United States General Accounting Office

GAO

Report to the Congress

May 2001

FINANCIAL AUDIT

Federal Deposit Insurance Corporation's 2000 and 1999 Financial Statements

Accountability * Integrity * Reliability

GAO-01-635

Contents

Abbreviations

BIF	Bank Insurance Fund
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
REFCORP	Resolution Funding Corporation
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund

May 9, 2001

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinions on the financial statements of the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund (FRF) for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents (1) our opinion on the effectiveness of FDIC's internal control as of December 31, 2000, and (2) our evaluation of FDIC's compliance with laws and regulations during 2000. In addition, it discusses a reportable weakness in information system general controls detected during our 2000 audits, and the future activities of FRF.

We conducted our audits pursuant to the provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), and in accordance with generally accepted government auditing standards.

We are sending copies of this report to Senator Phil Gramm, Chairman, and Senator Paul S. Sarbanes, Ranking Member, of the Senate Committee on Banking, Housing and Urban Affairs; Representative Michael G. Oxley, Chairman, and Representative John J. LaFalce, Ranking Minority Member, of the House Committee on Financial Services; the Honorable Donna Tanoue, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Honorable Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System; the Honorable John D. Hawke, Jr., Comptroller of the Currency; the Honorable Ellen S. Seidman, Director of the Office of Thrift Supervision; the Honorable Paul H. O'Neill, Secretary of the Treasury; the Honorable Mitchell E. Daniels, Jr., Director of the Office of Management and Budget; and other interested parties.

David M. Walker
Comptroller General
of the United States

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

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 2000 and 1999, 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 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 general control weaknesses noted during our 2000 audits, (3) the future of FRF, and (4) our evaluation of FDIC's comments on a draft of this report.

Opinion on Bank Insurance Fund'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, the Bank Insurance Fund's financial position as of December 31, 2000 and 1999, 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 Savings Association Insurance Fund'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, the Savings Association Insurance Fund's financial position as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended.

Opinion on FSLIC Resolution Fund'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, the FSLIC Resolution Fund's financial position as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended.

As discussed in note 8 of FRF's financial statements, a contingency exists from approximately 120 lawsuits filed in the United States Court of Federal Claims concerning the counting of goodwill assets as part of regulatory capital. FDIC has concluded that it is probable that FRF will be required to pay possibly substantial amounts as a result of future judgments and settlements. FDIC is currently unable to estimate a range of loss to FRF, or determine whether any such loss would have a material effect on the financial condition of FRF. However, funds to pay such judgments or compromise settlements from these goodwill litigation cases are made available to FRF by an indefinite, permanent appropriation as provided by Section 110 of the Department of Justice Appropriations Act, 2000.

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, 2000, that provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the FDIC's financial statements would be prevented or detected on a timely basis. FDIC management asserted that its internal control was effective based on criteria established under 31 U.S.C. 3512 (Federal Managers' Financial Integrity Act--FMFIA). In making its assertion, FDIC management also fairly stated the need to improve certain internal controls.

Our work identified weaknesses in FDIC's information system general controls, as described as a reportable condition in a later section of this report. The weakness in information system general controls, although not considered material, represents a significant deficiency in the design or operations of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Although the weakness did not materially affect the 2000 financial statements, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weakness.

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 laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC's 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 applicable 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, including the execution of transactions in accordance with management's authority;
- tested relevant internal control over financial reporting, including safeguarding assets, 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, 2000. 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 conducted our audits from July 2000 through April 6, 2001. We performed our work in accordance with U.S. generally accepted government auditing standards.

FDIC 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

As part of the financial statement audits, we reviewed FDIC's information systems general controls. The primary objectives of information system general controls are to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations in case of unexpected interruption. Information system general controls include corporatewide security program planning and management, access controls, system software, application software development and change controls, segregation of duties, and service continuity controls. The effectiveness of application controls[2] depends on the effectiveness of general controls. Both information system general controls and application controls must be effective to help ensure the reliability, appropriate confidentiality, and availability of critical automated information.

In performing our tests, we identified weaknesses in FDIC's corporatewide security program, access controls, segregation of duties, system software, and service continuity. As we have reported to FDIC in 1998 and 1999,[3] the underlying cause of many of these general control weaknesses is rooted in the lack of a fully implemented and effective corporatewide security program. This critical area is generally the foundation of an entity's security control and reflects the entity's commitment to addressing security risks over the long term. In our 1999 report, we provided FDIC with recommended corrective actions and acknowledged that it takes a significant and sustained effort by FDIC management to establish an effective corporatewide security program. In response, FDIC management stated its commitment to implement a strong information system environment. During 2000, we found that FDIC developed plans for correcting many of the weaknesses we identified; however, implementation of these plans had not occurred as of December 31, 2000.

The weaknesses in information system general controls can significantly impair the effectiveness of all FDIC's application controls, including financial systems. We considered the effect of the information system general control weaknesses and determined that other management

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[2] Application controls consist of the structure, policies, and procedures that apply to separate, individual systems, such as accounts payable and general ledger systems.

[3] Because of their sensitive nature, in 1998 and 1999 we communicated to FDIC management the details surrounding the weaknesses and vulnerabilities we identified, along with our recommendations for corrective action, through separate correspondence.

controls mitigated their effect on the financial statements. Because of their sensitive nature, the details surrounding these weaknesses are being communicated to FDIC management, along with our recommendations for corrective actions, through separate correspondence.

In addition to these weaknesses, we identified less significant matters involving FDIC's system of internal accounting control that we will be reporting in separate correspondence to FDIC management.

Future of FRF

FDIC, as administrator of FRF, is responsible for completing the liquidation of the assets and liabilities of the former Federal Savings and Loan Insurance Corporation (FSLIC) and Resolution Trust Corporation (RTC).[4] FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. As shown in table 1, since 1996 FRF has had a significant decline in total assets and liabilities and, in particular, in the assets not yet liquidated. FDIC expects continued rapid decline in FRF assets. Through December 31, 2000, FRF has returned $4.6 billion to the U.S. Treasury and has made $1.4 billion of payments to the Resolution Funding Corporation (REFCORP).[5]

[4] On January 1, 1996, FRF assumed responsibility for all remaining assets and liabilities of the former RTC.

[5] The RTC Completion Act required FDIC to return to the U.S. Treasury any funds that were transferred to RTC pursuant to the RTC Completion Act but not needed by RTC. The RTC Completion Act made available $18.3 billion of additional funding. Prior to RTC's termination on December 31, 1995, RTC drew down $4.6 billion of the $18.3 billion made available by the RTC Completion Act. The full amount of the appropriation transferred to RTC has been fully repaid. After providing for all outstanding RTC liabilities, FDIC must also transfer the net proceeds from the sale of RTC-related assets to REFCORP. Any funds transferred to REFCORP are used to pay the interest on REFCORP bonds issued to provide funding for the early RTC resolutions.

Table 1: FRF's Assets and Liabilities as of January 1, 1996, and December 31, 2000

Dollars in billions

	January 1, 1996	December 31, 2000	Percent Increase (Decrease)
Cash and cash equivalents	$ 1.5	$ 3.5	133
Assets not yet liquidated	13.9	2.3	(83)
Total Assets	$ 15.4	$5.8	(62)
Total Liabilities	$11.2	$0.1	(99)

As described in notes 3 and 4 of FRF's financial statements, two major components of the assets not yet liquidated are receivables from thrift resolutions (about $0.5 billion) and investments in securitization related assets (about $1.8 billion). Most of the receivables from thrift resolutions represent amounts advanced and/or obligations incurred for resolving troubled and failed insured thrifts. FDIC manages and disposes the assets from failed thrifts through receiverships.[6] Most of the remaining assets in these receiverships are cash. FDIC is pursuing the complete liquidation of these receiverships during the year 2001 except for those receiverships involved in goodwill litigation.[7] The securitization related assets had a weighted-average remaining life of less than 1 year on December 31, 2000.

The operations of FRF will eventually meet a point where maintaining a separate liquidation entity may not be cost-effective. At that time, there may be some assets that are not fully liquidated; pending legal liabilities that may take years to settle; and certain assets the disposal of which may not be in the best interest of the United States government. FDIC has a research and evaluation effort underway to identify the remaining issues that need to be resolved, along with possible disposition strategies, in order to dissolve FRF as contemplated by the Federal Deposit Insurance Act. Also, due to the unique nature of several of these assets and liabilities, FDIC anticipates that its effort will include the development of new disposal plans for its remaining assets and liabilities.

[6] The assets held by receiverships, and the claims against them, are accounted for separately from FRF's assets and liabilities to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations.

[7] See note 8 of FRF's financial statements for a description of goodwill litigation and its impact.

