United States Government Accountability Office

GAO

Report to the Congress

February 2005

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2004 and 2003 Financial Statements

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Accountability ★ Integrity ★ Reliability

GAO-05-281

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-281, a report to the Congress

Why GAO Did This Study

GAO is required to annually audit the financial statements of the Bank Insurance Fund (BIF), Savings Association Insurance Fund (SAIF), and FSLIC Resolution Fund (FRF), which are administered by the Federal Deposit Insurance Corporation (FDIC). GAO is responsible for obtaining reasonable assurance about whether FDIC's financial statements for BIF, SAIF, and FRF are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles, and whether FDIC maintained effective internal control over financial reporting and compliance. Also, GAO is responsible for testing FDIC's compliance with selected laws and regulations.

Created in 1933 to insure bank deposits and promote sound banking practices, FDIC plays an important role in maintaining public confidence in the nation's financial system. In 1989, legislation to reform the federal deposit insurance system created three funds to be administered by FDIC: BIF and SAIF, which protect bank and savings deposits, and FRF, which was created to close out the business of the former Federal Savings and Loan Insurance Corporation.

www.gao.gov/cgi-bin/getrpt?GAO-05-281.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

February 2005

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2004 and 2003 Financial Statements

What GAO Found

In GAO's opinion, FDIC fairly presented the 2004 and 2003 financial statements for the three funds it administers—the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. GAO also found that FDIC had effective internal control over financial reporting and compliance for each fund. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

In prior years, GAO reported on weaknesses in FDIC's information system controls, which were described as a reportable condition. Specifically, FDIC had not adequately restricted access to critical financial programs and data, provided sufficient network security, or established a comprehensive program to monitor access activities. A primary reason for FDIC's information system control weaknesses was that the corporation had not established a comprehensive information security program to manage computer security. During the past several years, FDIC has made progress in correcting information system control weaknesses, and in 2004, FDIC made substantial progress in correcting most of the weaknesses that GAO identified in prior years, including taking steps to fully establish a comprehensive information security program. These improvements, combined with the progress reported last year, enabled GAO to conclude that the remaining issues related to information system controls no longer constitute a reportable condition.

FDIC's implementation of new financial systems in the coming year will significantly change its information systems environment and the related information systems controls necessary for their effective operation. Consequently, continued management commitment to an effective information security program will be essential to ensure that the corporation's financial and sensitive information will be adequately protected in this new environment.

GAO did not identify any reportable conditions during its 2004 audits. However, GAO noted other less significant matters involving FDIC's internal controls, including information system controls. GAO will be reporting separately to FDIC management on these matters.

Contents

Abbreviations

BIF	Bank Insurance Fund
CFO	Chief Financial Officer
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
SAIF	Savings Association Insurance Fund

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Comptroller General
of the United States

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

February 11, 2005

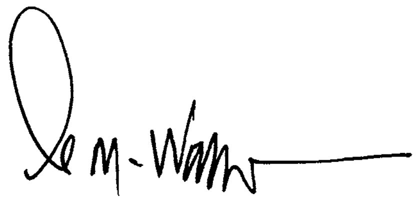
The President of the Senate
The Speaker of the House of Representatives

This report presents our opinions on whether the financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF) are presented fairly for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents (1) our opinion on the effectiveness of FDIC's internal control over financial reporting and compliance for each of the funds as of December 31, 2004, and (2) our evaluation of FDIC's compliance with selected laws and regulations during 2004.

The provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), require GAO to conduct an annual audit of BIF, SAIF, and FRF in accordance with U.S. generally accepted government auditing standards. These provisions also stipulate that GAO report on the results of its annual audit of the three funds' financial statements no later than July 15 of the year following the year under audit, or 6 ½ months after the end of the reporting period. However, for the second consecutive year, and at the request of FDIC management, GAO completed its audits of the three funds' financial statements within 45 days of the end of the reporting period. The achievement of such a significant acceleration in the reporting time frames would not have been possible without the tremendous cooperation and dedicated efforts of both FDIC management and staff and the GAO team conducting the audits.

We are sending copies of this report to the Chairman and Ranking Minority Member of the Senate Committee on Banking, Housing, and Urban Affairs; the Chairman and Ranking Minority Member of the House Committee on Financial Services; the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Chairman of the Board of Governors of the Federal Reserve System; the Comptroller of the Currency; the Director of the Office of Thrift Supervision; the Secretary of the Treasury; the Director of the Office of Management and Budget; and other interested parties. In addition, this report will be available at no charge on GAO's Web site at http://www.gao.gov.

This report was prepared under the direction of Steven J. Sebastian, Director, Financial Management and Assurance, who can be reached on (202) 512-3406 or sebastians@gao.gov. If I can be of further assistance, please call me at (202) 512-5500.



David M. Walker
Comptroller General
of the United States

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Comptroller General
of the United States

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

To the Board of Directors
The Federal Deposit Insurance Corporation

We have audited the balance sheets as of December 31, 2004, and 2003, for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FDIC had effective internal control over financial reporting and compliance with laws and regulations for each fund; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our conclusions in more detail. They also present information on the scope of our audits and our evaluation of FDIC management's comments on a draft of this report.

Opinion on BIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, BIF's financial position as of December 31, 2004, and 2003, and the results of its operations and its cash flows for the years then ended.

Opinion on SAIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SAIF's financial position as of December 31, 2004, and 2003, and the results of its operations and its cash flows for the years then ended.

Opinion on FRF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's financial position as of December 31, 2004, and 2003, and the results of its operations and its cash flows for the years then ended.

Opinion on Internal Control

FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2004, that provided reasonable but not absolute assurance that misstatements, losses, or noncompliance material in relation to FDIC's financial statements of each fund would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d) [Federal Managers' Financial Integrity Act (FMFIA)].

In prior years, we reported on weaknesses we identified in FDIC's information system controls, which we described as a reportable condition.[1] Specifically, FDIC had not adequately restricted access to critical financial programs and data, provided sufficient network security, or established a comprehensive program to monitor access activities. A primary reason for FDIC's information system control weaknesses was that the corporation had not established a comprehensive information security program to manage computer security. During the past several years, FDIC has made progress in correcting information system control weaknesses and in 2004, FDIC made substantial progress in correcting most of the weaknesses we identified in prior years, including taking steps to fully establish a comprehensive information security program. These improvements, combined with the progress we reported last year, enabled us to conclude that the remaining issues related to information system controls no longer constitute a reportable condition. FDIC's implementation of new financial systems[2] in the coming year will significantly change its information systems environment and the related information systems controls necessary for their effective operation. Consequently, continued management commitment to an effective information security program will be essential to ensure that the

[1]Reportable conditions involve matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control and could adversely affect FDIC's ability to meet the control objectives described in this report.

[2]During 2005 FDIC anticipates implementing a new, integrated financial environment to support the financial management needs of the corporation.

corporation's financial and sensitive information will be adequately protected in this new environment.

