

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1997
OR
 TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-8993

A. Full title of the plan and the address of the plan, if different
from that of the issuer named below:

VALLEY GROUP EMPLOYEES' 401(K) SAVINGS PLAN
C/o: Valley Insurance Company
2450 14th Avenue S.E.
P.O. Box 1119
Albany, Oregon 97321
(541) 928-2344

B. Name of issuer of the securities held pursuant to the plan
and the address of its principal executive office:

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
80 South Main Street
Hanover, New Hampshire 03755-2053
(603) 643-1567

EXPLANATORY NOTE

This Annual Report on Form 11-K is being filed pursuant to Section 15(d) of the Securities Exchange Act of 1934 with respect to Valley Group Employees' 401(k) Savings Plan (the "Plan") so that it may be incorporated by reference into the Registration Statement on Form S-8 which Fund American Enterprises Holdings, Inc. (the "Company") filed on June 27, 1997 with respect to its shares of Common Stock, \$1.00 par value per share, issuable under the Plan.

As stated in a Form 8-K dated January 24, 1997, the Company's Board of Directors, upon recommendation of its Audit Committee, appointed KPMG Peat Marwick LLP ("KPMG") as its independent auditors for the fiscal year ending December 31, 1997, to replace Coopers & Lybrand L.L.P. ("Coopers & Lybrand") as independent auditors, effective upon the date of their reports on such consolidated financial statements for the year ended December 31, 1996.

In connection with the audit of the Plan for the year ended December 31, 1996, there were no disagreements with Coopers & Lybrand on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

The reports of KPMG and PricewaterhouseCoopers LLP for the Plan years ended December 31, 1997 and 1996, respectively, are included herein.

INFORMATION FILED

The following financial statements and exhibits are filed with, and are included in, this Report:

A. Financial statements for the Plan consisting of:

1. Report of KPMG Peat Marwick LLP for the Plan year ended December 31, 1997
2. Report of PricewaterhouseCoopers LLP for the Plan year ended December 31, 1996
3. Statements of Net Assets Available for Benefits as of December 31, 1997 and 1996
4. Statements of Changes in Net Assets Available for Benefits for the years ended December 31, 1997 and 1996
5. Notes to Financial Statements
6. Schedule of Assets held for Investment Purposes
7. Schedule of Reportable Transactions

B. Exhibits:

1. Consent of KPMG Peat Marwick LLP
2. Consent of PricewaterhouseCoopers LLP

SIGNATURES

The Plan. Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the trustees have duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

VALLEY GROUP EMPLOYEES' 401(K)SAVINGS PLAN

Date: July 17, 1998

By:

/s/ STUART E. OLSON
Trustee

By:

/s/ KENNETH R. HISEL
Trustee

By:

/s/ CAREY D. BENSON
Trustee

EXHIBIT INDEX

Exhibit Number

- A. Financial statements for the Plan consisting of:
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 - Statements of Net Assets Available for Benefits as of December 31, 1997 and 1996
 - Statements of Changes in Net Assets Available for Benefits for the years ended December 31, 1997 and 1996
 - Notes to Financial Statements
 - Schedule of Assets held for Investment Purposes
 - Schedule of Reportable Transactions
- B. Consent of KPMG Peat Marwick LLP
- C. Consent of PricewaterhouseCoopers LLP

VALLEY GROUP EMPLOYEES'
401(k) SAVINGS PLAN

Exhibit A

Financial Statements and Supplemental Schedules

December 31, 1997 and 1996

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Group Employees' 401(k) Savings Plan:

We have audited the accompanying statement of net assets available for benefits of Valley Group Employees' 401(k) Savings Plan (the Plan) as of December 31, 1997, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Valley Group Employees' 401(k) Savings Plan as of December 31, 1997, and the changes in net assets available for benefits for the year then ended, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Item 27(a) - - schedule of assets held for investment purposes and Item 27(d) - schedule of reportable transactions as of or for the year ended December 31, 1997 are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The fund information in the statement of net assets available for benefits and the statement of changes in net assets available for benefits is presented for purposes of additional analysis rather than to present the net assets available for benefits and changes in net assets available for benefits for each fund. The supplemental schedules and fund information have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental schedules that accompany the Plan's financial statements do not disclose the historical cost or the realized gain or loss of certain Plan assets. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

