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Report to the Congress

June 1998

FINANCIAL AUDIT

Federal Deposit Insurance Corporation's 1997 and 1996 Financial Statements

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GAO

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

Comptroller General
of the United States

B-277746

June 29, 1998

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 for the years ended December 31, 1997 and 1996. 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 FDIC management's assertions regarding the effectiveness of its internal control as of December 31, 1997, and (2) our evaluation of FDIC's compliance with laws and regulations during 1997. In addition, it discusses FDIC's progress in correcting internal control weaknesses and presents our recommendations for further improvement. The report also provides information on the status of the FSLIC Resolution Fund's liquidation activities and funding, and FDIC's Year 2000 efforts.

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 the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Chairman of the Board of Governors of the Federal Reserve System; the Comptroller of the Currency; the Director of the Office of Thrift Supervision; the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking and Financial Services; the Secretary of the Treasury; the Director of the Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Audits and Standards. Other major contributors to this report are listed in appendix III.

Robert W. Gramling for

James F. Hinchman
Acting Comptroller General
of the United States

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Abbreviations

BIF	Bank Insurance Fund
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FICO	Financing Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
REMIC	Real Estate Mortgage Investment Conduit
REFCORP	Resolution Funding Corporation
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SAVE	Standard Asset Valuation Estimation
SEC	Securities and Exchange Commission

GAO

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Accounting and Information
Management Division

B-277746

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1997 and 1996, of 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 were reliable in all material respects;
- although certain internal controls should be improved, FDIC management fairly stated that internal controls in place on December 31, 1997, were effective in safeguarding assets from material loss, assuring material compliance with relevant laws and regulations, and assuring that there were no material misstatements in the financial statements of the three funds administered by FDIC; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our conclusions in more detail. They also present information on (1) the scope of our audits, (2) the current status of FRF liquidation activities and funding, (3) FDIC's Year 2000 efforts, (4) FDIC's progress in addressing reportable conditions[1] identified during our 1996 audits, and a reportable condition identified during our 1997 audits, (5) recommendations from our 1997 audits, and (6) the Corporation's comments on a draft of this report and our evaluation.

Opinion on Bank Insurance Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Bank Insurance Fund's financial position as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended.

At FDIC's request, we provided an audit opinion in March 1998 on the Bank Insurance Fund's financial statements in order to facilitate FDIC's

[1]Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with management's authority and in accordance with laws and regulations, and (3) properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets.

Securities and Exchange Commission (SEC) reporting needs resulting from BIF's 1996 asset securitization transaction. The BIF audit opinion provided to FDIC for this purpose is presented in appendix I.

As discussed in note 7 of BIF's financial statements, FDIC has securitized some BIF receivership assets in two separate securitization deals as part of FDIC's efforts to maximize the return from the sale or disposition of assets. The deals were accomplished through the creation of Real Estate Mortgage Investment Conduit (REMIC) trusts. To facilitate the securitizations, BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. Because of the limited guarantee provided by BIF, and the public holding of the securities from the 1996 securitization, the REMIC trust was required to include BIF's audited financial statements as an exhibit in its Form 10-K report for the year ended December 31, 1997.

Opinion on Savings Association Insurance Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Savings Association Insurance Fund's financial position as of December 31, 1997 and 1996, 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 and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the FSLIC Resolution Fund's financial position as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended.

As discussed in note 9 of FRF's financial statements, a contingency exists from the over 120 lawsuits pending against the United States government in the United States Court of Federal Claims. These lawsuits assert that certain agreements were breached when Congress enacted and the Office of Thrift Supervision implemented legislation affecting the thrift industry.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three other cases, consolidated for appeal to the Supreme Court, in which the changes in regulatory treatment required by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) led the government to not honor its contractual obligations. However, because the lower courts had not determined the appropriate measure or amount of damages, the Supreme Court returned the cases to the Court of Federal Claims for further proceedings. Until the amount of damages is determined by the court, the amount of costs from these three cases is uncertain. Further, with respect to the other pending cases, the outcome of each case and the amount of any possible damages remain uncertain.

Claims against the federal government are generally paid from the Judgment Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304, and administered by the Department of the Treasury. However, the Department of the Treasury may determine that payment of a judgment is otherwise provided for by another dedicated source of funds. FDIC believes that FRF should not be considered a dedicated source of funds for payment of such judgments against the United States. Because the Department of the Treasury has not yet determined the source of payment for these judgments, the extent to which FRF will be responsible for any payments is uncertain.

Opinion on FDIC Management's Assertions About the Effectiveness of Internal Controls

For the three funds administered by FDIC, we evaluated FDIC management's assertions about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with provisions of selected laws and regulations that have a direct and material effect on the financial statements of the three funds; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

FDIC management fairly stated that those controls in place on December 31, 1997, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. FDIC management made this assertion based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FDIC management, in making its assertion, also fairly stated the need to improve certain internal controls.

Our work also identified the need to improve certain internal controls, as described in a later section of this report. The weakness in internal controls, although not considered a material weakness,[2] represents a significant deficiency in the design or operation of internal controls which could have adversely affected FDIC's ability to fully meet the internal control objectives listed above. The internal control weakness relates to FRF only, and although the weakness did not materially affect FRF's financial statements, misstatements may nevertheless occur in other FDIC-reported financial information for FRF as a result of the internal control weakness. The weakness is discussed in detail in a later section of this report.

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 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

- preparing the annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and evaluating the internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are free of material misstatement and presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) FDIC management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based upon the criteria established under FMFIA. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information in FDIC's annual financial report.

In order to fulfill these responsibilities, we

[2]A material weakness is a reportable condition in which the design or operation of the internal control does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

- 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 the internal controls related to safeguarding assets, compliance with laws and regulations, including the execution of transactions in accordance with management's authority, and financial reporting;
- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls; and
- tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended; the Chief Financial Officers Act of 1990; and the Federal Home Loan Bank Act, as amended.

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 those controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control, losses, noncompliance, or misstatements 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 conducted our audits between July 1997 and May 1998. Our audits were conducted in accordance with generally accepted government auditing standards.

FDIC provided comments on a draft of this report. FDIC's comments are discussed and evaluated in a later section of this report and are included in appendix II.

Current Status of FRF's Liquidation Activities and Funding

FDIC, as administrator of FRF, is responsible for liquidating the assets and liabilities of the former Resolution Trust Corporation (RTC), as well as the former FSLIC's assets and liabilities.[3] As shown in table 1, the majority of

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

FRF's losses from liquidation activities have been realized as of December 31, 1997.

Table 1: FRF's Realized and Unrealized Losses as of December 31, 1997

(Dollars in billions)

	FRF-RTC	FRF-FSLIC	Total FRF
Realized losses	$83.2	$41.4	$124.6
Unrealized losses	1.6	0.8	2.4
Total realized and unrealized losses (accumulated deficit)	**$84.8**	**$42.2**	**$127.0**

The accumulated deficit for FRF includes losses that have already been realized, as well as future estimated losses from assets and liabilities not yet liquidated. Losses are realized when failed financial institution assets in receiverships are disposed of and the proceeds are not sufficient to repay amounts payable to FRF. Losses are also realized if assets that FRF purchases from terminating receiverships are later sold for less than the purchase price. Losses are also realized when certain estimated liabilities associated with FRF's liquidation activities are paid out. Uncertainties still exist with regard to the unrealized losses, and the final amount will not be known with certainty until all remaining assets and liabilities are liquidated.

In total, $135.5 billion was received to cover liabilities and losses associated with the former FSLIC and RTC resolution activities. Of the $135.5 billion total, $91.3 billion[4] was received by RTC through December 31, 1995, the date of RTC's termination, to cover losses and expenses associated with failed institutions from its caseload. FRF received $44.2 billion to cover the liabilities and losses associated with the former FSLIC activities.

As shown in table 2, after reducing the total amount of funding received by the amount of recorded accumulated deficit, an estimated $8.5 billion in available funds will remain. The RTC Completion Act requires FDIC to deposit in the general fund of the Treasury any funds transferred to RTC pursuant to the Completion Act but not needed for RTC-related losses. Also, after providing for all outstanding RTC liabilities, FDIC must transfer to

[4]FIRREA provided an initial $50 billion to RTC. The Resolution Trust Corporation Funding Act of 1991 provided an additional $30 billion. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 provided $25 billion in December 1991, of which $6.7 billion was obligated prior to the April 1, 1992 deadline. In December 1993, the RTC Completion Act removed the April 1, 1992, deadline, thus making the remaining $18.3 billion available to RTC for resolution activities. Prior to RTC's termination on December 31, 1995, RTC drew down $4.6 billion of the $18.3 billion that was made available by the RTC Completion Act.

the Resolution Funding Corporation (REFCORP) the net proceeds from the sale of RTC-related assets. Any such funds transferred to REFCORP pay the interest on REFCORP bonds issued to provide funding for the early RTC resolutions. Any payments to REFCORP benefit the U.S. Treasury, which is otherwise obligated to pay the interest on the bonds. Separately, any FSLIC-related funds remaining are to be deposited to the U.S. Treasury. The final amount of unused funds will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated.

Table 2: Estimated Unused Funds After Completion of FRF's Liquidation Activities

(Dollars in billions)

	FRF-RTC	FRF-FSLIC	Total FRF
Total funds received	$91.3	$44.2	$135.5
Less: accumulated deficit	84.8	42.2	127.0
Estimated unused funds	**$ 6.5**	**$ 2.0**	**$ 8.5**

Information on FDIC's Year 2000 Efforts

The Year 2000 computing crisis is a sweeping and urgent information technology challenge facing public and private organizations.[5] In addition to facing Year 2000 issues with its internal systems, FDIC, as administrator of the deposit insurance funds, faces exposure and potential loss from banks and thrifts that fail to adequately address their own Year 2000 system issues. In addition, as regulator, FDIC has responsibility to ensure that the banks it oversees are adequately addressing systems issues related to the Year 2000.

In February 1998, we testified on FDIC's progress in addressing the Year 2000 challenges it faces.[6] In summary, we found that FDIC is taking action to address its Year 2000 risks. With regard to FDIC's efforts to correct its internal systems, we concluded that at the time of our testimony, FDIC was behind in assessing whether its systems were Year 2000 compliant. In response, FDIC has revised its project plan to include earlier completion dates for certain phases of the project and is allocating resources to support the plan. In addition, as discussed in the notes to FDIC's financial

[5]For the past several decades, information systems have typically used two digits to represent the year, such as "98" for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, 2000 is indistinguishable from 1900 because both are represented as "00." As a result, if not modified, computer systems or applications that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

[6]Year 2000 Computing Crisis: Federal Deposit Insurance Corporation's Efforts to Ensure Bank Systems Are Year 2000 Compliant (GAO/T-AIMD-98-73, February 10, 1998).

statements,[7] FDIC is currently assessing, testing, modifying, or replacing its automated systems in order to ensure that they become Year 2000 compliant.

