2003 Annual Report • Farm Credit System Insurance Corporation

Protecting Investors in
Agriculture and Rural America

— Farm Credit System Insurance Corporation —

FCSIC

Mission Statement

The Farm Credit System Insurance Corporation, a government-controlled, independent entity, shall:

- Protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund,
- Exercise its authorities to minimize Insurance Fund loss, and
- Help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

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May 10, 2004

Gentlemen:

In accordance with the provisions of section 5.64(a) of the Farm Credit Act of 1971 as amended, the Farm Credit System Insurance Corporation is pleased to submit its annual report for calendar year 2003.

This report highlights the Corporation's role as the independent Federal corporation established to ensure the timely payment of principal and interest to investors in Farm Credit System debt securities. The balance in the Insurance Fund at December 31, 2003, was $1.82 billion. The Corporation collected $105 million in insurance premiums from Farm Credit System banks for 2003, and expects to incur $2.7 million in operating costs in 2004.

Sincerely,

Douglas L. "Doug" Flory
Chairman

The President of the United States Senate
The Speaker of the United States House of Representatives

Board of Directors

The Farm Credit System Insurance Corporation (Corporation or FCSIC), is managed by a three-member board of directors composed of the members of the Farm Credit Administration (FCA) Board.

The FCA is the independent Federal agency responsible for the regulation and examination of the Farm Credit System, a nationwide financial cooperative that lends to agriculture and rural America. The Chairman of the Corporation's Board of Directors must be an FCA Board Member other than the Chairman of the FCA Board.

Douglas L. "Doug" Flory

Douglas L. "Doug" Flory, Chairman of FCSIC, was appointed to the three-member FCA Board by President Bush on August 1, 2002, for a term that expires October 13, 2006. He was elected Chairman on December 4, 2002.

Mr. Flory brings to his position extensive experience in production agriculture, agribusiness, and both commercial bank and Farm Credit lending. His farming operation includes being half-owner of S & F, L.L.C., a general livestock, grain, poultry and hay farm of 1,800 owned and leased acres in Augusta County, Virginia. Prior to his appointment to the FCA Board, Mr. Flory was a member of the board of directors of AgFirst Farm Credit Bank in Columbia, South Carolina, and a director of Farm Credit of the Virginias, ACA.

Mr. Flory was executive vice president of Dominion Bank from 1971 to 1988, and president, CEO, and director of Dominion Farm Loan Corporation. He chaired the Virginia Bankers Association Committee on Agriculture and was a member of the Executive Committee of the American Bankers Association's agricultural division. From 1989 to 1992, he was executive vice president, chief operating officer, and a member of the board of WLR Foods, Inc., a publicly traded poultry food company (which is now part of Pilgrim's Pride). Mr. Flory also served on several governing boards for the State of Virginia, including the Virginia Agricultural Council, a state advisory board, and the Virginia Agriculture Credit Committee, which he chaired. He also served as chairman of the Virginia Agricultural Development Authority, which uses "aggie bonds" to finance Virginia farmers.

Throughout his career, Mr. Flory has been an active participant in agricultural industry associations. He was president of the Virginia Turkey Association and president and director of the Rockingham County Fair Association. He also served as a director of the Virginia Poultry Federation, the Virginia Agribusiness Council, the Virginia Beef Cattle Association, and the Virginia Sheep Association. A native of Augusta County, Virginia, Mr. Flory attended Bridgewater College in Bridgewater, Virginia, and earned a bachelor's degree from Virginia Polytechnic Institute and State University in Blacksburg. He did graduate work at James Madison University and is a graduate of the Maryland-Virginia School of Bank Management at the University of Virginia. He and his wife, Avery, are the parents of two daughters and a son. ■

Michael M. Reyna

Michael M. Reyna became a member of the Corporation's Board in October 1998 and served as Chairman from November 1998 to January 2000, when he was appointed by President Clinton as the Chairman of the Farm Credit Administration.

Prior to joining the Board, he served as President Clinton's director of USDA Rural Development (formerly known as Farmers Home Administration) in California from November 1993 to October 1998. In this capacity, Mr. Reyna was responsible for growing and managing a diversified portfolio of housing, business, and infrastructure loans totaling more than $2.6 billion. He implemented a number of significant initiatives in California on behalf of the Clinton-Gore Administration, including the Northwest Economic Adjustment Initiative, the Rural Empowerment Zone-Enterprise Community program, the AmeriCorps program, and several Reinventing Government Initiatives.

Previously, Mr. Reyna served for 11 years as a principal advisor to the California State Legislature, working on financial service industry regulation and a wide range of issues including housing, economic development, local government finance, and political reform. He was also an appointed member of several local commissions, including the Sacramento City Planning Commission, of which he served as Chairman in 1993. While serving as a private consultant to the Texas 2000 Project, an initiative of the Governor's Office of Budget and Planning, he developed and implemented a computer-based simulation model of the Texas economy, which estimated employment and population trends through the year 2000.

Mr. Reyna holds a bachelor's degree in business administration from the University of Texas at Austin and a master's degree in public policy and administration from the LBJ School of Public Affairs at the University of Texas. He and his wife, Karen, have two sons. ■

Nancy C. Pellett

Nancy C. Pellett was appointed to the FCA and FCSIC Boards by President George W. Bush on November 14, 2002, for a term that expires May 21, 2008. Ms. Pellett brings extensive experience in production agriculture and agribusiness to her position on the Board. For 23 years she was vice president and secretary of Prairie Hills, Ltd., a feedlot, cow-calf, and row crop operation in Atlantic, Iowa. She was president and treasurer of Fredrechsen Farms, Ltd., a family-owned swine and row crop operation in Walnut, Iowa, for more than 20 years.

A long-time leader in the beef industry, Ms. Pellett has held state and national leadership positions in a range of cattlemen's industry organizations. As a member of the National Cattlemen's Beef Association, she served as the Chairman of the Check-Off Division, Chairman of the Consumer Marketing Group, and most recently as a member of the Cattlemen's Beef Board. She also served as President of the Iowa Beef Industry Council. Ms. Pellett was a partner in Premium Quality Foods, Inc., based in Red Oak, Iowa, which markets branded fresh beef and pre-cooked beef entrees. She served as president and director of consumer marketing for the company.

Ms. Pellett served a six-year term as a member of the Board of Regents for the State of Iowa, which oversees the three state universities, as well as the University of Iowa Hospital and its affiliated clinics. She was also selected as a member of the Governor's Student Aid Commission. She is currently on the Iowa State University (ISU) Foundation Board of Governors and has been a member of the Advisory Committees for the College of Agriculture and the College of Family and Consumer Sciences.

Ms. Pellett's dedication to the future of agriculture is reflected in her personal involvement with 4-H and Future Farmers of America at the local and state levels. She has served on the Iowa 4-H Foundation Board and is a founding member of the 4-H/FFA "Sale of Champions" Committee for the Iowa State Fair.

A native of Walnut, Iowa, Ms. Pellett holds a B.S. from ISU at Ames. She is also past President of the ISU Alumni Association, and was awarded the Alumni Medal in 1987. The Pellett family was honored as "Family of the Year" by the University in 1997. The family also received the "Friends of Youth Award" in 2000 from the Knights of AkSarBen, a foundation supporting education, youth programs, and rural development in Nebraska and western Iowa. She and her husband have four children. Together with a son and daughter-in-law, Ms. Pellet and her husband operate a fifth generation family farm in Atlantic, Iowa. ■

Investors provide the funds the System lends to agriculture and rural America.