San Francisco, California
July 14, 1998

KPMG Peat Marwick LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Group Employees' 401(k) Savings Plan
Albany, Oregon

We have audited the accompanying statement of net assets for benefits of the Valley Group Employees' 401(k) Savings Plan as of December 31, 1996 and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Valley Group Employees' 401(k) Savings Plan as of December 31, 1996, and the changes in net assets available for benefits for the year then ended in conformity with generally accepted accounting principles.

Portland, Oregon
June 4, 1997

PricewaterhouseCoopers LLP

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN
Statement of Net Assets Available for Benefits
December 31, 1997

	Group Annuity Contract -----	Neuberger & Berman Guardian Fund -----	Fidelity Puritan Fund -----	20th Century Ultra Investors Fund -----	Dreyfus S&P 500 Fund -----	Fidelity Advisor High Yield Fund -----
Assets:						
Pooled separate accounts, at fair value (note 2)	\$ --	1,026,330	573,360	861,117	755,997	150,877
Insurance contract, at contract value (note 3)	1,389,815	--	--	--	--	--
Common stock, at fair value (note 2)	--	--	--	--	--	--
Money market account	--	--	--	--	--	--
Participant loans	--	--	--	--	--	--
	----- 1,389,815	----- 1,026,330	----- 573,360	----- 861,117	----- 755,997	----- 150,877
Contributions receivable:						
Participant	3,353	11,475	4,805	9,230	7,636	1,683
Employer	1,351	4,089	1,822	3,452	2,756	689
	----- 4,704	----- 15,564	----- 6,627	----- 12,682	----- 10,392	----- 2,372
Net assets available for benefits	----- \$1,394,519	----- 1,041,894	----- 579,987	----- 873,799	----- 766,389	----- 153,249

	Janus Fund -----	Warburg Pincus Emerging Growth Fund -----	Janus Worldwide Fund -----	Fund American Stock -----	Participant Loans -----	Total -----
Assets:						
Pooled separate accounts, at fair value (note 2)	494,402	395,562	944,953	--	--	5,202,598
Insurance contract, at contract value (note 3)	--	--	--	--	--	1,389,815
Common stock, at fair value (note 2)	--	--	--	155,485	--	155,485
Money market account	--	--	--	66,109	--	66,109
Participant loans	--	--	--	--	62,989	62,989
	----- 494,402	----- 395,562	----- 944,953	----- 221,594	----- 62,989	----- 6,876,996
Contributions receivable:						
Participant	4,326	4,225	10,785	1,974	--	59,492
Employer	1,530	1,655	4,177	993	--	22,514
	----- 5,856	----- 5,880	----- 14,962	----- 2,967	----- --	----- 82,006
Net assets available for benefits	----- 500,258	----- 401,442	----- 959,915	----- 224,561	----- 62,989	----- 6,959,002

See accompanying notes to financial statements.

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN
Statement of Net Assets Available for Benefits
December 31, 1996

	Group Annuity Contract	Neuberger & Berman Guardian Fund	Fidelity Magellan Fund	Fidelity Puritan Fund	Oppenheimer Global Fund	20th Century Ultra Investors Fund
	-----	-----	-----	-----	-----	-----
Assets:						
Pooled separate accounts, at fair value (note 2)	\$ --	854,767	821,122	571,523	526,235	727,117
Insurance contract, at contract value (note 3)	1,292,953	--	--	--	--	--
Participant loans	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
	1,292,953	854,767	821,122	571,523	526,235	727,117
	-----	-----	-----	-----	-----	-----
Contributions receivable:						
Participant	--	--	--	--	--	--
Employer	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
Net assets available for benefits	\$1,292,953	854,767	821,122	571,523	526,235	727,117
	-----	-----	-----	-----	-----	-----

