United States General Accounting Office

GAO

Report to the Congress

June 1999

FINANCIAL AUDIT

Federal Deposit Insurance Corporation's 1998 and 1997 Financial Statements

GAO/AIMD-99-202

B-280808

June 30, 1999

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

This report presents our opinions on the financial statements of the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund (FRF) for the years ended December 31, 1998 and 1997. 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, 1998, and (2) our evaluation of FDIC's compliance with laws and regulations during 1998. In addition, it discusses FDIC's progress in correcting an internal control weakness detected during our 1997 audits. The report also provides information on the Year 2000 (Y2K) and insured financial institutions, ongoing litigation affecting FRF, and the current status of FRF's liquidation activities and funding.

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

We are sending copies of this report to Senator Phil Gramm, Chairman, and Senator Paul Sarbanes, Ranking Minority Member, Senate Committee on Banking, Housing and Urban Affairs and to Representative James Leach, Chairman, and Representative John LaFalce, Ranking Minority Member, House Committee on Banking and Financial Services. We are also sending copies to the Honorable Donna Tanoue, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Honorable Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System; the Honorable John Hawke Jr., Comptroller of the Currency; the Honorable Ellen Seidman, Director of the Office of Thrift Supervision; the Honorable Robert Rubin, Secretary of the Treasury;

the Honorable Jacob J. Lew, Director of the Office of Management and Budget; and other interested parties.

David M. Walker
Comptroller General
of the United States

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Abbreviations

BIF	Bank Insurance Fund
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
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
REFCORP	Resolution Funding Corporation
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SAVE	Standard Asset Valuation Estimation
Y2K	Year 2000

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Comptroller General
of the United States

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

B-280808

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1998 and 1997, 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 fairly presented in all material respects;
- FDIC management fairly stated that internal control in place on December 31, 1998, was effective in assuring that there were no material misstatements in the financial statements of the three funds administered by FDIC (including safeguarding of assets from material loss), and assuring material compliance with selected laws and regulations; 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) Year 2000 (Y2K) and insured financial institutions, (3) the current status of the goodwill litigation cases, (4) the current status of FRF’s liquidation activities and funding, (5) FDIC's progress in addressing a reportable condition[1] identified during our 1997 audits, and (6) our evaluation of the Corporation's comments on a draft of this report.

[1]Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal control that, in the auditor's judgment, could adversely affect an entity's ability to (1) properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles (including safeguarding of assets) and (2) ensure the execution of transactions in accordance with laws and regulations that could have a direct and material effect on the financial statements.

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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended.

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, 1998 and 1997, 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended.

As discussed in note 10 of FRF's financial statements, a significant contingency exists from approximately 120 lawsuits pending in the United States Court of Federal Claims concerning the counting of goodwill assets as part of regulatory capital. Based on information currently available, a reasonable estimate cannot be made regarding future losses and settlements related to these cases. Information on the current status of the goodwill cases is presented later in this report.

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

For the three funds administered by FDIC, we evaluated FDIC management's assertions about the effectiveness of its internal control designed to provide reasonable assurance that the following objectives are met:

- reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles (including safeguarding of assets) and

- compliance with applicable laws and regulations – transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

FDIC management fairly stated that internal control in place on December 31, 1998, provided reasonable assurance that misstatements, losses, or noncompliance, 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).

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 assessing 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

- the financial statements are free of material misstatement and presented fairly, in all material respects, in conformity with generally accepted accounting principles and
- FDIC management's assertion about the effectiveness of internal control 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 appearing in FDIC’s annual financial report.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting, including safeguarding of assets, compliance with laws and regulations, including the execution of transactions in accordance with management's authority;
- tested relevant internal controls over financial reporting, including safeguarding of assets, and compliance, and evaluated management's assertion about the effectiveness of internal control; 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 control. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We conducted our audits from July 1998 through May 1999. We did our work 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 the “Corporation Comments and Our Evaluation” section and are reprinted in appendix I.

Information on Y2K and Insured Financial Institutions

Insured financial institutions face an unprecedented challenge in preparing their computer systems for the Y2K date change. Banks and thrifts are vulnerable to Y2K problems due to their widespread reliance on computer systems to make loans, invest deposits, transfer funds, issue credit cards, calculate interest, and handle routine business functions. In addition, many critical financial institution functions are dependent on public infrastructure such as telecommunications and electric power networks, which could also encounter difficulties or interruptions in service due to the Y2K problem.

Addressing the Y2K problem on time has been and will continue to be a tremendous challenge. FDIC, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision (the regulators), have made considerable progress in assisting banks and thrifts in their Y2K efforts, and identifying those institutions at a high risk of not remediating their systems on time. Since June 1996, when their Y2K oversight efforts began, FDIC and the other regulators have taken many important steps to alert financial institutions of the risks associated with the Y2K problem and to assess institutions' progress in mitigating the risks.[2]

To raise awareness, FDIC and the other regulators issued letters to all insured banks and thrifts describing the Y2K problem and special risks facing financial institutions, and recommended approaches to planning and managing effective Y2K programs. In addition, the regulators provided extensive guidance to assist financial institutions in critical Y2K tasks, including guidance on (1) Y2K project management, (2) addressing Y2K business risks, (3) assessing risk from customers, service providers, and software vendors, (4) testing systems for Y2K readiness, (5) contingency planning, and (6) establishing effective Y2K customer awareness programs. FDIC and the other regulators have also undertaken extensive outreach efforts to raise the Y2K awareness of insured financial institutions and the public.

To assess institutions' progress in addressing Y2K issues, the regulators have performed a series of high-level and more detailed assessments

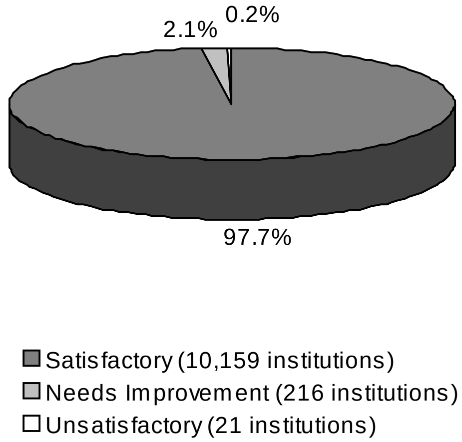
[2]Year 2000 Computing Crisis: Federal Depository Institution Regulators Are Making Progress, But Challenges Remain (GAO/T-AIMD-98-305, September 17, 1998).

for each institution.[3] These supervisory efforts have generally been divided into three phases. Phase I focused on institutions' awareness, assessment, and renovation efforts. Phase II focused on the institutions' testing efforts and credit risk assessments. Phase III is currently in process and will continue throughout 1999, and will focus on implementation, business resumption and contingency planning, customer awareness initiatives, and liquidity planning. In addition, during Phase III the regulators plan to pay particular attention to those institutions identified as having risk for potential Y2K problems.

Based on Y2K assessments through April 30, 1999, the regulators have found that the vast majority of financial institutions have acceptable performance in key phases of the Y2K project management process, including awareness, assessment, renovation, testing, and implementation. As discussed in the notes to BIF's and SAIF's financial statements, 97.7 percent of insured financial institutions were rated by the regulators as having made satisfactory progress in their Y2K project management through Phase II. Those institutions held 98.7 percent of industry assets. Of the remaining 2.3 percent of institutions rated by the regulators as less than satisfactory, 216 institutions are rated as "needs improvement" and 21 institutions are considered as having made "unsatisfactory" progress. See figure 1.

[3]As a result of these assessments, the regulators have assigned each institution one of the following ratings: satisfactory, needs improvement, or unsatisfactory. Generally, institutions are considered "satisfactory" if they exhibit acceptable performance in all key phases of the Y2K project management process as set forth in the May 5, 1997, Federal Financial Institutions Examination Council (FFIEC) Interagency Statement. A "needs improvement" rating results from less than acceptable performance under FFIEC guidelines; however, project weaknesses can be readily corrected within the existing project management framework. An "unsatisfactory" rating results from poor performance under FFIEC guidelines where weaknesses are serious and are not easily corrected within the existing project management framework. See note 7 to BIF's financial statements and note 6 to SAIF's financial statements for additional information.

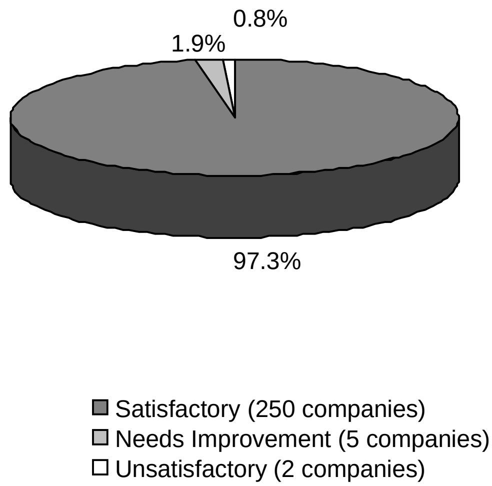
Figure 1: Y2K Ratings for FDIC-Insured Institutions as of April 30, 1999



Source: FDIC Division of Supervision.

Virtually all banks and thrifts rely on service providers and software vendors for at least a portion of their data processing services. The regulators have also completed Phase II assessments of service providers and software vendors that provide data processing services or software to the industry. Of the 257 service providers and software vendors examined, as of April 30, 1999, the regulators reported that 97.3 percent showed satisfactory progress. Of the remaining servicers rated by the regulators as less than satisfactory, 5 were rated as "needs improvement" and 2 were rated as having made "unsatisfactory" progress. See figure 2.

Figure 2: Y2K Assessment Ratings for Service Providers and Software Vendors, as of April 30, 1999



Source: FDIC Division of Supervision.

The FDIC and the other regulators have stated that they will focus additional attention throughout the remainder of 1999 on those institutions and service providers not rated satisfactory. Due to the short time frame remaining until the year 2000, the regulators have stated that they will adopt a more aggressive stance to achieve the necessary remedial action at institutions rated less than satisfactory.

Although the regulators reported that the vast majority of institutions, service providers, and software vendors had made satisfactory progress on mitigating their Y2K risks through April 30, 1999, uncertainties still exist regarding the potential for Y2K problems. Y2K assessment ratings do not constitute certification of a financial institution's Y2K readiness. They reflect an institution's ongoing progress in addressing Y2K issues at a certain point in time. It is possible that ratings could change over time. In addition, because of the unprecedented nature of the Y2K problem, unanticipated events could occur for which the institution was not prepared. Institutions are required, however, to design Y2K contingency plans to mitigate the risks associated with unsuccessful implementation of their Y2K efforts, and to provide assurance that core business functions will continue if one or more computer systems fail. Institutions could also encounter difficulties due to the Y2K problems of third parties. Therefore, it is difficult to determine which institutions, if any, could ultimately fail due to potential Y2K problems.

As stated in the notes to FDIC's financial statements, BIF and SAIF are subject to potential loss from financial institutions that may fail due to Y2K problems. In order to assess exposure to BIF and SAIF as a result of potential Y2K failures, FDIC evaluated Y2K assessment results, as well as the financial condition and supervisory ratings for all institutions. As of December 31, 1998, FDIC has not identified any probable losses to BIF and SAIF from Y2K failures. Further, any reasonably possible losses from Y2K failures were not estimable as of December 31, 1998. During 1999, FDIC and the other regulators are continuing to collect data on the impact of banks' and thrifts' potential Y2K problems on the deposit insurance funds, and plan to take supervisory action as necessary to minimize any potential impact to the insurance funds.

