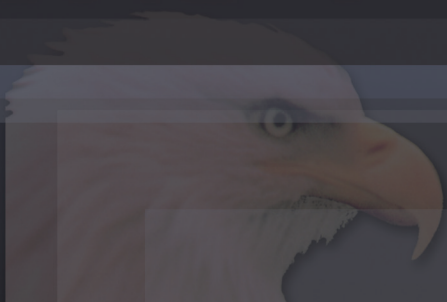


*Annual Report 2005*  
*Highlights*

FEDERAL DEPOSIT INSURANCE CORPORATION



**FDIC**



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 association. 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.

To view the complete *2005 Annual Report*, visit our Web site at: [www.fdic.gov](http://www.fdic.gov)

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## **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.

*Message from the Acting Chairman  
Martin J. Gruenberg*



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.

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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.

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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,

A handwritten signature in black ink that reads "Martin J. Gruenberg". The signature is written in a cursive, flowing style.

**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.

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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.



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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,

A handwritten signature in black ink that reads "Steven O. App". The signature is written in a cursive, flowing style.

**Steven O. App**

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## **The Year in Review**

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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***

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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 legislation reconciliation 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.

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- 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.

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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

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Money Laundering; Safety and Soundness; Securities; Banking Operations; Directors, Officers and Employees; and Rules of Procedure; a total of 155 letters were received. All of the comment letters received to date are available on the EGRPRA Web site at [www.EGRPRA.gov](http://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 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.

### **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 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.

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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 and 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.

### **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.

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## ***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 Hurricanes Katrina and Rita. The agencies quickly released regulatory relief guidance to help rebuild 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 FFIEC established a formal Katrina Task Force to address policy issues that continue to arise due to the severity and scale of these natural disasters. The Katrina Task Force established a user-friendly, Web-based, frequently asked questions forum on the FFIEC's Web

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site at [www.ffiec.gov](http://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.

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<sup>1</sup> 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 institutions 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,<sup>2</sup> and seven CRA-only examinations in 2005, compared to 1,459 joint compliance-CRA examinations, 673 compliance-only examinations, and four

<sup>1</sup> 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).

<sup>2</sup> 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
<b>Safety and Soundness:</b>			
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
<b>CRA/Compliance Examinations:</b>			
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
<b>Specialty Examinations:</b>			
Trust Departments	450	534	501
Data Processing Facilities	2,708	2,570	2,304
Subtotal-Specialty Examinations	3,158	3,104	2,805
<b>Total</b>	<b>7,577</b>	<b>7,755</b>	<b>7,145</b>

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 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.

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### **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 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 (FBIIIC), 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 the 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.

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### **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](http://www.fdic.gov/regulations/resources/index.html), implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

In 2005, the FDIC 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.

### **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

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and international discussions intended to ensure effective implementation of the Basel II Capital Accord, which included participation in numerous “supervisory working groups” 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.

### **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 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).

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. 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 2004 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.

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### **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 expansive 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 calculating coverage, one for novice users and one for frequent users. The new Consumer EDIE application is available for public use starting January 2006.

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.

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In 2005, the FDIC released several new job aids 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.

### ***Receivership Management***

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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 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 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.

## Liquidation Highlights 2003-2005

Dollars in billions (except where noted)

	2005 <sup>*</sup>	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 <sup>*</sup>	\$ 0.37	\$ 0.38	\$ 1.70
Total Assets in Liquidation <sup>*</sup>	\$ 0.44	\$ 0.61	\$ 0.81
Total Dividends Paid <sup>*</sup>	\$ 0.44	\$ 0.38	\$ 1.06
Savings Over Cost of Liquidation <sup>†</sup>	\$ 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.

### 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.

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## **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 multipurpose 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.

## **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. NFE is a corporate-wide effort focused on implementing an enterprise-wide, integrated software solution to support the current and future financial needs of the FDIC. The NFE also enhances the capability of other significant development efforts such as the Corporate Human Resources Information System Time & Attendance System, and the Legal Integrated Management System and also makes available more robust cost information that provides a basis of improved decision making.



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The FDIC continues to collect quality and timely information in 2005 with the use of *FDICconnect*. *FDICconnect* 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 *FDICconnect*.

