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 credit-worthiness of the payor is performed and currently indicates a low risk of non-performance.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

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

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

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

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

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

Litigation Losses

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

Other Contingencies

Representations and Warranties

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

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

7. Assessments

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

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

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

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

8. Operating Expenses

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

Operating Expenses for the Years Ended December 31

Dollars in Thousands

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

9. Provision for Insurance Losses

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

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

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

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

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

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

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

Dollars in Thousands

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

Postretirement Benefits Other Than Pensions

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

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

11. Commitments and Off-Balance-Sheet Exposure

Commitments

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

Leased Space Commitments

Dollars in Thousands

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

Off-Balance-Sheet Exposure

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

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.