Federal Deposit Insurance Corporation

Annual Report 2002

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 insured depository institutions and the U.S. financial system by identifying, monitoring and addressing risks to the deposit insurance funds.

The FDIC promotes public understanding and sound public policies by providing 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 public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to changes in the financial environment.

Mission

The FDIC 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.

1 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.

2 Effectiveness

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

3 Responsiveness

The FDIC strives to respond 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.

4 Teamwork

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

5 Fairness

The FDIC strives to treat 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.

6 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.

7 Integrity

The FDIC strives to perform its work with the highest sense of 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.

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

March 31, 2003

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 2002 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

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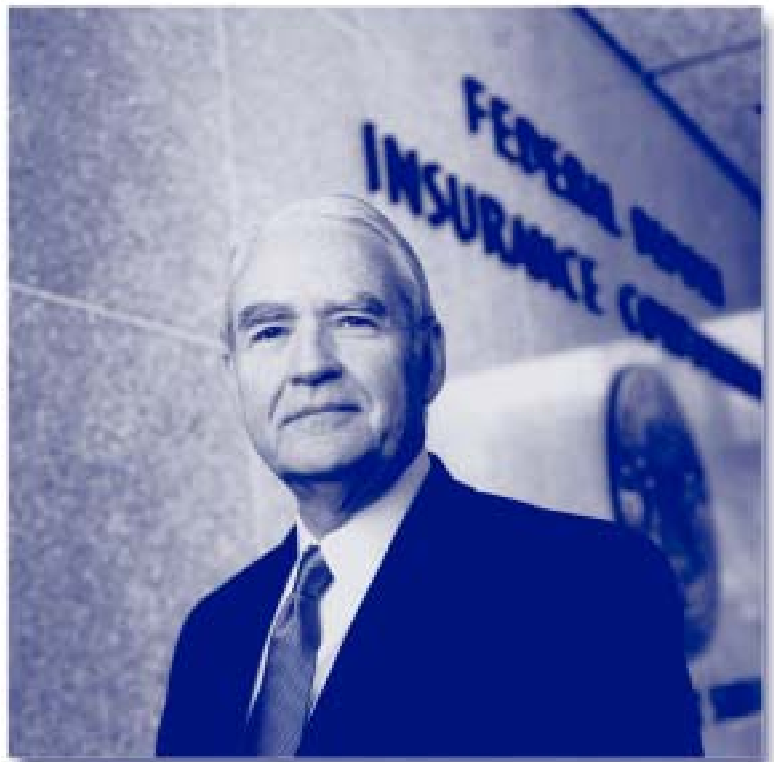
Message from the Chairman

Donald E. Powell



I am pleased to present the Federal Deposit Insurance Corporation's (FDIC) 2002 Annual Report. It was a productive year at the FDIC. We met all of our major statutory responsibilities, conducting over 2,500 safety and soundness examinations and over 1,800 compliance examinations of FDIC-supervised institutions and resolving the failure of 11 FDIC-insured institutions. In addition, we made substantial progress toward our goal of strengthening the Corporation and positioning it to carry out its responsibilities more efficiently and effectively in the future.

I would like to highlight just a few of our most significant accomplishments during 2002:

- We moved deposit insurance reform from a concept to Capitol Hill. The House of Representatives overwhelmingly passed deposit insurance reform legislation in 2002, and we are looking forward to passing deposit insurance reform out of the House and Senate before the end of 2003.
- We implemented a new streamlined organizational structure that is based on our three major lines of business – insurance, supervision, and receivership management – and substantially reduced the number of management and support positions within the Corporation. In conjunction with these changes, we put in place a new management team committed to transforming corporate operations for the future, and we delegated increased authority and responsibility to lower organizational levels in order to move decision-making closer to the bankers and other stakeholders with whom we work.
- We largely completed the staffing reductions that were required to bring the size of our workforce into line with the decline in our workload resulting from institutional consolidation within the banking industry, and the completion of residual work from the banking and thrift crises of the late 1980s and early 1990s. This ongoing effort will continue to be a priority at the FDIC as we seek to be more efficient and better stewards of the insurance funds. The centerpiece of this effort was a highly successful buyout program in which approximately 700 employees accepted buyout packages that were targeted to eliminate employee surpluses and address skills imbalances.
- We continued to shift our use of resources to pay even greater attention to the institutions that represent the greatest potential risk to the insurance funds. Two new major programs were initiated in 2002 to address this concern:
  - Dedicated Examiner Program
    We, with the cooperation of our fellow regulators, have assigned "dedicated" examiners to each of the eight largest insured banking institutions to monitor their operations and provide more timely information about emerging risks. Our examiners will work closely with their counterparts at the federal financial regulatory agencies that are the primary supervisors of those institutions and provide real-time access to information on those institutions.

- MERIT Program
  The new Maximum Efficiency, Risk-Focused, Institution-Targeted (MERIT) Guidelines Program provides for the use of risk-focused examination procedures at FDIC-supervised institutions with assets of less than $250 million that are well-managed, well-capitalized and meet other program criteria. The program ensures that our resources are focused on those institutions that pose the greatest risk to the insurance funds, while preserving the integrity of the examination process.

- We expanded our "Money Smart" program through alliances with over 300 national and regional organizations and have recently focused on measurement of the results of these programs. Money Smart is a financial education program developed to address growing national concern over the proliferation of predatory lending practices, and to help bring people with little or no banking experience into the financial mainstream.

- We expanded our efforts to disseminate information, stimulate discussion, and address the risks facing the financial services industry by hosting three symposia on some of the most important issues now facing the banking industry. These symposia brought together some of the best minds in the business to discuss financial transparency and disclosure, risk management, deposit insurance pricing, and other factors affecting the economic landscape for banks and the insurance funds. We also launched an electronic news bulletin called *FYI* to provide insured institutions and other interested parties high-quality analysis of emerging risks and other issues of concern to the banking industry.

- We continued to be vigilant concerning the adequacy of corporate governance. As such, we initiated various measures designed to mitigate the risk of increased public concern regarding accounting practices and oversight and the adequacy of corporate governance, which in part, prompted passage of the Sarbanes-Oxley Act of 2002. We are reviewing board activities, ethics policies and practices of the banks the FDIC supervises and auditor independence requirements. In early 2003, we issued guidance to institutions about the Sarbanes-Oxley Act, including the actions the FDIC encourages institutions to take to ensure sound corporate governance.

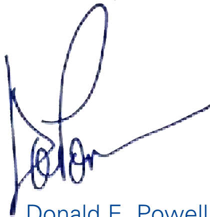
- We established an Advisory Committee on Banking Policy that will give us the benefit of some of the most talented and experienced people in government, business and banking as we attempt to reshape the FDIC for the future.

We will build on this solid record of accomplishments in 2003. We will continue to fulfill our stewardship responsibilities to the insurance funds through an effective supervisory program that promptly identifies and addresses emerging risks and a receivership management program that minimizes, to the extent possible, the cost of insured institution failures. We will continue to disseminate high-quality information and analysis on major issues and to provide leadership for the adoption of appropriate policy and regulatory changes. And, we will continue to strive to contain our operational costs and to improve our operational efficiency and effectiveness.

It has been an honor to serve as Chairman of the FDIC during this past year. As a former banker, I know how important the FDIC's work is to the stability of our economy and to the peace of mind of depositors who rely on the promise represented by the FDIC seal displayed at insured institutions all across the country.

We at the FDIC will continue to do everything possible to give the financial institutions the best value for their contributions to the deposit insurance funds, to diligently play our part in ensuring economic stability through good stewardship of those funds and forward-thinking policy solutions, and to remain a symbol of confidence upon which American consumers can depend.

Sincerely,



Donald E. Powell

Message from the Chief Financial Officer

Steven O. App

I am pleased to report that, for the eleventh consecutive year, the FDIC has received unqualified "clean" opinions from the U.S. General Accounting Office (GAO) on audits of its 2002 financial statements for the Bank Insurance Fund (BIF), Savings Association Insurance Fund (SAIF), and Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). These clean opinions attest to the fact that our financial statements are fairly presented and demonstrate discipline and accountability in the execution of our responsibilities as stewards of these funds.

The Corporation's investment strategy reflects prudent management of the $32.1 billion BIF and $11.7 billion SAIF. It is noteworthy that the interest earned on investment securities last year accounted for 94.2 percent of revenues for the BIF and 95.8 percent of revenues for the SAIF, with $2.26 billion in combined interest earned. Another noteworthy result in 2002 was the large accumulation of unrealized gains on Available for Sale (AFS) securities, particularly in the BIF. For 2002, the BIF accumulated unrealized gains of $566 million, and the SAIF accumulated unrealized gains of $192 million. In part, the large balances of unrealized gains helped to maintain the reserve ratios of the funds above the Designated Reserve Ratio (DRR), which benefited the industry by avoiding insurance assessment premium payments. These two factors combined – strong earnings on the investment portfolio and unrealized gains – helped to boost the BIF by $1.6 billion, the largest calendar year increase since 1995.

Several initiatives focused on reengineering business processes to improve cost measurement and containment. The FDIC budget was restructured to reflect an ongoing operations component, a receivership operations component, and an investment component to help better manage expenses. As a result of aggressive efforts to streamline corporate operations during 2002, the 2003 budget includes estimated spending of $1.1 billion, which is seven percent lower than 2002 spending. The FDIC also established new and more rigorous procedures for reviewing proposed capital investments. The centerpiece of this new process is the Capital Investment Review Committee (CIRC), which will be responsible for reviewing all major proposed information technology and other investment initiatives before they are funded. The CIRC will carefully assess the projected return on investment of each proposed project, and ensure that there is a sound business case for each project.

The Corporation initiated work on two major investment projects during 2002:

- In March, the Board of Directors unanimously approved the expansion of our Seidman Center office complex in Northern Virginia. The expanded facility will house an additional 1,100 employees who are now working in leased space in downtown Washington, DC. We expect to break ground for the expanded facility in 2003, with completion scheduled for 2006. This expansion will reduce future facility costs by an estimated $78 million (net present value) over the next 20 years.
- During the fourth quarter, we began development of an integrated financial system, scheduled to be implemented in July 2004. This "New Financial Environment" will improve business processes by adopting the best business practices built into software packages, simplify and consolidate financial systems and data, and enhance the Corporation's ability to address its future financial management and information needs. It will also substantially reduce the costs of financial management and reporting.

The FDIC continues to focus on information technology challenges. During 2002, we conducted a self assessment, with an emphasis on information security, to evaluate our progress in addressing prior audit findings. The FDIC information security program will continue to be strengthened in 2003 to ensure that key management tools are in place to support the Corporation's mission and strategic goals.

The FDIC has 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. Based on these assessments, I can provide you with reasonable assurance 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.

Finally, this year's Annual Report has been redesigned to help streamline our reporting process by combining the Chief Financial Officers Act Report, the Program Performance Report, and the traditional Annual Report. The performance results contained in this combined report summarize our success in achieving the goals we established for 2002. Our priority is to provide timely, reliable and useful data to our stakeholders. To that end, the FDIC will continue to employ sound financial management techniques and emphasize the importance of a strong risk management and internal control program to meet its statutory, regulatory and fiduciary responsibilities.

Sincerely,

Steven O. App

I. Management's Discussion and Analysis

Operations of the Corporation – The Year in Review

In 2002, the FDIC continued to position itself to meet the demands of an evolving banking industry – one that is being reshaped by institutional consolidation, globalization and technology. The Corporation assumed a major leadership role on significant economic and policy issues, pursuing the enactment of deposit insurance reform legislation and sponsoring several symposia for regulators, policymakers and others on other important public policy issues. It also directed increased attention to new and emerging risks in the banking system, focusing more resources on larger institutions and those identified as posing a higher potential risk to the deposit insurance funds. The FDIC implemented a streamlined organizational and management structure and appointed a new management team to lead it into the future.

Highlights of the Corporation's 2002 accomplishments in each of its three major business lines are presented below.

Insurance

The FDIC insures bank and savings association deposits to help ensure the stability of the financial system and the public's confidence in the U.S. banking system. As insurer, the FDIC continually evaluates how changes in the economy, the financial markets and the banking system affect the adequacy and the viability of the deposit insurance funds.

The FDIC's efforts in 2002 focused on deposit insurance reform, other activities to promote sound public policies, expanded examination activities and dedicated examiner program, new international capital standards, and resolving failed institutions.

Deposit Insurance Reform

The FDIC gave priority attention to enactment of comprehensive deposit insurance reform legislation in 2002. Legislation containing major elements of the FDIC deposit insurance reform proposals developed over the past three years was introduced both in the House of Representatives and the Senate. On April 23, the FDIC's Chairman testified before the Senate Banking Committee on the FDIC's proposals for deposit insurance reform.

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 the 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 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 and rebates 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 and increasing the current level of deposit insurance coverage for retirement accounts.

The House passed H.R. 3717, the Federal Deposit Insurance Reform Act of 2002, on May 22 by a vote of 408 to 18. Although the Senate did not pass either H.R. 3717 or a similar Senate bill, S. 1945, the Safe and Fair Deposit Insurance Act of 2002, during the 107th Congress, the Corporation successfully addressed many key issues surrounding deposit insurance reform, establishing a sound base for future passage of legislation. Enactment of deposit insurance reform will remain a priority of the FDIC during the 108th Congress. The FDIC will continue to examine in greater detail how to implement risk-based pricing for deposit insurance and methods that could be used to create objective measurements of an insured depository institution's risk.

Since implementation of pending deposit insurance reform legislation was not enacted, development of a final pricing recommendation and implementation plan for inclusion in a notice and comment rulemaking during 2002 was put on hold. The FDIC continues to refine these options and explore other possibilities for using objective measures to price deposit insurance premiums.

Other Activities to Promote Sound Public Policies

In addition to its leadership on deposit insurance reform, the Corporation sponsored three policy symposia and hosted various conferences and workshops during 2002 on major issues of concern to the banking industry and regulators. In June, the FDIC held a symposium on "Enhancing Financial Transparency" that attracted Congressional members and staff, bankers, academics, regulatory policy makers, financial analysts and the media. In July, the FDIC and Credit Suisse First Boston co-sponsored a symposium on the "Rise of Risk Management: Basel and Beyond." At that meeting, top government officials and leading experts from Wall Street, the business sector, the accounting profession and academia discussed the importance of appropriate risk management policies and procedures. In September, the FDIC co-sponsored with the Journal of Financial Services Research a symposium on pricing the risks of deposit insurance. Leading scholars and researchers examined the latest developments in credit risk modeling and related risk measurement methods and their implications for deposit insurance pricing. The FDIC also hosted economic roundtables on the economic outlook and the risks of deflation and the U.S. housing market and consumer sector.

The FDIC also began publication in early 2002 of an electronic news bulletin called *FYI*, with over 5,000 subscribers by year-end. *FYI* summarizes emerging issues in banking, finance and the economy. The format is designed to complement the FDIC's in-depth reports and publications. *FYI* also serves as a vehicle for releasing analytical work as it becomes available. In addition, a quarterly communication entitled *Letter to the Stakeholders* has been released for FDIC-insured institutions, employees, and other stakeholders and highlights the FDIC's current initiatives and key performance indicators.

In February, Chairman Powell established a new FDIC Advisory Committee on Banking Policy to provide advice and recommendations to the FDIC on a wide range of issues relating to the Corporation's mission and activities, and examine how the FDIC can improve its effectiveness and address larger issues facing the financial services sector. The committee is composed of 12 members representing a cross-section of distinguished leaders from academia, economics, financial services, private industry, public affairs and the public interest community. The committee convened for the first time on November 13 in Washington, DC.

Expanded Special Examination Activities and Dedicated Examiner Program

In 2002, the FDIC focused increased examination resources on larger institutions and problem institutions where the risks to the funds are

greatest, while streamlining examinations for those posing less risk. One key component of this shift was an expansion of special examination activities in non-FDIC supervised institutions.

On January 29, the FDIC Board of Directors adopted an agreement with the Office of Thrift Supervision, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System that enables the FDIC to examine insured depository institutions (IDIs) that represent a heightened risk to the deposit insurance funds. The Federal Deposit Insurance Act provides that the FDIC Board can authorize special examinations of any insured depository institution whenever such an examination is necessary for insurance purposes. The FDIC has long considered it a top priority to examine all insured banks and thrifts as needed to assess their financial condition and degree of risk to the insurance funds. This new agreement establishes an improved process for determining when the FDIC will use its authority to examine any insured institution and provides for enhanced coordination and cooperation of the agencies' supervisory efforts. These measures will ensure that the FDIC will be able to fulfill its responsibilities to protect the deposit insurance funds in the most efficient and least burdensome manner possible.

The agreement provides that the FDIC may conduct special examinations of any IDI that:

- Has a "3," "4" or "5" CAMELS composite rating (for the adequacy of **c**apital, the quality of **a**ssets, the capability of **m**anagement, the quality and level of **e**arnings, the adequacy of **l**iquidity, and the **s**ensitivity to market risk), or
- Is undercapitalized as defined under the Prompt Corrective Action provisions of Section 38 of the Federal Deposit Insurance Act.

Under the interagency agreement, the FDIC may seek to participate in examinations or meetings with senior bank management of institutions that exhibit material deteriorating conditions or other adverse developments regardless of their current rating at the invitation of, or without the objection of, the primary federal regulator.

The interagency agreement also provides for the FDIC's establishment of a dedicated examiner program for the eight largest banking organizations. Because of their size and market share, these eight "large insured depository institutions" (LIDIs) expose the deposit insurance funds to substantial risk. Assets controlled by these eight institutions represent approximately 41 percent of industry assets. A similar level of concentration also exists on the deposit side – approximately nine percent of all domestic deposits are held by one LIDI.

The FDIC is not the primary regulator for the eight LIDIs. However, the FDIC's eight dedicated examiners, selected in August 2002, serve as the FDIC's primary points of contact for the oversight of these institutions. Pursuant to the agreement, to the fullest extent possible, the FDIC will continue to rely on results of the work performed by the primary federal bank supervisors in assessing the condition and risk-management practices of individual institutions. The dedicated examiners are provided access to supervisory personnel and supervisory information, including risk assessments, supervisory plans, reports of examination and other documents related to these eight banks, and are invited to participate in certain examination activities. The dedicated examiner program allows the FDIC first hand, timely access to information needed to stay fully abreast of the risks in these institutions and to quickly recognize when new risks emerge.

To assist the FDIC in quickly identifying and prioritizing areas of risk both to groups of banks and to specific institutions, a Risk Analysis Center (RAC) will be established in 2003 to serve as a central clearinghouse for vital bank risk information. The RAC will place special emphasis on the timely analysis of information generated by the dedicated examiner program.

New International Capital Standards

Internationally, the FDIC continues to participate in a number of global supervisory groups, including the Basel Committee on Banking Supervision. The FDIC actively participated in the Committee's

efforts to update and revise the 1988 Basel Capital Accord to make the capital standards of internationally active banks more comprehensive, risk-sensitive, and reflective of advances in banks' risk measurement and management practices, while continuing to ensure these banks maintain adequate capital reserves.

The FDIC invested resources on several fronts to ensure that the new Accord, when final, will be compatible with the agency's roles as both insurer and supervisor of banking organizations. The FDIC was well represented on several committees, task forces and groups that published documents for industry review during 2002. These included: "Quantitative Impact Study 3," which is serving as a comprehensive field test of the proposals for revising the 1988 Accord, and the "Second Working Paper on the Treatment of Asset Securitizations," which introduces more risk-sensitive approaches for addressing many of the emerging risks in the rapidly growing securitization market.

Resolving Failed Institutions

During 2002, the FDIC resolved 11 financial institution failures. These failed institutions had a total of $2.6 billion in assets and $2.2 billion in deposits. By the next business day after each failure, the FDIC had issued payout checks to insured depositors, or depositors had access to deposits determined to be insured. (See the accompanying table for details about liquidation activities.)