### **Transformation of the Information Technology Program**

In 2005, the FDIC completed critical steps toward transforming its information technology program—an initiative begun 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 will significantly improve the program's overall efficiency and effectiveness.

Once completed, the FDIC anticipate 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 in the area of 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.

## *II. Financial Highlights*

### *Deposit Insurance Fund Performance*

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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 chart on the following page for more information on insured deposits.)

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*

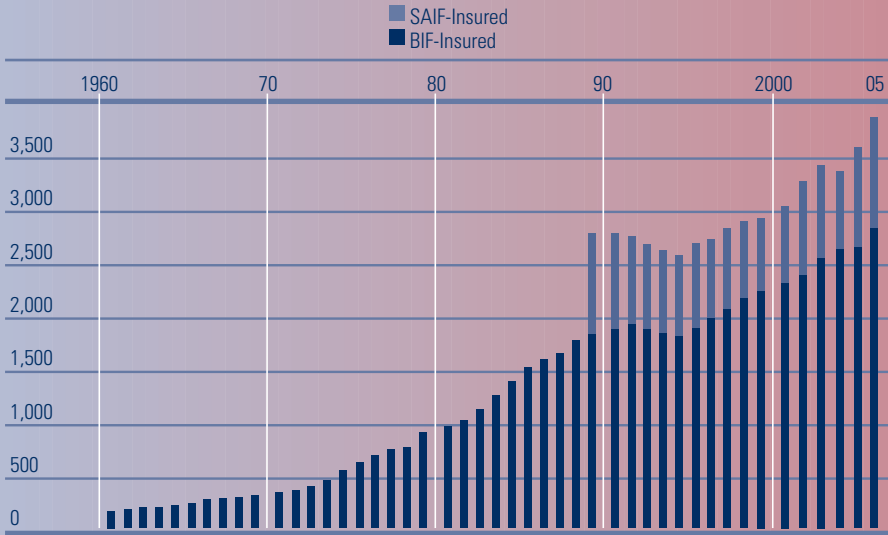
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Corporate Operating Budget expenses totaled \$990 million in 2005, including \$979 million in ongoing operations and \$11 million for receivership funding. This represented approximately 95 percent of the approved budget for ongoing operations and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

## FDIC-Insured Deposits (estimated 1960-2005)

Dollars in billions



• All amounts are yearend except 2005 is as of 9/30/05.

Source: Commercial Bank Call Reports and Thrift Financial Reports

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.

### III. Financial Statements

Bank Insurance Fund • Savings Association Insurance Fund • FSLIC Resolution Fund

#### Federal Deposit Insurance Corporation

#### Bank Insurance Fund

#### Balance Sheet at December 31, condensed

Dollars in Thousands

	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$ 2,411,828	\$ 1,821,776
<i>Investment in U.S. Treasury obligations, net:</i>		
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	299,317	375,303
Property and equipment, net	378,064	357,106
<b>Total Assets</b>	<b>\$ 35,934,755</b>	<b>\$ 35,263,618</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 265,687	\$ 268,451
<i>Contingent liabilities for:</i>		
Anticipated failure of insured institutions	1,591	8,261
Litigation losses and other	200,435	200,301
<b>Total Liabilities</b>	<b>467,713</b>	<b>477,013</b>
<i>Commitments and off-balance-sheet exposure</i>		
<b>Fund Balance</b>		
Accumulated net income	35,168,698	34,096,676
Unrealized gain on available-for-sale securities, net	298,344	689,929
<b>Total Fund Balance</b>	<b>35,467,042</b>	<b>34,786,605</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 35,934,755</b>	<b>\$ 35,263,618</b>

Federal Deposit Insurance Corporation

**Bank Insurance Fund**

**Statement of Income and Fund Balance  
for the Years Ended December 31, condensed**

Dollars in Thousands

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

Federal Deposit Insurance Corporation

**Bank Insurance Fund**

**Statement of Cash Flows for the Years Ended December 31, condensed**

Dollars in Thousands

	2005	2004
<b>Operating Activities</b>		
<b>Net Income:</b>	\$ 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
<b>Change In Operating Assets and Liabilities:</b>		
(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)
<b>Net Cash Provided by Operating Activities</b>	<b>1,576,385</b>	<b>1,655,243</b>
<b>Investing Activities</b>		
<b>Provided by:</b>		
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
<b>Used by:</b>		
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)
<b>Net Cash Used by Investing Activities</b>	<b>(986,333)</b>	<b>(2,377,748)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>590,052</b>	<b>(722,505)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>1,821,776</b>	<b>2,544,281</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 2,411,828</b>	<b>\$ 1,821,776</b>

