

Financial Statements and Notes

**Bank Insurance
Fund**

**December 31, 2002
and 2001**

Bank Insurance Fund

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
<i>Investment in U.S. Treasury obligations, net: (Note 3)</i>		
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
<i>Contingent liabilities for: (Note 6)</i>		
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
<i>Commitments and off-balance-sheet exposure (Note 10)</i>		
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.

Bank Insurance Fund

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.

Bank Insurance Fund

Notes to the
Financial
Statements
December 31, 2002
and 2001

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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.

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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 main-frame 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.

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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 TIPS, the yields in the above table are stated at their real yields at purchase, not their effective yields. Effective yields on TIPS 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

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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.

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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.

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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.

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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.

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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 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