United States General Accounting Office

GAO

Report to the Congress

March 2003

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2002 and 2001 Financial Statements

GAO
Accountability ★ Integrity ★ Reliability

GAO-03-543

GAO
Accountability•Integrity•Reliability

Highlights

Highlights of GAO-03-543, a report to the President of the Senate and the Speaker of the House of Representatives

Why GAO Did This Study

Created in 1933 to insure bank deposits and promote sound banking practices, the Federal Deposit Insurance Corporation (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: the Bank Insurance Fund and the Savings Association Insurance Fund, which protect bank and savings deposits, and the FSLIC Resolution Fund, created to close out the business of the former Federal Savings and Loan Insurance Corporation. GAO is responsible for obtaining reasonable assurance about whether FDIC's financial statements for the funds are presented fairly, whether it maintains effective internal controls, and whether FDIC has complied with selected laws and regulations.

What GAO Recommends

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

www.gao.gov/cgi-bin/getrpt?GAO-03-543.

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

March 2003

FINANCIAL AUDIT

FDIC Funds' 2002 and 2001 Financial Statements

What GAO Found

In GAO's opinion, FDIC fairly presented the 2002 and 2001 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 progress in response to previous reports, GAO found weaknesses in control over information systems. Newly identified and continuing weaknesses impaired FDIC's ability to ensure the reliability, confidentiality, and availability of financial data. For example, information system controls did not adequately to ensure that users had only the access needed to perform their assigned duties, that FDIC's network was secure from unauthorized access, or that unusual or suspicious access would be identified.

At the time of the audit, FDIC had made progress in implementing a corporatewide security management program, including establishing a central security staff to provide guidance and oversight in enhancing its security awareness program, and in its continuing efforts to develop and update security policy.

Source: GAO.

As of September 30, 2002, FDIC insured deposits totaling over $3.3 trillion.

Contents

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
	BIF's Reserve Ratio	8
	FDIC Comments and Our Evaluation	8
Bank Insurance Fund's Financial Statements		10
	Statements of Financial Position	10
	Statements of Income and Fund Balance	11
	Statements of Cash Flows	12
	Notes to the Financial Statements	13
Savings Association Insurance Fund's Financial Statements		27
	Statements of Financial Position	27
	Statements of Income and Fund Balance	28
	Statements of Cash Flows	29
	Notes to the Financial Statements	30
FSLIC Resolution Fund's Financial Statements		44
	Statements of Financial Position	44
	Statements of Income and Accumulated Deficit	45
	Statements of Cash Flows	46
	Notes to the Financial Statements	47
Appendixes		
Appendix I:	**Comments from the Federal Deposit Insurance Corporation**	60
Appendix II:	**GAO Contacts and Staff Acknowledgments**	61

Abbreviations

BIF	Bank Insurance Fund
CFO	Chief Financial Officer
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
SAIF	Savings Association Insurance Fund

GAO
Accountability * Integrity * Reliability

Comptroller General
of the United States

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

March 28, 2003

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, 2002 and 2001. 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, 2002, (2) our evaluation of FDIC's compliance with laws and regulations during 2002, and (3) weaknesses in information system controls detected during our 2002 audits. In addition, it discusses BIF's reserve ratio of its fund balance to total insured deposits.

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 statements of financial position as of December 31, 2002 and 2001, 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 condition[1] related to information system control weaknesses, (3) BIF's reserve ratio, and (4) 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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended.

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

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, 2002 and 2001, 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, 2002 and 2001, 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, 2002, 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 2002 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, 2002. 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 the 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. During 2002, FDIC made progress in improving information system controls. Of the 41 prior year recommendations that we made, FDIC had completed action on 18 and partially completed or had action plans to address those remaining. During our current review, FDIC also corrected several newly identified weaknesses.

Nevertheless, continuing and newly identified vulnerabilities involving information system controls continue to impair FDIC's ability to ensure the reliability, confidentiality, and availability of financial data. For example, FDIC did not have information system controls to adequately ensure that (1) users had only the access needed to perform their assigned duties, (2) its network was secured from unauthorized access, and (3) comprehensive programs were in place to routinely oversee and monitor access to its computer data to identify unusual or suspicious access. The effect of these weaknesses increases the risk of unauthorized disclosure of critical FDIC financial and sensitive personnel and bank examination information, disruption of critical financial operations, and loss of assets.

As we have previously reported, the primary reason for FDIC's information system control weaknesses is that it has not fully developed and implemented a comprehensive corporatewide security management program. An effective program would include assessing risks, establishing a central security function, establishing policies and related controls, raising awareness of prevailing risks and mitigating controls, and regularly evaluating the effectiveness of established controls. During the past year, FDIC has made progress in implementing such a program, including establishing a central security staff to provide guidance and oversight, enhancing its security awareness program, and continuing efforts to develop and update security policy. However, FDIC has not yet fully established a risk assessment process and the recently implemented program to assess the effectiveness of controls does not address all critical evaluation areas. A complete risk assessment process would assist management in making decisions on necessary controls. Similarly, an ongoing comprehensive program of tests and evaluations of the effectiveness of established controls would enable FDIC to identify and correct information security weaknesses, such as those reported in this review.

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 our recommendations for corrective actions.

BIF's Reserve Ratio

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires FDIC to maintain BIF fund balance at a designated reserve ratio of at least 1.25 percent of estimated insured deposits.[2] Under FDIC's required risk-based assessment system, as long as BIF's reserve ratio is at or above the designated reserve ratio, FDIC cannot charge premiums to institutions that are well-capitalized and highly rated by supervisors. Currently, over 90 percent of the industry does not pay for deposit insurance. In 1991, BIF's reserve ratio was significantly below the designated reserve ratio and did not reach the designated reserve ratio of 1.25 percent of estimated insured deposits until May 1995.[3] During the years ended December 31, 1995 through 2000, BIF's reserve ratio ranged from 1.30 to 1.38. As of December 31, 2001, and September 30, 2002, BIF's ratio decreased to 1.26 and 1.25, respectively. At its November 12, 2002, meeting, the FDIC Board of Directors voted to maintain the existing BIF assessment rate schedule for the first semiannual assessment period of 2003 based on the board's determination that the reserve ratio would likely remain at or near 1.25 during the first half of 2003. Most of BIF's income comes from the interest earned on investments with the U.S. Treasury. FDIC describes the recent legislative initiatives to reform the federal deposit insurance system in note 1 of the financial statements for BIF and SAIF.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) was pleased to receive unqualified opinions on BIF's, SAIF's, and FRF's 2002 and 2001 financial statements. FDIC's CFO also acknowledged the information system weaknesses we identified and plans to continue

[2]Section 302 of FDICIA amended section 7(b) of the Federal Deposit Insurance Act. FDICIA requirements are the same for both BIF and SAIF. SAIF reached the designated reserve ratio in 1996, and as of September 30, 2002, SAIF's reserve ratio was 1.38 percent.

[3]If the reserve ratio falls below 1.25 percent of estimated insured deposits, FDICIA requires the FDIC Board of Directors to set semiannual assessment rates for BIF members that are sufficient to increase the reserve ratio to the designated reserve ratio not later than 1 year after such rates are set, or in accordance with a recapitalization schedule of 15 years or less.

efforts to strengthen its information system program and to incorporate our recommendations into its security plans for 2003. We plan to evaluate the effectiveness of the corrective actions as part of our 2003 audit.

