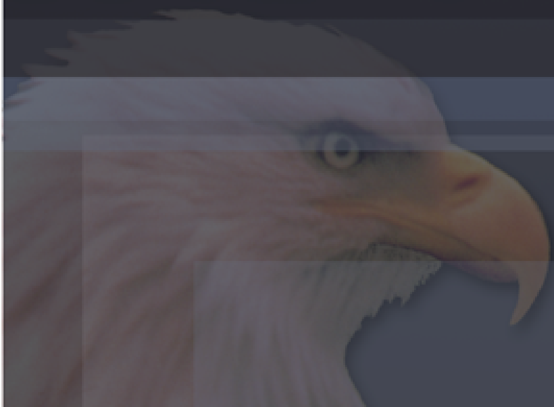
Annual Report 2005

FEDERAL DEPOSIT INSURANCE CORPORATION



In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other state and federal regulatory agencies, the **Federal Deposit Insurance Corporation (FDIC)** promotes the safety and soundness of the U.S. financial system and the insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds.

The FDIC promotes public understanding and the development of sound public policy by providing timely and accurate financial and economic information and analyses. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of excellence in public service is supported and sustained by a highly skilled and diverse workforce that continuously monitors and responds rapidly and successfully to changes in the financial environment.

Mission

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress that maintains the stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships.

Vision

The FDIC is a leader in developing and implementing sound public policies, identifying and addressing new and existing risks in the nation's financial system, and effectively carrying out its insurance, supervisory, and receivership management responsibilities.

Values

The FDIC and its employees have a long and continuing tradition of distinguished public service. Six core values guide FDIC employees as they strive to fulfill the Corporation's mission and vision:

- **Integrity**
  FDIC employees adhere to the highest ethical standards in the performance of their duties and responsibilities.

- **Competence**
  The FDIC maintains a highly skilled, dedicated and diverse workforce.

- **Teamwork**
  FDIC employees work cooperatively with one another and with employees in other regulatory agencies to accomplish the Corporation's mission.

- **Effectiveness**
  The FDIC responds quickly and successfully to identified risks in insured financial institutions and in the broader financial system.

- **Financial Stewardship**
  The FDIC acts as a responsible fiduciary, consistently operating in an efficient and cost-effective manner on behalf of insured financial institutions and other stakeholders.

- **Fairness**
  The FDIC treats all employees, insured financial institutions, and other stakeholders with impartiality and mutual respect.

Federal Deposit Insurance Corporation
550 17th St. NW Washington, DC 20429 — Office of the Chairman

March 2, 2006

Sirs,

In accordance with:

- the provisions of section 17(a) of the Federal Deposit Insurance Act,
- the Chief Financial Officers Act of 1990, Public Law 101-576,
- the Government Performance and Results Act of 1993,
- the provisions of Section 5 (as amended) of the Inspector General Act of 1978, and
- the Reports Consolidation Act of 2000,

the Federal Deposit Insurance Corporation is pleased to submit its 2005 Annual Report (also referred to as the Performance and Accountability Report), which includes the audited financial statements of the Bank Insurance Fund, the Savings Association Insurance Fund, and the Federal Savings and Loan Insurance Corporation Resolution Fund.

In accordance with the Reports Consolidation Act of 2000, the FDIC completed an assessment of the reliability of the performance data contained in this report. No material inadequacies were found and the data are considered to be complete and reliable.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the FDIC can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of the Federal Managers' Financial Integrity Act of 1982 have been achieved, and the FDIC has no material weaknesses. The Government Accountability Office did, however, identify a number of information technology issues that aggregate to a reportable condition. All such issues will receive appropriate attention during 2006.

Sincerely,

Martin J. Gruenberg

Martin J. Gruenberg
Acting Chairman

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

Message from the Acting Chairman 4
Message from the Chief Financial Officer 6

I. Management's Discussion and Analysis *8*
The Year in Review 8
Insurance 8
Supervision and Consumer Protection 12
Receivership Management 19
Effective Management of Strategic Resources 20

II. Financial Highlights *24*
Deposit Insurance Fund Performance 24
Operating Expenses 25
Investment Spending 25

III. Performance Results Summary *28*
Summary of 2005 Performance Results by Program 28
2005 Budget and Expenditures by Program (Excluding Investments) 30
Performance Results by Program and Strategic Goal 31
Multi-Year Performance Trend 37
Program Evaluation 41

IV. Financial Statements and Notes *42*
Bank Insurance Fund (BIF) 42
Savings Association Insurance Fund (SAIF) 60
FSLIC Resolution Fund (FRF) 80
GAO's Audit Opinion 94
Management's Response 99
Overview of the Industry 100

V. Management Control *102*
Enterprise Risk Management 102
Material Weaknesses 103
Management Report on Final Action 103

VI. Appendixes *106*
A. Key Statistics 106
B. More About the FDIC 118
C. Office of Inspector General's Assessment of the Management and Performance Challenges Facing the FDIC 126

Message from the Acting Chairman
Martin J. Gruenberg

James Kegley

I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) Annual 2005 Performance and Accountability Report (Annual Report), a comprehensive overview of the FDIC's programs and performance for the calendar year. The FDIC has been and will continue to be exceedingly well served by the professionalism and dedication of its staff. I am honored to have the opportunity to report the important results and accomplishments of their activities in 2005.

I assumed my duties as Acting Chairman on November 15, 2005, upon the resignation of Chairman Donald Powell, who, at President Bush's request, departed the FDIC to take charge of coordinating the federal government's efforts towards rebuilding of the Gulf Coast following the unprecedented natural disasters of Hurricanes Katrina and Rita. For the FDIC, the year will be remembered for these storms and their effect on Gulf Coast banks. Our top priority was ensuring stability and public confidence in the region's banking system. We worked around the clock with our fellow banking regulators, financial institutions and the public so that consumers and businesses could quickly regain access to needed financial services. We actively monitored the operational condition of financial institutions in the region until our concerns were mitigated. And we joined other regulators in encouraging banks to work with borrowers affected by the hurricanes. Once again, the federal deposit insurance system served the public well by providing certainty to the citizens of the Gulf Coast with respect to the safety of their funds in their time of crisis.

The region's banking industry will be dealing with the consequences of the storms for some time to come. In 2006, we will continue to work closely with affected banks and consumers to address those issues.

The FDIC also continued to respond to the long term changes taking place in the banking industry, one that continues to consolidate and advance technologically. Conditions in the industry have never been better, but the broader changes underway have made our mission more challenging and important. We have prepared ourselves well for the challenges of the future in many areas.

We continued working toward securing Congressional passage of deposit insurance reform. This legislation, signed by President Bush on February 8, 2006, combines the Bank Insurance Fund and Savings Association Insurance Fund and allows the FDIC to better price deposit insurance for risk.

We devoted substantial resources to the interagency process for implementing the Basel II Accord in the United States. The FDIC's efforts highlighted the need to maintain existing U. S. Prompt Corrective Action standards under Basel II, and to find ways to address concerns identified by the fourth quantitative impact study (QIS-4).

Our Center for Financial Research (CFR) co-sponsored two premier research conferences, both attracting over 100 prominent researchers and banking scholars from the United States and abroad. Also, 14 CFR working papers were published on topics such as risk-measurement and capital allocation regulations.

Along with members of FFIEC–the Federal Reserve Board and the Office of the Comptroller of the Currency–we successfully implemented the Central Data Repository (CDR), a web-based system to collect, validate and manage quarterly Call Report data. The CDR employs a new flexible data standard–XBRL (eXtensible Business Reporting Language)–enabling Call Report data to be shared more easily and compared more readily with other financial data.

As part of our continuing effort to improve our response to a potential large-bank failure, we sought comments on the best way to enhance the deposit insurance determination process. Given the increasing concentration of banking assets in a small number of the largest federally-insured institutions, we identified this as a major priority. We are conducting a thorough review of our policies, systems capabilities, interagency communication procedures and workforce readiness to ensure that we are better prepared to properly manage the failure of a large bank or thrift.

We implemented our new Relationship Manager Program nationwide for all FDIC-supervised institutions. Designed to strengthen communication between bankers and the FDIC, this program will enhance efficiency and increase flexibility in conducting examination activities.

We established the new Anti-Money Laundering and Financial Crimes Branch within our Division of Supervision and Consumer Protection to better focus attention on increasing responsibilities in these areas. This Branch will address issues related to the Bank Secrecy Act, compliance, money laundering, financial crimes, terrorist financing and cyber-fraud.

We continued to be a leader in helping banks to combat identity theft. The publication of our study, *Putting an End to Account-Hijacking and Identity Theft,* and a *Study Supplement* led to the issuance of FFIEC guidance in October 2005 requiring financial institutions to use stronger customer authentication techniques for Internet banking by year-end 2006. We also sponsored four identity theft symposiums around the country to educate the public and raise awareness about account hijacking and identity theft.

We conducted a summer-long media campaign to raise awareness of the importance of financial education in Hispanic communities across the nation using the FDIC's free *Money Smart* financial education program.

As the foregoing accomplishments illustrate, the FDIC continued to serve the deposit insurance system and the public well. In no case was this truer than for the citizens of the Gulf Coast who were able to rely on the guarantee of federal deposit insurance despite the uncertainties they were facing on other fronts. It is a testament to the strength and effectiveness of the system created over 70 years ago.

For me personally, it is an honor to serve as Acting Chairman until a permanent successor is named.

Sincerely,

Martin J. Gruenberg

Message from the Chief Financial Officer
Steven O. App

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

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

Financial highlights during 2005 include:

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

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

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

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

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

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

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

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

Sincerely,

Steven O. App

The Year in Review

In 2005, the FDIC continued to pursue an ambitious agenda in meeting its responsibilities. Responding to the multiple hurricanes that occurred this past year tested our readiness, but it also underscored the critical importance of our core mission – maintaining stability of the nation's financial system and public confidence in insured depository institutions.

Highlights of the Corporation's 2005 accomplishments in each of its three major business lines – Insurance, Supervision and Consumer Protection, and Receivership Management – as well as in its program support areas are presented in this section.

Insurance

The FDIC insures bank and savings association deposits. As insurer, the FDIC must continually evaluate and effectively manage how changes in the economy, the financial markets and the banking system affect the adequacy and the viability of the deposit insurance funds.

Deposit Insurance Reform
The FDIC again gave priority attention to enactment of comprehensive deposit insurance reform legislation in 2005.

Both the House and the Senate passed separate deposit insurance reform bills in 2005. These bills were included as part of S.1932, budget reconciliation legislation that contained many provisions unrelated to reform.

The Senate took final action on S. 1932 on December 21, 2005, passing the measure by voice vote. On February 1, 2006, the House cleared the bill for action by the President by a vote of 216 to 214. The President signed the bill into law on February 8, 2006. The Federal Deposit Insurance Reform Act of 2005, contained in S. 1932, includes the major provisions of the FDIC's deposit insurance reform proposals. H.R. 4636, the Deposit Insurance Reform Conforming Amendments Act of 2005, contains the necessary technical and conforming changes to implement deposit insurance reform. H.R. 4636 was passed by the House and Senate in December 2005, separately from S.1932. Specifically, together S. 1932 and H.R. 4636 would:

- Merge the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into a new fund, the Deposit Insurance Fund (DIF), effective no later than July 1, 2006.
- Establish a range for the designated reserve ratio of 1.15 percent to 1.50 percent.

- Allow the FDIC to manage the pace at which the reserve ratio varies within this range. (However, if the reserve ratio falls below 1.15 percent – or is expected to within 6 months – the FDIC must adopt a restoration plan that provides that the DIF will return to 1.15 percent within 5 years.)
- Eliminate the connection between designated reserve ratio (DRR) and premium rates and grant the FDIC's Board of Directors the discretion to price deposit insurance according to risk for all insured institutions at all times.
- Mandate rebates to the industry of half of any amount above the 1.35 percent level, unless the FDIC's Board of Directors, considering statutory factors, suspends the rebates.
- Mandate rebates to the industry of all amounts in the fund above the 1.50 percent level.
- Grant a one-time initial assessment credit (of approximately $4.7 billion) to recognize institutions' past contributions to the fund.
- Increase the coverage limit for retirement accounts to $250,000.
- Index this limit and the general deposit insurance coverage limit to inflation and allow the FDIC (in conjunction with the National Credit Union Administration) to increase the limits every five years beginning January 1, 2011, if warranted.

Implementation of deposit insurance reform will be one of the FDIC's main priorities for 2006.

International Capital Standards

The FDIC, as insurer, has a substantial interest in ensuring that bank capital regulation effectively serves its function of safeguarding the federal bank safety net against excessive loss. During 2005, the FDIC participated on the Basel Committee on Banking Supervision (BCBS) and many of its subgroups. The FDIC also participated in various U.S. regulatory efforts aimed at interpreting international standards and establishing sound policy and procedures for implementing these standards.

The BCBS, jointly with the International Organization of Securities Commissions (IOSCO), published *The Application of Basel II to Trading Activities and the Treatment of Double Default Effects* in July 2005. The document sets forth new capital treatments for over-the-counter derivatives and short term, repo-style transactions, hedged exposures, trading book exposures, and failed securities trades.

Ensuring the adequacy of insured institutions' capital under Basel II remains a key objective for the FDIC. In 2005, the FDIC devoted substantial resources to domestic and international efforts to ensure these new rules are designed appropriately. These efforts included the continued development of a notice of proposed rulemaking (NPR) and examination guidance, which is intended to provide the industry with regulatory perspectives for implementation. Additionally, the fourth quantitative impact study (QIS-4), which was begun in 2004 to assess the potential impact of the Revised Framework on financial institution and industry-wide capital levels, was completed. The QIS-4 findings suggested that, without modification, the Basel II framework could result in an unacceptable decline in minimum risk-based capital requirements. As a result, on September 30, 2005, the domestic bank and thrift regulatory authorities issued a joint press release stating that while they intend to move forward with the Basel II NPR, prudential safeguards must be incorporated into the Basel II framework to address the concerns created by the QIS-4 findings. FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress towards meeting the expected requirements.

Domestic Capital Standards
The FDIC led the development of efforts to revise the existing risk-based capital standards for those banks that will not be subject to Basel II. These efforts are intended to: (a) modernize the risk-based capital rules for non-Basel II banks to ensure that the framework remains a relevant and reliable measure of the risks present in the banking system, and (b) minimize potential competitive inequities that may arise between banks that adopt Basel II and those banks that remain under the existing rules. An Advance Notice of Proposed Rulemaking reflecting these efforts was published in October 2005, with a comment period extended to January 2006. These revisions are currently anticipated to be finalized by domestic bank and thrift regulatory authorities in 2007 for implementation in January 2008.

Regulatory Burden Reduction Initiatives
The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires the banking agencies to solicit public comments to identify outdated or burdensome regulations, review the comments, and publish a summary in the *Federal Register*. The agencies must also eliminate unnecessary regulations to the extent appropriate. Finally, the Federal Financial Institutions Examination Council must report to Congress the significant issues and the merit of the issues raised during the public comment period and provide an analysis of whether the agencies are able to address the issues by regulation or whether the burdens must be addressed by legislative action.

During 2005, the agencies published two notices in the *Federal Register* seeking comments on 56 regulations covering Money Laundering; Safety and Soundness; Securities; Banking Operations; Directors, Officers and Employees; and Rules of Procedure; a total of 155 letters were received. Since June 2003, the agencies have issued five separate Requests for Burden Reduction Recommendations on a total of 127 regulations. More than 900 comments were received in response to those requests for comment. They are being analyzed by staff to determine the feasibility of implementing the recommendations. All of the comment letters received to date are available on the EGRPRA Web site at www.EGRPRA.gov.

The agencies, as part of the EGRPRA initiative to gather recommendations on regulatory burden reduction, held three outreach meetings with bankers in Phoenix, New Orleans and Boston; two meetings with community groups in Boston and Washington, DC; and three joint banker-community group meetings in Los Angeles, Kansas City and Washington, DC. Significant issues have been raised and the agencies are in the process of weighing the issues.

The major success of the EGRPRA project to date is that the agencies, the industry and consumer groups were able to have an open dialogue about regulatory burden. Over 180 legislative proposals for regulatory relief were presented to Congress through testimony by the agencies, the industry and consumer advocates.

Moreover, effective September 1, 2005, the FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (FRB) made changes to their uniform joint Community Reinvestment Act (CRA) regulations that will provide regulatory relief for smaller community banks and – at the same time – preserve the importance of community development in the CRA evaluations of these banks.

Additionally, the FDIC conducted a comprehensive review of its International Banking Rules. The revised rules, which became effective July 1, 2005, amend Parts 303, 325 and 327 relating to international banking and revise Part 347, Subparts A and B. As a result:

- The rules were reorganized and clarified to reduce regulatory burden.
- The availability of general consent for foreign branching and investments by insured state nonmember banks abroad was expanded.
- The "fixed" percentage asset pledge requirement for existing insured U.S. branches of foreign banks ("grandfathered branches") was replaced by a risk-focused asset pledge requirement.
- The relocation rule for "grandfathered branches" was amended to address intrastate and interstate relocations.

Center for Financial Research
The FDIC's Center for Financial Research (CFR) was established in 2003 to promote and support innovative research on topics relating to deposit insurance, the financial sector, prudential supervision, risk measurement and management, and regulatory policy that are important to the FDIC's roles as deposit insurer and bank supervisor. The CFR is a partnership between the FDIC and the academic community with prominent scholars actively engaged in administering its research program. The CFR carries out its mission through an agenda of research, analysis, forums and conferences that encourage and facilitate an ongoing dialogue that incorporates industry, academic and public-sector perspectives.

The CFR supports high-quality original research by sponsoring relevant research program lines and soliciting rigorous analysis of the issues within six program areas (Deposit Insurance, Credit and Market Risk, Bank Performance and the Economy, Corporate Finance and Risk Management, Consumer Finance and Credit Issues and Policy and Regulation). These programs benefit from the leadership of program coordinators who are drawn largely from the outside academic community. Input is also obtained from six prominent economists who serve as Senior Fellows. The CFR sponsors a Visiting Research Fellows Program to provide support for in-residence scholars for defined time periods. The CFR also organizes visits and encourages interaction and collaboration between outside scholars and FDIC staff on subjects of mutual interest.

The CFR co-sponsored two premier research conferences during 2005. The fifteenth annual *Derivatives Securities and Risk Management Conference*, co-sponsored by the FDIC, Cornell University's Johnson Graduate School of Management, and the University of Houston's Bauer College of Business, was held in April 2005. The CFR and *The Journal for Financial Services Research (JFSR)* sponsored their fifth annual research conference, *Financial Sector Integrity, and Emerging Risks in Banking*, in September 2005. Both conferences included high-quality presentations and attracted more than 100 researchers, including both domestic and international participants. Fourteen CFR Working Papers have been completed on topics dealing with risk measurement, capital allocation, or regulations related to these topics. The CFR Senior Fellows met in June to discuss ongoing CFR research on Basel II and payday lending, and to discuss CFR activities for the coming year.

FFIEC Central Data Repository
The FFIEC Central Data Repository (CDR) was successfully implemented on October 1, 2005. The CDR is designed to consolidate the collection, validation and publication of quarterly bank financial reports. This multi-year development effort was undertaken by the FDIC, the FRB and the OCC, and in cooperation with the Call Report software vendors and the banking industry. The CDR employs new technology that uses the XBRL (eXtensible Business Reporting Language) data standard to streamline the collection, validation and publication of Call Report data. Over 8,000 financial institutions were enrolled in the CDR and used it to file their financial reports for the third quarter of 2005. The initial quality of the data was much higher than in previous quarters, speeding the availability of the data to our analysts and ultimately the public, thus fulfilling one of the overarching goals of the CDR project. Higher data integrity, accuracy and consistency will help to increase the efficiency with which the data can be collected, analyzed and released to the public.

In September 2005, the OCC, FRB and the FDIC requested comments on proposed revisions to the Call Report, representing the first set of revisions to the report content since 2002. The proposed changes would affect banks of all sizes and would take effect as of the March 31, 2006, report date. The proposed revisions would enhance the agencies' on- and off-site supervision activities, which should alleviate overall regulatory burden on banks.

DRR Director Mitchell Glassman, second from left, chairs a meeting of the Hurricane Task Force at Washington Headquarters.

Risk Analysis Center
The Risk Analysis Center (RAC), established in 2003 to provide information about current and emerging risk issues, is guided by its Management and Operating Committees – represented by the Division of Supervision and Consumer Protection, the Division of Insurance and Research and the Division of Resolutions and Receiverships. These Committees oversee and coordinate risk-monitoring activities that include presentations and reports regarding risk issues, and special projects. The activities in the RAC are guided by the National Risk Committee, which is chaired by the Chief Operating Officer. Major projects in-process or completed for 2005 include the following: Evaluation of Operational and Reputation Risk, Mortgage Credit Trends Analysis, Enhancing the Effectiveness of the Regional Risk Committee Process, Quantification of Bank Vulnerability to Rising Interest Rates, Hedge Funds, Market Data Repository, Offsite Monitoring, and Collateralized Debt Obligations.