	Dreyfus A Bond Plus Fund	Participant Loans	Contributions Receivable	Total
	-----	-----	-----	-----
Assets:				
Pooled separate accounts, at fair value (note 2)	\$ 63,963	--	--	3,564,727
Insurance contract, at contract value (note 3)	--	--	--	1,292,953
Participant loans	--	43,457	--	43,457
	-----	-----	-----	-----
	63,963	43,457	--	4,901,137
	-----	-----	-----	-----
Contributions receivable:				
Participant	--	--	26,253	26,253
Employer	--	--	10,785	10,785
	-----	-----	-----	-----
	--	--	37,038	37,038
	-----	-----	-----	-----
Net assets available for benefits	63,963	43,457	37,038	4,938,175
	-----	-----	-----	-----

See accompanying notes to financial statements.

VALLEY GROUP EMPLOYEES' 401(K) SAVINGS PLAN
Statement of Changes in Net Assets Available for Benefits
Year ended December 31, 1997

	Group Annuity Contract	Neuberger & Berman Guardian Fund	Fidelity Magellan Fund	Fidelity Puritan Fund	Oppenheimer Global Fund	20th Century Ultra Investors Fund
Additions to net assets attributable to:						
Investment income:						
Net appreciation (depreciation) in fair value of investments	\$ --	\$134,427	26,204	107,442	15,756	150,767
Interest	87,587	--	--	--	--	--
Dividends	--	--	--	--	--	--
Total investment income	87,587	134,427	26,204	107,442	15,756	150,767
Contributions						
Participant	147,533	128,089	--	74,400	--	139,474
Employer	58,110	44,533	--	27,553	--	50,950
Rollover	66,078	25,269	892	7,194	--	18,270
Total contributions	271,721	197,891	892	109,147	--	208,694
Total additions	359,308	332,318	27,096	216,589	15,756	359,461
Deductions from net assets attributed in:						
Distributions to participants	163,456	97,834	--	62,218	--	57,907
Net increase (decrease) prior to interfund transfers	\$195,852	\$234,484	27,096	154,371	15,756	301,554
Interfund transfers	(94,286)	(47,357)	(848,218)	(145,907)	(541,991)	(154,872)
Net increase (decrease)	101,566	187,127	(821,122)	8,464	(526,235)	146,682
Net assets available for benefits:						
Beginning of year	\$1,292,953	854,767	821,122	571,523	526,235	727,117
End of year	\$1,394,519	1,041,894	--	579,987	--	873,799

	Dreyfus A Bonds Plus Fund	Dreyfus S&P 500 Fund	Fidelity Advisors High Yield Fund	Janus Fund	Warburg Pinkus Emerging Growth Fund
Additions to net assets attributable to:					
Investment income:					
Net appreciation (depreciation) in fair value of investments	(287)	134,897	20,002	82,055	59,975
Interest	--	--	--	--	--
Dividends	--	--	--	--	--
Total investment income	(287)	134,897	20,002	82,055	59,975
Contributions					
Participant	--	107,844	38,966	78,659	87,342
Employer	--	37,980	15,595	27,134	33,448
Rollover	--	22,049	--	14,212	2,053
Total contributions	--	167,873	54,561	120,005	122,843
Total additions	(287)	302,770	74,563	202,060	182,818
Deductions from net assets attributed in:					
Distributions to participants	--	19,884	23,528	33,142	14,849
Net increase (decrease) prior to interfund transfers	(287)	282,886	51,035	168,918	167,969
Interfund transfers	(63,676)	483,503	102,214	331,340	233,473
Net increase (decrease)	(63,963)	766,389	153,249	500,258	401,442
Net assets available for benefits:					
Beginning of year	63,963	--	--	--	--
End of year	--	766,389	153,249	500,258	401,442