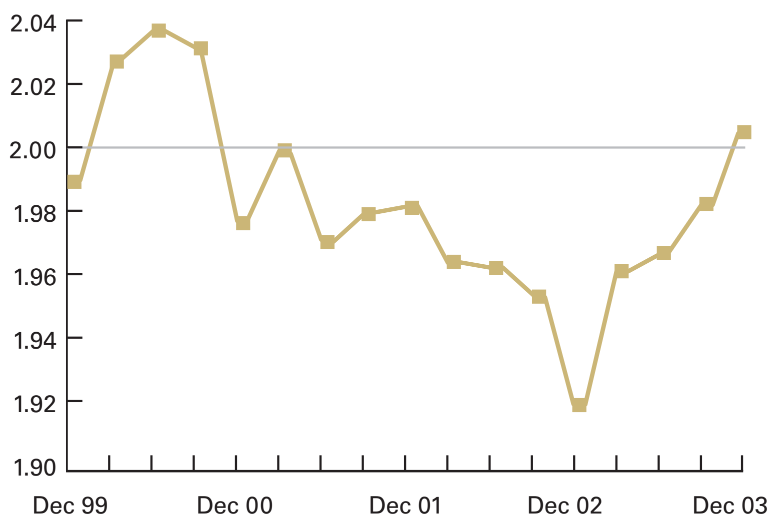
2003 Ends on a High Note
Insurance Fund Surpasses 2 percent

At year end, the Insurance Fund exceeded the secure base amount. The Insurance Fund represents the Corporation's equity, the difference between total assets and total liabilities (including insurance obligations). The secure base amount established by the Farm Credit Act of 1971, as amended (Act), is 2 percent of all outstanding insured obligations or another percentage that the Board determines is actuarially sound.

The Insurance Fund dropped below the secure base in early 2001 due to rapid System loan growth. As a result, the Board increased the premium rate to 12 basis points for accrual loans. This, combined with interest income, was instrumental in reaching the 2 percent goal at year end 2003.

This is the first time the Corporation has closed the year at the secure base amount. It is also the first time funds have been placed in the Allocated Insurance Reserve Accounts (AIRAs). Eventually, the AIRAs are to be distributed to System Banks and institutions that hold stock in the Farm Credit System Financial Assistance Corporation (FAC). However, the AIRAs remain part of the Insurance Fund and, therefore, may be used for statutorily authorized insurance purposes. (See Notes 4 and 5 to the financial statements.)

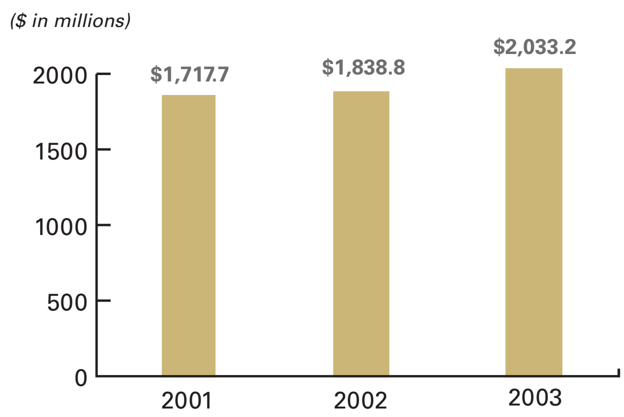
Insurance Fund Relative to 2% Secure Base Amount By Quarter



Insurance Corporation Selected Statistics

($ in millions)	**2003**	2002	2001
Balance Sheet:			
Total Assets	**$2,033.2**	$1,838.8	$ 1,717.7
Total Liabilities	**210.2**	196.3	182.8
Insurance Fund Balance			
Allocated Insurance Reserve Accounts	**39.9**	-	-
Unallocated Insurance Fund Balance	**1,783.1**	1,642.5	1,534.9
Operations:			
Revenues	**196.5**	123.0	94.1
Operating Expenses	**2.2**	1.9	2.1
Insurance Expense	**13.7**	13.6	11.9
Net Income	**180.6**	107.5	80.1

Total Assets



Investors and the Farm Credit System

The Corporation's primary purpose, as defined by the Act, is to insure the repayment of investors who purchase the bonds and notes issued by the System's Banks. Investors provide the funds the System lends to agriculture and rural America.

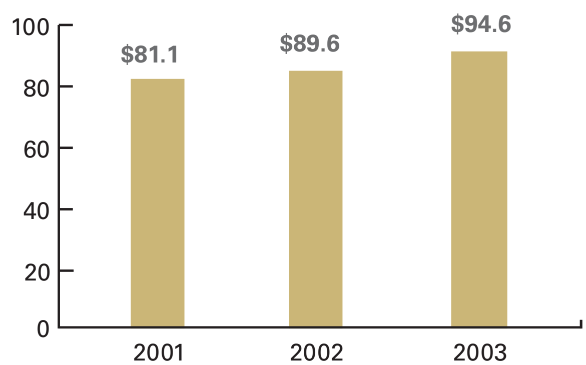
Selected financial statistics for the Farm Credit System on a combined basis are presented below:

Combined Farm Credit System Statistics

($ in billions)	**2003**	2002	2001
Insured Debt Outstanding	**$94.6**	$89.6	$81.1
Farm Mortgage Loans	**46.5**	43.5	37.7
Agricultural Production Loans	**21.1**	20.5	20.0
Loans to Agricultural Cooperatives	**9.0**	8.9	8.6
International Loans	**2.8**	3.1	2.8
Loans to Rural Utilities	**7.2**	7.7	7.3
Rural Home Loans	**2.3**	2.3	2.6
Other Loans	**4.3**	4.1	3.6
Net Income	**1.83**	1.77	1.79
Nonperforming Loans as a Percentage of Total Loans	**1.3%**	1.3%	1.2%

Insured Debt Outstanding

($ in billions)

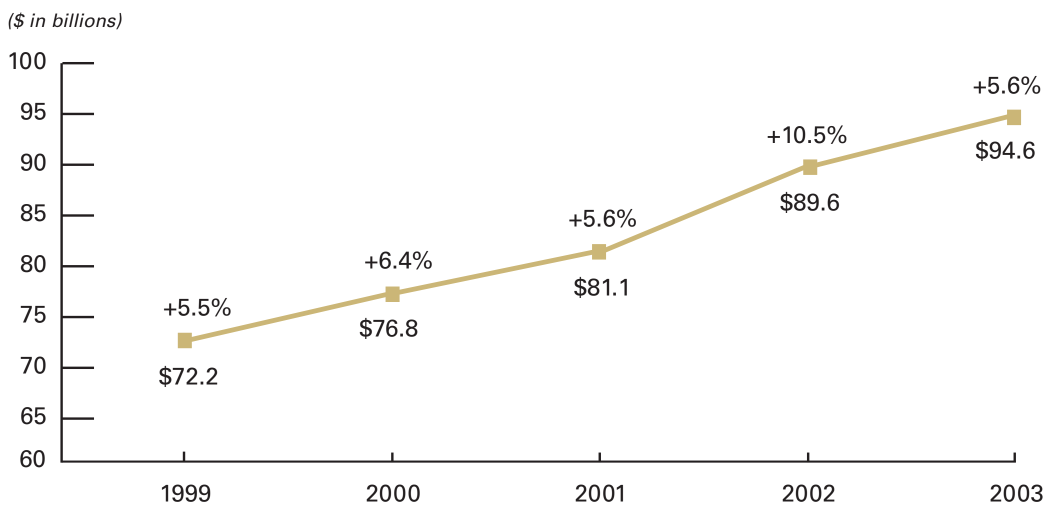


Insured and Other Obligations

The Corporation insures Systemwide and Consolidated bonds, notes, and other obligations issued by the System Banks through the Federal Farm Credit Banks Funding Corporation. Last year, insured debt outstanding rose by more than five percent to $94.6 billion. From 1999 through 2003, insured debt outstanding grew at an average annual rate of approximately 7.8 percent.

Other Corporation obligations include remaining FAC bonds and eligible borrower stock. From 1988 to 1992, the FAC provided assistance to the Farm Credit System, issuing debt to cover these costs. The Corporation, by law, must use the Insurance Fund to satisfy any FAC-issued bond defaults.