We did not identify any reportable conditions during our 2004 audits. However, we noted other less significant matters involving FDIC's internal controls, including information system controls. We will be reporting separately to FDIC management on these matters.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) management maintained effective internal control, the objectives of which are the following:

- financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and

- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the financial statements;

- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;

- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;

- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and

- tested compliance with laws and regulations, including selected provisions of the Federal Deposit Insurance Act, as amended, and the Chief Financial Officers Act of 1990.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those laws and regulations that could have a direct and material effect on the financial statements for the year ended December 31, 2004. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) was pleased to receive unqualified opinions on BIF's, SAIF's, and FRF's 2004 and 2003 financial statements and to note that there were no material weaknesses identified during the 2004 audits. FDIC's CFO also stated that FDIC management is committed to ensuring the continued success of an effective and strong information security program. The CFO said FDIC will remain focused on accomplishing the work needed to face the new security challenges in the coming year. The complete text of FDIC's comments is reprinted in appendix I.

David M. Walker
Comptroller General
of the United States

January 31, 2005

Bank Insurance Fund's Financial Statements

Balance Sheets

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2004	2003
Assets		
Cash and cash equivalents	$ 1,822,005	$ 2,544,281
Investment in U.S. Treasury obligations, net: (Note 3)		
Held-to-maturity securities	22,637,330	16,293,073
Available-for-sale securities	9,470,605	14,209,773
Interest receivable on investments and other assets, net	601,498	550,999
Receivables from bank resolutions, net (Note 4)	375,303	511,089
Property and equipment, net (Note 5)	357,106	287,380
Total Assets	**$ 35,263,847**	**$ 34,396,595**
Liabilities		
Accounts payable and other liabilities	$ 268,680	$ 231,441
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	8,261	178,266
Litigation losses and other	200,301	204,693
Total Liabilities	**477,242**	**614,400**
Commitments and off-balance-sheet exposure (Note 11)		
Fund Balance		
Accumulated net income	34,096,676	32,979,898
Unrealized gain on available-for-sale securities, net (Note 3)	689,929	802,297
Total Fund Balance	**34,786,605**	**33,782,195**
Total Liabilities and Fund Balance	**$ 35,263,847**	**$ 34,396,595**

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

Statements of Income and Fund Balance

Federal Deposit Insurance Corporation

Bank Insurance Fund Statement of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2004	2003
Revenue		
Interest on U.S. Treasury obligations	$ 1,552,576	$ 1,530,014
Assessments (Note 7)	95,268	80,159
Other revenue	27,553	15,831
Total Revenue	**1,675,397**	**1,626,004**
Expenses and Losses		
Operating expenses (Note 8)	822,381	805,496
Provision for insurance losses (Note 9)	(269,368)	(931,164)
Insurance and other expenses	5,606	9,945
Total Expenses and Losses	**558,619**	**(115,723)**
Net Income	**1,116,778**	**1,741,727**
Unrealized loss on available-for-sale securities, net	(112,368)	(9,872)
Comprehensive Income	**1,004,410**	**1,731,855**
Fund Balance - Beginning	**33,782,195**	**32,050,340**
Fund Balance - Ending	**$ 34,786,605**	**$ 33,782,195**

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

Statements of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2004	2003
Operating Activities		
Net Income:	$ 1,116,778	$ 1,741,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury obligations	737,439	455,628
Treasury inflation-indexed securities (TIIS) inflation adjustment	(181,650)	(115,150)
Depreciation on property and equipment	54,424	54,947
Provision for losses	(269,368)	(931,164)
Terminations/adjustments of work-in-process accounts	817	92
Change in Operating Assets and Liabilities:		
(Increase) in interest receivable and other assets	(36,433)	(69,826)
Decrease in receivables from bank resolutions	218,693	102,663
Increase in accounts payable and other liabilities	15,819	85,577
(Decrease) in contingent liabilities for litigation losses and other	(1,047)	(25,367)
Net Cash Provided by Operating Activities	**1,655,472**	**1,299,127**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	3,365,000	3,890,000
Maturity of U.S. Treasury obligations, available-for-sale	5,810,000	1,690,000
Used by:		
Purchase of property and equipment	(104,502)	(41,804)
Purchase of U.S. Treasury obligations, held-to-maturity	(10,026,597)	(3,659,868)
Purchase of U.S. Treasury obligations, available-for-sale	(1,421,649)	(5,240,070)
Net Cash Used by Investing Activities	**(2,377,748)**	**(3,361,742)**
Net Decrease in Cash and Cash Equivalents	**(722,276)**	**(2,062,615)**
Cash and Cash Equivalents - Beginning	**2,544,281**	**4,606,896**
Cash and Cash Equivalents - Ending	**$ 1,822,005**	**$ 2,544,281**

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

Notes to the Financial Statements

1. Legislation and Operations of the Bank Insurance Fund

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds. The FDIC is the administrator of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), which are maintained separately to carry out their respective mandates. The BIF and the SAIF are insurance funds responsible for protecting insured bank and thrift depositors from loss due to institution failures. These insurance funds must be maintained at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant. The FRF is a resolution fund responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation.

An active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of BIF-member institutions are generally insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision.

In addition to traditional banks and thrifts, several other categories of institutions exist. A member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. In addition, SAIF-member thrifts can convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. Likewise, BIF-member banks can convert to a thrift charter and retain their BIF membership.

Operations of the BIF

The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured institutions and 2) resolve BIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the BIF. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System.

Bank Insurance Fund

The BIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are U.S. Treasury and Federal Financing Bank (FFB) borrowings, if necessary. The FDIC has borrowing authority from the U.S. Treasury up to $30 billion for insurance purposes on behalf of the BIF and the SAIF.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the BIF can incur to the sum of its cash, 90% of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the BIF was $57.0 billion as of December 31, 2004 and 2003.

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

Recent Legislative Initiatives
In April 2001, FDIC issued recommendations for deposit insurance reform. The FDIC recommendations included merging BIF and SAIF and improving FDIC's ability to manage the merged fund by permitting the FDIC Board of Directors to price insurance premiums properly to reflect risk, to set the reserve ratio in a *range* around 1.25 percent, establish a system for providing credits, rebates and surcharges, and to eliminate the SAIF exit fee reserve. FDIC also recommended that Congress consider indexing deposit insurance coverage for inflation. During the 107th Congress (2001-2002), hearings were held in the House and Senate and legislation was introduced containing major elements of FDIC's deposit insurance reform proposals. The legislation was not enacted prior to congressional adjournment. During the 108th Congress (2003 - 2004), the House and Senate again considered deposit insurance reform legislation; however, Congress adjourned without enacting that legislation. Legislation similar to the deposit insurance reform proposals of the 107th and 108th Congress may be introduced in the 109th Congress, which begins in January 2005. If Congress enacts deposit insurance reform legislation that contains the above recommendations, the new law would have a significant impact on the BIF and SAIF. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investment in U.S. Treasury Obligations

BIF funds are required to be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States; the Secretary of the U.S. Treasury must approve all such investments in excess of $100,000. The Secretary has granted approval to invest BIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Bureau of the Public Debt's Government Account Series (GAS) program.

BIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first anticipated call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method.

Bank Insurance Fund

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

Capital Assets and Depreciation
The FDIC has designated the BIF as administrator of property and equipment used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges the other funds usage fees representing an allocated share of its annual depreciation expense. These usage fees are recorded as cost recoveries, which reduce operating expenses.

The FDIC buildings are depreciated on a straight-line basis over a 35 to 50 year estimated life. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

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

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

Reclassifications
Reclassifications have been made in the 2003 financial statements to conform to the presentation used in 2004.

