

# Fannie Mae 2006 10-K Investor Summary



August 16, 2007

- ▶ These materials present tables and other information about Fannie Mae, including information contained in Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2006. These materials should be reviewed together with the 2006 Form 10-K, a copy of which is available on the company's Web site at [www.fanniemae.com](http://www.fanniemae.com) under the "Investor Relations" section of the Web site.
- ▶ More complete information about Fannie Mae, its business, business segments, financial condition and results of operations are contained in the 2006 Form 10-K, which also includes more detailed explanations and additional information relating to the information contained in this presentation. Footnotes to the included tables have been omitted.
- ▶ Statements in these materials, including those relating to our expected future credit losses, market share and administrative expenses, as well as the quality of our mortgage credit book of business and its credit characteristics, may be considered forward-looking statements within the meaning of the federal securities laws, and Fannie Mae's future performance may differ materially from what is indicated in any forward-looking statements. Information that could cause actual results to differ materially from these statements is detailed in the 2006 Form 10-K, including the "Risk Factors" section.

- ▶ **Continue to hit key milestones**
  - Continued momentum towards current filing status – on track to meet February 2008 goal
  - 2006 10-K – 8/16/07
  - 2005 10-K – 5/2/07
  - 2004 10-K with Restated Historical Results – 12/6/06
- ▶ **Demonstrated commitment to return capital to shareholders**
  - Two dividend increases in last eight months (to \$0.50/share per quarter)
- ▶ **Businesses well-positioned to take advantage of opportunities in evolving market**
  - Guaranty businesses momentum
  - Increasing Single-Family market share
  - Capital Markets' continued support of MBS, and focus on long-term total return, while maintaining compliance with an OFHEO-directed cap on our mortgage portfolio.
- ▶ **Risk measures demonstrate effectiveness of risk disciplines**
  - Credit characteristics of existing book remain strong, though we expect our credit loss ratio will increase in 2007 to what we believe represents our normal historical range of 4-6 basis points (e.g. 1990-1997)
  - Duration gap continues in +/- one month range
- ▶ **Building the foundation needed to support a dynamic, growing business**
  - Strong capital position
  - Remediation of many controls issues
  - Improving systems infrastructure
  - Progress toward reducing 2007 administrative expenses and establishing a lower run-rate for 2008

- ▶ **2006 results reflect a challenging market environment, as well as significant restatement and remediation efforts.**
  - Net income available to common stockholders decreased to \$3.5 billion, a \$2.3 billion or 39% decrease
  - Administrative expenses increased from \$2.1 billion to \$3.1 billion
  - Book of business grew 7% to \$2.5 trillion, despite the competitive environment
  - Credit-related expenses increased to \$783 million from \$428 million
  - Average effective guaranty fee rate remained strong and stable, 21.8 bps in both 2006 and 2005
  - Core capital grew to \$42.0 billion, \$3.8 billion above our OFHEO-designated 30% capital surplus requirement
  - Estimated fair value of net assets (non-GAAP), before capital transactions, grew by \$2.2 billion, or 5%
  - Interest rate risk and credit risk measures reflected a generally strong book, though the credit loss ratio increased to 2.7 bps, closer to the higher historical levels

# 2006 Financial Results by Segment



|  | <u>For the Year Ended December 31,*</u> |                  |                  | <u>Increase (Decrease)</u> |              |                      |              |
|--|---|------------------|------------------|----------------------------|--------------|----------------------|--------------|
|  |   |                  |                  | <u>2006 vs. 2005</u>       |              | <u>2005 vs. 2004</u> |              |
|  | <u>2006</u>                             | <u>2005</u>      | <u>2004</u>      | <u>\$</u>                  | <u>%</u>     | <u>\$</u>            | <u>%</u>     |
| <b>(Dollars in millions)</b>           |   |                  |                  |                            |              |                      |              |
| <b>Net Revenues:</b>                   |   |                  |                  |                            |              |                      |              |
| Single-Family Credit Guaranty.....     | \$ 6,073                                | \$ 5,585         | \$ 5,007         | \$ 488                     | 9%           | \$ 578               | 12%          |
| Housing and Community Development..... | 510                                     | 607              | 527              | (97)                       | (16)         | 80                   | 15           |
| Capital Markets.....                   | <u>5,202</u>                            | <u>10,764</u>    | <u>16,666</u>    | <u>(5,562)</u>             | <u>(52)</u>  | <u>(5,902)</u>       | <u>(35)</u>  |
| Total.....                             | <u>\$ 11,785</u>                        | <u>\$ 16,956</u> | <u>\$ 22,200</u> | <u>\$ (5,171)</u>          | <u>(30)%</u> | <u>\$ (5,244)</u>    | <u>(24)%</u> |
| <b>Net income:</b>                     |   |                  |                  |                            |              |                      |              |
| Single-Family Credit Guaranty.....     | \$ 2,044                                | \$ 2,623         | \$ 2,396         | \$ (579)                   | (22)%        | \$ 227               | 9%           |
| Housing and Community Development..... | 338                                     | 503              | 425              | (165)                      | (33)         | 78                   | 18           |
| Capital Markets.....                   | <u>1,677</u>                            | <u>3,221</u>     | <u>2,146</u>     | <u>(1,544)</u>             | <u>(48)</u>  | <u>1,075</u>         | <u>50</u>    |
| Total.....                             | <u>\$ 4,059</u>                         | <u>\$ 6,347</u>  | <u>\$ 4,967</u>  | <u>\$ (2,288)</u>          | <u>(36)%</u> | <u>\$ 1,380</u>      | <u>28%</u>   |

