**Farm Credit Canada** Annual Report 2001-02

*Forward.*
**Thinking.**

Agriculture. It's all we do.

# FCC *helps* Canadian FARMERS and AGRIBUSINESS *grow,* DIVERSIFY and *prosper.*

**The agricultural industry is exciting, dynamic and ever-changing.**

Each season brings about a new cycle of life. The cultivation of soil and nurturing of animals year after year is a delicate balance of harvesting today while planning for the future.

Our customers move through their business cycles. One generation mentors another, and each must deal with changing global realities of new markets, new science and new technology.

During the last year, FCC went through many cycles and achieved many milestones – a new mandate, new alliances, and new ways of doing business. It was a year of managing our destiny so we can help agriculture grow for the long term. It was a year of thinking about and moving forward to the future.

## fcc : A symbol of our future

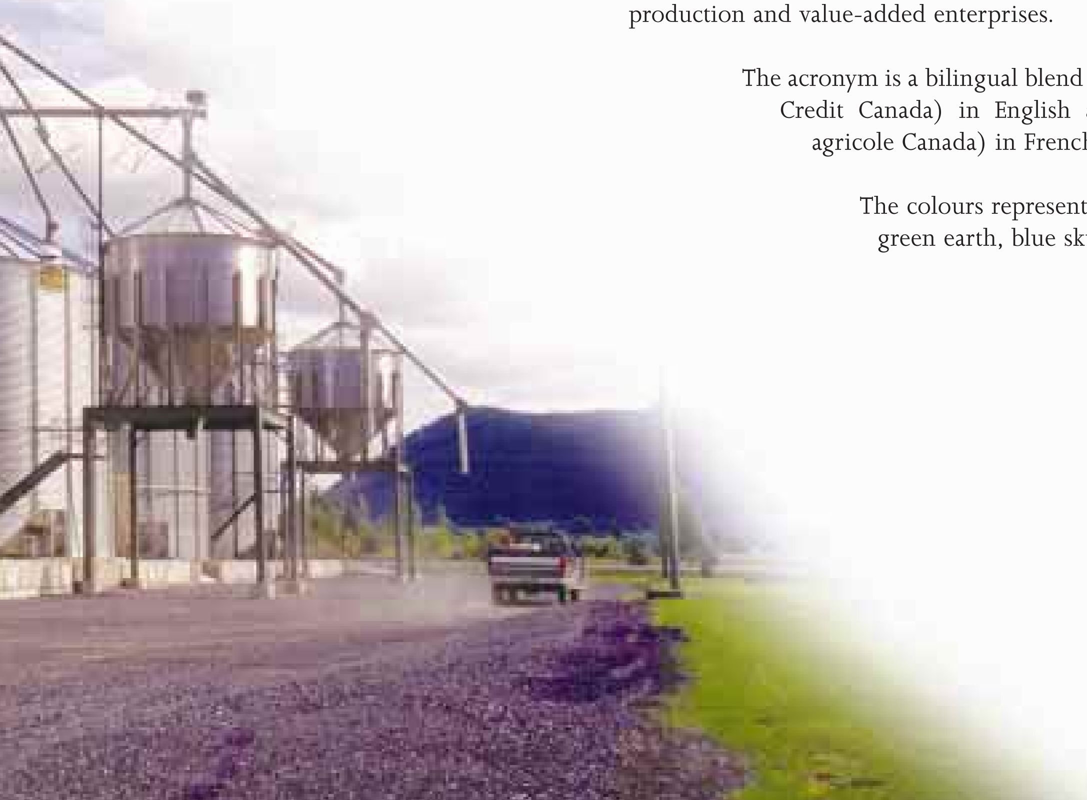
With the enactment of our new legislation, we will offer a broader range of services to agriculture across Canada. FCC's new logo reflects that change and our future.

The wave design shows movement, progress and innovation toward our customers.

The two intersecting lines symbolize the interdependence between primary production and value-added enterprises.

The acronym is a bilingual blend representing FCC (Farm Credit Canada) in English and FAC (Financement agricole Canada) in French.

The colours represent the natural elements of green earth, blue sky and water.



Photography provided by Greg Huszar.

As Canada's leader in agricultural financing, FCC helps farmers and agribusiness operators grow, diversify and prosper. Operating out of 100 offices located primarily in rural areas, the corporation's 900 employees are passionate about the business of agriculture. FCC's healthy portfolio of $7.7 billion and nine consecutive years of portfolio growth are a reflection of our customers' success.

# Corporate values

At FCC, our corporate values guide our conduct with colleagues and customers:

### Focus on the customer

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

### Act with integrity

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

### Working together

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

### Give back to the community

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

### Achieving excellence

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

# Vision

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

# Mission

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

## Table of Contents

# Operational and Financial Highlights

2001-02

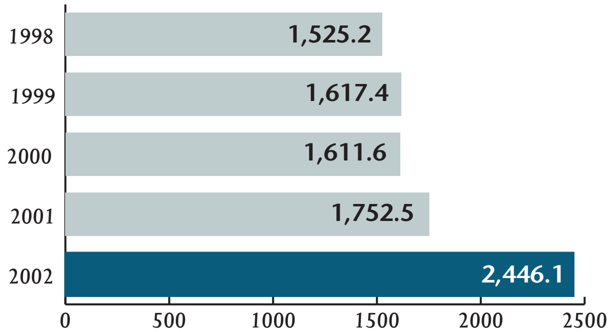
## For the year ended March 31

| Operational | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Loans receivable portfolio** | | | | | |
| Number of loans | **75,888** | 75,202 | 73,686 | 72,311 | 69,846 |
| Amount ($ millions) | **7,715.8** | 6,907.6 | 6,303.8 | 5,843.4 | 5,318.8 |
| Net portfolio growth (%) | **11.7** | 9.6 | 7.9 | 9.9 | 13.5 |
| Percentage of loans receivable in good standing (%) | **96.5** | 95.5 | 94.9 | 94.8 | 94.3 |
| **New lending** | | | | | |
| Number of loans approved | **17,842** | 13,289 | 14,201 | 14,880 | 15,488 |
| Amount of loans approved ($ millions) | **2,446.1** | 1,752.5 | 1,611.6 | 1,617.4 | 1,525.2 |
| Average size of loans approved ($) | **137,097** | 131,875 | 113,500 | 108,700 | 98,500 |
| **Real property held at year end** | | | | | |
| Number of properties | **115** | 372 | 924 | 1,516 | 1,787 |
| Number of acres | **28,855** | 120,924 | 360,284 | 604,054 | 725,703 |
| Value ($ millions) | **10.1** | 25.1 | 64.9 | 103.4 | 123.5 |

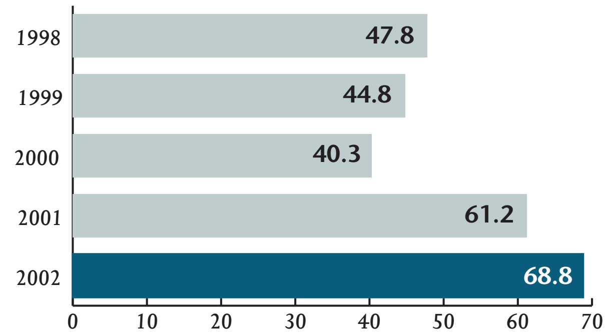
| Financial | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Balance sheet** ($ millions) | | | | | |
| Total assets | **7,884.7** | 7,179.3 | 6,570.7 | 6,125.1 | 5,706.2 |
| Total liabilities | **7,138.7** | 6,346.7 | 5,943.5 | 5,533.2 | 5,156.9 |
| Equity | **745.9** | 832.6 | 627.2 | 591.9 | 549.3 |
| **Income statement** ($ millions) | | | | | |
| Net interest income | **201.2** | 164.5 | 154.4 | 146.3 | 134.1 |
| Provision for credit losses | **45.5** | 40.2 | 52.7 | 33.2 | 18.7 |
| Net lease and real estate income | **5.4** | 23.2 | 23.0 | 14.7 | 13.0 |
| Other income | **9.3** | 8.2 | 6.4 | 7.1 | 8.8 |
| Administration expenses | **101.6** | 94.5 | 90.8 | 90.1 | 89.4 |
| Income before income taxes | **68.8** | 61.2 | 40.3 | 44.8 | 47.8 |
| Current income taxes | **1.9** | 2.2 | 1.9 | 2.2 | 6.2 |
| Future income taxes | **25.6** | 27.4 | – | – | – |
| Net income for the year | **41.3** | 31.6 | 38.4 | 42.6 | 41.6 |

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

**Loans Approved ($ millions)**




**Net Income* ($ millions)**



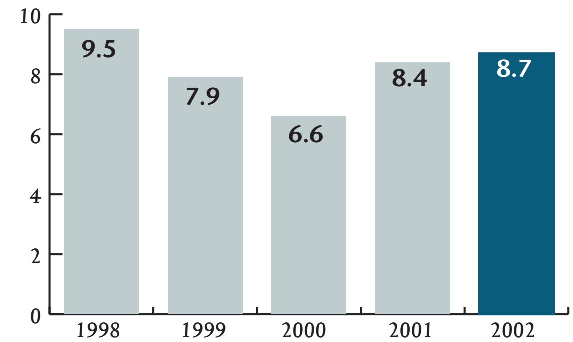

# Operational highlights

- Approved $2.4 billion in new loans
- Achieved ninth consecutive year of portfolio growth at 11.7 per cent in 2001-02
- Initiated significant new agreements with Alliance partners
- Continued development of Internet services
- Improved health of loan portfolio

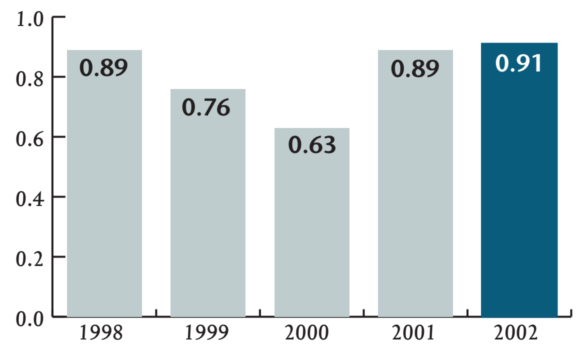
# Financial highlights

- Continued strong net income generated increased capacity for lending
- Higher return on equity mainly due to increased net interest income
- Allowance for credit loss increased by $28 million, reflecting the risks associated with the larger portfolio
- Efficiency ratio improved to 48.4 per cent from 55.0 per cent in 2001-02

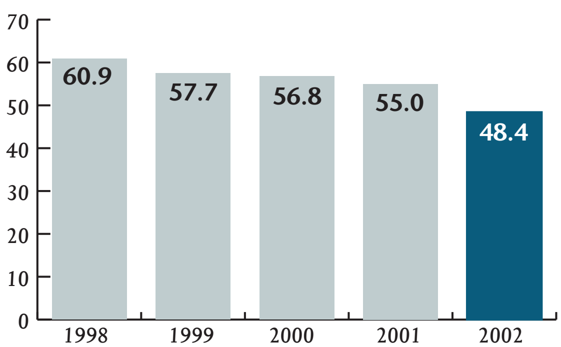
**Return on Equity* (%)**



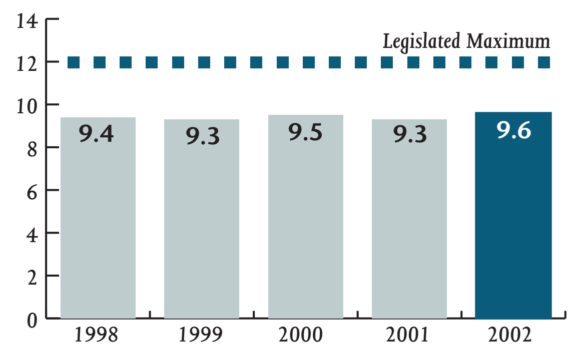

**Return on Assets* (%)**




**Efficiency Ratio (%)**




**Debt-to-equity** (X:1)**




* *before income taxes*

** *equity restated in 2001 for comparative purposes*

"WE WORK WITH *customers*, AT EVERY STAGE OF THEIR *business cycle*."

# Listening to customers. Anticipating needs.

From the food on our tables to new and innovative energy sources, agriculture touches every aspect of our lives and economy. Global market demands and changing consumer expectations are challenging producers and agribusiness operators to innovate and manage more complex agricultural operations while still maintaining exceptional quality and food safety standards.

Agriculture is an increasingly dynamic, complex and ever-evolving industry. As we examine the trends impacting agriculture, we are challenged to continue developing financial solutions that will meet future needs. By consulting with the agricultural industry and listening to our customers, we strive to be forward thinking. We work to anticipate the industry's needs and help our customers be proactive.

At FCC, we base our success on the success of our customers. This past year demonstrated the vast differences in Canada's agricultural industry. Some producers grappled with the effects of drought and market downturns, while others, particularly those in the hog and dairy sectors, benefited from strong markets. In good times and bad, and across the diverse agricultural sectors, FCC account managers help customers meet challenges and offer innovative financial solutions to take advantage of opportunities. Our results demonstrate that we are on the right track. In 2001-02, our loan portfolio grew to a record level of **$7.7 billion**. Our return on equity also increased to **8.7 per cent**. This is the ninth consecutive year of growth for FCC, which means that we are self-sustaining and in a good position to continue serving the agricultural industry.

## Products and services to meet changing needs

We believe in working with our customers over the long term at every stage of their business cycle – from start-up to retirement and succession. As our customers' needs change, we adapt the products and services we offer accordingly.

An example of this is our new Flexi-Farm product. Developed for primary producers, this product puts farmers in the driver's seat regarding payment schedules so that they can manage challenges and take advantage of opportunities. In 2001-02, FCC also launched several products geared to the unique needs of agribusiness, such as the Performer Loan that bases payments on the achievement of business milestones.

## Evolving with the industry

To continue to meet the evolving needs of Canadian agriculture, FCC successfully received an expanded mandate in 2001. The new *Farm Credit Canada Act* opens the door for FCC to develop a whole new range of products, services and delivery channels tailored to address the changing agricultural marketplace.

Primary producers also require access to effective management tools. Complementary services, including business and succession planning, will be developed in consultation with the industry and our customers.

It has been apparent for some time that access to venture capital for agriculturally focused companies is a pressing need. Our new mandate enables us to begin to address this issue. Our preliminary goal is to start small and serve as a catalyst – to encourage others in the financial services industry to invest actively in the agriculture industry. We wish to reach out to partners and the industry to identify venture capital opportunities that will benefit both Canadian agriculture and investors.

## Success through partnership

The change to our legislation was achieved with significant consultation with customers, partners and stakeholders. Key partners, such as the Canadian Federation of Agriculture, shared our view that FCC's focus must remain on the primary producer. Customers and stakeholders also have told us that the growth of the value-added sector is key to the future success of the industry. In 2001, Canada exported $26.5 billion worth of agri-food products, a 14 per cent increase over the previous year. Our extended powers will allow FCC to serve the full spectrum of agriculture from inputs through to processing. At the same time, we continue to develop and nurture new partnerships that leverage our financial expertise with the complementary expertise and service networks of others. The end result is a net benefit to our customers and the industry.

FCC's 100 offices are located in rural and small centres – where our customers farm and do business. Our employees live and work in these same communities. Many of our employees have rural and farm backgrounds, and they have a vested interest in the success of agriculture.

We continue to nurture and develop our people's specialized expertise. We accomplish this through knowledge management, leadership training and professional development. This investment in our employees offers our customers special value in their relationship with FCC. Customers tell us we "get" agriculture and their needs. The reason we do is attributable to the men and women who work at FCC. They share a passion for the industry's success with our customers and stakeholders.

## Putting our "thinking" to work for our customers

Recognizing that our employees' specialized agricultural expertise and knowledge is what differentiates FCC in the marketplace, we launched a new knowledge management initiative in 2001-02. FCC is striving to capture essential industry knowledge to share across Canada. Ultimately, this knowledge benefits our customers, as our account managers translate national and international industry information into actionable advice tailored to the needs of each customer's individual operation.

While it has been a year of success and innovation at FCC, we did not lose sight of the fundamentals. We believe in a balanced scorecard approach to business. We pay equal attention to human resources, customer loyalty, quality improvement and financial success. Focus on all four of these elements contributes to our customers' success and, in turn, results in FCC's continued ability to serve agriculture.

With a clear new mandate and continued dedication to the industry, FCC will continue to raise the bar and extend our reach so that customers can work with us in person, by phone, through the Internet and via our many partners.

By constantly challenging ourselves to be forward thinking – meeting our customers' needs today, while constantly thinking about their future requirements – FCC fulfills its mandate to enhance rural Canada and ensure the long-term sustainability of Canadian agriculture.

**John J. Ryan**

"FCC SEEKS *partnerships* TO HELP RURAL CANADA *grow*."

# Continued focus on producers

The boundaries of Canadian agriculture are expanding. Freer trade, globalization, technology and increasingly unpredictable weather are redefining the industry. Everyone involved in the agriculture value chain – from producer to retailer – requires increased access to financial and business solutions.

As well, more capital is needed to allow agriculture to reach its potential and compete globally. Perhaps even more importantly, developing management skills and adopting sustainable practices are critical inputs to the success of any operation, large or small, in all market conditions.

In the midst of this change, what is the role of the Canada's largest agricultural term lender? Our mission is clear: to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

In 2001-02, the new *Farm Credit Canada Act* solidified FCC's long-term commitment to primary producers. It has set the stage for FCC to develop partnerships and expanded services to help producers and agribusiness grow and prosper.

## There is more to our business than lending money

We believe in building community strength. FCC continues to demonstrate leadership through involvement with the Canadian Centre for Philanthropy's Imagine Program. As a member, FCC donates one per cent of annual net income to charitable and not-for-profit community organizations. Our community investment activities focus on farm safety, hunger and education. FCC continued its long-standing partnership with the Canadian Federation of Agriculture and proudly served as the exclusive corporate sponsor of the 2001 Canadian Agricultural Safety Week Campaign.

## FCC is self-sustaining

The Board of Directors firmly believes in strong corporate governance and is responsible for overseeing FCC's management and business in the best interests of the corporation and the long-term interests of the Government of Canada. The FCC Board comprises a rare blend of skills and experience derived from extensive backgrounds in agriculture, management, finance and public policy. Many of us continue to work in the agricultural industry and have a vested interest in its success.

I would like to take this opportunity to acknowledge the contributions of Edward W. Clark, who stepped down as a Director in 2001. His expertise in agriculture and contribution as Chair of the Corporate Governance Committee has left its mark. I would like to welcome Robert Colpitts as the newest Director of the FCC Board. His background in agricultural public policy will serve as an excellent complement to the Board and the corporation.

Over the next few years, customers and the industry will continue to challenge FCC to identify new growth opportunities. We will work with our partners, customers and stakeholders to meet and exceed these expectations and to contribute to the long-term success of the industry and the prosperity of our rural communities.

Respectfully submitted on behalf of the Board of Directors,

Rosemary Davis

**Rosemary Davis**

"FCC IS AN *integral* PART OF THIS VISION."

# Canada world leader in agriculture

Canada's agriculture and agri-food industry is a key contributor to the high quality of life enjoyed across the country. Vital to our economic success, this industry produces roughly eight per cent of our gross domestic product, accounting for one in seven jobs nationwide.

The challenges in agriculture continue to provide exciting opportunities for those in the industry. That's why the Government of Canada, in concert with the provincial and territorial governments, is working with the industry to build a stable agricultural policy framework for the future. Our objective is to position Canada as a world leader in food safety, innovation and environmentally responsible production.

I am pleased to say that Farm Credit Canada is an integral part of this vision. In 2001-02, FCC offered new products and services that addressed the industry's unique needs. FCC continues to work with customers and partners to understand and develop the tools needed for the long-term success of the industry.

In 2001, the Government of Canada was very pleased to support the new *Farm Credit Canada Act*. This new legislation underlines FCC's commitment to primary producers. It also allows FCC to further promote investment in agribusiness and offer products and services that will complement and add value to the agricultural industry, ultimately leading to the enhancement of rural Canada.

I know that Farm Credit Canada will continue to provide financial expertise and leadership as the industry, government and financial institutions work in partnership to establish Canada's unique brand of agricultural innovation, safety and quality around the world.

**Lyle Vanclief**

# Changing landscape of Canadian agriculture

New technologies, crops and production practices, combined with increased international competition, are driving tremendous change in Canadian agriculture. Meanwhile, information technology and greater domestic and international competition are transforming the financial services industry.

In order to meet and anticipate changing needs, FCC closely monitors trends in both industries. We use this market intelligence, along with customer feedback, to develop innovative strategies, products and services. The following summarizes key trends that have shaped FCC's corporate plan and will influence our future direction.

