Savings Association Insurance Fund

December 31, 2003 and 2002

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Balance Sheets at December 31

Dollars in Thousands

	2003	2002
Assets		
Cash and cash equivalents	$ 827,141	$ 1,907,353
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $231.9 million and $187.7 million at December 31, 2003 and 2002, respectively)*	319,286	311,864
Investment in U.S. Treasury obligations, net: (Note 4)		
Held-to-maturity securities	6,823,709	5,726,840
Available-for-sale securities	4,152,048	3,769,576
Interest receivable on investments and other assets, net	188,189	153,320
Receivables from thrift resolutions, net (Note 5)	273,242	287,855
Total Assets	**$ 12,583,615**	**$ 12,156,808**
Liabilities		
Accounts payable and other liabilities	$ 20,540	$ 7,100
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	3,192	90,493
Litigation losses	532	613
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	319,286	311,864
Total Liabilities	**343,550**	**410,070**
Commitments and off-balance-sheet exposure (Note 11)		
Fund Balance		
Accumulated net income	11,965,776	11,465,716
Unrealized gain on available-for-sale securities, net (Note 4)	274,289	281,022
Total Fund Balance	**12,240,065**	**11,746,738**
Total Liabilities and Fund Balance	**$ 12,583,615**	**$ 12,156,808**

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

	2003	2002
Revenue		
Interest on U.S. Treasury obligations	$ 532,474	$ 564,259
Assessments (Note 7)	14,594	23,783
Other revenue	192	779
Total Revenue	**547,260**	**588,821**
Expenses and Losses		
Operating expenses (Note 8)	129,584	124,363
Provision for insurance losses (Note 9)	(82,489)	(156,494)
Insurance and other expenses	105	751
Total Expenses and Losses	**47,200**	**(31,380)**
Net Income	**500,060**	**620,201**
Unrealized (loss)/gain on available-for-sale securities, net	(6,733)	191,613
Comprehensive Income	**493,327**	**811,814**
Fund Balance - Beginning	**11,746,738**	**10,934,924**
Fund Balance - Ending	**$ 12,240,065**	**$ 11,746,738**

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

	2003	2002
Operating Activities		
Provided by:		
Interest on U.S. Treasury obligations	$ 620,842	$ 576,192
Assessments	15,327	23,709
Entrance and exit fees, including interest on exit fees (Note 3)	4,305	15,811
Recoveries from thrift resolutions	13,419	1,126,940
Miscellaneous receipts	15,344	73
Used by:		
Operating expenses	(130,495)	(125,159)
Disbursements for thrift resolutions	(6,541)	(119,993)
Miscellaneous disbursements	(108)	(103)
Net Cash Provided by Operating Activities (Note 13)	**532,093**	**1,497,470**
Investing Activities		
Provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,170,000	1,070,000
Maturity of U.S. Treasury obligations, available-for-sale	575,000	150,000
Used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(2,305,056)	0
Purchase of U.S. Treasury obligations, available-for-sale	(1,008,066)	(970,813)
Net Cash (Used by) Provided by Investing Activities	**(1,568,122)**	**249,187**
Net (Decrease)/Increase in Cash and Cash Equivalents	**(1,036,029)**	**1,746,657**
Cash and Cash Equivalents - Beginning	**2,095,081**	**348,424**
Unrestricted Cash and Cash Equivalents - Ending	**827,141**	**1,907,353**
Restricted Cash and Cash Equivalents - Ending	**231,911**	**187,728**
Cash and Cash Equivalents - Ending	**$ 1,059,052**	**$ 2,095,081**

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

1. Operations of the Savings Association 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. FDIC is the administrator of the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF), which 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. 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 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. 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 SAIF

The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions and 2) resolve SAIF-insured failed institutions upon appointment of FDIC as receiver in a manner that will result in the least possible cost to the SAIF.

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 FDIC has borrowing authority from the U.S. Treasury up to $30 billion for insurance purposes on behalf of the SAIF and the BIF.

A statutory formula, known as the Maximum Obligation Limitation (MOL), limits the amount of obligations the SAIF 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 SAIF was $20.3 billion and $19.9 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 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. 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 SAIF and BIF 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 SAIF and BIF. 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 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

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 thrift 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

SAIF 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 SAIF 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.

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, 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 SAIF, the BIF, 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.

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. 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 2003 and 2002 that resulted in an entrance/exit fee to the SAIF.

