Federal Deposit Insurance Corporation

Annual Report 2003

FDIC

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.

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other state and federal regulatory agencies, the FDIC promotes the safety and soundness of the U.S. financial system and the insured depository institutions by identifying, monitoring and addressing risks to the deposit insurance funds.

The FDIC promotes public understanding and the development of sound public policy by providing timely and accurate financial and economic information and analyses. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of excellence in public service is supported and sustained by a highly skilled and diverse workforce that continuously monitors and responds rapidly and successfully to changes in the financial environment.

Mission

The FDIC, an independent agency created by the Congress, contributes to stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships.

Vision

The FDIC is an organization dedicated to identifying, analyzing and addressing existing and emerging risks in order to promote stability and public confidence in the nation's financial system.

Values

The FDIC has identified seven core values that guide corporate operations. The values reflect the ideals that the FDIC expects all of its employees to strive for as they accomplish the tasks needed to fulfill the mission.

- **Financial Stewardship**
  The FDIC is committed to being a responsible fiduciary in its efforts to provide insured institutions the best value for their contributions to the insurance funds.

- **Effectiveness**
  The FDIC's reputation rests on its professionalism, its adherence to the highest ethical standards, and its skilled and dedicated workforce.

- **Responsiveness**
  The FDIC responds rapidly, innovatively, and effectively to risks to the financial system. It works effectively with other federal and state supervisors to achieve consistency in policy and regulation. It seeks and considers information from the Congress, the financial institution industry, individuals seeking and receiving financial services, and others outside the FDIC in the development of policy. The FDIC seeks to minimize regulatory burden while fulfilling its statutory responsibilities.

- **Teamwork**
  The FDIC promotes and reinforces a corporate perspective and challenges its employees to work cooperatively across internal and external organizational boundaries.

- **Fairness**
  The FDIC treats everyone fairly and equitably. It exercises its responsibilities with care and impartiality, promotes a work environment that is free of discrimination and values diversity, and adheres to equal opportunity standards.

- **Service**
  The FDIC's long and continuing tradition of public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to change.

- **Integrity**
  The FDIC performs its work with the highest integrity, requiring the agency to be, among other things, honest and fair. The FDIC can accommodate the honest difference of opinion; it cannot accommodate the compromise of principle. Integrity is measured in terms of what is right and just, standards to which the FDIC is committed.

FDIC
Federal Deposit Insurance Corporation
550 17th St. NW Washington DC, 20429 Office of the Chairman

February 13, 2004

Sirs,

In accordance with:

- the provisions of section 17(a) of the Federal Deposit Insurance Act,
- the Chief Financial Officers Act of 1990, Public Law 101-576, and
- the Government Performance and Results Act of 1993,

the Federal Deposit Insurance Corporation is pleased to submit its 2003 Annual Report.

Sincerely,

Donald E. Powell
Chairman

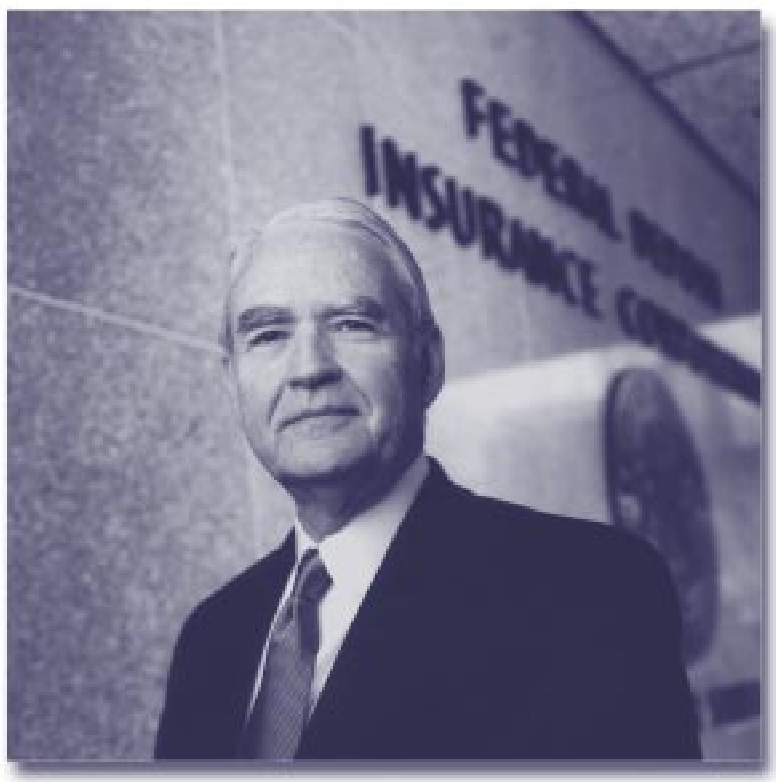
The President of the United States
The President of the United States Senate
The Speaker of the United States House of Representatives

Our Priorities

- ★ Stability
- ★ Sound Policy
- ★ Stewardship

Message from the Chairman

Donald E. Powell



James Kegley

On behalf of the Federal Deposit Insurance Corporation (FDIC), I am pleased to present the 2003 Annual Report. During 2003, our focus was to promote the **stability** of the financial services industry, develop and effectively articulate **sound policy**, and research and administer corporate operations in a manner consistent with good **stewardship** of the deposit insurance funds. It gives me great pleasure to highlight just a few of our major achievements in 2003:

- We established an inter-divisional Risk Analysis Center (RAC) to identify, quantify, and respond more quickly and effectively to existing and emerging risks to the deposit insurance funds. The RAC allows us to better coordinate risk-monitoring efforts and action plans among the various business units of the FDIC. It brings together economists, bank examiners, financial analysts and others involved in assessing risk to the banking industry and the deposit insurance funds.
- We continued to expand the *Money Smart* program to promote financial literacy among low and moderate-income Americans outside of the financial mainstream. The *Money Smart* curriculum is now available in English, Spanish, Chinese and Korean. Since the rollout of *Money Smart* a little over two years ago, we have trained over 5,000 volunteer instructors and taught over 100,000 people. The FDIC has taken the lead in establishing partnerships with community groups and bankers to link services such as applying for Earned Income Tax Credit (EITC) funds, offering free tax preparation services and other incentives to promote and provide financial education. As a result of these partnerships, we have seen nearly 14,000 previously unbanked consumers establish new bank accounts. In 2003, we were honored to receive the Partnership for Public Service's prestigious *Service to America Business and Commerce* medal for our efforts in this area.
- We established the Center for Financial Research (CFR) to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. The CFR is a partnership between the FDIC and the academic community, with prominent scholars integrally involved in managing and directing its research program. The research sponsored by the CFR will explore key developments affecting the banking industry, risk measurement and management methods, regulatory policy and other topics of interest to the FDIC and the larger financial community. The CFR provides financial support for researchers outside of the FDIC to undertake relevant projects in selected program areas, and provides a forum for exchanging ideas among regulators, academicians and financial industry representatives. The CFR will be organizing research roundtables, workshops and discussion groups on issues critical to the business of the FDIC.
- We joined with other regulators in a multi-year interagency effort under the leadership of FDIC Vice Chairman John Reich to eliminate outdated or unnecessary regulations that impose costly, time-consuming burdens on the banking industry, in accordance with the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA). During the past year the federal banking agencies issued an EGRPRA *Federal Register* notice seeking industry and public comment on the regulatory review program and the first set of regulations subject to this review.

- We reached an agreement with our Federal Financial Institutions Examination Council (FFIEC) partners to build and implement a new internet-based Central Data Repository (CDR) for Call Reporting and other regulatory reports. The CDR will employ cutting edge technology based on the XBRL (Extensible Business Reporting Language) data standard. This system will reduce the reporting burden on the industry while simultaneously providing high quality, more timely data to regulators, financial institutions and the public.
- Again this year, we made progress toward the enactment of comprehensive deposit insurance reform legislation that would combine the deposit insurance funds, give the FDIC greater managerial control over the combined funds and protect the level of deposit insurance coverage by indexing it to inflation. I testified before the House Financial Services Committee and the Senate Banking Committee in support of the FDIC's deposit insurance reform proposals. The House passed reform legislation in April by a vote of 411 to 11. The FDIC will continue to focus attention on this important issue during the second session of the 108th Congress.
- We completed implementation of an internet portal, FDIC*connect*, to facilitate the electronic exchange of information between the FDIC and its insured institutions and began to make initial use of it for the electronic filing of branch applications by insured institutions and Beneficial Ownership Reports by directors, officers, and principal shareholders of insured financial institutions. In addition, quarterly assessment invoices were made available to insured institutions for the first time through FDIC*connect*.
- We completed a comprehensive Information Technology (IT) Program Assessment and named a Chief Information Officer (CIO) who will provide leadership in improving our IT program. The new CIO will ensure that our corporate-wide information technology needs are met in a cost-effective manner, and that our information systems meet the highest security standards.
- We appointed the FDIC's first Chief Learning Officer and five Deans to provide leadership for our new Corporate University (CU). The CU was established to help our employees keep pace with changes in the banking industry, broaden their perspectives, sharpen their job skills, and enhance their leadership expertise.

As Chairman, I will continue to work diligently with the dedicated men and women of the FDIC to support the stability of the banking industry, promote sound banking policy, and be an effective steward of the insurance funds. The FDIC has helped to provide financial stability in the U.S. banking industry for 70 years, and in that time, not one penny of federally-insured depositors' money has ever been lost. We are proud of that accomplishment and committed to continuing that record in 2004.

Sincerely,

Donald E. Powell

Message from the Chief Financial Officer

Steven O. App

I am pleased to present the FDIC's 2003 Annual Report, which provides our stakeholders with meaningful financial and program performance information and summarizes our success in meeting our 2003 goals and objectives. The FDIC is dedicated to providing timely, reliable and useful information to our stakeholders. To that end, I am especially proud that this report and the annual financial statements audits were produced for the first time within the new financial reporting benchmark for all Cabinet-level agencies, 45 days after the end of the fiscal year.

Financial highlights during 2003 include:

- The Bank Insurance Fund (BIF) increased by $1.7 billion to $33.8 billion, and the Savings Association Insurance Fund (SAIF) increased by $493 million to $12.2 billion, compared to $1.6 billion and $812 million, respectively, in 2002.
- Assessment income declined for both funds in 2003, and interest earned on the funds suffered from the continuing low interest rate environment. The interest earned on the BIF declined by $162 million, or ten percent, and the interest earned on the SAIF declined by $32 million, or six percent.
- Both the BIF and the SAIF reported unrealized losses on available-for-sale securities in 2003 of $10 million and $7 million, respectively, following a large accumulation of unrealized *gains* in 2002 of $566 million and $192 million, respectively. These unrealized losses were largely due to the fact that interest rates increased and reached a plateau in late 2003 after dropping sharply in 2002 and early 2003. Despite the modest unrealized losses in 2003, cumulative unrealized gains in the funds remained high at $802 million in the BIF and $274 million in the SAIF.
- Although assessments, interest revenue, and unrealized gains declined in 2003 for both funds, this was more than offset in the BIF and partially offset in the SAIF by a reduction in the estimated losses for future failures of $830 million and $87 million, respectively. The overall reduction was primarily the result of an improvement in the loss reserve calculation methodology and the improved financial condition of a few large troubled institutions.

Efforts to reduce operating costs continued in 2003. The Board of Directors approved a 2004 Corporate Operating Budget that was $5 million lower than the 2003 Corporate Operating Budget, despite absorbing higher cost for salaries and benefits on a per capita basis, and inflation in non-personnel cost. However, total estimated spending is projected to rise by $90 million to $1.2 billion, in 2004, because of higher spending on several major capital investment projects that are now underway. That investment spending will in most cases reduce future operating costs.

A strong capital investment management program is critical to attaining the Corporation's business goals. In late 2002, the Capital Investment Review Committee (CIRC) was established to review major proposed investment projects before their submission to the Board of Directors and to oversee those projects for which the Board approves funding.

Highlights of some of the FDIC's major capital investment projects during 2003 follow:

- Construction began in September to expand FDIC's Seidman Center office complex and training center in Northern Virginia with completion scheduled for early 2006. Compared to the projected costs of continued leasing in downtown Washington, DC, the project will save the FDIC an estimated $78 million over 20 years on a net present value basis.
- Under the auspices of the Federal Financial Institutions Examination Council, an inter-agency project was initiated to consolidate and streamline the collection, editing, and publication of quarterly bank financial reports through a Central Data Repository (CDR).
- A new enterprise solution was approved to better manage failed bank and thrift asset-servicing functions. The Asset Servicing Technology Enhancement Project (ASTEP) will permit the Corporation to replace obsolete systems and maximize the use of outsourcing while maintaining centralized asset management information through the use of "middleware."

To keep pace in an ever-changing technological environment, the Corporation conducted a comprehensive review of its information technology program. The review focused on information technology process improvements, sourcing strategies and organizational structure. The FDIC also worked to strengthen its information security program by developing additional policies and procedures and initiating a more extensive self-assessment program.

The U.S. General Accounting Office (GAO) issued unqualified opinions on the FDIC's 2003 financial statements audits of the BIF, SAIF, and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). This is the twelfth consecutive year the Corporation received unqualified opinions for all three funds.

The FDIC evaluated its risk management and internal control systems in accordance with the reporting requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and GAO internal control standards. I can provide you with reasonable assurance, based on these assessments, that the Corporation's risk management and internal control systems, taken as a whole, are in conformance with the standards prescribed by GAO and that the objectives of FMFIA have been achieved. No material weaknesses were found in the FDIC's system of internal controls that would affect the accuracy of the financial statements.

The FDIC will continue in 2004 to meet its statutory, regulatory and fiduciary responsibilities through sound financial management and a strong risk management and internal control program.

Sincerely,

Steven O. App

Steven O. App

I. Management's Discussion and Analysis

Operations of the Corporation – The Year in Review

As the FDIC marked its 70th anniversary in 2003, it continued to ensure the stability of the nation's financial services industry – the Corporation's original mandate in 1933. Much has changed for the FDIC over seven decades, including the tools it uses to conduct bank examinations, the way it markets failed bank assets, and the manner in which it assesses risk to the deposit insurance funds. However, what has remained constant are the reliability of deposit insurance and the public's confidence in the FDIC and the nation's financial system.

During 2003, the FDIC continued to strive to meet the challenges of an ever-evolving banking industry – challenges associated with globalization, advances in technology and industry consolidation. The FDIC provided leadership on important economic and policy issues, working to enact deposit insurance reform legislation, and holding symposia for policymakers, regulators and others to engage in dialogue on significant public policy concerns. It also continued to monitor emerging risks to the deposit insurance funds, while improving its internal operations to better meet the challenges of the future.

Highlights of the Corporation's 2003 accomplishments are presented below for each of its three major business lines – Insurance, Supervision and Consumer Protection, and Receivership Management.

Insurance

The FDIC insures bank and savings association deposits. As insurer, the FDIC must continually evaluate how changes in the economy, the financial markets and the banking system affect the adequacy and the viability of the deposit insurance funds. During 2003, the FDIC sought to enhance its risk analysis and management, promote sound public policies, and resolve failed institutions in a timely manner.

Enhanced Risk Analysis and Management

The FDIC employs a robust, integrated risk analysis process that was strengthened by several initiatives in 2003. The Risk Analysis Center (RAC) was established in March. Located at the FDIC's headquarters in Washington, DC, the RAC brings together economists, bank examiners, financial analysts, and others involved in assessing risks to the banking industry and the insurance funds. Under the auspices of the RAC, individuals from these various disciplines work together to monitor and analyze economic, financial, regulatory and supervisory trends, and their potential implications for the continued financial health of the banking industry and the deposit insurance funds. Comprehensive solutions are developed to address risks identified during this process.

The principle of a coordinated approach to analyzing and addressing risks also extends to Regional Risk Committees (RRCs), which have operated for a number of years, but were formally chartered in January 2003. Each of the FDIC's six regional offices has an RRC that meets regularly, engaging individuals from various disciplines to analyze and address the unique risks facing the region.

Art Murton, Mike Zamorski, Mitchell Glassman, and Chairman Powell officially open the RAC.

In January 2003, the National Risk Committee (NRC) was chartered to provide a forum for executive leadership to consider and coordinate risk management activities across the FDIC. The RAC and RRCs provide data and reports to the NRC to support policy and resource allocation decisions of the NRC. Among other things, the NRC is responsible for ensuring that the FDIC takes appropriate actions to address identified risks and that these risks and FDIC's actions are effectively communicated to internal and external audiences.

Improved Financial Risk Management Practices

In 2003, the FDIC hired an independent, outside consultant to review the FDIC's financial risk management practices. This review focused particularly on the methodology and processes used by the interdivisional Financial Risk Committee (FRC), which is responsible for recommending quarterly the amount of the BIF and SAIF contingent liability for anticipated bank and thrift failures. The final report, *Strengthening Financial Risk Management at the FDIC*, reflects the FDIC's commitment to ensuring that our methods and procedures remain effective and represent industry best practices. The report provided meaningful suggestions to enhance the overall accuracy, robustness and transparency of the FDIC's contingent loss-reserving process. It also laid out a road map to follow in developing next-generation tools and organizational practices for managing risk at the FDIC.

The consultant's recommendations span three overlapping time periods (Horizons 1, 2, and 3). The FDIC implemented Horizon 1 recommendations in September 2003. The results of the implementation of these recommendations are reflected in our audited 2003 financial statements. The Horizon 1 recommendations include:

- Limiting subjective deviations from average expected failure rates to a range around the recent, historical average, and developing explicit guidelines for when the FRC may elect to deviate from the average,
- Incorporating the asset and liability compositions of failing banks and thrifts into expected loss rates, and
- Adopting a set of more formal operating procedures for the FRC.

The FDIC will implement Horizon 2 recommendations throughout 2004. The Horizon 2 recommendations include:

- Accelerating development of a new integrated model for financial risk management. The FDIC has already developed a prototype loss distribution model that will be the centerpiece of the integrated fund model and will be used by the FRC in 2004 to establish the contingent liability for anticipated failures. A paper describing the prototype model was presented at the *Finance and Banking: New Perspectives* conference in December 2003, and
- Building a more integrated risk management organization by enhancing outputs, operations and feedback mechanisms of the FRC and RAC.

Horizon 3 improvements include building capabilities such as real-time risk management, programs for hedging or reinsurance, and the ability to rapidly conduct scenario analyses. The FDIC will annually assess whether to implement Horizon 3 capabilities.

FDIC Center for Financial Research

The Corporation established the Center for Financial Research (CFR) in late 2003 to promote research that would provide meaningful insights into developments in deposit insurance, the financial services sector, prudential supervision, risk measurement and management, regulatory policy and related topics that are of interest to the FDIC, the financial services industry, academia and policymakers. The CFR will be a partnership between the FDIC and the academic community with prominent scholars actively engaged in overseeing and directing its research program. The CFR will carry out its mission through an agenda of research, analysis, forums and conferences that encourages and facilitates an ongoing dialogue that incorporates industry, academic and public-sector perspectives. The CFR will support high-quality original research by sponsoring relevant research program lines and soliciting rigorous analysis of the issues within five program areas. These programs will be under the leadership of program coordinators who are drawn largely from the outside academic community. Input will also be obtained from six prominent economists who will serve as Senior Fellows.

The CFR will sponsor a Visiting Research Fellows Program to provide support for residence scholars for defined time periods. The CFR will also organize visits and encourage interaction and collaboration between outside scholars and FDIC staff on subjects of mutual interest.

New International Capital Standards

The FDIC continues to actively participate in the Basel Committee on Banking Supervision's (BCBS) efforts to update and revise the 1988 Basel Capital Accord. Such revisions are necessary to align capital standards with advances in banks' risk measurement and management practices, while continuing to assure that these banks maintain adequate capital reserves. In addition to the BCBS, the FDIC is active on a number of global supervisory groups, including the Capital Task Force, the Accord Implementation Group, the Risk Management Group, and various subgroups and task forces that seek to enhance risk management practices.

The FDIC invested significant resources on several fronts during 2003 to ensure that the new capital rules, when final, will be compatible with the Corporation's roles as both deposit insurer and supervisor. Significant work has been performed, both internationally and domestically, to assure that the new Accord is implemented efficiently, that effective supervisory oversight will continue, and that these new rules will not create unintended and potentially harmful consequences.

Ensuring the adequacy of capital requirements under the new Accord was the FDIC's main priority during 2003. The FDIC published a study suggesting that over time and on average, risk-based capital requirements under the new Accord would probably decline substantially relative to the 1988 Accord. In 2004, the FDIC will seek to ensure that any reductions in capital requirements reflect bank risk profiles rather than specific statistical modeling assumptions. The BCBS has established a goal of issuing a final rule in mid-2004, with implementation slated for January 2007.