David M. Walker
Comptroller General
of the United States

February 27, 2003

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

		2002		2001
Assets				
Cash and cash equivalents	$	4,606,896	$	1,436,613
Investment in U.S. Treasury obligations, net: (Note 3)				
Held-to-maturity securities		16,709,665		20,477,568
Available-for-sale securities		10,823,593		9,685,367
Interest receivable on investments and other assets, net		483,674		547,101
Receivables from bank resolutions, net (Note 4)		505,395		79,155
Property and equipment, net (Note 5)		303,084		303,969
Total Assets	**$**	**33,432,307**	**$**	**32,529,773**
Liabilities				
Accounts payable and other liabilities	$	148,573	$	134,990
Contingent liabilities for: (Note 6)				
Anticipated failure of insured institutions		1,008,097		1,911,000
Litigation losses		204,805		37,123
Other contingencies		20,492		7,835
Total Liabilities		**1,381,967**		**2,090,948**
Commitments and off-balance-sheet exposure (Note 10)				
Fund Balance				
Accumulated net income		31,238,171		30,192,903
Unrealized gain on available-for-sale securities, net (Note 3)		812,169		245,922
Total Fund Balance		**32,050,340**		**30,438,825**
Total Liabilities and Fund Balance	**$**	**33,432,307**	**$**	**32,529,773**

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

	2002	2001
Revenue		
Interest on U.S. Treasury obligations	$ 1,692,381	$ 1,834,768
Assessments (Note 7)	84,030	47,777
Realized gain on sale of U.S. Treasury obligations	0	78,227
Other revenue	19,474	35,964
Total Revenue	**1,795,885**	**1,996,736**
Expenses and Losses		
Operating expenses	821,136	785,855
Provision for insurance losses (Note 8)	(86,970)	1,756,321
Interest and other insurance expenses	16,451	17,226
Total Expenses and Losses	**750,617**	**2,559,402**
Net Income/(Loss)	**1,045,268**	**(562,666)**
Unrealized gain on available-for-sale securities, net (Note 3)	566,247	26,269
Comprehensive Income/(Loss)	**1,611,515**	**(536,397)**
Fund Balance - Beginning	**30,438,825**	**30,975,222**
Fund Balance - Ending	**$ 32,050,340**	**$ 30,438,825**

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

	2002	2001
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 1,858,852	$ 1,913,936
Recoveries from bank resolutions	1,116,406	368,603
Assessments	81,971	47,075
Miscellaneous receipts	22,607	38,422
Cash used by:		
Operating expenses	(742,270)	(729,635)
Disbursements for bank resolutions	(2,168,187)	(84,651)
Miscellaneous disbursements	(38,311)	(21,696)
Net Cash Provided by Operating Activities (Note 13)	**131,068**	**1,532,054**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	3,625,000	3,320,000
Maturity or sale of U.S. Treasury obligations, available-for-sale	1,150,000	2,398,572
Cash used by:		
Purchase of property and equipment	(49,647)	(61,189)
Purchase of U.S. Treasury obligations, held-to-maturity	0	(1,418,875)
Purchase of U.S. Treasury obligations, available-for-sale	(1,686,138)	(4,490,345)
Net Cash Provided/(Used) by Investing Activities	**3,039,215**	**(251,837)**
Net Increase in Cash and Cash Equivalents	**3,170,283**	**1,280,217**
Cash and Cash Equivalents - Beginning	**1,436,613**	**156,396**
Cash and Cash Equivalents - Ending	**$ 4,606,896**	**$ 1,436,613**

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, 2002 and 2001

1. Legislative History and Operations of the Bank Insurance Fund

Legislative History

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

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these funds. All three funds 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. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to FIRREA, 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. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that 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. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm-Leach-Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial services providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

Recent Legislative Initiatives

Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The House acted on the FDIC's recommendations by passing legislation, H.R. 3717, the Federal Deposit Insurance Reform Act of 2002, on May 22, 2002. Another reform bill, S. 1945, the Safe and Fair Deposit Insurance Act of 2002, was introduced in the Senate on February 14, 2002. No further action was taken by the 107th Congress during the year on these bills. In January and February 2003, however, similar deposit insurance reform legislation was reintroduced in the Senate and House, respectively. Legislative proposals during the 107th Congress included merging BIF and SAIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. Deposit insurance reform provisions may have a significant impact on the BIF and the SAIF, if enacted into law. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

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 failed institutions, including managing and disposing of their assets. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System.

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

The FDICIA established a limitation on obligations that can be incurred by the BIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2002 and December 31, 2001, the MOL for the BIF was $56.7 billion and $55.4 billion, 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. Expenses paid by the BIF on behalf of the receiverships are recovered from those receiverships.

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
FDIC 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.

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
Section 13(a) of the FDI Act, as amended, (12 U.S.C. 1823(a)), states that BIF funds "shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States". The Act further requires that the Secretary of the Treasury approve all such investments in excess of $100,000. The Secretary has granted approval to invest BIF funds only in U.S. Treasury obligations, provided that such obligations are purchased or sold through the Bureau of the Public Debt's Government Account Series (GAS) program.

BIF 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.

Allowance for Losses on Receivables From Bank Resolutions
The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of failed banks, net of all applicable estimated liquidation costs.

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

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

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 2001 financial statements to conform to the presentation used in 2002.

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

As of December 31, 2002 and December 31, 2001, the book value of investments in U.S. Treasury obligations, net, was $27.5 billion and $30.2 billion, respectively. As of December 31, 2002, the FDIC held $6.2 billion of Treasury inflation-indexed securities (TIIS) for the BIF. These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, FDIC held $1.5 billion of callable U.S. Treasury bonds at December 31, 2002, with the premiums being amortized to the first call date. 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.

There were no available-for-sale securities sold during 2002. In 2001, the BIF reported a gross realized gain of $78 million on the sale of securities designated as available-for-sale. Proceeds from the sales were $1.5 billion. Specific identification was used to determine cost of the securities sold in computing the realized gain.

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	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.98%	$ 2,690,000	$ 2,737,188	$ 63,325	$ 0	$ 2,800,513
After 1 year through 5 years	6.24%	10,265,000	10,401,894	1,169,295	0	11,571,189
After 5 years through 10 years	5.39%	2,895,000	2,961,035	370,281	0	3,331,316
Treasury Inflation-Indexed After 5 years through 10 years	3.82%	607,987	609,548	68,169	0	677,717
Total		$ 16,457,987	$ 16,709,665	$ 1,671,070	$ 0	$ 18,380,735
Available-for-Sale						
Within 1 year	5.31%	$ 1,390,000	$ 1,389,723	$ 27,614	$ 0	$ 1,417,337
After 1 year through 5 years	4.91%	3,355,000	3,595,734	235,538	0	3,831,272
Treasury Inflation-Indexed After 5 years through 10 years	3.78%	5,010,245	5,025,967	549,017	0	5,574,984
Total		$ 9,755,245	$ 10,011,424	$ 812,169	$ 0	$ 10,823,593
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 26,213,232**	**$ 26,721,089**	**$ 2,483,239**	**$ 0**	**$ 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 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.

