HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-K
February 23, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**13-3317783**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Hartford Plaza, Hartford, Connecticut 06155
(Address of principal executive offices)
(860) 547-5000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: the following, all of which are listed on the New York Stock Exchange, Inc.

Common Stock, par value $0.01 per share
6.1% Notes due October 1, 2041

Securities registered pursuant to Section 12(g) of the Act:

4.7% Notes due September 1, 2007	4.625% Notes due July 15, 2013
5.55% Notes due August 16, 2008	4.75% Notes due March 1, 2014
6.375% Notes due November 1, 2008	7.3% Debentures due November 1, 2015
5.663% Notes due November 16, 2008	5.50% Notes due October 15, 2016
7.9% Notes due June 15, 2010	5.95% Notes due October 15, 2036
5.25% Notes due October 15, 2011	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2006 was approximately $25,666,539,000, based on the closing price of $84.60 per share of the Common Stock on the New York Stock Exchange on June 30, 2006.

As of February 16, 2007, there were outstanding 320,217,940 shares of Common Stock, $0.01 par value per share, of the registrant.

Documents Incorporated by Reference:

Portions of the registrant s definitive proxy statement for its 2007 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

The Hartford Financial Services Group, Inc.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2006
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PART I

Item 1. BUSINESS

(Dollar amounts in millions, except for per share data, unless otherwise stated)

General

The Hartford Financial Services Group, Inc. (together with its subsidiaries, The Hartford or the Company) is a diversified insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of investment products, individual life, group life and group disability insurance products, and property and casualty insurance products in the United States. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford s subsidiaries. The Hartford writes insurance in the United States and internationally. At December 31, 2006, total assets and total stockholders equity of The Hartford were $326.7 billion and $18.9 billion, respectively.

Organization

The Hartford strives to maintain and enhance its position as a market leader within the financial services industry and to maximize shareholder value. The Company pursues a strategy of developing and selling diverse and innovative products through multiple distribution channels, continuously developing and expanding those distribution channels, achieving cost efficiencies through economies of scale and improved technology, maintaining effective risk management and prudent underwriting techniques and capitalizing on its brand name and customer recognition of The Hartford Stag Logo, one of the most recognized symbols in the financial services industry.

As a holding company that is separate and distinct from its subsidiaries, The Hartford Financial Services Group, Inc. has no significant business operations of its own. Therefore, it relies on the dividends from its insurance companies and other subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of The Hartford Financial Services Group, Inc. may be found in the Capital Resources and Liquidity section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

The Company maintains a retail mutual fund operation, whereby the Company, through wholly-owned subsidiaries, provides investment management and administrative services to The Hartford Mutual Funds, Inc. and The Hartford Mutual Funds II, Inc. (The Hartford mutual funds) families of 52 mutual funds and 1 closed end fund. Investors can purchase shares in The Hartford mutual funds, all of which are registered with the Securities and Exchange Commission in accordance with the Investment Company Act of 1940. The Hartford mutual funds are owned by the shareholders of those funds and not by the Company.

Reporting Segments

The Hartford is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in ten operating segments. Additionally, Corporate primarily includes the Company s debt financing and related interest expense, as well as certain capital raising activities and purchase accounting adjustments.

Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International.

Retail offers individual variable and fixed market value adjusted (MVA) annuities, retail mutual funds, 529 college savings plans, Canadian and offshore investment products.

Retirement Plans provides products and services to corporations pursuant to Section 401(k) and products and services to municipalities and not-for-profit organizations under Section 457 and 403(b) of the IRS code. Retirement also offers mutual funds to individual investors.

Institutional primarily offers institutional liability products, including stable value products and institutional annuities (primarily terminal funding cases), as well as variable Private Placement Life Insurance (PPLI) owned by corporations and high net worth individuals. Within stable value, Institutional has an investor note program that offers both institutional and retail investor notes. Institutional and Retail notes are sold as funding agreement backed notes through trusts and may also be issued directly from the company to investors. Institutional also offers mutual funds to institutional investors. Furthermore, Institutional offers additional individual products including structured settlements, consumer notes and single premium immediate annuities and longevity assurance.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, interest sensitive whole life and term life.

Group Benefits provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, group retiree health, and medical stop loss.

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and Canada.

Life includes in an Other category its leveraged PPLI product line of business; corporate items not directly allocated to any of its reportable operating segments; net realized capital gains and losses on fixed maturity sales generated from movements in interest rates, less amortization of those gains or losses back to the reportable segments; net realized capital gains and losses generated from credit related events, less a credit risk fee charged to the reportable segments; net realized capital gains and losses from non-qualifying derivative strategies (including embedded derivatives) other than the net periodic coupon settlements on credit derivatives and the net periodic coupon settlements on the cross currency swaps used to economically hedge currency and interest rate risk generated from sales of the Company s yen based fixed annuity, which are allocated to the reportable segments; the mark-to-market adjustment for the equity securities held for trading reported in net investment income and the related change in interest credited reported as a component of benefits, losses and loss adjustment expenses since these items are not considered by the Company s chief operating decision maker in evaluating the International results of operations; and intersegment eliminations.

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines, and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment.

Business Insurance provides standard commercial insurance coverage to small commercial and middle market commercial businesses primarily throughout the United States. This segment offers workers compensation, property, automobile, liability, umbrella and marine coverages. Commercial risk management products and services are also provided.

Personal Lines provides automobile, homeowners and home-based business coverages to the members of AARP through a direct marketing operation and to individuals who prefer local agent involvement through a network of independent agents in the standard personal lines market. Personal Lines also operates a member contact center for health insurance products offered through AARP s Health Care Options.

The Specialty Commercial segment offers a variety of customized insurance products and risk management services. Specialty Commercial provides standard commercial insurance products including workers compensation, automobile and liability coverages to large-sized companies. Specialty Commercial also provides professional liability, fidelity, surety, specialty casualty and livestock coverages, as well as core property and excess and surplus lines coverages not normally written by standard lines insurers. Alternative markets, within Specialty Commercial, provides insurance products and services primarily to captive insurance companies, pools and self-insurance groups. In addition, Specialty Commercial provides third party administrator services for claims administration, integrated benefits, loss control and performance measurement through Specialty Risk Services, a subsidiary of the Company.

The Other Operations segment consists of certain property and casualty insurance operations of The Hartford which have discontinued writing new business and includes substantially all of the Company s asbestos and environmental exposures.

The measure of profit or loss used by The Hartford s management in evaluating the performance of its Life segments is net income. Likewise, within Property & Casualty, net income is the measure of profit or loss used in evaluating the performance of Total Property & Casualty, Ongoing Operations and the Other Operations segment. Within Ongoing Operations, the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results represent premiums earned less incurred losses, loss adjustment expenses and underwriting expenses. The sum of underwriting results, other revenues, net investment income, net realized capital gains and losses, other expenses, and related income taxes is net income (loss).

Life

Life s business is conducted by Hartford Life, Inc. (Hartford Life or Life), an indirect subsidiary of The Hartford, headquartered in Simsbury, Connecticut, a leading financial services and insurance organization. Hartford Life provides (i) retail and institutional investment products, including variable annuities, fixed market value adjusted

(MVA) annuities, mutual funds, private placement life insurance, which includes life insurance products purchased by a company on the lives of its employees, and retirement plan services for the savings and retirement needs of over 5.0 million customers, (ii) life insurance for wealth protection, accumulation and transfer needs for approximately 754,000 customers, (iii) group benefits products such as group life and group disability insurance for the benefit of millions of individuals, and (iv) fixed and variable annuity products through its international operations for the savings and retirement needs of approximately 450,000 customers. Life is one of the largest sellers of individual variable annuities, variable universal life insurance and, group life and disability insurance in the United States. Life s strong position in each of its core businesses provides an opportunity to increase the sale of Life s products and services as individuals increasingly save and plan for retirement, protect themselves and their families against the financial uncertainties associated with disability or death and engage in estate planning.

Hartford Life is among the largest consolidated life insurance groups in the United States based on statutory assets as of December 31, 2006. In the past year, Life s total assets under management, which include $43.7 billion of third party assets invested in Life s mutual funds and 529 College Savings Plans, increased 18% to $327.5 billion at December 31, 2006 from $276.5 billion at December 31, 2005.

Life generated revenues of $14.1 billion, $15.0 billion and $11.4 billion in 2006, 2005 and 2004, respectively. Additionally, Life generated net income of $1.4 billion, $1.2 billion and $1.4 billion in 2006, 2005 and 2004, respectively.

Customer Service, Technology and Economies of Scale

Life maintains advantageous economies of scale and operating efficiencies due to its growth, attention to expense and claims management and commitment to customer service and technology. These advantages allow Life to competitively price its products for its distribution network and policyholders. In addition, Life utilizes technology to enhance communications within Life and throughout its distribution network in order to improve Life s efficiency in marketing, selling and servicing its products and, as a result, provides high-quality customer service. In recognition of excellence in customer service for individual annuities, Hartford Life was awarded the 2006 Annuity Service Award by DALBAR Inc., a recognized independent financial services research organization, for the eleventh consecutive year. Hartford Life is the only company to receive this prestigious award in every year of the award s existence. Also, in 2006 Life earned it s fourth DALBAR Award for Mutual Fund service, as well as, Retirement Plan Service which recognizes Hartford Life as the No. 1 service provider of mutual funds and retirement plans in the industry. Continuing the trend of service excellence, Life s Individual Life segment won its sixth consecutive DALBAR award for service of life insurance customers. Additionally, Life s Individual Life segment also won its fifth DALBAR Financial Intermediary Service Award in 2006.

Risk Management

Life s product designs, prudent underwriting standards and risk management techniques are structured to protect it against disintermediation risk, greater than expected mortality and morbidity experience, foreign currency risk and, risks associated with certain product features, specifically the guaranteed minimum death benefit (GMDB), guaranteed minimum withdrawal benefit (GMWB) and guaranteed minimum income benefit (GMIB) offered with variable annuity products. As of December 31, 2006, Life had limited exposure to disintermediation risk on approximately 98% of its domestic life insurance and annuity liabilities through the use of separate accounts, MVA features, policy loans, surrender charges and non-surrenderability provisions. Life effectively utilizes prudent underwriting to select and price insurance risks and regularly monitors mortality and morbidity assumptions to determine if experience remains consistent with these assumptions and to ensure that its product pricing remains appropriate. Life also enforces disciplined claims management to protect itself against greater than expected morbidity experience. Life uses reinsurance structures and has modified benefit features to mitigate the mortality exposure associated with GMDB. Life also uses reinsurance and derivative instruments to attempt to minimize equity risk volatility on GMWB and, to some degree, foreign currency risk associated with the GMIB liability.

Retail

The Retail segment focuses, through the sale of individual variable and fixed annuities, mutual funds and other investment products, on the savings and retirement needs of the growing number of individuals who are preparing for retirement or who have already retired. This segment s assets under management grew to $164.9 billion at December 31, 2006 from $145.9 billion at December 31, 2005 and from $137.1 billion at December 31, 2004. Retail generated revenues of $3.5 billion, $3.2 billion and $3.0 billion in 2006, 2005 and 2004, respectively, of which individual annuities accounted for $2.8 billion, $2.7 billion and $2.6 billion for 2006, 2005 and 2004, respectively. Net income in Retail was $628, $622 and $503 in 2006, 2005 and 2004, respectively.

Life sells both variable and fixed individual annuity products through a wide distribution network of national and regional broker-dealer organizations, banks and other financial institutions and independent financial advisors. Life is a market leader in the annuity industry with deposits of $13.1 billion, $11.5 billion and $15.7 billion in 2006, 2005 and 2004, respectively. Life was among the largest sellers of individual retail variable annuities in the United States with deposits of $12.1 billion, $11.2 billion and $15.0 billion in 2006, 2005 and 2004, respectively. In addition, Life continues to be the largest seller of individual retail variable annuities through banks in the United States.

Life s total account value related to individual annuity products was $124.3 billion as of December 31, 2006. Of this total account value, $114.4 billion, or 92%, related to individual variable annuity products and $9.9 billion, or 8%, related primarily to fixed MVA annuity products. As of December 31, 2005, Life s total account value related to individual annuity products was $115.5 billion. Of this total account value, $105.3 billion, or 91%, related to

individual variable annuity products and $10.2 billion, or 9%, related primarily to fixed MVA annuity products. As of December 31, 2004, Life s total account value related to individual annuity products was $111.0 billion. Of this total account value, $99.6 billion, or 90%, related to individual variable annuity products and $11.4 billion, or 10%, related primarily to fixed MVA annuity products.

Life continues to emerge as a significant participant in the mutual fund business. Retail mutual fund assets were $38.5 billion, $29.1 billion and $25.2 billion as of December 31, 2006, 2005 and 2004, respectively. Retail mutual fund sales were $11.1 billion, $5.8 billion and $5.9 billion in 2006, 2005, and 2004, respectively.

Principal Products

Individual Variable Annuities Life earns fees, based on policyholders account values, for managing variable annuity assets, providing various death benefits and principal guarantees, and maintaining policyholder accounts. Life uses specified portions of the periodic deposits paid by a customer to purchase units in one or more mutual funds as directed by the customer, who then assumes the investment performance risks and rewards. As a result, variable annuities permit policyholders to choose aggressive or conservative investment strategies, as they deem appropriate, without affecting the composition and quality of assets in Life s general account. These products offer the policyholder a variety of equity and fixed income options, as well as the ability to earn a guaranteed rate of interest in the general account of Life. Life offers an enhanced guaranteed rate of interest for a specified period of time (no longer than twelve months) if the policyholder elects to dollar-cost average funds from Life s general account into one or more separate accounts. Principal guarantees include guaranteed minimum death and withdrawal benefits.

The majority of the contracts with the guaranteed death benefit feature are sold by the Retail Products Group segment. Hartford Life pays the greater of (1) account value at death, (2) the sum of all premium payments less prior withdrawals; or (3) the maximum anniversary value of the contract, plus any premium payments since the contract anniversary, minus any withdrawals following the contract anniversary. For certain guaranteed death benefits sold with variable annuity contracts beginning in June 2003, the Company pays the greater of (1) the account value at death; or (2) the maximum anniversary value; not to exceed the account value plus the greater of (a) 25% of premium payments, or (b) 25% of the maximum anniversary value of the contract. The GMWB provides the policyholder with a guaranteed remaining balance (GRB) if the account value is reduced to zero through a combination of market declines and withdrawals. The GRB is generally equal to premiums less withdrawals. However, annual withdrawals that exceed a specific percentage of the premiums paid may reduce the GRB by an amount greater than the withdrawals and may also impact the guaranteed annual withdrawal amount that subsequently applies after the excess annual withdrawals occur. For certain of the withdrawal benefit features, the policyholder also has the option, after a specified time period, to reset the GRB to the then-current account value, if greater. In addition, the Company has introduced features for contracts issued beginning in the fourth quarter of 2005, that allows the policyholder to receive the guaranteed annual withdrawal amount for as long as they are alive. In this new feature, in all cases the contract holder or their beneficiary will receive the GRB and the GRB is reset on an annual basis to the maximum anniversary account value subject to a cap.

Policyholders may make deposits of varying amounts at regular or irregular intervals and the value of these assets fluctuates in accordance with the investment performance of the funds selected by the policyholder. To encourage persistency, many of Life s individual variable annuities are subject to withdrawal restrictions and surrender charges. Surrender charges range up to 8% of the contract s deposits less withdrawals, and reduce to zero on a sliding scale, usually within seven years from the deposit date. Individual variable annuity account values of $114.4 billion as of December 31, 2006, have grown from $105.3 billion as of December 31, 2005, primarily due to equity market appreciation. Approximately 95% and 94% of the individual variable annuity account values were held in separate accounts as of December 31, 2006 and 2005, respectively.

The assets underlying Life s variable annuities are managed both internally and by independent money managers, while Life provides all policy administration services. Life utilizes a select group of money managers all of which are among the nation s most successful investment managers. Furthermore, each money manager is compensated on sales of Life s products and enhance the marketability of Life s annuities and the strength of its product offerings. Hartford Leaders, which is a multi-manager variable annuity that combines the product manufacturing, wholesaling and service capabilities of Life with the investment management expertise of American Funds, Franklin Templeton Group, AIM Investments and MFS Investment Management, is an industry leader in terms of retail sales. In 2005, the Director M variable annuity was introduced to combine the product manufacturing, wholesaling and service capabilities of Life with the investment management expertise of Wellington Management Company, LLP (Wellington) and Hartford Investment Management Company (HIMCO), the two money managers for the former Director product, as well as an additional six premier investment firms: AllianceBernstein, Fidelity Investments, Lord Abbett, Oppenheimer Funds, Putnam and Van Kampen.

Fixed MVA Annuities Fixed MVA annuities are fixed rate annuity contracts which guarantee a specific sum of money to be paid in the future, either as a lump sum or as monthly income. In the event that a policyholder surrenders a policy prior to the end of the guarantee period, the MVA feature increases or decreases the cash surrender value of the annuity in respect of any interest rate decreases or increases, respectively, thereby protecting Life from losses due to higher interest rates at the time of surrender. The amount of the lump sum or monthly income payment will not fluctuate due to adverse changes in other components of Life s investment return, mortality experience or expenses. Life s primary fixed MVA annuities have terms varying from one to ten years with an average term to maturity of approximately four years. Account values of fixed MVA annuities were $9.9 billion, $10.2 billion and $11.4 billion as of December 31, 2006, 2005 and 2004, respectively.

Mutual Funds Life launched a family of retail mutual funds for which Life provides investment management and administrative services. The fund family has grown significantly from 8 funds at inception to the current offering of 52 mutual funds and 1 closed end fund, including the addition of 4 new funds in 2006, The Hartford Balanced Income Fund, The Hartford Large Cap Growth Fund, The Hartford Mid Cap Growth Fund and the Hartford Select Small Cap Value Fund. Life s funds are managed by Wellington and HIMCO. Life has entered into agreements with over 1,200 financial services firms to distribute these mutual funds.

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Life charges fees to the shareholders of the mutual funds, which are recorded as revenue by Life. Investors can purchase shares in the mutual funds, all of which are registered with the Securities and Exchange Commission, in accordance with the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by Life. As such, the mutual fund assets and liabilities, as well as related investment returns, are not reflected in The Hartford s consolidated financial statements. Total retail mutual fund assets under management were $38.5 billion, $29.1 billion, and $25.2 billion as of December 31, 2006, 2005 and 2004, respectively.

Marketing and Distribution

Life s distribution network is based on management s strategy of utilizing multiple and competing distribution channels to achieve the broadest distribution to reach target customers. The success of Life s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling organizations, quality of customer service, and relationships with national and regional broker-dealer firms, banks and other financial institutions, and independent financial advisors (through which the sale of Life s retail investment products to customers is consummated).

Life maintains a distribution network of approximately 1,500 broker-dealers and approximately 500 banks. As of December 31, 2006, Life was selling products through the 25 largest retail banks in the United States. Life periodically negotiates provisions and terms of its relationships with unaffiliated parties, and there can be no assurance that such terms will remain acceptable to Life or such third parties. Life s primary wholesaler of its individual annuities is PLANCO Financial Services, LLC and its affiliate, PLANCO, LLC (collectively PLANCO) which are wholly owned subsidiaries of Hartford Life and Accident Insurance Company (HLA). PLANCO is one of the nation s largest wholesalers of individual annuities and has played a significant role in The Hartford s growth over the past decade. As a wholesaler, PLANCO distributes Life s fixed and variable annuities, mutual funds, 529 plans and offshore products by providing sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States. Owning PLANCO secures an important distribution channel for Life and gives Life a wholesale distribution platform which it can expand in terms of both the number of individuals wholesaling its products and the portfolio of products which they wholesale.

Competition

Retail competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

Retirement Plans

Life is among the top providers of retirement products and services. Products and services offered by Retirement include asset management and plan administration sold to municipalities and not-for-profit organizations pursuant to Section 457 and 403(b) of the Internal Revenue Code of 1986, as amended (referred to as Section 457 and 403(b) , respectively). Life also provides retirement products and services, including asset management and plan administration sold to small- and medium-size corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (referred to as 401(k)).

Life s total account values related to retirement plans were $23.6 billion, $19.3 billion and $16.5 billion as of December 31, 2006, 2005 and 2004, respectively. Governmental account values were $11.5 billion, $10.5 billion and $10.0 billion as of December 31, 2006, 2005 and 2004, respectively. 401(k) products account values were $12.0 billion, $8.8 billion and $6.5 billion as of December 31, 2006, 2005 and 2004, respectively. Retirement Plans generated revenues of $538, $470 and $434 in 2006, 2005 and 2004, respectively, and net income of $109, $75 and $66 in 2006, 2005 and 2004, respectively.

Principal Products

Governmental Life sells retirement plan products and services to municipalities under Section 457 plans. Life offers a number of different investment products, including variable annuities and fixed products, to the employees in Section 457 plans. Generally, with the variable products, Life manages the fixed income funds and certain other outside money managers act as advisors to the equity funds offered in Section 457 plans administered by Life. As of

December 31, 2006, Life administered over 3,600 plans under Sections 457 and 403(b).

401(k) Life sells retirement plan products and services to corporations under 401(k) plans targeting the small and medium case markets. Life believes these markets are under-penetrated in comparison to the large case market. The number of 401(k) plans administered as of December 31, 2006 was over 12,700. Total assets under management were $13.2 billion, $9.8 billion and $7.3 billion as of December 31, 2006, 2005 and 2004, respectively.

Marketing and Distribution

In the Section 457 market, Retirement Plan s distribution network uses internal personnel with extensive experience to sell its products and services in the retirement plan and institutional markets. The success of Life s marketing and distribution system depends on its

product offerings, fund performance, successful utilization of wholesaling organizations, quality of customer service, and relationships with national and regional broker-dealer firms, banks and other financial institutions.

In the 401(k) market, Retirement Plan s primary wholesaler of its plans is PLANCO. As a wholesaler, PLANCO distributes Life s 401(k) plans by providing sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States. In addition, Life uses internal personnel with extensive experience in the 401(k) market to sell its products and services in the retirement plan market.

Competition

Retirement Plans competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

For the Section 457 and 403(b) as well as the 401(k) markets, which offer mutual funds wrapped in a variable annuity or mutual fund retirement program (government markets), the variety of available funds and their performance is most important to plan sponsors. The competitors tend to be the major mutual fund companies.

Institutional

Life provides structured settlement contracts, institutional annuities, longevity assurance, institutional mutual funds and stable value investment products such as funding agreements, funding agreement backed notes, consumer notes, and guaranteed investment contracts (GICs) through the Institutional Investment Products (IIP) business unit. Additionally, Life is a leader in the variable PPLI market, which includes life insurance policies purchased by a company or a trust on the lives of employees, with Life or a trust sponsored by Life named as the beneficiary under the policy.

In 2005, Life introduced two new products for the high net worth markets. One is a specialized life insurance contract for ultra-wealthy, high net worth investors. The other is a hedge fund designed to leverage the strengths of The Hartford s award-winning customer service and distribution capability.

In 2006, Life introduced one new product for the retail market, longevity assurance. Longevity assurance is designed to provide policyholders with the security that they will not outlive their assets in the form of a deferred fixed annuity with life contingencies. Life also changed the legal structure of its retail note platform by directly issuing retail registered notes (consumer notes) to investors. In addition to consumer note offerings, Life issues funding agreements to trusts, which, in turn, issues notes to retail and institutional investors.

Life s total account values related to institutional investment products were $22.2 billion, $17.9 billion and $14.6 billion as of December 31, 2006, 2005 and 2004, respectively. Variable PPLI products account values were $26.1 billion, $23.8 billion and $22.5 billion as of December 31, 2006, 2005 and 2004, respectively. Institutional generated revenues of $1.7 billion, $1.4 billion and $1.3 billion in 2006, 2005 and 2004, respectively and net income of $99, $88 and $68 in 2006, 2005 and 2004, respectively.

Principal Products

Institutional Investment Products Life sells the following institutional investment products: structured settlements, institutional mutual funds, GICs and other short-term funding agreements, and other annuity contracts for special purposes such as funding of terminated defined benefit pension plans (institutional annuities arrangements).

Structured Settlements Structured settlement annuity contracts provide for periodic payments to an injured person or survivor, typically in settlement of a claim under a liability policy in lieu of a lump sum settlement. Contracts pay either life contingent or period certain benefits, which is at the discretion of the contract holder.

Institutional Mutual Funds Life sells institutional shares of The Hartford Mutual Funds (Class Y shares) to both qualified (i.e., section 401(k) and 457 plans) and non-qualified (i.e., endowments and foundations) institutional investors on an investment only basis. Life also sells its Hartford HLS Funds and the Hartford HLS Series II Funds, to qualified retirement plans on an investment only basis. That means that the funds are sold individually, with no recordkeeping services included and not as a part of any bundled retirement program. The Hartford s wholly-owned subsidiary, HL Investment Advisors, LLC, serves as the investment advisor to these funds and contracts with sub-advisors to perform the day-to-day management of the funds. The two primary sub-advisors to the Hartford HLS

Funds are Wellington, of Boston, Massachusetts for most of the equity funds and HIMCO for the fixed income funds.
Stable Value Products GICs are group annuity contracts issued to sponsors of qualified pension or profit-sharing plans or stable value pooled fund managers. Under these contracts, the client deposits a lump sum with The Hartford for a specified period of time for a

guaranteed interest rate. At the end of the specified period, the client receives principal plus interest earned. Funding agreements are investment contracts that perform a similar function for non-qualified assets. The Company issues fixed and variable rate funding agreements to Hartford Life Global Funding trusts, that, in turn, issue registered notes to institutional and retail investors. During 2006, the Company began issuing consumer notes directly to retail investors.

Institutional Annuities Institutional annuities arrangements are group annuity contracts used to fund pension liabilities that exist when a qualified retirement plan sponsor decides to terminate an existing defined benefit pension plan. Group annuity contracts are very long-term in nature, since they must pay the pension liabilities typically on a monthly basis to all participants covered under the pension plan which is being terminated.

Longevity assurance Longevity assurance is a fixed deferred-payout annuity that provides life contingent benefits to individuals with the purpose of providing individuals with protection from the risk of outliving retirement income.

Single Premium Immediate Annuities Single premium immediate annuities (SPIA) are individual contracts that provide a fixed immediate payout annuity. Contracts pay either life contingent or period certain benefits, at the discretion of the contract holder.

Variable PPLI Products Private Placement Variable Life Insurance (PPVLI) products continue to be used by employers to fund non-qualified benefits or other post-employment benefit liabilities. A key advantage to plan sponsors is the opportunity to select from a range of tax deferred investment allocations. Recent clarifications in regulatory policy have made PPVLI products particularly attractive to banks with postretirement medical obligations. PPVLI has also been widely used in the high net worth marketplace due to its low costs, range of investment choices and ability to accommodate a fund of funds management style. This institutionally priced hedge fund product is aimed at the rapidly growing market composed of affluent investors unwilling to participate in hedge funds directly due to minimum investment thresholds.

<u>*Marketing and Distribution*</u>

In the structured settlement market, the Institutional segment sells individual fixed immediate annuity products through a small number of specialty brokerage firms that work closely with The Hartford s Property & Casualty operations. Life also works directly with the brokerage firms on cases that do not involve The Hartford s Property & Casualty operations.

In the institutional mutual fund market, the Institutional segment typically sells its products through investment consulting firms employed by retirement plan sponsors. Institutional s products are also sold through 401(k) record keeping firms that offer a platform of mutual funds to their plan sponsor clients. A third sales channel is direct sales to qualified plan sponsors, using registered representatives employed by Hartford Equity Sales Company, Inc., a subsidiary.

In the stable value marketplace, the Institutional segment sells GICs, funding agreements, and funding agreement backed notes to retirement plan sponsors or other large institutions either through investment management firms or directly, using Hartford employees.

In the institutional annuities market, Life sells its group annuity products to retirement plan sponsors through three different channels: (1) a small number of specialty brokers; (2) large benefits consulting firms; and (3) directly, using Hartford employees.

In the PPVLI market, specialized strategic alliance partners with expertise in the large case market assist in the placement of many cases. High net worth PPVLI is often placed with the assistance of investment banking and wealth management specialists.

The hedge fund of funds product is positioned to be sold through family offices, wealth management platforms and other specialists in the mass-affluent market.

The Institutional segment also distributes consumer notes through a purchasing agent and its corresponding selling group of broker-dealers and securities firms.

<u>*Competition*</u>

The Institutional segment competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment

performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

For institutional product lines offering fixed annuity products (e.g., institutional annuities, structured settlements, SPIAs, longevity assurance and stable value), financial strength, stability and credit ratings are key buying factors. As a result, the competitors in those marketplaces tend to be other large, long-established insurance companies.

For product lines offering mutual funds either unbundled (institutional mutual funds) or wrapped in a variable annuity or mutual fund retirement program (government markets) the variety of available funds and their performance is most important to plan sponsors. The competitors tend to be the major mutual fund companies.

For PPVLI, competition in the large case market comes from other insurance carriers and from specialized agents with expertise in the benefit funding marketplace. For high net worth programs, the competition is often from other investment banking firms allied with other insurance carriers.

Individual Life

The Individual Life segment provides life insurance strategies to a wide array of business intermediaries and partners to solve the wealth protection, accumulation and transfer needs of its affluent, emerging affluent and business life insurance clients. As of December 31, 2006, life insurance in force increased 9% to $164.2 billion, from $150.8 billion and $139.9 billion as of December 31, 2005 and 2004, respectively. Account values increased 11% to $11.4 billion as of December 31, 2006 from $10.3 billion and $9.5 billion as of December 31, 2005 and 2004, respectively. Revenues were $1.2 billion, $1.1 billion and $1.1 billion in 2006, 2005 and 2004, respectively. Net income in Individual Life was $170, $166 and $155 in 2006, 2005 and 2004, respectively.

Principal Products

Life holds a significant market share in the variable universal life product market and is a leading seller of variable universal life insurance according to the Tillinghast VALUE Survey as of September 30, 2006. Sales in the Individual Life segment were $284, $250 and $233 in 2006, 2005 and 2004, respectively.

Variable Universal Life Variable universal life provides life insurance with an investment return linked to underlying investments as policyholders are allowed to invest premium dollars among a variety of underlying mutual funds. As the return on the investment portfolios increase or decrease, the surrender value of the variable universal life policy will increase or decrease, and, under certain policyholder options or market conditions, the death benefit may also increase or decrease. Life s second-to-die products are distinguished from other products in that two lives are insured rather than one, and the policy proceeds are paid upon the deaths of both insureds. Second-to-die policies are frequently used in estate planning for a married couple as the policy proceeds are paid out at the time an estate tax liability is incurred. Variable universal life account values were $6.6 billion, $5.9 billion and $5.4 billion as of December 31, 2006, 2005 and 2004, respectively.

Universal Life and Interest Sensitive Whole Life Universal life and interest sensitive whole life insurance coverages provide life insurance with adjustable rates of return based on current interest rates and on the returns of the underlying investment portfolios. Universal life provides policyholders with flexibility in the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming period, unless guaranteed no-lapse coverage is in effect. At December 31, 2006 and 2005, guaranteed no-lapse universal life represented approximately 6% and 4% of life insurance in-force, respectively. Life also sells second-to-die universal life insurance policies.

Marketing and Distribution

Consistent with Life s strategy to access multiple distribution outlets, the Individual Life distribution organization has been developed to penetrate multiple retail sales channels. Life sells both variable and fixed individual life products through a wide distribution network of national and regional broker-dealer organizations, banks and independent financial advisors. Life is a market leader in selling individual life insurance through national stockbroker and financial institutions channels. In addition, Life distributes individual life products through independent life and property-casualty agents and Woodbury Financial Services, a subsidiary retail broker-dealer. To wholesale Life s products, Life has a group of highly qualified life insurance professionals with specialized training in sophisticated life insurance sales. These individuals are generally employees of Life who are managed through a regional sales office system.

Competition

Individual Life competes with approximately 1,100 life insurance companies in the United States, as well as other financial intermediaries marketing insurance products. Competitive factors related to this segment are primarily the breadth and quality of life insurance products offered, pricing, relationships with third-party distributors, effectiveness of wholesaling support, pricing and availability of reinsurance, and the quality of underwriting and customer service.

Group Benefits

The Group Benefits segment provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, group

retiree health, and medical stop loss. Life ranks number two in fully-insured group disability premium and number four in fully-insured life premium of U.S. group carriers (according to LIMRA data as of June 30, 2006). The Company also offers disability underwriting, administration, claims processing services and reinsurance to other insurers and self-funded employer plans. Generally, policies sold in this segment are term insurance. This allows the Company to adjust the rates or terms of its policies in order to minimize the adverse effect of various market trends, including declining interest rates and other factors. Typically policies are sold with one-, two- or three-year rate guarantees depending upon the product. In the disability market, the Company focuses on its risk management expertise and on efficiencies and economies of scale to derive a competitive advantage. Group Benefits generated fully insured ongoing premiums of $4.1 billion, $3.7 billion and $3.6

billion in 2006, 2005 and 2004, respectively, of which group disability insurance accounted for $1.8 billion, $1.7 billion and $1.6 billion in 2006, 2005 and 2004, respectively, and group life insurance accounted for $1.8 billion, $1.6 billion and $1.7 billion for the year ended December 31, 2006, 2005 and 2004, respectively. The Company held group disability reserves of $4.5 billion, $4.4 billion and $4.2 billion and group life reserves of $1.3 billion, $1.3 billion and $1.2 billion, as of December 31, 2006, 2005 and 2004, respectively. Net income in Group Benefits was $303, $272 and $229 in 2006, 2005 and 2004, respectively.

Principal Products

Group Disability Life is one of the largest carriers in the large case market of the group disability insurance business. Life s strong market presence in the group disability markets is the result of its well known brand recognition and reputation, financial strength and stability and Life s approach to claims management. Life also offers voluntary, or employee-paid, short-term and long-term disability group benefits. Life s efforts in the group disability market focus on early intervention, return-to-work programs and successful rehabilitation, offering the support to help claimants return to an active, productive life after a disability. Life also works with disability claimants to improve their approval rate for Social Security Assistance (i.e., reducing payment of benefits by the amount of Social Security payments received).

Life s short-term disability benefit plans provide a weekly benefit amount (typically 60% to 70% of the insured s earned income up to a specified maximum benefit) to insureds when they are unable to work due to an accident or illness. Long-term disability insurance provides a monthly benefit for those extended periods of time not covered by a short-term disability benefit plan when insureds are unable to work due to disability. Insureds may receive total or partial disability benefits. Most of these policies begin providing benefits following a 90- or 180-day waiting period and generally continue providing benefits until the insured reaches age 65. Long-term disability benefits are paid monthly and are limited to a portion, generally 50-70%, of the insured s earned income up to a specified maximum benefit.

Group Life and Accident Group term life insurance provides term coverage to employees and members of associations, affinity groups and financial institutions and their dependents for a specified period and has no accumulation of cash values. Life offers options for its basic group life insurance coverage, including portability of coverage and a living benefit and critical illness option, whereby terminally ill policyholders can receive death benefits in advance. Life also offers voluntary, or employee-paid, life group benefits and accidental death and dismemberment coverage either packaged with life insurance or on a stand-alone basis.

Other Life offers a host of other products and services, such as Family and Medical Leave Act Administration, group retiree health, and specialized insurance products for physicians. Life provides excess of loss medical coverage (known as stop loss insurance) to employers who self-fund their medical plans and pay claims using the services of a third party administrator. Life also provides travel accident, hospital indemnity, supplemental health insurance for military personnel and their families and other coverages to individual members of various associations, affinity groups, financial institutions and employee groups.

Marketing and Distribution

Life uses an experienced group of Company employees, managed through a regional sales office system, to distribute its group insurance products and services through a variety of distribution outlets, including brokers, consultants, third-party administrators and trade associations.

Competition

The Group Benefits business remains highly competitive. Competitive factors primarily affecting Group Benefits are the variety and quality of products and services offered, the price quoted for coverage and services, Life s relationships with its third-party distributors, and the quality of customer service. Group Benefits competes with numerous other insurance companies and other financial intermediaries marketing insurance products. However, many of these businesses have relatively high barriers to entry and there have been few new entrants into the group benefits insurance market over the past few years.

International

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and

Canada. International revenues were $759, $524 and $250 in 2006, 2005 and 2004, respectively. Net income for International was $246, $96 and $39 in 2006, 2005 and 2004, respectively. International s total assets under management were $33.9 billion, $27.8 billion and $16.1 billion as of December 31, 2006, 2005 and 2004, respectively. The Company s Japan operation, Hartford Life Insurance K.K. (HLIKK), which began selling variable annuities in December 2000, has continued to grow significantly and remains the largest distributor of variable annuities in Japan, based on assets under management. In August 2004, the Company began selling yen and U.S. dollar denominated fixed annuities in Japan. With assets under management of $31.3 billion, $26.1 billion and $14.6 billion as of December 31, 2006, 2005 and 2004, respectively, the Japan operation is the largest component of International with net income of $267, $120 and $36 in 2006, 2005 and 2004, respectively.

The Company s Japan operation sells both variable and fixed individual annuity products through a wide distribution network of Japan s broker-dealer organizations, banks and other financial institutions and independent financial advisors. The Company is one of the largest

sellers of individual retail variable annuities in Japan with sales of $5.8 billion, $10.7 billion and $7.3 billion in 2006, 2005 and 2004, respectively.

International s other operations include a 50% owned joint venture in Brazil and a startup operation in Europe. The Brazil joint venture operates under the name Icatu-Hartford and distributes pension, life insurance and other insurance and savings products through broker-dealer organizations and various partnerships. The Company s European operation, Hartford Life Limited, began selling unit-linked investment bonds in the United Kingdom in April 2005. Unit-linked bonds are similar to variable annuities marketed in the United States and Japan. Hartford Life Limited established its operations in Dublin, Ireland with a branch office in London to help market and service its business in the United Kingdom.

Principal Products

Individual Variable Annuities The Company earns fees, based on policyholders account values, for managing variable annuity assets and maintaining policyholder accounts. The Company uses specified portions of the periodic deposits paid by a customer to purchase units in one or more mutual funds as directed by the customer, who then assumes the investment performance risks and rewards. These products offer the policyholder a variety of equity and fixed income options. Additionally, International sells variable annuity contracts that offer various guaranteed minimum death, investment, and living benefits.

Policyholders may make deposits of varying amounts at regular or irregular intervals, and the value of these assets fluctuates in accordance with the investment performance of the funds selected by the policyholder. To encourage persistency, many of the Company s individual variable annuities are subject to withdrawal restrictions and surrender charges. Surrender charges range up to 7% of the contract s deposits, less withdrawals, and reduce to zero on a sliding scale, usually within seven years from the deposit date. In Japan, individual variable annuity account values of $29.7 billion, as of December 31, 2006, have grown from $24.6 billion, as of December 31, 2005, and $14.1 billion, as of December 31, 2004.

Fixed MVA Annuities Fixed MVA annuities are fixed rate annuity contracts that guarantee a specific sum of money to be paid in the future, either as a lump sum or as monthly income. In the event that a policyholder surrenders a policy prior to the end of the guarantee period, the MVA feature adjusts the contract s cash surrender value with respect to any changes in interest rates, thereby protecting the Company from losses due to higher interest rates at the time of surrender. The amount of lump sum or monthly income payments will not fluctuate due to adverse changes in the Company s investment return, mortality experience or expenses. The Company s primary fixed MVA annuities in Japan are yen and dollar denominated with terms varying from five to ten years with an average term to maturity of approximately seven years. In Japan, account values of fixed MVA annuities were $1.7 billion, $1.5 billion and $502 as of December 31, 2006, 2005 and 2004, respectively.

Marketing and Distribution

The International distribution network is based on management s strategy of developing and utilizing multiple and competing distribution channels to achieve the broadest distribution to reach target customers. The success of the Company s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling, quality of customer service, and relationships with securities firms, banks and other financial institutions, and independent financial advisors (through which the sale of the Company s retail investment products to customers is consummated). As of December 31, 2006, the Japan operation employed a wholesaling network that supports sales through 56 banks and securities firms.

Competition

The International segment competes with a number of domestic and international insurance companies in Japan. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service. Competition has continued to increase in the Japanese market with the most significant competition the result of the strengthening of domestic competitors. This competition has resulted in changes in key distribution relationships. The Company continues to focus efforts on strengthening distribution relationships and improving wholesaling and servicing efforts.

Property & Casualty

Property & Casualty provides (1) workers   compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock and fidelity and surety coverages to commercial accounts primarily throughout the United States; (2) professional liability coverage and directors and officers liability coverage, as well as excess and surplus lines business not normally written by standard commercial lines insurers; (3) automobile, homeowners and home-based business coverage to individuals throughout the United States; and (4) insurance-related services.

The Hartford seeks to distinguish itself in the property and casualty market through its product depth and innovation, distribution capacity, customer service expertise, and technology for ease of doing business. The Hartford is the eleventh largest property and casualty insurance operation in the United States based on direct written premiums for the year ended December 31, 2005, according to

A.M. Best Company, Inc. (A.M. Best). Property & Casualty generated revenues of $12.4 billion, $12.0 billion and $11.3 billion in 2006, 2005 and 2004, respectively. Revenues include earned premiums, servicing revenue, net investment income and net realized capital gains and losses. Earned premiums for 2006, 2005 and 2004 were $10.4 billion, $10.2 billion and $9.5 billion, respectively. Additionally, net income was $1.5 billion, $1.2 billion and $910 for 2006, 2005 and 2004, respectively. Total assets for Property & Casualty were $41.0 billion, $40.3 billion and $38.0 billion as of December 31, 2006, 2005 and 2004, respectively.

Business Insurance

Business Insurance provides standard commercial insurance coverage to small and middle market commercial businesses primarily throughout the United States. Small commercial businesses generally represent companies with up to $15 in annual revenues or total property values. Middle market businesses generally represent companies with greater than $15 in annual revenues or total property values. This segment also provides commercial risk management products and services as well as marine coverage. Earned premiums for 2006, 2005 and 2004 were $5.1 billion, $4.8 billion and $4.3 billion, respectively. The segment had underwriting income of $618, $396 and $360 in 2006, 2005 and 2004, respectively.

Principal Products

Business Insurance offers workers compensation, property, automobile, liability, umbrella and marine coverages under several different products. Some of these coverages are sold together as part of a single package policy for small business owners. Among the products sold within small commercial, the Company offers the Select Xpand product, which is designed to meet the needs of businesses with $5 to $15 in revenues. Workers compensation insurance accounts for the largest share of the written premium in the Business Insurance segment. Commercial risk management products and services are also provided.

Marketing and Distribution

Business Insurance provides insurance products and services through its home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The segment markets its products nationwide utilizing brokers and independent agents and involving trade associations and employee groups. Brokers and independent agents are not employees of The Hartford.

Competition

The commercial insurance industry is a highly competitive environment regarding product, price, service and technology. The Hartford competes against a number of large, national carriers as well as regional competitors in certain territories. Competitors include other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. These companies sell through various distribution channels and business models, across a broad array of product lines, and with a high level of variation regarding geographic, marketing and customer segmentation.

The market for small commercial business has become more competitive as favorable loss costs in the past couple of years have led carriers to expand coverage while maintaining relatively flat pricing. While written premium growth rates in small commercial have been slowing, underwriting margins have been strong driven, in part, by favorable claim frequency. Within the small commercial segment of the business, a number of companies have sought to grow their business by increasing their underwriting appetite and paying more commissions. In addition, a number of companies, like The Hartford, are pursuing agency appointment strategies to increase premium writings. The increase in exposure to catastrophe losses in many coastal areas have led a number of carriers to be more aggressive in pursuing business in the Mid-West where exposure to catastrophes is not as severe.

Middle market business is characterized as high touch with case-by-case underwriting and pricing decisions. As such, compared to small commercial, the pricing of middle market accounts is prone to more significant variation or cyclicality from year to year. Legislative reforms in a number of states in recent years has helped to control indemnity costs on workers compensation claims, but this has also led to downward pressure on rates. In a market of declining or softening prices, carriers are competing to protect their profitable renewals. New business opportunities increasingly involve more complex exposures and risk classes. In addition, there continue to be constraints on the amount of catastrophe capacity available in the marketplace.

The Hartford is the fifth largest commercial lines insurer in the United States based on direct written premiums for the year ended December 31, 2005 according to A.M. Best. The relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller companies. In addition, the marketplace is affected by available capacity of the insurance industry as measured by statutory surplus. Surplus expands and contracts primarily in conjunction with profit levels generated by the industry. National carriers continue to compete for the same business, while regional carriers are broadening their target market and distribution. Many carriers are focusing on technology to streamline the underwriting process, provide more efficient customer service, introduce more sophisticated pricing models and increase the volume of business sold through agents.

Personal Lines

Personal Lines provides automobile, homeowners and home-based business coverages to the members of AARP through a direct marketing operation; to individuals who prefer local agent involvement through a network of independent agents in the standard personal lines market. Up until the sale of the business on November 30, 2006, the Company also sold non-standard auto insurance through the Company s Omni Insurance Group, Inc. (Omni) subsidiary. The Hartford s exclusive licensing arrangement with AARP continues until January 1, 2020 for automobile, homeowners and home-based business. This agreement provides Personal Lines with an important competitive advantage. Personal Lines also operates a member contact center for health insurance products offered through AARP s Health Care Options. The Health Care Options agreement continues through 2009. Personal Lines had earned premiums of $3.8 billion, $3.6 billion and $3.4 billion in 2006, 2005 and 2004, respectively. Underwriting income for 2006, 2005 and 2004 was $429, $460 and $138, respectively. AARP had earned premiums of $2.5 billion, $2.3 billion and $2.1 billion in 2006, 2005 and 2004, respectively.

Principal Products

Personal Lines provides standard and non-standard automobile, homeowners and home-based business coverages to individuals across the United States, including a special program designed exclusively for members of AARP. During 2006, the Company enhanced its new Dimensions automobile and homeowners class plans for insurance sold through independent agents and brokers. Dimensions with Packages , introduced in 2006, is a suite of products that offers coverages and competitive rates tailored to a customer s individual risk. Dimensions uses a large number of interactive rating variables to determine a rate that most accurately reflects the customer s individual characteristics.

Marketing and Distribution

Personal Lines reaches diverse markets through multiple distribution channels including brokers, independent agents, direct marketing, the internet and advertising in publications. This segment provides customized products and services to customers through a network of independent agents in the standard personal lines market. Brokers and independent agents are not employees of The Hartford. Personal Lines has an important relationship with AARP and markets directly to its nearly 38 million members.

Competition

The personal lines automobile and homeowners businesses are highly competitive. Personal lines insurance is written by insurance companies of varying sizes that sell products through various distribution channels, including independent agents, captive agents and directly to the consumer. The personal lines market competes on the basis of price; product; service, including claims handling; stability of the insurer and name recognition. A number of carriers will likely continue to increase their advertising in an effort to gain new business and retain profitable business. In addition, carriers that distribute products mainly through agents are offering additional incentives to those agents to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering on-line and self service capabilities to agents and consumers. In addition, the capability to sell direct to the consumer has become increasingly important as a greater number of consumers use the internet to research or shop for auto insurance. Through information technology, carriers will likely further segment their pricing plans to expand market share in what they believe to be the most profitable segments. Carriers with more efficient cost structures will have an advantage in competing for new business through price. Some competitors are introducing new products at substantially reduced rate levels and the Company expects that top tier carriers will continue to capture a larger share of industry revenues and profits.

The Hartford is the twelfth largest personal lines insurer in the United States based on direct written premiums for the year ended December 31, 2005 according to A.M. Best. A major competitive advantage of The Hartford is the exclusive licensing arrangement with AARP to provide personal automobile, homeowners and home-based business insurance products to its members. This arrangement is in effect until January 1, 2020. Management expects favorable baby boom demographics to increase AARP membership during this period.

Specialty Commercial

Specialty Commercial provides a wide variety of property and casualty insurance products and services through retailers and wholesalers to large commercial clients and insureds requiring a variety of specialized coverages. Excess and surplus lines coverages not normally written by standard line insurers are also provided, primarily through

wholesale brokers. Specialty Commercial had earned premiums of $1.6 billion, $1.8 billion and $1.7 billion in 2006, 2005 and 2004, respectively. Underwriting income (loss) was $64, ($165) and ($53) in 2006, 2005 and 2004, respectively.

Principal Products

Specialty Commercial offers a variety of customized insurance products and risk management services. Specialty Commercial provides standard commercial insurance products including workers compensation, automobile and liability coverages to large-sized companies. Specialty Commercial also provides bond, professional liability, specialty casualty and livestock coverages, as well as core property and

excess and surplus lines coverages not normally written by standard lines insurers. A significant portion of specialty casualty business, including workers compensation business, is written through large deductible programs where the insured typically provides collateral to support loss payments made within their deductible. Specialty Casualty also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. Alternative markets, within Specialty Commercial, provides insurance products and services primarily to captive insurance companies, pools and self-insurance groups. In addition, Specialty Commercial provides third-party administrator services for claims administration, integrated benefits, loss control and performance measurement through Specialty Risk Services, LLC, a subsidiary of the Company.

Marketing and Distribution

Specialty Commercial provides insurance products and services through its home office located in Hartford, Connecticut and multiple domestic office locations. The segment markets its products nationwide utilizing a variety of distribution networks including independent agents and brokers as well as wholesalers. Brokers, independents agents and wholesalers are not employees of The Hartford.

Competition

The commercial insurance industry is a highly competitive environment regarding product, price and service. Specialty Commercial is comprised of a diverse group of businesses that are unique to commercial lines. Each line of business operates independently with its own set of business objectives, and focuses on the operational dynamics of their specific industry. These businesses, while somewhat interrelated, have a unique business model and operating cycle. Specialty Commercial is considered a transactional business and, therefore, competes with other companies for business primarily on an account by account basis due to the complex nature of each transaction.

On specialty casualty business, written pricing competition is expected to be significant. With national account business, carriers will likely offer more lower-deductible policies and guaranteed cost policies. The Company expects competition among national carriers to continue to be very strong and larger regional carriers will likely target specific accounts at renewal. Within professional liability, in 2005 and 2006 there was a decrease in the number of securities class actions suits and this has put some downward pressure on rates. While pricing for specialty property increased significantly during 2006 as higher reinsurance costs were passed on to insureds, pricing increases will likely be less significant in 2007. Carriers continue to manage their aggregate exposure to property losses in catastrophe-prone areas.

Earned premium growth is not an objective of Specialty Commercial since premium writings may fluctuate based on the segment s view of perceived market opportunity. Specialty Commercial competes with other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. The relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller companies.

Other Operations

The Other Operations segment includes operations that are under a single management structure, Heritage Holdings, which is responsible for two related activities. The first activity is the management of certain subsidiaries and operations of The Hartford that have discontinued writing new business. The second is the management of claims (and the associated reserves) related to asbestos, environmental and other exposures.

Life Reserves

Life insurance subsidiaries of the Company establish and carry as liabilities, predominantly, three types of reserves: (1) a liability equal to the balance that accrues to the benefit of the policyholder as of the financial statement date, otherwise known as the account value, (2) a liability for unpaid losses, including those that have been incurred but not yet reported, and (3) a liability for future policy benefits, representing the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. The liabilities for unpaid losses and future policy benefits are calculated based on actuarially recognized methods using morbidity and mortality tables, which are modified to reflect Life s actual experience when appropriate. Liabilities for unpaid losses include estimates of amounts to fully settle known reported claims as well as claims related to insured events that the Company estimates have been incurred but have not yet been reported. Future policy benefit reserves are computed at amounts that, with additions from estimated net premiums to be received and with interest on such reserves compounded annually at certain assumed rates, are expected to be sufficient to meet Life s policy obligations at their maturities or in the event

of an insured s disability or death. Other insurance liabilities include those for unearned premiums and benefits in excess of account value. Reserves for assumed reinsurance are computed in a manner that is comparable to direct insurance reserves.