Supervision and Consumer Protection

Supervision and consumer protection are cornerstones of the FDIC's efforts to ensure the stability of and public confidence in the nation's financial system. The FDIC's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions, protects consumers' rights, and promotes community investment initiatives by FDIC-supervised insured depository institutions.

At year-end 2005, the Corporation was the primary federal regulator for 5,265 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state non-member" institutions). Through safety and soundness, consumer compliance and Community Reinvestment Act (CRA) examinations of these FDIC-supervised institutions, the FDIC assesses their operating condition, management practices and policies, and their compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest and addresses consumers' questions and concerns.

Hurricane Recovery Assistance
The federal banking regulatory agencies (agencies) worked cooperatively with state banking regulatory agencies and other organizations to determine the operating status of financial institutions located in the areas affected by the Gulf Coast hurricanes during 2005. The agencies quickly released regulatory relief guidance to help facilitate rebuilding in the areas affected by these hurricanes and encouraged bankers to work with consumers and business owners experiencing difficulties due to the storms. Exercising their authority under Section 2 of the Depository Institutions Disaster Relief Act of 1992 (DIDRA), the agencies made exceptions to statutory and regulatory requirements relating to appraisals for transactions involving real property in major disaster areas when the exceptions would facilitate recovery from the disaster and would be consistent with principles of safety and soundness.

In the wake of the 2005 hurricane season, the agencies confirmed that the banking industry is resilient in the face of tremendous devastation. There were 280 financial institutions, with approximately $270 billion in total assets, operating in the area impacted by Hurricane Katrina. Only a handful of smaller institutions remain as supervisory concerns. The majority of institutions operating in the path of Hurricane Katrina were well-run, had strong management teams, implemented sound back-up contingency plans, and were well capitalized.

The Federal Financial Institutions Examination Council (FFIEC) announced the formation of an interagency working group to enhance the agencies' coordination and communication on, and supervisory responses to, issues facing the industry in the aftermath of Hurricane Katrina. This working group established a user-friendly, web-based, frequently asked questions forum on the FFIEC's Web site at www.ffiec.gov. The task force will also publish examiner guidance to clarify expectations with respect to the assessment of credit risk and other supervisory issues.

Members of the Dallas Region Hurricane Katrina Task Force (l-r): Randy Taylor, Nann Wright, Stan Ivie, Cheryl Couch and Cynthia Scott.

In addition to interagency efforts, the FDIC established a 24-hour hotline and a Web page devoted to assisting hurricane victims to obtain information about their financial institution's operating status, as well as tips on other financial matters, such as replacing identification documents, checks and credit cards.

Safety and Soundness Examinations

As of December 31, 2005, the Corporation had conducted 2,399, or 100 percent of the statutorily required safety and soundness examinations. The number and total assets of FDIC-supervised institutions identified as "problem" institutions (defined as having a composite CAMELS[1] rating of "4" or "5") declined during 2005. As of December 31, 2005, 29 institutions with total assets of $2.9 billion were identified as problem institutions, compared to 44 institutions with total assets of $5.4 billion on December 31, 2004. These changes represent a decrease of 34.1 percent and 46.3 percent, respectively, in the number and assets of problem institutions. During 2005, 36 institutions were removed from problem institution status due to composite rating upgrades, mergers, consolidations or sales, and 19 were newly identified as problem institutions. Additionally, two problem institutions converted to State non-member charters and are now under FDIC supervision. The FDIC is required to conduct follow-up examinations of all designated problem institutions within 12 months of the last examination. As of December 31, 2005, 100 percent of all follow-up examinations for problem institutions had been performed on schedule.

Compliance and Community Reinvestment Act (CRA) Examinations

The FDIC conducted 815 comprehensive compliance-CRA examinations, 1,198 compliance-only examinations,[2] and seven CRA-only examinations in 2005, compared to 1,459 joint compliance-CRA examinations, 673 compliance-only examinations, and four CRA-only examinations in 2004. The FDIC conducted 100 percent of all joint and comprehensive examinations within established time frames. As of December 31, 2005, three institutions were assigned a "4" rating for compliance, and no institutions were rated "5." The first "4"-rated institution is currently under an outstanding Cease and Desist Order and an on-site examination was underway at year-end. Management of the second institution executed a Memorandum of Understanding on October 5, 2005. The third institution was examined in 2005 and the Regional Office is currently finalizing a Cease and Desist Order to address the FDIC's examination findings.

Relationship Manager Program

On October 1, 2005, the Corporation implemented the Relationship Manager Program for all FDIC-supervised institutions. The program, which was piloted in 390 institutions during 2004, is designed to strengthen communication between bankers and the FDIC, as well as improve the coordination, continuity and effectiveness of regulatory supervision. Each FDIC-supervised institution was assigned a relationship manager, who serves as a local point of contact over an extended period and will often participate in or lead examinations for his or her assigned institution. The program will allow for flexibility in conducting examination activities at various times during the 12- or 18-month examination cycle based on risk or staffing considerations.

1 The CAMELS composite rating represents the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

2 Compliance-only examinations are conducted for most institutions at or near the mid-point between joint compliance-CRA examinations under the Community Reinvestment Act of 1977, as amended by the Gramm-Leach-Bliley Act of 1999. CRA examinations of financial institutions with aggregate assets of $250 million or less are subject to a CRA examination no more than once every five years if they receive a CRA rating of "Outstanding" and no more than once every four years if they receive a CRA rating of "Satisfactory."

FDIC Examinations 2003-2005

	2005	2004	2003
Safety and Soundness:			
State Nonmember Banks	**2,198**	2,276	2,182
Savings Banks	**199**	236	231
Savings Associations	**1**	0	0
National Banks	**0**	0	5
State Member Banks	**1**	3	3
Subtotal - Safety and Soundness Examinations	**2,399**	2,515	2,421
CRA/Compliance Examinations:			
Compliance-Community Reinvestment Act	**815**	1,459	1,610
Compliance-only	**1,198**	673	307
CRA-only	**7**	4	2
Subtotal CRA/Compliance Examinations	**2,020**	2,136	1,919
Specialty Examinations:			
Trust Departments	**450**	534	501
Data Processing Facilities	**2,708**	2,570	2,304
Subtotal-Specialty Examinations	**3,158**	3,104	2,805
Total	**7,577**	7,755	7,145

IT Examinations

The FDIC has updated its risk-focused information technology (IT) examination procedures for FDIC-supervised financial institutions under its new Information Technology Risk Management Program (IT-RMP). IT-RMP procedures were issued to examiners on August 15, 2005. The new procedures focus on the financial institution's information security program and risk-management practices for securing information assets. The program integrates with the Relationship Manager Program by embedding the IT examination within the Risk Management Report of Examination for all FDIC-supervised financial institutions, regardless of size, technical complexity or prior examination rating. IT-RMP eliminates separate reporting of IT component ratings and reports only a single technology rating.

Homeland Security

The financial sector is a critical part of the infrastructure in the United States, and the FDIC has taken a leadership role in assisting the financial sector to prepare for emergencies. As a member of the Financial and Banking Information Infrastructure Committee (FBIIC), the FDIC sponsored a series of outreach meetings titled *Protecting the Financial Sector: A Public and Private Partnership.* From 2003 to early 2005, the homeland security meetings were held in 29 cities across the United States with the last meeting held in New York City, NY. These meetings provided members of the financial sector with the opportunity to communicate with senior government officials, law enforcement, emergency management personnel and private sector leaders about emergency preparedness. A second round of homeland security meetings started in late 2005 with four meetings held during this timeframe. Homeland Security meetings are planned for 21 cities in 2006.

The FDIC served as FBIIC's liaison with the Department of Homeland Security (DHS) during 2005 and assisted DHS with items relating to the financial sector.

Bank Secrecy Act

The FDIC is committed to assisting in efforts designed to thwart the inappropriate use of the banking system through activities conducted by terrorists and other criminals. In 2005, the Division of Supervision and Consumer Protection established a new Anti-Money Laundering (AML) and Financial Crimes Branch to focus important resources and attention on our increasing responsibilities in these areas. The new branch brings together specialists to address issues related to Bank Secrecy Act (BSA) compliance, money laundering, financial crimes, terrorist financing, and cyber-fraud.

The FDIC continued in 2005 to play a critical role in the fight against money laundering and terrorist financing. Our efforts included:

- Contributing to the development and implementation of rules and interpretive guidance related to BSA and the USA PATRIOT Act.
- Adopting through the FFIEC, comprehensive interagency examination procedures. The new procedures emphasize a banking organization's responsibility to establish and implement risk-based policies and procedures to comply with the BSA and safeguard its operations from money laundering and terrorist financing.

At the BSA/AML teleconference in the FDIC RAC (l-r): William Spaniel, FFIEC; Bridget Neil, Federal Reserve; Lisa Arquette, FDIC-DSC; John Wagner, OCC; and Timothy Leary, OTS

- Dedicating more staff to BSA/AML oversight. The number of trained BSA/AML subject-matter experts has more than doubled to 347 since 2004. These specialists perform BSA/AML examinations at institutions that have a higher-risk profile due to geographic location, customer base, BSA/AML compliance record, or types of products or services offered.
- Providing various forms of examiner and industry training including one outreach session per region, over 70 events hosted by Washington and Regional offices and representation in 212 BSA/AML events sponsored by states and other entities. In total, the banker calls and outreach events reached more than 23,000 bankers and examiners.

Minority-Depository Institutions

The FDIC has long recognized the importance of minority depository institutions and their importance in promoting the economic viability of minority and under-served communities. As a reflection of the FDIC's commitment to minority depository institutions, on April 9, 2002, the FDIC issued a *Policy Statement Regarding Minority Depository Institutions*. The policy, which can be found at www.fdic.gov/regulations/resources/index.html, implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

Since the adoption of the policy by the FDIC Board of Directors, the program's National Coordinator has maintained contact with various minority depository institution trade associations, and has met periodically with the other Federal banking regulators to discuss the initiatives underway at the FDIC, and to identify opportunities where the agencies might work together to assist minority institutions. All of the FDIC's six DSC Regions have held annual Minority Depository Institution Outreach Programs, made annual contact with each FDIC-supervised minority depository institution, and offered to make return visits to these institutions following the examination process.

During 2004, the FDIC created the Minority Bankers' Roundtable series, a forum designed primarily to explore partnerships between the minority depository institutions community and the FDIC. During 2005, there were six sessions held in: Nashville, Tennessee; New York, New York; Houston, Texas; Santa Monica, California; Atlanta, Georgia; and San Juan, Puerto Rico. The Minority Banker Roundtable and annual regional outreach events will continue in 2006.

In 2005, the FDIC also provided technical assistance, training and educational programs and held interagency forums to address the unique challenges faced by minority depository institutions. Training and educational programs for minority depository institutions included the FDIC's Director's College Program and the FDIC's *Money Smart* Program. The FDIC co-hosted Regional Forums with the America's Community Bankers Association and the National Bankers Association in 2005. FDIC also participated in and/or co-sponsored conferences with America's Community Bankers, National Bankers Association, National Association of Chinese American Bankers, Western Independent Bankers, and Puerto Rico Bankers Association.

FDIC also supported the preservation of minority depository institutions in its response to Hurricane Katrina. The FDIC Task Force on Minority Community Banking and Non-Branch Banking met with representatives from the Utah industrial loan company industry to facilitate their assistance to minority depository institutions in the Gulf Coast region affected by Hurricane Katrina. The result has been that as of year-end 2005, the Utah industrial loans companies have pledged more than $18 million in deposits and over $120,000 in direct grants to this effort. Efforts similar to these made by this FDIC task force will continue in 2006.

FDIC will continue its minority depository institution programs in 2006.

Chairman Powell praises Michael Jackson, Sandra Thompson and Donna Gambrel for their work on a recent conference on preventing identity theft.

Large-Bank Program
In recognition of the increasing concentration of risk exposure in large insured institutions, as well as new challenges posed by the implementation of the Basel II Capital Accord, the FDIC enhanced its large-bank supervision and risk assessment efforts in 2005 by creating two branches – the Large Bank Supervision Branch and the International and Large Bank Policy Branch.

The Large Bank Supervision Branch is responsible for supporting supervisory activities in large banks and establishing minimum standards and supervisory strategies necessary to ensure a consistent approach to large-bank supervision on a national basis. In 2005, Branch staff was actively involved in domestic and international discussions intended to ensure effective implementation of the Basel II Capital Accord, which included participation in numerous "supervisory working group" meetings with foreign regulatory authorities to address Basel II home-host issues.

The International and Large Bank Policy Branch is responsible for supporting supervisory activities in the areas of risk model assessment, economic capital processes, examination work related to market risk under Part 325 Appendix C of the FDIC rules and regulations and other processes that are dependent on quantitative methods. The purpose of Part 325 Appendix C is to ensure that banks with significant exposure to market risk maintain adequate capital to support that exposure. In addition, the International and Large Bank Policy Branch is responsible for policy development regarding large-bank supervision and international matters.

International Stability
The FDIC, as a member of the Consultative Group (CG) with respect to the Middle East-North Africa (MENA) Partnership for Financial Excellence (PFE) initiative, continues to work with the other federal banking agencies, the State Department and the Department of Treasury, to develop technical assistance programs to meet needs in the MENA region. In 2005, the FDIC delivered two courses under the MENA training initiative in 2005: Principles of Bank Resolutions and Receiverships hosted by the Arab Academy for Training and Financial Sciences in Amman, Jordan; and Examination Management hosted by the Central Bank of Tunisia in Tunis. Preparations are underway to establish training venues and course curriculum for this initiative in 2006. The objective of this initiative is to help foster economic growth in the region through the implementation of sound supervisory systems.

The FDIC chairs the Association of Supervisors of Banks of the Americas, (ASBA) Working Group on Deposit Insurance and Bank Resolutions. The Working Group, an outgrowth of action plans for ASBA's 2004-2008 strategic plan, is charged with promoting best practices and identifying opportunities for improvement in deposit insurance and bank resolutions. Similarly, in 2005, the FDIC also actively participated in ASBA's Working Group on Credit and Operational Risk, which was formed to identify best practices and opportunities for improvement in credit risk and operational risk management policies and procedures among ASBA's membership.

The FDIC fulfilled 20 technical assistance missions in 2005. The missions provided technical support in supervision, deposit insurance, resolutions/receiverships, and legal underpinnings of supervision and insurance. Beneficiaries of these missions included Macedonia, Russia, Tanzania, Thailand, Ukraine, several Latin American countries, and several countries involved in the Partnership for Financial Excellence Program in the Middle East and North Africa. The FDIC also held 60 meetings with representatives from foreign countries, typically representing a country's central bank, bank supervisory authority or deposit insurance agency. Frequent visitors included: Albania (2), Canada (2), China (11), France (2), Japan (6), Korea (8), Malaysia (2), Russia (2), and Taiwan (2).

Identity Theft and Consumer Privacy
In 2005, the FDIC continued to take a leading role in helping banks combat identity theft. The FDIC solicited public comment on its study, *Putting an End to Account-Hijacking and Identity Theft,* published in December 2004; and in June 2005, published a study supplement. The study and the supplement took an in-depth look at identity theft, focusing on account hijacking (the unauthorized use of deposit accounts).

Chicago Region team makes sure bankers get the answers they need (l-r): Art Khan, Sharon Vejvoda, Dan Peters, Angelina Pollard, Ronald Regal, Teresa Sabanty, and Ray Jackson

One of the study's conclusions was that increased consumer education and information sharing could reduce the incidence of identity theft. As a result of these recommendations, the FDIC sponsored four symposia in 2005 in Washington, DC, Atlanta, Los Angeles and Chicago that brought together experts representing federal and state government, the banking industry, consumer groups, and law enforcement who discussed current efforts to combat scams such as phishing, which can lead to account hijacking. The symposium speakers also addressed efforts to educate consumers on avoiding other scams that can lead to identity theft and on the steps to take in the unfortunate event that identity theft should happen to them.

The FDIC is one of several federal agencies charged with implementing the provisions of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), which substantially amended the Fair Credit Reporting Act, particularly in the areas of consumer access to and quality of credit information, privacy, and identity theft. The FACT Act:

- preserves uniform national standards for the content of consumer report information and creditor access to such information,
- improves consumer access to credit information,
- improves the quality of reported credit information,
- protects privacy,
- combats identity theft, and
- promotes financial literacy.

Consistent with the privacy requirements of the FACT Act, the FDIC worked with other federal agencies to finalize rules in 2005 that permit creditors to obtain, use and share medical information only to the degree necessary to facilitate legitimate operational needs. The FDIC is training its examiners on the concepts underlying the entire FACT Act, and is developing examination procedures to evaluate industry compliance.

Consistent with the identity theft provision of the FACT Act, the FDIC worked with other federal agencies in 2005 to propose rules that would require banks to implement a written identity theft protection program which includes procedures to evaluate red flags that might indicate identity theft. The FDIC, with the other agencies, also finalized rules requiring institutions to properly dispose of consumer information derived from credit reports in order to prevent identity theft and other fraud. The rules on disposal of consumer information became effective on July 1, 2005.

Consumer Complaints and Inquiries

The FDIC's centralized Consumer Response Center (CRC) is responsible for investigating all types of consumer complaints about FDIC-supervised institutions and for answering inquiries about consumer protection laws and banking practices. During 2005, the FDIC received 8,851 complaints, of which 3,307 were against state non-member institutions. Approximately 36 percent of the state non-member bank consumer complaints concerned credit card accounts, with the most frequent complaints involving billing disputes and account errors, loan denials, terms and conditions, collection practices, reporting of erroneous information, credit card fees and service charges, interest rates, and disclosures. The FDIC responded to over 97 percent of written complaints on a timely basis.

The FDIC also responded to 4,042 written and 9,395 telephone inquiries from consumers and members of the banking community about consumer protection issues. In addition, the FDIC responded to over 64,000 written and telephone inquiries from bankers and consumers about the FDIC's deposit insurance program and insurance coverage issues.

Deposit Insurance Education

An important part of the FDIC's role in insuring deposits and protecting the rights of depositors is its responsibility to ensure that bankers and consumers have access to accurate information about FDIC's deposit insurance rules. To that end, the FDIC has an extensive deposit insurance education program consisting of seminars for bankers, electronic tools for estimating deposit insurance coverage, and written and electronic information targeting both bankers and consumers.

During 2005, the FDIC completed development of a major update of its popular Electronic Deposit Insurance Estimator (EDIE) for consumers, an Internet application located on FDIC's Web site that estimates insurance coverage for users' deposit accounts at insured institutions. The new Consumer EDIE offers two different approaches for estimating coverage, one for novice users and one for frequent users. The new Consumer EDIE application is available for public use starting January 2006.

During 2005, the FDIC conducted a nationwide series of telephone/Internet seminars for bankers and a nationwide survey of insured institutions to gather information about current awareness of, and opinions about, the FDIC's existing educational resources on the deposit insurance rules. The FDIC also initiated an effort to encourage more bank trade organizations to sponsor FDIC deposit insurance seminars for their members.

In 2005, the FDIC released several new job aids for bankers, including:

- A new 100-minute video for bankers that provides an in-depth review of FDIC deposit insurance coverage, available on CD-ROM and for viewing on the FDIC's Web site.
- An *Inventory of Deposit Insurance Guidance (IDIG)*, which is an electronic support system on CD-ROM that includes a searchable database of deposit insurance information and has links to all FDIC deposit insurance publications, application tools and services.
- A major update of *The Financial Institution Employee's Guide to Deposit Insurance*, the FDIC's most authoritative resource on deposit insurance coverage for bankers.

The FDIC also released its two most popular brochures for bank customers—*Insuring Your Deposits* (a basic primer on deposit insurance coverage) and *Your Insured Deposits* (a comprehensive guide to deposit insurance coverage) in Chinese and Korean.

The FDIC conducted 27 seminars for financial institution employees and consumer organizations on the rules for deposit insurance coverage. These seminars, which were conducted in a variety of formats, including Internet, teleconference and classroom, provided a comprehensive review of how FDIC insurance works, including the FDIC's rules for coverage of different types of deposit accounts.

Financial Education and Community Development

The FDIC's financial education activities continue to serve as a vital part of the Corporation's efforts to help maintain the stability of the nation's financial system, support community development and strengthen the economy. Since launching its award-winning *Money Smart* financial education program in 2001, the FDIC has helped thousands of consumers get started on the road to greater financial independence and gain access to mainstream products and services. The FDIC continues to distribute and promote the *Money Smart* curriculum, which is available in five languages–English, Spanish, Chinese, Korean and Vietnamese.

The FDIC exceeded two of the three program goals for *Money Smart*. With over 252,000 copies of the curriculum having been distributed, the FDIC has exceeded by more than two times the original distribution goal of 100,000 copies. This year, the FDIC also exceeded its goal to recruit 1,000 partners for *Money Smart* Alliance. Over 1,200 organizations throughout the country have joined with the FDIC to help deliver and promote financial education. The FDIC has also made significant strides towards achieving the third goal–to provide one million consumers with financial education–more than 589,000 consumers have now been reached. Of the consumers that have taken *Money Smart* classes, the FDIC is aware of over 82,100 who have subsequently opened bank accounts. Some class participants have become first-time home-buyers and others have engaged in other asset-building activities.