Current Status of the Goodwill Litigation Cases

As discussed in note 10 of FRF's financial statements, a significant contingency exists from approximately 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 the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which affected the thrift industry. The legislation changed the computation for regulatory capital requirements, thereby eliminating the special accounting treatment previously allowed for goodwill assets acquired when institutions merged with or acquired failing thrifts. The changes in regulatory treatment of goodwill assets caused some institutions to fall out of capital compliance. In such cases, institutions had to take action to meet capital requirements or they were subject to regulatory action.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three cases, consolidated for appeal to the Supreme Court, in which the changes in regulatory treatment required by FIRREA led the government to not honor its contractual obligations related to the accounting treatment of goodwill assets. The cases were then referred back to the Court of Federal Claims for trials to determine the amount of damages. On July 23, 1998, the Department of the Treasury determined, based on an opinion of the Department of Justice, that FRF is legally available to satisfy all judgments and settlements in the goodwill litigation involving supervisory action or assistance agreements, in which FSLIC was a party to those agreements. Treasury further determined that

FRF is the appropriate source of funds for payment of any such judgments and settlements. During 1998, FDIC paid $103.3 million in settlements for four cases. Two of the settlements were related to cases that had been consolidated for appeal to the Supreme Court.

Subsequent to December 31, 1998, damage awards in two goodwill-related cases have been decided. On April 9, 1999, the Court of Federal Claims ruled that the federal government must pay Glendale Federal Bank $908.9 million for breaching the contract that allowed the thrift to count goodwill toward regulatory capital.[4] The plaintiffs were seeking up to $2 billion in damages. Both the plaintiffs and the Department of Justice are expected to appeal the decision. In another case the Court of Federal Claims awarded $23 million in damages on April 16, 1999, to California Federal Bank, which had been seeking more than $1 billion in damages. California Federal is expected to appeal the decision.

Because of the expected appeals and the differences in awarding damages in the above cases, the final outcome of both cases is uncertain. With regard to the remaining cases, the outcome of each case and the amount of any possible damages remain uncertain. However, FDIC has concluded that it is probable that FRF will be required to pay additional, possibly substantial amounts as a result of future judgments and settlements. Because of the uncertainties surrounding the cases, such losses are currently not estimable.

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),[5] as well as the former FSLIC's assets and liabilities. As of December 31, 1998, FRF held total assets valued at $10.5 billion. Of that total, $4.6 billion was held in cash and investments, with $5.9 billion remaining to be liquidated. As of December 31, 1998, FRF's liabilities had been reduced to $138 million. The reduction was mainly due to FRF paying off the note to the Federal Financing Bank, which was issued to RTC to provide working capital for RTC's liquidation activities. In addition to the liabilities shown on FRF's Statements of Financial Position, FRF is subject to significant future

[4]Glendale Federal Bank was one of the three cases consolidated for appeal to the Supreme Court.

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

contingent liabilities resulting from the goodwill litigation cases, as noted in the previous section.

As of December 31, 1998, FRF's total accumulated deficit was $125.2 billion. FRF's accumulated deficit represents the realized losses to date for all RTC and FSLIC-related liquidation activity, as well as future estimated losses from assets and liabilities not yet liquidated. Uncertainties still exist with regard to the unrealized losses, and the final amount of total losses 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[6] was received by RTC and $44.2 billion was received by FRF to cover losses and expenses associated with failed institutions from RTC's caseload and to cover losses associated with the former FSLIC activities.

As shown in table 1, after reducing the total amount of funding received by the amount of recorded accumulated deficit, an estimated $10.3 billion in funds will remain available. FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of FSLIC transferred to FRF on August 9, 1989 (FRF-FSLIC) and the other composed of the RTC assets and liabilities transferred to FRF on January 1, 1996 (FRF-RTC). Of the $10.3 billion in funds available, $2.1 billion is available to FRF-FSLIC and $8.2 billion is available to FRF-RTC.

[6]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.

Table 1: FRF's Estimated Funds Available as of December 31, 1998

(Dollars in billions)

	FRF-FSLIC	FRF-RTC	Total FRF
Total funds received	$44.2	$91.3	$135.5
Less: accumulated deficit	42.1	83.1	125.2
Estimated funds available	**$ 2.1**	**$ 8.2**	**$ 10.3**

Funds available in FRF-FSLIC will be used to pay future liabilities of the FRF-FSLIC, including the contingency related to the goodwill litigation cases. Because additional and possibly substantial amounts could be paid out of the FRF-FSLIC for the goodwill cases, FRF has been provided with an indefinite appropriation for the payment of judgments and settlements in the goodwill litigation, without fiscal year limitation.[7]

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. In total, RTC drew down $4.6 billion of funding provided by the act. After providing for all outstanding RTC liabilities, FDIC must transfer to the Resolution Funding Corporation (REFCORP) the net proceeds from the sale of RTC-related assets.

Any such funds transferred to REFCORP are to 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. The final amount of unused funds will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated.

[7]Section 130 of the Department of Justice Appropriation Act, 1999, appropriates for paying judgments against the United States and compromise settlements in the goodwill cases "such sums as may be necessary, to remain available until expended." We believe section 130 establishes an indefinite, permanent appropriation. FDIC has not expressed a view on the permanency of section 130 and the President's budget proposes clarifying language for the fiscal year 2000 appropriation act, which is designed to provide FDIC with a permanent appropriation.

Progress on Prior Year's Reportable Condition

In our 1997 audit report[8] on the three funds administered by FDIC, we identified one reportable condition that affected FDIC's ability to ensure that internal control objectives were achieved. The weakness related to FDIC's internal controls designed to ensure that assets valued outside of FDIC's Standard Asset Valuation Estimation (SAVE) process were accurately and appropriately valued. During our 1997 audits, we found significant errors in the estimated recoveries for a portfolio of partnership interests, and we found unsupported recoveries and other errors in the estimated recoveries for another portfolio of debt and equity securities.

During 1998, FDIC developed standard valuation methodologies for assets previously valued outside of its SAVE process. FDIC's objective was to establish consistent asset valuation methodologies for those assets. FDIC also clearly designated responsibility for valuing those assets and for reviewing completed valuations. While we continued to find some instances where recovery estimates for FRF assets were not fully supported, we concluded that they were isolated problems that were not significant to FRF's financial statements. We will discuss this matter further in a management letter.

We did not identify any reportable conditions during our 1998 audits. However, we noted other less significant matters involving FDIC's internal accounting and electronic data processing general controls that we will be reporting separately to FDIC in two management letters.

Corporation Comments and Our Evaluation

In commenting on a draft of this report, FDIC acknowledged the importance of an effective internal control program, and stated a commitment to achieving corporate objectives by ensuring that the Corporation operates within an environment conducive to strong internal controls. FDIC also stated that it will continue to monitor the other matters discussed in the audit report, including the Y2K issues related to insured financial institutions, the goodwill litigation cases, and FRF's

[8] Financial Audit: Federal Deposit Insurance Corporation's 1997 and 1996 Financial Statements (GAO/AIMD-98-204, June 29, 1998).

liquidation activities and funding. We also plan to monitor these issues as a part of our audits of FDIC's 1999 financial statements.

David M. Walker
Comptroller General
of the United States

May 14, 1999

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

		1998		1997
Assets				
Cash and cash equivalents	$	2,117,644	$	219,207
Investment in U.S. Treasury obligations, net (Note 3)		26,125,695		26,598,825
(Market value of investments at December 31, 1998 and December 31, 1997 was $27.5 billion and $27.1 billion, respectively)				
Interest receivable on investments and other assets, net		690,586		472,818
Receivables from bank resolutions, net (Note 4)		747,948		1,109,035
Assets acquired from assisted banks and terminated receiverships, net (Note 5)		27,373		60,724
Property and equipment, net (Note 6)		209,615		145,061
Total Assets	$	**29,918,861**	$	**28,605,670**
Liabilities				
Accounts payable and other liabilities	$	229,984	$	228,955
Estimated liabilities for: (Note 7)				
Anticipated failure of insured institutions		32,000		11,000
Assistance agreements		15,125		31,952
Litigation losses		22,301		13,500
Asset securitization guarantees		7,141		27,715
Total Liabilities		**306,551**		**313,122**
Commitments and off-balance-sheet exposure (Note 12)				
Fund Balance				
Accumulated net income		29,601,395		28,292,672
Unrealized gain/(loss) on available-for-sale securities, net (Note 3)		10,915		(124)
Total Fund Balance		**29,612,310**		**28,292,548**
Total Liabilities and Fund Balance	$	**29,918,861**	$	**28,605,670**

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

Statements of Income and Fund Balance

Bank Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	1998	1997
Revenue		
Interest on U.S. Treasury obligations	$ 1,674,344	$ 1,519,276
Interest on advances and subrogated claims	67,350	22,073
Gain on conversion of benefit plan (Note 11)	200,532	0
Revenue from assets acquired from assisted banks and terminated receiverships	20,926	38,000
Assessments (Note 8)	21,688	24,711
Other revenue	15,422	11,558
Total Revenue	**2,000,262**	**1,615,618**
Expenses and Losses		
Operating expenses	697,604	605,214
Provision for insurance losses (Note 9)	(37,699)	(495,296)
Expenses for assets acquired from assisted banks and terminated receiverships	29,803	65,901
Interest and other insurance expenses	1,831	1,506
Total Expenses and Losses	**691,539**	**177,325**
Net Income	**1,308,723**	**1,438,293**
Unrealized gain/(loss) on available-for-sale securities, net (Note 3)	11,039	(124)
Comprehensive Income	**1,319,762**	**1,438,169**
Fund Balance - Beginning	**28,292,548**	**26,854,379**
Fund Balance - Ending	$ **29,612,310**	$ **28,292,548**

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

Statements of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	1998	1997
Cash Flows From Operating Activities		
Cash provided from:		
Interest on U.S. Treasury obligations	$ 1,788,937	$ 1,480,060
Recoveries from bank resolutions	881,802	3,826,273
Recoveries from assets acquired from assisted banks and terminated receiverships	54,207	141,765
Assessments	22,931	22,201
Miscellaneous receipts	27,990	24,951
Cash used for:		
Operating expenses	(711,020)	(580,515)
Disbursements for bank resolutions	(420,691)	(298,943)
Disbursements for assets acquired from assisted banks and terminated receiverships	(37,391)	(67,231)
Miscellaneous disbursements	(7,959)	(11,771)
Net Cash Provided by Operating Activities (Note 14)	**1,598,806**	**4,536,790**
Cash Flows From Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations, held-to-maturity	5,850,000	6,300,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	185,456	0
Cash used for:		
Purchase of property and equipment	(51,058)	0
Purchase of U.S. Treasury obligations, held-to-maturity	(4,478,337)	(10,373,695)
Purchase of U.S. Treasury obligations, available-for-sale	(1,206,430)	(502,020)
Net Cash Provided From (Used by) Investing Activities	**299,631**	**(4,575,715)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,898,437**	**(38,925)**
Cash and Cash Equivalents - Beginning	**219,207**	**258,132**
Cash and Cash Equivalents - Ending	**$ 2,117,644**	**$ 219,207**

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

Notes to Financial Statements

Notes to the Financial Statements
Bank Insurance Fund
December 31, 1998 and 1997

1. Legislative History and Operations of the Bank Insurance Fund

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

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

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

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

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

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

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 8) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve 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 (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on BIF-assessable deposits that is one-fifth of the rate for SAIF-assessable deposits through the earlier of December 31,1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately $790 million on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of BIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the BIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 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. Subsequently, Congress did not enact legislation during 1998 to either merge the BIF and the SAIF or to eliminate the thrift charter.

Recent Legislative Initiatives
Congress continues to focus on legislative proposals to achieve modernization of the financial services industry. Some of these proposals, if enacted into law, may have a significant impact on the BIF and/or the SAIF. However, these proposals continue to vary and FDIC management cannot predict which provisions, if any, will ultimately be enacted.