Following are some of the issues and items remaining in FRF:

- Over 900 criminal restitution orders are outstanding, in the amount of approximately $600 million, which will remain open for nearly 20 years. The actual amount that will ultimately be collected is unknown.[8] During 2000, FDIC collected $3.2 million from these outstanding restitution orders.
- Over 90 outstanding items, which include litigation claims and judgments, were obtained against officers and directors and other professionals responsible for causing thrift losses with an estimated recoverable value of approximately $80 million. These judgments are renewable based on individual state law. Generally, the renewals vary from 5 to 10 years and are renewable more than once.[9] FDIC recovered $31.9 million in claims during 2000.
- Numerous assistance agreements entered into by the former FSLIC will remain open for many years as those assisted institutions share with FRF their tax savings that result from the tax free nature of FSLIC assistance.[10] In 2000, FRF collected over $80 million as its share of these tax savings.
- Various litigation cases are outstanding. FRF is involved in approximately 700 cases.[11] The most numerous, and substantial in terms of liability involve goodwill litigation.[12] To date, approximately 120 lawsuits have been filed against the United States government. Because of appeals and differences in awarding damages in the cases thus far, the final outcome in the cases and the amount of any possible damages remain uncertain. There are also litigation cases in which FRF is the plaintiff for itself, or is acting in a fiduciary manner on behalf of the receiverships resulting from failed financial institutions. These pending

[8] U.S. generally accepted accounting principles state that contingencies that result in gains are usually not reflected in the financial statements to avoid recognizing revenue prior to its realization.

[9] See footnote 8 of this report.

[10] See footnote 8 of this report.

[11] Whereas FRF is involved in approximately 700 cases, FDIC records losses for only those cases in which the contingent loss is considered probable and reasonably estimable. FDIC also discloses contingent losses that are reasonably possible. See note 8 of FRF's financial statements.

[12] See footnote 7 of this report.

cases may take years to settle, and many of the goodwill cases are still pending from the early 1990s.

- Potential liabilities may exist due to representations and warranties made to support the sale of loans and servicing rights.[13] These liabilities could be incurred over the remaining life of the loans, which could be as long as 20 years.

Only when the remaining asset and liability issues, some of which are highlighted above, are resolved can FRF be formally dissolved. FDIC is considering whether seeking enabling legislation or other measures may be needed to dissolve the remaining FRF assets and liabilities.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC acknowledged the information system weakness, and stated a commitment to continue its efforts to strengthen its information security program and to incorporate GAO's recommendations into its security plans for 2001. We plan to evaluate the effectiveness on FDIC's corrective actions in information security as part of our 2001 audit of FDIC's financial statements and internal control.

FDIC also stated that it will continue to monitor the other matters discussed in our report, including goodwill litigation cases.

David M. Walker
Comptroller General
of the United States

April 6, 2001

[13] See note 3 of FRF's financial statements for a description of representations and warranties.

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position at December 31				
Dollars in Thousands		**2000**		**1999**
Assets				
Cash and cash equivalents	$	156,396	$	164,455
Investment in U.S. Treasury obligations, net: (Note 3)				
Held-to-maturity securities		22,510,892		23,949,655
Available-for-sale securities		7,421,597		4,288,410
Interest receivable on investments and other assets, net		552,671		467,070
Receivables from bank resolutions, net (Note 4)		349,589		743,011
Assets acquired from assisted banks and terminated receiverships, net (Note 5)		11,727		20,750
Property and equipment, net (Note 6)		303,438		260,040
Total Assets	**$**	**31,306,310**	**$**	**29,893,391**
Liabilities				
Accounts payable and other liabilities	$	165,972	$	148,821
Contingent liabilities for: (Note 7)				
Anticipated failure of insured institutions		141,355		307,000
Assistance agreements		234		10,910
Litigation losses		21,922		10,000
Asset securitization guarantees		1,605		2,477
Total Liabilities		**331,088**		**479,208**
Commitments and off-balance-sheet exposure (Note 12)				
Fund Balance				
Accumulated net income		30,755,569		29,494,950
Unrealized gain/(loss) on available-for-sale securities, net (Note 3)		219,653		(80,767)
Total Fund Balance		**30,975,222**		**29,414,183**
Total Liabilities and Fund Balance	**$**	**31,306,310**	**$**	**29,893,391**

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

Statements of Income and Fund Balance

Bank Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2000	1999
Revenue		
Interest on U.S. Treasury obligations	$ 1,827,404	$ 1,733,603
Assessments (Note 8)	45,091	33,333
Interest on advances and subrogated claims	7,616	20,626
Revenue from assets acquired from assisted banks and terminated receiverships	10,077	11,484
Other revenue	15,676	16,556
Total Revenue	**1,905,864**	**1,815,602**
Expenses and Losses		
Operating expenses	772,918	730,394
Provision for insurance losses (Note 9)	(152,962)	1,168,749
Expenses for assets acquired from assisted banks and terminated receiverships	16,659	18,778
Interest and other insurance expenses	8,630	4,126
Total Expenses and Losses	**645,245**	**1,922,047**
Net Income (Loss)	**1,260,619**	**(106,445)**
Unrealized gain/(loss) on available-for-sale securities, net (Note 3)	300,420	(91,682)
Comprehensive Income (Loss)	**1,561,039**	**(198,127)**
Fund Balance - Beginning	**29,414,183**	**29,612,310**
Fund Balance - Ending	**$ 30,975,222**	**$ 29,414,183**

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

Statements of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2000	1999
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 1,775,552	$ 1,848,536
Recoveries from bank resolutions	755,936	426,348
Recoveries on conversion of benefit plan	0	175,720
Recoveries from assets acquired from assisted banks and terminated receiverships	45,070	46,390
Assessments	48,518	34,692
Miscellaneous receipts	13,279	19,029
Cash used by:		
Operating expenses	(742,733)	(722,096)
Disbursements for bank resolutions	(388,276)	(1,333,622)
Disbursements for assets acquired from assisted banks and terminated receiverships	(22,994)	(27,756)
Miscellaneous disbursements	(1,974)	(7,542)
Net Cash Provided by Operating Activities (Note 15)	**1,482,378**	**459,699**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	2,560,000	2,120,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	430,000	1,060,000
Cash used by:		
Purchase of property and equipment	(60,761)	(70,886)
Purchase of U.S. Treasury obligations, held-to-maturity	(1,239,157)	(1,596,859)
Purchase of U.S. Treasury obligations, available-for-sale	(3,180,519)	(3,925,143)
Net Cash Used by Investing Activities	**(1,490,437)**	**(2,412,888)**
Net Decrease in Cash and Cash Equivalents	**(8,059)**	**(1,953,189)**
Cash and Cash Equivalents - Beginning	**164,455**	**2,117,644**
Cash and Cash Equivalents - Ending	**$ 156,396**	**$ 164,455**

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

Notes to Financial Statements

Notes to the Financial Statements
Bank Insurance Fund
December 31, 2000 and 1999

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 Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 8) 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 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

The Deposit Insurance Funds Act of 1996 (DIFA) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on BIF-assessable deposits that is one-fifth of the rate for SAIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately $790 million on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of BIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the BIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date. Congress did not enact legislation to either merge the BIF and the SAIF or to eliminate the thrift charter.

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

Congress continues to focus on legislative proposals that would affect the deposit insurance funds. The FDIC has proposed an initiative to reform the deposit insurance system. Some of the proposals, such as deposit insurance pricing and determining deposit insurance levels, may have a significant impact on the BIF and the SAIF, if enacted into law. However, these proposals continue to vary and FDIC management 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 liquidating 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. Further, the FDIC can also provide assistance to failing banks and monitor compliance with assistance agreements.

The BIF is primarily funded from interest earned on investments in U.S. Treasury obligations and BIF assessment premiums. 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 working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the BIF, known as the maximum obligation limitation (MOL). As of December 31, 2000 and December 31, 1999, the MOL for the BIF was $53.2 billion and $51.8 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 BIF assets and liabilities to ensure that liquidation 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. Liquidation 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 accordance with 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 or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent 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.

Investments in U.S. Treasury Obligations
Investments in U.S. Treasury obligations are recorded pursuant to the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. The BIF does not designate any securities as trading. 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 Bank Resolutions and Assets Acquired From Assisted Banks and Terminated Receiverships
The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. The BIF also records as an asset the amounts paid for assets acquired from assisted banks and terminated receiverships. 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 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.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the BIF, the SAIF, and the FRF. Each fund has fully paid its liability for these benefits directly to the entity. The BIF's prepaid or accrued postretirement benefit cost is presented in the BIF's Statements of Financial Position.

Disclosure About Recent Accounting Pronouncements
Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133," was issued in June 2000. For entities that adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" prior to June 15, 2000, Statement 138 is effective for all fiscal quarters beginning after June 15, 2000. SFAS No. 138 amends Statement 133 principally for certain issues relating to hedging transactions. The adoption of these statements has no material quantitative or qualitative impact on the BIF's Statements of Financial Position, Income and Fund Balance, and Cash Flows.

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities; a replacement of SFAS No. 125." This statement applies to securitization transactions where the transferor has continuing involvement with the transferred assets or the transferee. SFAS No. 140 is effective for transfers occurring after March 31, 2001. However, disclosure requirements for existing securitizations are effective for fiscal years ending after December 15, 2000. BIF's disclosures for its securitization transactions, which conform to the SFAS No. 140 requirements, are discussed in Notes 7 and 12.

Other recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements.

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.

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

Cash received by the BIF is invested in non-marketable Government Account Series (GAS) market-based U.S. Treasury securities with maturities exceeding three months. As of December 31, 2000 and December 31, 1999, the book value of investments in U.S. Treasury Obligations, net, was $29.9 billion and $28.2 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities. In 2000, the FDIC purchased $1.3 billion of Treasury inflation-indexed securities (TIIS) for the BIF. These securities are indexed to increases or decreases in the Consumer Price Index (CPI).