Liquidation Highlights 2000-2002

Dollars in billions

	2002	2001	2000
Total Failed Banks	**10**	3	6
Assets of Failed Banks	**$ 2.5**	$ .05	$ .38
Total Failed Savings Associations	**1**	1	1
Assets of Failed Savings Associations	**$ .05**	$ 2.18	$ .03
Net Collections from Assets in Liquidation•	**$ 1.84**	$ .31	$ .60
Total Assets in Liquidation•	**$ 1.24**	$ .57	$ .54
Net Collections from Assets Not in Liquidation•	**$ .02**	$ .08	$ .16
Total Assets Not in Liquidation•	**$ 1.24**	$ 1.52	$ 2.80

• Also includes assets from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.

Supervision

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. As of year-end, the Corporation supervised 5,348 FDIC-insured state-chartered commercial banks that are not members of the Federal Reserve System (referred to as "state nonmember banks"). Through safety and soundness and consumer compliance examinations of these FDIC-supervised institutions, the FDIC assesses their 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 2002, the FDIC conducted 2,534 statutorily required safety and soundness examinations. An on-site safety and soundness examination was not conducted for four institutions because specific circumstances regarding the institutions indicated an exception should be made.

A total of 1,806 examinations were conducted in 2002 by state authorities under the alternating examination program, and an additional 78 examinations were conducted with FDIC's assistance. Thirty-six institutions were due for an examination by state authorities, and five institutions had mergers pending at year-end. The remaining 31 institutions have examinations scheduled during the first and second quarters of 2003.

FDIC Examinations 2000-2002

	2002	2001	2000
Safety and Soundness:			
State Nonmember Banks	**2,290**	2,300	2,232
Savings Banks	**229**	241	235
National Banks	**10**	16	17
State Member Banks	**5**	9	2
Savings Associations	**0**	0	0
Subtotal	**2,534**	2,566	2,486
Compliance/Community Reinvestment Act	**1,820**	2,180	2,257
Trust Departments	**524**	466	533
Data Processing Facilities	**1,681**	1,625	1,585
Total	**6,559**	6,837	6,861

The number of FDIC-supervised institutions identified as "problem" institutions with a composite "4" or "5" CAMELS rating increased from 67 at year-end 2001 to 84 at year-end 2002. During 2002, 48 institutions were removed from problem status due to composite rating upgrades, mergers, consolidations, or sales, and 63 institutions were added to the problem bank list. The FDIC is required to conduct follow-up examinations of all designated problem institutions within 12 months of their last examination. As of December 31, 2002, all follow-up examinations for problem institutions had been performed on schedule.

Streamlining Examinations for Financially Sound Institutions

While directing increased resources to large and high-risk institutions and to the international front, the FDIC also implemented measures to improve efficiency by maximizing the use of risk-focused examination procedures at small well-managed banks in sound financial condition.

Specifically, in May 2002, the FDIC implemented a new program to streamline safety and soundness examinations of certain financially sound banks. The program, known as "MERIT" – for "**m**aximum **e**fficiency, **r**isk-focused, **i**nstitution-**t**argeted examinations" – streamlines examinations for FDIC-supervised institutions with a supervisory rating of "1" or "2," that have $250 million or less in total assets and that are well-managed, and meet other program criteria while maintaining the quality and integrity of the examination. By year-end, the program had achieved more than a 20 percent reduction in examination hours for all eligible "1" and "2" rated FDIC-supervised institutions with under $250 million in assets.

Reducing Regulatory Burden

The FDIC also continued efforts to explore options for reducing regulatory burden on the financial services industry. Based on input from the banking industry and the public, an interdivisional working group developed and began implementing short- and long-term strategies to reduce regulatory burden. These strategies include seeking accelerated compliance with the regulation review requirements pursuant to the Economic Growth Recovery and Paperwork Reduction Act, improving communication of FDIC regulations and policies to financial institutions, and creating a new FDIC Regulatory Burden Web page to solicit industry input, and communicate initiatives in this area.

Minority Depository Institutions

The FDIC has historically taken steps to preserve and encourage minority ownership of insured financial institutions. On April 9, 2002, the FDIC Board adopted a new policy statement related to minority depository institutions. The new policy statement reflects changes in certain regulations and expands the FDIC's Minority Depository Institutions Program. Enhancements to the program include increased communication with minority depository institutions, better coordination with trade associations that represent minority depository institutions, better defined roles for a national program coordinator and regional coordinators, and more opportunities for institutions to request technical assistance.

Compliance Examination Program

The FDIC takes seriously its statutory responsibilities to enforce consumer protection laws and regulations. It administers a compliance examination program to help ensure that consumers are able to make informed choices about credit transactions and deposit accounts and to help ensure equal access to the credit markets. The FDIC's compliance examination program covers nearly 20 different federal statutes and regulations ranging from traditional disclosure laws (such as the Truth in Lending Act)

to fair lending statutes (such as the Equal Credit Opportunity and Fair Housing Acts) to the Community Reinvestment Act (CRA), which encourages insured depository institutions to help meet community credit needs. The FDIC has also added the privacy and insurance consumer protection provisions of the Gramm-Leach-Bliley Act of 1999 to its compliance examination program.

Compliance examinations are conducted on an established schedule by specially trained personnel. The interval between compliance examinations is typically two to three years for banks with strong compliance records. Banks with weak compliance performance are typically examined on an annual or shorter cycle. The FDIC uses the full extent of its enforcement authority, as appropriate, to address instances of noncompliance. Further, the FDIC meets its statutory responsibilities under the Equal Credit Opportunity Act to refer patterns or practices of credit discrimination to the Department of Justice. The FDIC conducted 1,820 compliance and CRA examinations in 2002, compared to 2,180 in 2001. Ten FDIC-supervised institutions due for an examination in 2002 were deferred, nine due to mergers or charter changes, and one to allow coordination with a scheduled safety and soundness examination. Nine institutions were assigned a composite "4" rating for compliance as of year-end 2002. None were assigned a composite "5" rating. Eight of the nine "4" rated institutions have entered into a Memorandum of Understanding (MOU) with the FDIC to correct compliance issues, and the ninth is currently reviewing a draft MOU, which is expected to be finalized in early 2003. (For more details, see the FDIC Examinations table on page 14.)

Financial Literacy

One of the FDIC's most important consumer protection goals is to promote financial education to those outside of the financial mainstream. The "Money Smart" program, unveiled in 2001, is primarily designed to help adults with little or no banking experience develop positive relationships with insured depository institutions. By year-end 2002, the FDIC had supplied more than 32,000 copies of the Money Smart training curriculum to various groups. Approximately 40 percent of the requests for Money Smart were from financial institutions and credit unions. The remainder were largely from educational service organizations, such as community colleges and adult education centers; community organizations; state and local government agencies; employment service organizations; and faith-based groups.

Over 1,000 representatives of community organizations, government agencies and financial institutions have attended orientation sessions on Money Smart held across the country. The Money Smart program also includes multi-partner agreements in which low and moderate-income adults can receive a variety of government services, and those outside of the financial mainstream are provided financial education with Money Smart as the principal curriculum.

As of year-end 2002, the FDIC had entered into partnership agreements with the Neighborhood Reinvestment Corporation, U.S. Department of Housing and Urban Development, U.S. Department of Labor, U.S. Small Business Administration, Association of Military Banks of America, Independent Community Bankers of America, Internal Revenue Service, Office of the White House Initiative on Asian American Pacific Islanders, and over 300 other national and regional organizations. A Spanish version of the Money Smart curriculum was rolled out in mid-2002, and a Chinese version will be available in early 2003. The FDIC is pleased with the positive feedback from the Money Smart curriculum and will continue to improve and expand this important program.

Consumer Complaints and Inquiries

The FDIC investigates and responds to complaints and inquiries from consumers, financial institutions and other parties about consumer protection and fair lending laws, as well as deposit insurance matters. In 2002, the FDIC received 8,368 complaints, of which 3,987 were against state-chartered nonmember banks. Nearly 54 percent of the state nonmember bank complaints concerned credit card accounts. The most frequent complaints involved billing disputes and account errors, loan denials, credit card fees and service charges, and collection practices. In July 2002, the FDIC established a centralized Consumer Response Center (CRC) that 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. The establishment of the CRC will facilitate timely responses to complaints and inquiries.

In addition, the FDIC received over 7,000 written inquiries and 8,000 telephone inquiries from consumers and bankers about FDIC insurance and consumer protection issues.

The largest percentage of inquiries related to whether specific financial institutions were insured by the FDIC and deposit insurance coverage. Other common inquiries were requests for copies of FDIC consumer publications, questions about banking practices and consumer rights under federal consumer protection laws, and how to obtain a personal credit report.

The FDIC has established a Central Call Center as its primary telephone point of contact for questions on deposit insurance from the banking community and the public. (For more information about the Call Center (toll-free, 1-877-275-3342), see page 127.)

To reach out to consumers needing assistance on matters arising from failed financial institutions, the FDIC also operates a Customer Service Center with staff dedicated primarily to handling records research and collateral releases. The records research staff responded to over 4,000 inquiries in 2002. This group researches the historical records of failed financial institutions to answer customer questions about deposit accounts, loan transaction histories, tax suits for delinquent real estate taxes and other issues. The collateral release staff researches and determines ownership of collateral securing loans from failed financial institutions in order to provide a release of lien, assignment or reconveyance to the borrower. This staff completed nearly 15,000 collateral release requests in 2002.

Receivership Management

The goal of the receivership management program is to minimize losses and maximize recoveries to creditors of receiverships. In 2002, the FDIC pursued this goal by quickly and actively marketing assets from failed institutions, providing for the expeditious and orderly terminations of receiverships, and implementing a service-billing methodology to ensure fair and reasonable charges to receiverships for the services provided by the Corporation.

Institution and Asset Marketing

The FDIC is proactive in its marketing efforts. Competitive marketing of failed institutions assures that the highest price is obtained for the deposit franchise and assets of the failed institution, thus minimizing the impact on the deposit insurance funds. All qualified and interested bidders were contacted regarding an opportunity to bid for each of the 11 institutions that failed in 2002. In addition, 85 percent of the book value of the marketable assets were marketed within 90 days of failure. This was done to minimize the costs associated with managing the assets and maximize the net recovery to the receivership estate, thereby benefiting the uninsured depositors and the creditors of the failed institution. (For details, see table on Liquidation Highlights on page 13.)

Two resolutions in 2002 warrant special note: Hamilton Bank and NextBank. The first involved Hamilton Bank, N.A., closed by the Office of the Comptroller of the Currency on January 11. Hamilton Bank had total assets of $1.2 billion and total deposits of $1.1 billion, and was headquartered in Miami, FL. The bank operated eight bank branches in Florida and a single bank branch in Puerto Rico. Hamilton Bank also had a small representative office in Panama and another in Peru. What made this failure so unique was that it was the first time the FDIC was receiver for such a large volume of international loans. Hamilton's principal focus was commercial trade finance and lending to small companies operating in the United States and throughout Central America.

In resolving this failure, the FDIC took a rarely used approach to protect depositors by transferring all the insured deposits (savings and checking accounts, certificates of deposit, and Individual Retirement Accounts) from three of Hamilton's nine branches, and only the insured transactional accounts (savings and checking) from the remaining six branches. The Israel Discount Bank, New York, NY assumed $531.6 million of the insured deposits. The FDIC paid out more than $582.6 million of insured deposits through checks mailed directly to the remaining account holders.

By the end of June, more than $1 billion of Hamilton's assets had been collected, sold or booked as a market-determined loss. At that time, Hamilton's Miami-based receivership office was closed, and responsibility for the remaining assets (approximate book value of $100 million) was transferred to the FDIC's office in Dallas, TX. Those remaining assets principally involve bankruptcies, litigation or investigations. As of December 31, 2002, the cost of the Hamilton Bank failure to the Bank Insurance Fund was estimated to be $172 million.

The second noteworthy resolution involved an Internet-only bank, NextBank, N.A., chartered in Phoenix, AZ. NextBank was closed by the Office of the Comptroller of the Currency on February 7. NextBank's principal business was the origination and sale of credit card receivables to a special-purpose trust (Master Trust), which paid for the receivables by selling securities to the public. These securities were backed by the cash flows generated from the receivables. The bank had no brick-and-mortar banking facilities, and its main business was issuing credit cards. The FDIC received no bids for the deposits and paid out the insured deposits by mailing checks directly to depositors.

The FDIC, as receiver, assumed servicing responsibilities for NextBank's credit card portfolio. The credit card portfolio consisted of over one million cards with about 800,000 belonging to the Master Trust and the remainder being bank-owned. The management and marketing of these assets required extensive negotiations with the many parties involved in the credit card processing and securitization business. Ultimately, the bank-owned cards were sold under a loss-sharing agreement. The FDIC, as servicer, marketed the bank's interest in the trust, but no buyer was found and the Master Trust cards were shut down on July 10. The FDIC is currently administering the receivership's remaining interests in the Master Trust.

The NextBank Instant Finance Network receivables were sold through Debt X, an asset-auction company that operates on the Internet. The sale, consisting of 900 accounts with a book value of approximately $1 million, was conducted electronically via Debt X's secure Web site. As of December 31, 2002, the cost of the NextBank failure to the Bank Insurance Fund was estimated to be between $300 million and $350 million.

In addition to these resolution activities, the FDIC filed a lawsuit in the district court for the Northern District of Illinois on November 1 against Ernst & Young, the outside auditors for Superior Bank, Hinsdale, Illinois. Superior Bank, a $2 billion institution, failed on July 27, 2001. The complaint charges Ernst & Young with fraud and negligence in its audits of Superior and seeks actual damages of $548 million and punitive damages in an amount three times the actual damages, as well as interest and costs. The FDIC's complaint asserts that Ernst & Young failed to properly audit Superior's residual assets and then concealed its erroneous auditing for fear that its acknowledgement would damage Ernst & Young's $11 billion sale of its consulting arm to Cap Gemini, a French company. No trial date had been set as of year-end.

Terminations

The FDIC, as receiver, manages the receivership estate and its subsidiaries with the goal of expeditious and orderly termination. The oversight and prompt termination of receiverships preserves value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs. During 2002, the FDIC continued to meet its target of terminating 75 percent of receiverships within three years of the failure date.

Billing for Services Provided

In 2002, the Corporation implemented a new service-billing methodology to charge receiverships for the services provided by the FDIC. In addition, benchmark data were collected to permit the Corporation to better evaluate and set the rates to be charged for these services. During 2003, receivership management personnel will examine those areas in which FDIC costs significantly exceed those benchmarks and, where necessary, implement appropriate cost-management measures to address those cost differentials.

Operating More Efficiently

The Corporation took a number of steps in 2002 to improve its overall efficiency and effectiveness, from internal restructuring and downsizing to enhancing technology-related tools.

Corporate Reorganization

The FDIC substantially revamped its internal organizational structure to improve operational efficiency and unify corporate efforts in each of the three major business lines: insurance, supervision, and receivership management. As part of this major restructuring, the FDIC also streamlined the Corporation's management and support structures.

The major organizational changes made in 2002 include:

- The Division of Insurance and the Division of Research and Statistics were merged into a new Division of Insurance and Research to facilitate a more integrated and effective research and policy leadership capability.
- The Division of Supervision and the Division of Compliance and Consumer Affairs were merged into a new Division of Supervision and Consumer Protection. The regional and field structure of the new division was also streamlined, with a reduction in the number of regional offices from eight to six. Additionally, 89 field offices were consolidated into 52 territories for safety and soundness functions, and 73 field offices were consolidated into 30 territories for compliance functions.
- The receivership accounting operations of the Division of Finance were transferred to the Division of Resolutions and Receiverships to better align business processes in the Corporation's receivership management program.
- Personnel and training functions were merged to create a new Human Resources Branch within the Division of Administration.

Downsizing

The Corporation also took steps to complete the downsizing that it has been addressing for much of the past decade. Employment dropped from 6,167 at the beginning of 2002 to 5,430 at year-end 2002 as a result of declining workloads and organizational streamlining. Much of the needed reduction in staffing was accomplished voluntarily through targeted buyout programs that resulted in the retirement or resignation of approximately 700 employees and the reassignment of surplus employees to vacant positions elsewhere within the Corporation. In addition, approximately 30 surplus attorney positions were eliminated through a reduction-in-force in May. The decade of downsizing is substantially completed.

The savings resulting from corporate restructuring, downsizing and other initiatives directed toward cost containment and improved operating efficiency will, when fully realized, reduce future corporate operating costs by an estimated $80 million annually. The initial impact can be seen in the 2003 budget adopted by the Board of Directors in December 2002. Estimated 2003 spending will decline by seven percent from 2002 spending.

Corporate University

In another move to improve its long-term operational efficiency and effectiveness, the Corporation began developing a new Corporate University that will be modeled on the best practices of high-performing organizations in both the public and private sectors. The new Corporate University will provide an integrated framework for addressing future leadership development and skill requirements. It will include core training programs for the FDIC's three major business lines – insurance, supervision, and receivership management – and give employees the opportunity for cross-training and job rotation. This will facilitate the establishment, over time, of a flexible, permanent workforce capable of responding expeditiously to changing workload needs and priorities. Leadership development programs will assist in providing a strong foundation for current and future FDIC leaders. The Corporate University will use technology, seminars, hands-on experience and traditional instruction to make learning easier, more convenient and continual.

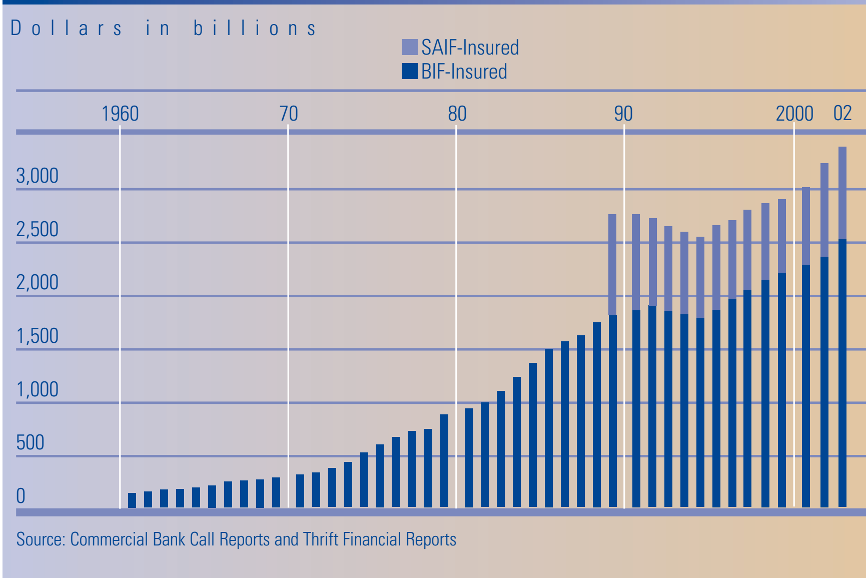
Information Technology Initiatives

In 2002, the Corporation also continued to pursue a number of major technology-related investments that will, when implemented, reduce future operating costs. The largest of these projects, the New Financial Environment (NFE), will greatly improve operating efficiencies and provide substantial cost savings to the FDIC after it is implemented in mid-2004. The NFE will replace the Corporation's current accounting and related systems and will facilitate the implementation of streamlined work processes. It will also provide better information and support to FDIC management for decision-making.

In addition, the FDIC continued to develop FDIC*connect*, a secure electronic Web-enabled environment allowing the Corporation to electronically exchange information with insured financial institutions. With the automation of data exchanges, the FDIC will be able to streamline and improve business processes, and reduce costs. In particular, the faster receipt of information will enable the FDIC to provide more timely information to the public.

