

Corporate Plan Summary

2006-07 to 2010-11



Farm Credit Canada

Canada

Corporate Plan Summary

For the 2006-07 to 2010-11 Planning Period

Operating Budget Summary, Capital Budget Summary and Borrowing Plan Summary

For the 2006-07 Budget Year



Canada

Farm Credit Canada

Success. Made in Canada.

Farm Credit Canada (FCC) helps primary producers as well as suppliers and processors along the agricultural value chain grow and diversify. Operating out of 102 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 customers a variety of customized debt and equity financing, insurance, management software, information and learning.

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 the corporation for the purpose of developing products and services to benefit the agricultural industry. FCC's healthy portfolio grew to \$11.2 billion in 2004-05, its 12th consecutive year of portfolio growth.

FCC's strength is relationships with customers and comprehensive knowledge of agriculture. "Enhancing the Customer Experience" is FCC's strategic intent for 2006-07 to 2010-11. This includes offering financing, advice and learning opportunities based on individual needs and making it easy for customers to do business with FCC.

FCC believes one of the key success factors for agricultural businesses is the ability to plan proactively for the future. This corporate plan outlines FCC's corporate objectives and plan for providing relevant products, services and knowledge tailored to the unique needs of the agriculture industry.

Any road will take you somewhere.

Take the road to success with Farm Credit Canada.

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Executive Summary

Farm Credit Canada (FCC) is a commercial Crown corporation, wholly owned by the Government of Canada. FCC reports to the Minister of Agriculture and Agri-Food. The corporation provides primary producers as well as suppliers and processors along the agricultural value chain with a variety of customized debt and equity financing, insurance, management software, information and learning. The following summarizes highlights of FCC's 2006-07 to 2010-11 Corporate Plan.

Corporate Mandate

Farm Credit Corporation was established through the *Farm Credit Act* in 1959 as an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*, making FCC the successor to the Canadian Farm Loan Board. FCC's mandate is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Operating Environment and Strategic Issues

FCC proactively monitors and analyzes trends in the agricultural and financial services industries. Our deep understanding of issues and opportunities helps our customers succeed.

Agriculture is a complex and multi-faceted industry in the midst of change and consolidation. According to Statistics Canada, Canada's farm population continues to decline and the median age of producers is increasing. Over the next decade, as farms are transferred to a new generation, more than \$50 billion in assets is expected to change hands.

While the industry is dynamic and ever changing, disease and weather-related challenges have always impacted producers. When disasters occur, FCC proactively contacts customers to develop plans that help them through challenging times.

International trade issues continue to place pressures on Canadian producers to increase efficiencies and competitiveness. The current round of World Trade Organization agriculture negotiations is expected to discuss in part, issues associated with supply management systems, national trading organizations and subsidies.

FCC is committed to the long-term future of Canadian agriculture and to meeting the changing needs of the industry.

Corporate Strategy

FCC's Board of Directors leads the formulation of FCC's business strategy. The Senior Management Team is responsible for executing the corporation's strategy, devising initiatives for its fulfillment and monitoring progress. The Board provides direction through the planning period and indeed, the full fiscal year. Ultimately, every employee's annual performance objectives are linked to FCC's corporate business strategy.

Business Strategy Highlights

FCC's business strategy is expressed in a succinct one-page strategy map. FCC uses the balanced scorecard framework, which is based on the philosophy that no matter what type of business an organization operates, attention must be paid in a balanced fashion on four areas: financial viability, customers, internal capability (such as technology and continuous improvement) and employees.

FCC plans to realize its mission and vision through the execution of the following priority themes:

1. Strengthening our market presence:

- Expanding our customer and partnership base
- Increasing awareness of the corporation

2. Enhancing our customer experience:

- Defining the customer experience
- Expanding the ways customers are served
- Broadening product and solution offerings

3. Optimizing execution and performance:

- Streamlining and updating business processes and technology systems
- Integrating governance processes and practices

4. Sustaining our commitment to agriculture:

- Increasing FCC's commitment to corporate social responsibility
- Serving as an "industry catalyst" in selected areas to effect positive change

5. Continuing to invest in our employees:

- Defining the employee experience
- Aligning people processes and development with future needs

Corporate Profile

Overview

Farm Credit Canada is Canada's largest agricultural term lender, offering loans and services to primary producers and agribusiness operators. FCC has 102 offices located across Canada; corporate office is located in Regina, Saskatchewan. FCC's 1,200 employees serve 43,000 primary producers as well as suppliers and processors along the agricultural value chain. FCC also has 9,000 alliance customers and provides training and publications to over 33,000 participants and subscribers. The total loans receivable was \$12 billion as at September 30, 2005. FCC operates on a fiscal year ending March 31st.

As a federal Crown corporation, FCC reports to Parliament through the Minister of Agriculture and Agri-Food.

FCC's Vision

FCC's vision was updated this year to reflect its expanded offerings as follows:

“Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.”

FCC's Mission

FCC's mission is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness.

FCC's Corporate Values

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.

Work 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. We team up with colleagues because we recognize that we can accomplish more when we share in the strengths of others.

Achieve 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.

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

FCC Cultural Practices

In addition to the corporate values, our cultural practices refer to the behaviours employees are expected to demonstrate 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.

FCC’s Value Proposition

A value proposition is "generally a clear and succinct statement that outlines to potential customers and stakeholders a company’s unique value-creating features"¹. It answers the question in a customer’s or prospect’s mind, “What value do I get from a relationship with Farm Credit Canada?”

FCC’s Value Proposition:

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

¹ Source: www.marketingprofs.com

We focus on the primary producer as well as suppliers and processors along the agricultural value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

These services **help our customers** make sound business decisions and **experience greater success**.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it.
We're in it for the long run.

Mandate

Farm Credit Canada's roots date back to 1927, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1942, the *Veteran's Land Administration Act* (VLA) was introduced to assist veterans of World War II to enter farming, providing the most important source of farm credit at the time.

Farm Credit Corporation was established through the *Farm Credit Act* in 1959 as an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*, making FCC the successor to the Canadian Farm Loan Board.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law, replacing the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act provided FCC with an expanded mandate that included broader lending and administrative powers. It also combined the corporation's powers to provide financial services to farming operations (including individuals, farming corporations and farm syndicates) under the authority of one Act.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, updating the previous *Farm Credit Corporation Act*. The new Act continues the corporation as Farm Credit Canada and allows the offering of a broader range of services to producers and agribusiness operators. The corporation's mandate is "to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the Corporation shall be on farming operations including family farms". From time to time, the corporation delivers specific programs for the Government of Canada on a cost-recovery basis (e.g. Ruminant Slaughter Equity Assistance Program).

Governance Structure

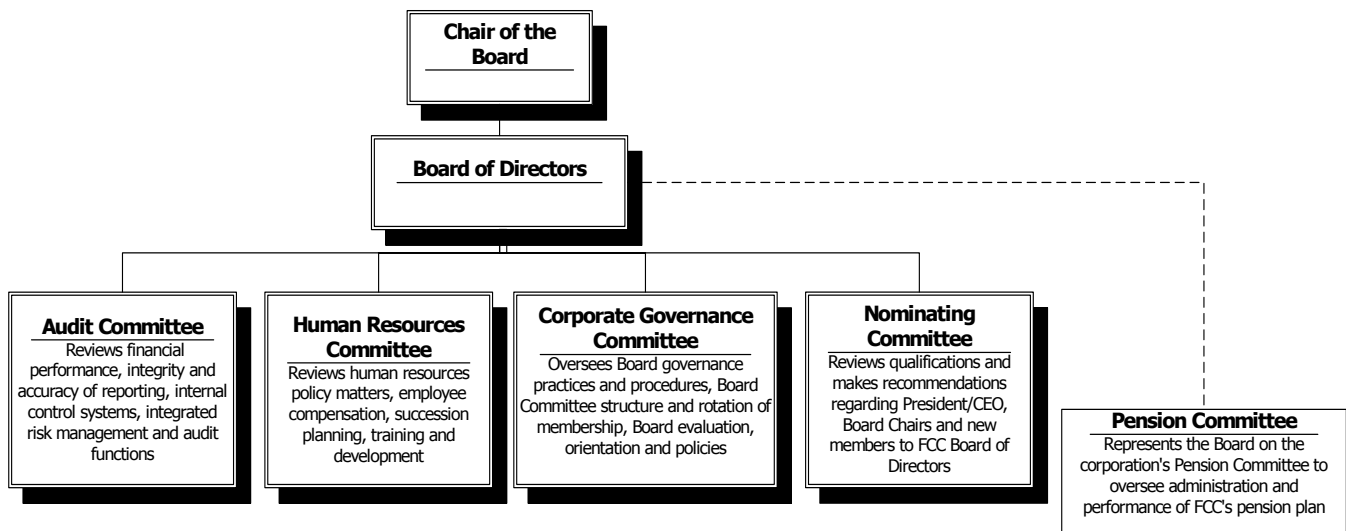
Board of Directors

FCC's Board of Directors represents the Canadian farming and agribusiness community. Their understanding of the industry contributes significantly to the vision, leadership and strategy development of the corporation. Committed to serving agriculture, the Board ensures that FCC focuses on customer service, productivity, self-sustainability, cooperation and sound environmental stewardship.

FCC's Board of Directors is appointed by corporation's shareholder, the Government of Canada. The Governor-in-Council appoints the Chair as well as the President and CEO. The Minister of Agriculture and Agri-Food appoints Board members who represent Canadian agricultural and financial communities, striving for gender, linguistic, employment equity and geographical representation. Directors serve two or three-year terms and may be reappointed.

The Board is responsible for the corporate governance of the corporation. It ensures that FCC business activities are in the best interests of the corporation and the Government of Canada as required by the *Farm Credit Canada Act* and *Financial Administration Act*. Directors exercise a stewardship role, establishing and contributing to a good working relationship with management. The Board leads FCC's strategic planning process and approves the strategic direction and the corporate plan. The Board also exercises its responsibility to oversee and ensure that principal risks associated with FCC's business have been identified and that appropriate systems and policies are implemented to manage these risks.

Board and Committee Structure



The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. A new written charter and a related set of Board governance guidelines were adopted in October 2004. These documents articulate the Board's responsibility in six major areas: integrity (legal and ethical conduct); strategic planning; financial reporting and public disclosure; risk management and internal controls; leadership development and succession planning; and corporate governance – including director orientation, continuing education and evaluation.

Members of the Board of Directors

ROSEMARY DAVIS, Chair

Owner/Manager
Tri-County Agromart Ltd.
Trenton, Ontario
Chair, Board of Directors
First appointed December 19, 1995
Appointed Chair June 20, 2000
Reappointed June 20, 2003

JOHN J. RYAN

President and Chief Executive Officer
Farm Credit Canada
Regina, Saskatchewan
First appointed September 1, 1997
Reappointed November 23, 2005

JACK C. CHRISTIE

General Manager and CEO
Northumberland Dairy Co-operative Ltd.
Miramichi, New Brunswick
Appointed November 27, 2003
Reappointed October 20, 2005

WARREN ELLIS

President and CEO
O'Leary Potato Packers Ltd.
Proprietor, Warren Ellis Produce
O'Leary, Prince Edward Island
First appointed April 4, 1995
Reappointed November 27, 2003
Chair, Human Resources Committee

DONNA GRAHAM

Managing Partner
Graham Farms Vulcan Ltd.
Vulcan, Alberta
First appointed September 26, 2000
Reappointed October 21, 2003

DON A. HALIBURTON

General Manager
Exchange-A-Blade Ltd.
Vancouver, BC
Appointed November 4, 2003

MARIE-ANDRÉE MALLETTE

Farmer, large-scale commercial crops and beans
Lawyer specializing in agricultural law
Ste-Martine, Quebec
First appointed June 16, 1995
Reappointed September 5, 2002
Chair, Audit Committee

RUSSEL MARCOUX

Chief Executive Officer
Yanke Group of Companies
Owner/operator, grain farm
Saskatoon, Saskatchewan
Appointed December 10, 2002
Reappointed August 29, 2005

R. CLAUDE MÉNARD

Retired CEO of Agropur (2003)
Granby, Québec
Appointed March 11, 2005

JOAN MEYER

Co-owner/operator of mixed farming enterprise
Owner/operator, Swift Administration and Management Services
Swift Current, Saskatchewan
First appointed January 11, 1995
Reappointed October 21, 2003
Chair, Corporate Governance Committee

RÉAL TÉTRAULT

President and Owner/operator
Emerson Milling Inc.
Emerson, Manitoba
Appointed June 23, 2005

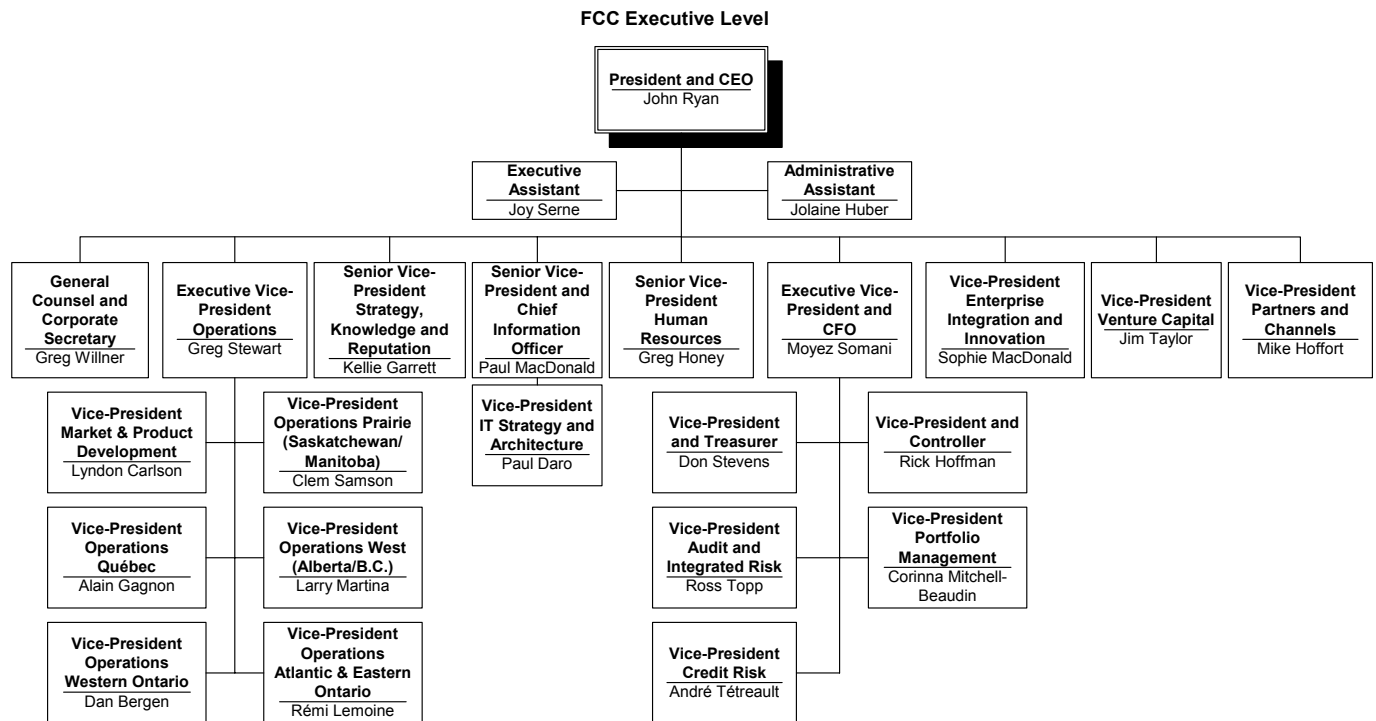
DEBORAH S. WHALE

Vice-President and Co-owner/operator
Clovermead Farms
Alma, Ontario
Appointed November 4, 2003
Chair, Nominating Committee

Executive

The President is the Chief Executive Officer (CEO) and supervises the business of the corporation. With the approval of the Board of Directors and Chief Executive Officer, the corporation's Senior Management Team sets corporate priorities and acts to achieve FCC's strategic objectives consistent with the mandate and approved strategic direction. The *Financial Administration Act* serves to guide decision-making and business activities. Bound by the Employee Conduct and Ethics Policy, FCC's Senior Management Team adheres to the highest ethical standards of business, professional and personal conduct. All executives, with the exception of the CEO, are paid within the salary ranges and compensation policies approved by the Board of Directors. The Governor-in-Council establishes the CEO's compensation.