We also testified that FDIC is devoting considerable effort and resources to ensure that the banks it oversees mitigate their Year 2000 risks. FDIC is also working closely with the other banking regulators to provide guidance and supervision for the banking and savings institution industries as a whole. However, as discussed in the notes to BIF's and SAIF's financial statements, as of December 31, 1997, the potential exposure to the deposit insurance funds resulting from the Year 2000 problem was not estimable. During 1998, FDIC is continuing its monitoring efforts, and is gathering additional data to analyze and estimate potential exposure to the insurance funds from the potential Year 2000 problems of the banks and thrifts it insures. We will evaluate FDIC's analysis of exposure to the insurance funds from banks' and savings institutions' Year 2000 problems during our audits of FDIC's 1998 financial statements.

Reportable Conditions

The following sections discuss (1) FDIC's progress in addressing reportable conditions identified during our 1996 audits and (2) reportable conditions found during our 1997 audits.

Progress on Weaknesses Identified in Previous Audits

In our 1996 audit report on the three funds administered by FDIC, we identified two reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved.[8] These weaknesses related to FDIC's internal controls designed to ensure that (1) contracted asset servicers properly safeguarded failed institution assets and accurately reported financial information to FDIC and (2) data used in the calculation of the year-end allowance for losses was adequately reviewed for accuracy prior to inclusion in the year-end calculation.

First, during our 1996 audits, we found that FDIC had limited assurance that contracted asset servicers properly safeguarded failed institution assets and accurately reported financial information to FDIC because of deficiencies in FDIC's contractor oversight program. Specifically, FDIC's contractor oversight procedures did not ensure that (1) contracted asset

[7] See the following notes to FDIC's financial statement: number 16 for BIF; number 13 for SAIF; and number 17 for FRF.

[8] Financial Audit: Federal Deposit Insurance Corporation's 1996 and 1995 Financial Statements (GAO/AIMD-97-111, June 30, 1997).

servicers had adequate controls over daily collections and bank reconciliations, (2) servicers' fees and reimbursable expenses were valid, accurate, and complete, and (3) servicers' loan system calculations relating to the allocation of principal and interest were accurate.

During 1997, FDIC implemented a contracted asset servicer visitation program to address the specific areas of weaknesses noted during our 1996 audits. Also, FDIC completed an interdivisional memorandum of understanding to clarify the roles and responsibilities related to contractor oversight. As a result, we found that FDIC's new procedures ensured that contracted asset servicers had adequate controls over daily collections and bank reconciliations and loan system calculations relating to the allocation of principal and interest. Although we continued to find instances where FDIC oversight personnel did not ensure that servicer fees and expenses were valid and accurate, we concluded that the extent of the problems was not significant to BIF's and FRF's financial statements. We will discuss this matter further in a management letter.

During our 1997 audits, we found that the action FDIC took to address the second reportable condition was not fully effective. Therefore, we are continuing to report the weakness regarding integrity of data used for calculating the allowance for losses as a reportable condition. Additional details are provided below.

Reportable Condition Identified in 1997

FDIC estimates recoveries on assets acquired from failed financial institutions and uses these estimates to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets. FDIC uses multiple data sources to calculate the estimated recoveries from these assets. Generally, FDIC estimates recoveries on loans, real estate owned, equity in subsidiaries, and other assets (including furniture and fixtures and miscellaneous receivables) using its Standard Asset Valuation Estimation (SAVE) process. FDIC values securities and other types of equity interests outside of its SAVE process.

During our 1996 audits, we found that FDIC did not have effective procedures in place to ensure that recovery estimates received from the various sources were adequately reviewed for accuracy prior to being included in the year-end calculation of the allowance for losses. In response to our finding, FDIC implemented enhanced review procedures intended to mitigate the occurrence of errors and ensure the quality and reasonableness of the recovery estimates. The new procedures required certification that recovery estimates submitted for inclusion in the allowance for loss calculations had been formally reviewed for accuracy.

During our 1997 audits, we continued to note problems with recovery estimates for FRF assets not valued as part of FDIC's SAVE process. For example, we found that significant errors were made in estimating the recoveries for a portfolio of partnership interests, causing the portfolio to be undervalued by $125 million. In addition, we found unsupported recoveries and other errors in the estimated recoveries for another portfolio of debt and equity securities causing the portfolio to be overvalued by $26 million. The estimated recoveries for both the partnership interests and debt and equity securities portfolios described above had been certified and reviewed for accuracy by FDIC personnel. The combined effect of the above valuation errors was an understatement of FRF's estimated recoveries and an overstatement of its allowance for losses on amounts due from receiverships.

FRF assets valued outside of FDIC's SAVE process were valued using various, inconsistent methods with varying degrees of examination of underlying documentation. This situation, combined with ineffective verification and review increases the risk that errors will occur and remain undetected by FDIC.

In addition to the weaknesses described above, we noted other less significant matters involving FDIC's system of internal accounting controls and FDIC's electronic data processing controls which we will be reporting separately to FDIC in two management letters.

Recommendations

In order to address the above weakness, we recommend that the Chairman of FDIC direct the heads of the Division of Resolutions and Receiverships and the Division of Finance to implement an improved process for estimating recoveries for securities and other assets currently being valued outside of its Standard Asset Valuation Estimation process. The process should have the objectives of producing valid and defensible estimates for financial statement purposes. In addition, FDIC should reemphasize the importance of the review and certification procedures for the estimated recoveries on assets valued outside of its standard asset valuation process.

Corporation Comments and Our Evaluation

In commenting on a draft of this report, FDIC acknowledged the reportable condition cited in our report and described its planned approach to improve the reliability of estimated recoveries for FRF assets valued outside of the SAVE process. We plan to evaluate the adequacy and effectiveness of these corrective actions as part of our audits of FDIC's 1998 financial statements. FDIC's comments also address the progress made in addressing the reportable condition regarding contractor oversight discussed in our 1996 report.

The complete text of FDIC's response to our report is included in appendix II.

Robert W. Gramling
Director, Corporate Audits
and Standards

May 15, 1998

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position

(dollars in thousands)		December 31 1997		1996
Assets				
Cash and cash equivalents	$	219,207	$	258,132
Investment in U.S. Treasury obligations, net (Note 3)		26,598,825		22,083,494
(Market value of investments at December 31, 1997 and December 31, 1996 was $27.1 billion and $22.1 billion, respectively)				
Interest receivable on investments and other assets, net		472,818		384,824
Receivables from bank resolutions, net (Note 4)		1,109,035		4,341,154
Assets acquired from assisted banks and terminated receiverships, net (Note 5)		60,724		74,173
Property and buildings, net (Note 6)		145,061		148,400
Total Assets	$	**28,605,670**	$	**27,290,177**
Liabilities				
Accounts payable and other liabilities	$	228,955	$	250,952
Estimated liabilities for: (Note 7)				
Anticipated failure of insured institutions		11,000		75,000
Assistance agreements		31,952		50,817
Litigation losses		13,500		14,750
Asset securitization guarantees		27,715		44,279
Total Liabilities		**313,122**		**435,798**
Commitments and off-balance-sheet exposure (Note 13)				
Fund Balance				
Accumulated net income		28,292,672		26,854,379
Unrealized loss on available-for-sale securities, net (Note 3)		(124)		0
Total Fund Balance		**28,292,548**		**26,854,379**
Total Liabilities and Fund Balance	$	**28,605,670**	$	**27,290,177**

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

Statements of Income and Fund Balance

Bank Insurance Fund

Bank Insurance Fund Statements of Income and Fund Balance

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Revenue		
Assessments (Note 9)	$ 24,711	$ 72,662
Interest on U.S. Treasury investments	1,519,276	1,267,134
Revenue from assets acquired from assisted banks and terminated receiverships	38,000	69,879
Other revenue (Note 10)	33,631	245,585
Total Revenue	**1,615,618**	**1,655,260**
Expenses and Losses		
Operating expenses	605,214	505,299
Provision for insurance losses (Note 8)	(503,714)	(325,206)
Expenses for assets acquired from assisted banks and terminated receiverships	74,319	73,819
Interest and other insurance expenses	1,506	667
Total Expenses and Losses	**177,325**	**254,579**
Net Income	**1,438,293**	**1,400,681**
Unrealized loss on available-for-sale securities, net (Note 3)	(124)	0
Comprehensive Income	**1,438,169**	**1,400,681**
Fund Balance - Beginning	**26,854,379**	**25,453,698**
Fund Balance - Ending	**$ 28,292,548**	**$ 26,854,379**

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

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Cash Flows From Operating Activities		
Cash provided from:		
Assessments	$ 22,201	$ 73,961
Interest on U.S. Treasury investments	1,480,060	1,303,629
Recoveries from bank resolutions	3,826,273	624,502
Recoveries from assets acquired from assisted banks and terminated receiverships	141,765	355,913
Miscellaneous receipts	24,951	34,329
Cash used for:		
Operating expenses	(580,515)	(489,372)
Disbursements for bank resolutions	(298,943)	(632,930)
Disbursements for assets acquired from assisted banks and terminated receiverships	(67,231)	(205,775)
Miscellaneous disbursements	(11,771)	(16,810)
Net Cash Provided by Operating Activities (Note 15)	**4,536,790**	**1,047,447**
Cash Flows From Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations, held-to-maturity	6,300,000	7,550,000
Cash used for:		
Purchase of U.S. Treasury obligations, held-to-maturity	(10,373,695)	(8,870,623)
Purchase of U.S. Treasury obligations, available-for-sale	(502,020)	0
Net Cash Used by Investing Activities	**(4,575,715)**	**(1,320,623)**
Net Decrease in Cash and Cash Equivalents	**(38,925)**	**(273,176)**
Cash and Cash Equivalents - Beginning	**258,132**	**531,308**
Cash and Cash Equivalents - Ending	**$ 219,207**	**$ 258,132**

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

Notes to Financial Statements

Notes to Financial Statements
Bank Insurance Fund
December 31, 1997 and 1996

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 three funds. All three funds are maintained separately to carry out their respective mandates.

The BIF and the SAIF are insurance funds responsible for protecting depositors in operating banks and thrift institutions from loss due to failure of the institution. 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. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). The Oakar amendment to the Federal Deposit Insurance Act (FDI Act) allows BIF and SAIF members to acquire deposits insured by the other insurance fund without changing insurance fund coverage for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakars or Oakar institutions. "Sasser" banks are SAIF members that have converted to a bank charter in accordance with Section 5(d)(2)(G) of the FDI Act.

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 9) and borrowing authority (see "Operations of the BIF" below). The FDICIA also requires the FDIC to: 1) resolve troubled 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 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 approximately $790 million annual FICO interest obligation on a pro rata basis between banks and thrifts on the earlier of December 31, 1999, 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 designated reserve ratio; 6) the refund of amounts in the BIF in excess of the designated reserve ratio with such refund not to exceed the previous semi-annual assessment; and 7) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date.

Operations of the BIF
The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured banks and 2) resolve failed banks, 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 and provides and monitors assistance to troubled banks.

The BIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations; 2) BIF assessment premiums; 3) income earned on and funds received from the management and disposition of assets acquired from failed banks; and 4) 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). At December 31, 1997, the MOL for the BIF was $50 billion.

The VA, HUD and Independent Agencies Appropriations Act, 1998, Public Law 105-65, appropriated $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998) for operating expenses incurred by the Office of Inspector General (OIG). The Act mandates that the funds are to be derived from the BIF, the SAIF, and the FRF. In prior years, the OIG funding was not submitted to Congress as part of the appropriation process.

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
The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

Investments in U.S. Treasury Obligations
Investments in U.S. Treasury Obligations are recorded pursuant to the provisions of the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are intended to be held to maturity and 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. Beginning in 1997, the BIF designated a portion of its securities as available-for-sale. These securities are shown at fair value with unrealized gains and losses included in the fund balance. Realized gains and losses are included in other revenue when applicable. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method. The BIF does not have any securities classified as trading.

Allowance for Losses on Receivables From Bank Resolutions and Assets Acquired From Assisted Banks and Terminated Receiverships
The BIF records as a receivable the amounts advanced and/or obligations incurred for resolving troubled 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 estimated liquidation costs.

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

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative, and other indirect expenses) not directly charged to each fund under the FDIC's

management are allocated based on percentages developed during the business planning process. The cost of furniture, fixtures, and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a similar basis. The BIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

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 pays its liabilities for these benefits directly to the entity. The BIF's remaining net postretirement benefits liability for the plan is recognized in the BIF's Statement of Financial Position.

Disclosure About Recent Financial Accounting Standards Board Pronouncements
In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income as well as certain types of unrealized gain or loss. The only component of SFAS No. 130 that impacts the BIF is unrealized gain or loss on securities classified as available-for-sale which is presented in the BIF's Statement of Financial Position and the Statement of Income and Fund Balance. The FDIC adopted SFAS No. 130 effective on January 1, 1997.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The FDIC intends to adopt SFAS No. 131 effective on January 1, 1998; however, management anticipates that the BIF, as a non-publicly held enterprise, will not be affected by SFAS No. 131.

Other recent pronouncements issued by the FASB are not applicable to the financial statements.

Depreciation
The FDIC has designated the BIF as administrator of buildings owned and 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 a rental fee representing an allocated share of its annual depreciation expense.

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.

Related Parties
The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1996 financial statements to conform to the presentation used in 1997.

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

All cash received by the BIF is invested in U.S. Treasury obligations with maturities exceeding three months unless the cash is used: 1) to defray operating expenses; 2) for outlays related to assistance to banks and liquidation activities; or 3) for investments in U.S. Treasury one-day special certificates that are included in the cash and cash equivalents line item. Prior to 1997, all investments were designated "held-to-maturity." (see Note 2).

U.S. Treasury Obligations at December 31, 1997

(dollars in thousands)

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Held-to-Maturity			
Less than one year	5.58%	$ 5,250,000	$ 5,240,657	$ 5,369	$ (5,650)	$ 5,240,375
1-3 years	5.83%	5,280,000	5,330,281	26,113	(7,413)	5,348,983
3-5 years	6.15%	5,490,000	5,685,279	89,744	(6,895)	5,768,128
5-10 years	6.57%	9,500,000	9,840,712	439,733	0	10,280,445
Total		$ 25,520,000	$ 26,096,929	$ 560,959	$ (19,958)	$ 26,637,931
			Available-for-Sale			
1-3 years	5.67%	490,000	502,020	19	(143)	501,896
			Total Investment in U.S. Treasury Obligations, Net			
Total		**$ 26,010,000**	**$ 26,598,949**	**$ 560,978**	**$ (20,101)**	**$ 27,139,827**

U.S. Treasury Obligations at December 31, 1996

(dollars in thousands)

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	6.02%	$ 5,800,000	$ 5,805,090	$ 15,032	$ (6,934)	$ 5,813,188
1-3 years	5.62%	8,320,000	8,339,386	8,499	(37,429)	8,310,456
3-5 years	6.10%	4,770,000	4,811,582	21,306	(30,560)	4,802,328
5-10 years	6.51%	3,100,000	3,127,436	38,415	(328)	3,165,523
Total		**$ 21,990,000**	**$ 22,083,494**	**$ 83,252**	**$ (75,251)**	**$ 22,091,495**

In 1997, the unamortized premium, net of unamortized discount, was $589 million. In 1996, the unamortized premium, net of unamortized discount, was $93 million.

4. Receivables From Bank Resolutions, Net

The FDIC resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover the institution's obligation to insured depositors and represent a claim by the BIF against the receiverships' assets. There was only one bank failure in 1997.

The FDIC, as receiver for failed banks, engages in a variety of strategies at the time of failure to maximize the return from the sale or disposition of assets. A failed bank acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit, and risk related to such assets. The receiver may also engage in other types of transactions as circumstances warrant. As described in Note 2, an allowance for loss is established against the receivable from bank resolutions.

As of December 31, 1997 and 1996, the FDIC, in its receivership capacity for BIF-insured institutions, held assets with a book value of $2.5 billion and $7.3 billion, respectively (including cash and miscellaneous receivables of $1 billion and $3.9 billion at December 31, 1997 and 1996, respectively). These assets represent a significant source of repayment of the BIF's receivables from bank resolutions. 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. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could affect the BIF's and other claimants' actual recoveries from the level currently estimated.

Receivables From Bank Resolutions, Net, at December 31

(dollars in thousands)	1997	1996
Assets from open bank assistance	$ 140,035	$ 142,267
Allowance for losses	(38,497)	(49,580)
Net Assets From Open Bank Assistance	**101,538**	**92,687**
Receivables from closed banks	23,268,950	28,169,809
Allowance for losses	(22,261,453)	(23,921,342)
Net Receivables From Closed Banks	**1,007,497**	**4,248,467**
Total	**$ 1,109,035**	**$ 4,341,154**

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

The BIF acquires 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 used to derive the allowance for losses for assets acquired from assisted banks and terminated receiverships is the same as that for receivables from bank resolutions.

The BIF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages and commercial loans related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

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

(dollars in thousands)	1997	1996
Assets acquired from assisted banks and terminated receiverships	$ 256,237	$ 423,151
Allowance for losses	(195,513)	(348,978)
Assets Acquired from Assisted Banks and Terminated Receiverships, Net	**$ 60,724**	**$ 74,173**

6. Property and Buildings, Net

Property and Buildings, Net at December 31

(dollars in thousands)	1997	1996
Land	$ 29,631	$ 29,631
Office buildings	151,442	151,442
Accumulated depreciation	(36,012)	(32,673)
Property and Buildings, Net	**$ 145,061**	**$ 148,400**

7. Estimated Liabilities for:

Anticipated Failure of Insured Institutions
The BIF records an estimated 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, in the period when the liability is considered probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1997 and 1996, were $11 million and $75 million, respectively. The estimated liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable bank failures. Therefore, they are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 4). This could affect the ultimate costs to the BIF from probable bank 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 of about $197 million.

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

Assistance Agreements
The estimated 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 absorb credit losses and pay related costs for funding and asset administration, plus an incentive fee.

Litigation Losses
The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. The estimated liability for litigation losses is $14 million and $15 million at December 31, 1997 and 1996, respectively. In addition to the amount recorded as probable, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $320 million are reasonably possible.

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, 1997 and 1996, the BIF had an estimated liability under the guarantees of $28 million and $44 million, respectively.

During 1996, the BIF refined its liability estimation process and returned to receiverships $91.6 million in cash (including interest of $8.4 million) received for backing the limited guarantee. The BIF made this one-time refund as a result of lowering the estimate of expected exposure under one of the guarantees. To determine the maximum exposure under the limited guarantees, please refer to the chart in Note 13.

8. Provision for Insurance Losses

Provision for insurance losses was a negative $504 million and a negative $325 million for 1997 and 1996, respectively. Reductions to various allowance for losses and estimated liabilities account for the negative loss provision. The following chart lists the major components of the reduction in provision for insurance losses.

Provision for Insurance Losses (dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Valuation adjustments:		
Open bank assistance	$ (12,180)	$ (3,605)
Closed banks	(356,347)	(128,149)
Assets acquired from assisted banks and terminated receiverships	(55,663)	50,589
Total Valuation Adjustments	**(424,190)**	**(81,165)**
Contingencies:		
Anticipated failure of insured institutions	(59,000)	(204,000)
Assistance agreements	(12,716)	(4,404)
Asset securitization guarantees	(6,558)	(14,572)
Litigation	(1,250)	(21,065)
Total Contingencies	**(79,524)**	**(244,041)**
Reduction in Provision for Insurance Losses	**$ (503,714)**	**$ (325,206)**

9. 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.

In May 1995, the BIF reached the FDICIA mandated capitalization level of 1.25 percent of 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). On January 1, 1997, BIF-insured banks began paying a FICO assessment. The FICO assessment rate on BIF-assessable deposits is one-fifth of the rate for SAIF-assessable deposits. On the earlier of December 31, 1999, or the date on which the last savings association ceases to exist, the approximately $790 million annual FICO interest obligation will be paid on a pro rata basis between banks and thrifts.

The FICO assessment has no financial impact on the BIF since the FICO assessment is separate from the regular assessment, and the FICO assessment is imposed on banks and not on the BIF. The FDIC, as administrator of the BIF, is acting solely as a collection agent for the FICO. During 1997, $338 million was collected from banks and remitted to the FICO.

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 FDIC Board of Directors (Board) reviews premium rates semiannually. The average assessment rate for 1997 was 0.08 cents per $100 of assessable deposits. On November 12, 1997, the Board voted to retain the BIF assessment schedule of 0 to 27 cents per $100 of assessable deposits (annual rates) for the first semiannual period of 1998.

10. Other Revenue

Included in other revenue is interest on subrogated claims and advances to financial institutions. This interest totaled $22 million and $231 million for 1997 and 1996, respectively (including $10 million and $205 million in post-insolvency interest for 1997 and 1996, respectively). Certain BIF receiverships may have residual funds remaining after paying all higher priority claims. Once those claims have been paid, the BIF and other claimants are eligible to receive interest on their claims against the receivers to the extent funds are available. Due to the uncertainty of collection, post-insolvency interest is recognized as income when received.

11. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

Eligible FDIC employees (all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee 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 (OPM).

Eligible FDIC employees also may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

Due to a substantial decline in the FDIC's workload, the Corporation developed a staffing reduction program, a component of which is a voluntary separation incentive plan, or buyout. Corporate-wide buyout plans have been offered to eligible employees. The buyouts have not had a material effect on the BIF.

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $35.7 million and $38.9 million at December 31, 1997 and 1996, respectively.