	Janus Worldwide Fund	Fund American Stock	Participant Loans	Other	Total
	-----	-----	-----	-----	-----
Additions to net assets attributable to:					
Investment income:					
Net appreciation (depreciation) in fair value of investments	96,281	20,084	--	--	847,603
Interest	--	586	5,006	--	93,179
Dividends	--	528	--	--	528
	-----	-----	-----	-----	-----
Total investment income	96,281	21,198	5,006	--	941,310
Contributions					
Participant	174,829	30,027	--	--	1,007,163
Employer	66,184	14,815	--	--	376,302
Rollover	27,512	4,297	--	--	187,826
	-----	-----	-----	-----	-----
Total contributions	268,525	49,139	--	--	1,571,291
	-----	-----	-----	-----	-----
Total additions	364,806	70,337	5,006	--	2,512,601
	-----	-----	-----	-----	-----
Deductions from net assets attributed in:					
Distributions to participants	14,032	--	4,924	--	491,774
	-----	-----	-----	-----	-----
Net increase (decrease) prior to interfund transfers	350,774	70,337	82	--	2,020,827
Interfund transfers	609,141	154,224	19,450	(37,038)	--
	-----	-----	-----	-----	-----
Net increase (decrease)	959,915	224,561	19,532	(37,038)	2,020,827
Net assets available for benefits:					
Beginning of year	--	--	43,457	37,038	4,938,175
	-----	-----	-----	-----	-----
End of year	959,915	224,561	62,989	--	6,959,002
	-----	-----	-----	-----	-----

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN
Statement of Changes in Net Assets Available for Benefits
Year ended December 31, 1996

	Group Annuity Contract -----	Neuberger & Berman Guardian Fund -----	Fidelity Magellan Fund -----	Fidelity Puritan Fund -----	Oppenheimer Global Fund -----	
Additions to net assets attributed to:						
Investment income:						
Net appreciation in fair value of investments	\$ --	110,406	67,657	65,644	49,749	
Interest	67,433	--	--	--	--	
	-----	-----	-----	-----	-----	
Total investment income	67,433	110,406	67,657	65,644	49,749	
	-----	-----	-----	-----	-----	
Contributions:						
Participant	126,824	128,604	153,151	80,425	64,452	
Employer	52,495	47,083	59,556	29,097	25,241	
Rollover	424,611	295,218	347,510	237,247	117,270	
	-----	-----	-----	-----	-----	
Total contributions	603,930	470,905	560,217	346,769	206,963	
	-----	-----	-----	-----	-----	
Total additions	671,363	581,311	627,874	412,413	256,712	
	-----	-----	-----	-----	-----	
Deductions from net assets attributed to:						
Distributions to participants	71,409	79,965	36,973	62,831	12,895	
	-----	-----	-----	-----	-----	
Net increase (decrease) prior to interfund transfers	599,954	501,346	509,901	349,582	243,817	
Interfund transfers	(56,090)	(11,377)	(97,595)	(130,096)	156,913	
	-----	-----	-----	-----	-----	
Net increase(decrease)	543,864	489,969	493,306	219,486	400,730	
	-----	-----	-----	-----	-----	
Net assets available for benefit:						
Beginning of year	749,089	364,798	327,816	352,037	125,505	
	-----	-----	-----	-----	-----	
End of year	\$ 1,292,953	854,767	821,122	571,523	526,235	
	-----	-----	-----	-----	-----	
		20th Century Ultra Investors Fund -----	Dreyfus A BondsPlus Fund -----	Participant Loans -----	Other -----	Total -----
Additions to net assets attributed to:						
Investment income:						
Net appreciation in fair value of investments	61,640	2,910	--	--	358,006	
Interest	--	--	3,428	--	70,861	
	-----	-----	-----	-----	-----	
Total investment income	61,640	2,910	3,428	--	428,867	
	-----	-----	-----	-----	-----	
Contributions:						
Participant	147,555	4,154	--	(8,864)	696,301	
Employer	55,459	1,595	--	(3,271)	267,255	
Rollover	200,768	13,866	24,388	--	1,660,878	
	-----	-----	-----	-----	-----	
Total contributions	403,782	19,615	24,388	(12,135)	2,624,434	
	-----	-----	-----	-----	-----	
Total additions	465,422	22,525	27,816	(12,135)	3,053,301	
	-----	-----	-----	-----	-----	
Deductions from net assets attributed to:						
Distributions to participants	24,780	--	5,302	--	294,155	
	-----	-----	-----	-----	-----	
Net increase (decrease) prior to						

interfund transfers	440,642	22,525	22,514	(12,135)	2,759,146
Interfund transfers	91,234	41,438	5,585	(12)	--
	-----	-----	-----	-----	-----
Net increase(decrease)	531,876	63,963	28,009	(12,147)	2,759,146
Net assets available for benefit:					
Beginning of year	195,241	--	15,358	49,185	2,179,029
	-----	-----	-----	-----	-----
End of year	727,117	63,963	43,457	37,038	4,938,175
	-----	-----	-----	-----	-----

See accompanying notes to financial statements.