Organizational Structure – Executive Level



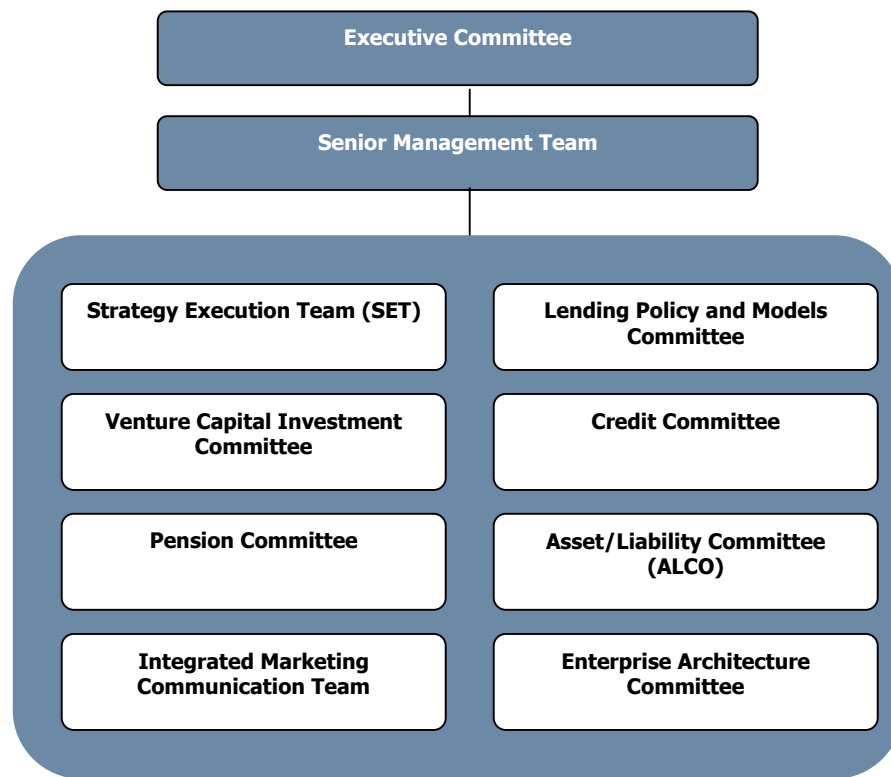
FCC's **Executive Committee** (EC) consists of the President and CEO, Executive Vice-President and CFO, Executive Vice-President Operations, Senior Vice-President Human Resources, Senior Vice-President and CIO, and Senior Vice-President Strategy, Knowledge and Reputation. Executive Committee is responsible for corporate decision-making, FCC's strategic vision and investment strategy regarding areas for focus, allocation of enterprise resources and resolution of major strategy execution issues.

In September 2005, FCC's senior management team received the Saskatchewan Lieutenant Governor's IPAC Gold Medal award for "distinctive leadership and exceptional achievement in public administration in Saskatchewan". This award is sponsored by the Regina chapter

of IPAC Canada (Institute of Public Administration) and is based on the following criteria: service in public administration, relative importance of contributions in their own field and work history and accomplishments of the nominees. The senior management team is committed to building a high-performance organization and an environment in which employees excel and ultimately exceed customer expectations.

Governance Framework

In addition to the Board of Directors, Executive Committee and the Senior Management Team, FCC established a governance framework to guide corporate decision-making.



Strategy Execution Team (SET): is responsible for facilitating the execution of FCC’s business strategy. SET prioritizes and sequences corporate projects to ensure alignment with FCC strategy and optimum use of financial and human resources.

Venture Capital Investment Committee: is responsible for adjudicating all investment recommendations and reviewing the performance of the existing venture capital portfolio.

Pension Committee: is responsible for providing advice to the Human Resources Committee of the Board of Directors on monitoring the approved governance structure of support for the pension plan and reporting annually on the overall functioning of the plan, recommending changes to plan governance, developing and reviewing the Plan’s Statement

of Investment Policies and Goals and monitoring and reviewing the performance and activities of the plans investment managers.

Integrated Marketing Communication Team: is responsible for establishing an integrated brand marketing and communication strategy and implementation plan. This ensures that all media relations, public relations, advertising and promotion and other visibility initiatives are cohesive and coordinated.

Lending Policy and Models Committee: oversees the development of lending policies and the enhancement of credit risk models and scorecards to support and maintain FCC's desired credit culture. The committee works to ensure that these portfolio risk tools reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

Credit Committee: reviews and makes lending decisions on loan applications from customers with total exposure in excess of \$10 million for established operations and in excess of \$5 million for start-up operations.

Asset/Liability Committee (ALCO): directs and oversees the Asset Liability Management function of the corporation including the establishment and maintenance of prudent risk management policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.

Enterprise Architecture Committee: governs the conceptualization, design and coordination of FCC's Information Technology Enterprise Architecture. It is responsible for enterprise architecture development, platforms and compliance with IT standards.

Corporate Social Responsibility and Public Policy Role

Corporate Social Responsibility encompasses a corporation's behaviour in all areas – from procurement to philanthropy. It also includes the honest disclosure of such practices. Whether it is providing programs to benefit our communities, ensuring environmental safety, or fulfilling our public policy role, FCC is committed to its social responsibility obligations.

Farm Credit Canada is a federal Crown corporation, that reports to Parliament through the Minister of Agriculture and Agri-Food. FCC's mission statement conveys the corporation's public policy role:

**FCC's mission is to enhance rural Canada
by providing specialized financial and business solutions to
farm families and agribusiness.**

The following section describes how FCC is working to establish a corporate social responsibility framework in order to enhance the fulfillment of its public policy role.

Corporate Social Responsibility Highlights

For the year ended March 31, 2005

According to the Conference Board of Canada, corporate social responsibility (CSR) is about “transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society.”

The following summary was adapted from the Globe and Mail’s Report on Business second annual CSR Ranking to measure FCC’s progress in six key decision-making, behaviour and performance priority areas.

2004-05

Community investment	
Policy statement on community donations is available to the public	yes
Calculates donations based on one per cent of profits	yes
Programs are in place to support employee giving and volunteering	yes
Corporate governance	
Statement of social responsibility	not yet
Statement of corporate values	yes
Code of business conduct	in progress
Board Chair and company CEO are separate functions	yes
Customers	
Conducts customer satisfaction surveys	yes
Helps customers market their products	yes
Loans available that help people get into agriculture	yes
Offers industry-related training	yes
Employees	
Conducts employee satisfaction surveys	yes
Provides employees with education and development	yes
Conducts annual market compensation reviews	yes
Policy on diversity and employment equity	yes
Publicly reports on diversity issues	yes
Offers employees diversity training	yes
Benefits include additional maternity and paternity benefits	yes
Percentage of women on the board	42
Percentage of women among senior managers	14 ²
Environment	
Corporate environmental management systems in place, including policies, programs and performance analysis	not yet
Reports on resource use (energy, materials, water)	not yet
External reporting on lending environmental risk management	in progress
Lending environmental risk management policy and processes, including environmental risk assessment	yes
Offers loans that reduce the environmental impact	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress
Human rights	
Human rights policy and code of conduct	yes
Policy/code of conduct governing the supply chain of procured items	not yet ³

² Percentage updated since originally published in the 2004-05 FCC Annual Report.

³ FCC has a procurement policy for dealing with suppliers. A policy governing dealings with socially responsible suppliers and others supplying procured items is planned.

Commitment to Rural Canada

Community Investment

Investment in communities is one way FCC lives its corporate value of “Giving Back to the Community”. As a member of the Imagine group of caring companies, FCC has made a formal commitment to give at least 1% of profits back to the community.

FCC gives back in three ways:

- Funding projects across Canada that focus on feeding the hungry, providing education regarding where food comes from and helping to improve rural safety. Projects include the FCC 4-H Scholarship Program, World Food Day and First Aid on the Farm. Through its field offices, FCC also donates money to help local community efforts focused on food and rural safety – giving employees the opportunity to decide what to support in their own communities.
- In 2004, FCC’s Board of Directors approved \$600,000 to be used in support of rural community service projects and communities in crisis. This includes the AgriSpirit Fund donations, the Agricultural Crisis Fund and administration. Once each year, community-based organizations will have an opportunity to apply for a portion of the funding available.
- Through the Employee Volunteer Program, employees who volunteer a minimum of 20 hours per year may enter to win a \$500 donation to the charity they serve. Employees who work together to raise funds from other FCC employees can receive a \$0.50 matching donation for each dollar they raise. FCC is a major supporter of the annual United Way campaign through which employee donations are matched dollar for dollar, with the opportunity for employees to specify where they would like to see their donations used.

Fostering Pride in and Awareness of Agriculture

FCC is proud to serve the Canadian agriculture industry. It is our deep sense of commitment to agriculture and customers that inspires FCC to explore unique ways to showcase this industry. In 2004, a program was created to raise awareness of and to foster pride in the agriculture industry. This program consists of three major initiatives:

CanadianFarmersMarket.com, a website launched in 2005 that gives FCC customers the opportunity to advertise and sell products online. Customers provide their product information to FCC, which is listed on www.CanadianFarmersMarket.com free of charge. The site showcases a wide selection of produce and products ranging from beef and honey to wine and cheese, along with recipes and stories about the producers behind the products. It’s an opportunity for FCC customers to showcase their products and Canadian agriculture, in the world's biggest market – the internet.

Ag 101 on Highway 1, a project targeted to journalism/broadcasting students to increase their awareness and knowledge of agriculture. Feedback from 2004-05 participants was excellent.

Agriculture in the Classroom educates young people about agriculture. FCC is increasing its involvement in this program to bring this learning opportunity to more students from all across Canada.

AgriSpirit Fund

In November 2004, FCC created the AgriSpirit fund. This fund annually awards \$400,000 towards capital projects for communities with populations under 100,000 across Canada. Applications were received from 489 communities and 38 projects were funded in 2004-05. These projects received between \$5,000 and \$25,000 to create or enhance facilities in their community. Recreation centres, museums, childcare facilities and fire and rescue services are a few of the projects that are benefiting from this funding. A significant amount of time and consideration went into each evaluation, including how the project would make a difference in the community. Further information about the AgriSpirit fund can be found on FCC's website at www.fcc-fac.ca.

Commitment to Customers

FCC is deeply committed to our customers' success. This commitment is exhibited by supporting customers with flexible products and solutions designed to help manage cyclical fluctuations, price pressure, weather-related issues, disease and other challenges. Through the Agriculture Crisis Fund and our Customer Support Program, we provide proactive, reliable service that demonstrates our commitment to serving customers through prosperous and challenging times.

Agriculture Crisis Fund

FCC helps customers in times of need. The Agriculture Crisis Fund falls under FCC's mandate to enhance rural Canada. Support is based on the nature and magnitude of the disaster.

Support is provided for:

- Immediate response care to individual producers in times of short-term crisis, e.g. fire, tornado etc.,
- Projects that provide direct support or funding to individual producers (e.g. set up a farm stress line).

Support may be provided for:

- Events and projects organized to deal with a crisis or disaster that has widespread impact effecting a large number of producers (e.g. drought, floods, BSE).

Customer Support Program

When disasters occur in the agriculture industry, FCC proactively contacts customers to develop plans to manage through challenging times. For example, in recent years, FCC has worked with producers affected by drought, floods, avian flu and Bovine Spongiform Encephalopathy (BSE). FCC understands that producers in all sectors are vulnerable to unforeseen challenges. Providing this support reinforces FCC's commitment to customers and Canada's agricultural industry.

Shortly after the BSE crisis began in 2003, FCC activated its Customer Support Program and account managers proactively contacted customers, giving them the opportunity to explore flexible solutions such as payment rescheduling or interest-only payments. The corporation continues to lend to those involved in the beef sector, thus demonstrating belief in its long-term viability. Since May 2003 and the border closure, FCC has loaned \$951 million to beef customers. In addition, FCC has provided more than \$30 million in term loans to finance Canada's ruminant slaughter and meat processing industries.

In the summer of 2004, FCC worked closely with grain customers in Western Canada following an early frost. The customer support program was also activated in September 2005 to assist customers in the Steinbach and Brandon, Manitoba areas. These producers are facing cash flow pressures due to excessive rainfall this spring and summer. Account managers are working with their customers on an individual basis to assess and explore options such as deferred or interest-only payments.

Commitment to Employees

FCC has a committed team of over 1,200 employees, located in 102 offices across the country. FCC's ability to build relationships with customers is based on our knowledge of the agricultural industry, and our passion and commitment to its success. We understand the issues that primary producers and agribusiness operators face. Many front-line employees are still involved in agriculture. Unleashing the passion and unique talents of our employees is key to enhancing our customer experience.

For the second year in a row, FCC was selected as one of the 50 best places to work for in Canada in the December 31, 2004 Globe & Mail Report on Business Magazine. The report cites many reasons why FCC stands out as an employer of choice, including training and development programs, internal communication practices, employee benefits, the community investment program, commitment to knowledge management and alignment of the leadership team at FCC.

FCC's people practices make FCC an enviable place to work. In 2004-05, FCC continued to transform its culture, creating an environment that emphasizes trust, respect, teamwork and high performance. FCC's employees live by a set of 10 cultural practices that outline expected behaviours with colleagues, customers, partners, suppliers and stakeholders. This results in enhanced internal employee relationships and translates into a better experience for our customers.

Special attention is paid to employee productivity and potential through annual performance reviews and development planning. In addition, the annual Hewitt survey measures employee engagement - the degree to which employees say good things about FCC, strive to do their best, and want to stay with the organization. In the past three years, the employee engagement score has steadily increased from 69% to 81% to 84% respectively. FCC has a voluntary turnover rate of 7 per cent, compared to an industry average of 8.5 per cent.

The corporation also offers a competitive benefits program and conducts an annual salary review. Employees at all levels have access to numerous training and career development plans and programs. A formal succession planning program is in place to prepare employees for future leadership positions. Knowledge Management programs and activities demonstrate that the organization is committed to growing knowledge about the agricultural industry.

In addition, the corporation is always looking for new ways to make FCC a better place to work. As a result, FCC is developing a more streamlined and efficient approach to doing business so that employees can do their work more efficiently, enabling them to serve customers more consistently and effectively. FCC also recognizes the importance of celebrating successes. In 2005, the Employee Recognition program was revised to enable employees to recognize peers for excellence including leadership in demonstrating cultural practices and commitment to enhancing the customer experience.

Official Languages

FCC views official languages as more than an obligation. The corporation is committed to creating a true climate of bilingualism for both customers and employees. Accordingly, the corporation has implemented several best practices that have been recognized by the Treasury Board Secretariat and the Commissioner of Official Languages. Employee commitment to bilingualism, the language-training program and high quality translation allows FCC to simultaneously serve customers and employees in Canada's two official languages.

In 2003, FCC President & CEO John Ryan was awarded the Leon Leadership award from the Commissioner of Official Languages, recognizing the corporation's commitment to bilingualism. There is only one Leon Leadership Award given each year to a federal deputy Minister or CEO who has demonstrated leadership in the implementation of the Official Languages Program within their organization.

Commitment to Suppliers

Supplier relations are an important part of how FCC conducts business. Having a formal procurement policy ensures a fair, open and transparent procurement framework. Administration of the policy includes locating and securing competitive sources of quality goods and services required by FCC. All supplies, equipment and services are purchased in the most cost-effective manner, based on quality, fitness of purpose, efficiency to procure and availability at the time of purchase. Fair handling of all FCC contracts is just one of the

responsibilities of FCC's in-house legal counsel. Last fiscal year, FCC also hired a Procurement Manager to administer the policy and enhance processes.

Commitment to the Environment

Customer success is clearly connected to sound, sustainable environmental management. FCC understands this connection and is committed to supporting and promoting well-balanced environmental business practices. As a federal Crown corporation, FCC must also ensure that its lending activities do not lead to misuse, contamination or other deterioration of the environment. FCC's Environmental Policy provides a tool for managing environmental risk and a mechanism for integrating environmental sustainability into all aspects of its operations.

Sound environmental practices make good business sense. FCC's Environmental Policy and supporting tools help customers succeed in this area. With every new real property loan, customers complete an environmental questionnaire. Due diligence is then applied regarding the environmental risk posed by real property offered as lending security. If required, FCC will perform site inspections and seek an environmental assessment report from a qualified environmental consultant. In addition, appropriate lending terms encourage best management practices and further ensure that applicable federal, provincial, municipal environmental regulations and by-laws are met.

