2003-04 Annual Report

Experience Agriculture

Farm Credit Canada

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As Canada's leading provider of agricultural financing and business solutions, FCC works closely with thousands of farm families and agribusiness operators.

Together, we have the privilege of experiencing Canadian agriculture – the pride, the opportunities, the challenges and the innovations that make this industry and its people such a vibrant part of our national landscape.

We are committed to serve our customers and grow agriculture from coast to coast, and we are pleased to share our progress in our 2003-04 Annual Report.

Experience agriculture. Experience FCC.

Corporate profile

Farm Credit Canada (FCC) helps farmers and agribusiness grow and diversify. Operating out of 100 offices located primarily in rural areas, the corporation's dedicated employees are passionate about the business of agriculture. We continue to expand to meet the changing needs of the industry, offering our customers a variety of customized loan products and business services. Supporting primary producers is FCC's main focus through all three lines of our business – farm finance, agribusiness and alliance partnerships.

A federal Crown corporation that is financially self-sustaining, FCC lends to all sectors of agriculture across Canada. Funds are raised through domestic and international capital market borrowing programs. Profits are reinvested in agriculture, developing products and services to benefit the industry. FCC's healthy portfolio of $10 billion and 11 consecutive years of portfolio growth are a reflection of our customers' success.

Agriculture. It's all we do.

Vision

Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Mission

To enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Corporate values

Our corporate values guide our conduct with colleagues and customers:

Focus on the customer

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together

We believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

Give back to the community

We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence

We are committed to one thing – the success of the agricultural industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees to achieve their potential.

Cultural practices

In addition to the corporate values, our cultural practices refer to the expected behaviours of FCC staff at all times with colleagues, customers, partners, suppliers and stakeholders:

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people;
- delivering on commitments, agreements and promises;
- building and sustaining committed partnerships, and
- creating a safe environment where people can speak up without fear.

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner. We are committed to the success of others – we do not engage in "conspiracies against" people.

We "listen for" contributions and commitment. We do not listen against people or ideas.

We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.

2003-04 Operational and financial highlights

For the year ended March 31

Operational	2004	2003	2002	2001	2000
Loans receivable portfolio					
Number of loans	82,551	78,442	75,888	75,202	73,686
Amount ($ millions)	10,049.4	8,812.6	7,715.8	6,907.6	6,303.8
Net portfolio growth (%)	14.0	14.2	11.7	9.6	7.9
Loans receivable in good standing (%)	96.0	96.4	96.5	95.5	94.9
New lending					
Number of loans approved	25,025	24,396	17,842	13,289	14,201
Amount of loans approved ($ millions)	3,429.4	3,138.3	2,446.1	1,752.5	1,611.6
Average size of loans approved ($)	137,040	128,640	137,097	131,875	113,500
Real property held at year end					
Number of properties	22	19	115	372	924
Number of acres	5,559	5,109	28,855	120,924	360,284
Value ($ millions)	3.7	3.5	10.1	25.1	64.9

Financial	2004	2003	2002	2001	2000
Balance sheet ($ millions)					
Total assets	10,214.3	8,991.2	7,884.0	7,179.3	6,570.7
Total liabilities	9,266.4	8,148.4	7,138.0	6,346.7	5,943.5
Equity	947.9	842.8	746.0	832.6	627.2
Income statement ($ millions)					
Net interest income	309.7	269.3	201.2	164.5	154.4
Provision for credit losses	84.0	67.2	45.5	40.2	52.7
Other fees and income	11.4	14.0	14.7	31.4	29.4
Administration expenses	131.9	119.3	101.6	94.5	90.8
Income before income taxes	105.1	96.8	68.8	61.2	40.3

As a sovereign borrower, FCC maintains an AAA credit rating.

Message from *the* President *and* CEO

Agriculture has a proud history in Canada – entrepreneurs of every generation have contributed to our nation's evolution through initiative and hard work.

The agriculture experience continues to evolve as new opportunities and challenges influence this complex industry. The industry is changing as producers manage the growing trend toward consolidation. Environmental issues are influencing the entire value chain, from industry inputs to consumer purchasing decisions. Canada's producers and agribusiness operators are building a national brand in an increasingly global marketplace.

As the industry evolves, so does the need for financing. The scale of today's operations demands larger capital investments and, in some sectors, the revenue from that investment can be a long time coming. Primary producers and agribusiness operators need flexible financing tailored to their sectors and individual needs, from start-up and expansion to retirement.

Put it all together and you have a snapshot of Canadian agriculture – growing, challenging, innovative.

At FCC, we share that experience and energy with our customers every day. Agriculture is all we do and we focus on providing high-quality lending and business services to Canada's agriculture community.

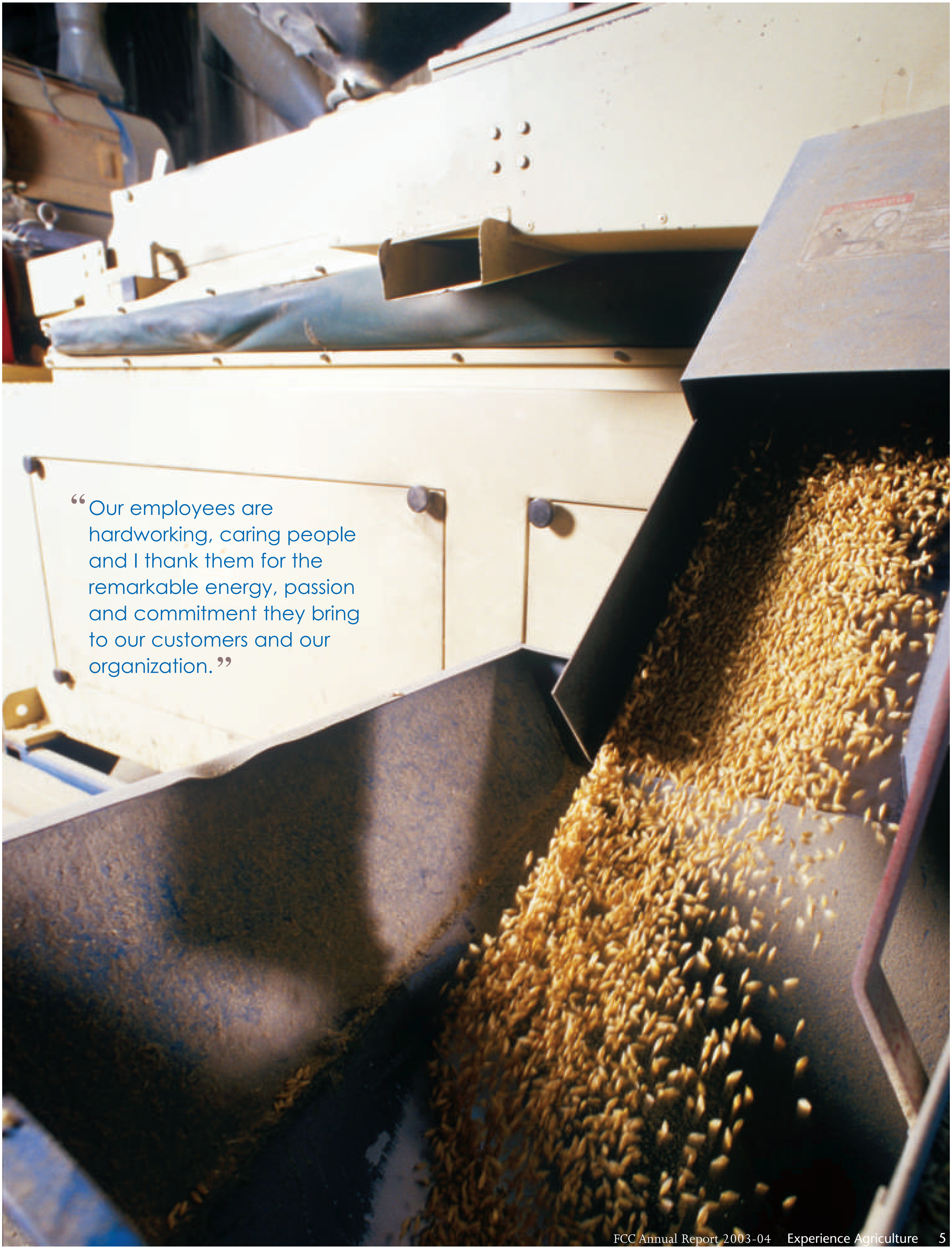
We understand the opportunities and challenges facing the industry. We know that agriculture is cyclical and that the ebb and flow of market forces, weather and other circumstances influence the business of agriculture and demand proactive management. We recognize that one size doesn't fit all and that detailed knowledge and planning are critical to success. And, above all, we share the passion of our customers for agriculture.

Those roots run deep at FCC – many of our employees come from farming backgrounds and all have specialized knowledge and experience that they put to work each day to deliver the products and services that our customers need. And the knowledge flows both ways, as our customers share their ideas and insights with FCC to help us meet their needs more effectively. This creative collaboration and mutual respect has contributed to the success of thousands of producers and agribusiness operators over the past 45 years.

Thanks to FCC customers and employees, we achieved our 11th consecutive year of growth and our loan portfolio grew to a record $10 billion in 2003-04. We are committed to the highest standards of financial management to ensure the efficient use of FCC's resources and we continue to be self-sustaining, reinvesting our profits to finance the growth in our portfolio and develop financial and business solutions to benefit the industry.

Like our customers, we have diversified to meet the changing needs of Canadian agriculture. Our core business is lending and we offer a variety of tailored loan products. We have also developed a suite of business services, including management skills training, software solutions and venture capital. We are focused on adding value to our customers and the industry through every aspect of our business.

We support agriculture through good times and bad, and this has once again been a year of challenge and opportunity for our customers. The beef sector has been particularly hard hit, due to the impact of Bovine Spongiform Encephalopathy (BSE) or mad cow disease. Our commitment to the beef industry is unwavering and we will continue to provide new financing to the sector and work with our customers to see them through. We also work closely with customers whose businesses have been affected by other challenges, including avian flu.



"Our employees are hardworking, caring people and I thank them for the remarkable energy, passion and commitment they bring to our customers and our organization."

That commitment to our customers and to every sector of Canadian agriculture is at the heart of everything we do. We are committed to building the kind of relationships that create satisfied customers who become customers for life. That means talking about what's working, what's getting in the way, and how we can take customer experience to new levels through innovative thinking. Our 1,000 employees across Canada rise to the challenge every day and we recognize that our consistently strong performance in the marketplace is due to their collective effort. Our employees are hardworking, caring people and I thank them for the remarkable energy, passion and commitment they bring to our customers and our organization.

Our mission, vision and values keep us focused, ensuring that everyone is headed in the same direction toward the same goal. We continue to promote leadership, knowledge management and innovation as guiding principles that help shape our efforts to better serve our customers. FCC was recognized as one of Canada's top 50 employers in 2003 through the annual study administered by Hewitt Associates in conjunction with the Globe and Mail, and we will keep working to build a quality workplace.

We have also taken exciting steps forward to improve the way we work with one another — like everything else we do as a high-performing organization, we know there is always room for improvement.

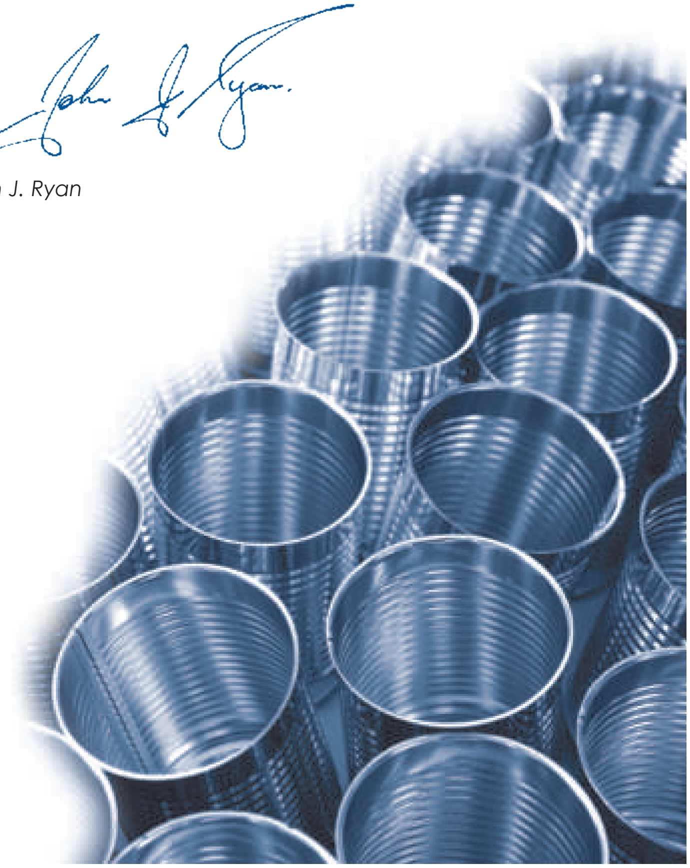
Last year, we introduced a set of cultural practices to the organization that promote effective communication and enhance our individual and shared accountabilities. These practices define how all of us work together as colleagues and with our customers, partners, suppliers and stakeholders.

Our cultural practices are about supporting our values, treating people with respect and dignity, and creating a winning team where we are deeply committed to one another's success. Employees are applying the cultural practices to their daily work and I look forward to the breakthroughs and results we will achieve with a common language and a shared set of skills to enhance the way we work together.

Something special is happening at FCC and our continued growth is telling us that people want to be a part of the customer experience we offer. As Canada's leader in agricultural financing, it is our privilege to experience and support agriculture in partnership with primary producers and agribusiness. Agriculture is always challenging, always changing – and always invigorating. Whether we are in a farmer's field discussing crop management strategies, sitting down with an agribusiness operator to talk expansion plans, or sharing knowledge in the workplace, this industry challenges us to learn more and to do more.

Agriculture is an industry built on partnerships and we are proud that FCC continues to contribute to its growth and success. Together with my team of employees from coast to coast, we thank our customers for their trust and their business – we look forward to continued partnership and new opportunities.

John J. Ryan



Message *from the* Chair

Responsible corporate governance and a passion to support Canadian agriculture are essential to the success of FCC. I am proud that the Board of Directors brings an abundance of both qualities to the corporation.

The Board of Directors oversees and evaluates FCC's management and performance to ensure that the organization fulfils its mandate in the best interests of the company and, as a Crown corporation, in the best interests of the Government of Canada.

The Board provides skilled leadership, diverse experience and a commitment to the highest standards of ethical conduct. We guide FCC's strategic direction and oversee strategy execution, holding management accountable for performance against specific targets. Building on our expertise in agriculture, finance, management and public policy, we encourage continuous learning among our members to stay informed and involved in the wide range of issues relevant to FCC.

The Board is renewed on an ongoing basis, as colleagues complete their terms of service and new members are appointed. We welcomed Jack Christie, Don Haliburton and Deborah Whale in November 2003, and extend our sincere thanks to Robert Colpitts, a director since November 2001, and Eleanor M. Hart, a director since May 1995, for their many and varied contributions.

FCC is a dynamic, growing organization that is constantly evolving to meet the changing needs of the agriculture industry, and the Board sees exciting progress and potential ahead.

Agriculture is a demanding industry that becomes more complex with each passing day. Demand is growing for holistic solutions rather than just products and services, as producers expand, diversify and explore new markets. FCC employees contribute their best at every level of the organization, building on a longstanding commitment to Canadian agriculture that extends from coast to coast, generation to generation. They are also committed to their communities and the Board shares FCC's passion for corporate social responsibility and making a difference, from delivering food hampers in rural locations to working with St. John Ambulance to promote farm safety.

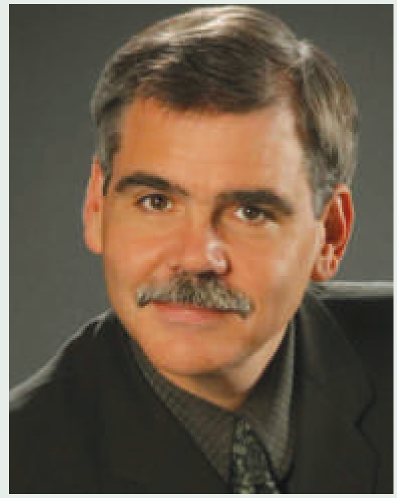
On behalf of the Board, I offer sincere thanks to the 1,000-plus employees of FCC. Your knowledge, experience and dedication to the success of our customers, the agriculture industry and FCC are truly outstanding.

Working together in the spirit of collaborative community, we are positioned to support FCC's mission – to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Respectfully submitted on behalf of the Board of Directors,

Rosemary Davis

Message *from the* Minister of Agriculture & Agri-Food Canada



It is through experience that we gain knowledge. Whenever I meet with Canadian farmers and farm families, I am impressed with their commitment and perseverance. I am fortunate to be able to draw on their generations of experience.

Experience also tells us that through partnerships – governments and industry working together – we can achieve great success.

To achieve continued growth, farmers need the right advice and tools to make sound business decisions. They also need a reputation for quality, delivery, innovation and market responsiveness.

This reputation is what our national agricultural policy sets out to achieve for our farm sector. The policy is based on industry experience, but at the same time is future-oriented. It takes into account a farm's potential, considers all activities of the farm business, and actively encourages innovation, diversification and value-added production. This year will see many programs rolling out under the new policy.

It's a new era for Canadian agriculture, and producers will need access to business planning and financial solutions that will help them produce safe, high-quality food in an environmentally sustainable way. Farm Credit Canada (FCC) is a valuable partner in this process, providing sound financial expertise and leadership to farm families and agribusinesses through a variety of customized loan products and business services.

From lending expertise to working actively in partnership with the customers it serves, FCC will continue to support rural Canada and the ongoing evolution of Canadian agriculture with innovative products and services that benefit the individual farmer and the industry as a whole.

The Honourable Andy Mitchell
Minister of Agriculture and Agri-Food Canada

Experience:

“Farmers are wonderful people who not only strive to succeed in business, but take immense pride in the contribution they make to our country. At FCC, we draw much pride in contributing to their success, in listening to them share their hopes and plans and in helping them seize opportunities and develop solutions.”

– Diane Gagnon, FCC Marketing Analyst, Ste-Foy, Quebec

Our commitment to agriculture

At Farm Credit Canada (FCC), our sole focus is agriculture and we have been proudly serving Canada's agriculture community for 45 years.

Agriculture is one of our country's defining industries – major in its impact on people and the economy. Agriculture will continue to play a lead role in shaping the Canada of the 21st century. Highly entrepreneurial and increasingly high-tech, this industry is positioned for continued growth and innovation.

Together with our customers, we are experiencing an evolution in the business of agriculture. Primary producers are increasing efficiencies and building larger, more complex operations. The hallmarks of Canadian agriculture – crops, dairy, hogs, beef, poultry – have been joined by emerging operations such as vineyards, specialty livestock and aquaculture. New and established agribusinesses are adding value on both the input and output sides of primary production, from farm equipment sales to primary processing.

In the early days, FCC offered one loan product. Today, we offer our customers a variety of customized financial and business solutions, from management skills training, insurance products and software tools to venture capital.

FCC's loan portfolio of $10 billion and 11 consecutive years of portfolio growth are a reflection of our customers' success. Although we have expanded to meet the changing needs of the industry, supporting primary producers continues to be our main focus through all three lines of our business – farm finance, agribusiness and alliance partnerships.

A federal Crown corporation that is self-funded, FCC lends to all agriculture sectors across Canada. We raise funds through domestic and international capital market borrowing programs, and our financial viability allows us to support customers and agriculture over the long term. Our profits are reinvested in agriculture, financing the growth in our portfolio and developing products and services to benefit the industry.

> “FCC knows agriculture and is sensitive to the hardships that occur to our customers. I believe that puts us above all others in the industry.”
>
> *– Nathalie Knapman, FCC Administrative Assistant, Edmonton, Alberta*

Our 1,000-plus employees, located in approximately 100 offices nation-wide, are proud to deliver on FCC's mandate and mission every day – to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. It is our goal to deliver an exceptional customer experience and build solid, long-term relationships with our customers through every business phase, from start-up to retirement.

Our business environment

Understanding the environment in which our customers do business is key to FCC's ability to develop innovative products and services to meet their needs.

We operate in two industries – agriculture and financial services – and we proactively monitor the trends and activities that influence both. We use this market intelligence, along with customer feedback, to meet the needs of our customers and promote the growth of these industries.

The leading story in Canadian agriculture this year was the May 2003 announcement of a case of Bovine Spongiform Encephalopathy (BSE) or mad cow disease. Following the announcement, 34 countries banned Canadian beef imports and the federal government stopped all export shipments of beef. While there has been some progress in reopening Canada's borders to trade, the ongoing uncertainty around live cattle exports is creating significant difficulties for the beef industry.

At FCC, we promote the growth of agriculture and provide support in good times and bad. We are following developments regarding the BSE issue and monitoring the impact on our 6,600 customers in the beef sector across Canada. We activated our Customer Support Strategy shortly after the crisis began – Account Managers contacted customers facing difficulties, giving them the opportunity to explore flexible solutions such as payment rescheduling or interest-only payments.