TO ANTICIPATE CHANGING *needs*, FCC CLOSELY *monitors* INDUSTRY TRENDS.

## Financing a Canadian economic powerhouse

FCC supports the growth and competitiveness of an industry vital to Canada's economy and the strength of rural communities. The proof of agriculture's importance is in the numbers:

- Agriculture contributed $36 billion in gross domestic product (GDP) in 2000;
- Agri-food industry was 8.5% of Canadian GDP in 2000;
- In 2000, the agri-food industry employed two million people, accounting for 13 per cent of the Canadian labour force; and
- In 2001, agri-food exports reached a record $26.5 billion, an increase of 14 per cent from the previous year.

*Source: Agriculture and Agri-Food Canada*

### INTEGRATING AGRICULTURAL PRODUCTION FROM SUPPLIER TO CONSUMER

The shift towards a more integrated and market-driven industry continues to shape Canadian agriculture. Producers and agribusiness are responding to an increasingly global marketplace by expanding their operations and exploring niche markets. They also are building partnerships along the agricultural value chain.

Partnerships are an efficient way to manage risk in volatile markets and extend individual marketing efforts. Livestock producers and processors have been particularly successful at this approach. These networks usually involve contract selling and buying at predetermined prices to reduce price risk.

For example, many FCC customers in the hog sector have entered integrated relationships with suppliers and processors to form "hog loops." Through such alliances, hog producers can realize economies of scale and security of markets not available to stand-alone operations.

Faced with a complex business environment, FCC and other financial services providers are challenged to constantly upgrade existing knowledge and offer more sophisticated services. Recognizing the increasing interconnectedness of the industry, FCC develops financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks.

### Level of business sophistication increases

FCC understands that producers and agribusiness operators are running businesses just as complex as urban-based entrepreneurs. Farm business management expertise is an important factor contributing to long-term success. "FCC is developing a range of financial and business management services for agricultural operators across the country. We will fill gaps in existing services either directly or through partnerships wherever possible," says Janet Wightman, Executive Vice-President and Chief Operating Officer.

### The continued growth of agribusiness

Producers and other rural entrepreneurs continue to increase margins by adding value to agricultural commodities. By doing so, they are creating economic growth and jobs in their rural communities, as well as new markets for producers close to home.

To become less dependent on fluctuating commodity prices in such sectors as grains and oilseeds, more producers are exploring new ways to add value to existing operations. Some have sought to meet specific needs in niche markets, such as organically produced foods, specialty crops and nutraceuticals. Others have added value by expanding into registered seed or grain cleaning.

A growing number of businesses are processing agricultural commodities to produce non-food products, such as cosmetics and personal care products, fiber-based materials and ethanol.

Many of these value-added initiatives require large injections of capital to get off the ground and achieve long-term success. FCC's expertise will play a crucial role in meeting the capital needs of agribusiness in the coming years. By supporting the growth of agribusiness, we are contributing to the success of primary producers.

### The global marketplace

Canadian agri-food exports have been fueled by the rapid growth of the processing sector over the last few years. These exports grew by 14 per cent to $26.5 billion in 2001 from the previous year. The United States continues to be Canada's primary trade partner, accounting for 61 per cent of Canadian agri-food exports. Other major destinations were Japan (nine per cent), the European Union (five per cent), Mexico (three per cent) and China (three per cent).

Global trade issues continue to place pressure on Canadian producers to increase competitiveness. The current round of World Trade Organization negotiations, scheduled to be completed by 2005, is reviewing supply management systems and national trading organizations.

To keep pace with this evolution, FCC continuously updates its knowledge of international market trends. By consulting agricultural groups and working in partnership with customers, FCC advances its expertise to help Canadians successfully compete at the global level. At home, we continue to work with rural-based agri-food processing operations to help rural economies grow.

> "FCC is *developing* a range of FINANCIAL and *business* management SERVICES."

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# Mowats expand their dairy operation

Shane Mowat likes to explore, experiment and seize opportunities. However, he is not given to wild speculation. Any expansion is thoroughly researched and planned before being carried out.

With the help of his wife Donna and two employees, Shane owns and operates Jockvalley Farms, located in Ashton, Ontario. Established in 1983, Jockvalley Farms is a large, modern dairy and cash crop operation that includes a state-of-the-art barn, 180 cows, three robotic milkers and 1,500 acres of land. It hasn't always been this way.

"After I received my diploma in agriculture, we purchased the farm," Shane explains. "The buildings and machinery were old. To succeed, we relied on our marketing skills, contacts and knowledge."

Jockvalley Farms grew steadily, to the point where Shane and Donna felt it was time for a major expansion. They attended numerous farm shows and open houses, and gathered all the possible ideas and experience.

A year and a half ago, they came to FCC with a detailed business plan that included tripling the herd size, purchasing three robotic milkers and building a modern barn – designed to take advantage of gravity, geography and natural ventilation.

"The thing that impressed me most about Shane and Donna's business plan was that they had spent several years researching and preparing for this expansion," explains FCC Account Manager Jim Marr. "They had a very clear idea of why they wanted to expand it."

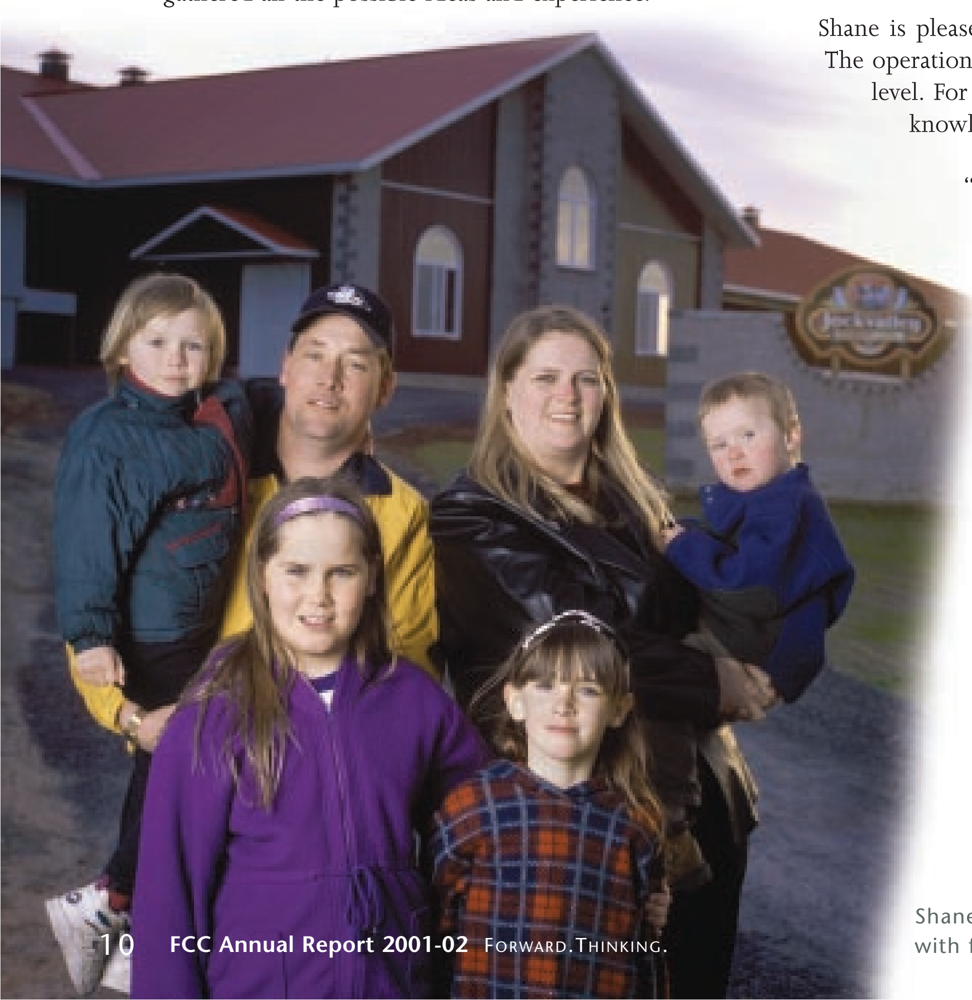
FCC Account Manager Jacques St-Arnaud also works with the Mowats. To him, sound financial management has always been an important part of Shane and Donna's success.

"Although this is a large project, no detail is overlooked," he says. "Expenses are closely monitored, and priority is given to whatever most affects the bottom line."

Shane is pleased with the results of the expansion so far. The operation is running almost at maximum production level. For him, the keys to growth are flexibility and knowledge.

"Every business is changing and agriculture is no different," says Shane. "We plan for the long term, but we also try to keep an open mind and remain flexible. It's amazing what's out there when you take the time to explore."

"THEY HAD A VERY CLEAR *idea* OF WHY THEY WANTED TO EXPAND *it*."




Shane and Donna Mowat with family.

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### FOOD SAFETY AND SUSTAINABILITY

Canada's food supply is widely respected internationally for its safety record and quality. However, recent world events have underscored the need to take preventive measures against the potential safety and environmental threats.

The agricultural industry is taking food safety very seriously. The agricultural devastation in Europe from Bovine Spongiform Encephalopathy and Foot and Mouth Disease is driving the industry towards an integrated approach to food safety. Quality control along the supply chain, as well as the ability to track food product contents from the producer to retailer, have become key concerns to both suppliers and retailers.

The terrorist events of the past year significantly increased the awareness of the threat of agro-terrorism. Companies are taking steps to increase the security of their business network and, in some cases, are realigning their supply chain. These actions can be costly and will likely be felt throughout the value chain.

On the environmental front, cases of contamination to community water supplies have drawn attention to the possible negative impact farming practices can have on the environment. The federal and provincial governments are strengthening regulations controlling environmental standards of farming operations. This particularly affects livestock operations and manure management practices. However, producers in all sectors are aware of the need for stringent environmental practices on their farms.

The drive towards total quality, identifying the source of food product contents, and environmental stewardship offers great potential benefits. Canada's strong international reputation will help producers and processors expand in international markets. For the financial services industry, quality assurance and sustainable practices significantly reduce lending risk.

**THE ADOPTION OF NEW *technology* *plays* A CRITICAL ROLE.**

FCC intends to act as a catalyst in the industry by encouraging support of producers and processors as they strive to make an already safe agri-food system even safer. Through increasing access to business management services, FCC will encourage long-term planning to help maintain quality and reduce environmental risk. The corporation offers the Enviro-Loan, a customized product that helps producers meet environmental standards for farming operations.

### THE IMPACT OF SCIENCE AND TECHNOLOGY

As producers and agribusiness strive to meet growing consumer demands and achieve economies of scale, the adoption of new technology plays a critical role in financial success. Advances in science create opportunities for improved food safety and environmental stewardship, innovative products, and additional sources of revenue. From high-tech barns with state-of-the-art ventilation systems to computerized feeding and robotic milking systems, agriculture has become a sophisticated, knowledge-based industry.

As with most economic sectors, the integration of new technology is key to the continued development and competitiveness of Canadian agriculture. However, it is also a challenging and costly process for operators. FCC has introduced several financial products with flexible payment options to help producers adopt new technologies. Access to adequate capital will play a key role in helping Canada's agricultural industry continue as a technology leader.

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# Watsons run successful family business

When it comes to their farming operation, the Watsons have created a successful formula for mixing family with business. Doug and Connie Watson, along with their three sons, operate a large cash crop operation near Yellow Grass, Saskatchewan, about 100 kilometres south of Regina.

"Each son owns his own company and land and keeps his own books. At the same time, we channel equipment use and input purchases through the parent corporation," says Doug. "Everything is accounted for to ensure each family member is fairly compensated for their contribution. That way, we keep our business relationships fair and our family relationships harmonious."

Doug and Connie decided to enter farming in 1968. They bought their first quarter with a loan from FCC and used their off-farm income to make the first payments. When the time came for their three sons to choose careers, both parents encouraged them to work off the farm first and get an education before considering joining the family business.

Jason purchased his first half section in 1992 with the help of FCC. Justin bought land two years later, and the youngest son, Jeff, just bought his first quarter section last year. Each has an agriculture-related diploma or degree, and Justin and Jeff work for agricultural supply companies. "Together, they bring a lot of industry expertise to the table, which has benefited our business," Doug says.

The Watsons now farm close to 8,000 acres and have expanded into producing registered seed, which keeps them busy through the winter months. For the past several years, they have been in expansion mode and, with three sons bringing forward new business ideas, they expect this trend to continue.

When time comes for the parents to start scaling back for retirement, the Watsons intend to sit down as a family and work out a plan. Doug recently attended an AgriSuccess succession planning workshop in Weyburn that gave them some good tips on how to develop a long-term strategy.

"The more you plan, the more successful you are," Doug maintains. Based on strong market savvy and attention to day-to-day management, the Watsons intend to prove that the family farm continues to be a viable and profitable business concept.

"We keep our *business* relationships Fair and our *family* relationships harmonious."

Doug Watson and his two sons, Jason (left) and Jeff.

*– continued from page 11*

## Evolution of the financial services industry

Change in the financial services sector is being driven by global competition, product innovation, demographics and technology. Competition will intensify as the full effects of Bill C-8, reforming Canada's financial services sector, are felt in the marketplace. An increase in the number of small businesses and self-employed individuals is increasing demand for more specialized financial products. Meanwhile, the baby-boom generation has adopted a savings-oriented financial focus, leading to the growth of a wealth management sector.

Technology is shaping consumer demand and business models. Financial institutions must now be able to provide their customers with access to information and services 24 hours a day, seven days a week – in person, by phone or through the Internet.

With a new regulatory framework and the expected economic recovery in North America, the financial services industry will likely see continued industry expansion. Increased focus on larger and international markets by many financial institutions could result in reduced access to their services in rural regions. This underlines the continued importance of FCC and other lenders in rural Canada in the years ahead.

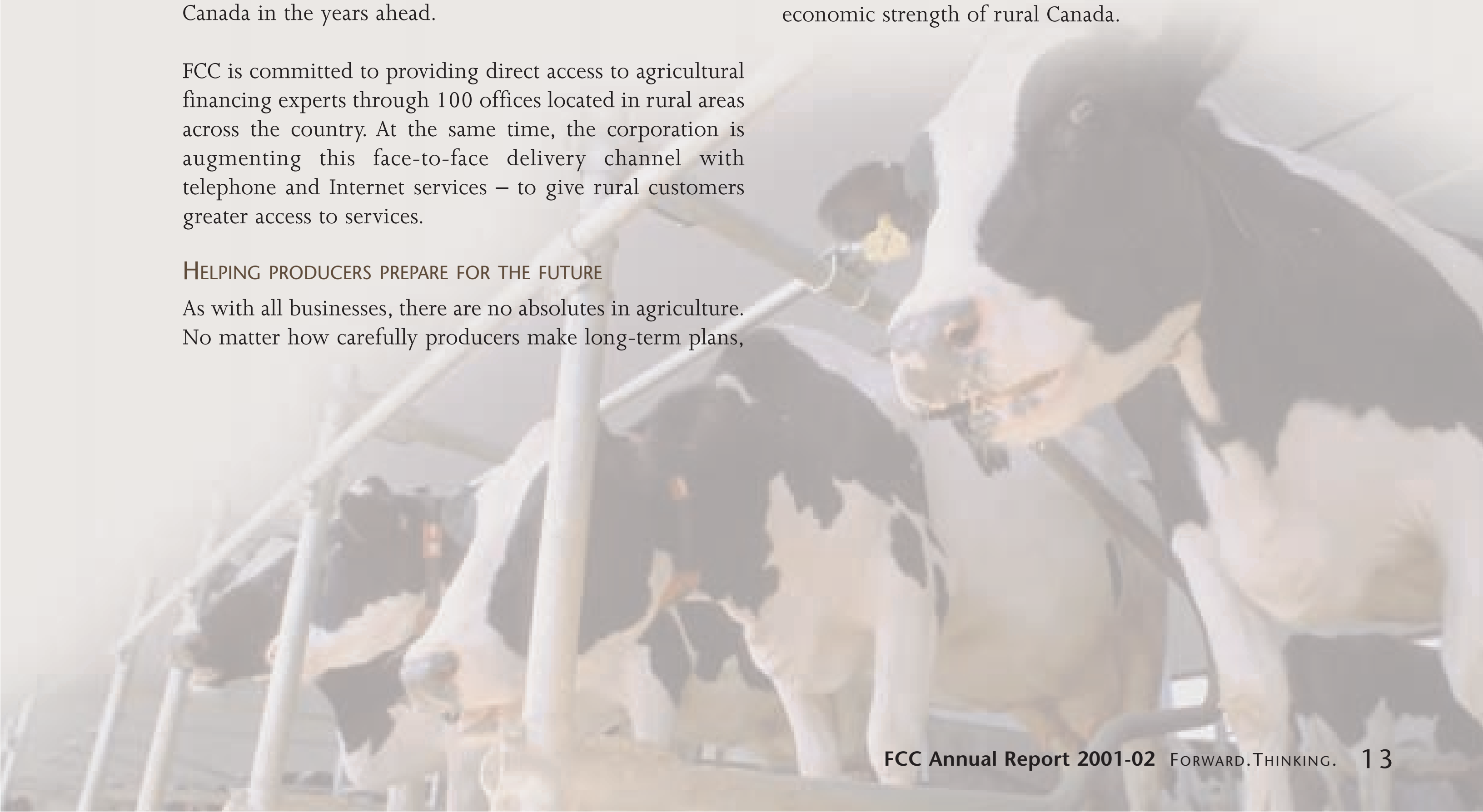
FCC is committed to providing direct access to agricultural financing experts through 100 offices located in rural areas across the country. At the same time, the corporation is augmenting this face-to-face delivery channel with telephone and Internet services – to give rural customers greater access to services.

## Helping producers prepare for the future

As with all businesses, there are no absolutes in agriculture. No matter how carefully producers make long-term plans, they are still subject to climatic shifts and changing markets. FCC encourages producers to put long-term financial and business plans in place to reduce vulnerability to external forces.

A crucial issue facing many farm families in the next decade is the transfer of the farm to the next generation. More than $50 billion in farm assets is expected to change hands before the next decade. FCC has responded by forming AgriSuccess – a national partnership to educate farm families on succession planning and increase access to business planning services. We continue to offer AgriStart – a suite of loan products designed for new and developing farmers, as well as farm families who need an orderly transition between generations. Our new legislation positions us to offer business management services to help producers plan a smooth transition. FCC also will launch expanded AgriStart services in 2002-03 to help new entrants.

With an expanded mandate and focus on satisfying the long-term needs of customers, FCC will continue to help producers and agribusiness achieve success. As a result, we contribute to the growth of the agricultural industry and economic strength of rural Canada.



# Richard runs growing calf operation

When he began raising veal calves in 1993, Marco Richard faced the double challenge of starting up an agricultural business in a little-known sector.

The 28-year-old now runs a 455-calf operation in Ste-Brigitte-des-Saults, Quebec. He bought his first farm at age 19, after completing his studies at the Institut de technologie agricole in St-Hyacinthe. He remembers the challenges he faced early on.

"When I started in 1993, I didn't have any cash," Marco recalls. "I didn't have much experience either, but having grown up on a veal-calf farm, I knew the sector well."

He made the necessary adjustments to the barn to fit his needs. Patience, careful management and planning did the rest. By 1997, Marco's business was well on its way and he felt ready to sell his first farm and start a new one, this time by purchasing a barn capable of holding 450 calves, an unheard-of capacity at the time.

The project was a bold one. Marco approached FCC with his business plan. The response was quick.

"The business plan was near perfect," says FCC Account Manager Fred Martineau. "The balance statement was up to date and the forecasts were accurate. Marco is an expert in the veal-calf sector, and he always strives to be the best operator and manager he can be."

The new operation turned out to be a huge success. Marco believes that passion, planning skills and people are key to getting a good start in agriculture.

"Passion is the first ingredient, but you have to remain objective and always look at the entire picture," he explains. "The second ingredient is sound business and financial planning. You have to be able to budget over the short and the long term. You also have to surround yourself with the right people and benefit from their experience. Getting involved in your federation and in local organizations, for example, allows you to learn and build a network of advisors."

"HE *always* STRIVES TO *be* THE *best* OPERATOR AND MANAGER HE *can* BE."

Marco Richard, Chantal Pitt and Fany Richard.

# Green Prairie focuses on export markets

Building lasting relationships has been instrumental to the success of Green Prairie International, a timothy hay processing company based outside of Lethbridge, Alberta. The company exports 100 per cent of its compressed livestock feed – mostly to Japan and Korea. Since starting the business in 1986, CEO John Van Hierden has made inroads into Asian markets based on product quality and his company's reputation.