Deposit Insurance Reform

The FDIC continued to give priority attention to enactment of comprehensive deposit insurance reform legislation throughout 2003. Legislation containing major elements of the deposit insurance reform proposals developed by the FDIC over the past three years was introduced in both the House of Representatives and the Senate. FDIC Chairman Powell testified in support of deposit insurance reform proposals on February 26 before the Senate Banking Committee and on March 4 before the House Financial Services Committee.

The FDIC's recommendations, which were summarized in the testimony, include:

- Merging the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).
- Granting the FDIC's Board of Directors the flexibility to manage a combined deposit insurance fund. Under the present system, statutorily-mandated methods of managing the size of the BIF and SAIF may cause large premium swings and could force the FDIC to charge the highest premiums during difficult economic times when the industry can least afford it. Currently, safer institutions subsidize riskier institutions unnecessarily while new entrants and growing institutions avoid paying premiums. To correct these problems, the FDIC recommended that the Congress give the Board of Directors the discretion to:
    - Manage the combined fund within a range.
    - Price deposit insurance according to risk at all times and for all insured institutions.
    - Grant a one-time initial assessment credit to recognize institutions' past contributions to the fund and create an ongoing system of assessment credits to prevent the fund from growing too large.
- Indexing deposit insurance coverage to ensure that basic account coverage is not eroded over time by inflation.

The House passed H.R. 522, the Federal Deposit Insurance Reform Act of 2003, on April 2 by a vote of 411 to 11. Although the Senate Banking Committee held a hearing on deposit insurance reform in February, it did not act on a deposit insurance bill during the year. Enactment of deposit insurance reform will remain a priority of the FDIC during 2004.

FFIEC Central Data Respository

The FDIC provided leadership for a new interagency initiative with the Federal Reserve Board and the Office of the Comptroller of the Currency under the auspices of the FFIEC, to consolidate the collection, editing and publication of quarterly bank financial reports into a Central Data Repository (CDR). The CDR will be implemented during the fourth quarter of 2004 and will be accessible to regulators, financial institutions and the public. This initiative will be undertaken in cooperation with the industry and will employ cutting-edge technology based on the Extensible Business Reporting Language (XBRL) standard to define data standards and streamline the collection and validation of the data. The first reports are expected to be filed under the new system beginning with the September 2004 Call Report.

Future of Banking Study

The FDIC conducted a study on the future of banking during 2003 that focused on underlying trends in the economy and the banking industry, and their implications for different sectors of the industry and for bank regulators in the future. FDIC analysts explored policy issues that included the mixing of banking and commerce, regulatory reorganization, consumer privacy, the role of banks in light of the increased importance of nonbank competitors, and the potential effects of financial services industry consolidation on small business and local economies. As part of the study, FDIC analysts met with representatives from the banking industry and the regulatory community throughout the year to discuss their views on the direction of the industry. The results of the study will be presented at a conference in 2004 and published following this conference. The FDIC's Advisory Committee on Banking Policy, formed in 2002 to provide advice and recommendations relating to the FDIC's mission, will also be reviewing the study.

Determined to cut red tape and reduce regulatory burden are (l to r), OTS Director James Gilleran, Jim McLaughlin of the American Bankers Association, Harry Doherty of America's Community Bankers, FDIC Vice Chairman John Reich and Ken Guenther of the Independent Community Bankers of America.

Reduced Regulatory Burden

On June 3, 2003, under the leadership of FDIC's Vice Chairman John Reich, the federal thrift and bank regulatory agencies launched a cooperative, three-year effort to review all of their regulations (129 in all) that impose some burden on the industry. The purpose of the review, which is mandated by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), is to identify and eliminate any regulatory requirements that are outdated, unnecessary or unduly burdensome. As a former community banker, Vice Chairman Reich understands bankers' concerns regarding the extent of regulatory burden and believes that, with the assistance of bankers, meaningful changes can be made. For the purposes of this review, the agencies categorized their regulations into 12 separate groups. Every six months, new groups of regulations will be published for comment, giving bankers and others an opportunity to identify regulatory requirements they believe are no longer needed. The agencies will then analyze the comments and propose amendments to their regulations where appropriate.

On June 15, 2003, the agencies issued the first three groups of regulations for comment: Applications and Reporting, Powers and Activities, and International Banking. During the 90-day comment period, 17 letters were received containing more than 150 individual recommendations for burden reduction. Staff is reviewing and analyzing all of these recommendations with an eye towards reducing regulatory burden wherever possible. If necessary, legislative changes may be proposed.

As a part of the regulatory burden reduction effort, the FDIC hosted five banker outreach meetings during 2003 to facilitate industry awareness of the EGRPRA project and to listen to bankers' comments, complaints and suggestions on regulatory burden. These meetings were attended by more than 250 bankers. Chairman Powell, Vice Chairman Reich, Federal Reserve Board Governor Mark Olson and Comptroller John D. Hawke were featured speakers at the meetings. Project staff from each of the federal banking regulatory agencies as well as regional representatives of the major industry trade groups attended each of the meetings. Outreach sessions were held in Orlando, St. Louis, Denver, San Francisco and New York.

Ten major regulatory issues emerged from the outreach sessions that appeared to be of the greatest concern to bankers:

- Bank Secrecy Act, including Suspicious Activity Reports (SARs) and Currency Transaction Reports (CTRs)
- USA PATRIOT Act and "Know Your Customer" Requirements
- Withdrawal Limits on Money Market Deposit Accounts (Regulation D)
- Home Mortgage Disclosure Act (HMDA)
- Community Reinvestment Act (CRA)
- Truth-in-Lending Act (Regulation Z) and the Real Estate Settlement Procedures Act (RESPA)
- Three-Day Right of Rescission
- Extensions of Credit to Insiders (Regulation O)
- Flood Insurance
- Privacy Notices

The EGRPRA project will give particular attention to these concerns as it moves forward.

The FDIC maintains an interagency web site on EGRPRA: www.egrpra.gov. This site contains the agendas and discussion topics from the outreach meetings, as well as a summary of the issues raised and potential solutions offered by the participants. Comments received during the first comment period are also posted on the web site.

Resolution of Failed Institutions

During 2003, the FDIC resolved three financial institution failures. These failed institutions had a total of $1.10 billion in assets and $908.6 million in deposits. Within one business day after each failure, the FDIC had issued payout checks to insured depositors, or worked with open institutions to ensure that depositors had access to their insured funds. (See the accompanying table on page 18 for details about liquidation activities.)

Supervision and Consumer Protection

Supervision and consumer protection are the cornerstones of the FDIC's efforts to ensure the stability of and public confidence in the nation's financial system. At year-end 2003, the Corporation was the primary federal regulator for 5,340 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "State Nonmember" institutions). Through safety and soundness, consumer compliance, and Community Reinvestment Act (CRA) examinations of these FDIC-supervised institutions, the FDIC assesses their operating condition, management practices and policies as well as their compliance with applicable laws and regulations. The FDIC also educates bankers and consumers on matters of interest to bank customers and addresses consumers' questions and concerns.

Safety and Soundness Examinations

During 2003, the Corporation conducted 2,421 statutorily required safety and soundness examinations. The number and total assets of FDIC-supervised institutions identified as "problem" institutions (defined as having a composite CAMELS[1] rating of "4" or "5") decreased during 2003. As of December 31, 2003, 73 institutions with total assets of $8.2 billion had been identified as problem institutions, compared to 84 institutions with total assets of $12.8 billion on December 31, 2002. These changes represent a decrease of 13.1 percent and 35.9 percent in the number and assets of problem institutions, respectively. During 2003, 58 institutions were removed from problem institution status due to composite rating upgrades, mergers, consolidations or sales, and 47 were newly identified as problem institutions. The FDIC is required to conduct follow-up examinations of all designated problem institutions within 12 months of the last examination. As of December 31, 2003, all follow-up examinations for problem institutions had been performed on schedule.

[1] The CAMELS composite rating represents the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk, and ranges from "1" (strongest) to "5" (weakest).

Compliance and Community Reinvestment Act (CRA) Examinations

The FDIC conducted 1,610 comprehensive compliance-CRA examinations, 307 compliance-only examinations[2], and two CRA-only examinations in 2003, compared to 1,334 comprehensive compliance-CRA examinations, 493 compliance-only examinations, and 13 CRA-only examinations in 2002. One institution was assigned a composite "4" rating for compliance as of year-end 2003. None were assigned a composite "5" rating. The "4" rated institution has entered into a Memorandum of Understanding (MOU) with the FDIC to correct compliance issues. The ratings for institutions with CRA-only examinations were rated "Satisfactory." (See the accompanying table for details about the FDIC Examinations.)

FDIC Examinations 2001-2003

	2003	2002	2001
Safety and Soundness:			
State Nonmember Banks	**2,182**	2,290	2,300
Savings Banks	**231**	229	241
Savings Associations	**0**	0	0
National Banks	**5**	10	16
State Member Banks	**3**	5	9
Subtotal - Safety and Soundness Examinations	**2,421**	2,534	2,566
CRA/Compliance Examinations:			
Compliance-Community Reinvestment Act	**1,610**	1,334	709
Compliance-only	**307**	493	1,465
CRA-only	**2**	13	5
Subtotal CRA/Compliance Examinations	**1,919**	1,840	2,179
Specialty Examinations:			
Trust Departments	**501**	524	466
Data Processing Facilities	**2,304**	1,681	1,625
Subtotal-Specialty Examinations	**2,805**	2,205	2,091
Total	**7,145**	6,579	6,836

Examination Program Efficiencies

The FDIC continues to implement measures to improve efficiency by maximizing the use of risk-focused examination procedures at well-managed banks that meet certain criteria. The Maximum Efficiency, Risk-Focused, Institution Targeted (MERIT) Program provides for the use of risk-focused safety and soundness examination procedures at FDIC-supervised institutions with assets of $250 million or less that are well-managed, well-capitalized and meet other program criteria. This program helps ensure that the FDIC's resources are focused on those institutions that pose the greatest risk to the insurance funds, while preserving the integrity of the examination process.

The FDIC refocused its compliance examination approach during the second half of 2003. The revised process evaluates a financial institution's compliance management system through a review of policies and procedures and discussions with staff from the institution. Examiners place emphasis on how well the institution's own compliance management system is working to identify emerging risks, monitor changes to laws and regulations, ensure employees understand their responsibilities, incorporate compliance into business operations, review those operations to ensure compliance with applicable laws and regulations, and take effective corrective actions when necessary. Based on risks identified in the compliance management system, examiners pinpoint areas for further evaluation using transaction testing.

USA PATRIOT Act

Since the enactment of the USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001), the FDIC has participated in numerous interagency working groups to draft revisions to the Bank Secrecy Act as required by the USA PATRIOT Act and to develop interpretive guidance for the financial services industry. In May 2003, the FDIC, in conjunction with other regulatory agencies, jointly issued a final rule to implement Section 326 of the USA PATRIOT Act. Section 326 requires financial institutions to implement a customer identification program to verify the identity of customers opening new accounts. The FDIC has taken steps to educate its examination staff and members of the banking industry on the USA PATRIOT Act at outreach events, training conferences and seminars. To assist financial institutions in their efforts to comply with the Bank Secrecy Act and the USA PATRIOT Act, the FDIC publicly released its examination procedures for the Bank Secrecy Act in October 2003.

[2] Compliance-only examinations are conducted for most institutions at or near the mid-point between comprehensive CRA-compliance examinations under the Gramm-Leach-Bliley Act of 1999, which amended the Community Reinvestment Act of 1977. CRA examinations at small financial institutions with aggregate assets of $250 million or less are subject to a CRA examination no more than once every five years if they receive a CRA rating of "Outstanding" and no more than once every four years if they receive a CRA rating of "Satisfactory."

To facilitate industry cooperation with law enforcement authorities in their ongoing investigation of terrorist activities through the implementation of Section 314(a) of the USA PATRIOT Act, the FDIC also worked with other federal banking regulators to incorporate point-of-contact information as a required item in the Call Report, beginning with the March 2003 Call Report. The FDIC is the only banking regulator to use this mechanism thus far to provide current point-of-contact information to the Financial Crimes Enforcement Network (FinCEN) to aid in its distribution of Section 314(a) information-sharing requests.

The Director's Corner
The FDIC and the other banking agencies frequently publish and issue guidance for insured institutions and their officers and directors to use to fulfill their responsibilities. This useful and practical information was made available during the first quarter of 2003, when the FDIC established the "Director's Corner" on its external Web site. This site includes items such as Interagency Policy Statements, Supervisory Guidance, and Financial Institution Letters on the topics of Corporate Governance Practices, Auditing and Internal Controls, Accounting Practices and the Allowance for Loan and Lease Losses, and other areas of interest to bank directors.

Payday Lending
In January 2003, the FDIC published for public review and comment draft examination guidelines for state nonmember institutions that offer payday loans. More than 1,000 comments were received and considered prior to implementing final guidelines in July 2003. Necessitated by the high-risk nature of the business line and the substantial growth of the product, the final guidelines identify the key safety and soundness and consumer protection issues that examiners will consider when evaluating payday lending during examinations. The FDIC's guidelines, while similar in many respects to those issued by other financial institution regulatory agencies, are more explicit on the applicability of the expanded interagency guidance to sub-prime lending programs, capital requirements, allowance for loan and lease losses, classifications, accounting for accrued interest and fees and recoveries, and lending concentrations.

***Money Smart* Financial Literacy Program**
One of the Corporation's top priorities in 2003 was the continued promotion of financial education through its *Money Smart* Program. The FDIC was awarded the prestigious *Service to America Business and Commerce* medal in October 2003 for its efforts in promoting financial literacy using the *Money Smart* curriculum. These medals honor people and organizations that have shown a strong commitment to public service and have made a significant contribution in their field of government that is innovative, high-impact and critical for the nation.

Since its introduction in July 2001, the *Money Smart* program has generated a great deal of interest. Primarily designed to help adults with little or no banking experience develop positive relationships with insured depository institutions, the program has been widely cited in over 100 national and local publications. Requests for the program have been received from Mexico, Thailand and Canada. During 2003, the FDIC continued to expand

DSC *Money Smart* team members (l to r): Pam Bronson, Joan Lok, Kip Child, Jacqui Gordon, Cathie Davis, Teresa Perez, Jim Pilkington, and Clinton Vaughn join Chairman Powell and team leader Nelson Hernandez on stage to accept the Service to America Business and Commerce medal.

Defense Secretary Donald Rumsfeld and FDIC Chairman Donald Powell agree, at a meeting at the Pentagon, to make *Money Smart* training available to 1.4 million servicemen and servicewomen worldwide.

the public's access to *Money Smart* by translating the program into Chinese and Korean and expanding membership in the *Money Smart* Alliance. By year-end 2003, the FDIC had trained over 5,000 volunteer instructors, taught over 100,000 consumers and supplied more than 111,000 copies of the *Money Smart* training curriculum to various groups, including government, community, financial and faith-based organizations.

Consumer Complaints and Inquiries

The FDIC investigates and responds to complaints and inquiries from consumers, financial institutions and other parties about potential violations of consumer protection and fair lending laws, as well as deposit insurance matters. As of December 31, 2003, the FDIC had received 8,026 complaints, of which 4,047 were against state-chartered nonmember banks. Approximately fifty percent of the state nonmember bank consumer complaints concerned credit card accounts. The most frequent complaints involved loan denials, billing disputes and account errors, terms and conditions, collection practices, reporting of erroneous information, and credit card fees and service charges. The FDIC's centralized Consumer Response Center (CRC) is responsible for investigating all types of consumer complaints about FDIC-supervised institutions and for answering consumer inquiries about consumer protection laws and banking practices.

During 2003, the FDIC received over 100,000 inquiries from consumers and members of the banking community. The FDIC Central Call Center serves as the primary telephone point of contact for questions on deposit insurance coverage from the banking community and the public. (For more information on the Call Center, which can be reached at 1-877-ASK-FDIC, or 1-877-275-3342, toll free, see page 129.)

Corporate Governance

The FDIC has long recognized the importance of good corporate governance in maintaining the integrity and stability of the nation's banking system. The Sarbanes-Oxley Act of 2002 (Act) imposes new reporting, corporate governance, and auditor independence requirements on companies including insured depository institutions and bank and thrift holding companies with securities registered under the federal securities laws. In response to questions about the applicability of the Act to insured depository institutions that are not public companies, the FDIC issued comprehensive guidance in March 2003, describing significant provisions of the Act and related rules of implementation adopted by the Securities and Exchange Commission. The guidance explained how adopting sound corporate governance practices outlined in the Act may benefit banking organizations, including those that are not public companies, and how several of the Act's requirements mirror existing banking agency policy guidance related to corporate governance.

Receivership Management

The FDIC has the unique mission of protecting the depositors of insured banks and savings associations. Since FDIC's inception over 70 years ago, no depositor has ever experienced a loss of insured deposits at an FDIC-insured institution due to a failure. The FDIC protects insured depositors by prudently managing the BIF and the SAIF and using the assets of the funds to make insured depositors whole at the time of institution failure. Once an institution is closed by its chartering authority – the state for state-chartered institutions, the OCC for national banks, or the OTS for federal savings associations – the FDIC is responsible for the resolution of the failed bank or savings association. FDIC staff gathers data about the troubled institution, estimates the potential loss due to its failure, solicits and evaluates bids from potential acquirers, and then recommends the least costly resolution transaction to the FDIC's Board of Directors.

Liquidation Highlights 2001-2003

Dollars in billions

	2003	2002	2001
Total Resolved Banks	3	10	3
Assets of Resolved Banks	$ 1.10	$ 2.50	$ .05
Total Resolved Savings Associations	0	1	1
Assets of Resolved Savings Associations	$ 0	$ .05	$ 2.18
Net Collections from Assets in Liquidation*	$ 1.70	$ 1.84	$ .31
Total Assets in Liquidation*	$ .81	$ 1.24	$ .57
Total Dividends Paid*	$ 1.06	$ 2.12	$ .46

*Iincludes activity from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.

Protecting Insured Depositors Through Asset Marketing

The FDIC's ability to attract healthy FDIC-insured institutions to assume deposits and to purchase the assets of failed banks and savings associations ensures that depositors have prompt access to their insured deposits, minimizes the disruption to the customers and the community, and allows a fair portion of the failed institution's assets to be returned to the private sector almost immediately. Assets remaining after the resolution transaction are liquidated by the FDIC in an orderly manner, and the proceeds are used to pay creditors, uninsured depositors (depositors whose accounts exceed the $100,000 deposit insurance limits), and reimburse the insurance fund that funded the resolution transaction. In 2003, the FDIC again met its goal of marketing 85 percent of a failed institution's marketable assets within 90 days of the institution's failure.

During 2003, the FDIC resolved three BIF-insured institution failures. Southern Pacific Bank, Torrance, California, with total assets of $1.052 billion, was closed on February 7. Southern Pacific's insured deposits and a large portion of its assets were sold to another FDIC-insured institution. First National Bank of Blanchardville, Blanchardville, Wisconsin, with total assets of $35.5 million, failed on May 9, and all insured deposits were sold to another FDIC-insured institution. Pulaski Savings Bank, Philadelphia, Pennsylvania, with total assets of $8.9 million, failed on November 14, and all insured deposits were sold to another FDIC-insured institution. (See the accompanying table above for details about liquidation activities.)

The FDIC initiated a number of projects in 2003 to better manage and leverage its resources to meet potential challenges in the resolution of future financial institution failures. These projects are in the areas of processing depositor claims, franchise and asset marketing, asset valuation and sales, asset servicing, receivership operations and management, information systems, planning and communication, cost containment, and field operations.

Lessons Learned Symposium

The FDIC, in association with the SW Graduate School of Banking and Southern Methodist University's Cox School of Business, presented the *Lessons Learned from Recent Bank Failures* symposium on October 24. This conference served as a forum for academics, regulators and industry participants to present analyses and to debate the causes and costs of recent bank failures. Presentations and discussions centered on the root causes of recent bank failures, the impact of new banking activities on bank failures, and the costs of recent bank failures.

Customer Service Center

In order to help consumers needing assistance with matters arising from failed financial institutions, the FDIC also operates a Customer Service Center with staff dedicated to handling records research and collateral releases. During 2003, FDIC staff responded to nearly 86,000 inquiries and was recognized for Outstanding Customer Service provided through expanded e-Government initiatives at the President's Quality Awards for their innovative work and rapid response time in this area. The records research staff reviews the historical records of failed financial institutions in order to answer customer questions on deposit accounts, loan transaction histories, tax suits for delinquent real estate, and other issues. The collateral release staff researches and determines ownership of collateral securing loans of failed financial institutions in order to provide a release of lien, assignment or reconveyance to the borrower. This staff successfully handled over 17,000 collateral release inquiries in 2003. Finally, the Customer Service Call Center handled over 85,000 calls asking for information or assistance.

