FEDERAL FINANCING BANK

Financial Statements

September 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

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2001 M Street NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

Inspector General, U.S. Department of the Treasury, and the
Fiscal Assistant Secretary of the U.S. Department of the Treasury:

We have audited the accompanying statements of financial position of the Federal Financing Bank (the Bank) as of September 30, 2003 and 2002, and the related statements of operations and changes in net position, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Financing Bank, as of September 30, 2003 and 2002, and the results of its operations, changes in net position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 7, 2003, on our consideration of the Bank's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 7, 2003

FEDERAL FINANCING BANK

Statements of Financial Position

September 30, 2003 and 2002
(Dollars in thousands)

		2003	2002
Assets			
Funds with U.S. Treasury	$	470,453	338,052
Loans receivable (note 2)		35,630,046	39,707,630
Allowances for loan losses (note 3)		(583,334)	(477,584)
Advances to others		63	29
Accrued interest receivable		394,005	528,673
Total assets	$	35,911,233	40,096,800
Liabilities and Accumulated Deficit			
Liabilities:			
Borrowings (note 4)	$	36,682,356	39,792,074
Accrued interest payable		85,264	857,646
Other liabilities		231	—
Total liabilities		36,767,851	40,649,720
Accumulated deficit (note 9)		(856,618)	(552,920)
Total liabilities and accumulated deficit	$	35,911,233	40,096,800

See accompanying notes to the financial statements.

FEDERAL FINANCING BANK

Statements of Operations and Changes in Net Position

Years ended September 30, 2003 and 2002
(Dollars in thousands)

		2003	2002
Revenue and financing sources:			
Interest on loans	$	3,042,262	3,059,603
Revenue from servicing loans		3,770	4,941
Total revenue		3,046,032	3,064,544
Expenses:			
Interest on borrowings		2,534,524	3,018,235
Loss on extinguishment of borrowings, net (note 7)		633,395	180
Bad debt expenses (note 3)		177,560	238,714
Administrative expenses (note 1)		4,251	3,000
Total expenses		3,349,730	3,260,129
Net loss		(303,698)	(195,585)
Accumulated deficit (note 9):			
Beginning of year		(552,920)	(357,335)
End of year	$	(856,618)	(552,920)

See accompanying notes to the financial statements.

FEDERAL FINANCING BANK

Statements of Cash Flows

Years ended September 30, 2003 and 2002
(Dollars in thousands)

	2003	2002
Cash flows from operations:		
Net loss	$ (303,698)	(195,585)
Adjustments to reconcile net loss to net cash used in operations:		
Increase in allowance for loan losses	105,750	140,249
Gain on disposal of loans	—	(439)
Loss on extinguishment of borrowings, net	633,395	180
Amortization of discount on loans	—	505
Decrease in accrued interest receivable	134,668	344,221
(Decrease) in accrued interest payable	(772,382)	(340,367)
(Increase) decrease in advances to others	(34)	133
Increase in other liabilities	231	—
Net cash used in operations	(202,070)	(51,103)
Cash flows from investing activities:		
Loan disbursements	(29,348,780)	(94,682,846)
Loan collections	33,426,364	97,903,077
Net cash provided by investing activities	4,077,584	3,220,231
Cash flows from financing activities:		
Borrowings	60,437,068	94,822,224
Repayments of borrowings	(64,180,181)	(97,991,423)
Net cash used in financing activities	(3,743,113)	(3,169,199)
Net increase (decrease) in cash	132,401	(71)
Funds held with Treasury – beginning of the year	338,052	338,123
Funds held with Treasury – end of the year	$ 470,453	338,052
Supplemental disclosures of cash flow information:		
Interest paid (net of amount capitalized)	$ 3,380,857	3,376,909
Supplemental schedule of noncash investing and financing activities:		
Decrease in loans for capitalized interest receivable	$ 17,839	18,995
(Decrease) in borrowings for capitalized interest payable	(73,951)	(18,307)

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

The Federal Financing Bank (the Bank) was created by the Federal Financing Bank Act of 1973 (12 USC 2281, the Act) as an instrumentality of the U.S. government and a body corporate under the general supervision of the Secretary of the Treasury. The budget and audit provisions of the Government Corporation Control Act are applicable to the Bank in the same manner as they are applied to other wholly owned government corporations.