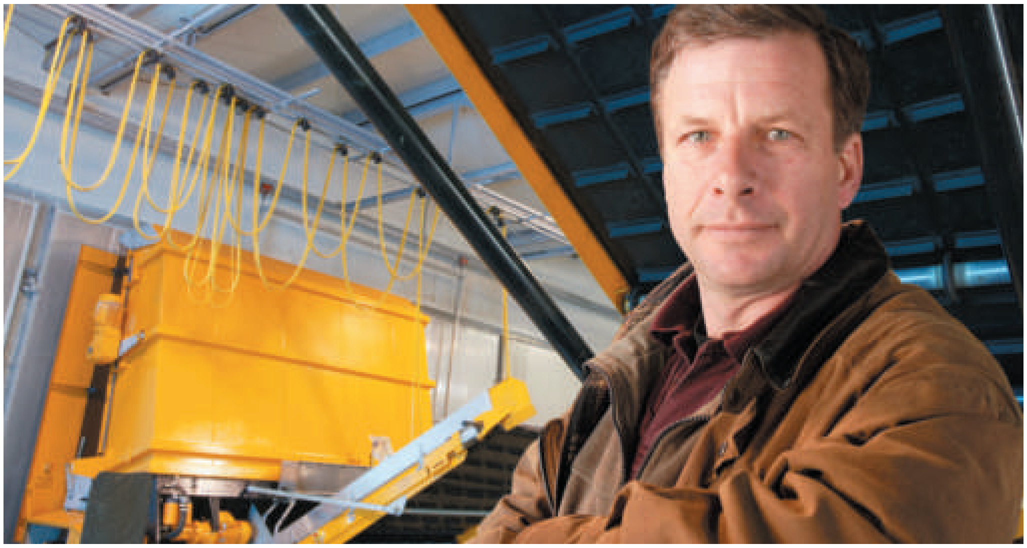
As part of our response, our Portfolio Management, Risk Management and Operations staff teamed up with members of our beef community of practice – FCC's top beef experts – to stay on top of the issue. Working together, they monitored developments, stayed connected with our lending staff and developed a resource section for the FCC intranet, providing staff from coast to coast with the latest BSE information.

FCC remains fully committed to the long-term viability of Canada's beef sector. We continue to provide new financing to the beef sector and work with affected customers to see them through – as we do with every customer whose sector is experiencing difficulties, be it BSE, avian flu, drought or other challenges.

From a global perspective, trade issues continue to affect Canadian producers. The current round of World Trade Organization (WTO) negotiations, scheduled to be complete by 2005, could have major implications. The U.S. Farm Bill, which will be in effect until 2008, is expected to result in greater production, higher U.S. exports and lower world prices. Traceability through proposed country-of-origin labelling may become the new norm, given increasing concerns over bio-security. From the hog moratorium in Quebec to challenges from the international community regarding Canada's quota system, the business of agriculture always reflects a range of challenges and opportunities.

> "I think the future for a lot of producers is marketing a lot more product themselves. We've seen growth in that for the past 10 years."

– FCC customer Wilf Kuipers, Kuipers Group of Companies, Aylmer, Ontario



FCC also operates in the financial services industry, which includes chartered banks, credit unions, caisse populaires and provincial lending agencies. We know that global competition, product innovation and demographics are driving change in financial services. Technology is also influencing the marketplace as companies respond to demand for access to information and services 24 hours a day – in person, by phone and via the Internet.

Competition will intensify as the full effect of Bill C-8, reforming Canada's financial services industry, is felt in the marketplace. With a new regulatory framework and anticipated economic recovery in North America, the industry will likely see continued expansion, with an increasing focus on larger and international markets.

FCC's focus on rural Canada through our network of field offices keeps us close to our customers and the business of agriculture. Supporting primary producers has always been our central focus and it will remain so in the future. We provide farm families and agribusiness with flexible products and services to help them effectively manage their way through cyclical fluctuations in commodity supply and demand, price pressures, weather-related issues, disease and other challenges.

At FCC, we believe in the power of a collaborative community and the benefits that can be realized when stakeholders come together to strengthen agriculture. We support the objectives of the federal government's Agricultural Policy Framework (APF). Developed with provincial and territorial governments and the agriculture and agri-food industry, the APF is a landmark initiative that will guide agricultural program development across Canada. The key elements of the APF are business risk management, food safety and food quality, environment, renewal, and science and innovation.

We also partner with a variety of innovative organizations across Canada through our industry relations activities. Teaming up with the Canadian Federation of Agriculture, Canadian Farm Business Management Council, Canadian Young Farmers Forum, Union des Producteurs Agricoles and Keystone Agricultural Producers, among others, enables us to share ideas and work together to promote positive change in the industry.

"The business of agriculture has always been a challenging way to make a living, and I believe it will continue to be. The industry will continue to evolve and progress as it has always done, but I don't think anyone can predict exactly what the future holds – the key is to accept the changes and take advantage of the opportunities that occur."

– Gary Gale, FCC Account Manager and farmer, Regina, Saskatchewan

Building strategic solutions

FCC is committed to providing services and tools to help producers succeed in an ever-changing marketplace.

Strategy and business savvy are key to success in this complex industry, and producers and agribusiness operators are developing strategic solutions as they expand their operations and explore niche markets. They are building partnerships along the agriculture chain – from inputs to outputs – and increasing efficiencies, managing risk and intensifying marketing efforts.

Structural change in agriculture is resulting in fewer, but larger farms, with an increase in the demand for capital as well as average loan size. In this environment, sound business management is a core competency for successful producers.

Our Business Services team has developed a range of business and educational services – including insurance protection, educational workshops and software solutions – to complement our agricultural financing options and meet the needs of farmers and agribusiness operators.

At FCC, we believe that planning for the future and using risk management tools are essential for success. We enhanced our AgriAssurances product line this year to provide customers with more choice of insurance coverage, including loan life, accident and payment protection.

Our Advanced Farm Manager program gives experienced producers an in-depth perspective on the essential components of strategic business planning. Our AgriSuccess workshops continue to evolve to meet the management skills requirements of producers in all stages of agriculture, from start-up to retirement. With close to 120,000 Canadian farmers turning 65 in the next decade and more than $50 billion in assets expected to change hands as farms are transferred to a new generation, FCC is responding to an industry need.

Young people are the future of agriculture and we offer workshops that help equip them with the management skills they will need to succeed. We also offer FCC Business Planning Awards to agriculture students attending universities and agricultural colleges across Canada. We have expanded the program from six to 11 schools, with an increase in prize money from $32,500 to $69,000. The program challenges students to develop real-life business plans in partnership with their professors and experienced farm operators.

Mitchell Thomas of Lower Knoxford, New Brunswick was one of 35 winners of the 2003 FCC Business Planning Awards. Mitchell prepared a plan for the future of the family's potato, grain and hay crop operation. "Working with my dad to see how the company runs was an eye-opening experience," Mitchell says. "It made me a lot more aware of all the factors that go into a successful business. It's a good experience to go through for the future."

To further promote learning opportunities in the industry, FCC is the lead sponsor of Canadian Total Excellence in Agricultural Management, or C-TEAM, a program offered by the George Morris Centre at the University of Guelph.

Learning new skills also applies to technology and primary producers are adopting technologies to advance management practices on their farms. FCC is pleased to support producers' efforts with AgExpert™, Canada's leading farm management software.

This year, we introduced updated versions of AgExpert Analyst, an accounting and financial management package designed specifically for agriculture, and AgExpert Field Manager, a powerful tool to help farmers plan their crops and track performance. Producers can create and compare different scenarios, enter day-to-day field activities, and run reports to analyse the performance of their fields over time.

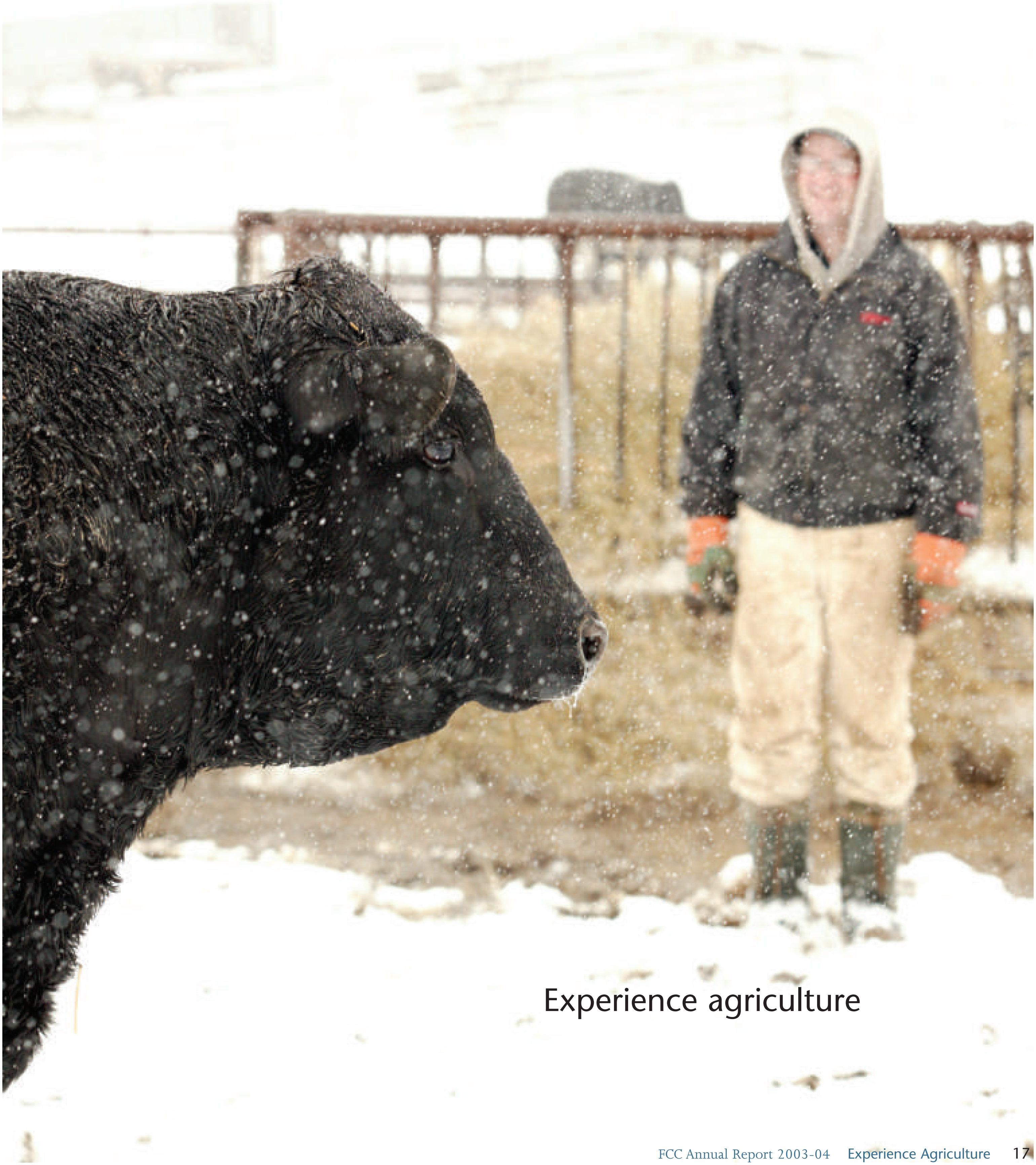
Producers also have access to fast, high-quality phone support through the AgExpert customer support line. Our employees are not only experts on AgExpert, they understand the business of farming. Experience in agriculture doesn't come quickly or easily, and our employees bring their experience – and a passion to learn more – to every customer relationship.

"Like agriculture, innovation is all about the follow-through – a great crop doesn't grow itself and a great idea is just that, until it's put into action."

– Ross Topp, VP, Audit & Process Innovation

"To be honest, we became involved with FCC because the previous owner of this dairy had his financing through FCC. We stay with FCC because they've been good to us. My Account Manager and his Manager have always offered their ideas and advice, and that means a lot to young guys like us. They challenge us to do our best and give us a pat on the back for a job well done. The numbers tell a story, but when someone in the industry says you're doing great, that's the icing on the cake."

– FCC customer Bryan Kornelius, Elkrest Farms, near Osler, Saskatchewan



Experience agriculture

Experience:

"I appreciate the friendship and honesty at FCC. If there are concerns about a deal I'm making, they're up front with me. FCC has specialized knowledge of agriculture that other lenders don't have, and there is flexibility. If I have a payment due but I want to hold my steers a little longer, I can call my Account Manager and he says thanks for letting me know and that's it. It all happens over the phone with no paperwork and no cost. That means a lot."

– FCC customers Brian and Kim Geis, Geis Angus Farm, near Barrhead, Alberta

Our people

The experience and passion that our people bring to agriculture and to serving our customers with excellence are at the core of everything we achieve as an organization. FCC employees offer a level of knowledge, expertise and commitment that is unparalleled in agricultural financing.

We understand this vast industry and its many sectors, and we are deeply committed to its success. We know first-hand the issues that farmers and agribusiness operators face, as many of our front-line employees come from farming backgrounds. Many also have specialized education and training in agriculture, enhanced by years of hands-on experience.

Agriculture is a knowledge-intensive business, and keeping pace with its ongoing evolution demands continuous learning. At FCC, we are committed to growing agricultural knowledge within our organization and the industry.

Knowledge management is about knowing and growing what we know – individually and collectively. By putting knowledge into action, we can serve our customers more effectively and enhance performance and innovation at FCC.

“At FCC, we take a holistic view of high performance – we hold ourselves accountable not only for our business results, but how we achieve those results with customers and colleagues.”

– Greg Honey, VP, HR & Administration

> “It makes a huge difference when you work with people who are totally committed to agriculture.”
>
> *– Patricia Botter, FCC Account Manager, Guelph, Ontario*

We encourage employees to share knowledge through dialogue and information sources like the FCC intranet, a network of information for employees nationwide. We come together at regional conferences to share information and experience, and to strengthen our relationships with colleagues. Employees also teamed up this year to create and deliver Learn the Business, a series of interactive sessions and online learning modules to enhance our knowledge about FCC, our customers and the industry.

Our knowledge management activities include FCC’s internal communities of practice network. Groups of lending and risk professionals in a variety of agriculture sectors educate one another and FCC by sharing their knowledge and bringing external expertise to the table to learn more about what’s going on in their sector and competitive environment. They provide input into our corporate strategic planning process, conduct in-depth analysis on industry issues, develop production benchmarks and create innovative tools that improve our ability to serve our customers.

Vineland Account Manager Steve Courson, a member of FCC’s greenhouse community of practice, created a spreadsheet to help Ontario greenhouse operators save money, balance cash flow needs and gain efficiencies. “If we can improve service to our customers through innovation, we can build more successful relationships.” Our Knowledge Management team worked with other communities of practice to replicate Steve’s concept for sectors such as pork, beef and crops.

Innovation is intrinsic to life at FCC – whether we’re participating in a brainstorming session, developing a new product, finding ways to streamline a process or learning techniques to encourage creativity and problem-solving, we create a high-energy environment that encourages the development of innovative solutions. We have learned that innovation doesn’t have to be big to have a positive impact, so we make a point of encouraging and recognizing small innovations that help us work more effectively – it’s good people practice and it’s good business.

Fostering leadership at all levels and creating a culture where we encourage and bring out the potential of all employees is a top priority at FCC. Our focus on leadership and continued development in this area is a key driver of our success and future growth, both as an organization and as individuals.

> "Leaders exist at all levels and are not confined to those in management. A true leader empowers those around them by creating vision, sharing knowledge, listening and motivating others to achieve excellence. We are committed to developing each employee's inner leader."
>
> *– John Ryan, President & CEO*

We are looking beyond the here and now to envision our future success and proactively plan how we are going to get there. Our code of conduct and our cultural practices support FCC's environment of respect and accountability. We created a leadership community of interest in 2003 that brings managers together to share ideas and discuss leadership concepts and practices. This community is opening up to all employees in 2004.

We host annual leadership conferences as an opportunity for focus, reflection and action. This year, we brought together three of our corporate priorities – knowledge management, innovation and leadership – to engage our management team in a dialogue about how we can take the customer experience at FCC to a new level. Our goal is to build the kind of relationships that add solid, longstanding value to our customers' operations, and the customer experience we offer is key to our success in achieving FCC's central strategy.

Another people practice that distinguishes us as an organization is our commitment to creating a true climate of bilingualism for our customers and employees. Canada's two official languages – English and French – receive equal status at FCC and our employees view official languages as an opportunity, not an obligation. Our ability to serve our customers in the language of their choice is good business as well as good public policy.

We also work together to create a climate where employees are encouraged to stretch their linguistic abilities and have some fun doing it. Both languages are spoken regularly in our business and social settings. As well, all of our national meetings feature simultaneous interpretation and we conduct follow-up calls and on-site audits with our designated bilingual offices.

In recognition of FCC's commitment to bilingualism, our President and CEO John Ryan received the 2003 Leon Leadership Award from the federal government's Commissioner of Official Languages. This award pays tribute to his leadership in championing FCC's provision of bilingual service to the public, creating a workplace conducive to both official languages and enhancing the vitality of official language minority communities.

We are also strongly committed to the value of diversity in our workplace. Our employees work together to promote diversity and create a culture that respects and supports the differences in all of us. Among our activities this year, we celebrated International Day for Persons with Disabilities, International Day for the Elimination of Racism, International Women's Day and National Aboriginal Day.

Our commitment to leadership, knowledge management, innovation, diversity and official languages helps make FCC a great place to work. We were honoured this year to be ranked among Canada's 50 best employers in the annual study administered by Hewitt Associates in conjunction with the Globe and Mail.

“I believe that one of the reasons FCC is one of Canada’s top 50 employers is because of its commitment to the personal development of staff. When FCC is willing to make an investment in me, it reinforces the belief that I make a difference. Ultimately, it motivates me to strive to be my best every day.”

– Tamara Sinclair, FCC Operations Analyst, Regina, Saskatchewan

The study points to some key reasons why FCC stands out as a top employer, including our training and development programs, employee benefits, community investment program and volunteerism, commitment to knowledge management, alignment of the leadership team and internal communication practices.

The International Association of Business Communicators (IABC) has recognized our communication practices as world-class. President and CEO John Ryan received IABC’s 2004 Excellence in Communication Leadership (EXCEL) Award. This international award is the highest honour that IABC bestows on individuals who are not members of the organization but consistently demonstrate vision and leadership in their commitment to effective business communication.

We also took some important steps forward this year to address capacity planning, a key issue in people practice and business performance. A business can develop leading-edge strategy, but capacity – people and resources – is required to bring it to life.

A major addition to our 2004-05 integrated planning process is an improved project planning and implementation process, led by our new corporate Project Management Office. Our Priorities Management Council, a subset of the Senior Management Team, prioritizes and activates projects when the strategic priority, timing relative to other projects, budget and resources are aligned.

As a high-performing organization, we have a great capacity to deliver business results. By investing in our people, creating an innovative work environment and enhancing our focus on capacity planning, we are working to ensure that our results can be sustained over the long term.

Making a difference in our communities

We believe passionately in corporate social responsibility at FCC – our ability to have a positive impact on society while achieving business success. From our community investment activities to our approach on environmental issues, we work closely with stakeholders to make a difference in communities across the country.

Agriculture is our only business and we have focused our giving in the areas of farm safety and food. As a member of the Canadian Centre for Philanthropy's Imagine program, we give more than one per cent of our profits to charitable and not-for-profit community organizations through the donation of financial resources and in-kind services.

We will further strengthen and broaden our community investment program in 2004-05 with an additional $600,000. This new funding will be directed to projects of importance to rural communities in addition to FCC's farm safety and food themes.

We work closely with Canada's rural youth on a variety of projects and will celebrate the 10th anniversary of the FCC 4-H Scholarship Awards by putting more education dollars in their hands through a new and improved scholarship program for 2004-05. We will award six regional scholarships of $1,500 to students with the best project plans that address farm safety, community improvement or hunger issues in rural communities. Five winners will also receive a budget of up to $3,000 to make their projects a reality.

Alexa Gray of Claresholm, Alberta won the national 2003 FCC 4-H Scholarship Award for her project, a community garden. In addition to three plots set aside for the local food bank, gardeners will be encouraged to donate part of their harvest. "The garden will allow new and experienced gardeners to go outside, exercise and cultivate their passion for growing food, all the while helping those in need," says Alexa.

We worked with communities in the fight against hunger, donating $30,000 to the Canadian Association of Food Banks in honour of World Food Day. Our employees observed the day by supporting their local food banks. Because hunger isn't just a problem in urban areas, part of FCC's donation was used to cover costs of delivering food to Canada's rural food banks.

We also partnered with community organizations to help feed families during the holiday season, donating an additional $29,000 to support food banks, hamper programs and holiday meals across the country. Funding was shared with a number of local organizations, including food banks in St-Hyacinthe and Barrhead, and adopt-a-family programs in Kamloops and Abbotsford. Our employees rose to the challenge, volunteering time in their communities to serve meals and deliver food hampers.

In the area of farm safety, our third annual First Aid on the Farm program gave more than 1,500 students in rural communities the opportunity to learn farm safety awareness and basic first aid. After receiving training from St. John Ambulance volunteers, students complete a farm safety audit with their parents, receive their First Aid on the Farm certification and become ambassadors at their schools.

"Through this partnership with FCC, we are significantly expanding our reach to rural areas. Together, we are helping students take preventive measures to make their farms safer and equipping them to respond in an emergency."

– Suzanne McGlashan, CEO, St. John Ambulance, FCC's First Aid on the Farm partner

We launched a new project this year to help improve safety on farm-related worksites across the country. FCC is working with the Newfoundland Dairyman's Association and the Canadian Agricultural Safety Association to distribute a series of safety signs to farms and agribusinesses. The signs were developed for a wide audience, including people from a variety of cultures, children and those who cannot read.

By supporting safety and food-related programs across the country, our community investment initiatives enable us to give back to the communities where our employees and customers live and work. Our employees also worked tirelessly to raise more than $224,000 for the United Way in 2003, surpassing our previous record by more than $50,000. This collaborative effort put us in the top spot for workplace campaigns in the United Way of Regina's fundraising drive, an achievement that speaks to the power of teamwork.