Federal Deposit Insurance Corporation

**Savings Association Insurance Fund**

**Balance Sheet at December 31,  
condensed**

Dollars in Thousands

	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$ 797,616	\$ 644,346
Cash and other assets: Restricted for SAIF-member exit fees ( <i>Includes cash and cash equivalents of \$20.9 million and \$56.5 million at December 31, 2005 and 2004, respectively</i> )	341,656	328,394
<i>Investment in U.S. Treasury obligations, net:</i>		
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	234,157	346,923
<b>Total Assets</b>	<b>\$ 13,505,909</b>	<b>\$ 13,076,146</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 30,854	\$ 25,568
<i>Contingent liabilities for:</i>		
Anticipated failure of insured institutions	3,775	1,957
Litigation losses	65	39
SAIF-member exit fees and investment proceeds held in escrow	341,656	328,394
<b>Total Liabilities</b>	<b>376,350</b>	<b>355,958</b>
<i>Commitments and off-balance-sheet exposure</i>		
<b>Fund Balance</b>		
Accumulated net income	13,021,364	12,482,227
Unrealized gain on available-for-sale securities, net	108,195	237,961
<b>Total Fund Balance</b>	<b>13,129,559</b>	<b>12,720,188</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 13,505,909</b>	<b>\$ 13,076,146</b>

Federal Deposit Insurance Corporation

**Savings Association Insurance Fund**

**Statement of Income and Fund Balance  
for the Years Ended December 31, condensed**

Dollars in Thousands

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



Federal Deposit Insurance Corporation

**Savings Association Insurance Fund**

**Statement of Cash Flows for the Years Ended December 31, condensed**

Dollars in Thousands

	2005	2004
<b>Operating Activities</b>		
<b>Net Income:</b>	\$ 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
<b>Change In Operating Assets and Liabilities:</b>		
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
<b>Net Cash Provided by Operating Activities</b>	<b>822,601</b>	<b>642,830</b>
<b>Investing Activities</b>		
<b>Provided by:</b>		
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
<b>Used by:</b>		
Purchase of U.S. Treasury obligations, held-to-maturity	(2,904,848)	(4,051,084)
<b>Net Cash Used by Investing Activities</b>	<b>(704,848)</b>	<b>(1,001,084)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>117,753</b>	<b>(358,254)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>700,798</b>	<b>1,059,052</b>
<b>Unrestricted Cash and Cash Equivalents - Ending</b>	<b>797,616</b>	<b>644,346</b>
<b>Restricted Cash and Cash Equivalents - Ending</b>	<b>20,935</b>	<b>56,452</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 818,551</b>	<b>\$ 700,798</b>

Federal Deposit Insurance Corporation

**FSLIC Resolution Fund**

**Balance Sheet at December 31,  
condensed**

Dollars in Thousands

	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$ 3,602,703	\$ 3,501,384
Receivables from thrift resolutions and other assets, net	38,746	82,275
<b>Total Assets</b>	<b>\$ 3,641,449</b>	<b>\$ 3,583,659</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 7,799	\$ 5,603
Contingent liabilities for litigation losses and other	257,503	410
<b>Total Liabilities</b>	<b>265,302</b>	<b>6,013</b>
<b>Resolution Equity</b>		
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)
<b>Total Resolution Equity</b>	<b>3,376,147</b>	<b>3,577,646</b>
<b>Total Liabilities and Resolution Equity</b>	<b>\$ 3,641,449</b>	<b>\$ 3,583,659</b>

Federal Deposit Insurance Corporation

**FSLIC Resolution Fund**

**Statement of Income and Accumulated Deficit  
for the Years Ended December 31, condensed**

Dollars in Thousands

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

Federal Deposit Insurance Corporation

**FSLIC Resolution Fund**

**Statement of Cash Flows for the Years Ended December 31,  
condensed**

Dollars in Thousands

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



G A O

Accountability • Integrity • Reliability

Comptroller General  
of the United States

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

To the Board of Directors  
The Federal Deposit Insurance Corporation

We audited the Federal Deposit Insurance Corporation's (FDIC) balance sheets as of December 31, 2005 and 2004, for the three funds administered by FDIC (the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended, and in our report dated January 31, 2006, we expressed an unqualified opinion on those statements.

