Savings Association Insurance Fund

December 31, 2002 and 2001

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.

SAIF

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.

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 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.

SAIF

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 included 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 thru 5 years	5.45%	64,000	66,830	6,298	0	73,128
After 5 years thru 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 thru 5 years	6.10%	75,000	76,764	3,814	0	80,578
After 5 years thru 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.

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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.

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

Dollars in Thousands

Maturity●	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	6.23%	$ 535,000	$ 541,662	$ 12,242	$ 0	$ 553,904
After 1 year thru 5 years	5.91%	2,880,000	2,941,199	317,167	0	3,258,366
After 5 years thru 10 years	5.78%	2,030,000	2,021,651	298,277	0	2,319,928
Treasury Inflation-Indexed After 5 years thru 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 thru 5 years	4.81%	1,235,000	1,342,263	82,983	0	1,425,246
Treasury Inflation-Indexed After 5 years thru 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**

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

▼ For TIIS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIIS include a long-term annual inflation assumption as measured by the CPI-U. The long-term CPI-U consensus forecast is 2.4%, based on figures issued by the Office of Management and Budget and the Congressional Budget Office in early 2002.

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

Dollars in Thousands

Maturity	Yield at Purchase •	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.91%	$ 970,000	$ 973,252	$ 15,735	$ 0	$ 988,987
After 1 year thru 5 years	6.17%	2,540,000	2,592,612	162,155	0	2,754,767
After 5 years thru 10 years	5.65%	2,905,000	2,935,018	138,050	0	3,073,068
Treasury Inflation-Indexed After 5 years thru 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 thru 5 years	6.18%	930,000	942,448	55,065	0	997,513
Treasury Inflation-Indexed After 5 years thru 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**

• 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.

SAIF

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.

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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.

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**

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.

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.

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)**