In addition to the many hours contributed to FCC projects, our employees are personally involved in a variety of charitable activities, and our employee volunteer program shows our support for that good work. Employees who donate a minimum of 40 hours annually are eligible to receive a $500 grant for that charity. In 2003-04, our contributions totaled $36,000, benefiting 72 charitable organizations across the country.

Our commitment to corporate social responsibility also includes the environment. We support and promote well-balanced environmental business practices, with a goal of sustaining a healthy environment for future generations. Environmental stewardship is everyone's responsibility, and our environmental policy is focused on prevention and early identification as cornerstones for success in ensuring sustainable agriculture.

We use several tools to help customers manage environmental risk. Lending products, like FCC's Enviro-Loan, help producers and agribusiness operators make environmentally focused improvements and put stewardship into action. Ongoing staff training helps facilitate environmentally sound lending decisions and promotes a climate of awareness between FCC and our customers to encourage environmentally safe farming practices.

Customers complete an environmental questionnaire as a component of every new real property loan. In defined cases, FCC will perform site inspections and seek an environmental assessment report from a qualified consultant. Due diligence is conducted regarding the environmental risk posed by real property offered as lending security. Terms and provisions to safeguard the environment are standard in our loan documentation to encourage best management practices and further ensure that the applicable federal, provincial and municipal regulations and bylaws are met.

Recent amendments to the Canadian Environmental Assessment Act mean that Crown corporations, including FCC, will be subject to the Act following a three-year period. In co-operation with the Canadian Environmental Assessment Agency, we will develop regulations that will produce maximum benefit to all Canadians and FCC, while continuing to support well-balanced environmental business practices.

Experience agriculture

Experience:

Our lending solutions

The agriculture experience is as diverse as the Canadian landscape. Large-scale farms, niche operations and family farms are doing business in Canadian and global markets. The role of value-added activities and agribusiness has become increasingly important for the viability of Canadian agriculture.

Agriculture is an industry where one size doesn't fit all, and our attention to the full range of sectors, large and small, helps us develop the tailored solutions that our customers need to help them succeed. FCC works closely with producers and agribusiness operators to create financing that fits their sector and each stage of their business life cycle – from start-up to succession and retirement.

"We're proud of the relationships that we've built with our customers, but maintaining the status quo isn't an option – we keep raising the bar to deliver even more value. We're working to provide our customers with a truly exceptional customer experience that they simply can't get anywhere else."

– Greg Stewart, Senior VP, National Lending Operations

"Our customers and our co-op members said they needed more financing options. We had to find a way to respond to that need, and the alliance with FCC was a good solution. We could provide a service without having to go into the lending business ourselves."

– Clarence W. Olthuis, Board Chair, United Farmers of Alberta Co-operative Ltd.

We have several lending solutions that help young producers purchase existing operations while providing adequate income for those leaving farming. Recognizing the growing interconnectedness of the industry, we also offer financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks.

FCC believes in helping customers realize their potential and our employees work with each customer to determine the product that best meets their individual situation. We continue to develop new and innovative products that build upon our commitment to all sectors of the agriculture industry, and we review our product line regularly to ensure that every product is relevant to our customers' needs.

"Because FCC only deals in agriculture, we can offer so much in terms of products and services tailored specifically to customers' needs. Whether they are buying their first quarter of land, expanding their operation or getting the next generation involved, we can customize financing to best fit each customer's needs."

– Aimée Basset, FCC Account Manager, Humboldt, Saskatchewan

From left to right: Denis, Arthur and Claude Fortier

"We are not the type of producers who constantly shop around looking for the best deal. Because we are involved in hog, poultry and dairy production, our financial needs have become complex. At FCC, we found a dedicated Account Manager who worked out the numbers for us and told us frankly what our strengths and weaknesses were. He identified needed improvements in our hog production activities, and we worked out an expansion project starting this spring. I don't know how we could put a value on the solid relationship we have with FCC."

– FCC customer Denis Fortier, Ferme Arclade Inc., St-Malachie, Quebec

Our loan products include:

Advancer Loan
A pre-approved, secured loan with the flexibility to re-advance funds at the producer's discretion.

American Currency Loan
For producers who derive a significant portion of their revenue in U.S. dollars. This loan enables them to borrow capital and make payments in U.S. dollars.

Capacity Builder Loan
Pre-approved financing up to one year, with the option to capitalize interest, for the purchase of quota and breeding livestock.

Cash Flow Optimizer Loan
Gives producers the freedom to invest funds that would normally go towards principal into other areas of their operation.

Construction Loan
Interim financing for up to 18 months on construction projects such as processing plants, cold storage and grain storage facilities. Funds are disbursed as needed during construction, but no payments are required until completion.

Enviro-Loan
Defer principal payments to construct, improve or expand operations while implementing sound environmental practices.

Farm Builder Loan
Interim financing for up to 18 months on construction projects such as milking parlours and farrowing barns. Customers can pause principal payments while building.

First Step Loan
Designed to help those with post-secondary education purchase their first farm-related asset.

Flexi-Farm Loan
Allows producers in all sectors to pause principal payments during the loan. Pauses can be for up to one year to ease cash flow during adverse conditions.

Herd Start Loan
Designed to give producers time after starting or expanding a livestock operation. The payments won't mature until the livestock matures.

1-2-3 Grow Loan
Use the interest-only payments to manage cash flow until a return on the investment can be seen.

Opportunity Loan
Permits principal payment holidays up to 12 months at any one time, allowing those funds to be used for other capital purposes.

Payday Loan
Financing for customers with off-farm employment interested in starting or expanding a farm business.

Performer Loan
Rewards customers with lower interest rates when their business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan
Horticulture operations can have payments deferred until the new plantings start to generate cash flow.

Spring Break Loan
Designed for forestry operators who typically reduce their harvesting during spring road bans. The flexible payment schedule allows customers to pay during the actual harvesting season

Stop and Grow Loan
Woodlot owners can defer principal payments for an extended period so saplings can grow into profitable woodlots.

Transition Loan
Helps those wishing to purchase property from someone who is retiring and helps those retiring to receive the equity from their farm without risk.

"We started our sugar maple operation in 1974 with 1,200 taps. Our first contact with FCC occurred during a major expansion and we now have 44,000 taps. When we wanted to go into forestry, we went back to FCC. Ours was among the first loans they were making in the sector, and they came through for us. Without FCC, I don't think we could have grown so big, so quickly."

– FCC customer Denis Côté, Les Bois Francs FBM Ltée near St-Quentin, New Brunswick

Working together

In addition to providing a variety of customized loan products, we provide a choice of channels, offering our customers the flexibility to select when, where and how they want to do business with FCC. With approximately 100 offices across Canada, many in rural areas, our field staff deliver personalized service to customers where they live and work.

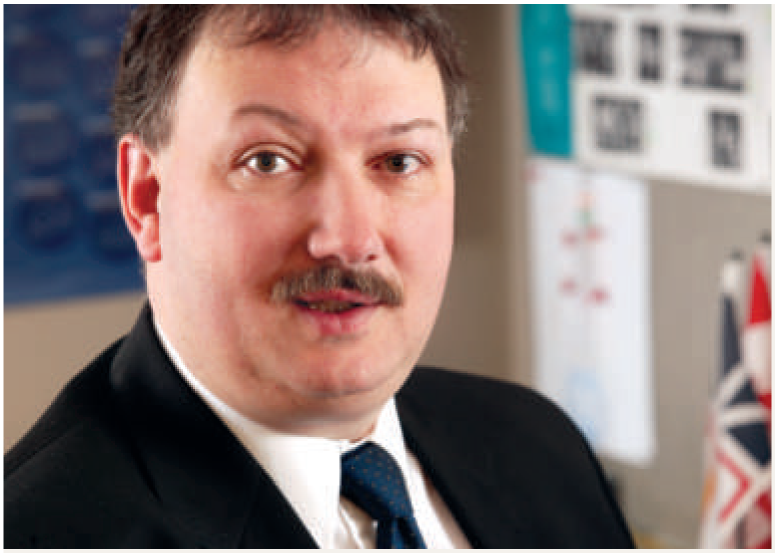
We also provide options for customers who prefer doing business on the phone or online. FCC's Customer Service Centre is open extended hours for the convenience of our customers. We enhanced our online offerings this year – in addition to providing loan product and corporate information through our redesigned Web site, registered borrowers and many alliance partners can now view their loans online, including loan terms, current balance, payment dates and history.

By integrating our field operations, Customer Service Centre and e-business activities, we offer seamless service to our customers and improve our internal processes. Our customer relationship management initiative, now in progress, will ensure that employees have the information they need at their fingertips to provide efficient, personalized service to our customers.

We have also created a series of innovative partnerships, or alliances, with other agricultural and financial organizations that enable us to pool our talents and provide expanded access to services for primary producers through other distribution channels. Business alliances allow our partners to maintain their independence, while adding value to their respective customers and operations through combined resources and expertise.

While some of our alliance customers are already FCC customers, many are new to our organization. We currently have alliance relationships with over 60 suppliers, financial institutions, agricultural groups and co-ops, offering a range of services from crop input and equipment financing to livestock financing.

FCC Ventures, a division of FCC, reflects our commitment to develop and deliver innovative financing solutions. We know that access to capital is an important issue for Canadian producers and agribusiness operators. As the agriculture industry changes and evolves, they need access to alternate sources of funding to get their operations off the ground and achieve long-term success.



"The development of new technology has provided us with business delivery channels that were not available in the past, such as the Internet and our Customer Service Centre. FCC has invested regularly to meet the changing environment."

– Ron Vanasse, FCC Field Operations Auditor, Kanata, Ontario

We saw an opportunity for a strong leader to emerge as the impetus for growth and investment in the agriculture industry. Through venture capital funding, FCC is helping to finance well-managed businesses that have the potential to substantially impact agriculture across Canada. By supporting the growth of agribusiness, we directly contribute to the success of primary producers.

FCC Ventures provides equity and quasi-equity financing to small and medium-sized companies in the following sectors: value-added food manufacturing and processing, development and manufacturing of agricultural equipment, commercial processing, commercial-scale farming, businesses that support the agriculture sector and ag-biotech.

We have invested more than $13.7 million since the inception of FCC Ventures. Our initial investments have ranged from $500,000 to $2.5 million. In partnership with other investors, we have attracted a corresponding $24.9 million to further benefit the agriculture industry.

We are actively involved with our portfolio companies, assisting in the development of marketing and distribution channels and in strengthening management. In most instances, FCC Ventures seeks board representation and, in all cases, requires proper corporate governance standards.

A strategic advantage of FCC Ventures is our experience in agriculture. FCC's agribusiness field staff provide in-depth understanding of agriculture markets and industry trends. FCC's management team has extensive experience in finance, marketing, human resources, treasury and operations, and can help portfolio companies address difficulties in those areas. Access to this broad base of skills and expertise is unique and allows FCC Ventures to add value to our customers, our business and Canadian agriculture.

And adding value is ultimately what it's all about for everyone at FCC. Working in partnership with our customers and stakeholders, we are proud to experience Canadian agriculture every day – the opportunities and challenges, the big picture and the individual stories that make every customer and enterprise unique.

Agriculture. It's all we do.

The balanced scorecard

Every year, FCC measures progress toward achieving our corporate strategies by using a balanced scorecard. The scorecard translates FCC's vision and strategic thrusts into a series of measures and targets. Each falls into one of four different perspectives: people, customer, service and financial success. To realize success, FCC must balance efforts among all four areas.

The following pages summarize FCC's 2003-04 strategies for each of the four sections of the scorecard, results at year-end, and strategies and targets up to 2008-09.

The balanced scorecard provides a snapshot of where we have been and where we are going. It allows FCC and our partners to get a high-level view of the business, and to monitor our progress in fulfilling our mission.

Balanced Scorecard • **People**

Unique people leading our success

Corporate Strategy Statement
FCC will be a top company to work for in Canada, with high employee engagement and a culture of innovation and learning as measured by the people index.

Corporate Measure
The People Index (annual Employee Engagement Survey administered by Hewitt). Employee Engagement Score: move from 69 per cent (2003-04) to 76 per cent in 2008-09.

Strategies and Targets 2003-04	Results
Enhance leadership and employee engagement at all levels. • Raise FCC's employee engagement score to 70 per cent.	• In June 2003, FCC recorded an engagement score of 69 per cent in a study conducted by Hewitt and Associates, up one per cent from 2002. FCC also was recognized as one of Canada's top 50 employers (2003 Hewitt/Globe & Mail study).
• Develop and foster an innovative culture. • Benchmark innovative behaviour at FCC through a new innovation index.	• The innovation index was benchmarked as part of the June 2003 Employee Engagement study and action plans are in place.
• Create and share knowledge among all employees. • Post all corporate policies on FCC's corporate intranet.	• FCC redesigned the intranet to make it easier for employees to navigate and find information. The Lending Operations and Human Resources manuals were posted to the intranet during 2003-04.
• Expand the number of agricultural Communities of Practice (CoP) to 10, ensuring knowledge is shared freely among FCC employees.	• FCC launched three new Communities of Practice (Crops East, Crops West and Poultry) during 2003-04, bringing the total number to 10.

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Enhance leadership and employee engagement at all levels in the organization and build a learning organization.	• Enhance the workforce plan, including career paths, diagnostic tools and employee development plans. • Implement integrated and improved internal communication strategy.	• 2004-05: Identify 10 additional candidates for leadership development and complete workforce plan. • 2004-05: Increase employee engagement to 70 per cent. • 2008-09: Increase employee engagement to 76 per cent.
Create and share knowledge.	• Foster a learning environment that helps employees to excel as leaders in future business practices and technologies. • Measure and share output from 10 Communities of Practice (CoPs). • Keep Knowledge Management content on the corporate intranet fresh and responsive to user needs.	• 2004-05: Implement "Building Future Leaders" initiative. • 2004-05: Launch new CoP in additional agricultural sector and launch new CoP in credit risk/commercial lending.
Enhance risk management expertise.	• Enhance credit risk knowledge, tools and processes.	• 2004-05: Produce four agribusiness enterprise guides.
Make it easy for employees to do business.	• Align corporate capacity with business growth requirements.	• 2004-05: Implement corporate capacity planning.

Balanced Scorecard • **Customer**

Create solutions for customer success

Corporate Strategy Statement

FCC will sustain high customer loyalty, grow its loan portfolio, invest in venture capital and deliver products and services to enhance producer and agribusiness management practices in order to support agriculture in Canada.

Corporate Measure

Customer Loyalty Index: minimum of 4.24*

Loan portfolio growth: average annual growth rate of 7.8 per cent over five years

Venture capital investments: $67M invested through 2008-09

Business Services growth

Overall Reputation Index: maintain at 134**

Strategies and Targets 2003-04	Results
Enhance customer loyalty and acquisition with a focus on primary producers and the agribusinesses and alliances that support them. • Maintain customer loyalty index at 4.24* out of a maximum possible score of 5.77.	• Customer Loyalty Index score was maintained at 4.24*. This survey, which measures customer satisfaction and perception of value obtained from FCC services, will be repeated in 2004-05.
Demonstrate visible commitment to the full spectrum of the agriculture industry. • Disburse $1.56 billion through farm finance lending, $473 million through agribusiness lending and $490 million through alliance partnership lending.	• FCC provided new loans to a wide range of farm and agribusiness operations across Canada during 2003-04, both through direct lending and through alliance partners. A total of $1.99 billion was disbursed through farm finance, exceeding the target for 2003-04. Agribusiness disbursements totaled $496.1 million. Disbursements through alliance partners totaled $374.6 million. This was below the target for the year, due largely to the impact of BSE on beef producers and on FCC's alliance partners in this sector.
Develop and implement business services, with emphasis on improving producer management skills and serving each life phase. • Achieve $2.4 million in revenues through the sale of AgExpert software. • Expand AgExpert software customer base to 14,400. • Achieve $10.3 million in revenues through the sale of AgriAssurances insurance products. (Revised target $9.34 million) • Attract 2,500 participants to professional development programs.	• The new AgExpert division was successfully integrated into FCC. Due to the transition period, however, revenues reached just $1.25 million, short of expectations. The customer base for AgExpert's software grew to 13,737. The three-year targets and outlook remain in place. • Revenues from AgriAssurances reached $9.8 million. • FCC offered professional development workshops and seminars across Canada. In 2003-04, professional development training was delivered to 2,757 participants: 1,425 attended AgriSuccess events, 1,308 attended AgExpert software and management training and 24 producers participated in the pilot of FCC's Advanced Farm Manager course.
Serve as a catalyst for venture capital investment in the agriculture industry. • Invest a total of $22 million in FCC venture capital funds. • Attract $25 million in venture capital co-investment from other institutions.	• 2003-04 was the first full year for FCC's Venture Capital fund: FCC invested $11.7 million in six deals, while attracting $20.6 million in co-investment funds from other institutions. • We have invested more than $13.7 million since the inception of FCC Ventures. Our initial investments have ranged from $500,000 to $2.5 million. In partnership with other investors, we have attracted a corresponding $24.9 million to further benefit the agriculture industry.

*Customer Loyalty Index (CLI) includes customer satisfaction and perception of value obtained from FCC services. The maximum possible score is 5.77.
**FCC's reputation index is very good at 134, which the corporation seeks to maintain.

Balanced Scorecard • **Customer**

Create solutions for customer success

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Grow returns by serving customers.	• Targeted Agribusiness and Farm Finance portfolio growth.	• Disbursement targets: 2004-05: $2.17B 2008-09: $3.11B
Stimulate access to venture capital funds.	• Established venture capital fund with an active portfolio. FCC will allocate additional capital based on performance of the portfolio.	• 40 per cent of investments will carry a current yield. • For every dollar invested by FCC Ventures, an additional $1.30 will be attracted to the industry. • Cash disbursed for capital invested: 2004-05: $25M 2005-06: $16.5M 2006-07: $16.5M 2007-08: $10M 2008-09: $10M* • Interest and fee revenues: 2004-05: $1.8M 2005-06: $2.4M 2006-07: $3M 2007-08: $3.4M 2008-09: $3.4M
Develop processes to enhance coordination of business lines.	• Strengthen the National Business Plan.	• 2004-05: Clearly defined sales and marketing roles. • Integration of all business lines. • Geographic and sector strategies.
Improve customer choice by developing alternate delivery channels.	• Targeted, diversified alliance portfolio growth. • Customer Service Centre (CSC) firmly established as an alternate channel with direct lending.	• Alliance Disbursements: 2004-05: $558M 2008-09: $1B • CSC Alliance Loan Processing: 2004-05: $558M 2008-09: $1B • CSC Dealer & Retail Lending: 2004-05: $120M 2008-09: $240M • CSC Inbound Calls: 2004-05: 50,000 2008-09: 55,000 • CSC Outbound Calls: 2004-05: 15,000 2008-09 : 20,000
	• Establish e-business as a delivery channel.	• Alliance e-solutions: 2004-05: Loan origination 2004-05: NEDFP (National Equipment Dealer Financing Program) site 2006-07: Alliance portal • Customer e-solutions: 2004-05: Online loan application for scorecard lending and lending process workflow 2006-07: Customer portal • Registered users: 2004-05: 11,000 2008-09: 20,000
	• Integrated and profitable AgExpert business unit.	• AgExpert revenue: 2004-05: $2.4M 2008-09: $5.25M • Unique AgExpert customers: 2004-05: 17,300 2008-09: 25,000

*Allocated funds for the current Venture Capital business plan end in 2008-09

Balanced Scorecard • **Customer**

Create solutions for customer success

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Broaden revenue mix with new products and services.	• AgriSuccess – Comprehensive suite of training and management information offerings to enhance producer and agribusiness management practices.	• AgriSuccess participants: 2004-05: 1,500 2008-09: 2,000 • AgExpert training participants: 2004-05: 1,700 2008-09: 3,000 • Advanced Farm Manager training: 2004-09: 100 participants annually • AgExpert Newsletter distribution: 2004-05: 15,000 2008-09: 30,000 • AgriSuccess Journal distribution: 2004-05: 12,000 2008-09: 30,000
Introduce lending products for new and traditional segments.	• Insurance – Full suite of insurance products to complement FCC's core business product suite.	• Life and accident insurance sales: 2004-05: $9.92M 2004-05: Develop and launch three new insurance offerings (insurance for Advancer Loan, term insurance (referral) and group benefit plan) 2008-09: $13.34M
	• Innovative and actively managed product suite.	• Product suite: 2004-05: Product pricing strategy implemented as per plan. New product penetration business plan targets achieved.
Implement Customer Relationship Management (CRM).	• CRM implementation and integration into ongoing operations.	• 2004-05: CRM wave two and long-term structure in place. • 2005-06: CRM wave three.
	• Develop internal marketing research capacity to enhance understanding of customers.	• 2004-05: Every customer with a new loan is surveyed and every exiting customer is surveyed. • 2005-06: National panel activated. • Impact CLI, Customer Experience Index and efficiency ratio.
Ensure customers perceive value in the relationship.	• Improve value-added service levels and capacity with a customer-driven focus.	• 2004-05: Central reporting for post-loan and exit survey. • Successful, on-budget completion of Customer Loyalty Index.
Grow awareness with target publics.	• Design quantifiable metrics that reveal impact of brand/communication activities on sales and customer loyalty.	• 2004-05: Develop and implement Brand Equity action plans.
Grow the value of FCC's brand equity.	• Increase reputation through the innovative use of community investment funding and strategies aimed at non-customer stakeholders.	• 2004-05: Improve Corporate Reputation Index re "contribution to community."
	• Implement campaign regarding pride in agriculture. • Full implementation of national Speakers Bureau.	• 2004-05: Create initiatives and implement campaign. • 2004-05: Increase visibility with target audiences.