The Bank was established by Congress at the request of the U.S. Department of the Treasury (Treasury), in order "to assure coordination of federal and federally assisted borrowing programs with the overall economic and fiscal policies of the U.S. Government, to reduce the cost of federal and federally assisted borrowing from the public, and to assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions." The Bank was given broad statutory authority to finance obligations issued, sold, or guaranteed by federal agencies so that the Bank could meet these debt management objectives.

The Bank is authorized, with the approval of the Secretary of the Treasury, to issue obligations to the public in amounts not to exceed $15,000,000. Additionally, the Bank is authorized to issue obligations in unlimited amounts to the Secretary of the Treasury and, at the discretion of the secretary, may agree to purchase any such obligations.

(a) Basis of Presentation

The Bank has historically prepared its financial statements in accordance with generally accepted accounting principles, based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the American Institute of Certified Public Accountants (AICPA) designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for the financial statements of federal government entities, with respect to the establishment of accounting principles generally accepted in the United States of America. FASAB has indicated, however, that financial statements prepared based upon standards promulgated by the FASB may also be regarded as in accordance with accounting principles generally accepted in the United States of America for those federal entities, such as the Bank, that have issued financial statements based upon FASB standards in the past. Accordingly, consistent with historical reporting, the Bank's financial statements are presented on the accrual basis of accounting in accordance with accounting and financial reporting standards promulgated by the FASB.

(b) Basis of Accounting

The financial statements are presented on the accrual basis of accounting. The Bank recognizes loans when they are issued and related repayments when they are received. The Bank recognizes borrowings when they are received and related repayments when they are made. In addition, the Bank recognizes interest on loans and revenue from servicing loans when they are earned and recognizes interest on borrowings and expenses when they are incurred.

(c) Funds held with Treasury

As a government corporation, the Bank maintains a fund balance with Treasury (fund account 20X4521) and does not hold cash. For the purposes of the statements of cash flows, the funds held with Treasury are considered cash.

d) Interest on Loans Receivable

The Bank's general policy is to charge borrowers a fee of one-eighth of one percent over its cost of borrowing from Treasury. The income resulting from the fee covers the administrative expenses of the Bank, and any surplus is transferred to the Treasury's General Fund. Under amendments to the Federal Credit Reform Act, effective October 1, 1998, while the Bank is permitted to charge the one-eighth of one percent margin on new lending arrangements with government-guaranteed borrowers, the margin is not retained by the Bank but rather is maintained by the loan guarantor. In the event that this results in the Bank being unable to fund its administrative expenses related to these loans, the Federal Credit Reform Act, as amended, states that the Bank may require reimbursements from loan guarantors.

(e) Capitalized Interest

In accordance with loan agreements, the General Services Administration (GSA) and Historically Black Colleges and Universities (HBCU) have the option of deferring payments of interest on their loans until future periods. When GSA or HBCU elect, in advance, to defer interest payments, the accrued interest is recorded as capitalized interest receivable and added to their respective loan balance. The Bank correspondingly capitalizes the interest payable on its related borrowings.

(f) Revenue from Servicing Loans

The Bank charges certain Rural Utilities Services (RUS) borrowers a loan service fee that is reported as revenue from servicing loans on the statements of operations and changes in net position. The Bank's loan servicing fee is equal to one-eighth of one percent more than the contractual interest rate with Treasury.

(g) Allowances for Loan Losses

Loan principal and interest are generally guaranteed by federal agencies and are backed by the full faith and credit of the U.S. government. Direct loans to U.S. Postal Service are an exception since the U.S. government does not guarantee them. The Bank has not incurred, and does not expect to incur, any credit-related losses on its loans.

However, the Bank incurs losses related to the provisions of certain legislation for the RUS and has recorded an allowance for loan losses related to this legislation. The Bank calculates its allowance for loan losses based on the total amount of future interest credit that it expects to provide to RUS, discounted at the effective interest rate on the underlying loans. The allowance for loan losses is based on estimates, and ultimate losses may vary from current estimates. Adjustments to the allowance for loan losses are reported in the period that they are determined to be necessary.