U.S. Treasury Obligations at December 31, 2000

Dollars in Thousands — Held-to-Maturity

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.69%	$ 3,020,000 (b)	$ 3,024,645	$ 6,851	$ (598)	$ 3,030,898
1-3 years	6.19%	5,965,000	6,178,310	104,475	0	6,282,785
3-5 years	6.59%	4,955,000	5,020,380	264,712	(169)	5,284,923
5-10 years	5.64%	8,068,506	8,287,557	266,541	(26,826)	8,527,272
Total		$ 22,008,506	$ 22,510,892	$ 642,579	$ (27,593)	$ 23,125,878

U.S. Treasury Obligations at December 31, 2000

Dollars in Thousands — Available-for-Sale

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.59%	$ 775,000	$ 776,417	$ 194	$ (1,053)	$ 775,558
1-3 years	6.40%	1,315,000	1,294,613	28,692	0	1,323,305
3-5 years	6.30%	960,000	981,289	39,830	0	1,021,119
5-10 years	4.80%	4,254,527	4,149,625	151,990	0	4,301,615
Total		$ 7,304,527	$ 7,201,944	$ 220,706	$ (1,053)	$ 7,421,597
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 29,313,033**	**$ 29,712,836**	**$ 863,285**	**$ (28,646)**	**$ 30,547,475**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with an inflation assumption. The inflation assumption of 3.4% was the latest year-over-year increase in the Consumer Price Index (CPI) on November 30, 2000. These effective yields are 7.15% and 7.51% for TIIS classified as held-to-maturity and available-for-sale, respectively.

(b) Includes one Treasury note totaling $200 million which matured on Sunday, December 31, 2000. Settlement occurred on the next business day, January 2, 2001.

U.S. Treasury Obligations at December 31, 1999

Dollars in Thousands — Held-to-Maturity

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	6.02%	$ 2,560,000	$ 2,561,679	$ 3,087	$ (2,468)	$ 2,562,298
1-3 years	6.06%	6,540,000	6,669,580	7,233	(32,331)	6,644,482
3-5 years	6.45%	4,805,000	5,052,441	18,300	(17,217)	5,053,524
5-10 years	5.88%	9,439,053	9,665,955	58,403	(374,526)	9,349,832
Total		$ 23,344,053	$ 23,949,655	$ 87,023	$ (426,542)	$ 23,610,136

U.S. Treasury Obligations at December 31, 1999

Dollars in Thousands — Available-for-Sale

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.62%	$ 430,000	$ 431,206	$ 48	$ (94)	$ 431,160
1-3 years	5.36%	625,000	631,662	0	(7,001)	624,661
3-5 years	6.00%	445,000	454,254	0	(6,391)	447,863
5-10 years	5.15%	2,977,452	2,852,055	0	(67,329)	2,784,726
Total		$ 4,477,452	$ 4,369,177	$ 48	$ (80,815)	$ 4,288,410

Total Investment in U.S. Treasury Obligations, Net

Total		$ 27,821,505	$ 28,318,832	$ 87,071	$ (507,357)	$ 27,898,546

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields.
Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with an inflation assumption.
The inflation assumption of 2.6% was the latest year-over-year increase in the Consumer Price Index (CPI) on December 14, 1999.
These effective yields are 6.44% and 6.70% for TIIS classified as held-to-maturity and available-for-sale, respectively.

As of December 31, 2000 and 1999, the unamortized premium, net of the unamortized discount, was $400 million and $497 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 six bank failures in 2000 and seven in 1999, with assets at failure of $378 million and $1.4 billion, respectively, and BIF outlays of $301.7 million and $1.2 billion, 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, 2000 and 1999, BIF receiverships held assets with a book value of $510.9 million and $1.9 billion, respectively (including cash and miscellaneous receivables of $337 million and $524 million at December 31, 2000 and 1999, respectively). 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. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors 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

	2000	1999
Assets from open bank assistance	$ 1,240	$ 105,655
Allowance for losses	(1,240)	(4,196)
Net Assets From Open Bank Assistance	**0**	**101,459**
Receivables from closed banks	9,083,357	15,673,843
Allowance for losses	(8,733,768)	(15,032,291)
Net Receivables From Closed Banks	**349,589**	**641,552**
Total	**$ 349,589**	**$ 743,011**

5. Assets Acquired from Assisted Banks and Terminated Receiverships, Net

The BIF has acquired assets from certain troubled and failed banks by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The methodology to estimate cash recoveries from these assets, which is used to derive the related allowance for losses, is similar to that for receivables from bank resolutions (see Note 4). The estimated cash recoveries are based upon a statistical sampling of the assets but only include expenses for the disposition of the assets to represent liquidating value.

The BIF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of interest earned on assets in liquidation. Expenses are recognized for the disposition and administration of these assets.

Assets Acquired from Assisted Banks and Terminated Receiverships, Net at December 31

Dollars in Thousands

	2000	1999
Assets acquired from assisted banks and terminated receiverships	$ 55,745	$ 105,136
Allowance for losses	(44,018)	(84,386)
Total	**$ 11,727**	**$ 20,750**

6. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2000	1999
Land	$ 29,631	$ 29,631
Buildings	168,996	159,188
PC/LAN/WAN equipment	46,030	27,748
Application software	73,041	29,671
Mainframe equipment	7,370	5,569
Furniture, fixtures, and general equipment	19,972	10,596
Telephone equipment	3,357	1,771
Work in Progress - Application software	36,934	48,961
Accumulated depreciation	(81,893)	(53,095)
Total	**$ 303,438**	**$ 260,040**

The depreciation expense was $28.8 million and $12.3 million for 2000 and 1999, respectively.

7. 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, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liabilities for anticipated failure of insured institutions as of December 31, 2000 and 1999, were $141 million and $307 million, respectively. The contingent liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable bank failures. Therefore, these estimates are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 4).

Several recent bank failures have involved some degree of fraud, which adds uncertainty to estimates of loss and recovery rates. These uncertainties, along with potential changes in economic conditions, could affect the ultimate cost to the BIF from probable failures.

There are other banks where the risk of failure is less certain, but still considered reasonably possible. Should these banks fail, the BIF could incur additional estimated losses ranging from $1 million to $639 million.

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

Assistance Agreements
The contingent liabilities for assistance agreements resulted from several large transactions where problem assets were purchased by an acquiring institution under an agreement that calls for the FDIC to pay losses incurred for indemnification and litigation.

Litigation Losses
The BIF 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 $75 million are reasonably possible.

In addition, two cases are currently pending in the U.S. Court of Federal Claims against the United States for actions taken by the FDIC in supervising two BIF-insured, state-chartered mutual savings banks. These two cases allege that the FDIC's conduct in supervising these institutions breached agreements, which caused state regulators to close the institutions. The Court has not yet ruled on the question of whether any agreements were breached. However, should such a determination be made and the court award either damages or restitution, it is possible that the BIF would be responsible for payment of such an award. At this time, it is not possible to estimate a potential loss to the BIF from these two cases.

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. At December 31, 2000 and 1999, the BIF had a contingent liability under the guarantees of $1.6 million and $2.5 million, respectively.

8. 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 1.25 percent of 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 0.14 cents and 0.11 cents per $100 of assessable deposits for 2000 and 1999, respectively. On November 7, 2000, 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 2001. The Board reviews premium rates semiannually.

Since May 1995, the BIF has maintained a capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 2000, the capitalization level for BIF is 1.35 percent of estimated insured deposits.

The DIFA (see Note 1) 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 FICO to include all FDIC-insured institutions (including banks, thrifts, and Oakar and Sasser financial institutions). It also made the FICO assessment separate from regular assessments, effective on January 1, 1997.

BIF-insured banks began paying a FICO assessment on January 1, 1997. From January 1, 1997, through December 31, 1999, the FICO assessment rate on BIF-assessable deposits was one-fifth the rate for SAIF-assessable deposits. Beginning on January 1, 2000, the annual FICO interest obligations of approximately $790 million will be 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 2000 and 1999, $635 million and $364 million, respectively, was collected from banks and remitted to the FICO.

9. Provision for Insurance Losses

Provision for insurance losses was negative $153 million for 2000 and $1.2 billion for 1999. 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

	2000	1999
Valuation Adjustments:		
Open bank assistance	$ (2,956)	$ (6,280)
Closed banks	(20,098)	325,836
Assets acquired from assisted banks and terminated receiverships	336	(10,977)
Total Valuation Adjustments	**(22,718)**	**308,579**
Contingent Liabilities Adjustments:		
Anticipated failure of insured institutions	(133,645)	849,000
Assistance agreements	(533)	8,792
Litigation losses	3,964	2,294
Asset securitization guarantees	(30)	84
Total Contingent Liabilities Adjustments	**(130,244)**	**860,170**
Total	**$ (152,962)**	**$ 1,168,749**

10. Pension Benefits, Savings Plans, and Accrued Annual Leave

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.

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $36.0 million and $38.2 million at December 31, 2000 and 1999, respectively.