In 2004, the BIF changed the format of its Statement of Cash Flows from the direct method to the indirect method for purposes of reporting cash flows from operating activities. Accordingly, the Statement of Cash Flows for 2003 contains certain reclassifications to conform to the BIF's current financial statement format. For 2003 and 2004, the reconciliation of net income to net cash provided by operating activities is included in the Statement of Cash Flows. Consequently, information pertaining to gross amounts of receipts and payments, not required for presentation of the indirect method, is available within other footnotes to these financial statements.

3. Investment in U.S. Treasury Obligations, Net

As of December 31, 2004 and 2003, the book value of investments in U.S. Treasury obligations, net, was $32.1 billion and $30.5 billion, respectively. As of December 31, 2004, the BIF held $6.6 billion of Treasury inflation-indexed securities (TIIS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the BIF held $6.6 billion of callable U.S. Treasury bonds at December 31, 2004. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

U.S. Treasury Obligations at December 31, 2004

Dollars in Thousands

Maturity●	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses■	Market Value
Held-to-Maturity						
Within 1 year	3.93%	$ 6,290,000	$ 6,486,753	$ 50,757	$ (11,129)	$ 6,526,381
After 1 year thru 5 years	4.94%	10,575,000	11,135,043	399,365	(10,104)	11,524,304
After 5 years thru 10 years	4.76%	4,360,000	4,374,344	197,842	(1,336)	4,570,850
Treasury Inflation-Indexed After 1 year thru 5 years	3.82%	640,107	641,190	76,255	0	717,445
Total		**$ 21,865,107**	**$ 22,637,330**	**$ 724,219**	**$ (22,569)**	**$ 23,338,980**
Available-for-Sale						
Within 1 year	3.65%	$ 1,560,000	$ 1,598,564	$ 10,129	$ (3,051)	$ 1,605,642
After 1 year thru 5 years	3.72%	1,685,000	1,893,380	31,116	(11,945)	1,912,551
Treasury Inflation-Indexed After 1 year thru 5 years	3.81%	2,270,854	2,268,756	236,566	0	2,505,322
After 5 years thru 10 years	3.75%	3,004,072	3,019,976	427,114	0	3,447,090
Total		**$ 8,519,926**	**$ 8,780,676**	**$ 704,925**	**$ (14,996)**	**$ 9,470,605**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 30,385,033**	**$ 31,418,006**	**$ 1,429,144**	**$ (37,565)**	**$ 32,809,585**

● For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

▼ For TIIS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIIS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2%, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2004.

■ All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all losses are considered temporary.

U.S. Treasury Obligations at December 31, 2003

Dollars in Thousands

Maturity●	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses■	Market Value
Held-to-Maturity						
Within 1 year	5.05%	$ 3,365,000	$ 3,449,985	$ 65,110	$ (275)	$ 3,514,820
After 1 year thru 5 years	5.66%	9,985,000	10,244,862	830,414	0	11,075,276
After 5 years thru 10 years	5.42%	1,910,000	1,976,450	191,954	0	2,168,404
Treasury Inflation-Indexed After 5 years thru 10 years	3.82%	620,450	621,776	78,947	0	700,723
Total		**$ 15,880,450**	**$ 16,293,073**	**$ 1,166,425**	**$ (275)**	**$ 17,459,223**
Available-for-Sale						
Within 1 year	2.31%	$ 5,810,000	$ 6,050,064	$ 32,642	$ (230)	$ 6,082,476
After 1 year thru 5 years	4.68%	1,995,000	2,229,143	114,071	0	2,343,214
Treasury Inflation-Indexed After 1 year thru 5 years	3.88%	1,225,321	1,215,319	139,813	0	1,355,132
After 5 years thru 10 years	3.75%	3,887,611	3,912,950	516,001	0	4,428,951
Total		**$ 12,917,932**	**$ 13,407,476**	**$ 802,527**	**$ (230)**	**$ 14,209,773**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 28,798,382**	**$ 29,700,549**	**$ 1,968,952**	**$ (505)**	**$ 31,668,996**

● For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

▼ For TIIS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIIS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.4%, based on figures issued by the Office of Management and Budget and the Congressional Budget Office in early 2003.

■ All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity within the coming year. As a result, all losses are considered temporary and will be eliminated upon redemption of the securities.

As of December 31, 2004 and 2003, the unamortized premium, net of the unamortized discount, was $1 billion and $902 million, respectively.

4. Receivables From Bank Resolutions, Net

The receivables from bank resolutions include payments made by the BIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by BIF receiverships are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2004, there were 31 active receiverships, including 3 failures in the current year, with assets at failure of $151 million and BIF outlays of $133 million.

As of December 31, 2004 and 2003, BIF receiverships held assets with a book value of $504 million and $756 million, respectively (including cash, investments, and miscellaneous receivables of $269 million and $436 million at December 31, 2004 and 2003, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the BIF's actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	2004	2003
Receivables from closed banks	$ 4,621,702	$ 4,914,901
Allowance for losses	(4,246,399)	(4,403,812)
Total	**$ 375,303**	**$ 511,089**

As of December 31, 2004, an allowance for loss of $4.2 billion, or 92% of the gross receivable, was recorded. Of the remaining 8% of the gross receivable, the amount of credit risk is limited since almost two-thirds of the receivable will be repaid from receivership cash and investments.

Bank Insurance Fund

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2004	2003
Land	$ 37,352	$ 37,352
Buildings (includes construction-in-process)	221,494	180,187
Application software (includes work-in-process)	223,149	177,111
Furniture, fixtures, and equipment	133,556	97,682
Accumulated depreciation	(258,445)	(204,952)
Total	**$ 357,106**	**$ 287,380**

The depreciation expense was $54 million and $55 million for 2004 and 2003, respectively.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records a contingent liability and a loss provision for BIF-insured institutions (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and loss rates to institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels. In addition, institution-specific analysis is performed on those institutions where failure is imminent absent institution management resolution of existing problems, or where additional information is available that may affect the estimate of losses. As of December 31, 2004 and 2003, the contingent liabilities for anticipated failure of insured institutions were $8 million and $178 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in a material loss to the BIF should potentially vulnerable financial institutions ultimately fail. This risk results from the presence of various high-risk banking business activities that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding such conditions in the future, there are institutions other than those with losses included in the contingent liability for which the risk of failure is less certain, but still considered reasonably possible. As a result of these risks, the FDIC believes that it is reasonably possible that the BIF could incur additional estimated losses up to approximately $0.3 billion.

The accuracy of these estimates will largely depend on future economic and market conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $51.5 million are reasonably possible.

Other Contingencies

Representations and Warranties

As part of the FDIC's efforts to maximize the return from the sale of assets from bank resolutions, representations and warranties, and guarantees are offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $3.8 billion as of December 31, 2004. There were no contingent liabilities from any of the outstanding claims asserted in connection with representations and warranties at December 31, 2004 and 2003, respectively.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years or more. Consequently, the FDIC believes it is possible that additional losses may be incurred by the BIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the BIF from outstanding contracts with unasserted representation and warranty claims.

7. Assessments

In compliance with provisions of the FDI Act, as amended, the FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories based on capital ratios and supervisory examination data. The majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 22 cents and 20 cents per $100 of assessable deposits for 2004 and 2003, respectively. During 2004 and 2003, $95 million and $80 million were recognized as assessment income from BIF-member institutions, respectively.

On November 15, 2004, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2005. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the BIF's obligations. If necessary, the Board may impose more frequent rate adjustments or emergency special assessments.