Phase II Construction of the Seidman Center

In March 2002, the FDIC Board of Directors unanimously approved the expenditure of $110.9 million for Phase II construction at the FDIC's existing Seidman Center facility in Northern Virginia. The Corporation's decision was based on an extensive analysis of various lease, purchase and build scenarios. Phase II construction was determined to be the most economical option over the long term. The project will save the FDIC an estimated $78 million over 20 years on a net present value basis compared to the projected costs of continued leasing in downtown Washington, DC. Phase II construction is targeted for completion by 2006.



FDIC-Insured Deposits (estimated 1960-2002)

Source: Commercial Bank Call Reports and Thrift Financial Reports

Financial Highlights

In its role as deposit insurer of banks and savings and loan associations, the FDIC promotes the safety and soundness of insured depository institutions. The financial highlights discussed below address the performance of the deposit insurance funds. It also includes a discussion of initiatives to restructure the internal budget to closely monitor operations and investments and the establishment of a Capital Investment Review Committee (CIRC) to better manage capital investments.

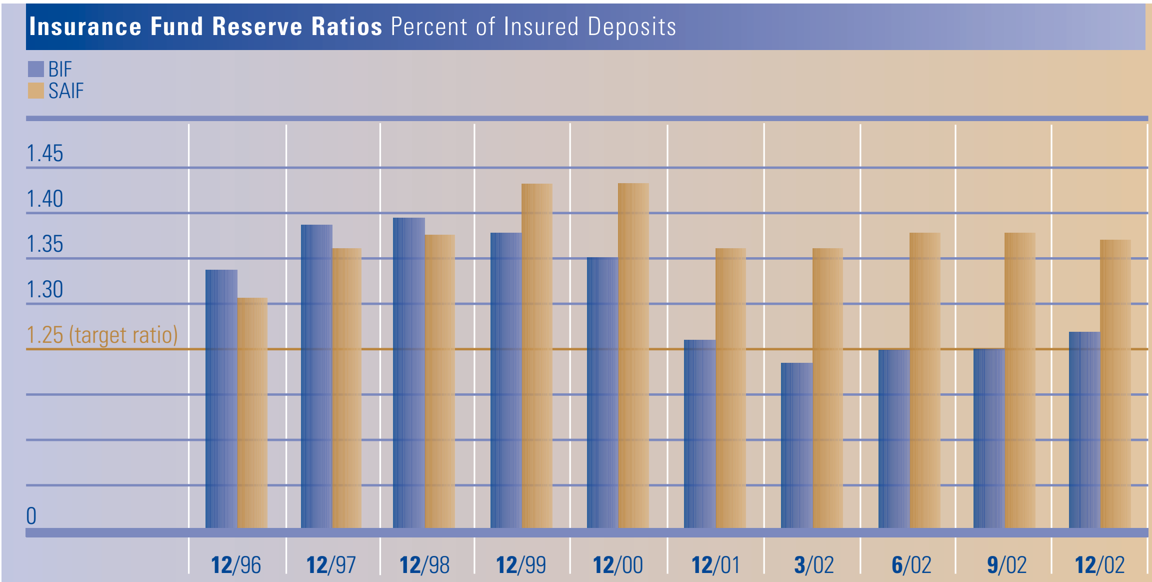
Deposit Insurance Fund Performance

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.

The Corporation's investment strategy for the BIF and the SAIF reflects prudent management, with interest earned on investment securities of approximately $1.69 billion for the BIF and $564 million for the SAIF. Successful investing of the funds during the year yielded total returns that surpassed Merrill Lynch's (ML) 1-10 Year U.S. Treasury Index of 9.05 percent for calendar year 2002. The BIF and the SAIF portfolio investments yielded returns of 9.20 and 9.89 percent, which exceeded the ML Index by 15 and 84 basis points, respectively.

Deposit insurance assessment rates remained unchanged from 2001 for both the BIF and the SAIF, ranging from 0 to 27 cents annually per $100 of assessable deposits. Under the assessment rate schedule, 91.5 percent of BIF-member institutions and 90.1 percent of SAIF-member institutions were in the lowest risk-assessment category and paid no deposit insurance assessment for the first semiannual period of 2003.

Deposits insured by the FDIC approached $3.4 trillion in 2002, as the number of insured institutions fell below the 9,400 mark for the first time. Insured deposits rose by 1.2 percent during the fourth quarter, bringing the growth rate for the full year to 5.5 percent, the second-fastest annual growth rate in the past 16 years. Insured deposits of the 9,372 FDIC member institutions rose by $177 billion in 2002, including an $8.3 billion (4.3 percent) increase in insured brokered deposits.



During 2002, deposits insured by the BIF increased by 4.9 percent, to $2.5 trillion. The BIF balance was $32.1 billion at year-end 2002, or 1.27 percent of estimated insured deposits (compared to 1.25 percent at September 30, 2002). This was up from the year-end 2001 reserve ratio of 1.26 percent, as deposits insured by the BIF increased by $117.9 billion and the BIF fund balance increased by $1.6 billion.

The reserve ratio of the SAIF was 1.37 percent at year-end 2002 (compared to 1.38 percent at September 30, 2002), up from 1.36 percent at year-end 2001. The balance of the SAIF was $11.7 billion on December 31, 2002. SAIF-insured deposits were $860.4 billion at year-end 2002, having grown 7.4 percent for the year. (See the accompanying table on Insurance Fund Reserve Ratios.)

Despite the relatively rapid growth of insured deposits, insured institutions continued to rely increasingly on other funding alternatives. Insured deposits as a percentage of domestic liabilities continued a steady, 11-year decline, falling to 49.9 percent at the end of 2002, compared to 50.9 percent at the end of 2001. At year-end 2002, the ratio was 45 percent for institutions with total assets greater than $1 billion, and 71 percent for smaller institutions. (See the accompanying tables on FDIC-insured Deposits on page 19 and Risk Related Premiums on page 21.)

During 2002, 11 FDIC-insured institutions failed. Ten of those institutions, with combined assets of $2.5 billion, were insured by the BIF. The other institution, with assets of $50 million, was insured by the SAIF. Losses for the 11 failures are estimated at $630 million. In 2001, there were four failures of insured institutions, with total assets of $2.2 billion and estimated losses of $445 million. The contingent liabilities for anticipated failures of BIF- and SAIF-insured institutions as of December 31, 2002, were $1.0 billion and $90 million, respectively.

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	7,470 (91.7%)	441 (5.4%)	97 (1.2%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	106 (1.3%)	13 (0.2%)	10 (0.1%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	1 (0.0%)	0 (0.0%)	5 (0.1%)

SAIF Supervisory Subgroups▪

	A	B	C
Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	1,113 (90.6%)	82 (6.7%)	18 (1.5%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	7(0.6%)	4 (0.3%)	4 (0.3%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	0 (0.0%)	1 (0.1%)

• 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.

Corporate Budgeting

The FDIC has restructured its budget for 2003 to include separate Operating and Investment Budgets. The Operating Budget includes funding for both ongoing operations of the Corporation and receivership operations. The new Investment Budget approved by the Board of Directors is a composite of individual budgets for major investment projects.

The Board approved a 2003 Corporate Operating Budget of $1,070.5 million and a multi-year Investment Budget of $70.4 million. Total estimated spending for 2003 will be approximately $1.1 billion, seven percent lower than 2002 spending. Almost two-thirds of projected 2003 spending will fund personnel and related costs.

Capital Investment Review Committee

During 2002, the FDIC began managing its capital investments from a new vantage point. The FDIC created a Capital Investment Review Committee (CIRC), dedicated to reviewing and overseeing all major information technology (IT) and non-IT investment initiatives with estimated capital outlays of more than $3 million, as well as certain other projects that cost less but are considered mission-critical to the FDIC.

The purpose of the CIRC is to implement a systematic management review process that supports budgeting for the FDIC's capital investments and ensures the regular monitoring and proper management of these investments, once funded. The CIRC is responsible for reviewing the major capital investment initiatives funded in the new Investment Budget as well as significant enhancements and maintenance costs associated with the FDIC's current initiatives. The investments reviewed by the CIRC include major computer purchases, software application developments, and office buildings. The CIRC determines whether the business case supporting the proposed investment is sound, well-justified and appropriate for funding consideration by the FDIC's Board of Directors. The CIRC will also continue to monitor and report on the status of approved investment projects to the Board of Directors.

II. Performance Results

Summary of 2002 Performance Results by Program

In accordance with Section 232.8 of the Office of Management and Budget's Circular No. A-11, Part 2, the FDIC is pleased to report that there were no situations in 2002 where performance had an adverse effect on the FDIC's activities or programs. In addition, 2002 performance was considered in the development of the FDIC's 2003 Annual Performance Goals. The Office of Inspector General (OIG) has shared its view of the challenges the Corporation is confronting and has acknowledged the numerous actions under way to address these issues. See Appendix C for a list of these challenges. Management is committed to addressing issues identified by the OIG, as evidenced by the initiatives discussed in the operations section of the report.

Program Area	Performance Results
Insurance	• Resolved 11 insured institution failures, providing depositors with timely access to insured deposits in each case. For seven of the failures, depositors had uninterrupted and continuous access to insured deposits as the deposits were assumed by an acquiring entity. For the remaining four failures, a deposit payout was conducted where a check in the amount of the insured deposit was mailed to each depositor in the required time frames.
	• The House of Representatives voted to approve deposit insurance reform legislation. Although the Senate failed to act on the legislation before adjournment, the Corporation will continue to pursue deposit insurance reform in the 108th Congress.
	• Completed risk assessments for all large insured depository institutions.
	• Improved the accuracy and efficiency of off-site risk identification models.
	• Published economic and banking information and analysis: • Quarterly editions of *Regional Outlook*, • 68 *Briefing Notes*, • Semiannual *FDIC Report on Underwriting Practices*, • Semiannual *Report on Underwriting Practices by Region*, • Six *Bank Trends*, • Quarterly editions of the *Real Estate Data System*, and • Semiannual *Survey of Real Estate Trends*.
	• Created a new electronic communications tool (*FYI*) to disseminate pertinent, timely analysis on risk-related issues to key stakeholders; published 36 *FYIs*.
Supervision	• Conducted 2,534 safety and soundness examinations. This included all statutorily required safety and soundness examinations, except for a small number deferred due to pending mergers.
	• Conducted 1,820 compliance and Community Reinvestment Act examinations in accordance with FDIC policy.
Receivership Management	• Contacted all known and qualified potential bidders in each of the 11 institution failures in 2002.
	• Marketed at least 85 percent of all marketable assets within a 90-day time frame for nine of the 11 institutions that failed in 2002. (For the remaining two institutions, the 90-day time frame had not expired at year-end.)
	• Terminated 108 receiverships.

2002 Budget and Expenditures by Program

The FDIC budget for 2002 totaled $1.22 billion. Excluding $142.9 million for Corporate General and Administrative expenditures, budget amounts were allocated to corporate programs and related goals as follows: $152.6 million, or 14 percent, to the Insurance program; $606.7 million, or 57 percent, to the Supervision program; and $313.9 million, or 29 percent, to the Receivership Management program.

Actual expenditures for the year totaled $1.19 billion. Excluding $125.8 million for Corporate General and Administrative expenses, actual expenditures were allocated to programs as follows: $118.3 million, or 11 percent, to the Insurance program; $629.3 million, or 59 percent, to the Supervision program; and $316.5 million, or 30 percent, to the Receivership Management program.

Higher-than-proposed spending for the Supervision program and lower-than-projected spending for the Insurance program reflect actual time charges by examiners. During 2003, the FDIC will review time reported by examiners to ensure that they are accurately allocating their time between these two programs.

Program Performance Results

Supervision 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 policies, and compliance with applicable regulations.	Conduct required examinations in accordance with statute and FDIC policy.	One hundred percent of required examinations are conducted on time.	Achieved
2	Prompt supervisory actions are taken to address problems found during the FDIC examination of FDIC-supervised institutions identified as problem insured depository institutions. FDIC-supervised insured depository institution compliance with formal and informal enforcement actions is monitored.	The number of months from the last examination of a problem bank until a follow-up examination is conducted.	Follow-up examination is conducted within 12 months of completion of the prior examination.	Achieved
	Strategic Goal: Consumers' rights are protected and FDIC-supervised institutions invest in their communities.			
3	Effective outreach and technical assistance are provided on topics related to the Community Reinvestment Act (CRA), fair lending, and community development.	Assessment of participants' understanding of the financial education topics after attending a One Stop Center financial education workshop. The FDIC's compliance examination program covers nearly 20 different federal statutes and regulations ranging from traditional disclosure laws (such as the Truth in Lending Act) to fair lending statutes (such as the Equal Credit Opportunity and Fair Housing Acts) to the Community Reinvestment Act (CRA), which encourages insured depository institutions to help meet community credit needs. The FDIC has also added the privacy and insurance consumer protection provisions of the Gramm-Leach-Bliley Act of 1999 to its compliance examination program.	Eighty-five percent of workshop participants who complete self-evaluation forms rate as "3" or better, on a scale of "1" to "4," the degree to which they increase their understanding of the financial education topic(s).	Achieved
4	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

Supervision Program Results (continued)

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

	Annual Performance Goal	Indicator	Target	Results
5	Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.	Conduct required examinations in accordance with statute and FDIC policy.	One hundred percent of required examinations are conducted within time frames established by statute and FDIC policy.	Achieved
6	Prompt supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance to address problems identified during compliance examinations.	Timely follow-up examination and related activity confirms 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 confirming compliance with the enforcement action.	Achieved

Insurance Program Results

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

	Annual Performance Goal	Indicator	Target	Results
1	FDIC is prepared to deal with all 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. If the failure occurs on any other day of the week, the target is two business days.	Achieved Achieved

Insurance Program Results (continued)

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

	Annual Performance Goal	Indicator	Target	Results
2	Identify and address risks to the insurance funds.	Maintain and improve off-site risk identification model(s).	Review and enhance existing FDIC off-site risk identification models to address credit, agricultural, real estate, technology and other risks by December 31, 2002.	Achieved
		Assess risks posed by large insured depository institutions.	Assess risks in 100 percent of large insured depository institutions and adopt appropriate strategy.	Achieved
		Identify and follow up on concerns referred for examination or other action (e.g., contact the insured institution 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.	Develop project scope, evaluate technical alternatives, prepare recommendations and establish implementation schedule.	Achieved

Insurance Program Results (continued)

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 the comprehensive deposit insurance review initiated in 2000.	Work with the Congress to develop and pass a reform package.	Achieved
			Develop pricing recommendations and implementation plans for inclusion in a notice and comment rulemaking during 2002.	On Hold
		Identify and review possible modifications to the Risk-Related Premium System (RRPS).	Develop and analyze baseline data of implemented modification results.	Achieved
			Assess the feasibility of developing objective screens for the RRPS that identify financial institutions demonstrating excessive risk, such as certain types of credit risk, market risk and operational risk.	Achieved
		Analyze the accuracy of projected losses to and reserves for the 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 system accordingly.	Achieved
			Perform comprehensive analysis of all aspects of reserving methodology and implement enhancements as necessary.	Achieved
		Maintain the reserve balance to insured deposits.	Maintain the designated reserve ratio (DRR) as required by statute, using the DRR target.	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	The FDIC values, manages and markets assets of failed institutions and their subsidiaries in a timely manner to maximize net return.	Failed institution's assets are marketed.	Eighty-five percent of book value of failed institution's marketable assets are marketed within 90 days of failure.	Achieved
3	Investigations will be conducted into all potential professional liability claim areas in all failed insured depository institutions, and a decision to close or pursue each claim is made 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
4	The FDIC, as receiver, manages 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 (starting with receiverships established in the year 2000).	Achieved

Multi-Year Performance Trend

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Depositor Payouts in Instance of Failure					
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 for seven of eight insured depository institutions that failed in 1999.	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).
Revised Goal: FDIC is prepared to deal with all financial institution closings and emerging issues.	Annual goal not established in 1999.	Annual goal 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.	Deal with all financial institution closings and emerging issues.
Risk Classifications					
Maintain and improve the deposit insurance system.	To improve system, Financial Risk Committee established.	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 Committee in support of deposit insurance reform.	Maintain and improve the deposit insurance system. Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on their deposits.

Risk Identification and Reporting					
Annual Goal	**1999 Results**	**2000 Results**	**2001 Results**	**2002 Results**	**2003 Goal**
Identify and address risks to the insurance funds.	Off-site and on-site risk identification processes were used to identify risk areas and concerns such as: subprime lending, construction lending practices, loan underwriting standards, electronic banking and privacy.	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.	Identify and address risks to the insurance funds.
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 1999-2001, the totals reflect examinations initiated during the year. This will vary slightly from the chart on page 14, which displays examinations completed during these years.	Conducted 2,555 or 95 percent of required safety and soundness examinations.•	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.	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.	The number of problem institutions increased from 41 at 12/31/98 to 43 as of 12/31/99. Thirty-one institutions removed from problem status and 33 added.	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.	Eighty-four institutions designated as problem (composite "4" or "5" rated). Forty-eight were removed from problem status and 63 added.	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.

Compliance Examinations

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Conduct comprehensive and compliance-only examinations in accordance with FDIC examination frequency policy.	Conducted 2,368 examinations or 102 percent of annual target. No delinquent examinations.	Conducted 2,257 examinations or 102 percent of annual target. There were three delinquent examinations at the end of 2000.	Conducted 2,180 comprehensive, compliance - only, and CRA examinations in accordance with FDIC policy.	Conducted 1,820 comprehensive, compliance - only, and CRA examinations in accordance with FDIC policy.	Conduct comprehensive and compliance - only examinations in accordance with FDIC examination frequency policy.

CRA Outreach

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Effective outreach, technical assistance and training are provided on topics related to the Community Reinvestment Act (CRA) and community development.	Annual goal was not established in 1999.	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).
Revised Goal: Provide effective outreach and technical assistance on topics related to the CRA, fair lending and community development.	Annual goal was not established in 1999.	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.	Provide effective outreach and technical assistance on topics related to the CRA, fair lending and community development.

Compliance Enforcement Actions

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Corrective actions are taken, if appropriate, to address problems identified during compliance examinations; bank compliance with those actions is monitored.	Nine institutions were designated as compliance problems and rated "4." All enforcement actions were in place.	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).	Annual goal revised (see below).
Revised Goal: Prompt supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance.	Annual goal was not established in 1999.	For institutions on average rated a composite "4" or "5," the FDIC conducted all follow-up examinations within the targeted time frame of 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 exam-inations. One institution was pending resolution for safety and soundness reasons, and the compliance examination was deferred pending resolution.	Eight of nine institutions had entered into a Memorandum of Understanding (MOU) with the FDIC and the ninth was in the process of reviewing the recommended MOU.	Prompt supervisory actions are taken and monitored on all institutions rated "4" or "5" for compliance.

Consumer Complaints and Inquiries

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Effectively respond to written complaints and inquiries related to deposit insurance and consumer protection laws.	A pilot customer satisfaction survey was conducted.	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 the responses rated the FDIC as "excellent" in response quality and 64 percent rated the FDIC as "excellent" in in timeliness of response.	Annual goal revised (see below).	Annual goal revised (see below).
Revised Goal: Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.	Annual goal was not established in 1999.	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.	Meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions.

Asset Management

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Market 80 percent of a failed institution's assets to franchise and nonfranchise investors within 90 days of resolution.	Annual goal was not established in 1999.	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).
Revised Goal: Value, manage and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return.	Annual goal was not established in 1999.	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 period.	For nine of 11 institutions that failed, at least 85 percent of all marketable assets were marketed within the 90-day time frame, thus meeting the target. For two of the failures, 90 days had not expired by year-end.	Value, manage and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return.

Least-Cost Resolution					
Annual Goal	**1999 Results**	**2000 Results**	**2001 Results**	**2002 Results**	**2003 Goal**
Market to all known qualified and interested potential assuming institutions.	Annual goal was not established in 1999.	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.	Market failing institutions to all known qualified and interested potential bidders.
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.	As of 12/31/99, six institutions failed within the first three quarters of 1999 and decisions were made with regard to five of the 66 potential claims. For the April 1998 failure, decisions were made in all 11 claim areas in 17 months. The remaining 1998 failures occurred less than 18 months ago.	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).
Revised Goal: 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.	Annual goal was not established in 1999.	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.	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.