Bank Insurance Fund

U.S. Treasury Obligations at December 31, 2001

Dollars in Thousands

Maturity (a)	Yield at Purchase (b)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.77%	$ 3,625,000	$ 3,666,801	$ 71,147	$ (25)	$ 3,737,923
After 1 year through 5 years	6.40%	10,345,000	10,516,639	752,344	(2,193)	11,266,790
After 5 years through 10 years	5.39%	5,505,000	5,696,333	196,238	0	5,892,571
Treasury Inflation-Indexed After 5 years through 10 years	3.82%	596,008	597,795	11,807	0	609,602
Total		$ 20,071,008	$ 20,477,568	$ 1,031,536	$ (2,218)	$ 21,506,886
Available-for-Sale						
Within 1 year	4.57%	$ 1,050,000	$ 1,056,197	$ 10,721	$ 0	$ 1,066,918
After 1 year through 5 years	5.54%	3,385,000	3,454,666	156,271	0	3,610,937
Treasury Inflation-Indexed After 5 years through 10 years	3.78%	4,911,545	4,928,582	103,950	(25,020)	5,007,512
Total		$ 9,346,545	$ 9,439,445	$ 270,942	$ (25,020)	$ 9,685,367
Total Investment in U.S. Treasury Obligations, Net						
Total		$ 29,417,553	$ 29,917,013	$ 1,302,478	$ (27,238)	$ 31,192,253

(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 weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

As of December 31, 2002 and 2001, the unamortized premium, net of the unamortized discount, was $508 million and $499 million, respectively.

4. Receivables From Bank Resolutions, Net

The bank resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the BIF against the receiverships' assets. There were ten bank failures in 2002 and three in 2001, with assets at failure of $2.5 billion and $54 million, respectively, and BIF outlays of $2.1 billion and $49.5 million, respectively.

Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2002 and 2001, BIF receiverships held assets with a book value of $1.1 billion and $154.6 million, respectively (including cash, investments, and miscellaneous receivables of $479 million and $71.9 million at December 31, 2002 and 2001, respectively). Generally, the estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. For certain recent and significant failures, a separate evaluation was performed, based on non-representative sampling, to estimate cash recoveries on the majority of receivership assets in order to determine the appropriate allowance for losses. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the BIF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	2002	2001
Receivables from closed banks	$ 6,055,613	$ 5,368,970
Allowance for losses	(5,550,218)	(5,289,815)
Total	**$ 505,395**	**$ 79,155**

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2002	2001
Land	$ 37,352	$ 29,631
Buildings	171,362	175,265
Application software (includes work-in-process)	155,196	131,104
Furniture, fixtures, and equipment	98,497	93,593
Accumulated depreciation	(159,323)	(125,624)
Total	**$ 303,084**	**$ 303,969**

The depreciation expense was $47 million and $45 million for 2002 and 2001, 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, 2002 and 2001, the contingent liabilities for anticipated failure of insured institutions were $1.0 billion and $1.9 billion, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in a material loss to the BIF should potentially vulnerable financial institutions ultimately fail. This risk 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. Should these banks fail, the BIF could incur additional estimated losses up to $6.0 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 totaling $53.8 million from unresolved legal cases 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 $6.7 billion as of December 31, 2002. The contingent liability from all outstanding claims asserted in connection with representations and warranties was $11.6 million and $1.5 million at December 31, 2002 and 2001, 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

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to not less than 1.25 percent of estimated insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

Bank Insurance Fund

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, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 22 cents and 14 cents per $100 of assessable deposits for 2002 and 2001, respectively. On November 12, 2002, 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 2003. The Board reviews premium rates semiannually.

As stated above, the FDICIA requires the FDIC 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). As of September 30, 2002, the BIF reserve ratio was 1.25 percent of estimated insured deposits. The FDICIA authorizes and mandates BIF assessments if needed to maintain the fund at the DRR or to return the fund to the DRR if it 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.

The DIFA provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the Financing Corporation (FICO) to include all FDIC-insured institutions, and it made the FICO assessment separate from regular assessments, effective on January 1, 1997. The FICO was established by the Competitive Equality Banking Act of 1987 as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The annual FICO interest obligations of approximately $790 million are paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the BIF. The FICO assessment is separate from the regular assessments and is imposed on banks and thrifts, not on the insurance funds. The FDIC, as administrator of the BIF and the SAIF, is acting solely as a collection agent for the FICO. During 2002 and 2001, $621 million and $627 million, respectively, was collected from BIF-member institutions and remitted to the FICO.

8. Provision for Insurance Losses

Provision for insurance losses was a negative $87 million for 2002 and $1.8 billion for 2001. The following chart lists the major components of the provision for insurance losses.

Bank Insurance Fund

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

		2002		2001
Valuation Adjustments:				
Closed banks	$	616,844	$	(41,106)
Open bank assistance and other assets		6,006		(928)
Total Valuation Adjustments		**622,850**		**(42,034)**
Contingent Liabilities Adjustments:				
Anticipated failure of insured institutions		(902,903)		1,776,645
Litigation losses		190,572		16,095
Other contingencies		2,511		5,615
Total Contingent Liabilities Adjustments		**(709,820)**		**1,798,355**
Total	**$**	**(86,970)**	**$**	**1,756,321**

9. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

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

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. The BIF 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

		2002		2001
Separation Incentive Payment	$	29,085	$	3,304
Civil Service Retirement System		13,365		11,205
Federal Employees Retirement System (Basic Benefit)		30,366		29,562
FDIC Savings Plan		18,956		18,254
Federal Thrift Savings Plan		12,235		11,871
Total	**$**	**104,007**	**$**	**74,196**

During 2002, the Corporation offered voluntary employee buyout programs to a majority of its employees and conducted a reduction-in-force (RIF) in an effort to reduce identified staffing excesses. As a result, over 700 employees left or will leave the Corporation by December 31, 2003. Approximately 91 percent of the affected employees have left their positions in 2002. Termination benefits included compensation of fifty percent of the current salary for voluntary departures. The total cost of this benefit to the Corporation was $33.1 million for 2002, with BIF's pro rata share totaling $28.9 million, which is included in the "Operating expenses" line item. In 2002, BIF paid $10.1 million of this compensation benefit and the remaining unpaid amount is recorded as a liability in the "Accounts payable and other liabilities" line item.

Accrued Annual Leave

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $34.1 million and $35.3 million at December 31, 2002 and 2001, respectively.

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 at no cost to all retirees eligible for an immediate annuity. At December 31, 2002 and 2001, the BIF's net postretirement benefit asset recognized in the "Interest receivable on investments and other assets, net" line item in the Statements of Financial Position was $130 thousand and $3.6 million, respectively.

The Corporation's postretirement benefits plan curtailment loss resulting from the voluntary employee buyout programs and reduction-in-force was $1.6 million in 2002, with BIF's pro rata share totaling $1.3 million.

10. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The BIF's allocated share of the FDIC's lease commitments totals $138.6 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, the SAIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $36.9 million and $38.5 million for the years ended December 31, 2002 and 2001, respectively.

Leased Space Commitments

Dollars in Thousands

2003	2004	2005	2006	2007	2008/Thereafter
$38,318	$34,487	$28,780	$19,309	$11,076	$6,667

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. The remaining term of the limited guarantee is 24 years. The table below gives the maximum off-balance-sheet exposure the BIF has under these guarantees.

Asset Securitization Guarantees at December 31

Dollars in Thousands

	2002	2001
Maximum exposure under the limited guarantees	$ 243,764	$ 330,936
Less: Guarantee claims paid (inception-to-date)	(35,034)	(34,756)
Less: Amount of exposure recognized as a contingent liability	(6,508)	(3,966)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	**$ 202,222**	**$ 292,214**

Deposit Insurance

As of September 30, 2002, 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.

11. Concentration of Credit Risk

Financial instruments that potentially subject the BIF to credit risk consist primarily of gross receivables from bank resolutions totaling $6.1 billion. The receivables from bank resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the BIF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. An allowance for loss of $5.6 billion, or 92% of the gross receivable, was recorded as of December 31, 2002. Of the remaining eight percent of the gross receivable, the amount of credit risk is limited since 77% of the receivable will be repaid from receivership cash and cash equivalents.

