

February 2004

FINANCIAL AUDIT

Federal Deposit
Insurance Corporation
Funds' 2003 and 2002
Financial Statements



G A O

Accountability * Integrity * Reliability


GAO
 Accountability • Integrity • Reliability
Highlights

Highlights of [GAO-04-429](#), a report to the President of the Senate and the Speaker of the House of Representatives

Why GAO Did This Study

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

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

What GAO Recommends

Because of the sensitive nature of the weaknesses in control over information systems, GAO will separately report the details, along with recommendations for corrective actions to FDIC management.

www.gao.gov/cgi-bin/getrpt?GAO-04-429.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Jeanette M. Franzel at (202) 512-9406 or franzelj@gao.gov.

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2003 and 2002 Financial Statements

What GAO Found

In GAO's opinion, FDIC fairly presented the 2003 and 2002 financial statements for the three funds it administers—the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. GAO also found that, although certain controls should be improved, FDIC had effective control over financial reporting and compliance. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

Although FDIC made substantial progress during the past year it has not yet fully implemented a comprehensive corporatewide security management program. FDIC only recently established a program to test and evaluate its computer control environment and the program did not adequately address all key areas. GAO continued to identify information system control weaknesses that increased the risk of unauthorized disclosure of critical FDIC financial and sensitive personnel and bank information, disruption of critical operations, and loss of assets. A mature comprehensive ongoing program of tests and evaluations of controls would enable FDIC to better identify and correct security problems, such as those found in our review.



Source: GAO.

As of September 30, 2003, FDIC insured deposits totaling over \$3.4 trillion.

Contents

Transmittal Letter		1
Auditor's Report		3
	Opinion on BIF's Financial Statements	3
	Opinion on SAIF's Financial Statements	4
	Opinion on FRF's Financial Statements	4
	Opinion on Internal Control	4
	Compliance with Laws and Regulations	4
	Objectives, Scope, and Methodology	5
	Reportable Condition	6
	FDIC Comments and Our Evaluation	7
Bank Insurance Fund's Financial Statements		9
	Balance Sheets	9
	Statements of Income and Fund Balance	10
	Statements of Cash Flows	11
	Notes to the Financial Statements	12
Savings Association Insurance Fund's Financial Statements		24
	Balance Sheets	24
	Statements of Income and Fund Balance	25
	Statements of Cash Flows	26
	Notes to the Financial Statements	27
FSLIC Resolution Fund's Financial Statements		40
	Balance Sheets	40
	Statements of Income and Accumulated Deficit	41
	Statements of Cash Flows	42
	Notes to the Financial Statements	43
Appendixes		
	Appendix I: Comments from the Federal Deposit Insurance Corporation	51
	Appendix II: GAO Contacts and Staff Acknowledgments	52
	GAO Contacts	52
	Acknowledgments	52

Abbreviations

BIF	Bank Insurance Fund
CFO	Chief Financial Officer
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
SAIF	Savings Association Insurance Fund

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



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

February 13, 2004

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

This report presents our opinions on whether the financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF) are presented fairly for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents (1) our opinion on the effectiveness of FDIC's internal control as of December 31, 2003, (2) our evaluation of FDIC's compliance with selected laws and regulations during 2003, and (3) weaknesses in information system controls detected during our 2003 audits.

The provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), requires GAO to conduct an annual audit of BIF, SAIF, and FRF in accordance with U.S. generally accepted government auditing standards.

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

David M. Walker
Comptroller General
of the United States



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

To the Board of Directors
The Federal Deposit Insurance Corporation

We have audited the balance sheets as of December 31, 2003 and 2002, for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with the laws and regulations that we tested.

The following sections discuss our conclusions in more detail. They also present information on (1) the scope of our audits, (2) a reportable condition¹ related to information system control weaknesses, and (3) our evaluation of FDIC management's comments on a draft of this report.

Opinion on BIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, BIF's financial position as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

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

Opinion on SAIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SAIF's financial position as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

Opinion on FRF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's financial position as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

Opinion on Internal Control

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2003, that provided reasonable but not absolute assurance that misstatements, losses, or noncompliance material in relation to FDIC's financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d) [Federal Managers' Financial Integrity Act (FMFIA)].

Our work identified weaknesses in FDIC's information system controls, which we describe as a reportable condition in a later section of this report. The reportable condition in information system controls, although not considered material, represents a significant deficiency in the design or operation of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Although the weaknesses did not materially affect the 2003 financial statements, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weaknesses.

Compliance with Laws and Regulations

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

Objectives, Scope, and Methodology

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

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

- financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

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

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;

-
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
 - considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and
 - tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended, and the Chief Financial Officers Act of 1990.

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

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those deemed applicable to the financial statements for the year ended December 31, 2003. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

FDIC management provided comments on a draft of this report. They are discussed and evaluated in a later section of this report and are reprinted in appendix I.

Reportable Condition

In connection with the funds' financial statement audits, we reviewed FDIC's information system controls. Effective information system controls are essential to safeguarding financial data, protecting computer application programs, providing for the integrity of system software, and ensuring continued computer operations in case of unexpected interruption. These controls include the corporatewide security management program, access controls, system software, application

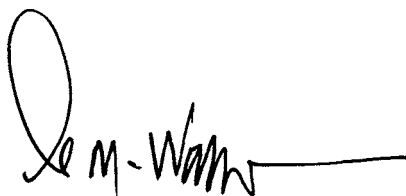
development and change control, segregation of duties, and service continuity controls.

Although FDIC made substantial progress during the past year it has not yet fully implemented a comprehensive corporatewide security management program. An effective program includes establishing a central security function, assessing risk, establishing policies, raising user security awareness of prevailing risks, and routinely testing and evaluating the effectiveness of established controls. While FDIC has done much to establish a computer security management program, FDIC only recently established a program to test and evaluate its computer control environment, and the program did not adequately address all key areas. For example, the program did not include adequate provisions to ensure that (1) all key computer resources supporting FDIC's financial environment are routinely reviewed and tested as appropriate, (2) weaknesses detected are analyzed for systemic solutions, (3) corrective actions are independently tested, or (4) newly identified weaknesses or emerging security threats are incorporated into the test and evaluation process. A mature comprehensive ongoing program of tests and evaluations of controls would enable FDIC to better identify and correct security problems, such as those found in our review.