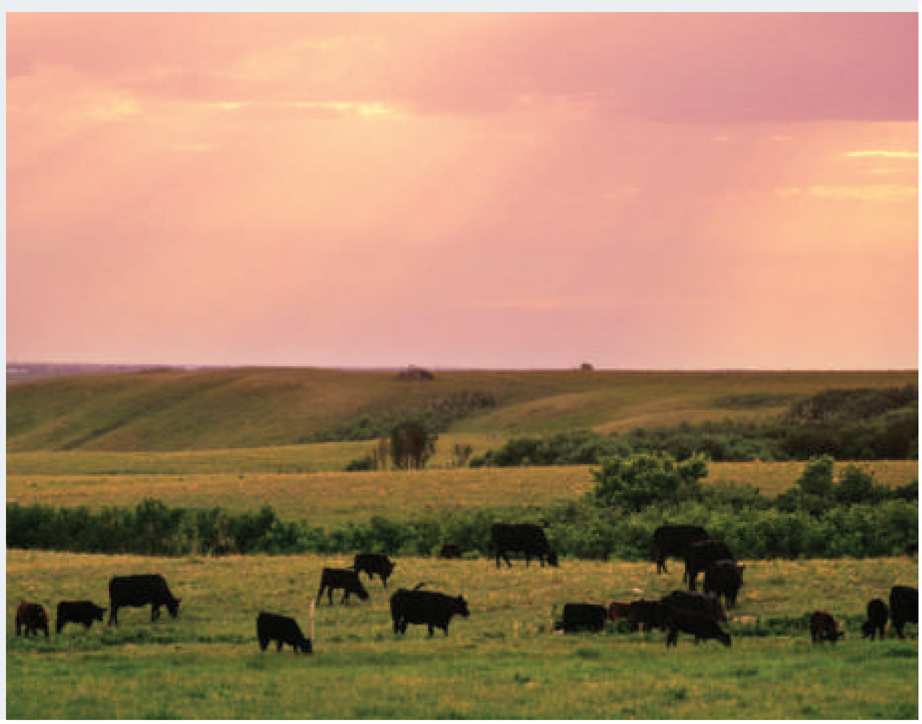
Balanced Scorecard • **Service**

Make it easy for customers to do business

Corporate Strategy Statement
FCC strives to be easy to do business with – as measured by our Customer Experience Index.

Corporate Measure
Customer Experience Index = Service Provision Index + Customer Turnover Measure.

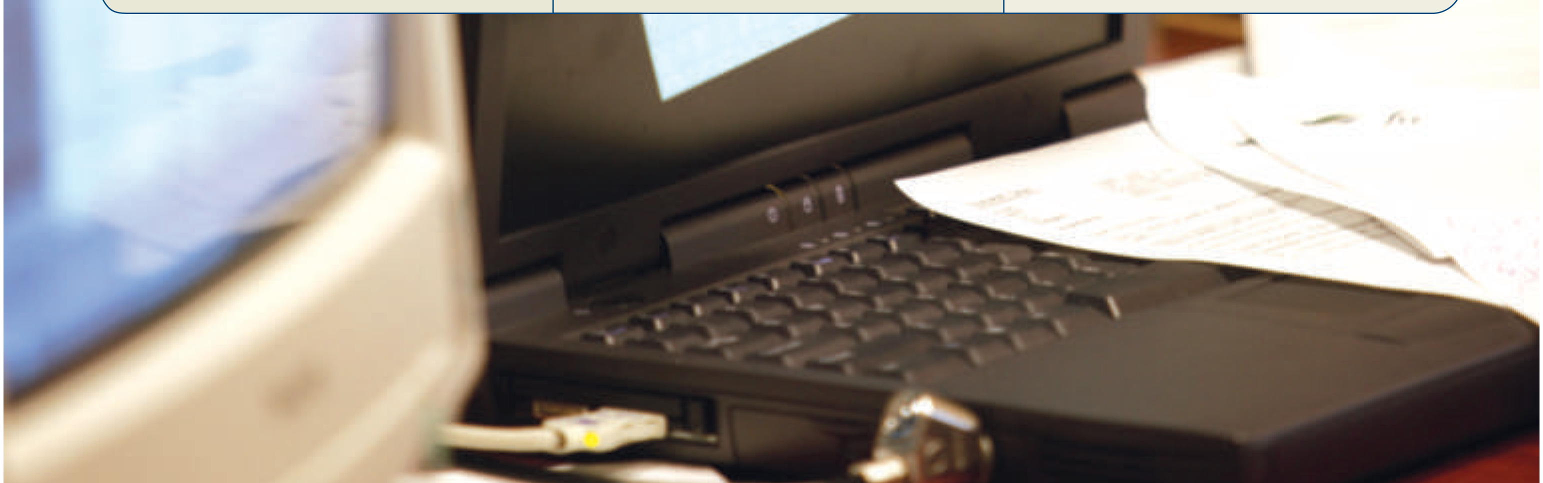
Strategies and Targets 2003-04	Results
Build infrastructure to support partnerships and alliances. Enhance performance of information technology systems and processes. • Establish a benchmark through a new IT performance index.	• In 2003-04, FCC began to use a Capability Maturity Model (CMM) index to measure the performance of the corporation's information technology systems. A CMM mini-assessment of IT has been completed.
Improve customer choice by developing alternate product and service delivery channels. • Increase customer contacts through the Customer Service Centre to 42,600. • Increase the number of customers served through e-business channel (FCC Web site) to 8,500.	• FCC continues to develop alternate channels that allow customers the flexibility to access information or services by phone or over the Internet. In 2003-04, FCC's Customer Service Centre logged a total of 76,073 customer contacts. At the end of 2003-04, FCC's Web site had 9,037 registered users. In addition, 48 alliance partners with 1,737 customers were working with FCC through one or more online e-business applications.
Implement Customer Relationship Management (CRM) infrastructure and processes. • Install wave one of CRM software and train targeted staff.	• During 2003-04, wave one of CRM was completed and staff across the country were trained on its use.



Balanced Scorecard • **Service**

Make it easy for customers to do business

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Ensure appropriate risk management practices in all areas.	• Comprehensive suite of portfolio risk management tools that reflect leading-edge practices, including improvement of credit risk tools and processes and update of audit programs for consistency with changing environment/industry standards. Improve service levels and capacity with customer focus.	• 2004-05: Initial implementation.
Improve integration of business information systems.	• Implement core systems integration to ensure seamless installation of major systems. • Replace loan servicing system.	• 2004-05: Establish high-level project sequencing. • Assess internal versus external resource requirements. • 2004-05: Initiate project based on outcome of high-level project sequencing and resource capacity.
Enhance successful strategy integration and execution.	• Fully implement project portfolio management. • Align corporate capacity with business growth requirements. • Align IT system development and implementation with corporate prioritized project list.	• 2004-05: Master corporate project plan. • Implement revised activation process. • Implement capacity planning tool.
Optimize productivity through continuous process improvement.	• Broaden Business Process Reengineering (BPR) to encompass continuous improvement and innovation.	• Implement BPR recommendations: 2004-08: Loan Maintenance. 2004-05: Translation & Official Languages, Administration.
Build partner/alliance systems infrastructure and applications.	• Expand/refine service delivery model for partners.	• 2004-05: Develop Alliance e-solutions (online portal). • Develop online transactional capability.



Balanced Scorecard • **Financial Success**

The foundation for customer support

Corporate Strategy Statement

FCC will remain financially self-sustaining, through profit and operating efficiency, in order to grow its support for agriculture and customers.

Corporate Measure

Return on Equity (ROE): 2004-05: 10.74 per cent,
2008-09: 12.49 per cent

Debt-to-Equity Ratio: 10:1 or better

Efficiency Ratio: under 45 cents

Strategies and Targets 2003-04	Results
Ensure prudent financial management. • Achieve Return on Equity (ROE) of 12.48 per cent. • Ensure a maximum debt to equity ratio of 9.5:1. • Maintain strategic credit risk score on lending portfolio at less than 70. • Improve corporate efficiency ratio to 43.1 per cent.	• Return on Equity (ROE), a measure of profitability, was 11.7 per cent in 2003-04. • FCC has a legislated maximum debt-to-equity ratio of 12:1. As of the close of 2003-04, the debt-to-equity ratio was 9.8:1, slightly above the target for the year. • The strategic credit risk score (SCRM) on FCC's portfolio was 59.5, well below the target maximum of 70. • FCC's efficiency ratio, a measure of how well resources are used to generate income, improved to 41.1 per cent from 42.3 per cent the previous year.
Enhance strategy integration and execution. • Install standardized project management methodology for major corporate strategies. • Establish benchmark score for brand equity reputation index.	• FCC has developed a Project Portfolio Management (PPM) process to manage and prioritize corporate projects. • A Brand Equity study was completed in 2003 to measure attitudes regarding FCC among stakeholders. FCC achieved an exceptional reputation index of 134, well above the average of 100.

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Maintain self-sustaining independent growth.	• Implement systems and processes to improve profitability reporting and analysis. • Diversify investors and funding sources. • Maintain corporate efficiency ratio by seeking internal efficiencies and rewarding them.	• 2004-05: Improvements in profitability reporting and analysis. • 2004-05: Maximize margins. • 2004-05: Efficiency ratio under 45 cents.

Management's *discussion* and analysis

Overview of the MD&A

Management's Discussion and Analysis (MD&A) of FCC's operating and financial results provides management's perspective on performance in fiscal 2003-04, risk management activities and the outlook for 2004-05. The MD&A is presented in eight sections:

Objectives, Measures and Targets

(page 42) provides a summary of the key measures and targets contained in the Corporate Plan that management uses to assess financial performance and our objectives.

Portfolio Growth

(page 43) provides an analysis of the portfolio and disbursements by line of business.

Credit Quality

(page 45) provides a discussion of the provision for credit losses, impaired loans and arrears, and the allowance for doubtful accounts.

Return on Equity

(page 46) provides an analysis of the return on equity, net income, net interest income and funding (debt and equity funded).

Efficiency and Cost Control

(page 48) includes a discussion of corporate efficiency ratio and non-interest expenses and administrative expenses.

Business Services

(page 48) provides an overview of FCC's business activities outside of the principal business of agricultural lending. These include FCC Ventures, AgExpert, AgriAssurances and AgriSuccess.

Enterprise-Wide Risk Management

(page 50) provides an overview of credit risk, market risk and operational risk.

Significant Accounting Policies

(page 57) provides a more in-depth discussion of FCC's accounting policies.

Caution regarding forward-looking statements

The MD&A includes forward-looking statements and assumptions based on management's best estimates. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate, which may cause results to differ materially from those estimates. Some factors that could cause such differences include general economic and market conditions, including, but not limited to, changes in interest rates.

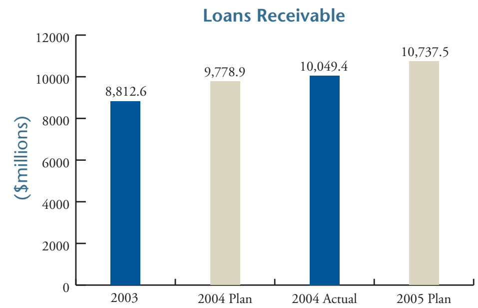
Objectives, measures and targets

Governing objective: financial success

To continue serving customers effectively and supporting the agriculture industry through all economic cycles, FCC must be financially viable. We need the resources to withstand the fluctuations intrinsic to the agriculture industry while continuing to support our customers through all economic cycles, and to continue growing and expanding products, which now extend beyond financial products to business services.

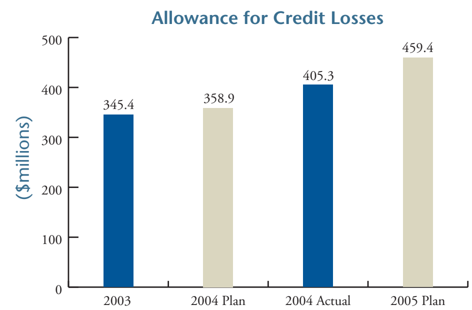
It is important to generate a rate of return that allows the corporation to remain self-sustaining and that provides for future growth. A financial framework helps determine an adequate return for FCC. We are building on a solid foundation, ensuring our viability through sound financial and risk management practices, a loan portfolio diversification plan and expanded product offerings.

FCC uses the following objectives and related measures to monitor our financial viability to ensure our governing objective is met.



Portfolio growth

In 2003-04, the portfolio grew by $1,236.8 million, representing growth of 14.0 per cent over 2002-03. Driving this growth were total net disbursements of $2,861.7 million, offset by prepayments of $573.2 million and principal coming due of $1,041.7 million. A detailed discussion follows on page 43.

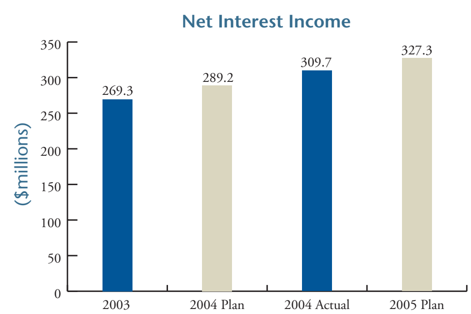


Credit quality

In 2003-04, the provision for credit losses was $84.0 million, with the overall allowance for credit losses reaching $405.3 million. The allowance now represents 4.6 per cent of the opening loan portfolio. Both the provision and the allowance are higher than the prior year due to the growth in the portfolio and problems encountered in the agricultural sector as a result of BSE and drought. A detailed discussion follows on page 45.

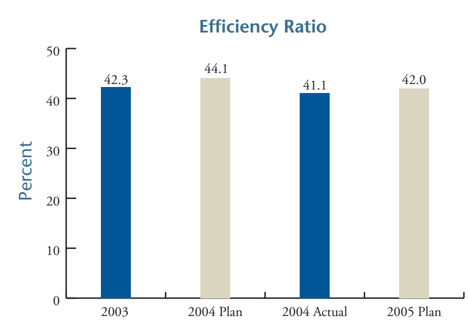
Return on equity

The key driver of return on equity is net interest income. In 2003-04, net interest income was $309.7 million. This represents growth of $40.4 million from a year ago, primarily due to the growth in the portfolio and lower interest rates. The margin on the portfolio was 3.18 per cent, which is up 4 basis points from the prior year and 12 basis points over plan. A full discussion is provided on page 46.



Efficiency and cost control

In 2003-04, administration expenses were $131.9 million. This represents growth of only 10.6 per cent from a year ago, despite a 15.0 per cent increase in net interest income and a 14.0 per cent increase in the portfolio. This resulted in an improvement in the efficiency ratio of 1.2 per cent to 41.1 per cent. A full discussion is provided on page 48.



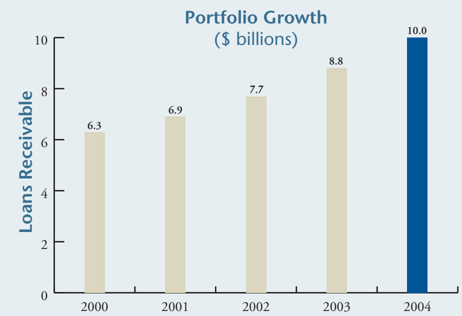
Portfolio growth

Lending activity

The loan portfolio grew 14.0 per cent to $10.0 billion in 2003-04, up from $8.8 billion in 2002-03. FCC approved $3.4 billion in loans for the year, compared to $3.1 billion in 2002-03. This, combined with a 96.5 per cent (2002-03 97.3%) renewal rate on loans coming due, accounts for the significant portfolio growth.

Lending by line of business

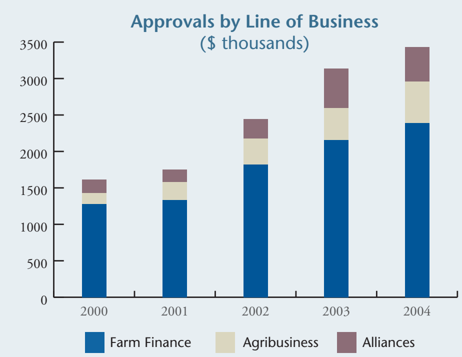
FCC's lending activities are divided into three lines of business: Farm Finance, Agribusiness, and Alliances. Although we expanded our offerings to meet the changing needs of the industry, supporting primary producers continues to be our focus. Lending to primary producers, done through all three lines of business, totalled $3.1 billion or 90.2 per cent of total 2003-04 approvals and accounts for 90.5 per cent of FCC's total loan portfolio as of March 31, 2004.



Farm Finance *(defined as farming that produces raw commodities: crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as Agribusiness)*

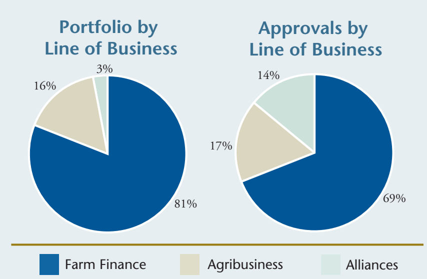
During the year, Farm Finance accounted for 69.8 per cent of all loan approvals, increasing to $2.4 billion from $2.2 billion in the prior year. The Western and Prairie regions saw the largest increases in Farm Finance lending. The Farm Finance loan portfolio relating to primary producers continues to account for nearly 99 per cent of the total Farm Finance portfolio.

Agribusiness *(includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; primary producer farming operations with the complexity and scope to be classified as Agribusiness)*



Agribusiness loan approvals grew to $566.1 million in 2003-04 from $436.9 million in 2002-03. The largest increases in Agribusiness lending were in the Western and Ontario regions, mainly in the crop sector, which showed increases of $46.0 and $42.3 million respectively. FCC knowledge, expertise and financial solutions assisted these customers to grow and diversify in their target markets.

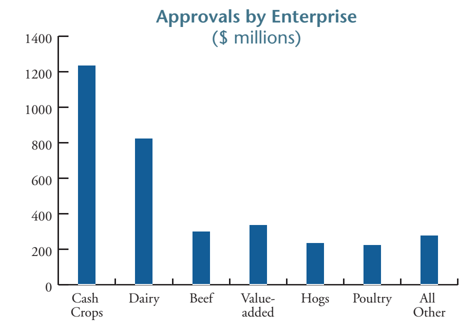
The corporation finances a wide range of agriculture-related businesses on both the input and output sides of primary production. This includes enterprises from feed operations to food processing and agricultural byproduct manufacturing. FCC has been successful in expanding into this market while maintaining relationships with primary producer agribusiness. Agribusiness lending to primary producers increased from 41.2 per cent in 2002-03 to 47.9 per cent in 2003-04. As of March 31, 2004, loans to primary producers made up 47.1 per cent of the total Agribusiness loan portfolio.



Alliances *(relationships between FCC and other agricultural or financial organizations designed to pool talents and provide expanded services to primary producers)*

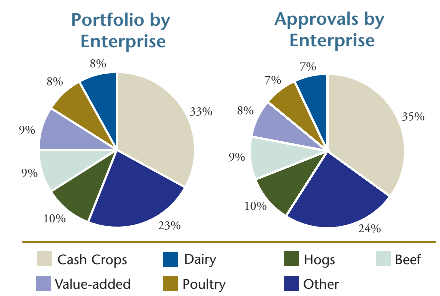
During the year, the growth in the Alliance lending portfolio slowed, with loan approvals of $470.6 million, compared to $542.9 million in 2002-03. Approvals in Alliances decreased due in large part to the decrease in lending to the beef sector as a result of BSE. The largest decreases in lending were seen in the Prairie and Ontario regions. Primary producers continue to be the focus of Alliance lending and account for nearly 99 per cent of the Alliance portfolio.

FCC continues to develop Alliance partnerships as a means of expanding our service offerings. These innovative relationships allow FCC to serve agriculture without the need for direct involvement with the end customer. For example, FCC has entered into alliance partnerships that allow the corporation to support crop input financing using the alliance partners' customer service networks. Continuing to build on these and other opportunities through partnerships is an important part of FCC's future.



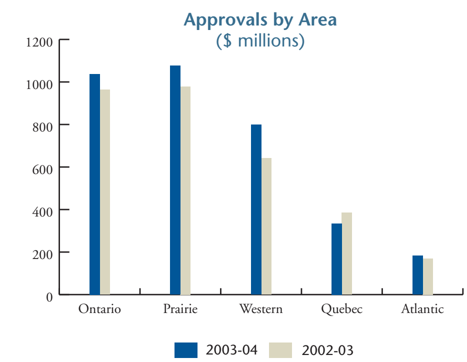
Lending by enterprise

FCC lends to all agricultural sectors across Canada, grouped into seven major categories. Strong portfolio diversification across these categories is critical in managing the risk and financial performance of the corporation during cyclical and economic swings.



The total portfolio of all sectors has remained relatively constant, despite the slight shift in the lending mix from the prior year. As a percentage of total approvals, there were increases in the cash crops and other enterprises of 3.4 per cent and 1.5 per cent respectively, while there was a decrease in the beef enterprise of 3.9 per cent. The decrease in lending to the beef enterprise is due to the decreased demand for new lending in the sector as a result of BSE. The total portfolio of the two major agricultural sectors, cash crops and dairy, has remained constant at 56.3 per cent.

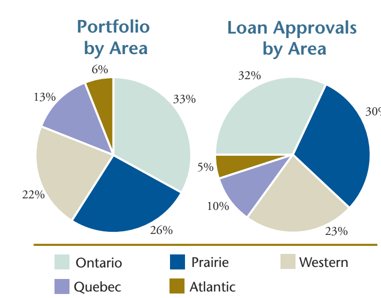
Lending by geographic area



FCC offices are located in approximately 100 rural communities from coast to coast. This promotes the geographically diverse portfolio necessary to limit portfolio risk.