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Property & Casualty Reserves

The Hartford establishes property and casualty reserves to provide for the estimated costs of paying claims under insurance policies written by The Hartford. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported to The Hartford and include estimates of all expenses associated with processing and settling these claims. This estimation process involves a variety of actuarial techniques and is primarily based on historical experience and consideration of current trends. Examples of current trends include increases in medical cost inflation rates, the changing use of medical care procedures, the introduction of new products such as the Dimensions for auto product in Personal Lines, changes in internal claim practices, changes in the legislative and regulatory environment over workers compensation claims, evolving exposures to claims asserted against religious institutions and other organizations relating to molestation or abuse and other mass torts.

The Hartford continues to receive claims that assert damages from asbestos-related and environmental-related exposures. Asbestos claims relate primarily to bodily injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution related clean-up costs. As discussed further in the Critical Accounting Estimates and Other Operations sections of the MD&A, significant uncertainty limits the Company s ability to estimate the ultimate reserves necessary for unpaid losses and related expenses with regard to environmental and particularly asbestos claims.

Most of the Company s property and casualty reserves are not discounted. However, certain liabilities for unpaid losses for permanently disabled claimants have been discounted to present value using an average interest rate of 5.6% in 2006 and 2005. As of December 31, 2006 and 2005, such discounted reserves totaled $707 and $680, respectively (net of discounts of $510 and $505, respectively). In addition, certain structured settlement contracts that fund loss run-offs for unrelated parties having payment patterns that are fixed and determinable have been discounted to present value using an average interest rate of 5.5%. At December 31, 2006 and 2005, such discounted reserves totaled $273 and $264, respectively (net of discounts of $95 and $103, respectively). Accretion of these discounts was $32, $30, and $29 in 2006, 2005 and 2004, respectively.

As of December 31, 2006, net property and casualty reserves for losses and loss adjustment expenses reported under Generally Accepted Accounting Principles (GAAP) exceeded net reserves reported on a statutory basis by $29. The difference primarily results from a portion of the GAAP provision for uncollectible reinsurance not recognized under statutory accounting and the required exclusion from statutory reserves of assumed retroactive reinsurance, largely offset by the discounting of GAAP-basis workers compensation reserves at rates no higher than risk-free interest rates; such rates generally exceed the statutory discount rates set by regulators.

Further discussion on The Hartford s property and casualty reserves, including asbestos and environmental claims reserves, may be found in the Reserves section of the MD&A Critical Accounting Estimates.

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A reconciliation of liabilities for unpaid losses and loss adjustment expenses is herein referenced from Note 11 of Notes to Consolidated Financial Statements. A table depicting the historical development of the liabilities for unpaid losses and loss adjustment expenses, net of reinsurance, follows.

Loss Development Table
Property And Casualty Loss And Loss Adjustment Expense Liability Development Net of Reinsurance
For the years ended December 31, [1]

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$12,702	$12,770	$12,902	$12,476	$12,316	$12,860	$13,141	$16,218	$16,191	$16,863	$17,604
Cumulative paid losses and loss expenses											
One year later	2,625	2,472	2,939	2,994	3,272	3,339	3,480	4,415	3,594	3,702	
Two years later	4,188	4,300	4,733	5,019	5,315	5,621	6,781	6,779	6,035		
Three years later	5,540	5,494	6,153	6,437	6,972	8,324	8,591	8,686			
Four years later	6,418	6,508	7,141	7,652	9,195	9,710	10,061				
Five years later	7,201	7,249	8,080	9,567	10,227	10,871					
Six years later	7,800	8,036	9,818	10,376	11,140						
Seven years later	8,499	9,655	10,501	11,137							
Eight years later	10,044	10,239	11,246								
Nine years later	10,576	10,933									
Ten years later	11,237										
Liabilities re-estimated											
One year later	12,752	12,615	12,662	12,472	12,459	13,153	15,965	16,632	16,439	17,159	
Two years later	12,653	12,318	12,569	12,527	12,776	16,176	16,501	17,232	16,838		
Three years later	12,460	12,183	12,584	12,698	15,760	16,768	17,338	17,739			
Four years later	12,380	12,138	12,663	15,609	16,584	17,425	17,876				
Five years later	12,317	12,179	15,542	16,256	17,048	17,927					
Six years later	12,322	15,047	16,076	16,568	17,512						
Seven years later	15,188	15,499	16,290	17,031							
Eight years later	15,594	15,641	16,799								
Nine years later	15,713	16,165									
Ten years later	16,244										
Deficiency (redundancy), net of reinsurance	**$ 3,542**	**$ 3,395**	**$ 3,897**	**$ 4,555**	**$ 5,196**	**$ 5,067**	**$ 4,735**	**$ 1,521**	**$ 647**	**$ 296**	

[1] *The above table excludes Hartford Insurance, Singapore as a result of its sale in September 2001, Hartford Seguros as a result of its sale in February 2001, Zwolsche as a result of its sale in December 2000 and London & Edinburgh as a result of its sale in November 1998.*

The table above shows the cumulative deficiency (redundancy) of the Company s reserves, net of reinsurance, as now estimated with the benefit of additional information. Those amounts are comprised of changes in estimates of gross losses and changes in estimates of related reinsurance recoveries.

The table below, for the periods presented, reconciles the net reserves to the gross reserves, as initially estimated and recorded, and as currently estimated and recorded, and computes the cumulative deficiency (redundancy) of the Company s reserves before reinsurance.

Property And Casualty Loss And Loss Adjustment Expense Liability Development Gross
For the years ended December 31, [1]

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net reserve, as initially estimated	**$12,770**	**$12,902**	**$12,476**	**$12,316**	**$12,860**	**$13,141**	**$16,218**	**$16,191**	**$16,863**	**$17,604**
Reinsurance and other recoverables, as initially estimated	3,996	3,275	3,706	3,871	4,176	3,950	5,497	5,138	5,403	4,387
Gross reserve, as initially estimated	**$16,766**	**$16,177**	**$16,182**	**$16,187**	**$17,036**	**$17,091**	**$21,715**	**$21,329**	**$22,266**	**$21,991**
Net reestimated reserve	**$16,165**	**$16,799**	**$17,031**	**$17,512**	**$17,927**	**$17,876**	**$17,739**	**$16,838**	**$17,159**	
	5,051	4,552	5,465	5,502	5,684	5,052	4,964	4,906	5,417	

Reestimated and other reinsurance recoverables									
Gross reestimated reserve	**$21,216**	**$21,351**	**$22,496**	**$23,014**	**$23,611**	**$22,928**	**$22,703**	**$21,744**	**$22,576**
Gross deficiency (redundancy)	**$ 4,450**	**$ 5,174**	**$ 6,314**	**$ 6,827**	**$ 6,575**	**$ 5,837**	**$ 988**	**$ 415**	**$ 310**

[1] The above table excludes Hartford Insurance, Singapore as a result of its sale in September 2001, Hartford Seguros as a result of its sale in February 2001, Zwolsche as a result of its sale in December 2000 and London & Edinburgh as a result of its sale in November 1998.

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The following table is derived from the Loss Development table and summarizes the effect of reserve re-estimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2006. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve re-estimates during the ten year period ended December 31, 2006 for the indicated accident year(s).

Effect of Net Reserve Re-estimates on Calendar Year Operations

	Calendar Year										
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
By Accident year											
1996 & Prior	$50	$ (99)	$(193)	$(80)	$ (63)	$ 5	$2,866	$ 406	$ 119	$ 531	$3,542
1997		(56)	(104)	(55)	18	36	2	46	23	(7)	(97)
1998			57	42	60	38	11	82	72	(15)	347
1999				89	40	92	32	113	98	(46)	418
2000					88	146	73	177	152	1	637
2001						(24)	39	(232)	193	38	14
2002							(199)	(56)	180	36	(39)
2003								(122)	(237)	(31)	(390)
2004									(352)	(108)	(460)
2005										(103)	(103)
Total	**$50**	**$(155)**	**$(240)**	**$ (4)**	**$143**	**$293**	**$2,824**	**$ 414**	**$ 248**	**$ 296**	**$3,869**

The largest impacts of net reserve re-estimates are shown in the 1996 & Prior accident years. The reserve re-estimates in calendar year 2003 include an increase in reserves of $2.6 billion related to reserve strengthening based on the Company s evaluation of its asbestos reserves. The reserve evaluation that led to the strengthening in calendar year 2003 confirmed the Company s view of the existence of a substantial long-term deterioration in the asbestos litigation environment. The reserve re-estimates in calendar years 2004 and 2006 were largely attributable to reductions in the reinsurance recoverable asset associated with older, long-term casualty liabilities. Excluding the impacts of asbestos and environmental strengthening, over the past ten years, reserve re-estimates for total Property & Casualty ranged from (3.0%) to 1.6% of total net recorded reserves.

Reserves for accident year 1997 show the effects of favorable reestimation in subsequent years. A contributing factor to this improvement, spread over several calendar years, was an unexpected improvement in the environment for workers compensation. With the benefit of hindsight, annual changes in loss cost trends were very low during this period as compared to historical experience. Because it took several years for this improvement to emerge in the data, it similarly took several years for this to be recognized in the Company s estimates of liabilities.

Until calendar year 2006, there was also reserve deterioration, spread over several calendar years, on accident years 1998-2000. Assumed casualty reinsurance contributed in part to this deterioration. Numerous actuarial assumptions on assumed casualty reinsurance turned out to be low, including loss cost trends, particularly on excess of loss business, and the impact of deteriorating terms and conditions. Workers compensation also contributed to this deterioration, as medical inflation trends were above initial expectations.

Accident years 2001 and 2002 are reasonably close to original estimates. However, each year shows some swings by calendar period, with some favorable development later offset by unfavorable development. The release for accident year 2001 during calendar year 2004 relates primarily to reserves for September 11. Subsequent adverse developments

on accident year 2001 relate to assumed casualty reinsurance and unexpected development on mature claims in both general liability and workers compensation. Reserve releases for accident year 2002 during calendar years 2003 and 2004 come largely from short-tail lines of business, where results emerge quickly and actual reported losses are predictive of ultimate losses. Reserve increases on accident year 2002 during calendar year 2005 were recognized, as unfavorable development on accident years prior to 2002 caused the Company to increase its estimate of unpaid losses for the 2002 accident year. Further increases occurred in 2006 due to unexpected development in general liability and workers compensation losses.

Accident years 2003 through 2005 show favorable development in calendar years 2004 through 2006. A portion of the release comes from short-tail lines of business, where results emerge quickly. During calendar year 2005 and 2006, favorable re-estimates occurred in Personal Lines for both loss and allocated loss adjustment expenses. Workers compensation also experienced favorable re-estimates of both loss and allocated loss adjustment expenses as the latest evaluations of workers compensation claims indicate that expense reduction initiatives and reform in states such as California have had a greater impact in controlling costs than was originally estimated. In addition, catastrophe reserves related to the 2004 and 2005 hurricanes developed favorably in 2006.

Within professional liability business, during calendar year 2005, reserves were released for directors and officers insurance on accident years 2003 and 2004 due to favorable developments, while prior accident year reserves were strengthened for contracts that provide auto

financing gap coverage and auto lease residual value coverage. In 2003, the Company stopped writing contracts that provide auto financing gap coverage and auto lease residual value coverage.

Ceded Reinsurance

Consistent with industry practice, The Hartford cedes insurance risk to reinsurance companies. Reinsurance does not relieve The Hartford of its primary liability and, as such, failure of reinsurers to honor their obligations could result in losses to The Hartford. The Hartford evaluates the risk transfer of its reinsurance contracts, the financial condition of its reinsurers and monitors concentrations of credit risk. The Company s monitoring procedures include careful initial selection of its reinsurers, structuring agreements to provide collateral funds where possible, and regularly monitoring the financial condition and ratings of its reinsurers. Reinsurance accounting is followed for ceded transactions when the risk transfer provisions of Statement of Financial Accounting Standard No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, (SFAS 113) have been met. For further discussion see Note 6 of Notes to Consolidated Financial Statements.

For Property & Casualty operations, these reinsurance arrangements are intended to provide greater diversification of business and limit The Hartford s maximum net loss arising from large risks or catastrophes. A major portion of The Hartford s property and casualty reinsurance is effected under general reinsurance contracts known as treaties, or, in some instances, is negotiated on an individual risk basis, known as facultative reinsurance. The Hartford also has in-force excess of loss contracts with reinsurers that protect it against a specified part or all of a layer of losses over stipulated amounts.

In accordance with normal industry practice, Life is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. As of December 31, 2006 and 2005, the Company s policy for the largest amount of life insurance retained on any one life by any one of the life operations was approximately $5. In addition, Life has reinsured the majority of the minimum death benefit guarantees as well as 23% of the guaranteed minimum withdrawal benefits offered in connection with its variable annuity contracts. Life also assumes reinsurance from other insurers. For the years ended December 31, 2006, 2005 and 2004, Life did not make any significant changes in the terms under which reinsurance is ceded to other insurers.

Investment Operations

The Hartford s investment portfolios are primarily divided between Life and Property & Casualty. The investment portfolios of Life and Property & Casualty are managed by Hartford Investment Management Company (HIMCO), a wholly-owned subsidiary of The Hartford. HIMCO manages the portfolios to maximize economic value, while attempting to generate the income necessary to support the Company s various product obligations, within internally established objectives, guidelines and risk tolerances. The portfolio objectives and guidelines are developed based upon the asset/liability profile, including duration, convexity and other characteristics within specified risk tolerances. The risk tolerances considered include, for example, asset and credit issuer allocation limits, maximum portfolio below investment grade holdings and foreign currency exposure. The Company attempts to minimize adverse impacts to the portfolio and the Company s results of operations from changes in economic conditions through asset allocation limits, asset/liability duration matching and through the use of derivatives. For further discussion of HIMCO s portfolio management approach, see the Investments General section of the MD&A.

In addition to managing the general account assets of the Company, HIMCO is also a Securities and Exchange Commission (SEC) registered investment advisor for third party institutional clients, a sub-advisor for certain mutual funds offered by Life and serves as the sponsor and collateral manager for synthetic collateralized loan obligations. HIMCO specializes in investment management that incorporates proprietary research and active management within a disciplined risk framework to provide value added returns versus peers and benchmarks. As of December 31, 2006 and 2005, the fair value of HIMCO s total assets under management was approximately $131.2 billion and $115.9 billion, respectively, of which $7.2 billion and $4.7 billion, respectively, were held in HIMCO managed third party accounts.

Regulation and Premium Rates

Insurance companies are subject to comprehensive and detailed regulation and supervision throughout the United States. The extent of such regulation varies, but generally has its source in statutes which delegate regulatory, supervisory and administrative powers to state insurance departments. Such powers relate to, among other things, the

standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; establishing premium rates; claim handling and trade practices; restrictions on the size of risks which may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values; and the adequacy of reserves and other necessary provisions for unearned premiums, unpaid losses and loss adjustment expenses and other liabilities, both reported and unreported.

Most states have enacted legislation that regulates insurance holding company systems such as The Hartford. This legislation provides that each insurance company in the system is required to register with the insurance department of its state of domicile and furnish

information concerning the operations of companies within the holding company system which may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any entity in its holding company system. In addition, certain of such transactions cannot be consummated without the applicable insurance department s prior approval. In the jurisdictions in which the Company s insurance company subsidiaries are domiciled, the acquisition of more than 10% of The Hartford s outstanding common stock would require the acquiring party to make various regulatory filings.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which The Hartford operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in many countries are faced with greater restrictions than domestic competitors domiciled in that particular jurisdiction. The Hartford s international operations are comprised of insurers licensed in their respective countries.

Employees

The Hartford had approximately 31,000 employees as of December 31, 2006.

Available Information

The Hartford makes available, free of charge, on or through its Internet website (http://www.thehartford.com) The Hartford s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after The Hartford electronically files such material with, or furnishes it to, the SEC.

Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the following risk factors, any of which could have a significant or material adverse effect on the business, financial condition, operating results or liquidity of The Hartford. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the Securities and Exchange Commission.

It is difficult for us to predict our potential exposure for asbestos and environmental claims and our ultimate liability may exceed our currently recorded reserves, which may have a material adverse effect on our operating results, financial condition and liquidity.

We continue to receive asbestos and environmental claims. Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims. We believe that the actuarial tools and other techniques we employ to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for our asbestos and environmental exposures. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. Accordingly, the degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of asbestos and environmental claims. Although potential Federal asbestos-related legislation has been considered in the Senate, it is uncertain whether such legislation will be considered or be enacted in the future and, if so, what its effect would be on our aggregate asbestos liabilities. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could have a material adverse effect on our consolidated operating results, financial condition and liquidity.

The occurrence of one or more terrorist attacks in the geographic areas we serve or the threat of terrorism in general may have a material adverse effect on our business, consolidated operating results, financial condition or liquidity.

The occurrence of one or more terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. Private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or

radiological weapons. Reinsurance coverage from the federal government under the Terrorism Risk Insurance Act of 2002, as extended through 2007, is also limited. Moreover, it is uncertain whether a federal terrorism risk insurance program similar to the Terrorism Risk Insurance Extension Act of 2005 will be enacted to cover events occurring after December 31, 2007. Accordingly, the effects of a terrorist attack in the geographic areas we serve may result in claims and related losses for which we do not have adequate reinsurance. This would likely cause us to increase our reserves, adversely affect our earnings during the period or periods affected and, if significant enough, could adversely affect our liquidity and financial condition. Further, the continued threat of terrorism and the occurrence of terrorist attacks, as well as heightened security measures and military action in response to these threats and attacks, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio as well as those in our separate accounts. The continued threat of terrorism also could result in increased

reinsurance prices and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Terrorist attacks also could disrupt our operations centers in the U.S. or abroad. As a result, it is possible that any, or a combination of all, of these factors may have a material adverse effect on our business, consolidated operating results, financial condition and liquidity.

We may incur losses due to our reinsurers being unwilling or unable to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance may not be sufficient to protect us against losses.

As an insurer, we frequently seek to reduce the losses that may arise from catastrophes, or other events that can cause unfavorable results of operations, through reinsurance. Under these reinsurance arrangements, other insurers assume a portion of our losses and related expenses; however, we remain liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate our obligation to pay claims and we are subject to our reinsurers credit risk with respect to our ability to recover amounts due from them. Although we evaluate periodically the financial condition of our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies, our reinsurers may become financially unsound or choose to dispute their contractual obligations by the time their financial obligations become due. The inability or unwillingness of any reinsurer to meet its financial obligations to us could negatively affect our consolidated operating results. In addition, market conditions beyond our control determine the availability and cost of the reinsurance we are able to purchase. Recently, the price of reinsurance has increased significantly, and may continue to increase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as are currently available. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our net liability exposure, reduce the amount of business we write, or develop other alternatives to reinsurance.

We are exposed to significant capital markets risk related to changes in interest rates, equity prices and foreign exchange rates which may adversely affect our results of operations, financial condition or cash flows.

We are exposed to significant capital markets risk related to changes in interest rates, equity prices and foreign currency exchange rates. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates will reduce the net unrealized gain position of our investment portfolio, increase interest expense on our variable rate debt obligations and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of our Life businesses may be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. Due to the long-term nature of the liabilities associated with certain of our Life businesses, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long term interest rates may subject us to reinvestment risks and increased hedging costs. Our primary exposure to equity risk relates to the potential for lower earnings associated with certain of our Life businesses, such as variable annuities, where fee income is earned based upon the fair value of the assets under management. In addition, certain of our Life products offer guaranteed benefits which increase our potential benefit exposure should equity markets decline. We are also exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other post-retirement benefit obligations. Sustained declines in long-term interest rates or equity returns likely would have a negative effect on the funded status of these plans. Our primary foreign currency exchange risks are related to net income from foreign operations, non U.S. dollar denominated investments, investments in foreign subsidiaries, the yen denominated individual fixed annuity product, and certain guaranteed benefits associated with the Japan variable annuity. These risks relate to the potential decreases in value and income resulting from a strengthening or weakening in foreign exchange rates versus the U.S. dollar. In general, the weakening of foreign currencies versus the U.S. dollar will unfavorably affect net income from foreign operations, the value of non-U.S. dollar denominated investments, investments in foreign subsidiaries and realized gains or losses on the yen denominated individual fixed annuity product. In comparison, a strengthening of the Japanese yen in comparison to the U.S. dollar and other currencies may increase our exposure to the guarantee benefits associated with the Japan variable annuity. If significant, declines in equity prices, changes in U.S. interest rates and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in tandem, could have a material adverse effect on our consolidated results of operations,

financial condition or cash flows.

We may be unable to effectively mitigate the impact of equity market volatility on our financial position and results of operations arising from obligations under annuity product guarantees, which may affect our consolidated results of operations, financial condition or cash flows.

Our primary exposure to equity risk relates to the potential for lower earnings associated with certain of our life businesses where fee income is earned based upon the fair value of the assets under management. In addition, some of the products offered by these businesses, especially variable annuities, offer certain guaranteed benefits which increase our potential benefit exposure as the equity markets decline. We are subject to equity market volatility related to these benefits, especially the guaranteed minimum death benefit (GMDB), guaranteed minimum withdrawal benefit (GMWB) and guaranteed minimum income benefit (GMIB) offered with variable annuity products. We use reinsurance structures and have modified benefit features to mitigate the exposure associated with GMDB. We also use reinsurance in combination with derivative instruments to minimize the claim exposure and the volatility of net income associated with the GMWB liability. While we believe that these and other actions we have taken mitigate the risks related to these benefits, we are subject to the risks that reinsurers or derivative counterparties are unable or unwilling to pay, that other risk management procedures prove ineffective or that unanticipated policyholder behavior, combined with adverse market events, produces

economic losses beyond the scope of the risk management techniques employed, which individually or collectively may have a material adverse effect on our consolidated results of operations, financial condition or cash flows.

Regulatory proceedings or private claims relating to incentive compensation or payments made to brokers or other producers, alleged anti-competitive conduct and other sales practices could have a material adverse effect on us.

We have received multiple regulatory inquiries regarding our compensation arrangements with brokers and other producers. For example, in June 2004, the Company received a subpoena from the New York Attorney General s Office in connection with its inquiry into compensation arrangements between brokers and carriers. In mid-September 2004 and subsequently, the Company has received additional subpoenas from the New York Attorney General s Office, which relate more specifically to possible anti-competitive activity among brokers and insurers. On October 14, 2004, the New York Attorney General s Office filed a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh). The complaint alleges, among other things, that certain insurance companies, including the Company, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them. The Company was not joined as a defendant in the action, which has since settled.

Since the beginning of October 2004, the Company has received subpoenas or other information requests from Attorneys General and regulatory agencies in more than a dozen jurisdictions regarding broker compensation, possible anti-competitive activity and sales practices. These inquiries have concerned lines of business in both our Property & Casualty and Life operations. The Company may continue to receive additional subpoenas and other information requests from Attorneys General or other regulatory agencies regarding similar issues. The Company intends to continue cooperating fully with these investigations, and is conducting an internal review, with the assistance of outside counsel, regarding broker compensation issues in its Property & Casualty and Group Benefits operations. Although no regulatory action has been initiated against the Company in connection with the allegations described in the civil complaint, it is possible that one or more other regulatory agencies may pursue action against the Company or one or more of its employees in the future on this matter or on other similar matters. If such an action is brought, it could have a material adverse effect on the Company.

Regulatory and market-driven changes may affect our practices relating to the payment of incentive compensation to brokers and other producers, including changes that have been announced and those which may occur in the future, and could have a material adverse effect on us in the future.

We pay brokers and independent agents commissions and other forms of incentive compensation in connection with the sale of many of our insurance products. Since the New York Attorney General s Office filed a civil complaint against Marsh on October 14, 2004, several of the largest national insurance brokers, including Marsh, Aon Corporation and Willis Group Holdings Limited, have announced that they have discontinued the use of contingent compensation arrangements. Other industry participants may make similar, or different, determinations in the future. In addition, legal, legislative, regulatory, business or other developments may require changes to industry practices relating to incentive compensation.

Pursuant to settlement agreements reached with regulators, several insurance companies have agreed to restrictions on the payment of contingent compensation relating to the placement of excess casualty insurance policies. These insurers have agreed that the restrictions may be extended in time, and to other property and casualty lines, if insurers in a given line or segment, that together represent more than 65% of the market share in the insurance line (based upon national gross written premiums), do not pay contingent compensation. On November 30, 2006, the New York Attorney General s Office notified these insurers that the 65% threshold had been reached for a number of insurance lines, including personal automobile and homeowners insurance. As a result, beginning January 1, 2007, these insurers were prohibited from paying contingent compensation relating to the placement of these types of insurance. In addition, on December 21, 2006, Chubb Corporation agreed to forego the payment of contingent compensation for all P&C insurance lines pursuant to a settlement agreement reached with regulators. These insurers, including Chubb, have also agreed to support legislation and regulations to abolish contingent compensation and to require greater disclosure of compensation. At this time, it is not possible to predict the effect of these announced or potential future changes on our business or distribution strategies, but such changes could have a material adverse effect on us in the future.

Our consolidated results of operations, financial condition or cash flows in a particular period or periods may be adversely affected by unfavorable loss development.

Our success depends upon our ability to accurately assess the risks associated with the businesses that we insure. We establish loss reserves to cover our estimated liability for the payment of all unpaid losses and loss expenses incurred with respect to premiums earned on the policies that we write. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate settlement and administration of claims will cost, less what has been paid to date. These estimates are based upon actuarial and statistical projections and on our assessment of currently available data, as well as estimates of claims severity and frequency, legal theories of liability and other factors. Loss reserve estimates are refined periodically as experience develops and claims are reported and settled. Establishing an appropriate level of loss reserves is an inherently uncertain process. Because of this uncertainty, it is possible that our reserves at any given time will prove inadequate. Furthermore, since estimates of aggregate loss costs

for prior accident years are used in pricing our insurance products, we could later determine that our products were not priced adequately to cover actual losses and related loss expenses in order to generate a profit. To the extent we determine that actual losses and related loss expenses exceed our expectations and reserves recorded in our financial statements, we will be required to increase reserves. Increases in reserves would be recognized as an expense during the period or periods in which these determinations are made, thereby adversely affecting our results of operations for the related period or periods. Depending on the severity and timing of these determinations, this could have a material adverse effect on our consolidated results of operations, financial condition or cash flows in a particular quarterly or annual period.

We are particularly vulnerable to losses from the incidence and severity of catastrophes, both natural and man-made, the occurrence of which may have a material adverse effect on our financial condition, consolidated results of operations or cash flows in a particular quarterly or annual period.

Our property and casualty insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, severe winter weather, fires, tornadoes, explosions and other natural or man-made disasters. We also face substantial exposure to losses resulting from acts of terrorism, disease pandemics and political instability. The geographic distribution of our business subjects us to catastrophe exposure for natural events occurring in a number of areas, including, but not limited to, hurricanes in Florida, the Gulf Coast, the Northeast and the Atlantic coast regions of the United States, and earthquakes in California and the New Madrid region of the United States. Further we expect that increases in the values and concentrations of insured property in these areas will increase the severity of catastrophic events in the future. In addition, in the aftermath of the 2004 and 2005 hurricane season, third-party catastrophe loss models for hurricane loss events were updated to incorporate medium-term forecasts of increased hurricane frequency and severity. Our life insurance operations are also exposed to risk of loss from catastrophes. For example, natural or man-made disasters or a disease pandemic such as could arise from avian flu, could significantly increase our mortality and morbidity experience. Policyholders may be unable to meet their obligations to pay premiums on our insurance policies or make deposits on our investment products. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our debt or financial strength ratings. In addition, in part because accounting rules do not permit insurers to reserve for such catastrophic events until they occur, claims from catastrophic events could have a material adverse effect on our financial condition, consolidated results of operations or cash flows in a particular quarterly or annual period.

Competitive activity may adversely affect our market share and profitability, which could have an adverse effect on our business, results of operations or financial condition.

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include an investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. In recent years, there has been substantial consolidation and convergence among companies in the insurance and financial services industries resulting in increased competition from large, well-capitalized insurance and financial services firms that market products and services similar to ours. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. These competitors compete with us for producers such as brokers and independent agents. Larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. These highly competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may harm our ability to maintain or increase our profitability. Because of the highly competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressure will not have a material adverse effect on our business, results of operations or financial condition.

We may experience unfavorable judicial or legislative developments that would adversely affect our results of operations, financial condition or liquidity.

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss

adjustment expense reserves. The Company is also involved in legal actions that do not arise in the ordinary course of business, some of which assert claims for substantial amounts. It is not possible to predict changes in the judicial and legislative environment and their impact on the future development of the adequacy of our loss reserves, particularly reserves for longer-tailed lines of business, including asbestos and environmental reserves. Pervasive or dramatic changes in the judicial environment relating to matters such as trends in the size of jury awards, developments in the law relating to the liability of insurers or tort defendants, and rulings concerning the availability or amount of certain types of damages could cause our ultimate liabilities to change from our current expectations. Similarly, changes in federal or state tort litigation laws or other applicable laws could have the same effect. To the extent that judicial or legislative developments cause our ultimate liabilities to increase from our current expectations, they could have a material adverse effect on the Company s consolidated results of operations, financial condition or liquidity.

Potential changes in domestic and foreign regulation may increase our business costs and required capital levels, which could adversely affect our business, consolidated operating results, financial condition or liquidity.

We are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Moreover, they are administered and enforced by a number of different governmental authorities, including foreign regulators, state insurance regulators, state securities administrators, the Securities and Exchange Commission, the New York Stock Exchange, the National Association of Securities Dealers, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator s or enforcement authority s interpretation of a legal issue may not result in compliance with another regulator s or enforcement authority s interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator s or enforcement authority s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator s or enforcement authority s interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business.

State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- establishing statutory capital and reserve requirements and solvency standards;
- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates;
- establishing assessments and surcharges for guaranty funds, second-injury funds and other mandatory pooling arrangements; and
- regulating the types, amounts and valuation of investments.

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, regularly re-examine existing laws and regulations applicable to insurance companies and their products. Our international operations are subject to regulation in the relevant jurisdictions in which they operate, which in many ways is similar to the state regulation outlined above, with similar related restrictions. Our asset management operations are also subject to extensive regulation in the various jurisdictions where they operate. These regulations are primarily intended to

protect investors in the securities markets or investment advisory clients and generally grant supervisory authorities broad administrative powers. Changes in all of these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have a material adverse effect on our business, consolidated operating results, financial condition and liquidity. Compliance with these laws and regulations is also time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance costs and other expenses of doing business, thus having an adverse effect on our business, consolidated operating results, financial condition and liquidity.

Our business, results of operations and financial condition may be adversely affected by general domestic and international economic and business conditions that are less favorable than anticipated.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of business we conduct. For example, in an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and consumer spending, the demand for financial and insurance products could be adversely affected. Further, given that we offer our products and services in North America, Japan, Europe and South America, we are exposed to these risks in multiple geographic locations. Our operations are subject to different local political, regulatory, business and financial risks and challenges which may affect the demand for our products and services, the value of our investment portfolio, the required levels of our capital and surplus, and the credit quality of local counterparties. These risks include, for example, political, social or economic instability in countries in which we operate, fluctuations in foreign currency exchange rates, credit risks of our local borrowers and counterparties, lack of local business experience in certain markets, and, in certain cases, risks associated with the potential incompatibility with partners. Additionally, some of our recent growth is due to our expansion into new markets for our investment products, primarily in Japan. During 2006, our sales of investment products in Japan declined significantly from the prior year, as competition increased from both domestic and foreign competitors. Looking forward, our overall success in these new markets will depend on our ability to succeed despite differing and dynamic economic, social and political conditions. We may not succeed in developing and implementing policies and strategies that are effective in each location where we do business and we cannot guarantee that the inability to successfully address the risks related to economic conditions in all of the geographic locations where we conduct business will not have a material adverse effect on our business, results of operations or financial condition.

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

We distribute our annuity, life and certain property and casualty insurance products through a variety of distribution channels, including brokers, independent agents, broker-dealers, banks, wholesalers, affinity partners, our own internal sales force and other third party organizations. In some areas of our business, we generate a significant portion of our business through individual third party arrangements. For example, we generated approximately 66% of our personal lines earned premium in 2006 under an exclusive licensing arrangement with AARP that continues until January 1, 2020. We periodically negotiate provisions and renewals of these relationships and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in our continuing relationship with certain of these third parties could materially affect our ability to market our products.

Our business, results of operations, financial condition or liquidity may be adversely affected by the emergence of unexpected and unintended claim and coverage issues.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may either extend coverage beyond our underwriting intent or increase the frequency or severity of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued and this liability may have a material adverse effect on our business, results of operations, financial condition or liquidity at the time it becomes known.

We may experience a downgrade in our financial strength or credit ratings which may make our products less attractive, increase our cost of capital, and inhibit our ability to refinance our debt, which would have an adverse effect on our business, consolidated operating results, financial condition and liquidity.

Financial strength and credit ratings, including commercial paper ratings, have become an increasingly important factor in establishing the competitive position of insurance companies. Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions, and circumstances outside the rated company s control. In addition, rating organizations may employ different models and formulas to assess the financial strength of a rated company, and from time to time rating organizations have, in their discretion, altered these models. Changes to the models,

general economic conditions, or circumstances outside our control could impact a rating organization s judgment of its rating and the subsequent rating it assigns us. We cannot predict what actions rating organizations may take, or what actions we may be required to take in response to the actions of rating organizations, which may adversely affect us. Our financial strength ratings, which are intended to measure our ability to meet policyholder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. A downgrade in our financial strength ratings, or an announced potential downgrade, of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings. The interest rates we pay on our borrowings are largely dependent on our credit ratings. A downgrade of our credit ratings, or an announced potential downgrade, could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of our credit ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described above. As a result, it is possible that any, or a

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combination of all, of these factors may have a material adverse effect on our business, consolidated operating results, financial condition and liquidity.

Limits on the ability of our insurance subsidiaries to pay dividends to us may adversely affect our liquidity.

The Hartford Financial Services Group, Inc. is a holding company with no significant operations. Our principal asset is the stock of our insurance subsidiaries. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries. In addition, competitive pressures generally require certain of our insurance subsidiaries to maintain financial strength ratings. These restrictions and other regulatory requirements affect the ability of our insurance subsidiaries to make dividend payments. Limits on the ability of the insurance subsidiaries to pay dividends could adversely affect our liquidity, including our ability to pay dividends to shareholders and service our debt.

As a property and casualty insurer, the premium rates we are able to charge and the profits we are able to obtain are affected by the actions of state insurance departments that regulate our business, the cyclical nature of the business in which we compete and our ability to adequately price the risks we underwrite, which may have a material adverse effect on our consolidated results of operations in a particular quarterly or annual period or periods.

Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future loss cost frequency and severity based on historical loss experience adjusted for known trends, our response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. We seek to price our property and casualty insurance policies such that insurance premiums and future net investment income earned on premiums received will provide for an acceptable profit in excess of underwriting expenses and the cost of paying claims.

State insurance departments that regulate us often propose premium rate changes for the benefit of the consumer at the expense of the insurer, and may not allow us to reach targeted levels of profitability. In addition to regulating rates, certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, joint underwriting associations and other residual market plans, or to offer coverage to all consumers, often restricting an insurer s ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, participate in the operating losses of residual market plans or pay assessments to fund operating deficits of state-sponsored funds, possibly leading to an unacceptable returns on equity. Laws and regulations of many states also limit an insurer s ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state insurance department. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Any of these factors could have a material adverse effect on our consolidated results of operations in a particular quarterly or annual period or periods.

Additionally, the property and casualty insurance market is historically cyclical, experiencing periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively low levels of competition, more selective underwriting standards and relatively high premium rates. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or when the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases. In a number of product lines and states, we are currently experiencing premium rate reductions. In these product lines and states, there is a risk that the premium we charge may ultimately prove to be inadequate as reported losses emerge. Even in a period of rate increases, there is a risk that regulatory constraints, price competition or incorrect pricing assumptions could prevent us from achieving targeted returns. Inadequate pricing could have a material adverse effect on our consolidated results of operations in a particular quarterly or annual period or periods.

If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or other unanticipated events, our ability to conduct business may be compromised, which may have a material adverse effect on our business, consolidated results of operations, financial condition or cash flows.

We use computer systems to store, retrieve, evaluate and utilize customer and company data and information. Our computer, information technology and telecommunications systems, in turn, interface with and rely upon third-party systems. Our business is highly dependent on our ability, and the ability of certain affiliated third parties, to access these systems to perform necessary business functions, such as providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, and providing customer support. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, our systems may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems could also be subject to physical and electronic break-ins, and subject to similar disruptions from unauthorized tampering with our systems. This may impede or interrupt our business operations and may have a material adverse effect on our business, consolidated operating results, financial condition or liquidity.

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If we experience difficulties arising from outsourcing relationships, our ability to conduct business may be compromised.

We outsource certain technology and business functions to third parties and expect to do so selectively in the future. If we do not effectively develop and implement our outsourcing strategy, third party providers do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on our consolidated results of operations in a particular quarterly or annual period or periods.

Potential changes in Federal or State tax laws could adversely affect our business, consolidated operating results or financial condition.

Many of the products that the Company sells currently benefit from one or more forms of tax-favored status under current federal and state income tax regimes. For example, the Company sells life insurance policies which benefit from the deferral or elimination of taxation on earnings accrued under the policy, as well as permanent exclusion of certain death benefits that may be paid to policyholders beneficiaries. We also sell annuity contracts which allow the policyholders to defer the recognition of taxable income earned within the contract. Other products that the Company sells also enjoy similar, as well as other, types of tax advantages. The Company also benefits from certain tax benefits, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits), and insurance reserve deductions.

There is risk that federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages currently benefiting the Company or its policyholders. This could occur in the context of deficit reduction or several types of fundamental tax reform. The effects of any such changes could result in materially lower product sales, lapses of policies currently held, and/or materially higher corporate taxes that would be incurred by the Company.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Hartford owns the land and buildings comprising its Hartford location and other properties within the greater Hartford, Connecticut area which total approximately 1.9 million of the 2.1 million square feet owned by the Company in the aggregate. In addition, The Hartford leases approximately 5.4 million square feet throughout the United States and approximately 175,000 square feet in other countries. All of the properties owned or leased are used by one or more of all ten operating segments, depending on the location. For more information on operating segments, see Part 1, Item 1, Business of The Hartford Reporting Segments. The Company believes its properties and facilities are suitable and adequate for current operations.

Item 3. LEGAL PROCEEDINGS

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties discussed below under the caption Asbestos and Environmental Claims, management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, life and inland marine; improper sales practices in connection with the sale of life insurance and other investment products; and improper fee arrangements in connection with mutual funds and structured settlements. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting that insurers had a duty to protect the public from the dangers of asbestos and in a putative

class action filed in West Virginia state court by asbestos plaintiffs alleging that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

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Broker Compensation Litigation On October 14, 2004, the New York Attorney General s Office filed a civil complaint (the NYAG Complaint) against Marsh Inc. and Marsh & McLennan Companies, Inc. (collectively, Marsh) alleging, among other things, that certain insurance companies, including The Hartford, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them. The Hartford was not joined as a defendant in the action, which has since settled. Since the filing of the NYAG Complaint, several private actions have been filed against the Company asserting claims arising from the allegations of the NYAG Complaint.

Two securities class actions, now consolidated, have been filed in the United States District Court for the District of Connecticut alleging claims against the Company and certain of its executive officers under Section 10(b) of the Securities Exchange Act and SEC Rule 10b-5. The consolidated amended complaint alleges on behalf of a putative class of shareholders that the Company and the four named individual defendants, as control persons of the Company, failed to disclose to the investing public that The Hartford s business and growth was predicated on the unlawful activity alleged in the NYAG Complaint. The class period alleged is August 6, 2003 through October 13, 2004, the day before the NYAG Complaint was filed. The complaint seeks damages and attorneys fees. Defendants filed a motion to dismiss in June 2005, and, on July 13, 2006, the district court granted the motion. The plaintiffs have noticed an appeal of the dismissal.

Two corporate derivative actions, now consolidated, also have been filed in the same court. The consolidated amended complaint, brought by shareholders on behalf of the Company against its directors and an executive officer, alleges that the defendants knew adverse non-public information about the activities alleged in the NYAG Complaint and concealed and misappropriated that information to make profitable stock trades, thereby breaching their fiduciary duties, abusing their control, committing gross mismanagement, wasting corporate assets, and unjustly enriching themselves. The complaint seeks damages, injunctive relief, disgorgement, and attorneys fees. Defendants filed a motion to dismiss in May 2005, and the plaintiffs thereafter agreed to stay further proceedings pending resolution of the motion to dismiss the securities class action. All defendants dispute the allegations and intend to defend these actions vigorously.

The Company is also a defendant in a multidistrict litigation in federal district court in New Jersey. There are two consolidated amended complaints filed in the multidistrict litigation, one related to alleged conduct in connection with the sale of property-casualty insurance and the other related to alleged conduct in connection with the sale of group benefits products. The Company and various of its subsidiaries are named in both complaints. The actions assert, on behalf of a class of persons who purchased insurance through the broker defendants, claims under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state law, and in the case of the group benefits complaint, claims under ERISA arising from conduct similar to that alleged in the NYAG Complaint. The class period alleged is 1994 through the date of class certification, which has not yet occurred. The complaints seek treble damages, injunctive and declaratory relief, and attorneys fees. On October 3, 2006, the court denied in part the defendants motions to dismiss the two consolidated amended complaints but found the complaints deficient in other respects and ordered the plaintiffs to file supplemental pleadings. After the plaintiffs filed their supplemental pleadings, the defendants renewed their motions to dismiss. The renewed motions to dismiss and the plaintiffs motions for class certification are pending. The Company also has been named in two similar actions filed in state courts, which the defendants have removed to federal court. Those actions currently are transferred to the court presiding over the multidistrict litigation. The Company disputes the allegations in all of these actions and intends to defend the actions vigorously. In addition, the Company was joined as a defendant in an action by the California Commissioner of Insurance alleging similar conduct by various insurers in connection with the sale of group benefits products. The Commissioner s action asserted claims under California insurance law and sought injunctive relief only. The Company has settled the Commissioner s action.

Additional complaints may be filed against the Company in various courts alleging claims under federal or state law arising from the conduct alleged in the NYAG Complaint. The Company s ultimate liability, if any, in the pending and possible future suits is highly uncertain and subject to contingencies that are not yet known, such as how many suits will be filed, in which courts they will be lodged, what claims they will assert, what the outcome of investigations by the New York Attorney General s Office and other regulatory agencies will be, the success of defenses that the

Company may assert, and the amount of recoverable damages if liability is established. In the opinion of management, it is possible that an adverse outcome in one or more of these suits could have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

Fair Credit Reporting Act Putative Class Action In October 2001, a complaint was filed in the United States District Court for the District of Oregon, on behalf of a putative class of homeowners and automobile policyholders from 1999 to the present, alleging that the Company willfully violated the Fair Credit Reporting Act (FCRA) by failing to send appropriate notices to new customers whose initial rates were higher than they would have been had the customer had a more favorable credit report. In July 2003, the district court granted summary judgment for the Company, holding that FCRA s adverse action notice requirement did not apply to the rate first charged for an initial policy of insurance. The plaintiff appealed and, in August 2005, a panel of the United States Court of Appeals for the Ninth Circuit reversed the district court, holding that the adverse action notice requirement applies to new business and that the Company s notices, even when sent, contained inadequate information. Although no court previously had decided the notice requirements applicable to insurers under FCRA, and the district court had not addressed whether the Company s alleged violations of FCRA were willful because it had agreed with the Company s interpretation of FCRA and found no violation, the Court of Appeals further held, over a dissent by one of the

judges, that the Company s failure to send notices conforming to the Court s opinion constituted a willful violation of FCRA as a matter of law. FCRA provides for a statutory penalty of $100 to $1,000 per willful violation. Simultaneously, the Court of Appeals issued decisions in related cases against four other insurers, reversing the district court and holding that those insurers also had violated FCRA in similar ways. On October 3, 2005, the Court of Appeals withdrew its opinion in the Hartford case and issued a revised opinion, which changed certain language of the opinion but not the outcome.

On October 31, 2005, the Company timely filed a petition for rehearing and for rehearing en banc in the Ninth Circuit. While that petition was pending, on January 25, 2006, the Court of Appeals again withdrew its opinion in the Hartford case and issued a second revised opinion. The new opinion vacated the Court s earlier ruling that the Company had willfully violated FCRA as a matter of law and remanded the case to the district court for further proceedings. On February 15, 2006, the Company filed a new petition for rehearing and rehearing en banc, and on April 20, 2006, the Court of Appeals denied the petition. On July 19, 2006, the Company filed a petition for a writ of certiorari in the United States Supreme Court. On September 26, 2006, the Supreme Court granted petitions filed by insurers in two of the related cases, and on January 16, 2007, it heard argument in those cases. The Supreme Court has not yet acted on the Company s petition.

On July 25, 2006, the parties entered into a memorandum of understanding setting forth the essential terms of a class settlement in this action, and, on September 8, 2006, the parties executed and filed with the district court a Stipulation of Settlement. On September 11, 2006, the district court preliminarily approved the settlement and scheduled a hearing for final approval of the settlement for February 26, 2007. The settlement is subject to certain contingencies, including final approval by the district court. If the settlement is completed, management expects that the Company s ultimate obligations under the settlement agreement, after consideration of provisions made for this matter, will not have a material adverse effect on the Company s consolidated results of operations or cash flows in any particular quarterly or annual period.

Blanket Casualty Treaty Litigation The Company is engaged in pending litigation in Connecticut Superior Court against certain of its upper-layer reinsurers under its Blanket Casualty Treaty (BCT). The BCT is a multi-layered reinsurance program providing excess-of-loss coverage in various amounts from the 1930s through the 1980s. The upper layers were first placed in 1950, predominantly with London Market reinsurers, including Lloyd s syndicates reinsured by Equitas. The action seeks, among other relief, damages for the reinsurer defendants failure to pay certain billings for asbestos and pollution claims.

In December 2003, the Company entered into a global settlement with MacArthur Company, an asbestos insulation distributor and installer then in bankruptcy, for $1.15 billion. The Company then billed the reinsurer defendants under the BCT for $117 of the settlement amount. After the reinsurers refused to pay the MacArthur billing, the Company amended its complaint to add, among other things, claims related to that billing. Most of the reinsurer defendants counterclaimed, seeking a declaration that they did not owe reinsurance for the MacArthur settlement.

The litigation concerns under what circumstances losses arising from multiple claims against a single insured may be combined and ceded as a single accident under the BCT so as to reach the upper layers of the program. The BCT contains a unique definition of accident. The application of this definition to the ceded losses is the crux of the dispute.

In April 2005, the Superior Court phased the proceedings, providing for a trial of the MacArthur billing first, in April 2006, with other billings to follow in subsequent trial settings. In September 2005, the London Market reinsurer defendants moved for summary judgment on the MacArthur-related claims. After briefing and oral argument, the Superior Court issued a decision on December 13, 2005, granting the defendants motion. The Company noticed an appeal to the Connecticut Appellate Court; the appeal has since been transferred to the Connecticut Supreme Court. The Company intends to prosecute its appeal vigorously.

On June 15, 2006, the Company announced an agreement with Equitas and all Lloyd s syndicates reinsured by Equitas (collectively, Equitas) that resolved, with minor exception, all of the Company s ceded and assumed domestic reinsurance exposures with Equitas, including the Company s reinsurance recoveries from Equitas under the BCT. Those recoveries consist predominantly of asbestos and pollution losses, including the billing for the MacArthur settlement. The pending litigation and appeal continue with other upper-layer reinsurers under the BCT.

The outcome of the appeal is uncertain. If the decision of the Superior Court is affirmed on appeal, the Company may be unable to collect from the nonsettling reinsurers not only its billing for the MacArthur settlement but also other current and future billings to which the same relevant facts and legal analysis would apply. The Company has considered the risk of non-collection of these recoveries in its allowance for all uncollectible reinsurance recoverables associated with older, long-term casualty liabilities reported in the Other Operations segment. After consideration of this allowance, management expects that a negative outcome in the BCT litigation would not have a material adverse effect on the Company s consolidated results of operations or cash flows in any particular quarterly or annual period. *Asbestos and Environmental Claims* As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Other Operations (Including Asbestos and Environmental Claims) , The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to

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estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford s consolidated operating results, financial condition and liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of The Hartford Financial Services Group, Inc. during the fourth quarter of 2006.

PART II

Item 5. MARKET FOR THE HARTFORD S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Hartford s common stock is traded on the New York Stock Exchange (NYSE) under the trading symbol HIG . The following table presents the high and low closing prices for the common stock of The Hartford on the NYSE for the periods indicated, and the quarterly dividends declared per share.

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2006				
Common Stock Price				
High	$88.83	$92.22	$87.84	$93.61
Low	79.24	80.63	79.86	84.73
Dividends Declared	0.40	0.40	0.40	0.50
2005				
Common Stock Price				
High	$73.76	$77.26	$81.89	$89.00
Low	66.06	65.51	73.05	73.75
Dividends Declared	0.29	0.29	0.29	0.30

As of February 16, 2007, the Company had approximately 350,000 shareholders. The closing price of The Hartford s common stock on the NYSE on February 16, 2007 was $97.09.

On February 22, 2007, The Hartford s Board of Directors declared a quarterly dividend of $0.50 per share payable on April 2, 2007 to shareholders of record as of March 1, 2007. Dividend decisions are based on and affected by a number of factors, including the operating results and financial requirements of The Hartford and the impact of regulatory restrictions discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Liquidity Requirements.

There are also various legal and regulatory limitations governing the extent to which The Hartford s insurance subsidiaries may extend credit, pay dividends or otherwise provide funds to The Hartford Financial Services Group, Inc. as discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Liquidity Requirements.

See Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for information related to securities authorized for issuance under equity compensation plans.

Purchases of Equity Securities by the Issuer

The following table summarizes the Company s repurchases of its common stock for each of the three months in the period ended December 31, 2006:

	Total Number of Shares		Total Number of Shares Purchased as Part of	Maximum Number of Shares that May Yet

Period	Purchased	Average Price Paid Per Share	Publicly Announced Plans or Programs	Be Purchased as Part of the Plans or Programs
October 2006	[1] 1,832	$ 86.96	N/A	[2]
November 2006		$	N/A	[2]
December 2006		$	N/A	[2]

[1] *Represents shares acquired from employees of the Company for tax withholding purposes in connection with the Company s benefit plans.*

[2] *$1 billion of the Company s securities were eligible for repurchase pursuant to the Company s repurchase program.*

In February 2007, the Company s Board of Directors authorized the Company to repurchase up to an additional $1 billion of its securities. This brings the Company s total share repurchase authorization to $2 billion. The Company s repurchase authorization permits purchases of common stock, which may be in the open market or through privately negotiated transactions. The Company also may enter into derivative transactions to facilitate future repurchases of common stock. The timing of repurchases will be dependent upon several factors, including the market price of the Company s securities, the Company s capital position, consideration of the effect of any repurchases on the Company s financial strength or credit ratings, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. Through February 16, 2007, The Hartford had repurchased approximately $363 (3.8 million shares) under this program.