In our current review, we continued to identify information system control weaknesses that increased the risk of unauthorized disclosure of critical FDIC financial and sensitive personnel and bank information, disruption of critical operations, and loss of assets. Such weaknesses affected FDIC's ability to adequately ensure that users only had the access needed to perform their assigned duties and its network was sufficiently protected from unauthorized users. The risk created by these weaknesses are compounded because FDIC does not have a comprehensive monitoring program to identify unusual or suspicious access activities.

We determined that other management controls mitigated the effect of the information system control weaknesses on the preparation of the funds' financial statements. Because of their sensitive nature, the details surrounding these weaknesses are being reported separately to FDIC management, along with recommendations for corrective actions.

both the current status as well as the substantial progress made during 2003 on the information system weaknesses we identified. FDIC said it would continue efforts to strengthen its ongoing information security program during 2004.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

January 30, 2004

Bank Insurance Fund's Financial Statements

Balance Sheets

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Balance Sheets at December 31

Dollars in Thousands

	2003	2002
Assets		
Cash and cash equivalents	\$ 2,544,281	\$ 4,606,896
<i>Investment in U.S. Treasury obligations, net: (Note 3)</i>		
Held-to-maturity securities	16,293,073	16,709,665
Available-for-sale securities	14,209,773	10,823,593
Interest receivable on investments and other assets, net	550,999	483,674
Receivables from bank resolutions, net (Note 4)	511,089	505,395
Property and equipment, net (Note 5)	287,380	303,084
Total Assets	\$ 34,396,595	\$ 33,432,307
Liabilities		
Accounts payable and other liabilities	\$ 231,441	\$ 148,573
<i>Contingent liabilities for: (Note 6)</i>		
Anticipated failure of insured institutions	178,266	1,008,097
Litigation losses and other	204,693	225,297
Total Liabilities	614,400	1,381,967
<i>Commitments and off-balance-sheet exposure (Note 11)</i>		
Fund Balance		
Accumulated net income	32,979,898	31,238,171
Unrealized gain on available-for-sale securities, net (Note 3)	802,297	812,169
Total Fund Balance	33,782,195	32,050,340
Total Liabilities and Fund Balance	\$ 34,396,595	\$ 33,432,307

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

Statements of Income and Fund Balance

Bank Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2003		2002
Revenue			
Interest on U.S. Treasury obligations	\$ 1,530,014	\$	1,692,381
Assessments (Note 7)	80,159		84,030
Other revenue	15,831		19,474
Total Revenue	1,626,004		1,795,885
Expenses and Losses			
Operating expenses (Note 8)	805,496		821,136
Provision for insurance losses (Note 9)	(928,468)		(86,970)
Insurance and other expenses	7,249		16,451
Total Expenses and Losses	(115,723)		750,617
Net Income	1,741,727		1,045,268
Unrealized (loss)/gain on available-for-sale securities, net	(9,872)		566,247
Comprehensive Income	1,731,855		1,611,515
Fund Balance - Beginning	32,050,340		30,438,825
Fund Balance - Ending	\$ 33,782,195	\$	32,050,340

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

Statements of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2003		2002
Operating Activities			
Provided by:			
Interest on U.S. Treasury obligations	\$ 1,794,002	\$	1,858,852
Recoveries from bank resolutions	1,034,311		1,116,406
Assessments	80,496		81,971
Miscellaneous receipts	112,263		22,607
Used by:			
Operating expenses	(753,617)		(742,270)
Disbursements for bank resolutions	(935,602)		(2,168,187)
Miscellaneous disbursements	(31,861)		(38,311)
Net Cash Provided by Operating Activities (Note 13)	1,299,992		131,068
Investing Activities			
Provided by:			
Maturity of U.S. Treasury obligations, held-to-maturity	3,890,000		3,625,000
Maturity of U.S. Treasury obligations, available-for-sale	1,690,000		1,150,000
Used by:			
Purchase of property and equipment	(42,669)		(49,647)
Purchase of U.S. Treasury obligations, held-to-maturity	(3,659,868)		0
Purchase of U.S. Treasury obligations, available-for-sale	(5,240,070)		(1,686,138)
Net Cash (Used by) Provided by Investing Activities	(3,362,607)		3,039,215
Net (Decrease)/Increase in Cash and Cash Equivalents	(2,062,615)		3,170,283
Cash and Cash Equivalents - Beginning	4,606,896		1,436,613
Cash and Cash Equivalents - Ending	\$ 2,544,281	\$	4,606,896

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

Notes to the Financial Statements

Notes to the Financial Statements
Bank Insurance Fund
December 31, 2003 and 2002

1. 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 established in the FDI Act, as amended. 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.

Bank Insurance Fund

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 and \$56.7 billion as of December 31, 2003 and 2002, respectively.

Receivership Operations

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

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 are again considering deposit insurance reform legislation. If Congress enacts deposit insurance reform legislation that contains the above recommendations, the new law would have a significant impact on the BIF and SAIF. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Bank Insurance Fund

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 Statements 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.

Bank Insurance Fund's Financial Statements

Bank Insurance Fund

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 2002 financial statements to conform to the presentation used in 2003.

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

As of December 31, 2003 and 2002, the book value of investments in U.S. Treasury obligations, net, was \$30.5 billion and \$27.5 billion, respectively. As of December 31, 2003, the BIF held \$6.4 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 \$6.8 billion of callable U.S. Treasury bonds at December 31, 2003. 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, 2003

Dollars in Thousands

Maturity (a)	Yield at Purchase (b)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses (c)	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 through 5 years	5.66%	9,985,000	10,244,862	830,414	0	11,075,276
After 5 years through 10 years	5.42%	1,910,000	1,976,450	191,954	0	2,168,404
Treasury Inflation-Indexed						
After 5 years through 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 through 5 years	4.68%	1,995,000	2,229,143	114,071	0	2,343,214
Treasury Inflation-Indexed						
After 1 year through 5 years	3.88%	1,225,321	1,215,319	139,813	0	1,355,132
After 5 years through 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

- (a) 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.
- (b) 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.
- (c) 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.