FCC experienced an increase in loans approved over the previous year in the majority of areas across the country. The Prairie and Western areas experienced the largest increases, with $98.7 million and $158.5 million more approvals respectively. The largest increases in both the Prairie and Western areas were in the cash crop and dairy enterprises.

Overall portfolio growth of 14.0 per cent in 2003-04 is due primarily to significant increases in the Western area (18.9 per cent) and Ontario area (15.4 per cent), a reflection of growth in the dairy, crop and other industries in these areas.



Credit quality

Provision for credit losses

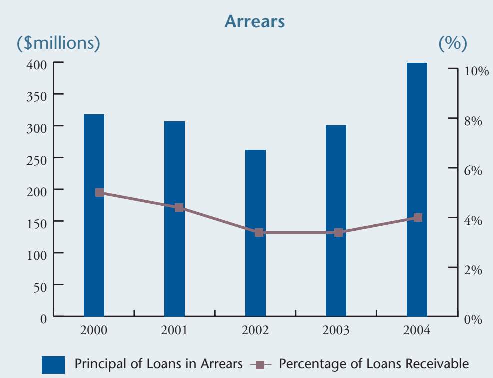
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

The provision for credit losses increased to $84.0 million in 2003-04 from $67.2 million the previous year as a result of a larger portfolio, increased impaired loans and difficult economic conditions in some sectors within the portfolio. The provision for credit losses is expected to remain at or above the current level in relation to the credit risks associated with a growing loan portfolio.

Impaired loans and arrears

Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest. Arrears are defined as all amounts greater than $500 that are past due.

Arrears increased from $31.2 million in 2002-03 to $39.9 million in 2003-04, and the principal balance of loans in arrears as a percentage of loans receivable increased 0.6 per cent to 4.0 per cent. Impaired loan balances at the end of 2003-04 totaled $205.3 million, compared to $142.9 million in the previous year. Impaired loans as a percentage of closing loans receivable increased to 2.0 per cent from 1.6 per cent in 2002-03. The slightly higher arrears and impaired loans reflect some of the events that occurred in the agricultural operating environment such as BSE, drought and the strengthening Canadian dollar. FCC continually monitors loans in arrears to identify potential impaired loans and is proactive in developing solutions to help customers through difficult times.



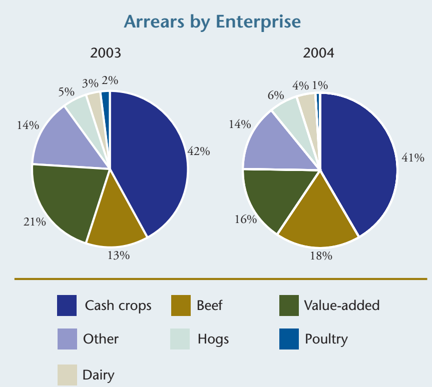
Allowance for credit losses

Allowance for credit losses is management's best estimate of credit losses in the loans receivable portfolio (described further in note 2) to the financial statements).

The allowance for credit losses has three components:

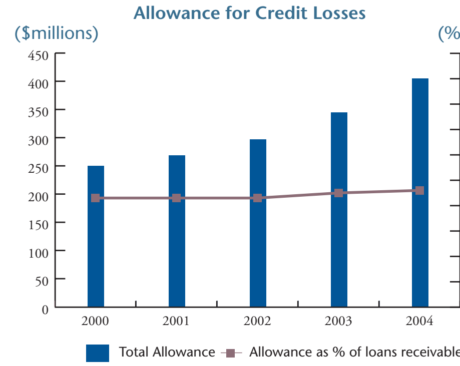
Specific – provides for probable losses on specific loans that have become impaired.

General allocated – management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the corporation's Risk Scoring and Pricing System (RSPS) to identify loans that have shown some deterioration in credit quality.



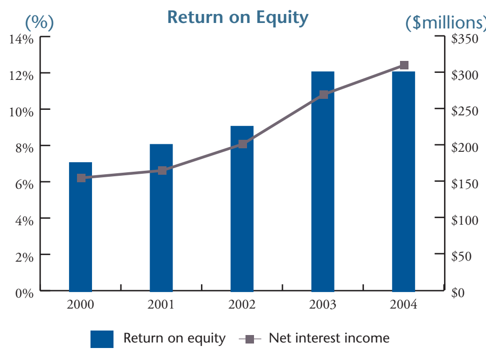
General unallocated – the unallocated portion considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

Due to the large growth in the portfolio, the actual allowance for credit losses increased by 17.3 per cent to $405.3 million, from $345.4 million in 2002-03. The allowance as a percentage of opening loans receivable also increased to 4.6 per cent in 2003-04, compared to 4.5 per cent for the prior year. In order to limit credit losses and continue to meet the future needs of the agricultural industry, FCC will continue to make every effort to proactively work with customers in developing flexible solutions during difficult times.



Return on equity

Return on equity is a strong indicator of whether FCC can generate enough return to be able to provide the programs and products we need to meet our governing objective. Our return on equity was 11.7 per cent for 2003-04, down from 12.2 per cent the previous year and 0.5 per cent below plan. Return on equity was lower than prior year primarily due to the increased provision for credit losses.



Net income

Net income for the year increased 8.6 per cent to $105.1 million from $96.8 million the previous year. This increase was primarily the result of higher net interest income driven by a larger portfolio. Net income allows the corporation to play an increasing role in the industry since all income is reinvested into agriculture through financing portfolio growth, new product development, programs and business services.

Net interest income

Net interest income is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income increased to $309.7 million from $269.3 million last fiscal year, a total increase of 15.0 per cent. The major factors contributing to this increase are:

- portfolio growth – the loans receivable portfolio for 2003-04 is up by $1.2 billion over 2002-03, which contributed $31.3 million more net interest income; and
- interest rate movements – lower interest expense more than offset lower interest revenue, increasing net interest income by $9.1 million.

Net interest income and margin

	2004	2003
	$ millions	
Interest income	$ 617.4	$ 558.1
Interest expense	307.7	288.8
Net interest income	$ 309.7	$ 269.3
Average total assets	$ 9,748.5	$ 8,567.7
Net interest margin	3.18 %	3.14 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 31.3	$ 35.2
Movement in rates	9.1	32.9
Total change to net interest income	$ 40.4	$ 68.1

Net interest margin

	average daily balance 2004	rate
	$ millions	
Earning assets:		
Fixed loan principal balance	$ 4,424.7	7.35 %
Variable loan principal balance	4,865.9	5.46 %
Investments	469.4	2.82 %
Total earning assets	$ 9,760.0	6.33 %
Total interest-bearing liabilities	8,641.5	3.48 %
Total interest rate spread		2.85 %
Impact of equity financing	$ 1,118.5	0.33 %
Net interest margin		3.18 %

The net interest income margin is the net interest income expressed as a percentage of the average total assets. It is intended to cover credit risks and administration expenses, as well as yield sufficient profit to enable the corporation to remain financially viable and sustain support for agriculture.

Funding activity

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium and Long-Term Note (MTN) Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a term to maturity of under one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity.

The outstanding short-term borrowings at March 31, 2004 were $2.1 billion, compared to $1.5 billion as at March 31, 2003. We increased our short-term borrowings to more closely reflect the growth seen in variable-rate mortgages.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of over one year. This includes all MTN and EMTN debt with over one year to maturity.

During 2003-04, FCC borrowed a total of $3.2 billion in medium and long-term funds, up from $2.9 billion in 2002-03. The increase is due to higher levels of debt maturing this year, increased structured note issuances and portfolio growth. In 2003-04, $2.8 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes. FCC also issued $373.9 million in the EMTN market, down from $491.4 million in 2002-03.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2003-04, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed as of March 31, 2004.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC continuously pursues opportunities to diversify funding sources and access cost-effective funds from the capital market. Such initiatives are established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

Capitalization

FCC's gross assets are $10,619.6 million, which are supported by equity and allowances of $1,353.1 million. At this level of capitalization, 12.7 per cent (2002-03 – 12.7%) of assets do not require external debt financing.

Capitalization

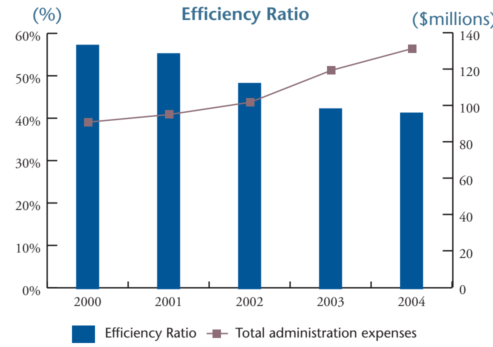
	2004	**2003**	**2002**
		$ millions	
Equity:			
Capital	**507.7**	507.7	507.7
Retained Earnings	**440.1**	335.1	238.2
Subtotal	**947.8**	842.8	745.9
Allowances	**405.3**	345.5	297.3
Total capitalization	**1,353.1**	1,188.3	1,043.2

Efficiency and cost control

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business.

Despite 15.0 per cent growth in net interest income in 2003-04, administration expenses increased by only 10.6 per cent to $131.9 million from $119.3 million in 2002-03. This improved the efficiency ratio, a measure of how well resources are used to generate income, to 41.1 per cent in 2003-04, compared to 42.3 per cent in the previous year.



FCC systematically builds and leverages our agricultural expertise, keeping service levels high while remaining cost efficient. FCC is committed to providing products and services to help agricultural operators succeed throughout the life cycle of their business by:

- continuously improving product and service delivery;
- offering a variety of service channels, including the Internet, for improved service to customers; and
- continuous quality improvement.

The improvement in the efficiency ratio reflects the benefits derived from strategic initiatives in 2003-04 and prior years. A steady focus on process redesign and improvement provides better utilization of resources. The efficiency gains provide capacity to support growth in lending and enhanced product support, market development and customer service.

Business services

Overview

FCC has undertaken several initiatives to support the agriculture industry beyond the core business of lending. These include the following:

FCC Ventures

FCC Ventures is a venture capital fund that was formed in 2002-03 to address the critical need for more venture capital in agriculture to help fund the growth of the industry.

FCC Ventures made significant progress during fiscal 2004 toward establishing the division as the leader in providing equity and mezzanine financing to Canadian agribusinesses. The division has reviewed over 400 business plans to date in all areas of the country and in various sectors ranging from food processing to agricultural biotechnology. FCC Ventures now has an office in St-Hyacinthe, Quebec. The division has a total of five full-time investment professionals.

During the year, the fund completed six transactions for a total of $11.7 million (2004-05 plan $25 million) invested. As a result of FCC Ventures' direct capital invested, various venture capital and private equity funds throughout Canada co-invested an additional $20.6 million. The breakdown of the investments by enterprise sector is as follows: three in agricultural biotechnology, one in agricultural biomass, one in value-added equipment manufacturing, and one in an agricultural industrial supplies business. The investments were made in the Ontario, Prairie and Western areas. As a result of FCC Ventures' activities, Canadian agribusinesses have a greater ability to access capital. FCC Ventures continues to raise the profile of the agribusiness sector among other Canadian venture capitalists and financial institutions.

AgExpert

AgExpert was acquired by FCC in 2002-03 through the purchase of 100 per cent of the outstanding common shares of Settler Computer Technologies Inc. This included the rights to AgExpert, Canada's leading farm management software.

Since the purchase of AgExpert in October 2002, FCC has been working to enhance the software for application across Canadian agriculture, improve the technical platform, re-brand to the FCC brand, and provide bilingual capabilities. The improved AgExpert Analyst and AgExpert Field Manager were launched late in the fiscal year resulting in $1.2 million in gross revenues. Sales were below plan due to the late launch of the improved products. Software sales are expected to increase to $1.4 million in 2004-05 from $0.4 million in 2003-04, while gross sales are expected to increase to $2.4 million in 2004-05. These increases are expected to occur as AgExpert gains recognition in the marketplace and draws on the current strength of the FCC brand and distribution network.

Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including the new Canadian Agriculture Income Stabilization (CAIS) program and emerging on-farm food safety production initiatives. Expanded product distribution through FCC field offices and industry influencers will enable market share growth and revenue increases.

AgriAssurances

FCC has been offering group creditor life insurance since 1960. In the past 18 months, the core Loan Life and Accident Insurance program has been improved and re-launched under the name of AgriAssurances. The program was re-launched to reduce the plan risk, reduce premiums, bring the plan in line with industry standards and streamline processes. New programs have also been created to service niche groups that were previously unavailable. AgriAssurances allows FCC to provide protection for FCC customers and a risk mitigation strategy for both the customer and FCC.

FCC presently offers a group creditor insurance plan through Sun Life Assurance Company of Canada. Sun Life insures the outstanding balance on loans, up to a maximum of $1.5 million per customer. At the end of 2003-04, the program had $3.4 billion in total insurance coverage outstanding, compared to $3.1 billion at the end of 2002-03. The total amount of new insurance coverage sold was $464 million in 2003-04, compared to $491 million in 2002-03. FCC earns revenues from this program in the form of administration fees and plan profits. Gross revenues earned by FCC relating to AgriAssurances were $5.1 million in 2003-04, compared to $6.1 million in 2002-03.

AgriSuccess program

As part of our governing objective to support agriculture in Canada, FCC, in partnership with the Canadian Farm Business Management Council (CFBMC), introduced a comprehensive suite of management training and information programs called AgriSuccess. FCC research indicated that customers in all stages of the life cycle require assistance in developing effective farm management practices. This research also pointed to a significant need in the marketplace for additional management training opportunities for producers. FCC has made a conscious effort to help close this gap by developing and delivering programs that cover the entire spectrum of farm management issues. With the help of carefully selected industry partners, FCC delivers these professional development programs under the AgriSuccess banner.

This program is offered for the purpose of sustaining and enhancing Canadian agriculture, even though direct financial returns are expected to be less than the amount of the annual investment. The cost of developing and delivering the programs was $0.4 million. In 2003-04, the total revenue relating to AgriSuccess was $41.0 thousand. AgriSuccess events were held across the country with a total of 1,425 participants.

Enterprise-wide risk management

Highlights:

- In 2003-04, Integrated Risk Management carried out a comprehensive process to identify and describe specific risks to the corporation.
- Continued improvements of the portfolio vision and portfolio diversification strategy added to greater understanding of FCC's quantified credit risk.
- Internal audits focus on providing management with an independent assessment of corporate business processes, internal controls and risk mitigation strategies.

Overview

Risk management is key to protecting FCC's customers, business interests and future viability. FCC is exposed to many different risks in our dual role as a self-financing financial institution and a vehicle for federal public policy.

The first concern of the Board of Directors and senior management is strategic risk. Failure to properly execute strategy to meet the needs of the marketplace or FCC stakeholders can dramatically impact the corporation's business. Without effective execution of business strategy, the corporation's other efforts at risk mitigation could be compromised as well.

FCC's business strategy addresses three specific types of business risks: credit risk, operational risk and market risk.

Credit risk

The risk of loss due to the failure of a counterparty to meet its financial obligations. This risk includes:

- risk of borrower defaults and associated losses; and
- risk of failure of other counterparties to honour contract arrangements.

Credit risk is inherent both in FCC's lending portfolio and in our funding and investing programs.

Operational risk

All risks inherent in the operational activities of the corporation:

- control and compliance;
- policies, procedures and processes;
- fraudulent or unauthorized activities;
- information technology;
- e-business; and
- new or unproven business.

Market risk

The potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

Integrated risk management

Integrated Risk Management (IRM) helps FCC balance our risk-taking and risk management practices within the context of achieving our business goals and objectives. IRM creates a common understanding of risk, including the interdependence of risks and the need for risk management to be performed at all levels and in all areas of FCC. Additionally, IRM provides a framework to identify, assess and take pre-emptive actions to manage risk and exploit opportunities. It allows FCC to enhance our ability to comprehensively identify risks and to include risk assessment in the planning and decision-making processes.

In 2003-04, IRM carried out a comprehensive process that identified and described specific risks to the corporation. Functional areas impacted by this risk were identified, and a rating on the severity of the risk to the corporation and probability of the risk occurring provided a quantitative and qualitative assessment.

Integrated risk management

An organization-wide process that addresses business risks in an integrated fashion, to optimize returns from risk-taking activities.

Objectives of IRM

- Integrate risk management analysis into the strategic planning process.
- Integrate risk management into day-to-day decision-making at all levels of FCC.
- Facilitate the assessment of significant risks identified by management on an ongoing basis and develop processes to manage, measure and report.
- Enhance Board and stakeholder comfort in risk management practices within FCC.

Responsibility for risk management

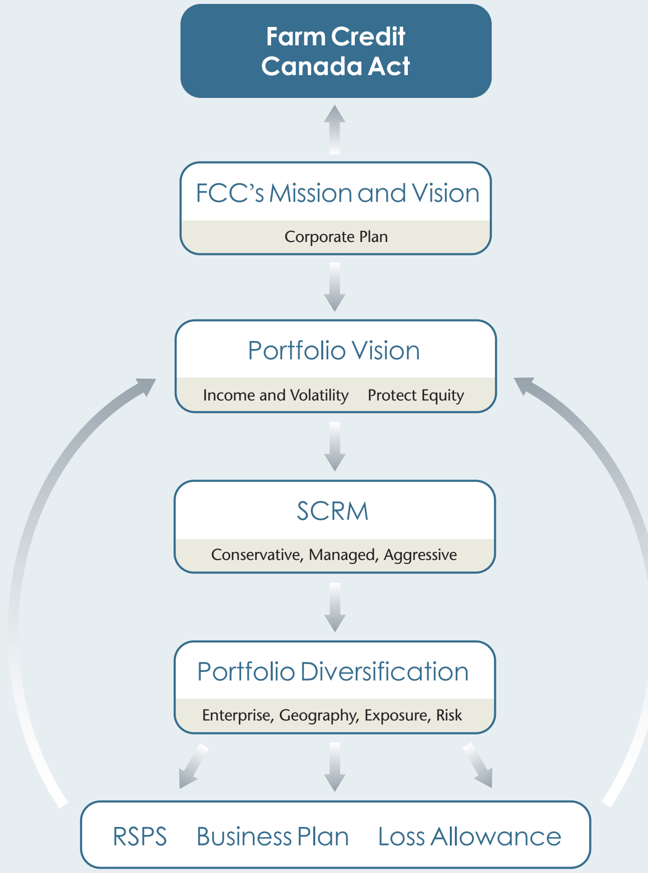
No one division or unit is responsible for managing all the risks FCC faces. Roles are given to divisions and teams with specialized expertise to address various risk matters. Functional areas associated with risk management include the following:

- Field offices are engaged in risk management with staff trained to handle relevant aspects of credit risk and operational risk.
- The Risk Management division manages transactional credit risk. The Credit Policy group reviews and manages lending policies, communicates policy changes to staff, and works to ensure that FCC credit policies maintain an appropriate balance between flexibility and risk mitigation. The Risk Management Centres are responsible for delegation of authorities, credit authorization, customer and loan monitoring policies and processes. Valuation Services staff research land sales, maintain benchmark data on land values, and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Special Credit manages and resolves higher risk accounts experiencing challenges.
- The Portfolio Management unit assesses credit risk at the aggregate level. It provides the risk assessment tools and models to quantify credit and default loss allowances. Portfolio Management monitors the agri-food operating environment to ensure FCC lending policies, activities and prices are appropriate and relevant. As well, direction is also provided using the portfolio vision statement approved by the Board and implemented via the Strategic Credit Risk Model (SCRM), portfolio diversification plan, Risk Pricing and Scoring System (RSPS) and the National Operations Business Development Plan.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of risks at the executive level. The Treasurer reports to the Board on a quarterly basis.
- Administration Services is responsible for managing risks associated with physical facilities, employee safety and security, insurance policies, emergency preparedness and many aspects of business continuity planning.
- The Information Technology division is responsible for managing risks related to computer systems, data integrity, disaster recovery and data services.
- The Corporate Audit division is responsible for assessing compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through an annual operational review of the Treasury functions.
- General Counsel and Chief Privacy Officer is responsible for managing risks associated with changes in legislation, litigation involving FCC, and privacy of customer and employee information.
- Reporting directly to the President's Office, the Integrated Risk Management function offers a comprehensive view of risk across the organization.

Credit risk

Continued improvements of the portfolio vision and portfolio diversification plan added to greater understanding of FCC's quantified credit risk. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. In order to fulfil our mission to enhance rural Canada by providing business and financial solutions for farm families and agribusiness, and to meet our governing objective of financial success, a balance must be maintained between net income (profitability) and risk (volatility of net income). This relationship is explained in our portfolio vision statement on page 53.

"FCC's vision for the loan portfolio is having it perform at a level sufficient to create the desired level of net income within an acceptable range of volatility. The desired net income will support growth of the portfolio to thereby achieve FCC's mission in a growing agricultural economy."



FCC's Marketing and Portfolio Management division uses the following tools or systems to manage the portfolio. Annually, numeric targets associated with these tools are set to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

Strategic Credit Risk Model (SCRM) measures the risk in the portfolio groups (concentrations) of loans by lines of business, sectors, geographical areas and customer exposure.

Portfolio Diversification Plan is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk.

Risk Scoring and Pricing System (RSPS) is a behavioural scorecard used as FCC's risk rating system. It is also used to ensure that interest rates for loans are priced correctly to cover cost of funds, risk, operating cost and planned profit.

Loss Allowance refers to the allowance for credit losses created on the balance sheet. It is an important process to measure the result of credit management and to protect FCC equity.

SCRM results confirm managed credit risk for 2003-04

SCRM measures the risk in the portfolio first by totalling individual loans or transaction risk, then overlaying risks for groups (concentrations) of loans by lines of business, sectors, geographical areas and customer exposure. There are three possible score ranges, each corresponding to a credit risk strategy:

- Conservative (maximizes portfolio quality)
- Managed (balances portfolio quality and growth)
- Aggressive (maximizes growth)

The target for FCC is a "managed" credit risk strategy score.