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

Dollars in Thousands

	2000	1999
Civil Service Retirement System	$ 11,503	$ 10,270
Federal Employees Retirement System (Basic Benefit)	30,454	28,449
FDIC Savings Plan	19,202	17,215
Federal Thrift Savings Plan	12,154	11,018
Total	**$ 73,313**	**$ 66,952**

11. Postretirement Benefits Other Than Pensions

The FDIC provides certain dental and life 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. Dental coverage is provided to all retirees eligible for an immediate annuity.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

Postretirement Benefits Other Than Pensions				
Dollars in Thousands				
		2000		1999
Funded Status at December 31				
Fair value of plan assets (a)	$	75,696	$	71,286
Less: Benefit obligation		67,995		75,275
Over/(Under) Funded Status of the Plans	**$**	**7,701**	**$**	**(3,989)**
Prepaid (accrued) postretirement benefit cost recognized in the Statements of Financial Position	$	3,618	$	(3,989)
Expenses and Cash Flows for the Period Ended December 31				
Net periodic benefit cost	$	3,945	$	2,468
Employer contributions		1,604		1,111
Benefits paid		1,604		1,111
Weighted-Average Assumptions at December 31				
Discount rate		5.25%		4.50%
Expected return on plan assets		5.25%		4.50%
Rate of compensation increase		6.30%		3.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be subject to an annual cap of $2,000.

12. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases

The BIF's allocated share of the FDIC's lease commitments totals $138.4 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 $38.1 million and $41.5 million for the years ended December 31, 2000 and 1999, respectively.

Lease Commitments

Dollars in Thousands

2001	2002	2003	2004	2005	2006/Thereafter
$36,547	$34,802	$25,635	$16,192	$10,770	$14,424

Off-Balance-Sheet Exposure

Asset Securitization Guarantees

As discussed in Note 7, the BIF provided certain limited guarantees to facilitate securitization transactions. 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		
	2000	1999
Maximum exposure under the limited guarantees	$ 406,690	$ 448,881
Less: Guarantee claims paid (inception-to-date)	(33,730)	(32,716)
Less: Amount of exposure recognized as a contingent liability (see Note 7)	(1,605)	(2,477)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	**$ 371,355**	**$ 413,688**

Deposit Insurance

As of December 31, 2000, deposits insured by the BIF totaled approximately $2.3 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Asset Putbacks

Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be resold, or "putback," to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the BIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is $73 million. The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the acquirer initiates the asset putback procedures. The FDIC projects that a total of $2.2 million in book value of assets will be putback.

13. Concentration of Credit Risk

As of December 31, 2000, the BIF had $9.1 billion in gross receivables from bank resolutions and $55.7 million in gross assets acquired from assisted banks and terminated receiverships. An allowance for loss of $8.7 billion and $44.0 million, respectively, has been recorded against these assets. The liquidating entities' ability to make repayments to the BIF is largely influenced by the economy of the area in which they are located. The BIF's estimated maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 2000							
Dollars in Millions							
	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from bank resolutions, net	$174	$6	$39	$9	$63	$58	$349
Assets acquired from assisted banks and terminated receiverships, net	0	12	0	0	0	0	12
Total	**$174**	**$18**	**$39**	**$9**	**$63**	**$58**	**$361**

14. 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. This is due to their short maturities or comparisons 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.

The majority of the net assets acquired from assisted banks and terminated receiverships (except real estate) is comprised of various types of financial instruments, including investments, loans and accounts receivables. Like receivership assets, assets acquired from assisted banks and terminated receiverships are valued using discount rates that include consideration of market risk. However, assets acquired from assisted banks and terminated receiverships do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

15. 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

	2000	1999
Net Income	**$ 1,260,619**	**$ (106,445)**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	(152,962)	1,168,749
Amortization of U.S. Treasury obligations	128,875	164,880
TIIS inflation adjustment	(93,204)	(26,930)
Depreciation on property and equipment	28,799	12,288
Retirement of capitalized equipment	1,152	4,476
Change in Assets and Liabilities:		
(Increase) Decrease in interest receivable on investments and other assets	(85,516)	188,322
Decrease (Increase) in receivables from bank resolutions	602,712	(311,671)
Decrease in assets acquired from assisted banks and terminated receiverships	8,686	17,599
Increase (Decrease) in accounts payable and other liabilities	5,244	(45,219)
(Decrease) in contingent liabilities for anticipated failure of insured institutions	(219,000)	(574,000)
(Decrease) in contingent liabilities for assistance agreements	(10,143)	(13,007)
Increase (Decrease) in contingent liabilities for litigation losses	7,958	(14,595)
(Decrease) in contingent liabilities for asset securitization guarantees	(842)	(4,748)
Net Cash Provided by Operating Activities	**$ 1,482,378**	**$ 459,699**

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

		2000		1999
Assets				
Cash and cash equivalents	$	149,988	$	146,186
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $40.2 million and $23.3 million at December 31, 2000 and December 31, 1999, respectively)*		283,780		268,490
Investment in U.S. Treasury obligations, net: (Note 4)				
Held-to-maturity securities		7,950,849		8,080,854
Available-for-sale securities		2,708,965		1,898,718
Interest receivable on investments and other assets, net		188,473		153,558
Receivables from thrift resolutions, net (Note 5)		4,147		62,244
Total Assets	**$**	**11,286,202**	**$**	**10,610,050**
Liabilities				
Accounts payable and other liabilities	$	7,748	$	4,888
Contingent liabilities for: (Note 6)				
Anticipated failure of insured institutions		234,083		56,000
Litigation losses		1,943		0
SAIF-member exit fees and investment proceeds held in escrow (Note 3)		283,780		268,490
Total Liabilities		**527,554**		**329,378**
Commitments and off-balance-sheet exposure (Note 11)				
Fund Balance				
Accumulated net income		10,676,477		10,312,416
Unrealized gain/(loss) on available-for-sale securities, net (Note 4)		82,171		(31,744)
Total Fund Balance		**10,758,648**		**10,280,672**
Total Liabilities and Fund Balance	**$**	**11,286,202**	**$**	**10,610,050**

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

Statements of Income and Fund Balance

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2000	1999
Revenue		
Interest on U.S. Treasury obligations	$ 644,222	$ 585,830
Assessments (Note 7)	19,237	15,116
Other revenue	621	49
Total Revenue	**664,080**	**600,995**
Expenses and Losses		
Operating expenses	110,920	92,882
Provision for insurance losses (Note 8)	180,805	30,648
Other insurance expenses	8,293	626
Total Expenses and Losses	**300,018**	**124,156**
Net Income	**364,062**	**476,839**
Unrealized gain/(loss) on available-for-sale securities, net (Note 4)	113,914	(35,998)
Comprehensive Income	**477,976**	**440,841**
Fund Balance - Beginning	**10,280,672**	**9,839,831**
Fund Balance - Ending	**$ 10,758,648**	**$ 10,280,672**

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

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2000	1999
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 606,521	$ 606,244
Assessments	19,829	15,384
Entrance and exit fees, including interest on exit fees (Note 3)	14,414	15,487
Recoveries from thrift resolutions	88,451	5,775
Miscellaneous receipts	60	2,310
Cash used by:		
Operating expenses	(107,137)	(91,789)
Disbursements for thrift resolutions	(39,753)	(64,494)
Miscellaneous disbursements	(17)	(306)
Net Cash Provided by Operating Activities (Note 13)	**582,368**	**488,611**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,630,000	1,635,000
Maturity of U.S. Treasury obligations, available-for-sale	150,000	425,000
Cash used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(1,522,399)	(1,326,004)
Purchase of U.S. Treasury obligations, available-for-sale	(819,316)	(1,775,103)
Net Cash Used by Investing Activities	**(561,715)**	**(1,041,107)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**20,653**	**(552,496)**
Cash and Cash Equivalents - Beginning	**169,488**	**721,984**
Unrestricted Cash and Cash Equivalents - Ending	**149,988**	**146,186**
Restricted Cash and Cash Equivalents - Ending	**40,153**	**23,302**
Cash and Cash Equivalents - Ending	**$ 190,141**	**$ 169,488**

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

Notes to Financial Statements

Notes to the Financial Statements
Savings Association Insurance Fund
December 31, 2000 and 1999

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 Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) 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 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

The Deposit Insurance Funds Act of 1996 (DIFA) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured thrifts and banks; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on SAIF-assessable deposits that is five times the rate for BIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately $790 million on a pro rata basis between thrifts and banks on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of SAIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the SAIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the SAIF and the BIF on January 1, 1999, if no insured depository institution is a savings association on that date. Congress did not enact legislation to either merge the SAIF and the BIF or to eliminate the thrift charter.

The DIFA required the establishment of a Special Reserve of the SAIF if, on January 1, 1999, the reserve ratio exceeded the DRR of 1.25 percent. The reserve ratio exceeded the DRR by approximately 0.14 percent on January 1, 1999. As a result, $978 million was placed in a Special Reserve of the SAIF and was administered by the FDIC. On November 12, 1999, the Gramm-Leach-Bliley Act (GLBA) was enacted which eliminated the SAIF Special Reserve.

