

## Message from the Chief Financial Officer

Steven O. App

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



Financial highlights during 2003 include:

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

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

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

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

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

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

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

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

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

Sincerely,



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