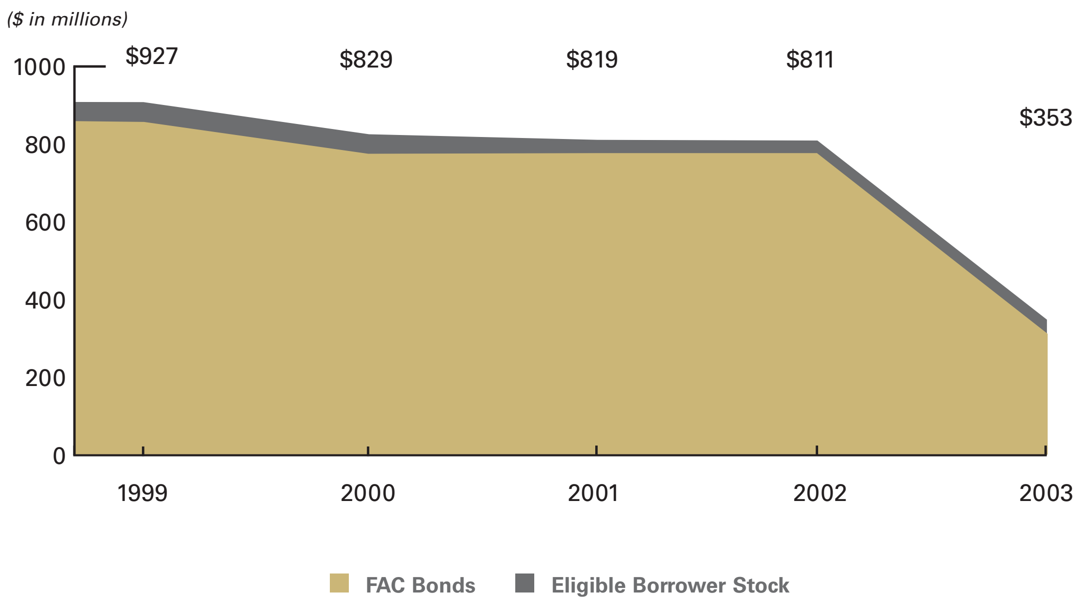
Insured Obligations



FAC obligations declined in 2003 because a $450 million bond issue matured in July of 2003. There is a final $325 million issue of FAC bonds outstanding, which is due in June of 2005. The Corporation estimates its obligation to FAC at December 31, 2003, to be $210 million. (See Note 5 to the financial statements.)

The Corporation also must ensure the retirement of eligible System borrower stock at par value. This stock was outstanding prior to October 6, 1988. At year end, eligible borrower stock outstanding at System institutions totaled $28 million, down from $36 million in 2002.

Other Obligations

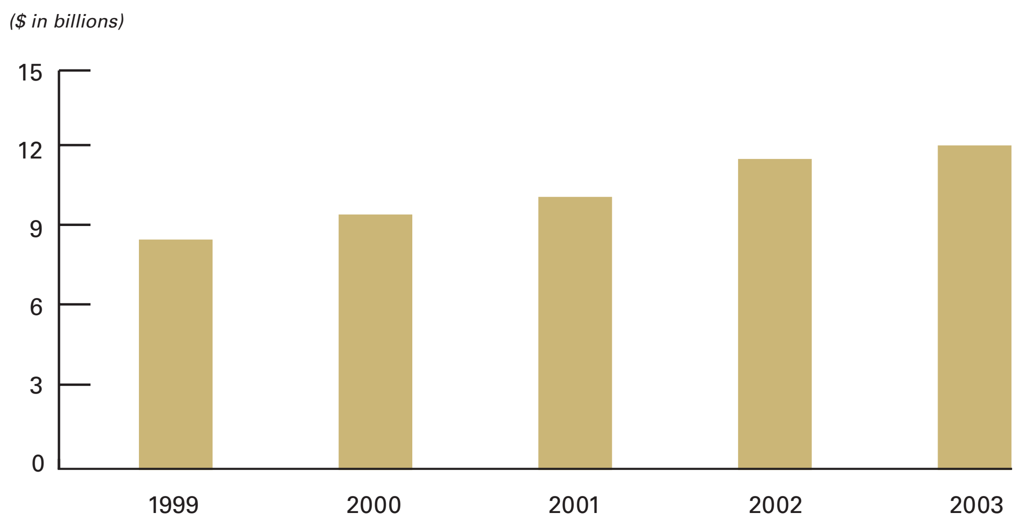


Farm Credit System Capital

Today there are four Farm Credit Banks and one Agricultural Credit Bank (Banks), which lend funds to 99 affiliated Associations. These Associations make loans to rural homeowners, farmers, ranchers and other agricultural entities. The Agricultural Credit Bank also lends to agricultural cooperatives and rural utilities. At year end 2003, there was $94.6 billion in insured debt outstanding; and the Corporation had $2.0 billion in assets, $0.2 billion in insurance liabilities, and an Insurance Fund balance of $1.8 billion.

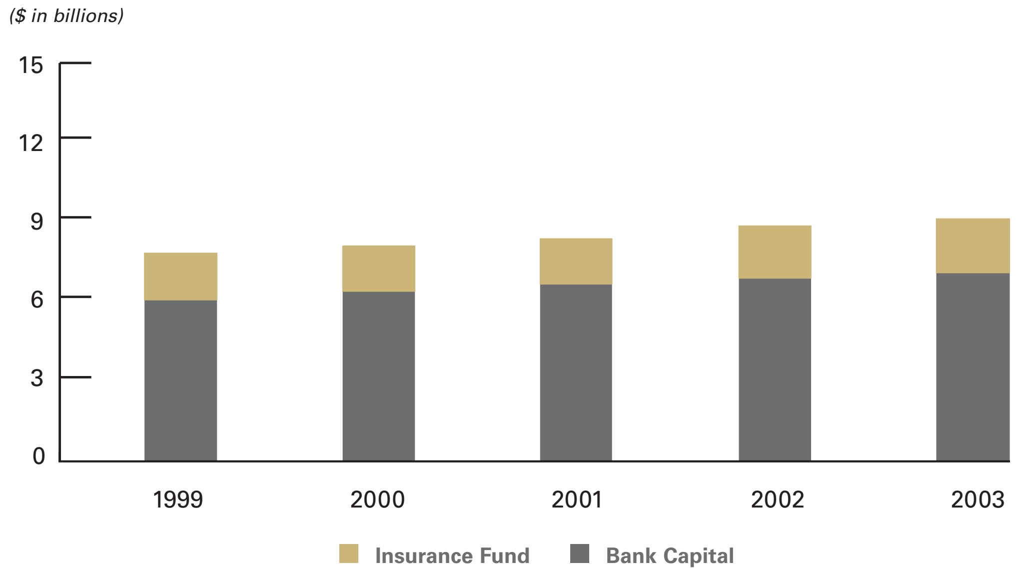
Over the past five years, the Farm Credit System Associations have been building capital through net income earned and retained at the Associations. The rise in capital at the Associations reduces the credit exposure that the Banks have on the loans to each of their affiliated Associations.

Association Capital



Bank capital increased $1.27 billion from 1999 to 2003 and remained above regulatory minimums. Since 1999, the Insurance Fund balance increased $0.45 billion.

