending	**$ 13,129,559**	**$ 12,720,188**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2005	2004
Operating Activities		
Net Income:	$ 539,137	$ 516,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S.Treasury obligations	220,147	262,317
Treasury inflation-protected securities (TIPS) inflation adjustment	(87,194)	(61,431)
Provision for losses	(21,988)	(72,385)
Amortization of prepaid FFIEC assets	17	0
Change in Operating Assets and Liabilities:		
(Increase)/Decrease in unamortized premium and discount of U.S. Treasury Obligations (restricted)	(6,565)	2,443
Decrease/(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	8,988	(16,065)
Decrease/(Increase) in receivables from thrift resolutions	136,218	(2,635)
Increase in accounts payable and other liabilities	5,285	5,028
Increase in exit fees and investment proceeds held in escrow	28,556	9,107
Net Cash Provided by Operating Activities	**822,601**	**642,830**
Investing Activities		
Provided by:		
Maturity of U.S.Treasury obligations, held-to-maturity	1,930,000	1,690,000
Maturity of U.S. Treasury obligations, available-for-sale	270,000	1,360,000
Used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(2,904,848)	(4,051,084)
Net Cash Used by Investing Activities	**(704,848)**	**(1,001,084)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**117,753**	**(358,254)**
Cash and Cash Equivalents - Beginning	**700,798**	**1,059,052**
Unrestricted Cash and Cash Equivalents - Ending	**797,616**	**644,346**
Restricted Cash and Cash Equivalents - Ending	**20,935**	**56,452**
Cash and Cash Equivalents - Ending	**$ 818,551**	**$ 700,798**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Financial Statements and Notes

Savings Association Insurance Fund

Notes to the Financial Statements December 31, 2005 and 2004

1. Legislation and Operations of the Savings Association Insurance Fund

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds. FDIC is the administrator of the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF), which are maintained separately to carry out their respective mandates. The SAIF and the BIF are insurance funds responsible for protecting insured thrift and bank depositors from loss due to institution failures. These insurance funds must be maintained at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant. The FRF is a resolution fund responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation.

An active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are generally insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

In addition to traditional thrifts and banks, several other categories of institutions exist. A member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. In addition, SAIF-member thrifts can convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. Likewise, BIF-member banks can convert to a thrift charter and retain their BIF membership.

Operations of the SAIF

The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions and 2) resolve SAIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the SAIF.

The SAIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, if necessary. The FDIC has borrowing authority from the U.S. Treasury up to $30 billion for insurance purposes on behalf of the SAIF and the BIF.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the SAIF can incur to the sum of its cash, 90 percent of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the SAIF was $21.0 billion as of December 31, 2005 and 2004, respectively.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from SAIF assets and liabilities to ensure that receivership proceeds are distributed in accordance with applicable laws and regulations. Accordingly, income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Receiverships are billed by the FDIC for services provided on their behalf.

Recent Legislative Initiatives

The Deposit Insurance Reform Act of 2005 (Title II of Public Law 109-171) was enacted on February 8, 2006. The companion legislation, the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Public Law 109-173), was enacted on February 15, 2006. The legislation: 1) merges the BIF and the SAIF into a new fund, the Deposit Insurance Fund (DIF); 2) requires the deposit of funds into the DIF for SAIF-member exit fees that have been restricted and held in escrow; 3) annually permits the designated reserve ratio to vary between 1.15 and 1.50 of estimated insured deposits, thereby eliminating the fixed designated reserve ratio of 1.25; 4) requires the declaration of dividends from the DIF for the full amount of the reserve ratio in excess of 1.50 percent or, if less than 1.50 percent, one-half of the amount between 1.35 and 1.50 percent; 5) grants a one-time assessment credit for each eligible institution or its successor based on an institution's proportionate share of the aggregate assessment base at December 31, 1996; and 6) immediately increases coverage for certain retirement accounts to $250,000 and indexes all deposit insurance coverage every five years beginning January 1, 2011.

2. Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the SAIF and are presented in conformity with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed. The more significant estimates include allowance for loss on receivables from thrift resolutions, the estimated losses for anticipated failures and litigation, and the postretirement benefit obligation.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investment in U.S. Treasury Obligations

SAIF funds are required to be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States; the Secretary of the U.S. Treasury must approve all such investments in excess of $100,000. The Secretary has granted approval to invest SAIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Bureau of the Public Debt's Government Account Series (GAS) program.

SAIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of Net Income. Income on both types of securities is calculated and recorded on a daily basis using the effective interest method.

Cost Allocations Among Funds
Operating expenses not directly charged to the SAIF, the BIF, and the FRF are allocated to all funds using workload-based allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Disclosure about Recent Accounting Pronouncements
Recent accounting pronouncements have been adopted or deemed to be not applicable to the financial statements as presented.

Related Parties
The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 2004 financial statements to conform to the presentation used in 2005. These reclassifications include the reallocation of amounts from "Provision for insurance losses" to "Insurance and other expenses" for assets acquired from assisted thrifts and terminated receiverships. Additionally, amounts were reallocated from "Operating expenses" to "Insurance and other expenses" for SAIF's share of the loss on the retirement of capital assets. The reclassifications, which were based on the restructuring of accounts, had no impact on the prior year's net income or fund balance.

3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees

The SAIF collects entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors (Board) and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow.

The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the Financing Corporation (FICO). These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. There were no conversion transactions during 2005 and 2004 that resulted in an entrance/exit fee to the SAIF.

Cash and Other Assets: Restricted for SAIF-Member Exit Fees at December 31

Dollars in Thousands

	2005	2004
Cash and cash equivalents	$ 20,935	$ 56,452
Investment in U.S. Treasury obligations, net	315,940	267,375
Interest receivable on U.S. Treasury obligations	4,781	4,567
Total	**$ 341,656**	**$ 328,394**

U.S. Treasury Obligations at December 31, 2005 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity

Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses •	Market Value
Within 1 year	4.55%	$ 35,000	$ 35,446	$ 87	$ (88)	$ 35,445
After 1 year thru 5 years	4.08%	146,000	157,004	475	(1,689)	155,790
After 5 years thru 10 years	4.66%	85,000	85,423	1,475	0	86,898
After 10 years	4.69%	30,000	38,067	587	0	38,654
Total		**$ 296,000**	**$ 315,940**	**$ 2,624**	**$ (1,777)**	**$ 316,787**

• All unrealized losses occurred as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary. However, of the $1.8 million reported as total unrealized losses, $829 thousand is recognized as unrealized losses occurring over a period of 12 months or longer with a market value of $35.6 million applied to the affected securities.

U.S. Treasury Obligations at December 31, 2004 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity

Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses •	Market Value
Within 1 year	2.36%	$ 70,000	$ 73,879	$ 0	$ (162)	$ 73,717
After 1 year thru 5 years	4.40%	104,000	115,725	2,852	(60)	118,517
After 5 years thru 10 years	4.67%	80,000	77,771	3,184	0	80,955
Total		**$ 254,000**	**$ 267,375**	**$ 6,036**	**$ (222)**	**$ 273,189**

• All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary.

As of December 31, 2005 and 2004, the unamortized premium, net of the unamortized discount, was $19.9 million and $13.4 million, respectively.

4. Investment in U.S. Treasury Obligations, Net

As of December 31, 2005 and 2004, the book value of investments in U.S. Treasury obligations, net, was $11.9 billion and $11.6 billion, respectively. As of December 31, 2005, the SAIF held $2.2 billion of Treasury inflation-protected securities (TIPS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the SAIF held $2.1 billion of callable U.S. Treasury bonds at December 31, 2005. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

U.S. Treasury Obligations at December 31, 2005 (Unrestricted)

Dollars in Thousands

Maturity [•]	Yield at Purchase [▾]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses [■]	Market Value
Held-to-Maturity						
Within 1 year	4.93%	$ 1,620,000	$ 1,628,688	$ 6,360	$ (4,630)	$ 1,630,418
After 1 year thru 5 years	4.65%	5,530,000	5,844,665	96,071	(52,025)	5,888,711
After 5 years thru 10 years	4.57%	1,370,000	1,447,787	18,314	(3,118)	1,462,983
After 10 years	4.72%	315,000	407,813	6,999	0	414,812
Treasury Inflation-Protected After 1 year thru 5 years	3.86%	246,588	245,674	7,532	0	253,206
Total		**$ 9,081,588**	**$ 9,574,627**	**$ 135,276**	**$ (59,773)**	**$ 9,650,130**
Available-for-Sale						
Within 1 year	3.14%	$ 170,000	$ 185,714	$ 66	$ (2,021)	$ 183,759
After 1 year thru 5 years	4.87%	215,000	231,775	1,538	0	233,313
Treasury Inflation-Protected After 1 year thru 5 years	4.05%	1,228,700	1,226,281	68,755	0	1,295,036
After 5 years thru 10 years	3.41%	612,286	614,524	39,857	0	654,381
Total		**$ 2,225,986**	**$ 2,258,294**	**$ 110,216**	**$ (2,021)**	**$ 2,366,489**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 11,307,574**	**$ 11,832,921**	**$ 245,492**	**$ (61,794)**	**$ 12,016,619**

[•] For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

[▾] For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2%, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2005.