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Item 6. SELECTED FINANCIAL DATA
(In millions, except for per share data and combined ratios)

	2006	2005	2004	2003	2002
Income Statement Data					
Total revenues	$ 26,500	$ 27,083	$ 22,708	$ 18,719	$ 16,410
Income (loss) before cumulative effect of accounting changes *[1]*	2,745	2,274	2,138	(91)	1,000
Net income (loss) *[1] [2]*	2,745	2,274	2,115	(91)	1,000
Balance Sheet Data					
Total assets	$326,710	$285,557	$259,735	$225,850	$181,972
Long-term debt	3,504	4,048	4,308	4,610	4,061
Total stockholders equity	18,876	15,325	14,238	11,639	10,734
Earnings (Loss) Per Share Data					
Basic earnings (loss) per share *[1]*					
Income (loss) before cumulative effect of accounting changes *[1]*	$ 8.89	$ 7.63	$ 7.32	$ (0.33)	$ 4.01
Net income (loss) *[1] [2]*	8.89	7.63	7.24	(0.33)	4.01
Diluted earnings (loss) per share *[1] [3]*					
Income (loss) before cumulative effect of accounting changes *[1]*	8.69	7.44	7.20	(0.33)	3.97
Net income (loss) *[1] [2]*	8.69	7.44	7.12	(0.33)	3.97
Dividends declared per common share	1.70	1.17	1.13	1.09	1.05
Other Data					
Mutual fund assets *[4]*	$ 43,732	$ 32,705	$ 28,068	$ 22,462	$ 15,321
Operating Data					
Combined ratios					
Ongoing Property & Casualty Operations	89.3	93.2	95.3	96.5	99.1

[1] 2004 includes a $216 tax benefit related to agreement with the IRS on the resolution of matters pertaining to tax years prior to 2004. 2003 includes an

after-tax charge of $1.7 billion related to the Company s 2003 asbestos reserve addition, $40 of after-tax expense related to the settlement of a certain litigation dispute, $30 of tax benefit in Life primarily related to the favorable treatment of certain tax items arising during the 1996-2002 tax years, and $27 of after-tax severance charges in Property & Casualty. 2002 includes $76 tax benefit in Life, $11 after-tax expense in Life related to a certain litigation dispute and an $8 after-tax benefit in Life s September 11 exposure.

[2] *2004 includes a $23 after-tax charge related to the cumulative effect of accounting change for the Company s adoption of the AICPA issued Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for*

Separate Accounts .

[3] *As a result of the net loss for the year ended December 31, 2003, Statement of Financial Accounting Standards No. 128, Earnings per Share requires the Company to use basic weighted average common shares outstanding in the calculation of the year ended December 31, 2003 diluted earnings (loss) per share, since the inclusion of options of 1.8 would have been antidilutive to the earnings per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 274.2.*

[4] *Mutual funds are owned by the shareholders of those funds and not by the Company. As a result, they are not reflected in total assets on the Company s balance sheet.*

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in millions, except for per share data, unless otherwise stated)

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the financial condition of The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, The Hartford or the Company) as of December 31, 2006, compared with December 31, 2005, and its results of operations for each of the three years in the period ended December 31, 2006. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes beginning on page F-1. Certain reclassifications have been made to prior year financial information to conform to the current year presentation.

Certain of the statements contained herein are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond the Company s control and have been made based upon management s expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management s expectations or that the effect of future developments on The Hartford will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in Part II, Item 1A, Risk Factors. These factors include: the difficulty in predicting the Company s potential exposure for asbestos and environmental claims; the possible occurrence of terrorist attacks; the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company s statutory capital levels; the inability to effectively mitigate the impact of equity market volatility on the Company s financial position and results of operations arising from obligations under annuity product guarantees; the Company s potential exposure arising out of regulatory proceedings or private claims relating to incentive compensation or payments made to brokers or other producers and alleged anti-competitive conduct; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers and other producers, including changes that have been announced and those which may occur in the future; the possibility of unfavorable loss development; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of domestic and foreign regulatory developments, including those which could increase the Company s business costs and required capital levels; the possibility of general economic and business conditions that are less favorable than anticipated; the Company s ability to distribute its products through distribution channels, both current and future; the uncertain effects of emerging claim and coverage issues; a downgrade in the Company s financial strength or credit ratings; the ability of the Company s subsidiaries to pay dividends to the Company; the Company s ability to adequately price its property and casualty policies; the ability to recover the Company s systems and information in the event of a disaster or other unanticipated event; potential for difficulties arising from outsourcing relationships; potential changes in Federal or State tax laws; and other factors described in such forward-looking statements.

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OVERVIEW

The Hartford is a diversified insurance and financial services company with operations dating back to 1810. The Company is headquartered in Connecticut and is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in ten operating segments. Additionally, Corporate primarily includes the Company s debt financing and related interest expense, as well as certain capital raising activities and purchase accounting adjustments.

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Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International. Through Life the Company provides retail and institutional investment products such as variable and fixed annuities, mutual funds, private placement life insurance and retirement plan services, individual life insurance products including variable universal life, universal life, interest sensitive whole life and term life; and group benefit products, such as group life and group disability insurance.

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial (collectively Ongoing Operations), and the Other Operations segment. Through Property & Casualty the Company provides a number of coverages, as well as insurance-related services, to businesses throughout the United States, including workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, fidelity and surety, professional liability and director s and officer s liability coverages. Property & Casualty also provides automobile, homeowners, and home-based business coverage to individuals throughout the United States, as well as insurance-related services to businesses.

Many of the principal factors that drive the profitability of The Hartford s Life and Property & Casualty operations are separate and distinct. Management considers this diversification to be a strength of The Hartford that distinguishes the Company from many of its peers. To present its operations in a more meaningful and organized way, management has included separate overviews within the Life and Property & Casualty sections of MD&A. For further overview of Life s profitability and analysis, see page 51. For further overview of Property & Casualty s profitability and analysis, see page 70.

Broker Compensation

As the Company has disclosed previously, the Company pays brokers and independent agents commissions and other forms of incentive compensation in connection with the sale of many of the Company s insurance products. Since the New York Attorney General s Office filed a civil complaint against Marsh on October 14, 2004, several of the largest national insurance brokers, including Marsh, Aon Corporation and Willis Group Holdings Limited, have announced that they have discontinued the use of contingent compensation arrangements. Other industry participants may make similar, or different, determinations in the future. In addition, legal, legislative, regulatory, business or other developments may require changes to industry practices relating to incentive compensation.

Pursuant to settlement agreements reached with regulators, several insurance companies have agreed to restrictions on the payment of contingent compensation relating to the placement of excess casualty insurance policies. These insurers have agreed that the restrictions may be extended in time, and to other property and casualty lines, if insurers in a given line or segment, that together represent more than 65% of the market share in the insurance line (based upon national gross written premiums), do not pay contingent compensation. On November 30, 2006, the New York Attorney General s Office notified these insurers that the 65% threshold had been reached for a number of insurance lines, including personal automobile and homeowners insurance. As a result, beginning January 1, 2007, these insurers were prohibited from paying contingent compensation relating to the placement of these types of insurance. In addition, on December 21, 2006, Chubb Corporation agreed to forego the payment of contingent compensation for all P&C insurance lines pursuant to a settlement agreement reached with regulators. These insurers, including Chubb, have also agreed to support legislation and regulations to abolish contingent compensation and to require greater disclosure of compensation. At this time, it is not possible to predict the effect of these announced or potential future changes on our business or distribution strategies, but such changes could have a material adverse effect on us in the future.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company has identified the following estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability: property and casualty reserves for unpaid losses and loss adjustment

expenses, net of reinsurance; Life deferred policy acquisition costs and present value of future profits associated with variable annuity and other universal life-type contracts; the evaluation of other-than-temporary impairments on investments in available-for-sale securities; the valuation of guaranteed minimum withdrawal benefit derivatives; pension and other postretirement benefit obligations; and contingencies relating to corporate litigation and regulatory matters. In developing these estimates management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements.

Property & Casualty Reserves, Net of Reinsurance

The Hartford establishes property and casualty reserves to provide for the estimated costs of paying claims under insurance policies written by the Company. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported, and include estimates of all expenses associated with processing and settling these claims. Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based largely on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. Reserve estimates can change over time because of unexpected changes in the external environment. Potential external factors include (1) changes in the inflation rate for goods and services related to covered damages such as medical care, hospital care, auto parts, wages and home repair, (2) changes in the general economic environment that could cause unanticipated changes in the claim frequency per unit insured, (3) changes in the litigation environment as evidenced by changes in claimant attorney representation in the claims negotiation and settlement process, (4) changes in the judicial environment regarding the interpretation of policy provisions relating to the determination of coverage and/or the amount of damages awarded for certain types of damages, (5) changes in the social environment regarding the general attitude of juries in the determination of liability and damages, (6) changes in the legislative environment regarding the definition of damages and (7) new types of injuries caused by new types of injurious exposure: past examples include breast implants, lead paint and construction defects. Reserve estimates can also change over time because of changes in internal company operations. Potential internal factors include (1) periodic changes in claims handling procedures, (2) growth in new lines of business where exposure and loss development patterns are not well established or (3) changes in the quality of risk selection in the underwriting process. In the case of assumed reinsurance, all of the above risks apply. In addition, changes in ceding company case reserving and reporting patterns can create additional factors that need to be considered in estimating the reserves. Due to the inherent complexity of the assumptions used, final claim settlements may vary significantly from the present estimates, particularly when those settlements may not occur until well into the future.

Through both facultative and treaty reinsurance agreements, the Company cedes a share of the risks it has underwritten to other insurance companies. The Company s net reserves for loss and loss adjustment expenses include anticipated recovery from reinsurers on unpaid claims. The estimated amount of the anticipated recovery, or reinsurance recoverable, is net of an allowance for uncollectible reinsurance.

Reinsurance recoverables include an estimate of the amount of gross loss and loss adjustment expense reserves that may be ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, including an estimate of how incurred but not reported losses will ultimately be ceded by reinsurance agreement. Accordingly, the Company s estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses.

The Company provides an allowance for uncollectible reinsurance, reflecting management s best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers unwillingness or inability to pay. The Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between reinsurers and cedants and the overall credit quality of the Company s reinsurers. Where its contracts permit, the Company secures future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets. The allowance for uncollectible reinsurance was $412 as of December 31, 2006, including $294 related to Other Operations and $118 related to Ongoing Operations.

Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, it is possible that future adjustments to the Company s reinsurance recoverables, net of the allowance, could be required, which could have a material adverse effect on the Company s consolidated results of operations or cash flows in a particular quarter or annual period.

The Hartford, like other insurance companies, categorizes and tracks its insurance reserves for its segments by line of business , such as property, auto physical damage, auto liability, commercial multi-peril package business, workers compensation, general liability professional liability and fidelity and surety. Furthermore, The Hartford regularly

reviews the appropriateness of reserve levels at the line of business level, taking into consideration the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business. In addition, within the Other Operations segment, the Company has reserves for asbestos and environmental (A&E) claims. Adjustments to previously established reserves, which may be material, are reflected in the operating results of the period in which the adjustment is determined to be necessary. In the judgment of management, information currently available has been properly considered in the reserves established for losses and loss adjustment expenses. Incurred but not reported (IBNR) reserves represent the difference between the estimated ultimate cost of all claims and the actual reported loss and loss adjustment expenses (reported losses). Reported losses represent cumulative loss and loss adjustment expenses paid plus case reserves for outstanding reported claims. Company actuaries evaluate the total reserves (IBNR and case reserves) on an accident year basis. An accident year is the calendar year in which a loss is incurred, or, in the case of claims-made policies, the calendar year in which a loss is reported.

The following table shows loss and loss adjustment expense reserves by line of business and by operating segment as of December 31, 2006, net of reinsurance:

	Business Insurance	Personal Lines	Specialty Commercial	Other Operations	Total P&C
Reserve Line of Business					
Property	$ 65	$ 225	$ 63	$	$ 353
Auto physical damage	15	26	9		50
Auto liability	625	1,526	94		2,245
Package business	2,028				2,028
Workers compensation	3,816	7	1,830		5,653
General liability	587	39	1,504		2,130
Professional liability			556		556
Fidelity and surety			158		158
Assumed Reinsurance [1]				813	813
All other non-A&E				1,045	1,045
A&E	8	2	5	2,558	2,573
Total reserves-net	7,144	1,825	4,219	4,416	17,604
Reinsurance and other recoverables	650	134	2,303	1,300	4,387
Total reserves-gross	**$ 7,794**	**$ 1,959**	**$ 6,522**	**$ 5,716**	**$ 21,991**

[1] These net loss and loss adjustment expense reserves relate to assumed reinsurance underwritten by Reinsurance operations that were moved into Other Operations (formerly known as HartRe).

Reserving for non-A&E reserves within Ongoing and Other Operations

How non-A&E reserves are set

Reserves are set by line of business within the various operating segments. As indicated in the above table, a single line of business may be written in one or more of the segments. Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which loss data (e.g., paid losses and case reserves) emerge (i.e., is reported) over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. Within the Company s Ongoing Operations the shortest-tail lines of business are property and auto physical damage. The longest tail lines of business within Ongoing Operations include workers

compensation, general liability, and professional liability. Assumed reinsurance, which is within Other Operations, is also long-tail business.
For short-tail lines of business, emergence of paid loss and case reserves is credible and likely indicative of ultimate losses. For long-tail lines of business, emergence of paid losses and case reserves is less credible in the early periods and, accordingly may not be indicative of ultimate losses.
An expected loss ratio is used in initially recording the reserves for both short-tail and long-tail lines of business. This expected loss ratio is determined through a review of prior accident years loss ratios and expected changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to impact the loss ratio for the current accident year. For short-tail lines, IBNR for the current accident year is initially recorded as the product of the expected loss ratio for the period, earned premium for the period and the proportion of losses expected to be reported in future calendar periods for the current accident period. For long-tailed lines, IBNR reserves for the current accident year are initially recorded as the product of the expected loss ratio for the period and the earned premium for the period, less reported losses for the period.
Company reserving actuaries, who are independent of the business units, regularly review reserves for both current and prior accident years using the most current claim data. These reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. Most non-A&E reserves are reviewed fully each quarter, including loss reserves for property, auto physical damage, auto liability, package business, workers compensation, most general liability, professional liability and fidelity and surety. Other non-A&E reserves are reviewed semi-annually (twice per year) or annually. These include, but are not limited to, reserves for allocated loss adjustment expenses, assumed reinsurance, latent exposures such as construction defects, unallocated loss adjustment expense and all other non-A&E exposures within Other Operations. For reserves that are reviewed semi-annually and annually, management monitors the emergence of paid and reported losses in the intervening quarters to either confirm that its estimate of ultimate losses should not change or, if necessary, perform a reserve review to determine whether the reserve estimate should change.
For most lines of business, a variety of actuarial methods are reviewed and the actuaries select methods and specific assumptions appropriate for each line of business based on the current circumstances affecting that line of business. These selections incorporate input, as judged by the reserving actuaries to be appropriate, from claims personnel, pricing actuaries and operating management on

reported loss cost trends and other factors that could affect the reserve estimates. The output of the reserve reviews are reserve estimates that are referred to herein as the actuarial indication .

The actuarial techniques or methods used include paid and reported loss development, frequency / severity, expected loss ratio and Bornhuetter-Ferguson techniques. Within any one line of business, a variety of techniques are used. Within any one line of business, certain methods are generally given more influence in determining the actuarial indication. The methods that are given more influence vary within a line of business based primarily on the maturity of the accident year, the mix of business and the particular internal and external influences impacting the claims experience or the methods. The following is a discussion of the most common methods used; these methods are not used for every line of business or every accident year within a line of business.

Paid Development method. Historical data, organized by accident period and calendar period, is used to develop paid loss development patterns, which are then applied to current paid losses by accident period to estimate ultimate losses. The paid development method is also used to estimate reserves for allocated loss adjustments expenses (ALAE).

Paid development techniques do not use information about case reserves and, therefore, are not affected by changes in case reserving practices. Paid development techniques can, however, be significantly affected by changes in claim closure patterns. Paid development techniques for longer-tailed lines are generally less useful for more recent accident years since a low percentage of ultimate losses are paid to date in early periods of development and small changes in paid losses can have a large impact on estimated ultimate losses.

Reported Development method. Historical data, organized by accident period and calendar period, is used to develop reported loss development patterns, which are then applied to current reported losses by accident period to estimate ultimate losses. The reported losses used in this analysis refer to cumulative paid losses plus case reserves and do not include IBNR.

Compared to the paid development technique, the reported development technique has the advantage that a higher percentage of ultimate losses are reflected in reported losses than in cumulative paid losses. The reported development technique estimates only the unreported losses rather than the total unpaid losses. While the reported development technique takes advantage of information contained in the case reserves, estimates determined from this technique are affected by changes in case reserving practices.

Both paid and reported development techniques assume that historical development patterns are predictive of future development patterns.

Frequency / Severity methods. Historical data is used to develop claim count development patterns and those patterns are applied to the number of current reported claims to estimate ultimate claim counts. Estimated ultimate claim counts are multiplied by an estimated average severity (i.e., an average cost per claim) to calculate estimated ultimate losses. Average severity is estimated by fitting historical severity data to a trend line and making assumptions about how the current environment would affect claim severity. In making assumptions about the current environment, industry data is used where such data is available and appropriate.

The advantage of frequency / severity techniques is that frequency estimates are generally easier to predict and external information can be used to supplement internal data in making severity estimates.

Expected Loss Ratio method. Loss ratios for prior accident years are used to determine the appropriate expected loss ratio for the current accident year after applying anticipated changes in rates, pricing and loss costs. The current accident year expected loss ratio is multiplied by earned premium to calculate estimated ultimate losses.

Expected Loss Ratio techniques are useful for early periods of maturity on long-tailed lines of business, where very little paid or reported loss information is available.

Bornhuetter-Ferguson method. This method is a combination of the expected loss ratio method and the reported development method, where the reported loss development method is given more weight as an accident year matures.

For all lines of business, variations of the above methods are used. Examples of variation within the paid and reported development methods include:

- The accident period used may vary (e.g., year, quarter, or month)
- The Company may analyze the data by coverage (e.g., bodily injury separate from property damage)
- There may be adjustments for unusual loss activity
- For ALAE, the Company uses patterns of the relationship between paid ALAE and paid losses.

Examples of variation within the frequency /severity methods include:

- For one sub-set of professional liability business, management estimates frequency, not through historical claim count development, but through an analysis of the securities class actions filed and policy listings
- For some methods, management projects severity on only open claims
- In the commercial liability lines, the Company performs the frequency / severity technique only on claims over a certain size

For allocated loss adjustment expenses (ALAE), the Company analyzes ALAE on claims in suit and associated legal expenses separately from ALAE on other claims.

For each line of business, certain methods are given more influence than other methods. The discussion below gives a general indication of which methods are preferred by line of business. Because the actuarial estimates are generated at a much finer level of detail than line of business (e.g., by distribution channel, coverage, accident period), this description should not be assumed to apply to each coverage and accident year within a line of business. Also, as circumstances change, the methods that are given more influence will change. For example, for Personal Lines auto liability claims, reported development techniques are currently not given significant influence in making estimates for recent accident years because case reserving practices have been changing in the recent past. If case reserving practices become more stable, reported development techniques may be given more weight.

Property and Auto Physical Damage. These lines are fast-developing and paid and reported development techniques are used. The Company performs and relies primarily on reported development techniques and frequency/severity and Bornhuetter-Ferguson techniques for the most immature accident months.

Auto Liability Personal Lines. For auto liability, and bodily injury in particular, the Company performs a greater number of techniques than it does for property and auto physical damage, including paid and reported development, and several frequency / severity approaches. The Company generally uses the reported development method for older accident years and the frequency / severity methods for more recent accident years. Recent periods are heavily influenced by changes in case reserve practices and changing disposal rates, and the frequency / severity techniques are not affected as much by these changes.

Auto Liability Commercial Lines, Package Business and Short-Tailed General Liability. As with Personal Lines auto liability, the Company performs a variety of techniques, including the paid and reported development methods and frequency / severity techniques. For older, more mature accident years, management finds that reported development techniques are best. For more recent accident years, management typically prefers frequency / severity techniques that allow it to make assumptions about the frequency of larger claims.

Long-Tailed General Liability, Fidelity and Surety and Large Deductible Workers Compensation. For these very long-tailed lines of business, the Company generally relies on the expected loss ratio, Bornhuetter-Ferguson and reported development techniques. Management generally weights these techniques together, relying more heavily on the expected loss ratio method at early ages of development and more on the reported development method as an accident year matures.

Workers Compensation. Workers compensation is the Company s single largest reserve line of business and management does the largest amount of actuarial analysis on this line of business. Methods performed include paid and reported development, variations on expected loss ratio methods, and an in-depth analysis on the largest states. Paid development patterns are historically very stable in the Company s workers compensation business, so paid techniques are preferred for older accident periods. For more recent periods, paid techniques are less predictive of the ultimate liability since such a low percentage of ultimate losses are paid in early periods of development. Accordingly, for more recent accident periods, the Company generally relies more heavily on a state-by-state analysis and the expected loss ratio approach.

Professional Liability. Reported and paid loss developments patterns for this line tend to be volatile. Therefore, the Company typically relies on frequency and severity techniques.

Assumed Reinsurance and All Other within Other Operations. For these lines, management tends to rely on the reported development techniques. In assumed reinsurance, assumptions are influenced by information gained from claim and underwriting audits.

Allocated Loss Adjustment Expenses (ALAE). For some lines of business (e.g., professional liability and assumed reinsurance), ALAE and losses are analyzed together. For most lines of business, however, ALAE is analyzed separately, using paid development and frequency / severity techniques.

The final step in the reserve review process involves a comprehensive review by senior reserving actuaries who apply their judgment and, in concert with senior management, determine the appropriate level of reserves based on the various information that has been accumulated. Numerous factors are considered in this determination process including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, the maturity of the accident year, pertinent trends observed over the

recent past, the level of volatility within a particular line of business, and the improvement or deterioration of actuarial indications in the current period as compared to the prior periods. In general, changes are made more quickly to more mature accident years and less volatile lines of business. At year-end 2006, total recorded net reserves excluding asbestos and environmental and excluding the allowance for uncollectible reinsurance were 2.2% higher than the actuarial indication of the reserves. Annually, as part of the statutory reporting requirements, IBNR is allocated to accident year by statutory line of business. This work forms the basis for the loss development table and reserve re-estimates table shown in the Business section.

During 2006, there were numerous changes to non-A&E reserve estimates. Among other loss developments in 2006, these changes included an $83 reduction in catastrophe reserves related to the 2005 and 2004 hurricanes, a $58 release of Business Insurance allocated

loss adjustment expense reserves for workers compensation and package business related to accident years 2003 to 2005, and a $45 strengthening of Specialty Commercial construction defect claim reserves for accident years 1997 and prior. See Reserves within the Property and Casualty MD&A for further discussion of reserve developments.

Current trends contributing to reserve uncertainty

The Hartford is a multi-line company in the property and casualty business. The Hartford is therefore subject to reserve uncertainty stemming from a number of conditions, including but not limited to those noted above, any of which could be material at any point in time for any segment. Certain issues may become more or less important over time as conditions change. As various market conditions develop, management must assess whether those conditions constitute a long-term trend that should result in a reserving action (i.e., increasing or decreasing the reserve).

Within the commercial segments and the Other Operations segment, the Company has exposure to claims asserted for bodily injury as a result of long-term or continuous exposure to harmful products or substances. Examples include, but are not limited to, pharmaceutical products, latex gloves, silica and lead paint. The Company also has exposure to claims from construction defects, where property damage or bodily injury from negligent construction is alleged. The Company also has exposure to claims asserted against religious institutions and other organizations relating to molestation or abuse. Such exposures may involve potentially long latency periods and may implicate coverage in multiple policy periods. These factors make reserves for such claims more uncertain than other bodily injury or property damage claims. With regard to these exposures, the Company is monitoring trends in litigation, the external environment, the similarities to other mass torts and the potential impact on the Company s reserves.

In Personal Lines, reserving estimates are generally less variable than for the Company s other property and casualty segments. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends and their impact on recorded reserve levels. Severity trends can be impacted by changes in internal claim handling and case reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels. In addition, the success of the Company s new Dimensions class plan for automobile first introduced in 2004 has lead to a different mix of business by type of insured than the Company experienced in the past. In general, the Company now has a lower proportion of preferred risks than in the past. Such a change in mix increases the uncertainty of the reserve projections, since historical data and reporting patterns may not be applicable to the new business.

In Business Insurance, workers compensation is the Company s single biggest line of business and the line of business with the longest pattern of loss emergence. Reserve estimates for workers compensation are particularly sensitive to assumptions about medical inflation and the changing use of medical care procedures. In addition, changes in state legislative and regulatory environments impact the Company s estimates. These changes increase the uncertainty in the application of development patterns.

In the Specialty Commercial segment, many lines of insurance, such as excess insurance and large deductible workers compensation insurance are long-tail lines of insurance. For long-tail lines, the period of time between the incidence of the insured loss and either the reporting of the claim to the insurer, the settlement of the claim, or the payment of the claim can be substantial, and in some cases, several years. As a result of this extended period of time for losses to emerge, reserve estimates for these lines are more uncertain (i.e. more variable) than reserve estimates for shorter-tail lines of insurance. Estimating required reserve levels for large deductible workers compensation insurance is further complicated by the uncertainty of whether losses that are attributable to the deductible amount can be paid by the insured; if such losses are not paid by the insured due to financial difficulties, the Company would be contractually liable. Another example of reserve variability relates to reserves for directors and officers insurance. There is uncertainty in the required level of reserves due to the impact of recent allegations within the financial services industry, including those in the mutual fund, investment banking and insurance industries.

Impact of changes in key assumptions on reserve volatility

As stated above, the Company s practice is to estimate reserves using a variety of methods, assumptions and data elements. Within its reserve estimation process for reserves other than asbestos and environmental, the Company does not derive statistical loss distributions or confidence levels around its reserve estimate and, as a result, does not have reserve range estimates to disclose.

The reserve estimation process includes explicit assumptions about a number of factors in the internal and external environment. Across most lines of business, the most important assumptions are future loss development factors applied to paid or reported losses to date. For most lines, the reported loss development factor is most important. In workers compensation, paid loss development factors are also important. The trend in loss costs is also a key assumption, particularly in the most recent accident years, where loss development factors are less credible.

The following discussion includes disclosure of possible variation from current estimates of loss reserves due to a change in certain key assumptions. Each of the impacts described below is estimated individually, without consideration for any correlation among key assumptions or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for the Company s reserves in total. The estimated variation in reserves due to changes

in key assumptions is a reasonable estimate of possible variation that may occur in the future, likely over a period of several calendar years. It is important to note that the variation discussed is not meant to be a worst-case scenario, and therefore, it is possible that future variation may be more than the amounts discussed below.

Recorded reserves for workers compensation, net of reinsurance, are $5.7 billion across Business Insurance and Specialty Commercial. The two most important assumptions for workers compensation reserves are loss development factors and loss cost trends, particularly medical cost inflation. Loss development patterns are dependent on medical cost inflation. Approximately half of the workers compensation net reserves are related to future medical costs. A review of National Council on Compensation Insurance (NCCI) data suggests that the annual growth in industry medical claim costs has varied from -2% to +12% since 1991. This data shows that medical inflation has been highly variable over the past decade. Across the entire workers compensation reserve base, a 1 point change in calendar year medical inflation would change the estimated net reserve by $600, in either direction.

Recorded reserves for auto liability, net of reinsurance, are $2.2 billion across all lines, $1.5 billion of which is in Personal Lines. Personal auto liability reserves are shorter-tailed than other lines of business (such as workers compensation) and, therefore, less volatile. However, the size of the reserve base means that future changes in estimates could be material to the Company s results of operations in any given period. The key assumption for Personal Lines auto liability is the annual loss cost trend, particularly the severity trend component of loss costs. A review of Insurance Services Office (ISO) data suggests that annual growth in industry severity since 1999 has varied from +1% to +6%. The ISO data shows recent severity changes to be in the middle of this range. A 2.5 point change in assumed annual severity is within historical variation for the industry and for the Company. A 2.5 point change in assumed annual severity for the two most recent accident years would change the estimated net reserve need by $70, in either direction. Assumed annual severity for accident years prior to the two most recent accident years is likely to have minimal variability.

Recorded reserves for general liability, net of reinsurance, are $2.1 billion across Business Insurance and Specialty Commercial. Reported loss development patterns are a key assumption for this line of business, particularly for more mature accident years. Historically, assumptions on reported loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g. construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 10%, a change that is within historical variation, the estimated net reserve need would change by $300, in either direction. A 10% change in reported loss development patterns is within historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Similar to general liability, assumed casualty reinsurance is affected by reported loss development pattern assumptions. In addition to the items identified above that would affect both direct and reinsurance liability claim development patterns, there is also an impact to assumed reporting patterns for any changes in claim notification from ceding companies to the reinsurer. Recorded net reserves for HartRe assumed reinsurance business, excluding asbestos and environmental liabilities, within Other Operations were $813 as of December 31, 2006. If the reported loss development patterns underlying the Company s net reserves for HartRe assumed casualty reinsurance change by 10%, the estimated net reserve need would change by $254, in either direction. A 10% change in reported loss development patterns is within historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Reserving for Asbestos and Environmental Claims within Other Operations

How A&E reserves are set

The Company continues to receive asbestos and environmental claims. Asbestos claims relate primarily to bodily injuries asserted by people who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs.

The Company wrote several different categories of insurance contracts that may cover asbestos and environmental claims. First, the Company wrote primary policies providing the first layer of coverage in an insured s liability program. Second, the Company wrote excess policies providing higher layers of coverage for losses that exhaust the limits of underlying coverage. Third, the Company acted as a reinsurer assuming a portion of those risks assumed by

other insurers writing primary, excess and reinsurance coverages. Fourth, subsidiaries of the Company participated in the London Market, writing both direct insurance and assumed reinsurance business.

In establishing reserves for asbestos claims, the Company evaluates its insureds estimated liabilities for such claims using a ground-up approach. The Company considers a variety of factors, including the jurisdictions where underlying claims have been brought, past, pending and anticipated future claim activity, disease mix, past settlement values of similar claims, dismissal rates, allocated loss adjustment expense, and potential bankruptcy impact.

Similarly, a ground-up exposure review approach is used to establish environmental reserves. The Company s evaluation of its insureds estimated liabilities for environmental claims involves consideration of several factors, including historical values of similar claims, the number of sites involved, the insureds alleged activities at each site, the alleged environmental damage at each site, the

respective shares of liability of potentially responsible parties at each site, the appropriateness and cost of remediation at each site, the nature of governmental enforcement activities at each site, and potential bankruptcy impact.

Having evaluated its insureds probable liabilities for asbestos and/or environmental claims, the Company then evaluates its insureds insurance coverage programs for such claims. The Company considers its insureds total available insurance coverage, including the coverage issued by the Company. The Company also considers relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds estimated liabilities and the Company s exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by the Company s lawyers and is subject to applicable privileges.

For both asbestos and environmental reserves, the Company also compares its historical direct net loss and expense paid and incurred experience, and net loss and expense paid and incurred experience year by year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and incurred activity.

Once the gross ultimate exposure for indemnity and allocated loss adjustment expense is determined for its insureds by each policy year, the Company calculates its ceded reinsurance projection based on any applicable facultative and treaty reinsurance and the Company s experience with reinsurance collections.

Uncertainties Regarding Adequacy of Asbestos and Environmental Reserves

With regard to both environmental and particularly asbestos claims, significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. In particular, the Company believes there is a high degree of uncertainty inherent in the estimation of asbestos loss reserves.

In the case of the reserves for asbestos exposures, factors contributing to the high degree of uncertainty include inadequate loss development patterns, plaintiffs expanding theories of liability, the risks inherent in major litigation, and inconsistent emerging legal doctrines. Furthermore, over time, insurers, including the Company, have experienced significant changes in the rate at which asbestos claims are brought, the claims experience of particular insureds, and the value of claims, making predictions of future exposure from past experience uncertain. Plaintiffs and insureds also have sought to use bankruptcy proceedings, including pre-packaged bankruptcies, to accelerate and increase loss payments by insurers. In addition, some policyholders have asserted new classes of claims for coverages to which an aggregate limit of liability may not apply. Further uncertainties include insolvencies of other carriers and unanticipated developments pertaining to the Company s ability to recover reinsurance for asbestos and environmental claims. Management believes these issues are not likely to be resolved in the near future.

In the case of the reserves for environmental exposures, factors contributing to the high degree of uncertainty include expanding theories of liability and damages; the risks inherent in major litigation; inconsistent decisions concerning the existence and scope of coverage for environmental claims; and uncertainty as to the monetary amount being sought by the claimant from the insured.

It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of asbestos and environmental claims. It is unknown whether potential Federal asbestos-related legislation will be enacted or what its effect would be on the Company s aggregate asbestos liabilities.

The reporting pattern for assumed reinsurance claims, including those related to asbestos and environmental claims is much longer than for direct claims. In many instances, it takes months or years to determine that the policyholder s own obligations have been met and how the reinsurance in question may apply to such claims. The delay in reporting reinsurance claims and exposures adds to the uncertainty of estimating the related reserves.

Given the factors described above, the Company believes the actuarial tools and other techniques it employs to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for its asbestos and environmental exposures. For this reason, the Company relies on exposure-based analysis to estimate the ultimate costs of these claims and regularly evaluates new information in assessing its potential asbestos and environmental exposures.

A number of factors affect the variability of estimates for asbestos and environmental reserves including assumptions with respect to the frequency of claims, the average severity of those claims settled with payment, the dismissal rate of claims with no payment and the expense to indemnity ratio. The uncertainty with respect to the underlying reserve assumptions for asbestos and environmental adds a greater degree of variability to these reserve estimates than reserve estimates for more traditional exposures. While this variability is reflected in part in the size of the range of reserves developed by the Company, that range may still not be indicative of the potential variance between the ultimate outcome and the recorded reserves. The recorded net reserves as of December 31, 2006 of $2.57 billion ($2.25 billion and $322 for asbestos and environmental, respectively) is within an estimated range, unadjusted for covariance, of $1.99 billion to $3.05 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of

uncertainties, which are detailed in Note 12 of Notes to Consolidated Financial Statements. Due to these uncertainties, further developments could cause the Company to change its estimates and ranges of its asbestos and environmental reserves, and the effect of these changes could be material to the Company s consolidated operating results, financial condition and liquidity.

Total Property & Casualty Reserves, Net of Reinsurance

In the opinion of management, based upon the known facts and current law, the reserves recorded for the Company s property and casualty businesses at December 31, 2006 represent the Company s best estimate of its ultimate liability for losses and loss adjustment expenses related to losses covered by policies written by the Company. However, because of the significant uncertainties surrounding reserves, and particularly asbestos exposures, it is possible that management s estimate of the ultimate liabilities for these claims may change and that the required adjustment to recorded reserves could exceed the currently recorded reserves by an amount that could be material to the Company s results of operations, financial condition and liquidity.

Life Deferred Policy Acquisition Costs and Present Value of Future Profits Associated with Variable Annuity and Other Universal Life-Type Contracts

Accounting Policy and Assumptions

Life policy acquisition costs include commissions and certain other expenses that vary with and are primarily associated with acquiring business. Present value of future profits (PVFP) is an intangible asset recorded upon applying purchase accounting in an acquisition of a life insurance company. Deferred policy acquisition costs and the present value of future profits intangible asset are amortized in the same way. Both are amortized over the estimated life of the contracts acquired. Within the following discussion, deferred policy acquisition costs and the present value of future profits intangible asset will be referred to as DAC . At December 31, 2006 and December 31, 2005, the carrying value of the Company s Life DAC asset was $9.1 billion and $8.6 billion, respectively. Of those amounts, $4.4 billion and $4.5 billion related to individual variable annuities sold in the U.S., $1.4 billion and $1.2 billion related to individual variable annuities sold in Japan and $2.1 billion and $1.9 billion related to universal life-type contracts sold by Individual Life.

The Company amortizes DAC related to investment contracts and universal life-type contracts (including individual variable annuities) using the retrospective deposit method. Under the retrospective deposit method, acquisition costs are amortized in proportion to the present value of estimated gross profits (EGPs). EGPs are also used to amortize other assets and liabilities on the Company s balance sheet, such as sales inducement assets and unearned revenue reserves. Components of EGPs are used to determine reserves for guaranteed minimum death and income benefits. For most contracts, the Company evaluates EGPs over a 20 year horizon as estimated profits emerging subsequent to year 20 are immaterial. The Company uses other measures for amortizing DAC, such as gross costs (net of reinsurance), as a replacement for EGPs when EGPs are expected to be negative for multiple years of the contract s life. The Company also adjusts the DAC balance, through other comprehensive income, by an amount that represents the amortization of DAC that would have been required as a charge or credit to operations had unrealized gains and losses on investments been realized. Actual gross profits, in a given reporting period, that vary from management s initial estimates result in increases or decreases in the rate of amortization, commonly referred to as a true-up , which are recorded in the current period. The true-up recorded for the years ended December 31, 2006, 2005 and 2004 was an increase to amortization of $41, $18 and $16, respectively.

Each year, the Company develops future EGPs for the products sold during that year. The EGPs for products sold in a particular year are aggregated into cohorts. Future gross profits are projected for the estimated lives of the contracts, and are, to a large extent, a function of future account value projections for individual variable annuity products and to a lesser extent for variable universal life products. The projection of future account values requires the use of certain assumptions. The assumptions considered to be important in the projection of future account value, and hence the EGPs, include separate account fund performance, which is impacted by separate account fund mix, less fees assessed against the contract holder s account balance, surrender and lapse rates, interest margin, and mortality. The assumptions are developed as part of an annual process and are dependent upon the Company s current best estimates of future events. The Company s current aggregate separate account return assumption is approximately 8.0% (after fund fees, but before mortality and expense charges) for U.S. products and 5.0% (after fund fees, but before mortality

and expense charges) in aggregate for all Japanese products, but varies from product to product. The overall actual return generated by the separate account is dependent on several factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds as well as equity sector weightings. The Company s overall U.S. separate account fund performance has been reasonably correlated to the overall performance of the S&P 500 Index (which closed at 1,418 on December 29, 2006), although no assurance can be provided that this correlation will continue in the future.

Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. Estimating future gross profits is important not only for determining the amortization of DAC but also in the accounting and valuation of sales inducement assets, unearned revenue reserves and guaranteed minimum death and income benefit reserves. The estimation process, the underlying assumptions and the resulting EGPs, are evaluated regularly.

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During the fourth quarter of 2006, the Company refined its estimation process for DAC amortization and completed a comprehensive study of assumptions. The Company plans to complete a comprehensive assumption study and refine its estimate of future gross profits in the third quarter of 2007 and at least annually thereafter.

Upon completion of an assumption study, the Company revises its assumptions to reflect its current best estimate, thereby changing its estimate of projected account values and the related EGPs in the DAC, sales inducement and unearned revenue reserve amortization models as well as the guaranteed minimum death and income benefit reserving models. The cumulative balance of DAC as well as sales inducement assets, unearned revenue reserves and guaranteed minimum death and income benefit reserves are adjusted with an offsetting benefit or charge to income to reflect such changes in the period of the revision, a process known as unlocking . An unlock that results in an after-tax benefit generally occurs as a result of actual experience or future expectations being favorable compared to previous estimates of account value growth and EGPs. An unlock that results in an after-tax charge generally occurs as a result of actual experience or future expectations being unfavorable compared to previous estimates of account value growth and EGPs.

In addition to when a comprehensive assumption study is completed, revisions to best estimate assumptions used to estimate future gross profits are necessary when the EGPs in the Company s models fall outside of a reasonable range of EGPs. The Company performs a quantitative process each quarter to determine the reasonable range of EGPs. This process involves the use of internally developed models, which run a large number of stochastically determined scenarios of separate account fund performance. Incorporated in each scenario are assumptions with respect to lapse rates, mortality, and expenses, based on the Company s most recent assumption study. These scenarios are run for individual variable annuity business in the U.S. and independently for individual variable annuity business in Japan and are used to calculate statistically significant ranges of reasonable EGPs. The statistical ranges produced from the stochastic scenarios are compared to the present value of EGPs used in the Company s models. If EGPs used in the Company s models fall outside of the statistical ranges of reasonable EGPs, an unlock would be necessary. A similar approach is used for variable universal life business.

Unlock and Sensitivity Analysis

As described above, during the fourth quarter of 2006, the Company completed a comprehensive study of assumptions underlying EGPs, resulting in an unlock . The study covered all assumptions, including mortality, lapses, expenses and separate account returns, in substantially all product lines. The new best estimate assumptions were applied to the current in-force to project future gross profits. The impact on the Company s assets and liabilities as a result of the unlock during the fourth quarter was as follows:

Segment After-tax (charge) benefit	**DAC and PVFP**	**Unearned Revenue Reserves**	**Death and Income Benefit Reserves [1]**	**Sales Inducement Assets**	**Total**
Retail Products Group	$ (70)	$ 5	$ (10)	$ 3	$ (72)
Retirement Plans	20				20
Individual Life	(49)	31			(18)
International Japan Annuity	26		27		53
Life Other	(46)				(46)
Corporate	(13)				(13)
Total	**$ (132)**	**$ 36**	**$ 17**	**$ 3**	**$ (76)**

[1]

As a result of the unlock, death benefit reserves, in the Retail Products Group, increased $294, offset by an increase of $279 in reinsurance recoverables.

As a result of the unlock in the fourth quarter of 2006, the Company expects total Company DAC amortization to be lower than it would have been in 2007 if the unlock had not occurred. This effect of the lower DAC amortization in 2007 is expected to result in an increase to net income of approximately $12, after-tax, of which approximately $6 relates to Retail Products Group. The impact on amortization in 2007 for other segments is immaterial.

The Company performs sensitivity analyses with respect to the effect certain assumptions have on our DAC balances. Each of the sensitivities illustrated below are estimated individually, without consideration for any correlation among the key assumptions. Therefore, it would be inappropriate to take each of the sensitivity amounts below and add them together in an attempt to estimate volatility for the respective DAC balances in total. The following tables depict the estimated sensitivities for U.S. variable annuities and Japan variable annuities DAC:

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U.S. Variable Annuities

(Increasing separate account returns and decreasing lapse rates result in benefits. Decreasing separate accounts and increasing lapse rates result in charges.)	Effect on DAC if unlocked (after-tax)[1]
If actual separate account returns were 1% above or below our estimated return	$20 - $30
If actual lapse rates were 1% above or below our estimated aggregate lapse rate	$20 - $30 [2]
If we changed our future separate account return rate by 1% from our estimated future return	$60 - $70
If we changed our future lapse rate by 1% from our estimated aggregate future lapse rate	$70 - $80 [2]

Japan Variable Annuities

(Increasing separate account returns and decreasing lapse rates result in benefits. Decreasing separate accounts and increasing lapse rates result in charges.)	Effect on DAC if unlocked (after-tax)[1]
If actual separate account returns were 1% above or below our aggregated estimated return	$1 - $10
If actual lapse rates were 1% above or below our estimated aggregate lapse rate	$1 - $10 [2]
If we changed our future separate account return rate by 1% from our aggregated estimated future return	$1 - $10
If we changed our future lapse rate by 1% from our estimated aggregate future lapse rate	$12 - $22 [2]

[1] These sensitivities do not include the estimated impacts on sales inducement assets, unearned revenue reserves and death and income benefit reserves and are not reflective of any future refinements to the Company s gross profit estimation process. The Company s DAC models assume that separate account returns are earned linearly and that lapses occur linearly (except for certain

dynamic lapse features) throughout the year. Similarly, the sensitivities assume that differential separate account and lapse rates are linear and parallel and persist throughout a full 12 month period. These sensitivities are not perfectly linear nor perfectly symmetrical for increases and decreases and are most accurate for small changes in assumptions. As such, extrapolating results over a wide range will decrease the accuracy of the sensitivities predictive ability. Sensitivity results are, in part, based on the current in-the-moneyness of various guarantees offered with the products. Future market conditions could significantly change the sensitivity results.

[2] Sensitivity around lapses assumes lapses increase or decrease consistently across all cohort years and

products.

An unlock only revises EGPs to reflect current best estimate assumptions. The Company must also test the aggregate recoverability of the DAC asset by comparing the amounts deferred to the present value of total EGPs. In addition, the Company routinely stress tests its DAC asset for recoverability against severe declines in its separate account assets, which could occur if the equity markets experienced a significant sell-off, as the majority of policyholders funds in the separate accounts is invested in the equity market. As of December 31, 2006, the Company believed U.S. individual and Japan individual variable annuity separate account assets could fall, through a combination of negative market returns, lapses and mortality, by at least 53% and 70%, respectively, before portions of its DAC asset would be unrecoverable.

Valuation of Guaranteed Minimum Withdrawal Benefit Derivatives

The Company offers certain variable annuity products with a guaranteed minimum withdrawal benefit (GMWB) rider. The fair value of the GMWB is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and stochastic techniques under a variety of market return scenarios are used. Estimating these cash flows involves numerous estimates and subjective judgments including those regarding expected market rates of return, market volatility, correlations of market returns and discount rates. At each valuation date, the Company assumes expected returns based on risk-free rates as represented by the current LIBOR forward curve rates; market volatility assumptions for each underlying index based on a blend of observed market implied volatility data and annualized standard deviations of monthly returns using the most recent 20 years of observed market performance; correlations of market returns across underlying indices based on actual observed market returns and relationships over the ten years preceding the valuation date; and current risk-free spot rates as represented by the current LIBOR spot curve to determine the present value of expected future cash flows produced in the stochastic projection process. Changes in capital market assumptions can significantly change the value of the GMWB. For example, independent future decreases in equity market returns, future decreases in interest rates and future increases in equity index volatility will all have the effect of decreasing the GMWB asset as of December 31, 2006 resulting in a realized loss in net income. Furthermore, changes in policyholder behavior can also significantly change the value of the GMWB. For example, independent future increases in fund mix towards equity based funds vs. bond funds, future increases in withdrawals, future increasing mortality, future increasing usage of the step-up feature and decreases in lapses will all have the effect of decreasing the GMWB asset as of December 31, 2006 resulting in a realized loss in net income. Independent changes in any one of these assumptions moving in the opposite direction will have the effect of increasing the GMWB asset as of December 31, 2006 resulting in a realized gain in net

income. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions. In addition, management regularly evaluates the valuation model, incorporating emerging valuation techniques where appropriate, including drawing on the expertise of market participants and valuation experts. Upon adoption of Statement of Financial Accounting Standard No. 157, Fair Value Measurements , (SFAS 157) the Company will revise many of the assumptions used to value GMWB. See Note 1 in Notes to Consolidated Financial Statements for a discussion of SFAS 157.

Evaluation of Other-Than-Temporary Impairments on Available-for-Sale Securities

The Hartford s investments in fixed maturities, which include bonds, redeemable preferred stock and commercial paper; and certain equity securities, which include common and non-redeemable preferred stocks, are classified as available-for-sale and accordingly are carried at fair value with the after-tax difference from cost or amortized cost, as adjusted for the effect of deducting the life and pension policyholders share of the immediate participation guaranteed contracts; and certain life and annuity deferred policy acquisition costs and reserve adjustments, reflected in stockholders equity as a component of accumulated other comprehensive income (AOCI).

One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost or amortized cost basis of the security. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale. The fair value of the other-than-temporarily impaired investment becomes its new cost basis. For fixed maturities, the Company amortizes the new cost basis to par or to estimated future value over the remaining life of the security based on future estimated cash flows.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition or near term recovery prospects and the effects of changes in interest rates. The Company has a security monitoring process overseen by a committee of investment and accounting professionals (the committee) that identifies securities that, due to certain characteristics, as described below, are subjected to an enhanced analysis on a quarterly basis.

Securities not subject to Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets (non-EITF Issue No. 99-20 securities) that are in an unrealized loss position, are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. The primary factors considered in evaluating whether a decline in value for non-EITF Issue No. 99-20 securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost or amortized cost, (b) the financial condition, credit rating and near-term prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

Each quarter, during this analysis, the Company asserts its intent and ability to retain until recovery those securities judged to be temporarily impaired. Once identified, these securities are systematically restricted from trading unless approved by the committee. The committee will only authorize the sale of these securities based on predefined criteria that relate to events that could not have been foreseen. Examples of the criteria include, but are not limited to, the deterioration in the issuer s creditworthiness, a change in regulatory requirements or a major business combination or major disposition.

For certain securitized financial assets with contractual cash flows including asset-backed securities, (ABS), EITF Issue No. 99-20 requires the Company to periodically update its best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. The Company also considers its intent and ability to retain a temporarily depressed security until recovery. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and

judgments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

Pension and Other Postretirement Benefit Obligations

The Company maintains a U.S. qualified defined benefit pension plan (the Plan) that covers substantially all employees, as well as unfunded excess plans to provide benefits in excess of amounts permitted to be paid to participants of the Plan under the provisions of the Internal Revenue Code. The Company has also entered into individual retirement agreements with certain retired directors providing for unfunded supplemental pension benefits. In addition, the Company provides certain health care and life insurance benefits for eligible retired employees. The Company maintains international plans which represent an immaterial percentage of total pension assets, liabilities and expense and, for reporting purposes, are combined with domestic plans.

Pursuant to accounting principles related to the Company s pension and other postretirement obligations to employees under its various benefit plans, the Company is required to make a significant number of assumptions in order to calculate the related liabilities and expenses each period. The two economic assumptions that have the most impact on pension and other postretirement expense are the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate assumption, the Company utilizes a discounted cash flow analysis of the Company s pension and other postretirement obligations, currently available market and industry data and consultation with its plan actuaries. The yield curve utilized in the cash flow analysis is comprised of bonds rated Aa or higher with maturities primarily between zero and thirty years. Based on all available information, it was determined that 5.75% was the appropriate discount rate as of December 31, 2006 to calculate the Company s benefit liability. Accordingly, the 5.75% discount rate will also be used to determine the Company s 2007 pension and other postretirement expense. At December 31, 2005, the discount rate was 5.50%.

The Company determines the expected long-term rate of return assumption based on an analysis of the Plan portfolio s historical compound rates of return since 1979 (the earliest date for which comparable portfolio data is available) and over rolling 5 year and 10 year periods, balanced along with future long-term return expectations that generally anticipate an investment mix of 60% equity securities and 40% fixed income securities. The Company selected these periods, as well as shorter durations, to assess the portfolio s volatility, duration and total returns as they relate to pension obligation characteristics, which are influenced by the Company s workforce demographics. In addition, the Company also applies market return assumptions, utilized in Life s DAC analysis, to an investment mix that generally anticipates 60% equity securities and 40% fixed income securities to derive an expected long-term rate of return. Based upon this analysis, the portfolio s historical rates of return and management s outlook with respect to market returns and the planned asset mix, management maintained the long-term rate of return assumption at 8.00% as of December 31, 2006. This assumption is used to determine the Company s 2007 expense. The long-term rate of return assumption at December 31, 2005 was 8.00%.

To illustrate the impact of these assumptions on annual pension and other postretirement expense for 2007 and going forward, a 25 basis point change in the discount rate will increase/decrease pension and other postretirement expense by approximately $15 and a 25 basis point change in the long-term asset return assumption will increase/decrease pension and other postretirement expense by approximately $9.

Contingencies Relating to Corporate Litigation and Regulatory Matters

Management follows the requirements of SFAS No. 5 Accounting for Contingencies . This statement requires management to evaluate each contingent matter separately. A loss is recorded if probable and reasonably estimable. Management establishes reserves for these contingencies at its best estimate , or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses.

