Meet, exceed, anticipate.

Farm Credit Corporation
2000-01 Annual Report

Meet, exceed, anticipate

Meet, exceed, anticipate

To not only meet, but exceed customer expectations – that's how we at FCC judge our success. But exceeding expectations isn't enough to ensure the success of the Canadian farmers and agribusiness owners who do business with us. We must anticipate their needs and offer them unique solutions.

Photography provided by Paul Austring and Greg Huszar with the exception of the Strategic Plan photograph, taken by Darrel Kajati.

CORPORATE

Profile

Farm Credit Corporation (FCC) is Canada's largest agricultural term lender, offering flexible financial solutions to primary producers and agribusinesses. Corporate office is located in Regina, Saskatchewan, with 900 employees serving customers from 100 offices across Canada. The number of customers we serve has grown to 44,700 and the loan portfolio to $6.9 billion in the past year.

Corporate values

At FCC, our corporate values are the foundation of our collective beliefs and guide our corporate conduct with colleagues and customers. They reflect our business strategies and our customers' expectations.

- Focus on the customer
- Act with integrity
- Work together
- Give back to the community
- Achieve excellence

Above: FCC customers Réjean & Bernard Barrette
On the cover: FCC customers Derek & Debbie Scott

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

Enhance rural Canada by providing specialized financial services to farming operations – including family farms and small to medium-sized agribusiness – with an emphasis on personalized service.

Contents

OPERATIONAL and FINANCIAL

2000-01 Highlights

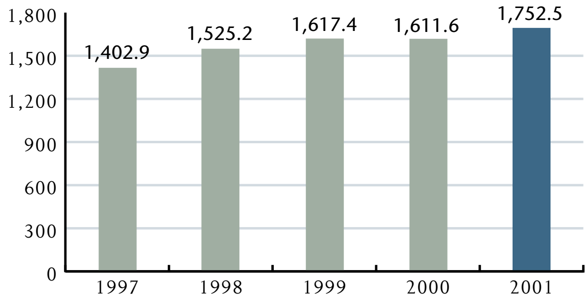
FOR THE YEARS ENDED MARCH 31

Operational	2001	2000	1999	1998	1997
Loans receivable portfolio					
Number of loans	**75,202**	73,686	72,311	69,846	65,318
Amount ($ millions)	**6,907.6**	6,303.8	5,843.4	5,318.8	4,687.0
Net portfolio growth (%)	**9.6**	7.9	9.9	13.5	15.3
Percentage of loans receivable in good standing (%)	**95.5**	94.9	94.8	94.3	93.1
New lending					
Number of loans approved	**13,289**	14,201	14,880	15,488	12,910
Amount of loans approved ($ millions)	**1,752.5**	1,611.6	1,617.4	1,525.2	1,402.9
Average size of loans approved ($)	**131,875**	113,500	108,700	98,500	108,700
Real property held at year end					
Number of properties	**372**	924	1,516	1,787	1,982
Number of acres	**120,924**	360,284	604,054	725,703	823,841
Value ($ millions)	**25.1**	64.9	103.4	123.5	139.6

Financial	2001	2000	1999	1998	1997
Balance sheet ($ millions)					
Total assets	**7,181.8**	6,570.7	6,125.1	5,706.2	5,022.4
Total liabilities	**6,349.2**	5,943.5	5,533.2	5,156.9	4,564.7
Equity	**832.6**	627.2	591.9	549.3	457.7
Income statement ($ millions)					
Net interest income	**164.5**	154.4	146.3	134.1	141.7
Provision for credit losses	**40.2**	52.7	33.2	18.7	24.0
Net lease and real estate income	**23.2**	23.0	14.7	13.0	7.1
Other income	**8.2**	6.4	7.1	8.8	5.8
Administration expenses	**94.5**	90.8	90.1	89.4	83.4
Current income taxes	**2.2**	1.9	2.2	6.2	6.6
Future income taxes	**27.4**	–	–	–	–
Net income for the year	**31.6**	38.4	42.6	41.6	40.6

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

Loans approved ($ millions)