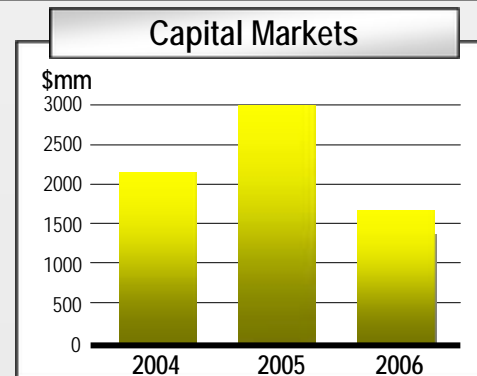
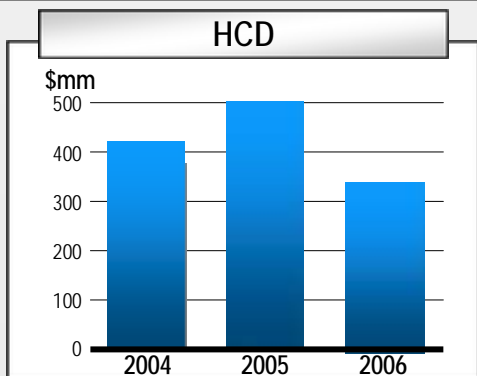
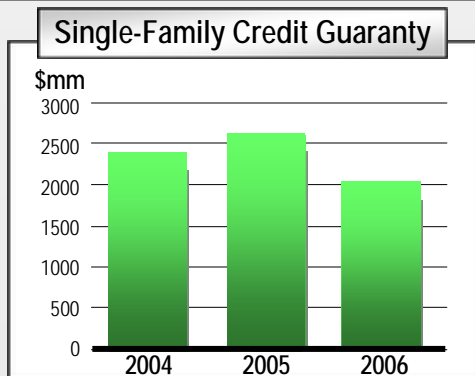
- ▶ Net Income decreased to \$4.1 billion, a \$2.3 billion or 36% decrease from 2005 levels.
- ▶ Single-Family net revenues increased to \$6.1 billion, up 9%. Net income declined to \$2.0 billion, down 22% from 2005. Key drivers included higher losses on certain guaranty contracts, higher administrative expenses, and higher credit expenses, offset partially by higher guaranty fee income, and fee and other income.
- ▶ Net income for the HCD business segment decreased by \$165 million or 33% in 2006 from 2005 resulting from an increase in administrative expenses and credit enhancement expense and a decline in net revenues, which were partially offset by increased investment tax credits from HCD's Low Income Tax Credit investments.
- ▶ Our Capital Markets business generated \$1.7 billion in net income, down 48%, as lower net interest income and higher administrative expenses were partially offset by declines in derivative fair value losses, and declines in investment losses.