Terminations

The FDIC, as receiver, manages the receivership estate and the subsidiaries of failed insured financial institutions with the goal of achieving an expeditious and orderly termination. The oversight and prompt termination of receiverships help to preserve value for the uninsured depositors and creditors by reducing overhead and other holding costs. For that reason, the FDIC has established a target of terminating 75 percent of receiverships within three years of the failure date. The goal would have been achieved in 2003 except for outstanding professional liability claims and other impediments. At year-end 2003, three receiverships remained active from the seven receiverships established following institution failures in 2000. These three receiverships could not be terminated due to the existence of ongoing professional liability litigation and non-asset defensive litigation. These cases continue to be vigorously pursued through appropriate negotiations and litigation proceedings.

Operational Efficiency and Effectiveness

Although the FDIC is not subject to the President's Management Agenda (PMA), it has given priority attention to continuing efforts to improve operational efficiency and effectiveness, consistent with the PMA. Major initiatives pursued in this area during 2003 are outlined below.

Managing Human Capital

The FDIC has been downsizing its workforce for a decade, as the residual workload from the banking and thrift crises has gradually been completed. FDIC staffing, including staff assigned to the Resolution Trust Corporation, has declined from approximately 23,000 in 1993 to about 5,300 at the end of 2003. In mid-2003, a reduction in force was implemented to address 43 identified surplus positions that remained following aggressive efforts in 2002 and early 2003 to align staffing with current workload through voluntary measures. Like other organizations, the Corporation will continue to review its work processes and employ technology and other means to improve operational efficiency, potentially resulting in excess positions. The Corporation expects to be able to address future surplus positions, in most instances, through a continuing process of carefully managing resources.

The demands placed on the Corporation by a rapidly changing external environment require a more dynamic and strategic approach to managing the Corporation's human capital in order to ensure that the FDIC has

At their official induction as Deans of the FDIC Corporate University (l to r): Erica Cooper, School of Leadership Development; Fred Carns, School of Insurance; Nancy Hall, School of Supervision and Consumer Protection; James Wigand, School of Resolutions and Receiverships; and Miguel Torrado, School of Corporate Operations. CLO Dave Cooke joined in welcoming the new Deans.

the skills and staff necessary to fulfill its mission in the future. The Corporation is in the process of revamping its compensation program to place greater emphasis on performance-based incentives. A new executive classification and pay program was implemented in 2003 that ties all future pay increases to performance against specific measurable objectives. The Corporation also implemented a new Corporate Success Award program that differentiates annual pay increases for the rest of the workforce on the basis of performance. A comprehensive review of the Corporation's human resource management processes identified opportunities to provide increased flexibility in both the recruitment and retention of employees and the management of employee performance. Implementation of the recommendations from that review began in 2003 and will continue in 2004. In addition, the Corporation began to analyze staffing alternatives to ensure that it continues to have the skills it needs in its workforce as it deals with a large number of retirements expected over the next five to seven years.

Key Positions Filled – Chief Economist, Chief Accountant, and Chief Information Officer

In February 2003, the FDIC named the Corporation's Chief Economist and Chief Accountant. The Chief Economist will develop and communicate the FDIC's perspective on a wide range of economic and risk management issues. The Chief Accountant will spearhead FDIC accounting policy development (for banks in the U.S. and abroad), establish regulatory financial reporting requirements, and review depository institutions' accounting for specific transactions. The Chief Accountant will also participate in developing the FDIC's regulations and supervisory policies on capital adequacy and auditing programs and oversee the FDIC's securities registration and disclosure function under federal securities laws. In November 2003, the FDIC filled the vacant Chief Information Officer (CIO) position. The CIO will play a crucial role in overseeing the transformation of the Corporation's Division of Information Resources Management into a more agile and customer-focused strategic partner.

Corporate University

In June 2003, the FDIC Chairman appointed the agency's first Chief Learning Officer to head the new Corporate University (CU). The CU represents a departure from traditional training approaches and will provide a continual learning environment for FDIC employees. It will use numerous tools and techniques to prepare them for a changing banking, economic and regulatory landscape. The CU provides opportunities for employees to enhance their sense of corporate identity while learning more about the FDIC's major program areas of Insurance, Supervision and

Consumer Protection, and Receivership Management. Further, the CU will be a leader in leveraging technology to improve the efficiency and effectiveness of all Corporate training.

Information Technology Initiatives

To keep pace with an ever-evolving financial services industry, the FDIC is utilizing technology to bring stakeholders information in a more timely, secure manner. Efforts have focused on improving the FDIC's public web site, securing ways to facilitate electronic communication with stakeholders, and streamlining examination efforts through more efficient means of collecting and disseminating data. The FDIC also completed in 2003 a comprehensive review of its Information Technology (IT) program. That review evaluated the cost and performance of the current IT program, identified future skill requirements and alternative sourcing strategies, and recommended a new organizational and staffing structure to begin to transform the IT organization into a strategic partner with the Corporation's major business units over the next two to three years.

Significant IT-related accomplishments in 2003 include:

- Considerable progress was made in the development and implementation of a new Enterprise Architecture (EA) to guide the Corporation's future IT efforts. By following the EA program, the FDIC will be able to deploy new systems more quickly, reduce risks normally inherent in large-scale systems, and forecast system development budgets and schedules more accurately, thus reducing system development and support costs. The EA program will also emphasize security and enhance e-government capabilities.
- The FDIC's public Web site (www.fdic.gov) was redesigned to make use of the agency's online services faster and easier for bankers, financial analysts, consumers and others. Products and services available on the Web site include resources for bankers about their requirements for safe operations and compliance with consumer protection laws, data about individual banks and the banking industry, useful information for consumers about deposit insurance and rights as depositors and borrowers, and updates on FDIC press releases.
- FDIC achieved several successes with FDIC*connect*, a secure Web site developed to facilitate electronic communication with insured financial institutions. During 2003, twelve business transactions were activated to enable institutions to conduct business online with the FDIC. These transactions included filing of new branch applications by insured institutions, collection of information for the 2003 summary of deposits, public retrieval of beneficial ownership reports, and access to bank assessment invoices.
- In June 2003, FDIC implemented the Assessment Information Management System (AIMS II), which calculates, collects and accounts for the quarterly assessment premiums paid by financial institutions. The FDIC issues over 9,000 invoices quarterly and captures a full history of assessment-related transactions. The assessment function is vital to the FDIC, and the improvements realized by putting this system in place have made the Corporation more efficient. Assessment invoices are now made available to insured institutions using FDIC*connect*.
- FDIC partnered with several external organizations to emphasize the importance of robust information security programs to financial institutions. These organizations included the Federal Bureau of Investigation, the Financial and Banking Information Infrastructure Committee, Financial Crimes Enforcement Network, and the Critical Infrastructure Protection Project of George Mason University School of Law. In partnership with these organizations, the FDIC sponsored a series of cyber-security symposia and helped to identify and develop a set of best practices for cyber-security for use in financial institutions.

Improved Information Security
In response to a reportable condition on information security weaknesses identified in the GAO's audit of the Corporation's 2002 financial statements, the FDIC continued to give priority attention in 2003 to its information security management program. Major program accomplishments in 2003 included the following:

- Updated policies on contractor and outside agency security were issued, and contractor security requirements were added to the Acquisition Policy Manual. Security audits of local outside contractor sites were also conducted.
- Security performance measures were identified and tracked through quarterly performance reports to senior FDIC management.

The annual Federal Information Security Management Act audit conducted by the OIG noted significant improvement in the FDIC's information security program during the prior 12 months. The audit assigned an overall "limited assurance" rating, but identified only one area that was assigned a "minimal/no assurance" rating, down from three in 2002. Efforts to improve all areas of information security will continue in 2004.

Financial Highlights

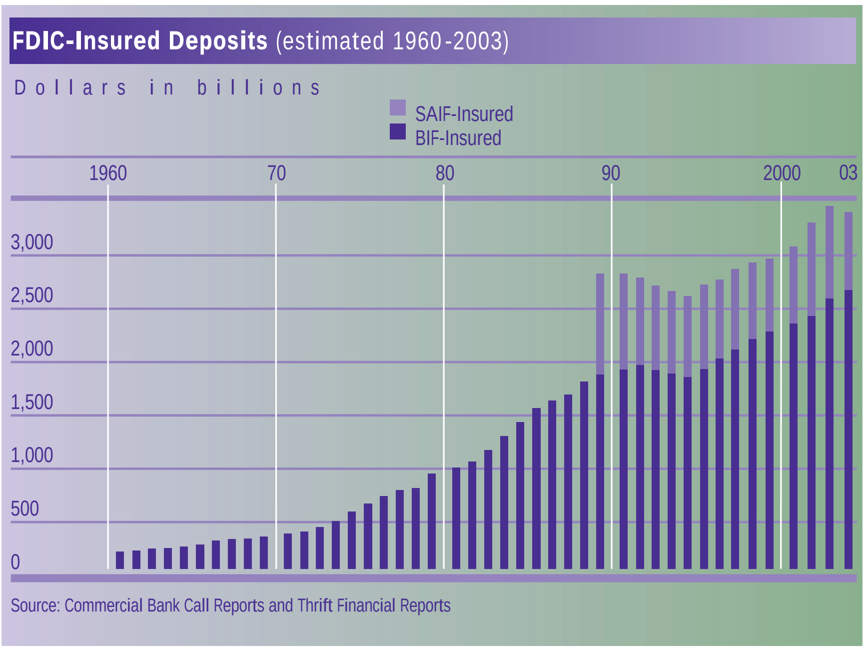
Deposit Insurance Fund Performance

The FDIC administers two deposit insurance funds – the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) – and manages the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the FDIC's insurance funds. (See the accompanying tables on FDIC-Insured Deposits, Insurance Fund Reserve Ratios and Risk-Related Premiums on the following pages.)

The BIF reported comprehensive income (net income plus current period unrealized gains/losses on available-for-sale securities) of $1.7 billion for the twelve months ending December 31, 2003, compared to $1.6 billion for the same period in the prior year. During 2003, estimated losses for future and actual failures, as well as litigation, decreased by $832 million, and operating expenses decreased by $16 million. However, these decreases in losses and expenses were partially offset by significant reductions in unrealized gains on available-for-sale securities ($576 million) and lower interest revenue on U.S. Treasury obligations ($162 million). As of December 31, 2003, the fund balance was $33.8 billion, up from $32.1 billion at year-end 2002.

BIF's contingent liability for anticipated failures declined by $830 million, or 82 percent, to $178 million for the year. This overall reduction in the reserves is primarily the result of improvements in the loss reserve methodology and an improvement in the financial condition of a few large troubled institutions.

The SAIF reported comprehensive income of $493 million for the twelve months, ending December 31, 2003, compared to $812 million for the same period in the prior year. This difference of $318 million was primarily due to a decrease in unrealized gains on available-for-sale securities of $198 million, a slight reduction in interest revenue of $32 million, and a reduction in the estimated losses for future failures of $55 million. As of December 31, 2003, the fund balance was $12.2 billion, up from $11.7 billion at year-end 2002.



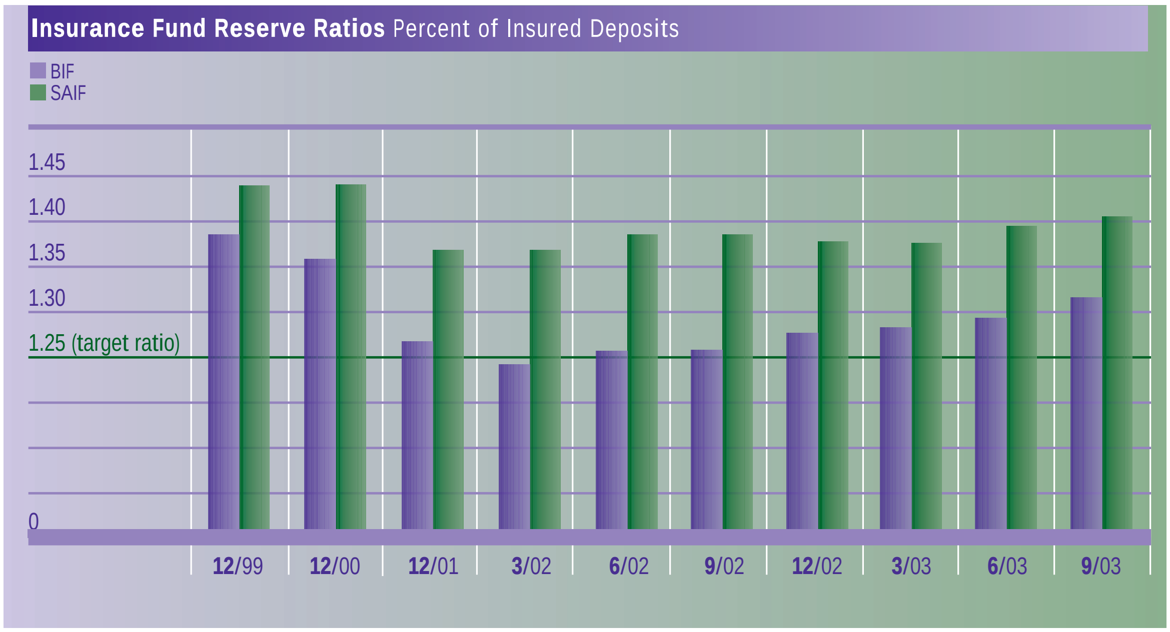
SAIF's contingent liability for anticipated failures decreased by $87 million, or 96 percent, to $3 million for the year. The overall reduction is the result of improvements in the loss reserve methodology and the improved financial condition of a few large troubled institutions. As of December 31, 2003, SAIF's current liabilities totaled less than one percent of the fund balance.

Operating Expenses

Corporate Operating Budget expenses totaled $1,008.2 million in 2003, including $968.6 million for ongoing operations and $39.6 million for receivership funding. These expenses represented approximately 98 percent of the approved budget for ongoing operations and 53 percent of the approved budget for receivership funding. Receivership funding expenses were down significantly from 2002 because of the smaller number of insured institution failures.

The Board of Directors approved a 2004 Corporate Operating Budget of approximately $1.1 billion, including just over $1.0 billion for ongoing operations. The level of approved spending in the 2004 budget remains virtually the same as that in 2003 due to continuing efforts to identify operational efficiencies and control costs. The Corporate Operating Budget includes funding for a number of major new initiatives, including the Corporate University and the Center for Financial Research.

The 2004 budget includes, for the first time, estimated funding requirements ($35 million) for litigation expenses projected to be incurred on behalf of the FDIC by the U.S. Department of Justice. These expenses have not previously been included in the annual Corporate Operating Budget, but were expensed directly to the appropriate receivership accounts. This change will increase the transparency of the Corporation's financial reporting.



Investment Spending

The FDIC has a disciplined process for reviewing proposed new capital investment projects and managing the implementation of approved projects. Most of the projects in the current investment portfolio are major IT systems initiatives.

Proposed projects are carefully reviewed to ensure that they are consistent with the Corporation's enterprise architecture and include an appropriate return on investment for the insurance funds. The process also enables the FDIC to be aware of risks to the major capital investment projects and facilitates appropriate, timely intervention to address these risks throughout the development process. An investment portfolio performance review of the major capital investments is provided to the FDIC Board of Directors quarterly. During 2003, the Board of Directors approved two new investment projects: (1) Legal Information Management System - $3.2 million and (2) Asset Servicing Technology Enhancement Project - $31.8 million.

Risk-Related Premiums

The following tables show the number and percentage of institutions insured by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), according to risk classifications effective for the first semiannual assessment period of 2003. Each institution is categorized based on its capitalization and a supervisory subgroup rating (A, B, or C), which is generally determined by on-site examinations. Assessment rates are basis points, cents per $100 of assessable deposits, per year.

BIF Supervisory Subgroups•

	A	B	C
Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	7,400 (91.8%)	470 (5.8%)	82 (1.0%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	82 (1.0%)	8 (0.1%)	13 (0.2%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	2 (0.0%)	1 (0.0%)

SAIF Supervisory Subgroups■

Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	1,092 (91.5%)	81 (6.8%)	13 (1.1%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	4 (0.3%)	1 (0.1%)	3 (0.3%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	0 (0.0%)	0 (0.0%)

• BIF data exclude SAIF-member "Oakar" institutions that hold BIF-insured deposits. The assessment rate reflects the rate for BIF-assessable deposits, which remained the same throughout 2002.

■ SAIF data exclude BIF-member "Oakar" institutions that hold SAIF-insured deposits. The assessment rate reflects the rate for SAIF-assessable deposits, which remained the same throughout 2002.

II. Performance Results Summary

Summary of 2003 Performance Results by Program

The FDIC successfully achieved 27 of the 30 annual performance targets established in its 2003 Annual Performance Plan (two performance targets were not met and one was not applicable due to Congress not enacting deposit insurance reform during 2003). Key accomplishments by program are highlighted below. There were no instances where 2003 performance had a material adverse effect on successful achievement of the FDIC's mission or its strategic goals and objectives with respect to its major program responsibilities. In addition, 2003 performance results were considered in the development of the FDIC's 2004 Annual Performance Goals.

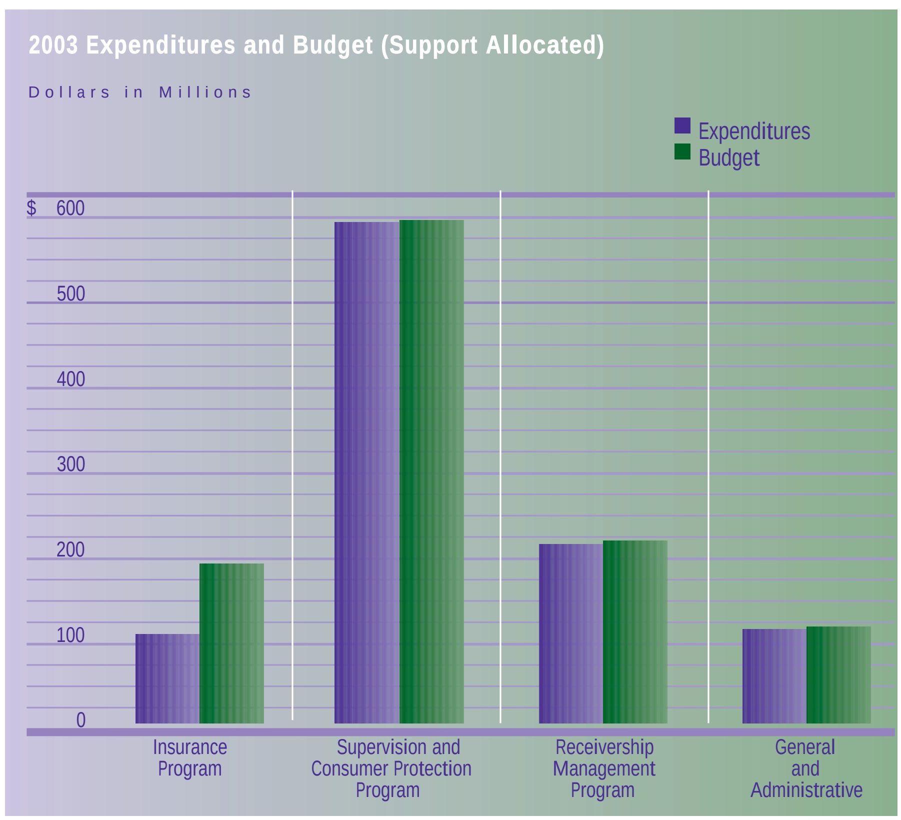
The Office of Inspector General (OIG) has shared its view of the most significant challenges the Corporation is confronting and has acknowledged the numerous actions underway to address these issues. (See Appendix C for a list of these challenges.) Management is committed to addressing each of the issues identified by the OIG.