Operations of the BIF
The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured 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. The FDIC also provides assistance to troubled banks and monitors compliance with the assistance agreements.

The BIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations and 2) BIF assessment premiums.

Additional funding sources are U.S. Treasury and Federal Financing Bank (FFB) borrowings, if necessary. The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion. The FDICIA also established a limitation on obligations that can be incurred by the BIF, known as the maximum obligation limitation (MOL). At December 31, 1998, the MOL for the BIF was $51.7 billion.

The VA, HUD and Independent Agencies Appropriations Acts of 1999 and 1998 appropriated $34.7 million for fiscal year 1999 (October 1, 1998, through September 30, 1999) and $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998), respectively, for operating expenses incurred by the Office of Inspector General (OIG). These Acts mandate that the funds are to be derived from the BIF, the SAIF, and the FRF.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

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

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 (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. 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 a receivable for 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
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC. Workload-based-allocation percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the BIF, the SAIF, and the FRF. Each fund pays its liabilities for these benefits directly to the entity. The BIF's unfunded net postretirement benefits liability for the plan is presented in the BIF's Statements of Financial Position.

Disclosure About Recent Accounting Standard Pronouncements
In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the BIF's disclosures for postretirement benefits have been made, the impact is not material.

In June 1998, the FASB also issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Statement requires that all derivatives be recognized either as assets or liabilities in the statements of financial position and to measure those instruments at fair value. Based upon analysis, derivative instruments of the BIF are immaterial to the financial statements.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This Statement requires the development or purchase cost of internal-use software to be treated as a capital asset. The FDIC adopted this Statement effective January 1, 1998. This asset is presented in the "Property and equipment, net" line item in the BIF's Statements of Financial Position (see Note 6).

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." The FDIC adopted SFAS No. 130 effective on January 1, 1997. 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 Statements of Financial Position and the Statements of Income and Fund Balance.

Other recent pronouncements are not applicable to the financial statements.

Depreciation
The FDIC has designated the BIF as administrator of property and equipment used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges the other funds rental and service fees representing an allocated share of its annual depreciation expense.

Prior to January 1, 1998, only buildings owned by the Corporation were depreciated. On January 1, 1998, FDIC began capitalizing the development and purchase cost of internal-use software in accordance with the requirements of SOP 98-1. The FDIC also began to capitalize the cost of furniture, fixtures, and general equipment. These costs were expensed in prior years on the basis that the costs were immaterial. The expanded capitalization policy had no material impact on the financial position or operation of the BIF.

The Washington, D.C. office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco condominium offices are depreciated on a straight-line basis over a 35-year estimated life. Leasehold improvements will be capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

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

Reclassifications
Reclassifications have been made in the 1997 financial statements to conform to the presentation used in 1998.

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

Cash received by the BIF is invested in U.S. Treasury obligations with maturities exceeding three months unless cash is needed to meet the liquidity needs of the fund. The BIF's current portfolio includes securities classified as held-to-maturity and available-for-sale. The BIF also invests in Special U.S. Treasury Certificates that are included in the "Cash and cash equivalents" line item.

For 1998, the gross realized gain on securities classified as available-for-sale was $224 thousand. The gain is included in the "Other revenue" line item. Proceeds from the sale were $186 million. The cost of the securities sold was determined on a specific identification basis. There were no sales in 1997.

U.S. Treasury Obligations at December 31, 1998

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	5.57%	$ 2,120,000	$ 2,133,448	$ 10,597	$ 0	$ 2,144,045
1-3 years	6.04%	5,525,000	5,564,524	148,112	0	5,712,636
3-5 years	6.19%	5,965,000	6,345,044	322,126	0	6,667,170
5-10 years	6.01%	10,295,000	10,566,047	864,116	0	11,430,163
Total		$ 23,905,000	$ 24,609,063	$ 1,344,951	$ 0	$ 25,954,014
Available-for-Sale						
Less than one year	5.09%	$ 940,000	$ 946,726	$ 4,947	$ 0	$ 951,673
1-3 years	5.63%	550,000	558,991	5,968	0	564,959
Total		$ 1,490,000	$ 1,505,717	$ 10,915	$ 0	$ 1,516,632
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 25,395,000**	**$ 26,114,780**	**$ 1,355,866**	**$ 0**	**$ 27,470,646**

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**

In 1998, the unamortized premium, net of unamortized discount, was $720 million. In 1997, the unamortized premium, net of the unamortized discount, was $589 million.

4. Receivables From Bank Resolutions, Net

The bank resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the BIF against the receiverships' assets. There were three bank failures in 1998 and one in 1997, with assets of $370 and $26 million, respectively.

As of December 31, 1998 and 1997, the FDIC, in its receivership capacity for BIF-insured institutions, held assets with a book value of $1.6 billion and $2.5 billion, respectively (including cash and miscellaneous receivables of $480 million and $1 billion at December 31, 1998 and 1997, 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 cause the BIF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	1998	1997
Assets from open bank assistance	$ 112,045	$ 140,035
Allowance for losses	(10,727)	(38,497)
Net Assets From Open Bank Assistance	**101,318**	**101,538**
Receivables from closed banks	18,656,746	23,268,950
Allowance for losses	(18,010,116)	(22,261,453)
Net Receivables From Closed Banks	**646,630**	**1,007,497**
Total	**$ 747,948**	**$ 1,109,035**

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

The BIF has acquired assets from certain troubled and failed banks by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The methodology to estimate cash recoveries from these assets, which are used to derive the related allowance for losses, is the same as that for receivables from bank resolutions (see Note 4).

The BIF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of interest earned on performing mortgages and commercial loans. Expenses are recognized for the management and liquidation of these assets.

Assets Acquired From Assisted Banks and Terminated Receiverships, Net at December 31		
Dollars in Thousands		
	1998	1997
Assets acquired from assisted banks and terminated receiverships	$ 169,712	$ 256,237
Allowance for losses	(142,339)	(195,513)
Total	**$ 27,373**	**$ 60,724**

6. Property and Equipment, Net

Property and Equipment, Net at December 31		
Dollars in Thousands		
	1998	1997
Land	$ 29,631	$ 29,631
Buildings	152,078	151,443
PC/LAN/WAN equipment	15,612	0
Application software	1,892	0
Mainframe equipment	354	0
Furniture, fixtures, and general equipment	764	0
Telephone equipment	460	0
Work in Progress - Application Software	49,630	0
Accumulated depreciation	(40,806)	(36,013)
Total	**$ 209,615**	**$ 145,061**

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, when the liability becomes probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1998 and 1997, were $32 million and $11 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 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 $204 million.

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

Year 2000 Anticipated Failures
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. In May 1997, the federal financial institution regulatory agencies developed a program to conduct uniform reviews of all FDIC-insured institutions' Year 2000 readiness. The program assesses the five key phases of an institution's Year 2000 conversion efforts: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation. The reviews classify each institution as Satisfactory, Needs Improvement, or Unsatisfactory.

Satisfactory: Year 2000 efforts of financial institutions and independent data centers are considered "Satisfactory" if they exhibit acceptable performance in all key phases of the Year 2000 project management process as set forth in the May 5, 1997, Federal Financial Institutions Examination Council (FFIEC) Interagency Statement on the Year 2000 and subsequent guidance documents. Performance is satisfactory when project weaknesses are minor in nature and can be readily corrected within the existing project management framework. The institution's remediation progress to date meets or nearly meets expectations laid out in its Year 2000 project plan. Senior management and the board recognize and understand Year 2000 risk, are active in overseeing institutional corrective efforts, and have ensured that the necessary resources are available to address this risk area.

Needs Improvement: Year 2000 efforts of financial institutions and independent data centers are evaluated as "Needs Improvement" if they exhibit less than acceptable performance in all key phases of the Year 2000 project management process. Project weaknesses are evident, even if deficiencies are correctable within the existing project management framework. The institution's remediation progress to date is behind the schedule laid out in its Year 2000 project plan. Senior management or the board is not fully aware of the status of Year 2000 correction efforts, may not have committed sufficient financial or human resources to address this risk, or may not fully understand Year 2000 implications.

Unsatisfactory: Year 2000 efforts of financial institutions and independent data centers are considered "Unsatisfactory" if they exhibit poor performance in any of the key phases of the Year 2000 project management process. Project weaknesses are serious in nature and are not easily corrected within the existing project management framework. The institution's remediation progress is seriously behind the schedule laid out in its Year 2000 project plan. Senior management and the board do not understand or recognize the impact that the Year 2000 will have on the institution. Management or the board commitment is limited or their oversight activities are not evident.

Based on data updated through April 30, 1999, 10,159 institutions with $6.4 trillion in assets have received a Satisfactory rating, 216 institutions with $80 billion in assets a Needs Improvement rating, and 21 institutions with $1 billion in assets an Unsatisfactory rating (data includes BIF- and SAIF-insured institutions). Although the initial results of the uniform reviews are encouraging, the Year 2000 issue is unprecedented. Therefore, it is difficult to determine which institutions, if any, will ultimately fail. Further, estimates of the cost of resolving Year 2000 failures are complicated by the uncertain nature of technological disruptions and the associated impact on the BIF, if any. Failures caused solely by liquidity problems would pose substantially less exposure to the BIF. Year 2000 failures could conceivably be such liquidity failures. The possibility that any such failure would occur is quite speculative in view of actions taken by the Federal Reserve Board to ensure sufficient liquidity and currency to meet the cash needs of insured banks.

Failures could occur because of the familiar capital insolvency (liabilities exceeding assets) if a substantial number of bank borrowers were unable to repay loans due to their own lack of preparedness for the Year 2000. Insured banks are required to be aware of the measures taken by key customers to protect themselves against adverse impact from the advent of Year 2000, and compliance with such requirements is monitored via the regulatory examination program. The extent to which insured institutions, if any, ultimately experience this type of failure is not measurable.

Financial institutions are required to design a Year 2000 contingency plan to mitigate the risks associated with the failure of systems at critical dates (Business Resumption Contingency Planning). A business resumption contingency plan is designed to provide assurance that core business functions will continue if one or more systems fail.

In order to assess exposure to the BIF from Year 2000 potential failures, the FDIC evaluated all information relevant to such an assessment, to include Year 2000 on-site examination results, institution capital levels and supervisory examination composite ratings, and other institution past and current financial characteristics. As a result of this assessment, we conclude that, as of December 31, 1998, there are no probable losses to the BIF from Year 2000 failures. Further, any reasonably possible losses from Year 2000 failures were not estimable. During the remainder of 1999, the regulatory agencies will continue their Year 2000 reviews and the FDIC will continue to assess this potential liability.

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. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $178 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, 1998 and 1997, the BIF had an estimated liability under the guarantees of $7 million and $28 million, respectively. The maximum off-balance-sheet exposure under the limited guarantees is presented in Note 12.

8. Assessments

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to 1.25 percent of insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings. 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 the rate for SAIF-assessable deposits. The annual FICO interest obligation of approximately $790 million will be paid on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist.

The FICO assessment has no financial impact on the BIF. The FICO assessment is separate from the regular assessments and is imposed on banks and thrifts, not on the insurance funds. The FDIC, as administrator of the BIF and the SAIF, is acting solely as a collection agent for the FICO. During 1998 and 1997, $341 million and $338 million respectively, were 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 Board reviews premium rates semiannually. The assessment rate averaged approximately 0.08 cents per $100 of assessable deposits for 1998 and 1997. On October 27, 1998, 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 1999.