# 2006 Income Statement by Segment



For the Year Ended December 31, 2006\*

|  | Single-Family<br>Credit Guaranty | HCD           | Capital<br>Markets | Total           |
|--|----------------------------------|---------------|--------------------|-----------------|
|  | (Dollars in millions)            |               |                    |                 |
| Net interest income (expense).....                                     | \$ 926                           | \$ (331)      | \$ 6,157           | \$ 6,752        |
| Guaranty fee income (expense).....                                     | 4,785                            | 486           | (1,097)            | 4,174           |
| Losses on certain guaranty contracts.....                              | (431)                            | (8)           | —                  | (439)           |
| Investment gains (losses), net.....                                    | 97                               | —             | (780)              | (683)           |
| Derivatives fair value losses, net.....                                | —                                | —             | (1,522)            | (1,522)         |
| Debt extinguishment gains, net.....                                    | —                                | —             | 201                | 201             |
| Losses from partnership investments.....                               | —                                | (865)         | —                  | (865)           |
| Fee and other income.....  | 362                              | 355           | 142                | 859             |
| Non-interest income (loss).....  | <u>4,813</u>                     | <u>(32)</u>   | <u>(3,056)</u>     | <u>1,725</u>    |
| Provision for credit losses.....                                       | 577                              | 12            | —                  | 589             |
| Restatement and related regulatory expenses.....                       | 499                              | 202           | 362                | 1,063           |
| Other expenses.....  | <u>1,530</u>                     | <u>528</u>    | <u>554</u>         | <u>2,612</u>    |
| Income (loss) before federal income taxes and extraordinary gains..... | 3,133                            | (1,105)       | 2,185              | 4,213           |
| Provision (benefit) for federal income taxes.....                      | 1,089                            | (1,443)       | 520                | 166             |
| Income before extraordinary gains.....                                 | 2,044                            | 338           | 1,665              | 4,047           |
| Extraordinary gains, net of tax effect.....                            | —                                | —             | 12                 | 12              |
| 2006 Net income.....   | <u>\$ 2,044</u>                  | <u>\$ 338</u> | <u>\$ 1,677</u>    | <u>\$ 4,059</u> |
| 2005 Net income.....   | <u>\$ 2,623</u>                  | <u>\$ 503</u> | <u>\$ 3,221</u>    | <u>\$ 6,347</u> |
| 2004 Net income.....   | <u>\$ 2,396</u>                  | <u>\$ 425</u> | <u>\$ 2,146</u>    | <u>\$ 4,967</u> |



Source: Notes to Consolidated Financial Statements – Footnote 15

\* Reflects changes made to 2005 and 2004 segment presentation to correct allocation methodologies. 4

# GAAP Financial Results



|  | <b>For the Year Ended December 31,</b> |               |               |
|--|--|---------------|---------------|
|  | <b>2006</b>                            | <b>2005</b>   | <b>2004</b>   |
| Dollars in millions, except per share amounts        |  |               |               |
| Net interest income.....                             | \$ 6,752                               | \$ 11,505     | \$ 18,081     |
| Derivatives fair value losses, net.....              | (1,522)                                | (4,196)       | (12,256)      |
| Guaranty fee income.....                             | 4,174                                  | 3,925         | 3,715         |
| Losses on certain guaranty contracts.....            | (439)                                  | (146)         | (111)         |
| Fee and other income.....                            | 859                                    | 1,526         | 404           |
| Investment losses, net.....                          | (683)                                  | (1,334)       | (362)         |
| Debt extinguishment gains (losses), net.....         | 201                                    | (68)          | (152)         |
| Losses from partnership investments.....             | (865)                                  | (849)         | (702)         |
| Administrative expense.....                          | (3,076)                                | (2,115)       | (1,656)       |
| Provision for credit losses.....                     | (589)                                  | (441)         | (352)         |
| Foreclosed property expense (income).....            | (194)                                  | 13            | (11)          |
| Other non-interest expense.....                      | (405)                                  | (249)         | (599)         |
| Provision for federal income taxes.....              | (166)                                  | (1,277)       | (1,024)       |
| Extraordinary gains (losses), net of tax effect..... | 12                                     | 53            | (8)           |
| Net income.....                                      | <u>4,059</u>                           | <u>6,347</u>  | <u>4,967</u>  |
| Diluted earnings per share.....                      | <u>\$3.65</u>                          | <u>\$6.01</u> | <u>\$4.94</u> |

**Cumulative Net Income, 2004-2006**

**\$15,373**

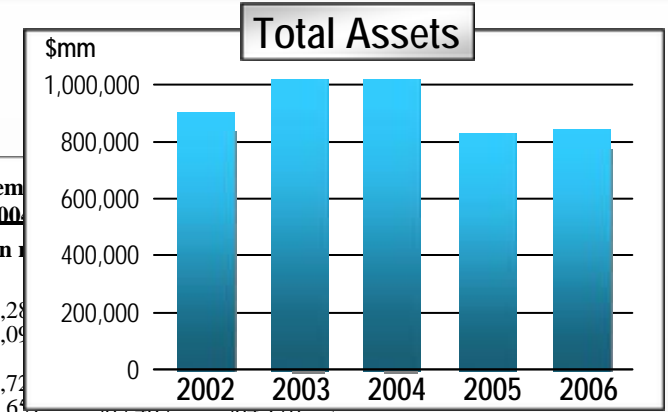
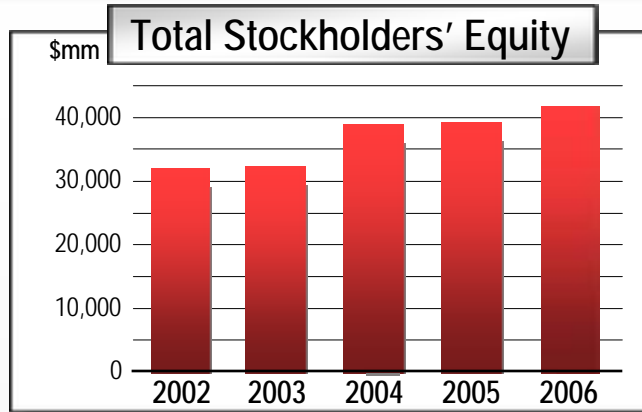
# Selected Financial and Operating Statistics



