OF CHICAGO

FIREMEN'S ANNUITY & BENEFIT FUND
20 S. Clark Street, Suite 1400
Chicago, Illinois 60603-1899

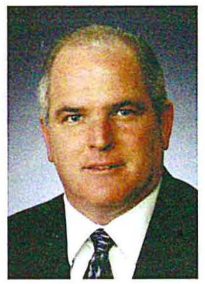
Firemen's Annuity and Benefit Fund of Chicago, Illinois

Financial Report

For the years ended December 31, 2005 and 2004

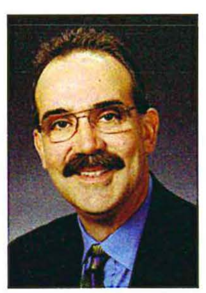
THE RETIREMENT BOARD
OF THE
FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
AS OF DECEMBER 31, 2005

Elected Trustees



Anthony Martin, ***Secretary***
Member of the Board since December, 2002. An 18 year member of the Chicago Fire Department. Earned B.A. degree in Political Science and Sociology from St. Xavier University. An active member of Local 2 and former steward for the 23rd Battalion.

Dan P. Fabrizio, ***Vice-President***
Began term as Active Trustee in December 2004. A 27 year member of the Chicago Fire Department. Former President of Chicago Fire Fighters Union Local 2 from May 1, 1993 to April 30, 1999. Dan has earned a Bachelor of Science degree in Fire Science from Southern Illinois University.

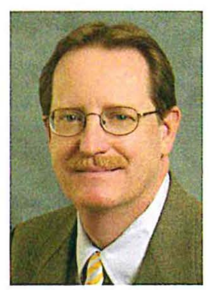


George Korda
Member of the Board since December, 2000. A 30 year member of the Chicago Fire Department. Earned a B.S. degree in Urban Planning from Chicago State University. Served as a Legislative Aid from 1982-1984 and the Director of Political Action for Local 2 from 1984-1990.

Walter Carlson
Elected Annuitant Board Member in December 2005. Retired since 2004 with 38 years on the job. Former Director of Contract Enforcement at the Chicago Fire Fighter Union Local 2 from 1992 to 2005.

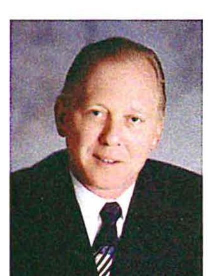
Ex Officios

Derrick F. Jackson, ***Deputy Fire Commissioner, President***
Deputy Fire Commissioner, Bureau of Administrative Services since January 2000. A 27 year member of the Chicago Fire Department. Earned a B.A. degree from Western Illinois University and a M.A. degree from Roosevelt University.



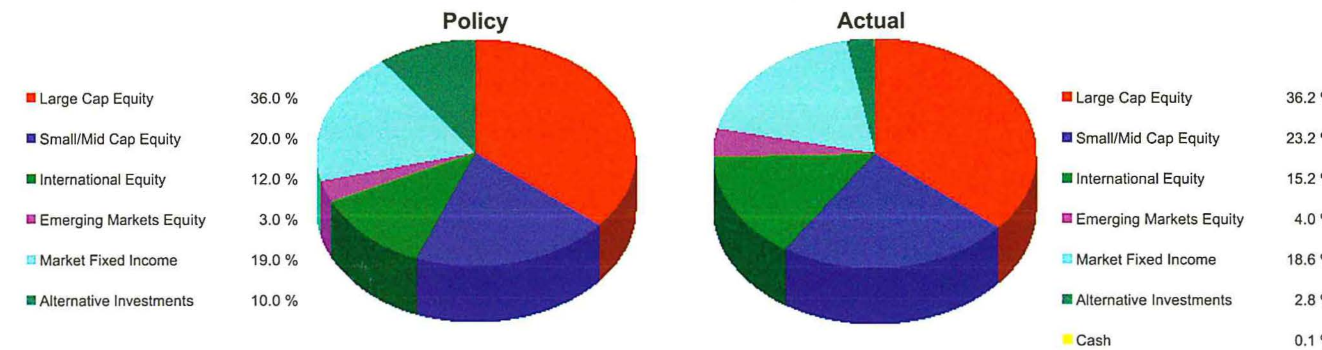
Steven Hughes, ***Acting Comptroller of the City of Chicago***
Began his term as Acting Comptroller of the City of Chicago in December 2005. A 24 year employee for City of Chicago. Prior positions included Managing Deputy Comptroller of Operations and Deputy Comptroller in Operations responsible for Accounts Payable and Information Technology. Earned a MBA from the University of Illinois – Chicago and a B.S. in Economics and Political Science from Illinois State University.

Judith Rice, ***City Treasurer of Chicago***
Appointed Treasurer in November 2000. Prior to appointment, she served as Commissioner of the Chicago Department of Transportation. Prior positions also include Commissioner of the Chicago Department of Water, Director of the Department of Revenue and Assistant State's Attorney. Earned a law degree from John Marshall Law School and a B.A. degree from Loyola University.



