FSLIC Resolution Fund

December 31, 2003 and 2002

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Balance Sheets at December 31

Dollars in Thousands

	2003	2002
Assets		
Cash and cash equivalents	$ 3,278,532	$ 3,618,330
Receivables from thrift resolutions and other assets, net (Note 3)	198,432	251,929
Total Assets	**$ 3,476,964**	**$ 3,870,259**
Liabilities		
Accounts payable and other liabilities	$ 19,381	$ 14,408
Contingent liabilities for litigation losses and other (Note 4)	1,169	546
Total Liabilities	**20,550**	**14,954**
Resolution Equity (Note 6)		
Contributed capital	126,377,851	126,827,821
Accumulated deficit	(122,962,936)	(123,015,273)
Unrealized gain on available-for-sale securities, net (Note 3)	41,499	42,757
Accumulated deficit, net	(122,921,437)	(122,972,516)
Total Resolution Equity	**3,456,414**	**3,855,305**
Total Liabilities and Resolution Equity	**$ 3,476,964**	**$ 3,870,259**

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

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Income and Accumulated Deficit for the Years Ended December 31

Dollars in Thousands

	2003	2002
Revenue		
Interest on U.S. Treasury obligations	$ 32,902	$ 46,835
Realized gain on investment in securitization-related assets acquired from receiverships (Note 3)	756	352,486
Other revenue	16,849	33,756
Total Revenue	**50,507**	**433,077**
Expenses and Losses		
Operating expenses	27,828	45,684
Provision for losses (Note 5)	(57,832)	(149,359)
Expenses for goodwill settlements and litigation (Note 4)	15,324	40,351
Other expenses	12,850	5,856
Total Expenses and Losses	**(1,830)**	**(57,468)**
Net Income	**52,337**	**490,545**
Unrealized loss on available-for-sale securities, net (Note 3)	(1,258)	(263,590)
Comprehensive Income	**51,079**	**226,955**
Accumulated Deficit - Beginning	**(122,972,516)**	**(123,199,471)**
Accumulated Deficit - Ending	**$ (122,921,437)**	**$ (122,972,516)**

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

Federal Deposit Insurance Corporation

FSLIC Resolution 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	$ 32,902	$ 46,835
Recoveries from thrift resolutions	115,437	316,439
Miscellaneous receipts	39,079	32,607
Used by:		
Operating expenses	(31,643)	(44,421)
Disbursements for thrift resolutions	(11,842)	(30,373)
Disbursements for goodwill settlements and judgments	(30)	(21,459)
Disbursements for goodwill litigation expenses	(35,274)	(18,892)
Miscellaneous disbursements	(4,286)	(9,119)
Net Cash Provided by Operating Activities (Note 8)	**104,343**	**271,617**
Investing Activities		
Investment in securitization-related assets acquired from receiverships	5,829	1,101,525
Net Cash Provided by Investing Activities	**5,829**	**1,101,525**
Financing Activities		
Provided by:		
U.S. Treasury payments for goodwill settlements	30	21,459
Used by:		
Payments to Resolution Funding Corporation (Note 6)	(450,000)	(1,266,667)
Net Cash Used by Financing Activities	**(449,970)**	**(1,245,208)**
Net (Decrease)/Increase in Cash and Cash Equivalents	**(339,798)**	**127,934**
Cash and Cash Equivalents - Beginning	**3,618,330**	**3,490,396**
Cash and Cash Equivalents - Ending	**$ 3,278,532**	**$ 3,618,330**

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

FRF

1. Legislative History and Operations/Dissolution of the FSLIC Resolution Fund

Legislative History

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. In addition, FDIC is charged with responsibility 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 (RTC).

The U.S. Congress created the 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 RTC–effective on August 9, 1989.

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 FDIC as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The FIRREA 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. Resolution responsibility was subsequently extended and ultimately transferred from the RTC to the SAIF on July 1, 1995. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions.