Bank Insurance Fund

12. Disclosures About the Fair Value of Financial Instruments

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

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

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

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

Bank 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

	2002	2001
Net Income/(Loss)	**$ 1,045,268**	**$ (562,666)**
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations	217,742	160,763
TIIS inflation adjustment	(110,679)	(96,064)
Gain on sale of U.S. Treasury obligations	0	(78,227)
Depreciation on property and equipment	47,484	44,723
Retirement of property and equipment	2,149	1,568
Change in Assets and Liabilities:		
Decrease in interest receivable on investments and other assets	63,688	17,273
(Increase) Decrease in receivables from bank resolutions	(426,239)	270,434
Increase (Decrease) in accounts payable and other liabilities	14,218	(16,591)
(Decrease) Increase in contingent liabilities for anticipated failure of insured institutions	(902,903)	1,769,645
Increase in other contingencies	12,658	5,995
Increase in contingent liabilities for litigation losses	167,682	15,201
Net Cash Provided by Operating Activities	**$ 131,068**	**$ 1,532,054**

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

	2002	2001
Assets		
Cash and cash equivalents	$ 1,907,353	$ 276,507
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $187.7 million and $71.9 million at December 31, 2002 and December 31, 2001, respectively)*	311,864	299,374
Investment in U.S. Treasury obligations, net: (Note 4)		
Held-to-maturity securities	5,726,840	6,718,418
Available-for-sale securities	3,769,576	2,745,476
Interest receivable on investments and other assets, net	153,320	156,126
Receivables from thrift resolutions, net (Note 5)	287,855	1,285,150
Total Assets	**$ 12,156,808**	**$ 11,481,051**
Liabilities		
Accounts payable and other liabilities	$ 7,100	$ 8,111
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	90,493	233,000
Litigation losses	613	5,642
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	311,864	299,374
Total Liabilities	**410,070**	**546,127**
Commitments and off-balance-sheet exposure (Note 10)		
Fund Balance		
Accumulated net income	11,465,716	10,845,515
Unrealized gain on available-for-sale securities, net (Note 4)	281,022	89,409
Total Fund Balance	**11,746,738**	**10,934,924**
Total Liabilities and Fund Balance	**$ 12,156,808**	**$ 11,481,051**

The accompanying notes are an integral part of these 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

	2002	2001
Revenue		
Interest on U.S. Treasury obligations	$ 564,259	$ 633,725
Assessments (Note 7)	23,783	35,402
Realized gain on sale of U.S. Treasury obligations	0	51,630
Other revenue	779	12,364
Total Revenue	**588,821**	**733,121**
Expenses and Losses		
Operating expenses	124,363	101,591
Provision for insurance losses (Note 8)	(156,494)	443,103
Other insurance expenses	751	19,389
Total Expenses and Losses	**(31,380)**	**564,083**
Net Income	**620,201**	**169,038**
Unrealized gain on available-for-sale securities, net (Note 4)	191,613	7,238
Comprehensive Income	**811,814**	**176,276**
Fund Balance - Beginning	**10,934,924**	**10,758,648**
Fund Balance - Ending	**$ 11,746,738**	**$ 10,934,924**

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

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2002	2001
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 576,192	$ 661,895
Assessments	23,709	35,554
Entrance and exit fees, including interest on exit fees (Note 3)	15,811	16,725
Recoveries from thrift resolutions	1,126,940	246,535
Miscellaneous receipts	73	2,615
Cash used by:		
Operating expenses	(125,159)	(102,429)
Disbursements for thrift resolutions	(119,993)	(1,976,964)
Miscellaneous disbursements	(103)	(352)
Net Cash Provided by (Used by) Operating Activities (Note 13)	**1,497,470**	**(1,116,421)**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,070,000	2,049,512
Maturity or sale of U.S. Treasury obligations, available-for-sale	150,000	875,245
Cash used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	0	(826,788)
Purchase of U.S. Treasury obligations, available-for-sale	(970,813)	(823,265)
Net Cash Provided by Investing Activities	**249,187**	**1,274,704**
Net Increase in Cash and Cash Equivalents	**1,746,657**	**158,283**
Cash and Cash Equivalents - Beginning	**348,424**	**190,141**
Unrestricted Cash and Cash Equivalents - Ending	**1,907,353**	**276,507**
Restricted Cash and Cash Equivalents - Ending	**187,728**	**71,917**
Cash and Cash Equivalents - Ending	**$ 2,095,081**	**$ 348,424**

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

Notes to the Financial Statements

Notes to the Financial Statements
Savings Association Insurance Fund
December 31, 2002 and 2001

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

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds 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. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to the Resolution Trust Corporation Completion Act of 1993 (RTC Completion Act), resolution responsibility transferred from the RTC to the SAIF on July 1, 1995. Prior to that date, thrift resolutions were the responsibility of the RTC (January 1, 1989 through June 30, 1995) or the FSLIC (prior to 1989).

Pursuant to FIRREA, 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. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that 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. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation
The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain

the insurance funds at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm Leach Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial service providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

Recent Legislative Initiatives
Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The House acted on the FDIC's recommendations by passing legislation, H.R. 3717, the Federal Deposit Insurance Reform Act of 2002, on May 22, 2002. Another reform bill, S. 1945, the Safe and Fair Deposit Insurance Act of 2002, was introduced in the Senate on February 14, 2002. No further action was taken by the 107th Congress during the year on these bills. In January and February 2003, however, similar deposit insurance reform legislation was reintroduced in the Senate and House, respectively. Legislative proposals during the 107th Congress include merging SAIF and BIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. Deposit insurance reform provisions may have a significant impact on the SAIF and the BIF, if enacted into law. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

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 failed institutions, including disposing of their assets. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and by BIF-member banks designated as Oakar financial institutions.

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

The FDICIA established a limitation on obligations that can be incurred by the SAIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2002 and December 31, 2001, the MOL for the SAIF was $19.9 billion and $18.8 billion, 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. Expenses paid by the SAIF on behalf of the receiverships are recovered from those receiverships.

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
FDIC 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.

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
Section 13(a) of the FDI Act, as amended, (12 U.S.C. 1823(a)), states that SAIF funds "shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States." The Act further requires that the Secretary of the Treasury approve all such investments in excess of $100,000. The Secretary has granted approval to invest SAIF funds only in U.S. Treasury obligations, provided that such obligations are purchased or sold 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. 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.

Allowance for Losses on Receivables From Thrift Resolutions
The SAIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter

is based on estimates of discounted cash recoveries from the assets of failed thrifts, net of all applicable estimated liquidation costs.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC 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 2001 financial statements to conform to the presentation used in 2002.

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 2002 and 2001 that resulted in an exit fee to the SAIF.