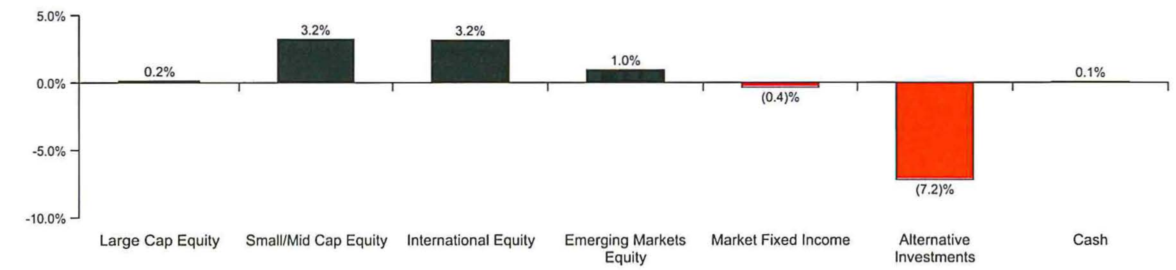
James Laski, ***City Clerk of Chicago***
Elected City Clerk in April 1995. Prior to becoming City Clerk, he was the 23rd Ward Alderman from 1990 through April 1995. Served as Legislative Assistant for the Illinois House of Representatives. Earned a B.A. degree from Lewis University and a law degree from Northern Illinois University.

Firemen's Annuity and Benefit Fund of Chicago
Asset Allocation
As of December 31, 2005



Total Market Value
$ 1,179,164,115

Asset Allocation vs. Policy

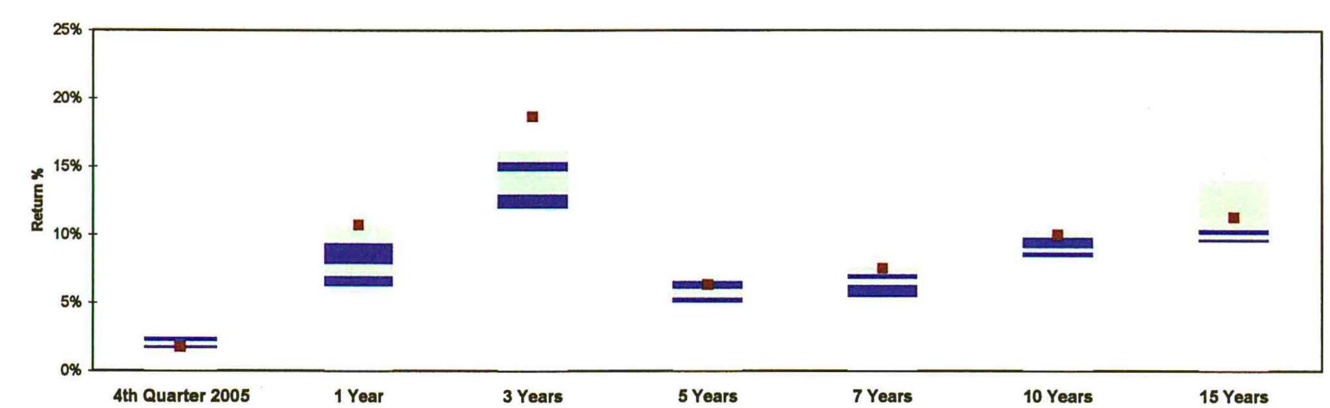


Numbers may not add due to rounding

Mercer Investment Consulting

FundStrategy *4th Quarter 2005* **Chicago Firemen's Annuity & Benefit Fund**

Total Fund vs. TNT Public Fund Universe



	4th Quarter 2005	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Firemen's Benefit	1.7%	10.7%	18.7%	6.3%	7.5%	10.0%	11.3%
Percentile Rank	85	9	1	46	14	20	18
Number of Observations	34	35	28	23	16	11	5
10th Percentile	2.7%	10.7%	16.2%	6.8%	7.6%	10.3%	14.1%
1st Quartile	2.5%	9.4%	15.4%	6.6%	7.1%	9.8%	10.4%
Median	2.1%	7.8%	14.7%	6.0%	6.8%	9.0%	10.1%
3rd Quartile	1.8%	7.0%	13.0%	5.4%	6.3%	8.7%	9.7%
90th Percentile	1.6%	6.2%	12.0%	5.0%	5.4%	8.4%	9.5%

The Northern Trust Company

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
Suite 1400
20 South Clark Street Chicago, IL 60603-1899
(312) 726-5823 Fax (312) 726-2316
Marshall Line 9261 http://www.fabf.org
(800) 782-7425

REPORT OF THE INVESTMENT COMMITTEE

On behalf of the Retirement Board of the Firemen's Annuity & Benefit Fund of Chicago, I hereby submit the investment report for the year 2005.

For a second consecutive year, the overall equity market was listless for much of the year. Months were spent treading water in a choppy trading pattern of many small monthly declines followed by bursts of upsurge. Given the headwinds that the 2005 market encountered, including continued short term interest rate increases by the Fed, an inverted yield curve suggesting a possible upcoming recession, oil prices surging past $70 a barrel, a softening real estate market and Hurricanes Katrina and Rita, it truly is a wonder that the U.S. stock market indices were able to post any gains at all. For the year, the S&P 500 closed up 4.9%, while other broad market indices ranged from up 4% to 7%. For 2005, your Fund was able to generate a total return of 10.7%, marking the seventh straight year that the Fund has beaten the S&P 500.