[■] All unrealized losses occurred as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary. However, of the $61.8 million reported as total unrealized losses, $30.0 million is recognized as unrealized losses occurring over a period of 12 months or longer with a market value of $1.3 billion applied to the affected securities.

U.S. Treasury Obligations at December 31, 2004 (Unrestricted)

Dollars in Thousands

Maturity [•]	Yield at Purchase [▼]	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses [■]	Market Value
Held-to-Maturity						
Within 1 year	3.13%	$ 1,860,000	$ 1,935,365	$ 9,296	$ (4,608)	$ 1,940,053
After 1 year thru 5 years	4.93%	4,540,000	4,755,416	200,907	(6,373)	4,949,950
After 5 years thru 10 years	4.97%	1,900,000	1,910,232	107,408	(401)	2,017,239
Treasury Inflation-Protected After 1 year thru 5 years	3.86%	236,288	234,951	22,428	0	257,379
Total		**$ 8,536,288**	**$ 8,835,964**	**$ 340,039**	**$ (11,382)**	**$ 9,164,621**
Available-for-Sale						
Within 1 year	5.00%	$ 270,000	$ 275,656	$ 1,831	$ 0	$ 277,487
After 1 year thru 5 years	4.10%	385,000	443,689	10,916	(1,034)	453,571
Treasury Inflation-Protected After 1 year thru 5 years	4.07%	859,729	853,047	101,420	0	954,467
After 5 years thru 10 years	3.63%	904,362	909,962	124,828	0	1,034,790
Total		**$ 2,419,091**	**$ 2,482,354**	**$ 238,995**	**$ (1,034)**	**$ 2,720,315**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 10,955,379**	**$ 11,318,318**	**$ 579,034**	**$ (12,416)**	**$ 11,884,936**

[•] For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

[▼] For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2%, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2004.

[■] All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all unrealized losses are considered temporary.

As of December 31, 2005 and 2004, the unamortized premium, net of the unamortized discount, was $525.3 million and $362.9 million, respectively.

5. Receivables From Thrift Resolutions, Net

The receivables from thrift resolutions include payments made by the SAIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/ or obligations incurred and the expected repayment. Assets held by SAIF receiverships are the main source of repayment of the SAIF's receivables from closed thrifts. As of December 31, 2005, there were three active receiverships, with no failures in the current year.

As of December 31, 2005 and 2004, SAIF receiverships held assets with a book value of $388 million and $483 million, respectively (including cash, investments, and miscellaneous receivables of $118 million and $182 million at December 31, 2005 and 2004, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets in liquidation. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the SAIF's actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2005	2004
Receivables from closed thrifts	$ 574,113	$ 710,217
Allowance for losses	(339,956)	(363,294)
Total	**$ 234,157**	**$ 346,923**

At December 31, 2005, about 99 percent of the SAIF's $234 million net receivable will be repaid from assets related to the Superior receivership (which failed in July 2001). These assets primarily consist of cash, investments, and a promissory note arising from a settlement with the owners of the failed institution. The credit risk related to the promissory note is limited since half of the outstanding note is secured by a letter of credit and the remaining half is subject to the creditworthiness of the payor of the note. Annual monitoring of the credit-worthiness of the payor is performed and currently indicates a low risk of non-performance.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The SAIF records a contingent liability and a loss provision for SAIF-insured institutions (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and loss rates to institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels. In addition, institution-specific analysis is performed on those institutions where failure is imminent absent institution management resolution of existing problems, or where additional information is available that may affect the estimate of losses. As of December 31, 2005 and 2004, the contingent liabilities for anticipated failure of insured institutions were $4 million and $2 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in an additional loss to the SAIF should potentially vulnerable financial institutions ultimately fail. This risk results from the presence of various high-risk banking business activities that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding such conditions in the future, there are institutions other than those with losses included in the contingent liability for which the risk of failure is less certain, but still considered reasonably possible. As a result of these risks, the FDIC believes that it is reasonably possible that the SAIF could incur additional estimated losses up to approximately $0.2 billion.