Cash and Other Assets: Restricted for SAIF-Member Exit Fees at December 31

Dollars in Thousands

	2003	2002
Cash and cash equivalents	$ 231,911	$ 187,728
Investment in U.S. Treasury obligations, net	86,471	122,402
Interest receivable on U.S. Treasury obligations	904	1,734
Total	**$ 319,286**	**$ 311,864**

U.S. Treasury Obligations at December 31, 2003 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity					
Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Market Value
Within 1 year	5.79%	$ 20,000	$ 20,267	$ 683	$ 20,950
After 1 year thru 5 years	5.20%	64,000	66,204	5,349	71,553
Total		**$ 84,000**	**$ 86,471**	**$ 6,032**	**$ 92,503**

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	Market Value
Within 1 year	6.59%	$ 35,000	$ 34,986	$ 222	$ 35,208
After 1 year thru 5 years	5.45%	64,000	66,830	6,298	73,128
After 5 years thru 10 years	4.99%	20,000	20,586	2,108	22,694
Total		**$ 119,000**	**$ 122,402**	**$ 8,628**	**$ 131,030**

As of December 31, 2003 and 2002, the unamortized premium, net of the unamortized discount, was $2.5 million and $3.4 million, respectively.

4. 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 $11.0 billion and $9.5 billion, respectively. As of December 31, 2003, the SAIF held $2.2 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 SAIF held $2.5 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 (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	2.86%	$ 1,670,000	$ 1,742,136	$ 12,009	$ (122)	$ 1,754,023
After 1 year thru 5 years	5.59%	3,185,000	3,250,611	284,578	0	3,535,189
After 5 years thru 10 years	5.54%	1,575,000	1,603,674	169,813	0	1,773,487
Treasury Inflation-Indexed						
After 1 year thru 5 years	3.86%	229,032	227,288	26,008	0	253,296
Total		**$ 6,659,032**	**$ 6,823,709**	**$ 492,408**	**$ (122)**	**$ 7,315,995**
Available-for-Sale						
Within 1 year	3.15%	$ 1,360,000	$ 1,413,730	$ 16,265	$ (99)	$ 1,429,896
After 1 year thru 5 years	4.43%	655,000	756,058	34,530	0	790,588
Treasury Inflation-Indexed After 1 year thru 5 years	4.11%	280,564	276,009	34,278	0	310,287
After 5 years thru 10 years	3.79%	1,429,352	1,431,962	189,315	0	1,621,277
Total		**$ 3,724,916**	**$ 3,877,759**	**$ 274,388**	**$ (99)**	**$ 4,152,048**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 10,383,948**	**$ 10,701,468**	**$ 766,796**	**$ (221)**	**$ 11,468,043**

● 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.

SAIF

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

Dollars in Thousands

Maturity ●	Yield at Purchase ▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Market Value
Held-to-Maturity					
Within 1 year	6.23%	$ 535,000	$ 541,662	$ 12,242	$ 553,904
After 1 year thru 5 years	5.91%	2,880,000	2,941,199	317,167	3,258,366
After 5 years thru 10 years	5.78%	2,030,000	2,021,651	298,277	2,319,928
Treasury Inflation-Indexed After 5 years thru 10 years	3.85%	224,432	222,328	23,917	246,245
Total		**$ 5,669,432**	**$ 5,726,840**	**$ 651,603**	**$ 6,378,443**
Available-for-Sale					
Within 1 year	5.77%	$ 475,000	$ 473,317	$ 9,660	$ 482,977
After 1 year thru 5 years	4.81%	1,235,000	1,342,263	82,983	1,425,246
Treasury Inflation-Indexed After 5 years thru 10 years	3.84%	1,675,573	1,672,974	188,379	1,861,353
Total		**$ 3,385,573**	**$ 3,488,554**	**$ 281,022**	**$ 3,769,576**
Total Investment in U.S. Treasury Obligations, Net					
Total		**$ 9,055,005**	**$ 9,215,394**	**$ 932,625**	**$ 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.

As of December 31, 2003 and 2002, the unamortized premium, net of the unamortized discount, was $317.5 million and $160.4 million, respectively.

5. Receivables From Thrift Resolutions, Net

The receivables from thrift resolutions include payments made by the SAIF 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 SAIF receiverships are the main source of repayment of the SAIF's receivables from closed thrifts. During 2003, there were no thrift failures, leaving two active receiverships.

As of December 31, 2003 and 2002, SAIF receiverships held assets with a book value of $449 million and $490 million, respectively (including cash, investments, and miscellaneous receivables of $117 million and $93 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 SAIF's actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2003	2002
Receivables from closed thrifts	$ 709,389	$ 721,572
Allowance for losses	(436,147)	(433,717)
Total	**$ 273,242**	**$ 287,855**

At December 31, 2003, about 99% of the SAIF's $273 million net receivable will be repaid from assets related to the Superior receivership (which failed in July 2001), primarily, cash, investments, 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.

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, 2003 and 2002, the contingent liabilities for anticipated failure of insured institutions were $3 million and $90 million, 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 SAIF should potentially vulnerable financial institutions ultimately fail. This risk is evidenced by the level of problem thrift 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 thrifts 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 SAIF could incur additional estimated losses up to $143 million.