Our 10.7% return placed the Fund in the top 10% of the Northern Trust's Public Fund Universe for 2005. The Fund's cumulative performance, spanning virtually every time period reported, ranks in the top 25%, as measured against its peers. The following table shows the 1, 3, 5, 10 and 15 year annualized returns for the Fund and its peers as of December 31, 2005.

	1 Year	3 Year	5 Year	10 Year	15 Year
Firemen's Annuity & Benefit Fund of Chicago	10.7%	18.7%	6.3%	10.0%	11.3%
The Northern Trust Co. Public Fund Median	7.8%	14.7%	6.0%	9.0%	10.1%

The beginning of 2006 started off quite strong, closing up 4.2% for the first quarter. Strong, contributing factors included the economy's sustainable, moderate growth rate, continued increases in employment level, rising consumer confidence, high, yet stabilizing energy costs and the Federal Reserve nearing completion of its interest rate tightening. Also of note in the first quarter were the strong performance and large cash inflows into international and emerging markets. The Fund's portfolio was well positioned to take advantage of all these trends, as evidenced by its first quarter return of 6.7%.

While the last few years' investment returns have significantly benefited the Fund, your Board is committed to exercising care and prudence in the oversight of the Fund's assets. As always, the Board and I welcome your questions and comments regarding the Fund and its investments.

Sincerely,

George M. Korda
Elected Trustee and Investment Committee Chairman

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of the
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Marshall Line 9261 http://www.fabf.org
(800) 782-7425

ELECTED TRUSTEES
ANTHONY R. MARTIN, Secretary
DAN P. FABRIZIO, Vice President
GEORGE M. KORDA,
WALTER M. CARLSON, Annuitant Member

EX-OFFICIO TRUSTEES
Deputy Fire Commissioner, DERRICK JACKSON, President
City Treasurer, JUDITH C. RICE
Acting City Comptroller, STEVE LUX
City Clerk, Vacant

May 3, 2006

To the Participants of the Firemen's Annuity and Benefit Fund of Chicago

The Retirement Board and Staff of the Firemen's Annuity & Benefit Fund of Chicago are pleased to submit your Fund's Annual Financial Report for the year ended December 31, 2005. We strongly recommend that you read this report to gain an understanding of the current status of your retirement plan.

Throughout 2005, the Retirement Board focused on two very important priorities which were long term funding and investment return.

The Board and staff have spent a considerable amount of time working with our actuaries to construct several variable funding strategies that were presented to the City of Chicago for consideration. Our goal is to achieve increased funding without having to sacrifice any current or future member's benefits.

The Fund had yet another tremendous investment year, earning 10.7% on its invested assets. The Fund continues to adhere to its adopted Investment Objectives and Asset Allocation plan, resulting in broad gains in all asset classes. Please review the Investment Committee report on page 28 of this report.

The Board also experienced significant transitions during the year. The Fund welcomed newly elected Annuitant member, Walter Carlson, to the board. Walter retired in 2004 as a fire fighter with 38 years on the job and many years experience as the Local 2 Director of Contract Enforcement. Acting Comptroller of the City of Chicago Stephen Hughes filled the vacant position as an Ex Officio Trustee due to the retirement of Tariq Malhance. The board would like to thank both Tariq Malhance and William Wilkinson for their years of service and commitment to the Fund.

Be assured, however, that your Board's primary commitment is to you, our members. We dedicate all our efforts to the prudent oversight of your Fund. We always welcome your questions and suggestions. Please feel free to contact any of us at the Fund office. To each of you, all the best during 2006.

Derrick Jackson
President

Anthony Martin
Fund Secretary

LEGACY
PROFESSIONALS LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

Firemen's Annuity and Benefit
Fund of Chicago

We have audited the accompanying statements of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2005 and 2004 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of Firemen's Annuity and Benefit Fund of Chicago at December 31, 2005 and 2004 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 7 through 9 and the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on page 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 24 through 26 is presented for purposes of additional analysis and is not a required part of the financial statements of Firemen's Annuity and Benefit Fund of Chicago. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion for, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with generally accepted auditing standards, the financial statements for the years ended December 31, 2003 and 2002 (which are not presented herein), and we expressed an unqualified opinion on those financial statements. Our report on additional information related to those financial statements stated that such information presented on page 24 was fairly stated in all material respects in relations to the basic financial statements taken as a whole. No opinion was expressed on the required supplementary information on page 24. The basic financial statements for the years ended 2001and 2000 (none of which are presented herein) were audited by other auditors, whose reports expressed an unqualified opinion on those financial statements. Their reports on additional information related to those financial statements stated that, in their opinion, such information was fairly presented in relation to the basic financial statements, taken as a whole. No opinion was expressed on the required supplementary information on page 23.

The additional information presented on page 27 has not been subjected to the auditing procedures applied in the audits of the financial statements. Accordingly, we express no opinion on whether this information has been fairly stated.