"We first started marketing through sales agents but soon learned that doing it ourselves worked better," says Edward Van Hierden, company president and John's brother. "Asian buyers want to know they can trust the people they are dealing with. It takes years to build a reputation."

Green Prairie's amazing growth demonstrates a long-term and personal approach to marketing pays off. While John started with a portable compressing unit, the company now has three plants and marketing alliances with other timothy processors. Production increased by 25 per cent last year and has now reached 70,000 metric tonnes. Timothy is a high-quality hay traditionally used as forage in many Asian markets such as Japan.

The company controls quality by purchasing high-grade hay from contracted producers and following strict quality-control procedures in the plants. In fact, in March 2002, Green Prairie sent six plant employees to Japan to meet with customers and obtain a first-hand understanding of the Japanese market. "The better our employees understand our market, the higher our product quality," Edward maintains.

To finance its most recent expansion, Green Prairie approached Business Development Bank of Canada (BDC) in winter 2001. BDC then contacted FCC's Lethbridge office to work together on a financial package flexible enough to meet the specialized needs of this agribusiness.

"The better our employees *understand* our market, the higher our product *quality*."

"BDC brought experience in financing manufacturing operations and FCC contributed agricultural expertise and customized lending products," says FCC's Lethbridge District Manager Clem Samson.

"Green Prairie has just touched the tip of the iceberg in this emerging niche market," Edward says. He encourages other rural entrepreneurs to tackle new market opportunities in international agriculture.

John Van Hierden, his brother Edward, FCC's Clem Samson and BDC's Garfield Benke.

# Long-term strategies to meet lifetime needs

At FCC, we take a forward-thinking approach to strategic planning that anticipates customer needs. In 2001-02, FCC updated its five-year corporate strategy to reinforce our commitment to building lasting customer relationships. To help producers and agribusiness operators plan for the future and address changing financial needs, FCC is developing products and services to serve customers throughout their business life cycle.

## MEETING CHANGING CUSTOMER NEEDS

More than 40 years of experience in agricultural financing has taught us that producers' financial and business needs change significantly as their operations mature. We also have found that proactive planning to address these changes contributes to long-term success. There are five distinct phases to most agricultural operations:

- Preparation and learning: Education and training are key to helping young people prepare for a career in agriculture.
- Start-up: This stage begins when the producer becomes the joint or primary decision-maker in the farming operation. He or she typically requires a significant amount of capital to fund their start-up.
- Growth: Producers in this stage are either expanding their operations or plan to do so in the near future. This group is the most frequent user of farm business management services and actively seeks out new management tools and skills.
- Sustaining: Producers at this stage have no immediate plans to expand and many are preparing to transfer their farm to the next generation. They tend to be older and make less use of business management tools and services.
- Succession and retirement: The average producer at this stage is 60 years old and has been managing a farming operation for 30 years. Most producers plan a gradual succession but do not have a succession plan in place and would benefit from assistance in this regard.

FCC is researching the specific financial and business management needs for producers at each of these five stages. We intend to work with industry partners to address gaps in existing services and offer new and innovative services that our customers will require to succeed in the years to come. This is the backbone of our *Customer for Life* strategic direction: to serve customers throughout their lives, not just the life of the loan.

Bethany Mowat at play,
Ashton, Ontario.

### EXPANDED MANDATE OPENS DOORS TO ADDRESSING EMERGING NEEDS OF AGRICULTURE

Last year, we successfully laid the foundation to anticipate and meet the future needs of agriculture by updating our legislation. The main goal of the new *Farm Credit Canada Act* is to help FCC continue to address the changing and complex nature of customers' business needs.

The *Farm Credit Canada Act*, enacted by Parliament in June 2001, includes 22 amendments. The five main amendments focused on customers are the following:

- Financial and business management services: FCC can offer a broader range of these services either directly or through partnerships. This could include such services as business planning, succession planning and risk management.
- Expansion of services to farm-related businesses: The corporation can finance more farm-related businesses that benefit agriculture, including those that are not farmer-owned. Our former legislation confined FCC to financing only those farm-related businesses majority controlled by producers.
- Venture capital financing: FCC can now offer venture capital financing and act as a catalyst to attract more investment into the agricultural industry. There is a strong need for more capital to support future growth. After we have put the required resources and skills in place, FCC will begin working with partners to increase the amount of venture capital available to agriculture.
- Lease financing: FCC is able to offer lease financing either directly or through partnership. While our previous legislation allowed us to offer lease financing, this amendment clarifies the scope of these services.
- FCC's activities will remain focused on producers: The new Act includes an amendment articulating the corporation's continued commitment to producers.

### A BALANCED APPROACH TO MEETING AND ANTICIPATING CUSTOMER NEEDS

Every year FCC measures progress in achieving the goals of the annual corporate plan using a system called the "balanced scorecard," which translates FCC's vision and strategic direction into measurable objectives. From the corporate level to the individual level, objectives, goals and measures are set based on the key performance areas. The balanced scorecard enables the corporation to gain an overall perspective of operations and closely monitor progress in four key strategic result areas:

Customer loyalty and market presence: FCC continually strives to provide primary producers and agribusiness with financial solutions that enable them to succeed.

Human resources and organization: Focusing on employee development and a positive workplace environment leads to productivity to the benefit of customers.

Process effectiveness and quality improvement: Timely, efficient and relevant customer service delivery is key to providing our customers with the kind of solution they need, when and how they want to receive it.

Financial success: Sound financial management of the corporation enables FCC to continue meeting, exceeding and anticipating the needs of producers and agribusiness.

OUR NEW *legislation* POSITIONS US TO SATISFY *long-term* NEEDS.

# Customer loyalty and market presence

To ensure the long-term success of producers and agribusiness, greater access to capital and business planning resources is required. FCC is committed to meeting these needs. With new legislation adopted in 2001, the corporation is in a good position to offer a wider range of financing products and business solutions through new means and channels.

FCC plays an important role as a catalyst to encourage investment and new products in agriculture. We also serve as a stabilizing force – maintaining a consistent presence during all industry cycles. Since 1993, FCC's share of total Canadian farm debt has grown steadily to 17.7 per cent as of December 2000 (Statistics Canada). This trend indicates that we continue to meet the industry's needs.

### NEW FLEXIBLE AND CUSTOMIZED FINANCING SOLUTIONS

At FCC, customer feedback plays a key role in our product development process. After the major success of our Flexi-Hog loan, launched in 2000, FCC extended the loan's flexible features to other sectors. Flexi-Farm loans are now available to producers who manage cash crop, cow-calf, poultry, potato, horticulture or dairy operations. The loans offer producers up to five principal payment pauses that can be used to manage market cycles or seize opportunities.

### ALLIANCES AND PARTNERSHIPS

FCC has continued to build partnerships to help our customers get the financing they need to grow and prosper. As of March 2002, our alliance partners in both the private and public sectors totalled 32, compared to 27 the previous year. One new alliance agreement reached last year was with Saskatchewan Wheat Pool to offer crop input financing to prairie producers.

## EQUIPMENT FINANCING PROGRAM OFFERS CONVENIENT SERVICE


Glenn Horyshen is the owner of Kelsey Farm Equipment, located in Swan River, Manitoba. The New Holland and Case IH dealership sells machinery to grain farmers and cattle ranchers in northwest Manitoba and northeast Saskatchewan.

Three years ago, he was looking for a financing program that offered his customers both convenience and fast service. Glenn found what he was looking for when FCC Account Manager Phil Forbes stopped by to chat about the National Equipment Dealer Financing Program.

"This program is one of the industry's best kept secrets," Glenn says. "All I have to do is call FCC's Dealer Direct 1-800 number, give the phone to the customer and FCC takes care of the rest."

# Create solutions for customer success

## Strategies 2001-02

**Grow support for primary production and agribusiness through increased market presence and continued customer relationship building.**

- $1.8 billion in disbursements, including: $1.33 billion in disbursements to primary producers; $250 million in direct disbursements to agribusiness; $220 million in disbursements through alliances.
- Improve customer retention by 2%.

**Increase options for service delivery through e-business channel development.**

- Customer Service Centre (CSC) operational as delivery channel and integrated with e-commerce.
- Increase disbursements via electronic channel.
- Business-to-business Internet loan processing and banking to be established with three alliance partners.

**Anticipate needs of the agricultural industry with proactive product development.**

- Generate additional revenue from fee-based products introduced in 2000-01.
- Achieve targets identified in business cases supporting interest-based products introduced in 2000-01.
- Deliver five new interest-based and two new fee-based products. At least one of these products to be Web-based.
- Delivery of 20 lifecycle planning seminars throughout Canada under the AgriSuccess initiative.
- 20% of AgriSuccess site hits will access a site offering.
- Establish a business alliance with one First Nations group in each sales area.

**Offer expert knowledge to customers.**

- Positive trend results of Customer Loyalty Index and Brand Equity Survey factors associated with specialized knowledge.

## Results 2001-02

- FCC disbursed $2.294 billion, with $1.730 billion to primary production, $306 million to agribusiness and $257 million through alliances.
- In 2001-02, the CSC approved $31 million in direct loans through the National Equipment Dealer Finance Program, and processed in excess of $246 million in alliance disbursements.
- The CSC moved to an electronic loan application submission process with 14 of FCC's livestock alliances in Alberta.
- FCC launched its first crop input financing loan with Saskatchewan Wheat Pool.
- In January 2002, secure Internet access to loan statements was introduced to Cattlemens Financial Corporation customers.
- FCC increased penetration of creditor life insurance by 0.7 per cent on new lending in 2001-02.
- Launched in 2000-01, Flexi-Hog, Entreprise Plus and Enviro-Loan products exceeded their yearly targets.
- The corporation introduced seven new interest-based products.
- *Farmland Values* Online developed by fiscal year-end and launched in April 2002.
- 50 AgriSuccess lifecycle planning seminars were held across Canada. About 1,400 participants, representing 650 families, attended the seminars.
- Discussions exploring possible alliance opportunities were initiated with aboriginal capital corporations in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia.
- A comprehensive corporate customer retention strategy was completed in the 4th quarter of 2001-02. A second Customer Loyalty Index will measure retention results.

## Strategies 2002-03

- Implement Customer Relationship Management (CRM) techniques.
- Provide venture capital as a business line.
- Develop and initiate complementary services.
- Integrate knowledge management into core business of FCC.
- Deliver new financial products and business solutions addressing customer needs.

## Targets 2002-03

- Apply Customer for Life segmentation – target of 30% of customer segmentation by March 31, 2003.
- Establish venture capital business line – target up to $5 million invested by March 31, 2003, and $25 million within five years.
- Establish complementary services as a business line – target of two complementary services launched by March 31, 2003.
- Provide relevant syndicated or third party information on the FCC Web site – target of 150 information pages by March 31, 2003.
- Disbursements for primary production, agribusiness, and alliances – target of primary production $1.48 billion, agribusiness $325 million, alliances $425 million for fiscal 2002-03.
- Launch a product suite for new entrants to agriculture – by March 31, 2003.

# Human resources and organization

Building long-term customer relationships requires a workforce that is dedicated, skilled and innovative. FCC's commitment is to provide employees with the work environment, learning opportunities and challenges they need to achieve their full potential.

### LEARNING AND LEADERSHIP

FCC provides employees with specialized training, customized to meet the financial needs of the agricultural industry. From risk management and credit analysis to communication and marketing, employees can access various opportunities to grow their skills to benefit our customers.

FCC also offers exceptional leadership development and succession planning programs. These allow employees to chart their professional development, and enable the corporation to ensure strong and consistent leadership for the future.

### OFFICIAL LANGUAGES AND DIVERSITY

As a federal Crown corporation, FCC provides customers as well as employees with service in both official languages. FCC also works towards achieving a diverse and inclusive workplace. In 2001-02, FCC focused on raising awareness and education. All corporate office employees participated in diversity training in 2001-02, with plans for field employees to do the same in fall 2002. FCC employees participated in special days for designated groups (including National Aboriginal Day, International Day for Persons with Disabilities, International Women's Day and International Day for the Elimination of Racism).

## KNOWLEDGE MANAGEMENT: FCC'S TEAMS OF EXPERTS

Carol Brennan grew up on a dairy and apple farm. She studied agricultural economics at the Nova Scotia Agriculture College and has worked as an FCC Account Manager for the last four years. Yet Carol feels that the more she works in agriculture, the more she realizes how much she has to learn.

That's what motivated her to join one of FCC's seven Communities of Practice: informal groups of employees who share knowledge regarding their areas of agricultural expertise. These groups represent the first step in an ambitious knowledge management strategy that leverages one of the corporation's most important intangible assets – the expertise and knowledge of employees.

FCC account managers have long engaged in informal "knowledge sharing." The new communities of practice have formalized the capture of our knowledge so we can collectively "know what we know."

"FCC can clearly be identified as a world-class knowledge-management organization," says Dr. Nick Bontis, Director of the Institute for Intellectual Capital Research at McMaster University. "They should be recognized as a leading light in Canada."

The forestry Community of Practice augments Carol's expertise which allows her to add more value to customers and speed up the loan process.

"Being able to rely on internal and external experts from across the country helps me develop professionally, while increasing my effectiveness in serving our customers."

# Unique people leading our success

## Strategies 2001-02

**Continuously improve factors contributing to employee satisfaction.**

- A statistically significant improvement from January 2001 Human Resources Index (HRI) results, with a special emphasis on the communication component.
- Attraction and retention strategies implemented to assist in maintaining the voluntary turnover rate at less than 10%.
- Achieve goals set out in the Corporation's Employment Equity and Official Languages plans.

**Develop knowledge, skills and expertise to reinforce FCC's Customer for Life strategy.**

- 3.5% of corporate salary budget invested in training and development.
- Competencies identified and plan established.
- Ten industry expert teams established throughout FCC.

**Inspire innovation.**

- Launch innovation program.
- All innovations implemented in new products and solutions generate increased revenues, reduced costs, improved efficiencies or effectiveness and increase customer and employee loyalty.

## Results 2001-02

- Employees developed and implemented HRI action plans in each division. The next HRI survey will be conducted in July 2002.
- Attraction and retention strategies were implemented, resulting in a voluntary turnover rate of 4.6%.
- Corporate office staff participated in diversity training in 2001-02, with plans for field staff training in fall 2002. All Official Languages goals met for service to employees and customers.
- 3.6% of corporate salary budget was invested in training and development.
- Work on updating core competencies was begun.
- A self-service model and process for employee benefit and pension administration was implemented in 2001-02.
- A Knowledge Management strategy was created and seven agricultural sector teams were established in 2001-02.
- A Web-based innovation program was piloted in 2001-02.
- FCC's innovative Flexi-Farm products has generated $49.1 million in lending over the last 7 months of fiscal 2001-02.

## Strategies 2002-03

- Mentor, train and develop all staff.
- Recruit skills that expand existing corporate competencies.
- Expand leadership training.
- Recognize and reward workplace innovation.

## Targets 2002-03

- Training and development spending/salary dollars – target of 3.5% each fiscal year.
- Employee development plan completion – target of 100% by November 30 each fiscal year.
- Acquire venture capital and complementary services expertise – target of March 31, 2003.
- Establish a university recruitment program – target of March 31, 2003.
- Implement the corporate innovation program – target of 10 innovative ideas sponsored by March 31, 2003.

# Process effectiveness and quality improvement

At FCC, we strive to continuously improve service to customers. We constantly seek to improve our processes, delivery channels and the quality of advice we provide.

### FCC E-BUSINESS CHANNEL READY FOR LAUNCH

FCC developed the e-business channel to offer customers fast and easy access to services and information through the corporation's Web site. Last year, employees worked hard to plan, develop and test the business and technological infrastructure needed to make e-business a reality.

There were several major online milestones achieved in 2001-02. The corporation developed the capacity to allow customers to register and view up-to-date account information through our Web site – a service launched in April 2002. We also created *Farmland Values* Online, a service that offers land value reports customized according to location. Cattlemens Financial Corporation, FCC's largest alliance partner, gained online access to its customer accounts.

### INCREASED EFFICIENCY LEADS TO BETTER SERVICE

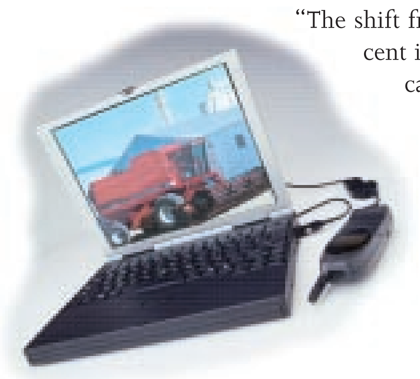
Last fiscal, FCC continued to add efficiencies in loan processing to provide customers with fast turnaround on lending decisions. Our lending policies allow field employees significant decision-making authority to process loan applications quickly. As well, we improved our credit application scorecard, used by employees for preliminary loan assessment, to further improve loan approval times.

The reorganization of Human Resources (HR), started the previous fiscal, produced positive results in 2001-02. Each FCC division now has an HR Business Partner who acts as primary point of contact. Benefits administration has been outsourced to an external supplier. As a result, employees can access information about their benefits or make transactions by calling the FCC Benefits Centre or over the Internet.

Increased efficiencies throughout the corporation have resulted in FCC spending 48.4 cents for every dollar earned, better than the planned target of 49 cents. This means more capital resources are available for our customers and the agricultural industry as a whole.

## PROVIDING FAST, EASY ACCESS TO SERVICE

In 2001-02, FCC's Customer Service Centre dramatically changed the way it operates from an in-house help desk for FCC lending staff to a customer-oriented hub that handles customer requests.



"The shift from internal to external has been very smooth, considering that we witnessed a 400 per cent increase in the number of calls we receive. On average, the Centre's 20 employees answer calls within 11 seconds, the best 'average speed of answer' in the industry!" says Michael Hoffort, Director, Customer Service Centre & Channel Development.

The Centre also has significantly decreased loan processing times. Employees can process loans in eight minutes, which is one-third more efficient than before the changes. The Customer Service Centre will play a crucial role in providing telephone and online services to FCC customers. Our goal is to serve customers in the channel of their choice – in person, by phone or via the Web.

# Making it easy for customers to do business with us

## Strategies 2001-02

### Continuously improve process effectiveness and operational efficiency

- Reengineered Human Resources processes implemented by September 30, 2001 with realized net efficiency gains.
- Engineer new business processes and redesign existing business processes, in support of e-business implementation.
- Corporate efficiency ratio (expense/revenue) of 49%.

### Leverage technology to enable and sustain delivery of superior customer service offerings

- Information technology infrastructure availability target of +99%.
- All technology-related projects delivered within specifications.
- 100% of service level targets achieved for all mission-critical applications.
- Reengineered Information Technology processes implemented.

### Do it right the first time, all the time (quality improvement as a business driver)

- 98% accuracy on completed data fields.
- 100% of required customer information data fields complete.
- Quality index developed, benchmarked and operationalized by October 1, 2001.

## Results 2001-02

- As of September 30, 2001, the following HR processes had been reengineered: benefit administration outsourced; HR business partners assigned to internal client groups.
- The corporate efficiency ratio is 48.4%.
- The +99% availability target has been achieved for the information technology infrastructure: corporate servers, including Mainframe and Unix hosts, regional servers, wide area network and Oracle databases.
- FCC's Information Technology division delivered infrastructure and business system support projects within specifications throughout 2001-02. These include: performance improvements of BOSS Loan Origination System, and integration with alliance partner systems.
- FCC's Technology Services unit also delivered infrastructure projects within specifications, including: internet security enhancements, and operating system software upgrades.
- Service level targets were achieved for Mainstream and other critical applications.
- A reengineering review of Information Technology business processes was completed, and implementation will occur next fiscal.
- Data clean-up on selected key customer information fields was completed.
- FCC amended quality index goals during the year. A customer information management strategy, incorporating data quality, was approved in 2001-02.

  Implementation will be completed in next fiscal.

## Strategies 2002-03

- Integrate and grow FCC's Customer Service Centre, e-business and alliance capabilities.
- Integrate flexible corporate information systems.
- Re-engineer business processes.

## Targets 2002-03

- Percentage of FCC disbursements via CSC, e-business, and alliances – target of 20% for fiscal 2003.
- Implement IT strategy, supported by redesigned business processes – target of March 31, 2003.
- Corporate efficiency ratio – target of 48.1% for fiscal 2003.

# Financial success

Lifetime relationships with customers depend on FCC's ability to remain financially viable over the long term. In 2001-02, the corporation recorded its ninth consecutive year of portfolio growth, at 11.7 per cent.

