Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1998	December 31, 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.

Savings Association Insurance Fund Statements of Income and Fund Balance

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 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.

Savings Association Insurance Fund Statements of Cash Flows

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 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.

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

Dollars in Thousands

	December 31, 1998	December 31, 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

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 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

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 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.