The GLBA was enacted 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
Congress continues to focus on legislative proposals that would affect the deposit insurance funds. The FDIC has proposed an initiative to reform the deposit insurance system. Some of the proposals, such as deposit insurance pricing and determining deposit insurance levels, may have a significant impact on the SAIF and the BIF, if enacted into law. However, these proposals continue to vary and FDIC management 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 managing and liquidating 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 interest earned on investments in U.S. Treasury obligations and SAIF assessment premiums. 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 working capital from the FFB on behalf of the SAIF and the BIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the SAIF and the BIF, from $5 billion to $30 billion. The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). As of December 31, 2000 and December 31,1999, the MOL for the SAIF was $18.4 billion and $16.7 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 liquidation 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. Liquidation 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 accordance with 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 or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent 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.

Investments in U.S. Treasury Obligations

Investments in U.S. Treasury obligations are recorded pursuant to the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. The SAIF does not designate any securities as trading.

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 assisted or 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.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the SAIF, the BIF, and the FRF. Each fund has fully paid its liability for these benefits directly to the entity. The SAIF's prepaid or accrued postretirement benefit cost is presented in the SAIF's Statements of Financial Position.

Disclosure About Recent Accounting Pronouncements
Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133," was issued in June 2000. For entities that adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" prior to June 15, 2000, Statement 138 is effective for all fiscal quarters beginning after June 15, 2000. SFAS No. 138 amends Statement 133 principally for certain issues relating to hedging transactions. The adoption of these statements has no material quantitative or qualitative impact on the SAIF's Statements of Financial Position, Income and Fund Balance, and Cash Flows.

Other recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements.

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.

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 2000 and 1999 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

		2000		1999
Cash and cash equivalents	$	40,154	$	23,302
Investment in U.S. Treasury obligations, net		239,088		239,975
Interest receivable on U.S. Treasury obligations		4,535		4,529
Exit fees receivable		3		684
Total	**$**	**283,780**	**$**	**268,490**

U.S. Treasury Obligations at December 31, 2000 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands — Held-to-Maturity

Maturity	Yield at Purchase (a)		Face Value		Amortized Cost		Unrealized Holding Gains		Unrealized Holding Losses		Market Value
Less than one year	5.52%	$	15,000	$	15,093	$	0	$	(20)	$	15,073
1-3 years	6.12%		135,000		134,831		2,012		0		136,843
3-5 years	5.79%		20,000		21,189		455		0		21,644
5-10 years	5.20%		64,000		67,975		454		(373)		68,056
Total		**$**	**234,000**	**$**	**239,088**	**$**	**2,921**	**$**	**(393)**	**$**	**241,616**

U.S. Treasury Obligations at December 31, 1999 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands — Held-to-Maturity

Maturity	Yield at Purchase (a)		Face Value		Amortized Cost		Unrealized Holding Gains		Unrealized Holding Losses		Market Value
1-3 years	5.90%	$	115,000	$	115,336	$	0	$	(876)	$	114,460
3-5 years	6.30%		55,000		56,131		217		(582)		55,766
5-10 years	5.20%		64,000		68,508		0		(5,265)		63,243
Total		**$**	**234,000**	**$**	**239,975**	**$**	**217**	**$**	**(6,723)**	**$**	**233,469**

The unamortized premium, net of the unamortized discount, was $5.1 million and 6.0 million at December 31, 2000 and 1999, respectively.

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

Cash received by the SAIF is invested in non-marketable Government Account Series (GAS) market-based U.S. Treasury securities with maturities exceeding three months. As of December 31, 2000 and December 31, 1999, the book value of investments in U.S. Treasury Obligations, net, was $10.7 billion and $10 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities. In 2000, the FDIC purchased $291 million of Treasury inflation-indexed securities (TIIS) for the SAIF. These securities are indexed to increases or decreases in the Consumer Price Index (CPI).

U.S. Treasury Obligations at December 31, 2000 (Unrestricted)

Dollars in Thousands — **Held-to-Maturity**

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.98%	$ 1,899,500 (b)	$ 1,902,048	$ 2,346	$ (52)	$ 1,904,342
1-3 years	6.04%	1,640,000	1,675,585	21,246	0	1,696,831
3-5 years	6.62%	930,000	932,512	49,654	0	982,166
5-10 years	5.64%	3,380,394	3,440,704	117,935	(5,768)	3,552,871
Total		$ 7,849,894	$ 7,950,849	$ 191,181	$ (5,820)	$ 8,136,210

U.S. Treasury Obligations at December 31, 2000 (Unrestricted)

Dollars in Thousands — **Available-for-Sale**

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.17%	$ 80,000	$ 80,269	$ 0	$ (181)	$ 80,088
1-3 years	6.56%	450,000	439,061	14,005	0	453,066
3-5 years	6.14%	805,000	836,059	30,855	0	866,914
5-10 years	4.43%	1,288,270	1,271,405	37,492	0	1,308,897
Total		$ 2,623,270	$ 2,626,794	$ 82,352	$ (181)	$ 2,708,965

Total Investment in U.S. Treasury Obligations, Net

Total		**$ 10,473,164**	**$ 10,577,643**	**$ 273,533**	**$ (6,001)**	**$ 10,845,175**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with an inflation assumption. The inflation assumption of 3.4% was the latest year-over-year increase in the Consumer Price Index (CPI) on November 30, 2000. These effective yields are 7.18% and 7.47% for TIIS classified as held-to-maturity and available-for-sale, respectively.

(b) Includes two Treasury notes totaling $150 million which matured on Sunday, December 31, 2000. Settlement occurred on the next business day, January 2, 2001.

U.S. Treasury Obligations, Net at December 31, 1999 (Unrestricted)

Dollars in Thousands — **Held-to-Maturity**

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.93%	$ 1,630,000	$ 1,631,605	$ 1,020	$ (1,154)	$ 1,631,471
1-3 years	5.97%	2,915,000	2,937,618	280	(14,021)	2,923,877
3-5 years	6.34%	705,000	739,940	2,131	(4,218)	737,853
5-10 years	5.61%	2,713,214	2,771,691	5,896	(126,467)	2,651,120
Total		$ 7,963,214	$ 8,080,854	$ 9,327	$ (145,860)	$ 7,944,321

U.S. Treasury Obligations, Net at December 31, 1999 (Unrestricted)

Dollars in Thousands — **Available-for-Sale**

Maturity	Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.62%	$ 150,000	$ 150,379	$ 22	$ (14)	$ 150,387
1-3 years	5.17%	80,000	81,096	0	(1,046)	80,050
3-5 years	6.28%	240,000	255,838	0	(2,151)	253,687
5-10 years	5.03%	1,447,582	1,443,149	0	(28,555)	1,414,594
Total		$ 1,917,582	$ 1,930,462	$ 22	$ (31,766)	$ 1,898,718

Total Investment in U.S. Treasury Obligations, Net

		Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Total		**$ 9,880,796**	**$ 10,011,316**	**$ 9,349**	**$ (177,626)**	**$ 9,843,039**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with an inflation assumption. The inflation adjustment of 2.6% was the latest year-over-year increase in the Consumer Price Index (CPI) on December 14, 1999. These effective yields are 6.47% and 6.71% for TIIS classified as held-to-maturity and available-for-sale, respectively.

As of December 31, 2000 and 1999, the unamortized premium, net of the unamortized discount, was $104.5 million and $130.5 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 2000 and one in 1999, with assets at failure of $30 million and $63 million, respectively, and SAIF outlays of $29 million and $63 million, respectively.

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, 2000 and 1999, SAIF receiverships held assets with a book value of $56.1 million and $114 million, respectively (including cash and miscellaneous receivables of $48.2 million and $104.0 million at December 31, 2000, and 1999, respectively). 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. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could cause the SAIF's and other claimants' actual recoveries to vary from the level currently estimated.

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, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liabilities for anticipated failure of insured institutions as of December 31, 2000 and 1999, were $234 million and $56 million, respectively. The contingent liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable thrift failures. Therefore, these estimates are subject to the same uncertainties as those affecting the SAIF's receivables from thrift resolutions (see Note 5). Consequently, this could affect the ultimate cost to the SAIF from probable failures.

There are other thrifts where the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses ranging from $1 million to $255 million.

The accuracy of these estimates will largely depend on future economic conditions. The Board 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 $617 thousand are reasonably possible.

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 1.25 percent of 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 0.24 cents and 0.20 cents per $100 of assessable deposits for 2000 and 1999, respectively. On November 7, 2000, 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 2001. The Board reviews premium rates semiannually.

The DIFA (see Note 1) 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 capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 2000, the capitalization level for the SAIF is 1.43 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 FICO to include all FDIC-insured institutions (including thrifts, banks, and Oakar and Sasser financial institutions). It also made the FICO assessment separate from regular assessments, effective on January 1, 1997.

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 2000 and 1999, $158 million and $426 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

8. Provision for Insurance Losses

Provision for insurance losses was $180.8 million and $30.6 million for December 31, 2000 and December 31, 1999, respectively. The large provision in 2000 was primarily attributed to recognizing losses of $186.1 million for the anticipated failure of insured institutions. 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

		2000		1999
Valuation Adjustments:				
Closed banks	$	(7,221)	$	(11,352)
Total Valuation Adjustments		**(7,221)**		**(11,352)**
Contingent Liabilities Adjustments:				
Anticipated failure of insured institutions		186,083		42,000
Litigation losses		1,943		0
Total Contingent Liabilities Adjustments		**188,026**		**42,000**
Total	$	**180,805**	$	**30,648**

9. Pension Benefits, Savings Plans, and Accrued Annual Leave

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.

