III. Financial Statements and Notes

Bank Insurance Fund

December 31, 2003 and 2002

Federal Deposit Insurance Corporation

Bank Insurance Fund Balance Sheets at December 31

Dollars in Thousands

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

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

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

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

1. Operations of the Bank Insurance Fund

Overview

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

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

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

Operations of the BIF

The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured institutions and 2) resolve BIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the BIF. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System.

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

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the BIF can incur to the sum of its cash, 90% of the fair market value of other assets, and the amount authorized to be borrowed from the U.S. Treasury. The MOL for the BIF was $57.0 billion and $56.7 billion as of December 31, 2003 and 2002, respectively.

Receivership Operations

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

Recent Legislative Initiatives

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

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

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

Investment in U.S. Treasury Obligations

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

BIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity, except for callable U.S. Treasury securities, which are amortized to the first anticipated call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method.

Cost Allocations Among Funds

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

Capital Assets and Depreciation

The FDIC has designated the BIF as administrator of property and equipment used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges the other funds usage fees representing an allocated share of its annual depreciation expense. These usage fees are recorded as cost recoveries, which reduce operating expenses.

The FDIC buildings are depreciated on a straight-line basis over a 35 to 50 year estimated life. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

Related Parties

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Reclassifications

Reclassifications have been made in the 2002 financial statements to conform to the presentation used in 2003.

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

As of December 31, 2003 and 2002, the book value of investments in U.S. Treasury obligations, net, was $30.5 billion and $27.5 billion, respectively. As of December 31, 2003, the BIF held $6.4 billion of Treasury inflation-indexed securities (TIIS). These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, the BIF held $6.8 billion of callable U.S. Treasury bonds at December 31, 2003. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

U.S. Treasury Obligations at December 31, 2003

Dollars in Thousands

Maturity●	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses ■	Market Value
Held-to-Maturity						
Within 1 year	5.05%	$ 3,365,000	$ 3,449,985	$ 65,110	$ (275)	$ 3,514,820
After 1 year thru 5 years	5.66%	9,985,000	10,244,862	830,414	0	11,075,276
After 5 years thru 10 years	5.42%	1,910,000	1,976,450	191,954	0	2,168,404
Treasury Inflation-Indexed After 5 years thru 10 years	3.82%	620,450	621,776	78,947	0	700,723
Total		**$ 15,880,450**	**$ 16,293,073**	**$ 1,166,425**	**$ (275)**	**$ 17,459,223**
Available-for-Sale						
Within 1 year	2.31%	$ 5,810,000	$ 6,050,064	$ 32,642	$ (230)	$ 6,082,476
After 1 year thru 5 years	4.68%	1,995,000	2,229,143	114,071	0	2,343,214
Treasury Inflation-Indexed After 1 year thru 5 years	3.88%	1,225,321	1,215,319	139,813	0	1,355,132
After 5 years thru 10 years	3.75%	3,887,611	3,912,950	516,001	0	4,428,951
Total		**$ 12,917,932**	**$ 13,407,476**	**$ 802,527**	**$ (230)**	**$ 14,209,773**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 28,798,382**	**$ 29,700,549**	**$ 1,968,952**	**$ (505)**	**$ 31,668,996**

● 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 2003.

■ All unrealized losses occurred during the last 12 months as a result of changes in market interest rates. FDIC has the ability and intent to hold the related securities until maturity within the coming year. As a result, all losses are considered temporary and will be eliminated upon redemption of the securities.

U.S. Treasury Obligations at December 31, 2002

Dollars in Thousands

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

● 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.

As of December 31, 2003 and 2002, the unamortized premium, net of the unamortized discount, was $902 million and $508 million, respectively.

4. Receivables From Bank Resolutions, Net

The receivables from bank resolutions include payments made by the BIF to cover obligations to insured depositors, advances to receiverships for working capital, and administrative expenses paid on behalf of receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. Assets held by BIF receiverships are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2003, there were 31 active receiverships, including three failures in the current year, with assets at failure of $1.1 billion and BIF outlays of $889 million.

As of December 31, 2003 and 2002, BIF receiverships held assets with a book value of $756 million and $1.1 billion, respectively (including cash, investments, and miscellaneous receivables of $436 million and $479 million at December 31, 2003 and 2002, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a sampling of receivership assets. The sampled assets are generally valued by estimating future cash recoveries, net of applicable liquidation cost estimates, and then discounting these net cash recoveries using current market-based risk factors based on a given asset's type and quality. Resultant recovery estimates are extrapolated to the non-sampled assets in order to derive the allowance for loss on the receivable. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic and market conditions. Such uncertainties could cause the BIF's actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

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

As of December 31, 2003, an allowance for loss of $4.4 billion, or 90% of the gross receivable, was recorded. Of the remaining 10% of the gross receivable, the amount of credit risk is limited since over three-fourths of the receivable will be repaid from receivership cash and investments.

