

**Message  
from the  
Chief  
Financial  
Officer**

**Steven O. App**

I am pleased to report that, for the eleventh consecutive year, the FDIC has received unqualified "clean" opinions from the U.S. General Accounting Office (GAO) on audits of its 2002 financial statements for the Bank Insurance Fund (BIF), Savings Association Insurance Fund (SAIF), and Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). These clean opinions attest to the fact that our financial statements are fairly presented and demonstrate discipline and accountability in the execution of our responsibilities as stewards of these funds.



The Corporation's investment strategy reflects prudent management of the \$32.1 billion BIF and \$11.7 billion SAIF. It is noteworthy that the interest earned on investment securities last year accounted for 94.2 percent of revenues for the BIF and 95.8 percent of revenues for the SAIF, with \$2.26 billion in combined interest earned. Another noteworthy result in 2002 was the large accumulation of unrealized gains on Available for Sale (AFS) securities, particularly in the BIF. For 2002, the BIF accumulated unrealized gains of \$566 million, and the SAIF accumulated unrealized gains of \$192 million. In part, the large balances of unrealized gains helped to maintain the reserve ratios of the funds above the Designated Reserve Ratio (DRR), which benefited the industry by avoiding insurance assessment premium payments. These two factors combined – strong earnings on the investment portfolio and unrealized gains – helped to boost the BIF by \$1.6 billion, the largest calendar year increase since 1995.

Several initiatives focused on reengineering business processes to improve cost measurement and containment. The FDIC budget was restructured to reflect an ongoing operations component, a receivership operations component, and an investment component to help better manage expenses. As a result of aggressive efforts to streamline corporate operations during 2002, the 2003 budget includes estimated spending of \$1.1 billion, which is seven percent lower than 2002 spending. The FDIC also established new and more rigorous procedures for reviewing proposed capital investments. The centerpiece of this new process is the Capital Investment Review Committee (CIRC), which will be responsible for reviewing all major proposed information technology and other investment initiatives before they are funded. The CIRC will carefully assess the projected return on investment of each proposed project, and ensure that there is a sound business case for each project.

The Corporation initiated work on two major investment projects during 2002:

- In March, the Board of Directors unanimously approved the expansion of our Seidman Center office complex in Northern Virginia. The expanded facility will house an additional 1,100 employees who are now working in leased space in downtown Washington, DC. We expect to break ground for the expanded facility in 2003, with completion scheduled for 2006. This expansion will reduce future facility costs by an estimated \$78 million (net present value) over the next 20 years.
- During the fourth quarter, we began development of an integrated financial system, scheduled to be implemented in July 2004. This "New Financial Environment" will improve business processes by adopting the best business practices built into software packages, simplify and consolidate financial systems and data, and enhance the Corporation's ability to address its future financial management and information needs. It will also substantially reduce the costs of financial management and reporting.

The FDIC continues to focus on information technology challenges. During 2002, we conducted a self assessment, with an emphasis on information security, to evaluate our progress in addressing prior audit findings. The FDIC information security program will continue to be strengthened in 2003 to ensure that key management tools are in place to support the Corporation's mission and strategic goals.

The FDIC has evaluated its risk management and internal control systems in accordance with the reporting requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and GAO internal control standards. Based on these assessments, I can provide you with reasonable assurance that the Corporation's risk management and internal control systems, taken as a whole, are in conformance with the standards prescribed by GAO and that the objectives of FMFIA have been achieved.

Finally, this year's Annual Report has been redesigned to help streamline our reporting process by combining the Chief Financial Officers Act Report, the Program Performance Report, and the traditional Annual Report. The performance results contained in this combined report summarize our success in achieving the goals we established for 2002. Our priority is to provide timely, reliable and useful data to our stakeholders. To that end, the FDIC will continue to employ sound financial management techniques and emphasize the importance of a strong risk management and internal control program to meet its statutory, regulatory and fiduciary responsibilities.

Sincerely,



**Steven O. App**