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Report to the Congress

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FINANCIAL AUDIT

Federal Deposit Insurance Corporation's 1994 and 1993 Financial Statements

GAO/AIMD-95-102

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United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-259232

March 31, 1995

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinions on the financial statements of the Bank Insurance Fund, the Savings Association Insurance Fund, and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund for the years ended December 31, 1994 and 1993. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents our opinion on FDIC management's assertions regarding the effectiveness of its system of internal controls as of December 31, 1994. FDIC continues to make progress in addressing the internal control weaknesses we reported in our previous audits. However, our work identified several nonmaterial weaknesses in FDIC's system of internal controls. This report also discusses our evaluation of FDIC's compliance with laws and regulations during 1994.

In addition, this report presents our recommendations to improve FDIC's internal controls and discusses the improvements in the banking and savings association industries which have significantly accelerated the recapitalization of the Bank Insurance Fund. This report also discusses our concerns about the capitalization of the Savings Association Insurance Fund and a potential premium rate differential which could develop in 1995 between the insured institutions of the Bank Insurance Fund and the Savings Association Insurance Fund.

We conducted our audits pursuant to the provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), and in accordance with generally accepted government auditing standards.

We are sending copies of this report to 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 Acting Director of the Office of Thrift Supervision; the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking and Financial Services; the Secretary of the Treasury; the Director of the Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits. Other major contributors to this report are listed in appendix III.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

BIF	Bank Insurance Fund
CAOG	Contractor Accounting Oversight Group
CFO	Chief Financial Officers Act
COMB	Contractor Oversight and Monitoring Branch
DAS	Division of Depositor and Asset Services
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FICO	Financing Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
REMIC	Real Estate Mortgage Investment Conduit
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SEC	Securities and Exchange Commission

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To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1994 and 1993, of the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and 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 Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), we found

- the financial statements, taken as a whole, were reliable in all material respects;
- FDIC management fairly stated that internal controls in place on December 31, 1994, were effective in safeguarding assets against unauthorized acquisition, use, or disposition, assuring the execution of transactions in accordance with management's authority and with provisions of selected laws and regulations that have a direct and material effect on the financial statements, and assuring that there were no material misstatements in the financial statements of the three funds administered by FDIC; and
- no reportable noncompliance with laws and regulations we tested.

During our audits of the 1993 financial statements of the three funds,[1] we identified a material weakness[2] in FDIC's internal accounting controls over its process for estimating recoveries it will realize on the management and disposition of BIF's and FRF's inventory of failed institution assets. This weakness adversely affected FDIC's ability to ensure that consistent and sound methodologies were used and proper documentation was maintained to estimate recoveries on failed institution assets. In addition to this material weakness, we identified other weaknesses in FDIC's internal controls which, while not material reportable conditions, affected

[1]Financial Audit: Federal Deposit Insurance Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-135, June 24, 1994).

[2]A material weakness is a reportable condition in which the design or operation of the controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of their assigned duties. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with laws and regulations, and (3) properly record, process, and summarize transactions to permit the preparation of financial statements. Reportable conditions which are not considered material weaknesses nevertheless represent deficiencies in the design or operation of internal controls and need to be corrected by management.

its ability to ensure that internal control objectives were achieved. We made a number of recommendations to address each of the weaknesses identified in our 1993 audits.

In conducting our 1994 audits, we found that FDIC continued to make progress to address the internal control weaknesses identified during our previous audits. FDIC's actions during 1994 partially resolved the one weakness considered material to the extent that we no longer consider it to be material. In addition, FDIC's actions during 1994 adequately addressed one of the three other weaknesses identified during our 1993 audits.[3]

While FDIC continues to improve its system of internal controls, further improvements are needed. Our 1994 audits continued to identify weaknesses, though not considered material, in controls over FDIC's process for estimating recoveries from failed institution assets, documentation used to support the estimated recoveries from failed institution assets, and oversight of entities contracted to service and liquidate assets from failed financial institutions. In addition, we continued to identify weaknesses in FDIC's time and attendance processes.

During our 1994 audits, we noted continued improvement in the condition of the nation's banks and savings associations. The improved condition of the banking industry, and the higher premiums BIF-member institutions have paid in the last several years, have resulted in an acceleration of BIF's recapitalization. Given BIF's current condition and short-term outlook, it is likely that the Fund will reach its designated capitalization level in 1995. Currently, FDIC plans to lower premium rates charged to BIF-member institutions when BIF achieves its designated ratio of reserves to insured deposits. While the improved condition of the nation's thrifts and higher premiums have helped improve SAIF's condition, it remains thinly capitalized. SAIF is not expected to reach full capitalization until 2002, and thus remains vulnerable to financial institution failures. Additionally, a significant premium rate differential between BIF and SAIF will develop in 1995 if FDIC lowers BIF rates as soon as BIF attains its designated reserve ratio. This differential could have an adverse impact on the thrift industry and SAIF.

[3]Our 1993 audit report also identified a weakness in FDIC's general controls over its information systems mainframe computer, which was also discussed in our 1992 audit report. However, prior to the issuance of our 1993 audit report, FDIC took corrective actions which fully addressed this weakness.

Opinion on Financial Statements

Bank Insurance Fund

In our opinion, the financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, in all material respects, the Bank Insurance Fund's financial position as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended.

As discussed in note 9 of BIF's financial statements, during 1994, FDIC securitized a portion of BIF's portfolio of performing loans acquired from failed financial institutions. This securitization was in the form of a Real Estate Mortgage Investment Conduit (REMIC) Trust 1994-C1 (Trust). To facilitate the sale of certificates issued by the Trust and to maximize the return on the sale of the assets, BIF provided a limited guaranty to cover certain losses on the loans. Securities and Exchange Commission (SEC) regulations required the Trust to file an Annual Report (Form 10-K) with the SEC within 90 days after the financial year-end as part of the securitization transaction. Because of the limited guaranty provided by BIF, the Trust was required to include BIF's 1994 audited financial statements as an exhibit in the SEC filing, including the auditor's opinion. At FDIC's request, on March 15, 1995, we provided a separate opinion letter on BIF's financial statements to FDIC to facilitate the Trust's SEC filing. The BIF audit opinion provided to FDIC for inclusion in the Trust's 1994 annual 10-K filing is presented in appendix II.

Savings Association Insurance Fund

In our opinion, the financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, in all material respects, the Savings Association Insurance Fund's financial position as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended.

FSLIC Resolution Fund

In our opinion, the financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, in all material respects, the FSLIC Resolution Fund's financial position as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended.

As discussed in note 9 of FRF's financial statements, there are approximately 50 pending lawsuits which stem from legislation that resulted in the elimination of supervisory goodwill from regulatory capital. These lawsuits assert a breach of contract or an uncompensated taking of property resulting from the Financial Institutions Reform, Recovery, and Enforcement Act's (FIRREA) provisions regarding minimum capital requirements for thrifts and limitations as to the use of supervisory goodwill to meet minimum capital requirements. One case has resulted in a final judgment of $6 million against FDIC, which was paid by FRF, and FDIC expects additional cases will be filed. While FDIC believes that judgments in such cases are more properly paid from the Judgment Fund,[4] the extent to which FRF will be the source of paying such judgments in subsequent goodwill cases, as well as the amounts of such judgments, is uncertain.

Opinion on FDIC Management's Assertions About the Effectiveness of FDIC's Internal Controls

For the three funds administered by FDIC, we evaluated FDIC management's assertions about the effectiveness of its internal controls designed to

- safeguard assets against unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with management's authority and with provisions of selected laws and regulations that have a direct and material effect on the financial statements of the three funds; and
- properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles.

FDIC management fairly stated that those controls in effect on December 31, 1994, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements of each of the three funds would be prevented or detected on a timely basis. However, our work identified the need to improve certain internal controls, which were summarized above and are described in detail in a later section of this report. These weaknesses in internal controls, although not considered to be material, represent significant deficiencies in the design or operation of internal controls which could adversely affect FDIC's ability to meet the internal control objectives listed above.

While FDIC management's assertions about the effectiveness of internal controls were reasonable, misstatements may nevertheless occur in other

[4]The Judgment Fund is a permanent, indefinite appropriation established by 31 U.S.C. Sec. 1304.

FDIC-reported financial information on the three funds administered by FDIC. In addition, because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may nevertheless occur and not be detected.

Compliance With Laws and Regulations

Our tests for compliance with significant provisions of selected laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards.

FDIC's Compliance With the Chief Financial Officers Act

The Chief Financial Officers (CFO) Act requires that government corporations submit an annual statement on internal accounting and administrative controls, including management's assessment of the effectiveness of these controls, consistent with the requirements of the Federal Managers' Financial Integrity Act. The CFO Act also requires that government corporations have their financial statements audited annually and that corporations submit an annual management report to the Congress.

Our annual audits of the three funds administered by FDIC satisfy the act's auditing requirement. Also, FDIC has completed its assessment of internal accounting and administrative controls for 1994 and is in the process of compiling the results. FDIC anticipates issuing a management report on the results of its 1994 internal control assessment by June 30, 1995, as required by the CFO Act.

Responsibilities of FDIC Management and the Auditor

FDIC management is responsible for

- preparing the annual financial statements of BIF, SAIF, and FRF in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing the Corporation's internal control structure to provide reasonable assurance that internal control objectives as described in GAO's Standards for Internal Controls in the Federal Government are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements of each of the three funds are free of material misstatement and are presented fairly in conformity with generally accepted accounting principles and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with significant provisions of selected laws and regulations and for performing limited procedures with respect to certain other information in FDIC's annual financial report.

Our audits were conducted in accordance with generally accepted government auditing standards. We believe our audits provide a reasonable basis for our opinion. The scope and methodology of our audits is presented in appendix I.

FDIC commented on our findings and conclusions regarding the reportable conditions discussed in this report. FDIC's comments are presented and evaluated in a later section of this report.

Significant Matters

The following section is provided to highlight the condition and outlook of the banking and thrift industries and the insurance funds. In addition, we discuss FDIC's progress in addressing internal control weaknesses identified during our previous audits.

Condition of FDIC-Insured Institutions Showed Continued Improvement in 1994

During 1994, the banking and thrift industries continued their strong performances. Commercial banks reported record profits of $44.7 billion in 1994, marking the third consecutive year of record earnings. The main sources of earnings improvement in 1994 were higher net interest income and lower loan-loss provisions. The increase in net interest income was attributable to strong growth in interest-bearing assets, even though net interest margins were slightly lower than in 1993.

The continued strong performance of banks was also reflected in the continued reduction in the number of banks identified by FDIC as problem institutions. At December 31, 1994, 247 commercial banks, with total assets of $33 billion were identified by FDIC as problem institutions, representing a significant improvement over 1993 when 426 commercial banks with assets of $242 billion were identified as problem institutions. Eleven commercial banks failed during 1994, the fewest number of failures in any year since 1981.

Savings institutions reported earnings of $6.4 billion for 1994, down from the $6.8 billion earned in 1993. Reduced net interest margins, coupled with securities losses and extraordinary losses contributed to the reduction in earnings. However, the industry remained strong, as reflected in the reduction in troubled institutions. At December 31, 1994, FDIC identified 71 savings institutions with a total of $39 billion in assets as problem institutions, which was a significant improvement over 1993 when 146 institutions with $92 billion in assets were identified as problem institutions.

BIF's Capital Position Is Much Stronger Than SAIF's

The strengthened condition of the banking industry, coupled with the relatively high insurance premiums that banks have been paying since 1990, has resulted in a significant improvement in BIF's financial condition. As of December 31, 1994, BIF's reserves had increased to almost $22 billion, or about 1.15 percent of insured deposits. The Fund will likely reach its designated reserve ratio of 1.25 percent in 1995.

Although the thrift industry has also experienced significant improvements over the past few years, SAIF has not experienced a similar increase in its ratio of reserves to insured deposits. As of December 31, 1994, SAIF had reserves of $1.9 billion, or about 0.28 percent of deposits.

SAIF's capitalization has been slowed by its members' premiums being used to pay for certain obligations of the thrift crisis, including interest on 30-year bonds issued by the Financing Corporation (FICO).[5] Under current law, FICO has authority to assess SAIF members to cover its annual interest expense, which will continue until the 30-year recapitalization bonds mature in the years 2017 through 2019.

FDIC projections for SAIF indicate that SAIF will attain its designated reserve ratio in the year 2002, 7 years later than BIF. However, significant uncertainties relating to asset failure rates exist, and higher-than-projected failures could delay SAIF's capitalization. Currently, SAIF does not have a large capital cushion to absorb the cost of thrift failures. Although it appears that SAIF can manage projected failures, the failure of a single large institution or a higher-than-projected level of failures could delay SAIF's capitalization and increase the risk of SAIF becoming insolvent.

A Significant Premium Rate Differential Between Banks and Thrifts Could Develop in 1995

In response to BIF's improved financial position and its current outlook, on January 31, 1995, FDIC's Board of Directors issued for public comment a proposal that would significantly reduce the average annual premium rates charged to BIF-insured institutions. Based on current projections for BIF,

[5] FICO was established in 1987 to recapitalize the Federal Savings and Loan Insurance Fund, the former insurance fund for thrifts.

FDIC's Board of Directors could lower premium rates as early as the September 1995 payment after it determines that BIF has, in fact, attained the designated reserve ratio. FDIC projects that BIF insurance premium rates will average 4 to 5 basis points[6] after BIF reaches its designated reserve ratio.

FDIC's projections indicate that SAIF will continue charging average premium rates of 24 basis points, more than five times the projected rate for BIF-insured institutions, until SAIF reaches its designated reserve ratio. Therefore, a significant differential in premium rates charged by BIF and SAIF will develop in 1995, if FDIC lowers BIF rates as soon as BIF reaches its designated reserve ratio.

The projected premium rate differential is likely to have a significant impact on the thrift industry's costs and its ability to attract deposits. Although uncertainties exist regarding the extent of the impact, the lower cost of insurance coverage could motivate banks to increase interest rates paid on deposits and improve customer services in order to compete more aggressively for deposits. Thrifts would likely incur additional costs in their attempt to match bank actions and remain competitive with banks for deposits. The cost increase as a percentage of earnings will be greater for thrifts that depend heavily on deposits for funding and have low earnings.