(Continued)

(h) Accumulated Deficit

The Bank can borrow from Treasury to meet its immediate cash needs and can also seek appropriations from Congress to make up for shortfalls that will not be met by profits.

(i) Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

(j) Related Parties

The Bank is subject to the general supervision and direction of the Secretary of the Treasury. As provided by law, the Secretary of the Treasury acts as chairman of the Board of Directors. Employees of Treasury's departmental offices perform the Bank's management and accounting functions; its legal counsel is the general counsel of the Treasury. The Bank reimburses Treasury for facilities and services that it provides. The amount of such reimbursements for the years ended September 30, 2003 and 2002 was $4,251 and $3,000, respectively, and is included as administrative expenses in the accompanying statements of operations and changes in net position.

(k) Tax-Exempt Status

The Bank is exempt from tax in accordance with Section 11(a) of the Federal Financing Bank Act of 1973 (12 USC 2281).

(l) Reclassifications

Certain fiscal year 2002 amounts have been reclassified to conform to current year presentation.

(2) Loans Receivable

Loans receivable includes agency loans purchased, direct loans to federal agencies, and loans to nonfederal entities. Agency loans purchased are either notes or pools of loans sold by federal agencies in the form of certificates representing shares of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Direct loans to agencies are debt securities issued to the Bank by agencies that Congress authorized so that these federal agencies can finance their activities. Loans to nonfederal entities are loans made to nonfederal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency. The Bank has the ability and intends to hold loans receivable until maturity or payoff. At September 30, 2003, the Bank had outstanding loans receivable of $35,630,046 with interest rates ranging from 0.942% to 16.183%, and maturity dates ranging from October 1, 2003 to December 31, 2037. At September 30, 2002, the Bank had loans receivable of $39,707,630 with interest rates ranging from 1.558% to 16.183%, and maturity dates ranging from October 1, 2002 to December 31, 2036.

(Dollars in thousands)

Loans receivable at September 30, 2003 and 2002 consist of the following:

Agency	2003	2002
Agency loans purchased:		
Farmers Home Administration, Department of Agriculture	$ 2,635,000	3,855,000
Rural Utilities Service (Certificate of Beneficial Ownership), Department of Agriculture	4,270,207	4,270,207
Total agency loans purchased	6,905,207	8,125,207
Direct loans to agencies:		
U.S. Postal Service	7,273,437	11,114,000
Guaranteed loans to federal and nonfederal entities:		
Foreign Military Sales, Department of Defense	1,688,440	1,922,515
General Services Administration	2,230,528	2,308,197
Community and Development Block Grants, Department of Housing and Urban Development	2,148	5,019
Low Rent Public Housing, Department of Housing and Urban Development	1,133,232	1,207,315
Ship Leasing, Department of Defense, Navy	607,494	780,770
Rural Utilities Service, Department of Agriculture	15,618,233	14,058,225
Small Business Administration	77,313	102,419
Virgin Islands, Department of the Interior	9,605	11,426
Historically Black Colleges and Universities, Department of Education	81,340	69,298
Federal Railroad Administration, Department of Transportation	3,069	3,239
Total guaranteed loans to federal and nonfederal entities	21,451,402	20,468,423
Total loans receivable	35,630,046	39,707,630
Allowance for loan losses (note 3)	(583,334)	(477,584)
Loans receivable, net	$ 35,046,712	39,230,046

The loans receivable due within one year is $8,479,290 and $4,610,650 as of September 30, 2003 and 2002, respectively.

(3) Allowance for Loan Losses

Under Title III of the Rural Electrification Act of 1936, the Bank receives interest on certain loans to the RUS that is less than the contractual interest due as stated in the loan agreements with RUS. This interest credit is calculated based on the balance in the RUS Liquidating Fund. The Bank has no control over the balance in the RUS Liquidating Fund and must absorb the cost of the interest credit (i.e., foregone interest) since it has no recourse against RUS. The Bank, however, remains obligated to pay the contractual interest on its borrowings from Treasury.

(Dollars in thousands)

Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*, requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair market value of the loan or underlying collateral. SFAS No. 114 considers a loan to be impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the original agreement.