9. Provision for Insurance Losses

Provision for insurance losses was a negative $38 million and a negative $495 million for 1998 and 1997, respectively. In 1998 and 1997, the negative provision resulted primarily from decreased losses expected for assets in liquidation. The following chart lists the major components of the negative provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31		
Dollars in Thousands		
	1998	1997
Valuation adjustments:		
Open bank assistance	$ (2,431)	$ (12,180)
Closed banks	(53,926)	(356,347)
Assets acquired from assisted banks and terminated receiverships	2,222	(47,245)
Total	**(54,135)**	**(415,772)**
Contingencies:		
Anticipated failure of insured institutions	29,000	(59,000)
Assistance agreements	(8,322)	(12,716)
Asset securitization guarantees	(13,043)	(6,558)
Litigation	8,801	(1,250)
Total	**16,436**	**(79,524)**
Reduction in Provision for Insurance Losses	**$ (37,699)**	**$ (495,296)**

10. 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.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on BIF's operating expenses.

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 a FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $38.4 million and $35.7 million at December 31, 1998 and 1997, respectively.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31		
Dollars in Thousands		
	1998	1997
CSRS/FERS Disability Fund	$ 1,166	$ 488
Civil Service Retirement System	10,477	8,708
Federal Employee Retirement System (Basic Benefit)	27,857	28,661
FDIC Savings Plan	17,534	16,974
Federal Thrift Savings Plan	10,991	10,568
Total	**$ 68,025**	**$ 65,399**

11. Postretirement Benefits Other Than Pensions

On January 2, 1998, BIF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the BIF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the BIF's obligation for postretirement health benefits for retirees and near retirees for a fee of $150 million. The OPM is now responsible for postretirement health benefits for all employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constitutes both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $201 million to the BIF.

Postretirement Benefits Other Than Pensions		
Dollars in Thousands		
	1998	1997
Funded Status at December 31		
Fair value of plan assets (a)	$ 67,539	$ 356,447
Less: Benefit obligation	67,539	378,227
Under/(Over) Funded Status of the plans	**$ 0**	**$ 21,780**
Accrued benefit liability recognized in the Statements of Financial Position	$ 0	$ 39,231
Expenses and Cash Flows for the Period Ended December 31		
Net periodic benefit cost	$ (1,942)	$ 3,305
Employer contributions	6,299	4,064
Benefits paid	6,299	4,064
Weighted-Average Assumptions at December 31		
Discount rate	4.50%	5.75%
Expected return on plan assets	4.50%	5.75%
Rate of compensation increase	4.00%	4.00%

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

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase by an annual rate of 8.75 percent for 1998. Further, the rate was assumed to decrease gradually each year to a rate of 7.75 percent for the year 2000 and remain at that level thereafter.

12. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases

The BIF's allocated share of the FDIC's lease commitments totals $177.2 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 FRF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $47.7 million and $43.6 million for the years ended December 31, 1998 and 1997, respectively.

Lease Commitments

Dollars in Thousands

1999	2000	2001	2002	2003	2004 and Thereafter
$39,287	$34,699	$27,905	$24,423	$15,096	$35,765

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				
		1998		**1997**
Maximum exposure under the limited guarantees	$	481,313	$	481,313
Less: Guarantee claims paid (inception-to-date)		(27,253)		(19,231)
Less: Amount of exposure recognized as an estimated liability (see Note 7)		(7,141)		(27,715)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	$	**446,919**	$	**434,367**

Concentration of Credit Risk
As of December 31, 1998, the BIF had $18.8 billion in gross receivables from bank resolutions and $170 million in assets acquired from assisted banks and terminated receiverships. An allowance for loss of $18 billion and $142 million, respectively, has been recorded against these assets. The liquidating entities' ability to make repayments to the BIF is largely influenced by the economy of the area in which they are located. The BIF's maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 1998							
Dollars in Millions							
	Southeast	**Southwest**	**Northeast**	**Midwest**	**Central**	**West**	**Total**
Receivables from bank resolutions, net	$9	$35	$575	$11	$2	$116	$748
Assets acquired from assisted banks and terminated receiverships, net	0	21	5	0	0	1	27
Total	**$9**	**$56**	**$580**	**$11**	**$2**	**$117**	**$775**

Other Off-Balance-Sheet Risk

Deposit Insurance
As of December 31, 1998, 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.

13. Disclosures About the Fair Value of Financial Instruments

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

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

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 4), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

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

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

14. Supplementary Information Relating to the Statements of Cash Flows

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

Dollars inThousands

	1998	1997
Net Income	**$ 1,308,723**	**$ 1,438,293**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	(37,699)	(495,296)
Amortization of U.S. Treasury obligations	133,705	60,261
Gain on sale of investments	(224)	0
Gain on conversion of benefit plan	(200,532)	0
Depreciation on property and equipment	3,745	3,339
Change in Assets and Liabilities:		
(Increase) in interest receivable on investments and other assets	(39,983)	(87,996)
Decrease in receivables from bank resolutions	417,444	3,600,647
Decrease in assets acquired from assisted banks and terminated receiverships	31,129	60,693
Increase (Decrease) in accounts payable and other liabilities	6,534	(21,997)
(Decrease) in estimated liabilities for anticipated failure of insured institutions	(8,000)	(5,000)
(Decrease) in estimated liabilities for assistance agreements	(8,505)	(6,147)
(Decrease) in estimated liabilities for asset securitization guarantees	(7,531)	(10,007)
Net Cash Provided by Operating Activities	**$ 1,598,806**	**$ 4,536,790**

15. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the BIF, is conducting a corporate-wide effort to ensure that all FDIC information systems are Year 2000 compliant. This means the systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. The Year 2000 Oversight Committee is comprised of FDIC division management that oversees the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) leads the internal Year 2000 effort, under the direction of the Oversight Committee. DIRM used a five-phase approach for ensuring that all FDIC systems and software are Year 2000 compliant. The five phases are:

Awareness

The first phase of compliance focuses on defining the Year 2000 problem and gaining executive-level support and sponsorship for the effort.

Assessment

The second phase of compliance focuses on assessing the Year 2000 impact on the Corporation as a whole.

Renovation
The third phase of compliance focuses on converting, replacing or eliminating selected platforms, applications, databases, and utilities, while modifying interfaces as appropriate.

Platform is a broad term that encompasses computer hardware (including mainframe computers, servers, and personal computers) and software (including computer languages and operating systems). Utility programs, or "utilities," provide file management capabilities, such as sorting, copying, comparing, listing and searching, as well as diagnostic and measurement routines that check the health and performance of the system.

Validation
The fourth phase of compliance focuses on testing, verifying and validating converted or replaced platforms, applications, databases, and utilities.

Implementation
The fifth phase of compliance focuses on implementing converted or replaced platforms, applications, databases, utilities, and interfaces.

The Awareness, Assessment, and Renovation phases are complete. The Validation phase is scheduled to be completed during January 1999 when all production applications will be validated for Year 2000 readiness. Implementation of the majority of production applications in Year 2000 ready status will be completed by March 31, 1999. Validation and implementation of new systems and modifications to existing systems will continue throughout 1999.

Year 2000 Estimated Costs
Year 2000 compliance expenses for the BIF are estimated at $34.7 million and $1.6 million at December 31, 1998 and 1997, respectively. These expenses are reflected in the "Operating expenses" line item of the BIF's Statements of Income and Fund Balance. Future expenses are estimated to be $49 million. Year 2000 estimated future costs are included in the FDIC's budget.

Risks of Year 2000 Issues

The FDIC's Division of Supervision has an ongoing aggressive initiative to assess the BIF's supervised financial institutions for Year 2000 compliance. Other BIF-insured institutions are being assessed by their respective regulatory agencies. The BIF is subject to a potential loss from financial institutions that may fail as a result of Year 2000 related issues. Refer to "Estimated Liabilities for: Anticipated Failure of Insured Institutions – Year 2000 Anticipated Failures" (Note 7) for additional information.

No potential loss with internal system failure has been estimated due to the extensive planning and validation that has occurred.

Contingency Plans
DIRM is currently developing a disaster recovery plan and contingency plans specific to each mission-critical application.

Other divisions within the FDIC are working together to develop contingency plans to be prepared if any FDIC-insured financial institution fails as a result of lack of Year 2000 preparedness.

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

		1998		1997
Assets				
Cash and cash equivalents	$	666,736	$	141,392
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $55.248 thousand and $48.752 thousand at December 31, 1998 and December 31, 1997, respectively)*		253,790		239,548
Investment in U.S. Treasury obligations, net (Note 4) *(Market value of investments at December 31, 1998 and December 31, 1997 was $9.4 billion and $9.2 billion, respectively)*		9,061,786		9,106,386
Interest receivable on investments and other assets		140,699		122,678
Receivables from thrift resolutions, net (Note 5)		8,857		5,176
Total Assets	**$**	**10,131,868**	**$**	**9,615,180**
Liabilities				
Accounts payable and other liabilities	$	7,247	$	7,317
Estimated liability for anticipated failure of insured institutions (Note 6)		31,000		0
SAIF-member exit fees and investment proceeds held in escrow (Note 3)		253,790		239,548
Total Liabilities		**292,037**		**246,865**
Commitments and off-balance-sheet exposure (Note 10)				
Fund Balance				
Accumulated net income		**9,835,577**		**9,368,347**
Unrealized gain/(loss) on available-for-sale securities, net (Note 4)		4,254		(32)
Total Fund Balance		**9,839,831**		**9,368,315**
Total Liabilities and Fund Balance	**$**	**10,131,868**	**$**	**9,615,180**

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

Statements of Income and Fund Balance

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	1998	1997
Revenue		
Interest on U.S. Treasury obligations	$ 562,750	$ 535,463
Assessments (Note 7)	15,352	13,914
Gain on conversion of benefit plan (Note 9)	5,464	0
Other revenue	293	535
Total Revenue	**583,859**	**549,912**
Expenses and Losses		
Operating expenses	84,628	71,865
Provision for insurance losses	31,992	(1,879)
Other insurance expenses	9	0
Total Expenses and Losses	**116,629**	**69,986**
Net Income	**467,230**	**479,926**
Unrealized gain/(loss) on available-for-sale securities, net (Note 4)	4,286	(32)
Comprehensive Income	**471,516**	**479,894**
Fund Balance - Beginning	**9,368,315**	**8,888,421**
Fund Balance - Ending	**$ 9,839,831**	**$ 9,368,315**

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

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	1998	1997
Cash Flows From Operating Activities		
Cash provided from:		
Interest on U.S. Treasury obligations	$ 597,596	$ 544,094
Assessments	13,991	(146,766)
Entrance and exit fees, including interest on exit fees (Note 3)	10,306	13,596
Recoveries from thrift resolutions	1,119	14,728
Miscellaneous receipts	67	(219)
Cash used for:		
Operating expenses	(85,248)	(75,298)
Disbursements for thrift resolutions	(5,732)	(2,693)
Disbursements for Oakar banks	318	0
Miscellaneous disbursements	0	(7)
Net Cash Provided by Operating Activities (Note 12)	**532,417**	**347,435**
Cash Flows From Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,840,000	1,740,000
Cash used for:		
Purchase of U.S. Treasury obligations, held-to-maturity	(1,402,352)	(2,133,119)
Purchase of U.S. Treasury obligations, available-for-sale	(438,225)	(152,125)
Net Cash Used by Investing Activities	**(577)**	**(545,244)**
Net Increase (Decrease) in Cash and Cash Equivalents	**531,840**	**(197,809)**
Cash and Cash Equivalents - Beginning	**190,144**	**387,953**
Cash and Cash Equivalents - Ending	**$ 721,984**	**$ 190,144**

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, 1998 and 1997

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

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

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

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

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

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

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

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve 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 (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate 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 annual FICO interest obligation of approximately $790 million on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of SAIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the SAIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the SAIF and the BIF on January 1, 1999, if no insured depository institution is a savings association on that date. Subsequently, Congress did not enact legislation during 1998 to either merge the SAIF and the BIF or to eliminate the thrift charter.