Pension Benefits and Savings Plans Expenses

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
CSRS/FERS Disability Fund	$ 488	$ 1,127
Civil Service Retirement System	8,708	9,113
Federal Employee Retirement System (Basic Benefit)	28,661	34,989
FDIC Savings Plan	16,974	19,474
Federal Thrift Savings Plan	10,568	12,195
Total	**$ 65,399**	**$ 76,898**

12. Postretirement Benefits Other Than Pensions

The FDIC provides certain health, dental, and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or 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 FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation

Health Psychcare Inc., and the prescription drug claims administered by Caremark.

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.

The BIF expensed $3.3 million and $6.1 million for net periodic postretirement benefit costs for the years ended December 31, 1997 and 1996, respectively. For measurement purposes for 1997, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1997 of 9.75 percent (inclusive of general inflation of 2.5 percent), decreasing to an ultimate rate in the year 2000 and thereafter of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.5 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1997, would have increased by 20.2 percent. The effect of this change on the aggregate of service and interest cost for 1997 would be an increase of 23.5 percent.

Net Periodic Postretirement Benefit Cost (dollars in thousands)

	For the Year Ended December 31, 1997	December 31, 1996
Service cost (benefits attributed to employee service during the year)	$ 12,618	$ 15,575
Interest cost on accumulated postretirement benefit obligation	17,564	16,258
Net total of other components	(5,868)	(7,369)
Return on plan assets	(21,009)	(18,402)
Total	**$ 3,305**	**$ 6,062**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, and the FRF. The BIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation and Funded Status at December 31

(dollars in thousands)	1997	1996
Retirees	$ 190,339	$ 136,730
Fully eligible active plan participants	14,830	12,724
Other active participants	173,058	152,993
Total Obligation	**378,227**	**302,447**
Less: Plan assets at fair value (a)	356,447	335,439
Under/(Over) Funded Status	**21,780**	**(32,992)**
Unrecognized prior service cost	12,870	46,136
Unrecognized net gain	4,581	26,846
Postretirement Benefit Liability Recognized in the Statement of Financial Position	**$ 39,231**	**$ 39,990**

(a) Invested in U.S. Treasury instruments

13. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases
The BIF's allocated share of the FDIC's lease commitments totals $188.5 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 among the three funds in future years could change the amount of the FDIC's lease payments that will be allocated to the BIF. The BIF recognized leased space expense of $43.6 million and $39.9 million for the years ended December 31, 1997 and 1996, respectively.

Lease Commitments

(dollars in thousands)					
1998	1998	2000	2001	2002	2003 and Thereafter
$42,507	$35,337	$30,550	$23,950	$21,142	$35,029

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)	1997	1996
Maximum exposure under the limited guarantees	$ 481,313	$ 481,313
Less: Guarantee claims paid (inception-to-date)	(19,231)	(8,651)
Less: Amount of exposure recognized as an estimated liability (see Note 7)	(27,715)	(44,279)
Maximum Off-Balance Sheet Exposure Under the Limited Guarantees	**$ 434,367**	**$ 428,383**

Concentration of Credit Risk

As of December 31, 1997, the BIF had $23.4 billion in gross receivables from bank resolutions and $256 million in assets acquired from assisted banks and terminated receiverships. An allowance for loss of $22.3 billion and $195 million, respectively, has been recorded against these assets. The liquidation 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 maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 1997

(dollars in millions)	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from bank resolutions, net and Assets acquired from assisted banks and terminated receiverships, net	$11	$98	$904	$50	$20	$87	$1,170

Other Off-Balance-Sheet Risk

Deposit Insurance
As of December 31, 1997, deposits insured by the BIF totaled approximately $2.1 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

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 receivable from bank resolutions primarily involves 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 receivable 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, 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 (investments, loans, accounts receivable, etc.) acquired from failed banks. 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

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Net Income	**$ 1,438,293**	**$ 1,400,681**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Reduction in provision for insurance losses	(503,714)	(325,206)
Amortization of U.S. Treasury securities	60,261	(826)
Depreciation on buildings	3,339	3,339
Change in Assets and Liabilities:		
(Increase) Decrease in interest receivable on investments and other assets	(87,996)	21,981
Decrease (Increase) in receivables from bank resolutions	3,600,646	(66,359)
Decrease in assets acquired from assisted banks and terminated receiverships	69,112	55,531
(Decrease) Increase in accounts payable and other liabilities	(21,997)	26,327
(Decrease) in estimated liabilities for anticipated failure of insured institutions	(5,000)	0
(Decrease) in estimated liabilities for assistance agreements	(6,147)	(721)
(Decrease) in estimated liabilities for asset securitization guarantees	(10,007)	(67,300)
Net Cash Provided by Operating Activities	**$ 4,536,790**	**$ 1,047,447**

16. Year 2000 Compliance Expenses

As part of its operations, the FDIC as administrator of the BIF is assessing, testing, modifying or replacing as necessary its automated systems to ensure that these systems are Year 2000 compliant. As of December 31, 1997, the BIF has not incurred, nor does management anticipate that the BIF will incur, a material charge to earnings to ensure that its systems are Year 2000 compliant.

The BIF is also subject to a potential loss from banks that may fail if they are unable to become Year 2000 compliant in a timely manner. As of December 31, 1997, the potential liability, if any, is not estimable. During 1998, the FDIC will assess this potential liability.

17. Subsequent Events

Effective on January 4, 1998, all employees with five or more years until retirement were converted from the FDIC health plan to the Federal Employees Health Benefits (FEHB) program. This conversion resulted in a gain to the BIF. Assuming enabling legislation is passed in the future, this conversion will also affect all retirees and employees within five years of retirement.

As part of this conversion, the OPM will become responsible for postretirement health benefits for employees with five or more years until retirement at no cost to the BIF. If retirees and employees within five years of retirement are also converted in the future, the OPM will assume the BIF's obligation for postretirement health benefits for those individuals at a fee to be negotiated between the FDIC and the OPM.

Assuming enabling legislation is passed, management does not expect there will be a material gain or loss upon disposition of the BIF's postretirement health benefits obligation for retirees or employees within five years of retirement.

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

(dollars in thousands)

	December 31			
		1997		**1996**
Assets				
Cash and cash equivalents (See Note 4 for restrictions)	$	190,144	$	387,953
Investment in U.S. Treasury obligations, net (Note 3)		9,291,776		8,764,092
(Market value of investments at December 31, 1997 and December 31, 1996 was $9.4 billion and $8.7 billion, respectively)				
Interest receivable on investments and other assets		126,659		124,534
Entrance and exit fees receivable, net (Note 4)		1,425		3,517
Receivables from thrift resolutions, net (Note 5)		5,176		19,266
Total Assets	**$**	**9,615,180**	**$**	**9,299,362**
Liabilities				
Accounts payable and other liabilities	$	7,317	$	179,367
Estimated liability for anticipated failure of insured institutions (Note 6)		0		4,000
SAIF-member exit fees and investment proceeds held in escrow (Note 4)		239,548		227,574
Total Liabilities		**246,865**		**410,941**
Commitments and off-balance-sheet exposure (Note 10)				
Fund Balance				
Accumulated net income		9,368,347		8,888,421
Unrealized loss on available-for-sale securities, net (Note 3)		(32)		0
Total Fund Balance		**9,368,315**		**8,888,421**
Total Liabilities and Fund Balance	**$**	**9,615,180**	**$**	**9,299,362**

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

Statements of Income and Fund Balance

Savings Association Insurance Fund

Savings Association Insurance Fund Statements of Income and Fund Balance				
(dollars in thousands)	For the Year Ended			
		December 31, 1997		December 31, 1996
Revenue				
Assessments (Note 7)	$	13,914	$	5,221,560
Interest on U.S. Treasury investments		535,463		253,868
Other revenue		535		26,256
Total Revenue		**549,912**		**5,501,684**
Expenses and Losses				
Operating expenses		71,865		62,618
Provision for insurance losses		(1,879)		(91,636)
Other insurance expenses		0		128
Total Expenses and Losses		**69,986**		**(28,890)**
Net Income		**479,926**		**5,530,574**
Unrealized loss on available-for-sale securities, net (Note 3)		(32)		0
Comprehensive Income		**479,894**		**5,530,574**
Fund Balance - Beginning		**8,888,421**		**3,357,847**
Fund Balance - Ending	$	**9,368,315**	$	**8,888,421**

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

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Cash Flows From Operating Activities		
Cash provided from:		
Assessments (Note 7)	$ (146,766)	$ 5,293,722
Interest on U.S. Treasury investments	544,094	192,053
Recoveries from thrift resolutions	14,728	24,478
Entrance and exit fees and interest on exit fees (Note 4)	13,596	13,739
Miscellaneous receipts	(219)	367
Cash used for:		
Operating expenses	(75,298)	(78,726)
Disbursements for Oakar banks	0	(500)
Disbursements for thrift resolutions	(2,693)	(33,137)
Miscellaneous disbursements	(7)	(49)
Net Cash Provided by Operating Activities (Note 12)	**347,435**	**5,411,947**
Cash Flows From Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,740,000	1,885,000
Cash used for:		
Purchase of U.S. Treasury obligations, held-to-maturity	(2,133,119)	(7,820,804)
Purchase of U.S. Treasury obligations, available-for-sale	(152,125)	0
Net Cash Used by Investing Activities	**(545,244)**	**(5,935,804)**
Net Decrease in Cash and Cash Equivalents	**(197,809)**	**(523,857)**
Cash and Cash Equivalents - Beginning	**387,953**	**911,810**
Cash and Cash Equivalents - Ending	**$ 190,144**	**$ 387,953**

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, 1997 and 1996

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 three funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting depositors in operating thrift institutions and banks from loss due to failure of the institution. 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.

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 (see "Operations of the SAIF" below). The FDICIA also requires the FDIC to: 1) resolve troubled 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 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 for 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 approximately $790 million annual FICO interest obligation on a pro rata basis between banks and thrifts on the earlier of December 31, 1999, 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 designated reserve ratio; 6) the refund of amounts in the SAIF in excess of the designated reserve ratio with such refund not to exceed the previous semiannual assessment; and 7) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date.

In addition, DIFA requires the establishment of a Special Reserve of the SAIF. If on January 1, 1999, the reserve ratio of the SAIF exceeds the designated reserve ratio (DRR) of 1.25 percent, the amount that the reserve ratio exceeds the DRR will be placed in the Special Reserve of the SAIF. The Special Reserve will be administered by the FDIC and invested in accordance with provisions outlined in the Federal Deposit Insurance Act (FDI Act).

Also, DIFA provides: 1) exemptions from the special assessment for certain institutions; 2) a 20 percent adjustment of the special assessment for certain Oakar banks and certain other institutions; and 3) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk.

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 SAIF-insured institutions. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and BIF-member banks designated as Oakar banks.

