FSLIC Resolution Fund
December 31, 2005 and 2004

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet at December 31

Dollars in Thousands

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

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

FRF

FSLIC Resolution Fund
Notes to the Financial Statements December 31, 2005 and 2004

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

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

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

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

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

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

Operations/Dissolution of the FRF

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

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

Receivership Operations

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

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Fair Value of Financial Instruments

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

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

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

Cost Allocations Among Funds

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

Disclosure about Recent Accounting Pronouncements

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

Related Parties

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

Reclassifications

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

3. Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions

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

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

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

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

Dollars in Thousands

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

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

4. Contingent Liabilities for:

Litigation Losses

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

Additional Contingency

Goodwill Litigation

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

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

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

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

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

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

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

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

Guarini Litigation

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

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

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

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

5. Provision for Losses

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

6. Resolution Equity

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

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

Resolution Equity at December 31, 2005

Dollars in Thousands

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

Contributed Capital

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

Accumulated Deficit

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

7. Employee Benefits

Pension Benefits

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

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

Postretirement Benefits Other Than Pensions

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