The accuracy of these estimates will largely depend on future economic and market conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

There remains uncertainty about the effect of the 2005 hurricane season on the deposit insurance fund balances. The economic dislocations as well as the potential adverse effects on collateral values and the repayment capacity of borrowers resulting from the hurricanes may stress the balance sheets of a few, small institutions that are located in the areas of greatest devastation. The FDIC continues to evaluate the risks to affected institutions in light of economic conditions, the amount of insurance proceeds that will protect institution collateral, and the level of government disaster relief. At this point, however, the FDIC cannot estimate the impact of such risks on the insurance funds.

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $140 thousand are reasonably possible.

Other Contingencies

Representations and Warranties
As part of the FDIC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $4.7 billion as of December 31, 2005. SAIF did not establish a liability for all outstanding claims asserted in connection with representations and warranties because the receiverships have sufficient funds to pay for such claims.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years or more. Consequently, the FDIC believes it is possible that additional losses may be incurred by the SAIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the SAIF from outstanding contracts with unasserted representation and warranty claims.

7. Assessments

In compliance with provisions of the FDI Act, as amended, the FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories based on capital ratios and supervisory examination data. Due to the continuing health of the thrift industry, the majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 7 cents and 8 cents per $100 of assessable deposits for 2005 and 2004, respectively. During 2005 and 2004, $8 million and $9 million were recognized as assessment income from SAIF-member institutions, respectively. On November 8, 2005, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2006. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the SAIF's obligations. If necessary, the Board may impose more frequent rate adjustments or emergency special assessments.

The FDIC is required to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). If the reserve ratio falls below the DRR, the FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates

are set, or in accordance with a recapitalization schedule of fifteen years or less. As of September 30, 2005, the SAIF reserve ratio was 1.30 percent of estimated insured deposits.

Assessments are also levied on institutions for payments of the interest on obligations issued by the FICO. The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the SAIF and is separate from the regular deposit insurance assessments. The FDIC, as administrator of the SAIF, acts solely as a collection agent for the FICO. During 2005 and 2004, $160 million and $161 million, respectively, were collected from SAIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses totaled $119 million for 2005, compared to $120 million for 2004. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2005	2004
Salaries and benefits	$ 77,482	$ 81,649
Outside services	15,553	14,457
Travel	4,814	4,357
Buildings and leased space	8,673	10,662
Software/Hardware maintenance	11,563	9,404
Other	2,865	2,881
Services billed to receiverships	(1,482)	(3,412)
Total	**$ 119,468**	**$ 119,998**

9. Provision for Insurance Losses

Provision for insurance losses was a negative $22 million for 2005 and a negative $72 million for 2004. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2005	2004
Valuation Adjustments:		
Closed thrifts	$ (23,832)	$ (70,658)
Total Valuation Adjustments	**(23,832)**	**(70,658)**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	1,818	(1,235)
Litigation losses	26	(492)
Total Contingent Liabilities Adjustments	**1,844**	**(1,727)**
Total	**$ (21,988)**	**$ (72,385)**

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits
Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The SAIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. The SAIF pays its share of the employer's portion of all related costs.

The FDIC offered a voluntary employee buyout program to a majority of its employees during 2004 and conducted a reduction-in-force (RIF) during 2005 in an effort to further reduce identified staffing excesses. Consequently, 578 employees left or will leave the FDIC as a result of the buyout program and an additional 62 employees left due to the RIF. Termination benefits included compensation of fifty percent of the current salary for voluntary departures and severance pay for employees that left due to the RIF. The total cost of the buyout program and the RIF to the FDIC was $32.6 million, with SAIF's share totaling $4.3 million, which is included in the "Operating expenses" line item for 2005 and 2004.

Pension Benefits, Savings Plans Expenses and Postemployment Benefits for the Years Ended December 31

Dollars in Thousands

	2005	2004
Civil Service Retirement System	$ 973	$ 1,182
Federal Employees Retirement System (Basic Benefit)	4,591	4,793
FDIC Savings Plan	2,528	2,813
Federal Thrift Savings Plan	1,807	1,934
Separation Incentive Payment	2,908	909
Severance Pay	432	40
Total	**$ 13,239**	**$ 11,671**

Postretirement Benefits Other Than Pensions

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity.