The Oakar bank provisions are found in Section 5(d)(3) of the FDI Act. The provisions allow, with the approval of the acquiring institution's appropriate federal regulatory authority, any insured institution that belongs to one insurance fund to merge, consolidate with, or acquire the deposit liabilities of an institution that belongs to the other insurance fund without paying entrance and exit fees, under two principal conditions. One condition is that although the acquiring institution continues to belong to its own insurance fund (primary fund), the institution becomes obliged to pay assessments to the fund of which the acquired institution was a member (secondary fund). The secondary fund assessments are keyed to the amount of the deposits so acquired. The other condition is that if the acquiring institution should fail, the losses resulting from the failure are allocated between the two insurance funds according to a formula that is likewise keyed to the amount of the acquired deposits. "Sasser" banks are SAIF members that converted to a bank charter in accordance with Section 5 (d)(2)(G) of the FDI Act.

The SAIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations; 2) SAIF assessment premiums; and 3) borrowings from Federal Home Loan Banks, the U.S. Treasury, and the Federal Financing Bank (FFB), 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). At December 31, 1997, the MOL for the SAIF was $16.9 billion.

The VA, HUD and Independent Agencies Appropriations Act, 1998, Public Law 105-65 appropriated $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998) for operating expenses incurred by the Office of Inspector General (OIG). The Act mandates that the funds are to be derived from the SAIF, the BIF, and the FRF. In prior years, the OIG funding was not submitted to Congress as part of the appropriation process.

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
The SAIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

Investments in U.S. Treasury Obligations
Investments in U.S. Treasury obligations are recorded pursuant to the provisions of the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are intended to be held to maturity and 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. Beginning in 1997, the SAIF designated a portion of its securities as available-for-sale. These securities are shown at fair value with unrealized gains and losses included in the fund balance. Realized gains and losses are included in other revenue when applicable. Interest on both types

of securities is calculated on a daily basis and recorded monthly using the effective interest method. The SAIF does not have any securities classified as trading.

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

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately 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 SAIF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative, and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated based on percentages developed during the business planning process. The cost of furniture, fixtures, and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a similar basis. The SAIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts. The FDIC includes the cost of buildings used in operations in the BIF's financial statements. The BIF charges SAIF a rental fee representing an allocated share of its annual depreciation.

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 pays its liabilities for these benefits directly to the entity. The SAIF's remaining net postretirement benefits liability for the plan is recognized in the SAIF's Statement of Financial Position.

Disclosure About Recent Financial Accounting Standards Board Pronouncements
In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income as well as certain types of unrealized gain or loss. The only component of SFAS No. 130 that impacts the SAIF is unrealized gain or loss on securities classified as available-for-sale, which is presented in the SAIF's Statement of Financial Position and the Statement of Income and Fund Balance. The FDIC adopted SFAS No. 130 effective on January 1, 1997.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The FDIC intends to adopt SFAS No. 131 effective on January 1, 1998; however, management anticipates that the SAIF, as a non-publicly held enterprise, will not be affected by SFAS No. 131. Other recent pronouncements issued by the FASB are not applicable to the financial statements.

Related Parties
The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1996 financial statements to conform to the presentation used in 1997.

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

All cash received by the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months unless the cash is used: 1) to defray operating expenses; 2) for outlays related to liquidation activities; or 3) for investments in U.S. Treasury one-day special certificates, which are included in the cash and cash equivalents line item. In 1997 and 1996, $185 million and $190 million, respectively, were restricted and invested in U.S. Treasury notes (see Note 4). The related interest earned on these invested funds was also held as restricted funds. Prior to 1997, all investments were designated "held-to-maturity" (see Note 2).

U.S. Treasury Obligations at December 31, 1997

(dollars in thousands)

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Less than one year	5.91%	$ 1,690,000	$ 1,687,269	$ 2,762	$ (319)	$ 1,689,712
1-3 years	5.87%	3,415,000	3,451,362	16,852	(3,309)	3,464,905
3-5 years	6.03%	2,610,000	2,642,131	27,641	(969)	2,668,803
5-10 years	6.47%	1,310,000	1,358,889	51,327	0	1,410,216
Total		$ 9,025,000	$ 9,139,651	$ 98,582	$ (4,597)	$ 9,233,636
Available-for-Sale						
1-3 years	5.67%	$ 150,000	$ 152,157	$ 32	$ (64)	$ 152,125
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 9,175,000**	**$ 9,291,808**	**$ 98,614**	**$ (4,661)**	**$ 9,385,761**

U.S. Treasury Obligations at December 31, 1996

(dollars in thousands)

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.68%	$ 1,740,000	$ 1,740,792	$ 3,276	$ 0	$ 1,744,068
1-3 years	5.86%	3,290,000	3,305,270	6,930	(8,326)	3,303,874
3-5 years	6.01%	3,670,000	3,718,030	0	(21,546)	3,696,484
Total		**$ 8,700,000**	**$ 8,764,092**	**$ 10,206**	**$ (29,872)**	**$ 8,744,426**

In 1997, the unamortized premium, net of unamortized discount, was $116.8 million. In 1996, the unamortized premium, net of unamortized discount, was $64.1 million.

4. Entrance and Exit Fees Receivable, Net

The SAIF receives 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 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. Interest on these investments was $12.1 million and $11.1 million for 1997 and 1996, respectively. For 1997, restricted assets included: $49 million in cash and cash equivalents, $185 million of investments in U.S. Treasury obligations, net, $1.4 million in exit fees receivable and $4 million in interest receivable. For 1996, restricted assets included: $31 million in cash and cash equivalents, $190 million of investments in U.S. Treasury obligations, net, $3.5 million in exit fees and $3.7 million in interest receivable. There were no conversion transactions during 1997 and only one conversion transaction in 1996 that resulted in an exit fee to the SAIF.

5. Receivables From Thrift Resolutions, Net

The FDIC resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover the institution's obligation to insured depositors' and represent a claim by the SAIF against the receiverships' assets. There were no thrift failures in 1997.

The FDIC, as receiver for failed thrifts, engages in a variety of strategies at the time of failure to maximize the return from the sale or disposition of assets. A failed thrift acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit, and risk related to such assets. The receiver may also engage in other types of transactions as circumstances warrant. As described in Note 2, an allowance for loss is established against the receivable from thrift resolutions.

As of December 31, 1997 and 1996, the FDIC, in its receivership capacity for SAIF-insured institutions, held assets with a book value of $56.6 million and $78.2 million, respectively (including cash and miscellaneous receivables of $40 million and $42.3 million at December 31, 1997 and 1996, respectively). These assets represent a significant source of repayment of the SAIF's receivables from thrift resolutions. 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. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could affect the SAIF's and other claimants' actual recoveries from the level currently estimated.

6. Estimated Liabilities for:

Anticipated Failure of Insured Institutions
The SAIF records an estimated 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, in the period when the liability is considered probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1997 and 1996, were zero and $4 million, respectively. The estimated liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable failures. Therefore, they are subject to the same uncertainties as those affecting the SAIF's receivables from thrift resolutions (see Note 5). This could affect the ultimate costs to the SAIF from probable thrift failures.

There are other institutions where the risk of failure is less certain, but still considered reasonably possible. Should these institutions fail, the SAIF could incur additional estimated losses of about $50 million.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC Board has the statutory authority to consider the estimated 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. For 1997 and 1996, FDIC identified no legal cases that met the criteria for recognition in the financial statements. The FDIC's Legal Division has determined that losses from unresolved legal cases totaling $7 million 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 DIFA (see Note 1) provided, among other things, for the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. Effective on October 1, 1996, the SAIF achieved its required capitalization by means of a $4.5 billion special assessment.

Prior to January 1, 1997, the FICO had priority over the SAIF for receiving and utilizing SAIF assessments to ensure availability of funds for interest on the FICO's debt obligations. Accordingly, the SAIF recognized as assessment revenue only that portion of SAIF assessments not required by the FICO. Assessments on the SAIF-insured deposits held by BIF-member Oakar or SAIF-member Sasser institutions prior to January 1, 1997, were not subject to draws by the FICO and, thus, were retained in SAIF in their entirety. FICO assessments collected and remitted during 1996 were $808 million.

The DIFA expanded the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including banks, thrifts, Oakar and Sasser financial institutions) and made the FICO assessment separate from regular assessments, effective on January 1, 1997.

The FICO assessment has no financial impact on the SAIF since the FICO assessment is separate from the regular assessment, and the FICO assessment is imposed on thrifts and not on the SAIF. The FDIC as administrator of the SAIF is acting solely as a collection agent for the FICO. During 1997, $454 million was collected from savings associations and remitted to the FICO.

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 FDIC Board of Directors (Board) reviews premium rates semiannually. In December 1996, the Board set SAIF assessment rates to a range of 0 to 27 cents per $100 of assessable deposits (annual rates). The new rates, which are identical to those previously approved for BIF members, were effective on October 1, 1996, for Oakar and and Sasser financial institutions, and effective on January 1, 1997, for all other SAIF-insured institutions. The assessment rate averaged approximately 0.39 cents and 20.4 cents per $100 of assessable deposits for 1997 and 1996, respectively.

Total assessment revenue for 1997 and 1996 was $13.9 million and $5.2 billion, respectively. Assessment revenue for 1996 included the one-time special assessment of $4.5 billion required to capitalize SAIF. The SAIF refunded a total of $219 million (including $2.9 million in interest) to Oakar and Sasser financial institutions in 1996 and 1997. Refunds were necessary because fourth quarter 1996 assessment rates were set prior to SAIF's capitalization.

On November 12, 1997, the Board voted to retain the SAIF assessment schedule of 0 to 27 cents per $100 of assessable deposits (annual rates) for the first semiannual period of 1998.

8. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

Eligible FDIC employees (all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee 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 (OPM).

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

Due to a substantial decline in the FDIC's workload, the Corporation developed a staffing reduction program, a component of which is a voluntary separation incentive plan, or buyout. Corporate-wide buyout plans have been offered to eligible employees. The buyouts have not had a material effect on the SAIF.

The SAIF pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $3 million and $4 million at December 31, 1997 and 1996, respectively.

Pension Benefits and Savings Plans Expenses		
(dollars in thousand)	**For the Year Ended**	
	December 31, 1997	**December 31, 1996**
CSRS/FERS Disability Fund	$ 44	$ 121
Civil Service Retirement System	855	613
Federal Employee Retirement System (Basic Benefit)	2,242	1,821
FDIC Savings Plan	1,446	1,111
Federal Thrift Savings Plan	840	641
Total	**$ 5,427**	**$ 4,307**

9. Postretirement Benefits Other Than Pensions

The FDIC provides certain health, dental, and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or 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 FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

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.

The SAIF expensed $451 thousand and $168 thousand for net periodic postretirement benefit costs for the years ended December 31, 1997 and 1996, respectively. For measurement purposes for 1997, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1997 of 9.75 percent (inclusive of general inflation of 2.5 percent), decreasing to an ultimate rate in the year 2000 and thereafter of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.5 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1997, would have increased by 20.2 percent. The effect of this change on the aggregate of service and interest cost for 1997 would be an increase of 23.5 percent.