Recent Legislative Initiatives
Congress continues to focus on legislative proposals to achieve modernization of the financial services industry. Some of these proposals, if enacted into law, may have a significant impact on the SAIF and/or the BIF. However, these proposals continue to vary and FDIC management cannot predict which provisions, if any, will ultimately be enacted.

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

The SAIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations and 2) SAIF assessment premiums. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, if necessary. The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the SAIF and the BIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the SAIF and the BIF, from $5 billion to $30 billion. The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). At December 31, 1998, the MOL for the SAIF was $17.3 billion.

The VA, HUD and Independent Agencies Appropriations Acts of 1999 and 1998 appropriated $34.7 million for fiscal year 1999 (October 1, 1998, through September 30, 1999) and $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998), respectively, for operating expenses incurred by the Office of Inspector General (OIG). These Acts mandate that the funds are to be derived from the SAIF, the BIF, and the FRF.

2. Summary of Significant Accounting Policies

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

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

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

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 (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. 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 a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter

is based on estimates of discounted cash recoveries from the assets of assisted or failed 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
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC. Workload-based-allocation percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the SAIF, the BIF, and the FRF. Each fund pays its liabilities for these benefits directly to the entity. The SAIF's unfunded net postretirement benefits liability for the plan is presented in the SAIF's Statements of Financial Position.

Disclosure About Recent Accounting Standards Pronouncements
In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the SAIF's disclosures for postretirement benefits have been made, the impact is not material.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." The FDIC adopted SFAS No. 130 effective on January 1, 1997. 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 Statements of Financial Position and the Statements of Income and Fund Balance.

Other recent pronouncements 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 1997 financial statements to conform to the presentation used in 1998.

3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees
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 (Board) and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow.

The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. There were no conversion transactions during 1998 and 1997 that resulted in an exit fee to the SAIF.

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

Dollars in Thousands

	1998	1997
Cash and cash equivalents	$ 55,248	$ 48,752
Investments in U.S. Treasury obligations, net	193,350	185,390
Interest receivable on U.S. Treasury obligations	4,190	3,981
Exit fees receivable	1,002	1,425
Total	**$ 253,790**	**$ 239,548**

U.S. Treasury Obligations at December 31, 1998 (Restricted)

Dollars in Thousands

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Held-to-Maturity			
1-3 years	5.52%	$ 15,000	$ 15,359	$ 335	$ 0	$ 15,694
3-5 years	6.12%	135,000	134,722	6,550	0	141,272
5-10 years	5.69%	40,000	43,269	2,156	0	45,425
Total		**$ 190,000**	**$ 193,350**	**$ 9,041**	**$ 0**	**$ 202,391**

U.S. Treasury Obligations at December 31, 1997 (Restricted)

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	5.68%	$ 40,000	$ 40,058	$ 11	$ 0	$ 40,069
3-5 years	5.95%	100,000	100,182	833	0	101,015
5-10 years	6.46%	45,000	45,150	1,439	0	46,589
Total		**$ 185,000**	**$ 185,390**	**$ 2,283**	**$ 0**	**$ 187,673**

In 1998, the unamortized premium, net of unamortized discount, was $3.4 million. In 1997, the unamortized premium, net of the unamortized discount, was $390 thousand.

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

Cash received by the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months unless cash is needed to meet the liquidity needs of the fund. The SAIF's current portfolio includes securities classified as held-to-maturity and available-for-sale. The SAIF also invests in Special U.S. Treasury Certificates that are included in the "Cash and cash equivalents" line item.

U.S. Treasury Obligations at December 31, 1998 (Unrestricted)

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	5.82%	$ 1,490,000	$ 1,496,779	$ 8,790	$ 0	$ 1,505,569
1-3 years	5.96%	3,585,000	3,609,527	88,035	0	3,697,562
3-5 years	6.04%	1,640,000	1,703,669	76,027	0	1,779,696
5-10 years	6.00%	1,615,000	1,664,974	117,633	0	1,782,607
Total		$ 8,330,000	$ 8,474,949	$ 290,485	$ 0	$ 8,765,434
			Available-for-Sale			
Less than one year	5.55%	$ 370,000	$ 373,840	$ 2,172	$ 0	$ 376,012
1-3 years	5.61%	205,000	208,743	2,082	0	210,825
Total		$ 575,000	$ 582,583	$ 4,254	$ 0	$ 586,837
			Total Investment in U.S. Treasury Obligations, Net			
Total		**$ 8,905,000**	**$ 9,057,532**	**$ 294,739**	**$ 0**	**$ 9,352,271**

U.S. Treasury Obligations at December 31, 1997 (Unrestricted)

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%	$	1,650,000	$	1,647,211	$	2,751	$	(319)	$	1,649,643
1-3 years	5.87%		3,415,000		3,451,362		16,852		(3,309)		3,464,905
3-5 years	6.03%		2,510,000		2,541,949		26,808		(969)		2,567,788
5-10 years	6.47%		1,265,000		1,313,739		49,888		0		1,363,627
Total		$	8,840,000	$	8,954,261	$	96,299	$	(4,597)	$	9,045,963
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		**$**	**8,990,000**	**$**	**9,106,418**	**$**	**96,331**	**$**	**(4,661)**	**$**	**9,198,088**

In 1998, the unamortized premium, net of unamortized discount, was $152.5 million. In 1997, the unamortized premium, net of the unamortized discount, was $116.4 million.

5. Receivables From Thrift Resolutions, Net

The thrift resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the SAIF against the receiverships' assets. There were no thrift failures in 1998, or in 1997.

As of December 31, 1998 and 1997, the FDIC, in its receivership capacity for SAIF-insured institutions, held assets with a book value of $46.1 million and $56.6 million, respectively (including cash and miscellaneous receivables of $45.7 million and $40 million at December 31, 1998 and 1997, 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 cause the SAIF's and other claimants' actual recoveries to vary 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, when the liability becomes probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1998 and 1997, were $31 million and zero, respectively. The estimated liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable thrift 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 failures.

There are other thrifts where the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses of about $77 million.

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

Year 2000 Anticipated Failures
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. In May 1997, the federal financial institution regulatory agencies developed a program to conduct uniform reviews of all FDIC-insured institutions' Year 2000 readiness. The program assesses the five key phases of an institution's Year 2000 conversion efforts: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation. The reviews classify each institution as Satisfactory, Needs Improvement, or Unsatisfactory.

Satisfactory: Year 2000 efforts of financial institutions and independent data centers are considered "Satisfactory" if they exhibit acceptable performance in all key phases of the Year 2000 project management process as set forth in the May 5, 1997, Federal Financial Institutions Examination Council (FFIEC) Interagency Statement on the Year 2000 and subsequent guidance documents. Performance is satisfactory when project weaknesses are minor in nature and can be readily corrected within the existing project management framework. The institution's remediation progress to date meets or nearly meets expectations laid out in its Year 2000 project plan. Senior management and the board recognize and understand Year 2000 risk, are active in overseeing institutional corrective efforts, and have ensured that the necessary resources are available to address this risk area.

Needs Improvement: Year 2000 efforts of financial institutions and independent data centers are evaluated as "Needs Improvement" if they exhibit less than acceptable performance in all key phases of the Year 2000 project management process. Project weaknesses are evident, even if deficiencies are correctable within the existing project management framework. The institution's remediation progress to date is behind the schedule laid out in its Year 2000 project plan. Senior management or the board is not fully aware of the status of Year 2000 correction efforts, may not have committed sufficient financial or human resources to address this risk, or may not fully understand Year 2000 implications.

Unsatisfactory: Year 2000 efforts of financial institutions and independent data centers are considered "Unsatisfactory" if they exhibit poor performance in any of the key phases of the Year 2000 project management process. Project weaknesses are serious in nature and are not easily corrected within the existing project management framework. The institution's remediation progress is seriously behind the schedule laid out in its Year 2000 project plan.

Senior management and the board do not understand or recognize the impact that the Year 2000 will have on the institution. Management or the board commitment is limited or their oversight activities are not evident.

Based on data updated through April 30, 1999, 10,159 institutions with $6.4 trillion in assets have received a Satisfactory rating, 216 institutions with $80 billion in assets a Needs Improvement rating, and 21 institutions with $1 billion in assets an Unsatisfactory rating (data includes SAIF- and BIF-insured institutions). Although the initial results of the uniform reviews are encouraging, the Year 2000 issue is unprecedented. Therefore, it is difficult to determine which institutions, if any, will ultimately fail. Further, estimates of the cost of resolving Year 2000 failures are complicated by the uncertain nature of technological disruptions and the associated impact on the SAIF, if any. Failures caused solely by liquidity problems would pose substantially less exposure to the SAIF. Year 2000 failures could conceivably be such liquidity failures. The possibility that any such failure would occur is quite speculative in view of actions taken by the Federal Reserve Board to ensure sufficient liquidity and currency to meet the cash needs of insured thrifts.

Failures could occur because of the familiar capital insolvency (liabilities exceeding assets) if a substantial number of thrift borrowers were unable to repay loans due to their own lack of preparedness for the Year 2000. Insured thrifts are required to be aware of the measures taken by key customers to protect themselves against adverse impact from the advent of Year 2000, and compliance with such requirements is monitored via the regulatory examination program. The extent to which insured institutions, if any, ultimately experience this type of failure is not measurable.

Financial institutions are required to design a Year 2000 contingency plan to mitigate the risks associated with the failure of systems at critical dates (Business Resumption Contingency Planning). A business resumption contingency plan is designed to provide assurance that core business functions will continue if one or more systems fail.

In order to assess exposure to the SAIF from Year 2000 potential failures, the FDIC evaluated all information relevant to such an assessment, to include Year 2000 on-site examination results, institution capital levels and supervisory examination composite ratings, and other institution past and current financial characteristics. As a result of this assessment, we conclude that, as of December 31, 1998, there are no probable losses to the SAIF from Year 2000 failures. Further, any reasonably possible losses from Year 2000 failures were not estimable. During the remainder of 1999, the regulatory agencies will continue their Year 2000 reviews and the FDIC will continue to assess this potential liability.

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. For 1998 and 1997, no legal cases were deemed probable in occurrence. In 1998, no unresolved legal cases were identified as 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 DRR of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. The SAIF achieved its required capitalization by means of a $4.5 billion special assessment effective October 1, 1996.

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.

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, and 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. The FICO assessment is separate from the regular assessments and is imposed on thrifts and banks, not on the insurance funds. The FDIC, as administrator of the SAIF and the BIF, is acting solely as a collection agent for the FICO. During 1998 and 1997, $446 million and $454 million respectively, were 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 Board reviews premium rates semiannually. The assessment rate averaged approximately 0.21 cents and 0.39 cents per $100 of assessable deposits for 1998 and 1997, respectively. On October 27, 1998, 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 1999.

8. 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.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on SAIF's operating expenses.

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 a FDIC-sponsored tax-deferred savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $4.4 million and $3 million at December 31, 1998 and 1997, respectively.

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

Dollars in Thousand

	1998	1997
CSRS/FERS Disability Fund	$ 140	$ 44
Civil Service Retirement System	1,242	855
Federal Employee Retirement System (Basic Benefit)	3,002	2,242
FDIC Savings Plan	1,947	1,446
Federal Thrift Savings Plan	1,176	840
Total	**$ 7,507**	**$ 5,427**

9. Postretirement Benefits Other Than Pensions

On January 2, 1998, SAIF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the SAIF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the SAIF's obligation for postretirement health benefits for retirees and near retirees for a fee of $3.7 million. The OPM is now responsible for postretirement health benefits for all employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constitutes both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $5.5 million to the SAIF.