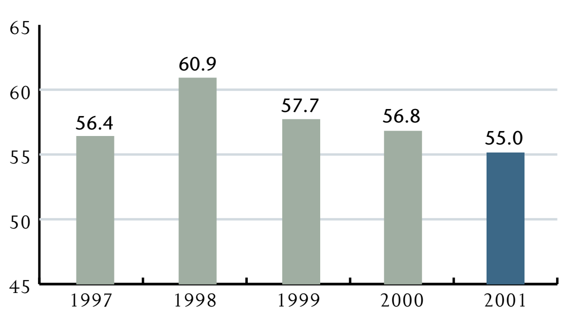
Operational highlights

- Approved $1.8 billion in new loans
- Eighth consecutive year of portfolio growth at 9.6 per cent in 2000-01
- Sold 249,116 acres of land back to producers
- Initiated e-business project to improve service to customers
- Launched AgriSuccess program

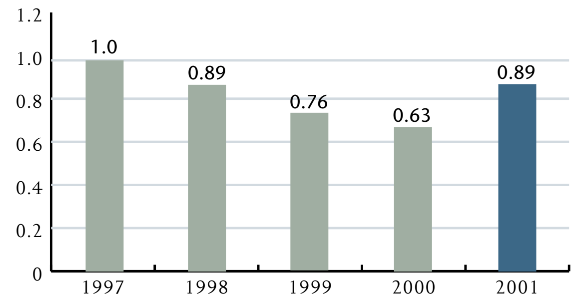
Financial highlights

- Return on equity and return on assets increased due to higher net interest income offset slightly by increased administration expenses
- Continued strong earnings generating increased capacity for lending
- Allowance for credit losses increased by $19.5 million, reflecting a larger portfolio
- Debt-to-equity improved, enabling FCC to reinvest in agriculture and continue to grow the balance sheet
- Efficiency ratio improved to 55.0 per cent from 56.8 per cent

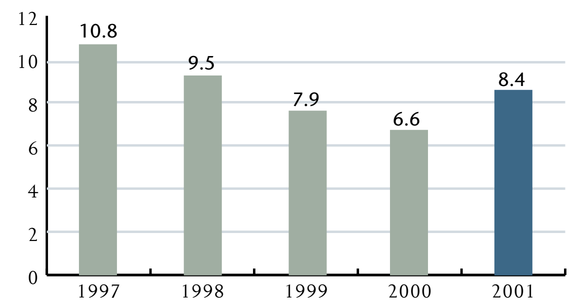
Efficiency ratio (%)



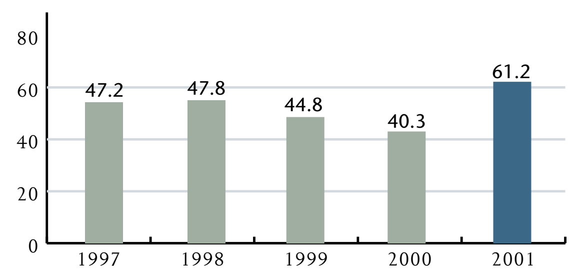
Return on assets* (%)



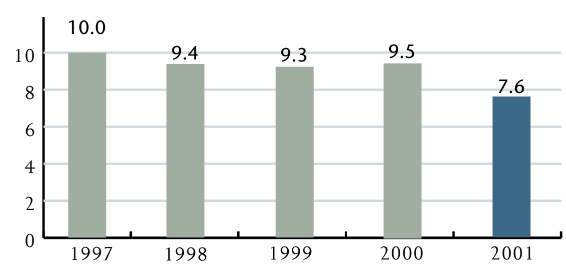
Return on equity* (%)



Net income* ($ millions)



Debt-to-equity (X:1)



** before income taxes.*

MESSAGE from the

President

The success of the Canadian agricultural industry has always been tied to its ability to adapt, change and innovate according to market and environmental conditions. This year has been no different. FCC has continued its tradition of working with producers, agribusinesses and the agricultural industry.

FCC's account managers worked with customers on an individual basis to develop innovative financial solutions during adverse market and weather conditions. We also helped customers capitalize on new market opportunities in the many sectors that experienced an excellent year.

Our specialized expertise continues to help customers navigate the challenges created by world trade issues, increased energy and input costs and continuing climatic fluctuations.

How do we know we help? We survey our customers, our partners and the agricultural community and use the results to benchmark and enhance our services. This year, we discovered that a high percentage of our customers would recommend FCC to others and that even more consider us their preferred lender.

