Message from the Chief Financial Officer

Steven O. App

I am pleased to report that the funds managed by the FDIC maintained their strong financial condition in 2004 and to highlight some of our accomplishments in this area.

The U.S. Government Accountability Office (GAO) again issued unqualified audit opinions for all three funds administered by the Corporation (Bank Insurance Fund, Savings Association Insurance Fund, and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund). This marks the 13th consecutive year that we received unqualified opinions, and demonstrates our continued dedication to sound financial management and the reliability of the financial data upon which we make critical decisions. I would like to extend my sincere appreciation to the many individuals whose hard work allowed the FDIC to achieve this milestone.

Financial highlights during 2004 include:

- The Bank Insurance Fund (BIF) increased by $1.0 billion to $34.8 billion, and the Savings Association Insurance Fund (SAIF) increased by $480 million to $12.7 billion, compared to increases of $1.7 billion and $493 million respectively, in 2003.
- Comprehensive income for BIF was $1 billion. This was substantially lower than the $1.7 billion reported last year. This reduction was primarily due to a significant deceleration in the rate at which the provision for insurance losses declined during 2004 when compared to 2003. For 2003, the reduction in the provision for insurance losses added $931 million to comprehensive income, while for 2004 it added only $269 million – a $662 million difference. Earnings on U.S. Treasury obligations were also $80 million lower than in 2003.
- Comprehensive income for SAIF was $480 million. This was slightly lower than the $493 million reported last year. This reduction was primarily due to lower earnings on U.S. Treasury obligations of $6 million in 2004 compared to 2003.
- Both the BIF and the SAIF reported unrealized losses on available-for-sale securities in 2004 of $112 million and $36 million, respectively. The deposit insurance funds experienced such unrealized losses two years in a row. These unrealized losses were largely due to the fact that U.S. Treasury yields generally increased throughout much of the latter half of 2003 and 2004, after dropping sharply in 2002 and early 2003. Despite the modest unrealized losses in 2004, cumulative unrealized gains in the funds remained high at $690 million in the BIF and $238 million in the SAIF.

We continued our efforts to reduce operating costs in 2004. The Board of Directors approved a 2005 Corporate Operating Budget that was virtually unchanged from the 2004 Corporate Operating Budget, despite absorbing higher salary and benefits cost and inflation in non-personnel costs. Total estimated 2005 spending (including 2005 spending for previously approved multi-year investment projects) is estimated to be about $36 million or 2.9 percent lower than in 2004. The FDIC's Capital Investment Review Committee (CIRC) also continued to focus on sound development of large-scale IT-related projects as well as improvements in the management of investment spending. Several major IT projects were re-baselined in 2004, and the Corporation is committed to completing these projects within their revised schedules and budgets.

The FDIC also made considerable progress in 2004 in enhancing its information security programs, taking positive actions in a number of key security program areas. The FDIC provided security awareness training to its employees and contractors, and is working diligently to address recent and emerging IT security standards and guidelines developed by the National Institute of Standards and Technology (NIST). Information technology and systems security remain high priorities at the FDIC, and we are continuously working to strengthen controls in these areas. The Office of Inspector General (OIG) recently completed its annual evaluation of information systems security at the FDIC, as mandated by the Federal Information Security Management Act of 2002, and identified no significant deficiencies that warrant consideration as potential material weaknesses.

The FDIC 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. We have identified no material weaknesses that would affect the accuracy of the financial statements. This report describes our continuing efforts to provide timely and useful performance information to FDIC managers, OMB, and the Congress. Based on these internal management evaluations, and in conjunction with the results of GAO's independent financial statements audits, I can certify with reasonable assurance that the FDIC's risk management and internal control systems, taken as a whole, are in conformance with the standards prescribed by GAO and that we are in compliance with the requirements of FMFIA.

In 2005, the FDIC will continue to focus on effective cost management, produce timely and reliable financial information, and maintain a strong enterprise-wide risk management and internal control program.

Sincerely,

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