Postretirement Benefits Other Than Pensions		
Dollars in Thousands		
	1998	1997
Funded Status at December 31		
Fair value of plan assets (a)	$ 5,048	$ 10,011
Less: Benefit obligation	5,048	9,411
Under/(Over) Funded Status of the plans	**$ 0**	**$ (600)**
Accrued benefit liability recognized in the Statements of Financial Position	$ 0	$ 867
Expenses and Cash Flows for the Period Ended December 31		
Net periodic benefit cost	**$ 1,516**	**$ 451**
Employer contributions	718	342
Benefits paid	718	342
Weighted-Average Assumptions at December 31		
Discount rate	4.50%	5.75%
Expected return on plan assets	4.50%	5.75%
Rate of compensation increase	4.00%	4.00%

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

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase by an annual rate of 8.75 percent for 1998. Further, the rate was assumed to decrease gradually each year to a rate of 7.75 percent for the year 2000 and remain at that level thereafter.

10. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases

The SAIF's allocated share of the FDIC's lease commitments totals $20.2 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF, the BIF and the FRF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $4.8 million and $3.3 million for the years ended December 31, 1998 and 1997, respectively.

Lease Commitments

Dollars in Thousands

1999	2000	2001	2002	2003	2004 and Thereafter
$4,488	$3,963	$3,187	$2,788	$1,723	$4,079

Other Off-Balance-Sheet Risk

Deposit Insurance
As of December 31, 1998, deposits insured by the SAIF totaled approximately $709 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 Notes 3 and 4 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparisons with current interest rates. As explained in Note 3, entrance and exit fees 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 receivables from thrift resolutions primarily include the SAIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the SAIF's allowance for loss against the net receivables from thrift resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

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

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

12. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31		
Dollars in Thousands		
	1998	1997
Net Income	**$ 467,230**	**$ 479,926**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	31,992	(1,879)
Amortization of U.S. Treasury obligations (unrestricted)	41,198	17,675
Gain on conversion of benefit plan	5,464	0
Change in Assets and Liabilities:		
Decrease (Increase) in amortization of U.S. Treasury obligations (restricted)	304	(147)
(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	(20,187)	(33)
(Increase) Decrease in receivables from thrift resolutions	(4,700)	11,652
(Decrease) in accounts payable and other liabilities	(3,126)	(171,732)
Increase in exit fees and investment proceeds held in escrow	14,242	11,973
Net Cash Provided by Operating Activities	**$ 532,417**	**$ 347,435**

13. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the SAIF, is conducting a corporate-wide effort to ensure that all FDIC information systems are Year 2000 compliant. This means the systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. The Year 2000 Oversight Committee is comprised of FDIC division management that oversees the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) leads the internal Year 2000 effort, under the direction of the Oversight Committee. DIRM used a five-phase approach for ensuring that all FDIC systems and software are Year 2000 compliant. The five phases are:

Awareness

The first phase of compliance focuses on defining the Year 2000 problem and gaining executive-level support and sponsorship for the effort.

Assessment

The second phase of compliance focuses on assessing the Year 2000 impact on the Corporation as a whole.

Renovation

The third phase of compliance focuses on converting, replacing or eliminating selected platforms, applications, databases, and utilities, while modifying interfaces as appropriate.

Platform is a broad term that encompasses computer hardware (including mainframe computers, servers, and personal computers) and software (including computer languages and operating systems). Utility programs, or "utilities," provide file management capabilities, such as sorting, copying, comparing, listing and searching, as well as diagnostic and measurement routines that check the health and performance of the system.

Validation
The fourth phase of compliance focuses on testing, verifying and validating converted or replaced platforms, applications, databases, and utilities.

Implementation
The fifth phase of compliance focuses on implementing converted or replaced platforms, applications, databases, utilities, and interfaces.

The Awareness, Assessment, and Renovation phases are complete. The Validation phase is scheduled to be completed during January 1999 when all production applications will be validated for Year 2000 readiness. Implementation of the majority of production applications in Year 2000 ready status will be completed by March 31, 1999. Validation and implementation of new systems and modifications to existing systems will continue throughout 1999.

Year 2000 Estimated Costs
Year 2000 compliance expenses for the SAIF are estimated at $4.4 million and $191 thousand at December 31, 1998 and 1997, respectively. These expenses are reflected in the "Operating expenses" line item of the SAIF's Statements of Income and Fund Balance. Future expenses are estimated to be $6.2 million. Year 2000 estimated future costs are included in the FDIC's budget.

Risks of Year 2000 Issues

The OTS has an ongoing aggressive initiative to assess the SAIF's insured financial institutions for Year 2000 compliance. The SAIF is subject to a potential loss from financial institutions that may fail as a result of Year 2000 related issues. Refer to "Estimated Liabilities for: Anticipated Failure of Insured Institutions – Year 2000 Anticipated Failures" (Note 6) for additional information.

No potential loss with internal system failure has been estimated due to the extensive planning and validation that has occurred.

Contingency Plans
DIRM is currently developing a disaster recovery plan and contingency plans specific to each mission-critical application.

Other divisions within the FDIC are working together to develop contingency plans to be prepared if any FDIC-insured financial institution fails as a result of lack of Year 2000 preparedness.

14. Subsequent Events

SAIF Special Reserve

DIFA requires the establishment of a Special Reserve of the SAIF if, on January 1, 1999, the reserve ratio exceeds the DRR of 1.25 percent. The reserve ratio exceeded the DRR by approximately 0.14 percent on January 1, 1999. As a result, $978 million was placed in a Special Reserve of the SAIF and is being administered by the FDIC.

The Corporation may, in its sole discretion, transfer amounts from the Special Reserve to the SAIF for an "emergency use." An emergency use is authorized only if the reserve ratio of the SAIF is less than 50 percent of the DRR and is expected to remain at less than 50 percent for each of the next four calendar quarters. The Special Reserve must be excluded when calculating the reserve ratio of the SAIF.

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

	1998	1997
Assets		
Cash and cash equivalents	$ 4,631,379	$ 2,107,171
Receivables from thrift resolutions, net (Note 3)	1,388,579	2,570,486
Securitization funds held by trustee, net (Note 4)	2,796,646	4,890,568
Investment in securitization residual certificates (Note 5)	1,538,339	
Assets acquired from assisted thrifts and terminated receiverships, net (Note 6)	64,101	73,051
Other assets, net (Note 7)	40,721	7,391
Total Assets	**$ 10,459,765**	**$ 9,648,667**
Liabilities		
Accounts payable and other liabilities	$ 40,396	$ 164,401
Notes payable - Federal Financing Bank borrowings (Note 8)	0	849,294
Liabilities from thrift resolutions (Note 9)	74,336	105,168
Estimated liabilities for: (Note 10)		
Assistance agreements	4,852	6,328
Litigation losses	18,340	2,634
Total Liabilities	**137,924**	**1,127,825**
Commitments and concentration of credit risks (Note 15)		
Resolution Equity (Note 12)		
Contributed capital	135,490,741	135,493,762
Accumulated deficit	(125,243,229)	(126,972,920)
Unrealized gain on available-for-sale securities, net (Note 5)	74,329	
Accumulated deficit, net	(125,168,900)	(126,972,920)
Total Resolution Equity	**10,321,841**	**8,520,842**
Total Liabilities and Resolution Equity	**$ 10,459,765**	**$ 9,648,667**

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

Statements of Income and Accumulated Deficit

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	1998	1997
Revenue		
Interest on securitization funds held by trustee	$ 262,962	$ 299,854
Interest on U.S. Treasury obligations	109,045	86,959
Interest on advances and subrogated claims	212,645	(28,348)
Gain on conversion of benefit plan (Note 14)	39,297	0
Revenue from assets acquired from assisted thrifts and terminated receiverships	40,124	74,286
Limited partnership equity interests and other revenue	31,593	22,600
Total Revenue	**695,666**	**455,351**
Expenses and Losses		
Operating expenses	56,336	16,732
Provision for losses (Note 11)	(1,290,752)	(1,741,639)
Expenses for goodwill settlements and litigation	154,492	33,833
Interest expense on FFB debt and other notes payable	22,413	130,435
Expenses for assets acquired from assisted thrifts and terminated receiverships	19,652	65,175
Other expenses	3,834	4,412
Total Expenses and Losses	**(1,034,025)**	**(1,491,052)**
Net Income	**1,729,691**	**1,946,403**
Unrealized gain on available-for-sale securities, net (Note 5)	**74,329**	**0**
Comprehensive Income	1,804,020	**1,946,403**
Accumulated Deficit - Beginning	**(126,972,920)**	**(128,919,323)**
Accumulated Deficit - Ending	$ **(125,168,900)**	$ **(126,972,920)**

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

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

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

Dollars in Thousands

	1998	1997
Cash Flows From Operating Activities		
Cash provided from:		
Interest on U.S. Treasury obligations	$ 109,045	$ 86,966
Recoveries from thrift resolutions	890,566	3,791,256
Recoveries from securitization funds held by trustee	2,390,945	1,078,815
Recoveries from limited partnership equity interests	188,801	121,369
Recoveries from assets acquired from assisted thrifts and terminated receiverships	48,580	483,524
Miscellaneous receipts	1,383	13,962
Cash used for:		
Operating expenses	(78,526)	(41,268)
Interest paid on notes payable	(29,997)	(173,981)
Disbursements for thrift resolutions	(177,365)	(390,632)
Disbursements for goodwill settlements and litigation expenses	(154,492)	(26,610)
Disbursements for assets acquired from assisted thrifts and terminated receiverships	(26,952)	(176,933)
Miscellaneous disbursements	(220)	(4,913)
Net Cash Provided by Operating Activities (Note 17)	**3,161,768**	**4,761,555**
Cash Flows From Investing Activities		
Cash provided from:		
Redemption of Securitization Residual Certificates, available-for-sale	260,856	
Cash used for:		
Purchase of Residual Certificates, available-for-sale	(25,425)	
Net Cash Provided from Investing Activities	**235,431**	
Cash Flows From Financing Activities		
Cash used for:		
Return of U.S. Treasury payments	(3,020)	(8,053)
Repayments of Federal Financing Bank borrowings	(838,412)	(3,718,692)
Repayments of indebtedness from thrift resolutions	(31,559)	(31,560)
Net Cash Used by Financing Activities	**(872,991)**	**(3,758,305)**
Net Increase in Cash and Cash Equivalents	**2,524,208**	**1,003,250**
Cash and Cash Equivalents - Beginning	**2,107,171**	**1,103,921**
Cash and Cash Equivalents - Ending	**$ 4,631,379**	**$ 2,107,171**

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

Notes to Financial Statements

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 1998 and 1997

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History
The U.S. Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF (except those assets and liabilities transferred to the Resolution Trust Corporation (RTC)), effective on August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

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

The FIRREA also created the RTC to manage and resolve all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA, the RTC Funding Act of 1991, the RTC Refinancing, Restructuring and Improvement Act of 1991, and the RTC Completion Act.

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

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. The RTC Completion Act made available approximately $18 billion worth of additional funding. The RTC actually drew down $4.556 billion.

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 (see Note 12).

Operations of the FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the U.S. Treasury to repay RTC Completion Act appropriations and to the REFCORP to pay the interest on the REFCORP bonds.

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

Public Law 103-327 provides $827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF. 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 (DOJ) of $26.1 million and $33.7 million, respectively, from the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the U.S. arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ will be paid directly from the FRF-FSLIC based on a Memorandum of Understanding (MOU) dated October 2, 1998, between FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $51.2 million to DOJ during 1998. Separate funding for goodwill judgments and settlements is available through Public Law 105-277 (see Note 10).