Net Periodic Postretirement Benefit Cost		
(dollars in thousands)	**For the Year Ended**	
	December 31, 1997	**December 31, 1996**
Service cost (benefits attributed to employee service during the year)	$ 1,061	$ 432
Interest cost on accumulated postretirement benefit obligation	473	457
Net total of other components	(493)	(204)
Return on plan assets	(590)	(517)
Total	**$ 451**	**$ 168**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the SAIF, the BIF and the FRF. The SAIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation and Funded Status at December 31				
(dollars in thousands)		**1997**		**1996**
Retirees	$	4,736	$	3,686
Fully eligible active plan participants		369		343
Other active participants		4,306		4,125
Total Obligation		**9,411**		**8,154**
Less: Plan assets at fair value (a)		10,011		9,421
(Over) Funded Status		**(600)**		**(1,267)**
Unrecognized prior service cost		1,082		1,280
Unrecognized net gain		385		745
Postretirement Benefit Liability Recognized in the Statement of Financial Position	$	**867**	$	**758**

(a) Invested in U.S. Treasury instruments

10. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases
The SAIF's allocated share of the FDIC's lease commitments totals $18.7 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 among the three funds in future years could change the amount of the FDIC's lease payments that will be allocated to the SAIF. The SAIF recognized leased space expense of $3.3 million and $2.2 million for the years ended December 31, 1997 and 1996, respectively.

Lease Commitments

(dollars in thousands)

1998	1999	2000	2001	2002	2003 and Thereafter
$4,218	$3,507	$3,032	$2,377	$2,099	$3,477

Other Off-Balance-Sheet Risk

Deposit Insurance
As of December 31, 1997, deposits insured by the SAIF totaled approximately $690 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

11. 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 comparison with current interest rates. As explained in Note 4, entrance and exit fees receivable 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 receivable from thrift resolutions primarily involves 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 receivable 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, 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 do 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.

12. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1997
Net Income	$ 479,926	$ 5,530,574
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Reduction in provision for insurance losses	(1,879)	(91,636)
Amortization of U.S. Treasury securities (unrestricted)	17,675	4,788
Change in Assets and Liabilities:		
(Increase) in amortization of U.S. Treasury securities (restricted)	(147)	(157)
Decrease in entrance and exit fees receivable	2,092	5,305
(Increase) in interest receivable on investments and other assets	(2,125)	(75,900)
Decrease (Increase) in receivables from thrift resolutions	11,652	(33,260)
(Decrease) Increase in accounts payable and other liabilities	(171,732)	60,419
Increase in exit fees and investment proceeds held in escrow	11,973	11,814
Net Cash Provided by Operating Activities	$ 347,435	$ 5,411,947

13. Year 2000 Compliance Expenses

As part of its operations, the FDIC as administrator of the SAIF is assessing, testing, modifying or replacing as necessary its automated systems to ensure that these systems are Year 2000 compliant. As of December 31, 1997, the SAIF has not incurred, nor does management anticipate that the SAIF will incur, a material charge to earnings to ensure that its systems are Year 2000 compliant.

The SAIF is also subject to a potential loss from thrifts that may fail if they are unable to become Year 2000 compliant in a timely manner. As of December 31, 1997, the potential liability, if any, is not estimable. During 1998 the FDIC will assess this potential liability.

14. Subsequent Events

Effective on January 4, 1998, all employees with five or more years until retirement were converted from the FDIC health plan to the Federal Employees Health Benefits (FEHB) program. This conversion resulted in a gain to the SAIF. Assuming enabling legislation is passed in the future, this conversion will also affect all retirees and employees within five years of retirement.

As part of this conversion, the OPM will become responsible for postretirement health benefits for employees with five or more years until retirement at no cost to the SAIF. If retirees and employees within five years of retirement are also converted in the future, the OPM will assume the SAIF's obligation for postretirement health benefits for those individuals at a fee to be negotiated between the FDIC and the OPM.

Assuming enabling legislation is passed, management does not expect there will be a material gain or loss upon disposition of the SAIF's postretirement health benefits obligation for retirees or employees within five years of retirement.

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

(dollars in thousands)		December 31 1997		1996
Assets				
Cash and cash equivalents	$	2,107,171	$	1,103,921
Receivables from thrift resolutions, net (Note 3)		2,570,486		4,454,776
Securitization reserve fund, net (Note 4)		4,890,568		5,804,062
Assets acquired from assisted thrifts and terminated receiverships, net (Note 5)		73,051		202,955
Other assets, net (Note 6)		7,391		6,747
Total Assets	$	**9,648,667**	$	**11,572,461**
Liabilities				
Accounts payable and other liabilities	$	164,401	$	174,179
Notes payable - Federal Financing Bank borrowings (Note 7)		849,294		4,617,147
Liabilities incurred from thrift resolutions (Note 8)		105,168		143,725
Estimated Liabilities for: (Note 9)				
Assistance agreements		6,328		16,120
Litigation losses		2,634		39,590
Total Liabilities		**1,127,825**		**4,990,761**
Commitments and concentration of credit risks (Note 14)				
Resolution Equity (Note 11)				
Contributed capital		135,493,762		135,501,023
Accumulated deficit		(126,972,920)		(128,919,323)
Total Resolution Equity		**8,520,842**		**6,581,700**
Total Liabilities and Resolution Equity	$	**9,648,667**	$	**11,572,461**

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

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Revenue		
Interest on securitization reserve fund	$ 299,854	$ 82,103
Interest on U.S. Treasury investments	86,959	26,452
Revenue from assets acquired from assisted thrifts and terminated receiverships	74,286	228,274
Limited partnership revenue (Note 2)	16,600	54,600
Interest on advances to receiverships and other revenue	(22,348)	127,117
Total Revenue	**455,351**	**518,546**
Expenses and Losses		
Operating expenses	16,732	26,074
Interest expense on FFB debt and other notes payable	137,658	386,064
Expenses for assets acquired from assisted thrifts and terminated receiverships	68,226	128,826
Provision for losses (Note 10)	(1,744,690)	(2,400,366)
Other expenses	31,022	2,889
Total Expenses and Losses	**(1,491,052)**	**(1,856,513)**
Net Income	**1,946,403**	**2,375,059**
Accumulated Deficit - Beginning	**(128,919,323)**	**(131,294,382)**
Accumulated Deficit - Ending	**$ (126,972,920)**	**$ (128,919,323)**

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

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Cash Flows From Operating Activities		
Cash provided from:		
Interest on U.S. Treasury investments	$ 86,966	$ 26,541
Recoveries from thrift resolutions	3,912,625	6,152,927
Recoveries from securitization reserve	1,078,815	95,067
Recoveries from assets acquired from assisted thrifts and terminated receiverships	483,524	608,620
Miscellaneous receipts	13,962	12,174
Cash used for:		
Operating expenses	(41,268)	(42,882)
Interest paid on notes payable	(173,981)	(352,767)
Disbursements for thrift resolutions	(417,242)	(772,301)
Disbursements for assets acquired from assisted thrifts and terminated receiverships	(176,933)	(169,463)
Disbursements for securitization reserve	(493)	0
Miscellaneous disbursements	(4,420)	(19,714)
Net Cash Provided by Operating Activities (Note 16)	**4,761,555**	**5,538,202**
Cash Flows From Financing Activities		
Cash used for:		
Return of U.S. Treasury payments	(8,053)	0
Repayments of Federal Financing Bank borrowings	(3,718,692)	(5,913,975)
Repayments of indebtedness incurred from thrift resolutions	(31,560)	(31,560)
Net Cash Used by Financing Activities	**(3,758,305)**	**(5,945,535)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,003,250**	**(407,333)**
Cash and Cash Equivalents - Beginning	**1,103,921**	**1,511,254**
Cash and Cash Equivalents - Ending	**$ 2,107,171**	**$ 1,103,921**

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

Notes to Financial Statements

Notes to Financial Statements
FSLIC Resolution Fund
December 31, 1997 and 1996

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.

FIRREA was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. In addition to the FRF, FIRREA created the RTC, the Bank Insurance Fund (BIF), and the Savings Association Insurance Fund (SAIF). FIRREA also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. All three funds are maintained separately to carry out their respective mandates.

The RTC was created 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. In order to provide funds to the RTC for use in thrift resolutions, FIRREA established the Resolution Funding Corporation (REFCORP).

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 RTC Completion Act requires the FDIC to deposit in the general fund of the Treasury any funds transferred to the RTC pursuant to the Completion Act but not needed by the RTC. The RTC Completion Act made available approximately $18 billion worth of additional funding. The RTC actually drew down approximately $4.55 billion thereof.

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.

Operations of the FRF
The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining (after repayments of RTC Completion Act appropriations and payments to REFCORP, if any, from the proceeds of the FRF-RTC) will be paid to the U.S. Treasury.

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) funds received from the management and disposition of assets of the FRF; 4) the FRF's portion of liquidating dividends paid by FRF receiverships; and 5) interest earned on one-day U.S. Treasury investments purchased with proceeds of 3) and 4). 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 are appropriated by Congress, to carry out the objectives of the FRF.

To facilitate efforts to wind up the resolution activity of the FRF, Public Law 103-327 provides $827 million in funding to be available until expended. 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 Department of Justice of $26.1 million and $33.7 million, respectively, of the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million.

Effective on August 9, 1989, FIRREA established an Inspector General for the RTC and authorized appropriations necessary for the operation of the RTC Office of Inspector General (OIG). The RTC's OIG received $152.3 million of appropriated funds from the U.S. Treasury since it was established. The RTC OIG's final appropriation expired on September 30, 1996.

The VA, HUD and Independent Agencies Appropriations Act, 1998, Public Law 105-65 appropriated $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998) for operating expenses incurred by the Office of Inspector General (OIG). The Act mandates that the funds are to be derived from the FRF, the BIF, and the SAIF.

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 insured 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
The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

Allowance for Losses on Receivables From Thrift Resolutions and Assets Acquired From Assisted Thrifts and Terminated Receiverships
The FRF records as a receivable 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 estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately 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.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative, and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated based on percentages developed during the business planning process. The cost of furniture, fixtures, and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a similar basis. The FRF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts. The FDIC includes the cost of buildings used in operations in the BIF's financial statements. The BIF charges the FRF a rental fee representing an allocated share of its annual depreciation.

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 pays its liabilities for these benefits directly to the entity. The FRF's remaining net postretirement benefits liability for the plan is recognized in FRF's Statement of Financial Position.

Disclosure About Recent Financial Accounting Standards Board Pronouncements
In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income as well as certain types of unrealized gain or loss. The FRF does not have any items of unrealized gain or loss and, therefore, SFAS No. 130 is not applicable.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and

Related Information." The FDIC intends to adopt SFAS No. 131 effective on January 1, 1998; however, management anticipates that the FRF, as a non-publicly held enterprise, will not be affected by SFAS No. 131.

Other recent pronouncements issued by the FASB are not applicable to the financial statements.

Wholly Owned Subsidiary
The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until the FADA's litigation is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in "Other assets, net" (Note 6).

Related Parties
National Judgments, Deficiencies, and Charge-offs Joint Venture Program. The former RTC purchased assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several joint ventures in which the former RTC retained a financial interest.