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 (FRF-FSLIC), and the other composed of the RTC assets and liabilities (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

Operations/Dissolution 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. In addition, the FRF-FSLIC has available until expended $602.2 million in appropriations to facilitate, if required, efforts to wind up the resolution activity of the FRF-FSLIC.

The FDIC has conducted an extensive review and cataloging of FRF's remaining assets and liabilities and is continuing to explore approaches for concluding FRF's activities. An executive-level Steering Committee was established in 2003 to facilitate the FRF dissolution. 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 and Guarini litigation (no final date for resolution has been established; see Note 4); and 5) environmentally impaired owned real estate assets. FDIC is considering whether enabling legislation or other measures may be needed to accelerate liquidation of the remaining FRF assets and liabilities. The FRF could realize substantial recoveries from item 3 ranging from $235 million to $760 million; however, any associated recoveries are not reflected in FRF's financial statements given the significant uncertainties surrounding the ultimate outcome.

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. Receiverships are billed by the FDIC for services provided on their behalf.

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

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 losses on receivables from thrift resolutions and the estimated losses for litigation.

Fair Value of Financial Instruments

Cash equivalents, which consist of Special U.S. Treasury Certificates, are short-term, highly liquid investments with original maturities of three months or less and are shown at fair value. The carrying amount of short-term receivables and accounts payable and other liabilities approximates their fair market value, due to their short maturities.

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 market and credit risks. Additionally, the credit enhancement reserves, which resulted from swap transactions, are valued by applying a historical loss rate to estimate loss amounts (see Note 3).

The net receivable from thrift resolutions is influenced by the underlying valuation of receivership assets. This corporate receivable is unique and the estimate presented is not indicative of the amount that could be realized in a sale to the private sector. Such a sale would require indeterminate, but substantial, discounts for an interested party to profit from these assets because of credit and other risks. Consequently, it is not practicable to estimate its fair market value.

Cost Allocations Among Funds

Operating expenses not directly charged to the FRF, the BIF, and the SAIF 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.

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. Receivables From Thrift Resolutions and Other Assets, Net

Receivables From Thrift Resolutions

The receivables from thrift resolutions include payments made by the FRF 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 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, 2003, 52 of the 850 FRF receiverships remain active primarily due to unresolved litigation, including Goodwill and Guarini matters.

As of December 31, 2003 and 2002, FRF receiverships held assets with a book value of $215 million and $290 million, respectively (including cash, investments, and miscellaneous receivables of $114 million and $146 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 FRF's actual recoveries to vary from the level currently estimated.

Investment in Securitization-Related Assets Acquired from Receiverships

This investment is classified as available-for-sale with unrealized gains and losses included in Resolution Equity. 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 and are included as components of Net Income. As of December 31, 2003, this investment includes credit enhancement reserves valued at $69 million and residual certificates valued at $21 million. The last securitization deal, valued at $60 million (including $39 million in credit enhancement reserves and $21 million in residual certificates), is expected to terminate in 2004. The remaining $30 million in credit enhancement reserves resulted from swap transactions where the former RTC received mortgage-backed securities in exchange for single-family mortgage loans. The former RTC supplied credit enhancement reserves for the mortgage loans in the form of cash collateral to cover future credit losses over the remaining life of the loans. These reserves may cover future credit losses through 2018.

Receivables From Thrift Resolutions and Other Assets, Net at December 31

Dollars in Thousands

	2003	2002
Receivables from closed thrifts	$ 22,940,793	$ 27,636,213
Allowance for losses	(22,846,309)	(27,504,909)
Receivables from Thrift Resolutions, Net	**94,484**	**131,304**
Investment in securitization-related assets acquired from receiverships	$ 90,272	$ 98,114
Other assets	13,676	22,511
Total	**$ 198,432**	**$ 251,929**

Gross receivables from thrift resolutions and the investment in securitization-related assets subject the FRF to credit risk. An allowance for loss of $22.8 billion, or 99.6% of the gross receivable, was recorded as of December 31, 2003. Of the remaining 0.4% of the gross receivable, over three-fourths of the receivable is expected to be repaid from receivership cash, investments, 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, $42.4 million of the underlying mortgages are located in California and $27.2 million of loans are located in New Jersey. No other state accounted for a material portion of the investment.