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

Dollars in Thousands

	2002	2001
Cash and cash equivalents	$ 187,728	$ 71,917
Investment in U.S. Treasury obligations, net	122,402	223,213
Interest receivable on U.S. Treasury obligations	1,734	4,244
Total	**$ 311,864**	**$ 299,374**

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

Dollars in Thousands

		Held-to-Maturity				
Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	6.59%	$ 35,000	$ 34,986	$ 222	$ 0	$ 35,208
After 1 year through 5 years	5.45%	64,000	66,830	6,298	0	73,128
After 5 years through 10 years	4.99%	20,000	20,586	2,108	0	22,694
Total		**$ 119,000**	**$ 122,402**	**$ 8,628**	**$ 0**	**$ 131,030**

U.S. Treasury Obligations at December 31, 2001 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

		Held-to-Maturity				
Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	5.95%	$ 100,000	$ 100,027	$ 2,364	$ 0	$ 102,391
After 1 year through 5 years	6.10%	75,000	76,764	3,814	0	80,578
After 5 years through 10 years	5.03%	44,000	46,422	893	0	47,315
Total		**$ 219,000**	**$ 223,213**	**$ 7,071**	**$ 0**	**$ 230,284**

The unamortized premium, net of the unamortized discount, was $3.4 million and $4.2 million at December 31, 2002 and 2001, respectively.

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

As of December 31, 2002 and 2001, the book value of investments in U.S. Treasury Obligations, net, was $9.5 billion and, the FDIC held $2.1 billion of Treasury inflation-indexed securities (TIIS) for the SAIF. These securities are indexed to increases or decreases in the Consumer Price Index for all Urban Consumers (CPI-U).

During 2002, FDIC purchased $639 million of callable U.S. Treasury securities for the SAIF. These securities are designated as either held-to-maturity or available-for-sale, with the premiums being amortized to the first call date. 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. None of these securities were called during the year.

There were no available-for-sale securities sold during 2002. In 2001, the SAIF reported a gross realized gain of $52 million on the sale of securities designated as available-for-sale. Proceeds from the sales were $795 million. Specific identification was used to determine cost of the securities sold in computing the realized gain.

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	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	6.23%	$ 535,000	$ 541,662	$ 12,242	$ 0	$ 553,904
After 1 year through 5 years	5.91%	2,880,000	2,941,199	317,167	0	3,258,366
After 5 years through 10 years	5.78%	2,030,000	2,021,651	298,277	0	2,319,928
Treasury Inflation-Indexed After 5 years through 10 years	3.85%	224,432	222,328	23,917	0	246,245
Total		$ 5,669,432	$ 5,726,840	$ 651,603	$ 0	$ 6,378,443
Available-for-Sale						
Within 1 year	5.77%	$ 475,000	$ 473,317	$ 9,660	$ 0	$ 482,977
After 1 year through 5 years	4.81%	1,235,000	1,342,263	82,983	0	1,425,246
Treasury Inflation-Indexed After 5 years through 10 years	3.84%	1,675,573	1,672,974	188,379	0	1,861,353
Total		$ 3,385,573	$ 3,488,554	$ 281,022	$ 0	$ 3,769,576
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 9,055,005**	**$ 9,215,394**	**$ 932,625**	**$ 0**	**$ 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.

Savings Association Insurance Fund

U.S. Treasury Obligations at December 31, 2001 (Unrestricted)

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.91%	$ 970,000	$ 973,252	$ 15,735	$ 0	$ 988,987
After 1 year through 5 years	6.17%	2,540,000	2,592,612	162,155	0	2,754,767
After 5 years through 10 years	5.65%	2,905,000	2,935,018	138,050	0	3,073,068
Treasury Inflation-Indexed After 5 years through 10 years	3.85%	220,012	217,536	4,813	0	222,349
Total		$ 6,635,012	$ 6,718,418	$ 320,753	$ 0	$ 7,039,171
Available-for-Sale						
Within 1 year	6.44%	$ 75,000	$ 74,412	$ 3,213	$ 0	$ 77,625
After 1 year through 5 years	6.18%	930,000	942,448	55,065	0	997,513
Treasury Inflation-Indexed After 5 years through 10 years	3.84%	1,642,564	1,639,207	36,592	(5,461)	1,670,338
Total		$ 2,647,564	$ 2,656,067	$ 94,870	$ (5,461)	$ 2,745,476
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 9,282,576**	**$ 9,374,485**	**$ 415,623**	**$ (5,461)**	**$ 9,784,647**

(a) 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 weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

As of December 31, 2002 and 2001, the unamortized premium, net of the unamortized discount, was $160.4 million and $91.9 million, respectively.

5. Receivables From Thrift Resolutions, Net

The thrift resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the SAIF against the receiverships' assets. There was one thrift failure in both 2002 and 2001, with assets at failure of $50.2 million and $2.2 billion, respectively, and SAIF outlays of $37 million and $1 billion, respectively.

Receivables from thrift resolutions decreased by $997 million to $288 million at December 31, 2002. This decrease was primarily due to: 1) recoveries totaling $850 million of payments made to cover obligations to insured depositors for the Superior Bank, FSB receivership and 2) a final payment of $213 million from the Superior conservatorship to repay the line of credit of $1.5 billion, which was extended to the conservatorship for liquidity purposes.

Assets held by the FDIC in its receivership capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from closed thrifts. As of December 31, 2002 and 2001, SAIF receiverships held assets with a book value of $490 million and $210 million, respectively (including cash, investments, and miscellaneous receivables of $93 million and $16 million at December 31, 2002 and 2001, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based, primarily, on a non-representative sampling of receivership assets. This non-representative sample, based primarily on asset book values, provided 95% coverage of the entire portfolio's book value for the year ended December 31, 2002. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the SAIF's and other claimants' actual recoveries to vary from the level currently estimated.

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 loan sales from the Superior resolution. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $4.8 billion as of December 31, 2002. SAIF did not establish a liability for all outstanding claims asserted in connection with representations and warranties because the receivership has sufficient funds to pay for such claims. However, 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.

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, 2002 and 2001, the contingent liabilities for anticipated failure of insured institutions were $90 million and $233 million, respectively.

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. Should these thrifts fail, the SAIF could incur additional estimated losses up to $1.3 billion.

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

Litigation Losses
The 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 $1.6 million are reasonably possible.

In addition, two cases are currently pending in the U.S. District Court against the FDIC alleging that the FDIC's calculation of a special assessment exceeded the amounts due pursuant to the DIFA. The DIFA authorized the FDIC to make a one-time special assessment for the purpose of fully capitalizing the SAIF to its designated reserve ratio (DRR) of 1.25%. The plaintiffs seek refunds of special assessment overpayments and interest from the date of the overpayments. The FDIC believes the probability of refunds is remote and therefore no estimate of loss is recorded or disclosed.

7. Assessments

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to not less than 1.25 percent of estimated insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

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, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 26 cents and 41 cents per $100 of assessable deposits for 2002 and 2001, respectively. On November 12, 2002, 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 2003. The Board reviews premium rates semiannually.

The DIFA provided, among other things, for the capitalization of the SAIF to its DRR of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. The SAIF achieved its required capitalization by means of a $4.5 billion special assessment effective October 1, 1996. Since October 1996, the SAIF has maintained a reserve ratio at or higher than the DRR of 1.25 percent of insured deposits. As of September 30, 2002, the SAIF reserve ratio was 1.38 percent of estimated insured deposits.