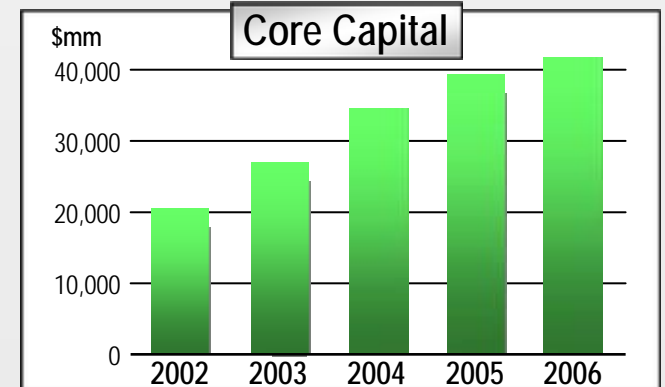
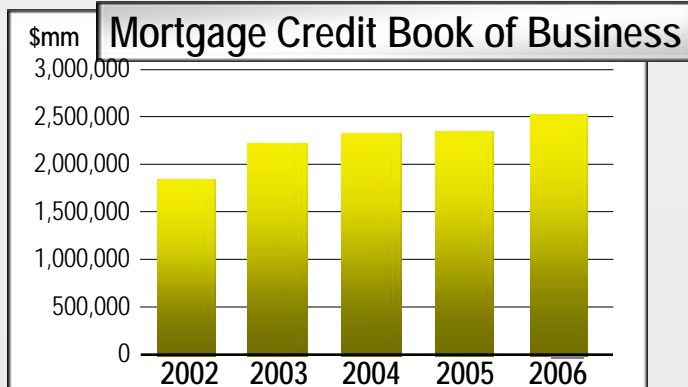
| <u>Ratios:</u>  | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Return on assets ratio.....                                   | 0.42%       | 0.63%       | 0.47%       | 0.82%       | 0.44%       |
| Return on equity ratio.....                                   | 11.3        | 19.5        | 16.6        | 27.6        | 15.2        |
| Equity to assets ratio.....                                   | 4.8         | 4.2         | 3.5         | 3.3         | 3.2         |
| Dividend payout ratio.....                                    | 32.4        | 17.2        | 42.1        | 20.8        | 34.5        |
| Average effective guaranty fee rate.....<br>(in basis points) | 21.8 bp     | 21.8 bp     | 21.4 bp     | 21.6 bp     | 19.3 bp     |
| Credit loss ratio (in basis points).....                      | 2.7 bp      | 1.9 bp      | 1.0 bp      | 0.9 bp      | 0.8 bp      |



# Selected On- and Off-Balance Sheet Data and Capital



|   | As of December 31, 2006 |                    |                    |                    |                    |
|---|-------------------------|--------------------|--------------------|--------------------|--------------------|
|   | 2006                    | 2005               | 2004               | 2003               | 2002               |
|   | (Dollars in millions)   |                    |                    |                    |                    |
| .....   | \$ 11,514               | \$ 15,110          | \$ 35,281          | \$ 30,165          | \$ 30,178          |
| .....   | 378,598                 | 390,964            | 532,091            | 505,165            | 507,178            |
| .....   | 4,868                   | 5,064              | 11,721             | 11,721             | 11,721             |
| of allowance.....                             | 378,687                 | 362,479            | 389,651            | 505,165            | 507,178            |
| <b>Total assets.....</b>                      | <b>843,936</b>          | <b>834,168</b>     | <b>1,020,934</b>   | <b>1,022,275</b>   | <b>904,739</b>     |
| Short-term debt.....                          | 165,810                 | 173,186            | 320,280            | 343,662            | 293,538            |
| Long-term debt.....                           | 601,236                 | 590,824            | 632,831            | 617,618            | 547,755            |
| Total liabilities.....                        | 802,294                 | 794,745            | 981,956            | 990,002            | 872,840            |
| Preferred stock.....                          | 9,108                   | 9,108              | 9,108              | 4,108              | 2,678              |
| <b>Total stockholders' equity.....</b>        | <b>41,506</b>           | <b>39,302</b>      | <b>38,902</b>      | <b>32,268</b>      | <b>31,899</b>      |
| <b>Regulatory Capital Data:</b>               |                         |                    |                    |                    |                    |
| Core capital.....                             | \$ 41,950               | \$ 39,433          | \$ 34,514          | \$ 26,953          | \$ 20,431          |
| Total capital.....                            | 42,703                  | 40,091             | 35,196             | 27,487             | 20,831             |
| <b>Mortgage Credit Book of Business Data:</b> |                         |                    |                    |                    |                    |
| Mortgage portfolio.....                       | \$ 728,932              | \$ 737,889         | \$ 917,209         | \$ 908,868         | \$ 799,779         |
| Fannie Mae MBS held by third parties.....     | 1,777,550               | 1,598,918          | 1,408,047          | 1,300,520          | 1,040,439          |
| Other guarantees.....                         | 19,747                  | 19,152             | 14,825             | 13,168             | 12,027             |
| <b>Mortgage credit book of business.....</b>  | <b>\$2,526,229</b>      | <b>\$2,355,959</b> | <b>\$2,340,081</b> | <b>\$2,222,556</b> | <b>\$1,852,245</b> |