Bank Insurance Fund's Financial Statements

Bank Insurance Fund

U.S. Treasury Obligations at December 31, 2002					
Dollars in Thousands					
Maturity (a)	Yield at Purchase (b)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Market Value
Held-to-Maturity					
Within 1 year	5.98%	\$ 2,690,000	\$ 2,737,188	\$ 63,325	\$ 2,800,513
After 1 year through 5 years	6.24%	10,265,000	10,401,894	1,169,295	11,571,189
After 5 years through 10 years	5.39%	2,895,000	2,961,035	370,281	3,331,316
Treasury Inflation-Indexed					
After 5 years through 10 years	3.82%	607,987	609,548	68,169	677,717
Total		\$ 16,457,987	\$ 16,709,665	\$ 1,671,070	\$ 18,380,735
Available-for-Sale					
Within 1 year	5.31%	\$ 1,390,000	\$ 1,389,723	\$ 27,614	\$ 1,417,337
After 1 year through 5 years	4.91%	3,355,000	3,595,734	235,538	3,831,272
Treasury Inflation-Indexed					
After 5 years through 10 years	3.78%	5,010,245	5,025,967	549,017	5,574,984
Total		\$ 9,755,245	\$ 10,011,424	\$ 812,169	\$ 10,823,593
Total Investment in U.S. Treasury Obligations, Net					
Total		\$ 26,213,232	\$ 26,721,089	\$ 2,483,239	\$ 29,204,328

(a) 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.

(b) For TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS 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 2002.

As of December 31, 2003 and 2002, the unamortized premium, net of the unamortized discount, was \$902 million and \$508 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, 2003, there were 31 active receiverships, including three failures in the current year, with assets at failure of \$1.1 billion and BIF outlays of \$889 million.

As of December 31, 2003 and 2002, BIF receiverships held assets with a book value of \$756 million and \$1.1 billion, respectively (including cash, investments, and miscellaneous receivables of \$436 million and \$479 million at December 31, 2003 and 2002, 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

Bank Insurance Fund

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		
	2003	2002
Receivables from closed banks	\$ 4,914,901	\$ 6,055,613
Allowance for losses	(4,403,812)	(5,550,218)
Total	\$ 511,089	\$ 505,395

As of December 31, 2003, an allowance for loss of \$4.4 billion, or 90% of the gross receivable, was recorded. Of the remaining 10% of the gross receivable, the amount of credit risk is limited since over three-fourths 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		
	2003	2002
Land	\$ 37,352	\$ 37,352
Buildings (includes construction-in-process)	180,187	171,362
Application software (includes work-in-process)	177,111	155,196
Furniture, fixtures, and equipment	97,682	98,497
Accumulated depreciation	(204,952)	(159,323)
Total	\$ 287,380	\$ 303,084

The depreciation expense was \$55 million and \$47 million for 2003 and 2002, respectively.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records a contingent liability and a loss provision for banks (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 historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those banks where failure is imminent absent institution management resolution of existing problems. As of December 31, 2003 and 2002, the contingent liabilities for anticipated failure of insured institutions were \$178 million and \$1.0 billion, respectively.

Bank Insurance Fund

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 is evidenced by the level of problem bank assets and the presence of various high-risk banking business models that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding future economic and market conditions, there are other banks 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 \$2.2 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 \$111.3 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 \$7.4 billion as of December 31, 2003. The contingent liability from all outstanding claims asserted in connection with representations and warranties was zero and \$11.6 million at December 31, 2003 and 2002, 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

Bank Insurance Fund

data. The majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 20 cents and 22 cents per \$100 of assessable deposits for 2003 and 2002, respectively. During 2003 and 2002, \$80 million and \$84 million were collected from BIF-member institutions, respectively. On November 4, 2003, 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 2004. 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, 2003, the BIF reserve ratio was 1.31 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 and the SAIF, acts solely as a collection agent for the FICO. During 2003 and 2002, \$627 million and \$621 million, respectively, were collected from BIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses were \$805 million for 2003, compared to \$821 million for 2002. The decrease of \$16 million is primarily attributable to lower salary/benefit expenses resulting from the workforce reduction programs in 2002.

During 2002, the FDIC offered voluntary employee buyout incentives to a majority of its employees and conducted a reduction-in-force (RIF) in 2002 and 2003 in an effort to reduce identified staffing excesses and skill imbalances. As a result, approximately 750 employees left by December 31, 2003. Termination benefits included compensation of fifty percent of the employee's current base salary and locality adjustment for voluntary departures. The total cost of this buyout was \$33.1 million for 2002, with BIF's pro rata share totaling \$28.9 million, which is included in the "Salaries and benefits" category in the chart below, as well as the "Separation Incentive Payment" line item in Note 10. Through 2003, BIF paid \$20.8 million of this compensation benefit and the remaining unpaid amount is recorded as a liability in the "Accounts payable and other liabilities" line item.

Bank Insurance Fund's Financial Statements

Bank Insurance Fund

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2003		2002
Salaries and benefits	\$ 555,683	\$	599,930
Outside services	81,851		77,935
Travel	41,773		37,880
Buildings and leased space	61,582		60,613
Equipment (not capitalized)	15,111		14,923
Depreciation of property and equipment	54,947		47,042
Other	20,689		20,560
Services billed to receiverships	(26,140)		(37,747)
Total	\$ 805,496	\$	821,136

9. Provision for Insurance Losses

Provision for insurance losses was a negative \$928 million for 2003 and a negative \$87 million for 2002. 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

	2003		2002
Valuation Adjustments:			
Closed banks	\$ (108,309)	\$	616,844
Open bank assistance and other assets	2,534		6,006
Total Valuation Adjustments	(105,775)		622,850
Contingent Liabilities Adjustments:			
Anticipated failure of insured institutions	(829,831)		(902,903)
Litigation losses	345		180,458
Other contingencies	6,793		12,625
Total Contingent Liabilities Adjustments	(822,693)		(709,820)
Total	\$ (928,468)	\$	(86,970)

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.

Bank Insurance Fund

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

Dollars in Thousands

	2003	2002
Civil Service Retirement System	\$ 7,740	\$ 13,365
Federal Employees Retirement System (Basic Benefit)	29,477	30,366
FDIC Savings Plan	17,397	18,956
Federal Thrift Savings Plan	12,066	12,235
Separation Incentive Payment (see Note 8)	91	29,085
Total	\$ 66,771	\$ 104,007

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.

Prior to 2003, the BIF funded its liability for postretirement benefits other than pensions directly to a separate entity, which was established to restrict the funds and to provide for the accounting and administration of these benefits. As of January 1, 2003, the FDIC changed its funding policy for these benefits and eliminated the separate entity in order to simplify the investment, accounting, and reporting for the obligation. The change does not impact any benefit entitlements to employees and retirees or the accrual of this liability pursuant to the provisions of SFAS No. 106. The BIF received \$89 million, of the total \$103 million, as its proportionate share of the plan assets and recognized a liability of \$90 million, of the total \$104 million, in the "Accounts payable and other liabilities" line item on its Balance Sheets.

