IV. Financial Statements and Notes

Bank Insurance Fund

December 31, 2004 and 2003

Federal Deposit Insurance Corporation

Bank Insurance Fund Balance Sheet at December 31

Dollars in Thousands

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

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

BIF

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

1. Legislation and Operations of the Bank Insurance Fund

Overview

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

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

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

Operations of the BIF

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

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

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

Receivership Operations

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

Recent Legislative Initiatives

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

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

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

Investment in U.S. Treasury Obligations

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

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

Cost Allocations Among Funds

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

Capital Assets and Depreciation

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

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

Disclosure about Recent Accounting Pronouncements

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

Related Parties

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

Reclassifications

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

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

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

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

U.S. Treasury Obligations at December 31, 2004

Dollars in Thousands

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

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

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

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

U.S. Treasury Obligations at December 31, 2003

Dollars in Thousands

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

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

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

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

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

4. Receivables From Bank Resolutions, Net

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

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

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

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

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

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

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

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

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

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

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

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

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

Litigation Losses

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

Other Contingencies

Representations and Warranties

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

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

7. Assessments

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

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

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

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

8. Operating Expenses

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

Operating Expenses for the Years Ended December 31

Dollars in Thousands

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

9. Provision for Insurance Losses

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

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

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

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

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

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

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

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

Dollars in Thousands

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

Postretirement Benefits Other Than Pensions

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

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

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

11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

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

Leased Space Commitments

Dollars in Thousands

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

Off-Balance-Sheet Exposure:

Asset Securitization Guarantees

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

Deposit Insurance

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

12. Disclosures About the Fair Value of Financial Instruments

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

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

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

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