Source: Item 6: Selected Financial Information

# Net Interest Income and Yield



|   | For the Year Ended December 31, |                                |                                 |                    |                                |                                 |                    |                                |                                 |
|---|---------------------------------|--------------------------------|---------------------------------|--------------------|--------------------------------|---------------------------------|--------------------|--------------------------------|---------------------------------|
|   | 2006                            |                                |                                 | 2005               |                                |                                 | 2004               |                                |                                 |
|   | Average<br>Balance              | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid |
|   | (Dollars in millions)           |                                |                                 |                    |                                |                                 |                    |                                |                                 |
| Interest-earning assets:  |                                 |                                |                                 |                    |                                |                                 |                    |                                |                                 |
| Mortgage loans.....   | \$ 376,016                      | \$ 20,804                      | 5.53%                           | \$ 384,869         | \$ 20,688                      | 5.38%                           | \$ 400,603         | \$ 21,390                      | 5.34%                           |
| Mortgage securities.....  | 356,872                         | 19,313                         | 5.41                            | 443,270            | 22,163                         | 5.00                            | 514,529            | 25,302                         | 4.92                            |
| Non-mortgage securities.....  | 45,138                          | 2,734                          | 6.06                            | 41,369             | 1,590                          | 3.84                            | 46,440             | 1,009                          | 2.17                            |
| Federal funds sold and securities<br>purchased under agreements<br>to resell.....     | 13,376                          | 641                            | 4.79                            | 6,415              | 299                            | 4.66                            | 8,308              | 84                             | 1.01                            |
| Advances to lenders.....  | 5,365                           | 135                            | 2.52                            | 4,468              | 104                            | 2.33                            | 4,773              | 33                             | 0.69                            |
| <b>Total interest-earning assets.....</b>   | <b>\$ 796,767</b>               | <b>\$ 43,627</b>               | <b>5.48%</b>                    | <b>\$ 880,391</b>  | <b>\$ 44,844</b>               | <b>5.09%</b>                    | <b>\$ 974,653</b>  | <b>\$ 47,818</b>               | <b>4.91%</b>                    |
| Interest-bearing liabilities:   |                                 |                                |                                 |                    |                                |                                 |                    |                                |                                 |
| Short-term debt.....  | \$ 164,566                      | \$ 7,724                       | 4.69%                           | \$ 246,733         | \$ 6,535                       | 2.65%                           | \$ 331,971         | \$ 4,380                       | 1.32%                           |
| Long-term debt.....   | 604,555                         | 29,139                         | 4.82                            | 611,827            | 26,777                         | 4.38                            | 625,225            | 25,338                         | 4.05                            |
| Federal funds purchased and<br>securities sold under agreements<br>to repurchase..... | 320                             | 12                             | 3.75                            | 1,552              | 27                             | 1.74                            | 3,037              | 19                             | 0.63                            |
| Total interest-bearing liabilities.....   | \$ 769,441                      | \$ 36,875                      | 4.79%                           | \$ 860,112         | \$ 33,339                      | 3.88%                           | \$ 960,233         | \$ 29,737                      | 3.10%                           |
| Impact of net non-interest<br>bearing funding.....                                    | \$ 27,326                       |                                | 0.16%                           | \$ 20,279          |                                | 0.10%                           | \$ 14,420          |                                | 0.05%                           |
| <b>Net interest income/net<br/>interest yield.....</b>                                |                                 | <b>\$ 6,752</b>                | <b>0.85%</b>                    |                    | <b>\$ 11,505</b>               | <b>1.31%</b>                    |                    | <b>\$ 18,081</b>               | <b>1.86%</b>                    |