The net cumulative effect of this accounting change for the periods prior to 2003 was \$787 thousand which is included in the "Insurance and other expenses" line item on BIF's Statements of Income and Fund Balance. In addition to the cumulative effect, the BIF's expense for such benefits in 2003 was \$11 million, which is included in the current year operating expenses. In the absence of the accounting change, BIF would have recognized an expense of \$6 million.

At December 31, 2003, the BIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was \$98 million. At December 31, 2002, the BIF's net postretirement benefit asset recognized in the "Interest receivable on investments and other assets, net" line item in the Balance Sheet was \$130 thousand. 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.

Bank Insurance Fund

11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The BIF's allocated share of the FDIC's lease commitments totals \$124 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 \$38 million and \$37 million for the years ended December 31, 2003 and 2002, respectively.

Lease Space Commitments

Dollars in Thousands

2004	2005	2006	2007	2008	2009/Thereafter
\$37,345	\$32,666	\$22,484	\$13,652	\$8,887	\$9,052

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. One deal terminated in 2003 with a cumulative gain to the BIF of \$6 million. Although the remaining term of the limited guaranty for the last deal is 23 years, this deal will be evaluated for possible termination in 2004. As of December 31, 2003 and 2002, the maximum off-balance-sheet exposure was \$81 million and \$202 million, respectively.

Deposit Insurance

As of September 30, 2003, deposits insured by the BIF totaled approximately \$2.5 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

Bank Insurance Fund

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.

13. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31		
Dollars in Thousands		
	2003	2002
Net Income	\$ 1,741,727	\$ 1,045,268
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations	455,628	217,742
TIIS inflation adjustment	(115,150)	(110,679)
Depreciation on property and equipment	54,947	47,484
Retirement of property and equipment	852	2,149
Change in Assets and Liabilities:		
(Increase) Decrease in interest receivable on investments and other assets	(67,460)	63,688
(Increase) in receivables from bank resolutions	(5,694)	(426,239)
Increase in accounts payable and other liabilities	85,577	14,218
(Decrease) in contingent liabilities for anticipated failure of insured institutions	(829,831)	(902,903)
(Decrease) Increase in contingent liabilities for litigation losses and other	(20,604)	180,340
Net Cash Provided by Operating Activities	\$ 1,299,992	\$ 131,068

Savings Association Insurance Fund's Financial Statements

Balance Sheets

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Balance Sheets at December 31

Dollars in Thousands

	2003	2002
Assets		
Cash and cash equivalents	\$ 827,141	\$ 1,907,353
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) <i>(Includes cash and cash equivalents of \$231.9 million and \$187.7 million at December 31, 2003 and 2002, respectively)</i>	319,286	311,864
<i>Investment in U.S. Treasury obligations, net: (Note 4)</i>		
Held-to-maturity securities	6,823,709	5,726,840
Available-for-sale securities	4,152,048	3,769,576
Interest receivable on investments and other assets, net	188,189	153,320
Receivables from thrift resolutions, net (Note 5)	273,242	287,855
Total Assets	\$ 12,583,615	\$ 12,156,808
Liabilities		
Accounts payable and other liabilities	\$ 20,540	\$ 7,100
<i>Contingent liabilities for: (Note 6)</i>		
Anticipated failure of insured institutions	3,192	90,493
Litigation losses	532	613
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	319,286	311,864
Total Liabilities	343,550	410,070
<i>Commitments and off-balance-sheet exposure (Note 11)</i>		
Fund Balance		
Accumulated net income	11,965,776	11,465,716
Unrealized gain on available-for-sale securities, net (Note 4)	274,289	281,022
Total Fund Balance	12,240,065	11,746,738
Total Liabilities and Fund Balance	\$ 12,583,615	\$ 12,156,808

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

**Savings Association Insurance Fund's
Financial Statements**

Statements of Income and Fund Balance

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2003		2002
Revenue			
Interest on U.S. Treasury obligations	\$ 532,474	\$	564,259
Assessments (Note 7)	14,594		23,783
Other revenue	192		779
Total Revenue	547,260		588,821
Expenses and Losses			
Operating expenses (Note 8)	129,584		124,363
Provision for insurance losses (Note 9)	(82,489)		(156,494)
Insurance and other expenses	105		751
Total Expenses and Losses	47,200		(31,380)
Net Income	500,060		620,201
Unrealized (loss)/gain on available-for-sale securities, net	(6,733)		191,613
Comprehensive Income	493,327		811,814
Fund Balance - Beginning	11,746,738		10,934,924
Fund Balance - Ending	\$ 12,240,065	\$	11,746,738

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

**Savings Association Insurance Fund's
Financial Statements**

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2003	2002
Operating Activities		
Provided by:		
Interest on U.S. Treasury obligations	\$ 620,842	\$ 576,192
Assessments	15,327	23,709
Entrance and exit fees, including interest on exit fees (Note 3)	4,305	15,811
Recoveries from thrift resolutions	13,419	1,126,940
Miscellaneous receipts	15,344	73
Used by:		
Operating expenses	(130,495)	(125,159)
Disbursements for thrift resolutions	(6,541)	(119,993)
Miscellaneous disbursements	(108)	(103)
Net Cash Provided by Operating Activities (Note 13)	532,093	1,497,470
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,170,000	1,070,000
Maturity of U.S. Treasury obligations, available-for-sale	575,000	150,000
Used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(2,305,056)	0
Purchase of U.S. Treasury obligations, available-for-sale	(1,008,066)	(970,813)
Net Cash (Used by) Provided by Investing Activities	(1,568,122)	249,187
Net (Decrease)/Increase in Cash and Cash Equivalents	(1,036,029)	1,746,657
Cash and Cash Equivalents - Beginning	2,095,081	348,424
Unrestricted Cash and Cash Equivalents - Ending	827,141	1,907,353
Restricted Cash and Cash Equivalents - Ending	231,911	187,728
Cash and Cash Equivalents - Ending	\$ 1,059,052	\$ 2,095,081

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

**Savings Association Insurance Fund's
Financial Statements**

Notes to the Financial Statements

Notes to the Financial Statements
Savings Association Insurance Fund
December 31, 2003 and 2002

1. Operations of the Savings Association Insurance Fund

Overview

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

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

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

Operations of the SAIF

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

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

Page 1 of 13

Savings Association Insurance Fund

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the SAIF can incur to the sum of its cash, 90% of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the SAIF was \$20.3 billion and \$19.9 billion as of December 31, 2003 and 2002, respectively.