To raise awareness of the FDIC's *Money Smart* program among Hispanic adults and encourage them to ask about *Money Smart* classes and products, a summer-long Spanish language advertising campaign included print and radio ads that ran in 14 key markets. A total of 1,080 people attended *Money Smart* classes as a result of the advertising campaign. The FDIC introduced a Spanish-language Web page at www.fdic.gov/quicklinks/spanish.html that contains many consumer-related materials, including *Money Smart*. In recognition of the FDIC's leadership in financial education and outreach to the Hispanic community, President Bush asked the FDIC to be a part of his national public-private sector

partnership to ensure financial education is available consistently and comprehensively to Hispanic communities. The partnership, which includes representatives from the FDIC, U.S. Department of Treasury, Small Business Administration, Latino Coalition, U.S. Hispanic Chamber of Commerce and others, is charged with directing federal, non-profit and private resources to areas in need of financial education and coordinating private sector resources to reach Hispanics nationwide.

In 2005, the FDIC provided assistance to the Inter-American Development Bank (IADB) Multilateral Investment Fund to offer financial education services and help develop products with special remittance features. These products were created in collaboration with Latin American Consulates, foreign banks, U.S. financial institutions and bank trade groups. The FDIC also spoke on panels at the 2005 International Forum on Remittances sponsored by the IADB Multilateral Investment Fund. The panels focused on financial education curricula and outreach and the importance of balancing competition and regulation in the remittance market. In addition, FDIC participated in the *Forum's Remittances, Business Models and Technology Trade Fair*. This fair provided attendees the opportunity to network and view innovative electronic transfer products, which can enable community banks, credit unions, credit cooperatives, and micro-finance institutions to become more competitive in pricing and product features.

In 2005, the FDIC expanded its efforts with the New Alliance Task Force (NATF), originally launched and continuing in Chicago, to two additional markets – Los Angeles, California and Austin, Texas – with 60 financial institutions participating in those markets. NATF is a broad-based coalition comprised of banks, community-based organizations, bank regulatory agencies, government agencies, representatives from the secondary market and private mortgage insurance companies and the Mexican Consulate. The foundation has also been laid for the launch of NATF in four other markets – Boston, New York City, Raleigh-Durham and Kansas City.

Virtual Supervisory Information On The Net (ViSION)

In February 2005, the FDIC released the fourth and final phase of ViSION, a comprehensive processing and tracking system supporting the Corporation's supervision function. This phase represents the culmination of a five-year and approximately $32 million capital-investment project and brings together – in a single, customized product – detailed information on examination, application, enforcement and numerous other bank activities. The system, which includes such features as automated event notification, deadline tracking, and job-specific role-based security, is used by more than 3,200 federal and state regulators.

Annual Independent Audits and Reporting Requirements

The Corporation amended Part 363 of its regulations by raising the asset-size threshold from $500 million to $1 billion for requirements relating to internal control assessments and reports by management and external auditors. The amendment also relieved covered institutions with total assets of less than $1 billion of the requirement that all outside directors on the audit committee be independent of management; under the amended rule, a majority of independent directors on the audit committee is sufficient. The amendment does not relieve public covered institutions from their obligation to comply with applicable provisions of the Sarbanes-Oxley Act and the Securities and Exchange Commission's implementing rules. The amendments took effect in December 2005.

Receivership Management

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No insured depositor has ever experienced a loss in a FDIC-insured institution due to a failure.

Once an institution is closed by its chartering authority – the state for state-chartered institutions, the Office of the Comptroller of the Currency (OCC) for national banks and the Office of Thrift Supervision (OTS) for federal savings associations – the FDIC is responsible for resolving that failed bank or savings association. The FDIC staff gathers data about the troubled institution, estimates the potential loss to the insurance fund(s) from various resolution alternatives, solicits and evaluates

Liquidation Highlights 2003-2005

Dollars in billions (except where noted)

	2005•	2004	2003
Total Resolved Banks	0	3	3
Assets of Resolved Banks	$ 0.00	$ 0.15	$ 1.10
Total Resolved Savings Associations	0	1	0
Assets of Resolved Savings Associations	$ 0.00	$ 0.01	$ 0.00
Net Collections from Assets in Liquidation▪	$ 0.37	$ 0.38	$ 1.70
Total Assets in Liquidation▪	$ 0.44	$ 0.61	$ 0.81
Total Dividends Paid▪	$ 0.44	$ 0.38	$ 1.06
Savings Over Cost of Liquidation▾	$ 0	$11.6 million	$28.2 million

• No failures in 2005.
▪ Includes activity from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.
▾ Least Cost Test Savings.

bids from potential acquirers, and recommends the least-costly resolution method to the FDIC's Board of Directors.

Resolving Financial Institutions Failures

During 2005, there were no institution failures. This is the first calendar year in the history of the FDIC during which no federally-insured institutions failed.

Protecting Insured Depositors

Although the focus of the FDIC in recent years has shifted from resolving large numbers of failed institutions to addressing existing and emerging risks in insured depository institutions, the FDIC continues to protect deposits in those institutions that fail. The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations minimizes the disruption to customers and allows some assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by the FDIC in an orderly manner and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insured $100,000 limit. During 2005, the FDIC paid dividends of 77.9 percent of the deposit amount exceeding the insured limit. These dividends paid in 2005 are up 4.9 percent from 2004.

Receivership Management Activities

The FDIC, as receiver, manages the failed banks and their subsidiaries with the goal of expeditiously winding up their affairs. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and other creditors by reducing overhead and other holding costs. Once the assets of the failed institutions have been sold and the final distribution of any proceeds are made, the FDIC terminates the receivership estates. In 2005, the number of receiverships under management was reduced by 31 percent (from 94 to 65), while the book value of assets under management was reduced by 28 percent (from $615 million to $441 million).

Professional Liability Recoveries

The FDIC staff works to identify potential claims against directors and officers, accountants, appraisers, attorneys and other professionals who may have contributed to the failure of an insured financial institution. Once a claim is deemed viable and cost effective to pursue, FDIC initiates legal action against the appropriate parties. During the year, the FDIC recovered approximately $65 million from these professional liability suits. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against failed institutions, the court may order a defendant to pay restitution to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected more than $6 million in criminal restitution during the year. The FDIC's caseload at the end of 2005 included investigations, lawsuits and ongoing settlement collections involving 21 claims and 106 other active collections, down from 233 at the beginning of 2005. At the end of 2005, there were 995 pending restitution orders, down from 1,181. This includes RTC orders that the FDIC inherited on January 1, 1996.

Effective Management of Strategic Resources

To carry out its mission successfully, the FDIC must effectively manage and utilize a number of critical strategic resources particularly its human, financial, and information technology (IT) resources. Major accomplishments in improving the Corporation's operational efficiency and effectiveness are described below. Although the FDIC is not subject to the President's Management Agenda, many of these efforts are consistent with the spirit of that agenda.

Expansion of Virginia Square Facility

Management of Financial Resources

Beginning in 2003, the Corporation separated its investment expenses from its annual operating budget in order to ensure a more rigorous approach to the approval and management of major investment initiatives. The single most significant current initiative is the construction of additional FDIC office and multi-purpose buildings adjacent to the existing facilities at Virginia Square. This project will eliminate the need for the Corporation to lease commercial space in downtown Washington, DC, and will substantially reduce future facility costs. Management processes have been implemented to ensure adherence to the project budget and schedule. Once completed and occupied, the new building will provide estimated cost savings of approximately $78 million (net present value) over 20 years, when compared to the projected costs associated with the current headquarters leasing arrangements. Construction has progressed on schedule and under budget. Occupancy began in mid-January 2006 and should be completed prior to the end of the first quarter 2006, as targeted.

Human Capital Management

The FDIC's employees are its most important resource for accomplishing its mission. For that reason, it seeks to continue to be the employer of choice within the financial regulatory community and to operate a human resources program that attracts, develops, evaluates, rewards and retains a high-quality results-oriented workforce. This has been a difficult challenge over the past 13 years because the Corporation has been in a continuous downsizing mode as it completed the residual workload from the banking and thrift crises of the late 1980s and early 1990s.

Although the pace of downsizing has slowed in the past few years, the Corporation continues to adjust both the size and composition of its workforce to meet the changing course of the financial services industry. In 2005, the FDIC implemented a number of strategies identified in the human capital plan developed in 2004 to procure the skill sets needed in this new environment.

In 2005, the FDIC completed its workforce restructuring activities in the Division of Resolutions and Receiverships and the Division of Information Technology, and identified the skills sets needed to better position these organizations for future challenges. Through judicious use of Voluntary Early Retirement Authority, Voluntary Separation Incentive Payments, and outplacement assistance, our Information Technology organization met its workforce restructuring goals without the need for involuntary separations. The Division of Resolutions and Receiverships involuntarily separated 66 employees, while reducing its workforce by over 50 percent (a reduction of more than 250 positions from the 2004 authorized level). In both organizations, any remaining vacancies were filled by matching existing employees with the requisite skill sets. The Corporation also plans workforce restructurings in several support divisions in 2006.

In 2005, the FDIC established the Corporate Employee Program (CEP) to begin the cross-training that will produce the flexible workforce envisioned in the FDIC's Human Capital Plan. During the year, four CEP training classes were held for approximately 100 new hires and existing employees. In addition, employees in the Supervision business line who had prior experience in the Resolutions and Receiverships business line received refresher training.

The FDIC requested increased flexibilities from the U.S. Office of Personnel Management (OPM) to facilitate implementation of its Human Capital Plan. In 2005, the FDIC received OPM approval to establish a three-year career internship for the Corporate Employee Program. This delegation provided additional hiring flexibility with the

ability to permanently retain or release these employees at the end of three years. The FDIC also established a Corporate Expert pay plan to hire and retain nationally recognized experts in a limited number of senior, non-managerial positions. In addition, the Corporation received authority to waive the dual compensation restrictions allowing the rehiring of annuitants in critical positions in the event of a severe banking emergency. In 2006, the Corporation will continue to seek increased human resources flexibilities through OPM authorities and legislation as needed.

The FDIC conducted negotiations with the National Treasury Employees Union (NTEU) over compensation and benefits, and met its goals of providing competitive pay and benefits that allow the Corporation to continue its status as an "employer of choice" in the financial regulatory community. A significant portion of the compensation in all pay plans remains linked to each employee's contributions to the FDIC's goals and objectives and overall success.

Emergency Preparedness

During 2005, the FDIC has strengthened and refined the FDIC Emergency Preparedness Program, which includes the Emergency Response Plan and the Business Continuity Plan. Some of the major accomplishments include expanding the capabilities at the headquarters alternate site to include IT back-up operations; developing a new emergency notification system to allow for immediate electronic and voice notification of staff; and conducting an annual business impact analysis (BIA) with major emphasis on IT systems and cost analysis. The annual BIA examined the Corporate Business Continuity Plan to determine whether it was current with regard to the Corporation's critical business functions and resources needed to manage those functions during an emergency. The Corporation also enhanced its emergency preparedness training with the development of computer-based instruction for all employees. In addition, the FDIC continued to conduct emergency preparedness exercises that included evacuation and shelter-in-place drills, as well as tabletop and functional exercises.

Other Significant Information Technology Initiatives

On May 2, 2005, the FDIC implemented the New Financial Environment (NFE) and its supporting systems. The implementation was the culmination of years of effort by the FDIC to modernize its aging, highly-customized and complex financial systems environment. The NFE project was a corporate-wide effort focused on implementing an enterprise-wide, integrated software solution to support the current and future financial needs of the FDIC. NFE also enhanced the capability of other significant development efforts such as the Corporate Human Resources Information System Time and Attendance System, and the Legal Integrated Management System, and also provided more robust cost information for improved decision making.

The FDIC continues to collect quality and timely information in 2005 with the use of FDIC*connect*. FDIC*connect* is a secure Web site that facilitates electronic communication with FDIC-insured institutions, and became the primary method of delivery for the quarterly deposit insurance assessment invoices through a rule change effective with the March 2005 assessment cycle. In 2005, over 150,000 transactions were completed by financial institutions using FDIC*connect*.

Transformation of the Information Technology Program

In 2005, the FDIC completed critical steps toward transforming its information technology program– an initiative began in 2004. Using a roadmap developed with Deloitte Touche over 18 months ago, the FDIC implemented an outsourcing strategy, employee buyout and divisional reorganization that significantly improved the program's overall efficiency and effectiveness. The immediate benefits of steps taken so far include:

- Establishment of the Chief Information Officer (CIO) Council, advising the CIO on all aspects of adoption and use of IT at the FDIC.
- Additional IT expertise and best practices from global contracting partners.
- A leaner organization with fewer staff and an increased span of control.
- A streamlined technical infrastructure.

- A realigned IT product and services delivery-management structure that is organized along the lines of the new systems development life cycle (Rational Unified Process-RUP).
- A new delivery management structure that in conjunction with the new Project Management Office (PMO) provides a consistent approach for all IT projects.
- Enhanced integration of information security requirements and perspectives in all IT projects.
- The consolidation of nearly 100 support contracts into six. The structure of the new contracts emphasized contractor performance and linked contractor compensation to results achieved rather than costs incurred.

Once completed, the FDIC anticipates that the benefits of the transformation will include:

- The greater use of contracting partners for operation and implementation allowing in-house staff to focus on strategic business planning, design and consultation.
- Reduced costs through improving the efficiency and effectiveness of IT products and services.
- A targeted long-term plan for personal and technical development of all IT employees resulting from a new skills assessment to be conducted during 2006.

Privacy Program

In 2005, the charter of the Chief Information Officer's Council was expanded to include oversight of Privacy Act responsibilities, and the corporate Privacy Program was enhanced under the guidance of the newly appointed Chief Privacy Officer (CPO). The program's objective is to ensure that the FDIC is taking appropriate steps to protect personally identifiable information from unauthorized use, access, disclosure or sharing, and to protect associated information systems from unauthorized access, modification, disruption or destruction.

One of the first priorities is increasing employee awareness. The program requires mandatory privacy training so that all FDIC employees and contractors are aware of the requirements for safeguarding sensitive information and know where to obtain privacy-related reference material. Many initiatives were completed in 2005 in support of the newly enhanced Corporate Privacy Program, including mandatory computer-based privacy training and distribution of a Privacy Awareness Package.

Deposit Insurance Fund Performance

The FDIC administers two deposit insurance funds – the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) – and manages the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the FDIC's insurance funds. (See the accompanying tables on FDIC-Insured Deposits, Insurance Fund Reserve Ratios and Risk-Related Premiums on the following pages.)

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

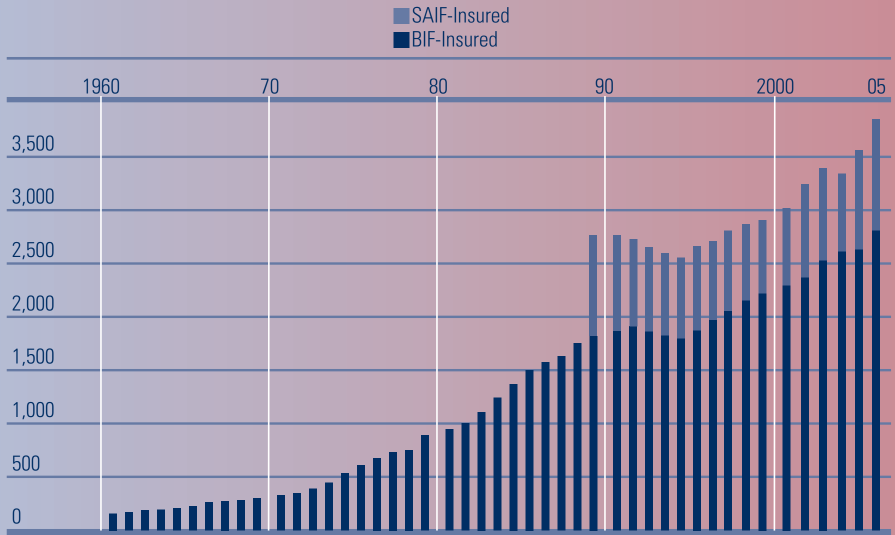
The SAIF reported comprehensive income of $409 million in 2005, compared to $480 million in 2004. This reduction of $71 million was primarily due to an increase in unrealized losses on AFS securities of $93 million and lower recoveries of prior years' provisions for insurance losses of $50 million, offset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

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

Operating Expenses

Corporate Operating Budget expenses totaled $990 million in 2005, including $979 million in ongoing operations and $11 million for receivership funding. This represented approximately 95 percent of the approved budget for ongoing operations and 15 percent of the approved budget for receivership funding.

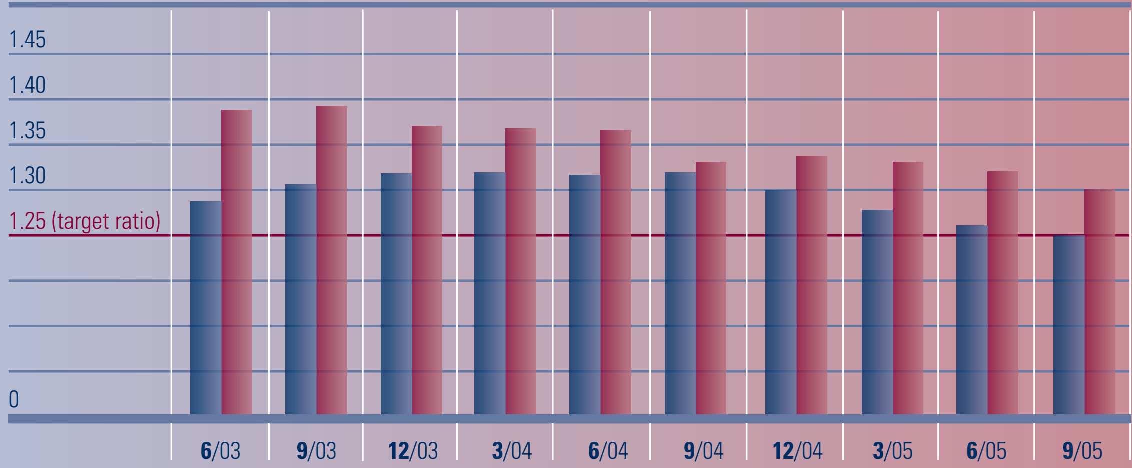
In December 2005, the Board of Directors approved a 2006 Corporate Operating Budget of approximately $1.05 billion, including $975 million for ongoing operations. The level of approved Corporate Operating Budget for 2006 is more than 5 percent lower than the Corporate Operating Budget for 2005 due to savings achieved through continued staffing reductions and the realization of other efficiencies. The Corporate Operating Budget includes funding for a number of major new initiatives, including increased funding for consumer protection activities; continued implementation of the Corporate Employee Program; several new learning initiatives consistent with the Corporation's commitment to an environment of continuous employee growth and development; and several projects to explore increased automation of the bank examination process.



Investment Spending

The FDIC has a disciplined process for reviewing proposed new investment projects and managing the implementation of approved projects. Most of the projects in the current investment portfolio are major IT system initiatives. Proposed IT projects are carefully reviewed to ensure that they are consistent with the Corporation's enterprise architecture and include an appropriate return on investment for the insurance funds. The process also enables the FDIC to be aware of risks to the major capital investment projects and facilitates appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review of the major capital investments is provided to the FDIC's Board of Directors quarterly.

During 2005, the Corporation completed and implemented three projects in its investment portfolio. Spending for investment projects in 2005 totaled approximately $62 million, but is expected to drop significantly in 2006. The Board of Directors did not approve any new investment projects in 2005.


Insurance Fund Reserve Ratios Fund Balances as a Percent of Insured Deposits
BIF
SAIF
1.45
1.40
1.35
1.30
1.25 (target ratio)
0
6/03
9/03
12/03
3/04
6/04
9/04
12/04
3/05
6/05
9/05

Risk-Related Premiums

The following tables show the number and percentage of institutions insured by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), according to risk classifications effective for the first semiannual assessment period of 2005. Each institution is categorized based on its capital group (1, 2, or 3) and supervisory subgroup (A, B, or C), which is generally determined by on-site examinations. Assessment rates are basis points, cents per $100 of assessable deposits, per year.

BIF Supervisory Subgroups•

Capital Group	A	B	C
1. Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	7,307 (94.2%)	344 (4.4%)	47 (0.6%)
2. Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	49 (0.6%)	5 (0.1%)	7 (0.1%)
3. Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	0 (0.0%)	2 (0.0%)

SAIF Supervisory Subgroups▲

Capital Group	A	B	C
1. Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	1,034 (93.5%)	58 (5.2%)	11 (1.0%)
2. Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	3 (0.3%)	0 (0.0%)	0 (0.0%)
3. Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	0 (0.0%)	0 (0.0%)

• BIF data exclude SAIF-member "Oakar" institutions that hold BIF-insured deposits. The assessment rates reflect the rates for BIF-assessable deposits, which remained the same throughout 2005.