The SCRM in all three risk categories – transaction, intrinsic and concentration – was determined to be moderate, resulting in a managed level of overall strategic credit risk.

These results show steady credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

During the year, the Risk Management division implemented the recommendations of an in-depth review of its core processes. The changes will result in greater efficiency of process and improved risk mitigation techniques. Two examples of initiatives that were completed during the year are a complete rewrite of the Lending Operations Manual in a Web-based format resulting in greater clarity, consistency and efficiency for users, and the introduction of Moody's KMV Financial Analyst as the financial analysis tool for agribusiness lending. This tool brings an increased level of sophistication to the analysis of these more complex types of loan applications.

FCC continued to emphasize environmental risk, ensuring that this risk is properly identified and mitigated. A new position was created to focus exclusively on environmental issues. Training activities were stepped up to ensure that staff are equipped to deal with environmental risk. FCC is working closely with officials from the Canadian Environmental Assessment Agency on recent federal legislation to ensure that the intent of the legislation is realized and environmental concerns are dealt with as effectively as possible.

Portfolio diversification

The agriculture and agri-food system in Canada faced some significant challenges in the past year. FCC is affected by the impacts that external events have on our customers, as the effects of these events often translate into changes in their repayment ability, asset values, and opportunities to grow their businesses.

In order to manage the potential risk in the industry, FCC has developed a Portfolio Diversification Plan. This is a comprehensive plan that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agricultural debt, risk-adjusted and cost-adjusted returns by sector, FCC growth trends and market share. The optimal composition is used to drive marketing and sales efforts, and is operationalized through the National Operations Business Development Plan. Options are identified in the Portfolio Diversification Plan that can be implemented if any of the target ranges are exceeded. FCC is currently within the target ranges, and is planning for growth in each sector. Target ranges for the portfolio are established for each of the following:

- diversification across enterprises, geographical areas and business lines;
- market share by enterprise and geographical area;
- large customer exposure limits and approval authorities for large exposure customers; and
- maximum target market share for minor, niche market sectors.

Compliance and operational risk

The Corporate Audit department is responsible for ensuring compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through operational reviews of the Treasury area. Corporate Audit uses the corporate risk assessment from the Integrated Risk Management process in developing an annual audit plan that addresses key risks.

Compliance

FCC employs a Field Operations Audit program to assess risk and performance of business operations at a field level. Together, the Corporate Audit and Risk Management divisions participate in the program, which provides an independent assessment of quality and risk associated with lending operations. The program was established to examine lending activities and provide learning opportunities for employees to improve their performance in the areas of risk assessment and mitigation, compliance to lending policy, data integrity and other quality assurance activities.

The scope of the Field Operations Audit program includes the following key components:

- compliance to lending and corporate policies;
- documentation, financial analysis and risk mitigation;
- internal control activities (office efficiency and physical security); and
- an assessment of lending decisions.

Corporate Audit also has an ongoing program of auditing lending activity carried out through FCC's Alliance business partners.

Operational risk

FCC uses a diverse audit toolkit to assist management in mitigating operational risk. These audits focus on providing management with an independent assessment of corporate business processes, internal controls and risk mitigation strategies. These different audit approaches include:

- IT and security audits;
- internal control audits;
- broad-based functional audits on entire business functions; and
- using technology to develop continuous monitoring routines.

Market risk

The Treasury division manages exposure to market risk within limits developed in consultation with the federal Department of Finance and approved by FCC's Board of Directors. Market risk management policies are approved and regularly reviewed by FCC's Asset/Liability Committee (ALCO) and the Board. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is to hedge foreign exchange rate risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency is used specifically to finance a like currency asset.

Interest rate risk

FCC is exposed to interest rate risk as a result of a mismatch or gap between assets, liabilities and off-balance sheet instruments because of different renewal and/or re-pricing dates. Interest rate risk is the potential impact of changes in interest rates on FCC's earnings and economic value. Exposure to interest rate risk is monitored and managed using an asset/liability model so as to avoid material adverse impacts.

In response to continued growth in variable rate loan assets, the Treasury division maintained a significant hedging strategy designed to reduce the basis risk and stabilize net interest income margin.

Asset/liability management

FCC manages interest rate risk exposures with an asset/liability model. The model simulates changes in net interest income and market value of portfolio equity for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2004, an immediate two per cent increase or decrease in interest rates across all maturities would affect net interest income and market value portfolio equity.

$ millions	2% increase	2% decrease
NII variability	+8	-9
Economic value variability (MVPE)	-75	+68

FCC is currently within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

Derivatives

FCC utilizes derivatives for risk management. No derivatives are entered into for speculative purposes. In the normal course of financing the operations of FCC, derivative instruments may be used in combination with a debt instrument to synthetically create floating or fixed rate debt. In addition, derivative instruments may be used to hedge exposures to foreign exchange risk, basis risk, the optionality embedded in FCC's loan products, and the mismatches in the maturities and interest rate characteristics of FCC's assets and liabilities. Such transactions alter the cash flows and risk profile of the assets and liabilities to ensure interest rate risk and foreign exchange risk are managed within Board-approved limits.

Derivative instruments are subject to credit risk arising from the potential for a counterparty to default on its contractual obligation. FCC is not exposed to credit risk for the full notional amount (face value) of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of acceptable credit quality, as determined by the published ratings of external credit rating agencies. Standard credit risk mitigation, via netting arrangements provided in the master ISDA documentation, provide for the simultaneous close-out and netting of positions with a counterparty in the event of a default. Credit Support Annex documentation is also in place with several FCC counterparties. These agreements are addendums to existing ISDA documentation and provide for the provision of collateral to FCC in the event that the counterparty credit exposure exceeds an agreed threshold.

The policies that govern the use of derivatives and establish tolerances for interest rate and counterparty risk are approved by ALCO and the Board of Directors.

Liquidity risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – Cash and marketable securities equal to $478 million were on hand at March 31, 2004 (March 31, 2003 – $404 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and
- access to a $10-million bank operating line of credit and a $50-million revolving credit facility.

Significant accounting policies

Allowance for credit losses

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. In assessing their estimated realizable value, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These include economic factors, developments affecting customers in particular sectors and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of credit risk on page 52 as well as in Note 2 on page 64 of the financial statements.

Accounting guideline AcG-13 hedging relationships

AcG-13 establishes stringent new criteria that must be met if an entity wishes to use hedge accounting in accordance with Canadian generally accepted accounting principles. FCC is well prepared for this change in accounting requirements that are effective for the fiscal year commencing April 1, 2004. It specifies circumstances in which hedge accounting is permitted and establishes formal documentation requirements with regards to identification, designation and effectiveness testing of hedging relationships. AcG-13 requires that any derivative financial instrument that does not qualify for hedge accounting to be accounted for at fair value, with changes in fair value recognized currently in earnings. Additional information on AcG-13 can be found in Note 2 on page 66 of the financial statements.

Farm Credit Canada
Agriculture. It's all we do.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits, and the fair value for financial instruments, that are necessarily based on management's best estimates and judgment.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 14, 2004

Canada

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance 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.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the bylaws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 14, 2004

Balance Sheet

As at March 31 *(thousands of dollars)*

	2004	2003
Assets		
Cash and cash equivalents	$ **149,409**	$ 146,683
Temporary investments (Note 3)	**328,823**	256,782
Accounts receivable	**37,924**	83,833
	516,156	487,298
Loans receivable – net (Notes 4 and 5)	**9,644,096**	8,467,106
Venture capital investments (Note 6)	**13,700**	**2,000**
	9,657,796	8,469,106
Real estate acquired in settlement of loans	**3,711**	3,470
Equipment and leasehold improvements (Note 7)	**29,883**	26,962
Other assets	**6,737**	4,325
	40,331	34,757
Total Assets	$ **10,214,283**	$ 8,991,161
Liabilities		
Accounts payable and accrued liabilities	$ **31,467**	$ 25,554
Accrued interest on borrowings	**69,097**	75,175
	100,564	100,729
Borrowings (Note 8)		
Short-term debt	**2,075,593**	1,512,419
Long-term debt	**7,064,458**	6,494,467
	9,140,051	8,006,886
Other liabilities and deferred fees (Note 9)	**25,796**	40,775
	9,266,411	8,148,390
Equity		
Capital	**507,725**	507,725
Retained earnings	**440,147**	335,046
	947,872	842,771
Total Liabilities and Shareholder's Equity	$ **10,214,283**	$ 8,991,161

Guarantees, commitments and contingent liabilities (Note 14). *The accompanying notes are an integral part of the financial statements.*

Approved:

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 *(thousands of dollars)*

		2004		2003
Interest Income				
Loans receivable	$	603,724	$	545,354
Investments		13,637		12,814
		617,361		558,168
Interest expense				
Short-term debt		48,952		52,068
Long-term debt		258,744		236,774
Total interest expense		307,696		288,842
Net interest income		309,665		269,326
Provision for credit losses (Note 5)		84,031		67,157
Net interest income after provision for credit losses		225,634		202,169
Other Fees and Income		11,404		13,948
Income before Administration Expenses		237,038		216,117
Administration expenses (Note 10)		131,937		119,284
Net Income		105,101		96,833
Retained earnings, beginning of year		335,046		238,213
Retained Earnings, end of year	$	440,147	$	335,046

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

Statement of Cash Flows

For the year ended March 31 *(thousands of dollars)*

		2004		2003
Operating Activities				
Net income	$	**105,101**	$	96,833
Items not involving cash and cash equivalents:				
Provision for credit losses (Note 5)		**84,031**		67,157
Amortization of bond premiums/discounts		**29,195**		39,415
Change in accrued interest receivable		**(2,075)**		7,189
Change in accrued interest payable		**(5,179)**		(20,135)
Other		**47,695**		(10,565)
Cash provided by operating activities		**258,768**		179,894
Investing Activities				
Loans receivable disbursed		**(3,188,100)**		(2,854,300)
Loans receivable repaid		**1,932,536**		1,742,181
Change in temporary investments		**(72,041)**		(97,244)
Venture capital investments disbursed		**(11,700)**		(2,000)
Change in real estate held		**239**		6,640
Other		**(21,202)**		15,712
Cash used in investing activities		**(1,360,268)**		(1,189,011)
Financing Activities				
Long-term debt from capital markets		**1,452,172**		2,812,132
Long-term debt repaid to capital markets		**(911,376)**		(1,305,262)
Change in short-term debt		**563,430**		(541,092)
Cash provided by financing activities		**1,104,226**		965,778
Change in cash and cash equivalents		**2,726**		(43,339)
Cash and cash equivalents, beginning of year		**146,683**		190,022
Cash and cash equivalents, end of year	$	**149,409**	$	146,683
Supplemental Information				
Cash interest paid during the year	$	**313,775**	$	310,090

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

Notes to Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the *Income Tax Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues Farm Credit Canada with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2004, capital payments received from the Government of Canada amounted to $1,168.3 million (2003 – $1,168.3 million). The statutory limit for that same period was $1,225.0 million (2003 – $1,175.0 million).

Limits on borrowing

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2004, the corporation's total liabilities were 9.8 times the equity of $947.9 million (2003 – 9.7 times the equity of $842.8 million).

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 to 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable are stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the allowance for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement of funds to the borrower.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan-by-loan basis. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

In accordance with revision to Canadian Institute of Chartered Accountants' Handbook Section 3061, effective May 1, 2003, property acquired from customers to satisfy loan commitments is classified as held for sale and recorded at fair value, less cost to sell. Prior to May 1, 2003, real estate acquired in settlement of loans and held for sale was initially recorded at the lower of the recorded investment in the foreclosed loan and fair value, less cost to sell. Fair value less cost to sell is the amount that could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower. The impact of this change was not significant.

Net operating costs incurred on real property held for sale are included as a component of other fees and income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other fees and income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost. Interest on debt and dividends on preferred shares are accrued when receivable with dividends on common shares included in income when declared. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of undistributed post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. Where there has been a significant and other than temporary decline in value, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year.

Exchange gains or losses are reported net of the exchange gains and losses from currency exchange agreements. These amounts are included as a component of interest income or expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognized on the balance sheet upon issuance and removed when they expire or are terminated. Amounts due from counterparties are reflected as a component of accounts receivable and amounts due to counterparties are reflected as a component of accounts payable and accrued liabilities. Receipts and payments are accounted for on an accrual basis in the same period and the same category to which the contract is related.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included on the balance sheet in accounts receivable or other liabilities and deferred fees, respectively.

Employee future benefits

Pension and post-retirement benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at market value.

Actuarial gains or losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plan is 15 years (2003 – 15 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 22 years (2003 – 22 years).

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

Use of estimates

The preparation of the corporation's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments. Actual results could differ from those estimates.

Future accounting changes

The Canadian Institute of Chartered Accountants new accounting requirements for derivative financial instruments apply to the corporation commencing April 1, 2004. The new rules require all derivatives to be marked to market with the change in market values reported in current period income, unless the derivatives meet the new criteria for hedging relationships. Based on its analysis, the corporation believes that all derivatives at March 31, 2004, will meet the criteria for hedging relationships.

The corporation early adopted the disclosure requirements of Canadian Institute of Chartered Accountants Handbook Section 3461 Employee Future Benefits for the fiscal year ended March 31, 2004. Details are in Note 11 and comparative figures have been restated to conform to the new presentation.

3. Temporary investments

(thousands of dollars except %)

		2004		2003
Issued or guaranteed by Canada	$	**69,705**	$	37,814
Yield		**2.06%**		3.11%
Other institutions	$	**259,118**	$	218,968
Yield		**2.30%**		3.10%
	$	**328,823**	$	256,782

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher (2003 – R-1L or higher). As at March 31, 2004, the largest total investment in any one institution was $74.7 million (2003 – $62.0 million).

4. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2004. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

(thousands of dollars except %)

2004		Under 1 year		1 to 5 years		Over 5 years		Total
Floating	$	**212,487**	$	**4,702,611**	$	**625,548**	$	**5,540,646**
Yield		**5.05%**		**4.87%**		**4.89%**		**4.88%**
Fixed		**722,997**		**3,072,881**		**507,577**		**4,303,455**
Yield		**7.23%**		**7.14%**		**7.85%**		**7.24%**
Performing loans	$	**935,484**	$	**7,775,492**	$	**1,133,125**		**9,844,101**
Impaired								**205,334**
Loans receivable – gross								**10,049,435**
Allowance for credit losses								**(405,339)**
Loans receivable – net							$	**9,644,096**

2003		Under 1 year		1 to 5 years		Over 5 years		Total
Floating	$	128,689	$	3,596,518	$	463,616	$	4,188,823
Yield		5.82%		5.65%		5.67%		5.66%
Fixed		867,845		2,987,779		625,210		4,480,834
Yield		7.11%		7.57%		8.13%		7.56%
Performing loans	$	996,534	$	6,584,297	$	1,088,826		8,669,657
Impaired								142,934
Loans receivable – gross								8,812,591
Allowance for credit losses								(345,485)
Loans receivable – net							$	8,467,106

Management estimates that annually, over the next three years, approximately 7.5% (2003 – approximately 7.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2004, $58.0 million (2003 – $34.3 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition by sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2004, all concentrations are consistent with the approved vision. The concentrations of performing loans by sector and geographic area are displayed in the tables below:

Sector distribution

(thousands of dollars except %)

	2004		2003	
Cash Crops	$ **3,253,078**	**33.0%**	$ 2,913,005	33.6%
Dairy	**2,297,669**	**23.3%**	1,976,682	22.8%
Beef	**922,925**	**9.4%**	866,966	10.0%
Value Added	**935,613**	**9.5%**	823,617	9.5%
Hogs	**943,477**	**9.6%**	849,626	9.8%
Poultry	**746,692**	**7.6%**	650,224	7.5%
Other	**744,647**	**7.6%**	589,537	6.8%
Performing loans	$ **9,844,101**	**100.0%**	$ 8,669,657	100.0%

Geographic distribution

(thousands of dollars except %)

	2004		2003	
Western	$ **2,126,953**	**21.6%**	$ 1,794,619	20.7%
Prairie	**2,537,981**	**25.8%**	2,236,771	25.8%
Ontario	**3,336,600**	**33.9%**	2,904,335	33.5%
Quebec	**1,246,619**	**12.7%**	1,170,404	13.5%
Atlantic	**595,948**	**6.0%**	563,528	6.5%
Performing loans	$ **9,844,101**	**100.0%**	$ 8,669,657	100.0%

5. Allowance for credit losses

(thousands of dollars)

	2004	2003
Balance, beginning of year	$ **345,485**	$ 297,338
Write-offs, net of recoveries	**(24,177)**	(19,010)
Provision for credit losses	**84,031**	67,157
Balance, end of year	$ **405,339**	$ 345,485
Specific allowance	$ **60,232**	$ 47,858
General allocated allowance	**305,107**	267,627
General unallocated allowance	**40,000**	30,000
Balance, end of year	$ **405,339**	$ 345,485

As at March 31, 2004, the total recorded investment in loans receivable against which a specific allowance has been identified was $205.3 million (2003 – $142.9 million). The general allowances were established against the remaining $9,844.1 million (2003 – $8,669.7 million) investment in loans receivable.

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small and medium-sized companies in the agriculture industry. As at March 31, 2004 the corporation does not have significant influence in the companies, so the investments are accounted for at cost. The concentrations of venture capital investments are listed below.

(thousands of dollars)

	2004	2003
Value-added food manufacturing and processing	$ 3,000	$ –
Development and manufacturing of agricultural equipment	2,200	–
Businesses that support the agricultural sector	2,000	2,000
Ag-biotech	6,500	–
	$ 13,700	$ 2,000

Investments are normally held for between three to seven years through a variety of instruments. Carrying value by type of investment is as follows:

(thousands of dollars)

	2004	2003
Common shares	$ 1,000	$ –
Preferred shares	3,500	1,000
Debentures	9,200	1,000
	$ 13,700	$ 2,000

7. Equipment and leasehold improvements

(thousands of dollars)

	2004			2003
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 12,544	$ 6,786	$ 5,758	$ 6,077
Computer equipment and software	40,377	23,179	17,198	14,130
Leasehold improvements	14,653	7,726	6,927	6,755
	$ 67,574	$ 37,691	$ 29,883	$ 26,962

Amortization of equipment and leasehold improvements of $8.5 million (2003 – $7.7 million) is included in administration expenses.

8. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $2,075.6 million (2003 – $1,512.4 million). The effective interest rate on these notes ranges from .95% to 2.72% (2003 – 1.15% to 3.46%) with an average yield to maturity of 2.28% (2003 – 2.95%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 12, 2003, the corporation renewed a revolving credit facility providing access to funds in the amount of

$50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2004, there were no draws on this facility.

The corporation also has a line of credit facility providing access to funds in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. As at March 31, 2004, there were no draws on this line of credit.

Long-term debt

(thousands of dollars)

	2004	2003
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ **6,278,702**	$ 6,007,523
United States dollars ($194.0)	**254,004**	135,311
Japanese yen (¥41.1 billion)	**516,052**	319,245
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:		
The Euro Top 100 Index	**15,700**	32,388
	$ **7,064,458**	$ 6,494,467

Debt with index-linked interest payments does not provide periodic interest payments but, upon maturity, provides the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements that offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars. Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate debt instruments and on the fair value of fixed-rate debt instruments.

Long-term debt maturities based on final maturity date are as follows:

(thousands of dollars)

	2004	2003
Amounts due:		
Within 1 year	$ **1,367,311**	$ 1,396,229
From 1 – 2 years	**1,516,879**	1,134,260
From 2 – 3 years	**836,718**	1,075,576
From 3 – 4 years	**596,187**	495,131
From 4 – 5 years	**488,337**	515,288
Over 5 years	**2,259,026**	1,877,983
	$ **7,064,458**	$ 6,494,467

Included in long-term debt are $2,187.9 million (2003 – $1,369.9 million) of instruments extendable beyond their original due dates and $266.8 million (2003 – $632.9 million) of callable debt. The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the debt instrument if the counterparty exercises its right to terminate the related derivative swap agreement.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the corporation's debt instruments by the earlier of first call, extension or final maturity date. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars except %)

	2004		2003	
Remaining term to earliest of first call, extension or final maturity date	**Carrying Value**	**Average Yield**	Carrying Value	Average Yield
Within 1 year	**$ 3,755,338**	**3.05%**	$ 3,209,846	3.49%
1 to 5 years	**3,254,327**	**3.49%**	3,279,865	4.60%
Over 5 years	**117,507**	**3.74%**	73,806	4.00%
	$ 7,127,172	**3.26%**	$ 6,563,517	4.05%

9. Other liabilities and deferred fees

(thousands of dollars)

	2004	2003
Accrued benefit liability – other benefits	**$ 17,396**	$ 15,232
Unrealized foreign exchange	**(482)**	18,492
Deferred fee revenues	**8,200**	5,753
Other liabilities	**682**	1,298
	$ 25,796	$ 40,775

10. Administration expenses

(thousands of dollars)

	2004	2003
Personnel	**$ 80,662**	$ 75,164
Facilities and equipment	**19,750**	18,585
Professional and other	**21,968**	15,103
Travel and training	**9,557**	10,432
	$ 131,937	$ 119,284

11. Employee future benefits

Description of benefit plans

The corporation has a number of funded defined benefit pension plans, an unfunded defined benefit plan, which includes post-employment and post-retirement benefits, as well as a defined contribution pension plan, that provides pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually, and non-contributory life insurance plans. A plan also provides short-term disability and long-term disability income benefits after employment, but before retirement.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was $7.9 million (2003 – $7.3 million).