Receivership Operations

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

Recent Legislative Initiatives

In April 2001, FDIC issued recommendations for deposit insurance reform. The FDIC recommendations included merging SAIF and BIF and improving FDIC's ability to manage the merged fund by permitting the FDIC Board of Directors to price insurance premiums properly to reflect risk, to set the reserve ratio in a *range* around 1.25 percent, establish a system for providing credits, rebates and surcharges, and to eliminate the SAIF exit fee reserve. FDIC also recommended that Congress consider indexing deposit insurance coverage for inflation. During the 107th Congress (2001-2002), hearings were held in the House and Senate and legislation was introduced containing major elements of FDIC's deposit insurance reform proposals. The legislation was not enacted prior to congressional adjournment. During the 108th Congress (2003 - 2004), the House and Senate are again considering deposit insurance reform legislation. If Congress enacts deposit insurance reform legislation that contains the above recommendations, the new law would have a significant impact on the SAIF and BIF. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

Cash Equivalents

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

Investment in U.S. Treasury Obligations

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

SAIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first anticipated call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statements 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 SAIF, the BIF, and the FRF are allocated to all funds using workload-based allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

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 2002 financial statements to conform to the presentation used in 2003.

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

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

The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. There were no conversion transactions during 2003 and 2002 that resulted in an entrance/exit fee to the SAIF.

Page 3 of 13

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

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

Dollars in Thousands

	2003		2002	
Cash and cash equivalents	\$	231,911	\$	187,728
Investment in U.S. Treasury obligations, net		86,471		122,402
Interest receivable on U.S. Treasury obligations		904		1,734
Total	\$	319,286	\$	311,864

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

Dollars in Thousands

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

U.S. Treasury Obligations at December 31, 2002 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Maturity	Yield at Purchase	Held-to-Maturity				Market Value
		Face Value	Net Carrying Amount	Unrealized Holding Gains		
Within 1 year	6.59%	\$ 35,000	\$ 34,986	\$ 222	\$ 35,208	
After 1 year through 5 years	5.45%	64,000	66,830	6,298	73,128	
After 5 years through 10 years	4.99%	20,000	20,586	2,108	22,694	
Total		\$ 119,000	\$ 122,402	\$ 8,628	\$ 131,030	

As of December 31, 2003 and 2002, the unamortized premium, net of the unamortized discount, was \$2.5 million and \$3.4 million, respectively.

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

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

As of December 31, 2003 and 2002, the book value of investments in U.S. Treasury obligations, net, was \$11.0 billion and \$9.5 billion, respectively. As of December 31, 2003, the SAIF held \$2.2 billion of Treasury inflation-indexed securities (TIIS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the SAIF held \$2.5 billion of callable U.S. Treasury bonds at December 31, 2003. 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, 2003 (Unrestricted)

Dollars in Thousands

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

(a) 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.

(b) 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.

(c) 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.

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

U.S. Treasury Obligations at December 31, 2002 (Unrestricted)

Dollars in Thousands

Maturity (a)	Yield at Purchase (b)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Market Value
Held-to-Maturity					
Within 1 year	6.23%	\$ 535,000	\$ 541,662	\$ 12,242	\$ 553,904
After 1 year through 5 years	5.91%	2,880,000	2,941,199	317,167	3,258,366
After 5 years through 10 years	5.78%	2,030,000	2,021,651	298,277	2,319,928
Treasury Inflation-Indexed					
After 5 years through 10 years	3.85%	224,432	222,328	23,917	246,245
Total		\$ 5,669,432	\$ 5,726,840	\$ 651,603	\$ 6,378,443
Available-for-Sale					
Within 1 year	5.77%	\$ 475,000	\$ 473,317	\$ 9,660	\$ 482,977
After 1 year through 5 years	4.81%	1,235,000	1,342,263	82,983	1,425,246
Treasury Inflation-Indexed					
After 5 years through 10 years	3.84%	1,675,573	1,672,974	188,379	1,861,353
Total		\$ 3,385,573	\$ 3,488,554	\$ 281,022	\$ 3,769,576
Total Investment in U.S. Treasury Obligations, Net					
Total		\$ 9,055,005	\$ 9,215,394	\$ 932,625	\$ 10,148,019

(a) 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.

(b) 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 2002.

As of December 31, 2003 and 2002, the unamortized premium, net of the unamortized discount, was \$317.5 million and \$160.4 million, respectively.

5. Receivables From Thrift Resolutions, Net

The receivables from thrift resolutions include payments made by the SAIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by SAIF receiverships are the main source of repayment of the SAIF's receivables from closed thrifts. During 2003, there were no thrift failures, leaving two active receiverships.

As of December 31, 2003 and 2002, SAIF receiverships held assets with a book value of \$449 million and \$490 million, respectively (including cash, investments, and miscellaneous receivables of \$117 million and \$93 million at December 31, 2003 and 2002, 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

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the SAIF's actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2003	2002
Receivables from closed thrifts	\$ 709,389	\$ 721,572
Allowance for losses	(436,147)	(433,717)
Total	\$ 273,242	\$ 287,855

At December 31, 2003, about 99% of the SAIF's \$273 million net receivable will be repaid from assets related to the Superior receivership (which failed in July 2001), primarily, cash investments, and a promissory note arising from a settlement with the owners of the failed institution. The credit risk related to the promissory note is limited since half of the outstanding note is secured by a letter of credit and the remaining half is subject to the creditworthiness of the payor of the note. Annual monitoring of the creditworthiness of the payor is performed and currently indicates a low risk of non-performance.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The SAIF records a contingent liability and a loss provision for thrifts (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 historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those thrifts where failure is imminent absent institution management resolution of existing problems. As of December 31, 2003 and 2002, the contingent liabilities for anticipated failure of insured institutions were \$3 million and \$90 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in a material loss to the SAIF should potentially vulnerable financial institutions ultimately fail. This risk is evidenced by the level of problem thrift assets and the presence of various high-risk banking business models that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding future economic and market conditions, there are other thrifts for which the risk of failure is less certain, but still considered reasonably possible. As a result of these risks, the FDIC believes that it is reasonably possible that the SAIF could incur additional estimated losses up to \$143 million.

Savings Association Insurance Fund

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

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$53.4 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 thrift resolutions, representations and warranties, and guarantees were offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was \$5.2 billion as of December 31, 2003. SAIF did not establish a liability for all outstanding claims asserted in connection with representations and warranties because the receiverships have sufficient funds to pay for such claims.