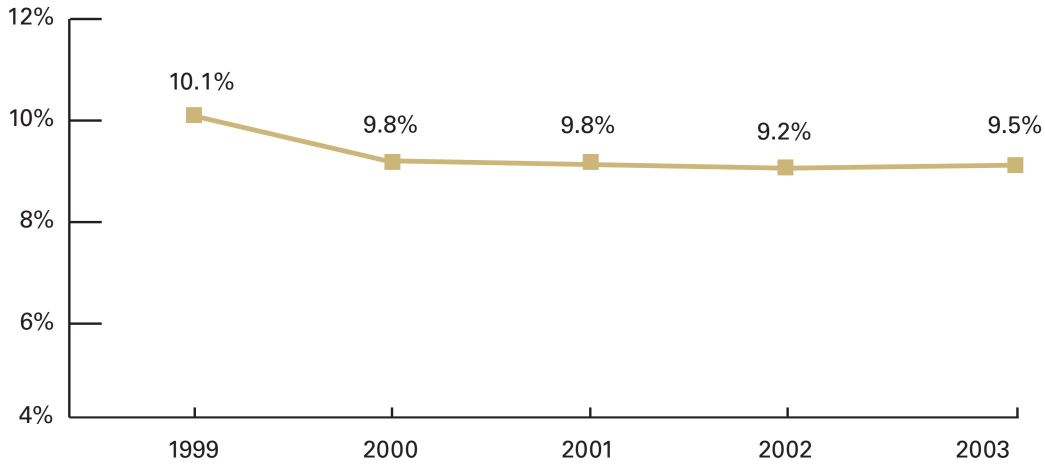
Bank Capital Plus the Insurance Fund



Bank capital plus the Insurance Fund, as a percentage of outstanding debt, decreased from 10.1 percent in 1999 to 9.2 percent in 2002, as the growth in insured debt outstripped increases in Bank capital and Insurance Fund revenues. In 2003 the ratio improved to 9.5 percent due to the net income retained by the Banks, the issuance of preferred stock, and the collection of increased insurance premiums by the Corporation.

Only the Banks are liable for the payment of the principal and interest on insured System debt, although each Bank's bylaws require district Associations to purchase related equity in the Bank. Generally, a Bank can require the Association to hold between 4 and 6 percent of their loan as equity.

Bank Capital Plus the Insurance Fund As a Percentage of Insured Debt



Additional Elements of Strength

The System has additional risk management tools that protect investors. The Banks have entered into the Contractual Interbank Performance Agreement (CIPA). This agreement measures the financial condition and performance of each System Bank using various ratios considering capital, asset quality, earnings, interest-rate risk, and liquidity. CIPA established economic incentives whereby financial penalties are applied if the performance standard is not met.

The Banks and the Funding Corporation have entered into a Market Access Agreement (MAA) that established conditions for each Bank's continued participation in the debt market. If a Bank fails to meet agreed upon performance measures, including capital and collateral ratios, their participation in future debt issues could be limited or curtailed. The criteria used under the MAA are the CIPA scores and two capital ratios.

The System also established a Common Minimum Liquidity Standard. The standard requires each Bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. All Banks have exceeded this liquidity standard since June 30, 2003.

These measures, in conjunction with Bank capital and the Insurance Fund, provide direct protection for investors who purchase Systemwide bonds and notes.

Insurance Fund Management

Corporate assets exceeded $2 billion at year end 2003.

Growth in the Insurance Fund

In 2003, the Insurance Fund grew 11 percent to $1.82 billion. Total assets, which also grew 11 percent, surpassed the $2 billion mark, reaching $2.03 billion.

AIRAs - First Transfer of Excess Insurance Fund Balance

For the first time in its history, the Insurance Fund finished the year above the secure base amount. By statute, at any year end, if the Insurance Fund is over the secure base amount, the Corporation must recalculate the secure base amount using an average daily debt balance method. This amount is then subtracted from the year end Insurance Fund balance, less projected insurance and operating expenses for 2004, to determine the excess amount for transfer to the AIRAs.

Separate AIRA accounts are then established. Ten percent of the excess funds are allocated to the FAC stockholders' AIRA. The remaining 90 percent is prorated between the Banks.

At December 31, 2003, the Corporation transferred $39.9 million to the AIRAs for the System Banks and FAC stockholders. The first possible payout date is April 2006; however, any AIRA payments are at the discretion of the Board.

The statute also requires that the AIRAs be the first funds used for any Insurance Fund claim payments.

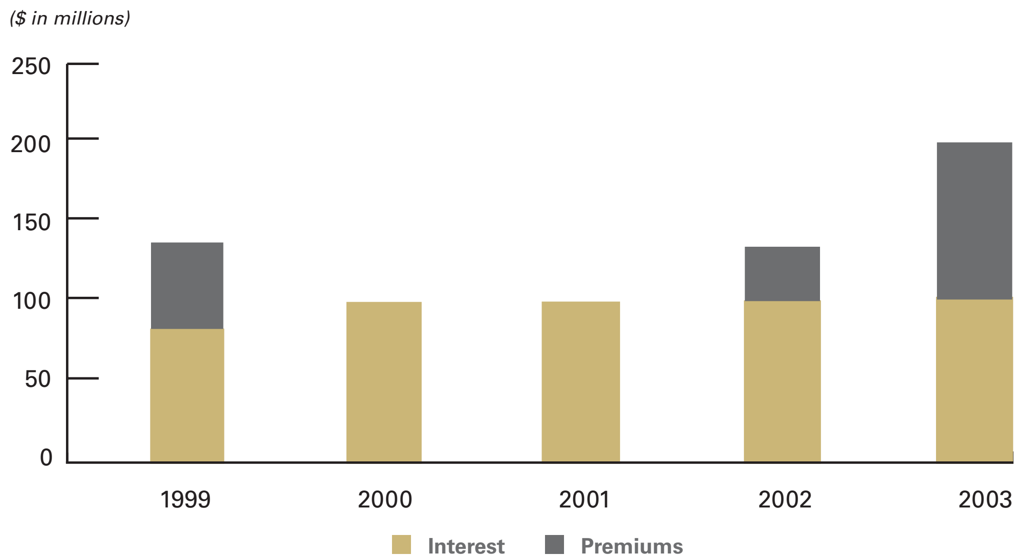
Revenues and Expenses

Net income in 2003 climbed 68 percent to $181 million, up from $108 million in 2002, due to an increase in insurance premiums. Premium rates on accrual loans rose from 3 basis points in 2002 to 12 basis points in 2003.

Due to the premium increase, the mix of corporate revenues changed in 2003. Over the past few years, interest from investments had been the primary source of revenue. Last year, premiums accounted for 53 percent of the Corporation's total revenue.

Interest income dropped in 2003 from $93 million to $91 million, primarily due to falling interest rates. The average portfolio yield was 4.93 percent, down from 5.39 percent the prior year.

Corporation Revenues



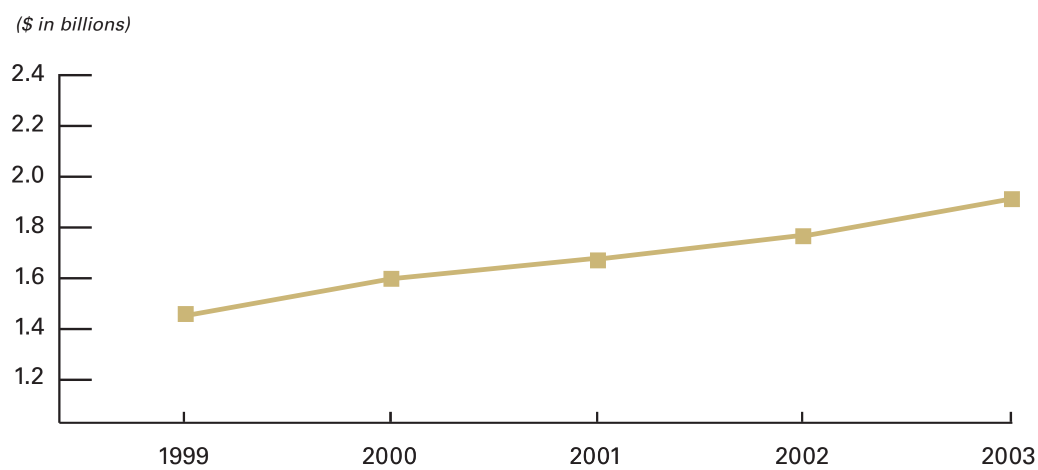
Insurance expenses grew to $13.7 million from $13.6 million in 2002. The increase was due to the annual provision for the insurance obligation to repay the FAC for assistance-related bonds, which will mature in 2005. (See Note 5 to the financial statements.)