In that report, we stated that we found the following:

- 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 the laws and regulations we tested.

In addition, we referred the reader to note 1 of the BIF's and SAIF's financial statements that discuss the enactment, on February 8, 2006, of the Federal Deposit Insurance Reform Act of 2005, which calls for the merger of BIF and SAIF into a single Deposit Insurance Fund.

In our opinion, the information set forth in the accompanying condensed financial statements is presented fairly, in all material respects, in relation to the financial statements from which it has been derived.

As discussed in our January 31, 2006 report, we identified a reportable condition in FDIC's information system controls which, while not considered a material weakness, does represent a significant deficiency in the design or operation of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Specifically, we identified information system control weaknesses that increased the risk of unauthorized modification and disclosure of critical FDIC financial and sensitive personnel information, disruption of critical operations, and loss of assets. These weaknesses affected FDIC's ability to ensure that users only had the access needed to perform their assigned duties and that its systems were sufficiently protected from unauthorized users.

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

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  
Deputy to the Chairman and Chief Financial Officer

## IV. Other Information

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<b>Home Page on the Internet</b>	<b><a href="http://www.fdic.gov">www.fdic.gov</a></b>
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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.

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<b>FDIC Call Center</b>	<b>Phone: 877-275-3342 (877-ASK FDIC) 703-562-2222</b>
	<b>Hearing Impaired: 800-925-4618</b>

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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 8:00am to 8:00pm 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.

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<b>Public Information Center</b>	<b>Phone: 877-275-3342 (877-ASK FDIC)</b>
<b>3503 Fairfax Drive</b>	<b>703-562-2200</b>
<b>Room E-1002</b>	<b>Fax: 703-562-2296</b>
<b>Arlington, VA 22226</b>	<b>E-mail: <a href="mailto:publicinfo@fdic.gov">publicinfo@fdic.gov</a></b>

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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.

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<b>Office of the Ombudsman</b>	<b>Phone: 877-275-3342 (877-ASK FDIC)</b>
<b>3503 Fairfax Drive/Room E-2022</b>	<b>Fax: 703-562-6057</b>
<b>Arlington, VA 22226</b>	<b>E-mail: <a href="mailto:ombudsman@fdic.gov">ombudsman@fdic.gov</a></b>

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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.

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**Special Advisor  
to the Chairman**