To reduce the burden of a significant cost disadvantage in relation to BIF members, SAIF members may be motivated to replace deposits with other sources of funding or take other measures to avoid paying SAIF's higher premium rates. Recently, several large institutions with SAIF-insured deposits have announced plans to obtain bank charters in an attempt to avoid paying SAIF's higher premium rates. Thus, the premium differential will likely motivate significant future shrinkage in SAIF's assessment base, thereby increasing the uncertainties surrounding SAIF's future.

In our recent report and related testimony on the results of our analysis of the potential premium differential between BIF and SAIF,[7] we discuss in more detail the issues and risks associated with this potential premium differential. We also discuss a number of options to address the potential premium rate disparity.

[6]One hundred basis points are equivalent to 1 percentage point. In this context, the 4 to 5 basis points would translate into a 4- to 5-cent premium charge for every $100 in insured deposits.

[7]Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, March 3, 1995), and Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/T-AIMD-95-111, March 23, 1995).

FDIC Actions Address Several Weaknesses Identified in Previous Audits

In our 1993 financial statement audit report on the three funds administered by FDIC, we identified a material weakness in FDIC's internal accounting controls over its process for estimating recoveries it will realize on the management and disposition of BIF's and FRF's inventory of failed institution assets. Specifically, FDIC lacked adequate controls to ensure that (1) sound and consistent methodologies were used to estimate recoveries on failed institution assets and (2) adequate documentation was maintained to support recovery estimates. This weakness adversely affected FDIC's ability to ensure that transactions of BIF and FRF were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles.

FDIC's actions during 1994 partially addressed the concerns identified in our 1993 audit report. In response to recommendations in our 1993 audit report, FDIC developed a procedures handbook to supplement the Division of Depositor and Asset Services (DAS) Credit Manual. This handbook was developed to provide more uniformity in estimating recovery amounts for failed institution assets and to provide a standard format to document the rationale for these recovery estimates. In our 1994 audits, we found that asset recovery estimates determined by contracted servicers were more consistent with those determined by FDIC personnel.

However, we continued to find other weaknesses in FDIC's methodology to determine recovery estimates for failed institution assets and documentation to support asset recovery estimates. Through substantive audit procedures, we were able to satisfy ourselves that these weaknesses did not have a material effect on the financial statements of the three funds administered by FDIC. Similarly, our audit procedures conducted in our 1992 and 1993 financial audits provided us with reasonable assurance that these weaknesses did not have a material effect on the funds' financial statements. Based on the results of our audits over the last 3 years and the progress FDIC has made thus far to address our prior audit findings, we no longer consider these weaknesses to be material. However, we do consider these weaknesses to be nonmaterial reportable conditions as of December 31, 1994.

Our report on our 1993 audits also identified other reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved. These weaknesses involved FDIC's internal controls over (1) time and attendance reporting processes, (2) reconciliation and verification of records for contracted asset servicers, and (3) safeguarding of assets and reporting of transactions for one contracted asset servicer.

During 1994, FDIC took actions to address some of these weaknesses. Specifically, FDIC improved procedures at the one contracted servicer with pervasive control weaknesses. FDIC required the servicer to implement an accounting system to allow reconciliation of servicer asset balances to FDIC's information system. In addition, the servicer's internal auditors and FDIC verified the accuracy of the servicer's manually prepared monthly reports used to record asset management and disposition activity on FDIC's information system. As a result of FDIC's actions, we no longer considered this to be a reportable condition as of December 31, 1994.

However, FDIC has not fully addressed our concerns regarding controls over its time and attendance reporting process and the verification of contracted asset servicer records to FDIC's information systems. We continued to find weaknesses in FDIC's implementation of its time and attendance reporting procedures. Also, while FDIC has implemented procedures to regularly reconcile asset balances reported by contracted asset servicers to the Corporation's information system, FDIC does not properly verify the accuracy of servicer reported monthly asset activity and balances. Consequently, we still consider these weaknesses to be reportable conditions as of December 31, 1994.

Reportable Conditions

The following reportable conditions represent significant deficiencies in FDIC's internal controls and should be corrected by FDIC management.

1. Controls to ensure that sound methodologies are used to determine recovery estimates for assets acquired from failed institutions are not working effectively. Specifically, FDIC's methodology does not ensure that estimates of recoveries from the management and disposition of these assets are reasonable and are based on the most probable liquidation strategy. These estimates are used by FDIC to determine the allowance for losses on receivables from resolution activity and investment in corporate-owned assets for the three funds. Consequently, this weakness, which was also identified during our 1993 and 1992 audits, could result in future misstatements to BIF's, SAIF's, and FRF's financial statements if corrective action is not taken by FDIC management.

We found that FDIC's guidance does not ensure that estimates of recoveries on assets in liquidation reflect the asset's most probable liquidation strategy. For example, for loans classified as performing, FDIC's guidance requires the estimated recoveries to be calculated as the outstanding book value of the loan plus 4 quarters of interest. We found that account officers used this formula to estimate recoveries for loans classified as performing with anticipated dispositions of less than 1 year, and to others where disposition was not anticipated for more than 1 year. We also found that account officers applied this methodology in estimating recoveries on nonperforming loans where the liquidation strategy was to restructure the existing loan terms, even though no performance history existed for the restructured terms. In some cases, such negotiations take several months or even years to complete. We question the reasonableness of this methodology to estimate recoveries for all loans classified as performing, particularly for loans that are not performing in accordance with the contractual terms and loans that may be restructured. For these assets, a more appropriate methodology would be to consider the recovery value consistent with the asset's disposition strategy.

Similarly, FDIC's guidance does not provide sufficient recovery estimation criteria for some asset disposition strategies being pursued by account officers. For nonperforming loans where FDIC intends to foreclose on the underlying collateral, FDIC's guidance requires inclusion of operating income in estimating recoveries on these assets. However, the guidance does not specify whether this method to estimate the recovery amount is applicable only for assets where FDIC's legal right to the income has been established. To include this income would be inappropriate without first establishing the legal right to such income.

In addition, FDIC's guidance specifically prohibits the use of present value techniques to determine asset recovery estimates. Many of FDIC's failed institution assets have large balloon payments or are not easily liquidated and often have significant payment streams extending beyond 1 year. Use of present value techniques to estimate recovery amounts would allow FDIC to approximate market values for failed institution assets. In addition, this would make FDIC's methodology for estimating asset recoveries consistent with accepted industry practice for valuing distressed assets.

We also found other problems in FDIC's asset recovery estimation process that are attributable to the lack of adequate guidance. FDIC's guidance allows account officers to assign to one asset the estimated recoveries for multiple assets with a common debtor (asset relationship). However, for most assets with a book value below $250,000, FDIC's asset management information system automatically calculates the estimated recovery value based on recovery formulas. For all other assets, the estimated recoveries are individually determined by account officers. Consequently, by allowing account officers to attribute an aggregate recovery estimate for asset relationships to one asset, FDIC's guidance creates the potential for double-counting recoveries. We found instances where account officers had recorded the aggregate recovery for the asset relationship on one asset without properly adjusting the aggregate recovery to reflect formula-determined recovery estimates for certain assets in the asset relationship.

In response to recommendations in our 1993 audit report, in September 1994 FDIC supplemented the DAS Credit Manual with a procedures handbook. These revised procedures to estimate recoveries require two supervisory reviews to verify that recovery amounts were accurate and adequately supported. However, we found that these reviews were cursory in nature and did not always identify inaccurate or unsupported asset recovery estimates. For assets that were reviewed by supervisory level personnel, we found recovery amounts that contained mathematical errors, outdated information, and unsupported account officer opinion.

2. Controls to ensure that adequate documentation is maintained to substantiate asset recovery estimates are not working effectively. In our previous audits, we found that estimates of recoveries on failed institution assets were not always supported by documentation in asset files maintained by FDIC and servicer personnel. While FDIC continues to make progress to address this weakness, we found similar deficiencies during our 1994 audits.

We continued to find that asset recovery estimates were not always supported by current or complete documentation. Specifically, we found that some recovery estimates were based on outdated documentation although current information was available. We also found other asset recovery estimates that were based on account officer opinions that could not be substantiated.

Additionally, we found that some policies within FDIC's guidance for determining asset recovery estimates were not supported by documented historical data or other evidential data. For example, FDIC's guidance requires that the estimated recovery value for assets classified as performing loans be based on the asset's outstanding book value plus 4 quarters of interest. However, FDIC was unable to provide evidence to support the contention that, in the aggregate, the portfolio of performing loans will generate recoveries equal to the current book value of the loans plus 4 quarters of interest. In addition, during 1994, FDIC was not able to provide evidence to support the formulas used to estimate recoveries for assets with a book value of less than $250,000. In January 1995, FDIC revised the formulas for these assets. However, we were unable to verify the reasonableness of the revised formulas as part of this year's audit. We will review these formulas and the underlying support as part of our 1995 audits.

FDIC continues to reduce the number of staff responsible for liquidating failed institution assets, and many of its third party servicing contracts are scheduled to terminate during the next 2 years. Weaknesses in file documentation thus become more significant as responsibility for liquidating these assets is transferred between locations and account officers. This, in turn, increases the risk that estimates of recoveries may not be reasonable and based on the most current and accurate information available. In addition, use of policies that are not properly supported by historical or other evidential data may result in unreasonable asset recovery estimates.

3. Internal accounting controls over third party entities contracted to manage and dispose of failed institution assets did not ensure that assets were properly safeguarded and that asset activity was properly reported to FDIC. During 1994, we found that FDIC performed limited verification procedures on the balances and activity reported by contracted asset servicers and did not ensure that collections from failed institution assets were properly safeguarded and reported. FDIC does not maintain subsidiary records for these assets, but rather, relies on the contracted servicers to maintain detail records and report monthly activity to FDIC.

We found that FDIC did not routinely perform fundamental verification procedures of the activity and balances reported by contracted asset servicers. On a monthly basis, FDIC records asset activity reported by the servicers on its accounting system. However, FDIC does not always verify the accuracy of this reported activity to servicers' detail accounting records. When verification procedures were performed, we found that the procedures were limited. For example, FDIC verified limited samples of servicer activity to source documents. However, FDIC did not reconcile the total monthly activity to the servicers' accounting records. If proper verification procedures had been performed, FDIC would have identified that one servicer did not maintain a general ledger system since the servicing contract's inception in November 1992. We identified similar weaknesses in our 1993 audits.

To address the weaknesses over contractor oversight reported in our 1993 audits, FDIC's Division of Finance and the Contractor Oversight and Monitoring Branch (COMB) of FDIC's Division of Depositor and Asset Services executed the Letter of Understanding on Accounting Roles and Responsibilities of CAOG and COMB to clarify contractor oversight responsibilities. This letter outlined specific procedures, timing, and reporting responsibilities for oversight of contracted asset servicers. To implement certain requirements of the letter, the Division of Finance developed procedures to verify, on a quarterly basis, asset servicing activity as reported by the servicers to the servicers' detail records. These control procedures were effective November 1994; however, they were not fully implemented by December 31, 1994. Furthermore, these procedures verify only a limited judgmental sample of servicer activity and do not address reconciliation of total monthly asset activity to servicer records. The requirements of the letter of understanding, if effectively implemented, should ensure proper safeguarding of, and accountability for, asset balances and activity reported by contracted asset servicers.

Contracted asset servicers accounted for $9 billion in collections during 1993 and 1994 and over $13.8 billion since FDIC began contracting with third party servicers in 1986. However, FDIC does not have adequate procedures to ensure that the servicers' daily collections are properly safeguarded and completely and accurately recorded. Specifically, three of eight servicers we visited in 1994 did not use more than one individual to verify collections received (dual control), and five of eight did not reconcile collections processed and deposited to the daily collections. These weaknesses over the collection process coupled with the lack of adequate verification of activity recorded by the contracted asset servicers could adversely affect the reliability of recorded asset balances and servicer accountability.

4. Implementation of FDIC's time and attendance reporting procedures was not effective. In response to our recommendations from prior audits, FDIC developed and implemented revised time and attendance reporting procedures during 1993. While we noted some improvements, our 1994 audits continued to find deficiencies in adherence to required procedures in preparing time and attendance reports, separation of duties between timekeeping and data entry functions, and reconciliation of payroll reports to time cards. These weaknesses could adversely affect FDIC's ability to

properly allocate expenses among the three funds. Continued monitoring by FDIC management is needed to ensure effective implementation of procedures and guidance to address these weaknesses.

More Action Needed on Prior Audit Recommendations

While FDIC continued to make progress in 1994 to address the internal control weaknesses identified in our prior audits, FDIC has not fully implemented all of the recommendations we made in these audits. Specifically, FDIC has not ensured that estimates of recoveries from the management and disposition of failed institution assets are (1) determined utilizing appropriate methodologies and (2) based on current and appropriate documentation. Additionally, FDIC has not revised its Credit Manual to provide more detailed guidance on recovery estimation methods that take into consideration (1) liquidation strategies and (2) discounting of cash flows that extend beyond 1 year. Also, FDIC has not promptly and routinely reconciled asset balances reported by servicing entities with its financial information system records, has not verified and documented the accuracy and completeness of balances and activity reported by servicing entities to servicer records, and has not ensured timely and adequate audit coverage of certain critical areas of asset servicing operations through the use of asset servicing entities' internal audit departments and FDIC's site visitations. In addition, FDIC has not ensured that revised Time and Attendance Reporting Directive requirements are effectively implemented. FDIC needs to continue pursuing corrective actions to fully satisfy these recommendations.

Recommendations

In addition to pursuing further action on recommendations from our prior audits, FDIC needs to take action to address the concerns raised in our 1994 audits of the three funds. Specifically, to address weaknesses identified in this year's audits in the area of safeguarding and reporting contracted asset servicers' activity, we recommend that the Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Finance and the Division of Depositor and Asset Services to

- implement the provisions of the October 1994 Letter of Understanding on Accounting Roles and Responsibilities of CAOG and COMB that require quarterly verification of servicer activity to source documents and reconciliation of total monthly servicer activity to servicers' accounting records;
- establish dual controls over the opening of collections and establish control totals for daily collections; and

- reconcile collections deposited or processed to daily collection control totals.

Corporation Comments and Our Evaluation

FDIC concurred with several of our audit findings regarding its system of internal controls, but disagreed with others. For some of the weaknesses we identified, FDIC has indicated that corrective actions were implemented subsequent to December 31, 1994. We will evaluate the effectiveness of these actions as part of our 1995 financial statement audits. For other internal control weaknesses we identified, FDIC believes that its current policies and procedures are appropriate.