Receivership Terminations

Annual Goal	1999 Results	2000 Results	2001 Results	2002 Results	2003 Goal
Achieve a 35 percent reduction in the number of active receiverships in 2000.	Annual goal was not established in 1999.	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).
Revised Goal: Manage the receivership estate and its subsidiaries toward an orderly termination.	Annual goal was not established in 1999.	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, FDIC terminated six receiverships, meeting the target to terminate 75 percent within three years of failure.	Manage the receivership estate and its subsidiaries toward an orderly termination. Value, manage and market assets of the failed institutions and their subsidiaries in a timely manner to maximize net return.

Program Evaluation

During 2002 and early 2003, the FDIC completed evaluations of programs designed to achieve the strategic objectives set forth in the Supervision: Consumer Rights 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 presents the issues evaluated and summarizes the results of this evaluation.

Strategic Objective	Deposit insurance funds and system remain viable.
Issues Evaluated	How does the FDIC ensure that FDIC-supervised institutions comply with consumer protection, Community Reinvestment Act (CRA), and fair lending laws?
Findings	The FDIC has extensive procedures in place to evaluate how well FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws. The FDIC conducts compliance and CRA examinations to evaluate FDIC-supervised institutions' practices regarding consumer protection, CRA, and fair lending laws. In addition to the examination process, the FDIC investigates consumer complaints about banking practices. Noncompliance with consumer protection and fair lending laws can result in civil liability and negative publicity as well as informal or formal enforcement actions against the institution to correct the identified violations. The FDIC also uses the institutions' record of compliance with consumer protection, CRA, and fair lending laws when evaluating applications for new or expanded activities and certain other corporate applications. The Program Evaluation team found that, through its compliance and CRA examinations and its Complaint and Inquiry Program, the FDIC has appropriate procedures in place to evaluate how well FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws.

Strategic Objective	Consumers have access to easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.
Issues Evaluated	Does the FDIC provide information to consumers about their rights and the disclosures due consumers under current consumer protection and fair lending laws? Is the information easily accessible and easily understood?
Findings	The FDIC undertakes an extensive and expanding number of activities to provide information on consumers' rights and the disclosures due them under consumer protection and fair lending laws. A wide array of materials detail consumers' rights; provide consumer information and answers to questions concerning deposit insurance, banks, and consumer rights; and offer practical guidance on how to become a better informed user of financial services. These are readily accessible and widely distributed on the FDIC's Web site and at outreach seminars and workshops. Many materials are also available in hard copy and some in multiple languages. For example, Spanish, Korean and Chinese versions of information on how FDIC deposit insurance works are in print. The FDIC also has been actively involved in consumer education and disclosure with the creation, implementation and ongoing support of programs such as Money Smart and "EDIE" – the FDIC's Electronic Deposit Insurance Estimator. In addition, the FDIC conducts evaluations to assess the effectiveness of its activities and program modifications and improvements. The Program Evaluation team found that through its extensive information dissemination efforts, consumer education and outreach activities, and procedures to handle consumer complaints and inquiries, the FDIC has appropriate measures in place to promote the protection of consumers' rights.

Financial Statements and Notes

Bank Insurance Fund

December 31, 2002 and 2001

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

	2002	2001
Assets		
Cash and cash equivalents	$ 4,606,896	$ 1,436,613
Investment in U.S. Treasury obligations, net: (Note 3)		
Held-to-maturity securities	16,709,665	20,477,568
Available-for-sale securities	10,823,593	9,685,367
Interest receivable on investments and other assets, net	483,674	547,101
Receivables from bank resolutions, net (Note 4)	505,395	79,155
Property and equipment, net (Note 5)	303,084	303,969
Total Assets	**$ 33,432,307**	**$ 32,529,773**
Liabilities		
Accounts payable and other liabilities	$ 148,573	$ 134,990
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	1,008,097	1,911,000
Litigation losses	204,805	37,123
Other contingencies	20,492	7,835
Total Liabilities	**1,381,967**	**2,090,948**
Commitments and off-balance-sheet exposure (Note 10)		
Fund Balance		
Accumulated net income	31,238,171	30,192,903
Unrealized gain on available-for-sale securities, net (Note 3)	812,169	245,922
Total Fund Balance	**32,050,340**	**30,438,825**
Total Liabilities and Fund Balance	**$ 33,432,307**	**$ 32,529,773**

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

	2002	2001
Revenue		
Interest on U.S. Treasury obligations	$ 1,692,381	$ 1,834,768
Assessments (Note 7)	84,030	47,777
Realized gain on sale of U.S.Treasury obligations	0	78,227
Other revenue	19,474	35,964
Total Revenue	**1,795,885**	**1,996,736**
Expenses and Losses		
Operating expenses	821,136	785,855
Provision for insurance losses (Note 8)	(86,970)	1,756,321
Interest and other insurance expenses	16,451	17,226
Total Expenses and Losses	**750,617**	**2,559,402**
Net Income/(Loss)	**1,045,268**	**(562,666)**
Unrealized gain on available-for-sale securities, net (Note 3)	566,247	26,269
Comprehensive Income/(Loss)	**1,611,515**	**(536,397)**
Fund Balance - Beginning	**30,438,825**	**30,975,222**
Fund Balance - Ending	**$ 32,050,340**	**$ 30,438,825**

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

	2002	2001
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 1,858,852	$ 1,913,936
Recoveries from bank resolutions	1,116,406	368,603
Assessments	81,971	47,075
Miscellaneous receipts	22,607	38,422
Cash used by:		
Operating expenses	(742,270)	(729,635)
Disbursements for bank resolutions	(2,168,187)	(84,651)
Miscellaneous disbursements	(38,311)	(21,696)
Net Cash Provided by Operating Activities (Note 13)	**131,068**	**1,532,054**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	3,625,000	3,320,000
Maturity or sale of U.S. Treasury obligations, available-for-sale	1,150,000	2,398,572
Cash used by:		
Purchase of property and equipment	(49,647)	(61,189)
Purchase of U.S. Treasury obligations, held-to-maturity	0	(1,418,875)
Purchase of U.S. Treasury obligations, available-for-sale	(1,686,138)	(4,490,345)
Net Cash Provided/(Used) by Investing Activities	**3,039,215**	**(251,837)**
Net Increase in Cash and Cash Equivalents	**3,170,283**	**1,280,217**
Cash and Cash Equivalents - Beginning	**1,436,613**	**156,396**
Cash and Cash Equivalents - Ending	**$ 4,606,896**	**$ 1,436,613**

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

1. Legislative History and Operations of the Bank Insurance Fund

Legislative History

The U.S. Congress created the Federal Deposit Insurance Corporation (FDIC) through enactment of the Banking Act of 1933. The FDIC was created to restore and maintain public confidence in the nation's banking system.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these funds. All three funds 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. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to FIRREA, 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. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant.

Bank Insurance Fund

The Gramm-Leach-Bliley Act (GLBA) was enacted on November 12,1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial services providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

Recent Legislative Initiatives

Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The House acted on the FDIC's recommendations by passing legislation, H.R. 3717, the Federal Deposit Insurance Reform Act of 2002, on May 22, 2002. Another reform bill, S. 1945, the Safe and Fair Deposit Insurance Act of 2002, was introduced in the Senate on February 14, 2002. No further action was taken by the 107th Congress during the year on these bills. In January and February 2003, however, similar deposit insurance reform legislation was reintroduced in the Senate and House, respectively. Legislative proposals during the 107th Congress included merging BIF and SAIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. Deposit insurance reform provisions may have a significant impact on the BIF and the SAIF, if enacted into law. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

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 failed institutions, including managing and disposing of their assets. 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 1990 OBR Act established the FDIC's authority to borrow from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance purposes from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA established a limitation on obligations that can be incurred by the BIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2002 and December 31, 2001, the MOL for the BIF was $56.7 billion and $55.4 billion, respectively.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from 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. Expenses paid by the BIF on behalf of the receiverships are recovered from those receiverships.

2. Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the 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

FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents

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

Investment in U.S. Treasury Obligations

Section 13(a) of the FDI Act, as amended, (12 U.S.C. 1823(a)), states that BIF funds "shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States". The Act further requires that the Secretary of the Treasury approve all such investments in excess of $100,000. The Secretary has granted approval to invest BIF funds only in U.S. Treasury obligations, provided that such obligations are purchased or sold through the Bureau of the Public Debt's Government Account Series (GAS) program.

BIF 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.

Allowance for Losses on Receivables From Bank Resolutions

The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of failed banks, net of all applicable estimated liquidation costs.

Cost Allocations Among Funds

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

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 Washington, D.C. office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco condominium offices are depreciated on a straight-line basis over a 35-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 2001 financial statements to conform to the presentation used in 2002.

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

As of December 31, 2002 and December 31, 2001, the book value of investments in U.S. Treasury obligations, net, was $27.5 billion and $30.2 billion, respectively. As of December 31, 2002, the FDIC held $6.2 billion of Treasury inflation-indexed securities (TIIS) for the BIF. These securities are indexed to increases or decreases in the Consumer Price Index for All Urban Consumers (CPI-U). Additionally, FDIC held $1.5 billion of callable U.S. Treasury bonds at December 31, 2002, with the premiums being amortized to the first call date. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice.

There were no available-for-sale securities sold during 2002. In 2001, the BIF reported a gross realized gain of $78 million on the sale of securities designated as available-for-sale. Proceeds from the sales were $1.5 billion. Specific identification was used to determine cost of the securities sold in computing the realized gain.

U.S. Treasury Obligations at December 31, 2002

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	5.98%	$ 2,690,000	$ 2,737,188	$ 63,325	$ 0	$ 2,800,513
After 1 year thru 5 years	6.24%	10,265,000	10,401,894	1,169,295	0	11,571,189
After 5 years thru 10 years	5.39%	2,895,000	2,961,035	370,281	0	3,331,316
Treasury Inflation-Indexed After 5 years thru 10 years	3.82%	607,987	609,548	68,169	0	677,717
Total		**$ 16,457,987**	**$ 16,709,665**	**$ 1,671,070**	**$ 0**	**$ 18,380,735**
Available-for-Sale						
Within 1 year	5.31%	$ 1,390,000	$ 1,389,723	$ 27,614	$ 0	$ 1,417,337
After 1 year thru 5 years	4.91%	3,355,000	3,595,734	235,538	0	3,831,272
Treasury Inflation-Indexed After 5 years thru 10 years	3.78%	5,010,245	5,025,967	549,017	0	5,574,984
Total		**$ 9,755,245**	**$ 10,011,424**	**$ 812,169**	**$ 0**	**$ 10,823,593**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 26,213,232**	**$ 26,721,089**	**$ 2,483,239**	**$ 0**	**$ 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.

U.S. Treasury Obligations at December 31, 2001

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	5.77%	$ 3,625,000	$ 3,666,801	$ 71,147	$ (25)	$ 3,737,923
After 1 year thru 5 years	6.40%	10,345,000	10,516,639	752,344	(2,193)	11,266,790
After 5 years thru 10 years	5.39%	5,505,000	5,696,333	196,238	0	5,892,571
Treasury Inflation-Indexed After 5 years thru 10 years	3.82%	596,008	597,795	11,807	0	609,602
Total		**$ 20,071,008**	**$ 20,477,568**	**$ 1,031,536**	**$ (2,218)**	**$ 21,506,886**
Available-for-Sale						
Within 1 year	4.57%	$ 1,050,000	$ 1,056,197	$ 10,721	$ 0	$ 1,066,918
After 1 year thru 5 years	5.54%	3,385,000	3,454,666	156,271	0	3,610,937
Treasury Inflation-Indexed After 5 years thru 10 years	3.78%	4,911,545	4,928,582	103,950	(25,020)	5,007,512
Total		**$ 9,346,545**	**$ 9,439,445**	**$ 270,942**	**$ (25,020)**	**$ 9,685,367**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 29,417,553**	**$ 29,917,013**	**$ 1,302,478**	**$ (27,238)**	**$ 31,192,253**

● 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 weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

As of December 31, 2002 and 2001, the unamortized premium, net of the unamortized discount, was $508 million and $499 million, respectively.

4. Receivables From Bank Resolutions, Net

The bank resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the BIF against the receiverships' assets. There were ten bank failures in 2002 and three in 2001, with assets at failure of $2.5 billion and $54 million, respectively, and BIF outlays of $2.1 billion and $49.5 million, respectively.

Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2002 and 2001, BIF receiverships held assets with a book value of $1.1 billion and $154.6 million, respectively (including cash, investments, and miscellaneous receivables of $479 million and $71.9 million at December 31, 2002 and 2001, respectively). Generally, the estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. For certain recent and significant failures, a separate evaluation was performed, based on non-representative sampling, to estimate cash recoveries on the majority of receivership assets in order to determine the appropriate allowance for losses. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the BIF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	2002	2001
Receivables from closed banks	$ 6,055,613	$ 5,368,970
Allowance for losses	(5,550,218)	(5,289,815)
Total	**$ 505,395**	**$ 79,155**

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2002	2001
Land	$ 37,352	$ 29,631
Buildings	171,362	175,265
Application software (includes work-in-process)	155,196	131,104
Furniture, fixtures, and equipment	98,497	93,593
Accumulated depreciation	(159,323)	(125,624)
Total	**$ 303,084**	**$ 303,969**

The depreciation expense was $47 million and $45 million for 2002 and 2001, 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, 2002 and 2001, the contingent liabilities for anticipated failure of insured institutions were $1.0 billion and $1.9 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. Should these banks fail, the BIF could incur additional estimated losses up to $6.0 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 totaling $53.8 million from unresolved legal cases 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 $6.7 billion as of December 31, 2002. The contingent liability from all outstanding claims asserted in connection with representations and warranties was $11.6 million and $1.5 million at December 31, 2002 and 2001, 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

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to not less than 1.25 percent of estimated insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based

assessment for a particular institution, the FDIC places each institution in one of nine risk categories, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 22 cents and 14 cents per $100 of assessable deposits for 2002 and 2001, respectively. On November 12, 2002, 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 2003. The Board reviews premium rates semiannually.

As stated above, the FDICIA requires the FDIC 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). As of September 30, 2002, the BIF reserve ratio was 1.25 percent of estimated insured deposits. The FDICIA authorizes and mandates BIF assessments if needed to maintain the fund at the DRR or to return the fund to the DRR if it 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.

The DIFA provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the Financing Corporation (FICO) to include all FDIC-insured institutions, and it made the FICO assessment separate from regular assessments, effective on January 1, 1997. The FICO was established by the Competitive Equality Banking Act of 1987 as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The annual FICO interest obligations of approximately $790 million are paid on a pro rata basis using the same rate for banks and thrifts. The FICO assessment has no financial impact on the BIF. The FICO assessment is separate from the regular assessments and is imposed on banks and thrifts, not on the insurance funds. The FDIC, as administrator of the BIF and the SAIF, is acting solely as a collection agent for the FICO. During 2002 and 2001, $621 million and $627 million, respectively, was collected from BIF-member institutions and remitted to the FICO.

8. Provision for Insurance Losses

Provision for insurance losses was a negative $87 million for 2002 and $1.8 billion for 2001. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2002	2001
Valuation Adjustments:		
Closed banks	$ 616,844	$ (41,106)
Open bank assistance and other assets	6,006	(928)
Total Valuation Adjustments	**622,850**	**(42,034)**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(902,903)	1,776,645
Litigation losses	190,572	16,095
Other contingencies	2,511	5,615
Total Contingent Liabilities Adjustments	**(709,820)**	**1,798,355**
Total	**$ (86,970)**	**$ 1,756,321**

9. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits, and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Although the 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. 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

	2002	2001
Separation Incentive Payment	$ 29,085	$ 3,304
Civil Service Retirement System	13,365	11,205
Federal Employees Retirement System (Basic Benefit)	30,366	29,562
FDIC Savings Plan	18,956	18,254
Federal Thrift Savings Plan	12,235	11,871
Total	**$ 104,007**	**$ 74,196**

During 2002, the Corporation offered voluntary employee buyout programs to a majority of its employees and conducted a reduction-in-force (RIF) in an effort to reduce identified staffing excesses. As a result, over 700 employees left or will leave the Corporation by December 31, 2003. Approximately 91 percent of the affected employees have left their positions in 2002. Termination benefits included compensation of fifty percent of the current salary for voluntary departures. The total cost of this benefit to the Corporation was $33.1 million for 2002, with BIF's pro rata share totaling $28.9 million, which is included in the "Operating expenses" line item. In 2002, BIF paid $10.1 million of this compensation benefit and the remaining unpaid amount is recorded as a liability in the "Accounts payable and other liabilities" line item.

Accrued Annual Leave

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $34.1 million and $35.3 million at December 31, 2002 and 2001, respectively.

Postretirement Benefits Other Than Pensions

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided at no cost to all retirees eligible for an immediate annuity. At December 31, 2002 and 2001, the BIF's net postretirement benefit asset recognized in the "Interest receivable on investments and other assets, net" line item in the Statements of Financial Position was $130 thousand and $3.6 million, respectively.

The Corporation's postretirement benefits plan curtailment loss resulting from the voluntary employee buyout programs and reduction-in-force was $1.6 million in 2002, with BIF's pro rata share totaling $1.3 million.

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10. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The BIF's allocated share of the FDIC's lease commitments totals $138.6 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, the SAIF, and the FRF. 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 $36.9 million and $38.5 million for the years ended December 31, 2002 and 2001, respectively.

Leased Space Commitments

Dollars in Thousands

2003	2004	2005	2006	2007	2008/Thereafter
$ 38,318	**$ 34,487**	**$ 28,780**	**$ 19,309**	**$ 11,076**	**$ 6,667**

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. The remaining term of the limited guarantee is 24 years. The table below gives the maximum off-balance-sheet exposure the BIF has under these guarantees.

Asset Securitization Guarantees at December 31

Dollars in Thousands

	2002	2001
Maximum exposure under the limited guarantees	$ 243,764	$ 330,936
Less: Guarantee claims paid (inception-to-date)	(35,034)	(34,756)
Less: Amount of exposure recognized as a contingent liability	(6,508)	(3,966)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	**$ 202,222**	**$ 292,214**

Deposit Insurance

As of September 30, 2002, 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.

11. Concentration of Credit Risk

Financial instruments that potentially subject the BIF to credit risk consist primarily of gross receivables from bank resolutions totaling $6.1 billion. The receivables from bank resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the BIF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. An allowance for loss of $5.6 billion, or 92% of the gross receivable, was recorded as of December 31, 2002. Of the remaining eight percent of the gross receivable, the amount of credit risk is limited since 77% of the receivable will be repaid from receivership cash and cash equivalents.

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.