Legacy Professionals LLP

April 17, 2006

30 North LaSalle Street | Suite 4200 | Chicago, IL 60602 | 312.368.0500 | 312.368.0746 Fax | www.legacycpas.com

REQUIRED SUPPLEMENTARY INFOR0MATION

SCHEDULE OF FUNDING PROGRESS

Year Ended December 31,		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2000	(1)	$ 1,219,486,962	$ 2,053,340,475	$ 833,853,513	59.39%	$ 275,106,756	303.10%
2001		1,245,129,955	2,068,717,901	823,587,946	60.19	277,964,912	296.29
2002		1,209,768,204	2,088,706,217	878,938,013	57.92	277,053,144	317.25
2003	(1)	1,194,007,767	2,517,268,107	1,323,260,340	47.43	335,170,501	394.8
2004		1,182,578,954	2,793,524,355	1,610,945,401	42.33	334,423,753	481.71
2005		1,203,654,052	2,882,935,717	1,679,281,665	41.75	341,252,492	492.09

(1) = Change in actuarial assumptions.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Employer Required Contribution, Normal Cost Plus 40 Year Level Dollar Amortization (ARC) (a)	Actual (b)	Percent of ARC Contributed (b/a)
2000	$ 90,530,458	$ 65,928,675	72.82%
2001	104,014,168	60,399,909	58.07
2002	105,106,367	59,452,787	56.56
2003	111,079,054	60,234,206	54.23
2004	134,762,334	55,532,454	41.21
2005	161,696,388	90,128,915	55.74

NOTES TO SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2005
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	40 years
Actuarial value of assets	Five Year Smoothed Market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increase	4% per year, plus an additional percentage related to service and promotion
Postretirement increases	1.5% simple interest for 20 years for members born in or after 1955
	3% simple interest for life for members born before 1955

NOTE 13. LEASE AGREEMENTS

The Plan leases office facilities with lease payments subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through March 2020.

Rental expense for 2005 and 2004 was $126,249 and $90,071 respectively.

Future minimum rental payments required under the noncancellable operating leases are as follows:

Year ending December 31,	
2006	$ 76,333
2007	80,247
2008	84,162
2009	90,033
2010	95,905
2011 through 2015	538,244
2016 through 2020	534,329
Total	$ 1,499,253

NOTE 14. RELATED PARITY TRANSACTIONS

At December 31, 2005 and 2004, the Plan held investments with a total fair value of $1,544,236 and $1,491,406 respectively, in one of its investment managers.

NOTE 15. PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards or Other Postemployment Benefits (OPEB) plans. The Statement addresses standards for measurement, recognition and display of employers' OPEB expenses/expenditures and related liabilities (assets), note disclosures and if applicable required supplementary information. The new Statement will change the accounting for postemployment benefits currently provided by the Plan. The provisions of this Statement will become effective for the year end December 31, 2006. Management has not currently determined what impact, if any, GASB Statement No. 43 may have on its financial statements.

NOTE 16. LITIGATION

The Plan is involved in a number of cases involving the calculation of widow annuity payments as to the effective date of higher paying "duty death" widow benefits. If determined adversely to the Plan's position, the Plan's retroactive annuity payments may exceed $2,000,000. The Plan continues to vigorously defend against these cases and cannot adequately assess the outcome of these matters. Legal counsel is unable to quantify the economic impact to the Fund if these, and all future widows similarly situated, are found to be entitled to the higher "duty death" widow benefits.

NOTE 17. COMMITMENTS

During the year ended December 31, 2005, the Plan entered into a limited partnership agreement with Bank of America Private Equity Fund of Funds Limited Partnership, committing to a $15,000,000 investment. As of December 31, 2005, $4,800,000 has been invested.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis of the financial position and performance of the Firemen's Annuity and Benefit Fund of Chicago (Plan) for the year ended December 31, 2005. This discussion is presented as a narrative overview of the financial activities and significant changes of the Plan and should be read in conjunction with the Plan's financial statements.

Overview of the Financial Statements

The discussion and analysis which follows is intended to serve as an introduction to the Plan's basic financial reporting, including the following statements:

Statement of Plan Net Assets provides a snapshot of account balances and net assets held in trust for future benefit payments as of the Plan's year end.

Statement of Changes in Plan Net Assets provides an illustration of the sources (additions) and uses (deductions) of Plan funds resulting in a net increase (decrease) in assets during the fiscal years reported.

Notes to Financial Statements provide additional information that is essential to achieving a better understanding of the data provided in the financial statements.

Required Supplementary and Additional Information Schedules provide detailed, historical trend information of assets, liabilities and employer contributions.

Financial Highlights

The **net assets** of the Plan increased by $68.5 million, a 5.7% increase during 2005. The increase in assets was directly attributable to an increase in the value of total investments achieved by strong investment returns during the year.

The **rate of return** of the investment portfolio for 2005 was 10.7% versus 2004's return of 14.8%. Above benchmark performance returns across many of the Plan's equity and fixed income investments contributed to 2005's results.

The **actuarial funding** of the Plan for 2005 was 41.8%, contrasted against 2004's funding level of 42.3%. The small drop in the funding level during 2005 was primarily due to recognition of deferred losses and the implementation of new accounting rules regarding the valuation of health insurance supplemental payments.