Lending products, like FCC's Enviro-Loan, enable producers and agribusiness owners to improve their operations and adopt sound resource management techniques. Showcasing environmentally innovative solutions developed by FCC customers provides an opportunity to see environmental stewardship in action. Ongoing employee training helps facilitate environmentally sound lending decisions and promotes a climate of awareness between FCC and its customers to encourage environmentally safe farming practices.

As of June 2006, provisions of the *Canadian Environmental Assessment Act (CEAA)* will apply to FCC. FCC is working on a set of standards acceptable to the Canadian Environmental Assessment Agency and is developing the required reports, tools and business processes required to meet reporting and environmental risk management obligations. Enhancements to the environmental risk management sections of FCC's Lending Policy, the creation of and revisions to lending forms, and policy and process training for employees are currently underway. To meet the obligations and expectations set out in FCC's Environmental Policy, achieve the greatest possible economic and environmental benefit, and maintain our commitment to the CEAA, FCC has identified a long-term goal of integrating environmental risk management with established risk assessment policy and procedures. The ultimate goal is to safeguard customer operations, minimize risk to FCC's portfolio and ensure that FCC itself operates in a socially responsible manner.

Bio-Security

Bio-security describes the concept, process and objective of managing - in a holistic manner - biological risks associated with food and “agriculture” used in its broadest sense to include agronomy, livestock husbandry, forestry, fisheries and related environmental aspects. Bio-security encompasses all policy and regulatory frameworks to manage risks associated with food and agriculture⁴. At the individual farm level, bio-security refers to protecting the health of livestock by preventing the transmission of disease⁵. With growing concerns regarding diseases such as BSE, Avian Flu, Chronic Wasting Disease, Foot & Mouth and transgenetic contamination of seed stocks, bio-security is quickly being recognized as an important issue in the Canadian agricultural industry.

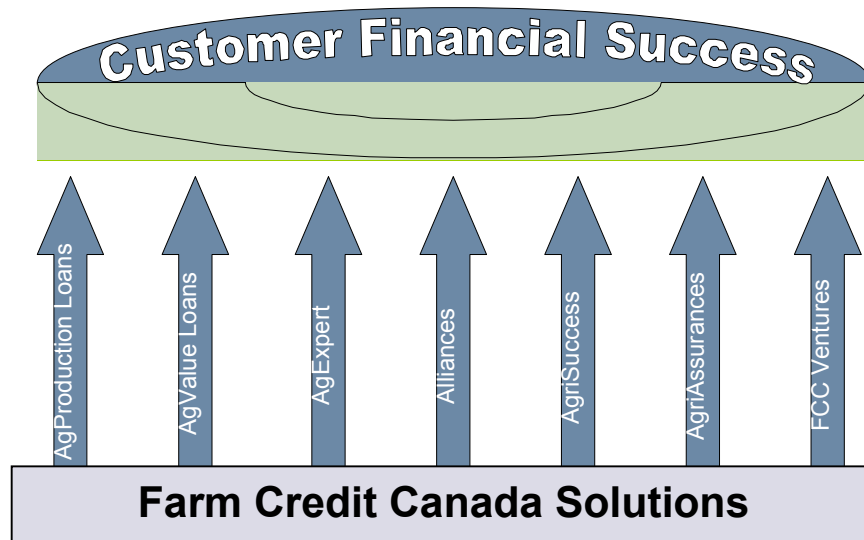
As part of its commitment to the environment, rural Canada and its customers, Farm Credit Canada is currently exploring ways to promote bio-security awareness and education. FCC is also revising protocols for on-farm visits to ensure that the utmost care is taken to safeguard customer operations and the environment when conducting business. Lending and environmental policies and forms will also be reviewed and enhanced to ensure that best practices regarding bio-security are adhered to. FCC also encourages customers to develop environmental plans to safeguard their operations and protect the industry.

⁴ FAO (Food and Agriculture Organization of the United Nations) Technical Consultation on Biological Risk Management in Food and Agriculture. Bangkok, Thailand, 13-17 January 2003

⁵ Canadian Food Inspection Agency Farm BioSecurity...A Common Sense Guide. Canadian Food Inspection Agency <http://www.inspection.gc.ca/english/anim/heasan/fad/biosecure.shtml>

Products and Solutions

FCC has seven distinct solutions designed to serve the diverse needs of primary producers, suppliers, processors and others involved in the Canadian agricultural industry: AgProduction loans, AgValue loans, AgExpert management software, Alliance loans through partners, AgriSuccess information and learning, AgriAssurances life and accident insurance and FCC Ventures.



Debt & Equity Financing

Farm Credit Canada has four financial solutions: AgProduction, AgValue, Alliances and Venture Capital.

On April 1, 2005, FCC renamed its *Farm Finance* and *Agribusiness* business lines to *AgProduction* and *AgValue* respectively. The AgProduction business line focuses on all primary producers from big to small, whereas the AgValue line is directed to customers that enable or benefit Canadian agricultural production, including activities that produce, transport, store, distribute, process, or otherwise increase the value of agriculture production. These changes were necessary to create greater clarity in the marketplace, as the word agribusiness is more commonly associated with the business of agriculture – including primary production.

Customer Eligibility Policy

In 2005, FCC revised its customer eligibility policy and process for lending and investment products. While the previous policy served FCC well, the addition of FCC Ventures and the growth in the value-added portfolio necessitated a policy review. The policy applies to AgProduction, AgValue, Alliances, and Venture Capital.

To be eligible, individuals or enterprises (partnerships, companies, co-operatives) must meet the following criteria:

- For individuals and unincorporated enterprises, the applicant must be of legal age in the Canadian province or territory of jurisdiction.
- For unincorporated enterprises, Canadian citizens or permanent residents as defined in the *Immigration Act* must have equal or majority ownership.
- For incorporated enterprises, the enterprise must be registered in Canada, however citizenship of shareholders need not be Canadian.
- The focus of the enterprise must be Canadian primary agricultural production: activities that enable such production or activities that benefit Canadian primary agricultural production. This includes activities that produce, transport, store, distribute, process, or otherwise increase the value of agriculture production.
- The purpose of the loan or investment must be for:
 - credit to purchase ownership shares of an eligible enterprise;
 - credit for financing, refinancing or debt restructuring for agricultural land, buildings or livestock of an eligible enterprise;
 - credit to finance operating expenses such as crop inputs or livestock feed;
 - credit to finance farm equipment or vehicles; or,
 - venture capital investments for equity, financing, refinancing or restructuring purposes.
- For value-added processing, the activity of the enterprise must directly involve or relate to an identifiable agricultural product.

The formal policy is supplemented with *Policy Interpretation Guidelines* and *Eligibility Test Questions* designed to assist employees in assessing enterprise eligibility. FCC also has an *Eligibility Rulings Request Process* to assist employees in interpreting eligibility. This includes cataloguing and publishing eligibility rulings internally as they become available.

AgProduction and AgValue Loans

FCC tailors new products and solutions to help primary producers as well as suppliers and processors along the agricultural value chain handle the industry's unique evolving needs. FCC has taken a leadership role in developing products that are driven by customer and sector needs. In some instances, the markets for these products are initially limited. In many cases, other financial institutions have copied FCC's innovative solutions, to the benefit of the agricultural industry. FCC works closely with Canadian producers and value-added operators to create financing solutions for each stage of their business life cycle – from start-up to succession and retirement.

Recognizing the growing interconnectedness of the industry, FCC also offers financial packages to meet the needs of producer-run alliances, co-operatives and other integrated networks. Alliances and partnerships are formed with other organizations to enable FCC to offer producers a full range of financing options. Working together, we can open the door to new opportunities for producers as well as suppliers and processors along the agricultural value chain.

As the needs of customers continue to change, so has the management of FCC's product line. The relevance of each product is regularly examined to maximize our ability to find the right solution for each customer's individual situation. This approach allows more flexibility in product tailoring and pricing to address customer needs.

FCC will continue to focus on delivering new and innovative products and management solutions that build upon our commitment to all sectors of the agriculture industry.

Some of FCC's lending products include:

<p>Advancer Loan A pre-approved, secured loan that features the ability to re-advance funds at the producer's discretion.</p>	<p>American Currency Loan Allows operations deriving revenue in U.S. dollars to borrow and make payments in U.S. dollars.</p>	<p>Capacity Builder Loan Financing that is pre-approved for up to one year and the option to capitalize interest for the purchase of quota and breeding livestock.</p>
<p>Cash Flow Optimizer Loan Gives producers the freedom to use money that would normally go towards principal and invest it in other areas of their operation.</p>	<p>Construction Loan Provides interim financing for up to 18 months on construction projects including processing plants, cold storage and grain storage facilities. Funds are disbursed as needed during construction but no payments are required until completion.</p>	<p>Enviro-Loan Defer principal payments to construct, improve or expand operations while implementing sound environmental practices.</p>
<p>Farm Builder-Loan Defer principal payments on construction projects. Funds are disbursed as needed during construction, but no payments are required until completion.</p>	<p>First Step Loan Designed to help those with post-secondary education purchase their first farm related asset.</p>	<p>Flexi-Farm Loan Allows producers to defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.</p>
<p>Herd Start Loan While a producer starts a herd, cash flow can be used to grow the business, rather than for making payments.</p>	<p>1-2-3 Grow Loan Interest-only payments can be used by producers to help manage their cash flow until they see a return on their investment.</p>	<p>Opportunity Loan AgValue customers can fund their expansion with principal payment holidays for up to 12 months.</p>
<p>Payday Loan Financing for individuals with off-farm employment interested in starting or expanding a farm business.</p>	<p>Performer Loan Rewards the borrower with lower interest rates when their business achieves pre-set financial goals and ratios.</p>	<p>Plant Now – Pay Later Loan Horticulture operations can defer payments until new plantings start to generate cash flow.</p>
<p>Spring Break Loan A flexible payment schedule allows forestry operators to defer payments until new plantings start to generate cash flow.</p>	<p>Stop and Grow Loan Woodlot owners can defer principal payments as saplings grow into profits.</p>	<p>Transition Loan Helps the next generation purchase property from someone who is retiring and helps those retiring receive the equity from their farm without risk.</p>

Venture Capital

Access to capital is an important issue for producers and agribusiness operators in Canada. As the agriculture industry changes and evolves, they need access to alternate sources of funds.

Recognizing an opportunity to better serve the agriculture industry, FCC drew upon its expertise in agricultural financing and network across Canada to develop venture capital in agriculture. Accordingly, FCC Ventures was launched in 2002.

FCC Ventures focuses on providing equity and quasi-equity financing to small and medium-sized companies, investing in Canadian businesses that are dedicated to serving and advancing agriculture in Canada and the global economy. FCC Ventures is quickly becoming a recognized investor in agriculture, focused on the following sectors: value-added food manufacturing; commercial processing; commercial-scale farming; businesses that support the agricultural sector and ag-biotech.

In the Canadian venture capital and private equity marketplace, there are three main categories of funds:

1. Other government funds, such as BDC Venture Capital and various provincial government-backed private equity and venture capital funds (primarily in Quebec).
2. Bank-owned and other institutional funds, such as Bank of Montreal Capital Corporation, Roynat Capital, CIBC Mezzanine Partners, Manulife Financial, etc.
3. Private funds, such as McKenna Gayle, CCFL, Dancap etc.

Investment activity in Canada's venture capital and private equity industry showed moderate signs of growth in 2004, as \$1.8 billion was disbursed, up by 6% over the \$1.7 billion invested in 2003⁶. A key factor in this growth was the 43% increase in investment (\$479 million) from American and other foreign investors (\$336 million – 2003). In the first six months of 2005, dollars invested by Canada's venture capital and private equity industry totaled \$962 million (2004 - \$827 million), a 16% increase that was highlighted by second quarter spending of \$627 million, the largest volume since Q4 2003.

Since its launch in 2002, FCC Ventures has invested a total of \$33,750,000 and has commitments to invest an additional \$8,250,000. Initial investments have ranged from \$1,000,000 to \$5,000,000, using a variety of investment instruments. Further investments will continue to be made⁷. Through its investments, FCC is helping to finance strong, well-managed businesses that have the potential to positively impact agriculture. FCC encourages participation of other venture capital and private equity firms in their projects. A co-investment ratio of 2.4:1 (\$41.0 million) was achieved in 2004-05. Since 2002, FCC Ventures has achieved a co-investment ratio of 2.0:1 (\$68.85 million). A co-investment ratio of 1.3:1 is expected for 2005-06.

⁶ Source: MacDonald & Associates Limited, 2005. FCC Ventures will obtain additional market data from Thomson MacDonald (formerly MacDonald Associates Ltd) in the 2006-07 fiscal year.

⁷ To date, the federal government has announced funding of \$40 million for FCC Ventures.

The ventures team has expanded and now has offices in key regional markets. FCC Ventures continues to support growth in the agriculture market through its investments and by raising awareness of potential investment opportunities within the venture capital and financial markets.

Alliances and Partnerships

Traditionally, FCC has conducted business directly with customers through a network of offices located across Canada. Over the last several years, FCC has expanded its market reach by working more and more with alliance partners to deliver products and services to Canadian producers. Our alliance programs support the core business objectives of our partners while offering innovative financial solutions to producers conveniently at point of sale. FCC currently has alliance relationships with 525 agriculture equipment retailers and over 60 suppliers, financial institutions and other agricultural groups and co-ops.

Built on a foundation of triple win, FCC alliance relationships are consciously designed to deliver a positive outcome for all key stakeholders – producers, the partner and FCC. In the case of agriculture equipment retailers, the partner relationship can be as simple as a loan referral service where FCC finances new equipment purchases for customers wishing to submit a loan application at the dealership directly to FCC's Customer Service Center for processing. In more integrated alliance relationships, FCC may lend through an organization that would act as the point of contact for the administration of the loan. The over-riding objective is to improve and expand the products and services available to the agriculture industry and individual producers by working with partners to complement FCC's service offerings.

Creditor Insurance

Agri-Assurances

FCC offers insurance protection for individuals, farm families and their businesses. Insurance coverage is designed specifically for agriculture and coverage of up to \$1.5 million is available. Customers can choose individual or joint coverage, and insure the full loan or a portion of the loan. Custom built plans are also available with no broker or additional paperwork required.

Agri-Assurances offers the following types of insurance:

- Loan Life and Accident Insurance – FCC's core insurance plan can be used to insure all loans except Cash Flow Optimizer, Stop and Grow, Advancer, and American Currency.
- Key Person Insurance – protects the business by insuring key people.
- Payment Protection Insurance - provides a two-year holiday on insured loans in the event of accident or death.
- Level Coverage Insurance – family or business partners can keep the business going with reduced or eliminated loan payments.

- Revolving Credit Insurance – offers insurance protection for loans where the coverage and premiums fluctuate with the loan balance. This is to insure Advancer loans only.

FCC group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.

Education: Workshops, Seminars, Training & News

AgriSuccess

FCC's AgriSuccess team delivers programs such as educational workshops and seminars designed to meet the needs of today's sophisticated primary producers and value-added operators. These offerings are supplemented by AgriSuccess Express, Canada's only weekly email news publication devoted to agricultural issues as well as the AgriSuccess Journal – a bi-monthly print publication.

To help producers manage each stage of their business life cycle, AgriSuccess offers a comprehensive suite of management training and information. Full-day and half-day workshops and seminars provide training on topics such as financial planning, human resource planning, succession planning, estate planning and goal setting. Advanced Farm Manager, an eight-day program, provides an in-depth review of essential components of strategic business planning.

AgriSuccess is FCC's strategic response to the increasing challenges of a global agricultural marketplace. Proprietary research demonstrates that Canadian farm operators are, as a rule, unstructured in their management techniques. According to a 2002 OECD global report on Environmental Indicators for Agriculture, only eight per cent of Canadian producers have full agricultural training⁸. This represents a fraction of the levels of training completed in some other countries that offer similar products in the global marketplace. Nonetheless, the use of training is becoming more common among Canadian producers: four in ten report attending a management training seminar more than once in the past two years and a further five in ten report attending at least one management seminar in the past two years. FCC is committed to providing these types of services and tools to help producers succeed.

In addition to FCC's offerings, producers are able to participate in various seminars and training sessions via various stakeholders in the marketplace.

In support of learning opportunities, FCC offers the Business Planning Award to agricultural students attending agriculture programs in universities and colleges across Canada. Participants work with a mentor to create functional business plans that prepare them for real-world challenges and opportunities. In 2004-05, FCC awarded a total of \$73,000 in business planning awards to 99 students from 16 participating educational institutions.