▲ SAIF data exclude BIF-member "Oakar" institutions that hold SAIF-insured deposits. The assessment rates reflect the rates for SAIF-assessable deposits, which remained the same throughout 2005.

Summary of 2005 Performance Results by Program

The FDIC successfully achieved 27 of the 34 annual performance targets established in its 2005 Annual Performance Plan. Six performance targets were not applicable and one was not met.

Key accomplishments by program are highlighted on the following page. There were no instances in which 2005 performance had a material adverse effect on successful achievement of the FDIC's mission or its strategic goals and objectives regarding its major program responsibilities. In addition, consideration of 2005 performance results was an integral part of the development of the FDIC's 2006 Annual Performance Goals.

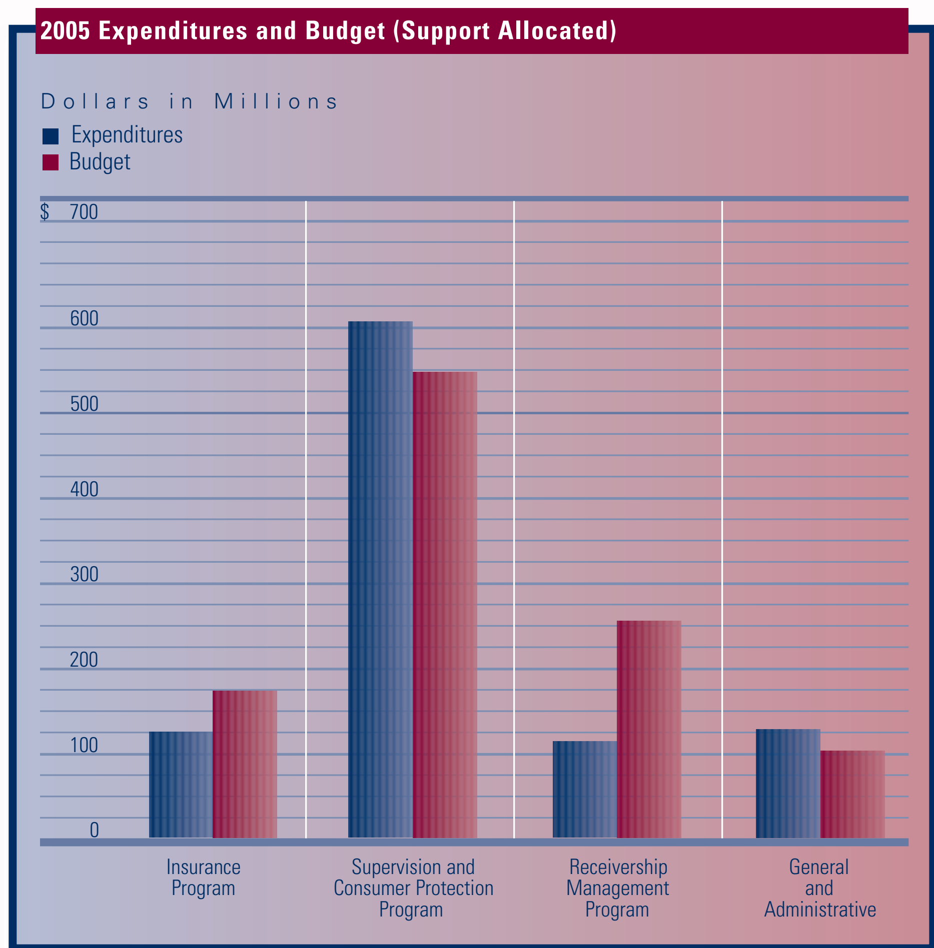
The Office of Inspector General (OIG) has shared its view of the most significant challenges the Corporation is confronting and has acknowledged actions underway to address these issues. (See Appendix C for a list of these challenges.) Management is committed to addressing each of the issues identified by the OIG.

Program Area	Performance Results
Insurance	• Successfully implemented the Central Data Repository (CDR) to collect and process Reports of Condition and Income (Call Reports) from financial institutions. This FFIEC project will improve the quality and timeliness of financial institution data.
	• Conducted and published analysis on the effects of Hurricanes Katrina and Rita.
	• Issued numerous economic and banking information and analyses publications including *Outlook, FYI* electronic bulletins, and Center for Financial Research Working Papers.
	• Completed risk assessments for all large insured depository institutions and followed up on all identified concerns referred for examination or other supervisory action.
	• Developed a working prototype of an integrated fund model (IFM) during 2005, with enhancements focusing on the primary component of the IFM – the Loss Distribution Model.
	• No financial institution failures occurred during 2005.
Supervision and Consumer Protection	• Conducted 2,399 safety and soundness examinations. This included all statutorily required safety and soundness examinations, except for a small number deferred due to pending mergers or postponed to early 2006 to give financial institutions time to recover from the effects of the Gulf Coast Hurricanes.
	• Conducted 2,020 compliance and Community Reinvestment Act examinations in accordance with FDIC policy, except for a small number postponed to early 2006 to give financial institutions time to recover from the effects of the Gulf Coast Hurricanes.
	• Participated in 406 *Money Smart* events and technical assistance activities related to the Community Reinvestment Act, fair lending and community development, added 306 *Money Smart* Alliance members, and distributed 95,283 copies of the *Money Smart* curriculum.
Receivership Management	• Terminated 29 of the 94 (31 percent) financial institution receiverships existing at the beginning of the year.
	• Conducted 100 percent of professional liability investigations on all four institutions that reached the 18-month milestone.

2005 Budget and Expenditures by Program (Excluding Investments)

The FDIC budget for 2005 totaled $1.101 billion. Excluding $113 million for Corporate General and Administrative expenditures, budget amounts were allocated to corporate programs and related goals as follows: $174 million, or 16 percent, to the Insurance program; $555 million, or 50 percent, to the Supervision and Consumer Protection program; and $259 million, or 24 percent, to the Receivership Management program.

Actual expenditures for the year totaled $990 million. Excluding $136 million for Corporate General and Administrative expenditures, actual expenditures were allocated to programs as follows: $129 million, or 13 percent, to the Insurance program; $605 million, or 61 percent, to the Supervision and Consumer Protection program; and $120 million, or 12 percent, to the Receivership Management program.



Insurance Program Results

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

	Annual Performance Goal	Indicator	Target	Results
1.	Respond promptly to financial institution closings and emerging issues.	Number of business days after institution failure depositors have access to insured funds either through transfer of deposits to successor insured depository institution or depositor payout.	If the failure occurs on a Friday, the target is one business day.	Not Applicable. No failures in 2005.
			If a failure occurs on any other day of the week, the target is two business days.	Not Applicable. No failures in 2005.
2.	Identify and address risks to the insurance funds.	Insurance risks posed by large insured depository institutions.	Assess the insurance risks in 100 percent of large insured depository institutions and adopt appropriate strategies.	Achieved. See pg. 29.
		Concerns referred for examination or other action.	Identify and follow up on 100 percent of referrals.	Achieved. See pg. 29.
		Dissemination of data and analyses on issues and risks affecting the banking industry to bankers, supervisors, the public, and other stakeholders.	Results of research and analyses are disseminated in a timely manner through regular publications, ad hoc reports and other means.	Achieved. See pg. 29.
			Industry outreach activities are undertaken to inform bankers and other stake-holders about current trends and concerns and available FDIC resources.	Achieved. See pgs. 10-11.
3.	Maintain sufficient and reliable information on insured depository institutions.	Quality and timeliness of bank data.	Implement a modernized Call Reporting process during the second Call Reporting period in 2005.	Achieved. See pg. 11.

Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
4. Maintain and improve the deposit insurance system.	Deposit Insurance Reform.	Provide information and analysis to Congressional committees in support of deposit insurance reform legislation.	Achieved. See pgs. 8-9.
		Obtain legislative support for a proposed assessment credit and rebate system and a new deposit insurance pricing system.	Achieved. See pgs. 8-9.
		When deposit insurance reform is enacted, implement the legislation in accordance with statutorily prescribed time frames.	Not Applicable. Legislation enacted Feb. 8, 2006.
	Loss Reserves.	Enhance the effectiveness of the reserving methodology by applying sophisticated analytical techniques to review variances between projected losses and actual losses, and by adjusting the methodology accordingly.	Achieved. See pg. 29.
	Fund Adequacy.	Set assessment rates to maintain the insurance funds at the designated reserve ratio (DRR) or return them to the DRR if they fall below it, as required by statute.	Achieved. See pg. 37
		When deposit insurance reform legislation is enacted, promulgate rules and regulations establishing criteria for replenishing the Deposit Insurance Fund when it falls below the low end of the range.	Not Applicable. Legislation enacted Feb. 8, 2006.
		Enhance the working prototype of the integrated fund model for financial risk management.	Achieved. See pg. 29.

Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

	Annual Performance Goal	Indicator	Target	Results
5.	Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.	Utility of educational tools developed for bankers and consumers.	Update the consumer version of the EDIE (Electronic Deposit Insurance Estimator) located on the FDIC's Web site.	Achieved. See pg. 18.

Supervision and Consumer Protection Program Results

Strategic Goal: FDIC-supervised institutions are safe and sound.

	Annual Performance Goal	Indicator	Target	Results
1.	Conduct on-site risk management examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations.	Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy.	One hundred percent of required safety and soundness examinations (including a review for BSA compliance) are conducted on schedule.	Achieved. See pg. 13.
2.	Take prompt and effective supervisory action to address problems identified during the FDIC examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of 4 or 5 (problem institutions). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.	Percentage of follow-up examinations of problem institutions conducted within required time frames.	One hundred percent of follow-up examinations are conducted within 12 months of completion of the prior examination.	Achieved. See pg. 13.
3.	Increase industry and regulatory awareness of emerging/high-risk areas.	Number of trained BSA/AML subject-matter experts.	The number of trained BSA/AML subject matter experts is increased to 300.	Achieved. See pg. 15.
			Advanced training is completed for all BSA/AML subject matter experts.	Achieved. See pg. 39.
		Number of industry outreach sessions on BSA/AML/Counter Financing of Terrorism (CFT) issues.	At least one outreach session is conducted per region.	Achieved. See pg. 15.
4.	More closely align regulatory capital with risk in large or multinational banks.	Completion of preparatory activities for implementation of the new Basel Capital Accord.	Notice of Proposed Rulemaking (NPR) and associated examination guidance for implementing the new Basel Capital Accord are published for comment.	Achieved. See pg. 10.
			Quantitative Impact Study 4 is completed.	Achieved See pg 9.

Supervision and Consumer Protection Program Results (continued)

Strategic Goal: FDIC-supervised institutions are safe and sound.

	Annual Performance Goal	Indicator	Target	Results
5.	Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards.	Percentage of on-site examinations or off-site analyses performed.	On-site examinations or offsite analyses are performed for all FDIC-supervised banks that intend to operate under Basel II to ensure that they are effectively working toward meeting required qualification standards.	Achieved. See pg. 9.
6.	Provide effective outreach and technical assistance on topics related to the CRA, fair lending, and community development.	Number of *Money Smart* Alliance members.	200 additional members are added to the *Money Smart* Alliance.	Achieved. See pg. 38.
		Number of *Money Smart* curricula distributed.	20,000 additional copies of the *Money Smart* curricula are distributed.	Achieved. See pg. 38.
			200,000 additional individuals are taught using the *Money Smart* curriculum.	Achieved. See pg. 38.
		Number of outreach activities conducted with technical assistance.	125 technical assistance (examination support) efforts or banker/community outreach activities are conducted related to CRA, fair lending, or community development.	Achieved. See pg. 38.
7.	Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.	Timely responses to written complaints.	Responses are provided to 90 percent of written complaints within time frames established by policy.	Achieved. See pg. 17.
8.	Conduct CRA and compliance examinations in accordance with FDIC examination frequency policy.	Percentage of examinations conducted in accordance with required time frames.	One hundred percent of required examinations are conducted within time frames established by FDIC policy.	Achieved. See pg. 13.
9.	Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a 4 or 5 rating for compliance with consumer protection and fair lending laws.	Percentage of follow-up examinations or related activities conducted within required time frames.	One hundred percent of follow-up examinations or related activities are conducted within 12 months from the date of a formal enforcement action to confirm that the institution is in compliance with the enforcement action.	Achieved. See pg. 39.

Receivership Management Program Results

Strategic Goal: Recovery to creditors of receivership is achieved.

	Annual Performance Goal	Indicator	Target	Results
1.	Market failing institutions to all known qualified and interested potential bidders.	List of qualified and interested bidders.	Contact all known qualified and interested bidders.	Not Applicable. No failures in 2005.
2.	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Percentage of failed institution's assets marketed.	Ninety percent of book value of a failed institution's marketable assets are marketed within 90 days of failure.	Not Applicable. No failures in 2005.
3.	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Inactivate 75 percent of receiverships managed through the Receivership Oversight Program within three years of the failure dates.	Not Achieved. See pg.40.
4.	Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim.	For 80 percent of all claim areas, a decision is made to close or pursue the claim within 18 months after the failure date.	Achieved. See pg. 40.

Annual Goal	2002 Results	2003 Results	2004 Results	2005 Results
Depositor Payouts in Instance of Failure				
The FDIC responds promptly to financial institution closings and emerging issues.	Timely payments made to all depositors of the 11 insured depository institutions that failed in 2002.	Timely payments made to all depositors of the three insured depository institutions that failed in 2003.	Timely payments made to all depositors of the four insured depository institutions that failed in 2004.	There were no failures in 2005.
Risk Classifications				
Maintain and improve the deposit insurance system.	Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) reserve ratios maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Committee in support of deposit insurance reform.	BIF and SAIF reserve ratios maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Committee in support of deposit insurance reform.	The FDIC completed implementation of enhancements to the reserving process and methodology in March 2004. BIF and SAIF reserve ratios were maintained at or above the statutory ratio of 1.25 percent.	Through September 30, 2005, BIF and SAIF reserve ratios were maintained at or above the statutory ratio of 1.25 percent.
	Legislation on deposit insurance reform was introduced in the House and the Senate.	Legislation on deposit insurance reform was passed in the House and was pending in the Senate when Congress recessed for the year.	Deposit insurance reform remained under consideration in the Senate, but no action was taken prior to the end of the 108th Congress.	Congress included deposit insurance reform legislation in budget reconciliation legislation, S. 1932. The measure was adopted by the Senate in December and was passed by the House on February 1, 2006. The President signed the bill enacting deposit insurance reform legislation on February 8, 2006.
Risk Management, Safety and Soundness				
Conduct on-site risk management examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations.	Conducted 2,534 or 98 percent of required safety and soundness examinations.	Conducted 2,421 required safety and soundness examinations in accordance with FDIC policy.	Conducted 2,515 required safety and soundness examinations in accordance with FDIC policy.	Conducted 2,399 required safety and soundness examinations in accordance with FDIC policy.

Safety and Soundness Enforcements Actions				
Annual Goal	**2002 Results**	**2003 Results**	**2004 Results**	**2005 Results**
Take prompt and effective supervisory action to address issues identified during the FDIC's examination of FDIC-supervised institutions that receive a composite Uniform Financial Institutions Rating of "4" or "5" (problem institution). Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions. (Revised – 2005)	Eighty-four institutions designated as problem (composite "4" or "5" rated). Forty-eight were removed from problem status and 63 were added. .	Seventy-three institutions designated as problem (composite "4" or "5" rated). Fifty-eight with total assets of $6.98 billion were removed from problem status and 47 with total assets of $4.99 billion were added. Additionally, the FDIC issued the following formal and informal enforcement actions: 40 (5 contained BSA provisions) Cease and Desist Orders and 157 (6 contained BSA provisions) Memoranda of Understanding.	Forty-four institutions designated as problem (composite "4" or "5" rated). Fifty-seven with total assets of $6.3 billion were removed from problem status and 28 institutions with total assets of $4.8 billion were added. Additionally, the FDIC issued the following formal and informal actions: 38 (11 contained BSA provisions) Cease and Desist Orders and 145 (31 contained BSA provisions) Memoranda of Understanding.	Twenty-nine institutions designated as problem (composite "4" or "5" rated). Thirty-six with total assets of $2.8 billion were removed from problem status and 19 institutions with total assets of $802 million were added. Additionally, the FDIC issued the following formal and informal actions: 15 (8 contained BSA provisions) Cease and Desist Orders and 152 (69 contained BSA provisions) Memoranda of Understanding.
Compliance Examinations				
Conduct CRA and compliance examinations in accordance with FDIC examination frequency policy. (Revised -2005)	Conducted 1,840 comprehensive compliance-only and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2002.	Conducted 1,919 comprehensive compliance-only and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2003.	Conducted 2,136 comprehensive compliance-only and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2004.	Conducted 2,020 comprehensive compliance-only and CRA examinations in accordance with FDIC policy. A small number of exams were postponed to early 2006 to give financial institutions time to recover from the effects of the Gulf Coast hurricanes.
CRA Outreach				
Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development.	*Money Smart* classes attended by approximately 2,800 participants.	The FDIC supplied more than 111,000 copies of *Money Smart* curricula to organizations. FDIC sponsored 65 public outreach initiatives, 111 community development activities, and 67 technical assistance activities.	Targets for the following were met: added 200 new *Money Smart* Alliance members; distributed 20,000 copies of *Money Smart* curriculum; additional 294,000 members reached; and conducted 125 outreach and technical assistance activities.	Targets for the following were met: added 306 new *Money Smart* Alliance members; distributed 95,283 copies of *Money Smart* curriculum; additional 195,000 members reached; and conducted 163 outreach and technical assistance activities.

Compliance Enforcement Actions				
Annual Goal	**2002 Results**	**2003 Results**	**2004 Results**	**2005 Results**
Take prompt and effective supervisory action to monitor and address problems identified during compliance examinations of FDIC-supervised institutions that receive a "4" or "5" rating for compliance with consumer protection and fair lending laws. (Revised - 2005)	Eight of nine institutions entered into a Memorandum of Understanding (MOU) with the FDIC; the ninth was in the process of reviewing the recommended MOU at year-end.	The only "4" rated institution entered into a MOU with the FDIC.	Of the five institutions rated "4" as of December 31, 2004, two entered into Memoranda of Understanding with the FDIC; and two were subject to outstanding Cease and Desist Orders. A Cease and Desist Order for the fifth institution was issued during the second quarter of 2005.	Of the three institutions rated "4" as of December 31, 2005, one entered into a Memorandum of Understanding with the FDIC; and two are subject to outstanding Cease and Desist Orders. There are no institutions currently rated "5."
Risk Management Safety and Soundness				
Increase industry and regulatory awareness of emerging/high-risk areas. (Added - 2005)				The Anti-Money Laundering (AML) goal has met targets and the advanced training for all BSA/AML subject matter experts has been accomplished.
More closely align regulatory capital with risk in large or multinational banks. (Added – 2005)				Final results of the 4th Quantitative Impact Study (QIS-4) show a 15.5 percent decline in minimum regulatory capital from current levels, with a wide dispersion in results that was primarily due to banks' internal measurement of risk, rather than actual risk.
Basel Capital Accord				
Ensure that FDIC-supervised institutions that plan to operate under the new Basel Capital Accord are making satisfactory progress toward meeting required qualification standards. (Added – 2005)				Initial Basel II outreach efforts or baseline reviews continue at FDIC-supervised institutions that have indicated their possible intent to opt-in for treatment under the new rules. FDIC is integrally involved in domestic and international policy and implementation processes to help ensure a smooth transition to Basel II.

Consumer Complaints and Inquiries				
Annual Goal	**2002 Results**	**2003 Results**	**2004 Results**	**2005 Results**
Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.	FDIC received 8,368 consumer complaints and closed 95 percent of them. Of the complaints closed, 94 percent were closed within policy time frames.	FDIC received 8,010 consumer complaints and closed 99 percent of them. Of the complaints closed, 94 percent were closed within policy time frames.	FDIC received 8,742 consumer complaints, closing 95 percent of them. Of the closed complaints, 95 percent were closed within policy time frames.	FDIC received 8,851 consumer complaints, closing 96 percent of them. Of the closed complaints, 97 percent were closed within policy time frames.
Asset Management				
Value, manage and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return.	For all 11 institutions that failed, at least 87 percent of all marketable assets were marketed within the 90-day time frame, thus exceeding the target of 85 percent.	For all three institutions that failed, at least 98 percent of all marketable assets were marketed within the 90-day time frame, thus exceeding the target of 85 percent.	Five financial institutions reached their 90-day threshold during 2004. One hundred percent of all marketable assets were marketed within the 90-day time frame.	No financial institutions reached their 90-day threshold during 2005.
Least-Cost Resolution				
Market failing institutions to all known qualified and interested potential bidders.	There were 11 failures in 2002. One hundred percent of the qualified potential bidders were contacted.	There were three failures in 2003. One hundred percent of the qualified potential bidders were contacted.	There were four failures in 2004. One hundred percent of the qualified potential bidders were contacted for the sale of three failed institutions. One failed institution was not offered for sale.	There were no failures in 2005.
Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions and decide as promptly as possible to close or pursue each claim considering the size and complexity of the institution. (Revised -2005)	Two of six institutions that reached the 18-month milestone during 2002 had 100 percent of professional liability investigations completed. The other four institutions had at least 80 percent of professional liability investigations completed, meeting the goal of 80 percent.	Four of ten institutions that reached the 18-month milestone during 2003 had 100 percent of professional liability investigations completed. The other six institutions had at least 80 percent of professional liability investigations completed, meeting the goal of 80 percent.	All five institutions that reached the 18-month milestone during 2004 had 100 percent of professional liability investigations completed, meeting the goal of 80 percent.	All four institutions that reached the 18-month milestone during 2005 had 100 percent of professional liability investigations completed, meeting the goal of 80 percent.
Manage the receivership estate and its subsidiaries toward an orderly termination.	For the eight failures from 1999 that matured in 2002, the FDIC terminated six receiverships, meeting the target to terminate 75 percent within three years of failure.	For the seven failures that occurred during 2000 that matured in 2003, the FDIC terminated four receiverships, below the target to terminate 75 percent within three years of failure.	For the four failures that occurred during 2001 that matured in 2004, the FDIC terminated three receiverships, meeting the target to terminate 75 percent within three years of failure.	For the eleven failures that occurred during 2002 that matured in 2005, the FDIC terminated four receiverships. This did not meet the target to terminate 75 percent within three years of failure and was due to various impediments to terminations.