Management of the Bank has determined that certain RUS loans are impaired as defined by SFAS No. 114 since the Bank will not receive all interest due in accordance with the original terms of the loan agreements. Accordingly, the Bank has recorded an allowance for loan losses expected to be incurred.

Allowance for loan losses activity for the years ended September 30, 2003 and 2002 is as follows:

		2003	2002
Allowance for loan losses, beginning of year	$	477,584	337,335
Provision for loan losses		177,560	238,714
Charge-offs		(71,810)	(98,465)
Allowance for loan losses, end of year	$	583,334	477,584

(4) Borrowings

Under the Act, the Bank may, with the approval of the Secretary of the Treasury, borrow without limit from the Treasury. At September 30, 2003, the Bank had Treasury borrowings of $36,682,346, with interest rates ranging from 0.875% to 16.050%, and maturity dates ranging from October 1, 2003 to December 31, 2037. At September 30, 2002, the Bank had Treasury borrowings of $24,792,074, with interest rates ranging from 1.558% to 16.050%, and maturity dates ranging from October 1, 2002 to December 31, 2036.

Additionally, at September 30, 2002, the Bank had borrowings of $14,999,990 from the Civil Service Retirement and Disability Fund (CSR&DF), which is administered by the Office of Personnel Management (OPM). The interest rate on the debt to OPM is based on a statutory formula resulting in interest rates ranging from 8.75% to 9.25% rather than the Bank's lending rate, and has maturity dates ranging from June 30, 2003 to June 30, 2005. Consequently, borrowings from OPM are not matched with specific loans in the Bank portfolio. However, an agreement executed at the time of the borrowings from OPM specified that the Bank's aggregate interest cost would remain the same as it would have been in the absence of such borrowings.

Borrowings from the public amounted to $10 at September 30, 2003 and 2002.

The scheduled principal repayments below reflect maturities of the Bank's borrowings and do not necessarily match maturities of assets in the Bank's loan portfolio.

(Continued)

(Dollars in thousands)

Scheduled principal repayments of borrowings as of September 30, 2003 are as follows:

2004	$	9,534,194
2005		1,211,622
2006		1,830,645
2007		286,748
2008		1,603,753
2009 and thereafter		22,215,394
Total	$	36,682,356

(5) Fair Value of Financial Instruments

(a) Funds with U.S. Treasury

The carrying amount approximates fair value because of the liquid nature of the funds with Treasury.

(b) Loans Receivable and Borrowings

The fair value of loans receivable and borrowings is calculated using discounted cash flow analyses based on contractual repayment terms. The discount rates used in the loans receivable analysis are based on interest rates currently being offered by the Bank on loans of similar maturity and other characteristics. The discount rates used in the borrowings analysis are based on interest rates of current borrowings from Treasury using similar maturity and other characteristics. The fair value of loans receivable at September 30, 2003 and 2002 was $41,706,900 and $48,273,570, respectively. The fair value of borrowings at September 30, 2003 and 2002 was $36,433,750 and $48,013,480, respectively.

(c) Advances to Others, Accrued Interest Receivable, Accrued Interest Payable, Other Liabilities

The carrying amount of advances to others, accrued interest receivable, and accrued interest payable and other liabilities approximate fair value as they represent the amounts expected to be realized or paid.

(6) Commitments and Contingencies

Nearly all of the Bank's loans are to federal agencies or to private-sector borrowers whose loans are guaranteed by a federal agency. When an agency has to honor its guarantee because a borrower defaults, that agency must obtain an appropriation or use other resources to pay the Bank. However, if an appropriation is not granted or federal agencies are not allowed to fund the losses by borrowing from the Treasury, and the Bank is legislatively required to absorb the debt the agency owes it, then the Bank would have incurred a loss. The Bank has incurred such a loss related to forgone interest as described in note 3 and has established an allowance for loan losses related to foregone interest expected to be incurred in the future.

(7) Loss on Extinguishment of Borrowings, Net

The Bank anticipates recovering losses incurred this year from the following borrowing transactions in future years, as a result of the lower interest rates on the new borrowings.