The VA, HUD and Independent Agencies Appropriations Acts of 1999 and 1998 appropriated $34.7 million for fiscal year 1999 (October 1, 1998, through September 30, 1999) and $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998), respectively, for operating expenses incurred by the Office of Inspector General (OIG). These Acts mandate 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 thrift institutions for which the FDIC acts as receiver or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

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

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

Investment in Securitization Residual Certificates
The Investment in Securitization Residual Certificates is recorded pursuant to the provisions of the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. The Investment in Securitization Residual Certificates is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Realized gains are included in the "Limited partnership equity interests and other revenue" line item with realized losses included in the "Provision for losses" line item when applicable. The FRF does not have any securities classified as held-to-maturity or trading.

Allowance for Losses on Receivables From Thrift Resolutions and Assets Acquired From Assisted Thrifts and Terminated Receiverships
The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. The FRF also records as an asset the amounts paid for assets acquired from assisted thrifts and terminated receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all 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
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC. Workload-based-allocation percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the FRF, the BIF, and the SAIF. Each fund pays its liabilities for these benefits directly to the entity. The FRF's unfunded net postretirement benefits liability for the plan is presented in FRF's Statements of Financial Position.

Disclosure About Recent Accounting Standard Pronouncements

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the FRF's disclosures for postretirement benefits have been made, the impact is not material.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." The FDIC adopted SFAS No. 130 effective on January 1, 1997. 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 FRF is unrealized gain or loss on the securitization residual certificates that are classified as available-for-sale, which is presented in the FRF's Statements of Financial Position and the Statements of Income and Accumulated Deficit.

Other recent pronouncements 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. Final judgment on the remaining litigation was made on December 16, 1998. However, a final liquidating dividend to the FRF was still pending at year-end. This liquidating dividend will be disbursed during 1999. The investment in the FADA is accounted for using the equity method and is included in the "Other assets, net" line item (see Note 7).

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. These assets are presented in "Assets acquired from assisted thrifts and terminated receiverships, net" line item in the FRF's Statements of Financial Position.

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. Over the past two years, the majority of the limited partnership equity interests were transferred from the receiverships to the FRF. These assets are included in the "Receivables from thrift resolutions, net" line item in the FRF's Statements of Financial Position.

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 1997 financial statements to conform to the presentation used in 1998.

3. Receivables From Thrift Resolutions, Net

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments 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, 1998 and 1997, the FDIC, in its receivership capacity for the former FSLIC and SAIF insured institutions, held assets with a book value of $2.6 billion and $3.6 billion, respectively (including cash and miscellaneous receivables of $1.7 billion and $1.4 billion at December 31, 1998 and 1997, 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 cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31		
Dollars in Thousands		
	1998	**1997**
Assets from open thrift assistance	$ 529,123	$ 804,217
Allowance for losses	(386,935)	(446,064)
Net Assets From Open Thrift Assistance	**142,188**	**358,153**
Receivables from closed thrifts	72,727,268	76,680,026
Allowance for losses	(71,480,877)	(74,467,693)
Net Receivables From Closed Thrifts	**1,246,391**	**2,212,333**
Total	**$ 1,388,579**	**$ 2,570,486**

Representations and Warranties
The FRF estimated corporate losses related to the receiverships' representations and warranties as part of the FRF's allowance for loss valuation. The allowance for these losses was $81 million and $90 million as of December 31, 1998 and 1997, respectively. There are additional amounts of representation and warranty claims that are considered reasonably possible. As of December 31, 1998, the amount is estimated at $330 million. The RTC provided guarantees, representations, and warranties on approximately $115 billion in unpaid principal balance of loans sold and approximately $141 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" ($5 million and $18 million for 1998 and 1997, respectively).

4. Securitization Funds Held by Trustee, 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. A portion of the proceeds from the sale of the certificates was placed in credit enhancement escrow accounts (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The escrow account balance is reduced for claims paid and when the trustee releases the funds at the termination of a securitization deal. Funds are also released if the trustee deems the escrow account balance to be excessive.

Through December 1998, the amount of claims paid was approximately 19 percent of the initial escrow accounts. At December 31, 1998 and 1997, escrow accounts totaled $2.9 billion and $5.2 billion, respectively. At December 31, 1998 and 1997, the allowance for estimated future losses which would be paid from the escrow accounts totaled $0.1 billion and $0.3 billion, respectively.

The FRF earned interest income from the securitization funds held by trustee of $263 million during 1998 and $300 million during 1997.

5. Investment in Securitization Residual Certificates

As part of the securitization transactions described in Note 4, receivership and conservatorship loans were sold to various trusts. In return, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

In October 1998, the residual certificates were transferred from the receiverships to the FRF. The $1.8 billion transferred to the FRF was offset by amounts owed by the receiverships to the FRF. The residual certificates were adjusted to fair market value for this transaction and as a result, FRF's provision for losses decreased by $0.5 billion and FRF's resolution equity increased by $0.5 billion.

Realized gains and losses are recorded based on the difference between the proceeds at termination and the cost of the original investment. In 1998, the FDIC received $241.3 million in proceeds from deals terminated by December 31, 1998. Additionally, at termination, $48.8 million was deposited into the securitization funds held by trustee. The realized gains are included in "Limited partnership equity interests and other revenue" line item and the realized losses are included in the "Provision for losses" line item. At December 31, 1998, realized gains were $2.7 million and realized losses were $47.1 million.

Investment in Securitization Residual Certificates at December 31, 1998

Dollars in Millions

Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
$1,464	$81	$7	$1,538

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

The FRF's assets acquired from assisted thrifts and terminated receiverships includes: 1) assets the former FSLIC and the former RTC purchased from troubled or failed thrifts and 2) assets the FRF acquired from receiverships and purchased under assistance agreements. The methodology to estimate cash recoveries from these assets, which are used to derive the related allowance for losses, is the same as that for receivables from thrift resolutions (see Note 3).

The FRF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of interest earned on mortgage loans and proceeds from professional liability claims. Expenses are recognized for the management and liquidation of these assets.

Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net at December 31

Dollars in Thousands

	1998	1997
Assets acquired from assisted thrifts and terminated receiverships	$ 216,006	$ 277,607
Allowance for losses	(151,905)	(204,556)
Total	**$ 64,101**	**$ 73,051**

7. Other Assets, Net

Other Assets, Net at December 31

Dollars in Thousands

	1998	1997
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	33,200	607
Due from other government entities	3,595	2,858
Other Receivables	**36,795**	**3,465**
Total	**$ 40,721**	**$ 7,391**

8. 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 was due to mature on January 1, 2010; however, the entire principal and interest amounts were paid on August 10, 1998. The FFB borrowing authority ceased upon the termination of the RTC.

The note payable carried a floating rate of interest that was adjusted quarterly. The FFB established the interest rate and during 1998 these rates ranged between 5.487 percent and 5.228 percent.

9. Liabilities 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. Pursuant to FIRREA, the FRF assumed these obligations. Notes payable and obligations for assistance agreements are presented in the "Liabilities from thrift resolutions" line item. Estimated future assistance payments are included in the "Estimated liabilities for: Assistance agreements" line item (see Note 10).

Liabilities From Thrift Resolutions at December 31

Dollars in Thousands

		1998		1997
Capital instruments	$	0	$	725
Assistance agreement notes payable		62,360		94,680
Interest payable		994		1,419
Other liabilities to thrift institutions		10,982		8,344
Total	$	**74,336**	$	**105,168**

10. Estimated Liabilities for:

Assistance Agreements

The estimated liabilities for assistance agreements are $5 million and $6 million at December 31, 1998 and 1997, respectively. The liability represents an estimate of future assistance payments to acquirers of troubled thrift institutions. The balances for both years were not discounted because the remaining assistance agreements will terminate within the next two years, and the discount adjustment was deemed to be immaterial.

There were 33 assistance agreements outstanding as of December 31, 1998 and 1997. 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. In addition to the amount recorded as probable, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $144 million are reasonably possible.

Additional Contingency

In *United States v. Winstar Corp*., 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the Federal Home Loan Bank Board to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation).

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

The OLC opinion concluded that the nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. Under the analysis set forth in the OLC opinion, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. On July 31, 1998, the FDIC Board of Directors authorized the payment of four settlements in the Goodwill Litigation aggregating $103.3 million. This payment was made from the FRF-FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements and judgments arising out of the Goodwill Litigation.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On March 19, 1999, DOJ informed the FDIC that, "as a practical matter, there are likely to be substantial recoveries against the government as these matters proceed to resolution." DOJ also advised that "variations among the … cases [are] so great, including [the government's] possible recovery of fraud related damages and penalties against various plaintiffs, … [that] it is simply impossible to predict what the overall outcome is likely to be."

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of future judgments and settlements in the Goodwill Litigation. However, based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC.

Section 130 of the Department of Justice Appropriations Act, 1999 (Section 130), as amended, provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and settlements in the Goodwill Litigation, to remain available until expended. In the Budget for Fiscal Year 2000, the President has requested a permanent appropriation to the FRF-FSLIC of such sums as may be necessary for the payment of judgments and settlements in the Goodwill Litigation, to remain available until expended. It is anticipated that such an appropriation for the Goodwill Litigation judgments and settlements will be adopted. As a consequence, the FDIC believes that even if the Goodwill Litigation judgments and settlements were to exceed other available resources of the FRF-FSLIC, an appropriation is currently available and, it is anticipated, will be available in the future to pay such judgments and settlements. In these circumstances any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC. If an appropriation to the FRF-FSLIC were not available to pay the Goodwill Litigation judgments and settlements, the liabilities of the FRF-FSLIC in respect of the Goodwill Litigation would be material and adversely affect the financial condition of the FRF-FSLIC.

11. Provision for Losses

The provision for losses was a negative $1.3 billion and a negative $1.7 billion for 1998 and 1997, respectively. In both years, the negative provision resulted primarily from decreased losses expected for assets in liquidation. The following chart lists the major components of the negative provision for losses.

Provision for Losses for the Years Ended December 31

Dollars in Thousands

		1998		1997
Valuation adjustments:				
Open thrift assistance	$	12,514	$	(77,900)
Recovery of tax benefits		(115,401)		(39,126)
Closed thrifts		(1,125,523)		(1,481,702)
Assets acquired from assisted thrifts and terminated receiverships		(66,709)		(242,253)
Securitization funds held by trustee		(58,207)		134,424
Investment in securitization residual certificates		47,076		
Miscellaneous receivables		(42)		(88)
Total		**(1,306,292)**		**(1,706,645)**
Contingencies:				
Assistance agreements		0		1,961
Litigation		15,540		(36,955)
Total		**15,540**		**(34,994)**
Reduction in Provision for Losses	**$**	**(1,290,752)**	**$**	**(1,741,639)**

12. Resolution Equity

As stated in Note 1, the FRF is comprised of two distinct pools: The FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

Resolution Equity at December 31, 1998
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital	$ 44,156,000	$ 91,334,741	$ 135,490,741
Accumulated deficit	(42,057,685)	(83,185,544)	(125,243,229)
Less: Unrealized gain on AFS securities	0	74,329	74,329
Accumulated deficit, net	(42,057,685)	(83,111,215)	(125,168,900)
Total Resolution Equity	**$ 2,098,315**	**$ 8,223,526**	**$ 10,321,841**

Resolution Equity at December 31, 1997
Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital	$ 44,156,000	$ 91,337,762	$ 135,493,762
Accumulated deficit	(42,194,200)	(84,778,720)	(126,972,920)
Total Resolution Equity	**$ 1,961,800**	**$ 6,559,042**	**$ 8,520,842**

Contributed Capital
To date, 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 the 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 and $87.9 billion were brought forward from the FSLIC and RTC, respectively).

Resolution Equity Restrictions

FRF-FSLIC: The FRF-FSLIC has unrecorded, pending judgments and settlements that are inestimable at this time and that could substantially reduce or eliminate the FRF-FSLIC Resolution Equity (see Note 10).