⁸ Source: 3-12 Organization for Economic Co-operation and Development (OECD) Environmental Indicators for Agriculture, 2002.

Software

AgExpert

AgExpert, Canada's leading publisher of agriculture management software (formerly Settler Agricultural Software) became part of FCC in October 2002. AgExpert offers AgExpert Analyst accounting software, bilingual accounting software which allows primary producers to enter income and expenses, track inventory and capital assets, complete GST and CAIS reporting and produce financial statements. The AgExpert Field Manager program allows customers to track seeding/planting schedules, fertilizer applications, yield and herbicide use for their entire operation. All of this field and crop record keeping is available on a desktop PC and handheld pocket PC.

AgExpert also offers software training in various locations across the country. Different training courses are available from beginner to advanced. The www.AgExpert.ca website provides producers and customers with product and support information. Software support services are provided through the AgExpert Call Center and all AgExpert customers receive their first year of service support free of charge. AgExpert customers can subscribe to receive annual software support services providing them with daily access to knowledge specialists.

FCC knows that sophisticated management skills are required to compete and succeed in today's environment. AgExpert products are important tools to support producers across Canada and to help them grow, diversify and prosper.

Online Services

FCC's online services are accessible through the corporation's website at: www.fcc-fac.ca. Customers and the public can access a variety of online services, including information about FCC's products and solutions, agricultural news and publications, and much more. Other tools include a Farm Finance kit, updated commodity futures prices and five-day forecasts for any area across the country. An online loan application is also available – Apply Now – and allows individuals to get a head start in applying for a loan with Farm Credit Canada.

FCC customers can review their entire loan portfolio online, including principal and interest split, insurance expense, details and history – 24 hours a day, seven days a week. Instant access to Farmland Values Online is also available free of charge to customers on the FCC website.

CanadianFarmersMarket.com is an FCC website designed to support customers and their products. FCC customers can sell their products anywhere in the world. The site showcases high-quality products, ranging from award-winning wine to game meat, beef, fresh roses, jam and jellies. All FCC customers can sign up and sell their products to a worldwide market at www.CanadianFarmersMarket.com. This service is offered free of charge.

FCC Bonds

FCC offers a variety of bonds that are flexible, secure and competitively priced. These bonds are eligible for use in RRSPs, RESPs, RRIFs and long-term investment strategies. As part of FCC's commitment to rural Canada, proceeds from the sale of FCC notes are used to lend funds to our customers.

FCC bonds are 100 per cent guaranteed by the Government of Canada. Maturities range from one to ten years and bonds are sold in multiples of \$1,000 subject to a minimum investment of \$5,000. Individual and/or corporate investors can choose flexible terms and pricing.

The advantages of FCC bonds are:

- FCC bonds provide investors with the same credit quality as the Government of Canada (AAA)
- FCC offers a wide range of maturities, coupons and interest payment frequencies
- FCC Bonds offer investors an excellent opportunity to support Canadian agriculture
- FCC Bonds are eligible for Registered Retirement Savings Plans, Registered Retirement Income Funds and Registered Education Savings Plans

FCC bonds can be purchased through various investment dealers and discount brokerages across the country.

Marketplace

FCC participates in the Canadian financial services industry, which includes the chartered banks, credit unions, caisse populaires and provincial lending agencies.

Canada currently has six large bank financial groups as well as:

- 13 smaller domestic chartered banks;
- 50 foreign-owned banks (as subsidiaries or foreign branches);
- 1,100 credit unions and caisses populaires;
- 25 trust companies;
- Over 100 life insurance companies;
- 200 independent finance companies;
- 200 independent investment dealers;
- 4,000 advisors, financial planners and brokers;
- 3,700 financing firms with assets of at least \$5 million.

The Canadian financial services market continues to expand as more companies are offering differentiated products and services, which include residential and commercial mortgages, credit cards, motor vehicle financing and equipment leasing.

Federal and provincial government programs that serve agriculture include:

- ATB Financial
- Agriculture Financial Services Corporation
- La Financière agricole du Québec
- Manitoba Agricultural Services Corporation
- Nova Scotia Farm Loan Board
- PEI Lending Agency

Operating Environment and Strategic Issues

Strategic Planning Process

The strategic planning process engages the Board of Directors and Senior Management Team in the development of the corporation's strategy. The process is designed to enhance FCC's ability to develop and execute its strategy by reviewing the current operating environment; establishing the future direction; assessing the current state and developing corporate strategies to move FCC towards its desired future. The balanced scorecard format provides a template for the corporate strategic plan, divisional and business unit planning, and the setting of annual employee performance objectives.

In 2005, the corporation's strategy map and balanced scorecard were revamped to reflect new business strategies and attendant operational shifts. Areas of improvement included the incorporation of performance driver measures to better monitor progress toward desired outcomes.

Similarly, project portfolio management processes have been implemented to ensure the optimal execution of FCC's business strategy, resulting in an annual corporate work plan. The Strategy Execution Team (SET), a subset of the Senior Management Team, governs project portfolio management (PPM).

This corporate plan is an output of the strategic planning process, indicating how the corporation will achieve its vision, mission and business strategy.

The main components of the corporate plan include:

- **FCC's Vision, Mission, Values and Cultural Practices**
- **An analysis of FCC's Operating Environment**
- **Strategic Themes**
Key high-level areas of focus for the next five years articulated in terms of each perspective of the balanced scorecard.
- **Corporate Strategic Objectives**
The major ways FCC will execute the business strategy over the next five years.
- **Corporate Performance Measures and Targets**
Measures demonstrate how FCC will determine successful attainment of the corporate objectives. Targets identify the milestones towards achieving each objective or group of objectives.
- **Strategic Initiatives**
Projects and other initiatives that contribute to the attainment of corporate objectives.

Analysis of External Operating Environment

FCC proactively monitors and analyses the external operating environment of the corporation to identify and assess strategic issues that need to be addressed. An operating environment Community of Excellence comprised of subject matter experts throughout the organization provides quarterly operating scans to monitor changes and their potential impacts on FCC.

Agriculture Industry

Cattle Industry – Bovine Spongiform Encephalopathy (BSE)

The May 2003 announcement of a case of Bovine Spongiform Encephalopathy (BSE) significantly impacted the Canadian beef industry. With a closed border, Canadian exports of live cattle and beef dropped to zero from an average monthly export of live cattle and processed beef of \$134 million and \$175 million respectively. The U.S./Canada border remained closed to the movement of live ruminants (cattle, sheep, bison etc.) for almost two years.

In December 2004, the USDA unveiled the trade rule that would allow live cattle less than 30 months of age to be exported to the U.S. Five days prior to the proposed March 7th, 2005 border opening, R-CALF (Ranchers-Cattlemen's Action Legal Fund) won an injunction against the USDA rule. The ruling was appealed and in July 2005 the Ninth Circuit Court of Appeals overturned the temporary injunction granted by Judge Richard Cebull.

With the temporary injunction set aside, Canadian cattle under the age of 30 months are now being exported to the U.S. for slaughter and cattle prices are recovering. R-CALF's subsequent appeal hearing to the Ninth Circuit Court of Appeals to overturn this temporary injunction was rejected in October 2005.

The U.S./Canada border re-opening has resulted in a sense of optimism as cattle trade moves closer to business as usual and producers work through challenges. Cattle and beef products from cattle over the age of 30 months are still not being shipped across the border.

Pork Industry – Price Recovery and International Trade Pressure

Pork prices recovered significantly in 2004 and are now decreasing as part of the normal hog price cycle. On March 5, 2004, the National Pork Producers Council (NPPC) petitioned the U.S. Department of Commerce for antidumping and countervailing duty investigations on imports of Canadian live hogs. The International Trade Commission (ITC) heard the preliminary application in early May. Canada won a split decision on this issue: winning the Countervailing duty challenge but losing with regard to the antidumping investigation. In the release of its final determination, the ITC judged that Canada did indeed dump live swine into the U.S. market. Following this ruling, a second ruling stated such dumping did not materially injure producers within the U.S. Based on this rationale, the tariffs placed on Canadian hogs were rescinded.

An Australian pork advocacy group is challenging the importation of pork and pork products into Australia. At issue is the claim that these products may introduce post-

weaning multi-systemic wasting syndrome into the Australian herd. This issue is currently being decided in the Australian court system. The Australian government is vigorously defending its import policies. Australia is Canada's third largest market for pork and is valued at approximately \$91 million dollars.

Poultry Industry - Avian Flu

Avian influenza is a contagious viral infection that is thought to affect all species of birds. Although rare, infection in humans can occur.

In February 2004, the presence of avian influenza (H7 strain) was confirmed in the Fraser Valley area of southern British Columbia. To stop its spread, more than 17 million chickens, turkeys, ducks and geese were depopulated. FCC responded by allowing poultry customers to defer payments to support them through this crisis.

Globally, avian influenza (H5N1) has become a serious concern, with outbreaks occurring in numerous countries. The Canadian government is encouraging all countries to collaborate on a global planning effort to reduce the risk of transmission, the possibility of human infection and a mutation of the strain. In order to prevent infection, the Canadian Food Inspection Agency (CFIA) recommends that it is essential for livestock and commercial poultry producers to maintain strict bio-security practices. FCC is urging customers to follow these practices, as follows:

“On a farm:

- Keep away from areas frequented by wild fowl;
- Keep strict control over access to poultry houses by people and equipment;
- Keep equipment cleaned and disinfected before taking it into poultry houses;
- Do not keep bird feeders and duck ponds on the farm. This will discourage wild birds.
- Maintain high sanitation standards.

“If clinical signs are noticed or suspected in poultry, contact a veterinarian or the area CFIA office. Producers are obligated to report any suspicion of avian influenza because it is a reportable disease under the *Health of Animals Act*.”

In November 2005, the presence of low pathogenic North American subtypes of avian influenza were detected in a small number of wild birds in Quebec (H5N3), Manitoba (H5N1) and British Columbia (H5N9 and H5N2). Avian influenza virus is commonly found around the world in wild birds. There is no information in these findings suggesting a new threat to human health, however the ongoing presence of the virus reinforces the importance of maintaining strict biosecurity controls in all domestic bird operations.

On November 20 2005, the CFIA confirmed that avian influenza was detected in a duck from a farm in Chilliwack, British Columbia. The virus is a low pathogenic H5 North American strain. The CFIA is implementing preventative and precautionary control measures and preparations are underway to depopulate all birds on the premises from which the duck originated. Surveillance is being conducted to monitor the health of domestic birds in the immediate area.

FCC is actively following avian influenza developments and monitoring potential impacts on the industry and ultimately its customers.

Farm Income

According to Statistics Canada, farm cash receipts rose in 2004 for the first time in three years, due to higher revenues for crops and hogs. In total, producers received \$36.5 billion from livestock and crop receipts and program payments, a 6.1% increase from 2003. Total net farm income reached \$3.5 billion in 2004, which was 52.9% above the previous five-year average⁹.

A report released in July 2005 by the Honourable Wayne Easter, MP for Malpeque and Parliamentary Secretary to the Minister of Agriculture and Agri-Food, indicates the following: “The income crisis for family farms is not short term or cyclical. It is long term and systemic – and it is global. Farmers are under pressure in Canada, the U.S. and Brazil, even in the European Community. Everywhere, fewer farmers are producing more for less in the way of net market income.”

This report, *Empowering Farmers in the Marketplace*, is based on consultations held in January and February 2005 with over 450 producers and representatives of commodity groups and farm organizations in all provinces. The consultations indicated “farmers want government programs to be as useful and transparent as possible and primary producers want to be consulted when these programs are created and reviewed. The clear message is that farmers want to earn their income from the marketplace. They are price takers at both ends of the chain from an increasingly concentrated corporate sector that sells them inputs and buys their products. Canadian farmers have shown they are remarkably efficient, but they lack the market power to capture the economic benefits of their investment and labour. International trade deals and the WTO have greatly increased exports in the agriculture and agri-food sector, but farmers’ share of that wealth remains disastrously low.”

International Trade Environment

The international trade environment is an evolving issue in Canadian agriculture. Currently, there are a number of concurrent issues placing broad-based pressure on agricultural products:

- 1) World Trade Organization (WTO) – there are three main agricultural issues being challenged at the WTO: Byrd Amendment, Softwood lumber, and Biotech Products.
- 2) International Trade Commission (ITC) – During the last decade, the ITC has been very active on a variety of issues and it is assumed they will remain active into the foreseeable future.
- 3) DOHA Round of WTO Negotiations – While previously stalled, the EU and U.S. have brokered a deal to begin negotiations once again. Canada will continue to seek support on issues of domestic importance (CWB, Supply Management, Export Subsidies, etc). As of November 2005, there is concern about the impact of the current proposals on the grain and

⁹ Statistics Canada, Net Farm Income, 2004 revised.

supply-managed sectors in Canada, however, there is uncertainty about whether or not an agreement will be reached. FCC continues to monitor the WTO negotiations closely.

Economics

While current inflation remains within the Bank of Canada's target range of 1% to 3%, recent increases in energy prices and the pace of economic growth have the Bank of Canada concerned about inflationary pressure over the next 18-24 months. In response, the Bank of Canada began raising its overnight rate in September 2005 and financial markets are anticipating that rate hikes will continue into first quarter of 2006.

The market's forecast of bank rate increases is likely to be most affected by changes in the Canadian dollar. The Canadian dollar has ranged from 80 to 86 U.S. cents. If the Bank of Canada concludes that the Canadian dollar is moving consistent with economic fundamentals (including energy prices), rate hikes will continue until future inflation pressures have been contained.

Financial Services Industry

FCC operates within the financial services industry. For the past 12 years, FCC has successfully grown its lending portfolio and sustained its stature as the largest term lender to the agriculture industry in Canada.

Other organizations serving agriculture finance needs include the chartered banks, provincial lending agencies, equipment manufacturer financing programs and independent financing institutions. FCC's main competitors nationally are the chartered banks, although credit unions are growing. Outside of our traditional competitors, there still exists the potential for foreign financial institutions to increase their activity in the Canadian agriculture finance sector.

Farm debt outstanding

Statistics Canada indicates that as at December 31, 2004, farm debt outstanding rose 4.9% to \$48.9 billion, continuing the steady upswing since 1993. Both mortgaged and non-mortgaged debt rose, by 8.7% and 1.6%, respectively. Since 1993, non-mortgaged debt has been larger than mortgaged debt. In 2004, non-mortgaged debt rose to \$25.4 billion, while mortgaged debt rose to \$23.6 billion.

Most non-mortgaged debt was owed to chartered banks (57.6%) and credit unions (23.7%). Major holders of mortgaged farm debt were Farm Credit Canada (36.5%), chartered banks (27.8%), private individuals (15.2%), credit unions (8.9%) and provincial government agencies (5.7%).

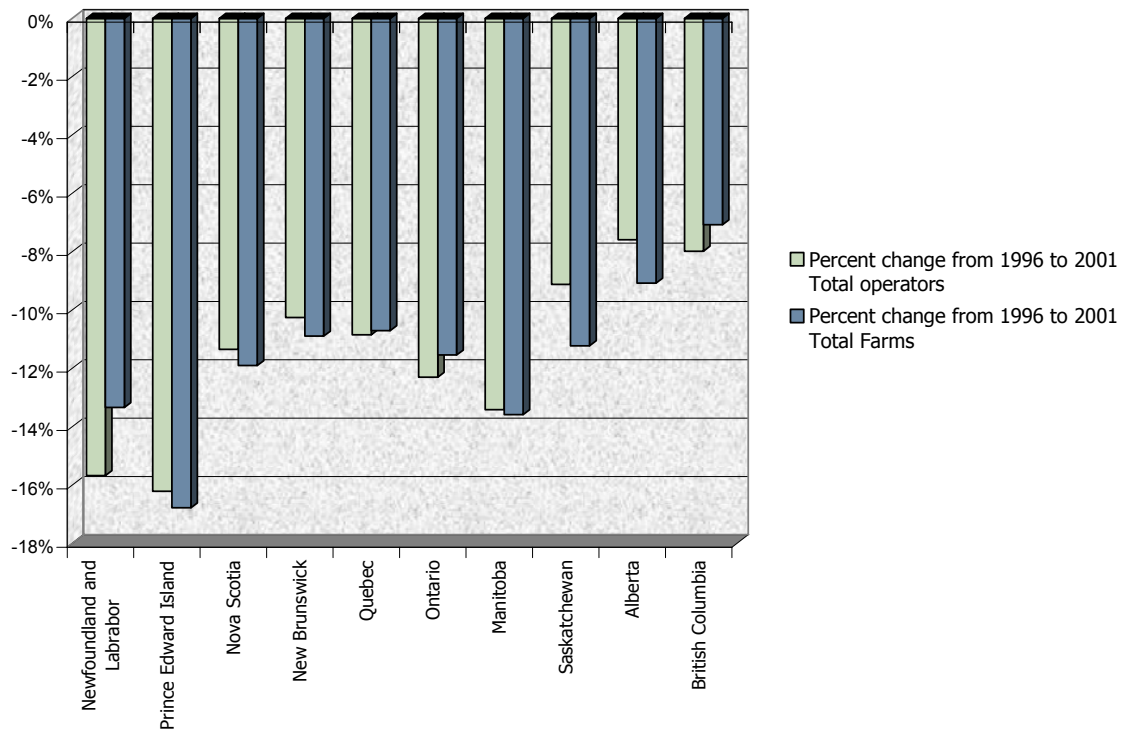
Customer

The industry FCC serves remains in the midst of an extraordinary period of transformation and consolidation.