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

7. Assessments

In compliance with provisions of the FDI Act, as amended, the FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories based on capital ratios and supervisory examination data. The majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 14 cents and 26 cents per \$100 of assessable deposits for 2003 and 2002, respectively. During 2003 and 2002, \$15 million and \$24 million were collected from SAIF-member institutions, respectively. On November 4, 2003, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 27 cents per \$100 of assessable deposits for the first semiannual period of 2004. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the SAIF's obligations. If necessary, the Board may impose more frequent rate adjustments or emergency special assessments.

The FDIC is required to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

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, 2003, the SAIF reserve ratio was 1.40 percent of estimated insured deposits.

Assessments are also levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately \$790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the SAIF and is separate from the regular assessments. The FDIC, as administrator of the SAIF and the BIF, acts solely as a collection agent for the FICO. During 2003 and 2002, \$162 million and \$161 million, respectively, were collected from SAIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses totaled \$130 million for 2003 compared to \$124 million for 2002. Salaries and benefits expenses are lower due to the workforce reduction programs in 2002. The chart below lists the major components of operating expenses.

During 2002, the FDIC offered voluntary employee buyout incentives to a majority of its employees and conducted a reduction-in-force (RIF) in 2002 and 2003 in an effort to reduce identified staffing excesses and skill imbalances. As a result, approximately 750 employees left by December 31, 2003. Termination benefits included compensation of fifty percent of the employee's current base salary and locality adjustment for voluntary departures. The total cost of this buyout was \$33.1 million for 2002, with SAIF's pro rata share totaling \$4.2 million, which is included in the "Salaries and benefits" category in the chart below, as well as the "Separation Incentive Payment" line item in Note 10.

Operating Expenses for the Years Ended December 31				
Dollars in Thousands				
	2003		2002	
Salaries and benefits	\$	87,963	\$	92,192
Outside services		15,038		12,196
Travel		5,801		5,473
Buildings and leased space		12,132		10,163
Equipment		9,374		7,858
Other		3,189		2,254
Services billed to receiverships		(3,913)		(5,773)
Total	\$	129,584	\$	124,363

9. Provision for Insurance Losses

Provision for insurance losses was a negative \$82 million for 2003 and a negative \$156 million for 2002. In both 2003 and 2002, the negative provision was primarily due to lower estimated losses for anticipated failures which resulted from the improved financial condition of a few large thrifts. The following chart lists the major components of the provision for insurance losses.

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

Provision for Insurance Losses for the Years Ended December 31		
Dollars in Thousands		
	2003	2002
Valuation Adjustments:		
Closed thrifts	\$ 4,684	\$ (10,113)
Total Valuation Adjustments	4,684	(10,113)
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(87,301)	(142,507)
Litigation losses	128	(3,874)
Total Contingent Liabilities Adjustments	(87,173)	(146,381)
Total	\$ (82,489)	\$ (156,494)

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

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

Pension Benefits, Savings Plans Expenses and Postemployment Benefits for the Years Ended December 31		
Dollars in Thousands		
	2003	2002
Civil Service Retirement System	\$ 1,258	\$ 1,715
Federal Employees Retirement System (Basic Benefit)	4,682	4,765
FDIC Savings Plan	2,788	2,951
Federal Thrift Savings Plan	1,900	1,913
Separation Incentive Payment (see Note 8)	14	4,276
Total	\$ 10,642	\$ 15,620

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.

Prior to 2003, the SAIF funded its liability for postretirement benefits other than pensions directly to a separate entity, which was established to restrict the funds and to provide for the accounting and administration of these benefits. As of January 1, 2003, the FDIC changed its

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

funding policy for these benefits and eliminated the separate entity in order to simplify the investment, accounting, and reporting for the obligation. The change does not impact any benefit entitlements to employees and retirees or the accrual of this liability pursuant to the provisions of SFAS No. 106. The SAIF received \$14 million, of the total \$103 million, as its proportionate share of the plan assets and recognized a liability of \$14 million, of the total \$104 million, in the "Accounts payable and other liabilities" line item on its Balance Sheets.

The net cumulative effect of this accounting change for the periods prior to 2003 was a negative \$43 thousand which is included in the "Insurance and other expenses" line item on the SAIF's Statements of Income and Fund Balance. In addition to the cumulative effect, the SAIF's expense for such benefits in 2003 was \$1 million, which is included in the current year operating expenses. In the absence of the accounting change, the SAIF would have recognized an expense of \$925 thousand.

At December 31, 2003 and 2002, the SAIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was \$15 million and \$145 thousand, respectively. Key actuarial assumptions used in the accounting for the plan include the discount rate, the rate of compensation increase, and the dental coverage trend rate.

11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The SAIF's allocated share of the FDIC's lease commitments totals \$19.4 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF and the BIF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of \$7.9 million and \$6.5 million for the years ended December 31, 2003 and 2002, respectively.

Leased Space Commitments

Dollars in Thousands

2004	2005	2006	2007	2008	2009/Thereafter
\$5,849	\$5,117	\$3,522	\$2,138	\$1,392	\$1,418

Off-Balance-Sheet Exposure:

Deposit Insurance

As of September 30, 2003, deposits insured by the SAIF totaled approximately \$868 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Savings Association Insurance Fund

12. Disclosures About the Fair Value of Financial Instruments

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

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

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

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

**Savings Association Insurance Fund's
Financial Statements**

Savings Association Insurance Fund

13. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31			
Dollars in Thousands			
	2003		2002
Net Income	\$ 500,060	\$	620,201
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Income Statement Items:			
Amortization of U.S. Treasury obligations (unrestricted)	155,993		47,333
THIS inflation adjustment	(38,943)		(37,429)
Change in Assets and Liabilities:			
Decrease in amortization of U.S. Treasury obligations (restricted)	931		811
(Increase) Decrease in entrance and exit fees receivable, including interest receivable on investments and other assets	(34,040)		5,317
Decrease in receivables from thrift resolutions	14,613		997,295
Increase (Decrease) in accounts payable and other liabilities	13,440		(1,011)
(Decrease) in contingent liability for anticipated failure of insured institutions	(87,301)		(142,507)
(Decrease) in contingent liability for litigation losses	(82)		(5,029)
Increase in exit fees and investment proceeds held in escrow	7,422		12,489
Net Cash Provided by Operating Activities	\$ 532,093	\$	1,497,470