The DIFA provided for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the Financing Corporation (FICO) to include all FDIC-insured institutions, and it made the FICO assessment separate from regular assessments, effective on January 1, 1997. The FICO was established by the Competitive Equality Banking

Act of 1987 as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The annual FICO interest obligations of approximately $790 million are paid on a pro rata basis using the same rates for thrifts and banks. The FICO assessment has no financial impact on the SAIF. The FICO assessment is separate from the regular assessments and is imposed on thrifts and banks, not on the insurance funds. The FDIC, as administrator of the SAIF and the BIF, is acting solely as a collection agent for the FICO. During 2002 and 2001, $161 million and $164 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

8. Provision for Insurance Losses

Provision for insurance losses was a negative $156.5 million and $443.1 million for 2002 and 2001, respectively. In 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.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2002	2001
Valuation Adjustments:		
Closed thrifts	$ (10,113)	$ 440,487
Total Valuation Adjustments	**(10,113)**	**440,487**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(142,507)	(1,083)
Litigation losses	(3,874)	3,699
Total Contingent Liabilities Adjustments	**(146,381)**	**2,616**
Total	**$ (156,494)**	**$ 443,103**

9. Employee Benefits

Pension Benefits, Savings Plan and Postemployment Benefits

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

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

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. 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

	2002	2001
Separation Incentive Payment	$ 4,276	$ 494
Civil Service Retirement System	1,715	1,561
Federal Employees Retirement System (Basic Benefit)	4,765	4,043
FDIC Savings Plan	2,951	2,508
Federal Thrift Savings Plan	1,913	1,622
Total	**$ 15,620**	**$ 10,228**

During 2002, the Corporation offered voluntary employee buyout programs to a majority of its employees and conducted a reduction-in-force (RIF) in an effort to reduce identified staffing excesses. As a result, over 700 employees left or will leave the Corporation by December 31, 2003. Approximately 91 percent of the affected employees have left their positions in 2002. Termination benefits included compensation of fifty percent of the current salary for voluntary departures. The total cost of this benefit to the Corporation was $33.1 million for 2002, with SAIF's pro rata share totaling $4.2 million, which is included in the "Operating expenses" line item. All of this amount was paid by SAIF in 2002.

Accrued Annual Leave

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $5.5 million and $4.6 million at December 31, 2002 and 2001, respectively.

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 at no cost to all retirees eligible for an immediate annuity. At December 31, 2002, the SAIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Statement of Financial Position was $145 thousand. At December 31, 2001, the SAIF's net postretirement benefit asset recognized in the "Interest receivable on investments and other assets, net" line item in the Statement of Financial Position was $148 thousand.

10. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The SAIF's allocated share of the FDIC's lease commitments totals $22.3 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, the BIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $6.5 million and $5.8 million at December 31, 2002 and 2001, respectively.

Leased Space Commitments

Dollars in Thousands

2003	2004	2005	2006	2007	2008/Thereafter
$6,150	$5,535	$4,619	$3,099	$1,777	$1,070

Off-Balance-Sheet Exposure:

Deposit Insurance

As of September 30, 2002, deposits insured by the SAIF totaled approximately $838 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

11. Concentration of Credit Risk

Financial instruments that potentially subject the SAIF to credit risk consist primarily of gross receivables from thrift resolutions totaling $722 million. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the SAIF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from resolutions. Most of the gross receivables and related allowance for losses of $434 million are attributable to the failure of Superior Bank. Of SAIF's $288 million net receivable, $282 million is estimated to be repaid by Superior receivership assets, primarily, cash 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.

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 Notes 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

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

	2002	2001
Net Income	**$ 620,201**	**$ 169,038**
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations (unrestricted)	47,333	32,503
TIIS inflation adjustment	(37,429)	(37,407)
Gain on sale of U.S. Treasury obligations	0	(51,630)
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury obligations (restricted)	811	863
Decrease in entrance and exit fees receivable, including interest receivable on investments and other assets	5,317	32,641
Decrease (Increase) in receivables from thrift resolutions	997,295	(1,281,002)
(Decrease) Increase in accounts payable and other liabilities	(1,011)	362
(Decrease) in contingent liability for anticipated failure of insured institutions	(142,507)	(1,083)
(Decrease) Increase in contingent liability for litigation losses	(5,029)	3,699
Increase in exit fees and investment proceeds held in escrow	12,489	15,595
Net Cash Provided by (Used by) Operating Activities	**$ 1,497,470**	**$ (1,116,421)**

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

		2002		2001
Assets				
Cash and cash equivalents	$	3,618,330	$	3,490,396
Investment in securitization-related assets acquired from receiverships (Note 3)		98,114		1,087,102
Receivables from thrift resolutions, net (Note 4)		131,304		286,455
Other assets, net (Note 5)		22,511		29,697
Total Assets	$	**3,870,259**	$	**4,893,650**
Liabilities				
Accounts payable and other liabilities	$	14,408	$	14,787
Contingent liabilities for litigation losses and other (Note 6)		546		5,304
Total Liabilities		**14,954**		**20,091**
Commitments and concentration of credit risk (Note 10 and Note 11)				
Resolution Equity (Note 8)				
Contributed capital		126,827,821		128,073,030
Accumulated deficit		(123,015,273)		(123,505,818)
Unrealized gain on available-for-sale securities, net (Note 3)		42,757		306,347
Accumulated deficit, net		(122,972,516)		(123,199,471)
Total Resolution Equity		**3,855,305**		**4,873,559**
Total Liabilities and Resolution Equity	$	**3,870,259**	$	**4,893,650**

The accompanying notes are an integral part of these 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

	2002	2001
Revenue		
Interest on securitization-related assets acquired from receiverships	$ 7,264	$ 32,758
Interest on U.S. Treasury obligations	46,835	99,488
Interest on advances and subrogated claims	1,394	18,447
Realized gain on investment in securitization-related assets acquired from receiverships (Note 3)	352,486	352,179
Other revenue	25,098	78,166
Total Revenue	**433,077**	**581,038**
Expenses and Losses		
Operating expenses	45,684	74,683
Provision for losses (Note 7)	(149,359)	(368,987)
Expenses for goodwill settlements and litigation (Note 1)	40,351	62,542
Interest expense on notes payable and other expenses	4,804	27,299
Realized loss on investment in securitization-related assets acquired from receiverships (Note 3)	1,052	23,541
Total Expenses and Losses	**(57,468)**	**(180,922)**
Net Income	**490,545**	**761,960**
Unrealized loss on available-for-sale securities, net (Note 3)	(263,590)	(149,070)
Comprehensive Income	**226,955**	**612,890**
Accumulated Deficit - Beginning	**(123,199,471)**	**(123,812,361)**
Accumulated Deficit - Ending	**$ (122,972,516)**	**$ (123,199,471)**

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

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2002	2001
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 46,835	$ 99,488
Interest on securitization-related assets acquired from receiverships	8,745	36,148
Recoveries from thrift resolutions	307,694	476,678
Miscellaneous receipts	32,607	53,351
Cash used by:		
Operating expenses	(44,421)	(83,342)
Disbursements for thrift resolutions	(30,373)	(25,153)
Disbursements for goodwill settlements and litigation expenses	(40,351)	(62,542)
Miscellaneous disbursements	(9,119)	(9,279)
Net Cash Provided by Operating Activities (Note 13)	**271,617**	**485,349**
Cash Flows From Investing Activities		
Cash provided by:		
Investment in securitization-related assets acquired from receiverships	1,101,525	902,402
Net Cash Provided by Investing Activities	**1,101,525**	**902,402**
Cash Flows From Financing Activities		
Cash provided by:		
U.S. Treasury payments for goodwill settlements	21,459	0
Cash used by:		
Return of U.S. Treasury payments (Note 8)	0	(5,300)
Payments to Resolution Funding Corporation (Note 8)	(1,266,667)	(1,406,596)
Net Cash Used by Financing Activities	**(1,245,208)**	**(1,411,896)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**127,934**	**(24,145)**
Cash and Cash Equivalents - Beginning	**3,490,396**	**3,514,541**
Cash and Cash Equivalents - Ending	**$ 3,618,330**	**$ 3,490,396**

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

Notes to the Financial Statements

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 2002 and 2001

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History

The U.S. Congress created the Federal Savings and Loan Insurance Corporation (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 Resolution Trust Corporation (RTC)-effective on August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

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 Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The FIRREA also 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. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA; the RTC Funding Act of 1991; the RTC Refinancing, Restructuring and Improvement Act of 1991; and the RTC Completion Act of 1993.