According to Statistics Canada's 2001 Census of Agriculture, Canada's farm population continues to decline, dropping from 851,410 people in 1996 to 727,125 in 2001. In Canada's farm population, immigrants are equally a declining proportion whereas the opposite is true of the general population.

The average age of farm operators increased from 45.3 in 1996 to 49.9 in 2001. The average total income from all sources was \$64,160, 3.2% lower than the total income received by families in the general population. Net farm income contributed only 18 cents of each dollar earned.

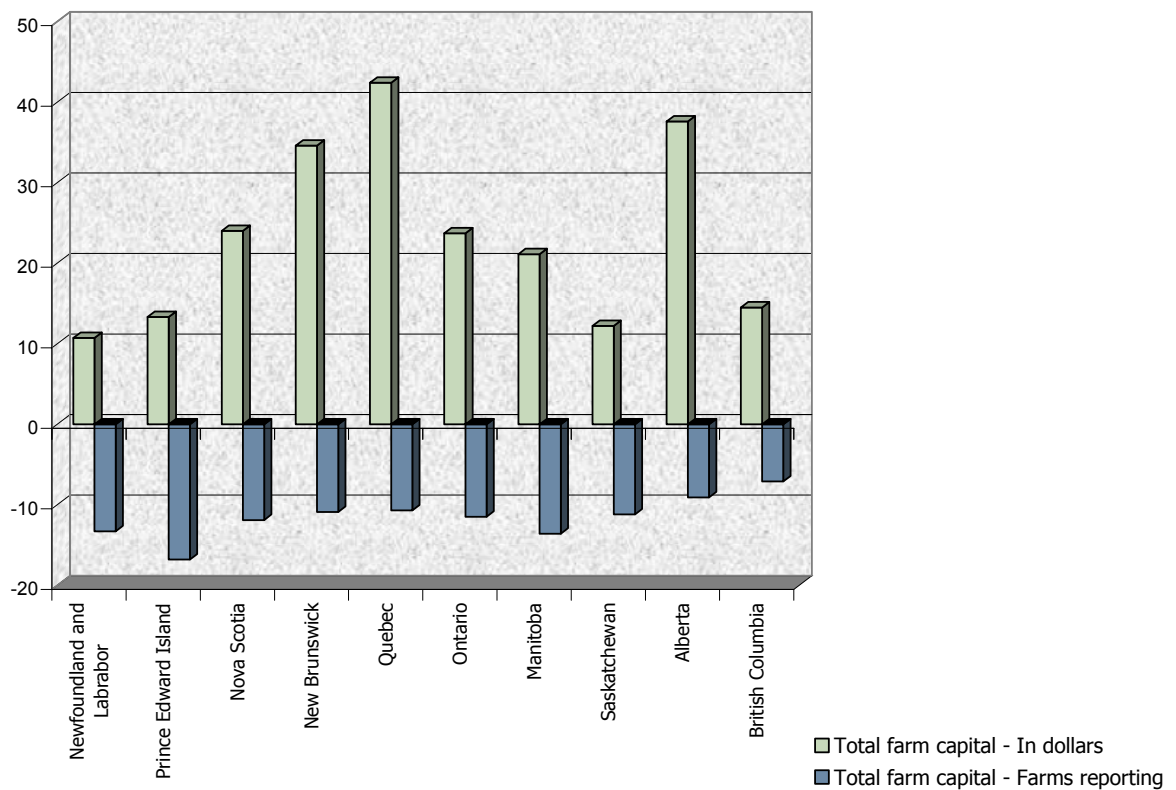
Percent Change in Total Operators & Total Number of Farms from 1996 to 2001



As the figure above illustrates, in just one census period the number of farms (and the number of farm operators) has dropped significantly in every province. The number of farm operations in Canada has declined steadily since the 1930s, a trend that is expected to accelerate in the future, as the climate for the sector continues to present new challenges. If current trends hold, it is projected that at least 25,000 more farm operations will cease to exist over the next five years. In other words, the number of farm-level customers available to FCC also shrinks. There is no evidence to suggest that this trend will not continue unabated.

Although the number of potential FCC farm finance customers shrinks daily, the total value of the farm level market as a whole has actually increased. The chart following illustrates clearly the trend to consolidation and growth in the sector. The number of farm operations simultaneously shrank in each province while the level of farm capital grew, creating a larger pool of capital on the whole, albeit a pool held in fewer hands.

Percent Change in Total Farm Capital & Number of Farms Reporting from 1996 to 2001



The process of consolidation has necessitated expansion on the part of surviving operations. As a consequence, the level of interest paid by farm operations has increased significantly in every province as well.

Due to consolidation in the market, there are fewer opportunities to build relationships and each customer relationship represents more potential value than it did before. In this environment, it is therefore critical that FCC ‘get it right’ as often as possible with each customer, since there will be fewer opportunities to create and build the relationships required for future growth.

The Customer Experience Scoreboards provide daily, actionable reporting on FCC’s customer experience, from the customer perspective. Overall, customer feedback continues to be favourable. As expected, the most contentious responses are from those who leave FCC for another financial institution. With more than 6,200 responses since March 2004, the customer response rate is excellent and reviews for FCC service are positive.

In order to meet the needs of our customers now and in the future, FCC needs to create an infrastructure that provides cross-functional collaboration, supporting business growth and

enabling the corporation to deliver an enhanced customer experience. The end goal is to provide customers with a consistently great customer experience.

Socio-Demographics

Farm Credit Canada (FCC)

FCC has approximately 1,200 employees located across the country. The average employee age is 39, with 36% of the workforce having been employed with FCC for at least 8 years. Due to the relatively young average age of FCC employees and the low average tenure, it is increasingly important to establish a process of knowledge transfer to newer employees from those more experienced.

FCC's workforce predominantly consists of Baby Boomers and Generation Xers. Each group is motivated by different factors and has different priorities (for example, Generation X places a higher value on work/life balance than Baby Boomers). These differences need to be considered when managing, training, rewarding and communicating with employees.

As less than 4% of the workforce is eligible for retirement at any given point over the next 15 years, significant skill shortages and losses of FCC knowledge are not expected however, FCC is committed to remain proactive in Human Resource initiatives such as Workforce Planning, Attraction, Retention and Leadership Development to ensure our workforce is maintained.

While it remains a challenge to increase workforce representation from some of the diverse work groups, FCC's efforts continue to attract and retain qualified individuals. The recently approved FCC Diversity plan will be integrated throughout many of the current HR initiatives in order to continue this effort.

Government Relations

Farm Credit Canada has enjoyed multi-party support over the past several years. FCC's Elected Officials Visitation Program has played an important role in building bridges between local staff and elected officials. During FCC's recent appearances before the Standing Committee on Agriculture and Agri-Food (SCAAF), including the last one on March 10, 2005, there were no significant issues raised by MPs. Committee members made a number of very positive comments about FCC during the appearance in March 2005.

Reforms to the parliamentary process will continue. Backbenchers have been given more responsibilities, particularly during Standing Committee meetings. In the future, we can expect the introduction of more amendments, which could have major implications for Crown corporations. FCC will be diligent in monitoring all bills in the future to ensure full understanding of potential implications.

Technology

Information Technology

The information technology (IT) industry is becoming more and more complex, developing at an ever-accelerating pace. A major financial investment in technology upgrades today may need to be repeated quickly as new programs and technologies are developed.

A key trend emerging within the IT industry is consolidation. Technology vendors are searching for new avenues of growth and are using acquisition and take-over strategies to increase their customer bases. IT will continue analyzing the potential impacts/results of the Oracle acquisition (and other consolidation activity), ensuring that FCC technology investments are well positioned for the future.

Agricultural Technology

Rapid urbanization, increased pressure on natural resources, and environmental issues are driving radical change in agricultural technology. The development and refinement of equipment and technology has become fundamental to the quality, efficiency and safety of agriculture and the food it produces. As more information and technological choices become available the challenge for producers to manage all facets of the business – from financing to production to marketing – multiplies as well. Innovation and adaptation is no longer an option. Producers must adopt these technologies to meet the challenges of an increasingly commercialized and globalized agricultural industry.

The increasing cost of larger, more powerful machinery and equipment represents a large percentage of farm operating and capital costs. Together, machinery and technology are figured as the number two capital investment for producers, second only to land purchase.

Assessment of Results – 2005-06 Balanced Scorecard

The following pages summarize FCC's balanced scorecard measures, targets and projected results for the 2005-06 fiscal year. Projected results are as of October 2005.

Strengthen Market Presence

Measures	2005-06 Targets	2005-06 Projected Results
<input type="checkbox"/> Portfolio Growth	<input type="checkbox"/> 5.44%	<input type="checkbox"/> On track
<input type="checkbox"/> Non-Interest Revenue	<input type="checkbox"/> \$11.9M	<input type="checkbox"/> On track
<input type="checkbox"/> Net Interest Income (NII) Margin	<input type="checkbox"/> 3.11%	<input type="checkbox"/> On track
<input type="checkbox"/> New Customer Acquisitions All Channels	<input type="checkbox"/> Q1 - Farm Finance targets Q3 - AgExpert targets and begin reporting against AgriSuccess targets	<input type="checkbox"/> On track
<input type="checkbox"/> Market Share	<input type="checkbox"/> Set targets by business line	<input type="checkbox"/> On track; AgProduction market share targets set. AgValue market share was explored and measure development will not be pursued.
<input type="checkbox"/> Venture Capital – Interest and Fee Income	<input type="checkbox"/> \$2.6M	<input type="checkbox"/> On track
<input type="checkbox"/> Venture Capital – Co-investment Ratio	<input type="checkbox"/> 1.3:1	<input type="checkbox"/> On track
<input type="checkbox"/> Venture Capital – Capital Invested	<input type="checkbox"/> \$18.0M	<input type="checkbox"/> Behind due to severe price erosion and excess liquidity due to large amounts of uninvested capital in the Labour Sponsored Investment Funds and very aggressive senior lenders.
<input type="checkbox"/> Time Spent with Customers and Prospects for Value Added Activities	<input type="checkbox"/> Develop work plan and set targets for following fiscal years	<input type="checkbox"/> On track

Enhance Customer Experience

Measures	2005-06 Targets	2005-06 Projected Results
❑ Return on Equity & Investment	❑ 11.49%	❑ Ahead
❑ Customer Experience Index	❑ Q3 – Establish baseline; ❑ Q4 – Set targets	❑ On track
❑ Total Value Penetration	❑ Q1 – Set targets	❑ On track; measure was established and is being reported against. Target set to increase national score.
❑ Channel Usage <ul style="list-style-type: none"> ▪ # of unique Website visitors (monthly average) ▪ # of Website pages visited ▪ # of Online registered borrowers (cumulative) ▪ # of CSC Customer contacts ▪ \$ Disbursed of CSC Direct Full Service Lending 	<ul style="list-style-type: none"> ▪ Target set: 15,800 ▪ 1.4M ▪ 10,000 ▪ 80,000 ▪ \$155M 	❑ On track ❑ On track ❑ Behind ❑ On track ❑ On track
❑ Customer Value Management	❑ Establish approach	❑ On track; measure was researched and development is in progress.
❑ Customer Channel Awareness, Preferences and Permissions	❑ Establish approach	❑ On track; measure development was researched and benchmarks will be set in 2006-07.

Optimize Execution and Performance

Measures	2005-06 Targets	Projected Results
❑ Efficiency ratio	❑ Between 40% and 45%	❑ On track
❑ Debt to equity	❑ Under 10:1	❑ On track
❑ % of PND with Arrears	❑ 6%	❑ On track
❑ Strategic Credit Risk Management	❑ Managed range between 55 and 70	❑ On track
❑ Process Improvements and Quick Wins Benefits Realized	❑ EVC baseline and business case; Create business cases to measure “Quick Wins” process redesign and loan renewals; Track Benefits of business case	❑ On track
❑ User Acceptance (performance, reliability, usability)	❑ Establish baseline and preliminary targets mid-year	❑ On track

❑ IT Architecture Capability	❑ 67% of key architectural framework elements incorporated	❑ On track
❑ Project Management Maturity	❑ Establish approach and set baseline	❑ On track

Sustain Commitment to Agriculture

Measures	2005-06 Targets	2005-06 Projected Results
❑ Corporate Social Responsibility Scorecard	❑ Q3 – Establish baseline; Q4 – Set targets for 2006-07	❑ On track
❑ Media Favourability Index	❑ Score of 63	❑ On track; annual score to be reported in 4 th quarter.

People

Measures	2005-06 Targets	2005-06 Projected Results
❑ Engagement Score	❑ Minimum Threshold 80%	❑ 84%
❑ Engagement Driver Management	❑ Q1 – Establish targets once drivers are confirmed	❑ On track
❑ Employee Experience	❑ Q1 – Set targets; Q2 – Begin monitoring and reporting on targets	❑ On track
❑ Strategic Competency Development	❑ Q3 – Set targets; Q4 – Begin monitoring and reporting against targets	❑ Measure development was explored and will not be pursued due to other corporate priorities.