Program Evaluation

During 2005, the FDIC completed evaluations of programs designed to achieve the strategic objectives set forth in the Supervision Program area of the FDIC's 2005 – 2010 Strategic Plan.

The program evaluation of each strategic objective included a list of issues to be evaluated, background context of the evaluation, analysis of programs and actions to achieve the objective, evaluation methodology, and findings. The following section highlights the issues evaluated and summarizes the results of this evaluation.

Strategic Objective	FDIC-supervised institutions appropriately manage risk.
Issues evaluated	★ How does the FDIC ensure that FDIC-supervised institutions appropriately manage risk? ★ What happens to FDIC-supervised institutions that are not appropriately managing risk?
Findings	The FDIC performs safety and soundness, trust, Bank Secrecy Act, and information technology examinations of FDIC-supervised institutions. The examinations are conducted to assess an institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations. Through the examination process, the FDIC also assesses the adequacy of management and internal control systems to identify, measure and control risks. If the examination process reveals weaknesses in an FDIC-supervised institution's operations or conditions, appropriate actions are taken. Informal or formal enforcement actions may be issued to the institutions that have significant weaknesses or that are operating in a deteriorated financial condition. The actions remain in effect until corrective actions are taken and the identified weaknesses are corrected. If the problems remain unresolved, the FDIC may take further steps to encourage or compel institutions to comply.

Strategic Objective	Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.
Issues evaluated	★ Does the FDIC provide information to consumers about their rights and the disclosures due consumers under current consumer protection and fair lending laws? ★ Is the information easily accessible and easily understood?
Findings	The FDIC undertakes an extensive and expanding number of activities to provide information on consumers' rights and the disclosures due them under consumer protection and fair lending laws. A wide array of materials detail consumers' rights; provide information and answers to questions concerning deposit insurance, banks and consumer rights; and offer practical guidance on how to become a better informed user of financial services. These are readily accessible and widely distributed on the FDIC's Web site and at outreach seminars and workshops. Many materials are also available in hard copy and some in multiple languages. The FDIC also has been actively involved in consumer education and disclosure with the on-going support of programs such as *Money Smart* and EDIE.

Strategic Objective	FDIC-supervised institutions comply with consumer protection, Community Reinvestment Act (CRA), and fair lending laws.
Issues evaluated	★ How does the FDIC ensure that FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws?
Findings	The FDIC conducts compliance and CRA examinations to evaluate FDIC-insured institutions' practices regarding these areas. In addition to the examination process, the FDIC investigates consumer complaints about banking practices. Noncompliance with consumer protection and fair lending laws can result in civil liability and negative publicity as well as informal or formal enforcement actions against the institution to correct identified violations. The FDIC also utilizes the institution's record of compliance with consumer protection, CRA, and fair lending laws when evaluating applications for new or expanded activities and certain other corporate applications.

Bank Insurance Fund
December 31, 2005 and 2004

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.

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.

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.

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.

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.

BIF

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.

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

December 31, 2005 and 2004

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.

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.

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.

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 creditworthiness 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.

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
December 31, 2005 and 2004

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.

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.

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.

FRF

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.

FRF

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.

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

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.

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.

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

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

Federal Deposit Insurance Corporation
550 17th St. NW Washington, DC 20429 Deputy to the Chairman & 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

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

Overview of the Industry

The 8,856 FDIC-insured commercial banks and savings institutions filing financial reports for September 30 reported total net income of $102 billion for the first three quarters of 2005, an increase of $10.2 billion (11.1 percent) over the same period of 2004. The three highest quarterly earnings totals for the industry have all come in 2005, as strong loan demand, favorable asset quality, and improvements in market-related revenue have all supported growth in earnings. The improving trend has been broadly based; almost two out of every three insured institutions (64 percent) reported higher earnings for the first three quarters of 2005 than in the same period of 2004.

The average return on assets (ROA), a basic yardstick of earnings performance, was 1.31 percent, up from 1.29 percent in the same period of 2004. Merger accounting caused more than $3 billion to be excluded from 2004 earnings, so the year-over-year increase in earnings is somewhat overstated, but there was still substantial growth in profits. One important source of improvement was higher noninterest income, especially market-sensitive revenues such as trading income. Total noninterest revenue was $19.1 billion (12.8 percent) higher than in the first three quarters of 2004, as income from trading rose by $3.5 billion (46.3 percent). Transaction-based noninterest income registered strong growth, as service charges on deposit accounts increased by $1.4 billion (5.7 percent). Net interest income also helped boost earnings, rising by $20.3 billion (9.3 percent). Banks and thrifts were able to limit declines in their net interest margins despite a flattening yield curve, so that growth in interest-bearing assets was reflected in higher revenue.

There were few negatives contained in the first three quarters of the 2005 results. Unlike the previous two years, industry earnings received no benefit from lower credit expenses. Provisions for loan losses were $3 million higher than a year earlier (0.01 percent). Higher interest rates reduced the values of institutions' fixed-rate securities, and gains from sales of securities and other assets were $2.2 billion (33.5 percent) lower than in the first three quarters of 2004. Noninterest expenses were up by $20.5 billion (9.5 percent), but some of this increase reflected merger accounting in 2004, and the actual growth in overhead expenses was lower.

Residential real estate lending continued to support overall asset growth during the first three quarters of 2005. During the 12 months ended September 30, 2005, residential mortgage assets (1-4 family mortgage loans, home equity loans, mortgage-backed securities, and multifamily residential mortgage loans) increased by $426 billion (12.3 percent), accounting for 52 percent of total asset growth at insured institutions. Loans to commercial and industrial (C&I) borrowers was another area of strength; C&I loans increased by $99 billion (10.4 percent). Real estate construction and development loans grew by $98.5 billion (30.9 percent), and commercial real estate loans rose by $72 billion (9.9 percent).

Deposit growth remained strong, as rising short-term interest rates attracted more investment-oriented deposits into insured institutions. Total deposits increased by $585 billion (9.2 percent) in the 12 months ended September 30. Deposits in accounts of less than $100,000 grew by $185 billion (6.6 percent), while deposits in accounts of $100,000 or more increased by $318.5 billion (11.4 percent). Deposits in foreign offices rose by $82.9 billion (10.1 percent).

Capital growth kept pace with the growth in total assets during the first three quarters of 2005. The industry’s equity capital ratio reached a 67-year high at mid-year, fueled in part by large increases in merger-related goodwill. At the same time, the industry's core capital (leverage) ratio, which excludes goodwill, reached its highest level in the 25 years that risk-based capital standards have been in effect. At the end of September 2005, more than 99 percent of all FDIC-insured institutions met or exceeded the highest standards for regulatory capital.

Enterprise Risk Management

The Office of Enterprise Risk Management is responsible for corporate oversight of internal control and enterprise risk management. This includes ensuring that the FDIC's operations and programs are effective and efficient and that internal controls are sufficient to minimize exposure to waste, fraud, and mismanagement. The FDIC recognizes the importance of a strong risk management and internal control program and has adopted a more proactive and enterprise-wide approach to managing risk. This approach focuses on the identification, quantification and mitigation of risk consistently and effectively throughout the Corporation. An effective enterprise risk management program ensures adequate compliance with key authorities, including but not limited to the:

- Federal Managers' Financial Integrity Act (FMFIA)
- Chief Financial Officers Act (CFO Act)
- Government Performance and Results Act (GPRA)
- Federal Information Security Management Act (FISMA)
- OMB Circular A-123

The CFO Act extends to the FDIC the FMFIA requirements for establishing, evaluating and reporting on internal controls. The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems.

The FDIC has developed and implemented management, administrative and financial system controls that reasonably ensure that:

- Programs are efficiently and effectively carried out in accordance with applicable laws and management policies;
- Programs and resources are safeguarded against waste, fraud and mismanagement;
- Obligations and costs comply with applicable laws; and
- Reliable, complete, and timely data are maintained for decision-making and reporting purposes.

The FDIC's control standards incorporate the *GAO's Standards for Internal Controls in the Federal Government*. Good internal control systems are essential for ensuring the proper conduct of FDIC business and the accomplishment of management objectives by serving as checks and balances against undesirable actions or outcomes.

As part of the Corporation's continued commitment to establish and maintain effective and efficient internal controls, FDIC management routinely conducts reviews of internal control systems. The results of these reviews, as well as consideration of audits, evaluations and reviews conducted by the U.S. Government Accountability Office (GAO), the Office of Inspector General (OIG) and other outside entities, are used as a basis for the FDIC's reporting on the condition of the Corporation's internal control activities.

Material Weaknesses

Material weaknesses are control shortcomings in operations or systems which, among other things, severely impair or threaten the organization's ability to accomplish its mission or to prepare timely, accurate financial statements or reports. The shortcomings are of sufficient magnitude that the Corporation is obliged to report them to external stakeholders.

To determine the existence of material weaknesses, the FDIC has assessed the results of management evaluations and external audits of the Corporation's risk management and internal control systems conducted in 2005, as well as management actions taken to address issues identified in these audits and evaluations. Based on this assessment and application of other criteria, the FDIC concludes that no material weaknesses existed within the Corporation's operations for 2005. This is the eighth consecutive year that the FDIC has not had a material weakness; however, FDIC management will continue to focus on high priority areas, including IT systems security, the New Financial Environment, disaster recovery, privacy, and contract oversight management, among others. The FDIC will also address all control issues raised by GAO in its 2005 financial statement audit report.

Management Report on Final Action

As required under amended Section 5 of the Inspector General's Act, the tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period, October 1, 2004–September 30, 2005.

Table 1
Management Report on Final Action on Audits with Disallowed Costs
For Fiscal Year 2005
(October 1, 2004-September 30, 2005)

Audit Reports	Number of Reports	Disallowed Costs (000's)
A. Management decisions – final action not taken at beginning of period	6	$ 3,764
B. Management decisions made during the period	2	$ 1,969
C. Total reports pending final action during the period (A and B)	8	$ 5,733
D. Audit reports on which final action was taken during the period:		
1. Recoveries:	4	$ 1,324
a. Collections and offsets	4	$ 1,324
b. Other	0	$ 0
2. Write-offs	4	$ 2,439●
3. Total of 1a, 1b, and 2	6▼	$ 3,763
E. Audit reports needing final action at the end of the period	2	$ 1,969▲

● The FDIC agreed to coordinate with the General Services Administration (GSA) on potential cost recoveries from the contractor, but after reviewing the OIG's findings, GSA declined to take action to pursue recoveries from the contractor.

▼ Two reports had both collections and write-offs, thus the total of 1(a), 1(b), and 2 is six.

▲ The total is off due to rounding.

Table 2
Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use
For Fiscal Year 2005
(October 1, 2004-September 30, 2005)

Audit Reports	Number of Reports	Funds Put to Better Use (000's)
A. Management decisions – final action not taken at beginning of period	0	$ 0
B. Management decisions made during the period	1	$ 602
C. Total reports pending final action during the period (A and B)	1	$ 602
D. Final Action taken during the period:		
1. Value of recommendations implemented (completed)	1	$ 602
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	$ 0
3. Total of 1 and 2	1	$ 602
E. Audit reports needing final action at the end of the period	0	$ 0

Table 3

Audit Reports Without Final Actions But With Management Decisions Over One Year Old

For Fiscal Year 2005 (October 1, 2004-September 30, 2005)

Management Action in Process

Report Number and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
1. **03-007** 11-27-02	The OIG made recommendations for improvements in the FDIC's internal network controls.	FDIC is working to secure sensitive data in conjunction with implementation of the enterprise encryption project. Expected completion date: 1st quarter 2006.	$ 0
2. **03-028** 04-14-03	The OIG recommended that the FDIC take a number of actions for improvements related to the public key infrastructure.	Additional time is required to accomplish tasks related to the Intranet PKI components. The FDIC is in the process of issuing MOUs to external users of sensitive data. Expected completion date: 2nd quarter 2006.	$ 0
3. **03-041** 09-17-03	The OIG made recommendations related to the established process metrics for accurate insurance determinations.	The FDIC agreed to establish a process to routinely test the accuracy of insurance determinations and evaluate results in relationship to established benchmarks within requirements of a proposed new system. Expected completion date: 2nd quarter 2006.	$ 0
4. **04-002** 01-15-04	The OIG made recommendations to improve the service line rate-setting process.	The FDIC agreed to explore options for estimating budgeted service line program maintenance costs and determining reasonable adjustments for such costs. It is expected that the necessary information will be available through the New Financial Environment. Expected completion date: 4th quarter 2006.	$ 0
5. **04-016** 03-30-04	The OIG made recommendations to improve the accuracy of the data used to manage the FDIC's personnel security program.	The FDIC will continue with its data integrity review of the Corporate Human Resources Information System data and initiate investigations as appropriate. Expected completion date: 1st quarter 2006.	$ 0
6. **04-019** 04-30-04	The OIG made recommendations to improve the system development control framework.	Staffing of the newly created Project Management Organization is in progress. Expected completion date: 4th quarter 2005.	$ 0
7. **04-029** 08-09-04	The OIG made recommendations to strengthen the quality of the FDIC's Business Continuity Plan.	The FDIC is working to ensure that current contracts essential to business continuity include backup arrangements. Additional time is required to complete the standard language and modify the affected contracts. Expected completion date: 1st quarter 2006.	$ 0
8. **04-039** 09-23-04	The OIG made recommendations to strengthen capital planning and investment management related guidance, including guidance related to the FDIC's investment management governance structure.	The Chief Information Officer's Council is reviewing all information technology projects. Expected completion date: 2nd quarter 2006.	$ 0

Appendix A – Key Statistics

Selected Statistics

Dollars in millions	For the years ended December 31		
	2005	2004	2003
Bank Insurance Fund			
Financial Results			
Revenue	**$ 1,783**	$ 1,675	$ 1,626
Operating Expenses	**846**	821	805
Insurance and other expenses	**(135)**	(263)	(921)
Net Income	**1,072**	1,117	1,742
Comprehensive Income	**680**	1,004	1,732
Insurance Fund Balance	**$ 35,467**	$ 34,787	$ 33,782
Fund as a Percentage of Insured Deposits	**1.25%**▼	1.30%	1.32%
Selected Statistics			
Total BIF-Member Institutions●	**7,748** ▼	7,839	7,995
Problem Institutions	**58** ▼	69	102
Total Assets of Problem Institutions	**$ 18,714** ▼	$ 27,161	$ 28,812
Institution Failures	**0**	3	3
Total Assets of Current Year Failed Institutions	**$ 0**	$ 151	$ 1,097
Number of Active Failed Institution Receiverships	**24**	31	31
Savings Association Insurance Fund			
Financial Results			
Revenue	**$ 637**	$ 564	$ 547
Operating Expenses	**120**	120	130
Insurance and other expenses	**(22)**	(72)	(83)
Net Income	**539**	516	500
Comprehensive Income	**409**	480	493
Insurance Fund Balance	**$ 13,130**	$ 12,720	$ 12,240
Fund as a Percentage of Insured Deposits	**1.30%**▼	1.34%	1.37%
Selected Statistics			
Total SAIF-Member Institutions■	**1,108** ▼	1,136	1,186
Problem Institutions	**10** ▼	11	14
Total Assets of Problem Institutions	**$ 2,151** ▼	$ 1,089	$ 1,105
Institution Failures	**0**	1	0
Total Assets of Current Year Failed Institutions	**$ 0**	$ 15	$ 0
Number of Active Failed Institution Receiverships	**3**	3	2

▼ As of September 30, 2005.

● Commercial banks and savings institutions. Does not include U.S. branches of foreign banks.

■ Savings institutions and commercial banks.

Number and Deposits of BIF-Insured Banks Closed Because of Financial Difficulties, 1934 through 2005[1]

Dollars in Thousands

	Number of Insured Banks			Deposits of Insured Banks			
Year	Total	Without Disbursements by FDIC	With Disbursements by FDIC	Total	Without Disbursements by FDIC	With Disbursements by FDIC	Assets
Total	**2,116**	**19**	**2,097**	**$ 217,856,719**	**$ 4,298,814**	**$ 213,557,905**	**$ 408,937,918**
2005	**0**	**–**	**0**	**0**	**–**	**0**	**0**
2004	3	–	3	132,880	–	132,880	150,519,500
2003	3	–	3	903,504	–	903,504	1,096,724
2002	10	–	10	2,124,501	–	2,124,501	2,507,565
2001	3	–	3	49,926	–	49,926	54,470
2000	6	–	6	311,950	–	311,950	378,088
1999	7	–	7	1,268,151	–	1,268,151	1,423,819
1998	3	–	3	335,076	–	335,076	370,400
1997	1	–	1	26,800	–	26,800	25,921
1996	5	–	5	168,228	–	168,228	182,502
1995	6	–	6	632,700	–	632,700	753,024
1994	13	1	12	1,236,488	–	1,236,488	1,392,140
1993	41	–	41	3,132,177	–	3,132,177	3,539,373
1992	120	10	110	41,150,898	4,257,667	36,893,231	44,197,009
1991	124	–	124	53,751,763	–	53,751,763	63,119,870
1990	168	–	168	14,473,300	–	14,473,300	15,660,800
1989	206	–	206	24,090,551	–	24,090,551	29,168,596
1988	200	–	200	24,931,302	–	24,931,302	35,697,789
1987	184	–	184	6,281,500	–	6,281,500	6,850,700
1986	138	–	138	6,471,100	–	6,471,100	6,991,600
1985	120	–	120	8,059,441	–	8,059,441	8,741,268
1984	79	–	79	2,883,162	–	2,883,162	3,276,411
1983	48	–	48	5,441,608	–	5,441,608	7,026,923
1982	42	–	42	9,908,379	–	9,908,379	11,632,415
1981	10	–	10	3,826,022	–	3,826,022	4,859,060
1980	10	–	10	216,300	–	216,300	236,164
1979	10	–	10	110,696	–	110,696	132,988
1978	7	–	7	854,154	–	854,154	994,035
1977	6	–	6	205,208	–	205,208	232,612
1976	16	–	16	864,859	–	864,859	1,039,293
1975	13	–	13	339,574	–	339,574	419, 950
1974	4	–	4	1,575,832	–	1,575,832	3,822,596
1973	6	–	6	971,296	–	971,296	1,309,675
1972	1	–	1	20,480	–	20,480	22,054
1971	6	–	6	132,058	–	132,058	196,520
1970	7	–	7	54,806	–	54,806	62,147
1969	9	–	9	40,134	–	40,134	43,572
1968	3	–	3	22,524	–	22,524	25,154
1967	4	–	4	10,878	–	10,878	11,993
1966	7	–	7	103,523	–	103,523	120,647
1965	5	–	5	43,861	–	43,861	58,750
1964	7	–	7	23,438	–	23,438	25,849
1963	2	–	2	23,444	–	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	–	5	8,936	–	8,936	9,820
1960	1	–	1	6,930	–	6,930	7,506
1959	3	–	3	2,593	–	2,593	2,858
1958	4	–	4	8,240	–	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	–	2	11,330	–	11,330	12,914
1955	5	–	5	11,953	–	11,953	11,985
1954	2	–	2	998	–	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	–	3	3,170	–	3,170	2,388
1951	2	–	2	3,408	–	3,408	3,050
1950	4	–	4	5,513	–	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	–	3	10,674	–	10,674	10,360
1947	5	–	5	7,040	–	7,040	6,798
1946	1	–	1	347	–	347	351
1945	1	–	1	5,695	–	5,695	6,392
1944	2	–	2	1,915	–	1,915	2,098
1943	5	–	5	12,525	–	12,525	14,058
1942	20	–	20	19,185	–	19,185	22,254
1941	15	–	15	29,717	–	29,717	34,804
1940	43	–	43	142,430	–	142,430	161,898
1939	60	–	60	157,772	–	157,772	181,514
1938	74	–	74	59,684	–	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	–	69	27,508	–	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	–	9	1,968	–	1,968	2,661