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. In 1997, the majority of the limited partnership equity interests were transferred from the receiverships to the FRF.

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

Reclassifications
Reclassifications have been made in the 1996 financial statements to conform to the presentation used in 1997.

3. Receivables From Thrift Resolutions, Net

The FDIC resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure were made to operating institutions when cost and other criteria were met. These payments resulted in acquiring "Assets from Open Thrift Assistance," which are various types of financial instruments from the assisted institutions.

As of December 31, 1997 and 1996, the FDIC, in its receivership capacity for FSLIC-insured institutions, held assets with a book value of $3.6 billion and $7.3 billion, respectively (including cash and miscellaneous receivables of $1.4 billion and $2.9 billion at December 31, 1997 and 1996, respectively). These assets represent a significant source of repayment of the FRF's receivables from thrift resolutions. 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. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could affect the FRF's and other claimants' actual recoveries from the level currently estimated.

The FRF estimated Corporate losses related to the receiverships' representation and warranties as part of the FRF's allowance for loss valuation. The allowance for these losses was $90 million and $494 million as of December 31, 1997 and 1996, respectively. There are additional amounts of representation and warranty claims that are considered reasonably possible. As of December 31, 1997, the amount is estimated at $298 million. There were no additional amounts deemed reasonably possible as of December 31, 1996. The RTC provided guarantees, representations, and warranties on approximately $114 billion in unpaid principal balance of loans sold and approximately $148 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 significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

The estimated liability for representations and warranties associated with loan sales that involved assets acquired from assisted thrifts and terminated receiverships are included in "Accounts payable and other liabilities" ($18 million and $57 million for 1997 and 1996, respectively).

Receivables From Thrift Resolutions, Net at December 31		
(dollars in thousands)	1997	1996
Assets from open thrift assistance	$ 804,217	$ 1,211,902
Allowance for losses	(446,064)	(444,873)
Net Assets From Open Thrift Assistance	**358,153**	**767,029**
Receivables from closed thrifts	76,680,026	80,309,086
Allowance for losses	(74,467,693)	(76,621,339)
Net Receivables From Closed Thrifts	**2,212,333**	**3,687,747**
Total	**$ 2,570,486**	**$ 4,454,776**

4. Securitization Reserve Fund, Net

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

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, a portion of the proceeds from the sale of the certificates was placed in credit enhancement reserve funds (reserve funds) to cover future credit losses with respect to the loans underlying the certificates. The reserve funds' structure limits the receivership exposure from credit losses on loans sold through the RTC securitization program to the balance of the reserve funds. The initial balances of the reserve funds are reduced for claims paid and recovered reserves.

In October 1996, the reserve funds and related allowance to cover future estimated losses on the reserve were transferred from the receiverships to FRF. The $5.4 billion transferred to the FRF was offset by amounts owed by the receiverships to the FRF; thus, there was no change in the FRF's net assets as a result of this transaction.

Through December 1997, the amount of claims paid was approximately 18 percent of the initial reserve funds. At December 31, 1997 and 1996, reserve funds related to the RTC securitization program totaled $5.2 billion and $6.3 billion, respectively. At December 31, 1997 and 1996, the allowance for estimated future losses which would be paid from the securitization fund totaled $0.3 billion and $0.5 billion, respectively.

The FRF earns and receives interest income from the securitization reserve fund.

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

The FRF's assets acquired from assisted thrifts and terminated receiverships includes assets that: 1) the former FSLIC and the former RTC purchased from troubled or failed thrifts and 2) the FRF acquired from receiverships, and purchased under assistance agreements. The methodology used to derive the allowance for losses for assets acquired from assisted thrifts and terminated receiverships is the same as that for receivables from thrift resolutions.

The FRF recognizes income and expenses on these assets. Income consists primarily of interest on mortgage loans and proceeds from professional liability claims. Expenses are recognized for administering the management and liquidation of these assets.

Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net , at December 31		
(dollars in thousands)	1997	1996
Assets acquired from assisted thrifts and terminated receiverships	$ 277,607	$ 660,802
Allowance for losses	(204,556)	(457,847)
Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net	**$ 73,051**	**$ 202,955**

6. Other Assets, Net

Other Assets, Net, at December 31 (dollars in thousands)		1997		1996
Investment in FADA (Note 2)	$	15,000	$	15,000
Allowance for loss		(11,074)		(11,074)
Investment in FADA, Net	**$**	**3,926**	**$**	**3,926**
Accounts receivable		607		527
Due from other government entities		2,858		2,294
Other Receivables		**3,465**		**2,821**
Total	**$**	**7,391**	**$**	**6,747**

7. Notes Payable - Federal Financing Bank Borrowings

Working capital was made available to the RTC under an agreement with the FFB to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding note matures on January 1, 2010; however, all or any portion of the outstanding principal amount may be repaid anytime as excess funds become available.

The note payable carries a floating rate of interest that is adjusted quarterly. The FFB establishes the interest rate and during 1997 these rates ranged between 5.478 percent and 5.187 percent. As of December 31, 1997 and 1996, there were $.8 billion and $4.6 billion, respectively, in borrowings and accrued interest outstanding. The FFB borrowing authority ceased upon the termination of the RTC.

8. Liabilities Incurred From Thrift Resolutions

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. Under the FIRREA, the FRF assumed these obligations. Notes payable and obligations for assistance agreement payments incurred but not yet paid are in "Liabilities incurred from thrift resolutions." Estimated future assistance payments are included in "Estimated liabilities for: Assistance agreements" (see Note 9).

Liabilities Incurred From Thrift Resolutions at December 31 (dollars in thousands)		1997		1996
Capital Instruments	$	725	$	725
Assistance agreement notes payable		94,680		126,240
Interest payable		1,419		1,856
Other liabilities to thrift institutions		8,343		14,904
Total	**$**	**105,167**	**$**	**143,725**

The total liabilities will mature according to the terms of the assistance agreements on September 23, 1998.

9. Estimated Liabilities for:

Assistance Agreements
The estimated liabilities for assistance agreements is $6 million and $16 million at December 31, 1997 and 1996, respectively. The liability represents an estimate of future assistance payments to acquirers of troubled thrift institutions. Prior to 1997, the balance was discounted based on U.S. money rates or federal funds. The balance as of December 31, 1997, was not discounted because the remaining assistance agreements will terminate within the next three years, and the discount adjustment was deemed to be immaterial. As of December 31, 1996, the nominal amount was $18 million, using a discount rate of 5.6 percent.

The number of assistance agreements outstanding as of December 31, 1997 and 1996, were 33 and 36, respectively. The last agreement is scheduled to expire in July 2000.

Litigation Losses
The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. The estimated liability for litigation losses is $3 million and $40 million at December 31, 1997 and 1996, respectively. In addition to the amount recognized as probable, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $351 million are reasonably possible.

Additional Contingency
An additional contingency arises from the over 120 lawsuits pending in the United States Court of

Federal Claims against the United States, generically referred to as the "goodwill" cases, in which certain alleged agreements entered into by the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation are claimed to have been breached when Congress enacted legislation affecting the thrift industry and that legislation was implemented by the Office of Thrift Supervision. Claims against the government are generally paid from the Judgment Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304, and administered by the Department of Treasury. However, the Department of Treasury may determine that payment of a judgment is "otherwise provided for" by another dedicated source of funds.

The FDIC believes that under FIRREA the FRF should not be considered a dedicated source of funds for payment of goodwill judgments against the United States. However, the Department of Treasury has not yet determined the source of payment of any goodwill judgments and therefore whether the FRF will be responsible for the payment of any goodwill judgments is uncertain.

If it is determined that the FRF can be called upon for payment of possible goodwill judgments, the amount of additional liabilities of the FRF cannot be reasonably estimated. The FDIC is not the defendant in any of the goodwill cases and there has been no final decision in any of them. The Court of Federal Claims has indicated that the dollar damages sought in the goodwill cases are in the "tens of billions of dollars." Damages sought by the plaintiff, Glendale Federal Bank, FSB, in the first of the goodwill cases to be tried in the Court of Federal Claims exceed one billion dollars.

If substantial final judgments were entered against the United States in the goodwill cases and if the FRF were determined by Treasury to be responsible for payment of those judgments, the effect on the FRF's financial condition would be material and adverse. In the event the FRF has insufficient funds to satisfy FRF liabilities, as would likely be the case were Treasury to make such determination, 12 U.S.C. 1821a(c) provides: "the Secretary of the Treasury shall pay to the Fund such amounts as may be necessary, as determined by the [FDIC] and the Secretary, for FSLIC Resolution Fund purposes." Congress would need to appropriate funds to carry out this provision.

10. Provision for Losses

The provision for losses was a negative $1.7 billion and a negative $2.4 billion for 1997 and 1996, respectively. Reductions to various allowance for losses and estimated liabilities account for the negative loss provision. The following chart lists the major components of the reduction in provision for losses.

Provision for Losses (dollars in thousands)	**For the Year Ended December 31, 1997**	**December 31, 1996**
Valuation adjustments:		
Open thrift assistance	$ (117,026)	$ (744,613)
Closed thrifts	(1,481,702)	(1,633,276)
Assets acquired from assisted thrifts and terminated receiverships	(245,304)	246,837
Securitization credit reserve	134,424	(91,637)
Miscellaneous receivables	(88)	0
Total	**(1,709,696)**	**(2,222,689)**
Contingencies:		
Assistance agreements	1,961	(53,336)
Litigation	(36,955)	(124,341)
Total	**$ (34,994)**	**$ (177,677)**
Reduction in Provision for Losses	**(1,744,690)**	**(2,400,366)**

11. Resolution Equity

Contributed Capital

The former RTC and the FRF-FSLIC received $60.1 billion and $43.5 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the RTC issued $31.3 billion in capital certificates to REFCORP and the FRF-FSLIC issued $670 million of these instruments to the FICO. FIRREA prohibited the payment of dividends on any of these capital certificates.

Accumulated Deficit
The accumulated deficit represents the cumulative excess of expenses over revenue for liquidation activity related to the former FSLIC and the former RTC ($29.7 billion was brought forward from the FSLIC).

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee 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 Office of Personnel Management (OPM).

Eligible FDIC employees also may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

The FRF pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $11.2 million and $13.7 million at December 31, 1997 and 1996, respectively.

Pension Benefits and Savings Plans Expenses

(dollars in thousands)	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
CSRS/FERS Disability Fund	$ 168	$ 255
Civil Service Retirement System	2,047	2,534
Federal Employee Retirement System (Basic Benefit)	9,473	13,391
FDIC Savings Plan	4,893	7,463
Federal Thrift Savings Plan	3,264	4,369
Total	**$ 19,845**	**$ 28,012**

13. Postretirement Benefits Other Than Pensions

The FDIC provides certain health, dental, and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or 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 FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

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.