In 2003, the Corporation's operating costs rose slightly from 10 basis points on assets in 2002 to 11 basis points on assets in 2003. Fixed costs for staff, travel, rent, and miscellaneous expenses were $1.7 million of the $2.2 million total for the year. The remaining expenses of $0.5 million were for contract services.

Investments

Investments increased 6 percent during the year to $1.9 billion at December 31, 2003.

Growth in Investment Portfolio



Funds are invested in U.S. Treasury securities in accordance with the Act and the Corporation's Investment Policy. The investment yield dropped slightly due to the lower interest rates that prevailed throughout the year. The average portfolio yield for 2003 was 4.93 percent, down from 5.39 percent the prior year.

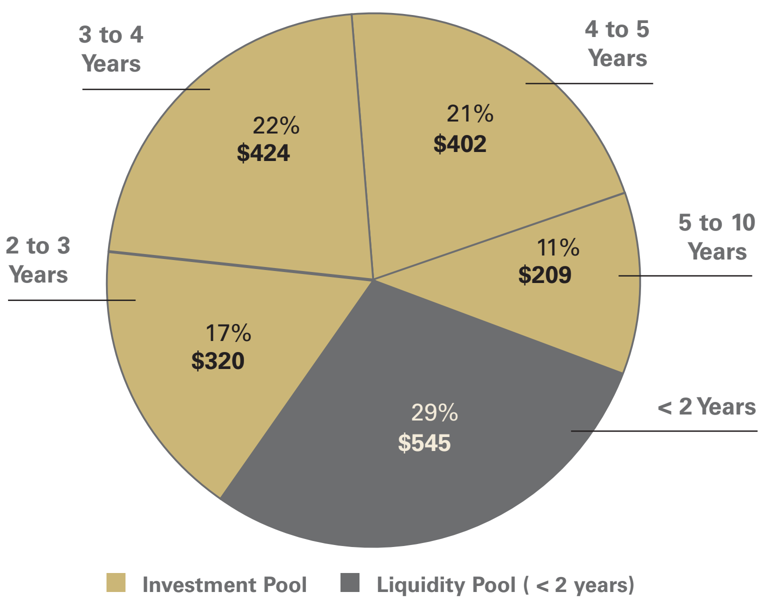
The Corporation's investment strategy is to purchase a ladder of maturities and hold them to maturity. The portfolio is divided into a liquidity and an investment pool. The liquidity pool maintains a minimum of 20 percent of the portfolio in short-term securities, while the balance is invested in longer-term maturities of up to 10 years.

The weighted average portfolio maturity at year end was 3.2 years. The balances and maturities of the liquidity and investment pools at December 31, 2003, are illustrated in the following chart.

The investment objective is to maximize returns consistent with liquidity needs and to minimize exposure to loss of principal.

Investment Portfolio Maturity Groups

($ in millions)



Premium Assessment

The Board reviews premium rates semiannually in March and September. Five factors are considered:

1. The level of the unallocated Insurance Fund relative to the secure base amount,
2. Projected losses to the Insurance Fund,
3. The condition of the System,
4. The health of the agricultural economy, and
5. Risk in the financial environment.

Although the Corporation ensures repayment to investors who purchase System debt, by law it collects premiums from System Banks and Associations based on their loan volume. Premium rates may vary by type of loan. (See Note 4 to the Corporation's financial statements.)

Type of Loan	Premium Range *(in basis points)*
Accrual	0 – 15
Nonaccrual	0 – 25
Federal Government-guaranteed accrual	0 – 1.5
State government-guaranteed accrual	0 – 3
Government-sponsored enterprise guaranteed accrual	0 – 15

Risk Management

The Corporation has a program to identify and manage insurance risk, which minimizes the Fund's exposure to potential losses through early detection. Weaker System institutions undergo special examination procedures as needed. FCA staff perform the majority of the fieldwork for these examinations on a reimbursable basis.

The Corporation also assesses risk to the Insurance Fund through:

- Periodic review and analysis of the financial condition of System institutions,
- Analytical models,
- Review of corporate actions approved by FCA for System institutions, and
- Participation as a nonvoting member on FCA's Regulatory Enforcement Committee.

The Corporation monitors legislative, judicial, regulatory, and economic trends that could affect insurance risk. For example, in 2003, the Corporation analyzed capital trends and made recommendations to the FCA on Bank capital and the importance of leverage ratios. In addition, the Corporation coordinated efforts with FCA to comment on the American Institute of Certified Public Accountants' (AICPA) draft Statement of Position on Allowances for Credit Losses. The Corporation also monitors trends in the System's structure and activities, including consolidations and new forms of financing.

During 2003, the Corporation contracted with Mercer Oliver Wyman to evaluate whether an actuarial model could be developed for the Insurance Fund. Mercer Oliver Wyman, a subsidiary of Marsh & McLennan, is a leader in developing risk management tools for the financial services industry. They evaluated the current solvency of the Insurance Fund and the risk characteristics of the Farm Credit System and concluded that an actuarial solvency determination was possible. They further concluded that the secure base amount of 2 percent was an actuarially sound solvency standard considering the current agricultural environment, regulatory risk ratings, and capital levels of the Farm Credit System institutions.

The Corporation has contracted for follow-on work to evaluate the feasibility of using a range for the secure base amount and operating with a more stable insurance premium rate. In considering this issue, Mercer will be constructing a model with Corporation staff to dynamically evaluate the solvency of the Insurance Fund under a variety of scenarios. This model will incorporate best practices of the insurance industry for evaluating Insurance Fund adequacy considering:

- Future loss claims of the Insurance Fund,
- Growth in insured liabilities issued by the System's Banks,
- Alternative investment returns,
- A range of insurance premium assessments,
- The effect of allocations to the insurance reserve accounts (AIRAs), and the
- Financial condition and performance of the System.

This work is expected to be completed during 2004.

Financial Assistance and Receivership

The Insurance Corporation is authorized to provide assistance to System institutions to prevent default, restore normal operations, or facilitate a merger or consolidation. At present, no assistance agreements are outstanding.

During the year, the Corporation contracted with Andrew Davidson and Company to review and upgrade its Cost Test model. This model utilizes loan-pricing techniques and is used by staff to evaluate the cost of providing financial assistance to any System institution. When considering providing financial assistance, the statute requires the Corporation to ensure that it be the "least costly" method for resolving a troubled System institution. Financial assistance cannot be provided if the cost of liquidation is determined to be lower.

When appointed by the FCA, the Corporation has statutory responsibility to serve as receiver or conservator for System institutions. To fulfill this role and continue to operate with a small core staff, the Corporation uses contractors on an as-needed basis. These contractors provide knowledgeable and readily available resources, while allowing the Corporation to contain costs during periods of limited or no activity. At present, there are no active receiverships or conservatorships in the Farm Credit System.

In June the Corporation conducted a receivership readiness exercise. As part of the program, a representative from the FDIC provided an update on recent receivership experiences and an overview of their claims and asset liquidation processes. In addition, several System representatives spoke about current asset management practices and the liquidation of credit problems. The Corporation's Board and staff reviewed the roles and responsibilities of FCSIC and FCA in dealing with troubled institutions.

Strategic Goals and Performance Measures

Three broad goals with performance measures are used to evaluate the effectiveness of the Corporation's operations.