FDIC believes its methodology for estimating recoveries for failed institution assets is appropriate. FDIC believes that specific guidance for each possible strategy for disposing of these assets is not feasible due to the significant number of failed institution assets and the numerous strategies available to dispose of these assets.

However, we found that FDIC's guidance does not ensure that estimates of recoveries on these assets approximate anticipated collections based on the disposition strategy being pursued. While we agree that specific guidance for all possible disposition strategies is not feasible, the Credit Manual should clearly link the methods used to estimate recoveries to the strategies being pursued to dispose of these assets. Additionally, we believe FDIC should consider the use of present value techniques, when appropriate, to estimate recoveries for failed institution assets. This would better approximate the collections anticipated to be realized under certain disposition strategies that could be pursued for these assets.

FDIC acknowledges that improvements can be made to verify the accuracy of the asset balances and activity reported by third party servicing entities. FDIC noted that, subsequent to December 31, 1994, it fully implemented the requirements of the Letter of Understanding on Accounting Roles and Responsibilities of CAOG and COMB. We will evaluate the effectiveness of these procedures during our 1995 audits.

Additionally, FDIC acknowledges the lack of a general ledger at one of its asset servicers, but believes that the accounting system in use at this servicer is adequate. However, our review of the servicing agreement between FDIC and this servicer found that it specifically requires the use of a general ledger. Additionally, a general ledger is a fundamental control to ensure that transactions are properly recorded and that assets are properly accounted for and reconciled to subsidiary records.

FDIC also noted that, prior to year-end, corrective actions were taken regarding controls over collection activity at its servicing entities. However, we found that, through year-end 1994, only one servicer effectively implemented controls over collections. Additionally, we found that other servicers did not consider it cost-effective to implement changes in their collections process due to the limited time remaining under their servicing agreements with FDIC.

FDIC noted that its Division of Finance and Office of Personnel Management are working together to ensure adherence to the Time and Attendance Reporting Directive. Additionally, FDIC is working to streamline its time and attendance process.

Charles A. Bowsher
Comptroller General
of the United States

March 15, 1995

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1994	1993
Assets		
Cash and cash equivalents (Note 3)	$ 1,621,456	$ 483,239
Investment in U.S. Treasury obligations, net (Note 4)	12,896,856	5,308,476
Interest receivable on investments and other assets	260,702	80,776
Receivables from bank resolutions, net (Note 5)	8,327,517	13,220,628
Investment in corporate-owned assets, net (Note 6)	242,628	726,584
Property and buildings, net (Note 7)	155,079	158,418
Total Assets	**$ 23,504,238**	**$ 19,978,121**
Liabilities and the Fund Balance		
Accounts payable and other liabilities	$ 393,222	$ 191,831
Liabilities incurred from bank resolutions (Note 8)	81,945	3,345,736
Estimated Liabilities for: (Note 9)		
Anticipated failure of insured institutions	875,000	2,972,000
Assistance agreements	163,164	326,383
Asset securitization guarantee	128,417	0
Litigation losses	14,708	20,511
Total Liabilities	**1,656,456**	**6,856,461**
Commitments and contingencies (Notes 15 and 16)		
Fund Balance	**21,847,782**	**13,121,660**
Total Liabilities and the Fund Balance	**$ 23,504,238**	**$ 19,978,121**

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

Statements of Income and the Fund Balance (Deficit)

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31 1994	1993
Revenue		
Assessments (Note 11)	$ 5,590,644	$ 5,784,277
Interest on U.S. Treasury obligations	521,473	165,130
Revenue from corporate-owned assets	140,821	258,858
Other revenue	214,086	222,536
Total Revenue	**6,467,024**	**6,430,801**
Expenses and Losses		
Operating expenses	423,196	388,464
Provision for insurance losses (Note 10)	(2,873,419)	(7,677,400)
Corporate-owned asset expenses	137,632	190,641
Interest and other insurance expenses (Note 12)	53,493	306,861
Total Expenses and Losses	**(2,259,098)**	**(6,791,434)**
Net Income	**8,726,122**	**13,222,235**
Fund Balance (Deficit) - Beginning	**13,121,660**	**(100,575)**
Fund Balance - Ending	**$ 21,847,782**	**$ 13,121,660**

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

Statements of Cash Flows

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1994	1993
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 5,709,912	$ 5,789,779
Interest on U.S. Treasury obligations	458,606	160,697
Recoveries from bank resolutions	5,355,542	8,739,202
Recoveries from corporate-owned assets	694,401	1,241,305
Miscellaneous receipts	18,433	32,927
Cash used for:		
Operating expenses	(451,961)	(538,081)
Interest paid on liabilities incurred from bank resolutions	0	(169,872)
Disbursements for bank resolutions	(2,796,204)	(4,198,035)
Disbursements for corporate-owned assets	(173,601)	(368,564)
Miscellaneous disbursements	(45,386)	(15,779)
Net Cash Provided by Operating Activities (Note 19)	**8,769,742**	**10,673,579**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations	800,000	1,700,000
Cash used for:		
Purchase of U.S. Treasury obligations	(8,431,525)	(5,322,969)
Net Cash Used by Investing Activities	**(7,631,525)**	**(3,622,969)**
Cash Flows from Financing Activities		
Cash used for:		
Repayments of Federal Financing Bank borrowings	0	(10,160,000)
Net Cash Used by Financing Activities	**0**	**(10,160,000)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,138,217**	**(3,109,390)**
Cash and Cash Equivalents - Beginning	**483,239**	**3,592,629**
Cash and Cash Equivalents - Ending	**$ 1,621,456**	**$ 483,239**

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

Notes to the Financial Statements

1. Legislative History and Operations of the Bank Insurance Fund

Legislative History
The U.S. Congress created the Federal Deposit Insurance Corporation (FDIC) through enactment of the Banking Act of 1933. The FDIC was created to restore and maintain public confidence in the nation's banking system.

More recently, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF) and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these three funds.

The BIF insures the deposits of all BIF-member institutions (normally commercial or savings banks) and the SAIF insures the deposits of all SAIF-member institutions (normally thrifts). The FRF is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC). All three funds are maintained separately to carry out their respective mandates.

Other legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 11) and borrowing authority (see "Operations of the BIF" below). The FDICIA also requires the FDIC to resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds and provide a schedule for bringing the reserves in the insurance funds to 1.25 percent of insured deposits.

Operations of the BIF
The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of insured banks and 2) finance the resolution of failed banks, including managing and liquidating their assets. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System and provides and monitors assistance to troubled banks.

The BIF is funded from the following sources: 1) BIF-member assessment premiums; 2) interest earned on investments in U.S. Treasury obligations; 3) income earned on and funds received from the management and disposition of assets acquired from failed banks; and 4) U.S. Treasury and Federal Financing Bank (FFB) borrowings.

The 1990 Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the BIF known as the maximum obligation limitation (MOL). Under the MOL, the BIF cannot incur any additional obligation if its total obligations exceed the sum of: 1) the BIF's cash and cash equivalents; 2) the amount equal to 90 percent of the fair market value of the BIF's other assets; and 3) the total amount authorized to be borrowed from the U.S. Treasury, excluding FFB borrowings.

For purposes of calculating the MOL, the FDIC's total U.S. Treasury borrowing authority was allocated between the BIF and the SAIF based upon the projected borrowing needs of the respective funds. Since the SAIF did not have primary resolution authority for thrifts or projected borrowing needs as of December 31, 1994, none of the U.S. Treasury borrowing authority was allocated to the SAIF. At December 31, 1994, the MOL for the BIF was $51.6 billion.

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 accordance with generally accepted accounting principles. These statements do not include reporting for assets and liabilities of closed banks for which the BIF acts as receiver or liquidating agent. Periodic and final accountability reports of the BIF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

U.S. Treasury Obligations
Securities are intended to be held to maturity and are shown at book value. Book value 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. Interest is calculated on a daily basis and recorded monthly using the effective interest method.

Allowance for Losses on Receivables from Bank Resolutions and Investment in Corporate-Owned Assets
The BIF records as a receivable the amounts advanced and/or obligations incurred for assisting and closing banks. The BIF also records as an asset the amounts advanced for investment in corporate-owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on the estimated cash recoveries from the assets of assisted or failed banks, net of all estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Escrowed Funds from Resolution Transactions
In various resolution transactions, the BIF paid the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considered the amount of the deduction for assets purchased to be funds held on behalf of the receivership (an obligation). The funds remained in escrow and accrued interest until such time as the receivership used the funds to: 1) repurchase assets under asset putback options; 2) pay preferred and secured claims; 3) pay receivership expenses; or 4) pay dividends.

The FDIC policy of holding escrowed funds was terminated during 1994. The BIF continues to pay the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF then pays the receivership for the assets purchased by the assuming institution, plus or minus the premium or discount paid.

Litigation Losses
The BIF accrues, as a charge to current period operations, an estimate of probable losses from litigation against the BIF in both its corporate and receivership capacities. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to receiverships are included in the allowance for losses for receivables from bank resolutions.

Receivership Administration
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation 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. Liquidation expenses incurred by the BIF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The BIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC adopted the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" in 1992. This standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis).

The FDIC elected to immediately recognize the accumulated postretirement benefit liability (transition obligation). The transition obligation represents that portion of future retiree benefit costs related to service already rendered by both active and retired employees up to the date of adoption.

The FDIC established an entity to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF and the Resolution Trust Corporation (RTC). The BIF funds all of its liabilities for these benefits directly to the entity.

Depreciation
The FDIC has designated the BIF administrator of facilities owned and used in its operations. Consequently, the BIF includes the cost of these facilities in its financial statements and provides the necessary funding for them. The BIF charges other funds sharing the facilities a rental fee representing an allocated share of its annual depreciation expense.

The Washington, DC office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco condominium offices are depreciated on a straight-line basis over a 35-year estimated life.

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

Reclassifications
Reclassifications have been made in the 1993 financial statements to conform to the presentation used in 1994.

3. Cash and Cash Equivalents

The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1994, cash restrictions included $12.3 million for health insurance payable and $737 thousand for funds held in trust. In 1993, cash restrictions included $13.8 million for health insurance payable and $3.2 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1994	December 31 1993
Cash	$ 18,227	$ 52,999
One-day special Treasury certificates	1,603,229	430,240
Total	**$ 1,621,456**	**$ 483,239**

4. Investment in U.S. Treasury Obligations

All cash received by the BIF is invested in U.S. Treasury obligations unless the cash is: 1) used to defray operating expenses; 2) used for outlays related to assistance to banks and liquidation activities; or 3) invested in one-day special Treasury certificates.

U.S. Treasury Obligations at December 31, 1994

Dollars in Thousands

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes & Bills	4.83%	$ 3,821,758	$ 3,775,131	$ 3,830,000
1-3 years	U.S. Treasury Notes	5.37%	8,034,591	7,763,422	8,000,000
3-5 years	U.S. Treasury Notes	4.72%	1,040,507	945,562	1,000,000
Total			**$ 12,896,856**	**$ 12,484,115**	**$ 12,830,000**

U.S. Treasury Obligations at December 31, 1993

Dollars in Thousands

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes	3.38%	$ 906,328	$ 906,573	$ 900,000
1-3 years	U.S. Treasury Notes	4.02%	2,292,267	2,286,586	2,200,000
3-5 years	U.S. Treasury Notes	4.59%	2,109,881	2,091,443	2,000,000
Total			**$ 5,308,476**	**$ 5,284,602**	**$ 5,100,000**

The unamortized premium, net of unamortized discount, for 1994 and 1993 was $66.9 million and $208.5 million, respectively.

5. Receivables from Bank Resolutions, Net

The FDIC resolution process results in different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover insured depositors' claims and represent a claim against the receivership's assets.

In an effort to maximize the return from the sale or disposition of assets and to minimize realized losses from bank resolutions, the FDIC, as receiver for failed banks, engages in a variety of strategies to dispose of assets held by the banks at time of failure.

A failed bank acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit and risk related to such assets. In certain cases, the receiver offers a period of time during which an acquirer can sell assets back to the receivership at a specified value (i.e., an asset "putback" option). The receiver can also enter into a loss-sharing arrangement with an acquirer whereby, for specified assets and in accordance with individual contract terms, the two parties share in credit losses and certain qualifying expenses. These arrangements typically direct that the receiver pay to the acquirer a specified percentage of the losses triggered by the charge-off of assets covered by the terms of the loss-sharing agreement. The receiver absorbs the majority of the losses incurred and shares in the acquirer's future recoveries of previously charged-off assets. Failed bank assets can also be retained by the receiver to either be managed and disposed of by in-house FDIC liquidation staff or managed and liquidated by contracted private-sector servicers with oversight from the FDIC.

As stated in Note 2, the allowance for losses on receivables from bank resolutions represents the difference between amounts advanced and/or obligations incurred and the expected repayment. This is based upon the estimated cash recoveries from the management and disposition of the assets of the assisted or failed bank, net of all estimated liquidation costs.

As of December 31, 1994 and 1993, the BIF, in its receivership capacity, held assets with a book value of $18.3 billion and $30.1 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $4.2 billion in 1994 and $7.0 billion in 1993) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could reduce the claimants' (including the BIF's) actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

Receivables from Bank Resolutions, Net

Dollars in Thousands	December 31 1994	December 31 1993
Assets from Open Bank Assistance:		
Redeemable preferred stock	$ 993,500	$ 51,045
Subordinated debt instruments	119,500	124,000
Notes receivable	22,037	62,037
Other open bank assistance	29,773	33,593
Deferred settlement (a)	229,525	180,000
Accrued interest receivable	1,921	1,865
Allowance for losses (Note 10)	(1,155,680)	(215,446)
	240,576	**237,094**
Receivables from Closed Banks:		
Loans and related assets	1,528,443	1,376,597
Resolution transactions	28,873,864	35,158,476
Capital instruments	25,000	25,000
Depositors' claims unpaid	13,561	18,758
Deferred settlement (b)	0	(403,901)
Allowance for losses (Note 10)	(22,353,927)	(23,191,396)
	8,086,941	**12,983,534**
Total	**$ 8,327,517**	**$ 13,220,628**

(a) The December 31, 1993 deferred settlement reflected in the Assets from Open Bank Assistance was netted in the statements of financial position line item "Liabilities incurred from bank resolutions" in the 1993 BIF financial statements. During the term of the assistance to the institution, it became apparent that the BIF would receive a recovery because gains exceeded losses on the sale of the assets covered by the agreement. Therefore, this recovery (referred to as a deferred settlement in the agreement) was reclassified as an asset to properly reflect the present character of the transaction.