The RTC's resolution responsibility was extended through subsequent legislation from the original termination date of August 8, 1992. Resolution responsibility transferred from the RTC to the SAIF on July 1, 1995.

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 on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act also made available approximately $18 billion worth of additional funding to the RTC, of which the RTC actually drew down $4.6 billion. The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. This appropriation was fully repaid in 2000.

The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, after providing for all outstanding RTC liabilities. Any such funds transferred to the REFCORP pay the interest on the REFCORP bonds issued to fund the early RTC resolutions. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds. During 2002, the FRF-RTC transferred $1.3 billion to the REFCORP.

FSLIC Resolution Fund

Operations 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.

FDIC has conducted an extensive review and cataloging of FRF's residual assets and liabilities and is continuing to explore approaches for concluding FRF's activities. 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 litigation (no final date for resolution has been established; see Note 6); and 5) representations and warranties made to support the sale of assets including loans and servicing rights (these liabilities could be incurred over the remaining life of the loans, which is generally 20 years or more; see Note 6). FDIC is considering whether enabling legislation or other measures may be needed to liquidate the remaining FRF assets and liabilities.

The FRF has been primarily funded from the following sources: 1) U.S. Treasury appropriations; 2) amounts borrowed by the RTC from the Federal Financing Bank (FFB); 3) amounts received from the issuance of capital certificates to REFCORP; 4) funds received from the management and disposition of assets of the FRF; 5) the FRF's portion of liquidating dividends paid by FRF receiverships; and 6) interest earned on Special U.S. Treasury Certificates purchased with proceeds of 4) and 5). If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as appropriated by Congress, to carry out the objectives of the FRF.

Public Law 103-327 provided $827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF-FSLIC. The FRF received $165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 and Public Law 105-61 authorized the use by the U.S. Department of Justice (DOJ) of $26.1 million and $33.7 million, respectively, from the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the United States arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ are paid directly from the FRF-FSLIC 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 $17.5 million and $66.8 million to DOJ for fiscal years 2003 and 2002, 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. At September 30, 2002, DOJ had $68.6 million in unused funds that were applied against FY 2003 charges of $86.1 million. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 6).

FSLIC Resolution Fund

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. Expenses paid by the FRF on behalf of the receiverships are recovered from those receiverships.

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
FDIC 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.

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

Investment in Securitization-Related Assets Acquired From Receiverships
The investment in securitization-related assets acquired from receiverships is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Unrealized gains and losses are computed on a quarterly basis using a cash flow model that calculates the estimated fair value of the assets at termination. This model is updated with current data supplied by the trustees, which includes prepayment speed, delinquency rates, and market pricing. 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 on both the escrow account and the related residual certificate, and are included as components of Net Income. Additionally, realized losses are recognized on the credit enhancement reserve for a decline in fair value that is judged to be an other-than-temporary impairment.

Allowance for Losses on Receivables From Thrift Resolutions
The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all applicable estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

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

Related Parties
Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs that included the National Land Fund; Multiple Investor Fund; N-Series; S-Series; and Judgements, Deficiencies, and Charge-offs programs. The majority of the limited partnership equity interests have been transferred from the receiverships to the FRF. These assets are included in the "Other assets, net" line item in the FRF's Statements of Financial Position.

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 2001 financial statements to conform to the presentation used in 2002.

3. Investment in Securitization-Related Assets Acquired From Receiverships
In 2002, the investment in securitization-related assets decreased by $989 million to $98 million primarily due to the termination of 15 securitization deals. The FRF received $1.1 billion in proceeds from terminations during 2002 and $851 million during 2001. The one remaining deal that is active as of December 31, 2002, is expected to terminate in 2003.

The RTC engaged in numerous securitization transactions in order to maximize the return from the sale or disposition of assets. The RTC sold $42.4 billion of receivership, conservatorship, and corporate loans to various trusts that issued regular pass-through certificates through its mortgage-backed securities program.

A portion of the proceeds from the sale of the certificates was placed in credit enhancement reserves (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. The FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The FRF is entitled to any proceeds remaining in the escrow accounts at termination of the securitization transactions.

As part of the securitization transactions, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

In 1996 and 1998, the escrow accounts and residual certificates were transferred from the receiverships to the FRF for $5.7 billion and $1.4 billion, respectively. Both transfers were offset by amounts owed by the receiverships to the FRF.

Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2002

Dollars in Thousands

	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 47,101	$ 40,092	$ (13,084)	$ 74,109
Residual certificates	8,256	15,749	0	24,005
Total	**$ 55,357**	**$ 55,841**	**$ (13,084)**	**$ 98,114**

Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2001

Dollars in Thousands

	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 553,673	$ 153,567	$ (20,686)	$ 686,554
Residual certificates	227,082	173,466	0	400,548
Total	**$ 780,755**	**$ 327,033**	**$ (20,686)**	**$ 1,087,102**

4. Receivables From Thrift Resolutions, Net

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that failed were made to cover obligations to insured depositors and represent claims by the FRF against the receiverships' assets. Payments to prevent a failure were made to operating institutions when cost and other criteria were met.

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, 2002 and 2001, FRF receiverships held assets with a book value of $290 million and $448 million, respectively (including cash, investments, and miscellaneous receivables of $146 million and $264 million at December 31, 2002 and 2001, 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 non-representative sampling of receivership assets. This non-representative sample, based primarily on asset book values, provided 97% coverage of the entire portfolio's book value. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2002	2001
Assets from open thrift assistance	$ 15,000	$ 384,885
Allowance for losses	(15,000)	(374,885)
Net Assets From Open Thrift Assistance	**0**	**10,000**
Receivables from closed thrifts	27,636,213	32,534,350
Allowance for losses	(27,504,909)	(32,257,895)
Net Receivables From Closed Thrifts	**131,304**	**276,455**
Total	$ **131,304**	$ **286,455**

5. Other Assets, Net

Other Assets, Net at December 31

Dollars in Thousands

	2002	2001
Accounts receivable, net	$ 735	$ 1,555
Due from FDIC funds	0	500
Assets acquired by the Corporation, net	16,428	21,784
Limited partnership equity interests	5,348	5,858
Total	$ **22,511**	$ **29,697**

6. 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 $43.3 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. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation). During 2002, the trial court entered orders finally dismissing 22 Goodwill Litigation cases.

On July 22, 1998, 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.

Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation, 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 material impact on the financial condition of the FRF-FSLIC. Nevertheless, the Civil Division of the DOJ has taken the position that all resources of the FRF must be exhausted before the appropriation may be utilized. The FDIC and the Department of the Treasury disagree with the position advocated by the Civil Division of the DOJ. OLC is considering this question, but has not issued an opinion.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On January 6, 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. However, 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, or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC if the FRF must be exhausted before the Section 110 appropriation may be utilized.

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 plantiffs 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 five of the "Guarini" cases. In one of these cases, damages of approximately $28 million were recently awarded by the Court of Federal Claims subsequent to the date of the financial statements. As the time for filing an appeal has not yet lapsed, there may be appeals. Decisions on liability have not been made in the other two pending cases. An 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. 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 the loans sold subject to unexpired representations and warranties, and guarantees was $173 billion as of December 31, 2002. The contingent liability from all outstanding claims asserted in connection with representations and warranties was $77 thousand and $2.3 million at December 31, 2002 and 2001, 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 FRF 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 FRF from outstanding contracts with unasserted representation and warranty claims.