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13. Supplementary Information Relating to the Statements of Cash Flows

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

Dollars in Thousands

	2002	2001
Net Income/(Loss)	**$ 1,045,268**	**$ (562,666)**
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations	217,742	160,763
TIIS inflation adjustment	(110,679)	(96,064)
Gain on sale of U.S.Treasury obligations	0	(78,227)
Depreciation on property and equipment	47,484	44,723
Retirement of property and equipment	2,149	1,568
Change in Assets and Liabilities:		
Decrease in interest receivable on investments and other assets	63,688	17,273
(Increase) Decrease in receivables from bank resolutions	(426,239)	270,434
Increase (Decrease) in accounts payable and other liabilities	14,218	(16,591)
(Decrease) Increase in contingent liabilities for anticipated failure of insured institutions	(902,903)	1,769,645
Increase in other contingencies	12,658	5,995
Increase in contingent liabilities for litigation losses	167,682	15,201
Net Cash Provided by Operating Activities	**$ 131,068**	**$ 1,532,054**

Savings Association Insurance Fund

December 31, 2002 and 2001

SAIF

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

	2002	2001
Assets		
Cash and cash equivalents	$ 1,907,353	$ 276,507
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $187.7 million and $71.9 million at December 31, 2002 and December 31, 2001, respectively)*	311,864	299,374
Investment in U.S. Treasury obligations, net: (Note 4)		
Held-to-maturity securities	5,726,840	6,718,418
Available-for-sale securities	3,769,576	2,745,476
Interest receivable on investments and other assets, net	153,320	156,126
Receivables from thrift resolutions, net (Note 5)	287,855	1,285,150
Total Assets	**$ 12,156,808**	**$ 11,481,051**
Liabilities		
Accounts payable and other liabilities	$ 7,100	$ 8,111
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	90,493	233,000
Litigation losses	613	5,642
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	311,864	299,374
Total Liabilities	**410,070**	**546,127**
Commitments and off-balance-sheet exposure (Note 10)		
Fund Balance		
Accumulated net income	11,465,716	10,845,515
Unrealized gain on available-for-sale securities, net (Note 4)	281,022	89,409
Total Fund Balance	**11,746,738**	**10,934,924**
Total Liabilities and Fund Balance	**$ 12,156,808**	**$ 11,481,051**

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2002	2001
Revenue		
Interest on U.S. Treasury obligations	$ 564,259	$ 633,725
Assessments (Note 7)	23,783	35,402
Realized gain on sale of U.S.Treasury obligations	0	51,630
Other revenue	779	12,364
Total Revenue	**588,821**	**733,121**
Expenses and Losses		
Operating expenses	124,363	101,591
Provision for insurance losses (Note 8)	(156,494)	443,103
Other insurance expenses	751	19,389
Total Expenses and Losses	**(31,380)**	**564,083**
Net Income	**620,201**	**169,038**
Unrealized gain on available-for-sale securities, net (Note 4)	191,613	7,238
Comprehensive Income	**811,814**	**176,276**
Fund Balance - Beginning	**10,934,924**	**10,758,648**
Fund Balance - Ending	**$ 11,746,738**	**$ 10,934,924**

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

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2002	2001
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 576,192	$ 661,895
Assessments	23,709	35,554
Entrance and exit fees, including interest on exit fees (Note 3)	15,811	16,725
Recoveries from thrift resolutions	1,126,940	246,535
Miscellaneous receipts	73	2,615
Cash used by:		
Operating expenses	(125,159)	(102,429)
Disbursements for thrift resolutions	(119,993)	(1,976,964)
Miscellaneous disbursements	(103)	(352)
Net Cash Provided by (Used by) Operating Activities (Note 13)	**1,497,470**	**(1,116,421)**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,070,000	2,049,512
Maturity or sale U.S. Treasury obligations, available-for-sale	150,000	875,245
Cash used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	0	(826,788)
Purchase of U.S. Treasury obligations, available-for-sale	(970,813)	(823,265)
Net Cash Provided by Investing Activities	**249,187**	**1,274,704**
Net Increase in Cash and Cash Equivalents	**1,746,657**	**158,283**
Cash and Cash Equivalents - Beginning	**348,424**	**190,141**
Unrestricted Cash and Cash Equivalents - Ending	**1,907,353**	**276,507**
Restricted Cash and Cash Equivalents - Ending	**187,728**	**71,917**
Cash and Cash Equivalents - Ending	**$ 2,095,081**	**$ 348,424**

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

SAIF

1. Legislative History and Operations of the Savings Association Insurance Fund

Legislative History

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting insured thrift and bank depositors from loss due to institution failures. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to the Resolution Trust Corporation Completion Act of 1993 (RTC Completion Act), resolution responsibility transferred from the RTC to the SAIF on July 1, 1995. Prior to that date, thrift resolutions were the responsibility of the RTC (January 1, 1989 through June 30, 1995) or the FSLIC (prior to 1989).

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

In addition to traditional thrifts and banks, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's

assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at not less than 1.25 percent of estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm Leach Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial service providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

Recent Legislative Initiatives

Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The House acted on the FDIC's recommendations by passing legislation, H.R. 3717, the Federal Deposit Insurance Reform Act of 2002, on May 22, 2002. Another reform bill, S. 1945, the Safe and Fair Deposit Insurance Act of 2002, was introduced in the Senate on February 14, 2002. No further action was taken by the 107th Congress during the year on these bills. In January and February 2003, however, similar deposit insurance reform legislation was reintroduced in the Senate and House, respectively. Legislative proposals during the 107th Congress included merging SAIF and BIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. Deposit insurance reform provisions may have a significant impact on the SAIF and the BIF, if enacted into law. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

Operations of the SAIF

The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions and 2) resolve failed institutions, including disposing of their assets. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and by BIF-member banks designated as Oakar financial institutions.

The SAIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, if necessary. The 1990 OBR Act established the FDIC's authority to borrow from the FFB on behalf of the SAIF and the BIF. The FDICIA increased the FDIC's authority to borrow for insurance purposes from the U.S. Treasury, on behalf of the SAIF and the BIF, from $5 billion to $30 billion.

The FDICIA established a limitation on obligations that can be incurred by the SAIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2002 and December 31, 2001, the MOL for the SAIF was $19.9 billion and $18.8 billion, respectively.

Receivership Operations

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

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents

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

Investment in U.S. Treasury Obligations

Section 13(a) of the FDI Act, as amended, (12 U.S.C.1823 (a)), states that SAIF funds "shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States." The Act further requires that the Secretary of the Treasury approve all such investments in excess of $100,000. The Secretary has granted approval to invest SAIF funds only in U.S. Treasury obligations, provided that such obligations are purchased or sold through the Bureau of the Public Debt's Government Account Series (GAS) program.

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

Allowance for Losses on Receivables From Thrift Resolutions

The SAIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of failed thrifts, net of all applicable estimated liquidation costs.

Cost Allocations Among Funds

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

Related Parties

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

Reclassifications

Reclassifications have been made in the 2001 financial statements to conform to the presentation used in 2002.

3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees

The SAIF collects entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors (Board) and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow.

The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in

U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. There were no conversion transactions during 2002 and 2001 that resulted in an exit fee to the SAIF.

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

Dollars in Thousands

	2002	2001
Cash and cash equivalents	$ 187,728	$ 71,917
Investment in U.S. Treasury obligations, net	122,402	223,213
Interest receivable on U.S. Treasury obligations	1,734	4,244
Total	**$ 311,864**	**$ 299,374**

U.S. Treasury Obligations at December 31, 2002 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity

Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	6.59%	$ 35,000	$ 34,986	$ 222	$ 0	$ 35,208
After 1 year thru 5 years	5.45%	64,000	66,830	6,298	0	73,128
After 5 years thru 10 years	4.99%	20,000	20,586	2,108	0	22,694
Total		**$ 119,000**	**$ 122,402**	**$ 8,628**	**$ 0**	**$ 131,030**

U.S. Treasury Obligations at December 31, 2001 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Held-to-Maturity

Maturity	Yield at Purchase	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	5.95%	$ 100,000	$ 100,027	$ 2,364	$ 0	$ 102,391
After 1 year thru 5 years	6.10%	75,000	76,764	3,814	0	80,578
After 5 years thru 10 years	5.03%	44,000	46,422	893	0	47,315
Total		**$ 219,000**	**$ 223,213**	**$ 7,071**	**$ 0**	**$ 230,284**

The unamortized premium, net of the unamortized discount, was $3.4 million and $4.2 million at December 31, 2002 and 2001, respectively.

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

As of December 31, 2002 and 2001, the book value of investments in U.S. Treasury Obligations, net, was $9.5 billion and, the FDIC held $2.1 billion of Treasury inflation-indexed securities (TIIS) for the SAIF. These securities are indexed to increases or decreases in the Consumer Price Index for all Urban Consumers (CPI-U).

During 2002, FDIC purchased $639 million of callable U.S. Treasury securities for the SAIF. These securities are designated as either held-to-maturity or available-for-sale, with the premiums being amortized to the first call date. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice. None of these securities were called during the year.

There were no available-for-sale securities sold during 2002. In 2001, the SAIF reported a gross realized gain of $52 million on the sale of securities designated as available-for-sale. Proceeds from the sales were $795 million. Specific identification was used to determine cost of the securities sold in computing the realized gain.

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

Dollars in Thousands

Maturity•	Yield at Purchase▼	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	6.23%	$ 535,000	$ 541,662	$ 12,242	$ 0	$ 553,904
After 1 year thru 5 years	5.91%	2,880,000	2,941,199	317,167	0	3,258,366
After 5 years thru 10 years	5.78%	2,030,000	2,021,651	298,277	0	2,319,928
Treasury Inflation-Indexed After 5 years thru 10 years	3.85%	224,432	222,328	23,917	0	246,245
Total		**$ 5,669,432**	**$ 5,726,840**	**$ 651,603**	**$ 0**	**$ 6,378,443**
Available-for-Sale						
Within 1 year	5.77%	$ 475,000	$ 473,317	$ 9,660	$ 0	$ 482,977
After 1 year thru 5 years	4.81%	1,235,000	1,342,263	82,983	0	1,425,246
Treasury Inflation-Indexed After 5 years thru 10 years	3.84%	1,675,573	1,672,974	188,379	0	1,861,353
Total		**$ 3,385,573**	**$ 3,488,554**	**$ 281,022**	**$ 0**	**$ 3,769,576**
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 9,055,005**	**$ 9,215,394**	**$ 932,625**	**$ 0**	**$ 10,148,019**

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

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

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

Dollars in Thousands

Maturity	Yield at Purchase•		Face Value		Net Carrying Amount		Unrealized Holding Gains		Unrealized Holding Losses		Market Value
Held-to-Maturity											
Within 1 year	5.91%	$	970,000	$	973,252	$	15,735	$	0	$	988,987
After 1 year thru 5 years	6.17%		2,540,000		2,592,612		162,155		0		2,754,767
After 5 years thru 10 years	5.65%		2,905,000		2,935,018		138,050		0		3,073,068
Treasury Inflation-Indexed After 5 years thru 10 years	3.85%		220,012		217,536		4,813		0		222,349
Total		**$**	**6,635,012**	**$**	**6,718,418**	**$**	**320,753**	**$**	**0**	**$**	**7,039,171**
Available-for-Sale											
Within 1 year	6.44%	$	75,000	$	74,412	$	3,213	$	0	$	77,625
After 1 year thru 5 years	6.18%		930,000		942,448		55,065		0		997,513
Treasury Inflation-Indexed After 5 years thru 10 years	3.84%		1,642,564		1,639,207		36,592		(5,461)		1,670,338
Total		**$**	**2,647,564**	**$**	**2,656,067**	**$**	**94,870**	**$**	**(5,461)**	**$**	**2,745,476**
Total Investment in U.S. Treasury Obligations, Net											
Total		**$**	**9,282,576**	**$**	**9,374,485**	**$**	**415,623**	**$**	**(5,461)**	**$**	**9,784,647**

• For TIIS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

As of December 31, 2002 and 2001, the unamortized premium, net of the unamortized discount, was $160.4 million and $91.9 million, respectively.

5. Receivables From Thrift Resolutions, Net

The thrift resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the SAIF against the receiverships' assets. There was one thrift failure in both 2002 and 2001, with assets at failure of $50.2 million and $2.2 billion, respectively, and SAIF outlays of $37 million and $1 billion, respectively.

Receivables from thrift resolutions decreased by $997 million to $288 million at December 31, 2002. This decrease was primarily due to: 1) recoveries totaling $850 million of payments made to cover obligations to insured depositors for the Superior Bank, FSB receivership and 2) a final payment of $213 million from the Superior conservatorship to repay the line of credit of $1.5 billion, which was extended to the conservatorship for liquidity purposes.

Assets held by the FDIC in its receivership capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from closed thrifts. As of December 31, 2002 and 2001, SAIF receiverships held assets with a book value of $490 million and $210 million, respectively (including cash, investments, and miscellaneous receivables of $93 million and $16 million at December 31, 2002, and 2001, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based, primarily, on a non-representative sampling of receivership assets. This non-representative sample, based primarily on asset book values, provided 95% coverage of the entire portfolio's book value for the year ended December 31, 2002. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the SAIF's and other claimants' actual recoveries to vary from the level currently estimated.

As part of the FDIC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on loan sales from the Superior resolution. In general, the guarantees, representations, and warranties on loans sold relate to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The total amount of loans sold subject to unexpired representations and warranties, and guarantees was $4.8 billion as of December 31, 2002. SAIF did not establish a liability for all outstanding claims asserted in connection with representations and warranties because the receivership has sufficient funds to pay for such claims. However, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years or more. Consequently, the FDIC believes it is possible that additional losses may be incurred by the SAIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the SAIF from outstanding contracts with unasserted representation and warranty claims.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

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

The contingent liability is derived by applying expected failure rates and historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those thrifts where failure is imminent absent institution management resolution of existing problems. As of December 31, 2002 and 2001, the contingent liabilities for anticipated failure of insured institutions were $90 million and $233 million, respectively.

Due to the uncertainty surrounding future economic and market conditions, there are other thrifts for which the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses up to $1.3 billion.

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

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $1.6 million are reasonably possible.

In addition, two cases are currently pending in the U.S. District Court against the FDIC alleging that the FDIC's calculation of a special assessment exceeded the amounts due pursuant to the DIFA. The DIFA authorized the FDIC to make a one-time special assessment for the purpose of fully capitalizing the SAIF to its designated reserve ratio (DRR) of 1.25%. The plaintiffs seek refunds of special assessment overpayments and interest from the date of the overpayments. The FDIC believes the probability of refunds is remote and therefore no estimate of loss is recorded or disclosed.

7. Assessments

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to not less than 1.25 percent of estimated insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 26 cents and 41 cents per $100 of assessable deposits for 2002 and 2001, respectively. On November 12, 2002, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 27 cents per $100 of assessable deposits for the first semiannual period of 2003. The Board reviews premium rates semiannually.

The DIFA provided, among other things, for the capitalization of the SAIF to its DRR of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. The SAIF achieved its required capitalization by means of a $4.5 billion special assessment effective October 1, 1996. Since October 1996, the SAIF has maintained a reserve ratio at or higher than the DRR of 1.25 percent of insured deposits. As of September 30, 2002, the SAIF reserve ratio was 1.38 percent of estimated insured deposits.

The DIFA provided for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the Financing Corporation (FICO) to include all FDIC-insured institutions, and it made the FICO assessment separate from regular assessments, effective on January 1, 1997. The FICO was established by the Competitive Equality Banking Act of 1987 as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The annual FICO interest obligations of approximately $790 million are paid on a pro rata basis using the same rates for thrifts and banks. The FICO assessment has no financial impact on the SAIF. The FICO assessment is separate from the regular assessments and is imposed on thrifts and banks, not on the insurance funds. The FDIC, as administrator of the SAIF and the BIF, is acting solely as a collection agent for the FICO. During 2002 and 2001, $161 million and $164 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

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8. Provision for Insurance Losses

Provision for insurance losses was a negative $156.5 million and $443.1 million for 2002 and 2001, respectively. In 2002, the negative provision was primarily due to lower estimated losses for anticipated failures which resulted from the improved financial condition of a few large thrifts. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

	2002	2001
Valuation Adjustments:		
Closed thrifts	$ (10,113)	$ 440,487
Total Valuation Adjustments	**(10,113)**	**440,487**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(142,507)	(1,083)
Litigation losses	(3,874)	3,699
Total Contingent Liabilities Adjustments	**(146,381)**	**2,616**
Total	**$ (156,494)**	**$ 443,103**

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9. Employee Benefits

Pension Benefits, Savings Plan and Postemployment Benefits

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits, and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The SAIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported on and accounted for by the U.S. Office of Personnel Management.

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

Dollars in Thousands

	2002	2001
Separation Incentive Payment	$ 4,276	$ 494
Civil Service Retirement System	1,715	1,561
Federal Employees Retirement System (Basic Benefit)	4,765	4,043
FDIC Savings Plan	2,951	2,508
Federal Thrift Savings Plan	1,913	1,622
Total	**$ 15,620**	**$ 10,228**

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

During 2002, the Corporation offered voluntary employee buyout programs to a majority of its employees and conducted a reduction-in-force (RIF) in an effort to reduce identified staffing excesses. As a result, over 700 employees left or will leave the Corporation by December 31, 2003. Approximately 91 percent of the affected employees have left their positions in 2002. Termination benefits included compensation of fifty percent of the current salary for voluntary departures. The total cost of this benefit to the Corporation was $33.1 million for 2002, with SAIF's pro rata share totaling $4.2 million, which is included in the "Operating expenses" line item. All of this amount was paid by SAIF in 2002.

Accrued Annual Leave

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $5.5 million and $4.6 million at December 31, 2002 and 2001, respectively.

Postretirement Benefits Other Than Pensions

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided at no cost to all retirees eligible for an immediate annuity. At December 31, 2002, the SAIF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Statement of Financial Position was $145 thousand. At December 31, 2001, the SAIF's net postretirement benefit asset recognized in the "Interest receivable on investments and other assets, net" line item in the Statement of Financial Position was $148 thousand.

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10. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leased Space

The SAIF's allocated share of the FDIC's lease commitments totals $22.3 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF, the BIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $6.5 million and $5.8 million at December 31, 2002 and 2001, respectively.

Leased Space Commitments

Dollars in Thousands

2003	2004	2005	2006	2007	2008/Thereafter
$ 6,150	$ 5,535	$ 4,619	$ 3,099	$ 1,777	$ 1,070

Off-Balance-Sheet Exposure:

Deposit Insurance

As of September 30, 2002, deposits insured by the SAIF totaled approximately $838 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

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11. Concentration of Credit Risk

Financial instruments that potentially subject the SAIF to credit risk consist primarily of gross receivables from thrift resolutions totaling $722 million. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the SAIF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from resolutions. Most of the gross receivables and related allowance for losses of $434 million are attributable to the failure of Superior Bank. Of SAIF's $288 million net receivable, $282 million is estimated to be repaid by Superior receivership assets, primarily, cash and a promissory note arising from a settlement with the owners of the failed institution. The credit risk related to the promissory note is limited since

half of the outstanding note is secured by a letter of credit and the remaining half is subject to the creditworthiness of the payor of the note. Annual monitoring of the creditworthiness of the payor is performed and currently indicates a low risk of non-performance.