Program Area	Performance Results
Insurance	• Resolved three failed insured institutions, providing depositors with timely access to insured deposits in each case. For all of the failures, depositors had uninterrupted and continuous access to insured deposits as the deposits were assumed by an acquiring entity.
	• Secured approval of deposit insurance reform legislation by the House of Representatives. Although the full Senate failed to act on the legislation before adjournment, the Corporation will continue to pursue deposit insurance reform in the second session of the 108th Congress.
	• Completed risk assessments for all large insured depository institutions and followed up on all identified concerns referred for examination or other supervisory action.
	• Improved the accuracy and efficiency of off-site risk identification models.
	• Published economic and banking information and analysis: • Quarterly editions of FDIC *Outlook* • Quarterly editions of the FDIC *Banking Review* • Twelve *FYI* electronic bulletins • Four editions of the FDIC *Quarterly Banking Profile (QBP)* • Semiannual *FDIC Report on Underwriting Practices* • Semiannual *Report on Underwriting Practices by Region* • Quarterly editions of the FDIC *State Profiles* • Quarterly editions of the *Real Estate Data System* • Semiannual *Survey of Real Estate Trends*
Supervision and Consumer Protection	• Conducted 2,421 safety and soundness examinations. This included all statutorily-required safety and soundness examinations, except for a small number deferred due to pending mergers.
	• Conducted 1,919 compliance and Community Reinvestment Act examinations in accordance with FDIC policy.
Receivership Management	• Contacted all known and qualified potential bidders in each of the three institution failures in 2003.
	• Marketed 98 percent or more of marketable assets of two of the three failed financial institutions within 90-days of failure. (For the remaining institution, the 90-day time frame had not expired at year-end.)
	• Terminated four receiverships.

2003 Budget and Expenditures by Program

The FDIC budget for 2003 totaled $1.113 billion. Excluding $132 million for Corporate General and Administrative expenditures, budget amounts were allocated to corporate programs and related goals as follows: $174 million, or 16 percent, to the Insurance program; $578 million, or 52 percent, to the Supervision and Consumer Protection program; and $229 million, or 21 percent, to the Receivership Management program.

Actual expenditures for the year totaled $1.035 billion. Excluding $126 million for Corporate General and Administrative expenditures, actual expenditures were allocated to programs as follows: $110 million, or 11 percent, to the Insurance program; $575 million, or 56 percent, to the Supervision and Consumer Protection program; and $224 million, or 22 percent, to the Receivership Management program.



Insurance Program Results

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
1. Respond promptly to financial institution closings and emerging issues.	Number of business days after institution failure by which depositors will have access to insured funds either through transfer of deposits to successor insured depository institution or depositor payout.	If the failure occurs on a Friday the target is one business day.	Achieved.
		If the failure occurs on any other day of the week, the target is two business days.	Achieved.
2. Identify and address risks to the insurance funds.	Assess risks posed by large insured depository institutions.	Assess risk in 100 percent of large insured depository institutions and adopt appropriate strategies.	Achieved.
	Identify and follow up on concerns referred for examination or other action (i.e., contact the insured institutions or primary supervisor).	Identify and follow up on 100 percent of referrals.	Achieved.
	Disseminate data and analyses on current issues and risks affecting the banking industry to bankers, supervisors, stakeholders, and the public.	Analyses are included in regular publications or as ad hoc reports on a timely basis.	Achieved.
		Conduct industry outreach aimed at the banking community and industry trade groups to discuss current trends and concerns and to inform bankers about available FDIC resources.	Achieved.
3. Maintain sufficient and reliable information on insured depository institutions.	Maintain and improve the Research Information System (RIS), which serves as the foundation of most analysis and statistical reporting for the FDIC.	Update and expand data availability in RIS.	Achieved.
	Develop a more efficient approach to bank data collection and management.	Determine Call Report Modernization system development approach; prepare migration plan for the implementation of data editing, storage and distribution facility for Call Report data; complete reconciliation of bank structure databases; and implement standard business rules and data definitions for Call Report information.	Achieved.

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
4. Maintain and improve the deposit insurance system.	Continue to pursue changes in the deposit insurance system in accordance with proposals submitted to Congress in 2002.	Work with Congress to develop and pass a reform package.	Not Achieved (see pages 12 & 13.)
		Develop final pricing recommendations and implementation plans for inclusion in a notice-and-comment rulemaking during 2003.	Achieved.
		If deposit insurance reform is passed, implement legislation in a timely manner.	Not Applicable.
		Develop and analyze baseline data of implemented modification results.	Achieved.
	Continue to identify and review possible modifications to the Risk Related Premium System (RRPS).	Assess improvements to the objective screens for the RRPS that identify financial institutions engaging in excessive risk taking, such as certain types of credit, market, and operational risk.	Achieved.
	Make appropriate changes to the current methodology for projecting losses in failing financial institutions and establishing related loss reserves for the deposit insurance funds.	Review discrepancies between projected failed assets and actual failed assets by applying sophisticated analytical techniques to examine the effectiveness of the loss projection model and adjust the methodology for projecting losses accordingly.	Achieved.
		Perform comprehensive review of all aspects of the reserving process and methodology and implement enhancements as necessary.	Achieved.

Insurance Program Results (continued)

Strategic Goal: Insured depositors are protected from loss without recourse to taxpayer funding.

Annual Performance Goal	Indicator	Target	Results
	Maintain fund adequacy.	Set assessment rates to maintain the insurance funds at or above the designated reserve ratio, or to return them to the designated reserve ratio if they fall below it, as required by statue. If deposit insurance reform legislation becomes law in 2003, promulgate rules and regulations establishing criteria for replenishing the deposit insurance fund when it falls below the low end of the range.	Achieved.
	Conduct a study on the "Future of Banking."	Determine the implications of major trends for the evolution of the industry, development of regulatory policy and management of the deposit insurance funds.	Achieved.
	Enhance FDIC's ties to the academic community and upgrade and provide greater visibility to the Corporation's research activities.	Establish an FDIC Center for Financial Research.	Achieved.
5. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.	Enhance the existing Electronic Deposit Insurance Estimator (EDIE) Banker version.	Issue a new version of the EDIE (Banker version) that accommodates corporate and organization accounts as well as any changes to the deposit insurance rules that may be adopted.	Achieved.

Supervision and Consumer Protection Program Results

Strategic Goal: FDIC-supervised institutions are safe and sound.

Annual Performance Goal	Indicator	Target	Results
1. Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and polices, and compliance with applicable regulations.	Conduct required examinations in accordance with statue and FDIC policy.	One hundred percent of required examinations are conducted on time.	Achieved.
2. Take prompt supervisory actions to address problems found during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.	The number of months between last examination of a problem bank and follow-up examination.	Follow-up examination conducted within 12 months of completing the prior examination.	Achieved.

Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

Annual Performance Goal	Indicator	Target	Results
1. Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development.	Additions to the Money Smart Alliance and the number of Money Smart curricula provided.	By December 31, 2003, cumulative totals of 400 Money Smart Alliance members and 40,000 Money Smart curricula provided.	Achieved.
	Outreach activities and technical assistance.	Conduct or participate in 125 Money Smart events, technical assistance efforts (examination support), or banker/community outreach activities related to CRA, fair lending, or community development.	Achieved.
2. Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.	Timely responses to written complaints.	Ninety percent of written complaints are responded to within time frames established by policy.	Achieved.
3. Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.	Conduct required examinations in accordance with FDIC policy.	One hundred percent of required examinations are conducted within time frames established by FDIC policy.	Achieved.

Supervision and Consumer Protection Program Results (continued)

Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.

	Annual Performance Goal	Indicator	Target	Results
4.	Take prompt supervisory actions and monitor all institutions rated "4" or "5" for compliance to address problems identified during compliance examinations.	Timely follow-up examination and related activity confirm whether the institution is in compliance with the enforcement action.	A follow-up examination or related activity is conducted within 12 months from the date of a formal enforcement action.	Achieved.

Receivership Management Program Results

Strategic Goal: Recovery to creditors of receiverships is achieved.

	Annual Performance Goal	Indicator	Target	Results
1.	Market failing institutions to all known qualified and interested potential bidders.	List of qualified and interested bidders.	Contact all known qualified and interested bidders.	Achieved.
2.	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Failed institutions' assets marketed.	Eighty-five percent of book value of a failed institution's marketable assets are marketed within 90 days of failure.	Achieved.
3.	Manage the receivership estate and its subsidiaries toward an orderly termination.	Timely termination of new receiverships.	Terminate 75 percent of receiverships managed through the Receivership Oversight Program within three years of the failure date.	Not Achieved (see page 19).
4.	Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions, and decide to close or pursue each claim as promptly as possible, considering the size and complexity of the institution.	Percentage of investigated claim areas for which a decision has been made to close or pursue the claim within 18 months after the failure date.	For 80 percent of all claim areas, a decision is made to close or pursue the claim.	Achieved.

Depositor Payouts in Instance of Failure					
Annual Goal	**2000 Results**	**2001 Results**	**2002 Results**	**2003 Results**	**2004 Goal**
Insured deposits are transferred to successor insured depository institution or depositor payouts are begun within three days of insured depository institution failure.	Timely payments made to all depositors of the seven insured depository institutions that failed in 2000.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
FDIC is prepared to deal with all financial institution closings and emerging issues. (Revised – 2001)	Annual goal was not established in 2000.	Timely payments made to all depositors of the four insured depository institutions that failed in 2001.	Timely payments made to all depositors of the 11 insured depository institutions that failed in 2002. Legislation on deposit insurance reform was introduced in the House and the Senate.	Timely payments made to all depositors of the three insured depository institutions that failed in 2003. Legislation on deposit insurance reform was passed in the House and is pending in the Senate.	The FDIC responds promptly to financial institution closings and emerging issues.
Risk Classifications					
Maintain and improve the deposit insurance system.	Reserve ratio maintained at or above the statutory mandate of 1.25 percent.	Reserve ratio maintained. FDIC published its final recommendations for deposit insurance reform.	Reserve ratio maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Banking Committee in support of deposit insurance reform.	Reserve ratio maintained at or above the statutory ratio of 1.25 percent. Chairman testified before the Senate Banking Committee in support of deposit insurance reform.	Maintain and improve the deposit insurance system.
Risk Identification and Reporting					
Identify and address risks to the insurance funds.	Economic trends and emerging risks were identified, monitored and addressed through the publication of surveys, guidance and reports, and outreach programs.	Developed several approaches to credit risk that will be incorporated into Virtual Supervisory Information On the Net system. Risk assessments of all large insured depository institutions (LIDIs) were completed in compliance with program requirements.	Significant progress made in improving the accuracy and efficiency of off-site risk identification models. Risk assessments of all large insured depository institutions (LIDIs) were completed in compliance with program requirements.	Significant progress made in improving the accuracy and efficiency of off-site risk identification models. Risk assessments of all large insured depository institutions (LIDIs) were completed in compliance with program requirements.	Identify and address risks to the insurance funds.

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Safety and Soundness Examinations					
Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations. •Note: From 2000-2001, the totals reflect examinations initiated during the year. This will vary slightly from the chart on page 15, which displays examinations completed during these years.	Conducted 2,568 or 97 percent of required safety and soundness examinations.•	Conducted 2,575 or 97 percent of required safety and soundness examinations.•	Conducted 2,534 or 98 percent of required safety and soundness examinations.	Conducted 2,421 required safety and soundness examinations in accordance with FDIC policy.	Conduct on-site safety and soundness examinations to assess an FDIC-supervised insured depository institution's overall financial condition, management practices and policies, and compliance with applicable regulations.
Safety and Soundness Enforcement Actions					
Take prompt supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.	On average, examination reports were processed and mailed to institutions within 44 days of receipt in regional office. Target is 45 days.	Sixty-seven institutions designated as problem (composite "4" or "5" rated). Fifty-six were removed from problem status and 76 added. Evaluations changed to monitor migration of troubled banks.	Eighty-four institutions designated as problem (composite "4" or "5" rated). Forty-eight were removed from problem status and 63 added.	Seventy-three institutions designated as problem (composite "4" or "5" rated). Fifty-eight with total assets of $6.98 billion were removed from problem status and 47 with total assets of $4.99 billion were added. Additionally, FDIC issued the following formal and informal enforcement actions: 40 Cease and Desist Orders and 157 Memorandums of Understanding.	Take prompt and effective supervisory actions to address problems identified during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. Monitor FDIC-supervised insured depository institutions' compliance with formal and informal enforcement actions.
Compliance Examinations					
Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.	Conducted 2,257 examinations. There were three delinquent examinations at the end of 2000.	Conducted 2,179 comprehensive, compliance-only, and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2001.	Conducted 1,840 comprehensive, compliance-only, and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2002.	Conducted 1,919 comprehensive, compliance-only, and CRA examinations in accordance with FDIC policy. There were no delinquencies in 2003.	Conduct comprehensive and compliance-only, and CRA examinations in accordance with FDIC examination frequency policy.

CRA Outreach

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Effective outreach, technical assistance and training are provided on topics related to the Community Reinvestment Act (CRA) and community development.	One pilot forum on financial literacy and predatory lending was held in each region.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development. (Revised – 2001)	Annual goal was not established in 2000.	Conducted 25 *Money Smart* workshops with over 600 participants.	*Money Smart* classes attended by approximately 2,800 participants.	The FDIC supplied more than 111,000 copies of *Money Smart* curricula to organizations. The FDIC initiated 65 public outreach initiatives, 111 Community Development activities, and 67 Technical Assistance activities.	Provide effective outreach and technical assistance on topics related to CRA, fair lending, and community development.

Compliance Enforcement Actions

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Prompt supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance.	For institutions on average rated a composite "4" or "5," the FDIC conducted all follow-up examinations within the targeted time frame of 12 months from the issuance date of a formal enforcement action.	Six of seven institutions had either been examined in the preceding 12 months or were still within the 12 month time frame between examinations. One institution was pending resolution for safety and soundness reasons, and the compliance examination was deferred pending resolution.	Eight of nine institutions entered into a Memorandum of Understanding (MOU) with the FDIC and the ninth was in the process of reviewing the recommended MOU at year-end.	The only "4" rated institution entered into a Memorandum of Understanding (MOU) with the FDIC.	Prompt and effective supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance.

Consumer Complaints and Inquiries

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Effectively respond to written complaints and inquires related to deposit insurance and consumer protection laws.	One hundred percent of the FDIC's responses to the 6,736 written complaints and inquiries received were made within targeted average turnaround time frames.	FDIC sent 612 survey cards to consumers and bankers who contacted the Washington Office concerning inquiries and complaints. Eighty four (14 percent) of the cards were returned to the FDIC. Sixty-two percent of the responses rated the FDIC as "excellent" in timeliness of response.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions. (Revised – 2002)	Annual goal was not established in 2000.	Annual goal was not established in 2001.	FDIC received 8,368 consumer complaints, closing 95 percent of them. Of the complaints closed, 94 percent were closed within policy time frames.	FDIC received 8,010 consumer complaints, closing 99 percent of them. Of the complaints closed, 94 percent were closed within policy time frames.	Effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.

Asset Management

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Market 80 percent of a failed institution's assets to franchise and nonfranchise investors within 90 days of resolution.	Ninety-five percent of failed institutions' assets were marketed within 90 days, thus exceeding the target of 80 percent.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
Value, manage, and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return. (Revised – 2001)	Annual goal was not established in 2000.	For three institutions that failed, the FDIC marketed 100 percent of the marketable assets. The remaining institution was placed into conservatorship. Loan pools, servicing operations, and residuals that totaled in excess of the 80 percent target were marketed within the 90-day time frame.	For all 11 institutions that failed at least 87 percent of all marketable assets were marketed within the 90-day time frame, thus exceeding the target of 85 percent.	For all three institutions that failed, at least 98 percent of all marketable assets were marketed within the 90 day time frame, thus exceeding the target of 85 percent.	Value, manage, and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return.

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Least-Cost Resolution					
Market to all known qualified and interested potential assuming institutions.	There were seven failures in 2000. One hundred percent of the qualified potential bidders were contacted.	There were four failures in 2001. One hundred percent of the qualified potential bidders were contacted.	There were 11 failures in 2002. One hundred percent of the qualified potential bidders were contacted.	There were three failures in 2003. One hundred percent of the qualified bidders were contacted.	Market to all known qualified and interested potential assuming institutions.
Professional Liability Claims					
Investigations are conducted into all potential professional liability claim areas in all failed insured depository institutions and a decision to close or pursue each claim will be made within 18 months after the failure date in 80 percent of all investigations.	A decision to close or pursue each claim was made within 18 months after the failure date for 100 percent of all investigations.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
Conduct investigations into all potential professional liability claim areas in all failed insured depository institutions. Decide to close or pursue each claim as promptly as possible, considering the size and complexity of the institution. (Revised – 2001)	Annual goal was not established in 2000.	Five of nine institutions that reached the 18-month milestone had 100 percent of professional liability investigations completed.	Two of six institutions that reached the 18-month milestone during 2002 had 100 percent of professional liability investigations completed. The other four institutions had at least 80 percent of professional liability investigations completed, meeting the goal of 80 percent.	Four of ten institutions that reached the 18-month milestone during 2003 had 100 percent of professional liability investigations completed. The other six institutions had at least 80 percent of professional liability investigations completed, meeting the goal of 80 percent.	Conduct investigations of all potential professional liability claim areas in all failed insured depository institutions. Decide to close or pursue each claim as promptly as possible, considering the size and complexity of the institution.

Receivership Terminations

Annual Goal	2000 Results	2001 Results	2002 Results	2003 Results	2004 Goal
Achieve a 35 percent reduction in the number of active receiverships in 2000.	One hundred fifty-six receiverships were terminated, thus achieving the goal of 156.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
Manage the receivership estate and its subsidiaries toward an orderly termination. (Revised – 2001)	Annual goal was not established in 2000.	Fifty-two out of the 76 targeted receiverships were terminated in 2001. In mid-2001, the target of 76 terminations was revised to 36. The pace of termination was slowed by impediments that represented material financial or legal risks to the FDIC.	For the eight failures from 1999 that matured in 2002, the FDIC terminated six receiverships, meeting the target to terminate 75 percent within three years of failure.	For the seven failures that occurred during 2000 that matured in 2003, the FDIC terminated four receiverships, below the target to terminate 75 percent within three years of failure.	Manage the receivership estate and its subsidiaries toward an orderly termination.

Program Evaluation

During 2003, the FDIC completed evaluations of programs designed to achieve the strategic objectives set forth in the Insurance Program area of the FDIC's 2001-2006 Strategic Plan.

The program evaluation of each strategic objective included a list of issues to be evaluated, background context of the evaluation, analysis of programs and actions to achieve the objective, evaluation methodology, and findings. The following section highlights the issues evaluated and summarizes the results of this evaluation.

Strategic Objective	Customers of failed insured depository institutions have timely access to insured funds and financial services.
Issues evaluated	★ Do customers have timely access to insured funds? ★ Do customers of failed insured depository institutions have timely access to financial services?
Findings	The FDIC has appropriate procedures in place to ensure that customers have timely access to insured funds and financial services. If an institution failure occurs on a Friday, FDIC's target for access to insured funds by customers is one business day. If a failure occurs on any other day of the week, the target is two business days. When an institution fails, the FDIC fulfills its role as insurer by either facilitating the transfer of the institution's insured deposits to an assuming institution or by paying insured depositors directly. If an institution failure occurs, the FDIC ensures its customers timely access to financial services, such as automated teller machines, safe deposit boxes and wire services. From January 2003 to December 2003, there were three bank failures. In all cases, an acquiring institution assumed insured deposits and re-opened for business the Monday morning immediately following the Friday failure. The FDIC has a wide array of materials available to provide timely financial information to customers of failed institutions. These materials are available through the FDIC Web site (www.fdic.gov) with an Electronic Deposit Insurance Estimator (EDIE) and the FDIC's toll free number (877-ASK-FDIC). The FDIC's diligence in promoting financial education is also evident in its outreach seminars, workshops, and its award-winning Money Smart program. All of these initiatives provide methods for consumers to have timely access to financial education.

Issues evaluated	★ How does the FDIC identify and respond to potential risks to the insurance funds?
Findings	The FDIC monitors the condition of the financial services industry and projects insured financial institution failures as well as associated resolution costs. Risks posed by large insured institutions are assessed through two supervisory programs: the Dedicated Examiner program, which covers the largest eight depository institutions, and the Large Insured Depository Institution (LIDI) program, which covers remaining institutions with over $10 billion in assets. The results of these risk assessments are communicated to FDIC regional and divisional management. The Risk Analysis Center receives the summary data and analysis results of the LIDI process, which is then provided to the Financial Risk and National Risk Committees for their purposes. Also, the FDIC identifies and follows up on concerns referred for examination or other action through an Off-site Review Program. The FDIC disseminates data and analyses on current issues and risks affecting the banking industry to bankers, supervisors, stakeholders and the public. Analyses are included in regular publications available on the FDIC's Web site.