Assessment of Corporate Strengths, Weaknesses, Opportunities and Threats

FCC SWOT Analysis

September 2005

FINANCIAL/SHAREHOLDER - STRENGTHS	FINANCIAL/SHAREHOLDER - WEAKNESSES
<ul style="list-style-type: none"> • Strong financial position • Efficiency ratio excellent at 40% to 45% 	<ul style="list-style-type: none"> • Portfolio vision should include new business lines

FINANCIAL/SHAREHOLDER - OPPORTUNITIES	FINANCIAL/SHAREHOLDER - THREATS
<ul style="list-style-type: none"> • Opportunity to promote and cross sell all 7 customer solutions (i.e. AgProduction, AgValue, Alliances, Venture Capital, AgExpert, AgriSuccess and AgriAssurances) • Manage investments and external relations to ensure maximum return • Leverage relationships with Centers of Influence (e.g. accountants, lawyers, etc.) • Enhance knowledge of AgValue market (focus on suppliers and processors that sell, buy from, and otherwise serve primary producers) 	<ul style="list-style-type: none"> • Single industry focus (if multiple disasters occur)

CUSTOMER - STRENGTHS	CUSTOMER - WEAKNESSES
<ul style="list-style-type: none"> • Committed to agriculture • Canada's largest agricultural term lender • Good presence in rural Canada (102 offices) • Positive reputation with customers • Good stakeholder support • Increasing visibility re: philanthropic investment in communities • High media favourability (positive coverage) • Customer Experience Scoreboards (most inclusive in the industry) • External recognition (awards) • International EXCEL Award from IABC 	<ul style="list-style-type: none"> • FCC employees think "loan solutions" rather than exploring a range of offerings (e.g. training, software, insurance, etc.) • Clearly define Customer Experience from the customers' perspective (outside/in) • Need to continue developing advanced finance knowledge and expertise to support increasingly sophisticated agricultural operations

CUSTOMER - OPPORTUNITIES	CUSTOMER - THREATS
<ul style="list-style-type: none"> • Leverage customer input to further define what is required to deliver a further differentiated “customer experience” • Expand opportunities for agricultural enterprises to deepen business management competencies by leveraging external partnerships • Increase focus on young farmers • Explore opportunities to provide training to employees of farm enterprises • Target expansion of specific alliances and partners and establishing a relationship with their customers • Seek new ways to build support for the agriculture industry • Expand FCC’s knowledge advantage to customers • Enhance knowledge of FCC customers and non-customers (grow Producer Panel from 2,000 to 5,000) 	<ul style="list-style-type: none"> • Erosion of customer base due to consolidation, aging agriculture population and lack of new entrants • Increasing farm debt and low farm income levels, especially in certain sectors • Ensuring that FCC protects information about customers and employees • FCC primarily known as a lender rather than solutions provider

INTERNAL CAPABILITY - STRENGTHS	INTERNAL CAPABILITY – WEAKNESSES
<ul style="list-style-type: none"> • Relationship approach (result of sales process training) • Increased use of CSC channel • New governance structure to enhance strategy execution and manage corporate priorities • FCC’s products tailored to agriculture • Continue to invest in system redesign and integration in order to enhance the customer and employee experience 	<ul style="list-style-type: none"> • Potential lack of capacity to execute the number of major initiatives under way • Current state of IT architecture lacks sufficient flexibility to enable execution of FCC’s corporate strategy • Current systems and processes are fully taxed and are not fully integrated

INTERNAL CAPABILITY - OPPORTUNITIES	INTERNAL CAPABILITY - THREATS
<ul style="list-style-type: none"> • Leverage process improvements to liberate Account Managers’ time for deepening relationships with customers • Continue to offer customer solutions through innovative products and services • Continue to evolve/refine the sales process 	<ul style="list-style-type: none"> • Unanticipated rapid changes to agriculture and financial marketplace (i.e. rate changes, disasters, etc.) • Ability to meet market needs through each business line and channel • Business continuity plan to ensure sustained operations if unforeseen disaster occurs

<ul style="list-style-type: none"> • Offer customer channel choice by further leveraging CSC (call center) to cross-sell and deliver expanded services, and expand website offerings • Implement customer experience standards • Implement bio-security standards for visits to all agriculture operations 	
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PEOPLE - STRENGTHS	PEOPLE - WEAKNESSES
<ul style="list-style-type: none"> • Employees with a strong knowledge and passion for agriculture • Employee engagement score of 84% • Cultural Practices (fostering a climate of respect, open communication and accountability) • Climate of community volunteerism • Employees ability to transfer jobs within FCC to learn new skills 	<ul style="list-style-type: none"> • Corporate change management strategy is required to manage pace of change/ impact of new initiatives on employees • Employee orientation to FCC's business and unique culture • Alignment of performance/compensation system to reflect desired behaviours and results • Workforce planning to ensure future needs are met

PEOPLE - OPPORTUNITIES	PEOPLE - THREATS
<ul style="list-style-type: none"> • Recruit employees according to capabilities required to realize business strategy • Align performance of all employees to FCC's strategy • Leverage recognition as one of "Top 50 Companies" to work for in Canada to attract new employees 	<ul style="list-style-type: none"> • Ability to recruit/retain a highly productive workforce • Loss of employees to marketplace • Special skills, bilingual, diversity, managers at all levels, replacements for retirees

Enterprise Risk Management

Since all of FCC's business activities involve risk, effective risk management is key to protecting FCC's customers, and the corporation's long-term viability. Within FCC, Enterprise Risk Management (ERM) helps the corporation balance risk-taking activities and risk management practices within the context of executing the corporate strategy and achieving the business objectives. ERM creates a common understanding of risk, provides a framework to comprehensively identify risks including their interdependence, and ensures that FCC's risk-taking activities are aligned with customers' needs and our shareholder's expectations.

The Enterprise Risk Management department offers a comprehensive view of risk across the organization and works with the Strategy and Corporate Project Management Office to ensure that ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing action plans to address ongoing business risks. ERM reports semi-annually to the Audit Committee of the Board with respect to the highest-ranked risks.

FCC's Enterprise Risk Management Framework sets out the major categories of risk to which the corporation is exposed: credit risk, market risk and operational risk.

- **Credit risk** is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to FCC. Credit risk is the most significant area of risk for FCC.
- **Market risk** is the potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.
- **Operational risk** is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks.

Corporate Strategy

Strategic Intent: Enhancing the Customer Experience

Over the last 20 years, companies have differentiated themselves on physical, tangible elements such as price, product, quality and service. However, the traditional focus on providing a quality product at a reasonable price with satisfactory customer service is no longer enough. In the 21st century, products are replicated at lightning speed, consumers are more demanding, channels are multiplying and technology is changing rapidly. With mass commoditization and increasing competition in all markets, many businesses seek new ways to compete.

As a result, the customer experience is quickly becoming recognized as the strategic differentiator. Companies are looking for ways to differentiate their experience so that they are recognized and remembered by their customers. The customer experience is a unique competitive advantage that results in customer loyalty and brand recognition.

FCC's strength has always been the strong relationships our employees have with customers, forged by an understanding of agricultural financing, strong expertise and a down-to-earth approach. In this sense, we were ahead of our time. Nevertheless, we must not rest on our laurels, and we are building on this strength with a focus on taking the customer experience to the next level.

To accomplish this, a number of strategic objectives have been defined and depicted on FCC's strategy map (see page 52).

FCC believes that an exceptional employee experience is key to further enhancing the customer experience. It's the essence of our strategy as employees embody our brand. The FCC experience is everything that we do, from the frontline to the back office.

The customer experience starts long before a customer enters an FCC office, visits us on-line or phones the Customer Service Centre. It starts with awareness through advertising, reputation and word of mouth.

Enhancing the Customer Experience remains the focus of the 2006-07 to 2010-11 planning period within FCC.

Objectives, Measures & Targets

Every year, FCC measures progress toward achieving corporate objectives through its Balanced Scorecard, which translates FCC's vision into a series of corporate objectives, measures, targets and initiatives. Each one of these objectives falls into one of four different balanced scorecard perspectives: Financial/Shareholder, Customer, Internal Capability and People.

This year's corporate plan calls for continued expansion of FCC's financing and business solutions. The corporation's key areas of focus are:

1. Cultural transformation
2. Enhancing the customer and employee experience
3. Redesigning business processes
4. Enhancing information technology architecture and systems

FCC Strategy Map

In 2004, FCC revised its strategy map, which describes how the organization intends to create sustained value. The map is designed to clarify and convey the four strategic themes and attendant objectives that will enable FCC to achieve the corporate vision. Minor changes were made in 2005 to refine some objectives and accommodate new areas of focus.

Strategic themes represent groups of objectives and provide a summary of how FCC will realize its vision. The four vertical columns of this map represent FCC's "Strategic Themes":

- Strengthen Market Presence
- Enhance Customer Experience
- Optimize Execution and Performance
- Sustain Commitment to Agriculture

The four horizontal sections of the map constitute the balanced scorecard perspectives.

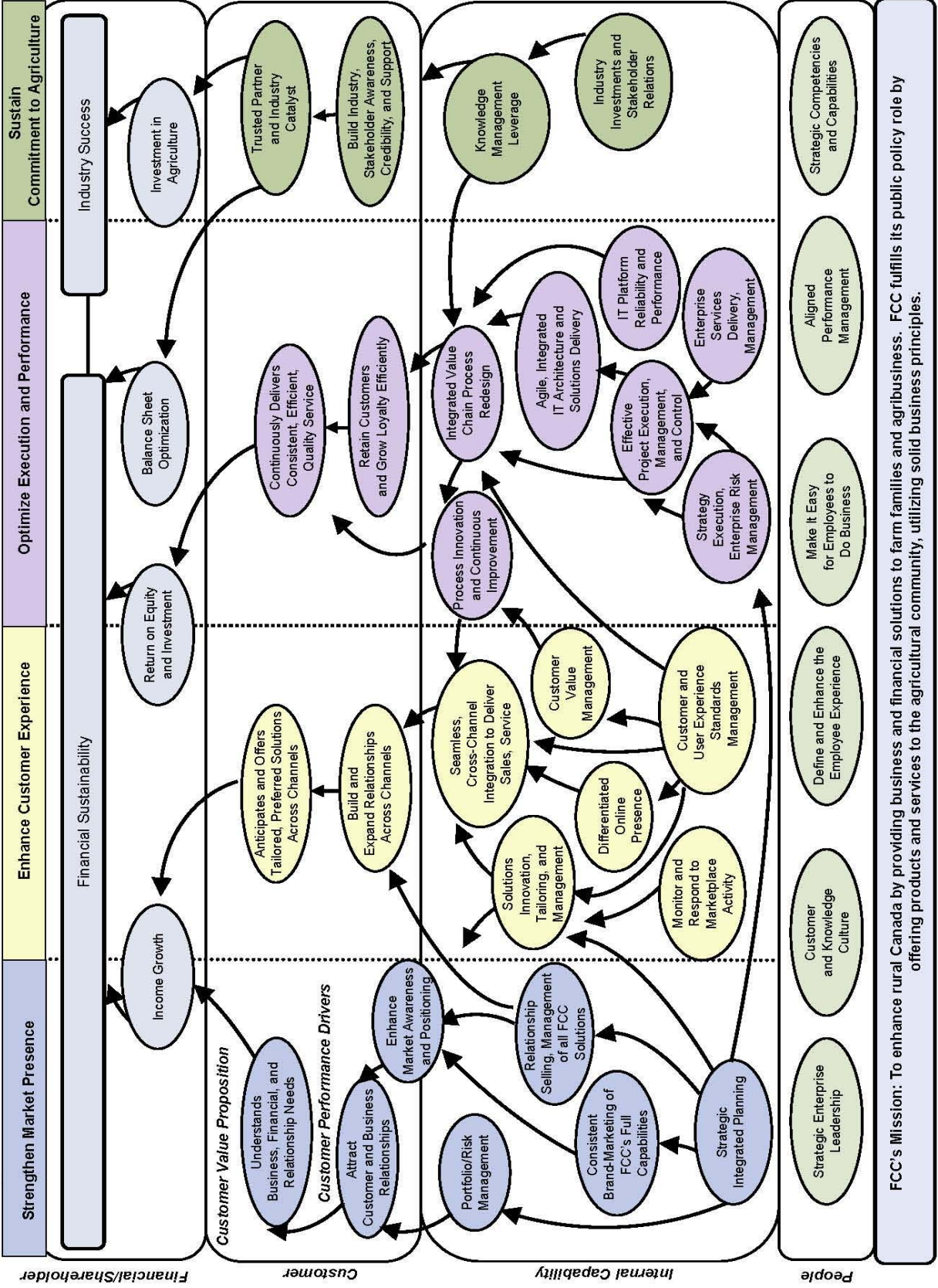
The circles on the map represent corporate strategic objectives FCC will pursue over the next three to five years. The arrows between the objectives represent the flow of logic or cause-and-effect relationships between objectives. The balanced scorecard architecture assumes that employees (the People perspective) are the foundation of the strategy, since they are accountable for achieving the objectives. Employees require business processes and systems (the Internal Capability perspective), in order to do their jobs effectively and efficiently. This in turn, enables them to deliver on an exceptional customer experience, leading to the achievement of the corporation's financial objectives.

For additional information on the corporate measures, targets and initiatives associated with the corporate objectives please refer to the balanced scorecard on the pages following the business strategy highlights.

FCC Strategy Map

FCC's Vision: Visionary leaders and trusted partners in finance and management services tailored to agriculture - leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Strategic Themes



Business Strategy Highlights

FCC plans to realize its' mission and vision through the execution of the following strategies:

Strengthen Market Presence

Expanding our Customer and Partnership base

Our traditional producer customer base has expanded to include input and value-added operations as well as processors – with the ultimate goal of strengthening the success of the agriculture industry as a whole.

Increasing awareness of the corporation

In order to ensure those who may benefit from FCC's full range of services are aware of them, we are increasing our visibility and establishing our brand in new markets. We are growing our reputation for possessing profound understanding of the agriculture industry's challenges and opportunities, accompanied by a track record of relevant, practical offerings oriented to help farmers and agribusiness succeed.

Enhance Customer Experience

Defining the Customer Experience

Ultimately, we want to develop an experience that has customers thinking to themselves or telling others, "That was **easy**. I received **value**. They really do **care**. **Wow!**"

More than anything else, creating a great customer experience requires a mindset characterized by a positive attitude and passion to make a difference. There are many wonderful ways FCC employees currently work with customers. There is room to further empower them to make on-the-spot decisions that will enhance the customer experience. At the same time, we also need to be clear where we must apply corporate standards so certain aspects of the customer experience are consistent from office to office and not left to the discretion of an individual employee.

Creating the organizational capabilities required to deliver the desired customer experience will be realized by:

- Defining experience standards (all customer and user types), including guidelines for managing across all channels throughout the corporation.
- Aligning execution of the strategic integrated marketing plan with the customer experience standards.
- Developing product/service platforms that enable tailored solutions to meet specific customer needs.
- Implementing enterprise integration in manageable stages to enable delivery of optimum customer value chain processes across channels.
- Coordinating knowledge sharing and learning to enable employees to quickly anticipate and respond to customer needs/expectations for a seamless cross-channel experience.

- Aligning user experience and job roles with customer priorities and individual growth objectives.

We will use customer feedback and Board direction to design the FCC customer experience. Articulation of the mindset we wish to instill in all employees as well as service standards, processes and strategies will flow from this design.

Expanding the ways customers are served

We are expanding our alliances with other financial institutions and agriculture organizations to maximize our ability to serve customers. We are providing customers with more choice regarding how they do business with FCC (Internet and call centre), while preserving our trademark, relationship-oriented service. This will require leveraging field, CSC and e-business channels to expand the reach of AgExpert and the other business lines mentioned on the previous page. The partners and channels strategy emphasizes:

- Definition of market and specific target alliances and partners for expansion.
- Definition of standardized capabilities required to address market needs for each line of business.
- Delivery of win-win solutions to meet differing needs of partners (simple financing to extranet services/solutions).
- Definition of integrated channel strategy, including online offerings and customer value.
- Identification of table stakes and selected FCC differentiators for online channel.

Broadening our product and solution offerings

We are moving from a term lender to an organization that offers a diverse range of services oriented to position customers for success as follows:

- AgProduction loans, AgValue loans and AgriAssurances (insurance) offer financing solutions to grow customer businesses.
- FCC Ventures and Alliances provide support to primary producers and the AgValue businesses that serve them.
- AgriSuccess and AgExpert improve producers' ability to manage their businesses with training, knowledge and software.
- In line with our vision ("strong relationships built on trust"), we are deepening relationships with customers.
- Product and solution innovation is required to deliver relevant offerings to agriculture. We are increasing our focus on "solutions" rather than "products", i.e. listening to customer dreams and challenges, and offering a "solution" tailored to their needs rather than selling them a "product".
- We will further define the AgValue strategy, visibility and capabilities required to build a successful business line.

Optimize Execution and Performance

Streamlining and updating business processes and technology systems

FCC has grown rapidly in the last decade and the organization has outgrown its technology and processes. As a result, we have embarked on several major initiatives to update FCC's

technology and redesign processes from an enterprise-wide perspective. This will help to reduce the number of hand-offs and enhance the speed of service to customers. On the technology side, the emphasis is on effectively implementing core platforms that will deliver business benefits (i.e. customer relationship management and loan accounting) and developing the IT infrastructure and capabilities to deliver timely, integrated solutions on a stable, reliable, high-performance platform. This will enable more nimble changes to technology as required in the future and free up time for field staff to build relationships with customers.

Sustain Commitment to Agriculture

Increasing the corporation's commitment to corporate social responsibility

FCC believes in supporting the communities where our customers and employees live and work. For this reason, we have introduced the AgriSpirit program (which funds capital projects submitted by communities), the Crisis Fund and continue to provide community investment funding based on the themes rural safety and food.

Serve as an "industry catalyst" to effect positive change where appropriate

In order for FCC to serve as "visionary leaders", help the agriculture industry succeed and realize our public mandate, we believe we can serve as a catalyst to effect positive change where appropriate. One of these priorities includes expanding FCC's knowledge management initiative to reach external customers and stakeholders to help them access the information required to succeed.

Other initiatives to date include fostering pride among those who work in agriculture and educating Canadians about agriculture's value. FCC launched CanadianFarmersMarket.com to help customers sell their products on our website. To date, we have 290 customer listings and many stories with that showcase the operations these customers are proud to run. We ran a successful program to educate journalism students about agriculture and will expand it this year to include urban journalists. Support for Agriculture in the Classroom has been expanded to educate youngsters about agriculture.