At December 31, 2005 and 2004, the SAIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was $16.7 million and $15.7 million, respectively. In addition, the SAIF's expense for these benefits in 2005 and 2004 was $1.3 million and $1.4 million, respectively, which is included in the current and prior year's operating expenses. Key actuarial assumptions used in the accounting for the plan include the discount rate, the rate of compensation increase, and the dental coverage trend rate.

11. Commitments and Off-Balance-Sheet Exposure

Commitments

Leased Space

The SAIF's allocated share of the FDIC's lease commitments totals $11.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF and the BIF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $5.0 million and $6.9 million for the years ended December 31, 2005 and December 31, 2004, respectively.

Leased Space Commitments

Dollars in Thousands

2006	2007	2008	2009	2010	2011/Thereafter
$ 4,096	$ 2,748	$ 1,966	$ 1,710	$ 750	$ 477

Off-Balance-Sheet Exposure

Deposit Insurance

As of September 30, 2005, the estimated insured deposits for SAIF were $1.0 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

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12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Notes 3 and 4 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

The net receivables from thrift resolutions primarily include the SAIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the SAIF's allowance for loss against the net receivables from thrift resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 5), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the SAIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

FSLIC Resolution Fund's Financial Statements

Balance Sheet

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet at December 31

Dollars in Thousands

	2005	2004
Assets		
Cash and cash equivalents	$ 3,602,703	$ 3,501,384
Receivables from thrift resolutions and other assets, net (Note 3)	38,746	82,275
Total Assets	**$ 3,641,449**	**$ 3,583,659**
Liabilities		
Accounts payable and other liabilities	$ 7,799	$ 5,603
Contingent liabilities for litigation losses and other (Note 4)	257,503	410
Total Liabilities	**265,302**	**6,013**
Resolution Equity (Note 6)		
Contributed capital	127,007,441	126,382,877
Accumulated deficit	(123,631,294)	(122,805,158)
Unrealized loss on available-for-sale securities, net	0	(73)
Accumulated deficit, net	(123,631,294)	(122,805,231)
Total Resolution Equity	**3,376,147**	**3,577,646**
Total Liabilities and Resolution Equity	**$ 3,641,449**	**$ 3,583,659**

The accompanying notes are an integral part of these financial statements.

Statement of Income and Accumulated Deficit

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit for the Years Ended December 31

Dollars in Thousands

	2005	2004
Revenue		
Interest on U.S. Treasury obligations	$ 98,260	$ 40,076
Realized gain on investment in securitization-related assets acquired from receiverships (Note 3)	0	66,708
Other revenue	24,176	21,114
Total Revenue	**122,436**	**127,898**
Expenses and Losses		
Operating expenses	24,626	22,928
Provision for losses (Note 5)	241,065	(13,206)
Expenses for goodwill settlements and litigation (Note 4)	718,494	31,632
Recovery of tax benefits	(45,946)	(82,937)
Other expenses	10,333	11,703
Total Expenses and Losses	**948,572**	**(29,880)**
Net (Loss)/Income	**(826,136)**	**157,778**
Unrealized gain/(loss) on available-for-sale securities, net (Note 3)	73	(41,572)
Comprehensive (Loss)/Income	**(826,063)**	**116,206**
Accumulated Deficit - Beginning	**(122,805,231)**	**(122,921,437)**
Accumulated Deficit - Ending	**$ (123,631,294)**	**$ (122,805,231)**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2005	2004
Operating Activities		
Net (Loss)/Income:	$ (826,136)	$ 157,778
Adjustments to reconcile net (loss)/income to net cash (used by) provided by operating activities:		
Provision for losses	241,065	(13,206)
Change in Assets and Liabilities:		
Decrease/(Increase) in receivables from thrift resolutions and other assets	59,459	(28,943)
Increase/(Decrease) in accounts payable and other liabilities	2,196	(13,778)
Net Cash (Used by) Provided by Operating Activities	**(523,416)**	**101,851**
Investing Activities		
Investment in securitization-related assets acquired from receiverships	171	115,975
Net Cash Provided by Investing Activities	**171**	**115,975**
Financing Activities		
Provided by:		
U.S.Treasury payments for goodwill settlements	624,564	5,026
Net Cash Provided by Financing Activities	**624,564**	**5,026**
Net Increase in Cash and Cash Equivalents	**101,319**	**222,852**
Cash and Cash Equivalents - Beginning	**3,501,384**	**3,278,532**
Cash and Cash Equivalents - Ending	**$ 3,602,703**	**$ 3,501,384**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Financial Statements and Notes

FSLIC Resolution Fund

Notes to the Financial Statements December 31, 2005 and 2004

1. Legislative History and Operations/Dissolution of the FSLIC Resolution Fund

Legislative History

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds established in the FDI Act, as amended. In addition, FDIC is charged with responsibility for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation (RTC).