[1] Does not include institutions that received FDIC assistance and were not closed. Also does not include institutions insured by the Savings Association Insurance Fund (SAIF), which was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2005

Dollars in Thousands

	All Cases[1]					Deposit Payoff Cases[2]				
Year	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	**2,227**	**112,571,316**	**74,095,625**	**323,892**	**34,976,152**	**608**	**15,929,270**	**11,180,391**	**114,936**	**4,633,943**
2005	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2004	3	132,781	127,791	0	4,990	0	0	0	0	0
2003	3	883,772	681,532	124,507	77,733	0	0	0	0	0
2002	10	2,030,455	1,470,428	116,506	443,521	5	1,585,058	1,169,657	114,936	300,465
2001	3	48,631	42,839	0	5,792	0	0	0	0	0
2000	6	268,730	237,913	0	30,817	0	0	0	0	0
1999	7	1,244,448	560,175	51,149	633,124	0	0	0	0	0
1998	3	286,678	43,487	17,282	225,909	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,387	130,723	0	38,664	0	0	0	0	0
1995	6	609,043	524,571	0	84,472	0	0	0	0	0
1994	13	1,224,769	1,045,718	0	179,051	0	0	0	0	0
1993	41	3,146,456	2,500,256	1,603	644,597	5	261,361	162,749	0	98,612
1992	122	14,175,372	10,506,348	989	492,388	25	1,893,324	1,401,186	0	492,138
1991	127	21,196,493	15,187,471	11,856	5,997,166	21	1,251,676	784,002	0	467,674
1990	169	10,817,419	8,034,946	0	2,782,473	20	2,183,400	1,641,564	0	541,836
1989	207	11,445,829	5,248,247	0	6,197,582	32	2,116,556	1,262,140	0	854,416
1988	280	12,163,006	5,244,866	0	6,918,140	36	1,252,160	822,612	0	429,548
1987	203	5,037,871	3,015,215	0	2,022,656	51	2,103,792	1,401,000	0	702,792
1986	145	4,790,969	3,015,252	0	1,775,717	40	1,155,981	739,659	0	416,322
1985	120	2,920,687	1,913,452	0	1,007,235	29	523,789	411,175	0	112,614
1984	80	7,696,215	6,056,061	0	1,640,154	16	791,838	699,483	0	92,355
1983	48	3,807,082	2,400,044	0	1,407,038	9	148,423	122,484	0	25,939
1982	42	2,275,150	1,106,579	0	1,168,571	7	277,240	206,247	0	70,993
1981	10	888,999	107,221	0	781,778	2	35,736	34,598	0	1,138
1980	11	152,355	121,675	0	30,680	3	13,732	11,427	0	2,305
1979	10	90,489	74,372	0	16,117	3	9,936	9,003	0	933
1978	7	548,568	512,927	0	35,641	1	817	613	0	204
1977	6	26,650	20,654	0	5,996	0	0	0	0	0
1976	17	599,397	561,532	0	37,865	3	11,416	9,660	0	1,756
1975	13	332,046	292,431	0	39,615	3	25,918	25,849	0	69
1974	5	2,403,277	2,259,633	0	143,644	0	0	0	0	0
1973	6	435,238	368,852	0	66,386	3	16,771	16,771	0	0
1972	2	16,189	14,501	0	1,688	1	16,189	14,501	0	1,688
1971	7	171,646	171,430	0	216	5	53,767	53,574	0	193
1970	7	51,566	51,294	0	272	4	29,265	28,993	0	272
1969	9	42,072	41,910	0	162	4	7,596	7,513	0	83
1968	3	6,476	6,464	0	12	0	0	0	0	0
1967	4	8,097	7,087	0	1,010	4	8,097	7,087	0	1,010
1966	7	10,020	9,541	0	479	1	735	735	0	0
1965	5	11,479	10,816	0	663	3	10,908	10,391	0	517
1964	7	13,712	12,171	0	1,541	7	13,712	12,171	0	1,541
1963	2	19,172	18,886	0	286	2	19,172	18,886	0	286
1962	0	0	0	0	0	0	0	0	0	0
1961	5	6,201	4,700	0	1,501	5	6,201	4,700	0	1,501
1960	1	4,765	4,765	0	0	1	4,765	4,765	0	0
1959	3	1,835	1,738	0	97	3	1,835	1,738	0	97
1958	4	3,051	3,023	0	28	3	2,796	2,768	0	28
1957	1	1,031	1,031	0	0	1	1,031	1,031	0	0
1956	2	3,499	3,286	0	213	1	2,795	2,582	0	213
1955	5	7,315	7,085	0	230	4	4,438	4,208	0	230
1954	2	1,029	771	0	258	0	0	0	0	0
1953	2	5,359	5,359	0	0	0	0	0	0	0
1952	3	1,525	733	0	792	0	0	0	0	0
1951	2	1,986	1,986	0	0	0	0	0	0	0
1950	4	4,404	3,019	0	1,385	0	0	0	0	0
1949	4	2,685	2,316	0	369	0	0	0	0	0
1948	3	3,150	2,509	0	641	0	0	0	0	0
1947	5	2,038	1,979	0	59	0	0	0	0	0
1946	1	274	274	0	0	0	0	0	0	0
1945	1	1,845	1,845	0	0	0	0	0	0	0
1944	2	1,532	1,492	0	40	1	404	364	0	40
1943	5	7,230	7,107	0	123	4	5,500	5,377	0	123
1942	20	11,684	10,996	0	688	6	1,612	1,320	0	292
1941	15	25,061	24,470	0	591	8	12,278	12,065	0	213
1940	43	87,899	84,103	0	3,796	19	4,895	4,313	0	582
1939	60	81,828	74,676	0	7,152	32	26,196	20,399	0	5,797
1938	74	34,394	31,969	0	2,425	50	9,092	7,908	0	1,184
1937	75	20,204	16,532	0	3,672	50	12,365	9,718	0	2,647
1936	69	15,206	12,873	0	2,333	42	7,735	6,397	0	1,338
1935	25	9,108	6,423	0	2,685	24	6,026	4,274	0	1,752
1934	9	941	734	0	207	9	941	734	0	207

continued on next page

Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2005 (continued)

Dollars in Thousands

	Deposit Assumption Cases					Assistance Transactions[1]				
Year	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	**1,478**	**85,011,690**	**56,715,359**	**208,956**	**28,087,375**	**141**	**11,630,356**	**6,199,875**	**0**	**5,430,481**
2005	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2004	3	132,781	127,791	0	4,990	0	0	0	0	0
2003	3	883,772	681,532	124,507	77,733	0	0	0	0	0
2002	5	445,397	300,771	1,570	143,056	0	0	0	0	0
2001	3	48,631	42,839	0	5,792	0	0	0	0	0
2000	6	268,730	237,913	0	30,817	0	0	0	0	0
1999	7	1,244,448	560,175	51,149	633,124	0	0	0	0	0
1998	3	286,678	43,487	17,282	225,909	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,387	130,723	0	38,664	0	0	0	0	0
1995	6	609,043	524,571	0	84,472	0	0	0	0	0
1994	13	1,224,769	1,045,718	0	179,051	0	0	0	0	0
1993	36	2,885,095	2,337,507	1,603	545,985	0	0	0	0	0
1992	95	12,280,562	9,103,926	989	3,175,647	2	1,486	1,236	0	250
1991	103	19,938,700	14,400,376	11,856	5,526,468	3	6,117	3,093	0	3,024
1990	148	8,629,084	6,390,785	0	2,238,299	1	4,935	2,597	0	2,338
1989	174	9,326,725	3,985,855	0	5,340,870	1	2,548	252	0	2,296
1988	164	9,180,495	4,232,545	0	4,947,950	80	1,730,351	189,709	0	1,540,642
1987	133	2,773,202	1,613,502	0	1,159,700	19	160,877	713	0	160,164
1986	98	3,476,140	2,209,924	0	1,266,216	7	158,848	65,669	0	93,179
1985	87	1,631,166	1,095,601	0	535,565	4	765,732	406,676	0	359,056
1984	62	1,373,198	941,674	0	431,524	2	5,531,179	4,414,904	0	1,116,275
1983	35	2,893,969	1,850,553	0	1,043,416	4	764,690	427,007	0	337,683
1982	25	268,372	213,578	0	54,794	10	1,729,538	686,754	0	1,042,784
1981	5	79,208	71,358	0	7,850	3	774,055	1,265	0	772,790
1980	7	138,623	110,248	0	28,375	1	0	0	0	0
1979	7	80,553	65,369	0	15,184	0	0	0	0	0
1978	6	547,751	512,314	0	35,437	0	0	0	0	0
1977	6	26,650	20,654	0	5,996	0	0	0	0	0
1976	13	587,981	551,872	0	36,109	1	0	0	0	0
1975	10	306,128	266,582	0	39,546	0	0	0	0	0
1974	4	2,403,277	2,259,633	0	143,644	1	0	0	0	0
1973	3	418,467	352,081	0	66,386	0	0	0	0	0
1972	0	0	0	0	0	1	0	0	0	0
1971	1	117,879	117,856	0	23	1	0	0	0	0
1970	3	22,301	22,301	0	0	0	0	0	0	0
1969	5	34,476	34,397	0	79	0	0	0	0	0
1968	3	6,476	6,464	0	12	0	0	0	0	0
1967	0	0	0	0	0	0	0	0	0	0
1966	6	9,285	8,806	0	479	0	0	0	0	0
1965	2	571	425	0	146	0	0	0	0	0
1964	0	0	0	0	0	0	0	0	0	0
1963	0	0	0	0	0	0	0	0	0	0
1962	0	0	0	0	0	0	0	0	0	0
1961	0	0	0	0	0	0	0	0	0	0
1960	0	0	0	0	0	0	0	0	0	0
1959	0	0	0	0	0	0	0	0	0	0
1958	1	255	255	0	0	0	0	0	0	0
1957	0	0	0	0	0	0	0	0	0	0
1956	1	704	704	0	0	0	0	0	0	0
1955	1	2,877	2,877	0	0	0	0	0	0	0
1954	2	1,029	771	0	258	0	0	0	0	0
1953	2	5,359	5,359	0	0	0	0	0	0	0
1952	3	1,525	733	0	792	0	0	0	0	0
1951	2	1,986	1,986	0	0	0	0	0	0	0
1950	4	4,404	3,019	0	1,385	0	0	0	0	0
1949	4	2,685	2,316	0	369	0	0	0	0	0
1948	3	3,150	2,509	0	641	0	0	0	0	0
1947	5	2,038	1,979	0	59	0	0	0	0	0
1946	1	274	274	0	0	0	0	0	0	0
1945	1	1,845	1,845	0	0	0	0	0	0	0
1944	1	1,128	1,128	0	0	0	0	0	0	0
1943	1	1,730	1,730	0	0	0	0	0	0	0
1942	14	10,072	9,676	0	396	0	0	0	0	0
1941	7	12,783	12,405	0	378	0	0	0	0	0
1940	24	83,004	79,790	0	3,214	0	0	0	0	0
1939	28	55,632	54,277	0	1,355	0	0	0	0	0
1938	24	25,302	24,061	0	1,241	0	0	0	0	0
1937	25	7,839	6,814	0	1,025	0	0	0	0	0
1936	27	7,471	6,476	0	995	0	0	0	0	0
1935	1	3,082	2,149	0	933	0	0	0	0	0
1934	0	0	0	0	0	0	0	0	0	0

[1] Totals do not include dollar amounts for the five open bank assistance transactions between 1971 and 1980. Excludes eight transactions prior to 1962 that required no disbursements. Also, disbursements, recoveries, and estimated additional recoveries do not include working capital advances to and repayments by receiverships.

[2] Includes insured deposit transfer cases.

Note: Beginning with the 1997 Annual Report the number of banks in the Assistance Transactions column for 1988 was changed from 21 to 80 and the number of banks in the All Cases column was changed from 221 to 280 to reflect that one assistance transaction encompassed 60 institutions. Also, certain 1982, 1983, 1989 and 1992 resolutions previously reported in either the Deposit Payoff or Deposit Assumption categories were reclassified.

Income and Expenses, Bank Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2005

Dollars in Millions

	Income					Expenses and Losses				
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Provision for Losses	Administrative and Operating Expenses[2]	Interest and Other Insur. Expenses	Net Income/ (Loss)
Total	**$ 90,588.0**	**$ 53,572.7**	**$ 6,709.1**	**$ 43,724.4**		**$ 55,419.0**	**$ 35,772.9**	**$ 12,633.6**	**$ 7,018.5**	**$ 35,169.0**
2005	**1,783.5**	**52.6**	**0.0**	**1,730.9**	**0.0022%**	**711.5**	**(138.2)**	**846.2**	**3.5**	**1,072.0**
2004	1,675.4	95.3	0.0	1,580.1	0.0022%	558.6	(281.4)	821.3	18.7	1,116.8
2003	1,626.0	80.2	0.0	1,545.8	0.0020%	(115.7)	(928.5)	805.5	7.3	1,741.7
2002	1,795.9	84.0	0.0	1,711.9	0.0022%	750.6	(87.0)	821.1	16.5	1,045.3
2001	1,996.7	47.8	0.0	1,948.9	0.0014%	2,559.4	1,756.3	785.9	17.2	(562.7)
2000	1,905.9	45.1	0.0	1,860.8	0.0014%	645.2	(153.0)	772.9	25.3	1,260.7
1999	1,815.6	33.3	0.0	1,782.3	0.0011%	1,922.0	1,168.7	730.4	22.9	(106.4)
1998	2,000.3	21.7	0.0	1,978.6	0.0008%	691.5	(37.7)	697.6	31.6	1,308.8
1997	1,615.6	24.7	0.0	1,590.9	0.0008%	177.3	(503.7)	605.2	75.8	1,438.3
1996	1,655.3	72.7	0.0	1,582.6	0.0024%	254.6	(325.2)	505.3	74.5	1,400.7
1995	4,089.1	2,906.9	0.0	1,182.2	0.1240%	483.2	(33.2)	470.6	45.8	3,605.9
1994	6,467.0	5,590.6	0.0	876.4	0.2360%	(2,259.1)	(2,873.4)	423,2	191.1	8,726.1
1993	6,430.8	5,784.3	0.0	646.5	0.2440%	(6,791.4)	(7,677.4)	388.5	497.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(2,259.7)	570.8[3]	1,063.1	6,927.3
1991	5,790.0	5,160.5	0.0	629.5	0.2125%	16,862.3	15,476.2	284.1	1,102.0	(11,072.3)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,133.1	219.6	650.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1609.6	0.0833%	4,346.2	3,811.3	213.9	321.0	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	6,298.3	223.9	1,066.2	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,827.7	180.3	(44.3)	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,569.0	179.2	209.7	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4[4]	3.9	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	6.0[5]	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	147.3

continued on next page

Income and Expenses, Bank Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2005 (continued)

Dollars in Millions

	Income					Expenses and Losses				
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Provision for Losses	Administrative and Operating Expenses[2]	Interest and Other Insur. Expenses	Net Income/ (Loss)
Total	**$ 90,588.0**	**$ 53,572.7**	**$ 6,709.1**	**$ 43,724.4**		**$ 55,419.0**	**$ 35,772.9**	**$ 12,633.6**	**$ 7,018.5**	**$ 35,169.0**
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1[6]	0.0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3	0.0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	9.5
1933/4	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	(3.0)

1 The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. Beginning in 1993, the effective rate is based on a risk-related premium system under which institutions pay assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25%. As a result, the assessment rate was reduced to 4.4 cents per $100 of insured deposits and assessment premiums totaling $1.5 billion were refunded in September 1995.

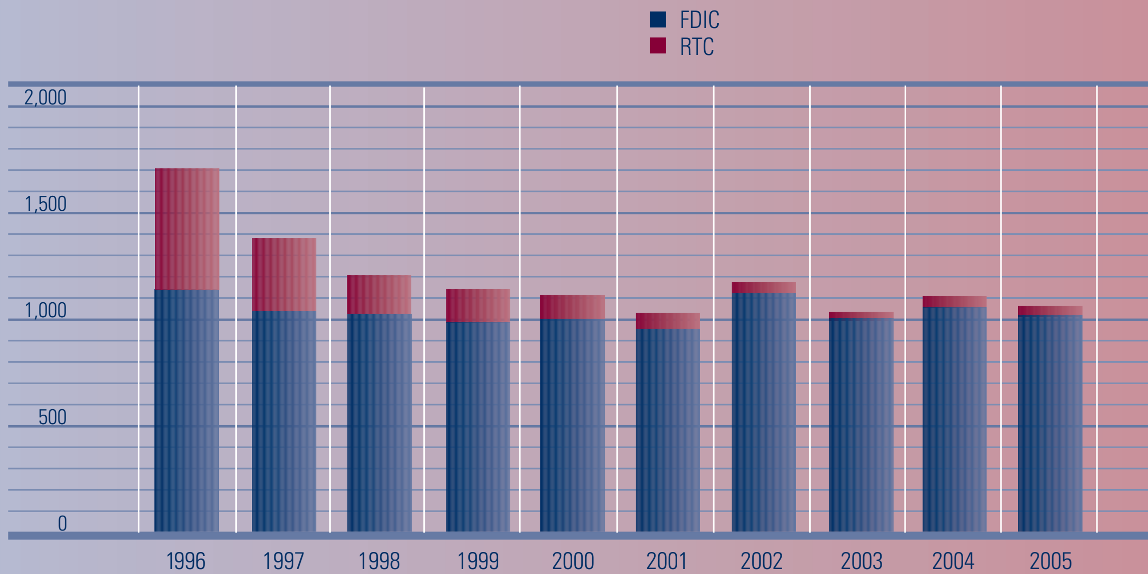
2 These expenses, which are presented as operating expenses in the Statements of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and **do not** include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Bank Resolutions, net" line on the Balance Sheets. The narrative and graph presented in the "Corporate Planning and Budget" section of this report (next page) show the aggregate (corporate and receivership) expenditures of the FDIC.

3 Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits.

4 Includes $105.6 million net loss on government securities.

5 This amount represents interest and other insurance expenses from 1933 to 1972.

6 Includes the aggregate amount of $80.6 million of interest paid on Capital Stock between 1933 and 1948.



The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2005 aggregate budget (for corporate, receivership and investment spending) was $1.18 billion, while actual expenditures for the year were $1.05 billion, about $60 million less than 2004 expenditures.

Over the past ten years, the FDIC's expenditures have varied in response to workload. During the past decade, expenditures generally declined due to decreasing resolution and receivership activity, although they temporarily increased in 1996 in conjunction with the absorption of the Resolution Trust Corporation (RTC) and its residual operations and workload. Total expenditures increased in 2002 due to an increase in receivership-related expenses.

The largest component of FDIC spending is for costs associated with staffing. Staffing decreased by just over 11 percent in 2005, from 5,078 employees at the beginning of the year to 4,514 at the end of the year.

Estimated Insured Deposits and the Bank Insurance Fund, December 31,1934, through September 30, 2005[1]

		Deposits in Insured Banks ($ millions)				**Insurance Fund as a Percentage of**	
Year[2]	**Insurance Coverage**	**Total Domestic Deposits**	**Estimated Insured Deposits[3]**	**Percentage of Insured Deposits**	**Deposit Insurance Fund**	**Total Domestic Deposits**	**Estimated Insured Deposits**
2005	**$ 100,000**	**$ 4,782,354**	**$ 2,825,366**	**59.1**	**$ 35,334.4**	**0.74**	**1.25**
2004	100,000	4,530,207	2,672,397	59.0	34,786.6	0.77	1.30
2003	100,000	4,139,287	2,554,624	61.7	33,782.2	0.82	1.32
2002	100,000	3,867,096	2,527,948	65.4	32,050.3	0.83	1.27
2001	100,000	3,584,610	2,408,878	67.2	30,438.8	0.85	1.26
2000	100,000	3,326,745	2,301,604	69.2	30,975.2	0.93	1.35
1999	100,000	3,038,385	2,157,536	71.0	29,414.2	0.97	1.36
1998	100,000	2,996,396	2,141,268	71.5	29,612.3	0.99	1.38
1997	100,000	2,785,990	2,055,874	73.8	28,292.5	1.02	1.38
1996	100,000	2,642,107	2,007,447	76.0	26,854.4	1.02	1.34
1995	100,000	2,575,966	1,952,543	75.8	25,453.7	0.99	1.30
1994	100,000	2,463,813	1,896,060	77.0	21,847.8	0.89	1.15
1993	100,000	2,493,636	1,906,885	76.5	13,121.6	0.53	0.69
1992	100,000	2,512,278	1.945,623	77.4	(100.6)	(0.00)	(0.01)
1991	100,000	2,520,074	1,957,722	77.7	(7,027.9)	(0.28)	(0.36)
1990	100,000	2,540,930	1,929,612	75.9	4,044.5	0.16	0.21
1989	100,000	2,465,922	1,873,837	76.0	13,209.5	0.54	0.70
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	0.60	0.80
1987	100,000	2,201,549	1,658,802	75.3	18,301.8	0.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	0.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934[4]	5,000	40,060	18,075	45.1	291.7	0.73	1.61

1 For 2005, the numbers are as of September 30, and prior years reflect December 31.

2 Starting in 1990, deposits in insured banks exclude those deposits held by Bank Insurance Fund members that are insured by the Savings Association Insurance Fund and include those deposits held by Savings Association Insurance Fund members that are insured by the Bank Insurance Fund.