The FDIC is required to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). If the reserve ratio falls below the DRR, the FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates are set, or in accordance with a recapitalization schedule of fifteen years or less. As of September 30, 2004, the BIF reserve ratio was 1.32 percent of estimated insured deposits.

Assessments are also levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the BIF and is separate from the regular assessments. The FDIC, as administrator of the BIF, acts solely as a collection agent for the FICO. During 2004 and 2003, $631 million and $627 million, respectively, were collected from BIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses were $822 million for 2004, compared to $805 million for 2003. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2004	2003
Salaries and benefits	$ 575,100	$ 555,683
Outside services	84,947	81,851
Travel	36,089	41,773
Buildings and leased space	60,693	61,582
Equipment (not capitalized)	11,595	15,111
Depreciation of property and equipment	54,424	54,947
Other	20,102	20,689
Services billed to receiverships	(20,569)	(26,140)
Total	**$ 822,381**	**$ 805,496**

9. Provision for Insurance Losses

Provision for insurance losses was a negative $269 million for 2004 and a negative $931 million for 2003. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2004	2003
Valuation Adjustments:		
Closed banks	$ (82,758)	$ (108,309)
Open bank assistance and other assets	(13,260)	(162)
Total Valuation Adjustments	**(96,018)**	**(108,471)**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(170,005)	(829,831)
Litigation losses	(3,998)	345
Other contingencies	653	6,793
Total Contingent Liabilities Adjustments	**(173,350)**	**(822,693)**
Total	**$ (269,368)**	**$ (931,164)**

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. The BIF pays its share of the employer's portion of all related costs.

In October 2004, the FDIC announced a voluntary employee buyout program to a majority of its employees in an effort to further reduce identified staffing excesses. The offer period for the buyout program is from November 1, 2004 to May 2, 2005. Termination benefits include compensation of fifty percent of the current salary for voluntary departures. The reasonably estimated total cost associated with employees expected to accept the buyout offer is $23.7 million, with BIF's pro rata share totaling $20.6 million. During 2004, 129 employees left the FDIC. The total cost of this buyout was $6.9 million for 2004, with BIF's pro rata share totaling $6 million, which is included in the "Operating expenses" and the "Accounts payable and other liabilities" line items.

Bank Insurance Fund

In the event the FDIC does not meet its staffing reduction goal through the voluntary employee buyout program, the FDIC plans to conduct a reduction-in-force (RIF). Because of uncertainties regarding the number of employees that will be subject to the RIF, the FDIC is unable to reasonably estimate the related costs.

Pension Benefits, Savings Plans Expenses and Postemployment Benefits for the Years Ended December 31

Dollars in Thousands

	2004	2003
Civil Service Retirement System	$ 7,958	$ 7,740
Federal Employees Retirement System (Basic Benefit)	33,638	29,477
FDIC Savings Plan	19,604	17,397
Federal Thrift Savings Plan	13,715	12,066
Separation Incentive Payment	6,082	91
Total	**$ 80,997**	**$ 66,771**

Postretirement Benefits Other Than Pensions
The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity.

As of January 1, 2003, the FDIC ceased funding for postretirement benefits and eliminated the separate entity in order to simplify the investment, accounting, and reporting for the obligation. The separate entity had been established to restrict the funds and to provide for the accounting and administration of these benefits. As a result, the BIF received $89 million as its proportionate share of the plan assets and recognized a liability of $90 million in the "Accounts payable and other liabilities" line item on its Balance Sheet.

At December 31, 2004 and 2003, the BIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was $104 million and $98 million, respectively. In addition, the BIF's expense for these benefits in 2004 and 2003 was $9.3 million and $11 million, respectively, which is included in the current and prior year's operating expenses. Key actuarial assumptions used in the accounting for the plan include the discount rate, the rate of compensation increase, and the dental coverage trend rate.

11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The BIF's allocated share of the FDIC's lease commitments totals $105 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the BIF and the SAIF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $36 million and $38 million for the years ended December 31, 2004 and 2003, respectively.

Leased Space Commitments

Dollars in Thousands

2005	2006	2007	2008	2009	2010/Thereafter
$ 36,121	$ 25,948	$ 16,814	$ 11,487	$ 10,081	$ 4,424

Off-Balance-Sheet Exposure:

Asset Securitization Guarantees

As part of the FDIC's efforts to maximize the return from the sale or disposition of assets from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantees, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantees. Currently, there is one limited guarantee deal remaining with a term of approximately 20 years. This deal will be evaluated for possible termination in 2005. As of December 31, 2004 and 2003, the maximum off-balance-sheet exposure was $37 million and $81 million, respectively.

Deposit Insurance

As of September 30, 2004, deposits insured by the BIF totaled approximately $2.6 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Bank Insurance Fund

12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

The net receivables from bank resolutions primarily include the BIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the BIF's allowance for loss against the net receivables from bank resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 4), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the BIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from bank resolutions.

Savings Association Insurance Fund's Financial Statements

Balance Sheets

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Balance Sheet at December 31

Dollars in Thousands

	2004	2003
Assets		
Cash and cash equivalents	$ 644,346	$ 827,141
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $56.5 million and $231.9 million at December 31, 2004 and 2003, respectively)*	328,394	319,286
Investment in U.S. Treasury obligations, net: (Note 4)		
Held-to-maturity securities	8,835,964	6,823,709
Available-for-sale securities	2,720,315	4,152,048
Interest receivable on investments and other assets, net	200,204	188,189
Receivables from thrift resolutions, net (Note 5)	346,923	273,242
Total Assets	**$ 13,076,146**	**$ 12,583,615**
Liabilities		
Accounts payable and other liabilities	$ 25,568	$ 20,540
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	1,957	3,192
Litigation losses	39	532
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	328,394	319,286
Total Liabilities	**355,958**	**343,550**
Commitments and off-balance-sheet exposure (Note 11)		
Fund Balance		
Accumulated net income	12,482,227	11,965,776
Unrealized gain on available-for-sale securities, net (Note 4)	237,961	274,289
Total Fund Balance	**12,720,188**	**12,240,065**
Total Liabilities and Fund Balance	**$ 13,076,146**	**$ 12,583,615**

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

Statements of Income and Fund Balance

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statement of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2004	2003
Revenue		
Interest on U.S. Treasury obligations	$ 555,592	$ 532,474
Assessments (Note 7)	8,891	14,594
Other revenue	292	192
Total Revenue	**564,775**	**547,260**
Expenses and Losses		
Operating expenses (Note 8)	120,282	129,584
Provision for insurance losses (Note 9)	(72,162)	(82,489)
Insurance and other expenses	204	105
Total Expenses and Losses	**48,324**	**47,200**
Net Income	**516,451**	**500,060**
Unrealized loss on available-for-sale securities, net	(36,328)	(6,733)
Comprehensive Income	**480,123**	**493,327**
Fund Balance - Beginning	**12,240,065**	**11,746,738**
Fund Balance - Ending	**$ 12,720,188**	**$ 12,240,065**