(b) Proceeds from the sale of equity investments related to the Continental Bank, Chicago, IL were deferred in 1993 and recognized in 1994.

6. Investment in Corporate-Owned Assets, Net

The BIF acquires assets in certain troubled and failed bank cases by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The majority of corporate-owned assets are real estate and mortgage loans.

The BIF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Investment in Corporate-Owned Assets, Net

Dollars in Thousands	December 31 1994	December 31 1993
Investment in corporate-owned assets	$ 902,304	$ 1,468,399
Allowance for losses (Note 10)	(659,676)	(741,815)
Total	**$ 242,628**	**$ 726,584**

7. Property and Buildings, Net

Dollars in Thousands	December 31 1994	December 31 1993
Land	$ 29,631	$ 29,631
Office buildings	151,442	151,442
Accumulated depreciation	(25,994)	(22,655)
Total	**$ 155,079**	**$ 158,418**

8. Liabilities Incurred from Bank Resolutions

The FDIC resolution process can provide different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. The BIF can assume certain liabilities that require future payments over a specified period of time.

Liabilities Incurred from Bank Resolutions

Dollars in Thousands	December 31 1994	December 31 1993
Escrowed funds from resolution transactions (Note 2)	$ 54,410	$ 3,314,003
Funds held in trust	737	3,195
Depositors' claims unpaid	13,561	18,758
Note indebtedness	1,389	1,266
Accrued interest/other liabilities	11,848	8,514
Total	**$ 81,945**	**$ 3,345,736**

The BIF's liabilities of $82 million are considered current liabilities and should mature within the following year.

9. Estimated Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records an estimated loss for banks that have not yet failed but have been identified by the regulatory process as likely to fail within the foreseeable future as a result of regulatory insolvency (equity less than 2 percent of assets). This includes banks that were solvent at year-end, but which have adverse financial trends and, absent some favorable event (such as obtaining additional capital or a merger), are likely to fail in the future. The FDIC relies on this finding regarding regulatory insolvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

The FDIC cannot predict the precise timing and cost of bank failures. An estimated liability and a corresponding reduction in the fund balance are recorded in the period in which the liability is deemed probable and reasonably estimable. It should be noted, however, that future assessment revenues will be available to the BIF to recover some or all of these losses and that their amounts have not been reflected as a reduction in the losses.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1994 and 1993, were $875 million and $3 billion, respectively. The estimated liability is derived in part from estimates of recoveries from the sale of the assets of these probable bank failures. As such, they are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 5). This could understate the ultimate costs to the BIF from probable bank failures.

The FDIC estimates that banks with combined assets of approximately $6 billion may fail in 1995 and 1996 at an estimated loss of $900 million to BIF. Of this amount, the BIF has recognized a loss of $875 million for those failures considered likely. The further into the future projections of bank failures are made, the greater the uncertainty of banks failing and the magnitude of the loss associated with those failures. The accuracy of these estimates will largely depend on future economic conditions, particularly in the real estate markets, and the level of future interest rates.

Assistance Agreements

The estimated liabilities for assistance agreements resulted from several large transactions where problem assets were purchased by an acquiring institution under an agreement that calls for the FDIC to absorb credit losses and to pay related costs for funding and asset administration plus an incentive fee.

Asset Securitization Guarantee

As stated in Note 5, the FDIC engages in a variety of strategies to maximize the return from the sale or disposition of failed bank assets and to minimize realized losses from bank resolutions. Pursuant to these goals, the FDIC entered into its first securitization transaction in August 1994.

The securitization transaction was accomplished through the creation of a real estate mortgage investment conduit (REMIC), a trust, which purchases the loans to be securitized from one or more institutions for which the FDIC acts as a receiver or purchases loans owned by the Corporation. The loans in the trust are pooled and stratified and the resulting cash flow is directed into a number of different classes of pass-through certificates. The regular pass-through certificates are sold to the public through licensed brokerage houses. The largest contributing receivership retains residual pass-through certificates which are entitled to any remaining cash flows from the trust after obligations to regular pass-through holders have been met.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, the BIF has agreed to provide a credit enhancement through a limited guarantee to cover future credit losses with respect to the loans underlying the certificates.

The FDIC securitization involved the following structure: 1) approximately 1,800 performing commercial mortgages from nearly 200 failed banks were sold to a REMIC (FDIC REMIC Trust 1994 C-1); 2) the REMIC in turn sold approximately $759 million in 11 classes of securities backed by the commercial mortgages; and 3) the investors received a limited guarantee backed by the BIF which covers credit losses and other shortfalls due to credit defaults up to a maximum of $248 million.

In exchange for backing the limited guarantee, the BIF received REMIC securities and a portion of the proceeds from the sale of the commercial mortgages. The net present value (NPV) of the assets received was priced to equal the NPV of the expected exposure under the guarantee so that the BIF neither profits nor suffers a loss as a result of providing the limited guarantee.

At December 31, 1994, the BIF has a liability of $128 million under the guarantee and assets of $128 million representing the REMIC securities and the portion of the mortgage sales proceeds received. For years after 1994, changes in the estimates of the value of the REMIC securities and the expected exposure under the guarantee will be recognized in net income in the period in which the changes are made.

Cash receipts from the REMIC securities, mortgages sales proceeds received and cash payments of guarantee claims are reflected in the Statement of Cash Flows under the line items "Miscellaneous receipts" and "Miscellaneous disbursements," respectively. Income related to the REMIC securities is recorded in the "Other revenue" line item. The chart below summarizes the BIF's remaining obligation under the guarantee.

Asset Securitization Guarantee

Dollars in Millions

Maximum Guarantee Obligation	Guarantee Claims Paid through December 31, 1994	Maximum Remaining Obligation at December 31, 1994
$248	$0	$248

Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $710 million are reasonably possible. This includes $63 million in losses for the BIF in its corporate capacity and $647 million in losses for the BIF in its receivership capacity (see Note 2).

10. Analysis of Changes in Allowance for Losses and Estimated Liabilities

Provision for insurance losses includes the estimated losses for bank resolutions that occurred during the year for which an estimated loss was not established and loss adjustments for bank resolutions that occurred in prior years. It also includes an estimated loss for banks that have not yet failed but have been identified by the regulatory process as likely to fail (see Note 9). These are referred to as estimated liabilities for anticipated failure of insured institutions.

In the following charts, transfers include reclassifications from the line item "Estimated Liabilities for anticipated failure of insured institutions" to the line items of "Total Allowance for Losses." Terminations represent final adjustments to the estimated cost figures for those bank resolutions that were completed and for which the operations of the receivership ended.

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1994

Dollars in Millions	Beginning Balance 01/01/94	Provision for Insurance Losses Current Year	Prior Years	Total	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/94
Allowance for Losses:							
Open bank assistance	$ 215	$ 0	$ (421)	$ (421)	$ 3	$ 1,359	$ 1,156
Corporate-owned assets	742	0	(82)	(82)	0	0	660
Closed banks	23,191	(236)	(229)	(465)	0	(372)	22,354
Total Allowance for Losses	**24,148**	**(236)**	**(732)**	**(968)**	**3**	**987**	**24,170**
Estimated Liabilities for:							
Anticipated failure of insured institutions	2,972	406	(2,128)	(1,722)	0	(375)	875
Assistance agreements	326	0	(177)	(177)	(37)	51	163
Asset securitization guarantee	0	0	0	0	0	128	128
Litigation losses	21	0	(6)	(6)	0	0	15
Total Estimated Liabilities	**3,319**	**406**	**(2,311)**	**(1,905)**	**(37)**	**(196)**	**1,181**
Provision for Insurance Losses		**$ 170**	**$ (3,043)**	**$ (2,873)**			

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1993

Dollars in Millions	Beginning Balance 01/01/93	Provision for Insurance Losses Current Year	Prior Years	Total	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/93
Allowance for Losses:							
Open bank assistance	$ 2,203	$ 40	$ (890)	$ (850)	$ 19	$ (1,157)	$ 215
Corporate-owned assets	425	0	317	317	0	0	742
Closed banks	23,397	(224)	99	(125)	0	(81)	23,191
Total Allowance for Losses	**26,025**	**(184)**	**(474)**	**(658)**	**19**	**(1,238)**	**24,148**
Estimated Liabilities for:							
Anticipated failure of insured institutions	10,782	818	(7,873)	(7,055)	0	(755)	2,972
Assistance agreements	388	0	34	34	(97)	1	326
Litigation losses	19	0	2	2	0	0	21
Total Estimated Liabilities	**11,189**	**818**	**(7,837)**	**(7,019)**	**(97)**	**(754)**	**3,319**
Provision for Insurance Losses		**$ 634**	**$(8,311)**	**$ (7,677)**			

11. Assessments

The 1990 Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for the BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; and 3) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that charges higher rates to those banks that pose greater risks to the BIF. Under the new rule, beginning in 1993, each bank paid an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular bank, the FDIC placed each bank in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The Board reviews premium rates semiannually. For calendar year 1994, the assessment rate averaged approximately 23.8 cents per $100 of domestic deposits.

As of December 31, 1994, the BIF's reserve ratio is 1.15 percent of insured deposits. Recapitalization to a 1.25 percent ratio is required by the FDICIA (see Note 1).

12. Interest and Other Insurance Expenses

The BIF incurs interest expense on funds borrowed to finance its resolution activity. In 1994, the BIF did not incur interest expense on funds borrowed from FFB because all borrowings were repaid on August 6, 1993.

Other insurance expenses are incurred by the BIF as a result of payments to insured depositors in closed bank payoff activity and the administration of assistance transactions.

Interest and Other Insurance Expenses

Dollars in Thousands	For the Year Ended December 31 1994	1993
Interest Expense for:		
Escrowed funds from resolution transactions (Note 2)	$ 54,033	$ 204,969
FFB borrowings	0	96,895
	54,033	**301,864**
Insurance Expense for:		
Resolution transactions	507	1,570
Assistance transactions	(1,047)	3,427
	(540)	**4,997**
Total	**$ 53,493**	**$ 306,861**

13. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

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 with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $40.3 million and $38 million at December 31, 1994 and 1993, respectively.

Pension Benefits and Savings Plans Expenses		
Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Civil Service Retirement System	$ 9,988	$ 8,890
Federal Employee Retirement System (Basic Benefit)	32,410	29,254
FDIC Savings Plan	21,603	16,267
Federal Thrift Savings Plan	10,513	8,742
Total	**$74,514**	**$63,153**

14. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or 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. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC converted to self-insured health coverage for hospital/medical, prescription drug, mental health and chemical dependency during March 1994. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark. Health insurance coverage was previously provided as a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance company and provides coverage at no cost to retirees.

The BIF expensed $23 million and $49 million for net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1994 of 12.5 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs for 1994 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1994, would have increased by 16.6 percent. The effect of this change on the aggregate of service and interest cost for 1994 would be an increase of 26.3 percent.

Net Periodic Postretirement Benefit Cost		
Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Service cost (benefits attributed to employee service during the year)	$ 24,180	$ 30,274
Interest cost on accumulated postretirement benefit obligation	13,741	15,549
Amortization of prior service cost	(7,768)	(1,222)
Amortization of loss	3,086	4,339
Return on plan assets	(10,242)	39
Total	**$ 22,997**	**$ 48,979**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC. The BIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant		
Dollars in Thousands	December 31	
	1994	1993
Retirees	$ 62,920	$ 65,956
Fully eligible active plan participants	14,928	12,383
Other active participants	208,291	209,638
Total Obligation	**286,139**	**287,977**
Less: Plan assets at fair value (a)	265,642	270,532
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 20,497**	**$ 17,445**

(a) Consists of U.S. Treasury investments

15. Commitments

Leases
The BIF currently is sharing in the FDIC's leased space. The BIF's allocated share of lease commitments totals $180 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The BIF recognized leased space expense of $50.9 million and $46.8 million for the years ended December 31, 1994 and 1993, respectively.

Leased Space Fees

Dollars in Thousands

1995	1996	1997	1998	1999	2000
$56,083	$38,408	$37,013	$22,151	$15,440	$10,915

Asset Putbacks

Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be "putback," or resold, to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the BIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is $406 million (see Note 16). The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the acquirer initiates the asset putback procedures. The FDIC projects that a total of $51 million in book value of assets will be putback.

16. Concentration of Credit Risk

The BIF is counterparty to a group of financial instruments with entities located throughout regions of the United States experiencing problems in both loans and real estate. The BIF's maximum exposure to possible accounting loss, should each counterparty to these instruments fail to perform and any underlying assets prove to be of no value, is shown as follows:

Concentration of Credit Risk at December 31, 1994

Dollars in Millions

	South-east	South-west	North-east	Mid-west	Central	West	Total
Receivables from bank resolutions, net	$136	$1,195	$5,918	$283	$33	$759	$8,324 (a)
Corporate-owned assets, net	2	135	33	0	27	46	243
Asset putback agreements (off-balance sheet)	0	0	405	0	0	1	406 (b)
Total	**$138**	**$1,330**	**$6,356**	**$283**	**$60**	**$806**	**$8,973**

(a) The net receivable excludes $126 thousand and $3.3 million, respectively, of the SAIF's allocated share of maximum credit loss exposure from the resolutions of Southeast Bank, N.A., Miami, FL, and Olympic National Bank, Los Angeles, CA. There is no risk that the SAIF will not meet these obligations.

(b) See Note 15 Commitments - *Asset Putbacks*.

Insured Deposits

As of December 31, 1994, the total deposits insured by the BIF is approximately $1.9 trillion. This would be the accounting loss if all depository institutions fail and if any assets acquired as a result of the resolution process provide no recovery.

17. 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 4 and is based on current market prices. The carrying amount of interest receivable on investments, accounts payable and liabilities incurred from bank resolutions approximates their fair market value due to their short maturities or comparisons with current interest rates.

It is not practicable to estimate the fair market value of net receivables from bank resolutions. These assets are unique, not intended for sale to the private sector, and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. A discount of this proportion would significantly increase the cost of bank resolutions to the BIF. Comparisons with other financial instruments do not provide a reliable measure of their fair market value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 5, the carrying amount is the estimated cash recovery value which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

The majority of the net investment in corporate-owned assets, (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed banks. As with net receivables from bank resolutions, it is not practicable to estimate fair market values. Cash recoveries are primarily from the sale of poor quality assets. They are dependent upon market conditions which vary over time and can occur unpredictably over many years following resolution. Since the FDIC cannot reasonably predict the timing of these cash recoveries, it is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 6, the carrying amount is the estimated cash recovery value which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

As stated in Note 9, the carrying amount of the estimated liability for anticipated failure of insured institutions is the total of estimated losses for banks that have not failed, but the regulatory process has identified as likely to fail within the foreseeable future. It does not consider discounted future cash flows because the FDIC cannot predict the timing of events with reasonable accuracy. For this reason, the FDIC considers the total estimate of these losses to be the best measure of their fair market value.

18. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The FDIC has adopted Statement of Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement. The maximum potential post-employment obligation due to accrued but unused annual leave is shown under Note 13. There are no other material obligations due to post-employment benefits.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." Most of the BIF assets are specifically outside the scope of Statement No. 114. These assets are valued through alternative methods or do not meet the definition of a loan within the meaning of the Statement. Any assets which may be subject to Statement No. 114 are expected to be immaterial either because of insignificant book value or because any potential adjustment to the carrying value as a result of applying Statement No. 114 would be immaterial.

The FDIC has adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement expands the use of fair market value accounting for securities that have readily determinable fair market values but retains the use of the amortized cost method for investments in debt securities that the reporting enterprise has the positive intent and ability to hold to maturity. Adoption of this statement did not have a material effect on the BIF.

19. Supplementary Information Relating to the Statements of Cash Flows

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), prior to April 20, 1994, the BIF paid the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considered the assets purchased portion of this transaction to be a non-cash adjustment. Accordingly, for the Statements of Cash Flows presentation, cash outflows for bank resolutions excludes $3.7 billion in 1993 for assets purchased. As of April 20, 1994, these asset purchases are cash transactions.

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Net Income	**$ 8,726,122**	**$ 13,222,235**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	(2,873,419)	(7,677,400)
Amortization of U.S. Treasury securities	43,145	6,715
Interest on Federal Financing Bank borrowings	0	(72,977)
Depreciation on buildings	3,339	3,339
Change in Assets and Liabilities:		
(Increase) decrease in interest receivable on investments and other assets	(179,994)	24,913
Decrease in receivables from bank resolutions	5,779,569	15,757,688
Decrease in corporate-owned assets	566,472	418,321
Increase (decrease) in accounts payable and other liabilities	201,390	(216,563)
(Decrease) in liabilities incurred from bank resolutions	(3,263,790)	(9,941,584)
(Decrease) in liability for anticipated failure of insured institutions	(375,000)	(755,000)
Increase (decrease) in liabilities for assistance agreements	13,479	(96,108)
Increase in liability for asset securitization guarantee	128,429	0
Total	**$ 8,769,742**	**$ 10,673,579**

20. Subsequent Events

On January 31, 1995, the FDIC Board of Directors issued for public comment substantive proposed changes in its risk-related insurance premium system, the rate structure of which would result in a significant reduction in the rates paid by well-capitalized and well-managed banks. Under the proposal, the best rated institutions (about 90% of the nearly 11,000 BIF insured institutions) would pay four cents per $100 of domestic deposits, a substantial reduction from their current 23 cents per $100. The weakest institutions would continue to pay 31 cents per $100. If adopted, BIF insured institutions, on average, would be expected to pay approximately 4.5 cents per $100, compared to the current 23.8 cents per $100. This proposed reduction would take place when the BIF reaches the designated reserve ratio of 1.25 percent of insured deposits.

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1994	1993
Assets		
Cash and cash equivalents, including restricted amounts of $19,004 for 1994 and $3,285 for 1993 (Note 3)	$ 80,200	$ 15,735
Investment in U.S. Treasury obligations, net (Note 4)	2,422,230	1,263,608
Entrance and exit fees receivable, net (Note 5)	35,692	60,655
Interest receivable on investments and other assets	38,863	28,038
Receivables from thrift resolutions, net (Note 6)	6,892	174,948
Total Assets	**$ 2,583,877**	**$ 1,542,984**
Liabilities and the Fund Balance		
Accounts payable and other liabilities	$ 5,617	$ 3,875
Due to the FSLIC Resolution Fund (Note 6)	6,812	175,507
Liabilities incurred from thrift resolutions	0	932
Estimated liability for anticipated failures of insured institutions (Note 7)	432,000	18,000
Total Liabilities	**444,429**	**198,314**
Commitments and contingencies (Notes 12 and 13)		
SAIF-Member Exit Fees and Investment Proceeds Held in Escrow (Note 5)	**202,733**	**188,941**
Fund Balance	1,936,715	1,155,729
Total Liabilities and Fund Balance	**$ 2,583,877**	**$1,542,984**

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

Statements of Income and the Fund Balance

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31 1994	1993
Revenue		
Assessments (Note 8)	$ 1,132,102	$ 897,692
Interest on U.S. Treasury obligations	82,942	25,305
Entrance fees (Note 5)	32	48
Other revenue	213	471
Total Revenue	**1,215,289**	**923,516**
Expenses and Losses		
Operating expenses	20,303	30,283
Provision for insurance losses (Note 9)	414,000	16,531
Total Expenses and Losses	**434,303**	**46,814**
Net Income	**780,986**	**876,702**
Fund Balance - Beginning	**1,155,729**	**279,027**
Fund Balance - Ending	**$ 1,936,715**	**$ 1,155,729**

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

Statements of Cash Flows

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1994	1993
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$1,132,914	$ 911,071
Interest on U.S. Treasury obligations	61,085	16,415
Interest on exit fees	6,984	4,406
Entrance and exit fee collections (Note 5)	31,144	31,605
Operating expenses funded by the FSLIC Resolution Fund	0	7,182
Recoveries from "Oakar" bank resolutions	1,469	18,645
Recoveries from thrift resolutions	169,919	2,133
Miscellaneous receipts	602	620
Cash used for:		
Operating expenses	(14,581)	(43,047)
Reimbursement to the FSLIC Resolution Fund for thrift resolution	(166,958)	(121)
Disbursements for thrift resolutions	(1,864)	(3,182)
Disbursements for "Oakar" bank resolutions	0	(3,700)
Miscellaneous disbursements	0	(11)
Net Cash Provided by Operating Activities (Note 16)	**1,220,714**	**942,016**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations	220,420	51,305
Cash used for:		
Purchase of U.S. Treasury obligations	(1,376,669)	(1,318,737)
Net Cash Used by Investing Activities	**(1,156,249)**	**(1,267,432)**
Net Increase (Decrease) in Cash and Cash Equivalents	**64,465**	**(325,416)**
Cash and Cash Equivalents - Beginning	**15,735**	**341,151**
Cash and Cash Equivalents - Ending	**$ 80,200**	**$ 15,735**

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

Notes to the Financial Statements

1. Legislative History and Operations of the Savings Association Insurance Fund

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF) the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. The SAIF insures the deposits of all SAIF-member institutions (normally thrifts). The BIF insures the deposits of all BIF-member institutions (normally commercial or savings banks) and the FRF is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC). All three funds are maintained separately to carry out their respective mandates.

The FIRREA created the Resolution Trust Corporation (RTC), which manages and resolves 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. The Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act) extended the RTC's general resolution responsibility through September 30, 1993, and beyond that date for those institutions previously placed under RTC control.

The Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act) enacted December 17, 1993, extended the RTC's general resolution responsibility through a date between January 1, 1995, and July 1, 1995. The Chairman of the Thrift Depositor Protection Oversight Board selected July 1, 1995 as the date for transferring resolution responsibility from the RTC to the SAIF.

The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. Effective December 12, 1991, as provided by the 1991 RTC Act, the FICO's ability to serve as a financing vehicle for new debt was terminated. Assessments paid on SAIF-insured deposits (excluding "Oakar" and "Sasser" banks) are subject to draws by FICO for payment of interest on their outstanding debt through maturity of this debt in 2019. "Sasser" banks are savings associations that are SAIF members and which convert to a state bank charter in accordance with Section 5(d)(2)(G) of the FDI Act. "Oakar" banks are described under "Operations of the SAIF" below.

Other legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 8) and borrowing authority (see "Operations of the SAIF" below). The FDICIA also requires the FDIC to resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds and to build the reserves in the insurance funds to 1.25 percent of insured deposits.

Operations of the SAIF
The primary purpose of the SAIF is to insure the deposits and to protect the depositors of insured thrift institutions. In this capacity, the SAIF currently has financial responsibility for: 1) all federally insured depository institutions that became members of the SAIF after August 8, 1989, for which the RTC does not have resolution authority and 2) all deposits insured by the SAIF that are held by BIF-member banks, so-called "Oakar" banks, created pursuant to the "Oakar amendment" provisions found in Section 5(d)(3) of the Federal Deposit Insurance Act. On July 1, 1995 the SAIF will assume resolution responsibility for all SAIF-member depository institutions that had not been previously placed under the RTC control.

The "Oakar amendment" provisions referred to above allow, with approval of the appropriate federal regulatory authority, any insured depository institution to merge, consolidate or transfer the assets and liabilities of an acquired institution without changing insurance coverage for the acquired deposits. Such acquired deposits continue to be either SAIF-insured deposits and assessed at the SAIF assessment rate or BIF-insured deposits and assessed at the BIF assessment rate. In addition, any losses resulting from the failure of these institutions are to be allocated between the BIF and the SAIF based on the respective dollar amounts of the institution's BIF-insured and SAIF-insured deposits.

The SAIF is funded from the following sources: 1) reimbursement by the FRF of administrative and supervisory expenses incurred between August 9, 1989, and September 30, 1992 (the final reimbursement was funded in 1993); 2) SAIF-member assessments from "Oakar" banks; 3) other SAIF assessments that are not required for the FICO including assessments from "Sasser" banks; 4) interest earned on investments in U.S. Treasury obligations purchased with unrestricted funds; 5) U.S. Treasury payments not to exceed $8 billion for losses for fiscal years 1994 through 1998 contingent upon appropriations from the U.S. Treasury for that purpose; 6) U.S. Treasury payments from unused appropriations to the RTC for losses for two years after the date the RTC is terminated; 7) Federal Home Loan Bank borrowings; and 8) U.S. Treasury and Federal Financing Bank (FFB) borrowings.

The 1993 RTC Act places significant restrictions on funding from sources 5) and 6) above. Before appropriated funds from either source are used, the FDIC must certify to Congress that, among other restrictions: 1) SAIF-insured institutions are unable to pay premiums sufficient to cover insurance losses without adversely affecting their ability to raise and maintain capital or to maintain the assessment base and 2) an increase in premiums could reasonably be expected to result in greater losses to the government.

The 1990 Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). Under the MOL, the SAIF cannot incur any additional obligations if its total obligations exceed the sum of : 1) the SAIF's cash and cash equivalents; 2) the amount equal to 90 percent of the fair-market value of the SAIF's other assets; and 3) the total amount authorized to be borrowed from the U.S. Treasury, excluding FFB borrowings.

For purposes of calculating the MOL, the FDIC's total U.S. Treasury borrowing authority was allocated between the BIF and the SAIF based upon the projected borrowing needs of the respective funds. Since the SAIF did not have primary resolution authority for thrifts or projected borrowing needs as of December 31, 1994, none of the U.S. Treasury borrowing authority was allocated to the SAIF. At December 31, 1994, the MOL for the SAIF was $2.4 billion.

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 accordance with generally accepted accounting principles. These statements do not include reporting for assets and liabilities of closed thrifts for which the SAIF acts as receiver or liquidating agent. Periodic and final accountability reports of the SAIF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

U.S. Treasury Obligations

Securities are intended to be held to maturity and are shown at book value. Book value 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. Interest is calculated on a daily basis and recorded monthly using the effective interest method.

Escrowed Funds from Resolution Transactions

A thrift operating under a FSLIC assistance agreement was placed into SAIF receivership in 1993 and sold. Since these transactions were executed in order to terminate the assistance agreement, the FRF funded SAIF's payment to the acquirers (the difference between failed thrift liabilities assumed and assets purchased, plus or minus any premium or discount). The SAIF considered the amount of the deduction for assets purchased to be funds held on behalf of the receivership (an obligation). The funds remained in escrow and accrued interest until such time as the receivership used the funds to: 1) repurchase assets under asset put options; 2) pay preferred and secured claims; 3) pay receivership expenses; or 4) pay dividends (see Note 6). The FDIC policy of holding escrowed funds was terminated in 1994.

Litigation Losses
The SAIF accrues, as a charge to current period operations, an estimate of probable losses from litigation against the SAIF in its corporate and receivership capacities. The FDIC's Legal Division recommends these estimates on a case-by-case basis.

Receivership Administration
The FDIC is responsible for controlling and disposing of the assets of failed thrift institutions placed in SAIF receivership in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Liquidation expenses incurred by the SAIF on behalf of its receivership are recovered from the receivership.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of facilities used in operations in the BIF's financial statements. The BIF charges the SAIF a rental fee representing an allocated share of its annual depreciation. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The SAIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC adopted the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" in 1992. This standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis).

The FDIC elected to immediately recognize the accumulated postretirement benefit liability (transition obligation). The transition obligation represents that portion of future retiree benefits costs related to service already rendered by both active and retired employees up to the date SFAS No. 106 was adopted.

The FDIC established an entity to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF and the RTC. The SAIF funds all of its liabilities for these benefits directly to the entity.

Related Parties
The nature of related parties and descriptions of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1993 Financial Statements to conform to the presentation used in 1994.

3. Cash and Cash Equivalents

The SAIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. Substantially all the restricted cash is comprised of the SAIF exit fees collected plus interest earned on exit fees. These funds have been restricted to meet any potential obligation of the SAIF to the FICO (see Note 5). In 1994, cash restrictions included $104 thousand for health insurance payable and $18.9 million for exit fee and related interest collections. In 1993, cash restrictions included $317 thousand for health insurance payable and $2.968 million for exit fee and related interest collections.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1994	1993
Cash	$ 1,871	$ 351
One-day special Treasury certificates	78,329	15,384
Total	**$ 80,200**	**$ 15,735**

4. Investment in U.S. Treasury Obligations

All cash received by the SAIF is invested in U.S. Treasury obligations unless the cash is: 1) to defray operating expenses; 2) used for outlays related to liquidation activities; or 3) invested in one-day special Treasury certificates. In 1994, $145 million was restricted for exit fee and related interest collections invested in U.S. Treasury notes. In 1993, $122 million was restricted for exit fee and related interest collections invested in U.S. Treasury notes.