## Key Drivers:

- ▶ Higher debt costs due to flattening of the yield curve
- ▶ Decrease in average portfolio size

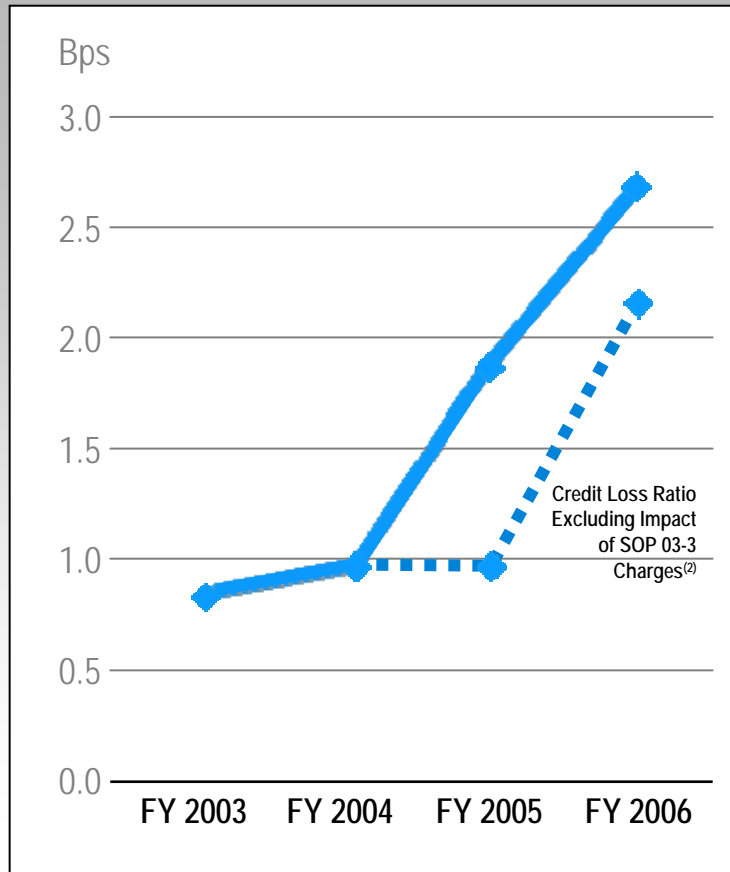


# Guaranty Fee Analysis

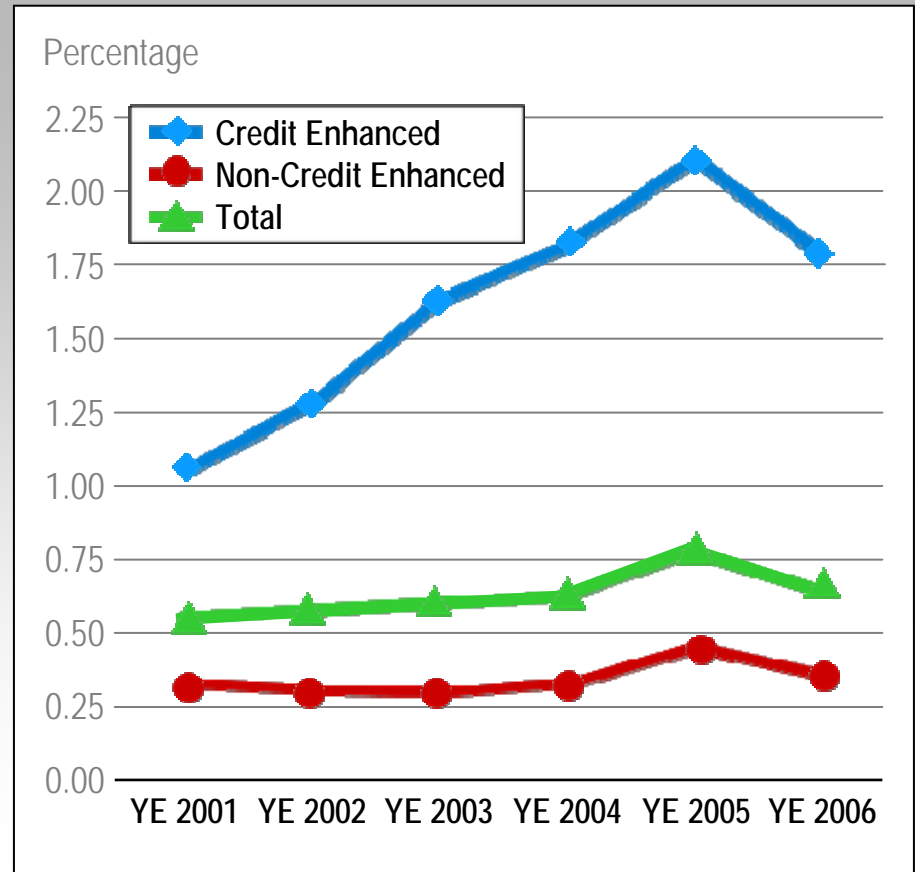


|   | For the Year Ended December 31, |                    |                        |                    |                      |                     |
|---|---------------------------------|--------------------|------------------------|--------------------|----------------------|---------------------|
|   | 2006                            |                    | 2005                   |                    | Variance             |                     |
|   | <u>Amount</u>                   | <u>Rate</u>        | <u>Amount</u>          | <u>Rate</u>        | <u>Amount</u>        | <u>Rate</u>         |
|   | (in millions)                   | (in bps)           | (in millions)          | (in bps)           | (in millions)        | (in bps)            |
| Guaranty fee income/average effective guaranty fee rate, excluding buy-up impairment..... | \$ 4,212                        | 22.0               | \$ 3,974               | 22.1               | \$ 238               | (0.1)               |
| Buy-up impairment.....  | (38)                            | (0.2)              | (49)                   | (0.3)              | 11                   | 0.1                 |
| <b>Guaranty fee income/average effective guaranty fee rate.....</b>                       | <b><u>\$ 4,174</u></b>          | <b><u>21.8</u></b> | <b><u>\$ 3,925</u></b> | <b><u>21.8</u></b> | <b><u>\$ 249</u></b> | <b><u>(0.0)</u></b> |
| Average outstanding Fannie Mae MBS and other guaranties.....                              | \$1,915,457                     |                    | \$1,797,547            |                    | \$117,910            |                     |
| Fannie Mae MBS issues.....  | 481,704                         |                    | 510,138                |                    | (28,434)             |                     |

## Credit Losses<sup>(1)</sup>/Book of Business



## Single-Family Serious Delinquency Rate<sup>(2)</sup>



(1) Credit losses include foreclosed property expenses plus net charge-offs.

(2) Greater than 90 days past due

(2) Under SOP 03-3, we are required to record as a charge-off the excess of the acquisition price over fair value of delinquent loans we purchase from Fannie Mae MBS trusts.

► Higher credit loss ratio primarily due to continued weakness in the Midwest region of the U.S. as well as due to overall weaker home price appreciation.

# Administrative Expenses



| (Dollars in millions)                     | <u>For the Year Ended December 31,</u> |                        |                        |
|---|--|------------------------|------------------------|
|   | <u>2006</u>                            | <u>2005</u>            | <u>2004</u>            |
| Salaries and Employee Benefits.....       | \$ 1,219                               | \$ 959                 | \$ 892                 |