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

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statement of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2004	2003
Operating Activities		
Net Income:	$ 516,451	$ 500,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of U.S. Treasury obligations	262,317	155,992
Treasury inflation-indexed securities (TIIS) inflation adjustment	(61,431)	(38,943)
Provision for losses	(72,162)	(82,489)
Change in Operating Assets and Liabilities:		
Decrease in unamortized premium and discount of U.S. Treasury Obligations (restricted)	2,443	931
(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	(16,288)	(32,810)
(Increase)/Decrease in receivables from thrift resolutions	(2,635)	8,699
Increase in accounts payable and other liabilities	5,028	13,440
(Decrease) in contingent liabilities for litigation losses	0	(209)
Increase in exit fees and investment proceeds held in escrow	9,107	7,422
Net Cash Provided by Operating Activities	**642,830**	**532,093**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,690,000	1,170,000
Maturity of U.S. Treasury obligations, available-for-sale	1,360,000	575,000
Used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(4,051,084)	(2,305,056)
Purchase of U.S. Treasury obligations, available-for-sale	0	(1,008,066)
Net Cash Used by Investing Activities	**(1,001,084)**	**(1,568,122)**
Net Decrease in Cash and Cash Equivalents	**(358,254)**	**(1,036,029)**
Cash and Cash Equivalents - Beginning	**1,059,052**	**2,095,081**
Unrestricted Cash and Cash Equivalents - Ending	**644,346**	**827,141**
Restricted Cash and Cash Equivalents - Ending	**56,452**	**231,911**
Cash and Cash Equivalents - Ending	**$ 700,798**	**$ 1,059,052**

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

Notes to the Financial Statements

1. Legislation and Operations of the Savings Association Insurance Fund

Overview

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress in 1933 to maintain stability and public confidence in the nation's banking system. Provisions that govern the operations of the FDIC are generally found in the Federal Deposit Insurance (FDI) Act, as amended, (12 U.S.C. 1811, *et seq*). In carrying out the purposes of the FDI Act, as amended, the FDIC insures the deposits of banks and savings associations, and in cooperation with other federal and state agencies promotes the safety and soundness of insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds. FDIC is the administrator of the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF), which are maintained separately to carry out their respective mandates. The SAIF and the BIF are insurance funds responsible for protecting insured thrift and bank depositors from loss due to institution failures. These insurance funds must be maintained at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant. The FRF is a resolution fund responsible for the sale of remaining assets and satisfaction of liabilities associated with the former Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation.

An active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are generally insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve Board.

In addition to traditional thrifts and banks, several other categories of institutions exist. A member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. In addition, SAIF-member thrifts can convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. Likewise, BIF-member banks can convert to a thrift charter and retain their BIF membership.

Operations of the SAIF

The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions and 2) resolve SAIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the SAIF.

Savings Association Insurance Fund

The SAIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, if necessary. The FDIC has borrowing authority from the U.S. Treasury up to $30 billion for insurance purposes on behalf of the SAIF and the BIF.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the SAIF can incur to the sum of its cash, 90% of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the SAIF was $21.0 billion and $20.3 billion as of December 31, 2004 and 2003, respectively.

Receivership Operations

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

Recent Legislative Initiatives

In April 2001, FDIC issued recommendations for deposit insurance reform. The FDIC recommendations included merging SAIF and BIF and improving FDIC's ability to manage the merged fund by permitting the FDIC Board of Directors to price insurance premiums properly to reflect risk, to set the reserve ratio in a *range* around 1.25 percent, establish a system for providing credits, rebates and surcharges, and to eliminate the SAIF exit fee reserve. FDIC also recommended that Congress consider indexing deposit insurance coverage for inflation. During the 107th Congress (2001-2002), hearings were held in the House and Senate and legislation was introduced containing major elements of FDIC's deposit insurance reform proposals. The legislation was not enacted prior to congressional adjournment. During the 108th Congress (2003 - 2004), the House and Senate again considered deposit insurance reform legislation; however, Congress adjourned without enacting that legislation. Legislation similar to the deposit insurance reform proposals of the 107th and 108th Congress may be introduced in the 109th Congress, which begins in January, 2005. If Congress enacts deposit insurance reform legislation that contains the above recommendations, the new law would have a significant impact on the SAIF and BIF. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investment in U.S. Treasury Obligations

SAIF funds are required to be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States; the Secretary of the U.S. Treasury must approve all such investments in excess of $100,000. The Secretary has granted approval to invest SAIF funds only in U.S. Treasury obligations that are purchased or sold exclusively through the Bureau of the Public Debt's Government Account Series (GAS) program.

SAIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first anticipated call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statement of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method.

Savings Association Insurance Fund

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

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

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

Reclassifications
Reclassifications have been made in the 2003 financial statements to conform to the presentation used in 2004.

In 2004, the SAIF changed the format of its Statement of Cash Flows from the direct method to the indirect method for purposes of reporting cash flows from operating activities. Accordingly, the Statement of Cash Flows for 2003 contains certain reclassifications to conform to the SAIF's current financial statement format. For 2003 and 2004, the reconciliation of net income to net cash provided by operating activities is included in the Statement of Cash Flows. Consequently, information pertaining to gross amounts of receipts and payments, not required for presentation of the indirect method, is available within other footnotes to these financial statements.

3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees

The SAIF collects entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors (Board) and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow.

The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. There were no conversion transactions during 2004 and 2003 that resulted in an entrance/exit fee to the SAIF.

Cash and Other Assets: Restricted for SAIF-Member Exit Fees at December 31

Dollars in Thousands

	2004	2003
Cash and cash equivalents	$ 56,452	$ 231,911
Investment in U.S. Treasury obligations, net	267,375	86,471
Interest receivable on U.S. Treasury obligations	4,567	904
Total	**$ 328,394**	**$ 319,286**

U.S. Treasury Obligations at December 31, 2004 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity

Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses •	Market Value
Within 1 year	2.36%	$ 70,000	$ 73,879	$ 0	$ (162)	$ 73,717
After 1 year thru 5 years	4.40%	104,000	115,725	2,852	(60)	118,517
After 5 years thru 10 years	4.67%	80,000	77,771	3,184	0	80,955
Total		**$ 254,000**	**$ 267,375**	**$ 6,036**	**$ (222)**	**$ 273,189**

• All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all losses are considered temporary.

U.S. Treasury Obligations at December 31, 2003 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity

Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	5.79%	$ 20,000	$ 20,267	$ 683	$ 0	$ 20,950
After 1 year thru 5 years	5.20%	64,000	66,204	5,349	0	71,553
Total		**$ 84,000**	**$ 86,471**	**$ 6,032**	**$ 0**	**$ 92,503**

As of December 31, 2004 and 2003, the unamortized premium, net of the unamortized discount, was $13.4 million and $2.5 million, respectively.