During 1994, the SAIF sold debt securities classified as held-to-maturity. The book value of the securities sold was $170 million and the realized loss was $289 thousand. The sale was compelled by the need to transfer to the FRF funds which were retained by the SAIF in error and subsequently invested. This need was an isolated, non-recurring, and unusual event which could not have been reasonably anticipated.

U.S. Treasury Obligations at December 31, 1994

Dollars in Thousands

Maturity	Description	Yield at	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes	4.4%	$1,380,705	$ 1,366,503	$ 1,385,000
1-3 years	U.S. Treasury Notes	5.8%	$1,041,525	$ 1,017,402	$ 1,045,000
Total			**$2,422,230**	**$ 2,383,905**	**$ 2,430,000**

In 1994, the unamortized discount, net of unamortized premium, was $7.8 million.

U.S. Treasury Obligations at December 31, 1993

Dollars in Thousands

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes	3.2%	$ 52,160	$ 52,240	$ 51,801
1-3 years	U.S. Treasury Notes	4.0%	$ 1,211,448	$ 1,212,956	$1,210,000
Total			**$ 1,263,608**	**$ 1,265,196**	**$1,261,801**

In 1993, the unamortized premium, net of unamortized discount, was $1.8 million.

5. Entrance and Exit Fees Receivable, Net

The SAIF receives 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 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 Treasury securities pending determination of ownership. Interest on these investments was $6.5 million and $3 million for 1994 and 1993, respectively.

The SAIF records entrance fees as revenue after the BIF-to-SAIF conversion transaction. However, due to the requirement that the SAIF exit fees be held in an escrow account, the SAIF does not recognize exit fees or related interest earned as revenue. Instead, the SAIF recognizes a SAIF-to-BIF conversion transaction by establishing a receivable from the institution and a corresponding escrow account entry to recognize the potential payment to the FICO. As exit fee proceeds are received, the receivable is reduced while the escrow remains pending the determination of funding requirements for interest payments on the FICO's obligations.

Within specified parameters, the regulations allow an institution to pay its entrance/exit fees interest free, in equal annual installments over a period of not more than five years. When an institution elects such a payment plan, the SAIF records the entrance or exit fee receivable at its present value. The discount rates used to determine the present value of the funds for 1994 and 1993 were 3 percent and 4 percent, respectively.

Entrance and Exit Fees Receivable, Net - 1994

Dollars in Thousands

	Beginning Balance 01/01/94	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/94
Entrance fees	$ 3	$ 32	$ (29)	$ 0	$ 6
Exit fees	60,652	998	(31,115)	5,151	35,686
Total	**$ 60,655**	**$ 1,030**	**$ (31,144)**	**$ 5,151**	**$ 35,692**

Entrance and Exit Fees Receivable, Net - 1993

Dollars in Thousands

	Beginning Balance 01/01/93	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/93
Entrance fees	$ 0	$ 48	$ (45)	$ 0	$ 3
Exit fees	84,896	1,946	(31,560)	5,370	60,652
Total	**$ 84,896**	**$ 1,994**	**$ (31,605)**	**$ 5,370**	**$ 60,655**

6. Receivables from Thrift Resolutions, Net

The Heartland Federal Savings and Loan Association (Heartland), Ponca City, Oklahoma, was a SAIF-insured institution that became party to a 10-year assistance agreement with the FSLIC upon the failure of its predecessor, Frontier Federal Savings and Loan Association, in 1988. FSLIC obligations were assumed by the FRF upon the enactment of the FIRREA in 1989. Section 32 of the assistance agreement effectively gave the FRF sole equity interest in Heartland. Section 2.13 of the agreement entitled "Additional Operating Terms and Conditions" gave the FDIC, as manager of the FRF, authority to take such action as might be necessary to effect the acquisition of Heartland. The FDIC determined that the value of the FRF's equity interest in Heartland would be maximized and total assistance cost would be minimized by a termination of the assistance agreement and sale of Heartland, thereby returning it to the private sector. To effect the sale, a receiver was appointed for Heartland for the purpose of transferring assets and liabilities to the acquirers.

Technically, Heartland was not a "failing institution" because of its well-capitalized condition, which resulted from the government assistance provided. Heartland's Board of Directors consented to the Office of Thrift Supervision's appointment of the FDIC (SAIF) as receiver on October 8, 1993. The FDIC was appointed receiver because, at that time, RTC's authority to resolve FSLIC-insured thrifts had not yet been extended by the RTC Completion Act.

Because Heartland was not failing, all uninsured depositors and general trade creditors were paid in full, leaving only the FRF as sole creditor. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF and represents a claim against the receivership's assets. The receiver reimburses the FRF as claims are satisfied through the liquidation process. As of December 31, 1994, the receiver owes the FRF $6.8 million.

As of December 31, 1994 and 1993, the SAIF, in its receivership capacity, held assets with a book value of $53 million and $249 million, respectively. Estimated cash recoveries from the management and disposition of assets (excluding cash and miscellaneous receivables of $38 million in 1994 and $177 million in 1993) are regularly evaluated, but ultimate recoveries remain uncertain because of changing economic conditions. Any loss as a result of reduced recoveries will be borne by the FRF.

7. Estimated Liabilities for:

Anticipated Failure of Insured Institutions
The SAIF records an estimated loss for thrifts as well as "Oakar" and "Sasser" banks that have not yet failed but have been identified by the regulatory process as likely to fail within the foreseeable future as a result of regulatory insolvency (equity less than 2% of assets). This includes institutions that were solvent at year-end, but which have adverse financial trends and, absent some favorable event (such as obtaining additional capital or a merger), are likely to fail in the future. The FDIC relies on this finding regarding regulatory insolvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

The FDIC cannot predict the precise timing and cost of thrift or "Oakar" or "Sasser" bank failures. An estimated liability and a corresponding reduction in the fund balance are recorded in the period in which the liability is deemed probable and reasonably estimable. It should be noted, however, that future assessment revenues will be available to the SAIF to recover some or all of these losses and that these amounts have not been reflected as a reduction in the losses.

For the year ending December 31, 1993, the SAIF was responsible for establishing an estimated liability for thrifts chartered after August 8, 1989, and for "Oakar" banks. For 1993, the RTC was responsible for other thrift institutions. At year end 1994, the SAIF established an estimated liability for those estimated failures deemed probable and reasonably estimable after it assumes resolution authority (see Note 1).

The FDIC estimates that thrifts with combined assets of approximately $5 billion may fail between July 1, 1995 (the date SAIF assumes resolution responsibility) and December 31, 1996 at an estimated cost of $750 million to SAIF. Of this amount, the SAIF has recognized a loss of $432 million for those failures considered likely. The further into the future projections of thrift failures are made, the greater the uncertainty of thrifts failing and the magnitude of the loss associated with those failures. The accuracy of these estimates will largely depend on future economic conditions, particularly in the real estate markets and the level of future interest rates.

Litigation Losses
The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $12 million are reasonably possible.

8. Assessments

The FICO has priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for interest on FICO's debt obligations. Accordingly, the SAIF recognized as assessment revenue only that portion of SAIF-member assessments not required by the FICO. Assessments on the SAIF-insured deposits held by "Oakar" or "Sasser" are not subject to draws by FICO and, thus, retained in SAIF.

The 1990 Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for the SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; and 3) authorized FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that charges higher rates to those thrifts that pose greater risks to the SAIF. Under the new rule, beginning in January 1993, each thrift paid an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular thrift, the FDIC placed each thrift in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The Board reviews premium rates semiannually. For calendar year 1994, the assessment rate averaged approximately 24.2 cents per $100 of domestic deposits.

As of December 31, 1994, the SAIF's reserve ratio is .28 percent of insured deposits. Recapitalization to a 1.25 percent ratio is required by the FDICIA (see Note 1).

Secondary Reserve Offset
The FIRREA authorized insured thrifts to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve." The Secondary

Reserve represented premium prepayments that insured thrifts were required by law to deposit with the FSLIC during the period 1961 through 1973 to quickly increase the FSLIC's insurance reserves to absorb losses if the regular assessments were insufficient.

The Secondary Reserve offset reduces the gross SAIF-member assessments due from certain individual institutions, thereby reducing the assessment premiums available to the FICO and the SAIF. In 1994, the SAIF paid $11 million in refunds to institutions due secondary reserve credits that had previously been acquired through an unassisted merger. The remaining Secondary Reserve credit was $427 thousand and $2 million for 1994 and 1993, respectively.

SAIF Assessments

Dollars in Thousands	For the Year Ended December 31 1994	1993
SAIF assessments from thrifts	$1,301,499	$ 1,584,215
Less: Secondary Reserve offset/refunds	(14,318)	(221,404)
Cash received for prior period assessments	0	(18,439)
FICO assessment (a)	(596,000)	(779,214)
Plus: Assessment receivables outstanding	1,453	5,269
Less: Prepaid Assessments	(2,265)	0
SAIF-Member Assessments Earned, (Net)	**690,369**	**570,427**
SAIF assessments from Sasser banks	99,895	66,179
SAIF assessments from "Oakar" banks - current period	341,838	261,086
Total	**$1,132,102**	**$ 897,692**

(a) In 1994, there was a one-time reduction of $185 million to the FICO assessment because of cash held by FICO.

9. Provision for Insurance Losses

Dollars in Thousands	For the Year Ended December 31 1994	1993
SAIF's allocated share of recovery from failure of Southeast Bank, N.A., Miami, FL	$ 0	$(1,469)
Estimated loss for anticipated failure of insured institutions (see Note 7)	414,000	18,000
Total	**$ 414,000**	**$ 16,531**

10. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in the tax-deferred federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

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 with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $685 thousand and $756 thousand at December 31, 1994 and 1993, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Civil Service Retirement System	$ 329	$1,628
Federal Employee Retirement System (Basic Benefit)	663	1,146
FDIC Savings Plan	436	663
Federal Thrift Savings Plan	202	337
Total	**$1,630**	**$3,774**

11. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or 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. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC converted to self-insured health coverage for hospital/medical, prescription drug, mental health and chemical dependency during March 1994. Additional risk protection was purchased from Aetna Life Insurance company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark. Health insurance coverage was previously provided as a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance company and provides coverage at no cost to retirees.

The SAIF expensed $587 thousand and $1.9 million for such net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1994 of 12.5 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs in 1994 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1994, would have increased by 16.6 percent. The effect of this change on the aggregate of service and interest cost for 1994 would be an increase of 26.3 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Service cost (benefits attributed to employee service during the year)	$ 614	$ 1,195
Interest cost on accumulated postretirement benefit obligation	349	613
Amortization of prior service cost	(197)	(48)
Amortization of loss	78	171
Return on plan assets	(257)	2
Total	**$ 587**	**$ 1,933**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC in 1993. The SAIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant

Dollars in Thousands	December 31	
	1994	**1993**
Retirees	$ 1,580	$ 1,852
Fully eligible active plan participants	375	347
Other active participants	5,231	5,887
Total Obligation	**7,186**	**8,086**
Less: Plan assets at fair value (a)	6,671	7,680
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 515**	**$ 406**

(a) Consists of U.S. Treasury investments

12. Commitments

The SAIF currently is sharing the FDIC's leased space. The SAIF's allocated share of lease commitments totals $3.1 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The SAIF recognized leased space expense of $1.1 million and $1.7 million for the years ended December 31, 1994 and 1993, respectively.

Leased Space Fees

Dollars in Thousands

1995	1996	1997	1998	1999	2000
$1,009	$683	$652	$384	$240	$172

13. Concentration of Credit Risk

The SAIF is counterparty to financial instruments with entities located in two regions of the United States experiencing problems in both loans and real estate. The SAIF's maximum exposure to possible accounting loss for these instruments is $126 thousand for Southeast Bank, N.A., Miami, Florida, and $3.3 million for Olympic National Bank, Los Angeles, California.

Insured Deposits

As of December 31, 1994, the total deposits insured by the SAIF is approximately $693 billion. This would be the accounting loss if all the depository institutions fail and if any assets acquired as a result of the resolution process provide no recovery, and to the extent these losses are not covered by the RTC.

14. 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 4 and is based on current market prices. The carrying amount due from the FSLIC Resolution Fund, short-term receivables, and accounts payable and other liabilities approximates their fair market value due to their short maturities. As explained in Note 5, entrance and exit fees receivable are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued.

It is not practicable to estimate the fair market value of net receivables from thrift resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. A discount of this proportion would significantly increase the cost of thrift or "Oakar" or "Sasser" bank resolutions to the SAIF. Comparisons with other financial instruments do not provide a reliable measure of their fair market value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair market value on a discounted cash flow basis.

As stated in Note 7, the carrying amount of the estimated liability for anticipated failure of insured institutions is the total of estimated losses for thrifts as well as "Oakar" and "Sasser" banks that have not failed, but the regulatory process has identified as likely to fail within the foreseeable future. It does not consider discounted future cash flows because the FDIC cannot predict the timing of events with reasonable accuracy. For this reason, the FDIC considers the total estimate of these losses to be the best measure of their fair market value.

15. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The FDIC has adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement. The maximum potential post-employment obligation due to accrued but unused annual leave is shown under Note 10. There are no other material obligations due to post-employment benefits.

In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Most of the SAIF assets are specifically outside the scope of Statement No. 114. These assets are valued through alternative methods or do not meet the definition of a loan within the meaning of the Statement. Any assets which may be subject to Statement No. 114 are expected to be immaterial either because of insignificant book value or because any potential adjustment to the carrying value as a result of applying Statement No. 114 would be immaterial.

The FDIC has adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement expands the use of fair market value accounting for securities that have readily determinable fair market values but retains the use of the amortized cost method for investments in debt securities that the reporting enterprise has the positive intent and ability to hold to maturity. Adoption of this statement did not have a material effect on the SAIF.

16. Supplementary Information Relating to the Statements of Cash Flows

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), prior to April 20, 1994, the FDIC paid the acquirer the difference between failed thrift liabilities assumed and assets purchased, plus or minus any premium or discount. The SAIF considered the assets purchased portion of this transaction to be a non-cash adjustment. Accordingly, for the Statements of Cash Flows presentation, cash outflows for thrift resolutions excludes $932 thousand in 1993 for assets purchased. As of April 20, 1994, these asset purchases are cash transactions.