This is great feedback. But we cannot become complacent. We continue to innovate.

FCC launched an industry first this year. Enviro-Loan is the first Canadian loan to offer producers and agribusinesses targeted financing to construct, improve or expand operations according to sound environmental practices.

Manitoba customers told us that they needed an easier way to expand their business in the cyclical hog industry. We introduced Flexi-Hog, a national loan product that features principal payment flexibility that meets their needs.

We heard from Canadian Farmers with Disabilities that Canadian producers required more accident insurance protection. We enhanced the FCC creditor life insurance program.

FCC's focus on customers and innovation has contributed to eight years of solid financial returns.

In 2000-01, our loan portfolio grew to a record level of $6.9 billion and our return on equity (before income taxes) increased to 8.4 per cent as at March 31, 2001. We also increased the number of customers served across Canada to 44,700.

As a Corporation, we continue to challenge ourselves on ways to become more efficient. This has resulted in an improved efficiency ratio of 55 per cent. The improvement in our financial performance is important as it helps us strengthen our contribution to the agricultural industry. Profits earned are reinvested into agriculture through innovative product development and by self-financing our portfolio growth.

One example is our investment in AgriSuccess. With our AgriSuccess partners, we developed interactive life cycle and business planning tools for producers across Canada.

Our customers and the agricultural industry also told us that they wanted to do business with us on their terms and during times that are convenient to them. That's why, this year, we complemented our coast-to-coast market presence of 100 offices with a redesigned Web site that is better geared to customer needs. Our investment into our Web site is the first step in a significant e-business initiative that will provide our customers with integrated delivery channels to better meet their information and business needs.

We put our employees' agricultural expertise to work for customers.

Specialized expertise is our greatest strength and we draw this strength from our uniquely talented employees. Many of them have their roots in agriculture and understand the challenges that face our customers.

FCC has made a commitment to ongoing learning for all its employees throughout their careers. Every year, all levels of management participate in specialized management training. FCC also offers a succession-planning program that gives tomorrow's leaders the tools they need to ensure FCC's future success.

FCC's investment in employees included ongoing credit and financial training. In addition, every year more and more employees and managers participate in FCC's linguistic training. This allows us to better serve our customers by making the Corporation more fluent in Canada's two official languages.

As a result of this investment in people, FCC employees have continued to strengthen their expertise. They developed and implemented a number of process and operational improvements, such as new risk management tools and streamlined lending practices. These efforts have complemented their strong relationships with customers that differentiate us in the marketplace. Again this year, FCC people are responsible for our success and this is but one opportunity to acknowledge and thank them for their passion and their efforts.

FCC believes in a balanced scorecard approach to business. From human resources and customer loyalty to quality improvement and financial success – we pay equal attention to each individual element. We also reviewed our corporate values to ensure they continue to focus on the customer. The result is a financially viable corporation and a net benefit to our customers and stakeholders.

Our innovations this year are making it easier for our customers to do business with us by phone, by personal visit or through the Internet. FCC will continue to provide the agricultural community with financial solutions that meet, exceed and anticipate its needs. Together we can enhance rural Canada by ensuring the long-term viability of agriculture.

Agriculture. It's all we do.

John J. Ryan
President and CEO

MESSAGE from the Chair

The typical Canadian farm doesn't exist. What motivates and challenges producers is as varied as the regions and sectors in which they live and work. Economic and market conditions, climate and life-cycle stage influence every decision.

FCC recognizes these differences and serves Canadian agriculture with specialized financial expertise. As Canada's largest agricultural term lender, we are uniquely positioned to provide leadership and contribute to the success of the Canadian primary producer and agribusiness.

It was with a high sense of responsibility that I accepted the position of FCC Chair in June 2000 after six years as a member of the Corporation's Board of Directors. Like all the members of the Board, I have a strong personal and professional stake in the success of Canadian agriculture. We recognize that to lead the way in agricultural financing, FCC must also give back and contribute to the success of our communities.

FCC's mission is to enhance rural Canada. We take this public policy role very seriously. It begins with responsible financial management of FCC operations. The Board works with management to ensure that day-to-day business practices, as well as long-term strategies, are aligned with the needs of stakeholders and with the customers we serve.