### KEY PERFORMANCE INDICATORS

FCC's financial strength continued to improve in 2001-02 as a result of sound financial and risk management, portfolio growth and increased efficiency. This has allowed the corporation to exceed the 2001-02 targets for return on equity, return on assets, cost of funding and strategic credit risk model score. The debt-to-equity ratio is slightly higher than target but well below the legislated maximum.

### EFFICIENT BORROWING

To help customers grow and prosper, FCC's ability to borrow funds efficiently is critical. In 2001-02, the corporation kept its borrowing cost at four basis points above the Government of Canada borrowing curve, one of its best performances ever. Flexibility and responsiveness are at the core of the corporation's funding strategy.

## FCC BONDS OFFER STABILITY

Farm Credit Canada Bonds are a solid choice to add stability to people's investment portfolios. They can help balance RRSPs, RESPs, RRIFs and investment strategies.

With the funds raised from issuing bonds, FCC provides lending capital to producers and agribusiness operators. The bonds are competitively priced and completely secure. Because FCC is a federal Crown corporation, its bonds are guaranteed by the Government of Canada.

With pricing based on daily market interest rates, FCC bonds can be purchased with a minimum investment of $5,000 and then in multiples of $1,000. An income stream can be created by purchasing different bonds with a variety of maturity dates. Interest is payable monthly, semi-annually or at maturity.

"FCC Bonds allow investors to help sustain the growth of agriculture, while benefiting from capital safety and competitive yields," says Don Stevens, Vice-President and Treasurer. The bonds are available through investment dealers across Canada.

# The foundation of continued customer support

## Strategies 2001-02

### Ensure long-term viability

- Return on equity (ROE) of 8.2 per cent.
- Return on assets (ROA) of 0.78 per cent.
- Debt-to-equity ratio of 9.4:1.
- Cost effective funding 10 basis points (bpts) lower than the Crown borrowing curve.

### Proactively manage risk

- Maintain strategic credit risk model (SCRM) score on portfolio less than 70 (representative of a "managed approach" that is neither conservative nor aggressive).
- Manage operations within approved treasury risk limits.

## Results 2001-02

- ROE of 8.7 per cent.
- ROA of .91 per cent.
- Debt-to-equity ratio of 9.6:1.
- In 2001-02, FCC issued bonds at an average of 4 bpts over the Government of Canada curve, 13 bpts lower than the Crown borrowing curve.
- The SCRM score as at March 31, 2002, was 58, well within the score range of 50 to 75 indicative of a "managed approach."
- Treasury was within all approved Board and Department of Finance limits.

## Strategies 2002-03

- Create a portfolio vision spanning all business lines, ensuring a principal focus on primary production.
- Proactively manage risk, investments and administrative expense levels.
- Proactively create and grow FCC's support for communities across Canada.

## Targets 2002-03

- Establish a portfolio vision for agribusiness by March 31, 2003.
- Return on equity of 10.05 per cent for fiscal 2002-03.
- Debt-to-equity ratio of 9.2:1 at March 31, 2003.
- Strategic credit risk score on portfolio less than 70 – target of March 31, 2003.
- Community investment of one per cent of the previous 3-year average net income, invested by March 31, 2003.

# Building Community Strength

At Farm Credit Canada, we're committed to helping build strong and vibrant rural communities throughout Canada, where our customers and the agricultural industry can flourish. We do this by partnering with many organizations at the local and national level.

As a member of the Canadian Centre for Philanthropy's Imagine program, FCC is committed to giving one per cent of profits to charitable and not-for-profit community organizations through the donation of financial resources and in-kind services.

FCC's community investments are aligned with our business: agriculture. Therefore, we focus on issues of farm safety, hunger and education regarding where food comes from. We strongly believe that a safer workplace and a greater awareness of food-related issues contribute to long-term success for Canadian farmers and their families.

## Putting food on the table

### Feeding the future for World Food Day

Farm Credit Canada's 900 employees rolled up their sleeves to mark World Food Day in October 2001. FCC donated more than $25,000 in financial aid, food and volunteer support to food banks across Canada. In partnership with the Canadian Association of Food Banks, FCC is helping food get to where it is needed most.

### FCC Food Bank Van ... Nourishing rural communities

Farm Credit Canada donated a van to the Regina and District Food Bank. The FCC Food Bank Van is used to pick up large donations of food and to transport food hampers to rural locations.

## Building community strength

### 4-H Scholarship Program

Farm Credit Canada is committed to enhancing rural Canada. FCC was pleased to again offer scholarships to young 4-H members in support of post-secondary education. For the 2001 scholarship program, applicants were asked to create a plan that would reduce hunger or improve safety in their own community. Ten $1,000 scholarships were awarded, with one winner from each province. Congratulations to our national winner, Linda Varekamp of Glencoe, Ontario, for her project called "Kids Biking Safely." As our national scholarship winner, Linda received an additional $1,000 scholarship and a budget to put her plan into action.

# It's all about farm safety

### FIRST AID ON THE FARM

Farm Credit Canada and St. John Ambulance partnered to launch the First Aid on the Farm program in May 2001. The program is aimed at teaching young people life-saving skills pertaining to farm-related injuries. In the past year, FCC provided training to more than 2,300 grade eight students in 85 schools across Canada. Students receive basic first aid skills and a farm safety audit to complete at home with their parents. The audit helps farm families identify hazards that may exist on the farm.

### RUNOVERS ARE PREVENTABLE – NO RIDERS!

FCC was the exclusive corporate sponsor for the 2001 Canadian Agricultural Safety Week campaign. We worked with our partners throughout the year at the Canadian Federation of Agriculture, the Canadian Coalition for Agricultural Safety and Rural Health, and Agriculture and Agri-Food Canada. Using the "Runovers Are Preventable," theme to educate farm families on tractor safety issues. FCC encouraged using the "no riders" rule to prevent fatalities from tractor and machinery runovers.

FCC AND THE CANADIAN ASSOCIATION OF FOOD BANKS ARE *helping* FOOD GET TO WHERE IT'S NEEDED *most.*

# From our employees

### EMPLOYEE VOLUNTEER PROGRAM

Giving back to the community is a core value at FCC. FCC adds value to its community efforts by supporting employee voluntarism. This past year, we established the Farm Credit Canada Employee Volunteer Program. Employees who volunteer their time, talents and energies can access funds to support their choice charities. So far, FCC has donated more than $15,000 to charities and not-for-profit organizations where our employees volunteer.

In 2001, FCC set another record in our United Way National Campaign. In total, our 900 employees helped raise more than $151,000 for the United Way and its member agencies through donations and special events.

# Innovative financing solutions for agriculture

For more than 42 years, FCC has worked closely with Canadian producers and, more recently, agribusiness to develop the financing solutions they need to succeed.

## New products and services targeted to specific needs

In 2001-02, FCC introduced several innovative products tailored to specific sectors or particular financing needs. We proactively seek customer input and create products that respond to identified needs.

### FLEXI-FARM

FCC created Flexi-Farm to allow producers to pause principal payments to accommodate changing cash flows. The loan offers up to five periods of interest-only payments and is designed for producers in cash crops, cow-calf, poultry, potatoes, horticulture and dairy.

Opportunities to expand, new equipment purchases, weather and commodity price fluctuations can all challenge cash flow. The loan enables producers to deal with market realities and capitalize on new opportunities. Flexi-Farm is based on FCC's popular Flexi-Hog Loan, launched in 2000.

### PERFORMER LOAN

The Performer Loan helps agribusiness operators expand their enterprises. Customers develop business plans with FCC and interest rates are decreased as they reach agreed-on goals, such as a proven repayment track record and enhanced current or working capital ratios.

### OPPORTUNITY LOAN

During the course of this loan, agribusiness operators can pause their principal payments or re-advance the principal on their current loan. Customers can pause principal payments up to six times with each pause lasting up to six months.

### AGRIBUSINESS AMERICAN CURRENCY LOAN

For agribusiness enterprises that export into foreign markets, this loan makes it possible to borrow capital and make payments in U.S. dollars.

# Loan products and services

Here is a sample of other FCC products and services:

### LONG-TERM LOANS

FCC offers fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable options for Canadian farmers.

### PERSONAL PROPERTY LOANS

With no prepayment or processing fees, along with monthly, quarterly and semi-annual payment options, the FCC Personal Property Loan is ideal for purchasing livestock, new and used equipment or quota. Terms range between two and seven years and may be amortized up to 10 years with variable or fixed interest rate options available.

### VARIABLE RATE LOANS

FCC has two variable rate options for any agricultural or farm-related purpose, such as land, buildings, quota, equipment or livestock, secured by real or personal property. The loans give the customer the flexibility to decide the right time to lock in for a longer term.

### FLEXI-FARM LOANS

Flexi-Farm allow producers in most sectors to pause principal payments to accommodate changing cash flows. The loan offers up to five periods of interest-only payments. Flexi-Hog helps hog producers deal with changing cash flows and grow their business by providing the flexibility to defer the principal portion of payments during volatile periods. Hog producers can pick the time they take the postponement, which can last for up to a year.

### ENVIRO-LOAN

Enviro-Loan helps customers construct, improve or expand waste management facilities without putting a strain on cash flow. It is designed for producers and agribusiness operations that are making environmentally focused improvements, such as shelterbelts, buffer zones to stop soil erosion and composting facilities and structures.

### AGRISTART LOANS

This innovative product line is designed to help families transfer farming operations from one generation to another as well as assist developing farmers in starting or expanding their operations. AgriStart encompasses the following three products:

- The Family Farm Loan enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business. Successfully launched in 1993, it has been updated and streamlined to increase flexibility and serve a wider market.
- The 1-2-3 Grow Loan provides financing with deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years.
- The Payday Loan is designed for individuals with off-farm employment interested in starting or expanding a farm business.

### PLANT NOW – PAY LATER

FCC understands that expanding a horticultural operation often results in a reduced income stream for the first few years. Customized to suit varying developmental phases, Plant Now – Pay Later loans meet the needs of the fruit-growing industry, including soft fruits and berries.

### FARMBUILDER CONSTRUCTION LOAN

Financing for building projects is easier with this product that provides interim financing for construction. The Farmbuilder Construction Loan applies to any type of construction project eligible for FCC financing. No payments are required during the construction period and funds are disbursed as needed during the project.

### ENHANCED CREDITOR LIFE INSURANCE

At FCC, we take the health and safety of farm families seriously. We offer enhanced creditor life insurance to current and new customers through our carrier, Clarica Life Insurance Company. In addition to life insurance, the program provides customers with Accidental Dismemberment coverage that includes an early payout option in case of terminal illness. This coverage is among the best in the industry and was made available to FCC customers at no extra cost.

### AQUACULTURE

FCC offers various financing options to meet the needs of aquaculture producers from an expansion project to strategic partnerships with enterprises specializing in salmon, freshwater fish or shellfish operations.

### FORESTRY

The Spring Break loan allows operators to buy used and new forestry equipment or short-term harvesting rights. Payment schedules can be adjusted to coincide with harvesting season. The Stop & Grow loan is for operators buying immature woodlots for future harvesting. Operators can defer principal payments for up to 10 years to allow saplings to become trees.

## Other partnership services

FCC has 32 alliances with private sector and government organizations in the agricultural and financial industries to provide customers access to a wide range of financial options. Our federal Crown partners include the Canadian Commercial Corporation, Business Development Bank of Canada and Export Development Canada.

# FCC enters the venture capital arena

With the passage of the *Farm Credit Canada Act* in 2001, FCC can now offer venture capital financing either directly or in partnership with others to help agricultural operations grow and succeed. The corporation intends to act as a catalyst to attract other equity providers to the industry, creating economic growth and jobs in rural Canada.

Despite the fact that it accounts for $36 billion of Canada's gross domestic product, the agricultural industry received less than one per cent of total venture capital disbursements, according to 2001 statistics.

There are many profitable emerging markets that hold great potential for Canadian agriculture. Agricultural entrepreneurs are exploring market niches ranging from organic production to alternative fuels. However, they need access to large amounts of capital. This is where FCC can play an important role.

"At FCC, we are patient. We will not expect immediate returns because we know the cyclical nature of agriculture. We view equity financing as an opportunity to participate in the development of strong and well-managed companies. One of the purposes of FCC's venture capital is to develop a portfolio that will stimulate the industry and attract the attention of other investors," says James Taylor, Vice-President, Venture Capital.

FCC will proceed prudently into this new area of financing, beginning to invest capital in fiscal 2002-03 once the necessary resources are in place. Through agricultural industry relationships, FCC intends to attract venture capital partners to benefit the industry.

"One of the purposes is to develop a portfolio to stimulate the industry."

## COMPLEMENTARY SERVICES

# Relevant agricultural solutions

FCC offers flexible and innovative loan products tailored exclusively to the agricultural industry. The corporation is using the same approach for new offerings currently under development: an integrated portfolio of business tools for producers and agribusiness operators.

"Customers are telling us they need access to a range of financial and business management services to compete effectively in today's complex marketplace," says Paul MacDonald, Vice-President, Complementary Services and Channel Development.

In 2000, FCC teamed up with private and public sector partners to introduce AgriSuccess – our first effort to increase access to business management services at a national level. Last fiscal, AgriSuccess partners conducted 50 seminars on succession planning, reaching more than 1,400 participants from coast to coast.

"The response to these seminars reinforced the need for management services in the agricultural community," Paul adds. "Wherever possible, we will work with partners to make such services available."

As Canada's leading agricultural lender, FCC has the expertise, the reach and the leadership necessary to promote the importance of networking, financial management, marketing skills and risk management strategies.

"FCC has its ear to the ground, seeking key indicators of success in agriculture," Paul says. Through complementary services, the corporation will provide customers with opportunities to acquire the knowledge necessary to improve levels of management sophistication.

# Overview 2001-02

## Highlights

- Continued financial strength – solid financial ratios and key indicators through challenging economic conditions.
- Record breaking year in new lending, with $2.4 billion in approved loans to the agricultural sector.
- Strong portfolio growth, breaking the $7 billion mark for the first time.
- Fourth consecutive year of improved operational efficiency.

### Key financial results

| $ millions | 2002 | 2001 |
|---|---|---|
| Loans receivable | **7,715.8** | 6,907.6 |
| Portfolio growth rate | **11.7 %** | 9.6 % |
| Loan approvals | **2,446.1** | 1,752.5 |
| Loan renewal rate | **95.0 %** | 94.0 % |
| Arrears | **29.5** | 35.7 |
| Net interest income | **201.2** | 164.5 |
| Net interest margin | **2.66 %** | 2.41 % |
| Administration expenses | **101.6** | 94.5 |
| Efficiency ratio | **48.4 %** | 55.0 % |
| Income tax before taxes | **68.8** | 61.2 |
| Return on equity* | **8.7 %** | 8.4 % |
| Return on assets* | **0.91 %** | 0.89 % |
| Debt-to-equity | **9.6:1** | 9.3:1 ** |

* *before income tax*
** *equity restated for comparative purposes*

- 40 per cent increase in loan approvals represents an additional $693.6 million invested in agriculture.
- Net interest income 22 per cent higher than in 2000-01.
- Improved efficiency ratio, reflecting process improvements and cost management.
- Increased income before income taxes due to the higher loan portfolio and higher net interest margin.
- Strong debt-to-equity ratio, indicating a solid equity base which will better enable FCC to grow through further investment in agriculture.

# Outlook 2002-03

- Continued growth through traditional lending and new alliance partnerships, as well as introduction of venture capital investing.
- Continued industry leadership with new and flexible customized loan products.
- Expanded financial and complementary services offerings to customers.
- Ongoing financial strength provides foundation to serve the agriculture industry over the long term.

# Balance sheet

## Highlights - Balance sheet

- Loan portfolio up 11.7 per cent to $7.7 billion.
- Loan approvals up 40 per cent to $2.4 billion.
- Impaired loans down $17 million to $128 million.
- Land portfolio reduced to minimal level through a significant program to return land to primary producers.
- Allowance for credit losses up $28 million to $297 million.
- Throughout the year, short and long-term cumulative borrowings were issued of $7.1 billion and $2.4 billion respectively.

## Lending activity

The loan portfolio grew 11.7 per cent to $7.7 billion in 2001-02, up from $6.9 billion in the previous year. Service excellence and introduction of innovative products allowed FCC to approve a record $2.4 billion in loans for the year compared to $1.8 billion in 2000-01. This, combined with a 95 per cent renewal rate on loans coming due, accounts for the significant portfolio growth and demonstrates FCC's continued commitment to agriculture in Canada.

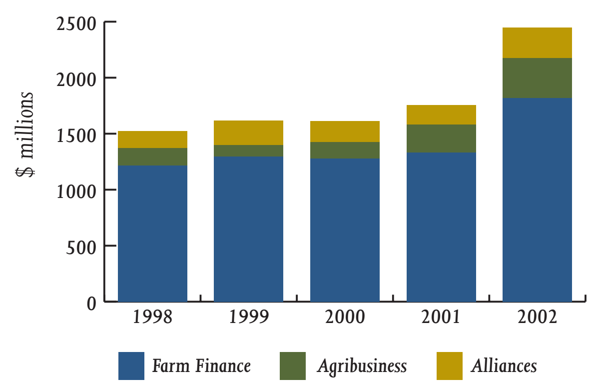
### TOTAL LENDING BY LINE OF BUSINESS

FCC's lending activities are divided into three lines of business: Farm Finance, Agribusiness and Alliances. Primary producers continue to be FCC's main focus. Lending to primary producers is done through all three lines of business with $2.2 billion or 89 per cent of total 2001-02 approvals directed at primary producers. As of March 31, 2002, lending to primary producers accounted for 93 per cent of FCC's total portfolio.

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

In 2001-02, Farm Finance continued to focus on meeting the needs of primary producers with loan approvals increasing to $1.8 billion from $1.3 billion in the previous year. Approvals in Farm Finance accounted for 75 per cent of all FCC loan approvals in 2001-02. Within Farm Finance, approvals to primary producers represented 98 per cent of total Farm Finance loan approvals for the year. As of March 31, 2002, lending to primary producers represented 99 per cent of the Farm Finance portfolio.

**Approvals by line of business**




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

Loans approved in Agribusiness grew in 2001-02 to $358 million from $251 million in 2000-01. By lending through Agribusiness, FCC helps producers add more value to their commodities as well as create markets closer to home. It also allows individuals to leverage FCC's agricultural expertise in further developing their enterprises.

The corporation helps finance producers expanding into farm-related businesses on the input or output side of primary production. This includes enterprises from feed operations to food processing and agricultural by-product manufacturing. In 2001-02, approvals to primary producers (complex farming operations) accounted for 46 per cent of total Agribusiness approvals. As of March 31, 2002, lending to primary producers represented 46 per cent of the Agribusiness portfolio.

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

During the year, FCC continued to grow its Alliance lending portfolio, with loan approvals of $270 million in 2001-02, compared to $170 million in 2000-01. Approvals to primary producers accounted for 96 per cent of total Alliance approvals. As of March 31, 2002, lending to primary producers represented 90 per cent of the Alliance portfolio.

The addition of several alliance partners has allowed FCC to expand its service offerings through this delivery channel. FCC demonstrates leadership in the industry in forming these partnerships to enhance product offerings in response to producers' financial needs. A new alliance in 2001-02 with Saskatchewan Wheat Pool now allows FCC to serve a large number of producers through loans for crop inputs.

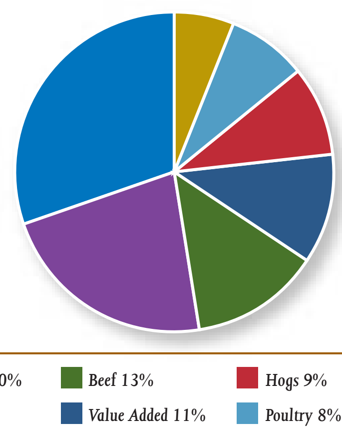
## TOTAL LENDING BY ENTERPRISE

FCC lends to all agricultural sectors across Canada grouped by eight major categories (reflected in the charts to the right). Strong portfolio diversification across the eight groups is critical in managing risk and financial performance of the corporation as the sectors go through cyclical and economic swings.

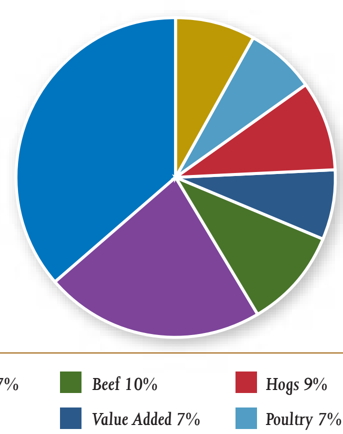
The lending mix continued to shift in 2001-02, creating increased diversification of the portfolio. Loan approvals for poultry, value-added and beef enterprises all increased as a percentage of total approvals for the year. As a result of this shift, the total portfolio of the two major agricultural sectors, cash crops and dairy, has decreased to 59 per cent compared to 60 per cent last year.