The Company has a quarterly monitoring process involving legal and accounting professionals. Legal personnel first identify outstanding corporate litigation and regulatory matters posing a reasonable possibility of loss. These matters are then jointly reviewed by accounting and legal personnel to evaluate the facts and changes since the last review in order to determine if a provision for loss should be recorded or adjusted, the amount that should be recorded, and the appropriate disclosure. The outcomes of certain contingencies currently being evaluated by the Company, which relate to corporate litigation and regulatory matters, are inherently difficult to predict, and the reserves that have been established for the estimated settlement amounts are subject to significant changes. In view of the uncertainties regarding the outcome of these matters, as well as the tax-deductibility of payments, it is possible that the ultimate cost to the Company of these matters could exceed the reserve by an amount that would have a material adverse effect on the Company s consolidated results of operations or cash flows in a particular quarterly or annual period.

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CONSOLIDATED RESULTS OF OPERATIONS

	For the Years Ended December 31,		
Operating Summary	**2006**	**2005**	**2004**
Earned premiums	$ 15,023	$ 14,359	$ 13,566
Fee income	4,739	4,012	3,471
Net investment income			
Securities available-for-sale and other	4,691	4,384	4,144
Equity securities held for trading [1]	1,824	3,847	799
Total net investment income	6,515	8,231	4,943
Other revenues	474	464	437
Net realized capital gains (losses)	(251)	17	291
Total revenues	**26,500**	**27,083**	**22,708**
Benefits, losses and loss adjustment expenses [1]	15,042	16,776	13,640
Amortization of deferred policy acquisition costs and present value of future profits	3,558	3,169	2,843
Insurance operating costs and expenses	3,252	3,227	2,776
Interest expense	277	252	251
Other expenses	769	674	675
Total benefits, losses and expenses	**22,898**	**24,098**	**20,185**
Income before income taxes and cumulative effect of accounting change	**3,602**	**2,985**	**2,523**
Income tax expense	857	711	385
Income before cumulative effect of accounting change	**2,745**	**2,274**	**2,138**
Cumulative effect of accounting change, net of tax [2]			(23)
Net income	**$ 2,745**	**$ 2,274**	**$ 2,115**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in net investment income with

corresponding amounts credited to policyholders within benefits, losses and loss adjustment expenses.

[2] *For the year ended December 31, 2004, represents the cumulative impact of the Company s adoption of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1).*

Net Income (Loss) by Operation and Life Segment	**2006**	**2005**	**2004**
Life			
Retail	$ 628	$ 622	$ 503
Retirement Plans	109	75	66
Institutional	99	88	68
Individual Life	170	166	155
Group Benefits	303	272	229
International	246	96	39
Other	(114)	(115)	322
Total Life	1,441	1,204	1,382
Property & Casualty			

Ongoing Operations	1,554	1,165	955
Other Operations	(35)	71	(45)
Total Property & Casualty	1,519	1,236	910
Corporate	(215)	(166)	(177)
Net income	**$ 2,745**	**$ 2,274**	**$ 2,115**

Ongoing Operations Underwriting Results by Segment	**2006**	**2005**	**2004**
Business Insurance	$ 618	$ 396	$ 360
Personal Lines	429	460	138
Specialty Commercial	64	(165)	(53)

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Operating Results

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income increased $471 due to the following:

Property & Casualty net income increased $283, as a result of a $389 increase in Ongoing Operations net income, partially offset by a decrease in Other Operations results from net income of $71 in 2005 to a net loss of $35 in 2006. Ongoing Operations net income increased due to increases in underwriting results and net investment income, partially offset by a decrease in net realized capital gains. The increase in Ongoing Operations underwriting results was principally due to lower current accident year catastrophe losses, lower insurance operating costs and expenses due to a change in estimated Florida Citizens assessments, a change to net favorable prior accident year loss development and the effect of catastrophe treaty reinstatement premium recorded as a reduction of earned premium in 2005. The net loss in Other Operations was primarily a result of prior year reserve development of $243, pre-tax, recorded in 2006, resulting from the agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities.

Life s net income increased $237 primarily due to growth in assets under management resulting from market growth and strong sales along with higher earned premiums. Also contributing to Life s increased net income were the following:

During 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance policies in the early to mid-1990s. The Company reduced its estimate of the ultimate cost of these cases in 2006. This reserve reduction resulted in an after-tax benefit of $34.

A charge of $102, after-tax, recorded in 2005 in Life to reserve for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

During 2005, the Company recorded an after-tax expense of $46, related to the termination of a provision of an agreement with a mutual fund distribution partner of the Company s retail mutual funds.

Partially offsetting the increase in Life s net income was a $63, after-tax, charge related to the DAC unlock. See the Critical Accounting Estimates section of the MD&A for further information on the DAC unlock.

Total revenues decreased $583 primarily due to the following:

A decrease in net investment income of $1.7 billion, driven primarily by a $2.0 billion decrease in net investment income on the Company s equity securities, held for trading. The underlying fund performance of assets supporting the Company s Japanese variable annuity business was not as strong in 2006 as compared to 2005, resulting in a decrease in net investment income from equity securities, held for trading. The increase in net investment income on securities available-for-sale and other of $307 was primarily due to income earned on higher average invested assets base, increase in interest rates and a change in asset mix to a greater investment in mortgage loans and limited partnerships.

Net realized capital losses occurred in 2006 as compared to gains in 2005, primarily as a result of a higher interest rate environment. The components that drove the increase in net losses during the year ended December 31, 2006 included net losses on sales of fixed maturity securities and other-than-temporary impairments.

Partially offsetting the decrease in total revenues were the following:

Fee income increased $727 as a result of increases in the Life operation s Retail and International segments. The increase in fee income occurred primarily as the result of growth in average account values.

Earned premium increased $664 as a result of $387 from Life operations and $277 from Property & Casualty operations. The increase in Life earned premiums was primarily related to Group Benefits where the increase was

driven by year-to-date sales (excluding buyouts) growth, particularly in group life insurance. Contributing to the growth in Property & Casualty earned premium was a $73 reduction of earned premium in 2005 due to catastrophe treaty reinstatement premium payable to reinsurers as a result of losses from the 2005 hurricanes. Apart from the effect of the reinstatement premium in 2005, the growth was primarily driven by new business premium outpacing non-renewals over the last six months of 2005 and the full year of 2006 and the effect of earned pricing increases in homeowners, partially offset by an increase in reinsurance costs. Growth in Business Insurance and Personal Lines earned premium was partially offset by a decrease in Specialty Commercial earned premium.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income increased $159 primarily due to the following:

An increase in Property & Casualty net income of $326, driven primarily by improved underwriting results in the Personal Lines and Other Operations segments, increased net investment income, and a reduction in other expenses; partially offset by a decrease in net realized capital gains. The improved underwriting results in Personal Lines was driven primarily by a reduction in current year catastrophe losses, a reduction in net unfavorable prior accident year loss reserve development and earned premium growth.

The improvement in underwriting results for Other Operations was primarily due to a reduction in net unfavorable prior accident year loss reserve development. The increase in net investment income was primarily due to higher assets under management resulting from increased cash flows from underwriting, higher investment yields on fixed maturity investments and an increase in income from limited partnership investments.

- An increase in net income for Retail of $119, principally driven by higher fee income from growth in the variable annuity and mutual fund businesses as a result of higher assets under management as compared to the prior year periods.

- An increase in net income for International of $57, principally driven by higher fee income and investment spread in Japan derived from a 78% increase in the assets under management.

- An increase in net income for the Group Benefits segment of $43, driven primarily by higher earned premiums and net investment income as well as a favorable loss ratio.

Partially offsetting these increases were:

- A $216 tax benefit recorded in 2004 to reflect the effect of the IRS audit settlement on tax years prior to 2004.

- A charge of $102, after-tax, recorded in 2005 in Life to reserve for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

- An after-tax expense of $46 recorded in Life during 2005, related to the termination of a provision of an agreement with a mutual fund distribution partner of the Company s retail mutual funds.

Total revenues increased $4.4 billion primarily due to the following:

- An increase of $3.3 billion in net investment income, driven primarily by a $3.0 billion increase in net investment income on the Company s equity securities, held for trading. Also contributing to the increase was a higher average invested asset base.

- An increase of $793 in earned premiums. Earned premium growth of $486 in Business Insurance was primarily driven by new business premium growth outpacing non-renewals in the prior 12 months. Earned premium growth of $165 in Personal Lines was primarily driven by new business growth outpacing non-renewals in auto and the effect of earned pricing increases in homeowners. Earned premiums and other increased $158 in Group Benefits primarily due to increased sales, particularly in group disability, and continued strong persistency.

- An increase of $541 in fee income primarily driven by increased individual annuity assets under management in the United States and Japan.

Partially offsetting these increases was a decrease of $274 in net realized capital gains primarily due to lower net gains on the sale of fixed maturity securities, losses associated with GMWB derivatives, Japanese fixed annuity contract hedges and periodic net coupon settlements. These losses were offset in part by changes in the value of non-qualifying foreign currency swaps.

Net Realized Capital Gains and Losses

See Investment Results in the Investments section.

Income Taxes

The effective tax rate for 2006, 2005 and 2004 was 24%, 24% and 15%, respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% for 2006 and 2005 were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD). For 2004, the principal causes were tax exempt interest earned on invested assets, the separate account DRD and the tax benefit associated with the settlement of the 1998-2001 IRS audit. Income taxes paid in 2006, 2005 and 2004 were $179, $447 and $32, respectively. For additional information, see Note 13 of Notes to Consolidated Financial Statements.

The separate account DRD is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance. The estimated DRD is generally updated in the third quarter for the provision-to-filed-return adjustments, and in the fourth quarter based on current year ultimate mutual fund distributions and fee income from the Company s variable insurance products. The actual current year DRD can vary from the estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distributions from these mutual funds, the utilization of capital loss carry forwards at the mutual fund level and appropriate levels of taxable income.

The Company receives a foreign tax credit (FTC) against its U.S. tax liability for foreign taxes paid by the Company including payments from its separate account assets. The separate account FTC is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year FTC can vary from the estimates due to the actual FTC s passed through by the mutual funds.

Earnings Per Common Share

The following table represents earnings per common share data for the past three years:

	2006	2005	2004
Basic earnings per share	$ 8.89	$ 7.63	$ 7.24
Diluted earnings per share	$ 8.69	$ 7.44	$ 7.12
Weighted average common shares outstanding (basic)	308.8	298.0	292.3
Weighted average common shares outstanding and dilutive potential common shares (diluted)	315.9	305.6	297.0

Outlooks

The Hartford provides projections and other forward-looking information in the Outlook sections within MD&A. The Outlook sections contain many forward-looking statements, particularly relating to the Company s future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the precautionary statements set forth in the introduction to MD&A above. Actual results are likely to differ materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each Outlook section and in Item 1A, Risk Factors.

Outlook

Life

To a large extent, the future profitability of Life will depend on Life s ability to increase assets under management across all businesses and maintain its investment spread on general account products. Management believes the market for retirement products continues to expand as individuals increasingly save and plan for retirement. Demographic trends suggest that as the baby boom generation matures, a significant portion of the United States population will allocate a greater percentage of their disposable incomes to saving for their retirement years due to uncertainty surrounding the Social Security system and increases in average life expectancy.

Competition has increased substantially in the variable annuities market with most major variable annuity writers now offering living benefits such as GMWB riders. The highly competitive environment in this market and the success of these riders and any new product will ultimately be based on customer acceptance. Future sales and revenues will be largely dependent on the Company s ability to attract new customers and to retain contract holder s account values in existing or new product offerings as they reach the end of the surrender charge period of their contract. The Company s strategy in 2007 revolves around introducing new products and continually evaluating the portfolio of products currently offered. As a result, sales may be lower than the level of sales attained in 2006 when considering the highly competitive environment, the risk of disruption on new sales from product offering changes, customer acceptance of new products and the effect on the distribution related to product offering changes.

In 2007, Life will begin selling mutual fund based products in the 401(k) market that will increase Life s ability to grow assets under management in the medium size 401(k) market. Life will also be selling mutual fund based products in the 403(b) market as it looks to grow assets in a highly competitive environment. Disciplined expense management will continue to be a focus; however, as Life looks to expand its reach in these markets, additional investments in service and technology will occur.

The Institutional Investment Products (IIP) markets are highly competitive from a pricing perspective, and a small number of cases often account for a significant portion of deposits, therefore the Company may not be able to sustain the level of assets under management growth attained in 2006. The Company s success depends in part on the level of credited interest rates and the Company s credit rating.

IIP has launched new products in 2006 to provide solutions that deal specifically with longevity risk, and will continue to introduce products in 2007. Longevity risk is defined as the likelihood of an individual outliving their assets. IIP is also designing innovative solutions to corporation s defined benefit liabilities. The focus of the PPLI business is variable PPLI products to fund non-qualified benefits or other post employment benefit liabilities. The market served

by PPLI is subject to extensive legal and regulatory review that could have an adverse effect on its business.
Individual Life continues to focus on its core distribution model of sales through financial advisors, while also pursuing growth opportunities through other distribution sources such as independent life professionals. Variable universal life sales and account values remain sensitive to equity market levels and returns. Individual Life continues to face uncertainty surrounding estate tax legislation, a high level of competition from other life insurance providers, reduced availability and higher price of reinsurance, and the current regulatory environment related to reserving for universal life products with no-lapse guarantees, which may negatively affect Individual Life s future earnings.
The increased scale of the group life and disability operations and the expanded distribution network for its products and services has generated strong premium and sales growth in 2006. Management is committed to selling competitively priced products that meet the

Company s internal rate of return guidelines and sales may be negatively affected by the competitive pricing environment in the marketplace. Although sales may fluctuate from year to year, the Company has experienced consistent premium growth over the past few years which results from the combination of sales, renewal pricing and persistency.

Despite the current market conditions, including rising medical costs, the changing regulatory environment and cost containment pressure on employers, the Company continues to leverage its strength in claim practices risk management, service and distribution, enabling the Company to capitalize on market opportunities. Additionally, employees continue to look to the workplace for a broader and ever expanding array of insurance products. As employers design benefit strategies to attract and retain employees, while attempting to control their benefit costs, management believes that the need for the Company s products will continue to expand. This combined with the significant number of employees who currently do not have coverage or adequate levels of coverage, creates opportunities for our products and services.

Management continues to be optimistic about growth potential of the retirement savings market in Japan. Several trends such as an aging population, longer life expectancies and declining birth rate leading to a smaller number of younger workers to support each retiree have resulted in greater need for an individual to plan and adequately fund retirement savings.

Competition has continued to increase in the Japanese market with the most significant competition the result of the strengthening of domestic competitors. This competition has resulted in changes in key distribution relationships that have negatively impacted current year deposits and could potentially impact future deposits. The Company continues to focus its efforts on strengthening our distribution relationships and improving our wholesaling and servicing efforts. In addition, the Company continues to evaluate product designs that meet customers needs while maintaining prudent risk management. In the first quarter 2007, the Company is launching a new variable annuity product to complement its existing variable annuity product offerings. The success of the Company s enhanced product offering will ultimately be based on customer acceptance in an highly competitive environment.

The Company will adopt Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications of Exchanges of Insurance Contracts (SOP 05-1) on January 1, 2007. The Company expects the cumulative effect upon adoption of SOP 05-1 to be $50 to $65, after-tax, which will be recorded as a reduction in retained earnings as of January 1, 2007. In addition, the Company expects an after-tax reduction in net income, in 2007, of $15 to $25 assuming the level of internal replacement activity in 2007 is consistent with prior years.

Property & Casualty

In 2007, management expects continued growth in written and earned premiums in Business Insurance and Personal Lines and a return to written premium growth in Specialty Commercial.

Within Business Insurance, management expects written premium to grow 2% to 5% in 2007, comprised of 4% to 7% growth in small commercial and no growth in middle market. Growth in small commercial is expected to primarily come from an increase in agency appointments, better segmented pricing and improved product features. As competition among P&C insurers puts downward pressure on prices in Business Insurance, the Company may non-renew some accounts or decide to write less new business.

The Personal Lines segment is expected to deliver written premium growth of 4% to 7% in 2007, including growth from both AARP and Agency. The Company expects personal auto written premium to increase 3% to 6% and homeowners written premium to increase 7% to 10% as management expects that growth from Agency business will be largely driven by an increase in the number of agency appointments and growth in AARP business will be largely driven an increase in marketing to AARP members.

Within Specialty Commercial, management expects written premium growth of 3% to 6% in 2007, driven by increases in property, casualty and professional liability, fidelity and surety.

Lines of business within Business Insurance and Personal Lines experienced either lower written price increases or a continuation of written price declines in 2006. Despite the downward pressure on rates, the Company expects market pricing to remain largely rational in 2007, although underwriting margins will likely lessen as loss costs outpace earned pricing increases. Management believes that 2006 represented the peak year of profitability in the underwriting

cycle. Across Business Insurance and Personal Lines, management expects that loss costs will increase in 2007 as claim frequency is expected to be less favorable than in 2006 and claim severity is expected to increase. Due to the earned pricing and loss cost trends, management expects that, in 2007, the current accident year loss and loss adjustment expense ratio before catastrophes will increase in Business Insurance. While Personal Lines earned pricing and loss cost trends are expected to be less favorable in 2007, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to remain relatively unchanged as underwriting results will benefit from the sale of Omni, which generated an underwriting loss of $52 in 2006. Within Specialty Commercial, management expects that current accident year underwriting results before catastrophes in 2007 will be relatively consistent with results in 2006.

Current accident year catastrophe losses in 2006, at 1.9 percent of Ongoing Operations earned premium, were lower than the long-term historical average. While catastrophe losses vary significantly from year to year and are unpredictable, management has assumed that catastrophe losses in 2007 will be closer to 3.0% to 3.5% of earned premium. Despite a mild hurricane season and a relatively low level of catastrophe losses in 2006, the Company will continue to manage its exposure to catastrophe losses through the ongoing assessment of its risk, disciplined underwriting and the use of reinsurance and other risk transfer alternatives, as appropriate. As of January 1, 2007, the Company s retention under its principal property catastrophe reinsurance program was increased from $175 to $250 per catastrophe event, although under certain conditions, the Company s loss retention from a single event could be reduced to

$200 for a second or subsequent event. With the January 1 renewal, the cost of the company s principal property catastrophe reinsurance program increased by approximately 28%.

The expense ratio is expected to increase slightly in 2007 since the 2006 expense ratio benefited from a $41 reduction in Florida Citizens assessments. In addition, the expense ratio in 2007 will likely reflect an increase in spending for AARP marketing initiatives and investments in technology. As a result of less favorable or unfavorable earned pricing changes and increases in loss costs and underwriting expenses, the Company expects an Ongoing Operations combined ratio before catastrophes and prior accident year development of between 87.5 and 90.5 in 2007, compared to 88.0 in 2006. Likewise, P&C operating cash flow is expected to be less favorable than in 2006, although still very positive. Management expects a mid-single digit increase in net investment income in 2007, driven by net underwriting cash inflows and a change in asset mix. Based upon current market forward interest rate expectations and an expectation of moderating partnership income, management expects the after-tax investment yield for Property & Casualty to be about 4.0% in 2007, consistent with an after-tax yield of 4.1% in 2006.

The Other Operations segment will continue to manage the discontinued operations of the Company as well as claims (and associated reserves) related to asbestos, environmental and other exposures. The Company will continue to review various components of all of its reserves on a regular basis.

LIFE

Executive Overview

Life provides retail and institutional investment products such as variable and fixed annuities, mutual funds, PPLI, and retirement plan services, individual life insurance and group benefit products, such as group life and group disability insurance.

Retail offers individual variable and fixed market value adjusted (MVA) annuities, retail mutual funds, 529 college savings plans, Canadian and offshore investment products.

Retirement Plans offers retirement plan products and services to corporations and municipalities under Section 401(k), 403(b) and 457 plans.

Institutional primarily offers institutional liability products, including stable value products and institutional annuities (primarily terminal funding cases), as well as variable Private Placement Life Insurance (PPLI) owned by corporations and high net worth individuals. Within stable value, Institutional has an investor note program that offers both institutional and retail investor notes. Institutional and Retail notes are sold as funding agreement backed notes through trusts and may also be issued directly from the Company to investors. Institutional also offers mutual funds to institutional investors. Furthermore, Institutional offers additional individual products including structured settlements, consumer notes and single premium immediate annuities and longevity assurance.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, interest sensitive whole life and term life.

Group Benefits provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, group retiree health, and medical stop loss.

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and Canada.

Life charges direct operating expenses to the appropriate segment and allocates the majority of indirect expenses to the segments based on an intercompany expense arrangement. Intersegment revenues primarily occur between Life s Other category and the operating segments. These amounts primarily include interest income on allocated surplus, interest charges on excess separate account surplus, the allocation of certain net realized capital gains and losses and the allocation of credit risk charges.

Life derives its revenues principally from: (a) fee income, including asset management fees, on separate account and mutual fund assets and mortality and expense fees, as well as cost of insurance charges; (b) net investment income on general account assets; (c) fully insured premiums; and (d) certain other fees. Asset management fees and mortality and expense fees are primarily generated from separate account assets, which are deposited with Life through the sale of variable annuity and variable universal life products and from mutual funds. Cost of insurance charges are assessed

on the net amount at risk for investment-oriented life insurance products. Premium revenues are derived primarily from the sale of group life, group disability and individual term insurance products.

Life s expenses essentially consist of interest credited to policyholders on general account liabilities, insurance benefits provided, amortization of deferred policy acquisition costs, expenses related to selling and servicing the various products offered by the Company, dividends to policyholders, and other general business expenses.

Life s profitability in its variable annuity, mutual fund and, to a lesser extent, variable universal life businesses, depends largely on the amount of the contract holder account value or assets under management on which it earns fees and the level of fees charged. Changes

in account value or assets under management are driven by two main factors: net flows, which measure the success of the Company s asset gathering and retention efforts, and the market return of the funds, which is heavily influenced by the return realized in the equity markets. Net flows are comprised of new sales and other deposits less surrenders, death benefits, policy charges and annuitizations of investment type contracts, such as: variable annuity contracts. In the mutual fund business, net flows are known as net sales. Net sales are comprised of new sales less redemptions by mutual fund customers. Life uses the average daily value of the S&P 500 Index as an indicator for evaluating market returns of the underlying account portfolios in the United States. Relative profitability of variable products is highly correlated to the growth in account values or assets under management since these products generally earn fee income on a daily basis. An immediate significant downturn in the financial markets could result in a charge against deferred acquisition costs. See the Critical Accounting Estimates section of the MD&A for further information on DAC unlocks.

The profitability of Life s fixed annuities and other spread-based products depends largely on its ability to earn target spreads between earned investment rates on its general account assets and interest credited to policyholders. Profitability is also influenced by operating expense management including the benefits of economies of scale in the administration of its United States variable annuity businesses in particular. In addition, the size and persistency of gross profits from these businesses is an important driver of earnings as it affects the rate of amortization of deferred policy acquisition costs.

Life s profitability in its individual life insurance and group benefits businesses depends largely on the size of its in force block, the adequacy of product pricing and underwriting discipline, actual mortality and morbidity experience, and the efficiency of its claims and expense management.

Performance Measures

Fee Income

Fee income is largely driven from amounts collected as a result of contractually defined percentages of assets under management on investment type contracts. These fees are generally collected on a daily basis from the contract holder s account. For individual life insurance products, fees are contractually defined percentages based on levels of insurance, age, premiums and deposits collected and contractholder account value. Life insurance fees are generally collected on a monthly basis. Therefore, the growth in assets under management either through positive net flows or net sales and favorable equity market performance will have a favorable impact on fee income. Conversely, negative net flows or net sales and unfavorable equity market performance will reduce fee income generated from investment type contracts.

	As of and for the years ended December 31,		
Product/Key Indicator Information	**2006**	**2005**	**2004**
United States Individual Variable Annuities			
Account value, beginning of period	$ 105,314	$ 99,617	$ 86,501
Net flows	(3,150)	(881)	5,471
Change in market value and other	12,201	6,578	7,645
Account value, end of period	$ 114,365	$ 105,314	$ 99,617
Retail Mutual Funds			
Assets under management, beginning of period	$ 29,063	$ 25,240	$ 20,301
Net sales	5,659	1,335	2,505
Change in market value and other	3,814	2,488	2,434

Assets under management, end of period	$ 38,536	$ 29,063	$ 25,240
Retirement Plans			
Account value, beginning of period	$ 19,317	$ 16,493	$ 13,571
Net flows	2,545	1,618	1,636
Change in market value and other	1,713	1,206	1,286
Account value, end of period	$ 23,575	$ 19,317	$ 16,493
Individual Life Insurance			
Variable universal life account value, end of period	$ 6,637	$ 5,902	$ 5,356
Total life insurance in-force	164,227	150,801	139,889
S&P 500 Index			
Year end closing value	1,418	1,248	1,212
Daily average value	1,310	1,208	1,131
Japan Annuities			
Account value, beginning of period	$ 26,104	$ 14,631	$ 6,220
Net flows	4,393	10,857	7,249
Change in market value and other	846	616	1,162
Account value, end of period	$ 31,343	$ 26,104	$ 14,631

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Year ended December 31, 2006 compared to year ended December 31, 2005

The increase in U.S. variable annuity account values can be attributed to market growth during 2006.

Net flows for the U.S. variable annuity business were negative and have worsened from prior year levels resulting from higher surrenders outpacing increased deposits.

Mutual Fund net sales increased substantially over the prior year as a result of focused wholesaling efforts and favorable fund and equity market performance.

The increase in Retirement Plans account values is due to positive net flows over the past year due to higher deposits and market appreciation.

Individual Life variable universal life account value increased due primarily to premiums, deposits and market appreciation. Life insurance inforce increased from December 31, 2005 due to business growth.

Japan annuity account values as of December 31, 2006 were higher as a result of positive net flows and fund performance, offset by the effects of currency translation. Japan net flows have decreased from the prior year due to increased competition.

Changes in market value were based on market conditions and investment management performance in 2006.

Year ended December 31, 2005 compared to year ended December 31, 2004

The increase in U.S. variable annuity account values can be attributed to market growth during 2005.

Net flows and net deposits for the U.S. variable annuity and retail mutual fund businesses decreased in particular, as variable annuity net flows and mutual fund net sales were negatively affected due to lower sales levels and higher surrenders due to increased competition.

Changes in market value were based on market conditions and investment management performance in 2005.

Japan annuity account values and net flows grew as a result of strong deposits and significant market growth in 2005.

Net Investment Income and Interest Credited

Certain investment type contracts such as fixed annuities and other spread-based contracts generate deposits that the Company collects and invests to earn investment income. These investment type contracts use this investment income to credit the contract holder an amount of interest specified in the respective contract; therefore, management evaluates performance of these products based on the spread between net investment income and interest credited. Net investment income and interest credited can be volatile period over period, which can have a significant positive or negative effect on the operating results of each segment. The volatile nature of net investment income is driven primarily by prepayments on securities and earnings on partnership investments. In addition, insurance type contracts such as those sold by Group Benefits (discussed below) collect and invest premiums to pay for losses specified in the particular insurance contract and those sold by Institutional, collect and invest premiums for certain life contingent benefits. For these insurance products the investment spread is reflected in net investment income and policyholder benefits. Finally, the return of the funds underlying the Japan variable annuities is reported in net investment income in Other with an offsetting amount credited to those contractholders in interest credited. The net investment income and interest credited from the Japan variable annuities will be volatile due to the volatile performance of the funds and, similar to returns on U.S. separate account assets, accrues to the benefit of the policyholders, not the Company.

	7,011		N/A	N/A				
$ 41,192	0.78	100.00	$ 46,010	0.86	100.00	$ 45,595	1.04	100.00

	December 31, 2002			December 31, 2001		
	ALL by category	ALL to gross loans in each category	Loans by category to gross loans	ALL by category	ALL to gross loans in each category	Loans by category to gross loans
Commercial business	$ 1,437	1.75	2.06	$ 1,563	2.02	2.37
Commercial real estate	21,124	1.05	50.75	13,682	0.82	50.86
Small business	2,863	1.99	3.61	1,073	1.53	2.14
Residential real estate	2,512	0.18	34.60	1,304	0.12	34.08
Consumer direct	3,239	1.13	7.19	2,064	1.07	5.87
Discontinued loan products	10,290	14.46	1.79	22,593	14.74	4.68
Total assigned	41,465			42,279		
Unassigned	6,557	N/A	N/A	2,306	N/A	N/A
	$ 48,022	1.21	100.00	$ 44,585	1.36	100.00

Commercial real estate loans account for a large portion of the assigned allowance for loan losses for each of the years in the five year period ended December 31, 2005. The growth in the commercial real estate loan allowance from December 31, 2001 through December 2004 primarily reflects portfolio growth associated with high balance loans and additional reserves associated with loans to borrowers in the other industries. This industry was designated to have higher credit risk than loans in our portfolio to borrowers in other industries. The decline in the assigned allowance for commercial real estate loans at December

31, 2005 was associated with repayments of loans in the hospitality industry, lower classified loan balances and a decline in portfolio balances.

At December 31, 2005, our commercial real estate portfolio included several large lending relationships, including 19 relationships with unaffiliated borrowers involving individual lending commitments in excess of $30 million with an aggregate outstanding amount of $633 million.

The assigned allowance for consumer direct loans has increased for each of the years in the five year period ended December 31, 2005. This increase resulted from the growth in outstanding home equity loans throughout the period. The significant increase in the assigned allowance for home equity loans during 2005 compared to 2004 reflects an increase in the home equity loan loss ratio. This ratio was increased in response to an analysis of the portfolio which included a review of the portfolios loan to value ratios. The analysis revealed that probable inherent losses in the home equity loan portfolio were greater than the historical loss experience as a result of the significant increase in borrower monthly payments in connection with their adjustable-rate first mortgages, the substantial increase in the amount of interest only first mortgage loans being offered in the market (such loans being senior to the Bank s second mortgage), and the increase in short-term interest rates from June 2004.

The change in the percentage of allowance for loan losses to total gross loans during the three year period ended December 31, 2005 primarily reflects changes in classified assets, except for the adjustment in the consumer direct loss ratio mentioned above.

The unassigned portion of the allowance for loan losses addresses certain individual industry conditions, general economic conditions and geographic concentration. The unassigned allowance increased in each of the years in the four year period ended December 31, 2004 and remained at the prior year level at December 31, 2005. The major factors contributing to the increase in our unassigned allowance for loan losses during the four year period ending December 31, 2004 were the expanded geographical area in which we originate commercial real estate loans, and the growth in our consumer and purchased residential loan portfolios. We opened commercial loan offices in Orlando and Jacksonville, Florida. The loans originated outside our primary markets may have substantially different loss experiences than loans secured by collateral in South Florida. Loans originated in commercial lending branch offices outside of South Florida amounted to $564 million at December 31, 2004 and $573 million at December 31, 2005. Also contributing to our increase in the unassigned portion of the allowance was the growth in our purchased residential and home equity loan products. Many of the purchased residential loans were hybrid loans with interest only payments for a period of three to ten years, followed by conversion to a fully amortizing loan at the then prevailing interest rates for the remaining term of the loan. These types of delayed amortizing loans may have a greater default or recovery risk than existing traditional amortizing loans in our portfolio. During 2004, we modified our underwriting policies to allow for higher loan-to-value ratios based on Beacon scores for home equity loans, and we originated approximately $400 million and $481 million of home equity loans during 2004 and 2005, respectively, primarily in our South Florida market. During 2005, the unassigned portion of the allowance remained at the prior period amount as there were no significant changes in lending policies or geographical concentration of credit risk.

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BankAtlantic s Non-performing Assets and Potential Problem Loans (dollars in thousands):

	December 31,				
	2005	2004	2003	2002	2001
NONPERFORMING ASSETS					
Tax certificates	$ 388	$ 381	$ 894	$ 1,419	$ 1,727
Residential	5,981	5,538	9,777	14,237	10,908
Syndication					10,700
Commercial real estate and business	340	340	52	1,474	13,066
Small business real estate	9	88	155	239	905
Lease financing		727	25	3,900	2,585
Consumer	471	1,210	794	532	796
Total non-accrual assets	**7,189**	**8,284**	**11,697**	**21,801**	**40,687**
Residential real estate owned	86	309	1,474	1,304	2,033
Commercial real estate owned	881	383	948	8,303	1,871
Consumer				4	17
Lease financing					
Total repossessed assets	967	692	2,422	9,611	3,921
Total nonperforming assets	8,156	8,976	14,119	31,412	44,608
Specific valuation allowances				(1,386)	(9,936)
Total nonperforming assets, net	$ 8,156	$ 8,976	$ 14,119	$ 30,026	$ 34,672
Total nonperforming assets as a percentage of:					
Total assets	0.13	0.15	0.31	0.64	1.03
Loans, tax certificates and net real estate owned	0.17	0.19	0.36	0.86	1.49
TOTAL ASSETS	$ 6,109,330	$ 6,044,988	$ 4,566,850	$ 4,903,886	$ 4,330,690
TOTAL LOANS, TAX CERTIFICATES AND NET REAL ESTATE OWNED	$ 4,830,268	$ 4,771,682	$ 3,872,473	$ 3,673,110	$ 2,989,979
Allowance for loan losses	$ 41,192	$ 46,010	$ 45,595	$ 48,022	$ 44,585
Total tax certificates	$ 166,697	$ 170,028	$ 193,776	$ 195,947	$ 145,598
Allowance for tax certificate losses	$ 3,271	$ 3,297	$ 2,870	$ 1,873	$ 1,521
OTHER POTENTIAL PROBLEM LOANS					

CONTRACTUALLY PAST DUE 90 DAYS OR MORE										
Commercial real estate and business (1)	$		$		$	135	$	100	$	
PERFORMING IMPAIRED LOANS, NET OF SPECIFIC ALLOWANCES										
Performing impaired loans		193		320		180				
RESTRUCTURED LOANS										
Commercial real estate and business		77		24		1,387		1,882		743
TOTAL POTENTIAL PROBLEM LOANS	$	270	$	344	$	1,702	$	1,982	$	743

(1) The majority of these loans have matured and the borrower continues to make payments under the matured loan agreement.

Non-performing assets have significantly declined in each of the years in the five year period ended December 31, 2005. We attribute this reduction in non-performing assets to the strengthening of

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BankAtlantic s underwriting policies by focusing our loan production on collateral based loans as well as discontinuing the origination of loan products with high historical loss experiences. In 2005, the improvement in non-performing assets resulted from the foreclosure and sale of a large consumer home equity loan and the decline in BankAtlantic s lease financing portfolio. This improvement was partially offset by an increase in non-performing residential loans and higher real estate owned. The increase in real estate owned primarily relates to BankAtlantic s tax certificate operations. During 2004 and 2005, these acquired properties were sold for amounts in excess of their carrying value. In 2004, non-accrual assets improved from 2003 due primarily to lower amounts of residential non-performing loans, delinquent tax certificates and real estate owned balances in our portfolio, resulting from favorable economic conditions in the real estate industry. The improvement in non-performing assets was partially offset by higher non-accrual lease financing lending arrangements in the aviation industry and higher non-accruing home equity loans. Non-performing asset amounts during 2002 and 2001 were primarily associated with discontinued loan products.

The specific valuation allowances on non-performing assets at December 31, 2002 and 2001 consisted of specific valuation allowances on non-performing loans. At each period end, BankAtlantic individually evaluates the non-homogenous loans in its portfolio to identify those which it deems probable that the borrower will be unable to meet the contractual terms of the loan agreements. A specific valuation allowance is established for these loans, primarily based on cash flow valuation models or collateral value. At year-end 2005 and 2004, there was no specific valuation allowance assigned to non-performing loans.

BankAtlantic s Non- Interest Income

The following table summarizes the changes in non-interest income (in thousands):

	For the Years Ended Ended December 31,			Change 2005 vs	Change 2004 vs
	2005	**2004**	**2003**	**2004**	**2003**
Other service charges and fees	$ 23,347	$ 23,620	$ 19,318	$ (273)	$ 4,302
Service charges on deposits	61,956	51,435	40,569	10,521	10,866
Income from real estate operations	4,480	2,405	5,642	2,075	(3,237)
Gains on sales of loans	742	483	122	259	361
Securities activities, net	117	37	(1,957)	80	1,994
Gain (loss) on sales of bank facilities	1,200	(16)	(46)	1,216	30
Other	8,218	7,760	7,038	458	722
Non-interest income	$ 100,060	$ 85,724	$ 70,686	$ 14,336	$ 15,038

The increase in non-interest income during each of the years in the three year period ended December 31, 2005 primarily resulted from a substantial increase in service charges on deposits. The substantial increase in service charges on deposits is linked to growth in low cost deposit accounts. New account openings for the years ended December 31, 2005, 2004 and 2003 were 222,000, 166,000, and 145,000, respectively. Since the inception of our Florida s Most Convenient Bank campaign we have opened over 632,000 new low cost deposit accounts. This campaign is on-going and we expect further increases in service charge income during the year ended December 31, 2006 as we open more low cost deposit accounts.

Income from real estate operations represents revenues from the Riverclub joint venture. This is a 50% owned real estate joint venture acquired in connection with the acquisition of a financial institution in March 2002. This venture consists of a development of single family homes, condominium units and duplexes located on 117 acres of land in Florida. During 2005, 2004 and 2003, the Riverclub joint venture closed on 27, 14 and 26 units, respectively. Also included in income from real estate operations during

2005 is $624,000 of gains from the sale of a bank branch held for sale. The majority of these properties were acquired in connection with the acquisition of a financial institution during 2002.

Gains on loan sales during each of the years in the three year period ended December 31, 2005 were primarily from the sale of residential loans originated with the assistance of independent mortgage brokers and the sale of Community Reinvestment Act qualified loans to other financial institutions.

Securities activities, net in 2005 reflects gains on the sales of agency securities. Securities activities, in 2004 reflects the fair value adjustment on a forward contract held for trading purposes. Losses on securities in 2003 were primarily due to the termination of interest rate swaps. The swaps had a total notional amount of $75 million and were settled at a loss of $1.9 million in connection with prepayments of FHLB advances discussed above.

The gain on the sale of branch facilities during 2005 primarily related to the sale of a branch to an unrelated financial institution for a $922,000 gain. The loss during 2004 and 2003 reflects the disposition of various Bank equipment.

Higher other income during 2005 primarily resulted from higher commissions from the outsourcing of teller checks and an increase in miscellaneous customer fees. Other income in 2004 was favorably impacted by higher miscellaneous customer fees such as wire fees, research charges and cash management services associated with the substantial increase in the number of customer accounts. In 2003, other income was also favorably impacted by the expansion of our branch brokerage business unit.

BankAtlantic s Non- Interest Expense

The following table summarizes the changes in non-interest expense (in thousands):

	For the Years Ended Ended December 31,			Change 2005 vs	Change 2004 vs
	2005	**2004**	**2003**	**2004**	**2003**
Employee compensation and benefits	$ 113,526	$ 93,154	$ 79,492	$ 20,372	$ 13,662
Occupancy and equipment	41,611	32,713	27,329	8,898	5,384
Impairment of office properties and equipment	3,706			3,706	
Advertising and promotion	26,895	16,012	9,434	10,883	6,578
Amortization of intangible assets	1,627	1,715	1,772	(88)	(57)
Cost associated with debt redemption		11,741	10,895	(11,741)	846
Reserve for fines and penalties, compliance matters	10,000			10,000	
Professional fees	9,695	11,285	5,753	(1,590)	5,532
Other	34,032	27,001	26,940	7,031	61
Non-interest expense	$ 241,092	$ 193,621	$ 161,615	$ 47,471	$ 32,006

The substantial increase in employee compensation and benefits during each of the years in the three years ended December 31, 2005 resulted primarily from Florida s Most Convenient Bank initiatives and the expansion of BankAtlantic s branch network during 2005. Additionally, during the fourth quarter of 2005 BankAtlantic extended its branch hours and expanded its number of branches opened to midnight. BankAtlantic s branches were open on average 80 hours a week during the fourth quarter. This contributed substantially to the increase in the number of full time employees from 1,301 at December 31, 2003 to 1,507 at December 31, 2004 and to 1,882 at December 31, 2005. The number of part-time employees increased from 204 at December 31, 2003 to 390 at December 31, 2005. Also contributing to the elevated compensation costs were higher employee benefit costs associated with the increased number of employees and rising health insurance costs.

The substantial increase in occupancy and equipment expenses during 2005 and 2004 resulted from several factors. During 2004, we adopted a plan to renovate all of our existing stores with a goal to have a consistent look or brand. The renovations were on-going throughout 2004 and 2005 and management anticipates that the renovation plan will be completed in 2006. This resulted in the accelerated depreciation of fixed assets and leasehold improvements during 2004 and 2005 that are scheduled to be replaced.

Also contributing to higher depreciation and rent expenses in 2005 was the relocation of our corporate headquarters and expanded branch network and corporate facilities to house the increased number of employees.

Guard service costs were substantially higher as a result of extended weekend and weekday store hours associated with the *Florida s Most Convenient Bank* initiatives and the expansion of our branch network. We also incurred higher data processing costs as a consequence of our growth.

Repairs and maintenance expenses increased throughout 2004 and 2005 associated with the acquisition and rental of new facilities as well uninsured facilities and equipment damage resulting from the unprecedented hurricane activity in South Florida.

The 2005 period includes an impairment charge associated with the relocation of our corporate headquarters and a decision to vacate and raze our former headquarters.

Advertising expenses during 2005, 2004 and 2003 reflect advertising and marketing initiatives to promote our *Florida s Most Convenient Bank* initiatives. These promotions included print, radio and billboard advertising, periodic customer gifts, sports arena sponsorship and events associated with seven-day banking. During the fourth quarter of 2005 we significantly expanded our advertising campaign in response to slowing growth rates in low cost deposits.

Amortization of intangible assets consisted of the amortization of core deposit intangible assets acquired in connection with the acquisition of a financial institution during 2002. The core deposit intangible assets are being amortized over an estimated life of ten years.

Costs associated with debt redemption resulted from the prepayment penalties incurred upon the repayment of $108 million of FHLB advances in 2004 and $325 million of FHLB advances in 2003. We prepaid these high rate advances with the expectation that it would improve our net interest margin in future periods.

As disclosed previously, we took steps to correct identified deficiencies in BankAtlantic s compliance with the USA PATRIOT Act, anti-money laundering laws and the Bank Secrecy Act (AML-BSA) and have been cooperating with regulators and other federal agencies concerning those deficiencies. We believe that BankAtlantic is currently in full compliance with all AML-BSA laws and regulations. Notwithstanding our current compliance status, as we have previously reported, many financial institutions have been the subject of proceedings which have resulted in substantial fines and penalties and have been required to enter into cease and desist orders with their primary regulators based on AML-BSA deficiencies. Under these circumstances, we determined that it was appropriate at this time to establish a $10 million reserve during 2005 with respect to these matters, and we anticipate that we will be required to enter into a cease and desist order under which we agree to maintain satisfactory compliance status.

The decline in professional fees during 2005 compared to 2004 were primarily due to lower AML-BSA compliance costs partially offset by higher costs incurred for compliance with the Sarbanes-Oxley Act. The higher expenses for professional fees in 2004, compared to 2003, resulted from AML-BSA compliance costs. BankAtlantic has incurred substantial costs to improve its compliance systems and procedures, including costs associated with engaging attorneys and compliance consultants, acquiring new software and hiring additional compliance staff. Incremental AML-BSA compliance costs incurred to improve its procedures in 2005 and 2004 were approximately $2.9 million and $5.0 million, respectively.

The significant increase in other expenses was due to a $2.6 million increase in check fraud losses, an additional $1.5 million of fees remitted for maintaining attorney escrow accounts and increased general operating expenses related to the substantial increase in the number of customer accounts, number of employees, extended hours of the branch network and added corporate facilities.

Overall, other non-interest expense was generally flat in 2004 versus 2003. Increases in branch operating expenses related to an increased number of customer accounts and general operating expenses, which were offset by a decrease in our provision for tax certificate losses as actual loss history on these investments improved from prior periods.

Provision for Income Taxes

	For the Years Ended Ended December 31,			Change 2005 vs	Change 2004 vs
(In thousands)	**2005**	**2004**	**2003**	**2004**	**2003**
Income before income taxes	86,658	74,070	63,718	12,588	10,352
Provision for income taxes	(30,838)	(25,530)	(21,589)	(5,308)	(3,941)
BankAtlantic net income	$ 55,820	$ 48,540	$ 42,129	$ 7,280	$ 6,411
Effective tax rate	35.59%	34.47%	33.88%		

The increase in the effective tax rate during 2005 resulted from the establishment of a non-tax deductible $10 million reserve for fines and penalties associated with AML-BSA compliance matters. The non-deductibility of these fines was partially offset by a higher proportion of income from tax exempt securities during 2005 compared to 2004.

The lower effective tax rate during 2003 compared to 2004 resulted from the reduction of a State tax valuation allowance on NOL carryforwards assigned to Levitt subsidiaries.

Ryan Beck Results of Operations

Summary

Principal transaction revenue is primarily generated from the purchase and sale of fixed income and equity securities which are closely related to Ryan Beck s customer activities. Investment banking revenue is principally derived from transactions with financial institutions and emerging growth and middle market company clients. Commission revenue is primarily derived from the purchase and sale of securities on behalf of individual and institutional investors.

The following table is a condensed income statement summarizing Ryan Beck s results of operations (in thousands):

	For the Years Ended December 31, 2005	2004	2003	Change 2005 vs 2004	Change 2004 vs 2003
Net interest income:					
Interest on trading securities	$ 14,511	$ 11,351	$ 10,437	$ 3,160	$ 914
Interest expense	(3,419)	(924)	(1,283)	(2,495)	359
Net interest income	11,092	10,427	9,154	665	1,273
Non-interest income:					
Principal transactions	100,287	90,415	95,519	9,872	(5,104)
Investment banking	45,528	48,245	27,728	(2,717)	20,517
Commissions	83,074	89,289	85,176	(6,215)	4,113
Other	9,911	3,855	2,516	6,056	1,339
Non-interest income	238,800	231,804	210,939	6,996	20,865
Non-interest expense:					
Employee compensation and benefits	165,325	158,868	147,358	6,457	11,510
Occupancy and equipment	15,816	15,429	12,707	387	2,722
Advertising and promotion	5,418	4,735	3,291	683	1,444
Professional fees	6,706	5,482	10,467	1,224	(4,985)
Communications	13,554	12,527	13,783	1,027	(1,256)
Floor broker and clearing fees	9,118	9,835	9,227	(717)	608
Other	7,204	6,184	6,691	1,020	(507)
Non-interest expense	223,141	213,060	203,524	10,081	9,536
Income from continuing operations before income taxes	26,751	29,171	16,569	(2,420)	12,602
Income taxes	(10,095)	(11,688)	(6,924)	1,593	(4,764)
Income from continuing operations	$ 16,656	$ 17,483	$ 9,645	$ (827)	$ 7,838

For the Year Ended December 31, 2005 Compared to the Same 2004 Period:

Ryan Beck s income from continuing operations declined 5%, primarily as a result of decreased investment banking revenues, increased expenditures associated with new lines of business, and expansion and openings of branches. The investment banking revenue decrease was partially offset by an increase of 11% in principal transactions during the year.

Net interest income increased 6% from 2004. The improvement in net interest income primarily resulted from Ryan Beck s participation in interest income associated with approximately $237 million of customer margin debit balances and fees earned in connection with approximately $1.2 billion in customer money market account balances.

Principal transaction revenue increased 11% from 2004. This increase was primarily due to an increase in the firm s equity and corporate trading revenues, as well as a large mutual to stock transaction during the second quarter of 2005 in which principal gross sales credits in excess of $16.5 million were recorded by Ryan Beck.

Investment banking revenue decreased 6% from 2004. The decrease was largely attributable to a decrease in consulting, merger and acquisition fees in 2005, which are largely transaction based.

Commission revenue decreased 7% from 2004. The decrease is largely due to a decrease in agency transaction volume in 2005.

Other income is comprised primarily of rebates received on customer money market balances and other service fees earned in connection with the firm s brokerage activities.

Employee compensation and benefits increased 4% from 2004. This increase was primarily attributed to an increase during 2005 in the firm s compensation costs associated with significant expansion and related hiring in the firm s capital market business including institutional sales and trading, equity and research and recruiting of financial consultants in Ryan Beck s private client group. Employee compensation and benefits includes transitional compensation, principally enhanced payouts, upfront loans and deferred compensation in connection with the Company s expansion efforts. Transitional compensation represents approximately $3.2 million of total employee compensation and benefits for the year ended December 31, 2005.

Occupancy and rent expenses have increased 3% from 2004. This increase is primarily due to the additional offices opened to accommodate the firm s growth in 2005.

Advertising and promotion expense increased 14% from 2004. This increase was primarily attributed to an increase in travel and entertainment expenses due to the expansion of the firm s capital markets business during 2005.

Professional fees increased 22% from 2004. The increase was primarily due to increases in legal expenses as well as fees associated with additional internal and external audit services and consulting services associated with various administrative projects.

Communication expense increased 8% from 2004. This increase was primarily due to the addition of branch locations in both 2004 and 2005 and the increase in capital markets personnel in 2005.

Floor broker and clearing fees decreased 7% from 2004 as a result of a decrease in transactional business in 2005.

Other expenses increased 16% from 2004, reflecting an increase in recruiting expenses for additional personnel added in the firm s capital market business during 2005.

For the Year Ended December 31, 2004 Compared to the Same 2003 Period:

The improvement in income from continuing operations was primarily the result of higher investment banking revenues as well as increased revenue from the activities of Ryan Beck s financial consultants.

Investment banking revenue increased 74% from 2003. The improvement was largely attributable to the increase in merger and acquisition and advisory business in 2004 in both the financial institutions group and the middle market investment banking group. Ryan Beck s Financial Institutions Group completed 22 transactions during 2004, versus 17 during 2003.

The decrease in principal transaction revenue was primarily the result of reductions in trading revenue associated with the firm s fixed income proprietary trading activity.

Net interest income increased 14% from 2003. The improvement in net interest income primarily resulted from Ryan Beck s participation in interest income associated with approximately $237 million of customer margin debit balances and fees earned in connection with approximately $1.2 billion in customer money market account balances.

Commission revenue increased 5% in 2004. The improvement was largely due to the increased activity on the part of the firm s retail client base as well as the increase in average production per financial consultant from $335,000 of gross revenues per financial consultant during 2003 to $373,000 during 2004.

The increase in employee compensation and benefits of 8% from 2003 is primarily due to the

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increase in the firm s bonuses which is correlated to the increased investment banking revenues from 2004.

Occupancy and rent expenses have increased 21% from 2003. This increase is primarily due to the additional offices opened in 2004 and the leasing of back-office space associated with the relocation of Ryan Beck s corporate headquarters.

The increase in advertising and promotion expense was mainly attributable to expenses associated with the launch of Ryan Beck s first formal advertising campaign designed to expand Ryan Beck s exposure through print and television media.

Professional fees decreased by 48% in 2004. The decrease is primarily due to legal settlements reached in 2004, including the settlement of the former Gruntal bankruptcy case, which resulted in a decrease in Ryan Beck s legal reserve for 2004. Offsetting this decrease was the increase in professional fees associated with higher internal audit costs related to Ryan Beck s compliance with the Sarbanes-Oxley Act of 2002.

The decrease in communications and other expenses from 2003 related primarily to decreased communication costs due to the elimination of duplicate vendors and services previously carried as a result of the Gruntal transaction.