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.

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $5.0 million and $4.4 million at December 31, 2000 and 1999, respectively.

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

Dollars in Thousands

	2000	1999
Civil Service Retirement System	$ 1,603	$ 1,276
Federal Employees Retirement System (Basic Benefit)	4,092	3,268
FDIC Savings Plan	2,594	2,029
Federal Thrift Savings Plan	1,631	1,267
Total	**$ 9,920**	**$ 7,840**

10. Postretirement Benefits Other Than Pensions

The FDIC provides certain dental and life 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. Dental coverage is provided to all retirees eligible for an immediate annuity.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

Postretirement Benefits Other Than Pensions				
Dollars in Thousands				
		2000		1999
Funded Status at December 31				
Fair value of plan assets (a)	$	5,479	$	5,160
Less: Benefit obligation		4,811		5,833
Over/(Under) Funded Status of the Plans	**$**	**668**	**$**	**(673)**
Prepaid (accrued) postretirement benefit cost recognized in the Statements of Financial Position	$	101	$	(673)
Expenses and Cash Flows for the Period Ended December 31				
Net periodic benefit cost	$	601	$	483
Employer contributions		223		129
Benefits paid		223		129
Weighted-Average Assumptions at December 31				
Discount rate		5.25%		4.50%
Expected return on plan assets		5.25%		4.50%
Rate of compensation increase		6.30%		3.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be subject to an annual cap of $2,000.

11. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases

The SAIF's allocated share of the FDIC's lease commitments totals $19.2 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 $5.7 million at both December 31, 2000 and 1999, respectively.

Lease Commitments

Dollars in Thousands

2001	2002	2003	2004	2005	2006/Thereafter
$5,074	$4,832	$3,559	$2,248	$1,495	$2,003

Off-Balance-Sheet Exposure

Deposit Insurance

As of December 31, 2000, deposits insured by the SAIF totaled approximately $753 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

12. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in 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. This is due to their short maturities or comparisons with current interest rates. As explained in Note 3, entrance and exit fees receivables are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued.

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

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

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

13. Supplementary Information Relating to the Statements of Cash Flows

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

Dollars in Thousands

	2000	1999
Net Income	**$ 364,062**	**$ 476,839**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	180,805	30,648
Amortization of U.S. Treasury obligations (unrestricted)	32,317	51,708
TIIS inflation adjustment	(36,930)	(11,818)
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury obligations (restricted)	887	808
(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	(33,381)	(13,500)
Decrease (Increase) in receivables from thrift resolutions	64,716	(41,450)
Increase in receivables from acquired fins	(240)	0
Increase (Decrease) in accounts payable and other liabilities	2,842	(2,325)
(Decrease) in contingent liability for anticipated failure of insured institutions	(8,000)	(17,000)
Increase in exit fees and investment proceeds held in escrow	15,290	14,701
Net Cash Provided by Operating Activities	**$ 582,368**	**$ 488,611**

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

	2000	1999
Assets		
Cash and cash equivalents	$ 3,514,541	$ 2,948,138
Receivables from thrift resolutions, net (Note 3)	416,376	1,336,755
Investment in securitization related assets acquired from receiverships (Note 4)	1,811,442	2,725,243
Assets acquired from assisted thrifts and terminated receiverships, net (Note 5)	34,616	34,407
Other assets, net (Note 6)	16,125	36,748
Total Assets	**$ 5,793,100**	**$ 7,081,291**
Liabilities		
Accounts payable and other liabilities	$ 42,618	$ 73,621
Liabilities from thrift resolutions (Note 7)	74,872	296,817
Contingent liabilities for: (Note 8)		
Assistance agreements	0	339
Litigation losses	3,045	1,445
Total Liabilities	**120,535**	**372,222**
Commitments and concentration of credit risk (Note 14 and Note 15)		
Resolution Equity (Note 11)		
Contributed capital	129,484,926	131,328,499
Accumulated deficit	(124,267,778)	(124,999,600)
Unrealized gain on available-for-sale securities, net (Note 4)	455,417	380,170
Accumulated deficit, net	(123,812,361)	(124,619,430)
Total Resolution Equity	**5,672,565**	**6,709,069**
Total Liabilities and Resolution Equity	**$ 5,793,100**	**$ 7,081,291**

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

Statements of Income and Accumulated Deficit

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	2000	1999
Revenue		
Interest on securitization related assets acquired from receiverships	$ 85,511	$ 104,232
Interest on U.S. Treasury obligations	145,063	108,001
Interest on advances and subrogated claims (Note 9)	158,865	19,033
Revenue from assets acquired from assisted thrifts and terminated receiverships	15,607	25,476
Limited partnership equity interests and other revenue	25,640	23,787
Realized gain on investment in securitization related assets acquired from receiverships (Note 4)	91,487	93,113
Total Revenue	**522,173**	**373,642**
Expenses and Losses		
Operating expenses	74,102	83,317
Provision for losses (Note 10)	(438,642)	(278,267)
Expenses for goodwill settlements and litigation (Note 1)	94,159	80,921
Expenses for assets acquired from assisted thrifts and terminated receiverships	7,114	15,664
Interest expense on notes payable and other expenses	16,133	6,650
Realized loss on investment in securitization related assets acquired from receiverships (Note 4)	37,485	93,604
Total Expenses and Losses	**(209,649)**	**1,889**
Net Income	**731,822**	**371,753**
Unrealized gain on available-for-sale securities, net (Note 4)	75,247	64,494
Comprehensive Income	**807,069**	**436,247**
Accumulated Deficit - Beginning	**(124,619,430)**	**(125,055,677)**
Accumulated Deficit - Ending	**$ (123,812,361)**	**$ (124,619,430)**

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

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2000	1999
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 145,063	$ 108,001
Interest on securitization related assets acquired from receiverships	89,417	111,159
Recoveries from thrift resolutions	1,392,486	592,198
Recoveries from limited partnership equity interests	35,616	80,046
Recoveries from assets acquired from assisted thrifts and terminated receiverships	51,474	103,699
Recoveries on conversion of benefit plan	0	28,332
Miscellaneous receipts	440	8,166
Cash used by:		
Operating expenses	(78,978)	(97,299)
Disbursements for thrift resolutions	(121,176)	(82,069)
Disbursements for goodwill settlements and litigation expenses	(94,159)	(80,921)
Disbursements for assets acquired from assisted thrifts and terminated receiverships	(38,196)	(40,690)
Miscellaneous disbursements	(2)	(6)
Net Cash Provided by Operating Activities (Note 17)	**1,381,985**	**730,616**
Cash Flows From Investing Activities		
Cash provided by:		
Investment in securitization related assets acquired from receiverships	1,027,943	1,752,917
Net Cash Provided by Investing Activities	**1,027,943**	**1,752,917**
Cash Flows From Financing Activities		
Cash provided by:		
U.S. Treasury payments for goodwill settlements	25	1,000
Cash used for:		
Return of U.S. Treasury payments (Note 11)	(394,593)	(4,167,774)
Payments to Resolution Funding Corporation (Note 11)	(1,448,957)	0
Net Cash Used by Financing Activities	**(1,843,525)**	**(4,166,774)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**566,403**	**(1,683,241)**
Cash and Cash Equivalents - Beginning	**2,948,138**	**4,631,379**
Cash and Cash Equivalents - Ending	**$ 3,514,541**	**$ 2,948,138**

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

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 2000 and 1999

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. During 1999 and 2000, the FRF-RTC returned $4.2 billion and $391 million, respectively, to fully repay this appropriation.

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 2000, the FRF-RTC paid $1.4 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.

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 $96.9 million and $79.1 million to DOJ for fiscal years 2001 and 2000, respectively. Subsequently, DOJ returns any unused fiscal year funding to the FRF-FSLIC. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 8).

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 liquidation 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. Liquidation expenses incurred 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 accordance with 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 or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent 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. Realized gains and losses are included in the Statements of Income and Accumulated Deficit as components of Net Income.

Allowance for Losses on Receivables from Thrift Resolutions and Assets Acquired from Assisted Thrifts and Terminated Receiverships

The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. The FRF also records as an asset the amounts paid for assets acquired from assisted thrifts and terminated receiverships. 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.

Postretirement Benefits Other Than Pensions

The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the FRF, the BIF, and the SAIF. Each fund has fully paid its liability for these benefits directly to the entity. The FRF's prepaid or accrued postretirement benefit cost is presented in the FRF's Statements of Financial Position.

Disclosure About Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133," was issued in June 2000. For entities that adopted SFAS No. 133, "Accounting for Derivative

Instruments and Hedging Activities" prior to June 15, 2000, Statement 138 is effective for all fiscal quarters beginning after June 15, 2000. SFAS No. 138 amends Statement 133 principally for certain issues relating to hedging transactions. The adoption of these statements has no material quantitative or qualitative impact on the Corporation's Statements of Financial Position, Income and Accumulated Deficit, and Cash Flows.