New products designed to meet specific customer needs and new and existing alliances have contributed to the diversification of the portfolio.

**Approvals by enterprise**




**Portfolio by enterprise**



### TOTAL LENDING BY GEOGRAPHIC AREA

FCC is committed to serving the entire agricultural industry across the country with 100 offices from Abbotsford, B.C., to St. John's, Newfoundland. A geographically diverse portfolio also is important in limiting portfolio risk.

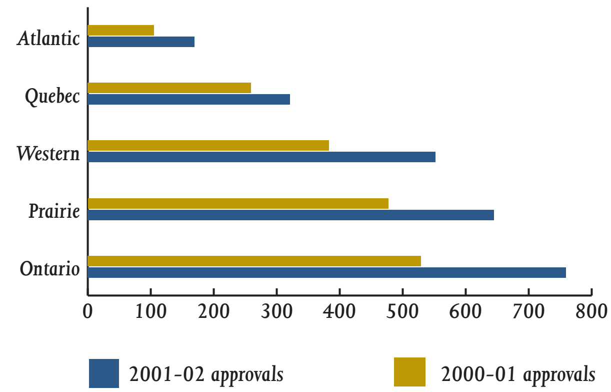
All areas of the country experienced an increase in the total dollar value of loans approved over the previous year. The Ontario, Western and Prairie areas experienced the largest increases, with $230 million, $169 million and $168 million more approvals respectively in 2001-02 versus 2000-01.

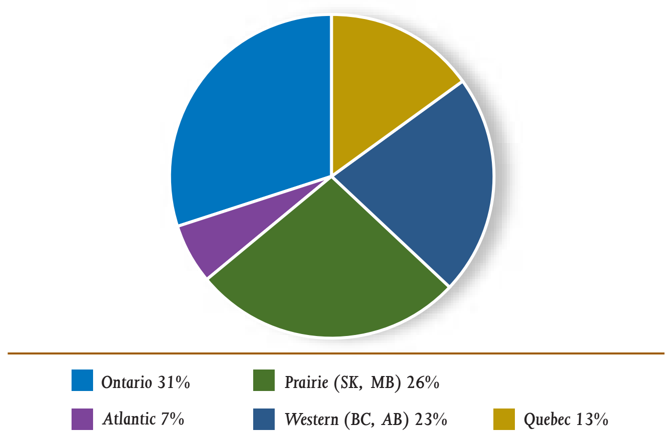
The large increase in the Prairie and Western areas is due to increased cash crop lending and the increase in the Ontario area is due to increased dairy and cash crop lending.

On a percentage basis the largest increase was the Atlantic area with a 61 per cent increase in dollars approved, due mainly to increases in value-added, dairy and poultry enterprises.

Overall portfolio growth of 11.7 per cent in 2001-02 is due primarily to significant increases in the Ontario area (15 per cent), Western area (16 per cent), and Atlantic area (16 per cent), a reflection of growth in the cash crops, dairy and value-added industries in these areas. The Prairie and Quebec areas experienced nominal increases in lending in 2001-02.

**Approvals by geographic area**




# Strong credit quality

### IMPAIRED LOANS

*Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.*

Impaired loan balances at the end of 2001-02 totaled $128 million, compared to $145 million in the previous year. As a result, impaired loans as a percentage of loans receivable decreased to 1.65 per cent from 2.11 per cent in 2000-01.

This is a reflection of FCC's sound risk management policies and practices and the regular involvement of our employees in understanding individual customer situations. FCC continually monitors loans in arrears to identify potential impaired loans and is proactive in helping customers through difficult times.

## ALLOWANCE FOR CREDIT LOSSES

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

**The allowance for credit losses has three components:**

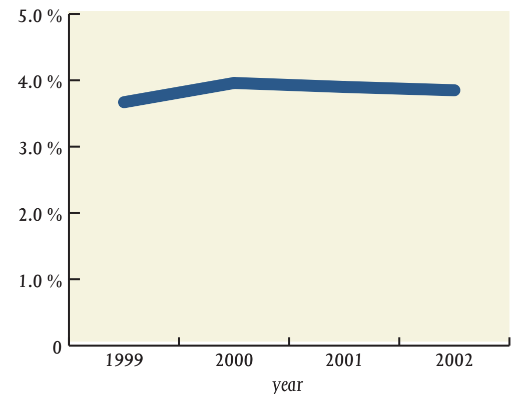
**Specific** – provides for probable losses on specific loans which have become impaired.

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

**General unallocated** – the unallocated portion considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio which have not yet manifested themselves in specific loans.

The allowance for credit losses increased by 10.4 per cent to $297 million from $269 million in 2000-01. This increase is mainly the result of the 11.7 per cent growth in the portfolio. The allowance as a percentage of loans receivable decreased slightly to 3.85 per cent in 2001-02, compared to 3.90 per cent for the prior year.

**Loan allowance as a percentage of loans receivable**




In order to limit credit losses and meet the future needs of the agricultural industry, FCC will continue to emphasize good credit quality and build on its sound lending risk management policies and practices.

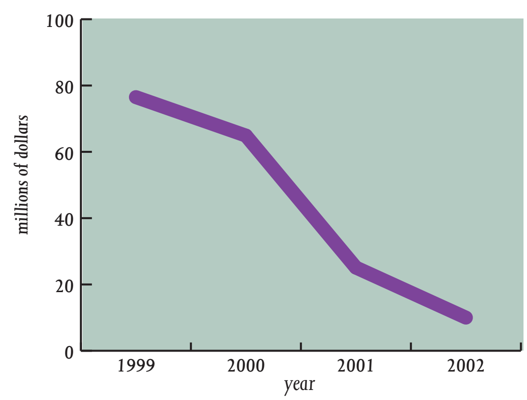
## REAL ESTATE ACQUIRED IN THE SETTLEMENT OF LOANS

*Real estate holdings by FCC represent land acquired in settlement of loans receivable.*

The downward trend in FCC's real estate balances is a reflection of our commitment to return farm land to primary producers. The real estate balance at March 31, 2002 was $10 million (28,855 acres), down from $25 million (120,924 acres) one year ago.

The corporation returned 97,475 acres of land valued at $20 million to farmers this year compared to 249,116 acres, totaling $71 million last year. FCC's program to return land holdings to farmers has been successful, with remaining real estate holdings to be reduced further in 2002-03.

**Real estate holdings**



# Funding activity

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

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

## SHORT-TERM FUNDING

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

The outstanding short-term borrowings at March 31, 2002, were $2.1 billion, compared to $1.9 billion as at March 31, 2001. This is the result of an increase in variable-rate lending, which is funded by short-term debt.

## MEDIUM- AND LONG-TERM FUNDING

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

During 2001-02, FCC borrowed a total of $2.4 billion in medium- and long-term funds, which is up significantly from $579 million in 2000-01. The increase is due to higher levels of debt maturing in the year, debt prepayment and portfolio growth. In 2001-02, $2.4 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes.

FCC also issued $24 million in the EMTN market, down from $28 million in 2000-01. Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are as follows:

| | Domestic debt | | Foreign debt | |
|---|---|---|---|---|
| | Long-term | Short-term | Long-term | Short-term |
| **Moody's** | Aa1 | P1 | Aa1 | P-1 |
| **Standard & Poor's** | AAA | A-1+ | AA+ | A-1+ |

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

# OUTLOOK 2002-03 - Balance sheet

- Expected growth of the portfolio with over $2 billion in loan approvals projected for the next year.
- Increased allowance for credit losses to reflect risks associated with a larger portfolio and the uncertainty of general economic conditions.
- Continued financial strength as a result of strong operating and risk management practices.
- Forecast of $2 billion of funding sourced via the domestic or international capital markets.

# Income statement

## Highlights - Income statement

- Net interest income up 22.3 per cent to $201.2 million.
- Net interest income margin up 25 basis points to 2.66 per cent.
- Administration expense efficiency ratio improved to 48.4 per cent.

### NET INTEREST INCOME AND MARGIN

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

NII increased 22.3 per cent to $201.2 million from $164.5 million last fiscal year. The major factors contributing to this year-over-year variance are:

- a larger portfolio – the loans receivable portfolio for 2001-02 is up by $808 million over 2000-01, which contributed $25.5 million more net interest income; and
- a decrease in interest rates – lower interest expense more than offset lower interest revenue, increasing net interest income by $11.2 million.

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

### Net interest income and margin

| **$ millions** | **2002** | **2001** |
|---|---|---|
| Interest income | | |
| Loans receivable | **$ 527.6** | $ 524.6 |
| Investments | **17.3** | 24.0 |
| | **544.9** | 548.6 |
| Interest expense | | |
| Short-term debt | **79.7** | 83.6 |
| Long-term debt | **264.0** | 300.5 |
| | **343.7** | 384.1 |
| **Net interest income** | **$ 201.2** | $ 164.5 |
| Average total assets | **$ 7,566.5** | $ 6,815.6 |
| **Net interest margin** | **2.66 %** | **2.41** % |
| Year-over-year change in net interest income due to: | | |
| Increase in volume | **$ 25.5** | $ 21.4 |
| Decrease in rates | **11.2** | (11.3) |
| | **$ 36.7** | $ 10.1 |

### PROVISION FOR CREDIT LOSSES

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

The provision for credit losses increased to $45.5 million in 2001-02 from $40.2 million the previous year as a result of a larger portfolio. The provision is expected to remain at high levels in future years due to the risks associated with a larger portfolio and the uncertainty in general economic conditions.

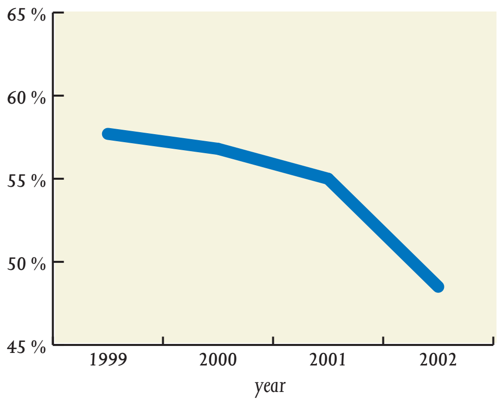
### ADMINISTRATION EXPENSES AND EFFICIENCY

Despite portfolio growth that resulted in a 22.3 per cent increase in net interest income, administration expenses increased by only 7.5 per cent. This improved the efficiency ratio, a measure of how well resources are used to generate income, to 48.4 per cent in 2001-02 compared to 55.0 per cent in the previous year.

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

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

**Efficiency ratio**




The improvement in the efficiency ratio reflects the realization of these commitments and effort in 2001-02 and years previous. A steady focus on process redesign and improvement provides better utilization of resources. The efficiency gains provide capacity to support growth in lending, and enhance product support, market development and customer service.

## Income taxes

During the prior fiscal year, the corporation was in discussion with the Government of Canada with respect to a request for tax exemption. Prior to the date of completion of the financial statements, the discussion around tax exemption was not sufficiently advanced to provide certainty of its eventuality. As a result, the corporation retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, Income Taxes in its March 31, 2001, financial statements.

In its December 10, 2001 Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences and loss carry-forwards, previously recognized in the financial statements, are no longer available to the corporation as deductions against future tax liabilities. As a result, the future income tax asset has no future value and has been removed from the Balance Sheet.

## Net income

Income before income taxes for the year increased to $68.8 million from $61.2 million the previous year. This increase was the result of higher net interest income driven by a larger and better performing portfolio. Projected portfolio growth and controlled administration expenses are expected to continue to increase net income. This allows FCC to play an increasingly significant role in the growth of the agricultural industry. All income earned is reinvested into agriculture by financing portfolio growth and new product development.

# Outlook 2002-03 - Income statement

- Expected increase in net income due to larger portfolio.
- Administration expenses expected to rise due to growth and the introduction of new business lines in 2002-03, with efficiency ratio improving in subsequent years due to process efficiencies and increased revenue.
- Increased provision for credit losses in response to portfolio growth and future economic volatility.
- Lower net lease and real estate income as a result of winding down real estate holdings.

# Managing risk

## Highlights - Managing risk

- Enhanced the integration of credit risk assessment and portfolio management tools within the loan origination system.
- Special Credit division assigned to resolve accounts experiencing challenges.
- Completed a full cycle of the new field audit three-year program with field offices achieving higher rate of superior performance.
- Met all risk measurement targets.

## Overview

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

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

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

### Credit risk

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

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

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

### Operational risk

All risks inherent in the operational activities of the corporation:

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

### Market risk

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

## INTEGRATED RISK MANAGEMENT

In 2001-02, FCC continued to develop an integrated approach to risk management. New initiatives included a mechanism to continually identify emerging major risks. Additional work has been done to strengthen the management of operational risk.

Follow up continued on the action plans to deal with the five major risks identified in past years. This follow up has confirmed that most of the gaps in risk management have been acted upon, with remaining gaps addressed through work in progress or through actions planned.

### Integrated risk management...

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

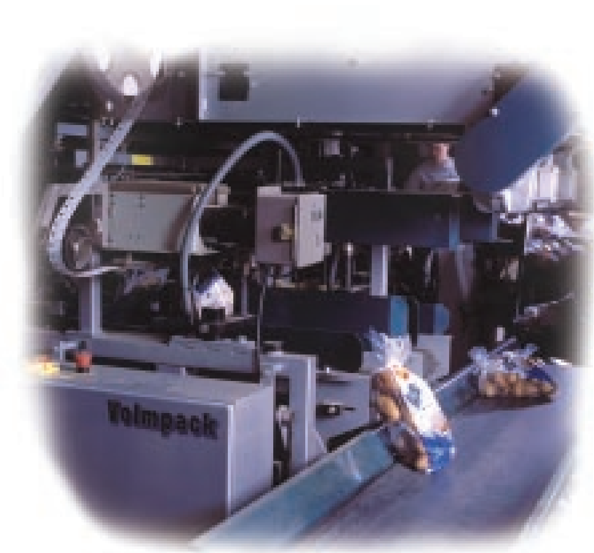
Objectives:
- ensure that important risks are not overlooked; and
- strengthen risk management processes.

FCC's strategic planning process identifies risks facing the business through an assessment of strengths, weaknesses, opportunities and threats. These risks, plus the risks that FCC handles on a daily basis, become the basis for creating an up-to-date assessment of risks that need to be managed. The integrated risk function maintains this risk assessment and determines appropriate responses.

## RESPONSIBILITY FOR RISK MANAGEMENT

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

- The Risk Management division manages transactional credit risk. It carries out credit authorization, customer and loan monitoring, participation in field office credit audits, along with the development and administration of lending and loan administration policies. As well, Special Credit in the Risk Management division resolves accounts experiencing challenges.
- The Portfolio Management unit assesses credit risk at the aggregate level. It provides the risk assessment tools and models to quantify credit risk for lenders and other corporate management functions. The business unit measures the risk of the portfolio with the Risk Scoring and Pricing System and provides corporate direction using the Strategic Credit Risk Model.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of credit, liquidity and market risks at the executive level. The Treasurer reports to the Board on a quarterly basis. Since 2001-02, Treasury has been assigned responsibility for the corporation's Integrated Risk Management Framework.
- The Corporate Audit division is responsible for ensuring compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through an annual operational review of the Treasury area.



# Credit Risk

In 2001-02, several initiatives were undertaken to support credit risk management at FCC, including the enhancements of a Credit Application Scorecard and the Risk Scoring and Pricing System. Continued testing and use of the portfolio vision and portfolio diversification strategy added to greater understanding of FCC's quantified credit risk. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. The portfolio vision also includes goals for the performance and structure of the loan portfolio that the corporation desires.

A revised agribusiness lending operations policy was put in place during the fiscal year. New employees directly involved in lending activities completed additional credit training. Credit risk management for our agribusiness lending has continued to evolve, primarily due to the Special Credit team, and improved account reviews, as well as the experience and expertise gained as the agribusiness portfolio grows.

In 2000-01, FCC introduced a new internal risk-rating system, the Risk Scoring and Pricing System (RSPS). In 2001-02, Portfolio Management and Information Technology enhanced this tool by improving its enabling software. This tool helps FCC employees evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

### Risk Scoring and Pricing System – a more comprehensive measurement of credit risk

- Fully integrated with centralized loan origination systems.
- Regular, automatic updates ensure information used for risk scoring and pricing is current and relevant.
- System provides the information necessary to develop future portfolio concentration management strategies and portfolio vision.
- The ability to map credit risk to any desired level of aggregation improves portfolio analysis capabilities and the risk-return relationship.

It is continually updated with the information necessary to rate the different risks associated with individual loans, customers' payment behavior and the agricultural sector in which the customer operates. RSPS also allows better separation of risk categories than past measurement tools, reflecting more accurately the numerous levels of potential risk. The system is based on historical FCC loan portfolio performance to ensure that the model reflects specific tendencies in agricultural lending. The system is tested and refined on a constant basis to ensure its relevance in today's changing environment. Work is in progress to improve the allocation of administration costs within the RSPS model.

Nova Scotia team
*Top row:* Mike Foster
*Second row from top:* Susan Stone, Bill Cole, Bruce Bishop
*Third row:* Sharon Hirtle, Heather Montgomery, Bobbi-Jo Turner
*Bottom row:* Greg Cox, John Hutchings

## STRATEGIC CREDIT RISK MODEL

RSPS feeds information on risk at the individual loan level into a Strategic Credit Risk Model (SCRM) that measures overall credit risk present in the portfolio. The SCRM reflects the impact of corporate priorities, credit culture, risk strategy and risk controls to maximize financial performance while maintaining credit performance within an acceptable range of volatility. This overall risk is calculated based on three broad categories whose risk is scored as low, moderate or high:

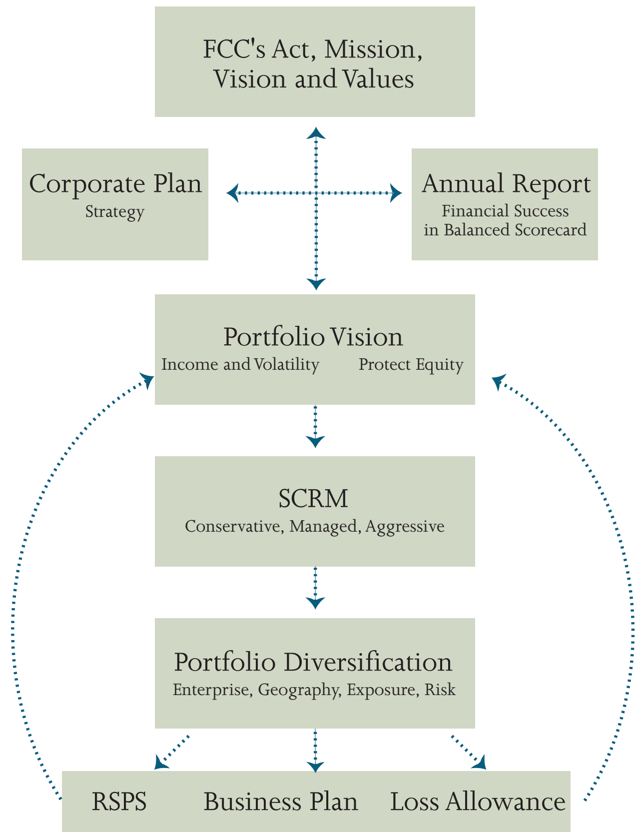
- transaction risk: the risk presented by individual loans and the customers who support these loans;
- intrinsic risk: the risk presented by the industries, lines of business or enterprises from which the income supporting loan repayment is drawn; and
- concentration risk: the risk of various types of concentrations in the overall portfolio.

The model weighs the three different risks and their severity to provide a score which indicates overall strategic credit risk as conservative, managed or aggressive. FCC's goal is to maintain a managed credit risk strategy, consistent with the portfolio vision. This translates to a moderate level volatility in overall credit risk and financial performance.

Strategic Credit Risk Model results, as of March 2002, determined that risk was moderate in all three categories – transaction, intrinsic, and concentration risk. This resulted in a managed level of overall strategic credit risk.

These results also show steady improvement in overall credit risk exposure over the past five years, indicating that credit risk has been managed successfully. Comparisons made to results from mid-1980s' data indicate significant progress in reducing overall levels of credit risk.