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 $53.4 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 thrift resolutions, representations and warranties, and guarantees were 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 $5.2 billion as of December 31, 2003. SAIF did not establish a liability for all outstanding claims asserted in connection with representations and warranties because the receiverships have sufficient funds to pay for such claims.

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 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.

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 SAIF. 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 14 cents and 26 cents per $100 of assessable deposits for 2003 and 2002, respectively. During 2003 and 2002, $15 million and $24 million were collected from SAIF-member institutions, respectively. On November 4, 2003, 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 2004. The Board reviews assessment rates semiannually to ensure that funds are available to satisfy the SAIF'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 SAIF reserve ratio was 1.40 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 SAIF and is separate from the regular assessments. The FDIC, as administrator of the SAIF and the BIF, acts solely as a collection agent for the FICO. During 2003 and 2002, $162 million and $161 million, respectively, were collected from SAIF-member institutions and remitted to the FICO.

8. Operating Expenses

Operating expenses totaled $130 million for 2003 compared to $124 million for 2002. Salaries and benefits expenses are lower due to the workforce reduction programs in 2002. The chart below lists the major components of operating expenses.

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 the employee’s current base salary and locality adjustment for voluntary departures. The total cost of this buyout was $33.1 million for 2002, with SAIF’s pro rata share totaling $4.2 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.

Operating Expenses for the Years Ended December 31

Dollars in Thousands

	2003	2002
Salaries and benefits	$ 87,963	$ 92,192
Outside services	15,038	12,196
Travel	5,801	5,473
Buildings and leased space	12,132	10,163
Equipment	9,374	7,858
Other	3,189	2,254
Services billed to receiverships	(3,913)	(5,773)
Total	**$ 129,584**	**$ 124,363**

9. Provision for Insurance Losses

Provision for insurance losses was a negative $82 million for 2003 and a negative $156 million for 2002. In both 2003 and 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

	2003	2002
Valuation Adjustments:		
Closed thrifts	$ 4,684	$ (10,113)
Total Valuation Adjustments	**4,684**	**(10,113)**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(87,301)	(142,507)
Litigation losses	128	(3,874)
Total Contingent Liabilities Adjustments	**(87,173)**	**(146,381)**
Total	**$ (82,489)**	**$ (156,494)**

10

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 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.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions up to five percent. The SAIF 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	$ 1,258	$ 1,715
Federal Employees Retirement System (Basic Benefit)	4,682	4,765
FDIC Savings Plan	2,788	2,951
Federal Thrift Savings Plan	1,900	1,913
Separation Incentive Payment (see Note 8)	14	4,276
Total	**$ 10,642**	**$ 15,620**

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 SAIF 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 SAIF received $14 million, of the total $103 million, as its proportionate share of the plan assets and recognized a liability of $14 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 a negative $43 thousand which is included in the "Insurance and other expenses" line item on the SAIF's Statements of Income and Fund Balance. In addition to the cumulative effect, the SAIF's expense for such benefits in 2003 was $1 million, which is included in the current year operating expenses. In the absence of the accounting change, the SAIF would have recognized an expense of $925 thousand.

At December 31, 2003 and 2002, the SAIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Balance Sheet was $15 million and $145 thousand, respectively. 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.

11. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space
The SAIF's allocated share of the FDIC's lease commitments totals $19.4 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 and the BIF. 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 $7.9 million and $6.5 million for the years ended December 31, 2003 and 2002, respectively.

Leased Space Commitments

Dollars in Thousands

2004	2005	2006	2007	2008	2009/Thereafter
$ 5,849	$ 5,117	$ 3,522	$ 2,138	$ 1,392	$ 1,418

Off-Balance-Sheet Exposure:

Deposit Insurance
As of September 30, 2003, deposits insured by the SAIF totaled approximately $868 billion. 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 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

	2003	2002
Net Income	**$ 500,060**	**$ 620,201**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations (unrestricted)	155,993	47,333
TIIS inflation adjustment	(38,943)	(37,429)
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury obligations (restricted)	931	811
(Increase) Decrease in entrance and exit fees receivable, including interest receivable on investments and other assets	(34,040)	5,317
Decrease in receivables from thrift resolutions	14,613	997,295
Increase (Decrease) in accounts payable and other liabilities	13,440	(1,011)
(Decrease) in contingent liability for anticipated failure of insured institutions	(87,301)	(142,507)
(Decrease) in contingent liability for litigation losses	(82)	(5,029)
Increase in exit fees and investment proceeds held in escrow	7,422	12,489
Net Cash Provided by Operating Activities	**$ 532,093**	**$ 1,497,470**