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN

Notes to Financial Statements

December 31, 1997 and 1996

(1) Description of the Plan

The following description of the Valley Group Employees' 401(k) Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan which was originally established on January 1, 1988 to provide retirement benefits for eligible employees of Valley Pacific, Inc. (the Company). Effective December 1, 1995, the Plan was amended to include the employees of The Charter Group, Inc. and the Plan's name was changed to the Valley Group Employees' 401(k) Savings Plan. Effective January 1, 1997, the Plan was amended to include the employees of Fund American Enterprises Holding, Inc., White Mountains Insurance Company, White Mountains Holdings, Inc., and The Upper Valley Company. Participants in the Plan include employees of the respective companies and are collectively referred to as the "Companies." The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Employees of the Companies must complete ninety days of service and have attained the age of 21 to become eligible for participation in the Plan.

During 1996, employees of The Charter Group, Inc. (Charter) that participated in the Skandia Direct Operations Employee 401(k) Plan and the Skandia Direct Operations Retirement Plan were given the option to rollover their account balances to the Plan or any other qualified retirement plan. In addition, Valley Pacific Inc. employees who participated in the Skandia Direct Operations Retirement Plan were also given the option to rollover their account balances to the Plan or any other qualified retirement plan. Rollovers from these retirement plans totaled approximately \$1.1 million in 1996.

Contributions

Each year participants may elect to defer up to 15 percent of pretax annual compensation, as defined by the Plan. The Companies contribute 50 percent of the first 6 percent of compensation that a participant contributes to the Plan. The Companies may also choose to make an additional discretionary contribution to the Plan. No discretionary contributions were made for the years ended December 31, 1997 and 1996.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of (a) the Companies contribution and, (b) Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN

Notes to Financial Statements, Continued

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. The Plan provides for full (100%) vesting of the Companies contributions from the first day of participation if employed prior to December 1, 1995. If employed after December 1, 1995, participants become vested in the Companies contributions based on years of service as follows:

Years of Service -----	Percentage -----
1	20%
2	40
3	60
4	80
5	100

Investments

The Plan provides for participant-directed investment programs with Employers Life Insurance Company of Wausau. Effective January 1, 1997, the Plan was amended to increase the investment options available to Plan participants. The Janus Fund, Warburg Pincus Emerging Growth Fund, Janus Worldwide Fund, Fidelity Advisor High Yield Fund and Dreyfus S&P 500 Index Fund were added to the list of participant-directed investment options available to the Plan participants. The amendment also removed the Dreyfus A Bond Plus Fund, Fidelity Magellan Fund, and Oppenheimer Global Fund from the list of participant-directed investment options available to Plan participants. In addition, during 1997, the stock of Fund American Enterprises Holdings, Inc. was added to the list of participant-directed investment options.

Participant Loans

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their account balance. Loan transactions are treated as a transfer to (from) the investment fund from (to) the Participant Loan fund. Loan terms range from 1-5 years or up to 30 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at the prime rate +3%. Interest rates range from 9.75% to 11.75%. Principal and interest is paid ratably through payroll deductions.

Payment of Benefits

On termination of service due to death, long-term disability or normal retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's interest in his or her account, an annuity, or installments over a fixed period of years up to the legal maximum. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

Forfeited Accounts

At December 31, 1997, forfeited nonvested accounts totaled \$702. At December 31, 1996 there were no forfeited nonvested accounts. These accounts will be used to reduce future employer contributions.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principals requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value except for its investment in the Group Annuity Contract which is valued at contract value, which approximates fair value. Contract value represents contributions made under the contract, plus interest earned, less funds withdrawn. The contract is included in the financial statements at contract value because it is fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment in the investment contract. Guaranteed interest rates were 6.4% in 1997 and 1996. The contract investments are high quality intermediate term corporate bonds and mortgages. Pooled Separate Accounts are valued based on quoted market prices which represent the net asset values of the underlying investments held by the Plan in the Pooled Separate Accounts at year-end.