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31 1994	1993
Net Income	**$ 780,986**	**$876,702**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	414,000	16,531
Amortization of U.S. Treasury securities (unrestricted)	(2,646)	37
Loss on sale of U.S. Treasury securities	289	0
Change in Assets and Liabilities:		
(Increase) Decrease in amortization of U.S. Treasury	(17)	3,787
Decrease in entrance and exit fees receivable	24,963	24,241
(Increase) Decrease in interest receivable and other assets	(10,824)	18,611
Decrease (Increase) in receivables from thrift resolutions	168,056	(174,948)
Increase (Decrease) in accounts payable and other liabilities	1,743	(6,453)
(Decrease) Increase in amount due to the FSLIC Resolution Fund	(168,696)	175,396
(Decrease) Increase in liabilities incurred from thrift resolutions	(932)	932
(Decrease) in estimated liabilities for anticipated failure of insured institutions	0	(3,700)
Increase in exit fees and investment proceeds held in escrow	13,792	10,880
Total	**$ 1,220,714**	**$942,016**

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands	December 31 1994	1993
Assets		
Cash and cash equivalents (Note 3)	$ 1,278,548	$ 1,603,931
Receivables from thrift resolutions, net (Note 4)	1,054,107	2,238,065
Investment in corporate-owned assets, net (Note 5)	370,177	577,161
Due from the Savings Association Insurance Fund (Note 6)	6,812	168,960
Other assets, net (Note 7)	13,191	38,898
Total Assets	**$ 2,722,835**	**$ 4,627,015**
Liabilities		
Accounts payable and other liabilities	$ 13,262	$ 106,391
Liabilities incurred from thrift resolutions (Note 8)	2,164,438	3,596,908
Estimated Liabilities for: (Note 9)		
Assistance agreements	277,577	1,290,412
Litigation losses	2,100	70,000
Total Liabilities	**2,457,377**	**5,063,711**
Commitments and contingencies (Notes 14 and 15)		
Resolution Equity (Note 11)		
Contributed capital	43,991,000	43,991,000
Accumulated deficit	(43,725,542)	(44,427,696)
Total Resolution Equity	**265,458**	**(436,696)**
Total Liabilities and Resolution Equity	**$ 2,722,835**	**$ 4,627,015**

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

Statements of Income and Accumulated Deficit

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Income and Accumulated Deficit

Dollars in Thousands	For the Year Ended December 31 1994	1993
Revenue		
Assessments	$ 0	$ (63)
Interest on U.S. Treasury obligations	77,191	26,768
Revenue from corporate-owned assets	115,280	181,298
Other revenue	275,779	47,280
Total Revenue	**468,250**	**255,283**
Expenses and Losses		
Operating expenses	15,535	34,908
Interest expense	37,624	57,080
Corporate-owned asset expenses	66,394	53,461
Provision for losses (Note 10)	(363,812)	860,425
Other expenses	10,355	9,505
Total Expenses and Losses	**(233,904)**	**1,015,379**
Net Income (Loss)	**702,154**	**(760,096)**
Accumulated Deficit - Beginning	**(44,427,696)**	**(43,667,600)**
Accumulated Deficit - Ending	**$(43,725,542)**	**$(44,427,696)**

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

Statements of Cash Flows

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1994	1993
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 0	$ (63)
Interest on U.S. Treasury obligations	77,191	29,662
Recoveries from thrift resolutions	2,019,635	1,846,163
Recoveries from corporate-owned assets	416,987	393,804
Miscellaneous receipts	4,722	80,513
Cash used for:		
Operating expenses	(19,053)	(60,797)
Interest paid on indebtedness incurred from thrift resolutions	(28,620)	(50,267)
Disbursements for thrift resolutions	(2,077,535)	(2,477,719)
Disbursements for corporate-owned assets	(222,037)	(327,712)
Miscellaneous disbursements	(2,578)	(43,871)
Net Cash Provided by (Used by) Operating Activities Before Funding Transfer	**168,712**	**(610,287)**
Funding transfer to the Savings Association Insurance Fund	0	(7,182)
Net Cash Provided by (Used by) Operating Activities (Note 18)	**168,712**	**(617,469)**
Cash Flows from Financing Activities		
Cash provided from:		
U.S. Treasury payments	0	1,963,000
Cash used for:		
Payments of indebtedness incurred from thrift resolutions	(494,095)	(1,529,178)
Net Cash (Used by) Provided by Financing Activities	**(494,095)**	**433,822**
Net Decrease in Cash and Cash Equivalents	**(325,383)**	**(183,647)**
Cash and Cash Equivalents - Beginning	**1,603,931**	**1,787,578**
Cash and Cash Equivalents - Ending	**$1,278,548**	**$1,603,931**

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

Notes to the Financial Statements

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the FSLIC Resolution Fund (FRF), the Bank Insurance Fund (BIF), and the Savings Association Insurance Fund (SAIF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. The FRF is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC). The BIF insures the deposits of all BIF-member institutions (normally commercial or savings banks) and the SAIF insures the deposits of all SAIF-member institutions (normally thrifts). All three funds are maintained separately to carry out their respective mandates.

The FIRREA created the Resolution Trust Corporation (RTC), which manages and resolves 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. The Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act) extended the RTC's general resolution responsibility through September 30, 1993, and beyond that date for those institutions previously placed under the RTC's control.

The Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act), enacted December 17, 1993, extended the RTC's general resolution responsibility through a date between January 1, 1995 and July 1, 1995. The Chairman of the Thrift Depositor Protection Oversight Board selected July 1, 1995 as the date for transferring resolution responsibility from the RTC to the SAIF.

The Resolution Funding Corporation (REFCORP) was established by the FIRREA to provide funds to the RTC for use in thrift resolutions. The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. Effective December 12, 1991, as provided by the 1991 RTC Act, the FICO's ability to serve as a financing vehicle for new debt was terminated.

Operations of the FRF
The primary purpose of the FRF is to liquidate the assets and contractual obligations of the now defunct FSLIC. The FRF will complete the resolution of all thrifts that failed before January 1, 1989, or were assisted before August 9, 1989. The FIRREA provided that the RTC manage any receiverships resulting from thrift failures that occurred after December 31, 1988, but prior to the enactment of the FIRREA. There are five such receiverships that affect the FRF financial statements because the FRF remains financially responsible for the losses associated with these resolution cases.

The FRF is funded from the following sources, to the extent funds are needed, in this order: 1) income earned on and proceeds from the disposition of assets of the FRF and 2) liquidating dividends and payments made on claims received by the FRF from receiverships to the extent such funds are not required by the REFCORP or the FICO. If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as are appropriated by the Congress, to carry out the purpose of the FRF. To facilitate efforts to wind up the resolution activity of the FRF, Public Law 103-327 provides $827 million in funding to be available until expended.

The 1993 RTC Act amended the termination date of the RTC from December 31, 1996, to no later than December 31, 1995. All assets and liabilities of the RTC will be transferred to the FRF, after which any future net proceeds from the sale of such assets will be transferred to the REFCORP for interest payments after satisfaction of any outstanding liabilities of the RTC. The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining will be paid to the U.S. Treasury.

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 accordance with generally accepted accounting principles. These statements do not include reporting for assets and liabilities of closed insured thrift institutions for which the FRF acts as receiver or liquidating agent. Periodic and final accountability reports of the FRF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

Allowance for Losses on Receivables from Thrift Resolutions and Investment in Corporate-Owned Assets
The FRF records as a receivable the amounts advanced and/or obligations incurred for assisting and closing thrift institutions. The FRF also records as an asset the amounts advanced for investment in corporate-owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on the estimated cash recoveries from the assets of the assisted or failed thrift institution, net of all estimated liquidation costs.

Estimated Liabilities for Assistance Agreements
The FRF establishes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements. Such estimates are presented on a discounted basis.

Litigation Losses
The FRF accrues, as a charge to current period operations, an estimate of probable losses from litigation against the FRF in both its corporate and receivership capacities. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to receiverships are included in the allowance for losses for receivables from thrift resolutions.

Receivership Administration
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation 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. Liquidation expenses incurred by the FRF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of facilities used in operations in the BIF's financial statements. The BIF charges the FRF a rental fee representing an allocated share of its annual depreciation. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The FRF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC adopted the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" in 1992. This standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis).

The FDIC elected to immediately recognize the accumulated postretirement benefit liability (transition obligation). The transition obligation represents that portion of future retiree benefit costs related to service already rendered by both active and retired employees up to the date of adoption.

The FDIC established an entity to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF, and the RTC. The FRF funds all of its liabilities for these benefits directly to the entity.

Wholly Owned Subsidiary
The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until such time as the FADA's litigation liability is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in the line item "Other assets, net" (Note 7). As of December 31, 1994, the value of the investment has been adjusted for projected expenses relating to the liquidation of the FADA. The FADA's estimate of probable litigation losses is $3.3 million. Accordingly, a $3.3 million litigation loss has been recognized as a reduction in the value of the FRF's investment in the FADA. There are no additional litigation losses considered reasonably possible as of December 31, 1994.

Related Parties
The nature of related parties and descriptions of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1993 financial statements to conform to the presentation used in 1994.

3. Cash and Cash Equivalents

The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1994, cash restrictions included $317 thousand for health insurance payable and $821 thousand for funds held in trust. In 1993, cash restrictions included $1 million for health insurance payable and $2.7 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1994	1993
Cash	$ 4,182	$ 34,483
One-day special Treasury certificates	1,274,366	1,569,448
Total	**$1,278,548**	**$1,603,931**

4. Receivables from Thrift Resolutions, Net

As of December 31, 1994 and 1993, the FRF, in its receivership capacity, held assets with a book value of $947 million and $1.8 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $168 million in 1994 and $226 million in 1993) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could reduce the FRF's actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

During 1993, the FDIC's Board of Directors delegated to the RTC the authority to execute partnership agreements on behalf of the FDIC. Under that authority, the FDIC secured a limited partnership interest in two partnerships, Mountain AMD and Brazos Partners, in order to achieve a least cost resolution. During 1994, the FRF collected its entire interest in the Brazos Partners Limited Partnership. In addition, funds in excess of the original investment continue to be collected by the FRF and are recorded in the line item "Other Revenue." The FRF has a remaining interest of $29.6 million in the Mountain AMD Limited Partnership, as of December 31, 1994.

Receivables from Thrift Resolutions, Net		
Dollars in Thousands	**December 31**	
	1994	**1993**
Assets from Open Thrift Assistance:		
Collateralized loans	$ 360,000	$ 380,000
Other loans	151,958	125,153
Capital instruments	65,000	65,000
Interest in limited partnerships	29,624	972,915
Preferred stock from assistance transactions	429,628	470,955
Accrued interest receivable	4,717	2,992
Allowance for losses (Note 10)	(423,296)	(423,296)
	617,631	**1,593,719**
Receivables from Closed Thrifts:		
Resolution transactions	9,114,230	9,677,150
Collateralized advances/loans	289,494	305,264
Other receivables	218,918	210,795
Allowance for losses (Note 10)	(9,186,166)	(9,548,863)
	436,476	**644,346**
Total	**$1,054,107**	**$2,238,065**

5. Investment in Corporate-Owned Assets, Net

The FRF's investment in corporate-owned assets is comprised of amounts that: 1) the FSLIC paid to purchase assets from troubled or failed thrifts and 2) the FRF pays to acquire receivership assets, terminate receiverships and purchase covered assets. The majority of these assets are real estate and mortgage loans.

The FRF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Investment in Corporate-Owned Assets, Net		
Dollars in Thousands	**December 31**	
	1994	**1993**
Investment in corporate-owned assets	$3,444,413	$ 3,565,463
Allowance for losses (Note 10)	(3,074,236)	(2,988,302)
Total	**$ 370,177**	**$ 577,161**

6. Due from the Savings Association Insurance Fund

The Heartland Federal Savings and Loan Association (Heartland), Ponca City, Oklahoma, was a SAIF-insured institution that became party to a 10-year Assistance Agreement with the FSLIC upon the failure of its predecessor, Frontier Federal Savings and Loan Association, in 1988. FSLIC obligations were assumed by the FRF upon the enactment of the FIRREA in 1989. Section 32 of the Assistance Agreement effectively gave the FRF sole equity interest in Heartland. Section 2.13 of the agreement entitled "Additional Operating Terms and Conditions" gave the FDIC, as manager of the FRF, authority to take such action as might be necessary to effect the acquisition of Heartland. The FDIC determined that the value of the FRF's equity interest in Heartland would be maximized and total assistance cost would be minimized by a termination of the Assistance Agreement and sale of Heartland, thereby returning it to the private sector. To effect the sale, a receiver was appointed for Heartland for the purpose of transferring assets and liabilities to the acquirers. Technically, Heartland was not a "failing institution" because of its well-capitalized condition, which resulted from the government assistance provided. Heartland's Board of Directors consented to the Office of Thrift Supervision's appointment of the FDIC (SAIF) as receiver on October 8, 1993. The FDIC was appointed receiver because, at the time, RTC's authority to resolve FSLIC-insured thrifts had not yet been extended by the RTC Completion Act.

Because Heartland was not failing, all uninsured depositors and general trade creditors were paid in full, leaving only the FRF as sole creditor. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF and represents a claim against the receivership's assets. The receiver reimburses the FRF as claims are satisfied through the liquidation process. As of December 31, 1994 and 1993, the receiver owes the FRF $6.8 million and $169 million, respectively.

7. Other Assets, Net

Dollars in Thousands	December 31 1994	December 31 1993
Investment in FADA (Note 2)	$25,000	$25,000
Allowance for losses (Note 10)	(12,375)	(11,258)
Investment in FADA, Net	**12,625**	**13,742**
Accounts receivable	230	158
Due from other government entities	336	24,998
Total	**$13,191**	**$38,898**

8. Liabilities Incurred from Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements in order to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under the FIRREA, the FRF assumed these obligations. The FRF presents its notes payable and its obligation for assistance agreement payments incurred but not yet paid as a component of the line item "Liabilities incurred from thrift resolutions." Estimated future assistance payments under its assistance agreements are presented as a component of the line item "Estimated liabilities for: Assistance agreements" (see Note 9).

Liabilities Incurred from Thrift Resolutions		
Dollars in Thousands	**December 31**	
	1994	**1993**
Notes payable to Federal Home Loan Banks/U.S. Treasury	$ 360,000	$ 380,000
Capital instruments	725	725
Assistance agreement notes	189,360	683,455
Accrued assistance agreement costs	1,530,043	2,414,915
Accrued interest	2,931	7,983
Other liabilities to thrift institutions	81,379	109,830
Total	**$2,164,438**	**$3,596,908**

Maturities of Liabilities

Dollars in Thousands

1995	1996	1997	1998
$2,006,638	$31,560	$31,560	$94,680

9. Estimated Liabilities for:

Assistance Agreements
The "Estimated liabilities for: Assistance agreements" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The nominal dollar amount of this line item before discounting was $294 million and $1.3 billion, as of December 31, 1994 and 1993, respectively. The discount rates applied as of December 31, 1994 and 1993, was 6.3 percent and 3.5 percent, respectively, based on U.S. money rates for federal funds.