Defined benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2002. The next required valuation would be as of December 31, 2005.

Defined benefit plan obligations:
(thousands of dollars)

	2004 Pension benefits	**2003** Pension benefits	**2004** Other benefits	**2003** Other benefits
Accrued benefit obligation				
Balance, beginning of year	**$ 127,009**	$ 102,722	**$ 17,876**	$ 15,655
Current service cost	**4,939**	5,199	**1,404**	966
Interest cost	**9,266**	7,813	**1,288**	1,119
Employee contributions	**1,980**	2,103	**–**	–
Benefits paid	**(2,648)**	(2,311)	**(658)**	(577)
Actuarial losses	**2,915**	9,183	**3,289**	713
Net transfer in*	**–**	2,300	**–**	–
Balance, end of year	**$ 143,461**	$ 127,009	**$ 23,199**	$ 17,876

Defined benefit plan assets:
(thousands of dollars)

	2004 Pension benefits	**2003** Pension benefits	**2004** Other benefits	**2003** Other benefits
Fair value of plan assets				
Balance, beginning of year	**$ 120,994**	$ 113,192	**$ –**	$ –
Actual return on plan assets	**31,460**	(193)	**–**	–
Employer contributions	**4,801**	5,903	**–**	–
Employee contributions	**1,980**	2,103	**–**	–
Benefits paid	**(2,648)**	(2,311)	**–**	–
Net transfer in*	**–**	2,300	**–**	–
Balance, end of year	**$ 156,587**	$ 120,994	**$ –**	$ –

*As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the Public Service Superannuation Act (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada that provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, a transfer of assets from the Public Service Superannuation Fund is currently in progress. Although the transfer is not complete, the remaining amount of the transfer has been recognized on an estimated basis at March 31, 2003.

The percentages of plan assets, based on market values at December 31 are:

Asset Category	**2004**	2003
Equity securities	**62.8 %**	56.2 %
Debt securities	**36.1 %**	37.3 %
Other	**1.1 %**	6.5 %
	100.0 %	100.0 %

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements:

(thousands of dollars)

	2004 Pension benefits	**2003** Pension benefits	**2004** Other benefits	**2003** Other benefits
Fair value of plan assets	$ **156,587**	$ 120,994	$ **–**	$ –
Accrued benefit obligation	**143,461**	127,009	**23,199**	17,876
Funded status of plans – surplus (deficit)	**13,126**	(6,015)	**(23,199)**	(17,876)
Unamortized net actuarial (gain) loss	**(13,102)**	6,979	**5,803**	2,644
Employer contributions after December 31	**2,453**	769	**–**	–
Accrued benefit asset (liability)	$ **2,477**	$ 1,733	$ **(17,396)**	$ (15,232)

The accrued benefit asset (liability), is included in the corporation's balance sheet as follows:
(thousands of dollars)

	2004 Pension benefits	**2003** Pension benefits	**2004** Other benefits	**2003** Other benefits
Other assets	$ **2,477**	$ 1,733	$ **–**	$ –
Other liabilities and deferred fees	**–**	–	**(17,396)**	(15,232)
	$ **2,477**	$ 1,733	$ **(17,396)**	$ (15,232)

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:
(thousands of dollars)

	2004 Pension benefits	**2003** Pension benefits	**2004** Other benefits	**2003** Other benefits
Accrued benefit obligation	$ **1,816**	$ 4,883	$ **23,199**	$ 17,876
Fair value of plan assets	**–**	3,069	**–**	–
Funded status – plan deficit	$ **(1,816)**	$ (1,814)	$ **(23,199)**	$ (17,876)

Elements of defined benefit costs recognized in the year:
(thousands of dollars)

	2004 Pension benefits	**2003** Pension benefits	**2004** Other benefits	**2003** Other benefits
Current service cost	$ **4,939**	$ 5,199	$ **1,404**	$ 966
Interest cost	**9,266**	7,813	**1,288**	1,119
Actual return on plan assets	**(31,460)**	193	**–**	–
Actuarial losses	**2,915**	9,183	**3,289**	713
Net cost (income) before adjustments	**(14,340)**	22,388	**5,981**	2,798
Adjustments to recognize long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plans assets for the year	**22,969 a**	(9,557) a	**–**	–
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year	**(2,887) b**	(9,183) b	**(3,157) c**	(961) c
Defined benefit costs recognized	$ **5,742**	$ 3,648	$ **2,824**	$ 1,837

(a) Expected return on plan assets of $(8,491) (2003 – $(9,364)) less the actual return on plan assets of $(31,460) (2003 – $193) = $22,969 (2003 – $(9,557)).

(b) Actuarial (gain) loss recognized for year of $28 (2003 – $nil) less actual actuarial (gain) loss on accrued benefit obligation for year of $(2,915) (2003 – $9,183) = $(2,887) (2003 – $(9,183)).

(c) Actuarial (gain) loss recognized for year of $132 (2003 – $(248)) less actual actuarial (gain) loss on accrued benefit obligation for year of $3,289 (2003 – $713) = $(3,157) (2003 – $(961)).

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2004	**2003**	**2004**	**2003**
	Pension benefits	Pension benefits	**Other benefits***	Other benefits*
Accrued benefit obligation as of December 31:				
Discount rate	**6.50 %**	7.00 %	**6.50/5.25 %**	7.00/5.75 %
Rate of compensation increase	**3.50 %**	4.00 %	**4.00/4.00 %**	4.00/4.00 %
Benefit costs for years ended December 31:				
Discount rate	**6.50 %**	7.00 %	**7.00/5.75 %**	7.00/6.25 %
Expected long-term rate of return on plan assets	**6.50 %**	7.00 %	**– %**	– %
Rate of compensation increase	**3.50 %**	4.00 %	**4.00/4.00 %**	4.00/4.00 %

*Percentages reflect post-retirement benefits/post-employment benefits respectively.

Assumed health-care cost trend rates at December 31:

	2004	**2003**
Hospital:		
Initial health-care cost trend rate	8.00 %	9.00 %
Cost trend rate declines to	Nil %	Nil %
Year that the rate reaches the rate it is assumed to remain at	2013	2013
Prescription drugs:		
Initial health-care cost trend rate	10.33 %	11.00 %
Cost trend rate declines to	5.00 %	5.00 %
Year that the rate reaches the rate it is assumed to remain at	2013	2013
Other health-care costs:		
Per annum increase	4.00 %	4.00 %

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one-percentage-point change in assumed health-care cost trend rates would have the following effects for 2004:

(thousands of dollars)	Increase	Decrease
Total of service and interest cost	$ 414	$ (299)
Accrued benefit obligation	$ 3,433	$ (2,543)

Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2004, the expense was $1.2 million (2003 – $1.6 million).

12. Derivative financial instruments

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are more detailed descriptions of some of the more prominent derivative instruments utilized by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. The exchange of payments is recorded as an adjustment to interest income or expense on the related loan or debt instrument. The related amount payable to or receivable from the counterparty to the agreement is included as an adjustment to accrued interest.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon bond or equity and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Currency swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Notional principal amounts outstanding at March 31, 2004, for the various derivative financial instruments are:

(thousands of dollars) Remaining term to earliest of first call, extension or final maturity date		**Within 1 year**	**1 to 5 years**	**Over 5 years**	**2004**	**2003**
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	**$ 93,000**	**$ 227,000**	**$ –**	**$ 320,000**	$ 346,000
Fixed	Floating	**7,697,692**	**1,485,257**	**55,000**	**9,237,949**	6,900,720
Floating	Floating	**–**	**–**	**–**	**–**	20,257
Equity index-linked	Floating	**–**	**15,700**	**–**	**15,700**	32,388
		7,790,692	**1,727,957**	**55,000**	**9,573,649**	7,299,365
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	**–**	**–**	**–**	**–**	1,188
Total		**$ 7,790,692**	**$ 1,727,957**	**$ 55,000**	**$ 9,573,649**	$ 7,300,553

The counterparty credit risk associated with derivatives is the risk of loss due to the failure of a counterparty to discharge its obligations in a derivative financial instrument agreement. The counterparty obligation may arise when currency and interest differentials occur resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments.

The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk is managed via the corporation's board approved Counterparty Risk Guidelines, which specifies the maximum exposure that the corporation will accept for each level of credit rating. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are being executed with derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by replacement cost, which is the cost of replacing all derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. Fair values are determined using present value techniques and quoted market values. The net fair values and replacement costs of the derivative instruments are as follows:

(thousands of dollars)

	2004		**2003**	
	Net Fair Value	**Replacement Cost**	Net Fair Value	Replacement Cost
Interest rate contracts	**$ 47,820**	**$ 91,900**	$ 2,559	$ 47,039
Foreign currency contracts	**–**	**–**	(58)	–
	$ 47,820	**$ 91,900**	$ 2,501	$ 47,039

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2004 was $3,103.5 million (2003– $2,591.7 million) and the largest net fair value of contracts with any institution as at March 31, 2004, was $18.0 million (2003 – $16.5 million).

Amounts due from counterparties included in accounts receivable at March 31, 2004 were $17.9 million (2003 – $21.1 million). Amounts due to counterparties included in accounts payable and accrued liabilities at March 31, 2004 were $4.4 million (2003 – $3.3 million).

13. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date.

(thousands of dollars)

	2004		**2003**	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	**$ 149,409**	**$ 149,409**	$ 146,683	$ 146,683
Temporary investments	**328,823**	**328,823**	256,782	256,782
Accounts receivable	**37,924**	**37,924**	83,833	83,833
Loans receivable	**9,644,096**	**9,836,179**	8,467,106	8,616,053
Venture capital investments	**13,700**	**13,700**	2,000	2,000
Other assets	**6,737**	**6,737**	4,325	4,325
Liabilities				
Accounts payable and accrued liabilities	**$ 31,467**	**$ 31,467**	$ 25,554	$ 25,554
Accrued interest on borrowings	**69,097**	**69,097**	75,175	75,175
Short-term debt	**2,075,593**	**2,075,593**	1,512,419	1,512,419
Long-term debt	**7,064,457**	**7,164,180**	6,494,467	6,566,439

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, other assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investment in debt is valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

14. Guarantees, commitments and contingent liabilities

Guarantees

In the normal course of its business, the corporation issues guarantees and letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2004 is $17.9 million (2003 – $17.0 million). In the event of a call on these items, the corporation has recourse against its customers for amounts to be paid to the third party. Existing items will expire within two years usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2004 or March 31, 2003 for these guarantees and letters of credit.

Long-term commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)

Within 1 year	$	**11,775**
From 1 – 2 years		**10,816**
From 2 – 3 years		**9,621**
From 3 – 4 years		**8,368**
From 4 – 5 years		**3,935**
Over 5 years		**8,744**
	$	**53,259**

Loan commitments

As at March 31, 2004, loans to farmers and agribusiness approved but undisbursed amounted to $375.9 million (2003 – $275.0 million). These loans were approved at an average interest rate of 5.04% (2003 – 6.23%) and do not form part of the loans receivable balance until disbursed. In addition, the corporation approved but did not disburse $3.0 million (2003 – nil) in venture capital loans. It is expected that the majority of these loans will be disbursed by May 30, 2004.

Contingent liabilities

The corporation, in the normal course of operations, enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require the corporation to compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers, and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications. No amount has been included in the balance sheet as at March 31, 2004 or March 31, 2003 for these indemnifications.

The corporation's contingent liabilities include creditor life and accident insurance policies, which are sold to customers under the AgriAssurances program. The corporation is exposed to risk to the extent that claims may exceed premiums collected. The program is administered by a major insurance provider and is based on premiums that are actuarially sound. Risk exposure is further mitigated by a claims fluctuation reserve. Historically, premiums have significantly exceeded claims.

15. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

16. Segmented information

The corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's sales are within Canada. No one customer comprises more than 10 per cent of the corporation's receivables or interest revenues.

17. Comparative figures

Certain 2003 comparative figures have been restated to conform to the current year's presentation.

Senior Management Team

Front: Corinna Mitchell-Beaudin, Moyez Somani
From left to right, sitting: Paul MacDonald, Lyndon Carlson, Kellie Garrett, Ross Topp, Greg Stewart, Greg Honey
From left to right, standing: Janet Wightman, John J. Ryan, Don Stevens, Rick Hoffman, André Tétreault

The leadership and integrity of FCC's Senior Management Team (SMT) ensure that FCC continues to improve the customer experience, contributes to Canadian agriculture and fosters a high-performance workplace culture.

SMT has significant input into long-term planning for the corporation, in collaboration with the Board of Directors and utilizing the expertise of employees. Following approval of the corporate strategic direction by the Board, SMT designs and executes the business strategy.

At FCC, we believe that leadership occurs at all levels and SMT inspires employees to participate, learn, innovate and excel. Members of SMT exemplify leadership, continually honing their competencies in this area through professional development, evaluation and feedback.

SMT has undertaken extensive work in the areas of high-performance teamwork, accountability and partnership, to ensure that FCC's stellar track record is sustainable.

FCC follows the guidelines of Canada's *Financial Administration Act*, exercising care in decision-making and business activities. The corporate Employee Code of Conduct and Ethics Policy reflect the highest ethical standards of business, professional and personal conduct. SMT adheres to these high standards, which evolved in 2003-04 to include FCC's new cultural practices, and champions them throughout the corporation.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2003-04, the salary range for the President and CEO was set at $234,600 to $276,000. The salary range for Executive Vice-Presidents was set at $160,790 to $290,375. The salary range for Vice-Presidents is $108,660 to $215,225. Total compensation paid to SMT was $3,045,938.

Senior Management Team

Profiles

John J. Ryan, BBA

President and Chief Executive Officer

Responsible for the strategic leadership of Farm Credit Canada (FCC), John Ryan joined FCC as President and Chief Executive Officer in 1997. John has been instrumental in creating a high-performance culture at FCC. The corporation's customer loyalty, lending portfolio and market share have increased significantly under his leadership.

Prior to joining FCC, John was Chief Operating Officer at the Business Development Bank of Canada (BDC). He is a graduate of Harvard Business School's Advanced Management Program and holds a Bachelor of Business Administration from St. Francis Xavier University.

John was recently chosen by the International Association of Business Communicators as the 2004 EXCEL Award winner. This global award is given annually to a CEO who champions effective communication throughout an organization. John also received the 2003 Leon Leadership Award from the federal government's Commissioner of Official Languages, in recognition of FCC's commitment to bilingualism.

Deeply committed to community involvement, John chairs the Hospitals of Regina Foundation and serves on the Board of Directors for Regina's Adult Learning Centre. He is a member of the Board of Directors for the 2005 Canada Summer Games and the Board of Trustees for the Canadian Athletic Foundation. John has chaired several Regina United Way campaigns and led the CEO challenge for Habitat for Humanity. In 2002, John received the Queen's Golden Jubilee medal in recognition of his significant contributions to the people of Canada.

Moyez Somani, MBA, CMA

EVP & Chief Financial Officer

In providing overall leadership for the corporation's financial function, Moyez is responsible for Treasury, the Controller's Group, Risk Management and Audit and Process Innovation. Moyez joined FCC in 1998, after serving as VP of Investments for the Saskatchewan Opportunities Corporation (SOCO), a provincial agency providing venture capital financing. He has many years of experience in the financial services sector.

Moyez has an MBA from Athabasca University and is a Certified Management Accountant (CMA).

Moyez is a provincial council member for CMA Saskatchewan and a member of the Investment Review Committee for the Agri-Food Equity Fund. Until recently, he served on the boards of the Saskatchewan Science Centre and Financial Executives International. Moyez and his family also devote time to helping newly arrived families settle in the community.

Janet Wightman*

EVP & Chief Operating Officer

As Chief Operating Officer, Janet was responsible for all aspects of FCC's national operations. Janet joined FCC in 1994 and served in Human Resources before moving to the operations side of the corporation in 1999. She is also a member of the SaskPower Board of Directors.

**Janet Wightman resigned from FCC in April 2004.*

Lyndon Carlson, BSA, P.Ag.

VP, Marketing and Portfolio Management

Lyndon is responsible for monitoring the quality and health of all loans within FCC's $10-billion portfolio. He oversees market research and the development of new products at FCC, as well as the corporation's marketing and customer relationship initiatives.

Lyndon joined FCC in 1982. He has served in a diverse range of positions over the past two decades including: Account Manager, Loan Administration Officer, Communications Officer, Manager of BPR, District Manager, AVP Agribusiness West and AVP Business Services.

A professional agrologist, Lyndon holds a Bachelor of Science in Agriculture from the University of Saskatchewan. Lyndon has served on the executive of the Saskatchewan Institute of Agrologists, and is an active volunteer for the Lutheran church and the United Way.

Kellie Garrett, BA, ABC

VP, Strategy, Knowledge & Communication

Kellie is responsible for Corporate Strategy, Government Relations, Knowledge Management, Corporate Communication, Brand Management, Official Languages and Translation and the Corporate Project Management Office (PMO). She joined FCC in 1993 as a Communications Officer and later served as Assistant VP and VP of Communications, and as the VP of Marketing.

Prior to joining FCC, Kellie worked in Toronto as a public relations professional in health care. An Accredited Business Communicator (ABC), Kellie earned a Bachelor of Arts from Carleton University in 1982. She is currently pursuing a Masters of Arts in Leadership & Training at Royal Roads University.

Kellie is active on several boards, including the MacKenzie Art Gallery and the International Association of Business Communicators (IABC). She is a regular speaker at Conference Board of Canada and IABC events, on topics from brand to leadership and strategy. Kellie is also a lay counsellor to parents of autistic children.

Rick Hoffman, CMA

VP & Controller

Rick is responsible for Corporate Accounting, Financial Management and Corporate Reporting, Portfolio Accounting and Systems Support, and the Loan Administration Centres. He joined FCC in 2000 as VP & Controller. Rick has more than 17 years of financial and management experience in the agriculture sector and has served in various positions outside FCC as a Controller and a Director. Rick is a member and sits on the Accreditation Committee of the Certified Management Accountants (CMA) of Saskatchewan. He is also a member of Financial Executives International and is active in the community coaching youth hockey.

Greg Honey, B.Ed.

VP, HR & Administration

Greg joined FCC in November 2000, assuming leadership for all aspects of the Human Resource and Administrative Services functions. He has more than 20 years of human resources experience in organizations such as Wascana Energy/Canadian Occidental Petroleum, Kalium Canada Limited and the Workers' Compensation Board of Saskatchewan.

Greg earned a Bachelor of Education from the University of Regina. He is currently a member of the Canadian Human Resource Planners and serves on the Conference Board of Canada Human Resource Executive Council. Greg serves on the boards of the Regina Big Brother Association, Big Brothers of Canada and the United Way of Regina. In addition, he devotes time to being a hockey coach and volunteer in the community.

Paul MacDonald, MA, B.Sc.

VP, Alliances and Business Services

Leading the development of new services and business channels, Paul is responsible for Alliances, the FCC Customer Service Centre, Business Services and e-Business. Paul joined FCC in October 2001. Prior to that, he was a VP at Ipsos-Reid. Paul has a MA (Economics) from Queen's University and a B.Sc. from the University of P.E.I. In 2003, he served as the Leadership Chair for FCC's United Way campaign.

Corinna Mitchell-Beaudin, B.Admin, CA, CFA

VP & Treasurer

Corinna's responsibilities include funding the operating and investing activities of FCC, as well as asset and liability management, cash and liquidity management, transfer pricing and market risk management. She joined FCC in 2001 as a Manager in the Treasury Division. Prior to that, Corinna was with the Crown Investments Corporation of Saskatchewan and the Office of the Provincial Auditor of Saskatchewan.

A Chartered Accountant (CA) and Chartered Financial Analyst (CFA) Charterholder, Corinna has a Bachelor of Administration from the University of Regina. She is currently the Vice-President of Programming for the Regina chapter of the Treasury Management Association of Canada and serves on the City of Regina Pension Investment Board. In addition, she is a member of the Professional Conduct Committee of the Institute of Chartered Accountants of Saskatchewan. Corinna also devoted her time to assist with the 2003 Grey Cup Festival in Regina.

Don Stevens, MBA, P.Eng., CFA

VP, Information Technology

Responsible for FCC's information technology division, Don has been with FCC since 1992. In addition to IT, Don has served as a manager, assistant VP and a VP in the Treasury Division, and as a VP in the Controller's Division.

Prior to joining FCC, Don was an engineer with Bell Canada and a Financial Analyst with the Royal Bank. A Chartered Financial Analyst (CFA) Charterholder, Don holds a Bachelor of Engineering from Carleton and an MBA from York University. Don is a supporter of the Autism Resource Centre, serving on the board.

Greg Stewart, B.Sc., P.Ag.

Senior VP, National Lending Operations

Greg is responsible for overseeing FCC's lending operations out of approximately 100 offices across Canada. He has extensive experience in operations, farm financing, agribusiness and risk management. Greg joined FCC in 1988 as a Credit Adviser and progressed into a number of senior positions, including VP, Risk Management and VP, Western Operations and Agribusiness.

Prior to joining FCC, Greg was a partner in an Edmonton-based construction firm. A professional agrologist, he holds a B.Sc. from the University of Manitoba. His community interests include the United Way.

André Tétreault, CGA

VP, Risk Management

In addition to overseeing all facets of lending credit risk facing FCC, André is responsible for credit and lending policy, credit risk training and Valuation Services. He is also responsible for Special Credit at FCC, which manages accounts experiencing challenges. André joined FCC in 1996 and has served as VP, Operations East; VP, Audit and BPR; and AVP, Corporate Audit.

André has 26 years of experience in accounting and audit with several federal Crown corporations, including CMHC. He is a Certified General Accountant (CGA) and a graduate of the École des hautes études commerciales in Montreal.