**George E. F.**

**Off  
Pu**

**D.  
Dir**

**Deputy to  
and Chief**

**Steven O**

**Division  
of Finance**

**Frederic  
Director**

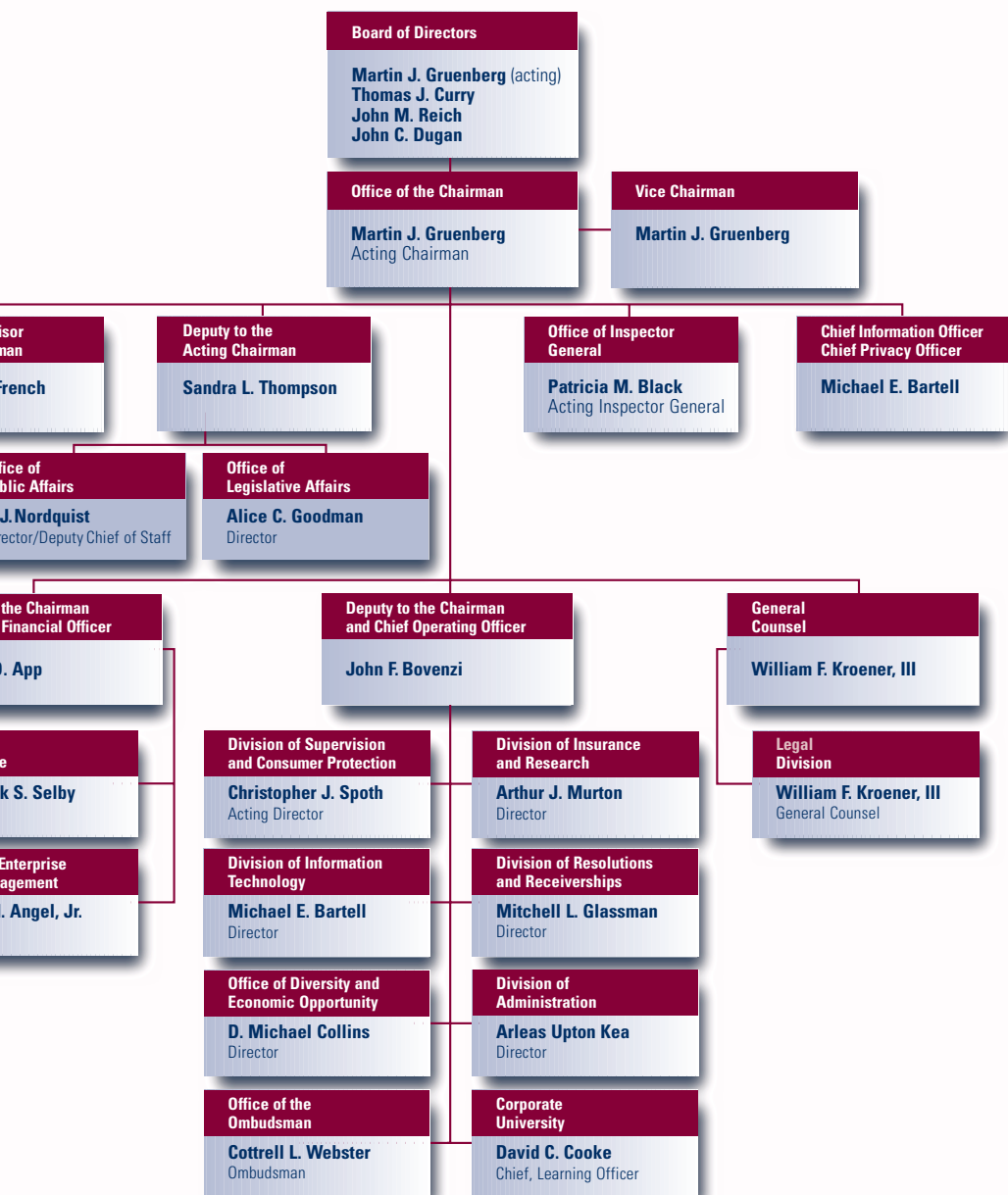
**Office of  
Risk Man**

**James H  
Director**



# FDIC Organization Chart/Officials

as of December 31, 2005



## Regional and Area Offices

### 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

### Chicago Regional Office

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

Illinois  
Indiana  
Kentucky  
Michigan

Ohio  
Wisconsin

### 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

### 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

### 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

### 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

Visit us on the web  
for more details about:

- Deposit insurance
- Bank statistical data
- Current economic and bank analysis
- Past studies on the banking industry
- Bank examinations
- Consumer affairs

[www.fdic.gov](http://www.fdic.gov)

### FDIC Quarterly Banking Profile

- Fourth-Quarter Earnings Are Third-Highest Ever
- Income And Profitability Set New Records In 2003
- Consumer Lending Continues To Exhibit Asset Growth
- Nonperforming Loans Register First Decline In Three Years
- Elleven Failures In 2003 Are Most Since 1994

#### FDIC's Strategic Risk Assessment Factor

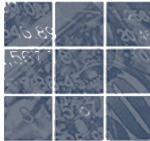
The issue of Strategic Risk Assessment Factor is the publication of a new report that provides the industry with a comprehensive overview of the industry's risk assessment factor. The report provides the industry with a comprehensive overview of the industry's risk assessment factor. The report provides the industry with a comprehensive overview of the industry's risk assessment factor.

Updated April 2006

New coverage for retirement accounts

### FDIC Banking Review

Catastrophe Securities and the FDIC  
Risk Assessment  
Recent Developments



FDIC

FDIC



Money  
Smart

An Adult Education Program  
Building Knowledge, Nurturing Confidence

Your  
Insured  
Deposits  
FDIC's  
Guide to  
Deposit  
Insurance  
Coverage

Federal  
Deposit  
Insurance  
Corporation



**Federal Deposit Insurance Corporation**

**550 17th Street, NW**

**Washington, DC 20429-9990**

**FDIC-005-2006**