3 Estimated insured deposits reflect deposit information as reported in the fourth quarter *FDIC Quarterly Banking Profile*. Before 1991, insured deposits were estimated using percentages determined from the June 30 *Call Reports*.

4 Initial coverage was $2,500 from January 1 to June 30, 1934.

Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, through December 31, 2005

Dollars in Thousands

	Income				Expenses and Losses					
Year	Total	Assessment Income	Investment and Other Sources	Effective Assessment Rate	Total	Provision for Losses	Interest and Other Insurance Expenses	Administrative and Operating Expenses	Funding Transfer from the FSLIC Resolut. Fund	Net Income/ (Loss)
Total	**$ 14,543,505**	**$ 8,659,789**	**$ 5,883,716**		**$ 1,661,638**	**$ 374,377**	**$ 30,990**	**$ 1,256,271**	**$ 139,498**	**$ 13,021,365**
2005	**636,989**	**8,315**	**628,674**	**0.001%**	**97,852**	**(21,988)**	**372**	**119,468**	**0**	**539,137**
2004	564,777	8,891	555,886	0.001%	48,326	(72,385)	713	119,998	0	516,451
2003	547,260	14,594	532,666	0.001%	47,200	(82,489)	105	129,584	0	500,060
2002	588,821	23,783	565,038	0.003%	(31,380)	(156,494)	751	124,363	0	620,201
2001	733,121	35,402	697,719	0.004%	564,083	443,103	19,389	101,591	0	169,038
2000	664,080	19,237	644,843	0.002%	300,018	180,805	8,293	110,920	0	364,062
1999	600,995	15,116	585,879	0.002%	124,156	30,648	626	92,882	0	476,839
1998	583,859	15,352	568,507	0.002%	116,629	31,992	9	84,628	0	467,230
1997	549,912	13,914	535,998	0.004%	69,986	(1,879)	0	71,865	0	479,926
1996	5,501,684	5,221,560	280,124	0.204%	(28,890)	(91,636)	128	62,618	0	5,530,574
1995	1,139,916	970,027	169,889	0.234%	(281,216)	(321,000)	0	39,784	0	1,421,132
1994	1,215,289	1,132,102	83,187	0.244%	434,303	414,000	0	20,303	0	780,986
1993	923,516	897,692	25,824	0.250%	46,814	16,531	0	30,283	0	876,702
1992	178,643	172,079	6,564	0.230%	28,982	(14,945)	(5)	43,932	35,446	185,107
1991	96,446	93,530	2,916	0.230%	63,085	20,114	609	42,362	42,362	75,723
1990	18,195	18,195	0	0.208%	56,088	0	0	56,088	56,088	18,195
1989	2	0	2	0.208%	5,602	0	0	5,602	5,602	2

Estimated Insured Deposits and the Savings Association Insurance Fund, December 31, 1989, through September 30, 2005[1]

		Deposits in Insured Institutions ($ Millions)				Insurance Fund as a Percentage of	
Year[2]	Insurance Coverage	Total Domestic Deposits	Estimated Insured Deposits[3]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Estimated Insured Deposits
2005	**$ 100,000**	**$ 1,254,070**	**$ 1,005,554**	**80.2**	**$ 13,038.8**	**1.04**	**1.30**
2004	100,000	1,156,473	951,316	82.3	12,720.2	1.10	1.34
2003	100,000	1,042,729	896,493	86.0	12,240.1	1.17	1.37
2002	100,000	990,231	860,351	86.9	11,746.7	1.19	1.37
2001	100,000	897,278	801,849	89.4	10,935.0	1.22	1.36
2000	100,000	822,610	752,756	91.5	10,758.6	1.31	1.43
1999	100,000	764,359	711,345	93.1	10,280.7	1.35	1.45
1998	100,000	751,413	708,959	94.4	9,839.8	1.31	1.39
1997	100,000	721,503	690,132	95.7	9,368.3	1.30	1.36
1996	100,000	708,749	683,090	96.4	8,888.4	1.25	1.30
1995	100,000	742,547	711,017	95.8	3,357.8	0.45	0.47
1994	100,000	720,823	692,626	96.1	1,936.7	0.27	0.28
1993	100,000	726,473	695,158	95.7	1,155.7	0.16	0.17
1992	100,000	760,902	729,458	95.9	279.0	0.04	0.04
1991	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

[1] For 2005, the numbers are as of September 30, and prior years reflect December 31.

[2] Starting in 1990, deposits in insured institutions exclude those deposits held by Savings Association Insurance Fund members that are insured by the Bank Insurance Fund and include those deposits held by Bank Insurance Fund members that are insured by the Savings Association Insurance Fund.

[3] Estimated insured deposits reflect deposit information as reported in the fourth quarter *FDIC Quarterly Banking Profile*. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

Number, Assets, Deposits, Losses, and Loss to Funds of Insured Thrifts Taken Over or Closed Because of Financial Difficulties, 1989 through 2005[1]

Dollars in Thousands

Year[2]	Total	Assets	Deposits	Estimated Receivership Loss[3]	Loss to Funds[4]
Total	**754**	**397,387,643**	**320,186,773**	**75,471,820**	**82,009,786**
2005	**0**	**0**	**0**	**0**	**0**
2004	1	15,346	13,005	0	0
2003	0	0	0	0	0
2002	1	50,246	50,542	973	973
2001	1	2,179,783	1,670,802	338,694	338,694
2000	1	29,530	28,583	1,322	1,322
1999	1	62,956	63,427	1,195	1,194
1998	0	0	0	0	0
1997	0	0	0	0	0
1996	1	32,576	32,745	21,921	21,921
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	7,178,794	5,708,253	267,595	65,212
1992	59	44,196,946	34,773,224	3,237,913	3,772,356
1991	144	78,898,804	65,173,122	8,635,366	9,086,672
1990	213	129,662,398	98,963,961	16,064,160	19,257,844
1989[5]	318	134,519,630	113,166,909	46,863,017	49,421,249

[1] Prior to July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of the thrift closing activity from 1989 through 1995 are now reflected on FRF's books. The Savings Association Insurance Fund (SAIF) became responsible for all thrifts closed after June 30, 1995; there have been only six such failures. Additionally, SAIF was appointed receiver of one thrift (Heartland FSLA) on October 8, 1993, because, at that time, RTC's authority to resolve FSLIC-insured thrifts had not yet been extended by the RTC Completion Act.

[2] Year is the year of failure, not the year of resolution.

[3] The estimated losses represent the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF/SAIF and unpaid advances to receiverships from the FRF.

[4] The Loss to Funds represents the total resolution cost of the failed thrifts in the SAIF and FRF-RTC funds, which includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, and interest revenue on advances to receiverships, in addition to the estimated losses for receiverships.

[5] Total for 1989 excludes nine failures of the former FSLIC.

FDIC Actions on Financial Institutions Applications 2003-2005

	2005	2004	2003
Deposit Insurance	**219**	176	141
Approved	**219**	176	140
Denied	**0**	0	1
New Branches	**1,575**	1,447	1,227
Approved	**1,575**	1,447	1,227
Denied	**0**	0	0
Mergers	**286**	311	304
Approved	**286**	311	304
Denied	**0**	0	0
Requests for Consent to Serve•	**170**	301	369
Approved	**170**	301	368
Section 19	**13**	13	13
Section 32	**157**	288	355
Denied	**0**	0	1
Section 19	**0**	0	0
Section 32	**0**	0	1
Notices of Change in Control	**9**	18	30
Letters of Intent Not to Disapprove	**9**	18	30
Disapproved	**0**	0	0
Brokered Deposit Waivers	**40**	32	28
Approved	**40**	32	28
Denied	**0**	0	0
Savings Association Activities▪	**59**	70	56
Approved	**59**	70	56
Denied	**0**	0	0
State Bank Activities/Investments▾	**18**	27	19
Approved	**18**	27	19
Denied	**0**	0	0
Conversions of Mutual Institutions	**11**	12	7
Non-Objection	**11**	12	7
Objection	**0**	0	0

• Under Section 19 of the Federal Deposit Insurance (FDI) Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must also approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

▪ Amendments to Part 303 of the FDIC Rules and Regulations changed FDIC oversight responsibility in October 1998. In 1998, Part 303 changed the Delegations of Authority to act upon applications.

▾ Section 24 of the FDI Act, in general, precludes a federally insured state bank from engaging in an activity not permissible for a national bank and requires notices to be filed with the FDIC.

Compliance, Enforcement and Other Related Legal Actions 2003-2005

	2005	2004	2003
Total Number of Actions Initiated by the FDIC	**192**	217	174
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	**0**	0	0
Voluntary Termination			
Sec.8a By Order Upon Request	**0**	0	0
Sec.8p No Deposits	**2**	2	5
Sec.8q Deposits Assumed	**11**	38	12
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued	**0**	0	2
Consent Orders	**20**	28	33
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	**2**	3	4
Consent Orders	**73**	58	31
Sec. 8g Suspension/Removal When Charged With Crime	**0**	1	0
Civil Money Penalties Issued			
Sec.7a Call Report Penalties	**0**	0	0
Sec.8i Civil Money Penalties	**69**	68	55
Sec. 10c Orders of Investigation	**15**	15	20
Sec. 19 Denials of Service After Criminal Conviction	**0**	1	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	**0**	0	1
Truth-in-Lending Act Reimbursement Actions			
Denials of Requests for Relief	**0**	0	0
Grants of Relief	**0**	0	0
Banks Making Reimbursement•	**78**	73	96
Suspicious Activity Reports (Open and closed institutions)•	**102,080**	83,453	62,179
Other Actions Not Listed	**0**	3	11

•These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

FDIC Board of Directors
Acting Chairman Martin J. Gruenberg (seated),
John C. Dugan, Thomas J. Curry, and John M. Reich (standing, left to right)

James Kegley

Martin J. Gruenberg

Martin J. Gruenberg was sworn in as Vice Chairman of the FDIC Board of Directors on August 22, 2005. He became Acting Chairman of the FDIC on November 15, 2005, upon the resignation of Chairman Donald Powell.

Mr. Gruenberg joined the Board after broad congressional experience in the financial services and regulatory areas. He had been Senior Counsel to Senator Paul S. Sarbanes (D-MD) since 1995 while the Senator was alternately Committee Chairman and Ranking Member on the U.S. Senate Committee on Banking, Housing, and Urban Affairs. Mr. Gruenberg advised the Senator on all issues of domestic and international financial regulation, monetary policy and trade. Mr. Gruenberg also served as Counsel to Senator Sarbanes from 1993 to 1994, advising him on all issues under the jurisdiction of the Banking Committee, and as Staff Director of the Banking Committee's Subcommittee on International Finance and Monetary Policy from 1987 to 1992. Mr. Gruenberg's congressional experience with finance and banking issues dates back to 1979.

Mr. Gruenberg holds a J.D. from Case Western Reserve Law School and an A.B. from Princeton University, Woodrow Wilson School of Public and International Affairs.

Donald E. Powell

Donald E. Powell served as the 18th Chairman of the FDIC from August 29, 2001, until his resignation on November 15, 2005. Prior to being named the 18th Chairman of the FDIC, Mr. Powell – a life-long Texan – was President and CEO of The First National Bank of Amarillo, where he started his banking career in 1971.

In addition to his professional experience as a banker, Mr. Powell served on numerous boards at universities, civic associations, hospitals and charities. Mr. Powell has served as the Chairman of the Board of Regents of the Texas A&M University System, which has more than 90,000 students, the Chairman of the Amarillo Chamber of Commerce, and on the Advisory Board of the George Bush School of Government and Public Service.

He received his B.S. in economics from West Texas State University and is a graduate of The Southwestern Graduate School of Banking at Southern Methodist University.

Thomas J. Curry

Mr. Curry took office as a member of the FDIC Board of Directors on January 12, 2004. Previously, he had served five Massachusetts Governors as the Commonwealth's Commissioner of Banks, from 1995 to 2003. He served as Acting Commissioner from 1994 to 1995, and as First Deputy Commissioner from 1987 to 1994.

Mr. Curry is Chairman of the Neighborhood Reinvestment Corporation. Mr. Curry was also Chairman of the Conference of State Bank Supervisors from 2000 to 2001, and a member of the State Liaison Committee of the Federal Financial Institutions Examination Council from 1996 to 2003.

Mr. Curry joined the Commonwealth's Division of Banks in 1986. He entered state government in 1982 as an attorney with the Massachusetts Secretary of State's Office.

Mr. Curry is a graduate of Manhattan College (summa cum laude), where he was elected to Phi Beta Kappa. He received his law degree from the New England School of Law.

John C. Dugan

Mr. Dugan was sworn in as the 29th Comptroller of the Currency on August 4, 2005. As Comptroller, Mr. Dugan serves as an ex-officio member of the FDIC Board.

Prior to his appointment as Comptroller, Mr. Dugan was a partner at the law firm of Covington & Burling, where he chaired the firm's Financial Institutions Group, specializing in banking and financial institution regulation. He also served as outside counsel to the ABA Securities Association.

He served at the Department of Treasury from 1989 to 1993 and was appointed assistant secretary for domestic finance in 1992. In 1991, he oversaw a comprehensive study of the banking industry that formed the basis for the financial modernization legislation proposed by the administration of the first President Bush. From 1985 to 1989, Mr. Dugan was minority counsel and minority general counsel for the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

Among his professional and volunteer activities before becoming Comptroller, he served as a director of Minbanc, a charitable organization whose mission is to enhance professional and educational opportunities for minorities in the banking industry. He is also a member of the American Bar Association's committee on banking law, the Federal Bar Association's Section of Financial Institutions and the Economy, and the District of Columbia Bar Association's Section of Corporations, Finance, and Securities Laws.

A graduate of the University of Michigan in 1977 with an A.B. in English literature, Mr. Dugan also earned his J.D. from Harvard Law School in 1981.

Julie L. Williams

Ms. Williams served as Acting Comptroller of the Currency, and a member of the FDIC Board of Directors from October 14, 2004 until the confirmation of Mr. John C. Dugan as Comptroller of the Currency on August 4, 2005. Ms. Williams has been First Senior Deputy Comptroller since 1999 and also Chief Counsel of the Office of the Comptroller of the Currency (OCC) since 1994. She was also Acting Comptroller from April to December 1998.

As Chief Counsel, Ms. Williams was responsible for all of the OCC's legal activities and also supervised the Licensing Department and the Community Affairs Department. Ms. Williams served as a member of the OCC's Executive Committee. She has led the Executive Committee in providing policy and strategic direction to the agency.

Ms. Williams is a graduate of Goddard College, Vermont, and graduated first in her class at Antioch School of Law, Washington, DC. She is the author of numerous articles on banking, securities and financial institutions law.

John M. Reich

John M. Reich was sworn in as Director of the Office of Thrift Supervision (OTS) on August 9, 2005. In this capacity, Mr. Reich, who formerly served as Vice Chairman of the FDIC Board of Directors, will continue to serve as an FDIC Board member.

Mr. Reich served as Vice Chairman of the FDIC Board of Directors from November 2002 until his appointment as Director of OTS. He has been a member of the FDIC Board since January 2001. He also served as Acting Chairman of the FDIC from July to August 2001.

Prior to coming to Washington, DC, Mr. Reich spent 23 years as a community banker in Illinois and Florida, including 10 years as President and CEO of the National Bank of Sarasota, in Sarasota, Florida.

Mr. Reich also served 12 years on the staff of U.S. Senator Connie Mack (R-FL), before joining the FDIC. From 1998 through 2000, he was Senator Mack's Chief of Staff, directing and overseeing all of the Senator's offices and committee activities, including those at the Senate Banking Committee.

Mr. Reich's community service includes serving as Chairman of the Board of Trustees of a public hospital facility in Ft. Myers, FL, and as Chairman of the Board of Directors of the Sarasota Family YMCA. He has also served as a Board member for a number of civic organizations, and was active for many years in youth baseball programs.

Mr. Reich holds a B.S. degree from Southern Illinois University and an M.B.A. from the University of South Florida. He is also a graduate of Louisiana State University's School of Banking of the South.

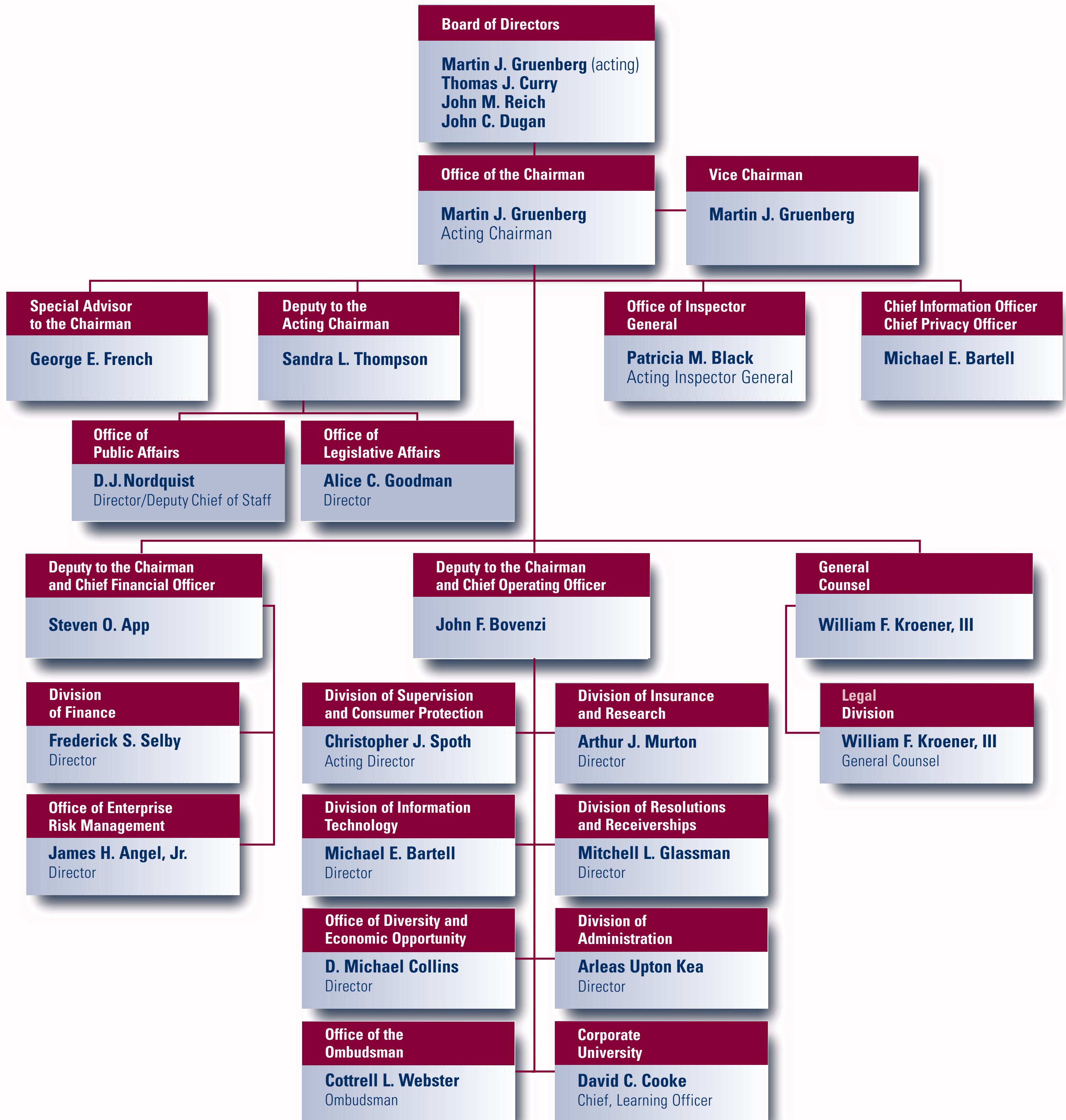
James E. Gilleran

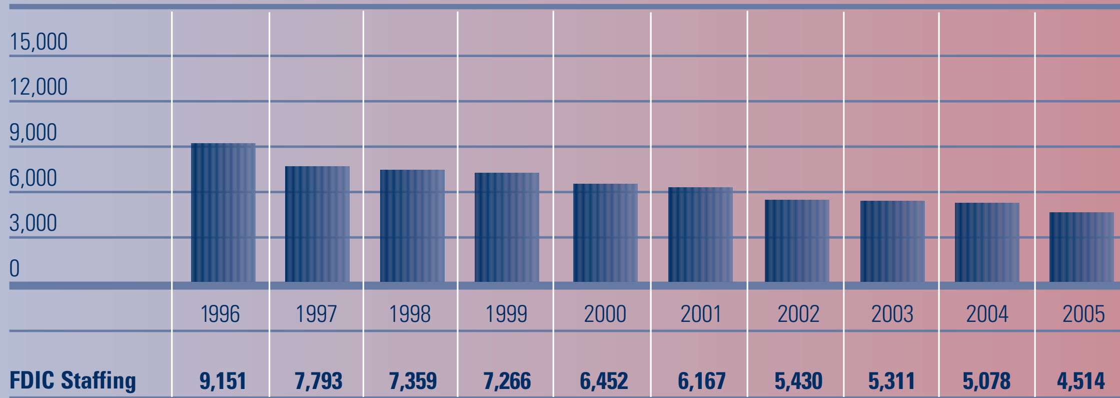
Mr. Gilleran became Director of the Office of Thrift Supervision (OTS) on December 7, 2001. As OTS Director, Mr. Gilleran was an ex-officio member of the FDIC Board until his resignation on April 29, 2005.