Plan Net Assets

A summary of the Plan net assets is provided below:

Plan Net Assets (in millions)
As of December 31,

	2005	2004	Increase/(Decrease) in Dollars	Increase/(Decrease) in Percent
Cash and cash equivalents	$ 29.6	$ 41.4	$ (11.8)	(28.5)%
Receivables and prepaid expenses	111.1	69.8	41.3	59.2
Investments, at fair value	1,143.3	1,102.8	40.5	3.7
Invested securities lending cash collateral	179.6	170.6	9.0	5.3
Total assets	1,463.6	1,384.6	79.0	5.7
Payables	9.3	7.8	1.5	19.2
Securities lending cash collateral	179.6	170.6	9.0	5.3
Total liabilities	188.9	178.4	10.5	5.9
Plan net assets	$ 1,274.7	$ 1,206.2	$ 68.5	5.7%

Changes in Plan Net Assets

A summary of the changes in Plan net assets, reflecting the changes in resources available to pay benefits to members, retirees and beneficiaries, is provided below:

Changes in Plan Net Assets (in millions)
For the Years Ended December 31,

	2005	2004	Increase/(Decrease) in Dollars	Increase/(Decrease) in Percent
Additions:				
Employer contributions	$ 90.1	$ 55.5	$ 34.6	62.3%
Member contributions	35.7	37.7	(2.0)	(5.4)
Net investment and securities lending income	112.0	139.6	(27.6)	(19.8)
Other	.5	24.3	(23.8)	(97.9)
Total additions	238.3	257.1	(18.8)	(7.3)
Deductions:				
Benefits	163.9	154.2	9.7	6.3
Annuitant health care	2.2	2.2	-	-
Refunds of contributions	1.5	2.0	(.5)	(27.1)
Administrative expenses	2.2	2.1	.1	9.5
Total deductions	169.8	160.5	9.3	5.8
Net increase (decrease) in plan net assets	$ 68.5	$ 96.6	$ (28.1)	(29.0)%

Additions to Plan Net Assets

Employer contributions increased $34.6 million (62.3%) between 2005's employer contribution of $90.1 million and 2004's employer contribution of $55.5 million. This increase reflects the City of Chicago's payments associated with the retroactive pay increases received from the 2003 contract settlement.

Member contributions fell $2.0 million (-5.4%), from $37.7 million in 2004 to $35.7 million in 2005.

Net investment and securities lending income declined. For 2005, the Plan earned $112.0 million in portfolio income and gains compared with net investment income of $139.6 million during 2004.

Deductions to Plan Net Assets

Benefit payments to retirees and plan participants increased $9.7 million (6.3%) between 2004 and 2005 due to recent legislation and court decisions.

Annuitant health care and administrative expenses remained relatively constant between 2005 and 2004.

Refund of contributions decreased by $547,199 (-27.1%) between 2005's refunds of $1,469,848 and 2004's refunds of $2,017,047.

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

Some of the more significant actuarial assumptions used in the valuations were:

Mortality:	1983 Group Annuity Mortality Table, sex distinct.
Disabled Mortality:	1992 Railroad Retirement Board's Disabled Annuitant's Mortality Table.
Retirement age assumptions:	Assume all employees, except emergency medical technicians, retire by age 63 (mandatory retirement age as enacted by the City of Chicago in 2000). Emergency medical technicians are assumed to retire by age 65.
Investment rate of return:	8% per year, net of investment expenses. This assumption contains a 3% inflation assumption and a 5% real rate of return assumption.
Salary increase:	4% per year, plus an additional percentage related to service and promotion.

A Schedule of Funding Progress is located in the Required Supplementary Information on page 23. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 9. EMPLOYER CONTRIBUTIONS (TAXES) RECEIVABLE - NET

Employer contribution receivable at December 31, 2005 and 2004 consist of the following:

	2005	2004
Property taxes	$ 85,844,466	$ 58,093,525
Personal property replacement taxes	12,431,000	8,597,000
Less allowance for uncollectible accounts	(6,083,295)	(6,145,443)
Total	$ 92,192,171	$ 60,545,082

NOTE 10. RATIFICATION OF BARGAINING CONTRACT

During 2003, a bargaining contract was ratified between the City of Chicago and Firemen's Local Union No. 2. One of the provisions in the contract allowed for a salary increase retroactive to July 1, 1999. The increase in salary resulted in an increase in employee contributions of $10,000,000 during 2003 and increased employer contributions (tax levy) in 2005 (two years from the receipt of the retroactive increase in employee contributions) by approximately $22,600,000.

NOTE 11. MUNICIPAL FUND INCOME

During 2004, there was a change in legislation that required the Municipal Employees' Annuity and Benefit Fund of Chicago to transfer to this Plan, City contributions made on paramedics between 1977 and 1983. The total, which included 11% interest, was $24,201,945. This amount was credited to the individual paramedics if the paramedic paid in full for prior service.

NOTE 12. ANNUITANT HEALTH INSURANCE

The Plan and the City of Chicago share in the cost of providing health care coverage to the annuitants or their surviving spouses who elect to participate in the City of Chicago Annuitant Medical Benefits Program. The Plan currently, in accordance with State Statutes, subsidizes the cost of monthly group health care premiums up to $85 per month for non-Medicare recipients and $55 per month for Medicare recipients. The remaining cost to participate in the Program is borne by the City of Chicago and the annuitant. At December 31, 2005 and 2004, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,083 and 3,087 respectively. The Plan's share of the Program cost subsidy for 2005 and 2004 was $2,187,458 and $2,184,105 respectively.