André also serves as a school board trustee in Regina and is active in the United Way, the francophone community and his local community association.

Ross Topp, B.Comm, CA

VP, Audit & Process Innovation

Responsible for internal audit, measurement and control, and process innovation, Ross has been with FCC since October 1994. He assumed his current role in January 2004 after serving in a range of other positions within the corporation, including AVP Business Services, Director of e-Business, Director of Business Process Reengineering and Director of Financial Management and Corporate Reporting. Prior to joining FCC, Ross served as a manager at KPMG. A member of the Chartered Accountants of Saskatchewan, Ross earned a Bachelor of Commerce degree from the University of Saskatchewan.

Corporate governance

From left to right, back row: Donna Graham, Jack Christie, Russel Marcoux, Don Haliburton, Maurice Kraut, Warren Ellis, Joan Meyer
Front row: Marie-Andrée Mallette, John J. Ryan, Rosemary Davis, Germain Simard, Deborah Whale

In recent years, public confidence in corporations and their senior officers has been eroded by a number of high-profile scandals. People have come to demand greater accountability from both public and private organizations. As a result, new policies have been developed outlining best practices in the securities industry and companies throughout the world have been re-evaluating their corporate governance practices.

FCC has embraced this challenge and strives to ensure that its corporate governance and reporting practices are consistent with best practices.

FCC has drawn upon guidelines published by Treasury Board including, the *Corporate Governance Guidelines in Crown Corporations and Other Public Enterprises*, and the new *Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises*. In addition, industry best practices have been adapted to recognize FCC's unique corporate structure and the reporting requirements set out in FCC's governing legislation, the *Farm Credit Canada Act* and the *Financial Administration Act*.

FCC's Board of Directors recognizes that effective corporate governance is a continuous process and is committed to conducting regular reviews of governance practices to ensure a high level of accountability.

Board mandate

The Board is responsible for overseeing FCC's management and performance in the best interests of the corporation, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board is currently finalizing a new Charter and a related set of Board Governance Guidelines. These documents will encompass seven major themes:

- Integrity – Legal and Ethical Conduct
- Strategic Planning
- Financial Reporting and Public Disclosure
- Risk Management and Internal Controls
- Leadership Development and Succession Planning
- Corporate Governance
- Director Orientation, Continuing Education and Evaluation

Independence:

With the exception of the CEO, all Board members are independent of management. FCC's two Executive Vice-Presidents attend every Board meeting. Two other members of the senior management team attend on a rotating basis. The Board enjoys open and candid communication with management but also ensures independence by holding a private session – without management present – at every Board meeting.

Public policy role:

As a federal Crown corporation, FCC serves a public policy role. Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. We fulfil this mission by offering products and services to meet the needs of the industry, operating on a financially self-sustaining basis and supporting agriculture through good times and bad.

The Board ensures that public policy is considered in decisions on strategic initiatives, including the portfolio vision, long-term employee incentives and the development of new products and services to help the industry succeed.

Integrity, Code of business conduct and ethics:

All Board members are subject to the Board's policy governing loans where a director has a material interest and conflict of interest rules provided in the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders.

FCC's Code of Conduct and Ethics applies to all staff. The Board of Directors is currently overseeing the updating of the Code of Conduct, which will be binding on Directors as well.

This Code provides clear direction and expectations. Every employee receives a copy of the Code upon joining FCC and is required to sign a *Declaration and Promise of Fidelity and Security* every 18 months. This declaration confirms the employee's understanding of FCC's policy on employee conduct and ethics.

The Code prescribes the responsibility of employees to deal with customers and colleagues honestly and with integrity and provides guidance respecting employee and client privacy and rules on payments, gifts and entertainment. It also requires employees to act in a socially responsible, non-discriminatory manner.

Finally, the Code of Conduct and Ethics outlines how employees are to disclose outside business interests. This ensures there are no conflicts of interest, whether real or perceived, particularly for those employees who farm and may apply for a loan from FCC.

Strategic planning:

The Board sets the strategic direction of the corporation in consultation with management. The Board regularly examines FCC's business objectives. The Board is responsible for approving FCC's corporate plan and annual report, as well as setting the annual goals and objectives of the CEO. The objectives of the CEO also serve as the annual objectives for the corporation as a whole and are used to hold management accountable for the results of the corporation.

The Board participates in an annual strategic planning session with senior management, and discusses particular initiatives during regular Board meetings. All of FCC's strategies include measurable targets to help gauge performance.

Last year, the Board worked with management on a number of significant new strategic initiatives. These included:

- outsourcing of FCC's information technology infrastructure;
- integration of FCC's major loan origination, loan administration and loan accounting software;
- enhancement of FCC's leadership and employee engagement; and
- the development of targeted new products and services for FCC's customers.

Integrated risk management

The corporation's framework for Integrated Risk Management was prepared after consultations with Treasury Board, the Office of the Auditor General (OAG) and by reviewing the practices of other organizations.

The framework deals with all types of risk: inherent or theoretical risk, residual risk, credit and market risks and operational and business risks.

Senior management has primary responsibility for identifying risks and designing and implementing solutions to mitigate them.

The Board, however, needs to be assured that risks are being managed and that appropriate authorities and controls are in place.

In the past, the Office of the Auditor General has reported that there has been a lack of understanding and communication of Integrated Risk Management (IRM) outside of the management group. The OAG has also recommended that FCC better identify threats and opportunities, define risk tolerance levels and measurements of risks, and report regularly to the Board on IRM.

Management is taking action to improve integrated risk management by undertaking an annual process that encourages staff to better understand IRM and to identify and prioritize key risks.

This information flows through the Audit Committee to the full Board of Directors. Prioritized risks are made available to the Board of Directors and senior management for consideration during strategic planning in August and September each year.

Succession planning

Each year, the Board reviews the corporation's succession plans for key positions, and through the Human Resources Committee, also reviews leadership development initiatives.

Succession planning ensures there is continuity throughout the organization over the long term. The review identifies employees who are ready to take over a particular position and those who might be developed over time.

The Committee encourages management to identify as many people as possible for advancement to ensure a breadth and depth of experience and expertise. This allows for a progression through the executive level, supplemented by outside experience when necessary.

Integrity of internal controls and management information systems

The Board is committed to financial transparency, and has worked closely with the Office of the Auditor General to ensure the integrity of FCC's internal controls and management information systems.

Each year, the Board reviews lending targets for the next fiscal year, FCC's national business plan and portfolio vision.

FCC's treasury operations are key to the corporation's overall success. The Board reviews the operations of treasury at each meeting and regularly reviews and updates, as necessary, policies and limits.

Credit risk is the single largest risk that the corporation faces. The Board oversees the corporation's analysis and reporting of overall credit risk and the performance of FCC's loan portfolio.

Finally, the Board oversees the annual audit plan. This includes the audit of the financial statements of the corporation by the Auditor General of Canada and the annual audit workplan carried out by the corporation's internal audit division.

Orientation and continuing education

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. Board members also have direct access to the senior management team for ongoing education.

To stay current on key issues and trends, Board members receive training relevant to their governance responsibilities. Last year, the Board participated in a session on financial statements and a number of members attended a session on corporate governance sponsored by the Privy Council Office and Treasury Board.

Members serve rotating terms on Board committees, building their depth of knowledge over time. The Board encourages members to attend committee meetings outside of their particular assignments to gain a better understanding of the issues and challenges facing the corporation.

Nomination of directors

The Board of Directors is composed of 12 members, including the Chair, President and Chief Executive Officer, and 10 Directors.

The Governor-in-Council appoints the Chair and the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor-in-Council approval. Directors serve three-year terms and may be re-appointed.

A number of our members are successful primary producers and agribusiness operators from rural and small urban centres. Approved Chair and Director profiles set out desired qualifications and experience. These profiles help the government evaluate new candidates and assist in succession planning.

The Board has an annual, structured process of self-evaluation. With the help of outside counsel, the Board identifies areas for improvement in their overall skill set, as well as changes that may be required in an effort to achieve governance best practices.

This fiscal year, the Board identified a need for more knowledge and expertise on accounting and finance. The Minister responsible for FCC was asked to consider this desired skill set when making new appointments. This resulted in the appointment of Don Haliburton and Jack Christie. Both possess the Chartered Accountant designation, as well as agriculture- related experience.

Board remuneration

Directors are paid an annual retainer and per diem. Amounts are set by the Governor-in-Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food Canada.

The Privy Council establishes remuneration levels for Governor-in-Council appointees to Crown boards and agencies. The rates were last approved on April 5, 2001.

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended.
- Committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Directors are also reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties.

During 2003-04, there were six board meetings and 16 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $178,013, compared to $180,653 in 2002-03. Total Board travel and related expenses was $176,913, compared to $178,675 in 2002-03. The 2003-04 amounts include per diems and travel expenses for seven Board members who attended training on corporate governance.

New appointments:

Don Haliburton, from Vancouver, British Columbia, was appointed as a Director on November 4, 2003, replacing Rashpal Dhillon who passed away suddenly in 2003. Deborah Whale from Alma, Ontario and Jack Christie from Miramichi, New Brunswick joined the Board on November 4 and November 27 respectively. They replaced Eleanor Hart and Robert Colpitts, whose terms had expired.

2003-2004 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Committee meeting attendance[2]	Board meeting attendance[3]	Board travel and related expenses
Jack Christie[4]	1,800	5,250	7,050	4/4	3/3	8,026
Robert Colpitts[4]	3,600	6,000	9,600	5/5	3/3	15,055
Rosemary Davis	10,800	10,500	21,300	16/16	6/6	15,915
Warren Ellis	6,400	9,750	16,150	5/5	6/6	27,634
Donna Graham	5,400	11,250	16,650	11/11	6/6	15,075
Don Haliburton[6]	1,800	3,750	5,550	4/4	2/3	3,809
Eleanor Hart[5]	3,600	6,750	10,350	3/3	3/3	5,274
Maurice Kraut	5,400	13,875	19,275	6/6	6/6	12,807
Marie Andrée Mallette	6,400	11,250	17,650	11/11	6/6	25,463
Russel Marcoux	5,400	7,500	12,900	5/6	5/6	9,733
Joan Meyer	6,400	10,875	17,275	7/7	6/6	7,546
Germain Simard	5,400	10,875	16,275	8/8	6/6	25,767
Deborah Whale[5]	1,800	6,188	7,988	4/4	3/3	4,809
Total	**$64,200**	**$113,813**	**$178,013**			**$176,913**

1) Column A (Board retainer) and column B (Per diems) 2) There were six Audit, five Human Resources and five Corporate Governance Committee meetings 3) There were six Board meetings 4) Robert Colpitts' term expired and Jack Christie's term began on November 27, 2003 5) Eleanor Hart's term expired and Deborah Whale's term began on November 4, 2003 6) Don Haliburton's term began on November 4, 2003

Audit Committee

Chair: Marie-Andrée Mallette
Members: Rosemary Davis *(Board Chair)*, Donna Graham, Maurice Kraut, Germain Simard, Don Haliburton, Jack Christie

The Audit Committee is composed entirely of Directors who are independent of management.

The Audit Committee oversees FCC's financial performance, ensures that effective financial reporting, control systems, integrated risk management processes and audit functions are in place. Recommendations of the Audit Committee are brought to the Board as required. This Committee, at its discretion, meets independently with representatives of the Office of the Auditor General and FCC's internal auditors.

During the 2003-04 fiscal year, the Audit Committee:

- approved the 2002-03 Financial Statements, 2002-03 Annual Report and quarterly financial results for fiscal year 2003-04;
- approved the 2003-04 corporate audit workplan and received regular reports from corporate audit throughout the fiscal year regarding the results of the various audits;
- approved Board and CEO expense reports for fiscal 2003-04; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 2002-03 as well as the plan for the 2003-04 annual audit.

Human Resources Committee

Chair: Warren Ellis
Members: Rosemary Davis *(Board Chair)*, John J. Ryan *(CEO)*, Donna Graham, Joan Meyer, Russel Marcoux, Don Haliburton, Deborah Whale

This committee reviews all major human resources policy matters.

During this fiscal year, the committee:

- received and approved the CEO's objectives for 2003-04 and evaluated his performance for 2002-03;
- examined FCC's compensation policies and established an annual salary review policy for employees;
- reviewed the 2003 Hewitt employee engagement survey, which resulted in FCC being named one of the top 50 employers in Canada;
- monitored the implementation of FCC's Solstice pension program, including the performance of the investment fund managers;
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions; and
- re-evaluated a number of employee incentive programs.

Corporate Governance Committee

Chair: Joan Meyer
Members: Rosemary Davis *(Board Chair)*, John J. Ryan *(CEO)*, Marie-Andrée Mallette, Germain Simard, Russel Marcoux, Jack Christie, Deborah Whale

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to good governance practices. In addition, the Committee oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for directors.

During this fiscal year, the Corporate Governance Committee carried out the following activities:

- recommended to the Board new memberships for all Board Committees;
- oversaw the orientation and training of the corporation's new Board members;
- with the assistance of outside legal counsel, completed a further round of Board evaluations;
- developed a new Board Charter and related Board Governance Guidelines.

Pension Committee

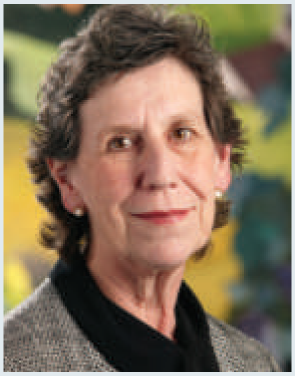
Board Representatives:
Maurice Kraut and Russel Marcoux

The FCC Pension Committee develops and oversees the investment policies of the corporation's pension plan. In addition to two Board members, the committee includes senior management representatives and elected employees.

During the past year, the committee oversaw the transfer of funds from the *Public Service Superannuation Act* (PSSA) pension plan to FCC's pension plan. The committee also developed a comprehensive set of governance guidelines, which were presented and approved by the full Board in December 2003.

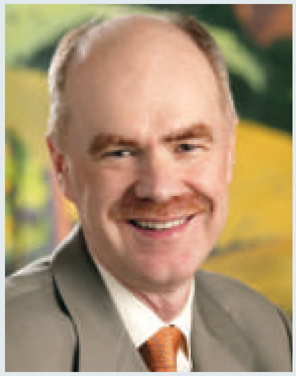
Board *of* Directors

Profiles



Rosemary Davis
Chair since June 20, 2000
Director since
December 19, 1995

With over 30 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-Country Agromart Ltd. in Trenton, Ontario.
Ms. Davis is active on many local and provincial agriculture committees and associations. She is a director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. She is a director on the board of Loyalist College and is a member of the Fertilizer Institute of Ontario's Fertilizer Use Committee, the Ontario Federation of Agriculture and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership in the Ontario Institute of Agrologists. She resides in Cobourg, Ontario.

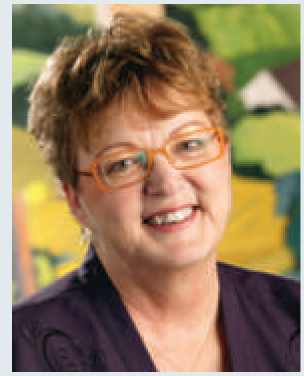


Jack Christie
Director since
November 27, 2003

Jack Christie is a chartered accountant and the general manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 16 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants.

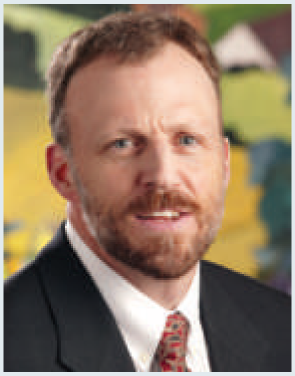
Warren Ellis
Chair, Human Resources Committee
Director since April 4, 1995

Warren Ellis Produce in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is president and CEO of O'Leary Potato Packers Ltd., an operation that buys, packs and markets potatoes worldwide. In 1994, he was the Atlantic region honoree in Canada's Outstanding Young Farmers Program. In addition to continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a board member of the Western School Board and the P.E.I. Lending Authority and as chair of the O'Leary Community Sports Centre and the Potato Blossom Festival.



Donna Graham
Director since
September 26, 2000

Donna Graham is a managing partner of Graham Farms Vulcan Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta.
Ms. Graham has acted as an adviser on agricultural issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a national 4-H award for her dedication to the 4-H movement. Ms. Graham was also chair of protocol for the Southern Alberta Summer Games.



Don Haliburton

Director since
November 4, 2003

Don Haliburton is a chartered accountant with over 20 years of experience in public practice and in senior management roles with businesses in a number of industries. He is the general manager of Exchange-a-Blade Ltd., a distributor and remanufacturer of power tool accessories. From 1994 to 2000, he was the vice-president, Finance, of International Aqua Foods Ltd., a TSE-listed aquaculture company with operations in Canada, the United States and Chile.

Maurice Kraut

Director since
June 28, 1999

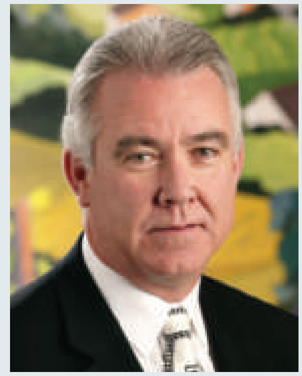
A co-owner and operator of a cattle and grain farm enterprise, Maurice Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut was also a research director for the Canada Grains Council and an assistant deputy minister of agriculture in Manitoba.

Marie-Andrée Mallette

Chair, Audit Committee
Director since
June 16, 1995

Marie-Andrée Mallette participates in large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association.

Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Museum of Civilization in Hull, Quebec.

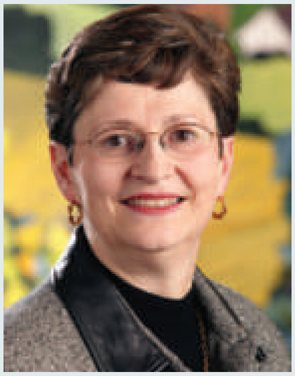


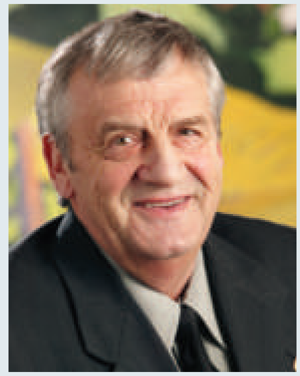
Russel Marcoux

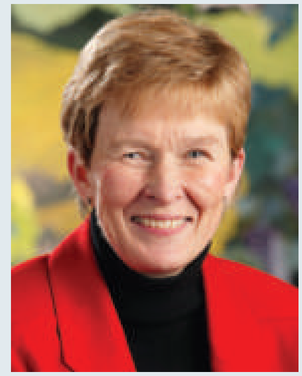
Director since
December 10, 2002

Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing over 700 staff and operating a fleet of more than 400 trucks.

Mr. Marcoux also owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, St. Paul's Hospital in Saskatoon, Saskatchewan and the Children's Health Foundation.







Joan Meyer
Chair, Corporate Governance Committee
Director from January 11, 1995 to September 1996, re-appointed September 26, 2000

Joan Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She also owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a director on a variety of boards at the national, provincial and local level, including Canadian Lutheran World Relief, The Multicultural Council of Saskatchewan, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation.

John J. Ryan
President and CEO, FCC
Director since September 1, 1997

John Ryan brings more than 30 years of financial leadership experience to FCC. During his tenure, FCC has achieved ongoing growth in its portfolio, market share and customer loyalty. A strong proponent of community involvement, Mr. Ryan chairs the Hospitals of Regina Foundation and is a member of the Board of Directors for Regina's Adult Learning Centre. He serves on the Board of Directors for the 2005 Canada Summer Games and is a member of the Board of Trustees for the Canadian Athletic Foundation. In 1998 and 2001, he led the CEO Challenge for Habitat for Humanity. Mr. Ryan has worked extensively with the United Way of Regina, serving as co-chair in 1999, chair in 2000 and chair for the 2001 Leadership Campaign. In 2002, Mr. Ryan received the Queen's Golden Jubilee medal in recognition of his significant contributions to the people of Canada.

Germain Simard
Director since June 6, 1995

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was president of the Union des Producteurs Agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. For eight years, Mr. Simard served as executive vice-president of the Fédération des Agricotours du Québec and, most recently, as regional president. He is a member of the agri-food co-operative Nutrinor, the Caisse populaire Desjardins and the Quebec Tourism Industry Corporation.

Deborah Whale
Director since November 4, 2003

Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy, poultry and beef production business. She is the chair of the Poultry Industry Council of Canada and was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, and chair of the Veterinary Infectious Disease Organization.

Glossary of terms

Agribusiness
Includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; and farming operations with the complexity and scope to be classified as Agribusiness.

Alliances
Relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Arrears
Arrears are defined as all amounts greater than $500 that are past due.

Asset/Liability Management Committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One hundredth of one per cent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income, calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agricultural operation, such as dairy, cash crops, beef, etc.

Farm Finance
Farming that produces raw commodities, including crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as Agribusiness.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes at specifically defined periods.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Integrated risk management (IRM)
The coordination of risk mitigation efforts to enhance the risk culture of the organization.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market Value of Portfolio Equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Provision for credit losses
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on Assets (ROA)
Net income expressed as a percentage of average total assets.

Return on Equity (ROE)
Net income expressed as a percentage of average equity.

Risk Scoring and Pricing System (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic Credit Risk Model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-added
Businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

FCC *Office* locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Stettler, St. Paul, Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Neepawa, Portage la Prairie, Steinbach, Stonewall, Swan River, Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Ste-Foy, Sherbrooke, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Grand Falls, Moncton, St. George, Sussex, Woodstock

Newfoundland and Labrador
St. John's

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

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