| Professional Services.....                | 1,393                                  | 792                    | 435                    |
| Occupancy Expenses.....                   | 263                                    | 221                    | 185                    |
| Other Administrative Expenses.....        | 201                                    | 143                    | 144                    |
| <b>Total Administrative Expenses.....</b> | <b>\$ <u>3,076</u></b>                 | <b>\$ <u>2,115</u></b> | <b>\$ <u>1,656</u></b> |

Increased due to costs associated with our efforts to return to timely financial reporting and an increase in our ongoing daily operations costs.

**For the Year Ended December 31,**

**2006      2005      2004**

**(Dollars in millions)**

|   |                |                  |                |
|---|----------------|------------------|----------------|
| Other-than-temporary impairment on AFS securities.....            | \$ (853)       | \$(1,246)        | \$(389)        |
| Lower-of-cost-or-market adjustments on HFS loans .....            | (47)           | (114)            | (110)          |
| Gains (losses) on Fannie Mae portfolio securitizations, net ..... | 152            | 259              | (34)           |
| Gains on sale of investment securities, net .....                 | 106            | 225              | 185            |
| Unrealized gains (losses) on trading securities, net.....         | 8              | (415)            | 24             |
| Other investment losses, net .....                                | <u>(49)</u>    | <u>(43)</u>      | <u>(38)</u>    |
| Investment losses, net .....                                      | <u>\$(683)</u> | <u>\$(1,334)</u> | <u>\$(362)</u> |

**For the Year Ended December 31,**

**2006                  2005                  2004**

**(Dollars in millions)**

|   |               |                |               |
|---|---------------|----------------|---------------|
| Transaction fees.....                         | \$ 124        | \$ 136         | \$ 152        |
| Technology fees.....                          | 216           | 223            | 214           |
| Multifamily fees.....                         | 292           | 432            | 244           |
| Foreign currency exchange gains (losses)..... | (230)         | 625            | (304)         |
| Other.....                                    | <u>457</u>    | <u>110</u>     | <u>98</u>     |
| Fee and other income.....                     | <u>\$ 859</u> | <u>\$1,526</u> | <u>\$ 404</u> |

- ▶ Fee and other income declined in 2006 primarily due to foreign currency exchange losses of \$230 million in 2006 vs. gains of \$625 million in 2005.
- ▶ Our foreign currency exchange gains (losses) are offset by corresponding net losses (gains) on foreign currency swaps, which are recognized as a component of "Derivatives fair value gains (losses), net."