The Salary Deduction Reserve is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are maintained until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Reserve. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve. The Annuity Payment Reserve receives the amounts transferred from the individual accounts in the City Contribution Reserve and the Salary Deduction Reserve when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this reserve.

The Death Benefit Reserve accumulates contributions from employees and the City for ordinary death benefits. All ordinary death benefits paid are charged to this reserve.

The Ordinary Disability Reserve accumulates contributions from employees and the City for ordinary disability benefits. All ordinary disability benefits paid are charged to this reserve.

The Supplementary Payment Reserve accumulates amounts to provide automatic annual postretirement increases to employee annuitants who retired before September 1, 1959 and amounts in excess of the original annuity grant due to increases in the minimum annuity.

The Gift Reserve accumulates donations to be used to provide an extra benefit to widowed spouse annuitants and orphaned child annuitants.

The Reserve surplus (deficit) represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future contributions. A deficit indicates that additional assets will be needed to provide for future benefits, while a surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments.

During the years ended December 31, 2005 and 2004, the Plan's actuary has determined that an increase in actuarial reserves of $136,815,988 and $384,302,285 respectively, is required. The net increase of revenue over expenses for the years ended December 31, 2005 and 2004 of $68,479,724 and $96,617,224 respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an (increase) in the Plan deficit of $(68,336,264) and $(287,685,061) for the years ended December 31, 2005 and 2004, respectively.

As reported by the actuary, the changes in the Plan (deficit) during the years ended December 31, 2005 and 2004 consisted of the following:

	2005	2004
Plan (deficit) at the beginning of the year	$ (1,610,945,401)	$ (1,323,260,340)
Gains (losses) during the year attributable to:		
Gain from salary changes	40,654,533	29,032,651
(Loss) on investment return	(32,194,356)	(64,535,198)
Employer cost in excess of contributions	(60,494,782)	(70,306,036)
(Loss) from demographic assumptions	(17,264,774)	(20,163,645)
Gain from Transfer from MEABF	-	24,201,945
(Loss) from assumption changes	(12,434,686)	-
(Loss) from law changes	-	(172,545,026)
(Loss) from additional Bertucci liability	(11,681,326)	-
Gain (loss) from all other sources	25,079,127	(13,369,752)
Net (loss)	(68,336,264)	(287,685,061)
Plan (deficit) at the end of the year	$ (1,679,281,665)	$ (1,610,945,401)

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25. The Plan (deficit) above will not equal the Plan surplus (deficit) denoted on page 20 which is based on assets valued at actual market value.

Funding Status

The actuarial assets, actuarial liabilities and funding status for the Plan are provided below:

Actuarial Values (in millions)
December 31,

	2005	2004	Increase/(Decrease) in Dollars	Percent
Actuarial assets	$ 1,203.7	$ 1,182.6	$ 21.1	1.8%
Actuarial liabilities	2,882.9	2,793.5	89.4	3.2
Unfunded actuarial liabilities	$ 1,679.2	$ 1,610.9	$ 68.3	4.2%
Funded ratio	41.8%	42.3%		

Actuarial assets increased slightly from $1.18 billion in 2004 to $1.20 billion in 2005 ($21.1 million; 1.8%) as the strong investment gains of 2005 were offset by the required five year actuarial smoothing of gains and losses from current and prior years.

Actuarial liabilities increased from $2.79 billion in 2004 to $2.88 billion in 2005 ($89.4 million; +3.2%), as the impact of increased benefits, court decisions, and new accounting rules were recognized.

The **funded ratio** is one indicator of the financial strength of the Plan, measuring the ratio of net assets available to meet the actuarially determined future liabilities of the Plan. The decrease in the funded ratio from 42.3% in 2004 to 41.8% in 2005 was due primarily to the increased actuarial liabilities resulting from law changes and costs in excess of employer contributions.

Investments

The performance of the Plan's investments, as shown by major asset class, is provided below:

Investment Results
For the Years Ended December 31,

	2005	2004
Equities	12.5%	16.5%
S & P 500 - benchmark	4.9%	10.9%
Fixed income	3.1%	8.4%
Lehman Bros. Aggregate - benchmark	2.4%	4.2%
Total Fund	10.7%	14.8%

The value of the Plan's investments, including cash and cash equivalents, increased from $1.14 billion in 2004 to $1.17 billion in 2005, an increase of $28.7 million (+2.5%). Strong performance across all asset classes contributed to the increase in value. Total return for the entire investment portfolio in 2005 was 10.7%, compared with 14.8% in 2004.