Program Evaluation (continued)

Strategic Objective	The deposit insurance funds and system remain viable.
Issues evaluated	What actions has the FDIC taken to improve the deposit insurance system?
Findings	The FDIC continues to pursue enactment of deposit insurance reform legislation. Under the reform proposals, the BIF and SAIF will be merged, and the FDIC's ability to manage the combined fund and price premiums properly to reflect risk will improve. During 2003, the FDIC developed a study on the future of banking. The study focused on underlying trends in the economy and the banking industry, and their implications for different sectors of the industry and for bank regulators in the future. The FDIC established a Center for Financial Research (CFR) to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor. The CFR will explore key developments affecting the banking industry, risk measurement and management methods, regulatory policy and related topics of interest to the FDIC and the larger financial community.

Copies of the complete Insurance Program Evaluation Report may be obtained from:

The FDIC Public Information Center
801 17th Street, NW
Room 100
Washington, DC 20434

Copies may also be requested by:
telephone: 202-416-6940,
fax: 202-416-2076, or
e-mail: publicinfo@fdic.gov.

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.

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**

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.

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.

SAIF

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.

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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.

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)**

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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.

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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**

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.

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**

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Comptroller General
of the United States

To the Board of Directors
The Federal Deposit Insurance Corporation

We have audited the balance sheets as of December 31, 2003 and 2002, for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with the laws and regulations that we tested.

The following sections discuss our conclusions in more detail. They also present information on (1) the scope of our audits, (2) a reportable condition[1] related to information system control weaknesses, and (3) our evaluation of FDIC management's comments on a draft of this report.

Opinion on BIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, BIF's financial position as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

[1] Reportable conditions involve matters coming to the auditor's attention that in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control and could adversely affect FDIC's ability to meet the control objectives described in this report.

Opinion on SAIF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SAIF's financial position as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

Opinion on FRF's Financial Statements

The financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's financial position as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended.

Opinion on Internal Control

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2003, that provided reasonable but not absolute assurance that misstatements, losses, or noncompliance material in relation to FDIC's financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d) [Federal Managers' Financial Integrity Act (FMFIA)].

Our work identified weaknesses in FDIC's information system controls, which we describe as a reportable condition in a later section of this report. The reportable condition in information system controls, although not considered material, represents a significant deficiency in the design or operation of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Although the weaknesses did not materially affect the 2003 financial statements, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weaknesses.

Compliance with Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with selected laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with selected laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are

- financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and

- compliance with laws and regulations – transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the financial statements;

- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;

- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;

- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and

- tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended, and the Chief Financial Officers Act of 1990.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those deemed applicable to the financial statements for the year ended December 31, 2003. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

FDIC management provided comments on a draft of this report. They are discussed and evaluated in a later section of this report and are reprinted in appendix I.

Reportable Condition

In connection with the funds' financial statement audits, we reviewed FDIC's information system controls. Effective information system controls are essential to safeguarding financial data, protecting computer application programs, providing for the integrity of system software, and ensuring continued computer operations in case of unexpected interruption. These controls include the corporatewide security management program, access controls, system software, application development and change control, segregation of duties, and service continuity controls.

Although FDIC made substantial progress during the past year it has not yet fully implemented a comprehensive corporatewide security management program. An effective program includes establishing a central security function, assessing risk, establishing policies, raising user security awareness of prevailing risks, and routinely testing and evaluating the effectiveness of established controls. While FDIC has done much to establish a computer security management program, FDIC only recently established a program to test and evaluate its computer control environment, and the program did not adequately address all key areas. For example, the program did not include adequate provisions to ensure that (1) all key computer resources supporting FDIC's financial environment are routinely reviewed and tested as appropriate, (2) weaknesses detected are analyzed for systemic solutions, (3) corrective actions are independently tested, or (4) newly identified weaknesses or emerging security threats are incorporated into the test and evaluation process. A mature comprehensive ongoing program of tests and evaluations of controls would enable FDIC to better identify and correct security problems, such as those found in our review.

In our current review, we continued to identify information system control weaknesses that increased the risk of unauthorized disclosure of critical FDIC financial and sensitive personnel and bank information, disruption of critical operations, and loss of assets. Such weaknesses affected FDIC's ability to adequately ensure that users only had the access needed to perform their assigned duties and its network was sufficiently protected from unauthorized users. The risk created by these weaknesses are compounded because FDIC does not have a comprehensive monitoring program to identify unusual or suspicious access activities.

We determined that other management controls mitigated the effect of the information system control weaknesses on the preparation of the funds' financial statements. Because of their sensitive nature, the details surrounding these weaknesses are being reported separately to FDIC management, along with recommendations for corrective actions.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's Chief Financial Officer (CFO) was pleased to receive unqualified opinions on BIF's, SAIF's, and FRF's 2003 and 2002 financial statements. FDIC's CFO also acknowledged both the current status as well as the substantial progress made during 2003 on the information system weaknesses we identified. FDIC said it would continue efforts to strengthen its ongoing information security program during 2004.

David M. Walker
Comptroller General of the United States

January 30, 2004

Federal Deposit Insurance Corporation
550 17th St. NW Washington DC, 20429 Deputy to the Chairman & Chief Financial Officer

February 9, 2004

Mr. David M. Walker
Comptroller General of the United States
U. S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2003 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U. S. General Accounting Office's (GAO) draft audit report titled, **Financial Audit: Federal Deposit Insurance Corporation Funds' 2003 and 2002 Financial Statements**, GAO-04-429. The report presents GAO's opinions on the calendar year 2003 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2003 and GAO's evaluation of FDIC's compliance with applicable laws and regulations.

We are pleased to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2003 audits. The GAO reported that: the funds' financial statements were presented fairly and in conformity with U. S. generally accepted accounting principles; FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and there were no instances of noncompliance with selected provisions of laws and regulations.

GAO identified the need to improve internal control over FDIC's information systems (IS) and issued a reportable condition. Although GAO identified weaknesses in FDIC's IS controls, the audit team noted that significant improvements had been made during the past year, and that the weaknesses did not materially affect the 2003 financial statements. We acknowledge GAO's assessment of both the status and the substantial progress made in addressing the IS control environment. During 2003, FDIC's accomplishments included implementation of a recurring IS controls self assessment program, implementation of more stringent contractor personnel clearance and site security policies and procedures, and establishment of an aggressive patch management program. The FDIC will continue efforts to strengthen its ongoing, comprehensive information security program during 2004.

If you have any questions or concerns, please let me know.

Sincerely,

Steven O. App

Steven O. App
Deputy to the Chairman and Chief Financial Officer

Overview of the Industry

Through the first three quarters of 2003, insured commercial banks and savings institutions were on a record earnings pace, as a recovering economy and favorable interest-rate environment created conditions conducive to strong performance. The 9,237 commercial banks and savings institutions insured by the FDIC earned $89.9 billion in the first three quarters of 2003, a $9.6 billion (12.0 percent) improvement over the same period of 2002. Lower expenses for loan losses at large banks were a major contributor to the improvement in earnings. Strong growth in consumer-related assets led by mortgage refinancings helped boost net interest income. Growth in noninterest revenues and higher gains on sales of securities and other assets also contributed to the improvement in revenues. These positive developments helped offset narrower net interest margins.

Commercial banks earned $76.1 billion in the first three quarters of the year, up $7.6 billion (11.2 percent) from the first three quarters of 2002. More than half of all the 7,812 insured commercial banks – 57.6 percent – reported higher earnings, and only 5.4 percent were unprofitable, compared to 6.3 percent a year earlier. Their return on assets (ROA), a basic yardstick of earnings performance, was 1.39 percent, up from 1.37 percent in the same period of 2002. Provisions for loan losses were $8.9 billion (25.3 percent) lower than in the first three quarters of 2002, while noninterest income was $10.1 billion (7.9 percent) higher. Net interest income was only $1.9 billion (1.1 percent) higher, as commercial banks' average net interest margin fell to 3.81 percent, from 4.11 percent in 2002. Gains on sales of securities were up by $1.1 billion (26.7 percent), as lower interest rates caused the values of fixed-rate securities to appreciate. Lower interest rates also stimulated demand for mortgage loans, particularly loans to refinance existing mortgages. Residential mortgage-related assets, including 1-4 family residential mortgage loans and mortgage-backed securities, increased by $184 billion (9.9 percent) during the first nine months of 2003, accounting for almost half (46.3 percent) of the total growth in commercial bank assets. After deteriorating for the three previous years, banks' asset-quality indicators showed improvement in each of the first three quarters of 2003. Through the first nine months of the year, net loan charge-offs were $5.3 billion (16.0 percent) lower than in the same period of 2002. Almost three-quarters of the improvement ($3.8 billion, or 71.4 percent) consisted of lower losses reported by large banks on loans to commercial and industrial borrowers.

The nation's 1,425 insured savings institutions also benefited from the strong demand for residential mortgage loans. Thrifts' earnings for the first three quarters of 2003 totaled $13.7 billion, an improvement of $2.0 billion (16.8 percent) over the same period in 2002. The average ROA of 1.29 percent was well above the 1.20 percent registered a year earlier. More than half of all savings institutions – 57.7 percent – reported higher earnings for the first three quarters. The main sources of the earnings improvement were higher noninterest income, which was $2.7 billion (32.3 percent) above the level of a year earlier, and increased gains on sales of securities and other assets, which were up by $1.6 billion (41.1 percent). Net interest income increased by only $602 million (2.0 percent), as the average net interest margin fell from 3.48 percent to 3.29 percent. Loan-loss provisions were $372 million (14.9 percent) below the year-earlier level, while net loan charge-offs were $566 million (35.3 percent) higher. Noninterest expenses were $2.1 billion (9.5 percent) higher than in the first three quarters of 2002.

The FDIC administers two deposit insurance funds – the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) – and manages the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the FDIC's insurance funds.

Deposit insurance assessment rates remained unchanged from 2002 for both the BIF and the SAIF, ranging from 0 to 27 cents annually per $100 of assessable deposits. Under the assessment rate schedule, 92.0 percent of BIF-member institutions and 91.5 percent of SAIF-member institutions were in the lowest risk-assessment category and paid no deposit insurance assessment for the first semiannual period of 2004.

Deposits insured by the FDIC totaled $3.4 trillion at the end of September 2003. Estimated insured deposits rose by $27.8 billion (0.8 percent) during the first three quarters of the year, as total deposits at FDIC-insured institutions increased by $282.6 billion (5.1 percent), and savings deposits at insured commercial banks grew by $223.9 billion (11.0 percent).

During the first three quarters of 2003, deposits insured by the BIF increased by $20.0 billion, or 0.8 percent, to $2.55 trillion. The BIF balance was $33.5 billion at the end of September, or 1.31 percent of estimated insured deposits. This was up from the year-earlier reserve ratio of 1.25 percent, as deposits insured by BIF increased by $34.7 billion and the BIF fund balance increased by $2.1 billion.

The reserve ratio of the SAIF was 1.40 percent at the end of September, up from 1.39 percent a year earlier. The balance of the SAIF surpassed the $12 billion level in 2003, and stood at $12.2 billion on September 30. Estimated SAIF-insured deposits totaled $868 billion at the end of the third quarter, having grown 0.9 percent during the first nine months of the year.

Continued strong growth in assets, combined with the relatively slow growth of insured deposits, meant that insured institutions continued to rely increasingly on other funding alternatives. Insured deposits funded 38.1 percent of industry assets at the end of September, compared to 40.4 percent a year earlier. At the end of 1991, insured deposits funded 60.2 percent of the total assets of insured banks and savings institutions.

IV. Management Controls

As part of the Corporation's continued commitment to establish and maintain effective and efficient internal controls, FDIC management routinely conducts ongoing reviews of internal accounting and administrative control systems. The results of these reviews, as well as consideration of audits, evaluations and reviews conducted by the U.S. General Accounting Office (GAO), the Office of Inspector General (OIG) and other outside entities, are used as a basis for the FDIC's reporting on the condition of the Corporation's internal controls.

The FDIC's standards incorporate the *GAO's Standards for Internal Controls in the Federal Government*. Good internal control systems are essential for ensuring the proper conduct of FDIC business and the accomplishment of management objectives by serving as checks and balances against undesired action.

The FDIC's management concludes that the system of internal accounting and administrative controls at the FDIC, taken as a whole, complies with internal control standards prescribed by the GAO and provides reasonable assurance that the related objectives are being met. This standard reflects the fact that all internal control systems, no matter how well designed, have inherent limitations and should not be relied upon to provide absolute assurance, and that control systems may vary over time because of changes in conditions.

The Corporation's evaluation processes, the OIG audits and evaluations, and the GAO financial statements audits have identified certain areas where existing internal controls should be improved. FDIC management uses the chart below in the evaluation process to determine the appropriate classification for these areas.

Effectiveness of Internal Controls

Risks	Controls are working as intended	Controls are not working as intended, but mitigating controls exist	Controls are not working as intended and minor/no mitigating controls exist
High •	OK	High Vulnerability	Material Weakness
Medium •	OK	OK	High Vulnerability or Matter for Continued Monitoring
Low •	OK	OK	Warrants Further Review

• High, Medium, and Low are measured on how potentially critical the area or operation is to achieving the mission and objectives of the Corporation. Additionally, consideration is given to the risk to the Corporation, absent the area or operation.

Material Weaknesses

For purposes of this report, FDIC management considers a weakness material if it:

- Violates statutory or regulatory requirements;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Significantly impairs the mission of the FDIC;
- Fosters a conflict of interest;
- Deprives the public of needed services; or
- Merits the attention of the Chairman, the FDIC Board of Directors or Congress.

To determine the existence of material weaknesses, the FDIC has assessed the results of management evaluations and external audits of the Corporation's risk management and internal control systems conducted in 2003, as well as management actions taken to address issues identified in these audits and evaluations. Based on this assessment and application of the above criteria, the FDIC concludes that no material weaknesses existed within the Corporation's operations for 2002 and 2003.

High Vulnerability Issues

For purposes of this report, FDIC management has designated a high vulnerability issue as a high-risk or medium-risk area with identified deficiencies and ineffective internal controls with minor or no mitigating controls. These areas warrant special attention of management, with the need to strengthen controls. The FDIC identified Information System Security as a high vulnerability issue for 2002 and 2003.

Adequate information system security is critical to the FDIC's accomplishment of its mission. Adequate controls are designed to provide the assurance that:

- The systems developed, enhanced and maintained provide the support necessary to carry out the objectives of the program area and provide needed information on a timely basis;
- Resources are used efficiently;
- Adequate security prevents unauthorized access to and manipulation of sensitive data;
- Data quality is preserved; and
- Operations continue in the event of a disaster.

The FDIC continues its efforts to improve the information security program and operations, but continual management attention is needed. While some challenges are amenable to near-term resolution, others can only be addressed by a concerted, continuing effort, resulting in progress over a longer period of time.

The overall assessment included in the OIG's report entitled *Independent Evaluation of the FDIC's Information Security Program – 2003* concludes that the Corporation established and implemented management controls that provided limited assurance of adequate security over its information resources. Of the ten management control areas tested, only one was rated with a control assurance level of "minimal/no assurance" in the implementation of controls category. But even in this area (Contractor and Outside Agency Security), the OIG noted that the FDIC has made significant progress since the OIG's 2002 security evaluation.

Notably, the FDIC has made considerable progress in mitigating contractor security-related risk compared to last year. Specifically, in the past year, the FDIC has updated its policy on connecting off-site contractor facilities to the corporate network and ensuring contractors are disconnected from the network when the contract expires, and has initiated a much more aggressive program to monitor and audit office activities and connections. Current plans entail inspection of contractor facilities to review security issues and concerns. By August 2003, all the sites connected to the FDIC network had been reviewed. Beginning in 2004, this approach will be expanded to include at least one scheduled and one unannounced review at each of the off-site contractor locations.

The FDIC made improvements in other areas as well. In 2002, Performance Measurement and Capital Planning/Investment Control were two areas that the OIG reported as having no assurance of adequate security. For 2003, these areas were upgraded to "limited assurance," as a result of continuous efforts made during the year. In 2003, the FDIC initiated a more extensive self-assessment program to continuously monitor and improve the Information Security Program by identifying risks and internal control deficiencies. As such, the FDIC entered into a two-year agreement with an independent contractor to assist with this initiative.

Matters for Continued Monitoring

For purposes of this report, matters for continued monitoring are medium-risk areas with ineffective internal controls with minor or no mitigating controls in place, posing medium risk to the Corporation. These areas warrant continued monitoring of corrective actions through completion.

The Corporation's evaluation and assessment process identified four matters that warrant continued monitoring. Three of these matters (numbers 2 - 4 below) were also included in the 2002 Annual Report.

1. Systems Development Project Management

The Corporation is engaged in several multi-million dollar large scale development projects, including the New Financial Environment (NFE) and the Central Data Repository (CDR). As noted by the OIG, without effective project management, the FDIC runs the risk that corporate requirements and user needs may not be met in a timely, cost-effective manner. For instance, the OIG reviewed the project control framework for the NFE and determined that a formally defined integrated framework for the project was needed. OIG felt that it would be difficult to ensure accountability and a corporate approach on the project without this integrated framework. They further determined that improvements were needed in scope management, project oversight, and time management. If corrective actions undertaken by the FDIC are not completed promptly, the project is less likely to be deployed on schedule, which may increase overall project costs.

NFE will provide an integrated financial system that focuses on data-sharing, state-of-the-art computing technology, and the ability to grow and change with the Corporation's future financial management and information needs. Given the scope and complexity of the overall project, current delays from the original aggressive schedule, and control deficiencies identified by leadership and reinforced in the OIG's audit report number 03-045 entitled *New Financial Environment Scope Management Controls*, it is appropriate to maintain a heightened level of attention and focus on this major corporate initiative.

Also, at the FDIC's request, the OIG is reviewing issues that could impact the cost and timely completion of the CDR project. The FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board (FRB), collectively referred to as the Federal Financial Institutions Examination Council (FFIEC) Call Agencies, want to improve the collection and management of the consolidated reports of condition and income (Call Reports) and publication of the Uniform Bank Performance Reports. This project presents potential risks and challenges as a result of the reliance on new technology and involvement of multiple agencies.

Additional audits are being planned for other large system-development efforts like Virtual Supervisory Information on the Net (ViSION). ViSION is an internet-based data system that provides the FDIC and staff of the other federal banking agencies and state authorities access to supervisory information about financial institutions. Phase IV of this project has experienced delays and potentially presents risks to timely and efficient data resource and reporting needs. Therefore, the FDIC will continue to focus heightened attention on this major initiative as well.

By continuing management focus on large scale system-development efforts, the FDIC can strengthen its internal controls and mitigate risks that could hinder the Corporation from successfully achieving its goals and objectives.

2. Contractor Oversight

Maintaining strong internal controls and effective oversight of contracting activities is critical to the FDIC's success. The Corporation's exposure to risk is greater with increased reliance on outsourcing, if those contracts are not properly managed. The FDIC is working to improve contract-management practices, including possible consolidation of the large number of existing contracts into fewer, larger, long-term contracts. This would substantially reduce the number of outstanding contractual relationships, thus allowing contract managers to focus on a more manageable number of contracts. Also, the FDIC strengthened its contract-management function by developing and implementing 25 Web-based training courses for contract oversight managers and technical monitors.

In prior years, the FDIC implemented results-oriented contracting structures for multi-year, complex high-dollar-value contracts, that linked contractor compensation with performance and greatly decreased contract administration risk. In 2003, greater emphasis (2003 Procurement Plan approved by the FDIC Board of Directors) was placed on awarding more consolidated, performance based contracting vehicles that will further enhance contractor performance and gain greater administrative efficiencies and contracting oversight.

The FDIC currently awards and administers over 50 percent of all contracting actions to support Information Technology (IT) activities within the Corporation. Other major system initiatives, in addition to NFE, CDR, and ViSION, include the Assessment Information Management System II (AIMS II), and the Corporate Human Resources Information System (CHRIS).

AIMS II is the platform that provides the FDIC with a flexible robust tool to efficiently track deposit insurance assessments levied since the creation of the BIF and SAIF in 1989. It takes into account any changes pending deposit insurance reform legislation might require, including possible credits or refund calculations. AIMS II is in production and produced the last three quarterly insurance invoices in 2003.

CHRIS is an integrated human resources processing and information system that will bring together many functions and data that now reside in multiple, stand-alone systems. CHRIS is being implemented incrementally utilizing a phased approach over a four-year period. The FDIC is currently planning the implementation of the fourth phase, which should be in production in early 2005.

A major non-systems related procurement effort now underway is the construction of Phase II of the Seidman Center (Virginia Square Phase II). This is a project that involves the addition of a two-tower office building and multi-purpose facility at the FDIC's existing Virginia Square campus. The new buildings will accommodate staff presently housed at three leased locations in Washington, DC, and will save the FDIC an estimated $78 million (in net present value terms) over a 20 year period. In September 2003, the FDIC broke ground for this new facility, which is expected to be occupied in 2006.