12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Notes 3 and 4 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

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

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 5), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

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

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13. Supplementary Information Relating to the Statements of Cash Flows

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

Dollars in Thousands

	2002	2001
Net Income	**$ 620,201**	**$ 169,038**
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations (unrestricted)	47,333	32,503
TIIS inflation adjustment	(37,429)	(37,407)
Gain on sale of U.S. Treasury obligations	0	(51,630)
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury obligations (restricted)	811	863
Decrease in entrance and exit fees receivable, including interest receivable on investments and other assets	5,317	32,641
Decrease (Increase) in receivables from thrift resolutions	997,295	(1,281,002)
(Decrease) Increase in accounts payable and other liabilities	(1,011)	362
(Decrease) in contingent liability for anticipated failure of insured institutions	(142,507)	(1,083)
(Decrease) Increase in contingent liability for litigation losses	(5,029)	3,699
Increase in exit fees and investment proceeds held in escrow	12,489	15,595
Net Cash Provided by (Used by) Operating Activities	**$ 1,497,470**	**$ (1,116,421)**

SAIF

FSLIC Resolution Fund

December 31, 2002 and 2001

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

	2002	2001
Assets		
Cash and cash equivalents	$ 3,618,330	$ 3,490,396
Investment in securitization-related assets acquired from receiverships (Note 3)	98,114	1,087,102
Receivables from thrift resolutions, net (Note 4)	131,304	286,455
Other assets, net (Note 5)	22,511	29,697
Total Assets	**$ 3,870,259**	**$ 4,893,650**
Liabilities		
Accounts payable and other liabilities	$ 14,408	$ 14,787
Contingent liabilities for litigation losses and other (Note 6)	546	5,304
Total Liabilities	**14,954**	**20,091**
Commitments and concentration of credit risk (Note 10 and Note 11)		
Resolution Equity (Note 8)		
Contributed capital	126,827,821	128,073,030
Accumulated deficit	(123,015,273)	(123,505,818)
Unrealized gain on available-for-sale securities, net (Note 3)	42,757	306,347
Accumulated deficit, net	(122,972,516)	(123,199,471)
Total Resolution Equity	**3,855,305**	**4,873,559**
Total Liabilities and Resolution Equity	**$ 3,870,259**	**$ 4,893,650**

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

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

Dollars in Thousands

	2002	2001
Revenue		
Interest on securitization-related assets acquired from receiverships	$ 7,264	$ 32,758
Interest on U.S. Treasury obligations	46,835	99,488
Interest on advances and subrogated claims	1,394	18,447
Realized gain on investment in securitization-related assets acquired from receiverships (Note 3)	352,486	352,179
Other revenue	25,098	78,166
Total Revenue	**433,077**	**581,038**
Expenses and Losses		
Operating expenses	45,684	74,683
Provision for losses (Note 7)	(149,359)	(368,987)
Expenses for goodwill settlements and litigation (Note 1)	40,351	62,542
Interest expense on notes payable and other expenses	4,804	27,299
Realized loss on investment in securitization-related assets acquired from receiverships (Note 3)	1,052	23,541
Total Expenses and Losses	**(57,468)**	**(180,922)**
Net Income	**490,545**	**761,960**
Unrealized loss on available-for-sale securities, net (Note 3)	(263,590)	(149,070)
Comprehensive Income	**226,955**	**612,890**
Accumulated Deficit - Beginning	**(123,199,471)**	**(123,812,361)**
Accumulated Deficit - Ending	**$ (122,972,516)**	**$ (123,199,471)**

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

	2002	2001
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 46,835	$ 99,488
Interest on securitization-related assets acquired from receiverships	8,745	36,148
Recoveries from thrift resolutions	307,694	476,678
Miscellaneous receipts	32,607	53,351
Cash used by:		
Operating expenses	(44,421)	(83,342)
Disbursements for thrift resolutions	(30,373)	(25,153)
Disbursements for goodwill settlements and litigation expenses	(40,351)	(62,542)
Miscellaneous disbursements	(9,119)	(9,279)
Net Cash Provided by Operating Activities (Note 13)	**271,617**	**485,349**
Cash Flows From Investing Activities		
Cash provided by:		
Investment in securitization-related assets acquired from receiverships	1,101,525	902,402
Net Cash Provided by Investing Activities	**1,101,525**	**902,402**
Cash Flows From Financing Activities		
Cash provided by:		
U.S.Treasury payments for goodwill settlements	21,459	0
Cash used for:		
Return of U.S. Treasury payments (Note 8)	0	(5,300)
Payments to Resolution Funding Corporation (Note 8)	(1,266,667)	(1,406,596)
Net Cash Used by Financing Activities	**(1,245,208)**	**(1,411,896)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**127,934**	**(24,145)**
Cash and Cash Equivalents - Beginning	**3,490,396**	**3,514,541**
Cash and Cash Equivalents - Ending	**$ 3,618,330**	**$ 3,490,396**

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

FSLIC Resolution Fund

Notes to the Financial Statements December 31, 2002 and 2001

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History

The U.S. Congress created the Federal Savings and Loan Insurance Corporation (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 Resolution Trust Corporation (RTC)-effective on August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

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 Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The FIRREA also 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. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA; the RTC Funding Act of 1991; the RTC Refinancing, Restructuring and Improvement Act of 1991; and the RTC Completion Act of 1993.

The RTC's resolution responsibility was extended through subsequent legislation from the original termination date of August 8, 1992. Resolution responsibility transferred from the RTC to the SAIF on July 1, 1995.

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 on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act also made available approximately $18 billion worth of additional funding to the RTC, of which the RTC actually drew down $4.6 billion. The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. This appropriation was fully repaid in 2000.

The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, after providing for all outstanding RTC liabilities. Any such funds transferred to the REFCORP pay the interest on the REFCORP bonds issued to

fund the early RTC resolutions. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds. During 2002, the FRF-RTC transferred $1.3 billion to the REFCORP.

Operations 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.

FDIC has conducted an extensive review and cataloging of FRF's residual assets and liabilities and is continuing to explore approaches for concluding FRF's activities. 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 litigation (no final date for resolution has been established; see Note 6); and 5) representations and warranties made to support the sale of assets including loans and servicing rights (these liabilities could be incurred over the remaining life of the loans, which is generally 20 years or more; see Note 6). FDIC is considering whether enabling legislation or other measures may be needed to liquidate the remaining FRF assets and liabilities.

The FRF has been primarily funded from the following sources: 1) U.S. Treasury appropriations; 2) amounts borrowed by the RTC from the Federal Financing Bank (FFB); 3) amounts received from the issuance of capital certificates to REFCORP; 4) funds received from the management and disposition of assets of the FRF; 5) the FRF's portion of liquidating dividends paid by FRF receiverships; and 6) interest earned on Special U.S. Treasury Certificates purchased with proceeds of 4) and 5). If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as appropriated by Congress, to carry out the objectives of the FRF.

Public Law 103-327 provided $827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF-FSLIC. The FRF received $165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 and Public Law 105-61 authorized the use by the U.S. Department of Justice (DOJ) of $26.1 million and $33.7 million, respectively, from the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the United States arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ are paid directly from the FRF-FSLIC 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 $17.5 million and $66.8 million to DOJ for fiscal years 2003 and 2002, 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. At September 30, 2002, DOJ had $68.6 million in unused funds that were applied against FY 2003 charges of $86.1 million. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 6).

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. Expenses paid by the FRF on behalf of the receiverships are recovered from those receiverships.

2. Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations, and cash flows of the 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

FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents

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

Investment in Securitization-Related Assets Acquired From Receiverships

The investment in securitization-related assets acquired from receiverships is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Unrealized gains and losses are computed on a quarterly basis using a cash flow model that calculates the estimated

fair value of the assets at termination. This model is updated with current data supplied by the trustees, which includes prepayment speed, delinquency rates, and market pricing. 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 on both the escrow account and the related residual certificate, and are included as components of Net Income. Additionally, realized losses are recognized on the credit enhancement reserve for a decline in fair value that is judged to be an other-than-temporary impairment.

Allowance for Losses on Receivables From Thrift Resolutions

The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all applicable estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Cost Allocations Among Funds

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

Related Parties

Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs that included the National Land Fund; Multiple Investor Fund; N-Series; S-Series; and Judgements, Deficiencies, and Charge-offs programs. The majority of the limited partnership equity interests have been transferred from the receiverships to the FRF. These assets are included in the "Other assets, net" line item in the FRF's Statements of Financial Position.

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

Reclassifications

Reclassifications have been made in the 2001 financial statements to conform to the presentation used in 2002.

3. Investment in Securitization-Related Assets Acquired From Receiverships

In 2002, the investment in securitization-related assets decreased by $989 million to $98 million primarily due to the termination of 15 securitization deals. The FRF received $1.1 billion in proceeds from terminations during 2002 and $851 million during 2001. The one remaining deal that is active as of December 31, 2002, is expected to terminate in 2003.

The RTC engaged in numerous securitization transactions in order to maximize the return from the sale or disposition of assets. The RTC sold $42.4 billion of receivership, conservatorship, and corporate loans to various trusts that issued regular pass-through certificates through its mortgage-backed securities program.

A portion of the proceeds from the sale of the certificates was placed in credit enhancement reserves (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. The FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The FRF is entitled to any proceeds remaining in the escrow accounts at termination of the securitization transactions. As part of the securitization transactions, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

In 1996 and 1998, the escrow accounts and residual certificates were transferred from the receiverships to the FRF for $5.7 billion and $1.4 billion, respectively. Both transfers were offset by amounts owed by the receiverships to the FRF.

Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2002

Dollars in Thousands

	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 47,101	$ 40,092	$ (13,084)	$ 74,109
Residual certificates	8,256	15,749	0	24,005
Total	**$ 55,357**	**$ 55,841**	**$ (13,084)**	**$ 98,114**

Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2001

Dollars in Thousands

	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 553,673	$ 153,567	$ (20,686)	$ 686,554
Residual certificates	227,082	173,466	0	400,548
Total	**$ 780,755**	**$ 327,033**	**$ (20,686)**	**$ 1,087,102**

4. Receivables From Thrift Resolutions, Net

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that failed were made to cover obligations to insured depositors and represent claims by the FRF against the receiverships' assets. Payments to prevent a failure were made to operating institutions when cost and other criteria were met.

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, 2002 and 2001, FRF receiverships held assets with a book value of $290 million and $448 million, respectively (including cash, investments, and miscellaneous receivables of $146 million and $264 million at December 31, 2002 and 2001, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a non-representative sampling of receivership assets. This non-representative sample, based primarily on asset book values, provided 97% coverage of the entire portfolio's book value. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2002	2001
Assets from open thrift assistance	$ 15,000	$ 384,885
Allowance for losses	(15,000)	(374,885)
Net Assets From Open Thrift Assistance	**0**	**10,000**
Receivables from closed thrifts	27,636,213	32,534,350
Allowance for losses	(27,504,909)	(32,257,895)
Net Receivables From Closed Thrifts	**131,304**	**276,455**
Total	**$ 131,304**	**$ 286,455**

FRF

5. Other Assets, Net

Other Assets, Net at December 31

Dollars in Thousands

	2002	2001
Accounts receivable, net	$ 735	$ 1,555
Due from FDIC funds	0	500
Assets acquired by the Corporation, net	16,428	21,784
Limited partnership equity interests	5,348	5,858
Total	**$ 22,511**	**$ 29,697**

6. 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 $43.3 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. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation). During 2002, the trial court entered orders finally dismissing 22 Goodwill Litigation cases.

On July 22, 1998, 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.

Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation, 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 material impact on the financial condition of the FRF-FSLIC. Nevertheless, the Civil Division of the DOJ has taken the position that all resources of the FRF must be exhausted before the appropriation may be utilized. The FDIC and the Department of the Treasury disagree with the position advocated by the Civil Division of the DOJ. OLC is considering this question, but has not issued an opinion.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On January 6, 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. However, 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, or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC if the FRF must be exhausted before the Section 110 appropriation may be utilized.

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 plantiffs 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 five of the "Guarini" cases. In one of these cases, damages of approximately $28 million were recently awarded by the Court of Federal Claims subsequent to the date of the financial statements. As the time for filing an appeal has not yet lapsed, there may be appeals. Decisions on liability have not been made in the other two pending cases. An 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. 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 the loans sold subject to unexpired representations and warranties, and guarantees was $173 billion as of December 31, 2002. The contingent liability from all outstanding claims asserted in connection with representations and warranties was $77 thousand and $2.3 million at December 31, 2002 and 2001, 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 FRF 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 FRF from outstanding contracts with unasserted representation and warranty claims.

7. Provision for Losses

The provision for losses was a negative $149 million and a negative $369 million for 2002 and 2001, respectively. In 2002, the negative provision was primarily due to: 1) recoveries of $95 million of net tax benefits sharing from assistance agreements, 2) lower estimated losses of $26 million to the credit enhancement reserve, and 3) lower estimated losses of $20 million for assets in liquidation. The negative provision in 2001 resulted primarily from: 1) recoveries of $163 million of net tax benefits sharing from assistance agreements and 2) recoveries of $120 million from receiverships with positive equity where the FRF is entitled to the positive value of the receivership to reduce the overall cost of resolving the institutions.

Provision for Losses for the Years Ended December 31

Dollars in Thousands

	2002	2001
Valuation Adjustments:		
Open thrift assistance	$ (3,072)	$ (23,652)
Tax benefits sharing recoveries	(95,079)	(163,111)
Closed thrifts	(20,164)	(93,710)
Miscellaneous receivables	(28,776)	(88,758)
Total Valuation Adjustments	**(147,091)**	**(369,231)**
Contingent Liabilities Adjustments:		
Litigation losses	(86)	(2,015)
Representations and warranties	(2,182)	2,259
Total Contingent Liabilities Adjustments	**(2,268)**	**244**
Total	**$ (149,359)**	**$ (368,987)**

8. 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, 2002

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,157,025	$ 83,916,004	$ 128,073,029
Add: U.S. Treasury payments for goodwill settlements	21,459	0	21,459
Less: REFCORP payments	0	(1,266,667)	(1,266,667)
Contributed capital-ending	**44,178,484**	**82,649,337**	**126,827,821**
Accumulated deficit	(41,282,541)	(81,732,732)	(123,015,273)
Less: Unrealized gain on available-for-sale securities	0	42,757	42,757
Accumulated deficit, net	**(41,282,541)**	**(81,689,975)**	**(122,972,516)**
Total	**$ 2,895,943**	**$ 959,362**	**$ 3,855,305**

Resolution Equity at December 31, 2001

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,157,025	$ 85,327,901	$ 129,484,926
Less: U.S. Treasury repayments	0	(5,300)	(5,300)
Less: REFCORP payments	0	(1,406,596)	(1,406,596)
Contributed capital-ending	**44,157,025**	**83,916,005**	**128,073,030**
Accumulated deficit	(41,372,610)	(82,133,208)	(123,505,818)
Less: Unrealized gain on available-for-sale securities	0	306,347	306,347
Accumulated deficit, net	**(41,372,610)**	**(81,826,861)**	**(123,199,471)**
Total	**$ 2,784,415**	**$ 2,089,144**	**$ 4,873,559**

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, 2002, as described in Note 1, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $4.122 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 $29.7 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 $11.5 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.2 billion, since their dissolution dates.

9. Employee Benefits

Pension Benefits, Savings Plans and Postemployment Benefits

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits, and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Although the 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.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The FRF 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

	2002	2001
Civil Service Retirement System	$ 711	$ 1,055
Federal Employees Retirement System (Basic Benefit)	1,987	2,966
FDIC Savings Plan	1,186	1,748
Federal Thrift Savings Plan	756	1,131
Total	**$ 4,640**	**$ 6,900**

Accrued Annual Leave

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $2.5 million and $4.1 million at December 31, 2002 and 2001, respectively.

Postretirement Benefits Other Than Pensions

The FDIC provides certain life and dental insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided at no cost to all retirees eligible for an immediate annuity. At December 31, 2002, the FRF's net postretirement benefit liability recognized in the "Accounts payable and other liabilities" line item in the Statement of Financial Position was $466 thousand. At December 31, 2001, the FRF's net postretirement benefit asset recognized in the "Other assets, net" line item in the Statement of Financial Position was $232 thousand.

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10. Commitments

Leased Space

The FRF's allocated share of the FDIC's lease commitments totals $8.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the FRF in the future to vary from the amounts shown below. The FRF recognized leased space expense of $4.0 million and $5.5 million for the years ended December 31, 2002 and 2001, respectively.

Leased Space Commitments

Dollars in Thousands

2003	2004	2005	2006	2007	2008/Thereafter
$ 2,064	$ 2,039	$ 1,898	$ 1,378	$ 811	$ 474

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11. Concentration of Credit Risk

Financial instruments that potentially subject the FRF to credit risk consist primarily of: 1) gross receivables from thrift resolutions totaling $27.7 billion and 2) an investment in securitization-related assets acquired from receiverships totaling $98.1 million. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the FRF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are the main source of repayment of the FRF's receivables from thrift resolutions. An allowance for loss of $27.5 billion, or 99.5% of the gross receivable, was recorded as of December 31, 2002. Of the remaining 0.5 percent of the gross receivable, 85% of the receivable is expected to be repaid from receivership cash, cash equivalents, 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, $130.5 million of the underlying mortgages are located in California and $44.3 million of loans are located in New Jersey. No other state accounted for a material portion of the investment.

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12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of 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 FRF'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 FRF'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 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 FRF 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.

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 the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets (see Note 3).

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13. Supplementary Information Relating to the Statements of Cash Flows

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

Dollars in Thousands

	2002	2001
Net Income	**$ 490,545**	**$ 761,960**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	155,151	129,921
(Increase) in securitization-related assets acquired from receiverships	(376,127)	(327,132)
Decrease in other assets	7,185	21,044
(Decrease) in accounts payable and other liabilities	(379)	(26,301)
(Decrease) in liabilities from thrift resolutions	0	(74,872)
(Decrease) Increase in contingent liabilities for litigation losses	(4,758)	729
Net Cash Provided by Operating Activities	**$ 271,617**	**$ 485,349**

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14. Subsequent Events

On January 10, 2003, FRF paid REFCORP $400 million from excess FRF-RTC cash, bringing total payments to REFCORP to $4.5 billion.

United States General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

To the Board of Directors
The Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 2002 and 2001, 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, (3) BIF's reserve ratio, and (4) 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, 2002 and 2001, 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, 2002 and 2001, 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, 2002 and 2001, 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, 2002, 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 2002 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, 2002. 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 the 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. During 2002, FDIC made progress in improving information system controls. Of the 41 prior year recommendations that we made, FDIC had completed action on 18 and partially completed or had action plans to address those remaining. During our current review, FDIC also corrected several newly identified weaknesses.

Nevertheless, continuing and newly identified vulnerabilities involving information system controls continue to impair FDIC's ability to ensure the reliability, confidentiality, and availability of financial data. For example, FDIC did not have information system controls to adequately ensure that (1) users had only the access needed to perform their assigned duties, (2) its network was secured from unauthorized access, and (3) comprehensive programs were in place to routinely oversee and monitor access to its computer data to identify unusual or suspicious access. The effect of these weaknesses increases the risk of unauthorized disclosure of critical FDIC financial and sensitive personnel and bank examination information, disruption of critical financial operations, and loss of assets.

As we have previously reported, the primary reason for FDIC's information system control weaknesses is that it has not fully developed and implemented a comprehensive corporatewide security management program. An effective program would include assessing risks, establishing a central security function, establishing policies and related controls, raising awareness of prevailing risks and mitigating controls, and regularly evaluating the effectiveness of established controls. During the past year, FDIC has made progress in implementing such a program, including establishing a central security staff to provide guidance and oversight, enhancing its security awareness program, and continuing efforts to develop and update security policy. However, FDIC has not yet fully established a risk assessment process and the recently implemented program to assess the effectiveness of controls does not address all critical evaluation areas.

A complete risk assessment process would assist management in making decisions on necessary controls. Similarly, an ongoing comprehensive program of tests and evaluations of the effectiveness of established controls would enable FDIC to identify and correct information security weaknesses, such as those reported in this review.

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 our recommendations for corrective actions.

BIF's Reserve Ratio

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires FDIC to maintain BIF fund balance at a designated reserve ratio of at least 1.25 percent of estimated insured deposits.[2] Under FDIC's required risk-based assessment system, as long as BIF's reserve ratio is at or above the designated reserve ratio, FDIC cannot charge premiums to institutions that are well-capitalized and highly rated by supervisors. Currently, over 90 percent of the industry does not pay for deposit insurance. In 1991, BIF's reserve ratio was significantly below the designated reserve ratio and did not reach the designated reserve ratio of 1.25 percent of estimated insured deposits until May 1995.[3] During the years ended December 31, 1995 through 2000, BIF's reserve ratio ranged from 1.30 to 1.38. As of December 31, 2001, and September 30, 2002, BIF's ratio decreased to 1.26 and 1.25, respectively. At its November 12, 2002, meeting, the FDIC Board of Directors voted to maintain the existing BIF assessment rate schedule for the first semiannual assessment period of 2003 based on the board's determination that the reserve ratio would likely remain at or near 1.25 during the first half of 2003. Most of BIF's income comes from the interest earned on investments with the U.S. Treasury. FDIC describes the recent legislative initiatives to reform the federal deposit insurance system in note 1 of the financial statements for BIF and SAIF.