FSLIC Resolution Fund's Financial Statements

Balance Sheets

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheets at December 31

Dollars in Thousands

	2003		2002
Assets			
Cash and cash equivalents	\$ 3,278,532	\$	3,618,330
Receivables from thrift resolutions and other assets, net (Note 3)	198,432		251,929
Total Assets	\$ 3,476,964	\$	3,870,259
Liabilities			
Accounts payable and other liabilities	\$ 19,381	\$	14,408
Contingent liabilities for litigation losses and other (Note 4)	1,169		546
Total Liabilities	20,550		14,954
Resolution Equity (Note 6)			
Contributed capital	126,377,851		126,827,821
Accumulated deficit	(122,962,936)		(123,015,273)
Unrealized gain on available-for-sale securities, net (Note 3)	41,499		42,757
Accumulated deficit, net	(122,921,437)		(122,972,516)
Total Resolution Equity	3,456,414		3,855,305
Total Liabilities and Resolution Equity	\$ 3,476,964	\$	3,870,259

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

**FSLIC Resolution Fund's Financial
Statements**

Statements of Income and Accumulated Deficit

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2003	2002
Revenue		
Interest on U.S. Treasury obligations	\$ 32,902	\$ 46,835
Realized gain on investment in securitization-related assets acquired from receiverships (Note 3)	756	352,486
Other revenue	16,849	33,756
Total Revenue	50,507	433,077
Expenses and Losses		
Operating expenses	27,828	45,684
Provision for losses (Note 5)	(57,832)	(149,359)
Expenses for goodwill settlements and litigation (Note 4)	15,324	40,351
Other expenses	12,850	5,856
Total Expenses and Losses	(1,830)	(57,468)
Net Income	52,337	490,545
Unrealized loss on available-for-sale securities, net (Note 3)	(1,258)	(263,590)
Comprehensive Income	51,079	226,955
Accumulated Deficit - Beginning	(122,972,516)	(123,199,471)
Accumulated Deficit - Ending	\$ (122,921,437)	\$ (122,972,516)

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

**FSLIC Resolution Fund's Financial
Statements**

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2003	2002
Operating Activities		
Provided by:		
Interest on U.S. Treasury obligations	\$ 32,902	\$ 46,835
Recoveries from thrift resolutions	115,437	316,439
Miscellaneous receipts	39,079	32,607
Used by:		
Operating expenses	(31,643)	(44,421)
Disbursements for thrift resolutions	(11,842)	(30,373)
Disbursements for goodwill settlements and judgments	(30)	(21,459)
Disbursements for goodwill litigation expenses	(35,274)	(18,892)
Miscellaneous disbursements	(4,286)	(9,119)
Net Cash Provided by Operating Activities (Note 8)	104,343	271,617
Investing Activities		
Investment in securitization-related assets acquired from receiverships	5,829	1,101,525
Net Cash Provided by Investing Activities	5,829	1,101,525
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill settlements	30	21,459
Used by:		
Payments to Resolution Funding Corporation (Note 6)	(450,000)	(1,266,667)
Net Cash Used by Financing Activities	(449,970)	(1,245,208)
Net (Decrease)/Increase in Cash and Cash Equivalents	(339,798)	127,934
Cash and Cash Equivalents - Beginning	3,618,330	3,490,396
Cash and Cash Equivalents - Ending	\$ 3,278,532	\$ 3,618,330

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

**FSLIC Resolution Fund's Financial
Statements**

Notes to the Financial Statements

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 2003 and 2002

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

Legislative History

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

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

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

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

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

Operations/Dissolution of the FRF

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

FSLIC Resolution Fund

activity of the FRF-FSLIC.

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities and is continuing to explore approaches for concluding FRF's activities. An executive-level Steering Committee was established in 2003 to facilitate the FRF dissolution. Some of the issues and items that remain open in FRF are: 1) criminal restitution orders (generally have from 5 to 10 years remaining); 2) litigation claims and judgments obtained against officers and directors and other professionals responsible for causing thrift losses (judgments generally vary from 5 to 10 years); 3) numerous assistance agreements entered into by the former FSLIC (FRF could continue to receive tax sharing benefits through year 2020); 4) goodwill and Guarini litigation (no final date for resolution has been established; see Note 4); and 5) environmentally impaired owned real estate assets. FDIC is considering whether enabling legislation or other measures may be needed to accelerate liquidation of the remaining FRF assets and liabilities. The FRF could realize substantial recoveries from item 3 ranging from \$235 million to \$760 million; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

Receivership Operations

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

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Fair Value of Financial Instruments

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

FSLIC Resolution Fund

approximates their fair market value, due to their short maturities.

The investment in securitization-related assets acquired from receiverships is adjusted to fair value at each reporting date using a valuation model that estimates the present value of estimated expected future cash flows discounted for market and credit risks. Additionally, the credit enhancement reserves, which resulted from swap transactions, are valued by applying a historical loss rate to estimate loss amounts (see Note 3).

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

Cost Allocations Among Funds

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

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 2002 financial statements to conform to the presentation used in 2003.

3. Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions

The receivables from thrift resolutions include payments made by the FRF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2003, 52 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including Goodwill and Guarini matters.

As of December 31, 2003 and 2002, FRF receiverships held assets with a book value of \$215 million and \$290 million, respectively (including cash, investments, and miscellaneous receivables of \$114 million and \$146 million at December 31, 2003 and 2002, 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-

FSLIC Resolution Fund's Financial Statements

FSLIC Resolution Fund

based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the FRF's actual recoveries to vary from the level currently estimated.

Investment in Securitization-Related Assets Acquired from Receiverships

This investment is classified as available-for-sale with unrealized gains and losses included in Resolution Equity. Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the book value of the investment and are included as components of Net Income. As of December 31, 2003, this investment includes credit enhancement reserves valued at \$69 million and residual certificates valued at \$21 million. The last securitization deal, valued at \$60 million (including \$39 million in credit enhancement reserves and \$21 million in residual certificates), is expected to terminate in 2004. The remaining \$30 million in credit enhancement reserves resulted from swap transactions where the former RTC received mortgage-backed securities in exchange for single-family mortgage loans. The former RTC supplied credit enhancement reserves for the mortgage loans in the form of cash collateral to cover future credit losses over the remaining life of the loans. These reserves may cover future credit losses through 2018.