3. Risk Designation Levels/Background Investigations
The FDIC adopted the risk designation system established by the U.S. Office of Personnel Management to provide corporate officials with a systematic, consistent and uniform way of determining the risk levels of its positions. The risk designation system requires FDIC officials to designate risk levels for every position in the Corporation to determine the type of background investigations required. In 2003, the FDIC revised its directive entitled "Security Policy and Procedures for FDIC Contractors and Subcontractors," which provides guidance and procedures for contractor risk-level designations and background investigations. The Corporation has implemented the revised requirements in this directive.

Additionally, the FDIC has revised its circular on "Personnel Suitability Program," which will give current guidance on conducting the position-based background investigations discussed above.

4. Business Continuity Plan
Business continuity planning helps to minimize the potential negative impacts of adverse developments affecting the Corporation and allows the FDIC to continue meeting mission-critical requirements. During 2003, a series of tabletop exercises and security taskforce meetings were held to evaluate current response plans and capabilities. Based on the results of these drills, response plans were revised to include lessons learned from the changing security environment.

Another related effort involved disaster recovery testing. One disaster recovery test was conducted in 2003, with several others planned for 2004 and beyond. Results of the 2003 test revealed a need to update the call listing of essential personnel and to issue new guidelines and procedures to be utilized for disaster recovery purposes.

Internal Controls and Risk Management Program

FDIC Circular 4010.3, "FDIC Internal Control Programs and Systems," outlines steps necessary to remain in compliance with provisions of the Chief Financial Officers Act by establishing FDIC internal control objectives, describing internal control standards, and identifying and monitoring risk management internal control programs and systems. The process focuses on areas of high risk to provide reasonable assurance that the following objectives are met:

- Programs are efficiently and effectively carried out in accordance with applicable laws and management policies;
- Assets are safeguarded against waste, loss, unauthorized use or misappropriation;

- Systems are established to alert management of potential weaknesses;
- Obligations and costs comply with applicable laws; and
- Revenues and expenditures applicable to the FDIC's operations are recorded and properly accounted for, so that accounts and reliable financial and statistical reports may be prepared and accountability of assets may be maintained.

Division and office directors are required to submit a certification statement annually, addressed to the Chairman asserting that their internal control systems: (1) comply with the FDIC's internal control standards and (2) provide reasonable assurance that the FDIC internal control objectives are achieved. The certification statement also reports whether material weaknesses, high vulnerability issues, or matters for continued monitoring exist in the internal control systems and, if so, provides a description of the deficiency and planned corrective action(s). These certification statements are used as support for the Corporation's Statements on Internal Accounting and Administrative Controls.

Appendix A – Key Statistics

V. Appendixes

Selected Statistics

Dollars in millions

	For the year ended December 31		
	2003	2002	2001
Bank Insurance Fund			
Financial Results			
Revenue	**$ 1,626**	$ 1,796	$ 1,997
Operating Expenses	**805**	821	786
Insurance Losses and Expenses	**(921)**	(70)	1,774
Net Income/(Loss)	**1,742**	1,045	(563)
Comprehensive Income/(Loss)	**1,732**	1,611	(536)
Insurance Fund Balance	**$ 33,782**	$ 32,050	$ 30,439
Fund as a Percentage of Insured Deposits	**1.31%**▼	1.27%	1.26%
Selected Statistics			
Total BIF-Member Institutions●	**8,043** ▼	8,171	8,326
Problem Institutions	**103** ▼	124	90
Total Assets of Problem Institutions	**$ 29,371** ▼	$ 34,000	$ 32,000
Institution Failures	**3**	10	3
Total Assets of Current Year Failed Institutions	**$ 1,097**	$ 2,508	$ 54
Number of Active Failed Institution Receiverships	**31**	37	36
Savings Association Insurance Fund			
Financial Results			
Revenue	**$ 547**	$ 589	$ 733
Operating Expenses	**130**	124	102
Insurance Losses and Expenses	**(83)**	(155)	462
Net Income	**500**	620	169
Comprehensive Income	**493**	812	176
Insurance Fund Balance	**$ 12,240**	$ 11,747	$ 10,935
Fund as a Percentage of Insured Deposits	**1.40%**▼	1.37%	1.36%
Selected Statistics			
Total SAIF-Member Institutions■	**1,194** ▼	1,244	1,287
Problem Institutions	**13** ▼	24	24
Total Assets of Problem Institutions	**$ 933** ▼	$ 8,000	$ 8,000
Institution Failures	**0**	1	1
Total Assets of Current Year Failed Institutions	**$ 0**	$ 50	$ 2,180
Number of Active Failed Institution Receiverships	**2**	3	3

▼ As of September 30, 2003.

● Commercial banks and savings institutions. Does not include U.S. branches of foreign banks.

■ Savings institutions and commercial banks.

Number and Deposits of BIF-Insured Banks Closed Because of Financial Difficulties, 1934 through 2003[1]

Dollars in Thousands

	Number of Insured Banks			Deposits of Insured Banks			
Year	**Total**	**Without Disbursements by FDIC**	**With Disbursements by FDIC**	**Total**	**Without Disbursements by FDIC**	**With Disbursements by FDIC**	**Assets**
Total	**2,113**	**19**	**2,094**	**$ 217,723,839**	**$ 4,298,814**	**$ 213,425,025**	**$ 258,418,418**
2003	**3**	**–**	**3**	**903,504**	**–**	**903,504**	**1,096,724**
2002	10	–	10	2,124,501	–	2,124,501	2,507,565
2001	3	–	3	49,926	–	49,926	54,470
2000	6	–	6	311,950	–	311,950	378,088
1999	7	–	7	1,268,151	–	1,268,151	1,423,819
1998	3	–	3	335,076	–	335,076	370,400
1997	1	–	1	26,800	–	26,800	25,921
1996	5	–	5	168,228	–	168,228	182,502
1995	6	–	6	632,700	–	632,700	753,024
1994	13	1	12	1,236,488	–	1,236,488	1,392,140
1993	41	–	41	3,132,177	–	3,132,177	3,539,373
1992	120	10	110	41,150,898	4,257,667	36,893,231	44,197,009
1991	124	–	124	53,751,763	–	53,751,763	63,119,870
1990	168	–	168	14,473,300	–	14,473,300	15,660,800
1989	206	–	206	24,090,551	–	24,090,551	29,168,596
1988	200	–	200	24,931,302	–	24,931,302	35,697,789
1987	184	–	184	6,281,500	–	6,281,500	6,850,700
1986	138	–	138	6,471,100	–	6,471,100	6,991,600
1985	120	–	120	8,059,441	–	8,059,441	8,741,268
1984	79	–	79	2,883,162	–	2,883,162	3,276,411
1983	48	–	48	5,441,608	–	5,441,608	7,026,923
1982	42	–	42	9,908,379	–	9,908,379	11,632,415
1981	10	–	10	3,826,022	–	3,826,022	4,859,060
1980	10	–	10	216,300	–	216,300	236,164
1979	10	–	10	110,696	–	110,696	132,988
1978	7	–	7	854,154	–	854,154	994,035
1977	6	–	6	205,208	–	205,208	232,612
1976	16	–	16	864,859	–	864,859	1,039,293
1975	13	–	13	339,574	–	339,574	419, 950
1974	4	–	4	1,575,832	–	1,575,832	3,822,596
1973	6	–	6	971,296	–	971,296	1,309,675
1972	1	–	1	20,480	–	20,480	22,054
1971	6	–	6	132,058	–	132,058	196,520
1970	7	–	7	54,806	–	54,806	62,147
1969	9	–	9	40,134	–	40,134	43,572
1968	3	–	3	22,524	–	22,524	25,154
1967	4	–	4	10,878	–	10,878	11,993
1966	7	–	7	103,523	–	103,523	120,647
1965	5	–	5	43,861	–	43,861	58,750
1964	7	–	7	23,438	–	23,438	25,849
1963	2	–	2	23,444	–	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	–	5	8,936	–	8,936	9,820
1960	1	–	1	6,930	–	6,930	7,506
1959	3	–	3	2,593	–	2,593	2,858
1958	4	–	4	8,240	–	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	–	2	11,330	–	11,330	12,914
1955	5	–	5	11,953	–	11,953	11,985
1954	2	–	2	998	–	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	–	3	3,170	–	3,170	2,388
1951	2	–	2	3,408	–	3,408	3,050
1950	4	–	4	5,513	–	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	–	3	10,674	–	10,674	10,360
1947	5	–	5	7,040	–	7,040	6,798
1946	1	–	1	347	–	347	351
1945	1	–	1	5,695	–	5,695	6,392
1944	2	–	2	1,915	–	1,915	2,098
1943	5	–	5	12,525	–	12,525	14,058
1942	20	–	20	19,185	–	19,185	22,254
1941	15	–	15	29,717	–	29,717	34,804
1940	43	–	43	142,430	–	142,430	161,898
1939	60	–	60	157,772	–	157,772	181,514
1938	74	–	74	59,684	–	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	–	69	27,508	–	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	–	9	1,968	–	1,968	2,661

[1] Does not include institutions that received FDIC assistance and were not closed. Also does not include institutions insured by the Savings Association Insurance Fund (SAIF), which was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2003

Dollars in Thousands

	All Cases[1]					Deposit Payoff Cases[2]				
Year	**Number of Banks**	**Disbursements**	**Recoveries**	**Estimated Additional Recoveries**	**Estimated Losses**	**Number of Banks**	**Disbursements**	**Recoveries**	**Estimated Additional Recoveries**	**Estimated Losses**
Total	**2,224**	**111,307,051**	**72,294,084**	**512,972**	**38,499,995**	**608**	**16,142,756**	**11,227,291**	**162,109**	**4,753,356**
2003	**3**	**887,703**	**654,705**	**129,617**	**103,381**	**0**	**0**	**0**	**0**	**0**
2002	10	2,031,376	1,235,284	236,344	559,748	5	1,585,246	998,412	162,054	424,780
2001	3	48,676	40,165	2,721	5,790	0	0	0	0	0
2000	6	268,730	230,174	9,725	28,831	0	0	0	0	0
1999	7	1,244,453	416,848	118,926	708,679	0	0	0	0	0
1998	3	286,594	53,152	3,167	230,275	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,386	130,729	0	38,657	0	0	0	0	0
1995	6	609,045	524,515	58	84,472	0	0	0	0	0
1994	13	1,224,769	1,045,686	32	179,051	0	0	0	0	0
1993	41	1,797,302	1,150,863	198	646,241	5	261,203	159,268	0	101,935
1992	122	14,172,884	10,502,090	1,711	3,669,083	25	1,890,869	1,398,731	0	492,138
1991	127	21,412,652	15,271,553	5,015	6,136,084	21	1,468,407	1,000,733	0	467,674
1990	169	10,816,599	8,040,376	1,975	2,774,248	20	2,182,580	1,648,969	0	533,611
1989	207	11,445,829	5,244,819	3,428	6,197,582	32	2,116,556	1,262,140	0	854,416
1988	280	12,163,006	5,244,866	0	6,918,140	36	1,252,160	822,612	0	429,548
1987	203	5,037,871	3,015,160	55	2,022,656	51	2,103,792	1,400,945	55	702,792
1986	145	4,790,969	3,015,252	0	1,775,717	40	1,155,981	739,659	0	416,322
1985	120	2,920,687	1,913,452	0	1,007,235	29	523,789	411,175	0	112,614
1984	80	7,696,215	6,056,061	0	1,640,154	16	791,838	699,483	0	92,355
1983	48	3,807,082	2,400,044	0	1,407,038	9	148,423	122,484	0	25,939
1982	42	2,275,150	1,106,579	0	1,168,571	7	277,240	206,247	0	70,993
1981	10	888,999	107,221	0	781,778	2	35,736	34,598	0	1,138
1980	11	152,355	121,675	0	30,680	3	13,732	11,427	0	2,305
1979	10	90,489	74,372	0	16,117	3	9,936	9,003	0	933
1978	7	548,568	512,927	0	35,641	1	817	613	0	204
1977	6	26,650	20,654	0	5,996	0	0	0	0	0
1976	17	599,397	561,532	0	37,865	3	11,416	9,660	0	1,756
1975	13	332,046	292,431	0	39,615	3	25,918	25,849	0	69
1974	5	2,403,277	2,259,633	0	143,644	0	0	0	0	0
1973	6	435,238	368,852	0	66,386	3	16,771	16,771	0	0
1972	2	16,189	14,501	0	1,688	1	16,189	14,501	0	1,688
1971	7	171,646	171,430	0	216	5	53,767	53,574	0	193
1970	7	51,566	51,294	0	272	4	29,265	28,993	0	272
1969	9	42,072	41,910	0	162	4	7,596	7,513	0	83
1968	3	6,476	6,464	0	12	0	0	0	0	0
1967	4	8,097	7,087	0	1,010	4	8,097	7,087	0	1,010
1966	7	10,020	9,541	0	479	1	735	735	0	0
1965	5	11,479	10,816	0	663	3	10,908	10,391	0	517
1964	7	13,712	12,171	0	1,541	7	13,712	12,171	0	1,541
1963	2	19,172	18,886	0	286	2	19,172	18,886	0	286
1962	0	0	0	0	0	0	0	0	0	0
1961	5	6,201	4,700	0	1,501	5	6,201	4,700	0	1,501
1960	1	4,765	4,765	0	0	1	4,765	4,765	0	0
1959	3	1,835	1,738	0	97	3	1,835	1,738	0	97
1958	4	3,051	3,023	0	28	3	2,796	2,768	0	28
1957	1	1,031	1,031	0	0	1	1,031	1,031	0	0
1956	2	3,499	3,286	0	213	1	2,795	2,582	0	213
1955	5	7,315	7,085	0	230	4	4,438	4,208	0	230
1954	2	1,029	771	0	258	0	0	0	0	0
1953	2	5,359	5,359	0	0	0	0	0	0	0
1952	3	1,525	733	0	792	0	0	0	0	0
1951	2	1,986	1,986	0	0	0	0	0	0	0
1950	4	4,404	3,019	0	1,385	0	0	0	0	0
1949	4	2,685	2,316	0	369	0	0	0	0	0
1948	3	3,150	2,509	0	641	0	0	0	0	0
1947	5	2,038	1,979	0	59	0	0	0	0	0
1946	1	274	274	0	0	0	0	0	0	0
1945	1	1,845	1,845	0	0	0	0	0	0	0
1944	2	1,532	1,492	0	40	1	404	364	0	40
1943	5	7,230	7,107	0	123	4	5,500	5,377	0	123
1942	20	11,684	10,996	0	688	6	1,612	1,320	0	292
1941	15	25,061	24,470	0	591	8	12,278	12,065	0	213
1940	43	87,899	84,103	0	3,796	19	4,895	4,313	0	582
1939	60	81,828	74,676	0	7,152	32	26,196	20,399	0	5,797
1938	74	34,394	31,969	0	2,425	50	9,092	7,908	0	1,184
1937	75	20,204	16,532	0	3,672	50	12,365	9,718	0	2,647
1936	69	15,206	12,873	0	2,333	42	7,735	6,397	0	1,338
1935	25	9,108	6,423	0	2,685	24	6,026	4,274	0	1,752
1934	9	941	734	0	207	9	941	734	0	207

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Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2003 (continued)

Dollars in Thousands

	Deposit Assumption Cases					Assistance Transactions[1]				
Year	**Number of Banks**	**Disbursements**	**Recoveries**	**Estimated Additional Recoveries**	**Estimated Losses**	**Number of Banks**	**Disbursements**	**Recoveries**	**Estimated Additional Recoveries**	**Estimated Losses**
Total	**1,475**	**83,533,939**	**54,866,918**	**350,863**	**28,316,158**	**141**	**11,630,356**	**6,199,875**	**0**	**5,430,481**
2003	**3**	**887,703**	**654,705**	**129,617**	**103,381**	**0**	**0**	**0**	**0**	**0**
2002	5	446,130	236,872	74,290	134,968	0	0	0	0	0
2001	3	48,676	40,165	2,721	5,790	0	0	0	0	0
2000	6	268,730	230,174	9,725	28,831	0	0	0	0	0
1999	7	1,244,453	416,848	118,926	708,679	0	0	0	0	0
1998	3	286,594	53,152	3,167	230,275	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,386	130,729	0	38,657	0	0	0	0	0
1995	6	609,045	524,515	58	84,472	0	0	0	0	0
1994	13	1,224,769	1,045,686	32	179,051	0	0	0	0	0
1993	36	1,536,099	991,595	198	544,306	0	0	0	0	0
1992	95	12,280,529	9,102,123	1,711	3,176,695	2	1,486	1,236	0	250
1991	103	19,938,128	14,267,727	5,015	5,665,386	3	6,117	3,093	0	3,024
1990	148	8,629,084	6,388,810	1,975	2,238,299	1	4,935	2,597	0	2,338
1989	174	9,326,725	3,982,427	3,428	5,340,870	1	2,548	252	0	2,296
1988	164	9,180,495	4,232,545	0	4,947,950	80	1,730,351	189,709	0	1,540,642
1987	133	2,773,202	1,613,502	0	1,159,700	19	160,877	713	0	160,164
1986	98	3,476,140	2,209,924	0	1,266,216	7	158,848	65,669	0	93,179
1985	87	1,631,166	1,095,601	0	535,565	4	765,732	406,676	0	359,056
1984	62	1,373,198	941,674	0	431,524	2	5,531,179	4,414,904	0	1,116,275
1983	35	2,893,969	1,850,553	0	1,043,416	4	764,690	427,007	0	337,683
1982	25	268,372	213,578	0	54,794	10	1,729,538	686,754	0	1,042,784
1981	5	79,208	71,358	0	7,850	3	774,055	1,265	0	772,790
1980	7	138,623	110,248	0	28,375	1	0	0	0	0
1979	7	80,553	65,369	0	15,184	0	0	0	0	0
1978	6	547,751	512,314	0	35,437	0	0	0	0	0
1977	6	26,650	20,654	0	5,996	0	0	0	0	0
1976	13	587,981	551,872	0	36,109	1	0	0	0	0
1975	10	306,128	266,582	0	39,546	0	0	0	0	0
1974	4	2,403,277	2,259,633	0	143,644	1	0	0	0	0
1973	3	418,467	352,081	0	66,386	0	0	0	0	0
1972	0	0	0	0	0	1	0	0	0	0
1971	1	117,879	117,856	0	23	1	0	0	0	0
1970	3	22,301	22,301	0	0	0	0	0	0	0
1969	5	34,476	34,397	0	79	0	0	0	0	0
1968	3	6,476	6,464	0	12	0	0	0	0	0
1967	0	0	0	0	0	0	0	0	0	0
1966	6	9,285	8,806	0	479	0	0	0	0	0
1965	2	571	425	0	146	0	0	0	0	0
1964	0	0	0	0	0	0	0	0	0	0
1963	0	0	0	0	0	0	0	0	0	0
1962	0	0	0	0	0	0	0	0	0	0
1961	0	0	0	0	0	0	0	0	0	0
1960	0	0	0	0	0	0	0	0	0	0
1959	0	0	0	0	0	0	0	0	0	0
1958	1	255	255	0	0	0	0	0	0	0
1957	0	0	0	0	0	0	0	0	0	0
1956	1	704	704	0	0	0	0	0	0	0
1955	1	2,877	2,877	0	0	0	0	0	0	0
1954	2	1,029	771	0	258	0	0	0	0	0
1953	2	5,359	5,359	0	0	0	0	0	0	0
1952	3	1,525	733	0	792	0	0	0	0	0
1951	2	1,986	1,986	0	0	0	0	0	0	0
1950	4	4,404	3,019	0	1,385	0	0	0	0	0
1949	4	2,685	2,316	0	369	0	0	0	0	0
1948	3	3,150	2,509	0	641	0	0	0	0	0
1947	5	2,038	1,979	0	59	0	0	0	0	0
1946	1	274	274	0	0	0	0	0	0	0
1945	1	1,845	1,845	0	0	0	0	0	0	0
1944	1	1,128	1,128	0	0	0	0	0	0	0
1943	1	1,730	1,730	0	0	0	0	0	0	0
1942	14	10,072	9,676	0	396	0	0	0	0	0
1941	7	12,783	12,405	0	378	0	0	0	0	0
1940	24	83,004	79,790	0	3,214	0	0	0	0	0
1939	28	55,632	54,277	0	1,355	0	0	0	0	0
1938	24	25,302	24,061	0	1,241	0	0	0	0	0
1937	25	7,839	6,814	0	1,025	0	0	0	0	0
1936	27	7,471	6,476	0	995	0	0	0	0	0
1935	1	3,082	2,149	0	933	0	0	0	0	0
1934	0	0	0	0	0	0	0	0	0	0

[1] Totals do not include dollar amounts for the five open bank assistance transactions between 1971 and 1980. Excludes eight transactions prior to 1962 that required no disbursements. Also, disbursements, recoveries, and estimated additional recoveries do not include working capital advances to and repayments by receiverships.