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities; a replacement of SFAS No. 125." This statement applies to securitization transactions where the transferor has continuing involvement with the transferred assets or the transferee. SFAS No. 140 is effective for transfers occurring after March 31, 2001. However, disclosure requirements for existing securitizations are effective for fiscal years ending after December 15, 2000. FRF's disclosures for its securitization transactions, which conform to the SFAS No. 140 requirements, are discussed in Note 4.

Other recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements.

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, and S-Series 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" 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 Footnote 1 and disclosed throughout the financial statements and footnotes.

Reclassifications

Reclassifications have been made in the 1999 financial statements to conform to the presentation used in 2000.

Restatement

The credit enhancement reserve included in the "Investment in securitization related assets acquired from receiverships" has been restated to conform with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The change is due to recognizing realized losses that represent an other-than-temporary decline in fair value. As a result, the cost basis of the asset was written down to reflect these losses. Further, the unrealized gains and losses on the credit enhancement reserve were restated to adjust the cumulative balance of credit losses. The impact of this restatement on the January 1, 1999 accumulated deficit is a reduction of $20.1 million.

Additionally, corrections were made to the "Contingent liability for assistance agreements" to reverse amounts that were erroneously calculated. The impact of this restatement on the January 1, 1999 accumulated deficit is a reduction of $4.4 million.

3. 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 the main source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2000 and 1999, FRF receiverships held assets with a book value of $712 million and $2.1 billion, respectively (including cash and miscellaneous receivables of $493 million and $1.5 billion at December 31, 2000 and 1999, respectively). 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. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors 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

	2000	1999
Assets from open thrift assistance	$ 384,882	$ 393,697
Allowance for losses	(371,557)	(371,557)
Net Assets From Open Thrift Assistance	**13,325**	**22,140**
Receivables from closed thrifts	37,883,574	54,970,991
Allowance for losses	(37,480,523)	(53,656,376)
Net Receivables From Closed Thrifts	**403,051**	**1,314,615**
Total	**$ 416,376**	**$ 1,336,755**

Representations and Warranties

The RTC provided guarantees, representations, and warranties on approximately $108 billion in unpaid principal balance of loans sold and approximately $125 billion in unpaid principal balance of loans under servicing right contracts that had been sold. In general, the guarantees, representations, and warranties on loans sold related 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 representations and warranties made in connection with the sale of servicing rights were limited to the responsibilities of acting as a servicer of the loans. Future losses on representations and warranties could be incurred over the remaining life of the loans sold and could be in effect as long as 20 years.

The FRF includes estimates of corporate losses related to the receiverships' representations and warranties as part of the FRF's allowance for loss valuation. The allowance for these estimated losses was $1.6 million and $30 million as of December 31, 2000 and 1999, respectively. The contingent liability for representations and warranties associated with loan sales that involved assets acquired from assisted thrifts and terminated receiverships is included in "Accounts payable and other liabilities" ($1.5 million and $4 million for 2000 and

1999, respectively). Based on recent evaluations of the payment history associated with these obligations and the number of contract expirations anticipated in the near future, the estimate of the allowance indicated above, should be sufficient to cover future exposure from these obligations.

4. Investment in Securitization Related Assets Acquired from Receiverships

Through 1995, the RTC sold, through its mortgage-backed securities securitization program, $42.4 billion of receivership, conservatorship, and corporate loans. These loans were secured by various types of real estate including residential homes, multi-family dwellings and commercial properties. Each securitization transaction was accomplished through the creation of a trust which purchased these loans and issued regular pass-through certificates to the public through licensed brokerage houses. The receiverships retained residual pass-through certificates that were entitled to any remaining cash flows from the trusts after satisfying the expenses of the trusts and the obligations to regular pass-through holders.

To increase the likelihood of full and timely distributions of principal and interest to regular certificate holders and increase the marketability of the certificates, the various rating agencies required the RTC to place a portion of the proceeds from the sale of the regular certificates in credit enhancement reserve or escrow accounts to cover future losses from the loans underlying the regular certificates. Additional protection for the regular certificate holders from these losses was provided by a clause included in certain Pooling and Servicing Agreements (PSA) stipulating that losses experienced by the credit enhancement reserve over the life of the transactions would be reimbursed from proceeds expected from the residual certificates. At the end of 2000, 15 deals that were structured with PSA clauses stipulating reimbursement from the proceeds of the residual certificates.

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. During 2000, the FRF received $413 million in proceeds from terminated securitization deals and $910 million during 1999. Interest income earned on investments in securitization related assets during 2000 was $85.5 million and $104.2 million during 1999.

Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the cost basis of the investment. This calculation is performed for both the residual certificates and the credit enhancement reserves. 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. Unrealized gains and losses are computed quarterly using a cash flow model that projects the estimated fair values for each transaction based on a forecast of the projected termination of each deal. This model is updated with current data supplied by the trustees, which includes prepayment speed, delinquency rates, and market pricing.

Investment in Securitization Related Assets Acquired from Receiverships at December 31, 2000 Dollars in Thousands	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 799,518	$ 248,731	$ (43,645)	$ 1,004,604
Residual certificates	556,507	252,419	(2,088)	806,838
Total	**$ 1,356,025**	**$ 501,150**	**$ (45,733)**	**$ 1,811,442**

Investment in Securitization Related Assets Acquired from Receiverships at December 31, 1999 Dollars in Thousands	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 1,473,172	$ 315,629	$ (47,276)	$ 1,741,525
Residual certificates	871,901	111,817	0	983,718
Total	**$ 2,345,073**	**$ 427,446**	**$ (47,276)**	**$ 2,725,243**

5. Assets Acquired from Assisted Thrifts and Terminated Receiverships, Net

The FRF's assets acquired from assisted thrifts and terminated receiverships include: 1) assets the former FSLIC and the former RTC purchased from failing or failed thrifts and 2) assets the FRF acquired from receiverships and purchased under assistance agreements. The methodology to estimate cash recoveries from these assets, which is used to derive the related allowance for losses, is similar to that for receivables from thrift resolutions (see Note 3). The estimated cash recoveries are based upon a statistical sampling of the assets but only include expenses for the disposition of the assets to represent liquidating value.

The FRF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of proceeds from interest earned on assets in liquidation, professional liability claims, proceeds and/or settlements from conflicts and criminal restitutions, and other liquidation income. Expenses are recognized for the disposition and administration of these assets.

Assets Acquired from Assisted Thrifts and Terminated Receiverships, Net at December 31 Dollars in Thousands	2000	1999
Assets acquired from assisted thrifts and terminated receiverships	$ 107,617	$ 148,584
Allowance for losses	(73,001)	(114,177)
Total	**$ 34,616**	**$ 34,407**

6. Other Assets, Net

Other Assets, Net at December 31 Dollars in Thousands	2000	1999
Accounts receivable	$ 4,815	$ 7,159
Due from FDIC fund-BIF	309	0
Limited partnership equity interests	11,001	29,589
Total	**$ 16,125**	**$ 36,748**

7. Liabilities from Thrift Resolutions

Liabilities from thrift resolutions decreased by $223.5 million as a result of eliminating the reserve estimated for the future costs associated with liquidating the assets of failed thrifts. In prior years, this reserve was appropriate because of large amounts of assets held in liquidation and funding concerns faced by the former RTC in the mid and latter 1990s. Because of the rapid wind-down of the FRF-RTC activity over the past years, funding concerns have diminished. The net effect in 2000 of this change in estimate is a decrease to the accumulated deficit of $223.5 million.
In addition, the FSLIC issued promissory notes and entered into assistance agreements to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Pursuant to FIRREA, the FRF assumed these obligations. Notes payable and obligations for assistance agreements are presented in the "Liabilities from thrift resolutions" line item.

8. 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 $10 million are reasonably possible.

Additional Contingency
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 Home Loan Bank Board 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).

On July 23, 1998, the U.S. Treasury determined, based on an opinion of the DOJ's Office of Legal Counsel (OLC) dated July 22, 1998, that the FRF is legally available to satisfy all judgments and settlements in the Goodwill Litigation involving supervisory action or assistance agreements. The U.S. Treasury further determined that the FRF is the appropriate source of funds for payments of any such judgments and settlements.

The OLC opinion concluded that the 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.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On January 18, 2001, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the aggregate loss to the FRF from the 120 Winstar-related cases." The DOJ notes that 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.

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. Even if the Goodwill Litigation judgments and compromise settlements were to exceed other available resources of the FRF-FSLIC, an appropriation is available to pay such judgments and settlements. In these circumstances, any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC.

9. Interest on Advances and Subrogated Claims

During 2000, the FRF received $68.8 million in cash from RTC receiverships for interest on claims owed RTC arising out of thrift failures. No accrual was previously recognized on these amounts due to the uncertainty surrounding the receiverships' ability to pay the interest due on the Corporate claim. At year end 2000, the FRF accrued $90.0 million for interest deemed likely to be received within the next year from receiverships that have paid higher priority claims in full.

10. Provision for Losses

The provision for losses was a negative $439 million and a negative $278 million for 2000 and 1999, respectively. In 2000, the negative provision was primarily due to: 1) the elimination of the reserve for the estimated future costs associated with liquidating the assets of failed thrifts of $223.5 million (see Note 7) and 2) cash recoveries from assistance agreements of $86 million for net tax benefits sharing collections and $36 million for the redemption of stock warrants. The negative provision in 1999 resulted primarily from decreased losses expected for assets in liquidation. The following chart lists the major components of the negative provision for losses.