Mr. Gilleran was Chairman and CEO of the Bank of San Francisco from October 1994 until December 2000. From 1989 to 1994, he was the California State Banking Superintendent. He served as Chairman of the Conference of State Bank Supervisors (CSBS) from 1993 to 1994, and was a member of the CSBS's Bankers Advisory Council until 2000.

Mr. Gilleran is a certified public accountant and a member of the American Institute of CPAs. He graduated from Pace University in 1955, and received his law degree from Northwestern California University in 1996.

FDIC Organization Chart/Officials
as of December 31, 2005





	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
FDIC Staffing	**9,151**	**7,793**	**7,359**	**7,266**	**6,452**	**6,167**	**5,430**	**5,311**	**5,078**	**4,514**

Note:
All staffing totals reflect year-end balances.

Number of Officials and Employees of the FDIC 2004-2005 (year-end)

	Total		Washington		Regional/Field	
	2005	2004	2005	2004	2005	2004
Executive Offices•	**37**	42	**37**	42	**0**	0
Division of Supervision and Consumer Protection	**2,541**	2,604	**198**	179	**2,343**	2,425
Division of Resolutions and Receiverships	**235**	504	**61**	99	**174**	405
Legal Division	**433**	488	**274**	303	**159**	185
Division of Finance	**175**	195	**175**	195	**0**	0
Division of Information Technology▼	**270**	386	**209**	324	**61**	62
Division of Insurance and Research	**178**	191	**146**	157	**32**	34
Division of Administration	**349**	415	**232**	274	**117**	141
Office of Inspector General	**127**	157	**95**	111	**32**	46
Office of Diversity and Economic Opportunity	**31**	34	**31**	34	**0**	0
Office of the Ombudsman	**12**	18	**10**	15	**2**	3
Office of Enterprise Risk Management■	**11**	12	**11**	12	**0**	0
Corporate University	**115**	32	**37**	32	**78**	0
Total	**4,514**	**5,078**	**1,516**	**1,777**	**2,998**	**3,301**

• Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Legislative Affairs, and Public Affairs.

▼ Division of Information Resources Management was renamed to Division of Information Technology on September 4, 2005.

■ Office of Internal Control Management was renamed to Office of Enterprise Risk Management on April 2, 2004.

Home Page on the Internet

www.fdic.gov

A wide range of banking, consumer and financial information is available on the FDIC's Internet home page. This includes the FDIC's Electronic Deposit Insurance Estimator (EDIE), which estimates an individual's deposit insurance coverage; the Institution Directory – financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports – banks' reports of condition and income; and *Money Smart,* a training program to help individuals outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

Phone: **877-275-3342 (877-ASK FDIC)**

703-562-2222

Hearing Impaired: 800-925-4618

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public and FDIC employees. The Call Center directly, or in concert with other FDIC subject-matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also makes referrals to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m. Eastern Time. Information is also available in Spanish. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

Public Information Center
3503 Fairfax Drive
Room E-1002
Arlington, VA 22226

Phone: **877-275-3342 (877-ASK FDIC), or 703-562-2200**

Fax: **703-562-2296**

E-mail: **publicinfo@fdic.gov**

FDIC publications, press releases, speeches and Congressional testimony, directives to financial institutions, policy manuals and other documents are available on request or by subscription through the Public Information Center. These documents include the *Quarterly Banking Profile, FDIC Consumer News* and a variety of deposit insurance and consumer pamphlets.

Office of the Ombudsman
3503 Fairfax Drive
Room E-2022
Arlington, VA 22226

Phone: **877-275-3342 (877-ASK FDIC)**

Fax: **703-562-6057**

E-mail: **ombudsman@fdic.gov**

The Office of the Ombudsman responds to inquiries about the FDIC in a fair, impartial and timely manner. It researches questions and complaints from bankers and the public. The Office also recommends ways to improve FDIC operations, regulations and customer service.

Atlanta Regional Office

10 Tenth Street, NE
Suite 800
Atlanta, Georgia 30309
(678) 916-2200

Alabama
Florida
Georgia
North Carolina
South Carolina
Virginia
West Virginia

Kansas City Regional Office

2345 Grand Boulevard
Suite 1200
Kansas City, Missouri 64108
(816) 234-8000

Iowa
Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

Chicago Regional Office

500 West Monroe Street
Suite 3500
Chicago, Illinois 60661
(312) 382-7500

Illinois
Indiana
Kentucky
Michigan
Ohio
Wisconsin

New York Regional Office

20 Exchange Place
4th Floor
New York, New York 10005
(917) 320-2500

Delaware
District of Columbia
Maryland
New Jersey
New York
Pennsylvania
Puerto Rico
Virgin Islands

Boston Area Office

15 Braintree Hill Office Park
Suite 100
Braintree, Massachusetts 02184
(781) 794-5500

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

Dallas Regional Office

1910 Pacific Avenue
Suite 1900
Dallas, Texas 75201
(214) 754-0098

Colorado
New Mexico
Oklahoma
Texas

Memphis Area Office

5100 Poplar Avenue
Suite 1900
Memphis, Tennessee 38137
(901) 685-1603

Arkansas
Louisiana
Mississippi
Tennessee

San Francisco Regional Office

25 Ecker Street
Suite 2300
San Francisco, California 94105
(415) 546-0160

Alaska
Arizona
California
Guam
Hawaii
Idaho
Montana
Nevada
Oregon
Utah
Washington
Wyoming

In keeping with the Reports Consolidation Act, the OIG has identified the following management and performance challenges facing the Corporation.[•] Each of the challenges we have identified is marked by one or more of the following characteristics:

1. It is important to the achievement of the FDIC mission and the strength of the nation's financial system.
2. It involves significant resources, expenditures or fiduciary responsibility.
3. It directly impacts consumers of financial services.

The following challenges reflect the OIG's view of the Corporation's overall program and operational responsibilities; industry, economic and technological trends; areas of congressional interest; relevant laws and regulations; the Chairman's priorities and corresponding corporate performance and Government Performance and Results Act goals; and the ongoing activities to address the issues involved.

- Assessing and Mitigating Risks to the Insurance Funds
- Ensuring Institution Safety and Soundness Through Effective Examinations, Enforcement and Follow-Up
- Contributing to Public Confidence in Insured Depository Institutions
- Protecting and Educating Consumers and Ensuring Compliance
- Being Ready for Potential Institution Failures
- Managing and Protecting Financial, Human, Information Technology and Procurement Resources

Assessing and Mitigating Risks to the Insurance Funds

As of the end of the third quarter of 2005, the FDIC insured $3.830 trillion in deposits in 8,856 institutions. According to FDIC projections, if the current trend of industry consolidation continues, the banks the FDIC directly supervises will likely represent a smaller and smaller portion of the financial exposure it faces as deposit insurer. Also, another potential risk has become apparent as a result of recent natural disasters–multiple bank failures in a geographic region. Given these circumstances, the Corporation faces several challenges:

Assessing Risks in Large Banks

To effectively fulfill its fundamental responsibilities as deposit insurer, the Corporation must ensure its large-bank program provides ready access to the information it needs to effectively identify and assess risks that large institutions, including those it does not supervise, pose to the insurance funds. Effectively communicating and coordinating with the other primary federal banking regulators is central to the Corporation's ability to meet this

[•] Under the Reports Consolidation Act, the OIG is required to identify the most significant management and performance challenges facing the Corporation and provide its assessment to the Corporation for inclusion in its annual performance and accountability report (annual report). The OIG conducts this assessment yearly and identifies a number of specific areas of challenge facing the Corporation at the time.

challenge. Moreover, given the inherent complexity of these large institutions, the FDIC must have or develop the capability to assess the risks associated with these institutions, which are different from those found in smaller banks. As the FDIC and other regulators are evaluating policy options to ensure that large institutions and the industry as a whole maintain adequate capital and reserves under Basel II, the FDIC must ensure that its staff has the necessary information and expertise to understand and evaluate the adequacy of the largest institutions' capital models. The possibility of a large bank failure, however remote, looms as a significant challenge confronting the FDIC.

Monitoring Risks from Recent Natural Disasters
The FDIC and the other primary federal regulators have long emphasized the importance of disaster recovery and business continuity planning at insured depository institutions. While the focus of September 11 was on terrorist attacks and related disruption of commercial activities, recent natural disasters have added a new dimension to the risks associated with major regional crises. While initial indications from the FDIC are that the banking industry has initially fared well through the latest natural disasters, considerable risk remains over the long term to affected institutions and, in turn, the insurance funds. For example, the impact, if any, of relaxing examination and other regulatory requirements will likely not be plainly visible for many months.

Preparing for Deposit Insurance Reform
The FDIC has been working with the Congress over the past several years on a comprehensive deposit insurance reform package. If enacted, the FDIC will be faced with managing the funds under the current system while transitioning under tight time constraints to a new fund structure and premium system. Implementation of operational changes may result from deposit insurance reform.

Ensuring Institution Safety and Soundness through Effective Examinations, Enforcement and Follow-up

Supervision is a cornerstone of the FDIC's efforts to ensure stability and public confidence in the nation's financial system. As of September 30, 2005, the FDIC was the primary federal regulator for more than 5,250 institutions. The FDIC performs safety and soundness, Bank Secrecy Act (BSA), information technology, trust and other types of examinations of FDIC-supervised insured depository institutions. The Corporation's system of supervisory controls must identify and effectively address financial institution activities that are unsafe, unsound, illegal or improper before the activities cause a drain on the insurance funds. Specific challenges related to this core FDIC mission include:

Maintaining an Effective Examination and Supervision Program
The FDIC has adopted a more risk-focused approach to examinations to minimize regulatory burden and better direct its resources to those areas that carry the greatest potential risk. The FDIC must continue to monitor the effectiveness of its risk-focused procedures and any related resource reductions to ensure that this approach does not compromise examination quality or results. The FDIC must also ensure that financial institutions have adequate corporate governance structures relative to the bank's size, complexity and risk profile to prevent financial losses and maintain confidence in those entrusted with operating the institutions. The FDIC's follow-up processes must be effective to ensure institutions are promptly complying with supervisory actions that arise as a result of the FDIC's examination process.

Supervising Industrial Loan Companies

The FDIC is the primary federal regulator for a number of industrial loan companies (ILCs), which are insured depository institutions owned by organizations that, as bank holding companies, are subject to a different supervisory regimen when compared to other bank holding companies. The ILC industry includes large, complex financial institutions. The FDIC must establish and maintain effective controls in its processes for granting insurance to, supervising and examining ILCs and their parent companies, particularly in cases where consolidated supervision is not provided by another federal regulator.

Contributing to Public Confidence in Insured Depository Institutions

Guarding Against Financial Crimes in Insured Institutions

All financial institutions are at risk of being used to facilitate or being victimized by criminal activities including money laundering and terrorist financing. Such activities serve to undermine public confidence in the institutions. The Corporation is faced with developing and implementing programs to minimize the extent to which the institutions it supervises are involved in or victims of financial crimes and other abuse. The challenge is to facilitate the effective implementation of regulatory reporting requirements without imposing any undue regulatory burden. Examiners must also be alert to the possibility of fraudulent activity in financial institutions, which is inherently difficult because fraud is both purposeful and hard to detect.

Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness is the responsibility for examining state-chartered non-member financial institutions for compliance with the Bank Secrecy Act. The BSA requires financial institutions to keep records and file reports on certain financial transactions. FDIC-supervised institutions are required to establish and maintain procedures designed to assure and monitor compliance with the BSA’s requirements. An institution's level of risk for potential money laundering determines the necessary scope of the BSA examination. In its role as supervisor, the FDIC also analyzes data security threats, occurrences of bank security breaches, and incidents of electronic crime that involve financial institutions. Misuse and misappropriation of personal information are emerging as major developments in financial crime. Despite generally strong controls and practices by financial institutions, methods for stealing personal data and committing fraud with that data are continuously evolving. The FDIC must continue its work in assuring the security of customer data against such criminal activity to help maintain the public's trust in the banking system.

Protecting and Educating Consumers and Ensuring Compliance

The FDIC protects consumers through its oversight of a variety of statutory and regulatory requirements aimed at safeguarding consumers from unfair and unscrupulous banking practices. Through community outreach efforts and technical assistance, the FDIC encourages lenders to work with members of their local communities in meeting the communities' credit needs. Specific challenges include:

Protecting Consumer Privacy

The FDIC implements regulations and conducts regularly scheduled examinations to verify that institutions comply with laws designed to protect personal information, which serve to guard against the growing threat of identity theft. The FDIC evaluates the adequacy of financial institutions' programs for securing customer data and may pursue informal or formal supervisory action if it finds a deficiency.

Educating the Public and Handling Complaints

The FDIC has made it a priority to impart financial education to the millions of Americans who lack basic financial skills. The Corporation's challenge is to join with its regulatory counterparts to effectively implement programs that help integrate into the financial system the large number of households that are isolated from the opportunity to establish credit, own a home, and build a better future for their families.

Regulating Lending Practices

The FDIC's programs of supervision and education can help prevent abusive lending practices that target the financially illiterate or disadvantaged. The FDIC must evaluate laws and implement regulations to find ways to curb these lending practices, while ensuring continued access to credit for the widest range of qualified customers and protection against the abuse of vulnerable individuals. The challenge is to balance the need for regulation with avoiding inappropriate or undue interference in legitimate business activities.

Ensuring Compliance with Laws and Regulations

The FDIC is responsible for evaluating financial institution compliance with consumer protection laws and regulations. Such laws include, for example, the Community Reinvestment Act, Home Mortgage Disclosure Act, and Fair Credit Reporting Act. In June 2003, the FDIC revised its compliance examination program. Compliance examinations now combine a risk-based examination process with an in-depth evaluation of an institution's compliance management system, resulting in a top-down, risk-focused approach to examinations. The Corporation's challenge is to ensure that the new approach makes the examination process more effective and efficient and reduces the examination burden on banks.

Being Ready for Potential Institution Failures

The FDIC is responsible for the resolution of failed banks or savings associations. The Corporation is required by law to protect taxpayers by prudently managing the Bank Insurance Fund and the Savings Association Insurance Fund and to protect insured depositors by using the assets of the funds to pay insured deposits at the time of the institution failure. The trend toward fewer failures over the past few years changes the nature of the challenge for the FDIC. Planning for failing and failed institutions, including large or multiple bank failures, needs to be evaluated, revisited and tested for adequacy in light of FDIC downsizing activities and corresponding loss of institutional knowledge and expertise. Catastrophic events such as the multiple hurricanes that occurred during the past year underscore the need for the Corporation's readiness to respond.

Managing and Protecting Financial, Human, Information Technology and Procurement Resources

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its financial, human, information technology (IT) and procurement resources. The FDIC has emphasized its stewardship responsibilities in its strategic planning process. A number of key management activities pose governance challenges to corporate executives and managers, as discussed below:

Financial Resource and Capital Investment Management
The FDIC's operating expenses are largely paid from the insurance funds, and consistent with good corporate governance principles, the Corporation must continuously seek to improve its operational efficiency. Because 65 percent of the FDIC's budget costs are personnel-related, a challenge to the Corporation is to ensure that budgeted resources are properly aligned with workload. With respect to capital investments, effective planning and management of IT and non-IT capital investments are mandated by Congress and by the Office of Management and Budget for most federal agencies. Although many of these laws and executive orders are not legally binding on the FDIC, the Corporation recognizes that they constitute best practices and has adopted them in whole, or in part. The underlying challenge is to carry out approved investment projects on time and within budget, while realizing anticipated benefits.

Human Capital Management
In the last several years, the FDIC has undergone significant restructuring and downsizing in response to changes in the industry, technological advances, and business process improvements and, as with many government agencies, the FDIC anticipates a high level of retirement in the next five years. Amidst such change, the Corporation must seek to maintain employee morale and positive employee-management relationships. To that end, the FDIC formulated a human capital strategy to guide the FDIC through the rest of this decade. A key part of its human capital strategy is the Corporate Employee Program designed to help create a more adaptable permanent workforce and that reflects a more collaborative and corporate approach to meeting critical mission functions. The challenge now is implementing its strategy and monitoring the success of related human capital initiatives and programs. Additionally, developing new leaders and engaging in succession planning pose a challenge. Finally, in an age of identity theft risks, the FDIC needs to maintain effective controls to protect personal employee-related information that the Corporation possesses. The appointment of a Chief Privacy Officer and implementation of a privacy program are positive steps toward addressing that challenge.

Information Technology Management
The FDIC seeks to maximize its IT resources to improve the efficiency and effectiveness of its operational processes. The Corporation's IT transformation initiative targets three broad areas of challenge:

- Governance and process improvements that focus on making strategic alignment a requirement for all IT work.
- Technical improvements to continue to replace/upgrade critical components of the IT infrastructure.
- Organizational changes to better align IT resources with workload, flatten the organizational structure, and improve communication with customers.

To address these broad challenges, the FDIC is embracing a capability maturity model to improve long-term business performance; employing a new system-development life cycle methodology to minimize risk, provide more predictable results, and deliver high-quality systems on time and within budget; and continuing to enhance its Enterprise Architecture (EA) program by identifying duplicative resources/investments and opportunities for internal and external collaboration to promote operational improvements and cost-effective solutions to business requirements.

The establishment of an integrated and streamlined e-government infrastructure is a key component of the Corporation's target EA. In this regard, the Corporation has initiated a number of major projects designed to improve internal operations, communications and service to members of the public, business and other government entities. The challenge is to ensure that such projects are consistent with e-government principles and implementing guidance from the Office of Management and Budget, most recently guidance that is related to the use of earned value management.

Security Management – IT and Physical

The FDIC recognizes that a robust information security program requires an ongoing commitment by the organization. The OIG's 2005 Federal Information Security Management Act evaluation results showed that the Corporation had established and implemented controls in all of the management control areas assessed that provided either limited or reasonable assurance of adequate security over its information resources. Still, attention was needed in certain areas such as information security risk management, oversight of contractors with access to sensitive data and systems, and implementation of an enterprise security architecture.

Additionally, following Y2K and in light of terrorist-related disruptions and, more recently, adverse impacts of natural disasters, the importance of corporate disaster recovery and business continuity planning has been underscored and elevated to an enterprise-wide level. Such planning involves more than the recovery of the technology; it involves the recovery of the entire business. The FDIC must be sure that its Emergency Preparedness Program provides for the safety and physical security of its personnel and ensures that its critical business functions remain operational during any emergency.

Procurement Management

With corporate downsizing has come, in many instances, increased reliance on contracted services and potential increased exposure to risk if contracts are not managed properly. Processes and related controls for identifying needed goods and services, acquiring them, and monitoring contractors after the contract award must be in place and work effectively. Many employees with contracting expertise have left the Corporation and contract management responsibilities have shifted. Also, a number of new contracting vehicles and approaches are being implemented. For example, the Corporation combined approximately 40 IT-related contracts into one contract with multiple vendors for a total program value of $555 million over ten years. Also, for the first time, it is using a large technical infrastructure contract through the General Services Administration (GSA) valued at over $300 million. Along with the expected benefits of these contracts come challenges. The Corporation has not previously outsourced a procurement process to GSA,

and both new contracts are performance-based, requiring different oversight mechanisms and strategies than the time and materials contracts that the Corporation has historically used.

Enterprise Risk Management
As an integral part of its stewardship of the insurance funds, the FDIC has established a risk management and internal control program. The Corporation has committed to adopting an Enterprise Risk Management approach to identifying and analyzing risks on an integrated, corporate-wide basis. Revised OMB Circular A-123, which became effective for fiscal year 2006, requires a strengthened process for conducting management's assessment of the effectiveness of internal control over financial reporting. The Circular also emphasizes the need for agencies to integrate and coordinate internal control assessments with other internal control-related activities, and ensure that an appropriate balance exists between the strength of controls and the relative risk associated with particular programs and operations.

Design: FDIC/DOA/CSB/Design and Printing Unit

Federal

Deposit

Insurance

Corporation

2005

This **Annual Report** was produced by talented and dedicated staff. To these individuals, we would like to offer our sincere thanks and appreciation. Special recognition is given to the following individuals for their contributions:

Sam Collicchio

Pearline Crosland

Jannie F. Eaddy

Terry Ferril

Barbara Glasby

Patricia Hughes

Mia Jordan

Joan Spirtas