Savings Association Insurance Fund

4. Investment in U.S. Treasury Obligations, Net

As of December 31, 2004 and 2003, the book value of investments in U.S. Treasury obligations, net, was $11.6 billion and $11.0 billion, respectively. As of December 31, 2004, the SAIF held $2.2 billion of Treasury inflation-indexed securities (TIIS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the SAIF held $2.4 billion of callable U.S. Treasury bonds at December 31, 2004. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

U.S. Treasury Obligations at December 31, 2004 (Unrestricted)

Dollars in Thousands

Maturity ●	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses ■	Market Value
Held-to-Maturity						
Within 1 year	3.13%	$ 1,860,000	$ 1,935,365	$ 9,296	$ (4,608)	$ 1,940,053
After 1 year thru 5 years	4.93%	4,540,000	4,755,416	200,907	(6,373)	4,949,950
After 5 years thru 10 years	4.97%	1,900,000	1,910,232	107,408	(401)	2,017,239
Treasury Inflation-Indexed						
After 1 year thru 5 years	3.86%	236,288	234,951	22,428	0	257,379
Total		**$ 8,536,288**	**$ 8,835,964**	**$ 340,039**	**$ (11,382)**	**$ 9,164,621**
Available-for-Sale						
Within 1 year	5.00%	$ 270,000	$ 275,656	$ 1,831	$ 0	$ 277,487
After 1 year thru 5 years	4.10%	385,000	443,689	10,916	(1,034)	453,571
Treasury Inflation-Indexed						
After 1 year thru 5 years	4.07%	859,729	853,047	101,420	0	954,467
After 5 years thru 10 years	3.63%	904,362	909,962	124,828	0	1,034,790
Total		**$ 2,419,091**	**$ 2,482,354**	**$ 238,995**	**$ (1,034)**	**$ 2,720,315**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 10,955,379**	**$ 11,318,318**	**$ 579,034**	**$ (12,416)**	**$ 11,884,936**

● For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

▼ For TIIS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIIS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.2%, based on figures issued by the Congressional Budget Office and *Blue Chip Economic Indicators* in early 2004.

■ All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity. As a result, all losses are considered temporary.

Savings Association Insurance Fund

U.S. Treasury Obligations at December 31, 2003 (Unrestricted)

Dollars in Thousands

Maturity •	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses ■	Market Value
Held-to-Maturity						
Within 1 year	2.86%	$ 1,670,000	$ 1,742,136	$ 12,009	$ (122)	$ 1,754,023
After 1 year thru 5 years	5.59%	3,185,000	3,250,611	284,578	0	3,535,189
After 5 years thru 10 years	5.54%	1,575,000	1,603,674	169,813	0	1,773,487
Treasury Inflation-Indexed						
After 1 year thru 5 years	3.86%	229,032	227,288	26,008	0	253,296
Total		**$ 6,659,032**	**$ 6,823,709**	**$ 492,408**	**$ (122)**	**$ 7,315,995**
Available-for-Sale						
Within 1 year	3.15%	$ 1,360,000	$ 1,413,730	$ 16,265	$ (99)	$ 1,429,896
After 1 year thru 5 years	4.43%	655,000	756,058	34,530	0	790,588
Treasury Inflation-Indexed After 1 year thru 5 years	4.11%	280,564	276,009	34,278	0	310,287
After 5 years thru 10 years	3.79%	1,429,352	1,431,962	189,315	0	1,621,277
Total		**$ 3,724,916**	**$ 3,877,759**	**$ 274,388**	**$ (99)**	**$ 4,152,048**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 10,383,948**	**$ 10,701,468**	**$ 766,796**	**$ (221)**	**$ 11,468,043**

• For purposes of this table, all callable securities are assumed to mature on their first call dates. Their yields at purchase are reported as their yield to first call date.

▼ For TIIS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIIS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.4%, based on figures issued by the Office of Management and Budget and the Congressional Budget Office in early 2003.

■ All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity within the coming year. As a result, all losses are considered temporary and will be eliminated upon redemption of the securities.

As of December 31, 2004 and 2003, the unamortized premium, net of the unamortized discount, was $362.9 million and $317.5 million, respectively.

5. Receivables From Thrift Resolutions, Net

The receivables from thrift resolutions include payments made by the SAIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by SAIF receiverships are the main source of repayment of the SAIF's receivables from closed thrifts. As of December 31, 2004, there were 3 active receiverships, including 1 thrift failure in the current year, with assets at failure of $15.3 million and SAIF outlays of $5.6 million.

As of December 31, 2004 and 2003, SAIF receiverships held assets with a book value of $483 million and $449 million, respectively (including cash, investments, and miscellaneous receivables of $182 million and $117 million at December 31, 2004 and 2003, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the SAIF's actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2004	2003
Receivables from closed thrifts	$ 710,217	$ 709,389
Allowance for losses	(363,294)	(436,147)
Total	**$ 346,923**	**$ 273,242**

At December 31, 2004, about 99% of the SAIF's $347 million net receivable will be repaid from assets related to the Superior receivership (which failed in July 2001). These assets primarily consist of cash, investments, and a promissory note arising from a settlement with the owners of the failed institution. The credit risk related to the promissory note is limited since half of the outstanding note is secured by a letter of credit and the remaining half is subject to the creditworthiness of the payor of the note. Annual monitoring of the creditworthiness of the payor is performed and currently indicates a low risk of non-performance.

Savings Association Insurance Fund

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The SAIF records a contingent liability and a loss provision for SAIF-insured institutions (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and loss rates to institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels. In addition, institution-specific analysis is performed on those institutions where failure is imminent absent institution management resolution of existing problems, or where additional information is available that may affect the estimate of losses. As of December 31, 2004 and 2003, the contingent liabilities for anticipated failure of insured institutions were $2 million and $3 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in a material loss to the SAIF should potentially vulnerable financial institutions ultimately fail. This risk results from the presence of various high-risk banking business activities that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding such conditions in the future, there are institutions other than those with losses included in the contingent liability for which the risk of failure is less certain, but still considered reasonably possible. As a result of these risks, the FDIC believes that it is reasonably possible that the SAIF could incur additional estimated losses up to approximately $0.1 billion.

The accuracy of these estimates will largely depend on future economic and market conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $206.5 thousand are reasonably possible.

Other Contingencies

Representations and Warranties

As part of the FDIC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $4.7 billion as of December 31, 2004. SAIF did not establish a liability for all outstanding claims asserted in connection with representations and warranties because the receiverships have sufficient funds to pay for such claims.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years or more. Consequently, the FDIC believes it is possible that additional losses may be incurred by the SAIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the SAIF from outstanding contracts with unasserted representation and warranty claims.

7. Assessments

In compliance with provisions of the FDI Act, as amended, the FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories based on capital ratios and supervisory examination data. The majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 8 cents and 14 cents per $100 of assessable deposits for 2004 and 2003, respectively. During 2004 and 2003, $9 million and $15 million were recognized as assessment income from SAIF-member institutions, respectively. On November 15, 2004, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2005. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the SAIF's obligations. If necessary, the Board may impose more frequent rate adjustments or emergency special assessments.

The FDIC is required to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). If the reserve ratio falls below the DRR, the FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates are set, or in accordance with a recapitalization schedule of fifteen years or less. As of September 30, 2004, the SAIF reserve ratio was 1.33 percent of estimated insured deposits.

Assessments are also levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the SAIF and is separate from the regular assessments. The FDIC, as administrator of the SAIF, acts solely as a collection agent for the FICO. During 2004 and 2003, $161 million and $162 million, respectively, were collected from SAIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses totaled $120 million for 2004, compared to $130 million for 2003. The chart below lists the major components of operating expenses.

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2004	2003
Salaries and benefits	$ 81,649	$ 87,963
Outside services	14,457	15,038
Travel	4,357	5,801
Buildings and leased space	10,662	12,132
Equipment	9,649	9,374
Other	2,920	3,189
Services billed to receiverships	(3,412)	(3,913)
Total	**$ 120,282**	**$ 129,584**

9. Provision for Insurance Losses

Provision for insurance losses was a negative $72 million for 2004 and a negative $82 million for 2003. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2004	2003
Valuation Adjustments:		
Closed thrifts	$ (70,435)	$ 4,684
Total Valuation Adjustments	**(70,435)**	**4,684**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(1,235)	(87,301)
Litigation losses	(492)	128
Total Contingent Liabilities Adjustments	**(1,727)**	**(87,173)**
Total	**$ (72,162)**	**$ (82,489)**

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. The SAIF pays its share of the employer's portion of all related costs.