Beyond meeting immediate needs, we must also anticipate and exceed expectations. An example is AgriSuccess. This year, FCC partnered with public and private sector organizations from all regions of the country. Together we created an interactive Web and local seminar-based business planning tool. This initiative offers life cycle, succession and retirement planning, and helps with business and environmental management. AgriSuccess is one way we are leading the way in agriculture by partnering to provide previously unavailable services to the entire agricultural community.

Giving back to our community

FCC continues to demonstrate leadership through its involvement with the Canadian Centre for Philanthropy's *Imagine* Program. As a member, FCC donates one per cent of pre-tax annual income to charitable and not-for-profit community organizations.

FCC's commitment to the success of the Canadian farm extends beyond our business relationships. It includes the wellbeing of our customers and the quality of life in rural communities. This year, we continued to partner with like-minded local community and national organizations. Our focus this year was on activities that raised awareness of farm safety and food and hunger issues.

Every year, tractor accidents take a great toll on the family farm. Tractor rollover protection and seatbelt use was the focus of the 2000 National Farm Safety campaign. FCC worked with the Canadian Coalition for Agricultural Safety and Rural Health and the Canadian Federation of Agriculture to provide valuable educational resources on this and other important farm safety issues.

Looking to the future, FCC once again partnered with the Canadian 4-H Council to inspire and develop tomorrow's agricultural leaders. We awarded scholarships for creative initiatives that would benefit rural communities.

None of our giving back to the community would have been possible without the efforts of FCC employees. Across Canada, FCC people contributed their time, money and expertise to local programs such as food banks, school breakfast programs, the United Way and other community support organizations. They've made a difference in their own communities.

Partnering with industry

The ongoing success of FCC and commitment to its vision is thanks, in part, to the vision and direction of Donald W. Black, who stepped down as FCC Chair in May 2000. I would also like to take this opportunity to welcome two new Board members, Donna Graham and Joan Meyer, who are actively involved in farming.

A significant part of this vision includes FCC's proposed legislative amendments. In 2000, FCC consulted with more than 100 national and regional agricultural and financial industry groups to determine their views on the financial needs of agriculture. Using this feedback, we proposed changes to the *Farm Credit Corporation Act*, 1993. In April 2001, the amendments were tabled in the House of Commons and have yet to receive royal assent. These changes would position the Corporation to better serve the emerging needs of Canadian agriculture. They can help build a stronger, more diversified agricultural industry and contribute to sustained economic growth and job creation in rural Canada.

Through these amendments, FCC would continue to focus the majority of its activities on primary producers. At the same time, we would improve access to capital for farm-related businesses that benefit primary agriculture. We would also increase the range and scope of financial and business services we offer to customers.

FCC's Board of Directors is mindful that agriculture and the Canadian family farm will prosper through focus on the fundamentals of good business. We see tremendous opportunities. FCC will continue to work in partnership with our primary producer and agribusiness customers and our stakeholders to contribute to the fulfillment of these opportunities and the long-term success of Canadian agriculture.

Respectfully submitted on behalf of the Board of Directors.

Rosemary Davis

Rosemary Davis
Chair

MESSAGE from the Minister

Agriculture is rapidly changing and becoming increasingly complex. What happens past the farm gate and beyond our borders is having a profound impact on the Canadian agricultural industry and our rural communities. Not only are Canadian producers and agribusinesses challenged by market, economic and climatic forces, but they must also ensure that their products are of the highest quality, are safe and produced in an environmentally responsible fashion.

Canada has an international reputation for the quality and safety of its agricultural products. Maintaining and enhancing this reputation is crucial. The Government of Canada believes in the value and sustainability of agriculture and has worked diligently with its partners to address issues, such as farm income, that continue to challenge the industry.

FCC is a valued partner and leader in this industry. The Corporation continues its vital role of offering specialized expertise and financial solutions solely targeted to agriculture. FCC's success this year comes from a commitment to help customers overcome challenges and seize market opportunities.

I am proud of FCC's contribution to Canadian agriculture through new products and services that truly meet and exceed the needs of producers. I also support the Corporation's efforts to work in partnership with other agricultural and financial organizations to increase access to services across rural Canada. I believe that the Corporation is moving steadily toward the realization of its vision – to lead the way in agricultural financing.