The FRF expensed $1.2 million and $3.1 million for net periodic postretirement benefit costs for the years ended December 31, 1997 and 1996, respectively. For measurement purposes for 1997, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1997 of 9.75 percent (inclusive of general inflation of 2.5 percent), decreasing to an ultimate rate in the year 2000 and thereafter of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.5 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1997, would have increased by 20.2 percent. The effect of this change on the aggregate of service and interest cost for 1997 would be an increase of 23.5 percent.

Net Periodic Postretirement Benefit Cost				
(dollars in thousands)	For the Year Ended			
		December 31, 1997		December 31, 1996
Service cost (benefits attributed to employee service during the year)	$	3,974	$	6,621
Interest cost on accumulated postretirement benefit obligation		3,032		3,102
Net total of other components		(1,848)		(3,132)
Return on plan assets		(4,008)		(3,511)
Total	$	**1,150**	$	**3,080**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the FRF, the BIF, and the SAIF. The FRF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation and Funded Status at December 31				
(dollars in thousands)		1997		1996
Retirees	$	41,072	$	23,602
Fully eligible active plan participants		3,200		2,196
Other active participants		37,342		26,409
Total Obligation		**81,614**		**52,207**
Less: Plan assets at fair value (a)		68,010		64,002
Under/(Over) Funded Status		**13,604**		**(11,795)**
Unrecognized prior service cost		4,053		19,613
Unrecognized net gain		1,442		11,412
Postretirement Benefit Liability Recognized in the Statement of Financial Position	$	**19,099**	$	**19,230**

(a) Invested in U.S. Treasury instruments

14. Commitments and Concentration of Credit Risks

Commitments

Letters of Credit
The RTC had adopted special policies for outstanding conservatorship and receivership collateralized letters of credit. These policies enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit 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, 1997 and 1996, there were pledged securities as collateral of $17 million and $84 million, respectively to honor these letters of credit. The FRF estimated Corporate losses related to the receiverships' letters of credit as part of the FRF's allowance for loss valuation. The allowance for these losses was $7 million and $32 million as of December 31, 1997 and 1996, respectively.

Leases
The FRF's allocated share of the FDIC's lease commitments totals $52.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads among the three funds in future years could change the amount of the FDIC's lease payments that will be allocated to the FRF. The FRF recognized leased space expense of $18.2 million and $32.8 million for the years ended December 31, 1997 and 1996, respectively.

Lease Commitments

(dollars in thousands)

1998	1999	2000	2001	2002	2003 and Thereafter
$11,472	$9,528	$8,427	$6,770	$6,099	$10,442

Concentration of Credit Risk

As of December 31, 1997, the FRF had $77 billion in gross receivables from thrift resolutions and $278 million in assets acquired from assisted thrifts and terminated receiverships. An allowance for loss of $75 billion and $205 million, respectively, has been recorded against these assets. The liquidating entities' ability to make repayments to FRF is largely influenced by the economy of the area in which they are located. The FRF's maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 1997

(dollars in millions)	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net and Assets acquired from assisted thrifts and terminated receiverships, net	$395	$392	$579	$164	$236	$877	$2,643

15. 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 receivable from thrift resolutions primarily involves 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 receivable 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, 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 do 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.

Like the corporate subrogated claim, the securitization credit reserves involve an asset that is unique, not intended for sale to the private sector, and has no established market. Therefore, it is not practicable to estimate the fair market value of the securitization credit reserves. These reserves are carried at net realizable value, which is the book value of the reserves less the related allowance for loss. See Note 4.

The majority of the net assets acquired from assisted thrifts and terminated receiverships (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed thrifts. 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.

16. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

(dollars in thousands)	For the Year Ended December 31, 1997	December 31, 1996
Net Income	**$ 1,946,403**	**$ 2,375,059**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Interest on Federal Financing Bank borrowings	124,322	378,183
Reduction in provision for losses	(1,744,690)	(2,400,366)
OIG income recognized	792	(225)
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	3,360,072	10,055,201
(Increase) decrease in securitization reserve fund	779,071	(5,712,446)
Decrease in assets acquired from assisted thrifts and terminated receiverships	335,624	555,375
(Increase) decrease in other assets	8,480	(5,402)
Increase (Decrease) in accounts payable and other liabilities	20,772	(21,548)
(Decrease) in accrued interest on notes payable	(173,484)	(345,104)
(Decrease) in liabilities incurred from thrift resolutions	(6,998)	(73,253)
Increase in estimated liabilities for assistance agreements	111,191	732,728
Net Cash Provided by Operating Activities	**$ 4,761,555**	**$ 5,538,202**

17. Year 2000 Compliance Expenses

As part of its operations, the FDIC as administrator of the FRF is assessing, testing, modifying or replacing as necessary its automated systems to ensure that these systems are Year 2000 compliant. As of December 31, 1997, the FRF has not incurred, nor does management anticipate that the FRF will incur, a material charge to earnings to ensure that its systems are Year 2000 compliant.

18. Subsequent Events

Effective on January 4, 1998, all employees with five or more years until retirement were converted from the FDIC health plan to the Federal Employees Health Benefits (FEHB) program. This conversion resulted in a gain to the FRF. Assuming enabling legislation is passed in the future, this conversion will also affect all retirees and employees within five years of retirement.

As part of this conversion, the OPM will become responsible for postretirement health benefits for employees with five or more years until retirement at no cost to the FRF. If retirees and employees within five years of retirement are also converted in the future, the OPM will assume the FRF's obligation for postretirement health benefits for those individuals at a fee to be negotiated between the FDIC and the OPM.

Assuming enabling legislation is passed, management does not expect there will be a material gain or loss upon disposition of the FRF's postretirement health benefits obligation for retirees or employees within five years of retirement.

Opinion on the Bank Insurance Fund's 1997 Financial Statements Provided for Securities and Exchange Commission Filing

GAO

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

Accounting and Information
Management Division

B-279515

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the accompanying statements of financial position of the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC) as of December 31, 1997 and 1996, and its statements of income and fund balance and cash flows for each of the years ended December 31, 1997, 1996, and 1995. These financial statements are the responsibility of FDIC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank Insurance Fund as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the years ended December 31, 1997, 1996, and 1995, in conformity with generally accepted accounting principles.

Our assessment of FDIC management's assertions regarding the effectiveness of its system of internal accounting controls as of December 31, 1997, and our evaluation of FDIC's compliance with significant provisions of certain laws and regulations during 1997 will be presented in a separate report.

Robert W. Gramling

Robert W. Gramling
Director, Corporate Audits
and Standards

March 16, 1998

Comments From the Federal Deposit Insurance Corporation

FDIC

Federal Deposit Insurance Corporation
801 17th Street, N.W., Washington, D.C. 20434

Office of the Director of Finance and Chief Financial Officer

June 11, 1998

Gene L. Dodaro
Assistant Comptroller General
U. S. General Accounting Office
Washington, D.C. 20548

Re: FDIC Management Response on the GAO 1997 Financial Statement Audit Report

Dear Mr. Dodaro:

We appreciate the opportunity to comment on the General Accounting Office (GAO) draft report titled, Financial Audit: Federal Deposit Insurance Corporation's (FDIC) 1997 and 1996 Financial Statements, GAO/AIMD-98-204. The report presents GAO's opinions on the financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF); GAO's opinion on FDIC management's assertions regarding the effectiveness of internal controls; and GAO's evaluation of FDIC's compliance with laws and regulations.

We are pleased that the GAO found the financial statements and the accompanying notes of the BIF, the SAIF, and the FRF for the years ended December 31, 1997 and 1996, to be presented fairly in all material respects, in conformity with generally accepted accounting principles, and FDIC management's assertions regarding internal controls in place on December 31, 1997, to be fairly stated. Also, we are pleased that the GAO found no instances of noncompliance with selected provisions of laws and regulations that were tested during 1997.

Although GAO noted the need to improve certain internal controls, we believe that the Corporation has made excellent progress in improving internal control weaknesses that were identified in the 1996 audit report. The Corporation's continued efforts to enhance its internal control program has resulted in our reducing the number of reportable conditions from the previous year's audit and receiving unqualified opinions for the 1997 and 1996 financial statement audits.

FDIC's Progress on the 1996 Reportable Conditions

In the 1996 audit report, GAO identified two reportable conditions. The first reportable condition related to internal control weaknesses over asset servicers contracted to manage

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and dispose of failed financial institution assets. The Corporation implemented an asset servicer visitation program and developed a memorandum of understanding that clarified divisional roles and responsibilities to address the weaknesses. Although GAO continued to find problems with contracted asset servicers, the problems were not significant enough to be classified as a reportable condition in the 1997 audit report. FDIC will continue to improve this process to fully address any remaining concerns of the GAO.

The second reportable condition related to internal control weaknesses over the integrity of data used in the calculation of the year-end allowance for losses. The data used in the calculations resulted from estimated recoveries on assets that were valued through FDIC's Standard Asset Value Estimation (SAVE) process and assets that were valued outside of the SAVE process. During 1997, the Corporation enhanced the SAVE valuation process and implemented certification procedures that improved the quality and reasonableness of recovery estimates for BIF, SAIF, and FRF assets. We are pleased that the GAO recognized that FDIC made significant improvement in the valuation of SAVE assets.

1997 Reportable Condition

Recovery Estimates for FRF Assets:

During the 1997 financial statement audit, the GAO identified continuing problems with recovery estimates for FRF assets not valued as part of FDIC's SAVE process. Specifically, GAO found unsupported recoveries and errors in estimating the recoveries for portfolios of partnership interests and debt and equity securities. The estimated recoveries for both portfolios had been certified and reviewed for accuracy by FDIC personnel. The combined effect of the valuation errors was an understatement of FRF's estimated recoveries and an overstatement of its allowance for losses on amounts due from receiverships.

The GAO recommended that FDIC implement an improved process of estimating recoveries for securities and other assets currently being valued outside of the SAVE process. In addition, FDIC should reemphasize the importance of the review and certification procedures for the estimated recoveries on assets valued outside of its standard asset valuation process.

FDIC Management Response:

Although the errors were not material to the FRF financial statements and no adjustment was warranted, the Corporation will take immediate action to address the GAO's recommendations related to estimating the recovery of FRF assets not valued as a part of FDIC's SAVE process. The Division of Resolutions and Receiverships, together with the Division of Finance and in consultation with GAO, will establish formal minimum documentation standards necessary to guide program staff in establishing values for these assets for financial statement purposes. In addition, we are committed to minimizing error rates by developing a more formalized secondary review process for the non-SAVE assets to improve the effectiveness of the reviews.

The Corporation's interdivisional Asset Loss Reserve (ALR) Project Board will oversee the implementation of the corrective actions. Development of the new policies and procedures will be incorporated in the ALR timeline established for the year-end 1998 reviews. Our tracking program will monitor the progress of corrective actions through resolution of the internal control weakness.

Conclusion

We are confident that the timely implementation of the above corrective actions will address GAO's concerns. Our commitment to a strong and effective internal control and risk management program will continue to be a priority for the Corporation.

Sincerely,

Paul L. Sachtleben
Director, Division of Finance
and Chief Financial Officer

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