### Credit Risk Management




## FIELD OPERATIONS AUDIT PROCESS

Three years ago, FCC introduced a Field Operations Audit Process to assess risk and performance of business operations at a field level. Together, the Corporate Audit and Risk Management divisions participate in the audit program, which provides an independent assessment of quality and risk associated with lending operations. The program was established to examine lending activities and provide learning opportunities for employees to improve their performance in the areas of risk assessment and mitigation, compliance to lending policy, data integrity and other quality assurance activities. Enhanced risk management practices will ultimately contribute to better customer service.

The scope of the program includes the following key components:

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

The Operations Index Score is determined by accumulating the compliance levels for each element of the index adjusted by the number of major exceptions identified. Operations Index categories are: superior performance, good performance, fair performance, unsatisfactory performance.

There has been an increase in the percentage of field offices receiving a superior rating on their audit results over the three-year term of the program.

| Performance rating | 2001-02 | 2000-01 | 1999-2000 |
|---|---|---|---|
| Superior performance | **56%** | 35% | 29% |

### SPECIAL CREDIT

Last year, the mandate of the Special Credit division was formalized with new policies to deal with accounts in difficulty where it was considered likely that financial performance could be enhanced to again establish satisfactory credit ratings. Earlier identification of substandard performing loan accounts was considered essential to enable increased monitoring and evaluation of alternatives. Nationally, 60 per cent of accounts handled by Special Credit were favourably resolved and remain as performing accounts.

Many of the risk measures used for assessing the portfolio quality indicate a strengthening risk profile and achieving the desired strategic credit risk profile. With the numerous challenges faced by our customers in the agricultural economy and environment, we acknowledge the efforts of our customers and front-line staff in improving our portfolio performance. This is a result of the proactive manner in which FCC works with customers facing uncertain situations.

## Market risk

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

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

### INTEREST RATE RISK

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

## ASSET/LIABILITY MANAGEMENT

FCC manages IRR exposures with an asset/liability model. The model simulates changes in net interest income (NII) and market value portfolio equity (MVPE) for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2002, an immediate two per cent increase (decrease) in interest rates across all maturities would affect NII and MVPE as follows:

| | 2% increase | 2% decrease |
|---|---|---|
| | $ millions | |
| **NII variability** | 16.7 | (19.7) |
| **Economic value variability (MVPE)** | (46.6) | 38.7 |

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

The Treasury division uses derivative financial instruments, primarily swaps and options to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative financial instruments using the dollars-at-risk methodology. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO, FCC's Board of Directors and the Department of Finance.

## LIQUIDITY RISK

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

FCC maintains liquidity through:

- a liquid investment portfolio – cash and marketable securities equal to $350 million were on hand at March 31, 2002 (March 31, 2001 – $302 million). ALCO and the Board of Directors have established an investment/liquidity policy that sets minimum credit ratings for short and long-term marketable securities as well as limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and European commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and
- access to $10 million bank operating line of credit and a $50 million revolving credit facility.

# OUTLOOK 2002-03 - Risk

- Continue to enhance the Integrated Risk Management framework.
- Continue to refine the internal risk-rating system.
- Enhance market risk policies.

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

# Management's Responsibility for Financial Statements

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

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

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

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

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

**John J. Ryan**
*President and*
*Chief Executive Officer*

**Moyez Somani**
*Executive Vice-President and*
*Chief Financial Officer*

Regina, Canada
May 9, 2002

Canada

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

# Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser

**Sheila Fraser, FCA**
*Auditor General of Canada*

Ottawa, Canada
May 9, 2002

## As at March 31 *(thousands of dollars)*

| | 2002 | 2001 |
|---|---|---|
| **Assets** | | |
| Cash and short-term investments (Note 3) | **$ 349,560** | $ 302,261 |
| Accounts receivable and other accrued assets | **84,531** | 45,187 |
| Loans receivable – net (Notes 4 and 5) | **7,418,455** | 6,638,344 |
| Real estate acquired in settlement of loans (Note 6) | **10,113** | 25,118 |
| Equipment and leasehold improvements (Note 7) | **22,006** | 15,521 |
| Other assets (Notes 9 and 11) | **–** | 152,866 |
| | **$ 7,884,665** | $ 7,179,297 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 21,950** | $ 40,072 |
| Accrued interest on borrowings | **96,423** | 131,831 |
| | **118,373** | 171,903 |
| Borrowings (Note 8) | | |
| Short-term debt | **2,050,957** | 1,893,450 |
| Long-term debt | **4,948,182** | 4,260,487 |
| | **6,999,139** | 6,153,937 |
| Other liabilities and deferred fees | **21,215** | 20,880 |
| | **7,138,727** | 6,346,720 |
| **Equity** | | |
| Capital (Note 1) | **507,725** | 507,725 |
| Retained earnings | **238,213** | 324,852 |
| | **745,938** | 832,577 |
| | **$ 7,884,665** | $ 7,179,297 |

Commitments and contingent liabilities (Note 10)

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

**Approved:**

Rosemary Davis

**Rosemary Davis**
Chair, Board of Directors

**Marie-Andrée Mallette**
Chair, Audit Committee

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

| | 2002 | 2001 |
|---|---|---|
| **Interest Income** | | |
| Loans receivable | $ 527,616 | $ 524,562 |
| Investment income | 17,266 | 23,984 |
| | 544,882 | 548,546 |
| Interest expense | | |
| Short-term debt | 79,727 | 83,564 |
| Long-term debt | 263,981 | 300,482 |
| Net interest income | 201,174 | 164,500 |
| Provision for credit losses (Note 5) | 45,500 | 40,200 |
| Net interest income after provision for credit losses | 155,674 | 124,300 |
| **Lease and Real Estate Income** | | |
| Lease and other revenue | 6,416 | 26,335 |
| Operating expenses | 467 | 1,065 |
| Interest expense | 547 | 2,048 |
| Net lease and real estate income | 5,402 | 23,222 |
| **Other Income** | 9,313 | 8,226 |
| **Income before Administration Expenses** | 170,389 | 155,748 |
| Administration expenses | 101,616 | 94,509 |
| **Income before Taxes** | 68,773 | 61,239 |
| Current income taxes (Note 9) | 1,885 | 2,206 |
| Future income taxes (Note 9) | 25,625 | 27,436 |
| Income taxes | 27,510 | 29,642 |
| **Net Income** | 41,263 | 31,597 |
| Retained earnings, beginning of year | 324,852 | 293,255 |
| Dividend (Note 1) | (754) | – |
| Adjustment for future income taxes (Note 9) | (127,148) | – |
| **Retained Earnings, end of year** | $ 238,213 | $ 324,852 |

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

## For the years ended March 31 *(thousands of dollars)*

| | 2002 | 2001 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 41,263 | $ 31,597 |
| Items not involving cash | | |
| Future income taxes (Note 9) | 25,625 | 27,436 |
| Provision for credit losses (Note 5) | 45,500 | 40,200 |
| Amortization of bond premiums/discounts | 36,772 | 36,236 |
| Change in accrued interest receivable | 8,071 | 32,802 |
| Change in accrued interest payable | (24,498) | (46,438) |
| Other | (54,739) | 15,888 |
| Cash provided by operating activities | 77,994 | 137,721 |
| **Investing Activities** | | |
| Long-term investments | – | 53,404 |
| Loans receivable disbursed | (2,293,800) | (1,776,200) |
| Loans receivable repaid | 1,459,797 | 1,159,157 |
| Change in real estate held (Note 6) | 15,005 | 39,737 |
| Other | (11,649) | (9,899) |
| Cash used in investing activities | (830,647) | (533,801) |
| **Financing Activities** | | |
| Long-term debt repaid to Canada | (578,491) | (226,113) |
| Long-term debt from capital markets | 2,078,122 | 567,154 |
| Long-term debt repaid to capital markets | (848,708) | (814,983) |
| Change in short-term debt | 149,783 | 863,515 |
| Dividend paid | (754) | – |
| Cash provided by financing activities | 799,952 | 389,573 |
| Increase(decrease) in cash and short-term investments | 47,299 | (6,507) |
| Cash and short-term investments, beginning of year | 302,261 | 308,768 |
| Cash and short-term investments, end of year | $ 349,560 | $ 302,261 |

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

## 1. The corporation

### (A) AUTHORITY AND OBJECTIVES

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

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

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

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

### (B) CAPITAL

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

As of March 31, 2002, capital payments received from the Government of Canada amounted to $1,168.3 million (2001 – $1,168.3 million). The statutory limit for that same period was $1,175.0 million (2001 – $1,175.0 million).

### (C) DIVIDEND

On May 30, 2001, the corporation's Board of Directors declared a dividend in the amount of $0.8 million which was paid September 7, 2001, to the corporation's sole shareholder – the Government of Canada.

### (D) LIMITS ON BORROWING

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

At March 31, 2002, the corporation's total liabilities were 9.6 times the equity of $745.9 million (2001 – 7.6 times the equity of $832.6 million).

## 2. Significant accounting policies

### (A) INVESTMENTS

Investments are included in cash and short-term investments on the Balance Sheet. Interest income, amortization of premiums and discounts, and write-downs to market value on investments are included in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

(B) LOANS RECEIVABLE

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

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

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

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

(C) ALLOWANCE FOR CREDIT LOSSES

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

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

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

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the internal criteria that would require a specific allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan-by-loan basis.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions that have occurred, but have not yet manifested themselves as observable deterioration in credit quality in specific loans.

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

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

### (D) REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Recoveries arising from the disposal of real estate are recognized when title to the property passes to the purchaser. These recoveries are included as a component of lease and other revenue.

### (E) EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

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

### (F) TRANSLATION OF FOREIGN CURRENCIES

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

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

### (G) LONG-TERM DEBT

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

Interest settlement amounts for debt with bond or equity index-linked interest are estimated using the related index level as at the balance sheet date and are included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest income or expense.

### (H) DERIVATIVE FINANCIAL INSTRUMENTS

In order to manage its exposure to currency and interest rate risks, the corporation uses various types of derivative financial instruments such as currency, interest rate, bond and equity index-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability management contracts which alter the corporation's overall interest rate profile. The corporation does not use derivative financial instruments for speculative purposes.

*Currency exchange agreements*

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest income or expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

*Interest rate agreements*

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded, as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively.

A premium is paid to purchase an option contract. If the option is exercised, the premium is amortized on a straight-line basis over the life of the underlying instrument and reported as an adjustment to interest expense. If not exercised, the premium is recognized at the time the contract expires and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

### (I) EMPLOYEE FUTURE BENEFITS

*Pension and post-retirement benefits*

The corporation accrues its obligations under employee benefit plans including pension plans and post-retirement plans other than pensions and the related costs, net of plan assets. The corporation has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit cost method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs; and
- for the purpose of calculating the expected return on plan assets, those assets are valued at market value.

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

Actuarial valuations of the pension plans are made periodically for accounting purposes based on the market-related discount rate. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

The corporation provides to eligible retired employees certain health care benefits, life insurance coverage and coverage of provincial health care premiums for Alberta and British Columbia.

*Post-employment benefits*

The corporation accrues its obligations for post-employment benefits. The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on services.

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

### (J) INCOME TAXES

The corporation follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized according to the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(K) USE OF ESTIMATES

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

## 3. Cash and short-term investments

| *(thousands of dollars)* | *Effective interest rate (%)* | **2002** | **2001** |
|---|---|---|---|
| Cash | | **$ 19,418** | $ 24,430 |
| Short-term investments | 1.95 – 4.54 | **326,947** | 276,463 |
| Accrued interest | | **3,195** | 1,368 |
| | | **$ 349,560** | $ 302,261 |
| Short-term investments consist of instruments with maturities of less than one year, issued by: | | | |
| The Government of Canada, its agencies and Crowns | | **$ 185,601** | $ 88,665 |
| Other | | **141,346** | 187,798 |
| | | **$ 326,947** | $ 276,463 |

Other investments consist of short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2002, the largest total investment in any one institution was $64.8 million (2001 – $59.7 million).

The weighted average term-to-maturity of the short-term investments was 28 days (2001 – 73 days).

## 4. Loans receivable

| *(thousands of dollars)* | *Stated interest rate (%)* | **2002** | **2001** |
|---|---|---|---|
| Principal amounts due, secured by: | | | |
| Mortgages | 3.150 – 14.000 | **$ 6,595,460** | $ 5,852,024 |
| Chattels | 3.000 – 13.400 | **863,913** | 792,222 |
| Notes | 3.950 – 11.375 | **43,387** | 28,654 |
| | | **7,502,760** | 6,672,900 |
| Accrued interest and fees, net of payments held | | **85,397** | 89,250 |
| | | **7,588,157** | 6,762,150 |
| Recorded investment in impaired loans, secured by: | | | |
| Mortgages | | **119,050** | 136,275 |
| Chattels | | **8,196** | 8,614 |
| Notes | | **390** | 555 |
| | | **127,636** | 145,444 |
| Total loans receivable | | **7,715,793** | 6,907,594 |
| Less: Allowance for credit losses (Note 5) | | **(297,338)** | (269,250) |
| | | **$ 7,418,455** | $ 6,638,344 |
| Principal amounts (excluding impaired loans) due: | | | |
| Within 1 year | | **$ 2,030,486** | $ 1,499,447 |
| 1 - 5 years | | **4,939,277** | 4,530,250 |
| Over 5 years | | **532,997** | 643,203 |
| | | **$ 7,502,760** | $ 6,672,900 |

Management estimates that annually, over the next three years, approximately 8.3% (2001 – approximately 6.4%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2002, $25.1 million (2001 – $11.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

## 5. Allowance for credit losses

| *(thousands of dollars)* | | **2002** | | **2001** |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **269,250** | $ | 249,715 |
| Write-offs, net of recoveries | | **(17,412)** | | (20,665) |
| Provision for credit losses | | **45,500** | | 40,200 |
| Balance, end of year | **$** | **297,338** | $ | 269,250 |
| Specific allowance | **$** | **39,688** | $ | 44,671 |
| General allocated and unallocated allowance | | **257,650** | | 224,579 |
| Balance, end of year | **$** | **297,338** | $ | 269,250 |

As at March 31, 2002, the total recorded investment in loans receivable against which a specific allowance has been identified was $127.6 million (2001 – $145.4 million). The general allowance was established against the remaining $7,588.1 million (2001 – $6,762.1 million) investment in loans receivable.

## 6. Real estate acquired in settlement of loans

| *(thousands of dollars)* | | **2002** | | **2001** |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **25,118** | $ | 64,855 |
| Acquisitions | | **4,619** | | 4,693 |
| Disposals | | **(19,624)** | | (44,430) |
| Balance, end of year | **$** | **10,113** | $ | 25,118 |
| Real estate held for sale | **$** | **9,218** | $ | 21,099 |
| Real estate under long-term lease maturing: | | | | |
| Within 1 year | | **808** | | 123 |
| From 1 - 2 years | | **87** | | 2,901 |
| From 2 - 3 years | | **–** | | 995 |
| | | **895** | | 4,019 |
| | **$** | **10,113** | $ | 25,118 |

| *(thousands of dollars)* | | **2002** | | **2001** |
|---|---|---|---|---|
| Future expected lease receipts, using current lease rates, due: | | | | |
| Within 1 year | **$** | **20** | $ | 205 |
| 1 - 5 years | | **6** | | 45 |
| | **$** | **26** | $ | 250 |

Included in real estate held for sale is property which, as of March 31, 2002, has been sold on a conditional basis. This property has a recorded value of $6.0 million (2001 – $11.1 million).

## 7. Equipment and leasehold improvements

| *(thousands of dollars)* | | | **2002** | 2001 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | **Net book value** | Net book value |
| Office equipment and furniture | $ 9,030 | $ 4,510 | **$ 4,520** | $ 4,199 |
| Computer equipment and software | 30,830 | 17,761 | **13,069** | 7,877 |
| Leasehold improvements | 9,414 | 4,997 | **4,417** | 3,445 |
| | $ 49,274 | $ 27,268 | **$ 22,006** | $ 15,521 |

Included in administration expenses was $6.8 million (2001 – $5.3 million) of amortization of equipment and leasehold improvements.

## 8. Borrowings

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

### (A) Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $2,051.0 million (2001 – $1,893.4 million). The effective interest rate on these notes ranges from 1.72% to 4.45% (2001 – 4.35% to 5.92%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 13, 2001, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2002, there were no draws on this line of credit.

Also, on December 18, 2001, the corporation renewed a line of credit agreement providing access to funds in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at March 31, 2002, the outstanding balance on this line of credit was $0.3 million.

### (B) Long-term debt

| *(thousands of dollars)* | **Stated interest rate (%)** | **2002** | **2001** |
|---|---|---|---|
| Debt from Government of Canada, secured by notes | | **$ –** | $ 578,491 |
| Debt from capital markets, secured by notes payable in: | | | |
| Canadian dollars | 0.0 – 9.0 | **4,901,371** | 3,620,046 |
| Japanese yen (¥1.2 billion) | 2.0 | **14,423** | 24,982 |
| Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to: | | | |
| The Hong Kong Exchange Index | | **–** | 4,580 |
| The Euro Top 100 Index | | **32,388** | 32,388 |
| | | **$ 4,948,182** | $ 4,260,487 |

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

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities are as follows:

| *(thousands of dollars)* | 2002 | 2001 |
|---|---|---|
| Amounts due: | | |
| Within 1 year | **$ 1,496,153** | $ 1,358,247 |
| From 1 - 2 years | **1,439,238** | 1,023,501 |
| From 2 - 3 years | **809,561** | 730,300 |
| From 3 - 4 years | **688,240** | 509,048 |
| From 4 - 5 years | **203,688** | 263,770 |
| Over 5 years | **311,302** | 375,621 |
| | **$ 4,948,182** | $ 4,260,487 |

Included in long-term debt is $760.5 million (2001 – $75.0 million) of instruments extendable beyond their original due dates and $204.7 million (2001 – $158.1 million) of callable debt. The redemption of these instruments is controllable by the corporation.

## 9. Income taxes

During the fiscal 2001 year, the corporation was in discussion with the Government of Canada with respect to a request for tax-exemption. Prior to the date of completion of the fiscal 2001 year-end financial statements, the discussion around tax-exemption was not sufficiently advanced to provide certainty of its eventuality. As a result, the corporation retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes* in its March 31, 2001 financial statements. The future tax asset was $152.8 million at March 31, 2001.

In the December 10, 2001 Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences and loss carry-forwards, previously recognized in the financial statements, are no longer available to the corporation as deductions against future tax liabilities. As a result, the future income tax asset no longer has value to the corporation and has been removed through retained earnings at March 31, 2002 in the amount of $127.1 million.

Components of the future income tax asset:

| *(thousands of dollars)* | 2002 | 2001 |
|---|---|---|
| Allowance for credit losses | **$ 54,928** | $ 82,196 |
| Post retirement benefits other than pensions | **5,116** | 4,687 |
| Equipment and leasehold improvements | **20,850** | 18,647 |
| Non-capital loss carry-forwards | **46,254** | 46,976 |
| Other | **–** | 267 |
| Net future income tax asset | **$ 127,148** | $ 152,773 |

Current income taxes recorded in these financial statements represent capital taxes under Part I.3 of the *Income Tax Act*. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million. Current taxes are not applicable in future years due to the tax-exemption noted above.

The following is a reconciliation of income taxes expense:

| *(thousands of dollars)* | **2002** | **2001** |
|---|---|---|
| Income taxes at statutory rate of 37.96% (2001 – 39.26%) | **$ 26,106** | $ 24,042 |
| Retroactive adoption of section 3461 | **–** | 3,316 |
| Large corporations tax | **1,885** | 2,206 |
| Non-deductible expenses | **245** | 258 |
| Other | **(726)** | (180) |
| Income taxes expense | **$ 27,510** | $ 29,642 |

## 10. Commitments and contingent liabilities

(A) LONG-TERM COMMITMENTS FOR LEASES

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

| *(thousands of dollars)* | |
|---|---|
| Within 1 year | **$ 6,169** |
| From 1 - 2 years | **5,144** |
| From 2 - 3 years | **4,418** |
| From 3 - 4 years | **3,587** |
| From 4 - 5 years | **3,031** |
| Over 5 years | **18,589** |
| | **$ 40,938** |

(B) OTHER COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its business, the corporation enters into various commitments and contracts. As of March 31, 2002, the corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $16.7 million (2001 – $16.2 million). In the event of a call upon the guarantees disclosed above, the corporation has recourse against its customers.

As at March 31, 2002, loans to farmers and agribusiness approved but undisbursed amounted to $276.6 million (2001 – $101.8 million). These loans were approved at an average interest rate of 5.15% (2001 – 7.74%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 30, 2002.