4. 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 $39 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. Approximately 61 cases are pending against the United States based on alleged breaches of these agreements.

On July 22, 1998, the Department of Justice's (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.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On December 1, 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. 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. However, the FRF can draw from an appropriation provided by Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113,

Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation. This appropriation is 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 impact on the financial condition of the FRF-FSLIC.

In addition, the FRF-FSLIC pays the goodwill litigation expenses incurred by DOJ 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 $33.3 million and $17.5 million to DOJ for fiscal years 2004 and 2003, 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. In April 2003, DOJ returned $20 million of unused fiscal year funds. At September 30, 2003, DOJ had $19.9 million in unused funds that were applied against FY 2004 charges of $53.2 million.

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 plaintiffs 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 six of the eight "Guarini" cases. The United States Court of Federal Claims has entered an award for the plaintiffs in three of these cases and appeals have been filed by DOJ. A decision on liability has not been made in the seventh case, and the 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. The majority of loans subject to these agreements have most likely been paid off or refinanced due to the current interest rate climate or the period for filing claims has expired. However, there is no reporting mechanism to determine the aggregate amount of remaining loans. Therefore, the FDIC is unable to provide an estimate of maximum exposure to the FRF. Based on the above and our history of claims processed, the FDIC believes that any future representation and warranty liability to the FRF would be minimal.

5. Provision for Losses

The provision for losses was a negative $58 million and a negative $149 million for 2003 and 2002, respectively. In 2003, the negative provision was primarily due to lower estimated losses for assets in liquidation and recoveries of net tax benefits sharing from assistance agreements. The negative provision in 2002 was primarily due to the recoveries of net tax benefits sharing from assistance agreements.

6. 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, 2003

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,178,484	$ 82,649,337	$ 126,827,821
Add: U.S. Treasury payments for goodwill settlement	30	0	30
Less: REFCORP payments	0	(450,000)	(450,000)
Contributed capital - ending	**44,178,514**	**82,199,337**	**126,377,851**
Accumulated deficit	(41,241,633)	(81,721,303)	(122,962,936)
Less: Unrealized gain on available-for-sale securities	0	41,499	41,499
Accumulated deficit, net	**(41,241,633)**	**(81,679,804)**	**(122,921,437)**
Total	**$ 2,936,881**	**$ 519,533**	**$ 3,456,414**

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, 2003, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $4.572 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 $29.8 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 $11.4 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.3 billion, since their dissolution dates.

7. Employee Benefits

Pension 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 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. The FRF's pro rata share of pension-related expenses was $2.2 million and $4.6 million, as of December 31, 2003 and 2002, respectively.

Postretirement Benefits Other Than Pensions

Beginning in 2003, the FRF no longer records a liability for the postretirement benefits of life and dental insurance as a result of FDIC's change in funding policy for these benefits and elimination of the separate entity. In implementing this change, management decided not to allocate either the plan assets or the revised net accumulated postretirement benefit obligation (a long-term liability) to FRF due to the expected dissolution of the Fund in the short-term. However, FRF does continue to pay its proportionate share of the yearly claim expenses associated with these benefits.

8. 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	**$ 52,337**	**$ 490,545**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Assets and Liabilities:		
Decrease (Increase) in receivables from thrift resolutions and other assets	46,410	(213,791)
Increase (Decrease) in accounts payable and other liabilities	4,973	(379)
Increase (Decrease) in contingent liabilities for litigation losses and other	623	(4,758)
Net Cash Provided by Operating Activities	**$ 104,343**	**$ 271,617**