[2] Section 302 of FDICIA amended section 7(b) of the Federal Deposit Insurance Act. FDICIA requirements are the same for both BIF and SAIF. SAIF reached the designated reserve ratio in 1996, and as of September 30, 2002, SAIF's reserve ratio was 1.38 percent.

[3] If the reserve ratio falls below 1.25 percent of estimated insured deposits, FDICIA requires the FDIC Board of Directors to set semiannual assessment rates for BIF members that are sufficient to increase the reserve ratio to the designated reserve ratio not later than 1 year after such rates are set, or in accordance with a recapitalization schedule of 15 years or less.

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 2002 and 2001 financial statements. FDIC's CFO also acknowledged the information system weaknesses we identified and plans to continue efforts to strengthen its information system program and to incorporate our recommendations into its security plans for 2003. We plan to evaluate the effectiveness of the corrective actions as part of our 2003 audit.

David M. Walker
Comptroller General of the United States

February 27, 2003

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

March 21, 2003

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 2002 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' 2002 and 2001 Financial Statements**, GAO-03-543. The report presents GAO's opinions on the calendar year 2002 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal controls as of December 31, 2002 and GAO's evaluation of FDIC's compliance with 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 2002 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 over the last eighteen months, and that the weaknesses did not materially affect the 2002 financial statements. We agree with GAO's assessment of both the status and the progress made in addressing IS general control weaknesses. During 2002, FDIC's accomplishments included completion of the first IS controls self assessment, implementation of the Information Security Manager (ISM) program, and development of an information security tactical plan to support FDIC's information security strategic plan. The FDIC will continue efforts to strengthen its IS program and to incorporate GAO's recommendations into its security plans for 2003.

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

Sincerely,

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

Overview of the Industry

During 2002, insured commercial banks and savings institutions reported record earnings, as a recovering economy and favorable interest-rate environment created conditions conducive to strong performance. The 9,354* commercial banks and savings institutions insured by the FDIC earned $105 billion in 2002, an $18.1 billion (20.8 percent) improvement over 2001, and the first time their annual earnings have surpassed the $100 billion mark. Wider net interest margins and strong growth in consumer-related assets helped boost net interest income. Growth in noninterest revenues and higher gains on sales of securities also contributed to the improvement in revenues. These positive developments helped offset higher expenses for loan losses stemming from the 2001 recession.

Commercial banks reported record-high earnings for the second consecutive year. Net income at the 7,887 banks insured by the FDIC rose to $90.1 billion, from $74.0 billion in 2001. The improvement in earnings was widespread; almost three out of every four commercial banks – 73.3 percent – reported increased earnings in 2002. The industry's return on assets (ROA), a basic yardstick of earnings performance, also set a new record. The average ROA of 1.33 percent surpassed the previous record of 1.31 percent reached in 1999. Net interest income was $21.9 billion (10.2 percent) higher than a year earlier, as the industry's net interest margin improved to its highest level in five years, and its portfolio of interest-earning assets grew by 8.5 percent. Noninterest income was up by $14.4 billion (9.2 percent) from 2001. Falling interest rates caused the values of banks' fixed-rate securities portfolios to appreciate in 2002, and sales of securities during the year yielded gains totaling $6.5 billion, an increase of $2.0 billion (45.5 percent) compared to banks' gains in 2001. Against these positive developments, the main factor limiting the improvement in bank earnings was increased expenses to cover loan losses. Commercial banks charged off $44.5 billion in loans during 2002, an increase of $7.9 billion (21.7 percent) from 2001. To cover these and other expected losses, banks set aside a total of $48.1 billion in loan-loss provisions, an increase of $4.6 billion (10.6 percent) compared to the previous year. Most of the increases in charge-offs and loan-loss provisions occurred at large banks, which have experienced rising losses on loans to commercial and industrial borrowers, and on credit-card loans. In the latter part of the year, the deteriorating trend in asset quality, which has been underway for three years, showed signs of tapering off, as noncurrent loans declined in the fourth quarter for the first time since 1999.

Strong demand for residential mortgage loans – both to finance home purchases and to refinance existing mortgages – helped lift earnings at the nation's 1,467 insured savings institutions. The industry earned $15.2 billion in 2002, surpassing the record level of the previous year by $2.0 billion (14.8 percent). The average ROA of 1.16 was the third-highest ever, and the best result for the thrift industry in 56 years (in 1945, the industry's ROA was a record 1.27 percent; in 1946, it was 1.20 percent). It easily surpassed the 1.07 percent ROA that thrifts registered in 2001. As was the case with commercial banks, earnings improvements were widespread in the thrift industry. Almost four out of every five savings institutions – 79.1 percent – reported higher net income in 2002, compared to 2001. Net interest income was up by $3.3 billion (9.1 percent) from 2001, as the average net interest margin increased from 3.20 percent to 3.35 percent, its highest level since 1993. Gains on sales of securities totaled $5.6 billion in 2002, an increase of $1.4 billion (31.7 percent) from the previous year. Noninterest income fell for the first time in five years, declining by $692 million (5.9 percent). This drop was caused primarily by losses on servicing income stemming from the large wave of mortgage refinancings that occurred in 2002. Provisions for loan losses were $437 million (15.3 percent) higher than in 2001, as net loan charge-offs rose by $150 million (6.5 percent).

* Does not include 18 U.S. branches of foreign banks.

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 evaluations of internal accounting and administrative control systems. The results of these evaluations, as well as consideration of audits 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 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 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 2002, 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 2001.

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 Systems Security as a high vulnerability issue for 2002 and 2001.

Highly sensitive information is just one critical corporate resource that must be protected and managed effectively so that the FDIC can fulfill its mission. Information and analysis on banking, financial services and the economy form the basis for the development of sound public policies and promote public understanding and confidence in the nation's financial system. A strong enterprise-wide information security program is essential to the successful accomplishment of the FDIC's goals.

The FDIC has made considerable progress over the past two years in establishing a strong, effective information security program. FDIC management recognizes that this cannot be accomplished overnight but will require a continual commitment by management and the organization over a period of several years. In its report entitled *Independent Evaluation of the FDIC's Information Security Program – 2002*, the OIG concluded that "the Corporation had established and implemented management controls that provided limited assurance of adequate security of its information resources." The OIG reported that in three of ten management areas (Contractor and Outside Agency Security, Capital Planning and Investment Control, and Performance Measurement), the FDIC had no assurance that adequate security had been achieved. The FDIC is aggressively pursuing management actions in these areas.

As part of the audits of the FDIC's 2002 financial statements, GAO identified weaknesses in the FDIC's information system controls as a reportable condition. The weaknesses, although not considered material by the GAO, represented a significant deficiency in the design or operations of internal controls that could adversely affect the FDIC's ability to meet its internal control objectives. Although the GAO reported that the FDIC made progress in addressing previously identified weaknesses, the GAO stated that the lack of a fully developed and implemented comprehensive corporate-wide security management program was the primary reason for the continued weaknesses in this area. The weaknesses did not materially affect the 2002 financial statements.

In February 2002, the FDIC's Information Security Strategic Plan was approved to address these deficiencies. The plan provides for a sound information security structure and assures the integrity, confidentiality and availability of corporate information assets by proactively protecting them from unauthorized access and misuse.

During the latter part of 2002, the FDIC undertook a self-assessment of its information technology (IT) area with primary focus on information security. This self-testing was necessary to ensure that the FDIC was prepared for the 2002 GAO financial statements audit. During the self-assessment, the FDIC evaluated its progress in addressing GAO findings from earlier audits, and reviewed additional key IT areas likely to be examined by GAO during the 2002 audit. Upon completion of the self-testing, the assessment team and management recognized that

continued and immediate efforts were needed to address prior audit findings as well as newly identified high-risk areas. As a result of the self-assessment, the FDIC information security program will be considerably strengthened through more rigorous policies and procedures.

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 Pre-Exit Clearance Process was a matter for continued monitoring in the 2001 Chief Financial Officers Act (CFOA) Report. During 2002, an internal control review of the Pre-Exit Clearance Process revealed that existing controls were adequate and that access to the FDIC's systems and facilities had not been compromised by employees or contractors leaving the Corporation. As a result, this area has been removed from the continued monitoring list for the 2002 Annual Report.

The Corporation's evaluation and assessment process identified three matters that warrant continued monitoring. These matters were also included in the 2001 CFOA Report.

1 Contractor Oversight

In 2002, the FDIC continued to emphasize strong internal controls over contract oversight/project management. A number of major new systems and a significant construction project are under development and pose risk to the Corporation if not efficiently and effectively managed. Thus, it is imperative that the basic contract oversight elements of time, cost and project completion be effectively monitored and managed.

Major systems initiatives within the FDIC include the New Financial Environment (NFE), the Assessment Information Management System II (AIMS II), the Corporate Human Resources Information System (CHRIS), FDIC*connect*, FDIC XP, and Virtual Supervisory Information on the Net (ViSION). The construction project involves the building of Phase II of the Seidman Center.

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. The contract is a firm fixed-price contract, and payment is based on the approval of pre-determined deliverables, not on a percentage of time spent on the project. The FDIC has appointed a risk manager who is responsible for conducting an independent third-party review of NFE risks, including monitoring project cost and time, and reporting to the Chief Financial Officer and Division of Finance Director on risk-evaluation results.

AIMS II is the platform that will provide the FDIC with a flexible, robust tool to efficiently track deposit insurance assessments levied since the creation of the BIF and the SAIF in 1989, as well as any changes that pending deposit insurance reform legislation might require, including possible credits or refund calculations.

CHRIS is an integrated human resources processing and information system that will bring together the functions and data now residing in multiple stand-alone systems; it is being implemented incrementally through four versions over a four-year period.

FDIC*connect* is a secure, electronic, Web-enabled environment providing the FDIC with the capability to electronically exchange information with insured financial institutions. In 2003, the FDIC will make FDIC*connect* available to all institutions and develop several additional electronic data exchanges, including premium assessments, delivery of Financial Institution Letters, application submission and tracking information on deposit insurance.

FDIC XP is the new corporate computer software package that will provide a more stable and secure environment in which to work.

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 II Construction of the Seidman Center is a project to construct a two-tower office building and multi-purpose facility at the FDIC's existing Virginia Square campus. The buildings will accommodate staff presently housed at four leased locations.

2 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 risk levels of positions. The risk designation system requires FDIC officials to designate risk levels for every position in the FDIC in order to determine the type of background investigations required. In 2002, all divisions and offices were reminded to ensure that position risk designations are appropriately revised whenever the risk of a position changes. Also, the FDIC began developing a policy and procedures regarding risk designation levels and background investigations for contractors and subcontractors.

3 Business Continuity Plan

The FDIC Business Continuity Plan was developed to sustain time-sensitive operations that support mission-critical functions in the event of a disruption. While disruptions are unavoidable in some circumstances, continuity planning helps minimize negative impacts and allows the FDIC to continue meeting mission-critical requirements. In developing this plan, the FDIC considered mission goals that are central to the Corporation's operations and determined key business functions that support them.

The FDIC finalized plans for its headquarters and all regional offices. In 2002, a series of table-top exercises were conducted to test the Corporation's ability to respond to an emergency and continue critical business operations.

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 CFOA 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 addressed to the Chairman asserting that their internal control systems: (1) comply with the FDIC 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 areas, 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.

V. Appendixes

Appendix A – Key Statistics

Selected Statistics

Dollars in millions	For the year ended December 31		
	2002	**2001**	**2000**
Bank Insurance Fund			
Financial Results			
Revenue	**$ 1,796**	$ 1,997	$ 1,906
Operating Expenses	**821**	786	773
Insurance Losses and Expenses	**(70)**	1,774	(128)
Net Income/(Loss)	**1,045**	(563)	1,261
Comprehensive Income/(Loss)	**1,611**	(536)	1,561
Insurance Fund Balance	**$ 32,050**	$ 30,439	$ 30,975
Fund as a Percentage of Insured Deposits	**1.25%** ▼	1.26%	1.35%
Selected Statistics			
Total BIF-Member Institutions ●	**8,171** ▼	8,326	8,572
Problem Institutions	**124** ▼	90	74
Total Assets of Problem Institutions	**$ 34,000** ▼	$ 32,000	$ 11,000
Institution Failures	**10**	3	6
Total Assets of Current Year Failed Institutions	**$ 2,508**	$ 54	$ 378
Number of Active Failed Institution Receiverships	**37**	36	51
Savings Association Insurance Fund			
Financial Results			
Revenue	**$ 589**	$ 733	$ 664
Operating Expenses	**124**	102	111
Insurance Losses and Expenses	**(156)**	462	189
Net Income	**620**	169	364
Comprehensive Income	**812**	176	478
Insurance Fund Balance	**$ 11,747**	$ 10,935	$ 10,759
Fund as a Percentage of Insured Deposits	**1.38%** ▼	1.36%	1.43%
Selected Statistics			
Total SAIF-Member Institutions ■	**1,244** ▼	1,287	1,333
Problem Institutions	**24** ▼	24	20
Total Assets of Problem Institutions	**$ 8,000** ▼	$ 8,000	$ 13,000
Institution Failures	**1**	1	1
Total Assets of Current Year Failed Institutions	**$ 50**	$ 2,180	$ 30
Number of Active Failed Institution Receiverships	**3**	3	3

▼ As of September 30, 2002.

● 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 2002[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 FDIC	Assets
Total	**2,110**	**19**	**2,091**	**$ 216,820,335**	**$ 4,298,814**	**$ 212,521,521**	**$ 257,321,694**
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 2002

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	**2,221**	**110,418,984**	**71,313,524**	**497,813**	**38,607,647**	**608**	**16,144,064**	**11,018,429**	**308,556**	**4,817,079**
2002	**10**	**2,031,006**	**941,288**	**461,419**	**628,299**	**5**	**1,586,551**	**789,550**	**308,501**	**488,500**
2001	3	48,676	40,165	3,016	5,495	0	0	0	0	0
2000	6	268,730	228,911	3,824	35,995	0	0	0	0	0
1999	7	1,244,453	403,677	11,048	829,728	0	0	0	0	0
1998	3	286,597	53,152	5,966	227,479	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,386	130,736	0	38,650	0	0	0	0	0
1995	6	609,045	524,528	58	84,459	0	0	0	0	0
1994	13	1,224,769	1,045,691	32	179,046	0	0	0	0	0
1993	41	1,797,302	1,150,918	313	646,071	5	261,203	159,268	0	101,935
1992	122	14,172,884	10,495,954	1,711	3,675,219	25	1,890,869	1,398,731	0	492,138
1991	127	21,412,652	15,271,553	4,965	6,136,134	21	1,468,407	1,000,733	0	467,674
1990	169	10,816,602	8,028,290	1,978	2,786,334	20	2,182,583	1,648,969	0	533,614
1989	207	11,445,829	5,243,600	3,428	6,198,801	32	2,116,556	1,262,140	0	854,416
1988	280	12,163,006	5,246,912	0	6,916,094	36	1,252,160	822,612	0	429,548
1987	203	5,037,871	3,015,050	55	2,022,766	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

continued on next page

Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2002 (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	**1,472**	**82,644,564**	**54,095,220**	**189,257**	**28,360.087**	**141**	**11,630,356**	**6,199,875**	**0**	**5,430,481**
2002	**5**	**444,455**	**151,738**	**152,918**	**139,799**	**0**	**0**	**0**	**0**	**0**
2001	3	48,676	40,165	3,016	5,495	0	0	0	0	0
2000	6	268,730	228,911	3,824	35,995	0	0	0	0	0
1999	7	1,244,453	403,677	11,048	829,728	0	0	0	0	0
1998	3	286,597	53,152	5,966	227,479	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,386	130,736	0	38,650	0	0	0	0	0
1995	6	609,045	524,528	58	84,459	0	0	0	0	0
1994	13	1,224,769	1,045,691	32	179,046	0	0	0	0	0
1993	36	1,536,099	991,650	313	544,136	0	0	0	0	0
1992	95	12,280,529	9,095,987	1,711	3,182,831	2	1,486	1,236	0	250
1991	103	19,938,128	14,267,727	4,965	5,665,436	3	6,117	3,093	0	3,024
1990	148	8,629,084	6,376,724	1,978	2,250,382	1	4,935	2,597	0	2,338
1989	174	9,326,725	3,981,208	3,428	5,342,089	1	2,548	252	0	2,296
1988	164	9,180,495	4,234,591	0	4,945,904	80	1,730,351	189,709	0	1,540,642
1987	133	2,773,202	1,613,392	0	1,159,810	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, 2002

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	**$ 85,503.1**	**$ 53,344.6**	**$ 6,709.1**	**$ 38,867.6**		**$ 54,264.6**	**$ 37,121.0**	**$ 10,160.6**	**$ 6,989.0**	**$ 31,238.5**
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	1,609.6	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

continued on next page

Income and Expenses, Bank Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 2002 (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	**$ 85,503.1**	**$ 53,344.6**	**$ 6,709.1**	**$ 38,867.6**		**$ 54,264.6**	**$ 37,121.0**	**$ 10,160.6**	**$ 6,989.0**	**$ 31,238.5**
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 Statements of Financial Position. 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.

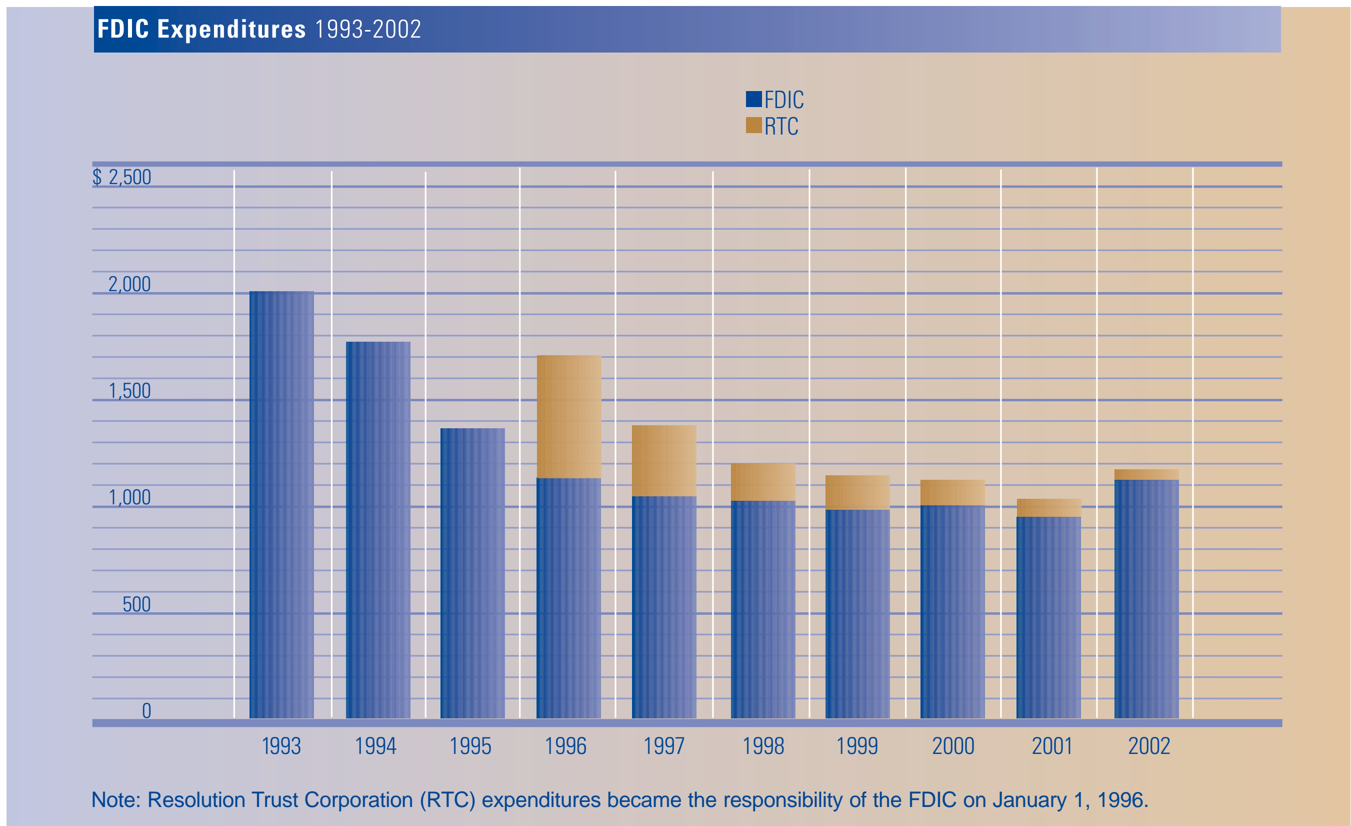
3 Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits.