[2] Includes insured deposit transfer cases.

Note: Beginning with the 1997 Annual Report the number of banks in the Assistance Transactions column for 1988 was changed from 21 to 80 and the number of banks in the All Cases column was changed from 221 to 280 to reflect that one assistance transaction encompassed 60 institutions. Also, certain 1982, 1983, 1989 and 1992 resolutions previously reported in either the Deposit Payoff or Deposit Assumption categories were reclassified.

Income and Expenses, Bank Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2003

Dollars in Millions

	Income					Expenses and Losses				
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Provision for Losses	Administrative and Operating Expenses[2]	Interest and Other Insur. Expenses	Net Income/ (Loss)
Total	**$ 87,129.1**	**$ 53,424.8**	**$ 6,709.1**	**$ 40,413.4**		**$ 54,148.9**	**$ 36,192.5**	**$ 10,966.1**	**$ 6,996.3**	**$ 32,980.2**
2003	**1,626.0**	**80.2**	**0.0**	**$ 1,545.8**	**0.0020%**	**(115.7)**	**(928.5)**	**805.5**	**7.3**	**1,741.7**
2002	1,795.9	84.0	0.0	1,711.9	0.0022%	750.6	(87.0)	821.1	16.5	1,045.3
2001	1,996.7	47.8	0.0	1,948.9	0.0014%	2,559.4	1,756.3	785.9	17.2	(562.7)
2000	1,905.9	45.1	0.0	1,860.8	0.0014%	645.2	(153.0)	772.9	25.3	1,260.7
1999	1,815.6	33.3	0.0	1,782.3	0.0011%	1,922.0	1,168.7	730.4	22.9	(106.4)
1998	2,000.3	21.7	0.0	1,978.6	0.0008%	691.5	(37.7)	697.6	31.6	1,308.8
1997	1,615.6	24.7	0.0	1,590.9	0.0008%	177.3	(503.7)	605.2	75.8	1,438.3
1996	1,655.3	72.7	0.0	1,582.6	0.0024%	254.6	(325.2)	505.3	74.5	1,400.7
1995	4,089.1	2,906.9	0.0	1,182.2	0.1240%	483.2	(33.2)	470.6	45.8	3,605.9
1994	6,467.0	5,590.6	0.0	876.4	0.2360%	(2,259.1)	(2,873.4)	423,2	191.1	8,726.1
1993	6,430.8	5,784.3	0.0	646.5	0.2440%	(6,791.4)	(7,677.4)	388.5	497.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(2,259.7)	570.8 [3]	1,063.1	6,927.3
1991	5,790.0	5,160.5	0.0	629.5	0.2125%	16,862.3	15,476.2	284.1	1,102.0	(11,072.3)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,133.1	219.6	650.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1609.6	0.0833%	4,346.2	3,811.3	213.9	321.0	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	6,298.3	223.9	1,066.2	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,827.7	180.3	(44.3)	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,569.0	179.2	209.7	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4 [4]	3.9	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	6.0 [5]	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	147.3

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Income and Expenses, Bank Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2003 (continued)

Dollars in Millions

	Income					Expenses and Losses				
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Provision for Losses	Administrative and Operating Expenses[2]	Interest and Other Insur. Expenses	Net Income/ (Loss)
Total	**$ 87,129.1**	**$ 53,424.8**	**$ 6,709.1**	**$ 40,413.4**		**$ 54,148.9**	**$ 36,192.5**	**$ 10,966.1**	**$ 6,996.3**	**$ 32,980.2**
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3[6]	0.0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	9.5
1933/4	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	(3.0)

1 The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. Beginning in 1993, the effective rate is based on a risk-related premium system under which institutions pay assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25%. As a result, the assessment rate was reduced to 4.4 cents per $100 of insured deposits and assessment premiums totaling $1.5 billion were refunded in September 1995.

2 These expenses, which are presented as operating expenses in the Statements of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and **do not** include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Bank Resolutions, net" line on the Balance Sheets. The narrative and graph presented in the "Corporate Planning and Budget" section of this report (next page) show the aggregate (corporate and receivership) expenditures of the FDIC.

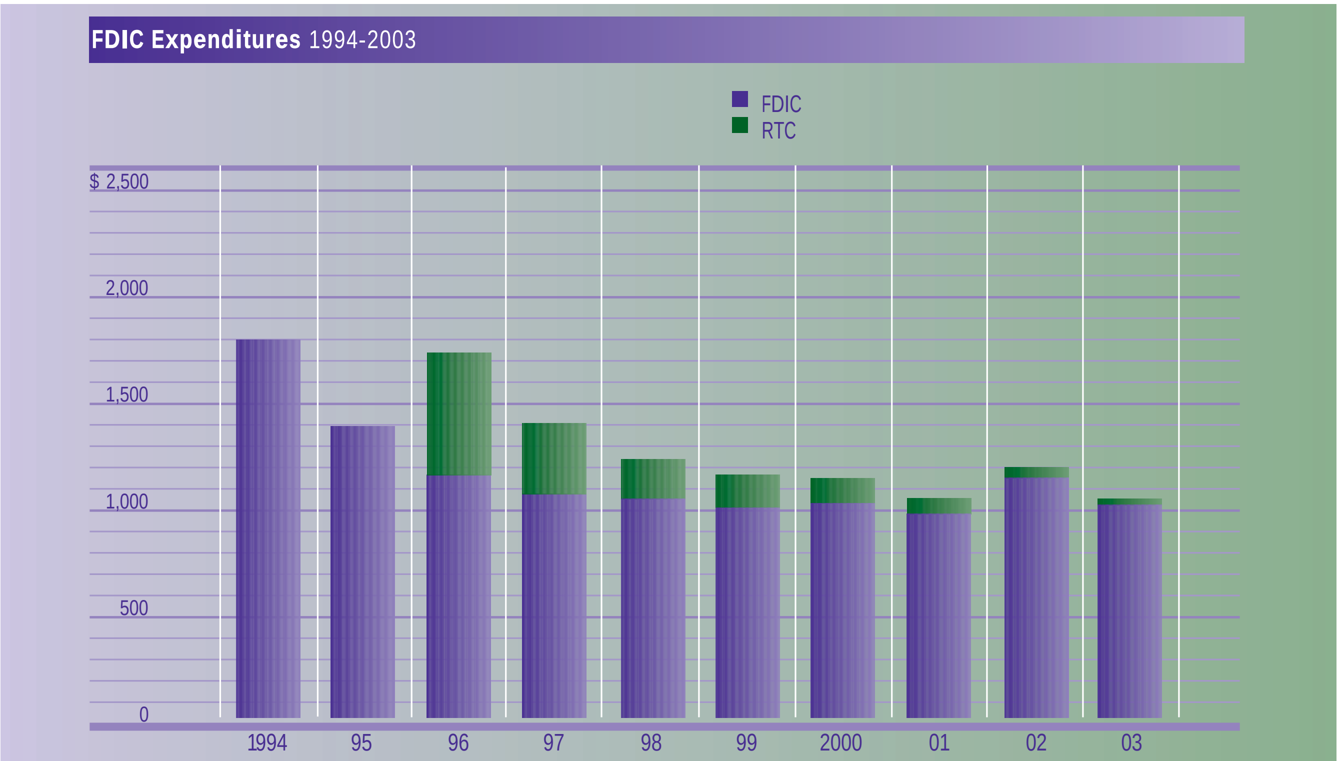
3 Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits.

4 Includes $105.6 million net loss on government securities.

5 This amount represents interest and other insurance expenses from 1933 to 1972.

6 Includes the aggregate amount of $80.6 million of interest paid on Capital Stock between 1933 and 1948.

Dollars in Millions



Note:
Resolution Trust Corporation (RTC) expenditures became the responsibility of the FDIC on January 1, 1996.

The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2003 aggregate budget (for corporate, receivership and investment spending) was $1.1 billion, while actual expenditures for the year were $1.04 billion, about $154 million less than 2002 expenditures.

Over the past 10 years, the FDIC's expenditures have varied in response to workload. During the past decade, expenditures generally declined due to decreasing resolution and receivership activity, although they temporarily increased in 1996 in conjunction with the absorption of the Resolution Trust Corporation (RTC) and its residual operations and workload. Total expenditures increased in 2002 due to an increase in receivership-related expenses.

The largest component of FDIC spending is for the costs associated with staffing. Staffing decreased by just over 2 percent in 2003, from 5,430 employees at the beginning of the year to 5,311 at the end of the year.

Estimated Insured Deposits and the Bank Insurance Fund, December 31,1934, through September 30, 2003[1]

		Deposits in Insured Banks ($ millions)				Insurance Fund as a Percentage of	
Year[2]	Insurance Coverage	Total Domestic Deposits	Estimated Insured Deposits[3]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Estimated Insured Deposits
2003	**$ 100,000**	**$ 4,090,423**	**$ 2,547,889**	**62.3**	**$ 33,461.8**	**0.82**	**1.31**
2002	100,000	$ 3,867,096	2,527,948	65.4	32,050.3	0.83	1.27
2001	100,000	3,584,610	2,408,878	67.2	30,438.8	0.85	1.26
2000	100,000	3,326,745	2,301,604	69.2	30,975.2	0.93	1.35
1999	100,000	3,038,385	2,157,536	71.0	29,414.2	0.97	1.36
1998	100,000	2,996,396	2,141,268	71.5	29,612.3	0.99	1.38
1997	100,000	2,785,990	2,055,874	73.8	28,292.5	1.02	1.38
1996	100,000	2,642,107	2,007,447	76.0	26,854.4	1.02	1.34
1995	100,000	2,575,966	1,952,543	75.8	25,453.7	0.99	1.30
1994	100,000	2,463,813	1,896,060	77.0	21,847.8	0.89	1.15
1993	100,000	2,493,636	1,906,885	76.5	13,121.6	0.53	0.69
1992	100,000	2,512,278	1.945,623	77.4	(100.6)	(0.00)	(0.01)
1991	100,000	2,520,074	1,957,722	77.7	(7,027.9)	(0.28)	(0.36)
1990	100,000	2,540,930	1,929,612	75.9	4,044.5	0.16	0.21
1989	100,000	2,465,922	1,873,837	76.0	13,209.5	0.54	0.70
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	0.60	0.80
1987	100,000	2,201,549	1,658,802	75.3	18,301.8	0.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	0.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934[4]	5,000	40,060	18,075	45.1	291.7	0.73	1.61

1 For 2003, the numbers are as of September 30, and prior years reflect December 31.

2 Starting in 1990, deposits in insured banks exclude those deposits held by Bank Insurance Fund members that are insured by the Savings Association Insurance Fund and include those deposits held by Savings Association Insurance Fund members that are insured by the Bank Insurance Fund.

3 Estimated insured deposits reflect deposit information as reported in the fourth quarter *FDIC Quarterly Banking Profile*. Before 1991, insured deposits were estimated using percentages determined from the June 30 *Call Reports*.

4 Initial coverage was $2,500 from January 1 to June 30, 1934.

Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, through December 31, 2003

Dollars in Thousands

	Income				Expenses and Losses					
Year	Total	Assessment Income	Investment and Other Sources	Effective Assessment Rate	Total	Provision for Losses	Interest and Other Insurance Expenses	Administrative and Operating Expenses	Funding Transfer from the FSLIC Resolut. Fund	Net Income/ (Loss)
Total	**$ 13,341,739**	**$ 8,642,583**	**$ 4,699,156**		**$ 1,515,460**	**$ 468,750**	**$ 29,905**	**$ 1,016,805**	**$ 139,498**	**$ 11,965,777**
2003	**547,260**	**14,594**	**532,666**	**0.001%**	**47,200**	**(82,489)**	**105**	**129,584**	**0**	**500,060**
2002	588,821	23,783	565,038	0.003%	(31,380)	(156,494)	751	124,363	0	620,201
2001	733,121	35,402	697,719	0.004%	564,083	443,103	19,389	101,591	0	169,038
2000	664,080	19,237	644,843	0.002%	300,018	180,805	8,293	110,920	0	364,062
1999	600,995	15,116	585,879	0.002%	124,156	30,648	626	92,882	0	476,839
1998	583,859	15,352	568,507	0.002%	116,629	31,992	9	84,628	0	467,230
1997	549,912	13,914	535,998	0.004%	69,986	(1,879)	0	71,865	0	479,926
1996	5,501,684	5,221,560	280,124	0.204%	(28,890)	(91,636)	128	62,618	0	5,530,574
1995	1,139,916	970,027	169,889	0.234%	(281,216)	(321,000)	0	39,784	0	1,421,132
1994	1,215,289	1,132,102	83,187	0.244%	434,303	414,000	0	20,303	0	780,986
1993	923,516	897,692	25,824	0.250%	46,814	16,531	0	30,283	0	876,702
1992	178,643	172,079	6,564	0.230%	28,982	(14,945)	(5)	43,932	35,446	185,107
1991	96,446	93,530	2,916	0.230%	63,085	20,114	609	42,362	42,362	75,723
1990	18,195	18,195	0	0.208%	56,088	0	0	56,088	56,088	18,195
1989	2	0	2	0.208%	5,602	0	0	5,602	5,602	2

FDIC-Insured Institutions Closed During 2003

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
Bank Insurance Fund								
Insured Deposit Transfer								
First National Bank of Blanchardville Blanchardville, WI	N	3,635	$ 35,460	$ 28,901	$ 28,313	$ 9,245	05.09.03	**The Park Bank** Madison, WI
Purchase and Assumption - Insured Deposits								
Pulaski Savings Bank Philadelphia, PA	SB	1,800	$ 8,976	$ 9,506	$ 9,506	$ 1,096	11.14.03	**Earthstar Bank** Southampton, PA
Insured Deposit Transfer - Asset Purchase								
Southern Pacific Bank Torrance, CA	NM	18,804	$ 1,052,288	$ 865,097	$ 851,385	$ 93,040	02.07.03	**Beal Bank, S.S.B.** Plano, TX

Codes for Bank Class: N – National bank; NM – State-chartered bank that is not a member of the Federal Reserve System; SB – Savings Bank

[1] Estimated losses are as of December 31, 2003. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries.

Estimated Insured Deposits and the Savings Association Insurance Fund, December 31, 1989, through September 30, 2003[1]

Year[2]	Insurance Coverage	Deposits in Insured Institutions ($ Millions): Total Domestic Deposits	Estimated Insured Deposits[3]	Percentage of Insured Deposits	Deposit Insurance Fund	Insurance Fund as a Percentage of: Total Domestic Deposits	Estimated Insured Deposits
2003	**$ 100,000**	**$ 1,054,730**	**$ 867,562**	**82.3**	**$ 12,185.9**	**1.16**	**1.40**
2002	100,000	990,231	860,351	86.9	11,746.7	1.19	1.37
2001	100,000	897,278	801,849	89.4	10,935.0	1.22	1.36
2000	100,000	822,610	752,756	91.5	10,758.6	1.31	1.43
1999	100,000	764,359	711,345	93.1	10,280.7	1.35	1.45
1998	100,000	751,413	708,959	94.4	9,839.8	1.31	1.39
1997	100,000	721,503	690,132	95.7	9,368.3	1.30	1.36
1996	100,000	708,749	683,090	96.4	8,888.4	1.25	1.30
1995	100,000	742,547	711,017	95.8	3,357.8	0.45	0.47
1994	100,000	720,823	692,626	96.1	1,936.7	0.27	0.28
1993	100,000	726,473	695,158	95.7	1,155.7	0.16	0.17
1992	100,000	760,902	729,458	95.9	279.0	0.04	0.04
1991	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

1 For 2003, the numbers are as of September 30, and prior years reflect December 31.

2 Starting in 1990, deposits in insured institutions exclude those deposits held by Savings Association Insurance Fund members that are insured by the Bank Insurance Fund and include those deposits held by Bank Insurance Fund members that are insured by the Savings Association Insurance Fund.

3 Estimated insured deposits reflect deposit information as reported in the fourth quarter *FDIC Quarterly Banking Profile*. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

Number, Assets, Deposits, Losses, and Loss to Funds of Insured Thrifts Taken Over or Closed Because of Financial Difficulties, 1989 through 2003[1]

Dollars in Thousands

Year[2]	Total	Assets	Deposits	Estimated Receivership Loss[3]	Loss to Funds[4]
Total	**753**	**397,372,197**	**320,172,767**	**75,203,470**	**82,140,242**
2003	**0**	**0**	**0**	**0**	**0**
2002	1	50,246	50,542	0	0
2001	1	2,179,783	1,670,802	436,000	436,000
2000	1	29,530	28,583	1,322	1,322
1999	1	62,956	63,427	1,194	1,194
1998	0	0	0	0	0
1997	0	0	0	0	0
1996	1	32,576	32,745	21,921	21,921
1995	2	423,819	414,692	28,192	27,784
1994	2	136,815	127,508	11,472	16,277
1993	10	7,178,794	5,708,253	269,720	67,536
1992	59	44,196,946	34,773,224	3,122,533	3,676,761
1991	144	78,898,704	65,173,122	8,422,180	9,026,510
1990	213	129,662,398	98,963,960	16,030,346	19,225,966
1989[5]	318	134,519,630	113,165,909	46,858,590	49,638,971

1 Prior to July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of the thrift closing activity from 1989 through 1995 are now reflected on FRF's books. The Savings Association Insurance Fund (SAIF) became responsible for all thrifts closed after June 30, 1995; there have been only five such failures. Additionally, SAIF was appointed receiver of one thrift (Heartland FSLA) on October 8, 1993, because, at that time, RTC's authority to resolve FSLIC-insured thrifts had not yet been extended by the RTC Completion Act.

2 Year is the year of failure, not the year of resolution.

3 The estimated losses represent the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF/SAIF and unpaid advances to receiverships from the FRF.

4 The Loss to Funds represents the total resolution cost of the failed thrifts in the SAIF and FRF-RTC funds, which includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, and interest revenue on advances to receiverships, in addition to the estimated losses for receiverships.

5 Total for 1989 excludes nine failures of the former FSLIC.

FDIC Applications 2001-2003

	2003	2002	2001
Deposit Insurance	**141**	112	133
Approved	**140**	112	133
Denied	**1**	0	0
New Branches	**1,227**	1,285	1,010
Approved	**1,227**	1,285	1,010
Denied	**0**	0	0
Mergers	**304**	201	266
Approved	**304**	201	266
Denied	**0**	0	0
Requests for Consent to Serve●	**369**	295	231
Approved	**368**	295	231
Section 19	**13**	12	19
Section 32	**355**	283	212
Denied	**1**	0	0
Section 19	**0**	0	0
Section 32	**1**	0	0
Notices of Change in Control	**30**	31	21
Letters of Intent Not to Disapprove	**30**	31	21
Disapproved	**0**	0	0
Brokered Deposit Waivers	**28**	33	21
Approved	**28**	33	21
Denied	**0**	0	0
Savings Association Activities■	**56**	69	76
Approved	**56**	69	76
Denied	**0**	0	0
State Bank Activities/Investments▼	**19**	26	29
Approved	**19**	26	29
Denied	**0**	0	0
Conversions of Mutual Institutions	**7**	4	4
Non-Objection	**7**	4	4
Objection	**0**	0	0

● Under Section 19 of the Federal Deposit Insurance Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.

■ Amendments to Part 303 of the FDIC Rules and Regulations changed FDIC oversight responsibility in October 1998.

▼ Section 24 of the FDI Act, in general, precludes an insured state bank from engaging in an activity not permissible for a national bank and requires notices be filed with the FDIC.

Compliance, Enforcement and Other Related Legal Actions 2001-2003

	2003	2002	2001
Total Number of Actions Initiated by the FDIC	**174**	162	144
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	**0**	0	0
Voluntary Termination			
Sec.8a By Order Upon Request	**0**	0	0
Sec.8p No Deposits	**5**	7	4
Sec.8q Deposits Assumed	**12**	7	6
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued	**2**	4●	3
Consent Orders	**33**	44	33
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	**4**	4	4
Consent Orders	**31**	15	11
Sec. 8g Suspension/Removal When Charged With Crime	**0**	0	0
Civil Money Penalties Issued			
Sec.7a Call Report Penalties	**0**	1	4
Sec.8i Civil Money Penalties	**55**	65	71
Sec. 10c Orders of Investigation	**20**	7	7
Sec. 19 Denials of Service After Criminal Conviction	**0**	0	0
Sec. 32 Notices Disapproving Officer/Director's Request for Review	**1**	0	0
Truth in Lending Act Reimbursement Actions			
Denials of Requests for Relief	**0**	0	1
Grants of Relief	**0**	0	0
Banks Making Reimbursement■	**96**	106	189
Suspicious Activity Reports (Open and closed institutions)■	**62,179**	42,123	28,750
Other Actions Not Listed	**11**	8	0

● Two actions included Sec.8 (c) temporary orders.