Parent Company Results of Operations

The following table is a condensed income statement summarizing the parent company s results of operations (in thousands):

	For the Years Ended December 31,			Change 2005 vs 2004	Change 2004 vs 2003
	2005	**2004**	**2003**		
Net interest income (expense):					
Interest on loans	$ 556	$ 1,751	$ 1,488	$ (1,195)	$ 263
Interest on short term investments	1,701	756	234	945	522
Interest on junior subordinated debentures	(19,347)	(16,958)	(16,344)	(2,389)	(614)
Net interest income (expense)	(17,090)	(14,451)	(14,622)	(2,639)	171
Non-interest income:					
Income from unconsolidated subsidiaries	621	485	425	136	60
Gains on securities activities	731	3,693	404	(2,962)	3,289
Litigation settlement		22,840		(22,840)	22,840
Investment banking expense			(635)		635
Other	1,172	512		660	512
Non-interest income	2,524	27,530	194	(25,006)	27,336
Non-interest expense:					
Employee compensation and benefits	4,047	3,042	90	1,005	2,952
Advertising and promotion	422	289		133	289
Professional fees	1,179	1,708	1,500	(529)	208
Cost associated with debt redemption			1,648		(1,648)
Other	515	603	600	(88)	3
Non-interest expense	6,163	5,642	3,838	521	1,804
(Loss) income before income taxes	(20,729)	7,437	(18,266)	(28,166)	25,703
Income tax (expense) benefit	7,435	(2,692)	5,089	10,127	(7,781)

(Loss) income from continuing operations	$ (13,294)	$ 4,745	$ (13,177)	$ (18,039)	$ 17,922

Parent Company interest on loans during 2005 and 2004 represents interest income on loans to Levitt. Levitt repaid all of its borrowings from us during 2005 resulting in a decline in interest on loans during 2005 compared to 2004. Interest on loans for 2003 represents interest income associated with a $5 million loan to Ryan Beck and a $30 million loan to Levitt. The $30 million loan to Levitt was repaid in May 2005. The $5 million Ryan Beck loan was repaid in September 2003.

A portion of the funds received during 2005 from the repayments of the Levitt borrowings were invested in short term investments with a money manager. Interest on short term investments during 2005 and 2004 was primarily interest and dividends associated with a debt and equity portfolio managed by the money manager as well as earnings from a reverse repurchase account with BankAtlantic. The increase in short term investment interest income resulted from the investment of the proceeds from the repayments of the Levitt borrowings. Interest income on investments during the comparable 2003 period primarily was interest income recognized by the Company on the BankAtlantic reverse repurchase account.

Interest expense for the years ended December 31, 2005, 2004 and 2003 consisted primarily of debt service on the Company s junior subordinated debentures. The average balance of the Company s junior subordinated debentures was $263.3 million during each of the years in the three year period ended December 31, 2005. The increase in the interest expense in 2004 and 2005 was primarily due to higher rates on variable rate junior subordinated debentures resulting from the increase in short term rates which began in June 2004. Of the $263.3 million of junior subordinated debentures, $128.9 million bear interest at variable rates which adjust quarterly.

Income from unconsolidated subsidiaries during 2005 represents $556,000 of equity earnings from trusts formed to issue trust preferred securities and $65,000 of equity earnings in a rental real estate joint venture that was formed during the third quarter of 2005. The equity earnings from the trust is generated by an equivalent amount of interest that we pay on the Company s junior subordinated debentures. Income from unconsolidated subsidiaries during 2004 and 2003 represents equity earnings from the trusts.

The securities activities gain during 2005 reflects transactions by the money manager to rebalance the portfolio in response to changes in the equity markets. The securities activities during 2004 primarily represent gains from sales of exchanged traded mutual funds. The Company sold its mutual funds and invested the proceeds with the money manager. Securities activities during 2003 represent a gain realized on a liquidating dividend from an equity security.

The litigation settlement in 2004 reflects proceeds from the settlement of litigation related to the Company s prior investment of $15 million in a private technology company. Pursuant to that settlement, the Company sold its stock in the technology company to a third party investor group for $15 million in cash, the Company s original cost, and the Company received consideration from the technology company for legal expenses and damages, which consisted of $1.7 million in cash and 378,160 shares of the Company s Class A common stock returned by the technology company to the Company.

The Company s investment banking expense during the year ended December 31, 2003 resulted from fees paid by it to Ryan Beck in connection with Ryan Beck s underwriting of offerings of trust preferred securities by the Company in 2003. These fees are included in Ryan Beck s investment banking income in Ryan Beck s business segment results of operations but were eliminated in the Company s consolidated financial statements.

The Company recorded compensation expense during 2005 and 2004 as a result of the allocation of investor relations, corporate and risk management compensation costs to the Company from BankAtlantic effective January 1, 2004. This expense was partially offset by fees received by the Company for investor relations and risk management services provided by the Company to Levitt and BFC Financial Corporation, which are included in other income. Compensation expense during the 2003 periods primarily resulted from the issuance of Class A restricted stock to BankAtlantic employees and the amortization of a forgivable loan related to executive recruiting.

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Cost associated with debt redemption during 2003 resulted from the Company redeeming its 5.625% convertible debentures at a redemption price of 102% of the principal amount. The loss on the redemption reflects a $732,000 write-off of deferred offering costs and a $916,000 call premium.

The decreased professional fees during 2005 primarily resulted from lower fees associated with compliance with the Sarbanes Oxley Act during 2005 compared to 2004. The increase in professional fees during 2004 compared to 2003 resulted from expenses incurred to comply with the Sarbanes Oxley Act, partially offset by lower legal costs incurred in connection with the technology company litigation, which was settled in the first quarter of 2004.

BankAtlantic Bancorp Consolidated Financial Condition

Total assets at December 31, 2005 were $6.5 billion compared to $6.4 billion at December 31, 2004. The changes in components of total assets from December 31, 2004 to December 31, 2005 are summarized below:

Higher cash and due from depository institution balances resulting from lower cash letter receivables;

Increase in securities owned and a decrease in due from clearing broker associated with Ryan Beck s trading activities;

Decline in securities available for sale reflecting an investment strategy to limit asset growth in response to the relatively flat yield curve during 2005;

Higher investment securities balances associated with a decision to invest in tax exempt securities during the first quarter of 2005 as after tax yields on these securities were more attractive than alternative investments;

Lower investment in FHLB stock related to repayments of FHLB advances;

Decline in loan receivable balances associated with lower commercial real estate loan balances primarily resulting from a decision to cease condominium lending;

Increase in accrued interest receivable resulting from higher earning asset rates during 2005 compared to 2004;

Lower real estate inventory related to closing of units by the Riverclub real estate joint venture acquired by BankAtlantic in connection with a financial institution acquisition during 2002;

Increase in investment in unconsolidated subsidiaries due to an investment in a rental real estate joint venture during 2005;

Increase in office properties and equipment associated with the Company s new corporate headquarters building and BankAtlantic s branch renovation and expansion initiatives;

Increase in deferred tax asset primarily resulting from a decline in other comprehensive income;

Higher other assets related to an increase in outstanding forgivable notes issued in connection with Ryan Beck s recruitment and retention program.

The Company s total liabilities at December 31, 2005 were $6.0 billion compared to $5.9 billion at December 31, 2004. The changes in components of total liabilities from December 31, 2004 to December 31, 2005 are summarized below:

Higher deposit account balances resulting from the growth in low-cost deposits associated with Florida s Most Convenient Bank and totally free checking account initiatives;

Increase in secured borrowings associated with loan participations sold without recourse that are accounted for as borrowings;

Repayments of short term borrowings funded from low cost deposit growth and a decline in total assets;

Increase in development notes payable associated with the Riverclub real estate joint venture;

Declines in securities sold but not yet purchased and due from clearing agent resulting from Ryan Beck s trading activities;

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Increase in other liabilities associated with a $10 million reserve established for possible AML-BSA fines and penalties and an increase in deferred rent associated with operating leases executed for BankAtlantic s branch and corporate facilities expansion.

Stockholders equity at December 31, 2005 was $516.3 million compared to $469.3 million at December 31, 2004. The increase was primarily attributable to: earnings of $59.2 million, a $6.9 million increase in additional paid in capital from the issuance of common stock and associated tax benefits upon the exercise of stock options and a $239,000 reduction in restricted stock unearned compensation from amortization. The above increases in stockholders equity were partially offset by declaration of $8.9 million of common stock dividends, a $347,000 reduction in additional paid in capital resulting from the retirement of 90,000 shares of Ryan Beck s common stock issued upon exercise of employee stock options, a $5.3 million change in accumulated other comprehensive income, net of income tax benefits, and a $4.7 million reduction in additional paid in capital related to the acceptance of Class A common stock as consideration for the payment of withholding taxes and the exercise price which were due upon the exercise of Class A stock options.

Liquidity and Capital Resources

BankAtlantic Bancorp, Inc.

The Company s principal source of liquidity is dividends from BankAtlantic and, to a lesser extent, Ryan Beck. The Company also obtains funds through the issuance of equity and debt securities, borrowings from financial institutions, the liquidation of equity securities and other investments it holds and management fees from subsidiaries and affiliates. The Company uses these funds to contribute capital to its subsidiaries, pay debt service, repay borrowings, purchase equity securities, fund joint venture investments, pay dividends and fund operations. The Company s annual debt service associated with its junior subordinated debentures and notes payable is approximately $19.3 million at December 31, 2005. The Company s estimated current annual dividends to common shareholders are approximately $9.2 million. During the year ended December 31, 2005, the Company received $20.0 million of dividends from BankAtlantic. The declaration and payment of dividends and the ability of the Company to meet its debt service obligations will depend upon the results of operations, financial condition and cash requirements of the Company as well as indenture restrictions and on the ability of BankAtlantic to pay dividends to the Company. The payment of dividends by BankAtlantic is subject to regulations and OTS approval and is based upon BankAtlantic s regulatory capital levels and net income. In addition, Ryan Beck paid $5.0 million in dividends to the Company during the year ended December 31, 2004. Ryan Beck did not pay any dividends to the Company during 2005. Future dividend payments by Ryan Beck will depend upon the results of operations, financial condition and capital requirements of Ryan Beck.

In connection with the Levitt spin-off, a $30.0 million demand note owed by Levitt to the Company was converted to a five year term note and prior to the spin-off, Levitt declared an $8.0 million dividend to the Company payable in the form of a note. In March 2005, the $8.0 million note was paid in full and the $30.0 million note was paid down to $16.0 million. In May 2005, Levitt repaid the remaining $16 million on the $30 million note. The proceeds from the loan payments were invested in managed funds with a third party money manager. Investments in managed funds had a fair value of $93 million at December 31, 2005. It is anticipated that these funds will be invested in this manner until needed to fund the operations of the Company and its subsidiaries, which may include acquisitions, BankAtlantic s branch expansion and renovation strategy, or other business purposes. At December 31, 2005, these funds had a net unrealized gain of $7.3 million.

In March 2005, the Company repaid the remaining $100,000 under a revolving credit facility with an independent financial institution. In May 2005, the Company entered into a modification agreement to the revolving credit facility reducing the commitment amount from $30 million to $20 million and extending the maturity date from March 1, 2005 to March 1, 2007. Subsequent to December 31, 2005, the line was reduced to $15 million. The credit facility contains customary financial covenants relating to regulatory capital, debt service coverage and the maintenance of certain loan loss reserves and is secured by

the common stock of BankAtlantic. The Company has used this credit facility to temporarily fund acquisitions and asset purchases as well as for general corporate purposes. At December 31, 2005 the Company was in compliance with all loan covenants except with respect to the allowance for loan losses to total loans ratio. During February 2006, the loan agreement was amended and the Company is currently in compliance with the amended loan financial covenants. Amounts outstanding accrue interest at the prime rate minus 50 basis points.

In September 2005, the Company entered into a revolving credit facility of $15 million with another independent financial institution. The credit facility contains customary financial covenants relating to regulatory capital, debt service coverage and the maintenance of certain loan loss reserves. This loan is also secured by the common stock of BankAtlantic. At December 31, 2005 the Company was in compliance with all loan covenants.

BankAtlantic

BankAtlantic s liquidity will depend on its ability to generate sufficient cash to support loan demand, to meet deposit withdrawals, and to pay operating expenses. BankAtlantic s securities portfolio provides an internal source of liquidity through its short-term investments as well as scheduled maturities and interest payments. Loan repayments and sales also provide an internal source of liquidity.

BankAtlantic s primary sources of funds are deposits; principal repayments of loans, tax certificates and investment securities; proceeds from the sale of loans and securities available for sale; proceeds from securities sold under agreements to repurchase and federal funds purchased; advances from FHLB; interest payments on loans and securities; and funds generated by operations. These funds were primarily utilized to fund loan disbursements and purchases, deposit outflows, repayments of securities sold under agreements to repurchase, repayments of advances from FHLB, purchases of tax certificates and investment securities, payments of maturing certificates of deposit, acquisitions of properties and equipment, payments of operating expenses and payments of dividends to the Company. The FHLB has granted BankAtlantic a line of credit capped at 40% of assets subject to available collateral, with a maximum term of ten years. BankAtlantic has utilized its FHLB line of credit to borrow $1.3 billion at December 31, 2005. The line of credit is secured by a blanket lien on BankAtlantic s residential mortgage loans and certain commercial real estate and consumer loans. BankAtlantic s remaining available borrowings under this line of credit were approximately $1.2 billion at December 31, 2005. BankAtlantic has established lines of credit for up to $532.9 million with other banks to purchase federal funds of which $139.5 million was outstanding at December 31, 2005. BankAtlantic has also established a $6.3 million potential advance with the Federal Reserve Bank of Atlanta. During the 2005 third quarter, BankAtlantic became a participating institution in the Federal Reserve Treasury Investment Program. The U.S. Treasury at its discretion can deposit up to $50 million with BankAtlantic. Included in our federal funds purchased at December 31, 2005 was $24.7 million of short term borrowings associated with the program. BankAtlantic also has various relationships to acquire brokered deposits, which may be utilized as an alternative source of liquidity, if needed. At December 31, 2005, BankAtlantic had $78.3 million of outstanding brokered deposits.

BankAtlantic s commitments to originate and purchase loans at December 31, 2005 were $327.3 million and $6.7 million, respectively, compared to $259.8 million and $40.0 million, respectively, at December 31, 2004. Additionally, BankAtlantic had commitments to purchase mortgage-backed securities of $0 and $4.0 million at December 31, 2005 and 2004, respectively. At December 31, 2005, total loan commitments represented approximately 7.2% of net loans receivable.

At year-end 2005, BankAtlantic had investments and mortgage-backed securities of approximately $118.5 million pledged against securities sold under agreements to repurchase, $37.9 million pledged against public deposits and $51.9 million pledged against treasury tax and loan accounts.

In 2004, BankAtlantic announced its de novo branch expansion strategy under which it opened 5 branches during 2005. At December 31, 2005, BankAtlantic has $5.3 million of commitment to purchase land for branch expansion. BankAtlantic had entered into operating land leases and has purchased various

parcels of land for future branch construction throughout Florida. BankAtlantic plans to open approximately 14 branches during 2006 and relocate two branches, subject to required regulatory approvals. The estimated cost of opening and relocating these branches is approximately $46.4 million.

A significant source of our liquidity is repayments and maturities of loans and securities. The table below presents the contractual principal repayments and maturity dates of our loan portfolio and securities available for sale at December 31, 2005. The total amount of principal repayments on loans and securities contractually due after December 31, 2006 was $4.7 billion, of which $1.7 billion have fixed interest rates and $3.0 billion have floating or adjustable interest rates. Actual principal repayments may differ from information shown below (in thousands):

	Outstanding on December 31, 2005	For the Period Ending December 31, (1)					
		2006	2007-2008	2009-2013	2014-2018	2019-2023	>2024
Commercial real estate	$ 2,551,969	$ 1,101,662	$ 897,973	$ 321,909	$ 153,853	$ 72,612	$ 3,960
Residential real estate	2,045,593	33,935	36,489	39,691	172,306	254,375	1,508,797
Consumer (2)	541,518	3,108	2,270	30,730	343,242	162,168	
Commercial business	170,485	99,423	25,663	40,267	5,132		
Total loans	$ 5,309,565	$ 1,238,128	$ 962,395	$ 432,597	$ 674,533	$ 489,155	$ 1,512,757
Total securities available for sale (3)	$ 585,099	$ 5,410	$ 79,682	$ 52,526	$ 143,622	$ 51,225	$ 252,634

(1) Does not include deductions for the undisbursed portion of loans in process, deferred loan fees, unearned discounts and allowances for loan losses.

(2) Includes second mortgage loans.

(3) Does not include $89.4 million of equity securities

available for
sale.

Loan maturities and sensitivity of loans to changes in interest rates for commercial business and real estate construction loans at December 31, 2005 were (in thousands):

	Commercial Business	Real Estate Construction	Total
One year or less	$ 159,015	$ 1,131,113	$ 1,290,128
Over one year, but less than five years	11,243	201,181	212,424
Over five years	227	7,505	7,732
	$ 170,485	$ 1,339,799	$ 1,510,284
Due After One Year:			
Pre-determined interest rate	$ 11,470	$ 91,011	$ 102,481
Floating or adjustable interest rate		117,675	117,675
	$ 11,470	$ 208,686	$ 220,156

BankAtlantic s geographic loan concentration at December 31, 2005 was:

Florida	57%
California	11%
Northeast	8%
Other	24%
	100%

The loan concentration for BankAtlantic s originated portfolio is primarily in Florida. The concentration in California, the Northeast, and other locations primarily relates to purchased wholesale residential real estate loans.

At December 31, 2005, BankAtlantic met all applicable liquidity and regulatory capital requirements. At the indicated dates, BankAtlantic s capital amounts and ratios were (dollars in thousands):

	Actual		Minimum Ratios	
			Adequately Capitalized	Well Capitalized
	Amount	Ratio	Ratio	Ratio
At December 31, 2005:				
Total risk-based capital	$ 512,664	11.50%	8.00%	10.00%
Tier 1 risk-based capital	$ 446,419	10.02%	4.00%	6.00%
Tangible capital	$ 446,419	7.42%	1.50%	1.50%
Core capital	$ 446,419	7.42%	4.00%	5.00%
At December 31, 2004:				
Total risk-based capital	$ 476,600	10.80%	8.00%	10.00%
Tier 1 risk-based capital	$ 405,482	9.19%	4.00%	6.00%
Tangible capital	$ 405,482	6.83%	1.50%	1.50%
Core capital	$ 405,482	6.83%	4.00%	5.00%

Savings institutions are also subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Regulations implementing the prompt corrective action provisions of FDICIA define specific capital categories based on FDICIA s defined capital ratios, as discussed more fully in Part I under Regulation of Federal Savings Banks .

Ryan Beck

Ryan Beck s primary sources of funds during the year ended December 31, 2005 were clearing broker borrowings, proceeds from the sale of securities owned, proceeds from securities sold but not yet purchased, loan repayments and fees from customers. These funds were primarily utilized to pay operating expenses, and fund capital expenditures. As part of the Gruntal transaction in 2002, Ryan Beck acquired all of the membership interests in The GMS Group, LLC (GMS). During 2003, Ryan Beck sold GMS for $22.6 million, receiving cash proceeds of $9.0 million and a $13.6 million promissory note. The note is secured by the membership interests in GMS and requires GMS to maintain certain capital and financial ratios. During 2005 and 2004, the buyer made $3.0 million and $5.9 million, respectively, of principal repayments of the promissory note, which reduced the balance to $3.3 million at December 31, 2005.

In the ordinary course of business, Ryan Beck borrows, under an agreement with its Clearing Broker, by pledging securities owned as collateral primarily to finance its trading inventories. The amount

and terms of the borrowings are subject to the lending policies of the Clearing Broker and can be changed at the Clearing Broker s discretion. Additionally, the amount financed is also impacted by the market value of the securities owned.

Ryan Beck is subject to the net capital provision of Rule 15c3-1 under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital and requires the ratio of aggregate indebtedness to net capital, both as defined, not to exceed 15 to 1. Additionally, Ryan Beck, as a market maker, is subject to supplemental requirements of Rule 15c3-1(a) 4, which provides for the computation of net capital to be based on the number of and price of issues in which markets are made by Ryan Beck, not to exceed $1.0 million. Ryan Beck s regulatory net capital was $41.2 million, which was $40.2 million in excess of its required net capital of $1.0 million at December 31, 2005.

Ryan Beck operates under the provisions of paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission as a fully disclosed introducing broker and, accordingly, customer accounts are carried on the books of the clearing broker. However, Ryan Beck safekeeps and redeems municipal bond coupons for the benefit of its customers. Accordingly, Ryan Beck is subject to the provisions of SEC Rule 15c3-3 relating to possession or control and customer reserve requirements and was in compliance with such provisions at December 31, 2005.

Consolidated Cash Flows

A summary of our consolidated cash flows follows (in thousands):

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Net cash provided (used) by:			
Operating activities	$ 57,339	$ 67,295	$ 100,327
Investing activities	118,615	(1,457,098)	147,773
Financing activities	(140,753)	1,404,981	(378,963)
Increase (decrease) in cash and cash equivalents	$ 35,201	$ 15,178	$ (130,863)

Cash flows from operating activities declined during 2005 compared to 2004 due primarily to lower net income.

Cash flows from investing activities increased significantly primarily resulting from net repayments of loans receivable during 2005 compared to net originations of loans receivable during 2004 as well as lower securities purchased during 2005 compared to 2004.

Cash flows from financing activities declined substantially during 2005 primarily due to repayment of FHLB advances as compared to 2004. The FHLB advances were repaid primarily from loan repayments.

Cash flows from operating activities declined during 2004 compared to 2003 due primarily to a decrease in Ryan Beck s clearing agent liability and the reduction in cash flows attributable to Levitt s operations due to the December 31, 2003 spin-off. The above declines in cash flows were partially offset by a substantial decrease in real estate inventory as a result of the Levitt spin-off.

Cash flows from investing activities decreased during 2004 compared to 2003 due to a substantial increase in loan purchases and originations and securities purchases.

Cash flows from financing activities increased during 2004 compared to 2003 resulting primarily from additional FHLB advance and short-term borrowings used to fund loan and securities purchases. Also contributing to the increase in cash flows from financing activities was a substantial increase in low-cost deposits.

Off Balance Sheet Arrangements, Contractual Obligations and Loan Commitments

The table below summarizes the Company s loan commitments at December 31, 2005 (in thousands):

	Amount of Commitment Expiration Per Period				
Commercial Commitments	**Total Amounts Committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Lines of credit	$ 621,397	$ 119,639	$	$	$ 501,758
Standby letters of credit	67,868	67,868			
Other commercial commitments	333,990	333,990			
Total commercial commitments	$ 1,023,255	$ 521,497	$	$	$ 501,758

Lines of credit are primarily revolving lines to home equity loan and business loan customers. The business loans to customers usually expire in less than one year and the home equity lines generally expire in 15 years.

Standby letters of credit are conditional commitments issued by BankAtlantic to guarantee the performance of a customer to a third party. BankAtlantic standby letters of credit are generally issued to customers in the construction industry guaranteeing project performance. These types of standby letters of credit had a maximum exposure of $49.8 million at December 31, 2005. BankAtlantic also issues standby letters of credit to commercial lending customers guaranteeing the payment of goods and services. These types of standby letters of credit had a maximum exposure of $18.1 million at December 31, 2005. Those guarantees are primarily issued to support public and private borrowing arrangements and have maturities of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. BankAtlantic may hold certificates of deposit and residential and commercial liens as collateral for such commitments, similar to other types of borrowings.

Loan commitments are agreements to lend funds to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. BankAtlantic evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral required by BankAtlantic in connection with an extension of credit is based on management s credit evaluation of the counter-party.

At December 31, 2005, the Company did not have off balance sheet arrangements that would have a material effect on the Company s consolidated financial statements.

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The table below summarizes the Company s contractual obligations at December 31, 2005 (in thousands).

		Payments Due by Period (2)			
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Time deposits	$ 812,940	$ 662,535	$ 127,886	$ 21,943	$ 576
Long-term debt	440,628	66,816	76,157	3,416	294,239
Advances from FHLB (1)	1,283,532	762,532	409,000	32,000	80,000
Operating lease obligations	88,998	15,386	27,950	17,791	27,871
Pension obligation	13,004	890	1,893	2,549	7,672
Other obligations	35,540	10,440	8,000	5,900	11,200
Securities sold but not yet purchased	35,177	35,177			
Total contractual cash obligations	$ 2,709,819	$ 1,553,776	$ 650,886	$ 83,599	$ 421,558

(1) Payments due by period are based on contractual maturities

(2) The above table excludes interest payments on interest bearing liabilities

Long-term debt primarily consists of the junior subordinated debentures issued by the Company as well as BankAtlantic s subordinated debentures, secured borrowings and mortgage backed bonds. Operating lease obligations represent minimum future lease payments in which the Company is the lessee for real estate and equipment leases.

Securities sold but not yet purchased represent obligations of Ryan Beck to deliver specified financial instruments at contracted prices, thereby creating a liability to purchase the financial instrument in the market at prevailing prices.

The pension obligation represents the accumulated benefit obligation of the Company s defined benefit plan at December 31, 2005. The payments represent the estimated benefit payments through 2015, of which the majority of the payments will be funded through plan assets. The table does not include estimated benefit payments after 2015. The actuarial present value of the projected accumulated benefit obligation was $29.4 million at December 31, 2005.

The other obligations are legally binding agreements with vendors for the purchase of services, land and materials associated with the expansion and renovation of BankAtlantic s branches as well as advertising, marketing and sponsorship contracts.

During the years ended December 31, 2005 and 2004, actions were taken by Levitt with respect to the development of the property which was formerly BankAtlantic s headquarters. Levitt s efforts included the successful rezoning of the property and obtaining the permits necessary to develop the property for residential and commercial use. At December 31, 2005, BankAtlantic had agreed to reimburse Levitt $438,000 for the costs incurred by it in connection with the development of this project.

Levitt has also sought as additional compensation from BankAtlantic a percentage of the increase in the value of the underlying property attributable to Levitt s efforts based upon the proceeds to be received from BankAtlantic on the sale of the property to a third party. The timing and amount of such additional compensation, if any, has not yet been agreed upon.

Ryan Beck s customers securities transactions are introduced on a fully disclosed basis to its clearing broker. The clearing broker carries all of the accounts of the customers of Ryan Beck and is responsible for execution, collection and payment of funds, and receipt and delivery of securities relative to customer transactions. Customers securities activities are transacted on a cash and margin basis. These transactions may expose Ryan Beck to off-balance-sheet risk, wherein the clearing broker may charge Ryan Beck for any losses it incurs in the event that customers may be unable to fulfill their contractual commitments and margin requirements are not sufficient to fully cover losses. As the right to charge Ryan

Beck has no maximum amount and applies to all trades executed through the clearing broker, Ryan Beck believes there is no maximum amount assignable to this right. At December 31, 2005, Ryan Beck recorded liabilities of approximately $13,000 with regard to this right. Ryan Beck has the right to pursue collection or performance from the counter parties who do not perform under their contractual obligations. Ryan Beck seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and ensure that customer transactions are executed properly by the clearing broker.

Ryan Beck enters into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include futures, mortgage-backed to-be-announced securities (TBAs) and securities purchased and sold on a when-issued basis (when-issued securities). These derivative financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to economically hedge other positions or transactions.

Ryan Beck enters into futures contracts and TBAs and when-issued securities, all of which provide for the delayed delivery of the underlying instrument. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The credit risk for TBAs, options and when-issued securities is limited to the unrealized market valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest rates.

Ryan Beck, in its capacity as a market-maker and dealer in corporate and municipal fixed-income and equity securities, may enter into transactions in a variety of cash and derivative financial instruments in order to facilitate customer order flow and hedge market risk exposures. These financial instruments include securities sold, but not yet purchased and future contracts. Securities sold, but not yet purchased represent obligations of the Company to deliver specified financial instruments at contracted prices, thereby creating a liability to purchase the financial instrument in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as the Company s ultimate obligation may exceed the amount recognized in the Consolidated Statement of Financial Condition.

Ryan Beck is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is Ryan Beck s policy to review, as necessary, the credit standing of each counterparty.

Critical Accounting Policies

Management views critical accounting policies as accounting policies that are important to the understanding of our financial statements and also involve estimates and judgments about inherently uncertain matters. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated statements of financial condition and assumptions that affect the recognition of income and expenses on the consolidated statement of operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in subsequent periods relate to the determination of the allowance for loan losses, evaluation of goodwill and other intangible assets for impairment, the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, the valuation of the fair value of assets and liabilities in the application of the purchase method of accounting, the amount of the deferred tax asset valuation allowance, accounting for contingencies, and assumptions used in the pro forma note disclosure for stock based compensation. The six accounting policies that we have identified as critical accounting policies are: (i) allowance for loan losses; (ii) valuation of securities as well as the determination of other-than-temporary declines in value; (iii) impairment of goodwill and other indefinite life intangible assets; (iv) impairment of long-lived assets; (v) accounting for business combinations and (vi) accounting for contingencies. We have

discussed the critical accounting estimates outlined below with our audit committee of our board of directors, and the audit committee has reviewed our disclosure. See note #1, Summary of Significant Accounting Policies to the Notes to Consolidated Financial Statements , for a detailed discussion of our significant accounting policies.

Allowance for loan losses

The allowance for loan losses is maintained at an amount we consider adequate to absorb probable losses inherent in our loan portfolio. We have developed policies and procedures for evaluating our allowance for loan losses which consider all information available to us. However, we must rely on estimates and judgments regarding issues where the outcome is unknown. As a consequence, if circumstances change the allowance for loan losses may decrease or increase significantly.

The calculation of our allowance for loan losses consists of three components. The first component requires us to identify impaired loans based on management classification and, if necessary, assign a valuation allowance to the impaired loans. Valuation allowances are established using management estimates of the fair value of collateral and based on valuation models that present value estimated expected future cash flows. These valuations are based on available information and require estimates and subjective judgments about fair values of the collateral or expected future cash flows. Most of our loans do not have an observable market price and an estimate of the collection of contractual cash flows is based on the judgment of management. It is likely that we would obtain materially different results if different assumptions or conditions were to prevail. This would include updated information that came to management s attention about the loans or a change in the current economic environment. As a consequence of the estimates and assumptions required to calculate the first component of our allowance for loan losses, a change in these highly uncertain estimates could have a materially favorable or unfavorable impact on our financial condition and results of operations.

The second component of the allowance requires us to group loans that have similar credit risk characteristics so as to form a basis for predicting losses based on loss percentages and delinquency trends as it relates to the group. Management assigns an allowance to these groups of loans by utilizing data such as historical loss experiences, loan-to-value ratios, concentration of credit risk, and delinquency trends. Management uses significant judgment to qualitatively adjust the historical loss experiences for current trends that existed at period end that were not reflected in the calculated historical loss ratios. A subsequent change in data trends may result in material changes in this component of the allowance from period to period.

The third component of the allowance is the unassigned portion of the allowance. This component addresses certain industry and geographic concentrations, the view of regulators, model imprecision, change in underwriting standards and changes in the composition of the loan portfolio. This component requires substantial management judgment in adjusting the allowance for the changes in the current economic climate compared to the economic environment that existed historically. Due to the subjectivity involved in the determination of the unassigned portion of the allowance, the relationship of the unassigned component to the total allowance may fluctuate substantially from period to period.

Management believes that the allowance for loan losses reflects management s best estimate of incurred credit losses as of the statement of financial condition date. As of December 31, 2005, our allowance for loan losses was $41 million. See Provision for Loan Losses for a discussion of the amounts of our allowance assigned to each loan product and the amount of our unassigned allowance. The estimated allowance derived from the above methodology may be significantly different from actual realized losses. Actual losses incurred in the future are highly dependent upon future events, including the economies of geographic areas in which we hold loans. These uncertainties are beyond management s control. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments and information available to them at the time of their examination.

We periodically analyze our loan portfolio by monitoring the loan mix, credit quality, historical trends and economic conditions. As a consequence, our allowance for loan losses estimates will change from period to period. A portion of the change in our loan loss estimates during the five year period ended December 31, 2005 resulted from changes in credit policies which focused our loan production on collateral based loans and the discontinuation of certain loan products. We believe that these changes reduced our allowance for loan losses as measured by the decline in our allowance to loan losses to total loans from 1.59% at December 31, 2001 to 0.88% at December 31, 2005. If our historical loss experience increased or decreased in the assigned portion of the allowance for loan losses by 25 basis points at December 31, 2005, we estimate that our pre-tax earnings would increase or decrease by approximately $11 million.

Valuation of securities and trading activities

We record our securities available for sale, investment securities, trading securities and derivative instruments in our statement of financial condition at fair value. We use the following three methods for valuation: obtaining market price quotes, using a price matrix, and applying a management valuation model.

The following table provides the sources of fair value for our securities, brokerage industry securities and derivatives instruments at December 31, 2005 (in thousands):

	National Market price Quotes	Broker Price Quotes	Valuation Model	Total
Securities:				
Mortgage-backed securities	$	$ 381,540	$	$ 381,540
Tax exempt securities		394,774		394,774
Other securities			588	588
U.S. Treasury notes		1,000		1,000
Equity securities	89,445			89,445
Total securities	89,445	777,314	588	867,347
Brokerage industry securities and derivatives:				
Securities owned	180,292			180,292
Securities sold not yet purchased	(35,177)			(35,177)
Total Brokerage industry securities	145,115			145,115
Total	$ 234,560	$ 777,314	$ 588	$ 1,012,462

Equity securities trade daily on various stock exchanges. The fair value of these securities in our statement of financial condition was based on the closing price quotations at period end. The closing quotation represents inter-dealer quotations without retail markups, markdowns or commissions and do not necessarily represent actual transactions. We adjust our equity securities available for sale to fair value monthly with a corresponding increase or decrease, net of income taxes, to other comprehensive income. Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs through charges to earnings of the individual securities to their fair value.

We subscribe to a third-party service to obtain a pricing matrix to determine the fair value of our debt securities. The pricing matrix computes a fair value of debt securities based on the securities coupon rate, maturity date and estimates of future prepayment rates. The valuations obtained from the pricing matrix are not actual transactions and may not reflect the actual amount that would be realized upon sale. It is likely that we would obtain materially different results if different interest rate and prepayment assumptions were used in the valuation. We adjust our debt

securities available for sale to fair value monthly with a corresponding increase or decrease, net of income taxes, to other comprehensive income. Debt securities held to maturity are recorded at historical cost with the fair value disclosed on our statement

of financial condition. Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs through charges to earnings of the individual securities to their fair value.

At December 31, 2005, the fair value and unrealized loss associated with our securities was $867.3 million and $1.9 million, respectively. If interest rates were to decline by 200 basis points, we estimate that the fair value of our debt securities portfolio would increase by $81.5 million. In contrast, if interest rates were to increase by 200 basis points, we estimate that the fair value of our debt securities would decline by $77.3 million. The above changes in value are based on various assumptions concerning prepayment rates and shifts in the interest rate yield curve and do not take into account any mitigating steps that management might take in response to changes in interest rates. We are likely to obtain significantly different results if these assumptions were changed.

Securities owned and securities sold but not yet purchased are accounted for at fair value with changes in fair value included in earnings. The fair value of these securities is determined by obtaining security values from various sources, including dealer price quotations and price quotations for similar instruments traded and management estimates. The majority of our securities owned are listed on national markets or market quotes can be obtained from brokers. The fair values of securities owned and securities sold but not yet purchased are highly volatile and are largely driven by general market conditions and changes in the market environment. The most significant factors affecting the valuation of securities owned and securities sold but not yet purchased is the lack of liquidity and credit quality of the issuer. Lack of liquidity results when trading in a position or a market sector has slowed significantly or ceased and quotes may not be available.

Impairment of Goodwill and Other Indefinite-live Intangible Assets

We test goodwill for impairment annually. The test requires us to determine the fair value of our reporting units and compare the reporting units fair value to its carrying value. The fair values of the reporting units are estimated using discounted cash flow present value techniques and management valuation models. While management believes the sources utilized to arrive at the fair value estimates are reliable, different sources or methods could have yielded different fair value estimates. These fair value estimates require a significant amount of judgment. Changes in management s valuation of its reporting units may affect future earnings through the recognition of a goodwill impairment charge. At September 30, 2005 (our goodwill impairment testing date) the fair value of our reporting units was greater than their carrying value; therefore, goodwill was not impaired. If the fair value of our reporting units declines below the carrying amount we would have to perform the second step of the impairment test. This step requires us to fair value all assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation. This allocation will include core deposit intangible assets that are currently not recognized on our financial statements. These unrecognized assets may result in a significant impairment of goodwill. At December 31, 2005, total goodwill was $76.7 million. The fair value of our bank operations and Ryan Beck reportable segments assigned goodwill exceeds the carrying value by $526 million and $80 million, respectively.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When testing a long-lived asset for recoverability, it may be necessary to review estimated lives and adjust the depreciation period. Changes in circumstances and the estimates of future cash flows as well as evaluating estimated lives of long-lived assets are subjective and involve a significant amount of judgment. A change in the estimated life of a long-lived asset may substantially increase depreciation and amortization expense in subsequent periods. For purposes of recognition and measurement of an impairment loss, we are required to group long-lived assets at the lowest level for which identifiable cash flows are independent of other assets. These cash flows are based on projections from management reports which are based on subjective interdepartmental allocations. Fair values are not available for many of our long-lived assets, and estimates must be based

on available information, including prices of similar assets and present value valuation techniques. At December 31, 2005, total property and equipment was $154.1 million.

Our core deposit intangible assets are periodically reviewed for impairment at the branch level by reviewing the undiscounted cash flows by branch in order to assess recoverability. At December 31, 2005 our core deposit intangible asset was $8.4 million. The undiscounted cash flows of the branches assigned to the core deposit intangible asset exceeded its carrying amount at December 31, 2005.

During the second quarter of 2005, we relocated our corporate headquarters and finalized a plan to raze the old corporate headquarters building and construct a branch on the site. As a consequence of the relocation and the expected demolition of the old corporate headquarters building we recorded an impairment charge of $3.7 million during the year ended December 31, 2005. The facilities are classified as held and used , as defined by FASB Statement No. 144 as a bank branch is operating on the site.

During 2004, we finalized a plan to renovate the interior of BankAtlantic s branches. As a result of the renovation plan, BankAtlantic shortened the estimated lives of branch fixed assets resulting in $1.5 million and $900,000 of accelerated depreciation and amortization during 2004 and 2005, respectively.

Accounting for Business Combinations

The Company accounts for its business combinations based on the purchase method of accounting. The purchase method of accounting requires us to fair value the tangible net assets and identifiable intangible assets acquired. The fair values are based on available information and current economic conditions at the date of acquisition. The fair values may be obtained from independent appraisers, discounted cash flow present value techniques, management valuation models, quoted prices on national markets or quoted market prices from brokers. These fair value estimates will affect future earnings through the disposition or amortization of the underlying assets and liabilities. While management believes the sources utilized to arrive at the fair value estimates are reliable, different sources or methods could have yielded different fair value estimates. Such different fair value estimates could affect future earnings through different values being utilized for the disposition or amortization of the underlying assets and liabilities acquired.

Accounting for Contingencies

Contingent liabilities consist of liabilities that we may incur in connection with Ryan Beck arbitration proceedings, litigation and regulatory and tax uncertainties arising from the conduct of our business activities. We have established reserves for legal, regulatory and other claims when it becomes probable that we will incur a loss and the loss is reasonably estimated. We have attorneys, consultants and other professionals assessing the probability of the estimated amounts. Changes in these assessments can lead to changes in the recorded reserves and the actual costs of resolving the claims may be substantially higher or lower than the amounts reserved for the claim. The reserving for contingencies is based on management s judgment on uncertain events in which changes in circumstances could significantly affect the amounts recorded in the Company s financial statements. At December 31, 2005, total reserves for contingent liabilities included in other liabilities were $10.7 million, including a $10 million reserve established during the fourth quarter of 2005 relating to the AML-BSA compliance matter (See Item 1A. Risk Factors.)

Dividends

The availability of funds for dividend payments depends upon BankAtlantic s and Ryan Beck s ability to pay dividends to the Company. Current regulations applicable to the payment of cash dividends by savings institutions impose limits on capital distributions based on an institution s regulatory capital levels, retained net income and net income. See Regulation and Supervision Limitation on Capital Distributions.

Subject to the results of operations and regulatory capital requirements for BankAtlantic and indenture restrictions, we will seek to declare regular quarterly cash dividends on our common stock.

Impact of Inflation

The financial statements and related financial data and notes presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general price levels. Although interest rates generally move in the same direction as inflation, the magnitude of such changes varies. The possible effect of fluctuating interest rates is discussed more fully under the section entitled Consolidated Interest Rate Risk In Item 7A below.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Consolidated Market Risk

Market risk is defined as the risk of loss arising from adverse changes in market valuations which arise from interest rate risk, foreign currency exchange rate risk, commodity price risk and equity price risk. Our primary market risk is interest rate risk and our secondary market risk is equity price risk.

Consolidated Interest Rate Risk

The amount of interest earning assets and interest-bearing liabilities expected to reprice or mature in each of the indicated periods was as follows (in thousands):

	As of December 31, 2005				
	1 Year or Less	3 Years or Less	5 Years or Less	More Than 5 Years	Total
Interest earning assets:					
Loans:					
Residential loans (1)					
Fixed rate	$ 108,345	143,853	115,881	368,720	736,799
Hybrids ARM less than 5 years	201,105	199,917	68,248	1,782	471,052
Hybrids ARM more than 5 years	192,063	193,864	168,954	275,873	830,754
Commercial loans	1,588,787	193,581	66,447	3,228	1,852,043
Small business loans	144,824	63,074	19,554	8,476	235,928
Consumer	512,477	4,670	3,920	14,961	536,028
Total loans	2,747,601	798,959	443,004	673,040	4,662,604
Investment securities					
Tax exempt securities	6,304	2,132	19,485	364,209	392,130
Taxable investment securities	242,207	97,093	51,802	67,590	458,692
Tax certificates	163,726				163,726
Total investment securities	412,237	99,225	71,287	431,799	1,014,548
Total interest earning assets	3,159,838	898,184	514,291	1,104,839	5,677,152
Total non-earning assets				432,178	432,178
Total assets	$ 3,159,838	898,184	514,291	1,537,017	6,109,330
Total interest bearing liabilities	$ 2,723,748	844,077	291,394	1,614,248	5,473,467
Non-interest bearing liabilities				635,863	635,863
Total non-interest bearing liabilities and equity	$ 2,723,748	844,077	291,394	2,250,111	6,109,330
GAP (repricing difference)	$ 436,090	54,107	222,897	(509,409)	
Cumulative GAP	$ 436,090	490,197	713,094	203,685	
Repricing Percentage	7.14%	0.89%	3.65%	-8.34%	

Cumulative Percentage	7.14%	8.02%	11.67%	3.33%

(1) Hybrid adjustable rate mortgages (ARM) earn fixed rates for designated periods and adjust annually thereafter based on the one year U.S. Treasury note rate.

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The majority of BankAtlantic s assets and liabilities are monetary in nature, subjecting us to significant interest rate risk because our assets and liabilities reprice at different times, market interest rates change differently among each rate indices and certain interest earning assets, primarily residential loans, may be prepaid before maturity as interest rates change.

We have developed a model using standard industry software to measure our interest rate risk. The model performs a sensitivity analysis that measures the effect on our net interest income of changes in interest rates. The model measures the impact that parallel interest rate shifts of 100 and 200 basis points would have on our net interest income over a 12 month period.

The model calculates the change in net interest income by:

i. Calculating interest income and interest expense from existing assets and liabilities using current repricing, prepayment and volume assumptions,

ii. Estimating the change in expected net interest income based on instantaneous and parallel shifts in the yield curve to determine the effect on net interest income; and

iii. Calculating the percentage change in net interest income calculated in (i) and (ii).

Management has made estimates of cash flow, prepayment, repricing and volume assumptions that it believes to be reasonable. Actual results will differ from the simulated results due to changes in interest rates that differ from the assumptions in the simulation model.

Certain assumptions by the Company in assessing the interest rate risk were utilized in preparing the following table. These assumptions related to:

- Interest rates,
- Loan prepayment rates,
- Deposit decay rates,
- Re-pricing of certain borrowings
- Reinvestment in earning assets.

The prepayment assumptions used in the model are:

Fixed rate mortgages	12%
Fixed rate securities	8%
Tax certificates	10%
Adjustable rate mortgages	17%
Adjustable rate securities	16%

Deposit runoff assumptions used in the model are as follows:

	Within 1 Year	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Money fund savings accounts decay rates	17%	17%	16%	14%
NOW and savings accounts decay rates	37%	32%	17%	17%

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Presented below is an analysis of the Company s estimated net interest income over a twelve month period calculated utilizing the Company s model:

As of December 31, 2005

Changes in Rate	Net Interest Income	Percent Change
+200 bp	$258,020	1.47%
+100 bp	$259,549	2.15%
0	$254,715	
-100 bp	$247,130	-3.37%
-200 bp	$232,813	-9.72%

As of December 31, 2004

Changes in Rate	Net Interest Income	Percent Change
+200 bp	$232,987	3.41%
+100 bp	$232,395	3.14%
0	$225,310	
-100 bp	$213,516	-5.23%
-200 bp	$200,288	-11.11%

The Company began utilizing this interest rate risk model in July 2005. This model enables the Company to evaluate the effect interest rate sensitivity has on net interest income as well as on net portfolio value. The prior interest rate risk model measured potential gains and losses only on net portfolio fair value. The Company believes that measuring the effect of interest rate changes on net interest income will enhance management s ability to monitor interest rate risk. The December 31, 2004 amounts are also provided utilizing the new model.

Equity Price Risk

We also maintain a portfolio of equity securities in our Parent Company that subject us to equity pricing risks which would arise as the relative values of our equity investments change in conjunction with market or economic conditions. The change in fair values of equity investments represents instantaneous changes in all equity prices. The following are hypothetical changes in the fair value of our available for sale equity securities at December 31, 2005 based on percentage changes in fair value. Actual future price appreciation or depreciation may be different from the changes identified in the table below (dollars in thousands):

Percent Change in Fair Value	Available for Sale Securities Fair Value	Dollar Change
20%	$107,334	$ 17,889
10%	$ 98,390	$ 8,945
0%	$ 89,445	$
-10%	$ 80,501	$ (8,945)
-20%	$ 71,556	$(17,889)

Excluded from the above table is $1.8 million of investments in private companies and a $5.0 million investment in a limited partnership for which no current market exists. The limited partnership invests in companies in the financial services industry. The ability to realize on or liquidate these investments will depend on future market conditions and is subject to significant uncertainty.

Ryan Beck Market Risk

Ryan Beck s market risk is the potential change in value of financial instruments caused by fluctuations in interest rates, equity prices, credit spreads or other market forces. The Company, through its broker/dealer subsidiary Ryan Beck, is exposed to market risk arising from trading and market making activities.

Ryan Beck s management monitors risk in its trading activities by establishing limits and reviewing daily trading results, inventory aging, pricing, concentration and securities ratings. Ryan Beck uses a variety of tools, including aggregate and statistical methods. Value at Risk (VaR) is the principal statistical method and measures the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Substantially all the trading inventory is subject to measurement using VaR.

Ryan Beck uses an historical simulation approach to measuring VaR using a 99% confidence level, a one day holding period and the most recent three months average volatility. The 99% VaR means that, on average, one would not expect to exceed such loss amount more than one time every one hundred trading days if the portfolio were held constant for a one-day period.

Modeling and statistical methods rely on approximations and assumptions that could be significant under certain circumstances. As such, the risk management process also employs other methods such as sensitivity to interest rates and stress testing.

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The following table sets forth the high, low and average VaR for Ryan Beck for the year ended December 31, 2005:

(dollars in thousands)	High	Low	Average
VaR	$ 443	$ 55	$ 206
Aggregate Long Value	195,123	64,358	96,676
Aggregate Short Value	97,793	15,772	40,261

The following table sets forth the high, low and average VaR for Ryan Beck for the year ended December 31, 2004:

(dollars in thousands)	High	Low	Average
VaR	$ 1,747	$ 11	$ 336
Aggregate Long Value	112,494	43,431	72,787
Aggregate Short Value	167,987	23,851	65,006

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered certified public accounting firm, as stated in their report which appears herein. See Financial Statements and Supplementary Data.