## 11. Employee future benefits

The following table presents information related to the corporation's defined benefit plans including amounts recorded on the Balance Sheet and the components of net periodic benefit cost. The measurement date for the defined benefit plans is December 31, 2001.

**Change in accrued benefit obligation:**

| *(thousands of dollars)* | 2002 | 2001 | 2002 | 2001 |
|---|---|---|---|---|
| | **Pension benefits** | Pension benefits | **Other benefits** | Other benefits |
| Accrued benefit obligation, beginning of year | **$ 2,993** | $ – | **$ 12,956** | $ 12,045 |
| Current service cost | **4,873** | 1,847 | **818** | 470 |
| Interest cost | **3,019** | 105 | **966** | 615 |
| Plan participants' contributions | **1,690** | 956 | **–** | – |
| Benefits paid | **(336)** | (69) | **(488)** | (452) |
| Net transfer in* | **102,551** | – | **–** | – |
| Actuarial (gain)/loss | **(12,068)** | 154 | **1,403** | 278 |
| Accrued benefit obligation, at measurement date | **$ 102,722** | $ 2,993 | **$ 15,655** | $ 12,956 |

**Change in plan assets:**

| *(thousands of dollars)* | 2002 | 2001 | 2002 | 2001 |
|---|---|---|---|---|
| | **Pension benefits** | Pension benefits | **Other benefits** | Other benefits |
| Fair value of plan assets, beginning of year | **$ 2,898** | $ – | **$ –** | $ – |
| Actual return on plan assets | **2,353** | 25 | **–** | – |
| Employer contributions | **4,036** | 1,986 | **–** | – |
| Plan participants' contributions | **1,690** | 956 | **–** | – |
| Benefits paid | **(336)** | (69) | **–** | – |
| Net transfer in* | **102,551** | – | **–** | – |
| Fair value of plan assets, at measurement date | **$ 113,192** | $ 2,898 | **$ –** | $ – |

**Funded status at measurement date:**

| *(thousands of dollars)* | 2002 | 2001 | 2002 | 2001 |
|---|---|---|---|---|
| | **Pension benefits** | Pension benefits | **Other benefits** | Other benefits |
| Deficiency (surplus) of plan assets at fair value over projected plan benefits | **$ (10,470)** | $ 95 | **$ 15,655** | $ 12,956 |
| Unrecognized net actuarial gain (losses) | **11,157** | (188) | **(1,682)** | (278) |
| Accrued benefit (asset) liability | **$ 687** | $ (93) | **$ 13,973** | $ 12,678 |

* As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the *Public Service Superannuation Act* (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada which provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, a transfer of assets from the Public Service Superannuation Fund is currently in progress. Although the transfer is not complete, the full amount of the transfer has been recognized on an estimated basis at March 31, 2002.

The accrued benefit asset is included in other assets on the Balance Sheet. The accrued benefit liability is included in other liabilities and deferred fees on the Balance Sheet.

**The corporation's expense with respect to employee future benefits is:**

| *(thousands of dollars)* | **2002** | **2001** | **2002** | **2001** |
|---|---|---|---|---|
| | **Pension benefits** | Pension benefits | **Other benefits** | Other benefits |
| Current service cost | **$ 4,873** | $ 1,847 | **$ 818** | $ 470 |
| Interest cost | **3,019** | 105 | **966** | 615 |
| Expected return on plan assets | **(3,077)** | (58) | **–** | – |
| Net benefit plan expense | **4,815** | 1,894 | **1,784** | 1,085 |
| Employer contributions to defined contribution plan | **1,341** | 1,336 | **–** | – |
| Employer contributions to PSSA plan | **–** | 2,485 | **–** | – |
| Accrued contributions to RCA plan | **–** | 204 | **–** | – |
| Total benefit expense included in the Statement of Operations and Retained Earnings | **$ 6,156** | $ 5,919 | **$ 1,784** | $ 1,085 |

The amount of expense included in the Statement of Operations and Retained Earnings represents 12 months to March 31, 2002 (2001 – nine months) for the defined contribution plan, and 12 months (2001 – six months) for the defined benefit plans to December 31, 2001, the measurement date.

The weighted-average assumptions at the measurement date used in the calculation of the corporation's benefit obligation are shown in the following table:

| | **2002** | **2002** | **2002** |
|---|---|---|---|
| | **Pension benefits** | **Post-retirement benefits** | **Post-employment benefits** |
| Discount rate at the beginning of the period | **7.25%** | **7.40%** | **6.30%** |
| Discount rate at the end of the period | **7.00%** | **7.00%** | **6.25%** |
| Expected long-term rate of return on plan assets | **8.00%** | **N/A** | **N/A** |
| Rate of compensation increase | **4.00%** | **4.00%** | **4.00%** |

| | **2001** | **2001** | **2001** |
|---|---|---|---|
| | Pension benefits | Post-retirement benefits | Post-employment benefits |
| Discount rate at the beginning of the period | 7.50% | 7.50% | 6.90% |
| Discount rate at the end of the period | 7.25% | 7.40% | 6.30% |
| Expected long-term rate of return on plan assets | 8.00% | N/A | N/A |
| Rate of compensation increase | 6.60% | 4.00% | 4.00% |

For measurement purposes, a 9.00% (2001 – 9.00%) increase in the per capita cost of covered hospital costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil 10 years from the current year (2001 – to nil 10 years from the current year) and remain at that level thereafter. For drug costs, a 10.00% (2001 – 9.00%) increase in the per capita cost was assumed to decrease gradually to 5.00% 10 years from the current year (2001 – to 5.00% 10 years from the current year) and remain at that level thereafter.

## 12. Derivative financial instruments

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the corporation's loan products as well as to reduce the risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the corporation. A positive replacement cost indicates the corporation's exposure to counterparty credit risk. The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Additionally, International Swaps and Derivatives Association Inc. (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2002, was $742.7 million (2001 – $330.5 million) and the largest positive replacement cost of contracts with any institution as at March 31, 2002, was $7.0 million (2001 – $9.8 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2002 were:

***(thousands of dollars)***

| **2002** Remaining term to maturity | | Within 1 year | 1 to 5 years | Over 5 years | Total | Positive replacement cost |
|---|---|---|---|---|---|---|
| **Interest rate contracts**: | | | | | | |
| Swap contracts | | | | | | |
| *Receive* | *Pay* | | | | | |
| Floating | Fixed | $ 100,000 | $ 346,000 | $ 100,000 | $ 546,000 | $ 320 |
| Fixed | Floating | 595,667 | 839,500 | – | 1,435,167 | 6,107 |
| Fixed | Fixed | 20,000 | – | – | 20,000 | 4,570 |
| Floating | Floating | – | 857 | – | 857 | 24 |
| Equity index-linked | Floating | 16,688 | 15,700 | – | 32,388 | 328 |
| Bond forward | | 25,000 | – | – | 25,000 | – |
| Option | | 5,000 | – | – | 5,000 | – |
| | | 762,355 | 1,202,057 | 100,000 | 2,064,412 | 11,349 |
| **Foreign exchange contracts:** | | | | | | |
| Cross-currency swaps | | | | | | |
| *Receive* | *Pay* | | | | | |
| CDN fixed | USD fixed | 124,820 | – | – | 124,820 | 4,992 |
| CDN fixed | USD floating | – | – | – | – | – |
| | | 124,820 | – | – | 124,820 | 4,992 |
| **Total** | | $ 887,175 | $ 1,202,057 | $ 100,000 | $2,189,232 | $ 16,341 |

***(thousands of dollars)***

| **2001** **Remaining term to maturity** | | | Within 1 year | | 1 to 5 years | | Over 5 years | | Total | | Positive replacement cost |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest rate contracts: | | | | | | | | | | | |
| Swap contracts | | | | | | | | | | | |
| *Receive* | *Pay* | | | | | | | | | | |
| Floating | Fixed | $ | 84,000 | $ | 345,000 | $ | – | $ | 429,000 | $ | 309 |
| Fixed | Floating | | 336,623 | | – | | – | | 336,623 | | 7,487 |
| Fixed | Fixed | | 20,000 | | 40,000 | | – | | 60,000 | | 7,871 |
| Floating | Floating | | – | | – | | 857 | | 857 | | 22 |
| Equity index-linked | Floating | | 4,580 | | 32,388 | | – | | 36,968 | | 1,470 |
| | | | 445,203 | | 417,388 | | 857 | | 863,448 | | 17,159 |
| Foreign exchange contracts: | | | | | | | | | | | |
| Cross-currency swaps | | | | | | | | | | | |
| *Receive* | *Pay* | | | | | | | | | | |
| CDN fixed | USD fixed | | 109,747 | | – | | – | | 109,747 | | 8,275 |
| CDN fixed | USD floating | | – | | 1,875 | | – | | 1,875 | | – |
| | | | 109,747 | | 1,875 | | – | | 111,622 | | 8,275 |
| Total | | $ | 554,950 | $ | 419,263 | $ | 857 | $ | 975,070 | $ | 25,434 |

Included in derivative financial instruments is $760.5 million (2001 – $75.0 million) of instruments extendable beyond their original due dates and $204.7 million (2001 – $158.1 million) of callable instruments. The redemption of these instruments is controllable by the corporation.

## 13. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate financial instruments and on the fair value of fixed-rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the corporation's financial instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating-rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

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

***(thousands of dollars)***

| **2002** Remaining term to re-pricing or maturity date | Within 1 year | 1 to 5 years | Over 5 years | Total carrying value |
|---|---|---|---|---|
| Short-term investments | $ 330,142 | – | – | $ 330,142 |
| Average yield | 2.42% | – | – | 2.42% |
| Loans receivable* | | | | |
| Fixed-rate | $ 1,207,612 | 2,994,768 | 420,273 | $ 4,622,653 |
| Average yield | 7.41% | 7.86% | 8.28% | 7.78% |
| Floating-rate | $ 845,985 | 2,000,728 | 118,791 | $ 2,965,504 |
| Average yield | 4.64% | 4.66% | 4.57% | 4.65% |
| Short-term debt | $ 2,059,634 | – | – | $ 2,059,634 |
| Average yield | 2.25% | – | – | 2.25% |
| Long-term debt | $ 1,522,684 | 3,196,421 | 316,822 | $ 5,035,927 |
| Average yield | 4.71% | 4.65% | 4.43% | 4.66% |

***(thousands of dollars)***

| **2001** Remaining term to re-pricing or maturity date | Within 1 year | 1 to 5 years | Over 5 years | Total carrying value |
|---|---|---|---|---|
| Short-term investments | $ 277,831 | – | – | $ 277,831 |
| Average yield | 5.06% | – | – | 5.06% |
| Loans receivable* | | | | |
| Fixed-rate | $ 1,219,434 | 3,178,398 | 535,538 | $ 4,933,370 |
| Average yield | 8.01% | 8.02% | 8.41% | 8.06% |
| Floating-rate | $ 300,069 | 1,412,443 | 116,268 | $ 1,828,780 |
| Average yield | 7.65% | 7.78% | 7.83% | 7.76% |
| Short-term debt | $ 1,909,852 | – | – | $ 1,909,852 |
| Average yield | 5.13% | – | – | 5.13% |
| Long-term debt | $ 1,397,634 | 2,595,032 | 385,791 | $ 4,378,457 |
| Average yield | 6.03% | 6.35% | 5.77% | 6.20% |

* Loans receivable excludes impaired loans.

## 14. Fair values

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

| *(thousands of dollars)* | 2002 Carrying value | 2002 Estimated fair value | 2001 Carrying value | 2001 Estimated fair value |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term investments | **$ 349,560** | **$ 349,560** | $ 302,261 | $ 302,261 |
| Accounts receivable and other accrued assets | **84,531** | **84,531** | 45,187 | 45,187 |
| Loans receivable | **7,418,455** | **7,523,031** | 6,638,344 | 6,839,570 |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | **$ 21,950** | **$ 21,950** | $ 40,072 | $ 40,072 |
| Accrued interest on borrowings | **96,423** | **96,423** | 131,831 | 131,831 |
| Short-term debt | **2,050,957** | **2,050,957** | 1,893,450 | 1,893,450 |
| Long-term debt | **4,948,182** | **4,967,920** | 4,260,487 | 4,340,410 |

| *(thousands of dollars)* | 2002 Notional amount | 2002 Net fair value | 2001 Notional amount | 2001 Net fair value |
|---|---|---|---|---|
| **Derivatives** | | | | |
| Interest rate contracts | **$ 2,064,412** | **$ (27,042)** | $ 863,448 | $ 3,823 |
| Foreign currency contracts | **124,820** | **4,992** | 111,622 | 8,198 |

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

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

- The estimated fair value for the performing fixed rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

## 15. Segmented information

The corporation is engaged in two distinct business segments: agricultural lending and real estate management. Both operate exclusively in Canada. Details regarding these segments are readily available in the corporation's financial statements.

## 16. Comparative figures

Certain 2001 comparative figures have been restated to conform with the current year presentation.

From left to right: *Front row* Janet Wightman, John Ryan, Rick Hoffman, Greg Honey. *Middle row* Moyez Somani, Kellie Garrett, Marshall Stachniak, André Tétreault. *Top row* Don Stevens, Nelson Tkatch, Paul MacDonald, James Taylor, Greg Stewart and Terry Kremeniuk.

# Forward thinking. Challenging expectations.

FCC's strength stems from its people's specialized agricultural expertise. The Senior Management Team (SMT) levers this strength through leadership that ensures that FCC continues to be a relevant and innovative contributor to the success of the industry.

With unique and diverse professional experience, SMT develops and implements the corporate strategic direction. In addition to management responsibilities, SMT advises the President and CEO, the Executive Committee and the Board of Directors. Executive Committee is a subset of the SMT and the senior decision-making authority of the corporation. This committee acts on broad strategic direction and establishes corporate priorities. Executive Committee comprises the President and CEO, Chief Operating Officer and Chief Financial Officer.

Working as one leadership team, every member of the SMT continuously enhances their own leadership skills through professional development and evaluation. They actively encourage the development of all FCC employees, challenging them to be innovative, forward thinking and focused on FCC customers and the agriculture industry.

The SMT leads by example, following the guidelines of the *Financial Administration Act* and exercising care, skill and diligence in their decision-making and business activities. In so doing, they also respect the Employee Conduct and Ethics Policy, and adhere to the highest ethical standards of business, professional and personal conduct.

## Taking responsibility to meet industry challenges

In 2001, the *Farm Credit Canada Act* gave the corporation new powers and responsibilities for meeting the needs of its customers and the industry. Evolving to develop new areas of business and to continue providing the highest level of customer service, FCC created two new key SMT positions. In 2001-02, Paul MacDonald was hired as Vice-President, Complementary Services and Channel Development. Also new to the team is James Taylor, Vice-President, Venture Capital.

*Continued on page 69*

## Senior Management Profiles

JOHN J. RYAN
*President & CEO.* Responsible for the strategic leadership of FCC and reporting to the Board of Directors, John has been President and CEO since 1997. He possesses 25 years of financial management experience, previously as Executive VP & Chief Operating Officer of the Business Development Bank of Canada (BDC). A graduate of Harvard Business School's Advanced Management Program, John also holds a BBA (Bachelor of Business Administration) from St. Francis Xavier University. Committed to the community, he is a member of the Board of Trustees of the Canadian Athletic Foundation, member of the St. Francis Xavier Millennium project, and member of the Adult Learning Centre Foundation Board. He is Chair of the Hospitals of Regina Foundation, and Chair of the Regina United Way 2001 Leadership Campaign. He also led the CEO Challenge for the 2001 Habitat for Humanity.

MOYEZ SOMANI, CMA, MBA
*EVP & Chief Financial Officer.* With overall responsibility for FCC's finance function including Treasury, Controller, Risk Management, Audit and Business Process Reengineering Divisions, Moyez has over 20 years of senior management experience in the financial services sector. He is involved with several Boards including Mind's Eye Pictures, Society of Management Accountants of Saskatchewan, Financial Executives International (Regina Chapter), AgriFood Equity Fund and the Saskatchewan Science Centre.

JANET WIGHTMAN
*EVP & Chief Operating Officer.* Leading all aspects of FCC's national lending operations, Janet is responsible for farm financing, agribusiness, channel development, alliances, venture capital, marketing, and development of new products and services. Janet has 22 years of experience in administration, human resources, organizational transformation and operations management and is a member of the SaskPower Board of Directors.

*- Continued on page 69*



## Recognizing an *outstanding* contribution to *agriculture.*

Louise Neveu, FCC's former Executive Vice-President and Chief Knowledge Officer, retired from FCC in 2002, leaving a legacy that will continue to influence FCC's values and commitment to agriculture.

Louise's passion for lifelong learning and tremendous energy led her career from journalism to communications, human resources, administration and eventually operations. She began her career with FCC in 1975 and, after serving in positions of increasing responsibility, became Executive Vice-President and Chief Operating Officer in 1998. She also gained valuable experience benefiting FCC by working in executive positions at Agriculture and Agri-Food Canada, Veterans Affairs Canada and Saskatchewan Wheat Pool.

Most recently, Louise championed knowledge management – one of the first Canadian executives to recognize its potential to enhance customer service. As Chief Knowledge Officer in 2001-02, she set best practice standards for the development of agricultural sector knowledge that will ultimately benefit FCC customers and the industry.

Louise's passion for excellence led her to challenge colleagues to constantly strive for excellence. Her influence will be felt for many years to come. She has retained a directorship position at the George Morris Centre and now lives on Vancouver Island with her husband.

## Compensation and decision making

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives, exept the CEO, receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2001-02, the salary range for the President and CEO was set at $180,100 to $221,100. The salary range of the Executive Vice-Presidents was from $154,605 to $279,210. The range for Vice-Presidents was from $114,825 to $183,600. Total cash compensation paid to SMT was $2,794,425.

# SENIOR MANAGEMENT PROFILES – *Continued from page 68*

### KELLIE GARRETT, ABC, BA

*VP, Strategy, Knowledge & Communication.* Responsible for corporate strategy, knowledge management, corporate communication and brand management, Kellie is an Accredited Business Communicator (ABC) with a B.A. from Carleton University. Previously responsible for marketing and product development, she is active on several boards.

### RICK HOFFMAN, CMA

*VP & Controller.* Responsible for corporate accounting, financial reporting and FCC's Loan Administration Centres, Rick has more than 15 years of financial and management experience in the agriculture sector. He is a Certified Management Accountant and a member of Financial Executives International.

### GREG HONEY, B.Ed.

*VP, HR & Administration.* Responsible for all aspects of Human Resources and national administration services, Greg possesses more than 20 years of Human Resources experience. He is a member of the Conference Board Human Resources Executive Committee (West) and has a B.Ed from the University of Regina.

### TERRY KREMENIUK, MBA, P.AG

*VP, Aboriginal Business (Retired April 30, 2002).* Responsible for developing and implementing FCC's Aboriginal business strategy, Terry spent half his 30-year career providing leadership in the research, policy, and corporate planning areas. The other half of his career focused on farm finance, alliances and agribusiness. Terry earned an MBA from University of BC and a B.Sc. (Agriculture) from the University of Alberta.

### PAUL MACDONALD, MA

*VP, Complementary Services & Channel Development.* Leading the development of new services and business channels, Paul is responsible for alliances, the FCC Customer Service Centre, complementary services and e-business. Formerly VP, Ipsos-Reid, Paul has an MA (Economics) from Queen's University and a B.Sc. from the University of P.E.I.

### MARSHALL STACHNIAK, P.AG

*VP, Corporate Audit & Business Process Reengineering.* Responsible for internal audit, measurement and control and reengineering of business processes, Marshall has served FCC for 30 years, largely in the farm finance and alliances area. He has a B.Sc. (Agriculture) from the University of Alberta and is a professional agrologist.

### DON STEVENS, CFA, MBA

*VP & Treasurer.* Responsible for funding of FCC's portfolio and managing market risk, Don has extensive treasury and finance experience, most recently as FCC's Controller. A Chartered Financial Analyst, he holds an MBA from York University and a B.Eng. from Carleton University.

### GREG STEWART, P. AG

*SVP, National Lending Operations.* Responsible for national sales, Greg has extensive experience in operations, farm financing, agribusiness and risk management. A professional agrologist, Greg holds a B.Sc. from the University of Manitoba.

### JAMES TAYLOR, MBA

*VP, Venture Capital.* Responsible for establishing and leading FCC's new Venture Capital division, Jim has proven experience in developing, pricing and managing debt and equity investments at the Bank of Montreal Capital Corp. and most recently as VP, Intergold Ltd. He holds an MBA from the University of Toronto.