The U.S. Congress created the FSLIC through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF-except those assets and liabilities transferred to the RTC – effective on August 9, 1989.

The FIRREA was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. In addition to the FRF, FIRREA created the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). It also designated the FDIC as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The FIRREA created the RTC to manage and resolve all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. Resolution responsibility was subsequently extended and ultimately transferred from the RTC to the SAIF on July 1, 1995. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions.

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

Operations/Dissolution of the FRF
The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay the interest on the REFCORP bonds. In addition, the FRF-FSLIC has available until expended $602.2 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities and is continuing to explore approaches for concluding FRF's activities. An executive-level Steering Committee was established in 2003 to facilitate the FRF dissolution. Some of the issues and items that remain open in FRF are: 1) criminal restitution orders (generally have from five to ten years remaining); 2) litigation claims and judgments obtained against officers and directors and other professionals responsible for causing or contributing to thrift losses (judgments generally vary from five to ten years); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax-sharing benefits through year 2008); 4) Goodwill and Guarini litigation (no final date for resolution has been established; see Note 4); and 5) environmentally impaired owned real estate assets. The FDIC is considering whether enabling legislation or other measures may be needed to accelerate liquidation of the remaining FRF assets and liabilities. The FRF could realize substantial recoveries from the aforementioned tax-sharing benefits ranging from $144 million to $224 million; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from FRF assets and liabilities to ensure that receivership proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Receiverships are billed by the FDIC for services provided on their behalf.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations, and cash flows of the FRF and are presented in conformity with U.S. generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
Management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed. The more significant estimates include allowance for losses on receivables from thrift resolutions and the estimated losses for litigation.

Fair Value of Financial Instruments
Cash equivalents, which consist of Special U.S. Treasury Certificates, are short-term, highly liquid investments with original maturities of three months or less and are shown at fair value. The carrying amount of short-term receivables and accounts payable and other liabilities approximates their fair market value, due to their short maturities.

The investment in securitization-related assets acquired from receiverships consists of credit enhancement reserves. The credit enhancement reserves, which resulted from swap transactions, are valued by performing projected cash flow analyses using market-based assumptions (see Note 3).

The net receivable from thrift resolutions is influenced by the underlying valuation of receivership assets. This corporate receivable is unique and the estimate presented is not necessarily indicative of the amount that could be realized in a sale to the private sector. Such a sale would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. Consequently, it is not practicable to estimate its fair market value.

Cost Allocations Among Funds
Operating expenses not directly charged to the FRF, the BIF, and the SAIF are allocated to all funds using workload-based allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Disclosure about Recent Accounting Pronouncements
Recent accounting pronouncements have been adopted or deemed to be not applicable to the financial statements as presented.

Related Parties
The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 2004 financial statements to conform to the presentation used in 2005. These reclassifications include the reallocation of amounts from "Provision for insurance losses" to "Other expenses" for assets acquired from assisted thrifts and terminated receiverships. The reclassifications had no impact on the prior year's net income or resolution equity.

3. Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions
The receivables from thrift resolutions include payments made by the FRF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2005, 25 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including Goodwill matters.

As of December 31, 2005 and 2004, FRF receiverships held assets with a book value of $139 million and $175 million, respectively (including cash, investments, and miscellaneous receivables of $113 million and $142 million at December 31, 2005 and 2004, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets in liquidation. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the FRF's actual recoveries to vary from the level currently estimated.

Investment in Securitization-Related Assets Acquired from Receiverships
This investment includes credit enhancement reserves valued at $16.7 million and $15.6 million as of December 31, 2005 and 2004, respectively. The credit enhancement reserves resulted from swap transactions where the former RTC received mortgage-backed securities in exchange for single-family mortgage loans. The former RTC supplied credit enhancement reserves for the mortgage loans in the form of cash collateral to cover future credit losses over the remaining life of the loans. These reserves may cover future credit losses through 2020.