7. Provision for Losses

The provision for losses was a negative $149 million and a negative $369 million for 2002 and 2001, respectively. In 2002, the negative provision was primarily due to: 1) recoveries of $95 million of net tax benefits sharing from assistance agreements, 2) lower estimated losses of $26 million to the credit enhancement reserve, and 3) lower estimated losses of $20 million for assets in liquidation. The negative provision in 2001 resulted primarily from: 1) recoveries of $163 million of net tax benefits sharing from assistance agreements and 2) recoveries of $120 million from receiverships with positive equity where the FRF is entitled to the positive value of the receivership to reduce the overall cost of resolving the institutions.

FSLIC Resolution Fund

Provision for Losses for the Years Ended December 31				
Dollars in Thousands				
		2002		2001
Valuation Adjustments:				
Open thrift assistance	$	(3,072)	$	(23,652)
Tax benefits sharing recoveries		(95,079)		(163,111)
Closed thrifts		(20,164)		(93,710)
Miscellaneous receivables		(28,776)		(88,758)
Total Valuation Adjustments		**(147,091)**		**(369,231)**
Contingent Liabilities Adjustments:				
Litigation losses		(86)		(2,015)
Representations and warranties		(2,182)		2,259
Total Contingent Liabilities Adjustments		**(2,268)**		**244**
Total	**$**	**(149,359)**	**$**	**(368,987)**

8. 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, 2002						
Dollars in Thousands						
		FRF-FSLIC		FRF-RTC		FRF Consolidated
Contributed capital - beginning	$	44,157,025	$	83,916,004	$	128,073,029
Add: U.S. Treasury payments for goodwill settlement		21,459		0		21,459
Less: REFCORP payments		0		(1,266,667)		(1,266,667)
Contributed capital - ending		**44,178,484**		**82,649,337**		**126,827,821**
Accumulated deficit		(41,282,541)		(81,732,732)		(123,015,273)
Less: Unrealized gain on available-for-sale securities		0		42,757		42,757
Accumulated deficit, net		**(41,282,541)**		**(81,689,975)**		**(122,972,516)**
Total	**$**	**2,895,943**	**$**	**959,362**	**$**	**3,855,305**

FSLIC Resolution Fund

Resolution Equity at December 31, 2001

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,157,025	$ 85,327,901	$ 129,484,926
Less: U.S. Treasury repayments	0	(5,300)	(5,300)
Less: REFCORP payments	0	(1,406,596)	(1,406,596)
Contributed capital - ending	**44,157,025**	**83,916,005**	**128,073,030**
Accumulated deficit	(41,372,610)	(82,133,208)	(123,505,818)
Less: Unrealized gain on available-for-sale securities	0	306,347	306,347
Accumulated deficit, net	**(41,372,610)**	**(81,826,861)**	**(123,199,471)**
Total	**$ 2,784,415**	**$ 2,089,144**	**$ 4,873,559**

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, 2002, as described in Note 1, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $4.122 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 $29.7 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 $11.5 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.2 billion, since their dissolution dates.

9. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

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

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The FRF 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

	2002	2001
Civil Service Retirement System	$ 711	$ 1,055
Federal Employees Retirement System (Basic Benefit)	1,987	2,966
FDIC Savings Plan	1,186	1,748
Federal Thrift Savings Plan	756	1,131
Total	**$ 4,640**	**$ 6,900**

Accrued Annual Leave

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $2.5 million and $4.1 million at December 31, 2002 and 2001, respectively.

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 at no cost to all retirees eligible for an immediate annuity. At December 31, 2002, the FRF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Statement of Financial Position was $466 thousand. At December 31, 2001, the FRF's net postretirement benefit asset recognized in the "Other assets, net" line item in the Statement of Financial Position was $232 thousand.

10. Commitments

Leased Space

The FRF's allocated share of the FDIC's lease commitments totals $8.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the FRF in the future to vary from the amounts shown below. The FRF recognized leased space expense of $4.0 million and $5.5 million for the years ended December 31, 2002 and 2001, respectively.

FSLIC Resolution Fund

Leased Space Commitments

Dollars in Thousands

2003	2004	2005	2006	2007	2008/Thereafter
$2,064	$2,039	$1,898	$1,378	$811	$474

11. Concentration of Credit Risk

Financial instruments that potentially subject the FRF to credit risk consist primarily of: 1) gross receivables from thrift resolutions totaling $27.7 billion and 2) an investment in securitization-related assets acquired from receiverships totaling $98.1 million. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the FRF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are the main source of repayment of the FRF's receivables from thrift resolutions. An allowance for loss of $27.5 billion, or 99.5% of the gross receivable, was recorded as of December 31, 2002. Of the remaining 0.5 percent of the gross receivable, 85% of the receivable is expected to be repaid from receivership cash, cash equivalents, 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, $130.5 million of the underlying mortgages are located in California and $44.3 million of loans are located in New Jersey. No other state accounted for a material portion of the investment.

12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of 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 FRF'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 FRF'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 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.

FSLIC Resolution Fund

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 FRF 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.

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 the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets (see Note 3).

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

	2002	2001
Net Income	**$ 490,545**	**$ 761,960**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	155,151	129,921
(Increase) in securitization-related assets acquired from receiverships	(376,127)	(327,132)
Decrease in other assets	7,185	21,044
(Decrease) in accounts payable and other liabilities	(379)	(26,301)
(Decrease) in liabilities from thrift resolutions	0	(74,872)
(Decrease) Increase in contingent liabilities for litigation losses	(4,758)	729
Net Cash Provided by Operating Activities	**$ 271,617**	**$ 485,349**

14. Subsequent Events

On January 10, 2003, FRF paid REFCORP $400 million from excess FRF-RTC cash, bringing total payments to REFCORP to $4.5 billion.

Comments from the Federal Deposit Insurance Corporation

FDIC

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

Deputy to the Chairman & Chief Financial Officer

March 21, 2003

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

Re: FDIC Management Response on the GAO 2002 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' 2002 and 2001 Financial Statements, GAO-03-543. The report presents GAO's opinions on the calendar year 2002 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2002 and GAO's evaluation of FDIC's compliance with 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 2002 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 over the last eighteen months, and that the weaknesses did not materially affect the 2002 financial statements. We agree with GAO's assessment of both the status and the progress made in addressing IS general control weaknesses. During 2002, FDIC's accomplishments included completion of the first IS controls self assessment, implementation of the Information Security Manager (ISM) program, and development of an information security tactical plan to support FDIC's information security strategic plan. The FDIC will continue efforts to strengthen its IS program and to incorporate GAO's recommendations into its security plans for 2003.

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

Sincerely,

Steven O. App

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

GAO Contacts and Staff Acknowledgments

GAO Contacts

Jeanette M. Franzel, (202) 512-9471
Gregory A. Maio, (202) 512-8172

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, Gloria Medina, Timothy J. Murray, Stacey L. Volis, and Gregory J. Ziombra.

The following staff from the FDIC Office of Inspector General also contributed to this report: Arlene S. Boateng, R. William Harrington, Paul S. Johnston, Marilyn R. Kraus, John S. Leevy, Duane H. Rosenberg, Titus S. Simmons, Ross E. Simms, Charles E. Thompson, and Leon R. Wellons.

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 GAO Mailing Lists" under "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