People

Being more specific about the FCC Employee Experience

Employees rely on the corporate values and cultural practices to guide their behaviour when dealing with customers and colleagues. We believe that this is the only way to sustain and improve upon a stellar customer experience because employees ARE the customer experience. We are providing training and coaching to all employees on how to exhibit the cultural practices.

Employee engagement is very high at FCC (84%), however, we want to sustain this competitive advantage. We are further defining the "employee experience", to enable the growth and development of strategic skills, behaviours, knowledge and capacity to meet future business needs. Employee attraction and retention strategies also are on the radar

screen. In 2005-06, the performance assessment system will be redesigned to align it with corporate strategy at the division, team and individual levels.

Adopting more stringent governance practices

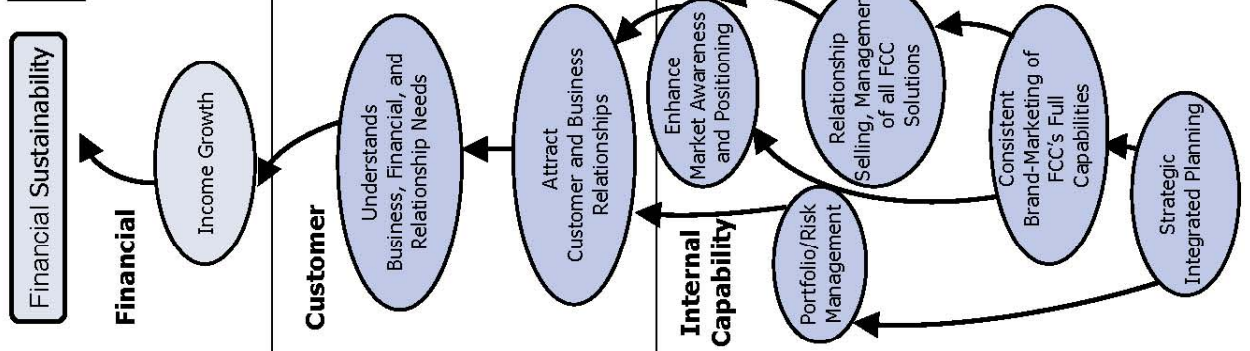
Again, because of the increasing complexity and size of FCC's operations, we are adopting more stringent governance practices and a corporate social responsibility framework.

Initiatives recently undertaken include the institution of the Strategy Execution Team (a sub-committee of SMT that approves major corporate projects and monitors their progress), the approval of a code of conduct, the creation of more specific measures and targets, personnel devoted to Enterprise Risk Management (including expanding portfolio vision to encompass all business lines and intensely focus on managing concentration risk) and several other initiatives.

Strengthen Market Presence

FCC's Balanced Scorecard 2006-07

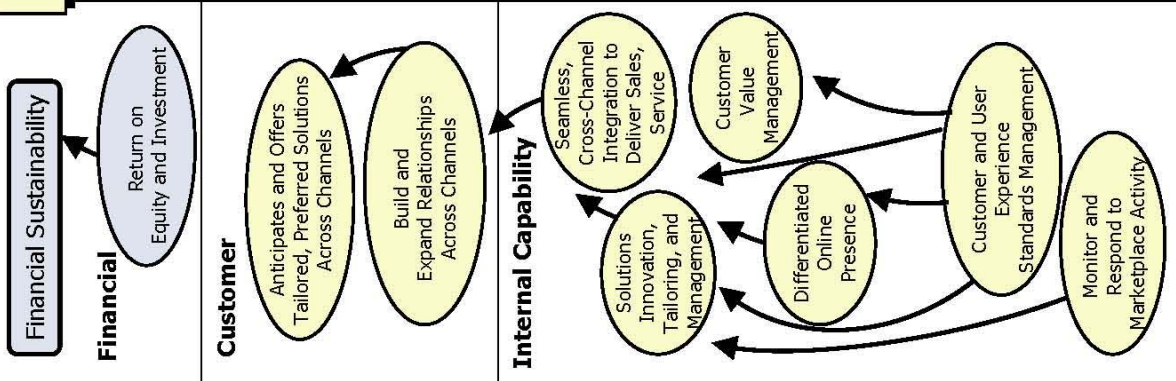
Measures	Targets				2006-07 Initiatives
	2006-07	2007-08	2008-09	2010-11	
Portfolio Growth	4.43%	6.21%	6.42%	7.48%	Deliver a customer experience that results in loyal customers who recommend FCC Leverage new venture capital locations in order to better serve the agriculture industry and attract additional co-investment
Non-Interest Revenue	\$24.2M	\$26.1M	\$28.2M	\$33.4M	
Net Interest Income Margin	3.04%	3.02%	3.04%	3.07%	
New Customer Acquisitions – All Channels	Measure performance against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	<ul style="list-style-type: none"> • \$2.8M • 1.3:1 • \$20M
Venture Capital					
Interest & Fee Income Amount Co-invested Capital Invested	<ul style="list-style-type: none"> • \$2.8M • 1.3:1 • \$20M 	<ul style="list-style-type: none"> • \$3.8M • 1.3:1 • \$22M 	<ul style="list-style-type: none"> • \$4.4M • 1.3:1 • \$25M 	<ul style="list-style-type: none"> • \$4.9M • 1.3:1 • \$25M 	
Market Share	22.4%	22.5%	22.7%	23.5%	
Time Spent with Customers and Prospects for Value - added Activities	Target will be set by Operation VPs for all years by December 2005	Measure performance against targets	Measure performance against targets	Measure performance against targets	Redesign key processes to enable more time with customers Leverage Integrated Marketing Communication strategy to raise visibility and create awareness of FCC's spectrum of offerings and commitment to agriculture



Enhance Customer Experience

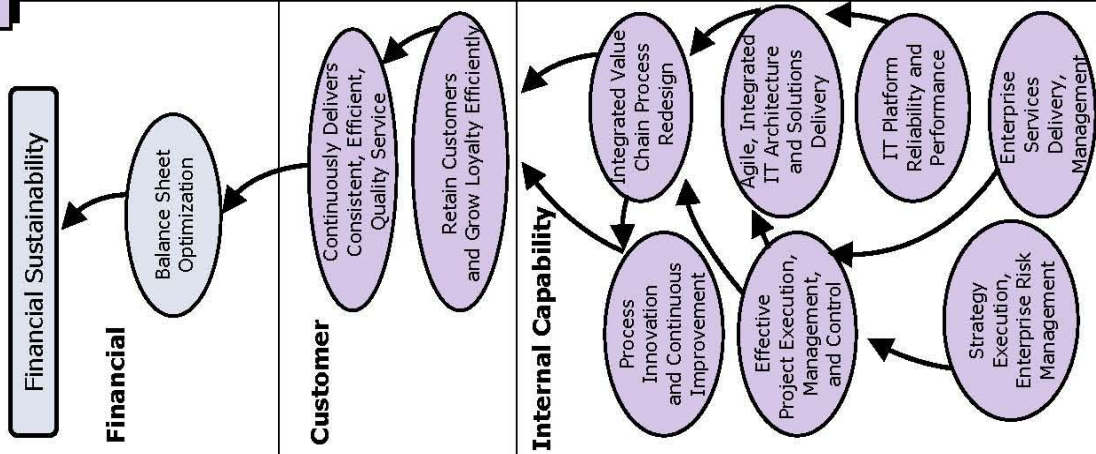
FCC's Balanced Scorecard 2006-07

	Targets				
Measures	2006-07	2007-08	2008-09	2010-11	2006-07 Initiatives
Return on Equity	12.28%	10.65%	10.12%	10.00%	
Customer Experience Index	Q1 Begin monitoring and reporting	Measure performance against targets	Measure performance against targets	Measure performance against targets	Monitor customer experience scoreboards, develop index, communicate results and implement action plans to enhance the customer experience
Total Value Penetration	Increase national TVP score; Q1 – set targets based on 2005-06 baseline	Measure performance against targets	Measure performance against targets	Measure performance against targets	Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs Create/enhance products and services uniquely tailored to satisfying customer needs and exceeding their expectations
Channel Usage	<ul style="list-style-type: none"> • # of unique Website visitors per month • # of Website pages visited per year • # of Online registered borrowers • # of CSC Customer Contacts • \$ Disbursed of CSC Direct Full Service Lending 	<ul style="list-style-type: none"> • 17,000 • 1.8M • 12,000 • 80,000 • \$175M 	<ul style="list-style-type: none"> • 21,000 • 2.2M • 17,000 • 85,000 • \$225M 	<ul style="list-style-type: none"> • 21,000 • 2.3M • 20,000 • 90,000 • \$250M 	Execute on-line and CSC (call center) strategies to provide customers with enhanced service via their channel of choice
Customer Value Management	Benchmark	Measure performance against targets	Measure performance against targets	Measure performance against targets	Benchmark customer value Monitor marketplace activity
Customer Channel Awareness, Preferences and Permissions	Benchmark	Measure performance against targets	Measure performance against targets	Measure performance against targets	Implement foundational customer experience standards throughout FCC to ensure delivery of an enhanced and consistent customer experience Redesign post-sale customer management processes to enhance the employee and customer experience



FCC's Balanced Scorecard 2006-07

Optimize Execution and Performance



		Targets					
Measures		2006-07	2007-08	2008-09	2010-11	2006-07 Initiatives	
Efficiency Ratio	Between 40% and 45%	Between 40% and 45%	Between 40% and 45%	Between 40% and 45%	Between 40% and 45%	Amend FCC's environmental policies and processes to address changes to the <i>Canadian Environmental Assessment Act</i>	
Debt to Equity	Under 10:1	Under 10:1	Under 10:1	Under 10:1	Under 10:1	Continue implementation of Enterprise Records Management initiative	
% of PND with Arrears	6%	6%	6%	6%	6%	Develop enterprise-wide content management governance committee, approach, and implementation plan for content deployed through employee portal	
Strategic Credit Risk Management	Managed range between 51 and 70	Managed range between 51 and 70	Managed range between 51 and 70	Managed range between 51 and 70	Managed range between 51 and 70	Internal Control Framework – implement framework to maintain and enhance controls through process and system design	
Process Improvements	Corporate Business Case parameters and approach to be reviewed and finalized	Measure performance against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Implement identity and access management solution to increase efficiency and safeguard customer data	
Near Term Improvements	60% of approved Near Term Improvements implemented	75% of approved Near Term Improvements implemented	80% of approved Near Term Improvements implemented	90% of approved Near Term Improvements implemented	90% of approved Near Term Improvements implemented	BK Program - process redesign, technical infrastructure and application development to support the enhancement of the customer and employee experience	
IT Architecture Capability	86%	95%	98%	100%	100%	Enhance business platforms	
User Acceptance (performance, reliability and usability)	Measure performance against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Cascade strategic objectives from the corporate to the divisional level	
Project Management Maturity	Set baseline	Measure performance against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Enhanced enterprise risk management, risk mitigation planning and status reporting	
						Complete capacity planning installation for project portfolio management projects	

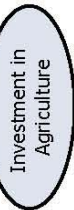
Sustain Commitment to Agriculture

FCC's Balanced Scorecard 2006-07

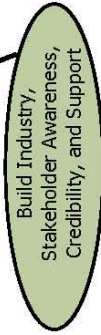
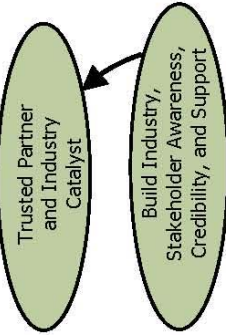
	Targets				
	2006-07	2007-08	2008-09	2010-11	2006-07 Initiatives
Financial	1.4%	TBD	TBD	TBD	Educate Canadians regarding agriculture including journalists, school-age children and urban residents Invest in promoting FCC customer products on CanadianFarmersMarket.com
Customer	Corporate Social Responsibility Scorecard	Measure performance against targets	Measure performance against targets	Measure performance against targets	Grow producer knowledge of management practices via: <ul style="list-style-type: none"> • AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management • Advanced Farm Manager: comprehensive business management training for today's farm owners/managers • Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues
	Corporate Reputation Index	Conduct new corporate reputation survey	Establish once baseline is complete	Establish once baseline is complete	Deliver innovative programs for young farmers
Internal Capability	Media Favourability Index	Score of 64	Score of 65	Score of 65	Continue community investment with an emphasis on farm safety and food issues (World Food Day, First Aid on the Farm, etc.) Continue enhanced support for rural communities with AgriSpirit capital giving program Develop bio-security protocols and enhanced awareness of bio-security management practices
					Leverage Community of Practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC web site and inviting customers to select FCC events. Conduct program to inform elected officials of FCC's role and offerings

Industry Success

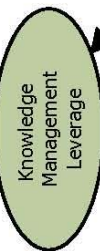
Financial



Customer



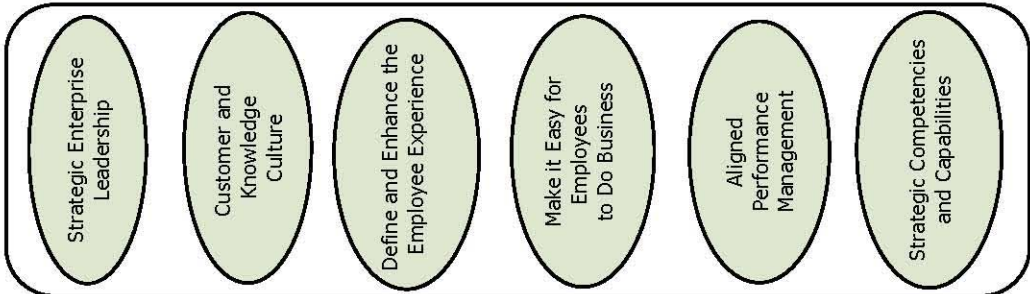
Internal Capability



FCC's Balanced Scorecard 2006-07

People

Targets					
Measures	2006-07	2007-08	2008-09	2010-11	2006-07 Initiatives
Engagement Score	Minimum Threshold 80%	Minimum Threshold 80%	Minimum Threshold 80%	Minimum Threshold 80%	Continue implementation of Cultural Transformation Strategy, through roll out of Holding to Account program to all employees Identify and develop future leaders through the Leadership Development Program Identify key drivers and create action plan to continuously improve employee engagement
Employee Experience	Benchmark	Measure performance against targets	Measure performance against targets	Measure performance against targets	Define the FCC employee experience and attendant development requirements Create a brand ambassador program for employees
Make it Easy for Employees to do Business	Develop measure and set baseline	Measure performance against targets	Measure performance against targets	Measure performance against targets	Implement the transition plan for the redesign of the performance and competency program (PACE) Develop and implement Employee Orientation Program Deliver Field Development Program and revise as necessary



Operating Budget Summary

The operating budget provides details of FCC's forecasted revenues and expenses for the fiscal year ended March 31, 2007. The table below summarizes financial measures for 2006-07.