Future assistance stems from the FRF's obligation to: 1) fund losses inherent in assets covered under the assistance agreements (e.g., by subsidizing asset write-downs, capital losses and goodwill amortization) and 2) supplement the actual yield earned from covered assets as necessary for the acquirer to achieve a specified yield (the "guaranteed yield"). Estimated total assistance costs recognized for current assistance agreements with institutions involving covered assets include estimates for the loss expected on the assets based on their appraised values. The FRF is obligated to fund any losses sustained by the institutions on the sale of the assets. If all underlying assets prove to be of no value, the possible cash requirements and the accounting loss could be as high as $1.1 billion (see Note 15). The costs and related cash requirements associated with the maintenance of covered assets are calculated using an applicable cost of funds rate and would change proportionately with any change in market rates.

The RTC, on behalf of the FRF, had authority to modify, renegotiate or restructure the 1988 and 1989 assistance agreements with FSLIC-assisted institutions with terms more favorable to the FRF. This authority ended June 30, 1993. In accordance with a 1991 RTC Board Resolution, any FSLIC-assisted institution placed in RTC conservatorship or receivership is subject to revised termination procedures.

The number of assistance agreements outstanding as of December 31, 1994 and 1993, were 54 and 71, respectively. The last agreement is scheduled to expire in December 1998.

The estimated liabilities for assistance agreements are affected by several factors, including adjustments to expected notes payable, the terms of the assistance agreements outstanding and, in particular, the marketability of the related covered assets. The variable nature of the FRF assistance agreements will cause the cost requirements to fluctuate. This fluctuation will impact both the timing and amount of eventual cash flows. Although the "Estimated liabilities for: Assistance agreements" line item is presented on a discounted basis, the following schedule details the projected timing of the future cash flows as of December 31, 1994, before discounting.

Estimated Assistance Payments

Dollars in Thousands

1995	1996	1997	1998/Thereafter
$219,516	$30,093	$2,416	$42,217

Litigation Losses
The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $292 million are reasonably possible. This includes $279 million in losses for the FRF in its corporate capacity and $13 million in losses for the FRF in its receivership capacity (see Note 2). In addition, during the 1980s, FSLIC Assistance Agreements provided certain institutions with supervisory goodwill incident to their acquisition of failed thrifts. Subsequently, FIRREA required the imposition of minimum capital requirements on thrifts and limited the use of supervisory goodwill to meet these capital requirements. There are currently approximately 50 cases pending resulting from the elimination of supervisory goodwill. FDIC expects additional suits to be filed. To date, one of these cases has resulted in a final judgment of $6 million against FDIC, which FDIC paid from FRF in accordance with the court's order. This $6 million is included in the $279 million disclosed above as reasonably possible. FDIC believes that judgments in such cases are more properly paid from the Judgement Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304. The extent to which FRF will be the source for paying other judgements in such cases is uncertain.

10. Analysis of Changes in Allowance for Losses and Estimated Liabilities

In the following charts, transfers include reclassifications from the line item "Estimated liabilities for: Assistance agreements" to the line item "Liabilities incurred from thrift resolutions" for notes payable and related accrued assistance agreement costs. Terminations represent final adjustments to the estimated cost figures for those thrift resolutions that were completed and for which the operations of the receivership ended.

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1994

Dollars in Millions

Allowance for Losses:	**Beginning Balance 01/01/94**	**Provision for Losses**	**Net Cash Payments**	**Transfers/ Terminations**	**Ending Balance 12/31/94**
Open thrift assistance	$ 423	$ 0	$ 0	$ 0	$ 423
Closed thrifts	9,549	(133)	0	(230)	9,186
Corporate-owned assets	2,988	86	0	0	3,074
Due from the SAIF	7	0	0	(7)	0
Investment in FADA	11	1	0	0	12
Total Allowance for Losses:	**12,978**	**(46)**	**0**	**(237)**	**12,695**
Estimated Liabilities for:					
Assistance agreements	1,290	(320)	(1,424)	732	278
Litigation losses	70	2	0	(70)	2
Total Estimated Liabilities	**1,360**	**(318)**	**(1,424)**	**662**	**280**
Provision for Losses		**$ (364)**			

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1993

Dollars in Millions

Allowance for Losses:	**Beginning Balance 01/01/93**	**Provision for Losses**	**Net Cash Payments**	**Transfers/ Terminations**	**Ending Balance 12/31/93**
Open thrift assistance	$ 972	$ 106	$ 0	$ (655)	$ 423
Closed thrifts	9,919	(273)	0	(97)	9,549
Corporate-owned assets	2,971	17	0	0	2,988
Due from the SAIF	0	7	0	0	7
Investment in FADA	10	1	0	0	11
Total Allowance for Losses	**13,872**	**(142)**	**0**	**(752)**	**12,978**
Estimated Liabilities for:					
Assistance agreements	2,347	1,075	(1,496)	(636)	1,290
Litigation losses	73	(73)	0	70	70
Total Estimated Liabilities	**2,420**	**1,002**	**(1,496)**	**(566)**	**1,360**
Provision for Losses		**$ 860**			

11. Resolution Equity

The Accumulated Deficit includes $7.5 billion in non-redeemable capital certificates and redeemable capital stock issued by the FSLIC. Capital instruments have been issued by the FSLIC and the FRF to the FICO as a means of obtaining capital. Effective December 12, 1991, the FICO's authority to issue obligations as a means of financing for the FRF was terminated (see Note 1). Furthermore, the implementation of the FIRREA, in effect, has removed the redemption characteristics of the capital stock issued by the FSLIC.

Resolution Equity

Dollars in Thousands	1994 Beginning Balance 01/01/94	Net Income	Treasury Payments	Ending Balance 12/31/94
Contributed capital	$ 43,991,000	$ 0	$ 0	$ 43,991,000
Accumulated deficit	(44,427,696)	702,154	0	(43,725,542)
Total	**$ (436,696)**	**$ 702,154**	**$ 0**	**$ 265,458**

Dollars in Thousands	1993 Beginning Balance 01/01/93	Net Loss	Treasury Payments	Ending Balance 12/31/93
Contributed capital	$ 42,028,000	$ 0	$ 1,963,000	$ 43,991,000
Accumulated deficit	(43,667,600)	(760,096)	0	(44,427,696)
Total	**$ (1,639,600)**	**$(760,096)**	**$ 1,963,000**	**$ (436,696)**

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in the tax-deferred Federal Thrift Savings Plan (TSP) .

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

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 with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $3.2 million and $2.3 million at December 31, 1994 and 1993, respectively.

Pension Benefits and Savings Plans Expenses		
Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Civil Service Retirement System	$ 548	$ 577
Federal Employee Retirement System (Basic Benefit)	2,222	2,383
FDIC Savings Plan	1,520	1,267
Federal Thrift Savings Plan	725	734
Total	**$ 5,015**	**$ 4,961**

13. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or 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. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC converted to self-insured health coverage for hospital/medical, prescription drug, mental health and chemical dependency during March 1994. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark. Health insurance coverage was previously provided as a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance company and provides coverage at no cost to retirees.

The FRF expensed $1.4 million and $2.8 million for net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1994 of 12.5 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs in 1994 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1994, would have increased by 16.6 percent. The effect of this change on the aggregate of service and interest cost for 1994 would be an increase of 26.3 percent.

Net Periodic Postretirement Benefit Cost		
Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Service cost (benefits attributed to employee service during the year)	$ 1,464	$ 1,702
Interest cost on accumulated postretirement benefit obligation	832	874
Amortization of prior service cost	(470)	(69)
Amortization of loss	187	244
Return on plan assets	(634)	2
Total	**$ 1,379**	**$ 2,753**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC. The FRF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant		
Dollars in Thousands	**December 31**	
	1994	**1993**
Retirees	$ 3,895	$7,937
Fully eligible active plan participants	924	469
Other active participants	12,892	2,497
Total Obligation	**17,711**	**10,903**
Less: Plan assets at fair value (a)	16,442	10,125
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 1,269**	**$ 778**

(a) Consists of U.S. Treasury investments

14. Commitments

The FRF currently is sharing in the FDIC's leased space. The FRF's allocated share of lease commitments totals $8.2 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The FRF recognized leased space expense of $8.9 million for each of the years ended December 31, 1994 and 1993, respectively.

Leased Space Fees

Dollars in Thousands

1995	1996	1997	1998	1999	2000
$2,656	$1,786	$1,673	$1,007	$614	$443

15. Concentration of Credit Risk

The FRF is counterparty to a group of financial instruments with entities located throughout regions of the United States experiencing problems in both loans and real estate. The FRF's maximum exposure to possible accounting loss, should each counterparty to these instruments fail to perform and any underlying assets prove to be of no value, is shown as follows:

Concentration of Credit Risk at December 31, 1994

Dollars in Millions

	South-east	South-west	North-east	Mid-west	Central	West	Total
Receivables from thrift resolutions, net	$114	$ 300	$7	$7	$ 42	$584	$1,054
Investment in corporate-owned assets,net	4	193	1	0	37	135	370
Due from the SAIF	0	7	0	0	0	0	7
Assistance agreements covered assets, net of estimated capital loss (off-balance sheet)	0	1,005	0	0	85	14	1,104
Total	**$118**	**$1,505**	**$8**	**$7**	**$164**	**$733**	**$2,535**

16. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of accounts payable, liabilities incurred from thrift resolutions and the estimated liabilities for assistance agreements approximates their fair market value due to their short maturities or comparisons with current interest rates.

It is not practicable to estimate fair market values of net receivables from thrift resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. A discount of this proportion would significantly increase the cost of thrift resolutions to the FRF. Comparisons with other financial instruments do not provide a reliable measure of their fair market value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 4, the carrying amount is the estimated cash recovery value, which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

The majority of the net investment in corporate-owned assets (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed thrifts. As with net receivables from thrift resolutions, it is not practicable to estimate fair market values. Cash recoveries are primarily from the sale of poor quality assets. They are dependent upon market conditions which vary over time, and can occur unpredictably over many years following resolution. Since the FDIC cannot reasonably predict the timing of these cash recoveries, it is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 5, the carrying amount is the estimated cash recovery value, which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

17. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The FDIC has adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement. The maximum potential post-employment obligation due to accrued but unused annual leave is shown under Note 12. There are no other material obligations due to post-employment benefits.

In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Most of the FRF assets are specifically outside the scope of Statement No. 114. These assets are valued through alternative methods, or do not meet the definition of a loan within the meaning of the Statement. Any assets which may be subject to Statement No. 114 are expected to be immaterial either because of insignificant book value or because any potential adjustment to the carrying value as a result of applying Statement No. 114 would be immaterial.

The FDIC has adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement expands the use of fair market value accounting for securities that have readily determinable fair market values but retains the use of the amortized cost method for investments in debt securities that the reporting enterprise has the positive intent and ability to hold to maturity. Adoption of this statement did not have a material effect on the FRF.

18. Supplementary Information Relating to the Statements of Cash Flows

Non-cash financing activities for the year ended December 31, 1994, include collateralized loans guaranteed by the FRF decreasing $20 million (see Note 4). Non-cash financing activities for the year ended December 31, 1993, include: 1) canceled notes payable (NWCs) of $6.5 million; and 2) collateralized loans guaranteed by the FRF decreased $90 million (see Note 4).

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31 1994	1993
Net Income (Loss)	**$ 702,154**	**$ (760,096)**
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used by) Operating Activities		
Income Statement Items:		
Provision for losses	(363,812)	860,425
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	1,342,743	974,482
Decrease (increase) in investment in corporate-owned assets	121,049	(49,660)
Decrease (increase) in due from the SAIF	162,149	(175,508)
(Increase) decrease in other assets	(1,638)	79,592
Decrease in accounts payable and other liabilities	(93,129)	(29,310)
Decrease in liabilities from thrift resolutions	(1,700,804)	(1,517,394)
Net Cash Provided by (Used by) Operating Activities	**$ 168,712**	**$ (617,469)**

Scope and Methodology

In order to fulfill our responsibilities as auditor of record for the Federal Deposit Insurance Corporation, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements of each of the three funds;
- assessed the accounting principles used and significant estimates made by FDIC management;
- evaluated the overall presentation of the financial statements of each of the three funds;
- obtained an understanding of the internal control structure designed to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) assure the execution of transactions in accordance with management's authority and with laws and regulations, and (3) properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles;
- tested relevant controls and assessed control risk over the following significant cycles, classes of transactions, and account balances:
  - troubled institutions,
  - closed assistance,
  - assessments,
  - open assistance,
  - expenses,
  - treasury, and
  - financial reporting; and
- tested compliance with significant provisions of the Federal Deposit Insurance Act, as amended; the Chief Financial Officers Act; and the Federal Home Loan Bank Act, as amended. The provisions selected for testing included, but were not limited to, those relating to
  - assessment rates,
  - investment of amounts held by the funds,
  - disbursements for bank and thrift resolutions,
  - maximum obligation limitation,
  - external financial reporting, and
  - accounting for administrative expenses.

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. We conducted our audits between August 1994 and March 1995. Our audits were conducted in accordance with generally accepted government auditing standards. We believe our audits provide a reasonable basis for our opinions.

Opinion on the Bank Insurance Fund's 1994 Financial Statements Provided for Securities and Exchange Commission Filing

Comptroller General
of the United States

Washington, D.C. 20548

B-259232

To the Board of Directors
Federal Deposit Insurance Corporation

In our opinion, the accompanying statements of financial position and the related statements of income and the fund balance and of cash flows present fairly, in all material respects, the financial position of the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC) as of December 31, 1994 and 1993, and the results of its operations and its cash flows for each of the 3 years for the period ended December 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the FDIC's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

During our audits, we also reviewed and assessed the FDIC management assertions regarding the effectiveness of its system of internal accounting controls and evaluated FDIC's compliance with significant provisions of selected laws and regulations. Our assessment of FDIC's assertions regarding the effectiveness of its system of internal controls as of December 31, 1994, and our evaluation of FDIC's compliance with laws and regulations during 1994, will be presented in a separate report (GAO/AIMD-95-102).

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

March 15, 1995

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