1. October 18, 2002 Borrowings and Extinguishment

   On October 18, 2002, the Bank borrowed $15,065,949 from the Department of the Treasury (Treasury) with interest rates ranging from 1.669% to 5.141% and maturity dates ranging from January 2, 2003 through December 31, 2026. The Bank borrowed these funds to exercise its call option for $14,999,990 of debt and interest payable amounting to $65,959 to the CSR&DF, administered by the Office of Personnel Management (discussed in note 4), with interest rates ranging from 8.75% to 9.25% and maturity dates ranging from June 30, 2003 to June 30, 2005. The call option was exercised at par and without penalty.

2. March 5, 2003 Borrowings and Extinguishment

   The Bank issued 9(a) Debt Obligations of $14,999,990 with related premium and interest of $1,014,800 to the CSR&DF with an interest rate of 5.25% and maturity dates ranging from October 1, 2003 through December 31, 2035. In exchange, the Bank received $15,045,358 of investments at par value issued by the Treasury “Specified Treasury Specials” with a coupon rate of 5.25% and maturity dates ranging from June 30, 2004 through June 30, 2011, and related purchased premium and interest amounting to $969,432.

   The Bank used the investments “Specified Treasury Specials” received from the CSR&DF of $15,045,358, along with the related premium and interest of $969,432 to extinguish $15,411,791 of borrowings from Treasury at an interest rate of 5.25% and maturity dates ranging from October 1, 2003 through December 31, 2035, and related capitalized interest of $60,768 and interest payable of $230,546.

   The Bank realized a net loss on these transactions amounting to $311,683.

3. June 30, 2003 Borrowings and Extinguishment

   On June 30, 2003, the Bank borrowed $16,573,941 from the Department of the Treasury with interest rates ranging from .872% to 4.480% and maturity dates ranging from October 1, 2003 to December 31, 2035**,** to exercise its call option and repurchase 9(a) Obligations from the CSR&DF with a par value of $14,999,990 and related premium, capitalized interest, and interest payable of $1,252,239.

   The Bank realized a net loss on this transaction amounting to $321,712.

(8) Capitalized Interest

Capitalized interest receivable was approximately $85,450 and $103,289, and the related capitalized interest payable was $25,435 and $99,386 for the years ended September 30, 2003 and 2002, respectively.

(Dollars in thousands)

Capitalized interest receivable and payable are reported as part of the loans receivable and borrowings balances, respectively, on the balance sheet.

(9) Accumulated Deficit

At September 30, 2003 and 2002, the accumulated deficit includes the following:

		2003	2002
Transfers to Treasury	$	(1,682,847)	(1,682,847)
Cumulative results of operations		826,229	1,129,927
Accumulated deficit	$	(856,618)	(552,920)

Included within the accumulated deficit balance are profits the Bank earned prior to 2000 that FFB transferred to Treasury.

2001 M Street NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General, U.S. Department of the Treasury, and the
Fiscal Assistant Secretary of the U.S. Department of the Treasury:

We have audited the statement of financial position of the Federal Financing Bank (the Bank) as of September 30, 2003, and the related statements of operations and changes in net position, and cash flows for the year then ended, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2003 audit, we considered the Bank's internal control over financial reporting by obtaining an understanding of the Bank's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, as applicable to the Bank, and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the Bank's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving internal control and its operations that we considered to be material weaknesses as defined above.

We noted other matters involving internal control and its operation that we have reported to the management of the Bank in a separate letter dated November 7, 2003.

This report is intended solely for the information and use of the Bank's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, GAO, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 7, 2003

KPMG

2001 M Street NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

Inspector General, U.S. Department of the Treasury, and the
Fiscal Assistant Secretary of the U.S. Department of the Treasury:

We have audited the statement of financial position of the Federal Financing Bank (the Bank) as of September 30, 2003, and the related statements of operations and changes in net position, and cash flows for the year then ended, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The management of the Bank is responsible for complying with laws and regulations applicable to the Bank. As part of obtaining reasonable assurance about whether the Bank's fiscal year 2003 financial statements are free of material misstatement, we performed tests of the Bank's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Bank. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with certain provisions of laws and regulations described in the preceding paragraph of this report, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

This report is intended solely for the information and use of the Bank's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, GAO, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 7, 2003