Payment of Benefits

Benefits are recorded when paid.

Reclassifications

Certain reclassifications have been made to the 1996 financial statements to conform to the 1997 presentation.

(3) Plan Termination

Although it has not expressed any intent to do so, the Companies have the right under the Plan to suspend, terminate or completely discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA.

(4) Administrative Expenses

Administrative expenses associated with the Plan are paid by the Companies.

(5) Related Party Transactions

Certain Plan investments are units of pooled separate accounts managed by Employers Life Insurance Company of Wausau and Nationwide Life Insurance Company, the custodians; therefore, these transactions

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN

Notes to Financial Statements, Continued

qualify as party-in-interest.

Fund American Enterprises Holdings, Inc. stock transactions involving the Plan also qualify as exempt party-in-interest transactions.

(6) Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated June 12, 1995, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

(7) Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 at December 31:

	1997	1996
	-----	-----
Net assets available for plan benefits per financial statements	\$ 6,959,002	4,938,175
Less: Contributions receivable at December 31	(82,006)	(37,038)
	-----	-----
Net assets available for benefits per the Form 5500	\$ 6,876,996	4,901,137
	-----	-----

The following is a reconciliation of contributions and investment income per the financial statements to the Form 5500 for the year ended December 31:

	1997	1996
	-----	-----
Total contributions per financial statements	\$ 1,571,291	2,624,434
Add: Prior contributions receivable	37,038	49,185
Less: Current year contributions receivable	(82,006)	(37,038)
Classification difference included in investment income	--	(64)
	-----	-----
Total contributions per Form 5500	\$ 1,526,323	2,636,517
	-----	-----

(7) Subsequent Events

Subsequent to year end, it was discovered that 119 shares of Fund American Enterprises Holdings, Inc. stock (stock) were not purchased by a third-party trust department as requested by the Plan Trustees and Plan Administrator but was invested in a money market account. The stock price has increased between the discovery and the time it was rectified by Valley Pacific, Inc., a subsidiary of Valley Group, Inc., on behalf of the Plan. The cost to the Plan has been estimated at approximately \$17,600 and was paid to the Plan by Valley Pacific, Inc. in June 1998. The Company is currently negotiating with the third-party trust department and Plan Administrator for reimbursement.

Schedule 1

VALLEY GROUP EMPLOYEES' 401(k) SAVINGS PLAN

ITEM 27(A) -- SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES

December 31, 1997

ISSUER	DESCRIPTION OF INVESTMENT	NUMBER OF UNITS OR SHARES	COST	CURRENT VALUE
Employers Life Insurance Company of Wausau*	Group Annuity Contract -- #01054	1,389,815	\$1,389,815	1,389,815
Nationwide Life Insurance Company*	Neuberger & Berman Guardian Fund -- Pooled Separate Account	564,249	(1)	1,026,330
Nationwide Life Insurance Company*	Fidelity Puritan Fund -- Pooled Separate Account	249,352	(1)	573,360
Nationwide Life Insurance Company*	Twentieth Century Ultra Investors Fund -- Pooled Separate Account	330,735	(1)	861,117
Nationwide Life Insurance Company*	Dreyfus S&P 500 Fund -- Pooled Separate Account	263,909	(1)	755,997
Nationwide Life Insurance Company*	Fidelity Advisor High Yield Fund -- Pooled Separate Account	114,235	(1)	150,877
Nationwide Life Insurance Company*	Janus Fund -- Pooled Separate Account	327,588	(1)	494,402
Nationwide Life Insurance Company*	Warburg Pincus Emerging Growth Fund -- Pooled Separate Account	281,009	(1)	395,562
Nationwide Life Insurance Company*	Janus Worldwide Fund -- Pooled Separate Account	762,352	(1)	944,953
Fund American Enterprises Holdings, Inc.*	Common Stock	1,285	(1)	155,485
Wells Fargo Bank*	Money Market Account	66,109	66,109	66,109
Participants*	Participant loans (Interest rate: range: 9.75% to 11.75%)	22	62,989	62,989
	Total assets held for investment purposes			\$6,876,996

 * Party-in-interest

(1) Information not available

See accompanying independent auditors' report.