/s/ Alan B, Levan

Alan B. Levan
Chairman, President and
Chief Executive Officer

/s/ James A. White

James A. White
Executive Vice President
Chief Financial Officer

March 15, 2006

Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Stockholders of
BankAtlantic Bancorp, Inc.:

We have completed integrated audits of BankAtlantic Bancorp, Inc. s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows present fairly, in all material respects, the financial position of BankAtlantic Bancorp, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in Management s Report on Internal Control over Financial Reporting, appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets

of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

s/PricewaterhouseCoopers LLP
Fort Lauderdale, Florida
March 15, 2006

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	December 31, 2005	2004
ASSETS		
Cash and due from depository institutions (See Note 14)	$ 167,032	$ 118,967
Federal funds sold and other short-term investments (See Note 3)	3,229	16,093
Securities owned (at fair value) (See Note 3)	180,292	125,443
Securities available for sale (at fair value) (See Note 3)	674,544	747,160
Investment securities and tax certificates (approximate fair value: $364,122 and $306,963) (See Note 3)	364,444	307,438
Federal Home Loan Bank stock, at cost which approximates fair value (See Note 8,14)	69,931	78,619
Loans receivable, net of allowance for loan losses of $41,192 and $46,010 (See Note 4)	4,624,772	4,599,048
Accrued interest receivable (See Note 5)	41,490	35,982
Real estate held for development and sale (See Note 21)	21,177	27,692
Investments in unconsolidated subsidiaries (See Notes 22)	12,464	7,910
Office properties and equipment, net (See Note 6)	154,120	129,790
Deferred tax asset, net (See Note 12)	29,615	20,269
Goodwill	76,674	76,674
Core deposit intangible asset (See Note 2)	8,395	10,270
Due from clearing agent (See Note 3)		16,619
Other assets (See Notes 4, 10, 13)	43,232	38,803
Total assets	$ 6,471,411	$ 6,356,777
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits		
Interest bearing deposits	$ 2,732,727	$ 2,566,804
Non-interest bearing deposits	1,019,949	890,398
Total deposits (See Note 7)	3,752,676	3,457,202
Advances from FHLB (See Note 8)	1,283,532	1,544,497
Securities sold under agreements to repurchase (See Note 9)	116,026	296,643
Federal funds purchased and other short term borrowings (See Note 8)	139,475	105,000
Secured borrowings (See Note 10)	138,270	
Subordinated debentures, notes and bonds payable (See Note 10)	39,092	37,741
Junior subordinated debentures (See Note 10)	263,266	263,266
Securities sold but not yet purchased (See Note 3)	35,177	39,462
Due to clearing agent (See Note 3)	24,486	
Other liabilities (See Note 13)	163,075	143,701
Total liabilities	5,955,075	5,887,512
Commitments and contingencies (See Note 14)		

Stockholders equity: (See Notes 11, 12)		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued and outstanding		
Class A common stock, $.01 par value, authorized 80,000,000 shares; issued and outstanding 55,884,089 and 55,214,225 shares	559	552
Class B common stock, $.01 par value, authorized 45,000,000 shares; issued and outstanding 4,876,124, and 4,876,124 shares	49	49
Additional paid-in capital	261,720	259,702
Unearned compensation restricted stock grants	(936)	(1,001)
Retained earnings	261,279	210,955
Total stockholders equity before accumulated other comprehensive loss	522,671	470,257
Accumulated other comprehensive loss	(6,335)	(992)
Total stockholders equity	516,336	469,265
Total liabilities and stockholders equity	$ 6,471,411	$ 6,356,777

See Notes to Consolidated Financial Statements.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
(In thousands, except share and per share data)	2005	2004	2003
Interest income:			
Interest and fees on loans	$ 293,250	$ 209,719	$ 207,446
Interest and dividends on securities available for sale	19,673	18,083	24,313
Interest on tax exempt securities	14,422	4,048	
Interest and dividends on other investment securities	18,549	17,354	19,653
Broker dealer interest	14,511	11,351	10,437
Total interest income	360,405	260,555	261,849
Interest expense:			
Interest on deposits (See Note 7)	40,084	28,355	36,189
Interest on advances from FHLB	62,175	37,689	57,299
Interest on securities sold under agreements to repurchase and federal funds purchased	9,599	3,191	2,914
Interest on secured borrowings	10,144		
Interest on subordinated debentures, notes and bonds payable, and junior subordinated debentures	25,205	19,885	18,008
Capitalized interest on real estate development	(1,879)	(1,398)	(1,193)
Total interest expense	145,328	87,722	113,217
Net interest income	215,077	172,833	148,632
Recovery from loan losses (See Note 4)	(6,615)	(5,109)	(547)
Net interest income after recovery from loan losses	221,692	177,942	149,179
Non-interest income:			
Broker/dealer revenue (See Note 3)	238,800	231,804	210,304
Service charges on deposits	61,956	51,435	40,569
Other service charges and fees	23,347	23,620	19,318
Income from real estate operations (Note 21)	4,480	2,405	5,642
Income from unconsolidated subsidiaries (See Note 22)	621	485	425
Securities activities, net (See Note 3)	847	3,730	(1,553)
Litigation settlement (See Note 23)		22,840	
Gains on sales of loans, net	742	483	122
Other	10,306	7,987	6,887
Total non-interest income	341,099	344,789	281,714
Non-interest expense:			
Employee compensation and benefits (See Notes 11,13)	282,898	255,064	226,940
Occupancy and equipment (See Note 6)	57,437	48,146	40,036
Impairment of office properties and equipment (See Notes 6,14)	3,706		257
Advertising and promotion	32,735	21,036	12,724

Amortization of intangible assets	1,627	1,715	1,772
Professional fees	17,296	18,207	17,842
Communications	13,554	12,527	13,783
Floor broker and clearing fees	9,118	9,835	9,227
Cost associated with debt redemption (See Note 8,10)		11,741	12,543
Reserve for fines and penalties, compliance matters (Note 14)	10,000		
Other	41,740	33,782	33,748
Total non-interest expense	470,111	412,053	368,872
Income from continuing operations before income taxes	92,680	110,678	62,021
Provision for income taxes (See Note 12)	33,498	39,910	23,424
Income from continuing operations	59,182	70,768	38,597
Discontinued operations, (less applicable income taxes of $16,512) (See Note 2, 12)			29,120
Net income	$ 59,182	$ 70,768	$ 67,717

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See Notes to Consolidated Financial Statements.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2005	2004	2003
Earnings per share (See Note 20)			
Basic earnings per share from continuing operations	$ 0.98	$ 1.19	$ 0.66
Basic earnings per share from discontinued operations			0.50
Basic earnings per share	$ 0.98	$ 1.19	$ 1.16
Diluted earnings per share from continuing operations	$ 0.92	$ 1.11	$ 0.62
Diluted earnings per share from discontinued operations			0.46
Diluted earnings per share	$ 0.92	$ 1.11	$ 1.08
Cash dividends per Class A share	$ 0.146	$ 0.136	$ 0.128
Cash dividends per Class B share	$ 0.146	$ 0.136	$ 0.128
Basic weighted average number of common shares outstanding	60,426,107	59,525,532	58,509,894
Diluted weighted average number of common and common equivalent shares outstanding	63,119,531	63,056,435	62,354,430

See Notes to Consolidated Financial Statements.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For Each of the Years in the Three Year Period Ended December 31, 2005

(In thousands)	Compre-hensive Income	Common Stock	Addi-tional Paid-in Capital	Retained Earnings	Unearned Compen-sation Restricted Stock Grants	Accumul-ated Other Compre-hensive Income	Total
BALANCE, DECEMBER 31, 2002		$ 583	$ 252,699	$ 213,692	$ (1,209)	$ 3,569	$ 469,334
Net income	$ 67,717			67,717			67,717
Other comprehensive income, net of tax:							
Unrealized losses on securities available for sale (less income tax benefit of $5,296)	(9,330)						
Minimum pension liability (less income tax provision of $4,194)	7,456						
Unrealized gains associated with investment in unconsolidated real estate subsidiary (less income tax provision of $454)	448						
Accumulated gains associated with cash flow hedges (less income tax provision of $1,108)	2,306						
Reclassification adjustment for cash flow hedges	513						
Reclassification adjustment for net losses included in net income (less income tax benefit of $559)	994						
Other comprehensive income	2,387						
Comprehensive income	$ 70,104						
Levitt Corporation spin-off transaction				(125,573)			(125,573)
Dividends on Class A common stock				(6,903)			(6,903)
Dividends on Class B common stock				(622)			(622)
Issuance of Class A common stock		10	4,672		(134)		4,548
Tax effect relating to the exercise of stock options			2,264				2,264
Purchase and retirement of Class A common stock			(25)				(25)
Issuance of Class A common stock upon conversion of subordinated debentures			211				211

Issuance of subsidiary stock options		(51)				(51)
Amortization of unearned compensation - restricted stock grants				165		165
Net change in accumulated other comprehensive income, net of income taxes					2,387	2,387
BALANCE, DECEMBER 31, 2003	$ 593	$ 259,770	$ 148,311	$ (1,178)	$ 5,956	$ 413,452

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See Notes to Consolidated Financial Statements

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For Each of the Years in the Three Year Period Ended December 31, 2005

(In thousands)	Comprehensive Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation Restricted Stock Grants	Accumulated Other Comprehensive Income (loss)	Total
BALANCE, DECEMBER 31, 2003		$ 593	$ 259,770	$ 148,311	$ (1,178)	$ 5,956	$ 413,452
Net income	$ 70,768			70,768			70,768
Other comprehensive income (loss), net of tax:							
Unrealized gains on securities available for sale (less income tax provision of $188)	342						
Minimum pension liability (less income tax benefit of $2,758)	(4,903)						
Reclassification adjustment for net gain included in net income (less income tax expense of $2,758)	(2,387)						
Other comprehensive income loss	(6,948)						
Comprehensive income	$ 63,820						
Dividends on Class A common stock				(7,460)			(7,460)
Dividends on Class B common stock				(664)			(664)
Issuance of Class A common stock		15	3,724				3,739
Tax effect relating to the exercise of stock options			6,610				6,610
Retirement of Class A common stock relating to exercise of stock options		(3)	(4,348)				(4,351)
Retirement of Class A common stock		(4)	(6,054)				(6,058)
Amortization of unearned compensation restricted stock grants					177		177
Net change in accumulated other comprehensive loss, net of income taxes						(6,948)	(6,948)
BALANCE, DECEMBER 31, 2004		$ 601	$ 259,702	$ 210,955	$ (1,001)	$ (992)	$ 469,265

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See Notes to Consolidated Financial Statements

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For Each of the Years in the Three Year Period Ended December 31, 2005

(In thousands)	Comprehensive Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation Restricted Stock Grants	Accumulated Other Comprehensive loss	Total
BALANCE, DECEMBER 31, 2004		$ 601	$ 259,702	$ 210,955	$ (1,001)	$ (992)	$ 469,265
Net income	$ 59,182			59,182			59,182
Other comprehensive (loss), net of tax:							
Unrealized losses on securities available for sale (less income tax benefit of $2,204)	(3,812)						
Minimum pension liability (less income tax benefit of $942)	(989)						
Reclassification adjustment for net gain included in net income (less income tax expense of $305)	(542)						
Other comprehensive loss	(5,343)						
Comprehensive income	$ 53,839						
Dividends on Class A common stock				(8,145)			(8,145)
Dividends on Class B common stock				(713)			(713)
Issuance of Class A common stock upon exercise of stock options		10	2,318				2,328
Issuance of Class A restricted stock			174		(174)		
Tax effect relating to share-based compensation			4,538				4,538
Retirement of Class A common stock relating to exercise of stock options		(3)	(4,665)				(4,668)
Amortization of unearned compensation restricted stock grants					239		239
Retirement of Ryan Beck common stock			(347)				(347)
Net change in accumulated other comprehensive loss, net of income taxes						(5,343)	(5,343)
BALANCE, DECEMBER 31, 2005		$ 608	$ 261,720	$ 261,279	$ (936)	$ (6,335)	$ 516,336

See Notes to Consolidated Financial Statements

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
(In thousands)	**2005**	**2004**	**2003**
Operating activities:			
Income from continuing operations	$ 59,182	$ 70,768	$ 38,597
Income from discontinued operations, net of tax			29,120
Adjustment to reconcile net income to net cash provided by operating activities:			
(Recovery) provision for credit losses, net (1)	(6,265)	(5,105)	1,465
Depreciation, amortization and accretion, net	16,212	16,299	18,685
Amortization of intangible assets	1,627	1,715	1,772
Securities activities, net	(847)	(3,730)	1,553
Net gains on sale of real estate owned	(1,840)	(694)	(1,984)
Net gains on sales of loans held for sale	(742)	(483)	(122)
Net (gains) losses on sales of property and equipment	(277)	17	45
Gain on sale of branch	(922)		
Distribution of earnings of unconsolidated subsidiaries	621	485	425
(Increase) decrease in deferred tax asset, net	(5,895)	6,633	9,427
Equity earnings of unconsolidated subsidiaries	(621)	(485)	(8,766)
Litigation settlement		(22,840)	
Cost associated with debt redemption		11,741	12,543
Impairment of office properties and equipment	3,706		257
Reserve for fines and penalties, compliance matters	10,000		
Increase of forgivable notes receivable, net	(6,999)	(8,079)	(6,260)
Originations and repayments of loans held for sale, net	(125,487)	(163,988)	(32,494)
Proceeds from sales of loans held for sale	128,337	171,192	44,739
Decrease (increase) in real estate inventory	8,043	(5,889)	(55,090)
Increase in securities owned, net	(54,849)	(878)	(43,194)
(Decrease) increase in securities sold but not yet purchased	(4,285)	1,649	3,591
(Increase) decrease in accrued interest receivable	(5,508)	(8,116)	6,118
(Increase) decrease in other assets	(2,921)	1,342	(8,044)
Increase (decrease) in due to clearing agent	41,105	(25,202)	10,353
Increase in other liabilities	5,964	30,943	77,591
Net cash provided by operating activities	57,339	67,295	100,327

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See Notes to Consolidated Financial Statements

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31, 2005	2004	2003
Investing activities:			
Proceeds from redemption and maturities of investment securities and tax certificates	210,493	212,983	205,677
Purchase of investment securities and tax certificates	(268,364)	(301,825)	(205,209)
Purchase of securities available for sale	(227,179)	(676,900)	(278,977)
Proceeds from sales and maturities of securities available for sale	300,469	304,703	630,222
Purchases of FHLB stock	(29,870)	(49,923)	(7,021)
Redemption of FHLB stock	38,558	11,629	31,639
Investment in real estate joint venture	(4,554)		(941)
Net repayments (purchases and originations) of loans	151,584	(913,496)	(235,735)
Proceeds from sales of real estate owned	3,872	3,821	10,807
Proceeds from the sale of property and equipment	651		1,705
Additions to office property and equipment	(43,440)	(48,090)	(14,349)
Cash outflows from the sale of branch (Note 2)	(13,605)		
Net cash proceeds from the sale of Ryan Beck s subsidiaries (Note 2)			9,955
Net cash provided by (used in) investing activities	118,615	(1,457,098)	147,773
Financing activities:			
Net increase in deposits	313,190	399,060	137,587
Repayments of FHLB advances	(1,506,832)	(469,323)	(799,991)
Proceeds from FHLB advances	1,246,000	1,220,000	275,000
Net increase (decrease) in securities sold under agreements to repurchase	(180,617)	157,834	4,767
Net increase in federal funds purchased	34,475	105,000	
Repayments of secured borrowings	(101,924)		
Proceeds from secured borrowings	65,293		
Repayment of notes and bonds payable	(5,085)	(1,798)	(112,341)
Proceeds from notes and bonds payable	6,436	2,944	134,016
Issuance of junior subordinated debentures			77,320
Retirement of subordinated notes and debentures			(70,855)
Proceeds from issuance of Class A common stock	1,179	2,334	4,472
Payment of the minimum withholding tax upon the exercise of stock options	(3,519)	(2,946)	
Net cash reduction on Levitt Corporation spin-off (Note 2)			(21,413)
Purchase of subsidiary common stock (Note 11)	(491)		
Common stock dividends	(8,858)	(8,124)	(7,525)
Net cash (used in) provided by financing activities	(140,753)	1,404,981	(378,963)
Increase (decrease) in cash and cash equivalents	35,201	15,178	(130,863)
Cash and cash equivalents at the beginning of period	135,060	119,882	250,745

Cash and cash equivalents at end of period	$ 170,261	$ 135,060	$ 119,882

(CONTINUED)

See Notes to Consolidated Financial Statements

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31, 2005	2004	2003
Cash paid for			
Interest on borrowings and deposits	$ 143,706	$ 87,869	$ 120,221
Income taxes	10,788	26,565	31,115
Supplementary disclosure of non-cash investing and financing activities:			
Loans transferred to REO	2,307	1,401	2,450
Net loan recoveries (charge-offs)	1,797	5,524	(1,146)
Tax certificate net charge-offs	(377)	(427)	(203)
Decreases in current income taxes payable from the tax effect of fair value of employee stock options	4,538	6,610	2,264
Change in accumulated other comprehensive income	(5,343)	(6,948)	2,387
Change in deferred taxes on other comprehensive income	(3,451)	(3,903)	1,019
Securities purchased pending settlement	6,183	25,546	
Issuance and retirement of Class A common stock accepted as consideration for the exercise price of stock options	1,149	1,405	
Reduction in stockholders equity from the retirement of Class A common stock obtained from litigation settlement		6,058	
Levitt dividend received in the form of a note receivable			8,000
Note receivable issued in connection with the GMS sale			13,681
Levitt notes receivable outstanding at date of spin-off			48,118
Note receivable issued in connection with Bluegreen stock transfer			5,500
Acquisition goodwill adjustments			734
Transfer of relocated branch to real estate held for sale			1,000
Increase in investments in unconsolidated subsidiaries related to deconsolidation of trusts formed to issue trust preferred securities			7,910
Increase in junior subordinated debentures related to trust deconsolidation			7,910
Transfer of guaranteed preferred beneficial interest in Company s Junior Subordinated Debentures to junior subordinated debentures			180,375
Issuance of Class A common stock upon conversion of subordinated debentures			211
Securities held to maturity transferred to available for sale			14,505

(1) Provision for credit losses represents provision for loan losses, REO and tax certificates.

See Notes to Consolidated Financial Statements

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation BankAtlantic Bancorp, Inc. (the Company, BBC) is a unitary savings bank holding company organized under the laws of the State of Florida in 1994. The Company s principal assets include BankAtlantic and its subsidiaries and RB Holdings, Inc. (Ryan Beck) and its subsidiaries. On December 31, 2003, the Company completed the spin-off of its wholly-owned real estate development subsidiary, Levitt Corporation (Levitt), and during the year ended December 31, 2003, Ryan Beck sold two of its subsidiaries, The GMS Group, LLC (GMS) and Cumberland Advisors (Cumberland). The financial information of Levitt, GMS and Cumberland is not included in the Consolidated Statement of Financial Condition at December 31, 2005 and 2004 and is included in the Consolidated Statements of Operations for the year ended December 31, 2003 as discontinued operations. The financial information of the above companies is included in the Consolidated Statement of Stockholders Equity and Comprehensive Income and Consolidated Statement of Cash Flows for the year ended December 31, 2003.

The accounting policies applied by the Company conform with accounting principles generally accepted in the United States of America.

BankAtlantic was founded in 1952 and is a federally-chartered, federally-insured savings bank headquartered in Fort Lauderdale, Florida. At December 31, 2005, BankAtlantic operated through a network of 78 branches located in Florida. BankAtlantic is a community-oriented bank which provides traditional retail banking services and a wide range of commercial banking products and related financial services.

Ryan Beck, founded in 1946 and acquired by the Company in 1998, is a full service broker dealer headquartered in Florham Park, New Jersey. Ryan Beck provides financial advice to individuals, institutions and corporate clients through 42 offices in 14 states. Ryan Beck is an investment banking firm engaged in the underwriting, distribution and trading of equity, debt and tax-exempt securities. Ryan Beck also offers a full service, general securities brokerage business with investment and insurance products for retail and institutional clients and provides investment and wealth management advisory services for its customers. As an investment banking firm, Ryan Beck provides capital-raising and advisory services, in addition to mergers and acquisitions transaction management. Ryan Beck operates the majority of its business on a fully-disclosed basis through a clearing broker, Pershing, a Bank of New York Securities Company. RB Holdings, Inc. was formed in July 2003 as a holding company for Ryan Beck & Co., Inc.

The Company has two classes of common stock. Class A shareholders are entitled to one vote per share, which in the aggregate represents 53% of the combined voting power of the Class A common stock and the Class B common stock. Class B common stock represents the remaining 47% of the combined vote. BFC Financial Corporation (BFC) currently owns 100% of the Company s Class B common stock and 15% of the Company s outstanding Class A common stock resulting in BFC owning 22% of the Company s aggregate outstanding common stock. The percent of total common equity represented by Class A and Class B common stock was 92% and 8% at December 31, 2005, respectively. The fixed voting percentages will be eliminated, and shares of Class B common stock will be entitled to only one vote per share from and after the date that BFC or its affiliates no longer own in the aggregate at least 2,438,062 shares of Class B common stock (which is one-half of the number of shares it now owns). Class B common stock is convertible into Class A common stock on a share for share basis.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statements of financial condition and operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, evaluation of intangible and long-lived assets for impairment, evaluation of securities for impairment, the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, the valuation of the fair value of assets and liabilities in the application of the purchase method of accounting, the amount of the deferred tax asset valuation allowance, accounting for contingencies, and assumptions used in the pro forma note disclosure for stock based compensation. In connection with the determination of the allowances for loan losses, real estate owned, and real estate held for development, management obtains independent appraisals for significant properties when it is deemed prudent.

Certain amounts for prior years have been reclassified to conform to revised statement presentation for 2005. BankAtlantic performed a review on the classification of its loan participations in its financial statements. Based on

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the review, BankAtlantic concluded that certain loan participations should be accounted for as secured borrowings instead of participations sold. As a consequence, certain participations that were previously recorded as participations sold aggregating to $174.9 million were corrected in the Company s 2005 financial statements to reflect such amounts as loans receivable and secured borrowings. Prior period presentation was not revised to conform to the 2005 presentation as the amounts were not considered significant (see Note 10 for a further discussion).

Consolidation Policy The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, majority-owned subsidiaries and variable interest entities in which the Company is the primary beneficiary as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN No. 46). On July 1, 2003, all of the company s subsidiaries, except for Levitt and its subsidiaries, implemented the interpretation effective January 1, 2003. As a result of the implementation of FIN No. 46, the Company consolidated a 50% owned joint venture and deconsolidated its wholly owned statutory business trusts formed to issue trust preferred securities. The joint venture was acquired in connection with a financial institution acquisition and recorded at fair value on the acquisition date, resulting in no impact to our financial statements upon adoption of FIN No. 46. No gains and losses are recorded on the issuance of subsidiary common stock. All inter-company transactions and balances have been eliminated.

Cash Equivalents Cash equivalents consist of cash, demand deposits at other financial institutions, federal funds sold, securities purchased under resell agreements, money market funds and other short-term investments with original maturities of 90 days or less. Federal funds sold are generally sold for one-day periods, and securities purchased under resell agreements are settled in less than 30 days.

Investment Securities Investment securities are classified based on management s intention on the date of purchase. Debt securities that management has both the positive intent and ability to hold to maturity are classified as securities held-to-maturity and are stated at cost, net of unamortized premiums and unaccreted discounts.

Debt securities not held for investment and marketable equity securities not accounted for under the equity method of accounting are classified as available for sale and are recorded at fair value. Unrealized gains and losses, after applicable taxes, are recorded as a component of other comprehensive income.

Declines in the value of individual held to maturity and available for sale securities that are considered other than temporary result in write-downs in earnings through securities activity, net of the individual securities to their fair value. The review for other-than-temporary declines takes into account current market conditions, trends and other key measures.

Securities acquired for short-term appreciation or other trading purposes are classified as trading securities and are recorded at fair value. Realized and unrealized gains and losses resulting from such fair value adjustments and from recording the results of sales are recorded in securities activities, net.

The fair value of securities available for sale and trading securities are estimated by obtaining prices actively quoted on national markets, using a price matrix or applying management valuation models.

Equity securities that do not have readily determinable fair values are carried at historical cost. These securities are evaluated for other than temporary declines in value, and, if impaired, the historical cost of the securities is written down to estimated fair value in earnings through securities activities, net.

Interest on securities, including the amortization of premiums and the accretion of discounts, are reported in interest and dividends on securities using the interest method over the lives of the securities, adjusted for actual prepayments. Gains and losses on the sale of securities are recorded on the trade date and recognized using the specific identification method and reported in securities activities, net.

Tax Certificates Tax certificates represent a priority lien against real property for which assessed real estate taxes are delinquent. Tax certificates are classified as investment securities and are carried at cost, net of an allowance for probable losses, which approximates fair value.

Allowance for Tax Certificate Losses The allowance represents management s estimate of incurred losses in the portfolio that are probable and subject to reasonable estimation. In establishing its allowance for tax certificate losses, management considers past loss experience, present indicators, such as the length of time the certificate has been

outstanding, economic conditions and collateral values. Tax certificates and resulting deeds are classified as non-accrual when a tax certificate is 24 to 60 months delinquent, depending on the municipality, from the acquisition date. At that time, interest

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ceases to be accrued. The provision to record the allowance is included in other expenses.

Loans - Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal balances net of any unearned income, unamortized deferred fees or costs, premiums or discounts and an allowance for loan losses. Loan origination fees and direct loan origination costs are deferred and recognized in interest income over the estimated life of the loans using the interest method, adjusted for actual prepayments.

Loans Held for Sale Such loans are reported at the lower of aggregate cost or estimated fair value based on current market prices for similar loans. Loan origination fees and related direct loan origination costs on originated loans held for sale and premiums and discounts on purchased loans held for sale are deferred until the related loan is sold and included in gains and losses upon sale.

Transfer of Loan participations BankAtlantic transfers participation rights in certain commercial real estate loans with servicing retained. These participation rights transfers are accounted for as loan sales when the transferred asset has been isolated from BankAtlantic and beyond the reach of BankAtlantic s creditors, the transferee s right to pledge or exchange the loan is not constrained and BankAtlantic does not have control over the loan. If the above criteria are not met, BankAtlantic accounts for the loan participation rights transfers as a secured borrowing.

Impaired loans Loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. For a loan that has been restructured, the contractual terms of the loan agreement refer to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement.

Allowance for Loan Losses The allowance for loan losses reflects management s estimate of probable incurred credit losses in the loan portfolios. Loans are charged off against the allowance when management believes the loan is not collectible. Recoveries are credited to the allowance.

The allowance consists of three components. The first component of the allowance is for high-balance non-homogenous loans that are individually evaluated for impairment. The process for identifying loans to be evaluated individually for impairment is based on management s identification of classified loans. Once an individual loan is found to be impaired, a valuation allowance is assigned to the loan based on one of the following three methods: (1) present value of expected future cash flows, (2) fair value of collateral less costs to sell, or (3) observable market price. Non-homogenous loans that are not impaired are assigned an allowance based on common characteristics with homogenous loans. The second component of the allowance is for homogenous loans in which groups of loans with common characteristics are evaluated to estimate the inherent losses in the portfolio. Homogenous loans have certain characteristics that are common to the entire portfolio so as to form a basis for predicting losses on historical data and delinquency trends as it relates to the group. Management segregates homogenous loans into groups such as residential real estate, small business mortgage, small business non-mortgage low-balance commercial loans and various types of consumer loans. The methodology utilized in establishing the allowance for homogenous loans includes consideration of delinquency trends, analysis of historical losses, examination of loan to value ratios, review of changes in loan underwriting policies and industry indicators. The third component of the allowance is determined separately from the procedures outlined above. This component addresses certain industry and geographic concentrations, the view of regulators and changes in composition of the loan portfolio. Management believes the allowance for loan losses is adequate and that it has a sound basis for estimating the adequacy of the allowance for loan losses. Actual losses incurred in the future are highly dependent upon future events, including the economic conditions of the geographic areas in which BankAtlantic holds loans.

Non-performing Loans A loan is generally placed on non-accrual status at the earlier of (i) the loan becoming past due 90 days as to either principal or interest or (ii) when the borrower has entered bankruptcy proceedings and the loan is delinquent. Exceptions to placing 90-day past due loans on non-accrual may be made if there exists an abundance of collateral and the loan is in the process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on non-accrual status, interest accrued but not received is reversed against interest income. A non-accrual loan may be restored to accrual

status when delinquent loan payments are collected and the loan is expected to perform in the future according to its contractual terms. Interest income on performing impaired loans is recognized on an accrual basis.

Consumer non-mortgage loans that are 120 days past due are charged off. Real estate secured consumer and

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

residential loans that are 120 days past due are charged down to fair value less estimated selling costs.

Real Estate Owned (REO) REO is recorded at the lower of cost or estimated fair value, less estimated selling costs when acquired. Write-downs required at the time of acquisition are charged to the allowance for loan losses or allowance for tax certificates. Expenditures for capital improvements are generally capitalized. Real estate acquired in settlement of loans or tax certificates are anticipated to be sold and valuation allowance adjustments are made to reflect any subsequent changes in fair values. The costs of holding REO are charged to operations as incurred. Provisions and reversals in the REO valuation allowance are reflected in operations. Management obtains independent appraisals for significant properties.

Investment Banking Revenues Investment banking revenues represent revenues from Ryan Beck. These revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which Ryan Beck acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger and acquisition and financial advisory services. Investment banking management fees are recorded as earned, provided no contingency of payment exists. Sales concessions are recorded on trade date, and underwriting fees are recorded at the time the underwriting is completed.

Securities Transactions Proprietary securities transactions in regular-way trades are recorded on a trade date basis. Profit and loss arising from all securities transactions entered into for the account and risk of Ryan Beck are recorded on a trade date basis. Customers securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Securities Owned and Securities Sold, But Not Yet Purchased Securities owned and securities sold, but not yet purchased are associated with proprietary securities transactions entered into by Ryan Beck and are accounted for at fair value with changes in the fair value included in earnings. The fair value of these trading positions is generally based on listed market prices. If listed market prices are not available or if liquidating the positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations, price quotations for similar instruments traded in different markets, management s estimates of amounts to be realized on settlement or management valuation models associated with securities that are not readily marketable.

Real Estate Held for Development and Sale This includes land, land development costs, and other construction costs associated with the Company s investment in a real estate variable interest entity. The real estate inventory is stated at the lower of accumulated cost or estimated fair value. The estimated fair value of real estate is evaluated based on an independent appraisal. The appraisal takes into consideration the current status of property, various restrictions, carrying costs, debt service requirements, costs of disposition and any other circumstances which may affect fair value, including management s plans for the property.

Inventory costs include direct acquisition, development and construction costs, interest and other indirect construction costs. Land and indirect land development costs are accumulated by specific area and allocated proportionately to various housing units within the respective area based upon the most practicable method, including specific identification and allocation based upon the relative sales value method or unit methods. Direct construction costs are assigned to housing units based on specific identification. All other capitalized costs are accumulated and are allocated to those housing units based upon the most practicable method. Other capitalized costs consist of capitalized interest, real estate taxes, tangible selling costs, local government fees and field overhead incurred during the development and construction period. Start-up costs and selling expenses are expensed as incurred.

Interest is capitalized at the effective rates paid on borrowings incurred for real estate inventory during the preconstruction and planning stage and the periods that projects are under development.

Capitalization of interest is discontinued if development ceases at a project.

Revenue and all related costs and expenses from real estate sales are recognized at closing. This is when title to and possession of the property and risks and rewards of ownership transfer to the buyer and other sale and profit recognition criteria are satisfied as required under generally accepted accounting principles in the United States of

America.

Investments in Unconsolidated Subsidiaries The Company follows the equity method of accounting to record its interests in subsidiaries in which it has the ability to significantly influence the decisions of the entity and to record its

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

investment in variable interest entities in which it is not the primary beneficiary. As a result, the Company accounts for its interests in statutory business trusts (utilized in the issuance of trust preferred securities) under the equity method. The statutory business trusts are variable interest entities in which the Company is not the primary beneficiary. Under the equity method, the Company s initial investment is recorded at cost and is subsequently adjusted to recognize its share of earnings or losses. Distributions received reduce the carrying amount of the investment.

Goodwill and Other Intangible Assets Goodwill is recorded at the acquisition date of a business and tested for impairment annually at the reporting unit level, by comparing the fair value of the reporting unit to its carrying amount. The Company will recognize a goodwill impairment charge if the carrying amount of the goodwill assigned to the reporting unit is greater than the implied fair value of the goodwill.

Other intangible assets consist of core deposit intangible assets which were initially recorded at fair value and then amortized over a useful life of ten years. The accumulated amortization on core deposit intangible assets was $6.7 million at December 31, 2005.

Office Properties and Equipment Land is carried at cost. Office properties, equipment and computer software are carried at cost less accumulated depreciation. Depreciation is primarily computed on the straight-line method over the estimated useful lives of the assets which generally range up to 40 years for buildings and 3-10 years for equipment. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the terms of the related leases or the useful lives of the assets.

Expenditures for new properties and equipment and major renewals and betterments are capitalized. Expenditures for maintenance and repairs are expensed as incurred, and gains or losses on disposal of assets are reflected in current operations.

Impairment of long lived assets Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the full carrying amount of an asset may not be recoverable. In performing the review for impairment, the Company compares the expected undiscounted future cash flows to the carrying amount of the asset and records an impairment loss if the carrying amount exceeds the expected future cash flows.

Long-lived assets to be abandoned are considered held and used until disposed. The depreciable life of a long-lived asset to be abandoned is depreciated over its shortened depreciable life when an entity commits to a plan to abandon the asset before the end of its previously estimated useful life. An impairment loss is recognized at the date a long-lived asset is exchanged for a similar productive asset if the carrying amount of the asset exceeds its fair value. Long-lived assets classified as held for sale are reported at the lower of its carrying amount or fair value less estimated selling costs and depreciation (amortization) ceases.

Advertising Advertising expenditures are expensed as incurred.

Income Taxes The Company and its subsidiaries, other than Heartwood Holdings, Inc., a real estate investment trust, file a consolidated federal income tax return. The Company and its subsidiaries file separate state income tax returns for each state jurisdiction. The provision for income taxes is based on income before taxes reported for financial statement purposes after adjustment for transactions that do not have tax consequences. Deferred tax assets and liabilities are realized according to the estimated future tax consequences attributable to differences between the carrying value of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates as of the date of the statement of financial condition. The effect of a change in tax rates on deferred tax assets and liabilities is reflected in the period that includes the statutory enactment date. A deferred tax asset valuation allowance is recorded when it is more likely than not that deferred tax assets will not be realized.

Derivative Instruments All derivatives are recognized on the statement of financial condition at their fair value. If the Company elects hedge accounting, the hedging instrument must be highly effective in achieving offsetting changes in the hedge instrument and hedged item attributable to the risk being hedged. Any ineffectiveness which arises during the hedging relationship is recognized in earnings in the Company s Consolidated Statements of Operations. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a

highly effective hedge, the Company discontinues hedge accounting prospectively.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of undesignated derivative instruments are reported in current-period earnings.

Accounting for Contingencies Reserves for contingencies are recorded when it is probable that an asset has been impaired or a liability had been incurred and the amount of the loss can be reasonably estimated.

Earnings Per Common Share Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if convertible securities or options to issue common shares of the Company or its subsidiaries were exercised. In calculating diluted earnings per share, interest expense net of taxes on convertible securities is added back to net income and equity in earnings of subsidiaries is adjusted for the effect of subsidiary stock options outstanding, if dilutive. The resulting net income amount is divided by the weighted average number of common shares outstanding, when dilutive. The options and restricted stock are included in the weighted average number of common shares outstanding based on the treasury stock method, if dilutive.

Brokered Deposits Brokered deposits are accounted for at historical cost and discounts or premiums, if any, are amortized or accreted using the interest method over the term of the deposit.

Stock-Based Compensation Plans The Company maintains both qualifying and non-qualifying stock-based compensation plans for its employees and directors. These are described more fully in Note 11. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25 and related interpretations. No compensation is recognized when option grants have an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	For the Years Ended December 31,		
(in thousands, except share data)	**2005**	**2004**	**2003**
Pro forma net income			
Net income, as reported	$ 59,182	$ 70,768	$ 67,717
Add: Stock-based employee compensation expense included in reported net income, net of related income tax effects	239	177	231
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effects	(2,531)	(1,973)	(1,897)
Pro forma net income	$ 56,890	$ 68,972	$ 66,051
Earnings per share:			
Basic as reported	$ 0.98	$ 1.19	$ 1.16
Basic pro forma	$ 0.94	$ 1.16	$ 1.14
Diluted as reported	$ 0.92	$ 1.11	$ 1.08
Diluted pro forma	$ 0.89	$ 1.09	$ 1.07

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Pronouncements:

In February 2006 the FASB issued SFAS No. 155, (*Accounting for Certain Hybrid Financial Instruments.*) This amends SFAS 133, (*Accounting for Derivative Instruments and Hedging Activities*) to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 (*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*) to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. The provisions of SFAS No. 155 are effective for all financial instruments acquired or issued (or subject to a remeasurement event) following the start of an entity s first fiscal year beginning after September 15, 2006, with earlier adoption allowed as of the beginning of a fiscal year for which (annual or interim) financial statements have not yet been issued. Management is currently evaluating the requirements of this standard.

In December 2005, FASB issued Staff Position (FSP) No. FSP SOP 94-6-1 *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk.* This FSP indicates terms in loan products that may give rise to a concentration of credit risk as that term is used in FASB Statement No. 107 *Disclosures about Fair Value of Financial Instruments.* Statement No. 107 requires disclosure about each significant concentration of credit risk in the notes to financial statements. The FSP is effective for annual periods ending after December 15, 2005. The Company implemented the disclosure requirements of this FSP as of December 31, 2005.

In November 2005, FASB issued FSP 115-1 and FAS 124-1, *Other-Than-Temporary Impairment and its Application to Certain Investments.* The FSP provides guidance for determining when an investment should be considered impaired, determining whether an impairment should be deemed other than temporary, and measuring an impairment loss. The FSP is effective for periods beginning after December 15, 2005. Management does not believe that the guidance in this FSP will have a material effect on the Company s financial statements.

In October 2005, FASB issued FSP No. FAS 13-1 *Accounting for Rental Costs Incurred during a Construction Period.* This FSP indicates that rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense. The guidance in this FSP is applied to the first reporting period beginning after December 15, 2005 with early adoption permitted. Management does not believe that the guidance in this FSP will have a material effect on the Company s financial statements.

In May 2005, FASB issued SFAS No. 154 *Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB No. 3.* This Statement requires retrospective application to prior periods financial statements of changes in accounting principle. This Statement defines *retrospective application* as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate. The Statement is effective for fiscal years beginning after December 15, 2005. Management adopted the accounting policies of this Statement as of January 1, 2006. The adoption of this Statement did not have a material effect on the Company s financial statements.

In June 2005 the Emerging Issues Task Force (EITF) issued EITF 04-05 *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.* The Task Force reached a consensus that the general partners in a limited partnership are presumed to control the limited partnership regardless of the extent of the general partners ownership interest in the limited partnership. This presumption can be overcome if the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. The guidance in this issue is effective after June 29, 2005 for new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified. The guidance in this issue is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005 for existing limited partnerships. Management does not believe that the Task Force consensus in EITF 04-05 will have a material effect on the Company s financial statements.

In November 2005, FASB issued FSP No. 123 (R)-3 *Transition Election Related to Accounting for the Tax Effects of Share-based Payment Awards.* The FSP provides an alternative method as of the date that SFAS No. 123(R) is adopted for calculating the beginning balance of the pool of additional paid-in capital available to absorb tax deficiencies recognized

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subsequent to the adoption of SFAS No. 123(R). On January 1, 2006, the date the Company adopted the accounting policies of SFAS No. 123(R), the Company elected the transition method under FSP No. 123 (R)-3.

In October 2005, FASB issued FSP No. FAS 123(R)-2 *Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R).* The FSP outlines a practical accommodation for determining if a mutual understanding of the key terms and conditions of an award to an individual exists at the date the award is granted. The guidance of this FSP is effective upon adoption of Statement 123(R). Management believes that the guidance in this FSP will not have an effect on future stock option grants.

In December 2004, FASB issued SFAS No. 123 (revision) *Share-based payments*. This Statement is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related implementation guidance. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Statement eliminated the accounting for share-based transactions under APB No. 25 and its related interpretations, instead requiring all share-based payments to be accounted for using a fair value method. The Statement can be adopted using the Modified Prospective Application or the Modified Retrospective Application. In March 29, 2005 the SEC issued Staff Accounting Bulletin (SAB) No. 107. SAB No. 107 expresses the staff s views of the interaction between SFAS No. 123R, Share-Based Payment, and certain SEC rules and regulations. SAB No. 107 also addresses the valuation of share-based payment arrangements for public companies. Management adopted the Statement as of January 1, 2006 using the modified prospective application. Management estimates that cumulative compensation expense to be recognized over the remaining life from currently unvested options at the adoption date will be approximately $12.0 million.

2. Discontinued Operations and Branch Sale

Discontinued Operations

During the year ended December 31, 2003, the Company completed the spin-off of its wholly-owned subsidiary, Levitt, and transferred its investment in Bluegreen Corporation to Levitt. During the year ended December 31, 2003, Ryan Beck sold two of its subsidiaries, The GMS Group, LLC (GMS) and Cumberland Advisors. The above transactions were presented as discontinued operations in the consolidated statements of operations for the year ended December 31, 2003.

On December 31, 2003, the Company completed the spin-off of Levitt, by means of a distribution to its shareholders of all of the outstanding capital stock of Levitt. As a result of the spin-off, the Company no longer owns any shares of capital stock of Levitt. In connection with the spin-off, the Company converted a $30.0 million demand note owed to the Company by Levitt to a five year term note with interest only payable monthly initially at the prime rate and thereafter at the prime rate plus increments of an additional 0.25% every six months. Prior to the spin-off, the Company transferred its 4.9% ownership interest in Bluegreen Corporation to Levitt in exchange for a $5.5 million note and additional shares of Levitt s stock (which additional shares were included in the spin-off). The transfer of the Bluegreen shares was accounted for at historical cost with no gain or loss recognized because at the date of the transfer, Levitt was a wholly-owned subsidiary of the Company. This $5.5 million note was repaid in April 2004. Additionally, prior to the spin-off, Levitt declared an $8.0 million dividend to the Company in the form of a note due in five years bearing interest on the same basis as the $30.0 million note described above. Levitt operated independently from the Company and its other subsidiaries. As a consequence, common costs incurred by the Company on behalf of Levitt were inconsequential. The $5.5 million note was repaid in April 2004. The $30 million and $8 million notes were repaid during the year ended December 31, 2005.

As part of Ryan Beck s acquisition of certain of the assets and assumption of certain of the liabilities of Gruntal & Co, LLC, in April 2002, Ryan Beck acquired all of the membership interests in The GMS Group, L.L.C. (GMS). Since its acquisition, GMS was operated as an independent business unit. After a receipt of an offer by GMS s management to purchase GMS from Ryan Beck, Ryan Beck sold its entire membership interest in GMS to GMS Group Holdings Corp. (Buyer) in August 2003 for $22.6 million. The Buyer was formed by the management of GMS along with other investors. Ryan Beck received cash proceeds from the sale of $9.0 million and a $13.6 million

secured promissory note issued by the Buyer with recourse to the management of GMS. The note is secured by the membership interest in GMS and contains covenants that require GMS to maintain certain capital and financial ratios. If these covenants are not maintained, Ryan Beck can exercise its rights of default under the note, including pursing the sale of the collateral. Ryan Beck did not recognize any gain or loss associated with the transaction. The promissory note is at a federal funds rate plus an applicable margin and is payable in 27 equal quarterly installments continuing until June 2010 with a final payment in September 2010. At December 31, 2005 and 2004, the outstanding balance of the promissory note was $3.3 million and $6.1 million, respectively.

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During the second quarter of 2003, Ryan Beck sold its entire interest in Cumberland Advisors, Inc. for $1.5 million and recognized a $228,000 loss.

The components of earnings from discontinued operations for the year ended December 31, 2003 are as follows (in thousands):

Net interest income	$ 5,870
Non-interest income:	
Investment banking income	17,782
Income from real estate operations	73,547
Income from unconsolidated subsidiaries	9,564
Other	4,535
Total non-interest income	105,428
Non-interest expense:	
Employee compensation and benefits	37,222
Occupancy and equipment	744
Advertising and promotion	4,546
Selling, general and administrative	16,504
Professional fees	3,063
Communications	1,148
Floor broker and clearing fees	683
Other	1,756
Total non-interest expenses	65,666
Income from discontinued operations before income taxes	45,632
Provision for income taxes	16,512
Income from discontinued operations, net of tax	$ 29,120

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the assets and liabilities sold or transferred associated with discontinued operations and the cash proceeds received or transferred for the year ended December 31, 2003 (in thousands):

	GMS & Cumberland	Levitt Spin-off	Total
Cash	$ 815	$ 21,413	$ 22,228
Securities owned	105,083		105,083
Loans receivable (1)		(12,955)	(12,955)
Real estate held for development		257,556	257,556
Investment in unconsolidated subsidiaries		73,662	73,662
Property and equipment	559		559
Goodwill	1,204		1,204
Other assets	5,479	16,256	21,735
Securities sold under agreements to repurchase		17,935	17,935
Subordinated debentures		(111,615)	(111,615)
Securities sold but not yet purchased	(3,781)		(3,781)
Due to clearing agent	(80,561)		(80,561)
Other liabilities	(4,347)	(93,179)	(97,526)
Stockholder s equity		(125,573)	(125,573)
Net assets sold or transferred	24,451	43,500	67,951
Notes receivable GMS Holdings, Inc.	(13,681)		(13,681)
Notes receivable Levitt Corporation		(43,500)	(43,500)
Net cash declines due to Levitt spin-off		(21,413)	(21,413)
Cash sold	(815)		(815)
Net cash increase (decrease)	$ 9,955	$ (21,413)	$ (11,458)

(1) Includes $18.1 million of construction loans from BankAtlantic to Levitt that were eliminated in the Company s consolidated financial statements prior to the Levitt spin-off transaction.

Branch Sale

In January 2005, BankAtlantic sold a branch to an unrelated financial institution.

The following table summarizes the assets sold, liabilities transferred and cash outflows associated with the branch sale (in thousands).

	Amount
Assets sold:	
Loans	$ 2,235
Property and equipment	733
Liabilities transferred:	
Deposits	(17,716)
Accrued interest payable	(27)
Net assets sold	(14,775)
Write-off of core deposit intangible assets	248
Gain on sale of branch	922
Net cash outflows from sale of branch	$ (13,605)

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Securities Available for Sale, Investment Securities, Tax Certificates and Short-Term Investments

The following tables summarize securities available-for-sale, investment securities and tax certificates (in thousands):

	Available for Sale							
	December 31, 2005				December 31, 2004			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Mortgage-Backed Securities:								
Mortgage-backed securities	$ 337,381	$ 1,547	$ 4,749	$ 334,179	$ 401,566	$ 3,848	$ 1,587	$ 403,827
Real estate mortgage investment conduits	49,797		2,436	47,361	96,938	188	436	96,690
Total mortgage-backed securities	387,178	1,547	7,185	381,540	498,504	4,036	2,023	500,517
Investment Securities:								
Tax-exempt securities	204,441	325	2,795	201,971	219,322	2,062	1,030	220,354
Other bonds	588			588	585			585
U.S. Treasury notes	998	2		1,000				
Equity securities	82,138	7,307		89,445	23,025	2,679		25,704
Total investment securities	288,165	7,634	2,795	293,004	242,932	4,741	1,030	246,643
Total	$ 675,343	$ 9,181	$ 9,980	$ 674,544	$ 741,436	$ 8,777	$ 3,053	$ 747,160

	Investment Securities and Tax Certificates							
	December 31, 2005				December 31, 2004			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
Tax certificates (1) Net of allowance of $3,271 and $3,297, respectively	$ 163,726	$	$	$ 163,726	$ 166,731	$	$	$ 166,731

Tax-exempt securities	193,918	313	1,428	192,803	133,562	302	777	133,087
Investment securities (2)	6,800	793		7,593	6,800	345		7,145
	$ 364,444	$ 1,106	$ 1,428	$ 364,122	$ 307,093	$ 647	$ 777	$ 306,963

(1) Management considers estimated fair value equivalent to book value for tax certificates since these securities have no readily traded market and are deemed to approximate fair value.

(2) Investment securities consist of equity instruments purchased through private placements and are accounted for at historical cost adjusted for other-than-temporary declines in value.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows the gross unrealized losses and fair value of the Company s securities available for sale and investment securities with unrealized losses that are deemed temporary, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
Mortgage-backed securities	$ 156,852	$ (2,110)	$ 101,168	$ (2,639)	$ 258,020	$ (4,749)
Real estate mortgage investment conduits	12,210	(346)	35,151	(2,090)	47,361	(2,436)
Tax exempt securities	107,089	(1,209)	49,657	(1,586)	156,746	(2,795)
Total securities available for sale:	276,151	(3,665)	185,976	(6,315)	462,127	(9,980)
Investment securities						
Tax exempt securities	116,393	(1,132)	11,982	(296)	128,375	(1,428)
Total	$ 392,544	$ (4,797)	$ 197,958	$ (6,611)	$ 590,502	$ (11,408)

Unrealized losses on securities outstanding greater than twelve months at December 31, 2005 were caused by interest rate increases. The cash flows of these securities are guaranteed by government sponsored enterprises and state municipalities. Management expects that the securities would not be settled at a price less than the carrying amount. Accordingly, the Company does not consider these investments other-than-temporarily impaired at December 31, 2005.

Unrealized losses on securities outstanding less than twelve months at December 31, 2005 were also caused by interest rate increases. These securities are guaranteed by government agencies and state municipalities and are of high credit quality. Since these securities are of high credit quality and the decline in value has existed for a short period of time, management believes that these securities may recover their losses in the foreseeable future. Accordingly, the Company does not consider these investments other-than-temporarily impaired at December 31, 2005.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows the gross unrealized losses and fair value of the Company s securities available for sale and investment securities with unrealized losses that are deemed temporary, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
Mortgage-backed securities	$ 91,091	$ (1,256)	$ 52,253	$ (331)	$ 143,344	$ (1,587)
Real estate mortgage investment conduits	71,705	(436)			71,705	(436)
Tax exempt securities	71,523	(1,030)			71,523	(1,030)
Total securities available for sale:	234,319	(2,722)	52,253	(331)	286,572	(3,053)
Investment securities						
Tax exempt securities	78,585	(777)			78,585	(777)
Total	$ 312,904	$ (3,499)	$ 52,253	$ (331)	$ 365,157	$ (3,830)

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The scheduled maturities of debt securities and tax certificates were (in thousands):

	Debt Securities Available for Sale		Tax Certificates and Investment Securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
December 31, 2005 (1) (2) (3)				
Due within one year	$ 5,429	$ 5,410	$ 163,726	$ 163,726
Due after one year, but within five years	90,319	89,311		
Due after five years, but within ten years	122,187	120,617	975	967
Due after ten years	375,270	369,761	192,943	191,836
Total	$ 593,205	$ 585,099	$ 357,644	$ 356,529

(1) Scheduled maturities in the above table may vary significantly from actual maturities due to prepayments.

(2) Except for tax certificates, maturities are based upon contractual maturities. Tax certificates do not have stated maturities, and estimates in the above table are based upon historical repayment experience (1 year or less).

(3) Amounts include $356 million of callable tax exempt

securities with
call dates
ranging from
2006 to 2015.

Activity in the allowance for tax certificate losses was (in thousands):

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Balance, beginning of period	$ 3,297	$ 2,870	$ 1,873
Charge-offs	(979)	(491)	(869)
Recoveries	603	918	666
Net (charge-offs) recoveries	(376)	427	(203)
Provision charged to operations	350		1,200
Balance, end of period	$ 3,271	$ 3,297	$ 2,870

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of gains and losses on sales of securities were (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Gross gains on securities activities	$ 859	$ 3,694	$ 457
Gross losses on securities activities	(18)		(1,961)
Unrealized gain on future contract	12	36	
Unrealized loss on future contract	(6)		(49)
Net gains (losses) on the sales of securities available for sale	$ 847	$ 3,730	$ (1,553)

Proceeds from sales of securities available for sale were $127.9 million, $95.6 million and $40.1 million during the years ended December 31, 2005, 2004 and 2003, respectively. Included in gross losses on securities activities, net during the year ended December 31, 2003 was $1.9 million of realized losses related to the settlement of interest rate swap contracts.

The Company s securities owned consisted of the following (in thousands):

	December 31,	
	2005	2004
Debt obligations:		
State and municipal obligations	$ 76,568	$ 10,824
Corporate debt	3,410	10,093
Obligations of U.S. Government agencies	45,827	57,659
Equity securities	23,645	18,042
Mutual funds and other	28,359	27,898
Certificates of deposit	2,483	927
Total	$ 180,292	$ 125,443

Securities owned at December 31, 2005 and 2004 were primarily associated with Ryan Beck s trading activities conducted both as principal and as agent on behalf of the firm and individual and institutional investor clients. Transactions as principal involve making markets in securities which are held in inventory to facilitate sales to and purchases from customers. Ryan Beck realized income from principal transactions of $100.3 million, $90.4 million and $95.5 million for the years ended December 31, 2005, 2004 and 2003, respectively.

In the ordinary course of business, Ryan Beck borrows or carries excess funds under an agreement with its clearing broker. Securities owned are pledged as collateral for clearing broker borrowings. The clearing broker may rehypothecate all of Ryan Beck s securities owned. As of December 31, 2005 balances due to the clearing broker were $24.5 million and as of December 31, 2004, balances due from the clearing broker were $16.6 million.

Securities sold, but not yet purchased consisted of the following (in thousands):

	December 31,	
	2005	2004
Equity securities	$ 3,780	$ 3,498
Corporate debt	1,332	9,958
State and municipal obligations	41	269
Obligations of U.S. Government agencies	29,653	25,384
Certificates of deposit	371	353

	$ 35,177	$ 39,462

Securities sold, but not yet purchased are a part of Ryan Beck s normal activities as a broker and dealer in securities and are subject to off-balance-sheet risk should Ryan Beck be unable to acquire the securities for delivery to the purchaser at prices equal to or less than the current recorded amounts.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the year ended December 31, 2005, Ryan Beck established the Kronos Fund, LP (Partnership), a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act. The Partnership is a hedge fund that primarily trades equity securities. The Partnership is consolidated into Ryan Beck Investment Management, LLC (the General Partner), a wholly owned subsidiary of RB Holdings, who has control over the Partnership. Included in securities owned and securities sold but not yet purchased was $3.4 million and $1.3 million, respectively, associated with the Partnership.

The following table provides information on securities purchased under resell agreements (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Ending Balance	$	$	$
Maximum outstanding at any month end within period	$	$	$160,000
Average amount invested during period	$	$	$ 31,589
Average yield during period	%	%	0.60%

The underlying securities associated with the securities purchased under resell agreements during the year ended December 31, 2003 were held by the Company.