Receivables From Thrift Resolutions and Other Assets, Net at December 31

Dollars in Thousands

	2005	2004
Receivables from closed thrifts	$ 16,080,789	$ 19,952,501
Allowance for losses	(16,065,703)	(19,894,023)
Receivables from Thrift Resolutions, Net	**15,086**	**58,478**
Investment in securitization-related assets acquired from receiverships	$ 16,721	$ 15,643
Other assets	6,939	8,154
Total	**$ 38,746**	**$ 82,275**

Gross receivables from thrift resolutions and the investment in securitization-related assets subject the FRF to credit risk. An allowance for loss of $16.1 billion, or 99.9 percent of the gross receivable, was recorded as of December 31, 2005. Of the remaining 0.1 percent of the gross receivable, 71 percent is expected to be repaid from receivership cash and investments.

4. Contingent Liabilities for:

Litigation Losses
The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $85.4 million are reasonably possible.

Additional Contingency

Goodwill Litigation
In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. Approximately 35 remaining cases are pending against the United States based on alleged breaches of these agreements.

On July 22, 1998, the Department of Justice's (DOJ's) Office of Legal Counsel (OLC) concluded that the FRF is legally available to satisfy all judgments and settlements in the Goodwill Litigation involving supervisory action or assistance agreements. OLC determined that nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. On July 23, 1998, the U.S. Treasury determined, based on OLC's opinion, that the FRF is the appropriate source of funds for payments of any such judgments and settlements. The FDIC General Counsel concluded that, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements or judgments arising out of the Goodwill Litigation.

The Goodwill lawsuits are against the United States and as such are defended by the DOJ. On November 16, 2005, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the likely aggregate contingent liability resulting from the *Winstar*-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the Goodwill Litigation. Based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation. However, the FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill

Litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any liabilities for the Goodwill Litigation should have no impact on the financial condition of the FRF-FSLIC.

The FRF paid $624.6 million as a result of judgments and settlements in seven Goodwill cases during 2005, compared to $5 million for one Goodwill case for 2004. However, as described above, the FRF received appropriations from the U.S. Treasury to fund these payments.

In January 2006, the Department of Justice decided not to appeal the December 30, 2005 U.S. Court of Federal Claims order that FRF pay a $134 million partial judgment in another Goodwill litigation case. As in the previous cases, the FRF will receive an appropriation from the U.S. Treasury to satisfy this judgment. The December 31, 2005 FRF financial statements do not reflect the liability to pay the judgment to the plaintiff or the offsetting receivable for the U.S. Treasury appropriation to fund the judgment.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by DOJ based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $18.3 million and $30.1 million to DOJ for fiscal years 2006 and 2005, respectively. DOJ returns any unused fiscal year funding to the FRF unless special circumstances warrant these funds be carried over and applied against current fiscal year charges. In April 2005, DOJ returned $3 million of unused fiscal year 2005 funds. At September 30, 2005, DOJ had an additional $10.1 million in unused fiscal year 2005 funds that were applied against FY 2006 charges of $28.4 million.

Guarini Litigation

Paralleling the Goodwill cases are similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements allegedly contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs from the FSLIC, even though the FSLIC provided the plaintiffs with tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

Eight "Guarini" cases originally were filed seeking damages. Four "Guarini" cases have now concluded. In the first, no damages were awarded by the trial court and the case was not appealed. A second case was settled for $20,000. In the third and fourth cases, the FRF-FSLIC paid damages of $28.1 million and $48.7 million, respectively. (Certain attorneys' fees and cost issues in these two cases are pending in the trial court.) In a fifth case, the Federal Circuit recently affirmed the trial court's decision to award damages of $70 million. The time has not run yet for the Justice Department to decide whether it will seek further review of this decision. Two other cases are currently pending on appeal before the Federal Circuit; in those cases the trial court awarded plaintiffs damages totaling about $33 million in the aggregate. The eighth case is pending in trial court; in November, the court granted most of plaintiff's motion for partial summary judgment, entitling plaintiff to $149.6 million. However, other issues remain to be resolved before the trial court.

The FDIC has established a loss reserve of approximately $257 million for the remaining four Guarini cases because these losses are deemed probable and reasonably estimable. An additional loss of $82.4 million on the Guarini Litigation is considered reasonably possible.

Representations and Warranties

As part of the RTC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. The majority of loans subject to these agreements have most likely been paid off, refinanced, or the period for filing claims has expired. However, there is no reporting mechanism to determine the aggregate amount of remaining loans. Therefore, the FDIC is unable to provide an estimate of maximum exposure to the FRF. Based on the above and our history of claims processed, the FDIC believes that any future representation and warranty liability to the FRF will likely be minimal.