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



The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2002 aggregate budget (for corporate, receivership and capital spending) was $1.22 billion, while actual expenditures for the year were $1.19 billion, about $146 million more than 2001 expenditures.

Over the past 10 years, the FDIC's expenditures have increased and decreased 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. The FDIC's staff has declined each year during the past seven years. Staffing decreased by 12.0 percent in 2002, from 6,167 employees at the beginning of the year to 5,430 at the end of the year.

Estimated Insured Deposits and the Bank Insurance Fund, December 31,1934, through September 30, 2002[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
2002	**$ 100,000**	**$ 3,764,891**	**$ 2,508,918**	**66.6**	**$ 31,383.3**	**0.83**	**1.25**
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 2002, 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, 2002

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	**$ 12,794,479**	**$ 8,627,989**	**$ 4,166,490**		**$ 1,468,260**	**$ 551,239**	**$ 29,800**	**$ 887,221**	**$ 139,498**	**$ 11,465,717**
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 2002

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 Payouts								
Hamilton Bank, NA Miami, FL	N	29,540	$ 1,231,646	$ 1,081,788	$ 1,028,668	$ 171,500	01.11.02	**Israel Discount Bank of New York** New York, NY
NextBank, NA Phoenix, AZ	N	4,017	668,681	502,858	548,511	300,000-350,000	02.07.02	**Federal Deposit Insurance Corporation**
New Century Bank Shelby Township, MI	SM	687	18,714	17,954	17,372	6,300	03.28.02	**Federal Deposit Insurance Corporation**
AmTrade Inter. Bank of Georgia Atlanta, GA	SM	1,223	9,620	10,595	7,195	7,400	09.30.02	**Federal Deposit Insurance Corporation**
Bank of Alamo Alamo, TN	NM	6,295	$ 59,818	$ 50,066	$ 59,208	$ 3,300	11.08.02	**Federal Deposit Insurance Corporation**
Purchase and Assumption - Insured Deposits								
The Farmers Bank and Trust of Cheneyville Cheneyville, LA	NM	2,587	$ 35,424	$ 32,954	$ 29,659	$ 10,600	12.17.02	**Sabine State Bank and Trust Co.** Many, LA
Insured Deposit Transfer - Asset Purchase								
Bank of Sierra Blanca Sierra Blanca, TX	NM	1,277	$ 10,536	$ 10,720	$ 10,718	$ 4,337	01.18.02	**The Security State Bank of Pecos** Pecos, TX
Oakwood Deposit Bank Company Oakwood, OH	SM	7,336	61,607	118,862	116,221	61,862	02.01.02	**The State Bank and Trust Company** Defiance, OH
Net First National Bank Boca Raton, FL	N	1,457	32,861	28,830	28,693	0	03.01.02	**Bank Leumi USA** New York, NY
Connecticut Bank of Commerce Stamford, CT	NM	18,381	$ 378,658	$ 269,874	$ 259,165	$ 63,000	06.26.02	**Hudson United Bank** Mahwah, NJ
Savings Association Insurance Fund								
Insured Deposit Transfer - Asset Purchase								
Universal Federal Savings Bank Chicago, IL	SA	5,370	$ 50,246	$ 50,542	$ 37,021	$ 1,497	06.27.02	**Chicago Community Bank** Chicago, IL

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

[1] Estimated losses are as of December 31, 2002. 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, 2002[1]

		Deposits in Insured Institutions ($ 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
2002	**$ 100,000**	**$ 958,935**	**$ 837,591**	**87.3**	**$ 11,585.8**	**1.21**	**1.38**
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 2002, 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 2002[1]

Dollars in Thousands

Year[2]	Total	Assets	Deposits	Estimated Receivership Loss[3]	Loss to Funds[4]
Total	**753**	**396,341,365**	**319,345,975**	**75,048,291**	**82,155,438**
2002	**1**	**50,246**	**50,542**	**1,497**	**1,497**
2001	1	2,179,783	1,670,802	440,000	440,000
2000	1	29,530	28,583	1,402	1,402
1999	1	62,956	63,427	1,343	1,343
1998	0	0	0	0	0
1997	0	0	0	0	0
1996	1	32,576	32,745	21,222	21,222
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	6,147,962	4,881,461	279,494	144,196
1992	59	44,196,946	34,773,224	3,102,343	3,676,057
1991	144	78,898,704	65,173,122	8,436,998	9,082,403
1990	213	129,662,398	98,963,960	16,034,438	19,230,580
1989[5]	318	134,519,630	113,165,909	46,689,890	49,514,389

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 2000-2002

	2002	2001	2000
Deposit Insurance	**112**	133	205
Approved	**112**	133	205
Denied	**0**	0	0
New Branches	**1,285**	1,010	1,286
Approved	**1,285**	1,010	1,286
Denied	**0**	0	0
Mergers	**201**	266	316
Approved	**201**	266	316
Denied	**0**	0	0
Requests for Consent to Serve•	**295**	231	249
Approved	**295**	231	248
Section 19	**12**	19	15
Section 32	**283**	212	233
Denied	**0**	0	1
Section 19	**0**	0	1
Section 32	**0**	0	0
Notices of Change in Control	**31**	21	28
Letters of Intent Not to Disapprove	**31**	21	28
Disapproved	**0**	0	0
Brokered Deposit Waivers	**33**	21	25
Approved	**33**	21	25
Denied	**0**	0	0
Savings Association Activities▪	**69**	76	80
Approved	**69**	76	80
Denied	**0**	0	0
State Bank Activities/Investments▾	**26**	29	36
Approved	**26**	29	36
Denied	**0**	0	0
Conversions of Mutual Institutions	**4**	4	8
Non-Objection	**4**	4	8
Objection	**0**	0	0

• Under Section 19 of the Federal Deposit Insurance (FDI) 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 2000-2002

	2002	2001	2000
Total Number of Actions Initiated by the FDIC	**162**	144	87
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	**0**	0	1
Voluntary Termination			
Sec.8a By Order Upon Request	**0**	0	0
Sec.8p No Deposits	**7**	4	6
Sec.8q Deposits Assumed	**7**	6	5
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued	**4**●	3	4●
Consent Orders	**44**	33	26
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	**4**	4	3■
Consent Orders	**15**	11	17
Sec. 8g Suspension/Removal When Charged With Crime	**0**	0	0
Civil Money Penalties Issued			
Sec.7a Call Report Penalties	**1**	4	3
Sec.8i Civil Money Penalties	**65**	71	11
Sec. 10c Orders of Investigation	**7**	7	7
Sec. 19 Denials of Service After Criminal Conviction	**0**	0	1
Sec. 32 Notices Disapproving Officer/Director's Request for Review	**0**	0	0
Truth in Lending Act Reimbursement Actions			
Denials of Requests for Relief	**0**	1	0
Grants of Relief	**0**	0	0
Banks Making Reimbursement▲	**106**	189	127
Suspicious Activity Reports (Open and closed institutions)▲	**42,123**	28,750	20,720
Other Actions Not Listed	**8**	0	3

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

■ One action included a Sec.8 (e) suspension order.

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

Appendix B– More About the FDIC

Board of Directors

Donald E. Powell

Don Powell was sworn in as the 18th Chairman of the FDIC in August 2001. During the past year 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 FDIC Chairman 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.

He has been Chairman of the Board of Regents of the Texas A&M University System, which has more than 90,000 students. Mr. Powell also serves as Advisory Board Member of the George Bush School of Government and Public Service and as former Chairman of the Amarillo Chamber of Commerce.

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.

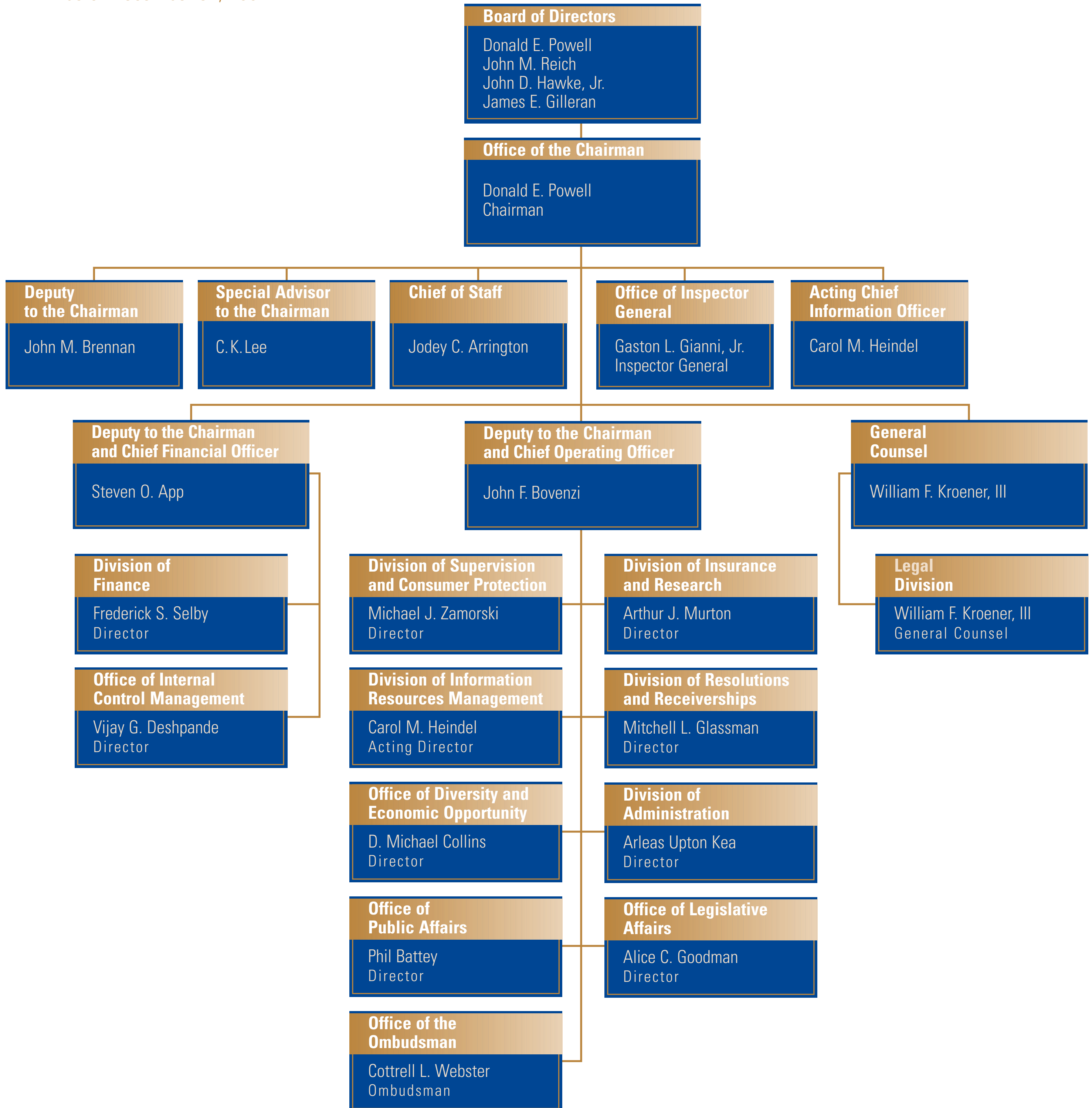
Mr. Gilleran was Chairman and CEO of the Bank of San Francisco from October 1994 until December 2000. From 1989 to 1994, he was the California State Banking Superintendent. He served as Chairman of the Conference of State Bank Supervisors (CSBS) from 1993 to 1994, and was a member of the CSBS's Bankers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

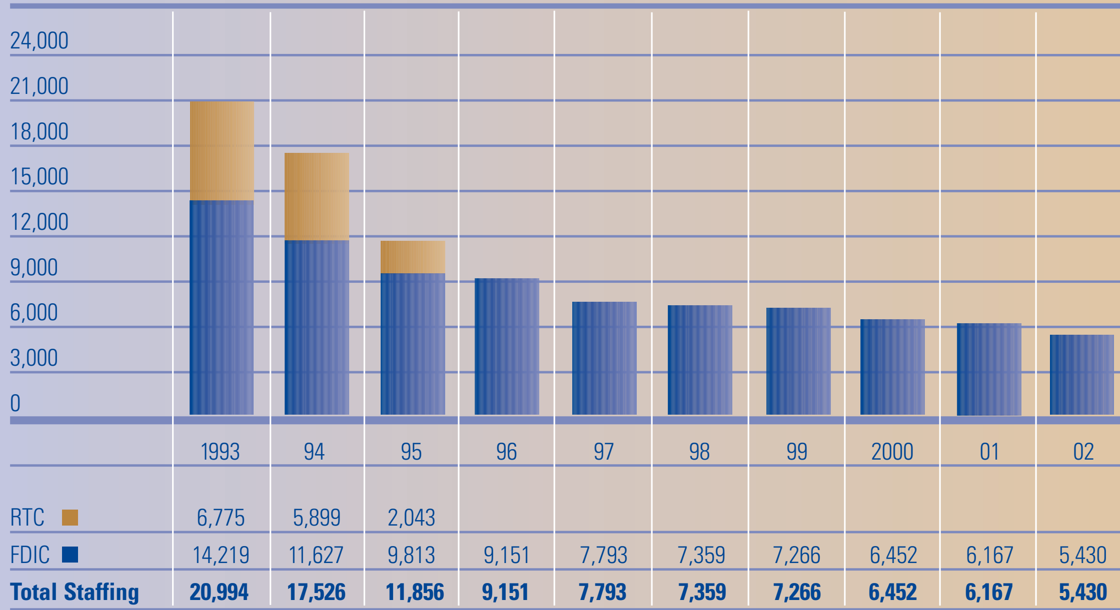
Mr. Gilleran is a certified public accountant and a member of the American Institute of CPAs. He graduated from Pace University in 1955, and received his law degree from Northwestern California University in 1996.

FDIC Organization Chart/Officials
as of December 31, 2002



Corporate Staffing

Staffing Trends 1993-2002



	1993	94	95	96	97	98	99	2000	01	02
RTC ■	6,775	5,899	2,043							
FDIC ■	14,219	11,627	9,813	9,151	7,793	7,359	7,266	6,452	6,167	5,430
Total Staffing	**20,994**	**17,526**	**11,856**	**9,151**	**7,793**	**7,359**	**7,266**	**6,452**	**6,167**	**5,430**

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 2001-2002 (year-end)

	Total		Washington		Regional/Field	
	2002	2001	**2002**	2001	**2002**	2001
Executive Offices[•]	**45**	89	**44**	89	**1**	0
Division of Supervision	**0**	2,532	**0**	198	**0**	2,334
Division of Compliance and Consumer Affairs	**0**	570	**0**	64	**0**	506
Division of Supervision and Consumer Protection[▼]	**2,811**	0	**176**	0	**2,635**	0
Division of Resolutions and Receiverships[▲]	**522**	454	**111**	124	**411**	330
Legal Division[■]	**524**	622	**317**	375	**207**	247
Division of Finance	**229**	384	**229**	284	**0**	100
Division of Information Resources Management	**412**	475	**349**	396	**63**	79
Division of Research and Statistics	**0**	101	**0**	101	**0**	0
Division of Insurance	**0**	75	**0**	43	**0**	32
Division of Insurance and Research[◆]	**187**	0	**157**	0	**30**	0
Division of Administration	**475**	584	**321**	397	**154**	187
Office of Inspector General	**158**	204	**114**	142	**44**	62
Office of Diversity and Economic Opportunity	**34**	36	**34**	31	**0**	5
Office of the Ombudsman	**16**	23	**13**	13	**3**	10
Office of Internal Control Management	**17**	18	**17**	18	**0**	0
Total	**5,430**	**6,167**	**1,882**	**2,275**	**3,548**	**3,892**

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

▼ On June 30, 2002, the Division of Supervision and the Division of Compliance and Consumer Affairs were merged into the new Division of Supervision and Consumer Protection.

▲ On June 30, 2002, the Dallas field operations of the Division of Finance and the Division of Information Resources Management were merged into the Division of Resolutions and Receiverships.

■ On June 30, 2002, the Office of the Executive Secretary, formerly included in the Executive Offices' count, was merged into the Legal Division.

◆ On June 30, 2002, the Division of Insurance and the Division of Research and Statistics were merged into the new Division of Insurance and Research.

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 and thrifts 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 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 (ASK FDIC)**
	202-736-0000
TDD:	**800-925-4618**

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public and FDIC employees. 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
Washington, DC 20434

Phone:	**877-275-3342 (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 (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.

Regional and Area Offices

Atlanta Regional Office

10 Tenth Street, NE
Suite 800
Atlanta, Georgia 30309
(678) 916-2200

Alabama
Florida
Georgia
North Carolina
South Carolina
Virginia
West Virginia

Chicago Regional Office

500 West Monroe Street
Suite 3500
Chicago, Illinois 60661
(312) 382-7500

Illinois
Indiana
Kentucky
Michigan
Ohio
Wisconsin

Dallas Regional Office

1910 Pacific Avenue
Suite 1900
Dallas, Texas 75201
(214) 754-0098

Colorado
New Mexico
Oklahoma
Texas

Memphis Area Office

5100 Poplar Avenue
Suite 1900
Memphis, Tennessee 38137
(901) 685-1603

Arkansas
Louisiana
Mississippi
Tennessee

Kansas City Regional Office

2345 Grand Boulevard
Suite 1200
Kansas City, Missouri 64108
(816) 234-8000

Iowa
Kansas
Minnesota
Missouri
Nebraska
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New York Regional Office

20 Exchange Place
New York, New York 10005
(917) 320-2500

Delaware
District of Columbia
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New York
Pennsylvania
Puerto Rico
Virgin Islands

Boston Area Office

15 Braintree Hill Office Park
Braintree, Massachusetts 02184
(781) 794-5500
Director: Daniel E. Frye

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

San Francisco Regional Office

25 Ecker Street
Suite 2300
San Francisco, California 94105
(415) 546-0160

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Appendix C – Office of Inspector General's 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**	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 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 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	**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.
4	**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 supervises only a portion of the insured depository institutions.
5	**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.
6	**Management and Security of Information Technology (IT) Resources**	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.

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

	Challenge	Brief Description
7	**Assessment of Corporate Performance**	The Corporation has made significant progress in implementing the Results Act 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.
8	**Transition to a New Financial Environment**	Although the New Financial Environment (NFE) offers the FDIC significant benefits, it also presents significant challenges. These challenges will test the Corporation's ability to (1) maintain unqualified opinions on the FDIC's annual financial statements through the system implementation and associated business process reengineering; (2) manage contractor resources, schedules and costs; and (3) coordinate with planned and ongoing system development projects related to NFE.
9	**Organizational Leadership and Management of Human Capital**	The Corporation must also 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. A significant element relates to organizational leadership at the FDIC Board of Directors level. In order to ensure that the balance between various interests implicit in the Board's structure is preserved, the Board should operate at full strength, with all five presidentially appointed positions filled.
10	**Cost Containment and Procurement Integrity**	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. Also, the Corporation has taken a number of steps to strengthen internal controls and oversight of contractors. However, our work in this area continues to show that further improvements are necessary to ensure effective acquisition planning, fair and reasonable prices, and delivery of best value goods and services.