**For the Year Ended December 31,**

**(Dollars in millions)**

|  | <b><u>2006</u></b> | <b><u>2005</u></b> | <b><u>2004</u></b> |
|--|--------------------|--------------------|--------------------|
| Statutory corporate tax rate.....                        | 35.0%              | 35.0%              | 35.0%              |
| Tax exempt interest and dividends-received deductions... | (6.0)              | (4.0)              | (5.4)              |
| Equity investments in affordable housing projects.....   | (25.0)             | (13.1)             | (14.5)             |
| Penalty.....   | -                  | -                  | 2.4                |
| Other.....   | (0.1)              | (1.0)              | (0.3)              |
| Effective Tax Rate.....                                  | 3.9%               | 16.9%              | 17.2%              |
| Current income tax expense.....                          | \$ 745             | \$ 874             | \$ 2,651           |
| Deferred income tax (benefit) expense.....               | (579)              | 403                | (1,627)            |
| Provision for federal income taxes.....                  | \$ 166             | \$ 1,277           | \$ 1,024           |

- ▶ Variance in our effective tax rate over the past three years is primarily due to the combined effect of fluctuations in our pre-tax income, which affects the relative tax benefit of tax-exempt income and tax credits, and an increase in the dollar amount of tax credits related to our equity investments in affordable housing.

## Change in Estimated Fair Value of Net Assets (Non-GAAP)



| (Dollars in millions)   | <u>2006</u>            | <u>2005</u>            |
|---|------------------------|------------------------|
| Balance as of January 1 .....   | \$42,199               | \$40,094               |
| Capital transactions:   |                        |                        |
| Common dividends, common share repurchases and issuances, net.....              | (1,030)                | (943)                  |
| Preferred dividends.....  | (511)                  | (486)                  |
| Capital transactions, net.....  | (1,541)                | (1,429)                |
| Change in estimated fair value of net assets, excluding capital transactions... | <u>2,243</u>           | <u>3,534</u>           |
| Increase in estimated fair value of net assets, net.....                        | <u>702</u>             | <u>2,105</u>           |
| <b>Balance as of December 31.....</b>   | <b><u>\$42,901</u></b> | <b><u>\$42,199</u></b> |

Estimated Fair value of net assets, has increased by \$0.7 billion, \$2.2 billion net of capital transactions

### Key Drivers:

- ▶ Payments of \$1.7 billion of dividends to holders of common and preferred stock
- ▶ A decrease in the estimated fair value of our net guaranty assets of approximately \$1.4 billion driven primarily by the slowdown in home price appreciation that occurred in 2006
- ▶ A widening in OAS on securities held by us resulted in a decrease in fair value of our mortgage assets.
- ▶ A decline in agency debt OAS relative to LIBOR resulted in an increase in the fair value of our liabilities, that further decreased the overall fair value of our net assets.
- ▶ More than offsetting the decline in fair value of net assets due to changes in spreads was an increase in fair value due to a decrease in implied volatility.

The estimated fair value of our net assets (non-GAAP) represents the estimated fair value of total assets less the estimated fair value of total liabilities. We reconcile the estimated fair value of our net assets (non-GAAP) to total stockholders' equity (GAAP) in the Appendix.

## APPENDIX

- ▶ The following sets forth a reconciliation of the estimated fair value of our net assets (non-GAAP) to total stockholders' equity (GAAP). A more detailed reconciliation is contained in Table 21 of the 2006 Form 10-K.

| (Dollars in millions)  | <u>As of December 31,</u>    |                              |
|--|------------------------------|------------------------------|
|  | 2006                         | 2005                         |
| Estimated Fair Value of Net Assets,<br>net of tax effect (non-GAAP)..... | \$ 42,901                    | \$ 42,199                    |
| Fair value adjustments.....  | <u>(1,395)<sup>(1)</sup></u> | <u>(2,897)<sup>(2)</sup></u> |
| Total Stockholders' Equity (GAAP).....                                   | <u>\$ 41,506</u>             | <u>\$ 39,302</u>             |

(1) Represents fair value increase of \$1.6 billion to total assets of \$843.9 billion less a fair value increase of \$0.2 billion to total liabilities of \$802.3 billion.

(2) Represents fair value increase of \$1.9 billion to total assets of \$834.2 billion, plus a fair value decrease of \$1.0 billion to total liabilities of \$794.7 billion.