In October 2004, the FDIC announced a voluntary employee buyout program to a majority of its employees in an effort to further reduce identified staffing excesses. The offer period for the buyout program is from November 1, 2004 to May 2, 2005. Termination benefits include compensation of fifty percent of the current salary for voluntary departures. The reasonably estimated total cost associated with employees expected to accept the buyout offer is $23.7 million, with SAIF's pro rata share totaling $3.1 million. During 2004, 129 employees left the FDIC. The total cost of this buyout was $6.9 million for 2004, with SAIF's pro rata share totaling $903 thousand, which is included in the "Operating expenses" and the "Accounts payable and other liabilities" line items.

In the event the FDIC does not meet its staffing reduction goal through the voluntary employee buyout program, the FDIC plans to conduct a reduction-in-force (RIF). Because of uncertainties regarding the number of employees that will be subject to the RIF, the FDIC is unable to reasonably estimate the related costs.

Pension Benefits, Savings Plans Expenses and Postemployment Benefits for the Years Ended December 31

Dollars in Thousands

	2004	2003
Civil Service Retirement System	$ 1,182	$ 1,258
Federal Employees Retirement System (Basic Benefit)	4,793	4,682
FDIC Savings Plan	2,813	2,788
Federal Thrift Savings Plan	1,934	1,900
Separation Incentive Payment	909	14
Total	**$ 11,631**	**$ 10,642**

Savings Association Insurance Fund

Postretirement Benefits Other Than Pensions

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity.

As of January 1, 2003, the FDIC ceased funding for postretirement benefits and eliminated the separate entity in order to simplify the investment, accounting, and reporting for the obligation. The separate entity had been established to restrict the funds and to provide for the accounting and administration of these benefits. As a result, the SAIF received $14 million as its proportionate share of the plan assets and recognized a liability of $14 million in the "Accounts payable and other liabilities" line item on its Balance Sheet.

At December 31, 2004 and 2003, the SAIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was $15.7 million and $15 million, respectively. In addition, the SAIF's expense for these benefits in 2004 and 2003 was $1.4 million and $1 million, respectively, which is included in the current and prior year's operating expenses. Key actuarial assumptions used in the accounting for the plan include the discount rate, the rate of compensation increase, and the dental coverage trend rate.

11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The SAIF's allocated share of the FDIC's lease commitments totals $14.4 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF and the BIF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $6.9 million and $7.9 million for the years ended December 31, 2004 and 2003, respectively.

Leased Space Commitments

Dollars in Thousands

2005	2006	2007	2008	2009	2010/Thereafter
$ 4,963	$ 3,559	$ 2,308	$ 1,579	$ 1,380	$ 603

Off-Balance-Sheet Exposure:

Deposit Insurance

As of September 30, 2004, deposits insured by the SAIF totaled approximately $944 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Savings Association Insurance Fund

12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and 4 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

The net receivables from thrift resolutions primarily include the SAIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the SAIF's allowance for loss against the net receivables from thrift resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 5), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the SAIF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

FSLIC Resolution Fund's Financial Statements

Balance Sheets

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheet at December 31

Dollars in Thousands

	2004	2003
Assets		
Cash and cash equivalents	$ 3,501,387	$ 3,278,532
Receivables from thrift resolutions and other assets, net (Note 3)	82,275	198,432
Total Assets	**3,583,662**	**3,476,964**
Liabilities		
Accounts payable and other liabilities	5,606	19,381
Contingent liabilities for litigation losses and other (Note 4)	410	1,169
Total Liabilities	**6,016**	**20,550**
Resolution Equity (Note 6)		
Contributed capital	126,382,877	126,377,851
Accumulated deficit	(122,805,158)	(122,962,936)
Unrealized (loss)/gain on available-for-sale securities, net	(73)	41,499
Accumulated deficit, net	(122,805,231)	(122,921,437)
Total Resolution Equity	**3,577,646**	**3,456,414**
Total Liabilities and Resolution Equity	**$ 3,583,662**	**$ 3,476,964**

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

Statements of Income and Accumulated Deficit

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2004	2003
Revenue		
Interest on U.S. Treasury obligations	$ 40,076	$ 32,902
Realized gain on investment in securitization-related assets acquired from receiverships (Note 3)	66,708	756
Other revenue	21,114	16,849
Total Revenue	**127,898**	**50,507**
Expenses and Losses		
Operating expenses	22,932	27,828
Provision for losses (Note 5)	(6,911)	(33,306)
Expenses for goodwill settlements and litigation (Note 4)	31,632	15,324
Recovery of tax benefits	(82,937)	(19,609)
Other expenses	5,404	7,933
Total Expenses and Losses	**(29,880)**	**(1,830)**
Net Income	**157,778**	**52,337**
Unrealized loss on available-for-sale securities, net (Note 3)	(41,572)	(1,258)
Comprehensive Income	**116,206**	**51,079**
Accumulated Deficit - Beginning	**(122,921,437)**	**(122,972,516)**
Accumulated Deficit - Ending	**$ (122,805,231)**	**$ (122,921,437)**

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

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2004	2003
Operating Activities		
Net Income:	$ 157,778	**$ 52,337**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses	(6,911)	(33,306)
Change in Assets and Liabilities:		
(Increase)/Decrease in receivables from thrift resolutions and other assets	(35,238)	80,339
(Decrease)/Increase in accounts payable and other liabilities	(13,775)	4,973
Net Cash Provided by Operating Activities	**101,854**	**104,343**
Investing Activities		
Investment in securitization-related assets acquired from receiverships	115,975	5,829
Net Cash Provided by Investing Activities	**115,975**	**5,829**
Financing Activities		
Provided by:		
U.S.Treasury payments for goodwill settlements	5,026	30
Used by:		
Payments to Resolution Funding Corporation (Note 6)	0	(450,000)
Net Cash Provided/(Used) by Financing Activities	**5,026**	**(449,970)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**222,855**	**(339,798)**
Cash and Cash Equivalents - Beginning	**3,278,532**	**3,618,330**
Cash and Cash Equivalents - Ending	**$ 3,501,387**	**$ 3,278,532**

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

Notes to the Financial Statements

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

Legislative History

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

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

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

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

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

FSLIC Resolution Fund

Operations/Dissolution of the FRF

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

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities and is continuing to explore approaches for concluding FRF's activities. An executive-level Steering Committee was established in 2003 to facilitate the FRF dissolution. Some of the issues and items that remain open in FRF are: 1) criminal restitution orders (generally have from 5 to 10 years remaining); 2) litigation claims and judgments obtained against officers and directors and other professionals responsible for causing thrift losses (judgments generally vary from 5 to 10 years); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax-sharing benefits through year 2020); 4) Goodwill and Guarini litigation (no final date for resolution has been established; see Note 4); and 5) environmentally impaired owned real estate assets. The FDIC is considering whether enabling legislation or other measures may be needed to accelerate liquidation of the remaining FRF assets and liabilities. The FRF could realize substantial recoveries from the aforementioned tax-sharing benefits ranging from $170 million to $672 million; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

Receivership Operations

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

2. Summary of Significant Accounting Policies

General

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

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

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

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

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

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

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

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

Reclassifications
Reclassifications have been made in the 2003 financial statements to conform to the presentation used in 2004.