1. Manage the Insurance Fund to maintain the 2 percent secure base amount to protect investors

The Corporation assesses the effectiveness of its performance by:

- Reviewing premium rates semiannually and making necessary adjustments, and
- Comparing the investment portfolio's average yield to peer investment funds with similar quality and maturity.

In 2003, the Insurance Fund surpassed the 2 percent secure base amount; and the Corporation's average investment yield was 4.93 percent, compared to 3.0 percent for similar Treasury investment funds. Insurance premium rates for accrual loans remained at 12 basis points throughout the year.

2. Detect, evaluate, and manage risks to the Insurance Fund to protect it from losses

Program effectiveness is measured by:

- Evaluating how promptly emerging risks are detected,
- Determining the accuracy of the evaluation of risk, and
- Appraising the extent of loss minimization, if applicable.

The Corporation assesses the need for an insurance loss allowance quarterly. Also, the Corporation proactively screens the financials of all System institutions to detect risk and identify institutions that may require special examinations. There were no special examinations required in 2003.

As part of the risk management program, the Corporation hired Mercer Oliver Wyman to create a model for evaluating the adequacy of the current Insurance Fund.

3. Maintain the capability to manage receiverships and/or conservatorships

The standards used to measure the effectiveness of receivership operations are:

- Completing 90 percent of initial claims processing within a specified period, which will vary depending on the size and complexity of the claims;
- Keeping operating costs comparable to other regulators, as a percentage of total assets; and
- Keeping asset recovery values comparable to other regulators, as a percentage of asset values.

No active receiverships or conservatorships existed in the Farm Credit System in 2003.

Corporation personnel are trained periodically to maintain readiness, ensuring proficiency in the performance of receivership responsibilities. The most recent receivership staff training occurred in June 2003.

The President's Management Agenda

In 2001, President Bush established a policy for improving the management and performance of the Federal Government. "The President's Management Agenda" focuses on five government-wide goals to encourage improvements in specified areas of operations. The Corporation's accomplishments in those five areas are:

1. Strategic Management of Human Capital

- Operated with a small staff and contracted for specialized expertise when necessary, keeping operating costs low, while offering the flexibility to leverage resources.
- Planned for continuity in the transition of several key management positions.

2. Competitive Sourcing

- Continued the extensive use of competitively sourced contractor support to perform administrative functions including personnel, information systems, and financial systems support.

3. Improved Financial Performance

- Managed an investment portfolio with an average yield of 4.9 percent, which compares favorably with 3.0 percent for similar Treasury investment funds.
- Enhanced corporate model for setting premium rates.
- Upgraded the Cost Test model, which is used to decide whether to provide assistance to a troubled institution or place it in receivership.

4. Expanded Electronic Government

- Distributed surveys and premium communications to System institutions by e-mail for faster and less expensive results.
- Enlarged the Corporation's shared electronic file system on current and historical issues to decrease redundancy in work efforts.
- Maintained a Web site to provide quarterly financials, press releases, and requests for comments from interested parties.

5. Budget and Performance Integration

- Evaluated programs on an ongoing basis to determine efficiency, and met new and growing demands without increasing permanent staff levels. In 2003, this resulted in the outsourcing of disaster recovery efforts and the development of several financial models.

PRICEWATERHOUSECOOPERS

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McLean VA 22102-3811
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Report of Independent Auditors

To the Board of Directors
Farm Credit System Insurance Corporation:

In our opinion, the accompanying statements of financial condition and the related statements of income and expenses and changes in insurance fund, and cash flows present fairly, in all material respects, the financial position of the Farm Credit System Insurance Corporation (the "Corporation") at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Corporation changed its method of computing amortization of premiums and discounts on investments in 2002.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 24, 2004 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations for the year ended December 31, 2003. That report is 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.

PricewaterhouseCoopers LLP

February 24, 2004

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McLean VA 22102-3811
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Facsimile (703) 918 3100

Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Farm Credit System Insurance Corporation:

We have audited the financial statements of the Farm Credit System Insurance Corporation (the "Corporation") as of and for the year ended December 31, 2003, and have issued our report thereon dated February 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of the Corporation, and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

February 24, 2004

Statements of Financial Condition as of December 31, 2003 and 2002
($ in thousands)

	2003	2002
ASSETS		
Cash and Cash Equivalents	$ 186	$ 81,107
Investments in U.S. Treasury Obligations (Note 3)	1,899,095	1,702,681
Accrued Interest Receivable	28,807	28,642
Premiums Receivable (Note 4)	105,079	26,355
Other Receivables	4	_
TOTAL ASSETS	**$ 2,033,171**	**$ 1,838,785**
LIABILITIES AND INSURANCE FUND		
Accounts Payable and Accrued Expenses (Note 7)	$ 361	$ 261
Liability for Estimated Insurance Obligations (Note 5)	209,802	196,077
TOTAL LIABILITIES	**210,163**	**196,338**
Farm Credit Insurance Fund		
Allocated Insurance Reserve Accounts	39,888	_
Unallocated Insurance Fund Balance	1,783,120	1,642,447
TOTAL INSURANCE FUND	1,823,008	1,642,477
TOTAL LIABILITIES AND INSURANCE FUND	**$ 2,033,171**	**$ 1,838,785**

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

Statements of Income and Expenses and Changes in Insurance Fund for the Years Ended December 31, 2003 and 2002

($ in thousands)

	2003	2002
INCOME		
Premiums (Note 4)	$ 105,079	$ 26,355
Interest Income	91,405	93,499
Other Income	20	18
TOTAL INCOME	$ 196,504	$ 119,872
EXPENSES		
Administrative Operating Expenses (Note 7)	$ 2,218	$ 1,906
Provision for Estimated Insurance Obligations (Note 5)	13,725	13,643
TOTAL EXPENSES	**$ 15,943**	**$ 15,549**
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	$ _	**$ 104,323**
Cumulative effect on prior years (to December 31, 2001) of changing to a different amortization method (Note 2)	$ _	$ 3,222
NET INCOME	**$ 180,561**	**$ 107,545**
Farm Credit Insurance Fund Beginning of Year	**1,642,447**	**1,534,902**
Farm Credit Insurance Fund End of Year	**$ 1,823,008**	**$ 1,642,447**

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

Statements of Cash Flows
for the Years Ended December 31, 2003 and 2002
($ in thousands)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 180,561	$ 107,545
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Increase in Premium Receivable	(78,724)	(26,355)
Increase in Accrued Interest Receivable	(165)	(988)
Net Amortization and Accretion of Investments	25,200	19,113
Increase in Other Receivables	(4)	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	100	(71)
Increase in Liability for Estimated Insurance Obligations	13,725	13,643
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 140,693**	**$ 112,887**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Purchase of U.S. Treasury Obligations	$ (475,903)	$ (317,372)
Proceeds from Maturity of U.S. Treasury Obligations	254,289	282,743
NET CASH USED IN INVESTING ACTIVITIES	**(221,614)**	**(34,629)**
Net Change in Cash and Cash Equivalents	(80,921)	78,258
Cash and Cash Equivalents Beginning of Year	81,107	2,849
Cash and Cash Equivalents End of Year	**$ 186**	**$ 81,107**

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

Note 1 — Insurance Fund: Statutory Framework

The Agricultural Credit Act of 1987 (1987 Act) established the Farm Credit System Insurance Corporation (Corporation) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2003, there were five insured System banks and 99 direct lender associations.

The Corporation is managed by a board of directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

1. Ensure the timely payment of interest and principal on insured obligations in the event of default by an insured System bank;

2. Satisfy, pursuant to section 6.26(d)(3) of the Act, defaults by System banks on obligations related to the issuance of U.S. Treasury-guaranteed bonds by the Farm Credit System Financial Assistance Corporation (FAC) (FAC bonds) (see Note 5); and

3. Ensure the retirement of eligible borrower stock at par value.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions.