5. Provision for Losses

The provision for losses was $241.1 million and a negative $13.2 million for 2005 and 2004, respectively. The increased provision in 2005 was primarily due to the recognition of a probable loss on the unresolved Guarini cases.

6. Resolution Equity

As stated in the Legislative History section of Note 1, the FRF is comprised of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

Resolution Equity at December 31, 2005

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,183,540	$ 82,199,337	$ 126,382,877
Add: U.S. Treasury payments for goodwill settlements	624,564	0	624,564
Contributed capital - ending	**44,808,104**	**82,199,337**	**127,007,441**
Accumulated deficit	(41,985,539)	(81,645,755)	(123,631,294)
Add: Unrealized loss on available-for-sale securities	0	0	0
Accumulated deficit, net	**(41,985,539)**	**(81,645,755)**	**(123,631,294)**
Total	**$ 2,822,565**	**$ 553,582**	**$ 3,376,147**

Contributed Capital

The FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively, to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the Financing Corporation (a mixed-ownership government corporation established to function solely as a financing vehicle for the FSLIC) and the RTC issued $31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2005, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $4.572 billion to the REFCORP. These actions serve to reduce contributed capital.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.8 billion and $87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by $12.2 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.3 billion, since their dissolution dates.

7. Employee Benefits

Pension Benefits
Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management.

The FRF's pro rata share of pension-related expenses was $2.9 million and $2.8 million, as of December 31, 2005 and 2004, respectively.

Postretirement Benefits Other Than Pensions
The FRF no longer records a liability for the postretirement benefits of life and dental insurance as a result of FDIC's change in funding policy for these benefits and elimination of the separate entity formerly used to account for such estimated future costs. In implementing this change, management decided not to allocate either the plan assets or the revised net accumulated postretirement benefit obligation (a long-term liability) to the FRF due to the expected dissolution of the Fund. However, the FRF does continue to pay its proportionate share of the yearly claim expenses associated with these benefits.

Comments from the Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Deputy to the Chairman and Chief Financial Officer

February 22, 2006

Mr. David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2005 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2005 and 2004 Financial Statements, GAO-06-146. The report presents GAO's opinions on the calendar years 2005 and 2004 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2005, and GAO's evaluation of FDIC's compliance with applicable laws and regulations.

We are pleased to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2005 audits. The GAO reported that the funds' financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; FDIC had effective internal control over financial reporting and compliance with laws and regulations; and there were no instances of noncompliance with laws and regulations that were tested.

Regarding the reinstated reportable condition on information systems controls, we acknowledge but do not share the GAO's assessment regarding the severity of the risk impact or the magnitude of the collective vulnerability posed by the potential control issues identified by the GAO's audit team. Confidence in the sufficiency of our information systems environment and the related information system controls is grounded in what FDIC believes is a deliberate, comprehensive program designed, in conjunction with the deployment of our new financial system, to integrate not only system controls, but procedural, managerial, and audit controls into a balanced and cost-effective control framework. Nevertheless, the FDIC will work diligently with our GAO audit partners, throughout the 2006 audit cycle, to reconcile our respective views on this matter and to augment our program in those instances where it is determined that changes are appropriate.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

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

Staff Acknowledgments

Acknowledgments

The following individuals made major contributions to this report: Julia Duquette (Assistant Director), Edward R. Alexander Jr., Gerald L. Barnes, Cara L. Bauer, Angela M. Bell, Ronald A. Bergman, Matthew J. Braun, Latasha L. Brown, Sharon O. Byrd, Gloria Cano, Mark J. Canter, Jason A. Carroll, Lon C. Chin, Gary P. Chupka, Dennis L. Clarke, John C. Craig, Nina E. Crocker, Anh Dang, Kristi C. Dorsey, Denise E. Fitzpatrick, Mark R. Fostek, Alberto Garza, Ryan T. Geach, Edward M. Glagola Jr., David B. Hayes, Sairah R. Ijaz, Wing Y. Lam, Richard A. Larsen, Dragan Matic, Kevin C. Metcalfe, Duc M. Ngo, Theresa A. Patrizio, Deborah R. Peay, John W. Smolen, Eugene E. Stevens, Charles M. Vrabel, William F. Wadsworth, Christopher J. Warweg, LaShawnda K. Wilson, and Gregory J. Ziombra.

Paul S. Johnston from the FDIC Office of Inspector General also contributed to this report.

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