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2003	2002
Land	$ 37,352	$ 37,352
Buildings (includes construction-in-process)	180,187	171,362
Application software (includes work-in-process)	177,111	155,196
Furniture, fixtures, and equipment	97,682	98,497
Accumulated depreciation	(204,952)	(159,323)
Total	**$ 287,380**	**$ 303,084**

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

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records a contingent liability and a loss provision for banks (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

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

In addition to these recorded contingent liabilities, the FDIC has identified additional risk in the financial services industry that could result in a material loss to the BIF should potentially vulnerable financial institutions ultimately fail. This risk is evidenced by the level of problem bank assets and the presence of various high-risk banking business models that are particularly vulnerable to adverse economic and market conditions. Due to the uncertainty surrounding future economic and market conditions, there are other banks for which the risk of failure is less certain, but still considered reasonably possible. As a result of these risks, the FDIC believes that it is reasonably possible that the BIF could incur additional estimated losses up to $2.2 billion.

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

Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $111.3 million are reasonably possible.

Other Contingencies

Representations and Warranties

As part of the FDIC's efforts to maximize the return from the sale of assets from bank resolutions, representations and warranties, and guarantees are offered on certain loan sales. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $7.4 billion as of December 31, 2003. The contingent liability from all outstanding claims asserted in connection with representations and warranties was zero and $11.6 million at December 31, 2003 and 2002, respectively.

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

7. Assessments

In compliance with provisions of the FDI Act, as amended, the FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories based on capital ratios and supervisory examination data. The majority of the financial institutions are not assessed. Of those assessed, the assessment rate averaged approximately 20 cents and 22 cents per $100 of assessable deposits for 2003 and 2002, respectively. During 2003 and 2002, $80 million and $84 million were collected from BIF-member institutions, respectively. On November 4, 2003, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2004. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the BIF's obligations. If necessary, the Board may impose more frequent rate adjustments or emergency special assessments.

The FDIC is required to maintain the insurance funds at a designated reserve ratio (DRR) of not less than 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). If the reserve ratio falls below the DRR, the FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates are set, or in accordance with a recapitalization schedule of fifteen years or less. As of September 30, 2003, the BIF reserve ratio was 1.31 percent of estimated insured deposits.

Assessments are also levied on institutions for payments of the interest on obligations issued by the Financing Corporation (FICO). The FICO was established as a mixed-ownership government corporation to function solely as a financing vehicle for the FSLIC. The annual FICO interest obligation of approximately $790 million is paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the BIF and is separate from the regular assessments. The FDIC, as administrator of the BIF and the SAIF, acts solely as a collection agent for the FICO. During 2003 and 2002, $627 million and $621 million, respectively, were collected from BIF-member institutions and remitted to the FICO.

8. Operating Expenses

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

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

Operating Expenses for the Years Ended December 31

Dollars in Thousands

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

9. Provision for Insurance Losses

Provision for insurance losses was a negative $928 million for 2003 and a negative $87 million for 2002. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

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

10. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

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

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

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

Dollars in Thousands

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

Postretirement Benefits Other Than Pensions

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity.

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

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

At December 31, 2003, the BIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was $98 million. At December 31, 2002, the BIF's net postretirement benefit asset recognized in the "Interest receivable on investments and other assets, net" line item in the Balance Sheet was $130 thousand. Key actuarial assumptions used in the accounting for the plan include the discount rate, the rate of compensation increase, and the dental coverage trend rate.

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11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The BIF's allocated share of the FDIC's lease commitments totals $124 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the BIF and the SAIF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $38 million and $37 million for the years ended December 31, 2003 and 2002, respectively.

Leased Space Commitments

Dollars in Thousands

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

Off-Balance-Sheet Exposure:

Asset Securitization Guarantees

As part of the FDIC's efforts to maximize the return from the sale or disposition of assets from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantees, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantees. One deal terminated in 2003 with a cumulative gain to the BIF of $6 million. Although the remaining term of the limited guaranty for the last deal is 23 years, this deal will be evaluated for possible termination in 2004. As of December 31, 2003 and 2002, the maximum off-balance-sheet exposure was $81 million and $202 million, respectively.

Deposit Insurance

As of September 30, 2003, deposits insured by the BIF totaled approximately $2.5 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

12. Disclosures About the Fair Value of Financial Instruments

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

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

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

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

13. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

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