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

Dollars in Thousands

	2003	2002
Receivables from closed thrifts	\$ 22,940,793	\$ 27,636,213
Allowance for losses	(22,846,309)	(27,504,909)
Receivables from Thrift Resolutions, Net	94,484	131,304
Investment in securitization-related assets acquired from receiverships	\$ 90,272	\$ 98,114
Other assets	13,676	22,511
Total	\$ 198,432	\$ 251,929

Gross receivables from thrift resolutions and the investment in securitization-related assets subject the FRF to credit risk. An allowance for loss of \$22.8 billion, or 99.6% of the gross receivable, was recorded as of December 31, 2003. Of the remaining 0.4% of the gross receivable, over three-fourths of the receivable is expected to be repaid from receivership cash, investments, and pledged cash reserves. The credit risk related to the pledged cash reserves is limited since the majority of these assets are evaluated annually and have experienced minimal losses.

The value of the investment in securitization-related assets is influenced by the economy of the area relating to the underlying loans. Of this investment, \$42.4 million of the underlying mortgages are located in California and \$27.2 million of loans are located in New Jersey. No other state accounted for a material portion of the investment.

FSLIC Resolution Fund

4. Contingent Liabilities for:

Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$39 million are reasonably possible.

Additional Contingency

Goodwill Litigation

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the federal government to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. Approximately 61 cases are pending against the United States based on alleged breaches of these agreements.

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

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On December 1, 2003, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the likely aggregate contingent liability resulting from the Winstar-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

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

**FSLIC Resolution Fund's Financial
Statements**

FSLIC Resolution Fund

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by DOJ based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid \$33.3 million and \$17.5 million to DOJ for fiscal years 2004 and 2003, respectively. DOJ returns any unused fiscal year funding to the FRF unless special circumstances warrant these funds be carried over and applied against current fiscal year charges. In April 2003, DOJ returned \$20 million of unused fiscal year funds. At September 30, 2003, DOJ had \$19.9 million in unused funds that were applied against FY 2004 charges of \$53.2 million.

Guarini Litigation

Paralleling the goodwill cases are eight similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements allegedly contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs, from the FSLIC, even though the FSLIC provided the plaintiffs with tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

To date, there have been liability determinations in six of the eight "Guarini" cases. The United States Court of Federal Claims has entered an award for the plaintiffs in three of these cases and appeals have been filed by DOJ. A decision on liability has not been made in the seventh case, and the eighth case was settled during 2002 for \$20 thousand.

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

Representations and Warranties

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

5. Provision for Losses

The provision for losses was a negative \$58 million and a negative \$149 million for 2003 and 2002, respectively. In 2003, the negative provision was primarily due to lower estimated losses for assets in liquidation and recoveries of net tax benefits sharing from assistance agreements. The negative provision in 2002 was primarily due to the recoveries of net tax benefits sharing from assistance agreements.

**FSLIC Resolution Fund's Financial
Statements**

FSLIC Resolution Fund

6. Resolution Equity

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

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

Resolution Equity at December 31, 2003			
Dollars in Thousands			
	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	\$ 44,178,484	\$ 82,649,337	\$ 126,827,821
Add: U.S. Treasury payments for goodwill settlement	30	0	30
Less: REFCORP payments	0	(450,000)	(450,000)
Contributed capital - ending	44,178,514	82,199,337	126,377,851
Accumulated deficit	(41,241,633)	(81,721,303)	(122,962,936)
Less: Unrealized gain on available-for-sale securities	0	41,499	41,499
Accumulated deficit, net	(41,241,633)	(81,679,804)	(122,921,437)
Total	\$ 2,936,881	\$ 519,533	\$ 3,456,414

Contributed Capital

To date, the FRF-FSLIC and the former RTC received \$43.5 billion and \$60.1 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued \$670 million in capital certificates to the FICO and the RTC issued \$31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2003, the FRF-RTC has returned \$4.556 billion to the U.S. Treasury and made payments of \$4.572 billion to the REFCORP. These actions serve to reduce contributed capital.

Accumulated Deficit

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

7. Employee Benefits

Pension Benefits

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for

FSLIC Resolution Fund's Financial Statements

FSLIC Resolution Fund

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

The FRF's pro rata share of pension-related expenses was \$2.2 million and \$4.6 million, as of December 31, 2003 and 2002, respectively.

Postretirement Benefits Other Than Pensions

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

8. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31				
Dollars in Thousands				
	2003		2002	
Net Income	\$	52,337	\$	490,545
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities				
Change in Assets and Liabilities:				
Decrease (Increase) in receivables from thrift resolutions and other assets		46,410		(213,791)
Increase (Decrease) in accounts payable and other liabilities		4,973		(379)
Increase (Decrease) in contingent liabilities for litigation losses and other		623		(4,758)
Net Cash Provided by Operating Activities	\$	104,343	\$	271,617

Comments from the Federal Deposit Insurance Corporation



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

Deputy to the Chairman & Chief Financial Officer

February 9, 2004

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

Re: FDIC Management Response on the GAO 2003 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U. S. General Accounting Office's (GAO) draft audit report titled, Financial Audit: Federal Deposit Insurance Corporation Funds' 2003 and 2002 Financial Statements, GAO-04-429. The report presents GAO's opinions on the calendar year 2003 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2003 and GAO's evaluation of FDIC's compliance with applicable laws and regulations.

We are pleased to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2003 audits. The GAO reported that: the funds' financial statements were presented fairly and in conformity with U. S. generally accepted accounting principles; FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and there were no instances of noncompliance with selected provisions of laws and regulations.

GAO identified the need to improve internal control over FDIC's information systems (IS) and issued a reportable condition. Although GAO identified weaknesses in FDIC's IS controls, the audit team noted that significant improvements had been made during the past year, and that the weaknesses did not materially affect the 2003 financial statements. We acknowledge GAO's assessment of both the status and the substantial progress made in addressing the IS control environment. During 2003, FDIC's accomplishments included implementation of a recurring IS controls self assessment program, implementation of more stringent contractor personnel clearance and site security policies and procedures, and establishment of an aggressive patch management program. The FDIC will continue efforts to strengthen its ongoing, comprehensive information security program during 2004.

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

Sincerely,

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

GAO Contacts and Staff Acknowledgments

GAO Contacts

Jeanette M. Franzel, (202) 512-9471
Julia B. Duquette, (202) 512-5131

Acknowledgments

In addition to those named above, the following staff made key contributions to this report: Ronald A. Bergman, Gary P. Chupka, John C. Craig, Anh Dang, Kristen A. Kociolek, Wing Y. Lam, Timothy J. Murray, Saurav B. Prasad, Lori Ryza, Ed Tanaka, Stacey L. Volis, and Gregory J. Ziombra.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Service Requested

**Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00**