Contact Information

This financial report is designed to provide plan participants, retirees, beneficiaries, the employer and all other interested users with a complete, detailed, easy to understand financial portrait of the Plan at December 31, 2005. Questions, concerns or comments regarding this report or requests for additional information should be addressed to:

Kenneth E. Kaczmarz
Executive Director
Firemen's Annuity & Benefit Fund of Chicago
20 S. Clark
Suite 1400
Chicago, IL 60603

STATEMENT OF PLAN NET ASSETS

DECEMBER 31, 2005 AND 2004

	2005	2004
Assets		
Receivables		
Employer - net	$ 92,192,171	$ 60,545,082
Investment income	5,717,422	4,012,383
Unsettled trades	10,142,979	2,895,131
Other	3,045,262	2,233,611
Total receivables	111,097,834	69,686,207
Prepaid expenses	71,852	61,572
Investments		
Corporate bonds	97,977,760	112,814,421
U.S. and Foreign Government obligations	58,959,819	91,865,852
Equities	860,051,007	859,842,980
Cash deposits and short-term investments	29,598,770	41,378,195
Pooled funds	120,218,658	37,532,318
Private equity and venture capital	6,046,695	808,299
Total investments	1,172,852,709	1,144,242,065
Invested securities lending cash collateral	179,559,634	170,562,203
Total assets	1,463,582,029	1,384,552,047
Liabilities and Net Assets		
Liabilities		
Unsettled trades	7,346,694	5,743,878
Accounts payable and accrued expenses	1,417,374	1,426,682
Securities lending cash collateral	179,559,634	170,562,203
Participant accounts	600,844	641,525
Total liabilities	188,924,546	178,374,288
Net assets held in trust for pension benefits	$ 1,274,657,483	$ 1,206,177,759

(A schedule of funding progress is presented on page 23)

NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

The actuarial valuations of the Plan as of December 31, 2005 and 2004 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be $160,246,525 and $161,696,388 for 2005 and 2004, respectively. The minimum annual projected contribution was based on an annual payroll of $341,252,492 for 4,999 active members during 2005 and $334,423,753 for 4,856 active members during 2004 and was computed as follows:

	2005 Tax Levy	2004 Tax Levy
Normal cost	$ 57,835,993	$ 60,482,792
40-year level dollar amortization of the unfunded liability	134,468,779	132,629,043
	192,304,772	193,111,835
Less estimated plan member contributions	(32,058,247)	(31,415,447)
Annual required contribution to be financed by tax levy	$ 160,246,525	$ 161,696,388
Required tax levy multiple	4.54	5.19

According to the Plan's consulting actuary, the Plan needs additional contributions in order to adequately finance the Plan.

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation establishes the reserves required for various statutory liabilities which arise from pension benefit schedules that are part of the current pension code legislation.

Net assets held in trust for pension benefits as of December 31 were comprised of the following reserve surplus (deficit) balances:

	2005	2004
Prior Service Annuity Reserve	$ 1,093,501,679	$ 1,043,519,902
City Contribution Reserve	580,983,152	524,209,444
Annuity Payment Reserve	551,718,149	516,068,486
Salary Deduction Reserve	481,645,463	434,873,222
Death Benefit Reserve	(8,049,339)	(7,266,357)
Ordinary Disability Reserve	(231,693)	(1,897)
Supplementary Payment Reserve	921,562	1,236,805
Gift Reserve	2,418,416	2,026,672
Reserve (deficit)	(1,428,249,906)	(1,308,488,518)
Total net assets held in trust for pension benefits	$ 1,274,657,483	$ 1,206,177,759

The Prior Service Annuity Reserve is a reserve account for the accumulation of City contributions to provide for:
a) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1931 and
b) any excess in minimum annuity formula requirements over the amounts required for age and service annuities, and for spouse annuities.

The City Contribution Reserve is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is maintained for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Reserve.

NOTE 4. FOREIGN SECURITIES

The Plan does not isolate that portion of net appreciation (depreciation) in fair value of investments resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such fluctuations are included with net appreciation (depreciation) in fair value of investments. Net realized gains and losses on foreign currency transactions represent net exchange gains or losses on closed foreign currency contracts, disposition of foreign currencies, and the difference between the amount of investment income and foreign withholding taxes recorded on the Plan's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized gains and losses on foreign currency transactions arise from changes in the value of open foreign currency contracts and assets and liabilities other than investments at the year end, resulting from changes in the exchange rate.

NOTE 5. SECURITIES LENDING

State Statutes and the Board of Trustees permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Plan's custodian, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest.

The Plan is not restricted as to the type or amount of securities it may loan. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults.

The average term of securities loaned was 78 days in 2005 and 73 days in 2004; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral may be invested in a short-term investment pool, which had an average weighted maturity at December 31, 2005 and 2004 of 39 days and 31 days, respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loans.

As of December 31, 2005 and 2004, the fair value (carrying amount) of loaned securities was $174,302,195 and $166,239,994 respectively. As of December 31, 2005 and 2004, the fair value (carrying amount) of collateral received by the Plan was $179,559,634 and $170,562,203 respectively. Therefore, as of December 31, 2005 and 2004, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan.

During 2005 and 2004, there were no losses due to default of a borrower or the lending agent. The contract with the lending agent requires it to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

NOTE 6. MORTGAGE-BACKED SECURITIES

The Plan invests in mortgage-backed securities representing interests in pools of mortgage loans as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan are guaranteed by federally sponsored agencies such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

All of the Plan's financial instruments are carried at fair value on the Statement of Plan Net Assets included in investments. The gain or loss on financial instruments is recognized and recorded on the Statement of Changes in Plan Net Assets as part of investment income.

NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES

Employer obligations are funded through a City tax levy which is currently limited when extended to an amount not to exceed an amount equal to the total contributions by the employees to the Plan made in the calendar year, two years prior to the year for which the annual applicable tax is levied, multiplied by 2.26.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Additions		
Contributions		
Employer		
Property taxes - net	$ 75,002,915	$ 51,135,454
Personal property replacement taxes	12,431,000	4,397,000
PA-930654 exempt rank funding	2,695,000	-
Total employer contributions	90,128,915	55,532,454
Plan member		
Annuities	35,549,482	37,589,655
Death benefits	147,381	144,770
Total plan member contributions	35,696,863	37,734,425
Investment income		
Net appreciation in fair value of investments	87,573,723	118,865,865
Interest	15,311,244	12,278,088
Dividends	13,953,842	13,132,361
Other	124,735	197,799
	116,963,544	144,474,113
Less investment expenses	(5,394,733)	(5,353,001)
Net investment income	111,568,811	139,121,112
Securities lending		
Income	5,677,704	2,050,409
Expenses		
Borrower rebates	(5,067,212)	(1,513,944)
Management fees	(162,947)	(160,835)
Net securities lending income	447,545	375,630
Gift fund donations	82,510	65,499
Municipal Employees' Annuity and Benefit Fund of Chicago payment	-	24,201,945
Litigation settlement	160,000	-
Miscellaneous income	214,008	55,031
Total additions	238,298,652	257,086,096
Deductions		
Age and service benefits		
Employees	115,447,346	110,437,967
Spouses	27,192,267	23,448,011
Dependents	919,291	934,890
Total age and service benefits	143,558,904	134,820,868
Disability benefits		
Duty	12,744,740	11,855,200
Occupational	6,074,191	6,007,793
Ordinary	277,816	192,296
Total disability benefits	19,096,747	18,055,289
Gift fund payments	371,600	440,165
Death benefits	844,000	854,800
Total benefits	163,871,251	154,171,122
Annuitant health care	2,187,458	2,184,105
Refunds of contributions	1,469,848	2,017,047
Administrative expenses	2,290,371	2,096,598
Total deductions	169,818,928	160,468,872
Net increase	68,479,724	96,617,224
Net assets held in trust for pension benefits		
Beginning of year	1,206,177,759	1,109,560,535
End of year	$ 1,274,657,483	$ 1,206,177,759

See accompanying notes to financial statements.

NOTE 3. INVESTMENT SUMMARY

The Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the "prudent person" provisions of the Statutes. The following table presents a summarization of the fair value (carrying amount) of the Plan's investments as of December 31, 2005 and 2004.

Investments	2005	2004
Corporate bonds:		
Not on securities loan	$ 74,026,080	$ 88,591,939
On securities loan	23,951,680	24,222,482
U.S. and Foreign Government obligations:		
Not on securities loan	45,408,944	84,223,282
On securities loan	13,550,875	7,642,570
Equities:		
Not on securities loan	723,251,367	725,468,038
On securities loan	136,799,640	134,374,942
Cash deposits and short-term investments	29,598,770	41,378,195
Pooled funds	120,218,658	37,532,318
Private equity and venture capital	6,046,695	808,299
	1,172,852,709	1,144,242,065
Invested securities lending cash collateral	179,559,634	170,562,203
Total investments and invested securities lending cash collateral	$ 1,352,412,343	$ 1,314,804,268

Investment Risk

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities in the possession of an outside party. To minimize custodial credit risk, the Plan's custodian physically (or through agreement with a sub-custodian) maintains possession of securities owned by the Plan. In addition, the Plan seeks to maintain a fully invested position in accordance with the established target asset allocation and minimize cash deposits. At December 31, 2005 and 2004, the Plan had $1,448,391 and $698,393 respectively, in cash and short-term deposits that was uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not held in the Plan's name.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The Plan establishes minimum investment rating guidelines for each investment manager based on their area of concentration and level of allowable risk.

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Credit Risk (continued)

The following table presents a summarization of the credit quality ratings of investments in corporate bonds, foreign government obligations, short-term investments, and pooled funds as valued by Moody's Investors Service and/or Standard & Poor's:

Type of Investment	Rating	2005	2004
Corporate bonds	Aaa/AAA	$ 17,500,813	$ 1,346,018
	Aa/AA	9,013,252	14,169,392
	A/A	7,891,163	18,157,258
	Baa/BBB	23,649,421	30,218,969
	Ba/BB	14,297,406	17,168,136
	B/B	12,064,879	13,186,435
	Caa/CCC	4,237,000	4,115,075
	C/C	-	1,164,670
	Not Rated	9,323,826	13,288,468
		97,977,760	112,814,421
Foreign Government obligations	Aaa/AAA	6,493,430	32,468,649
	Aa/AA	3,719,235	2,268,049
	A/A	-	2,689,173
	Baa/BBB	4,894,614	3,591,132
	Ba/BB	1,406,305	3,548,591
	B/B	-	272,190
	Not Rated	3,633,812	3,012,496
		20,147,396	47,850,280
U.S. Government obligations	Not Rated	38,812,423	44,015,572
Total U.S. and Foreign Government obligations		58,959,819	91,865,852
Cash deposits and short-term investments	Not Rated	29,598,770	41,378,195
Pooled funds	Not Rated	120,218,658	37,532,318
Total		$ 306,755,007	$ 283,590,786

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period single issuer, or an individual class of securities. The Plan requires investment managers to display an overall level of interest rate risk that is consistent with the benchmark specified by the Plan.