In 2004, the FRF changed the format of its Statement of Cash Flows from the direct method to the indirect method for purposes of reporting cash flows from operating activities. Accordingly, the Statement of Cash Flows for 2003 contains certain reclassifications to conform to the Corporation's current financial statement format. For 2003 and 2004, the reconciliation of net income to net cash provided by operating activities is included in the Statement of Cash Flows. Consequently, information pertaining to gross amounts of receipts and payments, not required for presentation of the indirect method, is available within other footnotes to these financial statements.

3. Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions
The receivables from thrift resolutions include payments made by the FRF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2004, 36 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including Goodwill matters.

As of December 31, 2004 and 2003, FRF receiverships held assets with a book value of $175 million and $215 million, respectively (including cash, investments, and miscellaneous receivables of $142 million and $114 million at December 31, 2004 and 2003, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the FRF's actual recoveries to vary from the level currently estimated.

Investment in Securitization-Related Assets Acquired from Receiverships
This investment is classified as available-for-sale with unrealized gains and losses included in Resolution Equity. Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the book value of the investment and are included as components of Net Income. As expected,

the last securitization deal terminated in March 2004. At December 31, 2004, this investment includes credit enhancement reserves valued at $15.6 million. The credit enhancement reserves resulted from swap transactions where the former RTC received mortgage-backed securities in exchange for single-family mortgage loans. The former RTC supplied credit enhancement reserves for the mortgage loans in the form of cash collateral to cover future credit losses over the remaining life of the loans. These reserves may cover future credit losses through 2020.

The FRF received $97.8 million in proceeds from terminations in 2004.

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

Dollars in Thousands

	2004	2003
Receivables from closed thrifts	$ 19,952,501	$ 22,940,793
Allowance for losses	(19,894,023)	(22,846,309)
Receivables from Thrift Resolutions, Net	**58,478**	**94,484**
Investment in securitization-related assets acquired from receiverships	$ 15,643	$ 90,272
Other assets	8,154	13,676
Total	**$ 82,275**	**$ 198,432**

Gross receivables from thrift resolutions and the investment in securitization-related assets subject the FRF to credit risk. An allowance for loss of $19.9 billion, or 99.7% of the gross receivable, was recorded as of December 31, 2004. Of the remaining 0.3% of the gross receivable, approximately three-fourths of the receivable is expected to be repaid from receivership cash and investments.

4. Contingent Liabilities for:

Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $32.7 million are reasonably possible.

Additional Contingency

Goodwill Litigation

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. Approximately 49 cases are pending against the United States based on alleged breaches of these agreements.

FSLIC Resolution Fund

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

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On November 17, 2004, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the likely aggregate contingent liability resulting from the *Winstar*-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the Goodwill Litigation. Based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation. However, the FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation. This appropriation is to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any liabilities for the Goodwill Litigation should have no impact on the financial condition of the FRF-FSLIC.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by DOJ based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $30.1 million and $33.3 million to DOJ for fiscal years 2005 and 2004, respectively. DOJ returns any unused fiscal year funding to the FRF unless special circumstances warrant these funds be carried over and applied against current fiscal year charges. In March 2004, DOJ returned $8.2 million of unused fiscal year funds. At September 30, 2004, DOJ had $12.7 million in unused funds that were applied against FY 2005 charges of $42.8 million.

Guarini Litigation
Paralleling the goodwill cases are similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements allegedly contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs, from the FSLIC, even though the FSLIC provided the plaintiffs with

tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

Eight "Guarini" cases were filed seeking damages. Two "Guarini" cases have concluded. In one, no damages were awarded and the second was settled for $20,000. The U. S. Court of Federal Claims has entered judgments for the plaintiffs in five of the remaining cases aggregating approximately $180 million. One judgment for $28.1 million has been affirmed by a panel of the U.S. Court of Appeals for the Federal Circuit, but is not yet final. Three cases are on appeal, and one will likely be appealed. One case is still pending in the U. S. Court of Federal Claims and seeks damages in the approximate amount of $247 million.

The FDIC believes that it is possible that substantial amounts may be paid from the FRF-FSLIC as a result of the judgments and settlements from the "Guarini litigation." However, because the litigation of damages computation is still ongoing, the amount of the damages is not estimable at this time.

Representations and Warranties

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

5. Provision for Losses

The provision for losses was a negative $7 million and a negative $33 million for 2004 and 2003, respectively. In 2004 and 2003, the negative provision was primarily due to lower estimated losses for assets in liquidation.

6. Resolution Equity

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

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

FSLIC Resolution Fund

Resolution Equity at December 31, 2004

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,178,514	$ 82,199,337	$ 126,377,851
Add: U.S. Treasury payments for goodwill settlements	5,026	0	5,026
Contributed capital - ending	**44,183,540**	**82,199,337**	**126,382,877**
Accumulated deficit	(41,148,332)	(81,656,826)	(122,805,158)
Add: Unrealized loss on available-for-sale securities	0	(73)	(73)
Accumulated deficit, net	**(41,148,332)**	**(81,656,899)**	**(122,805,231)**
Total	**$ 3,035,208**	**$ 542,438**	**$ 3,577,646**

Contributed Capital
To date, the FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the FICO and the RTC issued $31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2004, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $4.572 billion to the REFCORP. These actions serve to reduce contributed capital.

Accumulated Deficit
The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.8 billion and $87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by $11.4 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.3 billion, since their dissolution dates.

7. Employee Benefits

Pension Benefits

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

The FRF's pro rata share of pension-related expenses was $2.8 million and $2.2 million, as of December 31, 2004 and 2003, respectively.

Postretirement Benefits Other Than Pensions

Beginning in 2003, the FRF no longer recorded a liability for the postretirement benefits of life and dental insurance as a result of FDIC's change in funding policy for these benefits and elimination of the separate entity. In implementing this change, management decided not to allocate either the plan assets or the revised net accumulated postretirement benefit obligation (a long-term liability) to FRF due to the expected dissolution of the Fund in the short-term. However, FRF does continue to pay its proportionate share of the yearly claim expenses associated with these benefits.

Comments from the Federal Deposit Insurance Corporation

FDIC

Federal Deposit Insurance Corporation
550 17th St. NW Washington DC, 20429

Deputy to the Chairman & Chief Financial Officer

February 7, 2005

Mr. David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2004 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2004 and 2003 Financial Statements, GAO-05-281. The report presents GAO's opinions on the calendar year 2004 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2004, and GAO's evaluation of FDIC's compliance with applicable laws and regulations.

We are pleased to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2004 audits. The GAO reported that the funds' financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; FDIC had effective internal control over financial reporting and compliance with laws and regulations; and there were no instances of noncompliance with laws and regulations that were tested.

Also, we are pleased that GAO recognized the significant improvements that have been made during the past year and acknowledged our progress in fully implementing a comprehensive information security (IS) program. As always, management is committed to ensuring the continued success of an effective and strong IS program. We will remain focused on accomplishing the work needed to face the new security challenges in the coming year.

If you have any questions or concerns, please let me know.

Sincerely,

Steven O. App

Steven O. App
Deputy to the Chairman and
Chief Financial Officer

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Acknowledgments

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Paul S. Johnston from the FDIC Office of Inspector General also contributed to this report.

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