■ These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

▶ On December 9, 2003, the U.S.Senate confirmed Thomas J. Curry, Commissioner of Banks for the Massachusetts Division of Banks, to be a member of the Board of Directors of the FDIC for a six-year term. On January 12, 2004, Mr. Curry was sworn in and the FDIC has a full five-member Board. for the first time since September 1998.

FDIC Board of Directors

Donald E. Powell, Chairman (seated), John M. Reich, John D. Hawke, Jr., James E. Gilleran (standing, left to right)

James Kegley

Donald E. Powell

Don Powell was sworn in as the 18th Chairman of the FDIC in August 2001. During his tenure he has worked to maintain the FDIC's reputation of excellence while positioning the organization to meet the needs of a rapidly evolving banking industry.

Prior to being named Chairman of the FDIC by President George W. Bush, Mr. Powell – a life-long Texan – was President and CEO of The First National Bank of Amarillo, where he started his banking career in 1971.

In addition to his professional experience as a banker, Mr. Powell has served on numerous boards at universities, civic associations, hospitals and charities.

Of note, Mr. Powell has served as the Chairman of the Board of Regents of the Texas A&M University System, which has more than 90,000 students, the Chairman of the Amarillo Chamber of Commerce, and currently serves on the Advisory Board of the George Bush School of Government and Public Service.

Mr. Powell has also served on the Board of many other nonprofit, public and community organizations, including the United Way, the Harrington Regional Medical Center, the City of Amarillo Housing Board, and a number of other educational institutions.

He received his B.S. in economics from West Texas State University and is a graduate of The Southwestern Graduate School of Banking at Southern Methodist University.

John M. Reich

Mr. Reich became Vice Chairman of the FDIC Board of Directors on November 15, 2002, and has served as a Board member since January 16, 2001. Following Chairman Donna Tanoue's resignation in July 2001 and until Mr. Powell took office in August 2001, Mr. Reich was Acting Chairman of the FDIC.

Mr. Reich enjoyed a 23-year career as a community banker in Illinois and Florida, the last 10 years of which were as President and CEO of the National Bank of Sarasota, Sarasota, FL.

Before joining the FDIC, Mr. Reich served for 12 years on the staff of U.S. Senator Connie Mack (R-FL). From 1998 through 2000, he was Senator Mack's Chief of Staff, directing and overseeing all of the Senator's offices and committee activities, including the Senate Banking Committee.

Mr. Reich's substantial community service includes serving as Chairman of the Board of Trustees of a public hospital facility in Ft. Myers, FL, and Chairman of the Board of Directors of the Sarasota Family YMCA. He has also served as a Board member for a number of civic organizations, and was active for many years in youth baseball programs.

Mr. Reich holds a B.S. degree from Southern Illinois University and an M.B.A. from the University of South Florida. He is also a graduate of Louisiana State University's School of Banking of the South.

John D. Hawke, Jr.

Mr. Hawke was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving 10 months under a recess appointment, he was sworn in for a full five-year term on October 13, 1999. As Comptroller, Mr. Hawke serves as an FDIC Board member.

Prior to his appointment as Comptroller, Mr. Hawke served for three and a half years as Under Secretary of the Treasury for Domestic Finance. Before joining Treasury, Mr. Hawke was a senior partner at the Washington, DC, law firm of Arnold & Porter, where he began as an associate in 1962. While there, he headed the financial institutions practice, and from 1987 to 1995, served as the firm's Chairman. In 1975, he left the firm to serve as General Counsel to the Board of Governors of the Federal Reserve System, returning in 1978.

Mr. Hawke graduated from Yale University in 1954 with a B.A. in English. From 1955 to 1957, he served on active duty with the U.S. Air Force. After graduating in 1960 from Columbia University School of Law, where he was Editor-in-Chief of the Columbia Law Review, Mr. Hawke was a law clerk for Judge E. Barrett Prettyman on the U.S. Court of Appeals for the District of Columbia Circuit. From 1961 to 1962, he served as counsel to the Select Subcommittee on Education in the House of Representatives.

From 1970 to 1987, Mr. Hawke taught courses on federal regulation of banking at Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation, and served as the Chairman of the Board of Advisors of the Morin Center for Banking Law Studies in Boston. Mr. Hawke has written extensively on matters relating to the regulation of financial institutions.

James E. Gilleran

Mr. Gilleran became Director of the Office of Thrift Supervision (OTS) on December 7, 2001. As OTS Director, Mr. Gilleran is also an FDIC Board member.

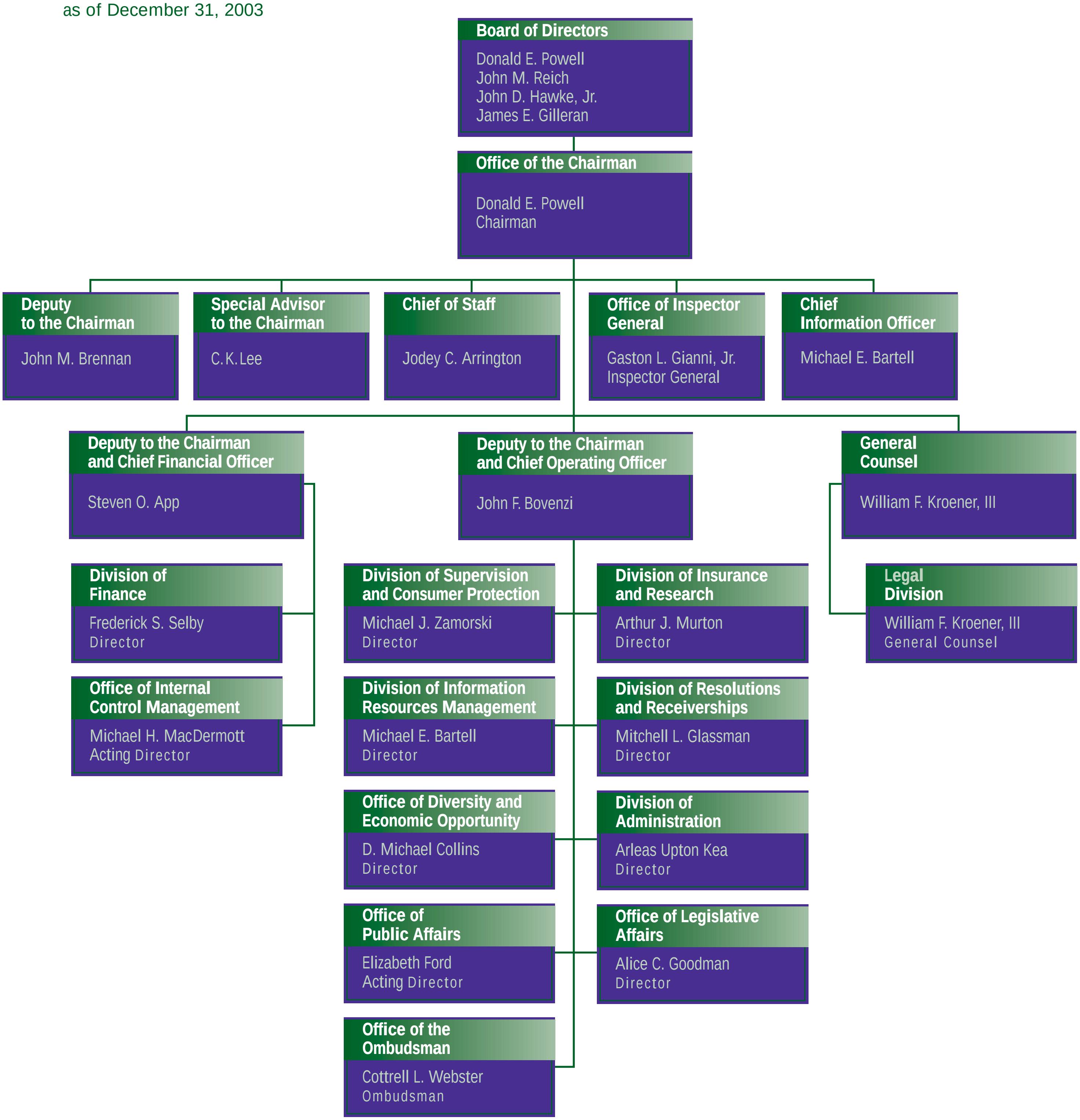
Mr. Gilleran was Chairman and CEO of the Bank of San Francisco from October 1994 until December 2000. From 1989 to 1994, he was the California State Banking Superintendent. He served as Chairman of the Conference of State Bank Supervisors (CSBS) from 1993 to 1994, and was a member of the CSBS's Bankers Advisory Council until 2000.

Prior to his service as the California Banking Superintendent, Mr. Gilleran was managing partner of the Northern California practice of the public accounting firm KPMG Peat Marwick. Before serving as managing partner, he was in charge of KPMG's banking practice in the western region of the U.S. He was with KPMG from 1958 through 1987.

Mr. Gilleran has also been involved in a number of educational, civic and charitable organizations, including serving as Chairman of both the American Red Cross of the San Francisco Bay Area and the Metropolitan YMCA.

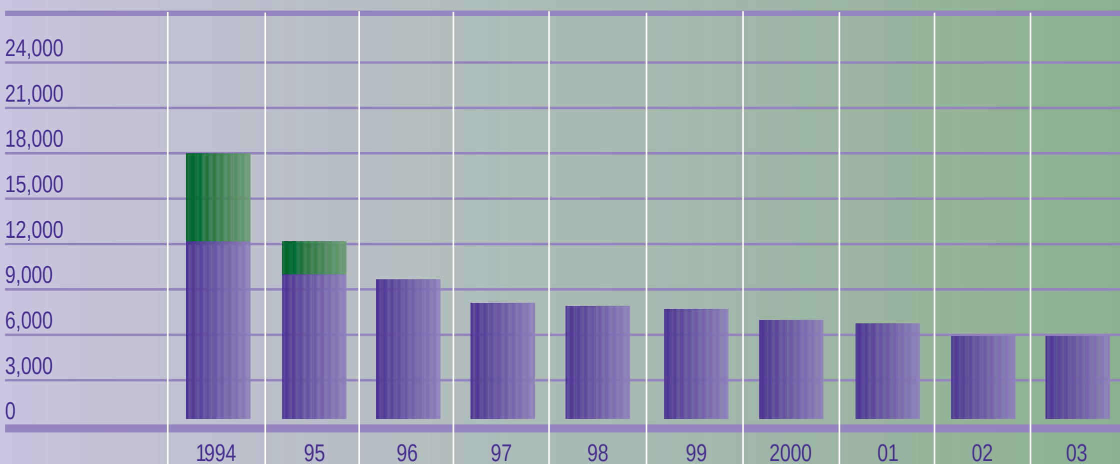
Mr. Gilleran is a certified public accountant and a member of the American Institute of CPAs. He graduated from Pace University in 1955, and received his law degree from Northwestern California University in 1996.

FDIC Organization Chart/Officials
as of December 31, 2003



Corporate Staffing

Staffing Trends 1994-2003



	1994	95	96	97	98	99	2000	01	02	03
RTC	5,899	2,043								
FDIC	11,627	9,813	9,151	7,793	7,359	7,266	6,452	6,167	5,430	5,311
Total Staffing	**17,526**	**11,856**	**9,151**	**7,793**	**7,359**	**7,266**	**6,452**	**6,167**	**5,430**	**5,311**

Note:

All staffing totals reflect year-end balances.

The Resolution Trust Corporation (RTC) was fully staffed with FDIC employees and, until February 1992, the RTC was managed by the FDIC Board of Directors. Upon the RTC's sunset at year-end 1995, all of its remaining workload and employees were transferred to the FDIC.

Number of Officials and Employees of the FDIC 2002-2003 (year-end)

	Total		Washington		Regional/Field	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Executive Offices●	**41**	45	**40**	44	**1**	1
Division of Supervision and Consumer Protection	**2,797**	2,811	**188**	176	**2,609**	2,635
Division of Resolutions and Receiverships	**520**	522	**100**	111	**420**	411
Legal Division	**506**	524	**315**	317	**191**	207
Division of Finance	**205**	229	**205**	229	**0**	0
Division of Information Resources Management	**391**	412	**331**	349	**60**	63
Division of Insurance and Research	**186**	187	**156**	157	**30**	30
Division of Administration▼	**424**	475	**281**	321	**143**	154
Office of Inspector General	**150**	158	**107**	114	**43**	44
Office of Diversity and Economic Opportunity	**33**	34	**33**	34	**0**	0
Office of the Ombudsman	**18**	16	**15**	13	**3**	3
Office of Internal Control Management	**14**	17	**14**	17	**0**	0
Corporate University▼	**26**	0	**26**	0	**0**	0
Total	**5,311**	**5,430**	**1,811**	**1,882**	**3,500**	**3,548**

● Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Legislative Affairs, and Public Affairs.

▼ Corporate University was established on February 3, 2003. The Corporate training function was previously in the Division of Administration.

Sources of Information

Home Page on the Internet

www.fdic.gov

A wide range of banking, consumer and financial information is available on the FDIC's Internet home page. This includes the FDIC's Electronic Deposit Insurance Estimator, "EDIE," which estimates an individual's deposit insurance coverage; the Institution Directory, financial profiles of FDIC-insured institutions; Community Reinvestment Act evaluations and ratings for institutions supervised by the FDIC; Call Reports, banks' reports of condition and income; and *Money Smart,* a training program to help adults outside the financial mainstream enhance their money management skills and create positive banking relationships. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information.

FDIC Call Center

Phone: 877-275-3342 (877-ASK FDIC)
202-736-0000

Hearing Impaired: 800-925-4618

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community and the public. The Call Center directly, or in concert with other FDIC subject matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also makes referrals to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m. Eastern Time. Information is also available in Spanish. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

Public Information Center
801 17th Street, NW
Room 100
Washington, DC 20434

Phone: 877-275-3342 (877-ASK FDIC)
202-416-6940

Fax: 202-416-2076

E-mail: publicinfo@fdic.gov

FDIC publications, press releases, speeches and Congressional testimony, directives to financial institutions, policy manuals and other documents are available on request or by subscription through the Public Information Center. These documents include the *Quarterly Banking Profile, Statistics on Banking, Summary of Deposits* and a variety of consumer pamphlets.

Office of the Ombudsman
550 17th Street, NW
Washington, DC 20429

Phone: 877-275-3342 (877-ASK FDIC)

Fax: 202-942-3040, or 202-942-3041

E-mail: ombudsman@fdic.gov

The Office of the Ombudsman responds to inquiries about the FDIC in a fair, impartial and timely manner. It researches questions and complaints from bankers and the public. The office also recommends ways to improve FDIC operations, regulations and customer service.

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Georgia
North Carolina
South Carolina
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Kentucky
Michigan
Ohio
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Missouri
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Utah
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Wyoming

Appendix C – Office of Inspector General's Assessment of the Management and Performance Challenges Facing the FDIC

The following chart shows the FDIC's most significant management and performance challenges as identified by the Office of Inspector General (OIG):

	Challenge	Brief Description
1	**Adequacy of Corporate Governance in Insured Depository Institutions**	Corporate governance is generally defined as the fulfillment of the broad stewardship responsibilities entrusted to the Board of Directors, Officers, and external and internal auditors of a corporation. A number of well-publicized announcements of business failures, including financial institution failures, have raised questions about the credibility of accounting practices and oversight in the United States. These recent events have increased public concern regarding the adequacy of corporate governance and, in part, prompted passage of the Sarbanes-Oxley Act of 2002. The public's confidence in the nation's financial system can be shaken by deficiencies in the adequacy of corporate governance in insured depository institutions.
2	**Protection of Consumer Interests**	The FDIC's mission is to maintain public confidence in the nation's financial system. The availability of deposit insurance to protect consumer interests is a very visible way in which the FDIC accomplishes this mission. However, the FDIC also serves as an advocate for consumers through its oversight of a variety of statutory and regulatory requirements aimed at protecting consumers from unfair and unscrupulous banking practices. The FDIC is legislatively mandated to enforce various statutes and regulations regarding consumer protection and civil rights with respect to state-chartered, nonmember banks and to encourage community investment initiatives by these institutions.
3	**Management and Analysis of Risks to the Insurance Funds**	A primary goal of the FDIC under its insurance program is to ensure that its deposit insurance funds do not require resuscitation by the U.S. Treasury. Achieving this goal is a considerable challenge, given that the FDIC directly supervises only a portion of the insured depository institutions. The identification of risks to non-FDIC supervised institutions requires effective communication and coordination with the other federal banking agencies. The FDIC engages in an ongoing process of proactively identifying risks to the deposit insurance funds and adjusting the risk-based deposit insurance premiums charged to the institutions.
4	**Effectiveness of Resolution and Receivership Activities**	One of the FDIC's most important corporate responsibilities is planning and efficiently handling the franchise marketing of failing FDIC-insured institutions and providing prompt, responsive and efficient resolution of failed financial institutions. These activities maintain confidence and stability in our financial system.
5	**Management of Human Capital**	Human capital issues pose significant elements of risk that interweave all the management and performance challenges facing the FDIC. The Corporation must work to fill key vacancies in a timely manner, engage in careful succession planning, and continue to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years.

	Challenge	Brief Description
6	**Management and Security of Information Technology (IT) Resources**	Information technology (IT) continues to play an increasingly greater role in every aspect of the FDIC's mission. As corporate employees carry out the FDIC's principal business lines of insuring deposits, examining and supervising financial institutions, and managing receiverships, they rely on information and corresponding technology as an essential resource. Information and analysis on banking, financial services and the economy form the basis for the development of public policies and promote public understanding and confidence in the nation's financial system. IT is a critical resource that must be safeguarded.
7	**Security of Critical Infrastructure**	To effectively protect critical infrastructure, the FDIC's challenge in this area is to implement measures to mitigate risks, plan for and manage emergencies through effective contingency and continuity planning, coordinate protective measures with other agencies, determine resource and organization requirements, and engage in education and awareness activities.
8	**Management of Major Projects**	The FDIC has engaged in several multi-million dollar projects, such as the New Financial Environment, Central Data Repository, and Seidman Center Phase II Construction. Without effective project management, the FDIC runs the risk that corporate requirements and user needs may not be met in a timely, cost-effective manner.
9	**Assessment of Corporate Performance**	The Corporation has made significant progress in implementing the Government Performance and Results Act of 1993 and needs to continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, implementing processes to verify and validate reported performance data, and addressing crosscutting issues and programs that affect other federal financial institution regulatory agencies.
10	**Cost Containment and Procurement Integrity**	As steward for the Bank Insurance Fund and Savings Association Insurance Fund, the FDIC seeks ways to limit the use of those funds. Therefore the Corporation must continue to identify and implement measures to contain and reduce costs, either through more careful spending or assessing and making changes in business processes to increase efficiency. The Corporation has taken a number of steps to strengthen internal control and effective oversight. However, the OIG's work in this area continues to show that further improvements are necessary to reduce risks such as the consideration of contractor security in acquisition planning, incorporation of information security requirements in FDIC contracts, oversight of contractor security practices, and compliance with billing guidelines.

Glossary of Acronyms

A	
AFS	Available-for-Sale
B	
BIF	Bank Insurance Fund
C	
CAMELS	Capital, Assets, Management, Earnings, Liquidity, Sensitivity
CDR	Central Data Repository
CFO	Chief Financial Officer
CFOA	Chief Financial Officers Act of 1990
CIRC	Capital Investment Review Committee
CRA	Community Reinvestment Act
F	
FBIIC	Financial and Banking Information Infrastructure Committee
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act of 1996
FinCEN	Financial Crimes Enforcement Network
FMFIA	Federal Managers' Financial Integrity Act of 1982
FSLIC	Federal Savings and Loan Insurance Corporation
FRF	FSLIC Resolution Fund
G	
GAAP	Generally Accepted Accounting Principles
GAO	U.S. General Accounting Office
GPRA	Government Performance and Results Act of 1993
I	
IT	Information Technology
L	
LIDI	Large Insured Depository Institutions
M	
MERIT	Maximum Efficiency, Risk-Focused, Institution Targeted
MOU	Memorandum of Understanding
O	
OIG	Office of Inspector General
R	
RIS	Research Information System
RTC	Resolution Trust Corporation
S	
SAIF	Savings Association Insurance Fund

Federal
Deposit
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Corporation

2003

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