Provision for Losses for the Years Ended December 31				
Dollars in Thousands				
		2000		1999
Valuation Adjustments:				
Open thrift assistance	$	(38,049)	$	10,092
Tax benefit sharing recoveries		(86,001)		(110,061)
Closed thrifts		(14,585)		(284,699)
Estimated cost associated with liquidating assets		(223,500)		95,000
Assets acquired from assisted thrifts and terminated receiverships		(5,534)		15,907
Investment in securitization related assets acquired from receiverships		0		16,357
Miscellaneous receivables		(65,359)		0
Total Valuation Adjustments		**(433,028)**		**(257,404)**
Contingent Liabilities Adjustments:				
Litigation losses		(5,614)		(20,863)
Total Contingent Liabilities Adjustments		**(5,614)**		**(20,863)**
Total	**$**	**(438,642)**	**$**	**(278,267)**

11. 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, 2000 Dollars in Thousands	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,157,000	$ 87,171,499	$ 131,328,499
Miscellaneous payments/adjustments	25	(48)	(23)
Less: U.S. Treasury repayments	0	(394,593)	(394,593)
Less: REFCORP payments	0	(1,448,957)	(1,448,957)
Contributed capital - ending	**44,157,025**	**85,327,901**	**129,484,926**
Accumulated deficit	(41,738,151)	(82,529,627)	(124,267,778)
Less: Unrealized gain on available-for-sale securities	0	455,417	455,417
Accumulated deficit, net	**(41,738,151)**	**(82,074,210)**	**(123,812,361)**
Total	**$ 2,418,874**	**$ 3,253,691**	**$ 5,672,565**

Resolution Equity at December 31, 1999 Dollars in Thousands	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,156,000	$ 91,334,742	$ 135,490,742
Miscellaneous payments/adjustments	1,000	4,531	5,531
Less: U.S. Treasury repayments	0	(4,167,774)	(4,167,774)
Contributed capital - ending	**44,157,000**	**87,171,499**	**131,328,499**
Accumulated deficit	(41,925,270)	(83,074,330)	(124,999,600)
Less: Unrealized gain on available-for-sale securities	0	380,170	380,170
Accumulated deficit, net	**(41,925,270)**	**(82,694,160)**	**(124,619,430)**
Total	**$ 2,231,730**	**$ 4,477,339**	**$ 6,709,069**

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, 2000, as described in Note 1, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $1.4 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 former FSLIC and the former RTC ($29.7 billion and $87.9 billion were brought forward from the FSLIC and RTC, respectively).

12. Pension Benefits, Savings Plans, and Accrued Annual Leave

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.

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $5.2 million and $6.9 million at December 31, 2000 and 1999, respectively.

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

Dollars in Thousands

	2000	1999
Civil Service Retirement System	$ 1,152	$ 1,367
Federal Employees Retirement System (Basic Benefit)	3,708	4,687
FDIC Savings Plan	2,186	2,619
Federal Thrift Savings Plan	1,408	1,767
Total	**$ 8,454**	**$ 10,440**

13. Postretirement Benefits Other Than Pensions

The FDIC provides certain dental and life 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. Dental coverage is provided to all retirees eligible for an immediate annuity.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

Postretirement Benefits Other Than Pensions		
Dollars in Thousands		
	2000	1999
Funded Status at December 31		
Fair value of plan assets (a)	$ 15,921	$ 14,994
Less: Benefit obligation	14,985	16,130
Over/(Under) Funded Status of the Plans	**$ 936**	**$ (1,136)**
Prepaid (accrued) postretirement benefit cost recognized in the Statements of Financial Position	$ 347	$ (1,136)
Expenses and Cash Flows for the Period Ended December 31		
Net periodic benefit cost	$ 552	$ 563
Employer contributions	232	202
Benefits paid	232	202
Weighted-Average Assumptions at December 31		
Discount rate	5.25%	4.50%
Expected return on plan assets	5.25%	4.50%
Rate of compensation increase	6.30%	3.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be subject to an annual cap of $2,000.

14. Commitments

Letters of Credit

The RTC had adopted special policies that included honoring outstanding conservatorship and receivership collateralized letters of credit. This enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were issued by thrifts that later failed and were used to guarantee tax-exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 2000 and 1999, securities pledged as collateral to honor these letters of credit totaled $7.5 million and $7.6 million, respectively. The FRF estimated corporate losses related to the receiverships' letters of credit as part of the allowance for loss valuation. The allowance for these losses was $2.3 million and $1.1 million as of December 31, 2000 and 1999, respectively.

Leases

The FRF's allocated share of the FDIC's lease commitments totals $14.2 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 $5.0 million and $7.2 million for the years ended December 31, 2000 and 1999, respectively.

Lease Commitments					
Dollars in Thousands					
2001	2002	2003	2004	2005	2006/Thereafter
$3,938	$3,778	$2,628	$1,507	$1,141	$1,203

15. Concentration of Credit Risk

As of December 31, 2000, the FRF had gross receivables from thrift resolutions totaling $38.3 billion, gross assets acquired from assisted thrifts and terminated receiverships totaling $107.6 million, and an investment in securitization related assets acquired from receiverships totaling $1.8 billion. The allowance for loss against receivables from thrift resolutions totaled $37.8 billion, and the allowance against the assets acquired from assisted thrifts and terminated receiverships totaled $73 million.

Cash recoveries may be influenced by economic conditions. Similarly, the value of the investment in securitization related assets acquired from receiverships can be influenced by the economy of the area relating to the underlying loans and other assets. Accordingly, the FRF's maximum exposure to possible accounting loss is the recorded (net of allowance) value and is also shown in the table below.

Concentration of Credit Risk at December 31, 2000

Dollars in Millions	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net	$18	$15	$42	$4	$36	$301	$416
Assets acquired from assisted thrifts and terminated receiverships, net	0	34	1	0	0	0	35
Investment in securitization related assets acquired from receiverships	342	217	268	65	53	866	1,811
Total	**$360**	**$266**	**$311**	**$69**	**$89**	**$1,167**	**$2,262**

16. 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. This is due to their short maturities or comparisons 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 3), 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 majority of the net assets acquired from assisted thrifts and terminated receiverships (except real estate) is comprised of various types of financial instruments, including investments, loans, and accounts receivable. Like receivership assets, assets acquired from assisted thrifts and terminated receiverships are valued using discount rates that include consideration of market risk. However, assets acquired from assisted thrifts and terminated receiverships do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

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 4).

17. 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

	2000	1999
Net Income	**$ 731,822**	**$ 371,753**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for losses	(438,642)	(278,267)
Prior year appropriation adjustments	(48)	4,531
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	1,282,069	467,338
(Increase)/Decrease in securitization related assets acquired from receiverships	(38,895)	14,289
Decrease in assets acquired from assisted thrifts and terminated receiverships	5,324	13,788
Decrease in other assets	85,922	6,092
(Decrease)/Increase in accounts payable and other liabilities	(30,943)	34,710
(Decrease)/Increase in liabilities from thrift resolutions	(221,944)	92,414
Increase in contingent liabilities for litigation losses	7,215	3,968
Increase in contingent liabilities for assistance agreements	105	0
Net Cash Provided by Operating Activities	**$ 1,381,985**	**$ 730,616**

Comments From the Federal Deposit Insurance Corporation

FDIC
Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, DC 20429

Office of the Chief Financial Officer

April 26, 2001

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

Re: FDIC Management Response on the GAO 2000 Financial Statement 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's 2000 and 1999 Financial Statements, GAO-01-635. The report presents GAO's opinions on the calendar year 2000 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). The report also presents GAO's opinion on FDIC management's assertions about the effectiveness of internal control and GAO's evaluation of FDIC's compliance with laws and regulations.

We accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and notice that there were no material weaknesses identified during the 2000 audits. We are pleased GAO found the funds' financial statements were presented fairly 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 a weakness in FDIC's IS control, the weakness did not materially affect the 2000 financial statements. We believe that FDIC has made incremental progress in its multi-year commitment to addressing IS general control weaknesses. The FDIC continues to implement its information security strategic plan to improve controls over major applications and general support systems, and ensure users' awareness of their responsibilities for information security. The FDIC has been very successful in protecting the Corporation against penetration from outside viruses and has implemented a public key infrastructure platform which is in use for a payment system. The Corporation will continue efforts to strengthen its information security program and to incorporate GAO's recommendations into its security plans for 2001.

Our commitment to continue improvement efforts in the IS general controls area remains as strong as ever. In addition, we will monitor and keep you informed on the status of the FRF's liquidation activities including the goodwill litigation cases.

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

Sincerely,

Chris Sale

Chris K. Sale
Chief Financial Officer

GAO Contacts and Staff Acknowledgements

GAO Contacts

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Acknowledgements

In addition to those named above, the following staff made key contributions to this report: Patricia P. Blumenthal, Gary P. Chupka, Dennis L. Clarke, John C. Craig, Timothy J. Murray, and Theresa A. Patrizio.

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