The balances outstanding at December 31, 2003, for each of the components of the Corporation's insurance responsibilities were $94.6 billion of insured obligations, $325 million of FAC bonds (of which $15 million in repayments have been provided for), and $28 million of eligible borrower stock.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (2) of the Act.

Under section 5.63 of the Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

Note 2 —
Summary of Significant Accounting Policies

Accounting Principles and Reporting Practices

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2003, the Corporation's cash and equivalents balance with Treasury was $186,505.

Investments in U.S. Treasury Obligations

Section 5.62 of the Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held to maturity in accordance with the Statement of Financial Accounting Standard (SFAS) No. 115 and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the effective interest method in 2003 and 2002. In 2002, the Corporation changed its method of amortization to the effective interest method from the straight-line method to more precisely recognize interest income based on the effective yield of the investments. The effect of the change was to increase interest income by $31,000 in 2002. The cumulative effect of this change for years prior to January 1, 2002, was $3.2 million and is shown in the accompanying statements of income and expense for 2002. Fair value of investments is estimated based on quoted market prices for those or similar instruments.

Liability for Estimated Insurance Obligations

The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks. (Also see Note 5.)

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would have a material effect on the liability for estimated insurance obligations.

Premiums

Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31 of the year subsequent to the year in which they are earned.

Retirement Plan

All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Corporation's contribution during 2003, to the CSRS plan was 8.5 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee.

Retirement plan expenses amounted to $141,245 in 2003 and $129,271 in 2002.

Note 3 — Investments

At December 31, 2003 and 2002, investments in U.S. Treasury obligations consisted of the following:
($ in thousands)

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury Notes	$1,899,095	$81,525	$(2,889)	$1,977,731
December 31, 2002				
U.S. Treasury Notes	$1,702,681	$125,398	—	$1,828,079

The amortized cost and estimated market value of U.S. Treasury obligations at December 31, 2003, by contractual maturity, are shown below.

($ in thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	$ 288,705	$ 293,269
Due after one year through five years	1,401,735	1,474,906
Due after five years through 10 years	208,655	209,556
	$ 1,899,095	$ 1,977,731

Note 4—Premiums, the Secure Base and Excess Insurance Fund Balances.

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Act is an insured System bank and may be required to pay premiums to the Corporation.

The Act establishes the range of insurance premium rates that the Corporation's Board may assess for any calendar year based on five classes of an insured bank's loan assets. The asset classes and the range that may be assessed for each are: (1) average annual accrual loans outstanding (other than the guaranteed portions of Government-guaranteed accrual loans) for the year may be from zero to 0.0015; (2) average annual nonaccrual loans outstanding may be from zero to 0.0025; (3) average annual portions of Federal Government-guaranteed accrual loans may be from zero to 0.00015; (4) average annual portions of state government-guaranteed accrual loans may be from zero to 0.0003; and (5) average annual portions of Government-sponsored enterprise guaranteed loans may be zero to 0.0015.

Insurance premium rates are reviewed semiannually in March and September. For 2003, premium rates were set at the Board's September 2002 meeting at 12 basis points for accrual loans, 25 basis points for non-accrual loans and zero for Federal and state government guaranteed loans. The Board again reviewed premiums at its March 2003 meeting and left premium rates unchanged. Due to moderate growth in insured debt outstanding, in September 2003, the Board decreased the insurance premium rate on accrual loans to 10 basis points beginning January 1, 2004, and left rates unchanged on nonaccrual loans at 25 basis points. In May 2002, Congress amended the Farm Credit Act to provide the Corporation's Board with discretionary authority to reduce premium rates on certain loans that are guaranteed by Government-sponsored enterprises (GSEs). The Board decided not to exercise this authority in 2003.

The Act sets a base amount for the Insurance Fund to achieve. The statutory secure base amount is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on Government-guaranteed loans in accrual status) or such other percentage as determined by the Corporation, in its sole discretion, to be actuarially sound. When the amount of the Insurance Fund exceeds the secure base amount, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

The Insurance Fund was below the secure base amount during most of 2003. At December 31, 2003, the Insurance Fund was 2.0 percent of adjusted insured obligations outstanding. A 1996 amendment to the Act requires the Corporation to establish reserve accounts for each System bank and an account for the stockholders of the FAC. If at the end of any calendar year, the Insurance Fund is at the secure base amount, the Corporation is to segregate any excess balances into these Allocated Insurance Reserve Accounts (AIRAs). In 1999, the Corporation's Board adopted a Policy Statement on the secure base amount and AIRAs, which provides guidelines for implementing this statutory authority.

At December 31, 2003, because the Insurance Fund was at the 2.0 percent secure base amount, the Corporation determined that there were balances to allocate. To determine the amount to allocate, the statute requires the Corporation to recalculate the secure base amount on an average daily balance basis and compare that with the year end Insurance Fund balance adjusted downward by the Corporation's estimated expenses for the following year.

The amount of Insurance Fund balance to be allocated to the Allocated Insurance Reserve Accounts was determined to be $39.89 million as follows:

FAC Stockholders	(10%)	$ 3.99 million
Farm Credit System Banks	(90%)	$35.90 million
		$39.89 million

The AIRA balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board. The statute provides that amounts in the AIRAs may not be paid prior to April 2006 (eight years after the Insurance Fund first attained the secure base amount). The Corporation's Board of Directors has discretion to adopt a later payment cycle. AIRA balances may be used to absorb any insurance losses and claims.

Furthermore, the Board of Directors has discretion to limit or restrict the AIRA payments. In accordance with the Corporation's policy statement, any AIRA balances do not count in measuring the Insurance Fund's compliance with the Secure Base Amount. Consequently, the unallocated Insurance Fund balance was reduced to 1.96 percent of adjusted insured obligations at December 31, 2003.

Note 5 — Financial Assistance to System Banks and Estimated Insurance Obligations

The 1987 Act required that the FCA charter the Farm Credit System Assistance Board (Assistance Board) and the FAC (see Note 1) to carry out a program of financial assistance to the Farm Credit System. In order to raise funds to provide this assistance, the FAC had the authority to issue debt obligations with a maturity of 15 years. During 1988 to 1992, the FAC issued $1.261 billion in bonds. These funds were used for providing assistance to certain System banks experiencing financial difficulty and for other statutorily authorized purposes. From 1998 through 2003, $936 million in FAC bonds have been retired, leaving one remaining issue of $325 million outstanding, which matures in June 2005. Repayment of the remaining FAC bond in accordance with the Act is being provided for by the FAC Trust Fund, FAC Assistance Fund and the Insurance Corporation.

Financial Assistance to Certain System Banks

During the period from 1988 to 1992, assistance was provided to four open banks through the purchase by the FAC of $419 million in preferred stock issued by these institutions. Similar assistance totaling $374 million was provided to the Federal Land Bank of Jackson in Receivership to facilitate its closing and liquidation. Subject to Assistance Board approval, these assistance funds were used by the FAC to purchase preferred stock issued by an institution experiencing financial difficulty.

Prior to the maturity of the related 15-year debt obligations, each institution can redeem its preferred stock, pursuant to Section 6.26 of the Act, so as to allow the FAC to pay the principal of the maturing obligation. While an institution that issues preferred stock to the FAC is primarily responsible for providing funds for payment of the FAC bonds (through redemption of the preferred stock purchased with the proceeds of the FAC bonds), the institution may be prohibited from redeeming, or may elect not to redeem, the preferred stock pursuant to section 6.26 of the Act. If this occurs, then the FAC must use funds from its trust fund, to the extent available, to retire the debt. The FAC Trust Fund (Trust Fund) represents the funds received from System institutions' purchase of stock in the FAC. The Trust Fund totaled approximately $74 million and $131 million at December 31, 2003 and 2002, respectively. The Trust Fund is composed of zero coupon Treasury securities which mature in 2005 and have a par value of $79 million. The FAC also must use funds from its Assistance Fund which totaled $15 million at December 31, 2003, to retire the remaining FAC bond. If the FAC Trust Fund and Assistance Fund balances are not sufficient to retire the FAC debt, then the Corporation must purchase preferred stock from the FAC to provide funds to retire such debt.