The following table provides information on Federal Funds sold (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Ending Balance	$1,057	$ 5,100	$
Maximum outstanding at any month end within period	$8,648	$54,530	$83,000
Average amount invested during period	$4,275	$ 6,282	$16,499
Average yield during period	1.87%	0.75%	1.01%

As of December 31, 2005 and 2004, the Company had $2.2 million and $11.0 million invested in money market accounts with unrelated brokers.

The estimated fair value of securities and short term investments pledged for the following obligations were (in thousands):

	December 31,	
	2005	2004
Treasury tax and loan	$ 51,911	$ 1,784
Repurchase agreements	118,527	312,171
Public deposits	37,923	53,838
	$ 208,361	$ 367,793

The counterparty to the repurchase agreements has the right to engage in other repurchase transactions with the pledged securities but must deliver the pledged securities to BankAtlantic at the termination of the agreement.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The change in net unrealized holding gains or losses on securities available for sale, included as a separate component of stockholders equity, was as follows (in thousands):

	For The Years Ended December 31,		
	2005	2004	2003
Net change in other comprehensive income on securities available for sale	$ (6,863)	$ (3,190)	$ (13,073)
Change in deferred tax benefit on net unrealized depreciation on securities available for sale	(2,509)	(1,145)	(4,737)
Change in stockholders equity from net unrealized depreciation on securities	$ (4,354)	$ (2,045)	$ (8,336)

The components of accumulated other comprehensive loss included in stockholders equity was as follows (in thousands):

	December 31,	
	2005	2004
Unrealized (losses) gains on securities	$ (443)	$ 3,911
Minimum pension liability	(5,892)	(4,903)
Accumulated other comprehensive income	$ (6,335)	$ (992)

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Loans Receivable

The loan portfolio consisted of the following components (in thousands):

	December 31,	
	2005	**2004**
Real estate loans:		
Residential	$ 2,043,055	$ 2,065,658
Construction and development	1,339,576	1,454,048
Commercial	1,060,245	1,075,391
Small business	151,924	123,740
Loans to Levitt Corporation	223	8,621
Other loans:		
Home equity	513,813	457,058
Commercial business	89,752	91,505
Small business non-mortgage	83,429	66,679
Loans to Levitt Corporation		38,000
Consumer loans	21,469	14,540
Deposit overdrafts	5,694	3,894
Residential loans held for sale	2,538	4,646
Discontinued loan products (1)	1,207	8,285
Total gross loans	5,312,925	5,412,065
Adjustments:		
Undisbursed portion of loans in process	(649,296)	(767,804)
Premiums related to purchased loans	5,566	6,609
Deferred fees	(3,231)	(5,812)
Allowance for loan and lease losses	(41,192)	(46,010)
Loans receivable net	$ 4,624,772	$ 4,599,048

(1) Discontinued loan products consist of lease financings and indirect consumer loans. These loan products were discontinued during prior periods.

BankAtlantic s loan portfolio had the following geographic concentration at December 31, 2005:

Florida	57%
California	11%

Northeast	8%
Other	24%
	100%

Loans held for sale consisted of loans originated by BankAtlantic (primarily loans that qualify under the Community Reinvestment Act) designated as held for sale and loans originated through the assistance of an independent mortgage company. The mortgage company provides processing and closing assistance to BankAtlantic. Pursuant to an agreement, this mortgage company purchases the loans from BankAtlantic 14 days after the date of funding. BankAtlantic owns the loans during the 14 day period and accordingly earns the interest income during the period. The sales price is negotiated quarterly for all loans sold during the quarter.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Allowance for Loan Losses (in thousands):

	For Years Ended December 31,		
	2005	**2004**	**2003**
Balance, beginning of period	$ 46,010	$ 45,595	$ 48,022
Loans charged-off	(2,694)	(4,076)	(11,723)
Recoveries of loans previously charged-off	4,491	9,600	10,577
Net recoveries (charge-offs)	1,797	5,524	(1,146)
Allowance for loan losses, acquired			(734)
Net provision credited to operations	(6,615)	(5,109)	(547)
Balance, end of period	$ 41,192	$ 46,010	$ 45,595

The following summarizes impaired loans (in thousands):

	December 31, 2005		December 31, 2004	
	Gross Recorded Investment	**Specific Allowances**	**Gross Recorded Investment**	**Specific Allowances**
Impaired loans with specific valuation allowances	$ 386	$ 193	$ 247	$ 123
Impaired loans without specific valuation allowances	6,878		8,123	
Total	$ 7,264	$ 193	$ 8,370	$ 123

The average gross recorded investment in impaired loans was $6.8 million, $10.3 million and $16.3 million during the years ended December 31, 2005, 2004 and 2003, respectively.

Interest income which would have been recorded under the contractual terms of impaired loans and the interest income actually recognized was (in thousands):

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Contracted interest income	$ 343	$ 464	$ 666
Interest income recognized	(192)	(192)	(396)
Foregone interest income	$ 151	$ 272	$ 270

Non-performing assets consist of non-accrual loans, non-accrual tax certificates, and real estate owned. Non-accrual loans are loans on which interest recognition has been suspended because of doubts as to the borrower s ability to repay principal or interest. Non-accrual tax certificates are tax deeds or certificates in which interest recognition has been suspended due to the aging of the certificate or deed.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-performing assets (in thousands):

	December 31,		
	2005	2004	2003
Non-accrual tax certificates	$ 388	$ 381	$ 894
Non-accrual loans			
Residential	5,981	5,538	9,777
Commercial real estate and business	340	340	52
Small business	9	88	155
Lease financing		727	25
Consumer	471	1,210	794
Total non-accrual loans	6,801	7,903	10,803
Real estate owned	967	692	2,422
Total non-performing assets	$ 8,156	$ 8,976	$ 14,119

Other potential problem loans (in thousands):

	December 31,		
	2005	2004	2003
Loans contractually past due 90 days or more and still accruing	$	$	$ 135
Performing impaired loans, net of specific allowances	193	320	180
Restructured loans	77	24	1,387
Total potential problem loans	$ 270	$ 344	$ 1,702

Loans contractually past due 90 days or more and still accruing represent loans that have matured and the borrower continues to make the payments under the matured loan agreement. BankAtlantic is in the process of renewing or extending these matured loans. Performing impaired loans are impaired loans which are still accruing interest. Restructured loans are loans in which the original terms were modified granting the borrower loan concessions due to financial difficulties. There were no commitments to lend additional funds on non-performing loans and BankAtlantic has $105,000 of commitments to lend additional funds to potential problem loans at December 31, 2005.

Foreclosed asset activity in non-interest expense includes the following (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Real estate acquired in settlement of loans and tax certificates:			
Operating expenses, net	$ (75)	$ (137)	$ (1,122)
Provisions for losses on REO		(5)	(812)
Net gains on sales	1,840	694	1,984
Total income from real estate acquired	$ 1,765	$ 552	$ 50

There were no write downs of real estate acquired during the year ended December 31, 2005. During the years ended December 31, 2004 and 2003 real estate acquired write downs were $5,000 and $812,000, respectively.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Accrued Interest Receivable

Accrued interest receivable consisted of (in thousands):

	December 31,	
	2005	2004
Loans receivable	$ 26,107	$ 22,128
Investment securities and tax certificates	10,929	9,527
Securities available for sale	4,454	4,327
Accrued interest receivable	$ 41,490	$ 35,982

6. Office Properties and Equipment

Office properties and equipment was comprised of (in thousands):

	December 31,	
	2005	2004
Land	$ 35,364	$ 28,958
Buildings and improvements	85,211	81,650
Furniture and equipment	98,849	73,702
Total	219,424	184,310
Less accumulated depreciation	65,304	54,520
Office properties and equipment, net	$ 154,120	$ 129,790

During the year ended December 31, 2005, the BankAtlantic opened its new Corporate Center, which serves as its corporate headquarters. The Company recorded a $3.7 million impairment charge in its Statement of Operations for the year ended December 31, 2005 as a result of the corporate headquarters relocation and the expected demolition of the old corporate headquarters building. The building and equipment were previously included in the BankAtlantic reportable segment.

Included in occupancy and equipment expense on the Company s consolidated statement of operations was $14.3 million, $11.9 million and $10.0 million of depreciation expense for the years ended December 31, 2005, 2004 and 2003, respectively. Included in furniture and equipment at December 31, 2005 and 2004 was $6.1 million and $5.4 million, respectively, of unamortized software costs. Included in depreciation expense for the years ended December 31, 2005, 2004 and 2003 was $2.1 million, $1.6 million and $1.4 million, respectively, of software cost amortization.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Deposits

The weighted average nominal interest rate payable on deposit accounts at December 31, 2005 and 2004 was 1.26 % and 0.87%, respectively. The stated rates and balances on deposits were (dollars in thousands):

	December 31,			
	2005		2004	
	Amount	Percent	Amount	Percent
Interest free checking	$ 1,019,949	27.18%	$ 890,398	25.75%
Insured money fund savings 1.76% at December 31, 2005, 1.05% at December 31, 2004,	846,441	22.56	875,422	25.32
NOW accounts 0.50% at December 31, 2005, 0.30% at December 31, 2004,	755,708	20.14	658,137	19.04
Savings accounts 0.46% at December 31, 2005, 0.28% at December 31, 2004,	313,889	8.36	270,001	7.81
Total non-certificate accounts	2,935,987	78.24	2,693,958	77.92
Certificate accounts:				
Less than 2.00%	20,546	0.55	302,319	8.74
2.01% to 3.00%	181,589	4.84	327,958	9.49
3.01% to 4.00%	475,750	12.67	74,439	2.15
4.01% to 5.00%	130,288	3.47	21,357	0.62
5.01% to 6.00%	4,767	0.13	34,988	1.01
Total certificate accounts	812,940	21.66	761,061	22.01
Total deposit accounts	3,748,927	99.90	3,455,019	99.93
Premium on brokered deposits	(35)	(0.00)	(308)	(0.01)
Fair value adjustment related to acquisitions			16	0.00
Interest earned not credited to deposit accounts	3,784	0.10	2,475	0.08
Total	$ 3,752,676	100.00%	$ 3,457,202	100.00%

Interest expense by deposit category was (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Money fund savings and NOW accounts	$ 16,592	$ 10,860	$ 11,142
Savings accounts	909	652	856
Certificate accounts below $100,000	12,676	8,126	10,914
Certificate accounts, $100,000 and above	10,225	8,873	13,457
Less early withdrawal penalty	(318)	(156)	(180)

Total	$ 40,084	$ 28,355	$ 36,189

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2005, the amounts of scheduled maturities of certificate accounts were (in thousands):

	For the Years Ending December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**Thereafter**
0.00% to 2.00%	$ 17,253	$ 2,242	$ 422	$ 384	$ 96	$ 149
2.01% to 3.00%	162,503	14,780	3,188	997	122	
3.01% to 4.00%	395,628	45,924	22,315	6,114	5,348	420
4.01% to 5.00%	84,378	28,735	8,293	6,977	1,905	
5.01% and greater	2,773	1,673	314			7
Total	$ 662,535	$ 93,354	$ 34,532	$ 14,472	$ 7,471	$ 576

Time deposits of $100,000 and over had the following maturities (in thousands):

	December 31, 2005
3 months or less	$ 142,901
4 to 6 months	89,290
7 to 12 months	73,346
More than 12 months	57,430
Total	$ 362,967

Included in certificate accounts at December 31, was (in thousands):

	2005	2004
Brokered deposits	$ 77,898	$ 140,116
Public deposits	63,767	114,052
Total institutional deposits	$ 141,665	$ 254,168

The Company also has $398,000 and $0 of brokered deposits included in transaction accounts at December 31, 2005 and 2004, respectively.

Ryan Beck acted as principal dealer in obtaining $19.7 million and $20.6 million of the brokered deposits outstanding as of December 31, 2005 and 2004, respectively. BankAtlantic has various relationships for obtaining brokered deposits which provide for an alternative source of borrowings, when and if needed.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Advances from Federal Home Loan Bank and Federal Funds Purchased

Advances from Federal Home Loan Bank (FHLB) (dollars in thousands):

Payable During Year Ending December 31,	Year Callable	Interest Rate	December 31, 2005	December 31, 2004
2005		1.86%	$	$ 7,500
2006		1.89%	2,083	10,417
2008		5.14% to 5.67%	409,000	409,000
2010		5.84% to 6.34%	32,000	32,000
2011		4.50% to 5.05%	80,000	50,000
Total fixed rate advances			523,083	508,917
European callable fixed rate advances 2011	2005	5.05%		30,000
Bermuda callable fixed rate advances 2009	2006	4.46%	10,000	10,000
2005		2.13% to 2.57%		870,000
2006		1.18% to 2.39%		125,000
2006		4.11% to 4.51%	650,000	
Total adjustable rate advances			650,000	995,000
2009	2006	4.14%	25,000	
2010	2006	3.71%	25,000	
2012	2006	3.71% to 4.14%	50,000	
Flipper callable adjustable rate advances			100,000	
Purchase accounting fair value adjustments			449	580
Total FHLB advances			$ 1,283,532	$ 1,544,497
Average cost during period			4.04%	3.93%
Average cost end of period			4.76%	3.41%

European callable advances give the FHLB the option to reprice the advance at a specific future date. Bermuda callable advances give the FHLB the option to reprice the advance anytime from the call date until the payable date. Once the FHLB exercises its call option, the Company has the option to convert to a three month LIBOR-based

floating rate advance, pay off the advance or convert to another fixed rate advance. A flipper callable adjustable rate advance bears interest at a LIBOR-based floating rate which adjusts quarterly. After one year the advances have a weighted average fixed rate of 3.77%. The FHLB, after one year, has an option to convert the borrowing to a LIBOR-based rate that adjusts quarterly. If the FHLB makes such an election, BankAtlantic will have the right to pre-pay the advances at no penalty or premium.

At December 31, 2005, $2.1 billion of 1-4 family residential loans, $218.5 million of commercial real estate loans and $506.0 million of consumer loans were pledged against FHLB advances. In addition, FHLB stock is pledged as collateral for outstanding FHLB advances.

BankAtlantic s line of credit with the FHLB is limited to 40% of assets, subject to available collateral, with a maximum term of 10 years.

As of December 31, 2005, BankAtlantic pledged $7.6 million of consumer loans to the Federal Reserve Bank of Atlanta (FRB) as collateral for potential advances of $6.3 million. The FRB line of credit has not yet been utilized by the Company.

During the year ended December 31, 2004, BankAtlantic prepaid $108 million of fixed rate FHLB advances. As a result of the prepayments, BankAtlantic incurred prepayment penalties of $11.7 million.

During the year ended December 31, 2003, the Company repaid $325 million of fixed rate FHLB advances that would have matured within 24 months and incurred a prepayment penalty of $10.9 million.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Federal Funds Purchased and Treasury Borrowings:

BankAtlantic established $532.9 million of lines of credit with other banking institutions for the purchase of federal funds. During the year ended December 31, 2005, BankAtlantic began participating in a treasury tax and loan program with the Department of Treasury. Under this program, the Treasury, at its option, can invest up to $50 million with BankAtlantic at a federal funds rate less 25 basis points. At December 31, 2005, the outstanding balance under this program was $24.7 million. The following table provides information on federal funds purchased and Treasury borrowings at December 31, 2005 (dollars in thousands):

	2005	2004	2003
Ending balance	$139,475	$105,000	$
Maximum outstanding at any month end Within period	$181,065	$105,000	$180,000
Average amount outstanding during period	$124,605	$ 47,661	$ 60,179
Average cost during period	3.42%	2.47%	1.29%

9. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent transactions whereby the Company sells a portion of its current investment portfolio (usually MBS s and REMIC s) at a negotiated rate and agrees to repurchase the same assets on a specified future date. The Company issues repurchase agreements to institutions and to its customers. These transactions are collateralized by investment securities. Customer repurchase agreements are not insured by the FDIC. At December 31, 2005 and 2004, the outstanding balances of customer repurchase agreements were $116.0 million and $99.6 million, respectively. Institutional repurchase agreements outstanding at December 31, 2005 and 2004 were $0 and $197.0 million, respectively.

The following table provides information on the agreements to repurchase (dollars in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Maximum borrowing at any month-end within the period	$287,088	$374,824	$365,042
Average borrowing during the period	$185,111	$189,398	$193,068
Average interest cost during the period	2.88%	1.26%	1.11%
Average interest cost at end of the period	4.10%	2.16%	0.73%

The following table lists the amortized cost and estimated fair value of securities sold under repurchase agreements, and the repurchase liability associated with such transactions (dollars in thousands):

	Amortized Cost	Estimated Fair Value	Repurchase Balance	Weighted Average Interest Rate
December 31, 2005 (1)				
Mortgage-backed securities	$ 84,023	$ 83,376	$ 81,617	4.10%
REMIC	37,241	35,151	34,409	4.10
Total	$ 121,264	$ 118,527	$ 116,026	4.10%
December 31, 2004 (1)				
Mortgage-backed securities	$ 213,824	$ 215,904	$ 202,358	2.09%
REMIC	96,644	96,267	94,285	2.30

Total	$ 310,468	$ 312,171	$ 296,643	2.16%

(1) At December 31, 2005 and 2004, all securities were classified as available for sale and were recorded at fair value in the consolidated statements of financial condition.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All repurchase agreements existing at December 31, 2005 matured and were repaid in January 2006. These securities were held by unrelated broker dealers.

10. Notes, Bonds and Junior Subordinated Debentures

The Company had the following subordinated debentures, notes and bonds payable outstanding at December 31, 2005 and 2004 (in thousands):

	Issue Date	December 31, 2005	December 31, 2004	Interest Rate	Maturity Date
BankAtlantic Bancorp Borrowings					
Bank line of credit	9/16/05	$	$	Prime -.50%	9/15/2006
Bank line of credit	8/24/00		100	Prime -.50%	3/1/2007
Total BBC borrowings			100		
BankAtlantic Borrowings					
Subordinated debentures (1)	10/29/02	22,000	22,000	LIBOR + 3.45%	11/7/2012
Development notes	3/22/02	7,651	1,036	Prime + 1.00%	8/26/2006
Development notes	3/22/02	468	4,647	Prime + .75%	5/1/2006
Mortgage-Backed Bond	3/22/02	8,973	9,958	(2)	9/30/2013
Total BankAtlantic borrowings		39,092	37,641		
Total notes and bonds		$ 39,092	$ 37,741		
BankAtlantic secured borrowings	Various	$ 138,270	$	Floating	Various

(1) LIBOR interested rates are indexed to 3-month LIBOR and adjust quarterly.

(2) The bonds adjust semi-annually to the ten year treasury constant maturity rate minus 23 basis points.

The Company had the following junior subordinated debentures outstanding at December 31, 2005 and 2004 (in thousands):

Junior Subordinated Debentures	Issue Date	Outstanding Amount	Interest Rate	Maturity Date	Beginning Optional Redemption Date
Subordinated Debentures Trust II	3/5/2002	$ 57,088	8.50%	3/31/2032	3/31/2007
Subordinated Debentures Trust III	6/26/2002	25,774	LIBOR + 3.45%	6/26/2032	6/26/2007
Subordinated Debentures Trust IV	9/26/2002	25,774	LIBOR + 3.40%	9/26/2032	9/26/2007
Subordinated Debentures Trust V	9/27/2002	10,310	LIBOR + 3.40%	9/30/2032	9/27/2007
Subordinated Debentures Trust VI	12/10/2002	15,450	LIBOR + 3.35%	12/10/2032	12/10/2007
Subordinated Debentures Trust VII	12/19/2002	25,774	LIBOR + 3.25%	12/19/2032	12/19/2007
Subordinated Debentures Trust VIII	12/19/2002	15,464	LIBOR + 3.35%	01/07/2033	12/19/2007
Subordinated Debentures Trust IX	12/19/2002	10,310	LIBOR + 3.35%	01/07/2033	12/19/2007
Subordinated Debentures Trust X	3/26/2003	51,548	6.40 (2)%	3/26/2033	3/26/2008
Subordinated Debentures Trust XI	4/10/2003	10,310	6.45(2)%	4/24/2033	4/24/2008
Subordinated Debentures Trust XII	3/27/2003	15,464	6.65(2)%	4/07/2033	4/07/2008
Total Subordinated Debentures (1)		$ 263,266			

(1) LIBOR interest rates are indexed to 3-month LIBOR and adjust quarterly.

(2) Adjusts to floating LIBOR rate five years from the issue date.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Annual maturities of Junior Subordinated Debentures and other debt outstanding at December 31, 2005 are as follows (in thousands):

Year Ending December 31,	Amount
2006	$ 66,816
2007	37,185
2008	28,159
2009	10,813
2010	3,416
Thereafter	294,239
	$ 440,628

At December 31, 2005 and 2004, $5.9 million and $6.7 million, respectively, of unamortized underwriting discounts and costs associated with the issuance of subordinated debentures and junior subordinated debentures were included in other assets in the Company s statements of financial condition.

Junior Subordinated Debentures:

The Company has formed eleven statutory business trusts (Trusts) for the purpose of issuing Trust Preferred Securities (trust preferred securities) and investing the proceeds thereof in junior subordinated debentures of the Company. The trust preferred securities are fully and unconditionally guaranteed by the Company. The Trusts used the proceeds from issuing trust preferred securities and the issuance of its common securities to the Company to purchase junior subordinated debentures from the Company. Interest on the junior subordinated debentures and distributions on the trust preferred securities are payable quarterly in arrears. Distributions on the trust preferred securities are cumulative and are based upon the liquidation value of the trust preferred security. The Company has the right, at any time, as long as there are no continuing events of default, to defer payments of interest on the junior subordinated debentures for a period not exceeding 20 consecutive quarters; but not beyond the stated maturity of the junior subordinated debentures. To date no interest has been deferred. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption. The Company has the right to redeem the junior subordinated debentures five years from the issue date and also has the right to redeem the junior subordinated debentures in whole (but not in part) within 180 days following certain events, as defined, whether occurring before or after the redemption date and therefore cause a mandatory redemption of the trust preferred securities. The exercise of such right is subject to the Company having received regulatory approval, if required under applicable capital guidelines or regulatory policies. In addition, the Company has the right, at any time, to shorten the maturity of the junior subordinated debentures to a date not earlier than the redemption date. Exercise of this right is also subject to the Company having received regulatory approval, if required under applicable capital guidelines or regulatory policies.

BankAtlantic Bancorp:

Revolving Credit Facilities:

In March 2005, the Company repaid the remaining $100,000 under a revolving credit facility with an independent financial institution. In May 2005, the Company entered into a modification agreement to the revolving credit facility reducing the commitment amount from $30 million to $20 million and extending the maturity date from March 1, 2005 to March 1, 2007. In February 2006, the credit facility commitment was reduced to $15 million. The credit facility contains customary covenants, including financial covenants relating to BankAtlantic s regulatory capital and maintenance by BankAtlantic of certain loan loss reserves, and is secured by the common stock of BankAtlantic. At December 31, 2005 the Company was in compliance with all loan covenants except with respect to the allowance for loan losses to total loans ratio in which the covenants were revised in February 2006. The Company was in

compliance with the revised covenants.

In September 2005, the Company entered into a revolving credit facility of $15 million with another independent financial institution. The credit facility contains customary financial covenants relating to regulatory capital, debt service coverage and the maintenance of certain loan loss reserves. This loan is secured by the common stock of BankAtlantic. At

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 the Company was in compliance with all loan covenants.

BankAtlantic:

BankAtlantic assumed a $15.9 million mortgage-backed bond in connection with a financial institution acquisition during 2002. BankAtlantic pledged $13.6 million of residential loans as collateral for this bond at December 31, 2005.

In October 2002, BankAtlantic issued $22 million of floating rate subordinated debentures due 2012. The Subordinated Debentures pay interest quarterly at a floating rate equal to 3-month LIBOR plus 345 basis points and are redeemable after October 2007 at a price based upon then-prevailing market interest rates. The net proceeds have been used by BankAtlantic for general corporate purposes. The subordinated debentures were issued by BankAtlantic in a private transaction as part of a larger pooled securities offering. The subordinated debentures currently qualify for inclusion in BankAtlantic s total risk based capital.

The development notes are the obligation of a real estate joint venture that was acquired in connection with a financial institution acquisition during 2002. The notes are secured by construction of specific homes. The notes are with unrelated financial institutions with interest rates ranging from prime plus 0.75% to prime plus 1% with interest rate floors ranging from 5.00% to 5.75%. These notes mature in 2006. BankAtlantic s wholly-owned subsidiary has a 50% interest in the real estate joint venture. The joint venture is a variable interest entity and is consolidated in the Company s consolidated financial statements.

BankAtlantic has entered into loan participation agreements in order to fund large balance loans and to limit its credit risk to one borrower. These agreements require other lenders to fund a portion of the loans on a non-recourse basis and BankAtlantic continues to service the loan. The other lenders may or may not have the right to sell, transfer or pledge their participation during the life of the contract. In accordance with FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities,* loan participation arrangements that satisfy various criteria which include giving the participant the right to sell, transfer or pledge its participation are accounted for as loan sales. Loan participation arrangements that limit the participants ability to sell, transfer or pledge the participation are accounted for as secured borrowings. At December 31, 2005, the outstanding balance of participations sold was $220.5 million of which $138.3 million were accounted for as secured borrowings and $82.2 million were accounted for as loan sales.

Indentures

The Indentures relating to all of the Debentures (including those related to the junior subordinated debentures) contain certain customary covenants found in Indentures under the Trust Indenture Act, including covenants with respect to the payment of principal and interest, maintenance of an office or agency for administering the Debentures, holding of funds for payments on the Debentures in trust, payment by the Company of taxes and other claims, maintenance by the Company of its properties and its corporate existence and delivery of annual certifications to the Trustee.

11. Restricted Stock, Common Stock and Common Stock Option Plans

Issuance and Redemption of Class A Common Stock

In April 2003, the Company called for redemption approximately $45.8 million of its 5.625% Convertible Subordinated Debentures due 2007. The Convertible Subordinated Debentures were redeemed at a redemption price of 102% of the principal amount plus accrued and unpaid interest through the redemption date. During the period between the mailing of the notice of redemption and the redemption, approximately $211,000 of Convertible Subordinated Debentures were converted by holders into an aggregate of 18,754 shares of Class A common stock.

During the years ended December 31, 2005, 2004 and 2003, the Company received net consideration of $2.3 million, $3.7 million and $4.5 million, respectively, from the exercise of stock options. During the year ended December 31, 2005 and 2004, the Company redeemed 260,417 and 268,644 shares of Class A common stock as consideration for the payment of the exercise price of stock options and for the payment of the optionee s minimum statutory withholding taxes.

Restricted Stock:

In December 1998, the Company adopted a Restricted Stock Incentive Plan (BankAtlantic Bancorp-Ryan Beck

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock Incentive Plan) to provide additional incentives to officers and key employees of its subsidiary, Ryan Beck. The Plan provided up to 862,500 shares of restricted Class A common stock, of which not more than 287,500 shares may be granted to any one person. The Plan allows the Board of Directors of the Company to impose an annual cap on awards. During the year ended December 31, 2003, the Company issued 12,500 shares of restricted stock. There were no restricted shares issued under the Plan during the years ending December 31, 2005 and 2004. During the years ended December 31, 2005, 2004 and 2003, 16,287, 0 and 33,760 shares, respectively, of restricted stock vested and there were no restricted shares outstanding under this Plan at December 31, 2005.

During the year ended December 31, 2005 the Company issued to non-employee directors 9,268 shares of restricted Class A common stock. The restricted stock was issued under the BankAtlantic Bancorp, Inc. 2005 Restricted Stock and Option Plan. The restricted stock vests monthly over a 12 month period and 4,634 shares of restricted stock under these grants remained subject to vesting at December 31, 2005.

At December 31, 2005, 128,000 shares of restricted Class A common stock previously awarded to key employees of BankAtlantic were outstanding and remained subject to vesting. During the years ended December 31, 2005, 2004 and 2003, 19,500, 19,500 and 21,000 shares, respectively, of restricted shares previously awarded vested. None of these restricted share awards were approved by security holders.

BankAtlantic Bancorp Stock Option Plans:

	Stock Option Plans				
	Maximum Term (3)	**Shares Authorized (6)**	**Class of Stock**	**Vesting Requirements**	**Type of Options (5)**
1996 Stock Option Plan	10 years	2,246,094	A	5 Years (1)	ISO, NQ
1998 Ryan Beck Option Plan	10 years	362,417	A	(4)	ISO, NQ
1998 Stock Option Plan	10 years	920,000	A	5 Years (1)	ISO, NQ
1999 Non-qualifying Stock Option Plan	10 years	862,500	A	(2)	NQ
1999 Stock Option Plan	10 years	862,500	A	(2)	ISO, NQ
2000 Non-qualifying Stock Option Plan	10 years	1,704,148	A	Immediately	NQ
2001 Amended and Restated Stock Option Plan	10 years	3,918,891	A	5 Years (1)	ISO, NQ
2005 Restricted Stock and Option Plan	10 years	6,000,000	A	5 Years (1)	ISO, NQ

(1) Vesting is established by the Compensation Committee in connection with each grant of options. All directors stock

options vest immediately.

(2) Vesting is established by the Compensation Committee.

(3) All outstanding options must be exercised no later than 10 years after their grant date.

(4) Upon acquisition of Ryan Beck the Company assumed all options outstanding under Ryan Beck s existing stock option plans at various exercise prices based upon the exercise prices of the assumed option. No new options will be issued under the 1998 Ryan Beck option plan and the plan will terminate when the outstanding options are exercised or expire.

(5) ISO Incentive Stock Option

NQ Non-qualifying Stock Option

(6)

During 2001 shares underlying options available for grant under all stock options plans except the 2001 stock option plan were canceled. During 2005 restricted stock and options available for grant under the 2001 stock option plan were canceled.

In May 2005 at the Annual Meeting of Shareholders of BankAtlantic Bancorp, Inc, the shareholders approved the BankAtlantic Bancorp, Inc. 2005 Restricted Stock and Option Plan. The Plan provides up to 6,000,000 shares of Class A common stock may be issued for restricted stock awards and upon the exercise of options granted under the Plan.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the Company s Class A common stock option activity:

	Class A Outstanding Options
Outstanding at December 31, 2002	7,449,348
Exercised	(1,301,470)
Forfeited	(224,781)
Issued	1,015,123
Outstanding at December 31, 2003	6,938,220
Exercised	(1,461,678)
Forfeited	(77,797)
Issued	776,100
Outstanding at December 31, 2004	6,174,845
Exercised	(923,140)
Forfeited	(71,023)
Issued	858,571
Outstanding at December 31, 2005	6,039,253
Available for grant at December 31, 2005	5,139,911

	For the Years Ended December 31,		
	2005	2004	2003
Weighted average exercise price of options outstanding	$ 9.08	$6.79	$4.62
Weighted average exercise price of options exercised	$ 2.52	$2.56	$4.10
Weighted average price of options forfeited	$11.13	$8.15	$5.14

The method used to calculate the fair value of the options granted was the Black-Scholes model with the following grant date fair values and assumptions:

Year of Grant	Number of Options Granted	Grant Date Fair Value	Exercise Price	Weighted Average Risk Free Interest Rate	Expected Volatility	Expected Dividend Yield
2003	1,015,123	$3.66	$7.45	3.34%	50.00 %	1.27%
2004	776,100	$8.42	$18.20	4.32%	41.00 %	0.73%
2005	858,571	$7.27	$18.74	4.10%	31.00 %	0.76%

The employee turnover factor was 2.00%, 1.00% and 6.00% for stock options during the year ended December 31, 2005, 2004 and 2003, respectively. The expected life for options issued for each of the years in the three year period ended December 31, 2005 was 7.0 years.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
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The following table summarizes information about fixed stock options outstanding at December 31, 2005:

		Options Outstanding			Options Exercisable	
Class of Common Stock	Range of Exercise Prices	Number Outstanding at 12/31/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/05	Weighted-Average Exercise Price
A	$1.92 to $3.83	1,405,105	3.4 years	$ 3.22	722,036	$ 3.45
A	$3.84 to $6.70	1,180,961	2.4 years	4.98	1,179,459	4.98
A	$6.71 to $9.36	1,811,822	6.7 years	7.98	65,310	8.01
A	$ 9.37 to $19.02	1,641,365	8.9 years	18.32	89,415	15.42
		6,039,253	5.7 years	$ 9.08	2,056,220	$ 4.99

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

		Options Outstanding			Options Exercisable	
Class of Common Stock	Range of Exercise Prices	Number Outstanding at 12/31/04	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/04	Weighted-Average Exercise Price
A	$1.73 to $1.91	620,358	0.3 years	$ 1.77	620,358	$ 1.77
A	$1.92 to $3.83	1,533,561	4.3 years	3.19	469,150	3.71
A	$3.84 to $6.70	1,347,449	3.4 years	4.94	1,345,947	4.94
A	$6.71 to $9.36	1,897,377	7.6 years	8.00	108,416	8.03
A	$ 9.37 to $18.20	776,100	9.5 years	18.20	35,000	18.20
		6,174,845	5.4 years	$ 6.79	2,578,871	$ 4.28

The following table summarizes information about fixed stock options outstanding at December 31, 2003:

		Options Outstanding			Options Exercisable	
Class of Common Stock	Range of Exercise Prices	Number Outstanding at 12/31/03	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/03	Weighted-Average Exercise Price
A	$ 1.73 to 1.91	1,673,384	0.9 years	$ 1.77	1,281,013	$ 1.77
A	$ 1.92 to 3.83	1,563,844	5.3 years	3.19	368,829	3.71
A	$ 3.84 to 6.70	1,752,835	4.5 years	4.89	725,370	5.00
A	$ 6.71 to 9.36	1,948,157	8.7 years	8.00	82,995	8.38
		6,938,220	5.0 years	$ 4.62	2,458,207	$ 3.23

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ryan Beck Stock Option Plan:

The following is a summary of Ryan Beck s common stock option activity:

	RB Holdings Outstanding Options
Outstanding at December 31, 2002	1,477,500
Exercised	
Forfeited	(22,500)
Issued	75,000
Outstanding at December 31, 2003	1,530,000
Exercised	(90,000)
Forfeited	(15,000)
Issued	820,500
Outstanding at December 31, 2004	2,245,500
Exercised	
Forfeited	(198,500)
Issued	22,000
Outstanding at December 31, 2005	2,069,000
Available for grant at December 31, 2005	368,500

In March 2002, Ryan Beck s Board of Directors granted to certain executives options to acquire an aggregate of 1,155,000 shares of Ryan Beck common stock at an exercise price of $1.60. The exercise price was below the $1.68 fair value at the date of grant. All of the options issued under this grant vested immediately. Additionally, in June 2002, options to acquire 322,500 shares of Ryan Beck common stock were granted with an exercise price equal to the fair value at the date of grant ($1.68), all of which vest four years from the grant date. During 2003, options to acquire 75,000 shares of Ryan Beck common stock were granted with an exercise price equal to the fair value at the date of grant ($3.36), all of which vest four years from the grant date. In March 2004, options were granted to acquire an aggregate of 798,500 shares of Ryan Beck common stock at an exercise price equal to fair value at the date of grant ($5.26), and in July 2004, options were granted to acquire 22,000 shares of Ryan Beck common stock at an exercise price equal to fair value at the date of grant ($5.28), all of which vest four years from the grant date and expire ten years from the grant date. In January 2005, options were granted to acquire 22,000 shares of Ryan Beck common stock at an exercise price equal to fair value at the date of grant ($5.46), all of which vest four years from the grant date and expire ten years from the grant date. In June 2004, options to acquire 90,000 shares of Ryan Beck common stock were exercised at a price of $1.60 per share. During the years ended December 31, 2005, 2004 and 2003, options to acquire 198,500, 15,000 and 22,500 shares of Ryan Beck common stock were forfeited with a weighted average exercise price of $5.26, $3.73, and $1.68, respectively.

Upon exercise of the options, the Company or Ryan Beck has the right under certain defined circumstances, starting six months plus one day after the exercise date, to repurchase the common stock at fair value as determined by an independent appraiser. The Company and Ryan Beck also have the right of first refusal on any sale of Ryan Beck common stock issued as a result of the exercise of an option, and the Company has the right to require any common stockholder to sell its shares in the event that the Company sells its interest in Ryan Beck. The 90,000 shares of Ryan Beck common stock issued in June 2004 upon the exercise of Ryan Beck stock options were repurchased by Ryan

Beck in January 2005 at $5.46 per share, the fair value of Ryan Beck common stock at the repurchase date.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes

The provision for income taxes consisted of (in thousands):

	For the Years Ended December 31, 2005	2004	2003
Continuing operations	$ 33,498	$ 39,910	$ 23,424
Discontinued operations			16,512
Total provision for income taxes	$ 33,498	$ 39,910	$ 39,936
Continuing operations:			
Current:			
Federal	$ 33,153	$ 28,494	$ 15,555
State	6,240	4,783	2,515
	39,393	33,277	18,070
Deferred:			
Federal	(4,846)	6,811	6,429
State	(1,049)	(178)	(1,075)
	(5,895)	6,633	5,354
Provision for income taxes	$ 33,498	$ 39,910	$ 23,424

The Company s actual provision for income taxes from continuing operations differs from the Federal expected income tax provision as follows (in thousands):

	For the Years Ended December 31, 2005		2004		2003	
Income tax provision at expected federal income tax rate of 35%	$ 32,438	35.00%	$ 38,737	35.00%	$ 21,707	35.00%
Increase (decrease) resulting from:						
Tax-exempt income	(5,154)	(5.56)	(1,817)	(1.64)	(267)	(0.43)
Provision for state taxes, net of federal benefit	3,373	3.64	2,993	2.70	2,104	3.39
Change in State tax valuation allowance	777	0.84	94	0.08	(1,168)	(1.88)
Low income housing tax credits	(549)	(0.59)	(468)	(0.42)	(555)	(0.89)
Non-deductible fines and penalties	3,500	3.78				
Levitt spin-off nondeductible items			90	0.08	1,275	2.06

Other net	(887)	(0.96)	281	0.26	328	0.52
Provision for income taxes	$ 33,498	36.15%	$ 39,910	36.06%	$ 23,424	37.77%

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and tax liabilities were (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Deferred tax assets:			
Allowance for loans, REO, tax certificate losses, reserves and write-downs for financial statement purposes	$ 19,978	$ 20,752	$ 27,419
Federal and State net operating loss and capital loss carryforward	3,609	2,722	2,661
Compensation expensed for books and deferred for tax purposes	10,225	4,746	3,754
Real estate held for development and sale capitalized costs for tax purposes in excess of amounts capitalized for financial statement purposes	1,135	1,078	1,293
Accumulated other comprehensive income	4,057	606	
Other	1,930	1,397	1,291
Total gross deferred tax assets	40,934	31,301	36,418
Less valuation allowance	(3,341)	(2,564)	(2,470)
Total deferred tax assets	37,593	28,737	33,948
Deferred tax liabilities:			
Deferred loan income	1,452	1,190	885
Purchase accounting adjustments for bank acquisitions	2,219	1,920	2,229
Accumulated other comprehensive income			3,297
Prepaid pension expense	2,454	2,517	2,607
Depreciation for tax greater than book	665	1,146	
Securities owned recorded at fair value for books and historical cost for tax purposes	931	1,216	1,327
Other	257	479	604
Total gross deferred tax liabilities	7,978	8,468	10,949
Net deferred tax asset	29,615	20,269	22,999
Less net deferred tax asset at beginning of period	(20,269)	(22,999)	(35,316)
Increase (decrease) in accumulated other comprehensive income	(3,451)	(3,903)	1,019
Benefit (provision) for deferred income taxes	5,895	(6,633)	(11,298)
Benefit for deferred income taxes discontinued operations			4,073
Reduction in deferred tax asset associated with Levitt spin-off and GMS			1,871
Benefit (provision) for deferred income taxes continuing operations	$ 5,895	$ (6,633)	$ (5,354)

Activity in the deferred tax valuation allowance was (in thousands):

For the Years Ended December 31,

	2005	2004	2003
Balance, beginning of period	$ 2,564	$ 2,470	$ 4,369
Discontinued operations valuation allowance activity			(418)
Increase (reduction) in state deferred tax valuation allowance	777	94	(1,168)
Other decreases and reclassifications			(313)
Balance, end of period	$ 3,341	$ 2,564	$ 2,470

Except as discussed below, management believes that the Company will have sufficient taxable income of the appropriate character in future years to realize the net deferred income tax asset. In evaluating the expectation of sufficient future taxable income, management considered the future reversal of temporary differences and available tax planning strategies that could be implemented, if required. A valuation allowance was required at December 31, 2005, 2004 and 2003 as it was management s assessment that, based on available information, it is more likely than not that certain State net operating loss carryforwards (NOL) included in the Company s deferred tax assets will not be realized. A change in the

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

valuation allowance occurs if there is a change in management s assessment of the amount of the net deferred income tax asset that is expected to be realized.

At December 31, 2005, the Company had NOL s of $93 million for state tax purposes primarily associated with BankAtlantic Bancorp and Leasing Technology, Inc (a wholly-owned subsidiary of BankAtlantic.) The Company files separate State income tax returns in each State jurisdiction. BankAtlantic Bancorp has incurred taxable losses during the past six years resulting from its debt obligations and Leasing Technology Inc. has incurred significant losses associated with its lease financing activities. As a consequence, management believes that it is more likely than not that the State NOL associated with these companies will not be realized.

Prior to December 31, 1996, BankAtlantic was permitted to deduct from taxable income an allowance for bad debts which was in excess of the provision for such losses charged to income. Accordingly, at December 31, 2005, the Company had $21.5 million of excess allowance for bad debts for which no provision for income tax has been provided. If, in the future, this portion of retained earnings is distributed, or BankAtlantic no longer qualifies as a bank for tax purposes, federal income tax of approximately $7.5 million would be owed.

13. Pension and 401(k) Plans

BankAtlantic Pension Plan:

At December 31, 1998, the Company froze its defined benefit pension plan (Plan). All participants in the Plan ceased accruing service benefits beyond that date and became vested. The Company is subject to future pension expense or income based on future actual plan returns and actuarial values of the Plan obligations to employees.

The following tables set forth the Plan s funded status and the minimum pension liability included in the consolidated statements of financial condition (in thousands):

	December 31,	
	2005	2004
Projected benefit obligation at the beginning of the year	$ 26,234	$ 23,094
Interest cost	1,565	1,508
Actuarial loss	2,361	2,421
Benefits paid	(779)	(789)
Projected benefit obligation at end of year	$ 29,381	$ 26,234

	December 31,	
	2005	2004
Fair value of Plan assets at the beginning of year	$ 25,097	$ 23,927
Actual return on Plan assets	1,833	1,959
Employer contribution		
Benefits paid	(779)	(789)
Fair value of Plan assets as of actuarial date	$ 26,151	$ 25,097

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31,	
	2005	**2004**
Actuarial present value of projected benefit obligation for service rendered to date	$ (29,381)	$ (26,234)
Plan assets at fair value as of the actuarial date	26,151	25,097
(Unfunded) accumulated benefit obligation (1)	(3,230)	(1,137)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	9,917	7,661
Prepaid pension cost (2)	$ 6,687	$ 6,524

(1) The measurement date for the accumulated benefit obligation was December 31, 2005 and 2004. The unfunded accumulated benefit obligation was recorded in other liabilities in the Company s consolidated statement of financial condition.

(2) The prepaid pension cost was reversed into other comprehensive income and a minimum pension liability was recorded for the unfunded accumulated benefit obligation.

For the years ended December 31, 2005 and 2004, the Company recorded a minimum pension liability in other comprehensive income associated with the unfunded accumulated benefit obligation as follows (in thousands):

	December 31,	
	2005	**2004**
Change in prepaid pension cost	$	$ (6,524)
Change in minimum pension liability	(2,093)	(1,137)
Change in deferred tax assets	942	2,758
Other adjustments	162	
Decrease in other comprehensive income	$ (989)	$ (4,903)

Net pension expense includes the following components (in thousands):

	For the Years Ended		
	2005	**2004**	**2003**
Service cost benefits earned during the period	$	$	$
Interest cost on projected benefit obligation	1,565	1,508	1,485
Expected return on plan assets	(2,100)	(1,998)	(1,470)
Amortization of unrecognized net gains and losses	698	723	1,212
Net periodic pension expense (1)	$ 163	$ 233	$ 1,227

(1) Periodic pension expense is included as an increase in compensation expense.

The actuarial assumptions used in accounting for the Plan were:

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Weighted average discount rate	5.50%	6.00%	6.75%
Rate of increase in future compensation levels	N/A	N/A	N/A
Expected long-term rate of return	8.50%	8.50%	8.50%

Actuarial estimates and assumptions are based on various market factors and are evaluated on an annual basis, and changes in such assumptions may impact future pension costs. The discount rate assumption is based on rates of high quality corporate bonds, and the reduction in the discount rate at December 31, 2005 reflects historically low interest rate trends related to these bonds. Current participant data was used for the actuarial assumptions for each of the three years ended

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005. The Company contributed $750,000 to the Plan during the year ended December 31, 2003. The Company did not make any contributions to the Plan during the years ended December 31, 2005 and 2004. The Company will not be required to contribute to the Plan for the year ending December 31, 2006.

The Company s pension plan weighted-average asset allocations at December 31, 2005 and 2004 by asset category are as follows:

	Plan Assets At December 31,	
	2005	**2004**
Equity securities	76.19%	76.62%
Debt securities	20.54	21.57
Cash	3.27	1.81
Total	100.00%	100.00%

The Plan s investment policies and strategies are to invest in mutual funds that are rated with at least a 3-star rating awarded by Morningstar at the initial purchase. If a fund s Morningstar rating falls below a 3-star rating after an initial purchase, it is closely monitored to ensure that its under-performance can be attributed to market conditions rather than fund management deficiencies. Fund manager changes or changes in fund objectives could be cause for replacement of any mutual fund. The Plan also maintains an aggressive growth investment category which includes investments in equity securities and mutual funds. Both public and private securities are eligible for this category of investment, but no more than 5% of total Plan assets at the time of the initial investment may be invested in any one company. Beyond the initial cost limitation (5% at time of purchase), there will be no limitation as to the percentage that any one investment can represent if it is achieved through growth. As a means to reduce negative market volatility, and to invoke a sell discipline for concentrated positions, the Plan has a strategy of selling call options against certain stock positions within the portfolio when considered timely. At December 31, 2005, 9.4% of the Plan s assets were invested in the aggressive growth category.

The Plan s targeted asset allocation is 66% equity securities, 30% debt securities and 4% cash during the year ended December 31, 2005. A rebalancing of the portfolio takes place on a quarterly basis when there has been a 5% or greater change from the prevailing benchmark allocation.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Expected Future Service	**Pension Benefits**
2006	$ 890
2007	913
2008	980
2009	1,177
2010	1,372
Years 2011-2015	7,672

There are large increases in annual benefit payouts expected in 2009 and 2010 when four key employees reach normal retirement age.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BankAtlantic 401(k) Plan:

The table below outlines the terms of the Security Plus 401(k) Plan and the associated employer costs (dollars in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Employee Salary Contribution Limit (1)	$ 14	$ 13	$ 12
Percentage of Salary Limitation	75%	75%	75%
Total Match Contribution (2)	$ 2,037	$ 1,790	$ 1,558
Vesting of Employer Match	Immediate	Immediate	Immediate

(1) For the 2005, 2004 and 2003 plan year, employees over the age of 50 were entitled to contribute $18,000, $16,000 and $14,000, respectively.

(2) The employer matched 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions.

BankAtlantic Profit Sharing Plan

At January 1, 2003, BankAtlantic established the BankAtlantic Profit Sharing Stretch Plan (the Plan) for all employees of BankAtlantic and its subsidiaries. The profit sharing awards are paid in cash quarterly and are based on achieving specific performance goals. Included in employee compensation and benefits in the consolidated statement of operations during the years ended December 31, 2005, 2004 and 2003 was $4.4 million, $5.7 million and $3.6 million, respectively, of expenses associated with the Plan.

Ryan Beck Plans:

Ryan Beck 401(k) Savings Plan:

Ryan Beck s employees may contribute up to 25% of their eligible earnings, subject to certain limitations, to the Ryan Beck 401(k) Savings Plan. In 2003, Ryan Beck began an employer match of 50% on the first 6% of contributions for salaried employees. Additionally, Ryan Beck awarded an additional 0%, 2% and 1% of contributions for salaried employees as a discretionary match during the years ended December 31, 2005, 2004 and 2003, respectively. Included in employee compensation and benefits on the consolidated statement of operations was $502,000, $1.6 million and $332,000 of operating and employer contribution expenses related to the 401(k) Savings Plan during the years ended December 31, 2005, 2004 and 2003, respectively.

Ryan Beck & Co., Inc., Deferred Compensation and Supplemental Retirement Plans

During the year ended December 31, 2002, Ryan Beck established the Ryan Beck & Co., Inc. Voluntary Deferred Compensation Plan for certain employees whereby the employee may elect to defer a portion of his or her compensation for a minimum of 3 years or until retirement. These contributions are fully vested. The obligations under the terms of this plan are not required to be funded. The obligations are unsecured general obligations to pay, in the future, the value of the deferred compensation, adjusted to reflect the performance of selected measurement options chosen by each participant. Ryan Beck has elected to invest partially in the mutual fund options chosen by the participants to manage the market risk of this obligation. As of December 31, 2005 and 2004 the deferred compensation participant value totaled $21.5 million and $17.0 million, respectively. For the same periods, the deferred compensation liability under this plan totaled $17.3 million and $14.4 million, respectively.

During the year ended December 31, 2005 Ryan Beck established a New Deferred Incentive Compensation Plan in which Ryan Beck allocates an award to the plan based on a formula, its discretion or a negotiated employment letter. Depending on the type of the award and the date of allocation to the plan, there is a 3, 5 or 7 year vesting period. As of December 31, 2005 and 2004 the deferred compensation participant value totaled $14.7 million and $7.4 million, respectively. For the same periods, the deferred compensation liability under this plan totaled $5.9 million and $4.1 million, respectively.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2004, Ryan Beck amended the Ryan Beck & Co., Inc. Supplemental Bonus Plan whereby Ryan Beck established incentive deferred compensation which vests over multiple years. During the years ended December 31, 2005, 2004, and 2003, Ryan Beck awarded deferred bonuses under this Plan of $0, $1.0 million and $0, respectively. The 2004 awards vest and are payable in three equal installments on the first business day in January 2006, 2007 and 2008.

Effective January 1, 2004, the RB Holdings, Inc. Supplemental Executive Retirement Plan was established. Retirement benefits of $2.3 million under the plan are payable in equal monthly installments over 120 months commencing at retirement. Normal retirement is at age 60. If the participant retires early or has an involuntary termination without cause, or for good reason or change in control the participant shall be entitled to receive an amount equal to his/her retirement benefit multiplied by 10% for each year of participation in the Plan not to exceed 10 years.

Included in employee compensation and benefits expense in the Company s consolidated statement of operations for the years ended December 31, 2005, 2004 and 2003 was $6.3 million, $3.8 million and $2.6 million, respectively, associated with the above deferred compensation Plans.