FRF-RTC: The former RTC drew down $4.556 billion of the approximately $18 billion made available by the RTC Completion Act. The RTC Completion Act requires the FDIC to deposit in the general fund of the U.S. Treasury any funds transferred to the RTC but not needed by the RTC. The FDIC will return these funds to the U.S. Treasury pursuant to the RTC Completion Act. In addition, the FDIC must transfer net proceeds from the sale of RTC assets to pay interest on the REFCORP bonds, after providing for all outstanding RTC liabilities. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds (see Note 1).

13. 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.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on FRF's operating expenses.

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

Eligible FDIC employees also may participate in a 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's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $5.4 million and $11.2 million at December 31, 1998 and 1997, respectively.

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

Dollars in Thousands

	1998	1997
CSRS/FERS Disability Fund	$ 308	$ 168
Civil Service Retirement System	1,382	2,047
Federal Employee Retirement System (Basic Benefit)	4,438	9,473
FDIC Savings Plan	2,619	4,893
Federal Thrift Savings Plan	1,675	3,264
Total	**$ 10,422**	**$ 19,845**

14. Postretirement Benefits Other Than Pensions

On January 2, 1998, FRF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 employees enrolled in the Federal Employees Health Benefits

(FEHB) Program for their future health insurance coverage. The OPM assumed the FRF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the FRF's obligation for postretirement health benefits for retirees and near retirees for a fee of $32 million. The OPM is now responsible for postretirement health benefits for all employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constitutes both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $39 million to the FRF.

Postretirement Benefits Other Than Pensions

Dollars in Thousands

	1998	1997
Funded Status at December 31		
Fair value of plan assets (a)	$ 14,337	$ 68,010
Less: Benefit obligation	14,337	81,614
Under/(Over) Funded Status of the plans	**$ 0**	**$ 13,604**
Accrued benefit liability recognized in the Statements of Financial Position	$ 0	$ 19,099
Expenses and Cash Flows for the Period Ended December 31		
Net periodic benefit cost	$ (919)	$ 1,150
Employer contributions	886	1,280
Benefits paid	886	1,280
Weighted-Average Assumptions at December 31		
Discount rate	4.50%	5.75%
Expected return on plan assets	4.50%	5.75%
Rate of compensation increase	4.00%	4.00%

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

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase by an annual rate of 8.75 percent for 1998. Further, the rate was assumed to decrease gradually each year to a rate of 7.75 percent for the year 2000 and remain at that level thereafter.

15. Commitments and Concentration of Credit Risk

Commitments

Letters of Credit

The RTC had adopted special policies that included honoring outstanding conservatorship and receivership collateralized letters of credit. This enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were issued by thrifts that later failed and were used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1998 and 1997, securities pledged as collateral to honor these letters of credit totaled $21.4 million and $51.4 million, respectively. The FRF estimated corporate losses related to the receiverships' letters of credit as part of the allowance for loss valuation. The allowance for these losses was $7.6 million and $41.1 million as of December 31, 1998 and 1997, respectively.

Leases

The FRF's allocated share of the FDIC’s lease commitments totals $22.8 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC’s future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the FRF in the future to vary from the amount shown below. The FRF recognized leased space expense of $6.3 million and $18.2 million for the years ended December 31, 1998 and 1997, respectively.

Lease Commitments

Dollars in Thousands

1999	2000	2001	2002	2003	2004 and Thereafter
$4,776	$4,313	$3,520	$3,149	$2,035	$5,013

Concentration of Credit Risk

As of December 31, 1998, the FRF had gross receivables from thrift resolutions totaling $73.3 billion, gross assets acquired from assisted thrifts and terminated receiverships totaling $216 million, gross securitization funds held by trustee totaling $2.9 billion, and an investment in securitization residual certificates totaling $1.5 billion. The allowance for loss against receivables from thrift resolutions totaled $71.9 billion, the allowance against the assets acquired from assisted thrifts and terminated receiverships totaled $152 million, and the allowance against the securitization funds held by trustee totaled $0.1 billion.

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

Concentration of Credit Risk at December 31, 1998

Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net	$313	$165	$200	$127	$72	$512	$1,389
Assets acquired from assisted thrifts and terminated receiverships, net	0	42	1	0	0	21	64
Securitization funds held by trustee	436	320	376	87	80	1,498	2,797
Investment in securitization residual certificates	319	192	200	68	55	704	1,538
Total	**$1,068**	**$719**	**$777**	**$282**	**$207**	**$2,735**	**$5,788**

16. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of short-term receivables and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

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

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 3), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

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

Like the corporate subrogated claim, the securitization credit enhancement reserves involve an asset that is unique and is not intended for sale to the private sector. Therefore, it is not practicable to estimate the fair market value of the securitization credit enhancement 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, including investments, loans and accounts receivables. Like receivership assets, assets acquired from assisted thrifts and terminated receiverships are valued using discount rates that include consideration of market risk. However, assets acquired from assisted thrifts and terminated receiverships do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

The investment in securitization residual certificates is adjusted to its fair value at each reporting date using a valuation model which estimates the present value of estimated expected future cash flows discounted for the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets.

17. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31		
Dollars in Thousands		
	1998	1997
Net Income	**$ 1,729,691**	**$ 1,946,403**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Interest on Federal Financing Bank borrowings	18,068	124,322
Provision for losses	(1,290,752)	(1,744,690)
Gain on conversion of benefit plan	(39,297)	0
OIG income recognized	0	792
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	663,799	3,360,072
Decrease in securitization funds held by trustee	2,152,129	779,071
Decrease in assets acquired from assisted thrifts and terminated receiverships	61,928	335,624
Decrease in other assets	5,982	8,480
(Decrease) Increase in accounts payable and other liabilities	(125,545)	20,772
(Decrease) in accrued interest on notes payable	(28,950)	(173,484)
Increase (Decrease) in liabilities from thrift resolutions	2,294	(6,998)
Increase in estimated liabilities for litigation losses	13,897	0
(Decrease) Increase in estimated liabilities for assistance agreements	(1,476)	111,191
Net Cash Provided by Operating Activities	**$ 3,161,768**	**$ 4,761,555**

Noncash Investing Activity

In October 1998, the FRF acquired securitization residual certificates through a noncash purchase from its receiverships. This noncash transaction valued at $1.8 billion was applied to amounts owed by FRF receiverships which resulted in a reduction to the "Receivable from thrift resolutions, net" line item and the creation of the "Investment in securitization residual certificates" line item (see Note 5).

18. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the FRF, is conducting a corporate-wide effort to ensure that all FDIC information systems are Year 2000 compliant. This means the systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. The Year 2000 Oversight Committee is comprised of FDIC division management that oversees the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) leads the internal Year 2000 effort, under the direction of the Oversight Committee. DIRM used a five-phase approach for ensuring that all FDIC systems and software are Year 2000 compliant. The five phases are:

Awareness
The first phase of compliance focuses on defining the Year 2000 problem and gaining executive-level support and sponsorship for the effort.

Assessment
The second phase of compliance focuses on assessing the Year 2000 impact on the Corporation as a whole.

Renovation
The third phase of compliance focuses on converting, replacing or eliminating selected platforms, applications, databases, and utilities, while modifying interfaces as appropriate.

Platform is a broad term that encompasses computer hardware (including mainframe computers, servers, and personal computers) and software (including computer languages and operating systems). Utility programs, or "utilities," provide file management capabilities, such as sorting, copying, comparing, listing and searching, as well as diagnostic and measurement routines that check the health and performance of the system.

Validation
The fourth phase of compliance focuses on testing, verifying and validating converted or replaced platforms, applications, databases, and utilities.

Implementation
The fifth phase of compliance focuses on implementing converted or replaced platforms, applications, databases, utilities, and interfaces.

The Awareness, Assessment, and Renovation phases are complete. The Validation phase is scheduled to be completed during January 1999 when all production applications will be validated for Year 2000 readiness. Implementation of the majority of production applications in Year 2000 ready status will be completed by March 31, 1999. Validation and implementation of new systems and modifications to existing systems will continue throughout 1999.

Year 2000 Estimated Costs
Year 2000 compliance expenses for the FRF are estimated at $2.1 million and $201 thousand at December 31, 1998 and 1997, respectively. These expenses are reflected in the "Operating expenses" line item of the FRF's Statements of Income and Accumulated Deficit. Future expenses are estimated to be $2.6 million. Year 2000 estimated future costs are included in the FDIC's budget.

Risks of Year 2000 Issues

No potential loss with internal system failure has been estimated due to the extensive planning and validation that has occurred.

Contingency Plans

DIRM is currently developing a disaster recovery plan and contingency plans specific to each mission-critical application.

19. Subsequent Events

On April 9, 1999, the United States Court of Federal Claims ruled that the federal government must pay Glendale Federal Bank $908.9 million for breaching a contract that allowed the thrift to count goodwill toward regulatory capital. Both the plaintiffs and the DOJ are expected to appeal the decision. Additionally, on April 16, 1999, in a similar case, another judge of the U.S. Court of Federal Claims, using a different analysis than the one used by the judge in the Glendale Federal case, awarded California Federal Bank $23 million. The California Federal Bank was seeking more than $1.0 billion in damages and is expected to appeal the decision. The analyses of the damage issues in the two cases appear to be irreconcilable. Due to the expected appeals and the conflicting analyses in the two cases, the final outcome is uncertain.

Comments From the Federal Deposit Insurance Corporation

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

OFFICE OF THE CHAIRMAN

June 7, 1999

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

Re: FDIC Management Response on the GAO 1998 Financial Statement Audit Report

Dear Mr. Walker:

We appreciate the opportunity to comment on the U. S. General Accounting Office's (GAO) draft financial statement audit report titled, Financial Audit: Federal Deposit Insurance Corporation's 1998 and 1997 Financial Statements, GAO/AIMD-99-202. 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 assertions about the effectiveness of internal control; and GAO's evaluation of FDIC's compliance with laws and regulations.

We are pleased that FDIC received unqualified opinions on the BIF, SAIF, and FRF financial statements and that there were no material weaknesses or reportable conditions identified during the 1998 audits. The GAO found the financial statements and accompanying notes of the BIF, SAIF, and FRF for the years ended December 31, 1998 and 1997, to be presented fairly in all material respects, and FDIC management's assertions about the effectiveness of internal control in place on December 31, 1998, to be fairly stated. Also, the GAO found no instances of noncompliance with selected provisions of laws and regulations that were tested during 1998.

The FDIC recognizes the importance of an effective internal control program and believes that incorporating internal controls in daily operations has a significant impact on the number of reportable matters. We are committed to achieving corporate objectives by ensuring that the Corporation operates within an environment conducive to strong internal controls. In addition, we will continue to monitor and report on the issues discussed in the audit report regarding the Year 2000 issues related to insured financial institutions, goodwill litigation cases, and FRF's liquidation activities and funding. We look forward to the successful resolution of these issues.

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

Sincerely,

Donna Tanoue

Donna Tanoue
Chairman

GAO Contacts and Staff Acknowledgements

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Acknowledgements

In addition to those named above, the following staff made key contributions to this report: Wendy M. Albert, Gary P. Chupka, Dennis L. Clarke, John C. Craig, Diane B. Davis, Norman C. Poage, James V. Rinaldi, Miguel A. Salas, and Dale W. Seeley.

The following staff from the FDIC Office of Inspector General also contributed to this report: Robert W. Allmang, James J. Ballenger, Arlene S. Boateng, Warren V. Bush, H. Kenneth Copeland, Christopher P. Dodd, W. Kevin Hainsworth, R. William Harrington, Paul S. Johnston, Dan Kolb, Foxhall A. Parker, Michael L. Rexrode, Duane H. Rosenberg, Titus S. Simmons, Ross E. Simms, Charles E. Thompson, Joseph E. Uricheck, and R. Leon Wellons.

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