Schedule 2

VALLEY GROUP EMPLOYEES' 401(K) SAVINGS PLAN

ITEM 27(d) -- SCHEDULE OF REPORTABLE TRANSACTIONS

Year Ended December 31, 1997

ISSUER	DESCRIPTION	NUMBER OF TRANSACTIONS	PURCHASE PRICE	SALES PRICE	COST OF ASSET	NET GAIN/ (LOSS)
Employers Life Insurance Company of Wausau	Group Annuity Contract	Various Various	\$2,202,660 --	-- 2,103,175	\$2,202,660 2,103,175	-- --
Nationwide Life Insurance Company	Neuberger & Berman Guardian Fund -- Pooled Separate Account	Various Various	303,068	-- 265,933	303,068 (1)	-- (1)
Nationwide Life Insurance Company	Fidelity Magellan Fund-- Pooled Separate Account	Various Various	12,649 --	-- 859,975	12,649 (1)	-- (1)
Nationwide Life Insurance Company	Fidelity Puritan Fund-- Pooled Separate Account	Various Various	134,398 --	-- 240,003	134,398 (1)	-- (1)
Nationwide Life Insurance Company	Oppenheimer Global Fund-- Pooled Separate Account	Various Various	6,754 --	-- 548,745	6,754 (1)	-- (1)
Nationwide Life Insurance Company	Twentieth Century Ultra Investors Fund-- Pooled Separate Account	Various Various	248,846 --	-- 265,613	248,846 (1)	-- (1)
Nationwide Life Insurance Company	Dreyfus S&P 500 Fund-- Pooled Separate Account	Various Various	646,322 --	-- 25,222	646,322 (1)	(1) (1)
Nationwide Life Insurance Company	Fidelity Advisor High Yield Fund-- Pooled Separate Account	Various Various	203,004 --	-- 72,129	203,004 (1)	-- (1)
Nationwide Life Insurance Company	Janus Fund-- Pooled Separate Account(1)	Various Various	549,221 --	-- 136,874	549,221 (1)	-- (1)
Nationwide Life Insurance Company	Warburg Pincus Emerging Growth Fund-- Pooled Separate Account	Various Various	368,730 --	-- 33,143	368,730 (1)	-- (1)
Nationwide Life Insurance Company	Janus Worldwide Fund-- Pooled Separate Account	Various Various	899,020 --	-- 69,296	899,020 (1)	-- (1)
Nationwide Life Insurance Company	Nationwide Money Market	Various Various	1,473,055 --	-- 1,473,055	1,473,523 1,473,523	-- --

(1) Information not available

Consent of Independent Auditors

The Board of Directors
Valley Group Employees' 401(k) Savings Plan:

We consent to the incorporation by reference in Registration Statement No. 333-30233 on Form S-8 of Fund American Enterprises Holdings, Inc. of our report dated July 14, 1998, relating to the statement of net assets available for benefits of Valley Group Employees' 401(k) Savings Plan as of December 31, 1997, and the related statement of changes in net assets available for benefits for the year then ended, which report appears in the December 31, 1997 annual report on Form 11-K of Valley Group Employees' 401(k) Savings Plan.

Our report refers to the supplemental schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. With respect to the supplemental schedules of assets held for investment purposes and reportable transactions, our report contains an explanatory paragraph that states that the schedules do not disclose the historical cost or the realized gain or loss of certain Plan assets.

San Francisco, California
July 14, 1998

KPMG Peat Marwick LLP

Exhibit C

Consent

We consent to the inclusion in this Annual Report on Form 11-K of our report dated June 4, 1997, on our audit of the financial statements of the Valley Group Employees' 401(k) Savings Plan as of December 31, 1996 and for the year then ended.

New York, New York
July 16, 1998

PricewaterhouseCoopers