### ANDRÉ TÉTREAULT, CGA

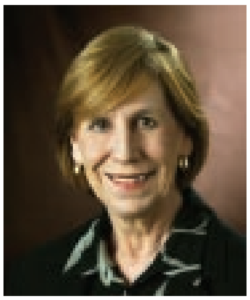
*VP, Risk Management.* Responsible for FCC lending and risk policies, André has 26 years of accounting, audit and operations management experience with several Federal Crown corporations, including CMHC and is a Certified General Accountant.

### NELSON TKATCH, B.COMM, B.SC.

*VP, Information Technology.* Responsible for FCC's information technology direction and deployment across our various functions and channels, Nelson has over 20 years of IT experience including senior leadership appointments across a variety of industry sectors including financial services. He has a B.Comm. and B.Sc. from McGill University.

# FCC's Board of Directors

FCC's Board of Directors is responsible for developing and approving the strategic direction of the corporation. The Board works closely with the Senior Management Team to ensure that FCC continues to meet the needs of customers and is addressing the challenges of today's agriculture industry. The individual members of the Board bring agricultural, financial and governance expertise and a dedication to agriculture to their roles.



## Rosemary Davis, Chair

*Chair since June 20, 2000*
*Director since December 19, 1995*

With over 20 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-Country Agromart Ltd. in Trenton, Ontario. She is also an associate of Terra International and Director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. Ms. Davis is active on many local and provincial agricultural committees and associations. She is a Director on the Board of Loyalist College and is a member of: the Fertilizer Institute of Ontario, Fertilizer Use Committee; the Ontario Federation of Agriculture; and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings Counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership to the Ontario Institute of Agrologists. She resides in Trenton, Ontario.

## Rashpal Dhillon

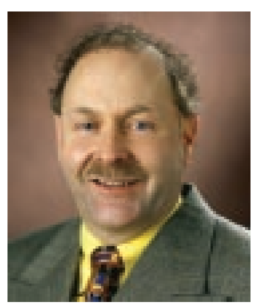
*Director since June 6, 1995*

Mr. Dhillon is the President and Chief Executive Officer of Richberry Farms, a cranberry and blueberry operation based in Richmond, British Columbia. He is also General Partner and Chief Executive Officer of a second cranberry operation, Pitt Meadows Farms Ltd., and director/owner of the Richview Golf Centre. Mr. Dhillon has served as a Director/Secretary of the Richmond Farmers Institute and the B.C. Cranberry Marketing Board. He has also been a Director/Vice-President of the B.C. Blueberry Co-operative and of the Richmond Foundation. In his community, Mr. Dhillon serves as a Director for the Canadian National Institute for the Blind.

## Robert M. Colpitts

*Director since November 27, 2001*

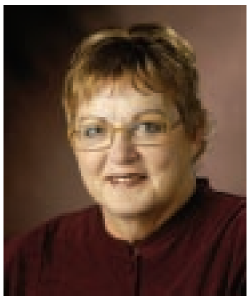
Residing in Fredericton, New Brunswick, Robert M. Colpitts has more than 30 years of experience in the agriculture industry. Formerly the Director, Animal Industry Branch, New Brunswick Department of Agriculture, he received the James Robb Award for Agrologist of the Year in 1997 and was inducted into the Canadian Hereford Honor Roll for outstanding service to the beef cattle industry in 1986. He holds a B.Sc. Agr. from McGill University (MacDonald College). Mr. Colpitts has made an important contribution to agriculture in New Brunswick through his leadership in several key agricultural organizations. Most notably, he served as Secretary-Treasurer, N.B. Fairs and Exhibition Association; Director, Maritime Beef Testing Society; member, New Brunswick Institute of Agrology; Director, Atlantic Winter Fair; and Secretary-Treasurer of both the N.B. Hereford Association and the N.B. Livestock Breeders Co-operative Ltd.



## Warren Ellis

*Director since April 4, 1995*

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



### Donna Graham

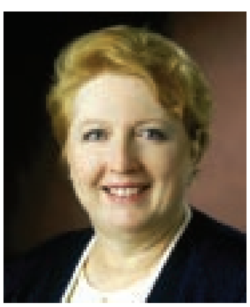
*Director since September 26, 2000*

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

### Maurice Kraut

*Acting Chair, Corporate Governance Committee*
*Director since April 13, 1999*

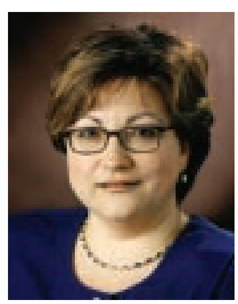
A co-owner and operator of a cattle and grain farm enterprise, Mr. Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut also served successful terms as a Research Director for the Canada Grains Council and as Assistant Deputy Minister of Agriculture in Manitoba.



### Eleanor M. Hart

*Chair, Human Resources Committee*
*Board representative on FCC's joint Pension Committee*
*Director since May 2, 1995*

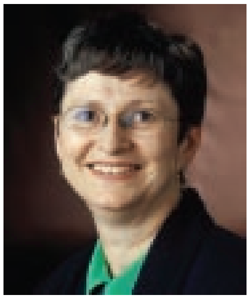
A farm partner and owner of Lokoja Farms in Woodstock, Ontario, Ms. Hart's previous experience in the industry includes serving as a Director of the Oxford County Federation of Agriculture and as a member of the Agricultural Research Institute of Ontario. Ms. Hart is also a Past-President of the Ontario Home Economics Association and a member of the Canadian Home Economics Association (CHEA).



### Marie-Andrée Mallette

*Chair, Audit Committee*
*Director since June 16, 1995*

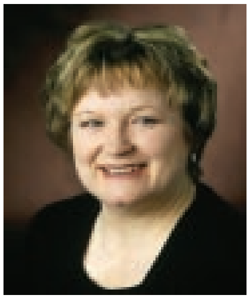
Ms. Mallette operates a large-scale commercial crops and coloured beans operation in Quebec. A lawyer for 16 years, Ms. Mallette has served as the Regional Director of the Quebec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers, and has provided advisory services to exporting companies and agricultural operations seeking equity financing. Ms. Mallette is active with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association.



## JOAN MEYER

*Director from January 11, 1995 to September 1996, reappointed on September 26, 2000.*

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



## MARILYN MARIE SCOTT

*Board representative of FCC's joint Pension Committee*
*Director since October 24, 1996*

A partner in Scott & Weber Law Firm of Humboldt, Saskatchewan, Ms. Scott specializes in agriculture law, wills and estates. She is a member and past Director of Women Entrepreneurs of Saskatchewan and past Chairperson of their Humboldt & District Chapter. In addition, Ms. Scott is a member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association.

## JOHN J. RYAN

*Director since September 1, 1997*

With more than 25 years of financial and managerial experience, Mr. Ryan has served FCC as President and Chief Executive Officer since September 1997. He is currently a member of the Board of Trustees of the Canadian Athletic Foundation, Chair of the Hospitals of Regina Foundation, member of St. Francis Xavier's Millennium project and is a member of the Adult Learning Centre Foundation Board. A strong proponent of community involvement, Mr. Ryan has worked extensively with the United Way of Regina, serving as a Co-Chair of the Regina 1999 United Way campaign, Chair for the 2000 Campaign and Chair for the 2001 Leadership Campaign. He also led the CEO Challenge for Habitat for Humanity in 1998 and 2001.

## GERMAIN SIMARD

*Director since June 6, 1995*

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was President of the Union des producteurs agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. Since then, Mr. Simard has served as Executive Vice-President of the Fédération des Agricotours du Québec and as President of their Saguenay-Lac Saint-Jean chapter. He is currently a member of the agri-food co-operative Nutrinor and of the Caisse populaire Desjardins.

# FCC BOARD REFLECTS GENDER EQUALITY

FCC strives to maintain diversity throughout its workforce and Board of Directors. FCC's Board includes representation from every region in Canada. Their expertise stems from diverse cultural and professional backgrounds. In addition, the Board maintains a gender balance that reflects the agricultural industry and customer demographics.

For these efforts, FCC was recognized in a March 27, 2002 *National Post* article: "Women gain 'slow and steady' ground in Canada's boardrooms." The article cites FCC as the fifth "best Canadian company with more than 35 per cent women directors." In addition to FCC's Chair, 50 per cent of the Board of Directors are women.

# Board stewardship

The Board of Directors is responsible for overseeing FCC's management and business in the best interests of the corporation and the long-term interests of the Government of Canada. The Board's responsibilities are set down in *Farm Credit Canada Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through the Audit, Corporate Governance and Human Resources Committees. As part of its overall stewardship, the Board:

- establishes and approves the strategic direction, corporate plan and budgets in co-operation with senior management;
- ensures that the principal business risks have been identified and that appropriate risk management systems are in place;
- conducts the annual CEO performance evaluation;
- ensures a management succession plan is in place; and
- ensures that information systems and practices meet the Board's needs for confidence in information integrity.

### Strategic direction, mandate and public policy objectives

In 2001-02, changes to FCC's governing legislation were introduced and passed. FCC's mandate was expanded to allow the provision of a broader range of financial services and products to farming operations and agribusiness. FCC is now authorized to provide business management services and products. FCC also may acquire equity interests in agriculture-related operations and incorporate subsidiaries of the corporation.

In 2001, as a result of the new legislation, the corporation's English name changed to Farm Credit Canada from Farm Credit Corporation and the French to Financement agricole Canada from Société du crédit agricole.

As part of the strategic planning process, the Board regularly examines FCC's strategic business and public policy objectives. The Board also approves FCC's Corporate Plan, Annual Report and budget summaries.

### Board composition

The Board of Directors is composed of 12 members including the Chair, President and Chief Executive Officer, and 10 directors. Eleven of the Directors, including the Chair, are independent of management and the Board has in place policies and procedures to ensure that Directors have the ability to exercise independent judgement with a view to the best interests of the corporation.

### Director appointment and renewal

The Governor-in-Council appoints the Chair as well as the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor-in-Council approval. Directors are appointed for terms of up to three years and are eligible for reappointment. FCC's Board members include successful primary producers and agribusiness operators from rural and small urban centres.

Approved Chair and Director profiles set out the desired qualifications, experience, duties and responsibilities of these positions. These profiles assist in succession planning for Board members and serve as a frame of reference when the government selects new candidates. The Board also periodically assesses its own composition to ensure the appropriate mix of expertise and background to meet the strategic needs of the corporation.

### Appointments

Robert Colpitts, from Fredericton, New Brunswick, was appointed as a Director on November 27, 2001, replacing Edward Clark, whose term expired.

### Board education

Each member of the Board receives a detailed orientation briefing upon appointment and meets with the senior executives of the corporation in order to become fully acquainted with its business and affairs. Direct access to members of FCC senior management also provides a source for ongoing education and information.

Board members also participate in developmental activities, including attendance at educational seminars sponsored by the Conference Board of Canada and periodic sessions with governance experts. In particular, the Board engaged the services of leading Canadian corporate governance expert Patrick O'Callaghan of Patrick O'Callaghan & Associates to provide training on "Boards Which Add Value." As part of this training, Harold MacKay, QC, former Chair of the Taskforce on the Future of the Canadian Financial Services Sector and Lead Director of the Bank of Canada, shared his considerable experience in corporate governance. In addition, the Board attends regular briefing sessions on matters relevant to its members. The first of these sessions was held in March 2002 on the topic of financial reporting.

### Loans where Directors may have a material interest

Knowledge of the agricultural industry is often a key attribute of FCC Board members. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, become FCC customers.

As a matter of governance practice, the Board is not involved in the approval of any FCC loans, their terms, conditions or interest rates. A defined process to formally distance Directors from any involvement in a particular loan has been clearly set out by the Board Policy Governing Loans Where A Director Has A Material Interest, that was enhanced on December 6, 2000. The policy states that any such loan or material contract where a Director may have an interest shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to either.

In addition, the bylaws of the corporation, the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders provides that Directors must disclose any interest in, and refrain from voting or making representations with respect to any material contract with the corporation.

# Audit Committee

**Chair:** Marie-Andrée Mallette
**Members**: Rosemary Davis
Donna Graham
Joan Meyer
Maurice Kraut
Germain Simard

The Audit Committee, composed entirely of non-management Directors, oversees FCC's financial performance and reviews the corporation's financial and operational reporting systems, internal control systems, audit programs and integrated risk management processes. Recommendations are brought to the attention of the Board as required. This Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General, FCC's auditors.

During the 2001-02 fiscal year, the Audit Committee met five times and carried out its mandate in four key areas:

- approved the 2000-01 Financial Statements, Annual Report and quarterly financial results for fiscal year 2001-02;
- approved the 2000-01 annual corporate audit plan and all final audit reports issued, as well as the status of actions taken by management to address areas requiring improvement;
- approved Board and CEO expense reports for fiscal 2001-02; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 2000-01, as well as the plan for the 2001-02 annual audit.

Additional results:

- The Committee approved a new Charter for the Committee. This Charter incorporates the recommendations of the Standing Committee on Public Accounts review of the December 2000 Report of the Auditor General of Canada (*Governance of Crown Corporations*). This Charter was received by the Board at the March 27, 2002, Board meeting; and
- The Office of the Auditor General (OAG) will be conducting its third Special Examination of FCC during 2002. In January 2002, the Audit Committee participated in a presentation from the Office of the Auditor General that provided an overview of the Special Examination Process. Preparation by the OAG's office is underway and the Special Examination audit plan was presented to the Audit Committee in May 2002.

# Board Committees

## Human Resources Committee

**Chair:** Eleanor M. Hart
**Members:** Rosemary Davis
John J. Ryan
Rashpal Dhillon
Warren Ellis
Marilyn Marie Scott
Joan Meyer

The Human Resources Committee's primary responsibility is to review all major FCC human resource policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on human resource development plans and succession plan frameworks for all management positions at the corporation and evaluates the performance of the Chief Executive Officer. It oversees the employment equity and official language policies of the corporation and the design, objectives and competitiveness of FCC's compensation plans. The Committee monitors the funding, performance and administration of the newly created Solstice pension program. The Committee also monitors the corporation's Human Resource Index survey of employee satisfaction and subsequent action plans.

During this fiscal year, the Human Resources Committee met five times and carried out the following activities:

- established the CEO's objectives for 2001-02 and evaluated performance for the 2000-01 fiscal year;
- examined the corporation's compensation policies and reviewed the annual market compensation survey to ensure appropriate and competitive remuneration for FCC employees;
- assessed the corporation's performance in the areas of official languages and employment equity;
- reviewed the 2001 Human Resource Index survey action plans and progress;
- monitored the final stages of the implementation of FCC's Solstice pension program, including the approval of a governance structure;
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions; and
- began the process of reviewing and updating the Human Resources Committee Charter.

## Corporate Governance Committee

**Chair:** Maurice Kraut*
**Members:** Rosemary Davis
John J. Ryan
Robert Colpitts
Marie-Andrée Mallette
Marilyn Marie Scott

The Corporate Governance Committee provides a focus on Board governance, as well as assesses corporate values and the elements that facilitate its effectiveness. The Committee:

- manages and recommends enhancements to the corporation's system for corporate governance;
- advises the Board of any governance issues or processes that need to be considered by the Board or any of its committees; and
- makes recommendations on accountability statements for the roles of the Board, Chair, Board members, Committee Chairs and the Chief Executive Officer.

During this fiscal year, the Corporate Governance Committee met five times and carried out the following activities:

- began the process of reviewing and updating the Corporate Governance Committee Charter;
- as a result of the change in legislation, amended the bylaws of the corporation to reflect the new name, Farm Credit Canada/Financement agricole Canada, and engaged in a broader review to update all bylaws. This review will be completed in the next fiscal year;
- reviewed the roles and responsibilities of the Committee with respect to new lines of FCC business made possible by the corporation's new legislation, specifically complementary services and venture capital; and
- reviewed the level of Board remuneration and made a recommendation to the Board.

* *Maurice Kraut is acting as the interim Corporate Governance Committee Chair as a result of the departure of Edward W. Clark, whose term as Director expired in 2001.*

# Board and management relations

A Board's ability to work closely with management and simultaneously function with an independent perspective is key to effective corporate governance. FCC's Board strives to develop a strong working relationship with all members of senior management. In turn, it expects FCC management to implement the corporation's strategy and business plan and to keep the Board apprised of its activities.

In conjunction with the Chief Executive Officer, the Board also ensures that an appropriate allocation of responsibilities between both parties occurs. In addition, the Board establishes clear accountability including a set of corporate objectives and an evaluation framework for the CEO.

Throughout the year, the Board of Directors has maintained a commitment to open communication with management. Members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis.

## PENSION COMMITTEE

Last fiscal year, FCC withdrew from the Public Service Superannuation Act (PSSA) pension plan and established Solstice, FCC's own employee pension plan. This fiscal, employee PSSA pension funds were transferred from Treasury Board to FCC's pension plan. Two Board members sit on the FCC Pension Committee and, following a defined governance structure, directly oversee the administration, as well as the investment policies of the plan. In addition to Board representation, the FCC Pension Committee also includes senior management and elected employee representation.

## ACTIONS REQUIRING BOARD APPROVAL

Historical Board practice and accepted legal practice has established a clear understanding between management and the Board of Directors that all matters of a material nature must be presented to the Board for approval. The Board bylaws state that Board approval is required for all major corporate policies, the Corporate Plan, budget and financial statements.

# Board remuneration

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

Following a thorough review of remuneration levels for Governor in Council appointees to Crown boards and agencies, the Privy Council established new remuneration guidelines during the last fiscal year. Pursuant to Ministerial recommendations, the Governor in Council subsequently approved adjustments to Board member remuneration.

The new rates were approved on April 5, 2001. The rates were made effective retroactive to October 1, 2000, and are as follows:

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended. Committee Chairs receive an annual retainer of $6,400 and $375 per day for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Per diems are paid for time spent performing Board business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee.
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties. These expenses vary from Director to Director according to committee responsibilities and distance traveled to participate in Board meetings.

| Director | Board retainer (A)[1] | Per diems (B)[1] | Total remuneration (A&B) | Board meeting attendance[2] (%) | Committee meeting attendance[3] (%) | Board expenses |
|---|---|---|---|---|---|---|
| Edward W. Clark[4] | $ 5,225 | $ 6,900 | $ 12,125 | 100 | 100 | $ 11,868 |
| Robert M. Colpitts[5] | 1,800 | 4,875 | 6,675 | 100 | 100 | 11,461 |
| Rosemary Davis | 12,950 | 10,845 | 23,795 | 100 | 100 | 17,678 |
| Rashpal Dhillon | 6,350 | 8,250 | 14,600 | 88 | 100 | 11,981 |
| Warren Ellis | 6,350 | 10,275 | 16,625 | 100 | 100 | 20,435 |
| Donna Graham | 6,350 | 11,700 | 18,050 | 100 | 100 | 11,455 |
| Eleanor M. Hart | 7,475 | 10,350 | 17,825 | 100 | 100 | 15,133 |
| Maurice Kraut | 6,683 | 7,350 | 14,033 | 75 | 100 | 4,315 |
| Marie-Andrée Mallette | 7,475 | 9,975 | 17,450 | 100 | 100 | 18,365 |
| Joan Meyer | 6,350 | 7,687 | 14,037 | 88 | 100 | 4,751 |
| Marilyn Marie Scott | 6,350 | 7,200 | 13,550 | 100 | 80 | 3,199 |
| Germain Simard | 6,350 | 10,050 | 16,400 | 100 | 100 | 19,806 |
| **Total** | **$ 79,708** | **$ 105,457** | **$185,165** | **8 meetings** | **5 meetings** | **$150,447** |

*1) Column A (Board retainer) and column B (Per diems) include retroactive amounts paid for the period of October 1, 2000, to March 31, 2001, in the total amounts of: $12,025 Board retainer and $9,240 per diems. 2) There were five Board meetings and three Board teleconferences. 3) 15 committee meetings were held: five Audit, five Human Resources and five Corporate Governance. 4) Edward W. Clark's term expired on November 27, 2001. 5) Robert M. Colpitts' term began on November 27, 2001.*

# Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

**Enterprise**
Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

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

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

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

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

**Impaired loans**
Loans where, when in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

**Integrated risk management**
The coordination of risk mitigation efforts to enhance the risk culture of the organization.

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

**Interest expense**
Expense to the corporation incurred from the use of interest-bearing funding instruments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# FCC Office Locations

## Alberta

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

## British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna

## Saskatchewan

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

## Manitoba

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

## Ontario

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

## Quebec

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

## New Brunswick

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

## Newfoundland and Labrador

Mount Pearl, St. John’s

## Nova Scotia

Kentville, Truro

## Prince Edward Island

Charlottetown, Summerside

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