If the Corporation does not have sufficient funds, the U.S. Treasury must retire the debt. If this should occur, the Corporation is required to repay the U.S. Treasury as funds become available from the payment of premiums. At December 31, 2003, the only preferred stock held by the FAC was associated with the assistance provided to the Federal Land Bank of Jackson.

On May 20, 1988, the FCA placed the Federal Land Bank of Jackson and the Federal Land Bank Association of Jackson in receivership (collectively the FLBJR) and appointed a receiver to liquidate their assets. As of April 27, 1990, the FCA, the Receiver of the FLBJR, the FAC, the System banks, the Assistance Board, and the Corporation entered into an agreement which called for the FAC to issue 15-year U.S. Treasury-guaranteed bonds to purchase preferred stock in the FLBJR. Upon the maturity in 2005 of the FAC bonds used to purchase preferred stock in the FLBJR, the Corporation will provide funds to repay the principal of these debt obligations, to the extent that the Trust Fund and the Assistance Fund are not sufficient for such purpose. In January 1995, the FLBJR was terminated by the FCA and the receiver was discharged after transferring the remaining receivership assets to the FAC.

Estimated Insurance Obligation

The Corporation estimated the present value of its liability to provide funds for payment of the $231 million non-callable 15-year maturing debt to be approximately $210 million and $196 million at December 31, 2003 and 2002, respectively. This liability is reflected in the accompanying statements of financial condition. The present value of this obligation is based on a discount rate of 7 percent to maturity, which was established at the time this liability was originally recorded. In accordance with SFAS No. 107, the fair value of this liability has been estimated by management using discount rates based upon U.S. Treasury securities of similar durations (1.4 percent for 2003 and 1.7 percent for 2002). The fair value was approximately $227 million and $222 million as of December 31, 2003 and 2002, respectively. Provisions for changes in the Corporation's liability are reflected in the statements of income and expenses in the amount of $13.7 million and $13.6 million for the years ended December 31, 2003 and 2002, respectively.

The Corporation cannot predict the effects of future events upon System operations and upon the amount of the Trust Fund that will ultimately be available to reduce the Corporation's liability for FLBJR-related FAC bonds. The Corporation will annually reassess the likelihood of earlier use of the Trust Fund, changes in Trust Fund earnings, and other assumptions underlying its estimate of the liability for FLBJR-related FAC bonds.

Other Financial Assistance Provided to System Institutions

From 1988 to 1998, the U.S. Treasury paid interest on certain FAC bonds totaling $440 million. System banks must repay Treasury for this obligation following the final maturity in 2005 of the last FAC bond issue outstanding. The 1992 Act also expanded the potential uses of the Trust Fund to satisfy System institution defaults on the principal and interest of other FAC obligations and required System banks to make annual annuity payments to the FAC to provide funds for the retirement of the Treasury-paid interest at maturity. The Corporation is also required to satisfy defaults on the annual payments to the FAC to permit the repayment of Treasury-paid interest. During 1992 through 2003, all System banks made their annual annuity payments as scheduled.

The Corporation is not aware of any events or circumstances which will prevent System banks from meeting their remaining FAC obligations.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Other than obligations that have occurred as a result of resolving the FLBJR, as described above, management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded.

Note 6 — Operating Lease

On October 21, 2003, the Corporation executed a new six-year lease with the Farm Credit System Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space for the remaining term of $118,938 for 2004, $120,019 for 2005, $121,100 for 2006, $122,181 for 2007, $123,262 for 2008 and $124,344 for 2009. The Corporation recorded lease expense (including operating cost assessments) of $111,717 and $103,855 for 2003 and 2002, respectively.

Note 7 — Related Parties

The Corporation purchases services from the FCA under an Inter-Agency Agreement. These include examination and administrative support services. The Corporation had payables due to the FCA of $39,351 at December 31, 2003, and $1,650 at December 31, 2002. The Corporation purchased services for 2003 which totaled $74,506 compared with $64,926 for 2002.

The Corporation provided assistance to the FCA under a related Inter-Agency Agreement, recognizing revenue in 2003 of $19,765 and in 2002 of $17,793. At December 31, 2003 and 2002, the Corporation had a receivable from the FCA of $4,515 and zero, respectively.

Income and Expenses

Farm Credit System Insurance Corporation By Year

($ in thousands)

	Income		Expenses		Net Income
	Premiums	Investment	Provision for Insurance Obligations	Administrative and Operating Expenses	Changes in Insurance Fund
1989	$ 65,000	$ 16,041	—	$ 118	$ 80,923
1990	$ 72,000	$ 25,705	$ 140,000	$ 243	($ 42,538)
1991	$ 77,463	$ 31,483	$ 15,555	$ 953	$ 92,438
1992	$ 73,902	$ 37,198	$ 12,062	$ 1,200	$ 97,838
1993	$ 74,100	$ 41,277	($ 39,444)[1]	$ 1,278	$ 153,543
1994	$ 76,526	$ 46,389	$ 8,890	$ 1,482	$ 112,543
1995	$ 79,394	$ 54,688	($ 14,329)[2]	$ 1,379	$ 147,032
1996	$ 85,736	$ 61,471	$ 8,509	$ 1,469	$ 137,229
1997	$ 71,242	$ 71,088	$ 9,105	$ 1,511	$ 131,714
1998	$ 19,972	$ 79,545	$ 9,743	$ 1,525	$ 88,249
1999	$ 45,496	$ 81,719	$ 10,424	$ 1,631	$ 115,203
2000	$ 1,040	$ 92,776	$ 11,154	$ 1,797	$ 80,878
2001	$ 0	$ 94,112	$ 11,935	$ 2,127	$ 80,051
2002	$ 26,355	$ 93,499	$ 13,643	$ 1,906	$ 107,545[3]
2003	$ 105,079	$ 91,405	$ 13,725	$ 2,218	$ 180,561

1. In 1993, the FAC Trust Fund was initially considered available to pay a portion of the Insurance Corporation's FAC obligation for assistance to the FLB of Jackson.
2. In 1995, this provision was adjusted to reflect a change in the FAC Trust Fund's investment strategy and the termination of the FLB Jackson receivership making available additional funds to reduce the Insurance Corporation's related FAC obligation.
3. In 2002, the Corporation changed its method of amortizing investment premiums and discounts from the straight line to the effective interest method. The cumulative effect on prior years of $3.2 million was included in 2002 net income.

Corporate Staff

Mary Creedon Connelly	Chief Operating Officer
Alan J. Glenn	Director of Risk Management
C. Richard Pfitzinger	Chief Financial Officer
Dorothy L. Nichols	General Counsel
Phyllis Applebaum	Financial Analyst
William Fayer	Financial Analyst
Pam Ngorskul	Accountant
Anna Lacey	Administrative Specialist
Molly Sproles	Clerical Assistant

The year ended with transition in several management roles. Dennis Pittman, who had served with distinction as the Director of Risk Management since 1993, retired. Alan Glenn, formerly the Corporation's Chief Financial Officer, assumed the role of Director of Risk Management. Rick Pfitzinger, who previously served as the Asset Assurance Manager, became the Chief Financial Officer.

References

Copies of Farm Credit System Annual Reports to Investors and Quarterly and Annual Information Statements may be obtained from:

Federal Farm Credit Banks Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302
(201) 200-8000

Copies of the Annual Performance and Accountability Reports of the Farm Credit Administration may be obtained from:

Office of Communications and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102
(703) 883-4056

Farm Credit System Insurance Corporation
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