Fiscal year ending March 31 (\$ millions)	2007 Plan
Portfolio Growth	
Loans receivable	12,481.8
Loan disbursements *	2,938.6
Loan renewal rate (per cent)	96.0
Prepayment rate (per cent)	7.5
Credit Quality	
Arrears	87.2
Provision for credit losses	46.5
Impaired loans	212.2
Allowance for credit losses	513.9
Efficiency and Cost Control	
Administration expenses	173.3
Efficiency ratio (per cent)	44.8
Financial Results	
Net interest margin (per cent)	3.04
New lending margin (per cent)	2.53
Net interest income	385.2
Other income	1.4
Net income	166.8
Return on equity (per cent)	12.28
Debt-to-equity (\$ of debt per \$1 equity)	7.82
Return on assets (per cent)	1.34
Funding Activities	
Borrowings	11,223.5
Total capitalization	1,960.3
Gross assets not requiring debt financing (per cent)	14.8
Business Services	
FCC Ventures	
Direct capital invested	57.5
Co-investment ratio (\$ co-invested per FCC \$)	1.3
AgExpert	
Sales revenue	2.5
Agri-Assurance	
Net insurance revenue	2.0

* Net of FCC Refinancing

Operating Budget - Schedule 1

Farm Credit Canada Balance Sheet 2006-07 Corporate Plan (millions of dollars)

As at March 31	2005 Actuals	2006 Forecast	2007 Plan
Assets			
Cash and cash equivalents	\$ 318.1	\$ 300.0	\$ 318.8
Temporary investments	268.7	300.0	318.7
Accounts receivable	67.2	61.0	61.0
	<u>654.0</u>	<u>661.0</u>	<u>698.5</u>
Loans receivable	11,149.9	11,928.4	12,481.8
Allowance for credit losses	462.5	495.3	513.9
Loans receivable (net)	<u>10,687.4</u>	<u>11,433.1</u>	<u>11,967.9</u>
Venture capital investments	31.1	42.6	57.5
Equipment and leasehold improvements	28.3	26.0	28.0
Other assets	3.6	4.0	4.0
	<u>63.0</u>	<u>72.6</u>	<u>89.5</u>
Total Assets	\$ 11,404.4	\$ 12,166.7	\$ 12,755.9
Liabilities			
Accounts payable and accrued liabilities	\$ 37.1	\$ 34.0	\$ 34.0
Accrued interest on borrowings	77.2	85.3	84.3
	<u>114.3</u>	<u>119.3</u>	<u>118.3</u>
Borrowings			
Short-term debt	2,729.3	5,011.5	5,661.3
Long-term debt	7,373.8	5,713.8	5,477.9
	<u>10,103.1</u>	<u>10,725.3</u>	<u>11,139.2</u>
Other liabilities	102.5	52.0	52.0
	<u>10,319.9</u>	<u>10,896.6</u>	<u>11,309.5</u>
Shareholder's Equity			
Capital	532.7	547.7	562.7
Retained earnings	551.8	722.4	883.7
	<u>1,084.5</u>	<u>1,270.1</u>	<u>1,446.4</u>
Total Liabilities and Shareholder's Equity	\$ 11,404.4	\$ 12,166.7	\$ 12,755.9

Operating Budget - Schedule 2

Farm Credit Canada
Statement of Operations and Retained Earnings
2006-07 Corporate Plan
(millions of dollars)

Fiscal year ending March 31	2005 Actuals	2006 Forecast	2007 Plan
Interest Income			
Loans receivable	\$ 613.1	\$ 679.8	\$ 736.9
Investments	14.7	20.0	21.7
	<u>627.8</u>	<u>699.8</u>	<u>758.6</u>
Interest expense			
Short-term debt	54.1	116.4	183.0
Long-term debt	221.8	201.6	190.4
Total interest expense	<u>275.9</u>	<u>318.0</u>	<u>373.4</u>
Net Interest Income	<u>351.9</u>	<u>381.8</u>	<u>385.2</u>
Provision for credit losses	95.2	48.6	46.5
Net Interest Income after provision for credit losses	<u>256.7</u>	<u>333.2</u>	<u>338.7</u>
Other income	5.0	4.8	1.4
Income before administration expenses	261.7	338.0	340.1
Administration expenses	<u>143.7</u>	<u>162.1</u>	<u>173.3</u>
Net Income	<u>118.0</u>	<u>175.9</u>	<u>166.8</u>
Retained earnings, beginning of year	437.5	551.8	722.4
Dividend paid	3.7	5.3	5.5
Retained Earnings, end of year	\$ 551.8	\$ 722.4	\$ 883.7

Operating Budget - Schedule 3

Farm Credit Canada Statement of Cash Flows 2006-07 Corporate Plan (millions of dollars)

Fiscal year ending March 31	2005 Actuals	2006 Forecast	2007 Plan
Operating Activities			
Net income	\$ 118.0	\$ 175.9	\$ 166.8
Items not involving cash and cash equivalents:	0.0	0.0	0.0
Provision for credit losses	95.2	48.6	46.5
Amortization of bond premiums/discounts	18.9	0.0	0.0
Change in accrued interest receivable	(6.4)	(16.4)	(6.0)
Change in accrued interest payable	7.2	8.1	(1.0)
Other	14.6	(88.7)	(24.7)
Cash provided by operating activities	247.5	127.5	181.6
Investing Activities			
Loans receivable disbursed	(3,508.9)	(3,608.0)	(3,505.0)
Loans receivable repaid	2,361.8	2,860.1	2,984.5
Change in temporary investments	60.1	(31.3)	(18.7)
Venture capital investments disbursed	(17.3)	(18.0)	(20.0)
Venture capital investments repaid	0.0	6.7	1.8
Change in real estate held	3.2	0.0	0.0
Other	(1.2)	(12.0)	(29.0)
Cash used in investing activities	(1,102.3)	(802.5)	(586.2)
Financing Activities			
Long-term debt from capital markets	2,765.5	3,183.2	3,151.7
Long-term debt repaid to capital markets	(2,392.6)	(4,843.2)	(3,387.6)
Change in short-term debt	654.3	2,282.2	649.8
Capital contribution	0.0	40.0	15.0
Dividends paid	(3.7)	(5.3)	(5.5)
Cash provided by financing activities	1,023.5	656.9	423.4
Change in cash and cash equivalents	168.7	(18.1)	18.8
Cash and cash equivalents, beginning of year	149.4	318.1	300.0
Cash and cash equivalents, end of year	\$ 318.1	\$ 300.0	\$ 318.8

Discussion of Expected Results – 2005-06 Forecast Versus 2006-07 Financial Plan

Portfolio Growth

Loans Receivable

Loans receivable is projected to grow by 4.6 per cent, increasing from \$11,928.4 million forecast for 2005-06 to \$12,481.8 million in 2006-07. The increase in loans receivable reflects increased lending to AgProduction, AgValue and Alliances.

Net Disbursements

Net disbursements is the primary driver of portfolio growth and is expected to decrease by \$152.1 million from the forecast level of \$3,090.7 million in 2005-06 to \$2,938.6 million in 2006-07. AgProduction lending is expected to decrease by \$179.2 million and AgValue and Alliances lending is expected to increase by \$27.1 million. Lending to primary producers represents 91.1 per cent of total net disbursements in 2006-07.

Renewals are expected to be 96 per cent, which is consistent with prior years. Prepayments are expected to be 7.4 per cent of loans receivable in 2005-06 and 7.5 per cent of loans receivable in 2006-07.

Credit Quality

Arrears

Arrears as a percentage of loans receivable is projected to be higher over the planning period. The arrears balance is forecasted to be \$58.8 million in 2005-06 and increase to \$87.2 million in 2006-07. This increase is the result of a projected increase in the arrears as a percentage of loans receivable combined with a higher loans receivable balance.

Impaired Loans

Impaired loans are expected to be 1.70 per cent of loans receivable or \$212.2 million in 2006-07, an increase of \$21.3 million over the forecast for 2005-06 of \$190.9 million. This increase is due primarily to the larger portfolio in 2006-07 compared to 2005-06 and is consistent with historical experience.

Provision For Credit Losses

The provision for credit losses is expected to decrease slightly in 2006-07 from forecast 2005-06. The forecasted provision for 2005-06 is \$48.6 million and decreases to \$46.5 million in 2006-07. The provision forecasted for 2005-06 and planned for 2006-07 is substantially lower than historical values due to improved portfolio health.

Allowance For Credit Losses

The allowance for credit losses represents management's best estimate of credit losses on loans receivable. The allowance is made up of three components:

1. Specific – provides for probable losses on specific loans which have become impaired.
2. General allocated – management's best estimate of probable losses that exist in the portfolio that may end up classified 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.
3. General unallocated – the unallocated portion considers recent events and changes in economic conditions to allow for credit losses within the portfolio which have not yet manifested themselves as observable deterioration in credit quality on specific loans.

The allowance for credit losses is projected to grow from the forecast of \$495.3 million in 2005-06 to \$513.9 million at the end of 2006-07. The allowance as a percentage of opening loans receivable is projected to decrease slightly from 4.44 per cent in 2005-06 to 4.31 per cent in 2006-07.

Efficiency and Cost Control

Administration Expenses

Administration expenses for 2006-07 are planned to increase to \$173.3 million from the 2005-06 forecast level of \$162.1 million. This reflects the increased resources required to support the growing portfolio and funding of corporate strategic initiatives.

Permanent staff levels expressed as full-time equivalents (FTEs) are projected for planning purposes at 1,235 FTEs in 2006-07 compared to 1,156 FTEs in the 2005-06 forecast. This increase is driven by the anticipated business growth.

Efficiency Ratio

The efficiency ratio measures how well resources are utilized to generate income. It represents administration expenses expressed as a percentage of income before administration expenses and provision for credit losses. An efficiency ratio of 41.9 per cent is forecasted for 2005-06. In 2006-07 the efficiency ratio is expected to increase to 44.8 per cent due to increased administration expenses as discussed above.

Financial Results

Net Interest Income

Net interest income is required to cover risk of credit losses and administration expenses, as well as to yield a sufficient profit to enable the corporation to remain financially viable and fulfill its role in supporting agriculture.

Net interest income is expected to increase slightly from \$381.8 million forecast for 2005-06 to \$385.2 million for 2006-07. This increase is primarily driven by the increase in the loan portfolio.

Net Interest Margin

Net interest margin is the net interest income expressed as a percentage of average total assets. The net interest income margin is projected to decrease from 3.17 per cent forecast in 2005-06 to 3.04 per cent in 2006-07. The decrease in margin in 2006-07 is mainly due to slightly lower margins anticipated on new and renewed lending due to competitive price pressure.

Net Income

Net income is projected to decrease from the 2005-06 forecast of \$175.9 million to \$166.8 million in 2006-07 mainly due to increased administration expenses. This is slightly offset by anticipated increases in net interest income.

Return on Assets

Return on assets measures how well the corporation is utilizing assets to generate income. The return on assets is projected to be 1.34 per cent in 2006-07, a decrease from 1.49 per cent forecasted in 2005-06. The decrease is due to the items discussed in the net income section.

Return on Equity

Return on equity measures the return earned on equity, which represents the investment the Government of Canada has made in the corporation. Return on equity is projected to decrease from 14.9 per cent forecast for 2005-06 to 12.3 per cent in 2006-07. The decrease is mainly due to the increased administration expenses offset by increases in Net Interest Income and a slightly lower provision for credit losses. The ratio is also being impacted an equity injection anticipated in 2006-07.

Debt-to-Equity

The projected debt-to-equity ratio for 2006-07 is 7.8:1, an improvement from the forecast of 8.6:1. The improvement reflects anticipated funding of a larger portion of loans receivable through equity. This ratio is projected to remain well below the maximum 12:1 debt-to-equity ratio set under the *Farm Credit Canada Act*.

Funding Activities

Cash Provided by Operating Activities

After adjusting net income for non-cash items, FCC expects to realize \$181.6 million from operating activities in 2006-07. While net income is projected to decrease, cash provided by operating activities is projected to increase by \$29.1 million from forecast 2005-06 to 2006-07.

Cash Provided by (Used in) Investing Activities

Loans Receivable Disbursed: (\$3,505.0) million

Loans receivable disbursed to customers are expected to total \$3,505.0 million in 2006-07 compared to \$3,608.0 million forecasted in 2005-06.

Loans Receivable Repaid: \$2,984.5 million

A total of \$2,984.5 million in principal repayments from borrowers is anticipated compared to \$2,860.1 million forecasted in 2005-06.

Change in Temporary Investments: (\$18.7) million

FCC anticipates temporary investments of \$318.7 million in 2006-07. This is an increase of \$18.7 million from forecasted temporary investments of \$300.0 million in 2005-06.

Venture Capital Disbursed: (\$20.0) million

FCC expects to disburse \$20.0 million of venture capital investments in 2006-07, up from \$18.0 million in 2005-06.

Cash Provided by (Used in) Financing Activities

Long-term Debt From Capital Markets: \$3,151.7 million

FCC anticipates long-term funding of \$3,151.7 million in 2006-07. This is down \$31.5 million from the \$3,183.2 million forecasted for long-term funding in 2005-06.

Long-term Debt Repaid to Capital Markets: (\$3,387.6) million

Principal payments to the capital markets are expected to be \$3,387.6 million compared to \$4,843.2 million in 2005-06.

Short-term Debt: \$649.8 million

FCC anticipates short-term debt of \$5,661.3 million in 2006-07. This is an increase of \$649.8 million from forecasted short-term debt of \$5,011.5 million in 2005-06 and reflects expected refinancing of long-term structured notes.

Capital Contribution From the Government of Canada: \$15.0 million

A capital contribution of \$15.0 million to support FCC Ventures is projected in 2006-07. A capital contribution of \$40.0 million was received in 2005-06.

Dividend Paid to Government of Canada: (\$5.5) million

A dividend of \$5.5 million is projected to be paid to the Government of Canada in 2006-07, at the discretion of the Board of Directors. A dividend of \$5.3 million is anticipated for 2005-06.

Business Services

FCC Ventures

FCC Ventures, FCC's venture capital division, was formed in 2002-03 to address the need for more venture capital in agriculture to help fund the growth of the industry. FCC Ventures' direct capital invested is projected to increase from \$42.6 million in 2005-06 to \$57.5 million in 2006-07. The corporation's objective is to attract \$1.3 of investment by third party co-investors for each dollar invested by FCC.

AgExpert

AgExpert is Canada's leading publisher of farm management software, offering the AgExpert Analyst accounting software, and AgExpert Field Manager programs and related support to primary producers. AgExpert sales revenue is expected to increase from \$1.9 million in 2005-06 to \$2.5 million in 2006-07.

AgriAssurances

FCC has been offering group creditor life insurance since 1960, providing protection for our customers, their families and their businesses. AgriAssurances net insurance revenue is projected to decrease slightly from \$2.3 million in 2005-06 to \$2.0 million in 2006-07. Claim rates have been low in the past few years however are anticipated to return to historical levels. AgriAssurances group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.

Capital Budget Summary

Capital spending is planned at \$14.0 million in 2006-07, including \$7.0 million for computer system-related projects. The development plans for information technology include normal hardware and software purchases, and improvements to the corporation's business systems. The remainder of capital spending relates to regular furniture, fixture and equipment replacements as well as additional purchases of these items and related leasehold improvements, resulting from the forecasted increase in staff levels.

Borrowing Plan Summary

Farm Credit Canada requests authority:

- a) to borrow short-term funds from the domestic and international money markets, stand-by revolving credit facilities or bank lines of credit or loan agreement for liquidity purposes and the financing of short-term assets and investments. The maximum short-term debt outstanding at any time will not exceed \$7.5 billion;
- b) to borrow up to \$2.3 billion of long-term funds from the capital markets;
- c) in addition to (b), to borrow up to \$1.7 billion of long-term funds from the capital markets as a contingency request relating to 10 per cent (\$12,482 million) of expected year-end 2006-07 loans receivable outstanding to meet general contingencies and approximately \$500 million to repay FCC's callable debt in the event it is called;
- d) to provide standing approval to issue debt obligations under the following:
 - o Domestic Medium Term Note Program;
 - o Euro Medium-Term Note Program;
 - o Japanese Retail Debt Program;
 - o Any other Canadian or international private or public markets.

The aggregate amount of borrowings issued under the aforementioned standing long-term approvals will not exceed \$4.0 billion in 2006-07.

Glossary of Terms

AgProduction

Primary agricultural production includes livestock, bee-keeping, dairying, fruit growing, grain and oilseed production, aquaculture, agroforestry, and any other activity that is the cultivation of plants and raising of animals. It also includes the application of science to primary or value-added agricultural production, or the management of plant and animal (including aquatic) resources.

AgValue

Activities that enable or benefit Canadian agricultural production, including activities that produce, transport, store, distribute, process, or otherwise increase the value of agriculture production.

Alliances

Relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer 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.

Corporate governance

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

Corporate social responsibility (CSR)

CSR is about accountability and transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of equity.

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).

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. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest expense

Expense to the corporation incurred on debt.

Interest income

Income earned on loans receivable, cash and investments.

Loan renewal rate

Percentage ratio of principal dollars renewed to principal dollars matured.

Net Disbursements

Represents disbursement of funds against approved loans excluding refinancing of existing FCC loans.

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.

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

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 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

Agricultural 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, Surrey

Alberta

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

Saskatchewan

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

Manitoba

Arborg, Brandon,
Carman, Dauphin,
Killarney (S), Melita (S),
Morden, Neepawa,
Portage la Prairie, Shoal
Lake (S), Steinbach,
Stonewall (S), Swan
River (S), 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, Saint-
Hyacinthe, Saint-Jean-sur-
Richelieu, Saint-Jérôme,
Sainte-Foy, Saint-Georges-
de-Beauce (S), Sherbrooke,
Trois-Rivières, Valleyfield,
Victoriaville

New Brunswick

Grand Falls, Moncton,
Sussex, Woodstock

Newfoundland and

Labrador

St. John's

Nova Scotia

Kentville, Truro

Prince Edward Island

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References

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