Ryan Beck & Co., Inc., Recruitment and Retention Program

Ryan Beck has a recruitment and retention plan for certain financial consultants, key employees and others. Pursuant to this plan the participants received forgivable notes of $8.6 million, $8.0 million and $6.3 million during the years ended December 31, 2005, 2004 and 2003, respectively. Each forgivable note will generally have a term of five to seven years. A pro-rata portion of the principal amount of the note is forgiven each month over the five or seven year term. If a participant terminates employment with Ryan Beck prior to the end of the term of the Note, the outstanding balance becomes immediately due to Ryan Beck. Included in other assets as of December 31, 2005 and 2004 were $18.7 million and $16.7 million, respectively, of forgivable notes. Included in employee compensation and benefits expense in the Company s consolidated statement of operations for the years ended December 31, 2005, 2004 and 2003 was $4.9 million, $5.4 million and $4.9 million, respectively, of forgivable note amortization.

14. Commitments and Contingencies

The Company is a lessee under various operating leases for real estate and equipment extending to the year 2072. The approximate minimum future rentals under such leases, at December 31, 2005, for the periods shown are (in thousands):

Year Ending December 31,	**Amount**
2006	$ 15,293
2007	14,881
2008	13,069
2009	10,943
2010	6,848
Thereafter	27,871
Total	$ 88,905

		For the Years Ended December 31,	
	2005	**2004**	**2003**
Rental expense for premises and equipment	$ 19,765	$ 18,885	$ 17,697

In the normal course of its business, the Company is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit and to issue standby and documentary letters of credit. Those instruments involve, to varying degrees, elements of credit risk. BankAtlantic s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. BankAtlantic uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial instruments with off-balance sheet risk were (in thousands):

	December 31,	
	2005	2004
Commitments to sell fixed rate residential loans	$ 13,634	$ 19,537
Commitments to sell variable rate residential loans	4,438	6,588
Forward contract to purchase mortgage-backed securities		3,947
Commitments to purchase variable rate residential loans	6,689	40,015
Commitments to originate loans held for sale	16,220	21,367
Commitments to originate loans held to maturity	311,081	238,429
Commitments to extend credit, including the undisbursed portion of loans in process	1,151,054	1,170,191
Commitments to purchase branch facilities land	5,334	
Standby letters of credit	67,868	55,605
Commercial lines of credit	119,639	121,688

Commitments to extend credit are agreements to lend funds to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. BankAtlantic has $64.0 million of commitments to extend credit at a fixed interest rate and $1.4 billion of commitments to extend credit at a variable rate. BankAtlantic evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral required by BankAtlantic in connection with an extension of credit is based on management s credit evaluation of the counter-party.

Standby letters of credit are conditional commitments issued by BankAtlantic to guarantee the performance of a customer to a third party. BankAtlantic standby letters of credit are generally issued to customers in the construction industry guaranteeing project performance. These types of standby letters of credit had a maximum exposure of $49.8 million at December 31, 2005. BankAtlantic also issues standby letters of credit to commercial lending customers guaranteeing the payment of goods and services. These types of standby letters of credit had a maximum exposure of $18.1 million at December 31, 2005. Those guarantees are primarily issued to support public and private borrowing arrangements and generally have maturities of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. BankAtlantic may hold certificates of deposit and residential and commercial liens as collateral for such commitments which are collateralized similar to other types of borrowings. Included in other liabilities at December 31, 2005 was $183,000 of unearned guarantee fees. There were no obligations recorded in the financial statements associated with these guarantees.

BankAtlantic is required to maintain reserve balances with the Federal Reserve Bank. Such reserves consisted of cash and amounts due from banks of $60.8 million and $51.3 million at December 31, 2005 and 2004, respectively.

As a member of the FHLB system, BankAtlantic is required to purchase and hold stock in the FHLB of Atlanta. As of December 31, 2005 BankAtlantic was in compliance with this requirement, with an investment of approximately $69.9 million in stock of the FHLB of Atlanta.

During the year ended December 31, 2004 BankAtlantic identified deficiencies in its compliance with the USA PATRIOT Act, anti-money laundering laws and the Bank Secrecy Act (AML-BSA ,) and cooperated with its regulators and other federal agencies concerning those deficiencies. Management believes that BankAtlantic is currently in compliance with all AML-BSA laws and regulations. Based on the prior compliance deficiencies and the experiences of other financial institutions that were fined for compliance deficiencies, management established a $10 million reserve as of December 31, 2005 for possible fines and penalties from government agencies with respect to these compliance matters.

The Company, through its ownership of Ryan Beck, is subject to the risks of investment banking. Ryan Beck s customers securities transactions are introduced on a fully disclosed basis to its clearing broker. The clearing broker carries all of the accounts of the customers of Ryan Beck and is responsible for execution, collection and payment of funds, and receipt and delivery of securities relative to customer transactions. Customers securities activities are transacted on a cash and margin basis. These transactions may expose Ryan Beck to off-balance-sheet risk, wherein the clearing broker may charge Ryan Beck for any losses it incurs in the event that customers may be unable to fulfill their contractual commitments

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and margin requirements are not sufficient to fully cover losses. As the right to charge Ryan Beck has no maximum amount and applies to all trades executed through the clearing broker, Ryan Beck believes there is no maximum amount assignable to this right. At December 31, 2005, Ryan Beck recorded liabilities of approximately $13,000 with regard to this right. Ryan Beck has the right to pursue collection or performance from the counter parties who do not perform under their contractual obligations. Ryan Beck seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and ensure that customer transactions are executed properly by the clearing broker.

Ryan Beck enters into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include futures, mortgage-backed to-be-announced securities (TBAs) and securities purchased and sold on a when-issued basis (when-issued securities). These derivative financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to economically hedge other positions or transactions.

Ryan Beck enters into futures contracts and TBAs and when-issued securities, all of which provide for the delayed delivery of the underlying instrument. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The credit risk for TBAs, options and when-issued securities is limited to the unrealized market valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest rates.

Ryan Beck, in its capacity as a market-maker and dealer in corporate and municipal fixed-income and equity securities, may enter into transactions in a variety of cash and derivative financial instruments in order to facilitate customer order flow and hedge market risk exposures. These financial instruments include securities sold, but not yet purchased and future contracts. Securities sold, but not yet purchased represent obligations of the Company to deliver specified financial instruments at contracted prices, thereby creating a liability to purchase the financial instrument in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as the Company s ultimate obligation may exceed the amount recognized in the Consolidated Statement of Financial Condition.

Ryan Beck is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company s policy to review, as necessary, the credit standing of each counterparty.

15. Regulatory Matters

The Company is a unitary savings bank holding company subject to regulatory oversight and examination by the Office of Thrift Supervision (OTS), including normal supervision and reporting requirements. The Company is also subject to the reporting and other requirements of the Securities Exchange Act of 1934. In addition, BFC owns 8,296,890 shares of Class A common stock and 100% of Class B common stock which amounts to 22% of the Company s outstanding common stock. BFC is subject to the same oversight by the OTS as discussed herein with respect to the Company.

BankAtlantic s deposits are insured by the FDIC for up to $100,000 for each insured account holder, the maximum amount currently permitted by law. BankAtlantic is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can cause regulators to initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on BankAtlantic s financial statements. At December 31, 2005, BankAtlantic met all capital adequacy requirements to which it is subject and was considered a well capitalized institution.

The OTS imposes limits applicable to the payment of cash dividends by BankAtlantic to the Company which are based on an institution s regulatory capital levels and its net income. BankAtlantic is permitted to pay capital distributions during a calendar year that do not exceed its net income for the year plus its retained net income for the prior two years, without notice to, or the approval of, the OTS. At December 31, 2005, this capital distribution

limitation was $91.5 million. During the years ended December 31, 2005, 2004 and 2003 BankAtlantic paid $20 million, $15 million and $20 million, respectively, of dividends to the Company.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ryan Beck paid $5 million in dividends to the Company during the year ended December 31, 2004. Future dividend payments by Ryan Beck will depend upon the results of operations, financial condition and capital requirements of Ryan Beck.

BankAtlantic s actual capital amounts and ratios are presented in the table (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total risk-based capital	$ 512,664	11.50%	$ 356,526	8.00%	$ 445,657	10.00%
Tier I risk-based capital	$ 446,419	10.02%	$ 178,263	4.00%	$ 267,394	6.00%
Tangible capital	$ 446,419	7.42%	$ 90,235	1.50%	$ 90,235	1.50%
Core capital	$ 446,419	7.42%	$ 240,627	4.00%	$ 300,784	5.00%
As of December 31, 2004:						
Total risk-based capital	$ 476,600	10.80%	$ 352,886	8.00%	$ 441,107	10.00%
Tier I risk-based capital	$ 405,482	9.19%	$ 176,443	4.00%	$ 264,664	6.00%
Tangible capital	$ 405,482	6.83%	$ 89,030	1.50%	$ 89,030	1.50%
Core capital	$ 405,482	6.83%	$ 237,413	4.00%	$ 296,766	5.00%

Ryan Beck is subject to the net capital provision of Rule 15c3-1 under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. Additionally, Ryan Beck, as a market maker, is subject to supplemental requirements of Rule 15c3-1(a)4, which provides for the computation of net capital to be based on the number and price of issues in which markets are made by Ryan Beck, not to exceed $1.0 million. Ryan Beck s regulatory net capital was approximately $41.2 million, which was $40.2 million in excess of its required net capital of $1.0 million at December 31, 2005.

Ryan Beck operates under the provisions of paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission as a fully disclosed introducing broker and, accordingly, customer accounts are carried on the books of the clearing broker. However, Ryan Beck safekeeps and redeems municipal bond coupons for the benefit of its customers. Accordingly, Ryan Beck is subject to the provisions of SEC Rule 15c3-3 relating to possession or control and customer reserve requirements and was in compliance with such provisions at December 31, 2005.

16. Legal Proceedings

In the ordinary course of business, the Company and its subsidiaries are parties to lawsuits as plaintiff or defendant involving its bank operations, lending, tax certificates, securities sales, brokerage and underwriting and acquisitions. Although the Company believes it has meritorious defenses in all current legal actions, the outcome of the various legal actions is uncertain. Management, based on discussions with legal counsel, believes results of operations or financial condition will not be materially impacted by the resolution of these matters.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Parent Company Financial Information

Condensed statements of financial condition at December 31, 2005 and 2004 and condensed statements of operations for each of the years in the three year period ended December 31, 2005 are shown below (in thousands):

CONDENSED STATEMENTS OF FINANCIAL CONDITION	December 31,	
	2005	2004
ASSETS		
Cash deposited at BankAtlantic	$ 5,695	$ 8,975
Short term investments	3,818	11,149
Notes receivable from Levitt Corporation		38,000
Investment securities	102,431	53,663
Investment in BankAtlantic	544,729	516,877
Investment in other subsidiaries	106,348	90,184
Current income tax receivable BankAtlantic	4,954	3,725
Investment in unconsolidated subsidiaries	12,528	7,910
Other assets	5,736	6,236
Total assets	$ 786,239	$ 736,719
LIABILITIES AND STOCKHOLDERS EQUITY		
Note payable	$	$ 100
Due to BankAtlantic	157	126
Junior subordinated debentures	263,266	263,266
Other liabilities	6,480	3,962
Total liabilities	269,903	267,454
Stockholders equity	516,336	469,265
Total liabilities and stockholders equity	$ 786,239	$ 736,719

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF OPERATIONS	For the Years Ended December 31, 2005	2004	2003
Dividends from subsidiaries	$	$ 5,000	$
Dividends from BankAtlantic	20,000	15,000	20,000
Interest income from related parties	719	1,751	1,488
Interest income on investments	1,538	756	234
Total interest income and dividends	22,257	22,507	21,722
Interest expense on debentures and other borrowings	19,347	16,958	16,344
Net interest income	2,910	5,549	5,378
Securities activity, net	731	3,693	404
Litigation settlement		22,840	
Income from unconsolidated subsidiaries	621	485	425
Service fees from subsidiaries and related parties	1,172	552	
Total non-interest income	2,524	27,570	829
Employee compensation and benefits	4,047	3,042	90
Advertising and promotion	422	289	
Loss on debt redemption			1,648
Professional fees	1,179	1,145	1,500
Other expenses	515	1,205	1,233
Total non-interest expense	6,163	5,681	4,471
Income from continuing operations before income tax (benefit) provision	(729)	27,438	1,736
Income tax (benefit) provision	(7,435)	2,693	(5,087)
Income from continuing operations	6,706	24,745	6,823
Discontinued operations, net of tax of $623			1,157
Income before undistributed earnings of subsidiaries	6,706	24,745	7,980
Equity in undistributed net income of subsidiaries excluding BankAtlantic	16,656	12,482	9,645
Equity in income from BankAtlantic	35,820	33,541	22,129
Equity in subsidiaries discontinued operations, net of tax of $15,889			27,963
Net income	**$ 59,182**	**$ 70,768**	**$ 67,717**

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
CONDENSED STATEMENTS OF CASH FLOW

	For the Years Ended December 31,		
(In thousands)	**2005**	**2004**	**2003**
Operating activities:			
Income from continuing operations	$ 59,182	$ 70,768	$ 38,597
Income from discontinued operations			29,120
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in net undistributed earnings of BankAtlantic and other subsidiaries	(52,476)	(46,023)	(59,737)
Amortization and accretion, net	868	804	1,060
Loss on debt redemption			1,648
Distribution of earnings from unconsolidated subsidiaries	621	485	425
Equity in earnings of unconsolidated subsidiaries	(621)	(485)	(2,077)
Gains on securities activities	(731)	(3,693)	(404)
Litigation settlement		(22,840)	
Increase in other liabilities	5,730	6,982	2,539
Changes in due from BankAtlantic	31	1,282	(1,247)
(Increase) decrease in deferred tax asset	(32)	6,569	(1,246)
(Increase) decrease in other assets	(1,521)	(610)	12,730
Net cash provided by operating activities	11,051	13,239	21,408
Investing activities:			
Repayments of loans to subsidiaries	38,000	5,500	5,000
Investments in unconsolidated subsidiaries, net	(4,618)		(1,502)
Purchase of securities	(128,055)	(128,708)	(16,700)
Proceeds from sales of securities	84,309	116,064	3,965
Net cash used by investing activities	(10,364)	(7,144)	(9,237)
Financing activities:			
Issuance of common stock	1,179	2,334	4,472
Retirement of Class A common stock accepted as consideration for the payment of the minimum withholding tax upon the exercise of stock options	(3,519)	(2,946)	
Retirement of subsidiary common stock	(491)		
Purchase of subsidiary common stock	491		
Common stock dividends paid	(8,858)	(8,124)	(7,525)
Proceeds from issuance of junior subordinated debentures			77,346
Repayments of notes payable	(100)		(16,000)
Retirement of subordinated investment notes and subordinated debentures			(50,422)
Net cash provided by financing activities	(11,298)	(8,736)	7,871

Increase (decrease) in cash and cash equivalents	(10,611)	(2,641)	20,042
Cash and cash equivalents at beginning of period	20,124	22,765	2,723
Cash and cash equivalents at end of period	$ 9,513	$ 20,124	$ 22,765

(continued)

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands)	For the Years Ended December 31, 2005	2004	2003
Cash paid for:			
Interest	$ 19,211	$ 16,902	$ 15,961
Supplementary disclosure of non-cash investing and financing activities:			
Issuance and retirement of Class A common stock accepted as consideration for the exercise price of stock options	1,149	1,405	
Increase in equity for the tax effect related to the exercise of stock options	4,538	6,610	2,264
Increase (decrease) in stockholders equity from other comprehensive income	(5,343)	(6,948)	2,387
Reduction in stockholders equity from the retirement of Class A common stock obtained from litigation settlement		6,058	
Increase in notes receivable in connection with the Levitt spin off			43,500
Reduction in stockholders equity associated with the Levitt spin off transaction			125,573
Issuance of Class A common stock upon conversion of subordinated debentures			211
Increase in junior subordinated debentures and investment in unconsolidated subsidiaries related to trust deconsolidation			7,910

18. Selected Quarterly Results (Unaudited)

The following tables summarize the quarterly results of operations for the years ended December 31, 2005 and 2004 (in thousands except share and per share data).

2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Interest income	$ 84,348	$ 90,541	$ 92,929	$ 92,587	$ 360,405
Interest expense	31,450	36,146	38,511	39,221	145,328
Net interest income	52,898	54,395	54,418	53,366	215,077
Provision for (recovery from) loan losses	(3,916)	820	(3,410)	(109)	(6,615)
Net interest income after provision for loan losses	56,814	53,575	57,828	53,475	221,692
Income before taxes	30,699	38,635	23,148	198	92,680
Net income	$ 19,878	$ 24,537	$ 16,260	$ (1,493)	$ 59,182
Basic earnings (loss) per share	$ 0.33	$ 0.41	$ 0.27	$ (0.03)	$ 0.98
	$ 0.31	$ 0.38	$ 0.26	$ (0.03)	$ 0.92

Diluted earnings (loss) per share					
Basic weighted average number of common shares outstanding	60,071,605	60,452,710	60,555,158	60,617,538	60,426,107
Diluted weighted average number of common shares outstanding	63,206,870	63,161,289	63,193,131	62,898,413	63,119,531

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The first quarter was impacted by a recovery of a commercial business loan that was charged-off in a prior period and a reduction in the allowance for loan losses resulting from repayments of classified loans.

During the second quarter, Ryan Beck s net income was $13.0 million. These earnings during the quarter were primarily due to a large mutual to stock transaction managed by Ryan Beck. Also during the second quarter BankAtlantic recognized a $3.7 million impairment charge associated with a decision to vacate and raze BankAtlantic s former headquarters.

The third quarter was impacted by recoveries from loan losses due to a decline in the required amount of the allowance for loan losses, reflecting lower balances of loans in industries that have higher risks than other industries in the commercial loan portfolio.

The fourth quarter earnings were impacted by a $10.0 million reserve for fines and penalties associated with deficiencies in BankAtlantic s compliance with the USA PATRIOT Act, anti-money laundering laws and the Bank Secrecy Act and higher advertising and marketing expenses.

2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Interest income	$ 59,629	$ 60,107	$ 66,373	$ 74,446	$ 260,555
Interest expense	20,841	19,755	22,056	25,070	87,722
Net interest income	38,788	40,352	44,317	49,376	172,833
Provision for (recovery from) loan losses	(859)	(1,963)	1,717	(4,004)	(5,109)
Net interest income after provision for loan losses	39,647	42,315	42,600	53,380	177,942
Income before taxes	31,998	29,758	23,157	25,765	110,678
Net income	$ 20,524	$ 18,260	$ 14,691	$ 17,293	$ 70,768
Basic earnings per share	$ 0.35	$ 0.31	$ 0.25	$ 0.29	$ 1.19
Diluted earnings per share	$ 0.32	$ 0.29	$ 0.23	$ 0.27	$ 1.11
Basic weighted average number of common shares outstanding	59,257,270	59,343,940	59,687,354	59,826,903	59,525,532
Diluted weighted average number of common shares outstanding	63,193,034	62,807,683	63,109,757	63,155,527	63,056,435

The first quarter earnings were impacted by a $22.8 million litigation settlement gain. The litigation gain was partially offset by the Company s prepaying $108 million of FHLB advances, incurring prepayment penalties of $11.7 million.

The third and fourth quarter earnings were impacted by $2.0 million and $3.0 million, respectively, of professional and consulting costs associated with steps taken to correct deficiencies in, and improving systems and procedures involving, BankAtlantic s compliance with the USA PATRIOT Act, anti-money laundering laws and the Bank Secrecy Act.

The Company received a $4.0 million recovery from the guarantor of a residential construction loan that was charged-off during 2002. Of this amount, $2.0 million was recognized during the second quarter and the remaining $2.0 million was recognized during the fourth quarter.

19. Estimated Fair Value of Financial Instruments

The information set forth below provides disclosure of the estimated fair value of the Company s financial instruments presented in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Instruments .

Management has made estimates of fair value that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented would be indicative of the value negotiated in an actual sale. The Company s fair value estimates do not consider the tax effect that would be associated with the disposition of the assets or liabilities at their fair value estimates.

Fair values are estimated for loan portfolios with similar financial characteristics. Loans are segregated by category, and each loan category is further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans, except residential mortgage and adjustable rate loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the interest rate risk inherent in the loan. The estimate of average maturity is based on BankAtlantic s historical experience with prepayments for each loan classification, modified as required, by an estimate of the effect of current economic and lending conditions. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows, which are adjusted for national historical prepayment estimates. The discount rate is based on secondary market sources and is adjusted to reflect differences in servicing and credit costs.

Fair values of non-performing loans are based on the assumption that the loans are on a non-accrual status, discounted at market rates during a 24 month work-out period. Assumptions regarding credit risk are determined using available market information and specific borrower information.

The book value of tax certificates approximates market value. The fair value of mortgage-backed and investment securities are estimated based upon a price matrix obtained from a third party or market price quotes.

Under SFAS 107, the fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings and NOW accounts, and money market and checking accounts, is considered the same as book value. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using current rates offered by BankAtlantic for similar remaining maturities.

The fair value of Federal Home Loan Bank stock is its carrying amount.

The book value of securities sold under agreements to repurchase and federal funds purchased approximates fair value.

The fair value of FHLB advances is based on discounted cash flows using rates offered for debt with comparable terms to maturity and issuer credit standing.

The fair value of securities owned and securities sold but not yet purchased was based on dealer price quotations or price quotations from similar instruments traded.

The fair value of secured borrowings is its carrying amount.

The fair values of subordinated debentures, junior subordinated debentures, and notes payable were based on discounted value of contractual cash flows at a market discount rate or price quotes.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information for the Company s financial instruments at December 31, 2005 and 2004 (in thousands):

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 170,261	$ 170,261	$ 135,060	$ 135,060
Securities available for sale	674,544	674,544	747,160	747,160
Securities owned	180,292	180,292	125,443	125,443
Investment securities	364,444	364,122	307,438	306,963
Federal home loan bank stock	69,931	69,931	78,619	78,619
Loans receivable including loans held for sale, net	4,624,772	4,598,209	4,599,048	4,606,858
Financial liabilities:				
Deposits	$ 3,752,676	$ 3,755,089	$ 3,457,202	$ 3,451,853
Short term borrowings	255,501	255,501	401,643	401,627
Advances from FHLB	1,283,532	1,288,012	1,544,497	1,564,188
Securities sold but not yet purchased	35,177	35,177	39,462	39,462
Secured borrowings	138,270	138,270		
Subordinated debentures and notes payable	39,092	37,815	37,741	37,092
Junior subordinated debentures	263,266	260,510	263,266	265,955

The carrying amount and fair values of BankAtlantic s commitments to extend credit, standby letters of credit, financial guarantees and forward commitments are not significant. (See Note 14 for the contractual amounts of BankAtlantic s financial instrument commitments).

Derivatives

During the year ended December 31, 2000, the Company entered into a forward contract to purchase the underlying collateral from a government sponsoring enterprises pool of securities in May 2005. The forward contract was held for trading purposes and recorded at fair value with changes in fair value included in earnings. In May 2005, the forward contract was settled with BankAtlantic acquiring $3.5 million of adjustable rate residential loans.

The Company also created cash flow hedges by entering into interest rate swap contracts to hedge the variable cash flows relating to forecasted interest payments on certain variable rate FHLB advances. The changes in fair value of the interest rate swap contracts designated as cash flow hedges were recorded in other comprehensive income and the receivables and payables from the swap contracts were recorded as an adjustment to interest expense on FHLB advances in the Company s statement of operations for the year ended December 31, 2002. The Company terminated the above mentioned interest rate swap contracts with a notional amount of $75 million during the year ended December 31, 2003 and recognized a $1.9 million loss included in securities activities, net in the Company s statement of operations.

Commitments to originate residential loans held for sale and to sell residential loans are derivatives. The fair value of these derivatives was not included in the Company s financial statements as the amount was not considered significant. These derivatives relate to a loan origination program with an independent mortgage company whereby the mortgage company purchases the originated loans from BankAtlantic 14 days after the funding date at a price negotiated quarterly for all loans sold during the quarter.

Ryan Beck generally utilizes US treasury bond and note futures as economic hedges against its municipal bond trading portfolio. The financial futures are recorded at fair value with changes in fair value included in earnings. At December 31, 2005 Ryan Beck sold 245 US treasury contracts with a notional amount of $26.5 million. At

December 31, 2005 and 2004 there were no derivatives designated as accounting hedges.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Concentration of Credit Risk

BankAtlantic purchases residential loans located throughout the country. Included in these purchased residential loans are interest-only loans. These loans result in possible future increases in a borrower s loan payments when the contractually required repayments increase due to interest rate movement and the required amortization of the principal amount. These payment increases could affect a borrower s ability to repay the loan and lead to increased defaults and losses. At December 31, 2005, BankAtlantic s residential loan portfolio included $781 million of interest-only loans with the collateral primarily located in California and surrounding states. BankAtlantic manages this credit risk by purchasing interest-only loans to only the most credit worthy borrowers with loan-to-value and total debt to income ratios within agency guidelines.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Earnings per Share

The following reconciles the numerators and denominators of the basic and diluted earnings per share computation for the years ended December 31, 2005, 2004 and 2003 (in thousands, except share data).

	For The Years Ended December 31,		
	2005	2004	2003
Basic earnings per share			
Numerator:			
Income from continuing operations	$ 59,182	$ 70,768	$ 38,597
Discontinued operations			29,120
Net income	$ 59,182	$ 70,768	$ 67,717
Denominator:			
Basic weighted average number of common shares outstanding	60,426,107	59,525,532	58,509,894
Basic earnings per share from:			
Continuing operations	$ 0.98	$ 1.19	$ 0.66
Discontinued operations			0.50
Basic earnings per share	$ 0.98	$ 1.19	$ 1.16

	For the Years Ended December 31,		
	2005	2004	2003
Diluted earnings per share			
Numerator:			
Income from continuing operations	$ 59,182	$ 70,768	$ 38,597
Subsidiary stock options	(834)	(668)	(251)
Interest expense on convertible debentures			569
Income available after assumed conversion from continuing operations	58,348	70,100	38,915
Discontinued operations			29,120
Income available after assumed conversion	$ 58,348	$ 70,100	$ 68,035
Denominator:			
Basic weighted average number of common shares outstanding	60,426,107	59,525,532	58,509,894
Common stock equivalents resulting from:			
Convertible debentures			1,311,676
Stock-based compensation	2,693,424	3,530,903	2,532,860
Diluted weighted average shares outstanding	63,119,531	63,056,435	62,354,430

Diluted earnings per share from:						
Continuing operations	$	0.92	$	1.11	$	0.62
Discontinued operations						0.46
Diluted earnings per share	$	0.92	$	1.11	$	1.08

Options to acquire 1,563,821, 776,100 and 0 shares of Class A common stock were anti-dilutive for the years ended December 31, 2005, 2004 and 2003, respectively.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Real Estate Held for Development and Sale

Real estate held for development and sale consist of the following (in thousands):

	December 31,	
	2005	2004
Land and land development costs	$ 9,921	$ 10,662
Construction costs	8,264	12,163
Other costs	2,992	2,399
Branch banking facilities		2,468
Total	$ 21,177	$ 27,692

Income from real estate operations were as follows (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Sales of real estate	$ 25,762	$ 9,242	$ 19,850
Cost of sales on real estate	21,282	6,837	14,208
Income from real estate operations	$ 4,480	$ 2,405	$ 5,642

Real estate held for development and sale at December 31, 2005 and 2004 includes real estate inventory from a joint venture that was acquired in connection with a financial institution acquisition during 2002.

Included in income from real estate operations for the year ended December 31, 2005 and 2004, respectively, were $624,000, $274,000 and $0 of gains on sale of BankAtlantic branch facilities properties.

22. Investments in Unconsolidated Subsidiaries

The consolidated statements of financial condition include the following amounts for investments in unconsolidated subsidiaries (in thousands):

	As of December 31,	
	2005	2004
Statutory business trusts	$ 7,910	$ 7,910
Rental real estate joint venture	4,554	
Total investments in unconsolidated subsidiaries	$ 12,464	$ 7,910

The consolidated statements of operations include the following amounts for income from unconsolidated subsidiaries (in thousands):

	For the Years Ended December 31,		
	2005	2004	2003
Equity in rental real estate joint venture earnings	$ 65	$	$
Equity in statutory trusts earnings	556	485	425
Income from unconsolidated subsidiaries	$ 621	$ 485	$ 425

During 2005, the Company invested in a rental real estate joint venture. The business purpose of this joint venture is to manage certain rental property with the intent to sell the property in the foreseeable future. The Company receives an 8% preferred return on its investment and 35% of any profits after return of the Company s investment and the preferred return. In January 2006, the Company recorded a gain of approximately $600,000 associated with the sale of the underlying rental property in the joint venture.

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The remaining investments in unconsolidated subsidiaries consisted of the Company s investments in eleven statutory business trusts that were formed solely to issue trust preferred securities.

Dividends received from unconsolidated subsidiaries were $621,000, $485,000 and $425,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

The statutory business trusts Condensed Combined Statements of Financial Condition as of December 31, 2005 and 2004 and Condensed Combined Statements of Operation for the years ended December 31, 2005, 2004 and 2003 are as follows (in thousands):

	December 31,	
Statement of Financial Condition	**2005**	**2004**
Junior subordinated debentures	$ 263,266	$ 263,266
Other assets	820	694
Total Assets	$ 264,086	$ 263,960
Trust preferred securities	$ 255,375	$ 255,375
Other liabilities	801	675
Total Liabilities	256,176	256,050
Common securities	7,910	7,910
Total Liabilities and Equity	$ 264,086	$ 263,960

	For the Years Ended December 31,		
Statement of Operations	**2005**	**2004**	**2003**
Interest income from subordinated debentures	$ 18,538	$ 16,161	$ 14,534
Interest expense	(17,982)	(15,676)	(14,109)
Net income	$ 556	$ 485	425

23. Related Parties

The Company, Levitt and Bluegreen are under common control. The controlling shareholder of the Company and Levitt is BFC, and Levitt owns 31% of the outstanding common stock of Bluegreen. The majority of BFC s capital stock is owned or controlled by the Company s Chairman, Chief Executive Officer and President, and by the Company s Vice Chairman, both of whom are also directors of the Company, executive officers and directors of BFC and Levitt, and directors of Bluegreen. The Company, BFC, Levitt and Bluegreen share various office premises and employee services, pursuant to the arrangements described below.

The Company maintains service arrangements with BFC and Levitt, pursuant to which the Company provided the following back-office support functions to Levitt and BFC: human resources, risk management, project planning, system support and investor and public relation services. The Company received compensation for such services on a percentage of cost basis. The Company also provides office space to Levitt and BFC on a month-to-month basis and receives reimbursements for overhead based on market rates. Additionally, during the year ended December 31, 2004 Ryan Beck provided advisory services to BFC and during the year ended December 31, 2005, Ryan Beck participated as a lead underwriter in selling 5,957,555 shares of BFC Class A common stock in an underwritten public offering.

The amounts paid or received may not be representative of the amounts that would be paid or received in an arms-length transaction.

The table below shows the non-interest income recorded by the Company for service fees, office overhead fees and investment banking services provided to Levitt, BFC and Bluegreen:

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Year Ended December 31, 2005			
(in thousands)	**BFC**	**Levitt**	**Bluegreen**	**Total**
Service fees	$ 267	$ 773	$ 78	$ 1,118
Office overhead	101	110		211
Total	$ 368	$ 883	$ 78	$ 1,329

	For the Year Ended December 31, 2004		
(in thousands)	**BFC**	**Levitt**	**Total**
Investment banking fees	$ 280	$	$ 280
Service fees	74	555	629
Office overhead	50	49	99
Total	$ 404	$ 604	$ 1,008

Additionally, the Company recognized approximately $67,000 of non-interest income for the year ended December 31, 2003 for office space used by BFC in BankAtlantic s headquarters and for miscellaneous administrative and other related expenses. BankAtlantic provided certain administrative services to Bluegreen in 2003 without receipt of payment for such services.

During the year ended December 31, 2005, BFC sold 5,957,555 shares of its Class A common stock in an underwritten public offering at a price of $8.50 per share. Included in broker/dealer revenue in the Company s statement of operations for the year ended December 31, 2005 was $1.95 million associated with Ryan Beck s participation as lead underwriter in this offering.

During the year ended December 31, 2005 and 2004, Bluegreen provided risk management services to the Company. The value of these services received by the Company from Bluegreen was calculated based on a percentage of cost basis.

During the years ended December 31, 2005 and 2004, actions were taken by Levitt with respect to the development of the property which was formerly BankAtlantic s headquarters. Levitt s efforts included the successful rezoning of the property and obtaining the permits necessary to develop the property for residential and commercial use. At December 31, 2005, BankAtlantic had agreed to reimburse Levitt $438,000 for the costs incurred by it in connection with the development of this project.

Levitt has also sought as additional compensation from BankAtlantic a percentage of the increase in the value of the underlying property attributable to Levitt s efforts based upon the proceeds to be received from BankAtlantic on the sale of the property to a third party. The timing and amount of such additional compensation, if any, has not yet been agreed upon.

The table below shows property development and risk management consulting services performed by Levitt and Bluegreen for the Company:

	For the Year Ended December 31, 2005		
(in thousands)	**Levitt**	**Bluegreen**	**Total**
Property development	$ 438	$	$ 438
Risk management		218	218
Total	$ 438	$ 218	$ 656

	For the Year Ended December 31, 2004		
(in thousands)	Levitt	Bluegreen	Total
Property development	$ 40	$	$ 40
Risk management		100	100
Total	$ 40	$ 100	$ 140

BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the spin-off of Levitt as of December 31, 2003, the Company converted an outstanding $30.0 million demand note owed by Levitt to the Company to a five year term note and prior to the spin-off, the Company transferred its 4.9% ownership interest in Bluegreen Corporation to Levitt in exchange for a $5.5 million note and additional shares of Levitt common stock (which additional shares were distributed as part of the spin-off transaction.) Additionally, prior to the spin-off, Levitt declared an $8.0 million dividend to the Company payable in the form of a five year note. The $5.5 million note was paid off during the year ended December 31, 2004 and the remaining two notes were paid off during the year ended December 31, 2005. The outstanding balance of these notes at December 31, 2005 and 2004 was $0 and $38 million.

Included in loans receivable in the Company s statement of condition at December 31, 2005 and 2004 were $223,000 and $8.6 million, respectively, of construction loans to Levitt secured by land and improvements.

Included in interest income in the Company s statement of operations for the years ended December 31, 2005 and 2004 was $0.9 million and $2.6 million, respectively, of interest income related to loans to Levitt.

BankAtlantic entered into securities sold under agreements to repurchase transactions with Levitt and BFC in the aggregate of $6.2 million and $39.3 million as of December 31, 2005 and 2004, respectively. The Company recognized $348,000 and $251,000 of interest expense in connection with the above deposits. These transactions have the same terms as other BankAtlantic repurchase agreements.

The Abdo Companies, a company in which John E. Abdo, Vice Chairman of the Company, is the principal shareholder and CEO, received a $291,240 management fee from Levitt during the year ended December 31, 2003. Levitt was a subsidiary of the Company until it was spun off to the Company s shareholders on December 31, 2003. Additionally, during the year ended December 31, 2003 BFC received $213,000 of management fees in connection with providing accounting, general and administrative services to Levitt. The amounts paid may not be representative of the amounts that would be paid in an arms-length transaction.

During the year ended December 31, 2004, the Company recorded a $22.8 million litigation gain pursuant to a settlement between the Company and its affiliates and a technology company. In accordance with the terms of the settlement, the Company sold its stock in the technology company to a third party investor group for its original cost of $15 million and received from the investor group and the technology company additional compensation for legal expenses and damages consisting of $1.7 million in cash and 378,160 shares of the Company s Class A common stock with a $6.1 million fair value that had been owned by the technology company. The Company had recorded an impairment charge for the entire investment during 2002. The Company retired the Class A common stock received by it on the settlement date.

The Company and its subsidiaries utilized certain services of Ruden, McClosky, Smith, Schuster & Russell, P.A. (Ruden, McClosky), a law firm to which Bruno DiGiulian, a director of the Company, is of counsel. Fees aggregating $206,800, $239,000 and $140,000 were paid by the Company to Ruden, McClosky during the year ended December 31, 2005, 2004 and 2003, respectively. In addition, fees aggregating $845,000 were paid to Ruden, McClosky by Levitt in 2003 when Levitt was a wholly-owned subsidiary of the Company. Ruden, McClosky also represents Alan B. Levan and John E. Abdo with respect to certain other business interests.

24. Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Reportable segments consist of one or more operating segments with similar economic characteristics, products and services, production processes, type of customer, distribution system and regulatory environment. The information provided for Segment Reporting is based on internal reports utilized by management. Results of operations are reported through three reportable segments: BankAtlantic, Ryan Beck and Parent Company. The Parent Company includes the operations of BankAtlantic Bancorp as well as acquisition related expenses.

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following summarizes the aggregation of the Company s operating segments into reportable segments:

Reportable Segment	Operating Segments Aggregated
BankAtlantic	Banking operations
Ryan Beck	Investment banking and brokerage operations
Parent Company	BankAtlantic Bancorp s operations, costs of acquisitions, and financing activities

The accounting policies of the segments are generally the same as those described in the summary of significant accounting policies. Intersegment transactions consist of shared services such as risk management consulting and investment banking placement and advisory fees which are eliminated in consolidation.

Depreciation and amortization consist of: depreciation on property and equipment, amortization of core deposit intangible assets, deferred compensation expenses and deferred offering costs.

The Company evaluates segment performance based on net segment income after tax. The table below is segment information for income from continuing operations for each of the years in the three year period ended December 31, 2005 (in thousands):

	BankAtlantic	Ryan Beck	Parent Company	Adjusting and Elimination Entries	Segment Total
2005					
Interest income	$ 343,799	$ 14,511	$ 2,257	$ (162)	$ 360,405
Interest expense	(122,724)	(3,419)	(19,347)	162	(145,328)
Recovery from loan losses	6,615				6,615
Non-interest income	100,060	238,800	2,524	(285)	341,099
Non-interest expense	(241,092)	(223,141)	(6,163)	285	(470,111)
Segments profits and losses before income taxes	86,658	26,751	(20,729)		92,680
Provision for income taxes	(30,838)	(10,095)	7,435		(33,498)
Segment net income (loss)	$ 55,820	$ 16,656	$ (13,294)	$	$ 59,182
Total assets	$ 6,109,330	234,379	786,239	(658,537)	$ 6,471,411
Equity method investments included in total assets	$	$	$ 12,464	$	$ 12,464
Goodwill	$ 70,490	$ 454	$ 5,730	$	$ 76,674
Expenditures for segment assets	$ 40,679	$ 2,761	$	$	$ 43,440
Depreciation and amortization	$ (13,265)	$ (7,560)	$ (793)	$	$ (21,618)

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BANKATLANTIC BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

	BankAtlantic	Ryan Beck	Parent Company	Adjusting and Elimination Entries	Segment Total
2004					
Interest income	$ 246,856	$ 11,351	$ 2,507	$ (159)	$ 260,555
Interest expense	(69,998)	(924)	(16,958)	158	(87,722)
Recovery from loan losses	5,109				5,109
Non-interest income	85,724	231,804	27,530	(269)	344,789
Non-interest expense	(193,621)	(213,060)	(5,642)	270	(412,053)
Segments profits and losses before income taxes	74,070	29,171	7,437		110,678
Provision for income taxes	(25,530)	(11,688)	(2,692)		(39,910)
Segment net income (loss)	$ 48,540	$ 17,483	$ 4,745	$	$ 70,768
Total assets	$ 6,044,988	$ 187,887	$ 736,719	$ (612,817)	$ 6,356,777
Equity method investments included in total assets	$	$	$ 7,910	$	$ 7,910
Goodwill	$ 70,490	$ 454	$ 5,730	$	$ 76,674
Expenditures for segment assets	$ 42,229	$ 5,861	$	$	$ 48,090
Depreciation and amortization	$ (11,473)	$ (7,507)	$ (793)	$	$ (19,773)

	BankAtlantic	Ryan Beck	Parent Company	Adjusting and Elimination Entries	Segment Total
2003					
Interest income	$ 251,402	$ 10,437	$ 1,722	$ (1,712)	$ 261,849
Interest expense	(97,302)	(1,283)	(16,344)	1,712	(113,217)
Recovery from loan losses	547				547
Non-interest income	70,686	210,939	194	(105)	281,714
Non-interest expense	(161,615)	(203,524)	(3,838)	105	(368,872)
Segments profits and losses before income taxes	63,718	16,569	(18,266)		62,021
Provision for income taxes	(21,589)	(6,924)	5,089		(23,424)

Segment net income (loss) From continuing operations	$	42,129	$	9,645	$	(13,177)	$		$	38,597
Total assets	$	4,566,850	$	172,944	$	679,491	$	(587,736)	$	4,831,549
Equity method investments included in total assets	$		$		$	7,910	$		$	7,910
Goodwill	$	70,490	$	454	$	5,730	$		$	76,674
Expenditures for segment assets	$	13,039	$	1,310	$		$		$	14,349
Depreciation and amortization	$	(10,094)	$	(6,592)	$	(821)	$		$	(17,507)

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) to make known material information concerning the Company, including its subsidiaries, to those officers who certify our financial reports and to other members of senior management. As of December 31, 2005, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that material information required to be included in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all errors and all improper conduct. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of improper conduct, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

Further, the design of any system of controls also is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Controls

In addition, we reviewed our internal control over financial reporting, and there have been no significant changes in our internal control over financial reporting or in other factors that could significantly affect those controls during the fourth quarter.

Management s Report on Internal Control Over Financial Reporting is included in Item 8 immediately preceding Report of Independent Registered Certified Public Accounting Firm.

Item 9B. Other information

None.

PART III

Items 10 through 14 will be provided by incorporating the information required under such items by reference to the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission, no later than 120 days after the end of the year covered by this Form 10-K, or, alternatively, by amendment to this Form 10-K under cover of 10-K/A no later than the end of such 120 day period.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of this Report:

(1) Financial Statements

The following consolidated financial statements of BankAtlantic Bancorp, Inc. and its subsidiaries are included herein under Part II, Item 8 of this Report.

Report of Independent Registered Certified Public Accounting Firm of PricewaterhouseCoopers LLP dated March 15, 2006.

Consolidated Statements of Financial Condition as of December 31, 2005 and 2004.

Consolidated Statements of Operations for each of the years in the three year period ended December 31, 2005.

Consolidated Statements of Stockholders Equity and Comprehensive Income for each of the years in the three year period ended December 31, 2005.

Consolidated Statements of Cash Flows for each of the years in the three year period ended December 31, 2005.

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules

All schedules are omitted as the required information is either not applicable or presented in the financial statements or related notes.

(3) Exhibits

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The following exhibits are either filed as a part of this Report or are incorporated herein by reference to documents previously filed as indicated below:

Exhibit Number	Description	Reference
3.1	Restated Articles of Incorporation	Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, filed on August 14, 2001.
3.3	Amended and Restated Bylaws	Form 10-K for the year ended December 31, 2003, filed on March 3, 2004.
10.1	Amendments to Stock Option Plans*	Exhibit 10.1 to the Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003.
10.2	2005 Restricted Stock and Option Plan	Appendix A to the Registrant s Definitive Proxy Statement filed on April 15, 2005.
10.4	2004 Restricted Stock Incentive Plan	Appendix A to the Registrant s Definitive Proxy Statement filed on April 12, 2004.
10.5	1998 Ryan Beck Stock Option Plan*	Appendix A, Exhibit B to the Registrant s Registration statement on Form S-4 filed on May 26, 1998 (Registration No. 333-53107.)
10.6	BankAtlantic Bancorp 2000 Non-qualified Stock Option Plan	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.7	BankAtlantic Bancorp 1996 Stock Option Plan*	Appendix A to the Registrant s Definitive Proxy Statement filed on April 25, 1996.
10.8	BankAtlantic Bancorp 1998 Stock Option Plan*	Appendix A to the Registrant s Definitive Proxy Statement filed on March 16, 1998.
10.9	BankAtlantic Bancorp, Inc. Restricted Stock Award Plan for Key Employees of Ryan, Beck & Co., Inc.*	Exhibit 10.9 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 26, 1999.
10.10	BankAtlantic Bancorp, Inc. Ryan Beck Restricted Stock Incentive Plan*	Exhibit 10.10 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 26, 1999.
10.11	BankAtlantic Bancorp-Ryan Beck Executive Incentive Plan*	Appendix B to the Registrant s Definitive Proxy Statement filed on June 22, 1999.
10.12	BankAtlantic Bancorp 1999 Stock Option Plan*	Appendix C to the Registrant s Definitive Proxy Statement filed on June 22, 1999.

10.13	BankAtlantic Bancorp 1999 Non-qualified Stock Option Plan*	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.15	Columbus Bank and Trust Company Loan Agreement, dated as of September 17, 2001	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.16	First Modification of Columbus Bank and Trust Company Loan Agreement, dated January 23, 2004	Form 10-K for the year ended December 31, 2003 filed on March 3, 2004.
10.17	Employment agreement of Ben A. Plotkin	Appendix A, Exhibit D to the Registrant s Registration statement on Form S-4 filed on May 26, 1998 (Registration No. 333-53107.)
10.18	Employment agreement of Lloyd B. DeVaux	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.19 (a)	BankAtlantic Split Dollar Life Insurance Plan	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.19 (b)	BankAtlantic Split Dollar Life Insurance Plan Agreement with Alan B. Levan	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.19 (c)	Corrective amendment to BankAtlantic Split Dollar Life Insurance Plan Agreement	Form 10-K for the year ended December 31, 2001, filed on March 30, 2002.
10.20	Indenture for the Registrant s 8.50% Junior Subordinated Debentures due 2027 held by BBC Capital Trust II	Exhibit 4.4 to the Registrant s form S-3A, filed on October 24, 2001 (Registration 333-71594 and 333-71594-01.)

Exhibit Number	Description	Reference
10.21	Amended and Restated Trust Agreement of BBC Capital Trust II	Exhibit 4.9 to the Registrant s Registration Statement From S-3A, filed on October 27, 2001 (Registration Nos. 333-71594 and 333-71594-01).
10.22	Amended and Restated Declaration of Trust of BBC Capital Statutory Trust III	Exhibit 10.1 to the Registrant s quarterly report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002.
10.23	Indenture for the Registrant s Floating Rate Junior Subordinated Deferrable Interest Debentures held by BBC Capital Trust III	Exhibit 10.2 to the Registrant s quarterly report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002.
10.24	Amended and Restated Declaration of Trust of BBC Capital Statutory Trust IV	Exhibit 10.1 to the Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2002 filed on November 14, 2002.
10.25	Indenture for the Registrant s Floating Rate Junior Subordinated Deferrable Interest Debentures due 2032 held by BBC Capital Statutory Trust IV	Exhibit 10.2 to the Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2002 filed on November 14, 2002.
10.26	Amended and Restated Trust Agreement of BBC Capital Trust V	Exhibit 10.3 to the Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2002 filed on November 14, 2002.
10.27	Indenture for the Registrant s Floating Rate Junior Subordinated Notes due 2032 held by BBC Capital Trust V	Exhibit 10.3 to the Registrant s quarterly report on Form 10-Q for the quarter ended September 30, 2002 filed on November 14, 2002.
10.28	Indenture for the Company s Floating Rate Junior Subordinated Notes due 2032 held by BBC Capital Trust VI	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.29	Amended and Restated Trust Agreement of BBC Capital Trust VI	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.30	Indenture for the Company s Floating Rate Junior Subordinated Deferrable Interest Debentures due 2032 held by BBC Capital Statutory Trust VII	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.31	Amended and Restated Declaration of Trust of BBC Capital Statutory Trust VII	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.32	Indenture for the Company s Floating Rate Junior Subordinated Debt Securities due 2033 held by BBC Capital Trust VIII	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.33	Amended and Restated Declaration of Trust of BBC Capital Trust VIII	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.34	Indenture for the Company s Floating Rate Junior Subordinated Debt Securities due 2033 held by BBC Capital Trust IX	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.35	Amended and Restated Declaration of Trust of BBC Capital Trust IX	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.36		

	Indenture for BankAtlantic s Floating Rate Subordinated Debt Securities due 2012	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.37	Amendment to the BankAtlantic Bancorp, Inc. 1999 Stock Option Plan	Form 10-K for the year ended December 31, 2002, filed on March 31, 2003.
10.38	Amended and Restated BankAtlantic Bancorp 2001 Option Plan	Appendix B to the Registrant s Definitive Proxy Statement filed on April 18, 2002.
10.39	Amended and Restated Declaration of Trust of BBC Capital Statutory Trust X	Exhibit 10.1 to the Registrant s quarterly report on Form 10-Q for the quarter ended March 31, 2003 filed on May 15, 2003.
10.40	Indenture for the Company s Floating Rate Junior Subordinated Deferrable Interest Debentures due 2033 held by BBC Capital Statutory Trust X	Exhibit 10.2 to the Registrant s quarterly report on Form 10-Q for the quarter ended March 31, 2003 filed on May 15, 2003.
10.41	Amended and Restated Declaration of Trust of BBC Capital Statutory Trust XI	Exhibit 10.3 to the Registrant s quarterly report on Form 10-Q for the quarter ended March 31, 2003 filed on May 15, 2003.

Exhibit Number	Description	Reference
10.42	Indenture for the Company s Floating Rate Junior Subordinated Deferrable Interest Debentures due 2033 held by BBC Capital Statutory Trust XI	Exhibit 10.4 to the Registrant s quarterly report on Form 10-Q for the quarter ended March 31, 2003 filed on May 15, 2003.
10.43	Amended and Restated Declaration of Trust of BBC Capital Statutory Trust XII	Exhibit 10.5 to the Registrant s quarterly report on Form 10-Q for the quarter ended March 31, 2003 filed on May 15, 2003.
10.44	Indenture for the Company s Floating Rate Junior Subordinated Deferrable Interest Debentures due 2033 held by BBC Capital Statutory Trust XII	Exhibit 10.6 to the Registrant s quarterly report on Form 10-Q for the quarter ended March 31, 2003 filed on May 15, 2003.
10.45	Executive Compensation Arrangements for 2005	Included in Registrant s Form 8-K Filed on May 20, 2005.
10.46	Non-employee Director Compensation Plan for 2005	Exhibit 10.1 to the Registrant s Form 8-K Filed on May 23, 2005.
12.1	Ratio of Earnings to Fixed Charges.	Filed with this Report.
21.1	Subsidiaries of the Registrant.	Filed with this Report.
23.1	Consent of PricewaterhouseCoopers LLP	Filed with this Report.
31.1	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed with this Report.
31.2	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed with this Report.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Report.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Report.

*Compensatory Plan

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BankAtlantic Bancorp, Inc.

March 14, 2006

By: /s/Alan B. Levan
Alan B. Levan, Chairman of the Board,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	**Title**	Date
/s/Alan B. Levan	Chairman of the Board, President and Chief Executive Officer	3/14/2006
Alan B. Levan		
/s/John E Abdo	Vice Chairman of the Board	3/14/2006
John E. Abdo		
/s/James A. White	Executive Vice President and Chief Financial Officer	3/14/2006
James A. White		
/s/Steven M. Coldren	Director	3/14/2006
Steven M. Coldren		
/s/Mary E. Ginestra	Director	3/14/2006
Mary E. Ginestra		
/s/Bruno L. Di Giulian	Director	3/14/2006
Bruno L. Di Giulian		
/s/Charlie C. Winningham, II	Director	3/14/2006
Charlie C. Winningham, II		
/s/Jarett S. Levan	Director	3/14/2006
Jarett S. Levan		
/s/Jonathan D. Mariner	Director	3/14/2006
Jonathan D. Mariner		
/s/D. Keith Cobb	Director	3/14/2006
D. Keith Cobb		
/s/Willis N. Holcombe	Director	3/14/2006
Willis N. Holcombe		
/s/David A. Lieberman	Director	3/14/2006

David A. Lieberman