The Honourable Lyle Vanclief
Minister of Agriculture and Agri-Food

Producers plan for the future with AgriSuccess

In the next 10 years, an estimated 120,000 Canadian farmers will turn 65. According to a recent Ontario study, less than five per cent of producers in that province have a written succession plan.

To help Canadian producers plan for their future, FCC has partnered with public and private sector organizations to launch AgriSuccess, a comprehensive resource to help farmers plan for the long term. AgriSuccess features an interactive Web site and a series of planning seminars.

At www.agrisuccess.ca, producers can access information and services in areas vital to long-term success:

- business, strategic and contingency planning;
- environmental planning; and
- succession, retirement and estate planning.

The site is free to all visitors and gives producers feedback on the state of their planning.

To create AgriSuccess, FCC partnered with organizations including the Canadian Farm Business Management Council, Grant Thornton LLP, KPMG LLP, Meyers Norris Penny LLP, ProAgri Consulting Limited, Robinson & Company LLP and Union des producteurs agricoles. FCC sought partners to represent all regions of Canada and all areas of planning.

AgriSuccess is a result of a decision by the Minister of Agriculture and Agri-Food and FCC to reinvest a portion of the Corporation's 1999-2000 net revenues in agriculture. The initiative supports FCC's public policy role to enhance rural Canada.

To find out more about AgriSuccess, visit www.agrisuccess.ca.

Operating Environment

Freer trade, globalization and technology are redefining the agricultural industry. These forces are creating new export opportunities for Canadian producers and an environment that is increasingly competitive.

Producers and agribusinesses face a complex set of challenges when compared to their predecessors. To succeed in today's environment, it is necessary to be positioned to take advantage of the opportunities in the marketplace. In responding to market needs, producers are expanding their agricultural operations, delving into new product lines and creating new businesses that add value to the agricultural industry. With the effects of globalization and freer trade, producers have more access to markets and opportunities, but they are also exposed to more risk than ever before.

Consumers are driving the need for efficiencies, as well as the increasing importance of food safety and concern for the environment. Consumers want to know what's in their food and how it's produced. Consumer confidence in the origin, content and handling of food has become a key driver in global markets. Diseases in livestock and produce can have a dramatic economic impact.

Subsidization in other countries is affecting the competitiveness of Canadian agricultural products in world markets. Commodity prices combined with steadily increasing costs of seed, feed, fertilizer, fuel and transportation are creating a cost-price squeeze for many producers. Narrower operating margins mean producers are faced with the challenge of attaining greater efficiency and diversification in their operations by expanding along the value chain or achieving economies of scale. This is resulting in a redefinition of what it means to be a farmer.

New markets and new **ways** of doing things.

Redefining the boundaries of agriculture

"In the face of a changing economic environment, farm families are challenging themselves to explore new markets and new ways of doing things. They need access to more complex business and financial management tools to succeed."[1]

Family farms remain a vibrant part of the Canadian agricultural landscape. Today's producers are focused on their markets, specific customers and product differentiation. This focus is influenced by increased demand for consumer-ready products. In Canada, annual exports of consumer-oriented agri-food products have grown to $9.1 billion in 1998 from $5.4 billion in 1996, making food and beverage processing Canada's second largest manufacturing sector.

Producers are exploring alternatives to traditional production and marketing methods in order to increase their competitiveness and access to markets. They are using new equipment and technology to reduce labour costs and increase productivity. E-commerce and e-business are having a positive impact on value-added production, creating better management of the links between supplier and buyer and breaking down distance and time barriers, as well as other obstacles to business and trade. Alliances, partnerships, mergers and fall-outs are occurring as producers explore new ways of doing business.[2]

Financing and business planning key to competition

"Primary producers are rethinking the nature of the business they are in. They can be expected to move further down the value chain into processing and marketing of niche products.... Agriculture can be and must be more than just food.... We need to look at how producers, processors and other investors can better work together to capture these opportunities."[3]

Many producers need to expand or diversify if they are going to compete in world markets. Farmers must continue such investments in response to growing food safety and environmental concerns or risk losing access to international markets and the confidence of Canadian consumers.

Access to the right financial and business management tools is key to success in the new agricultural marketplace. Beginning and developing producers require access to information to anticipate the needs of the marketplace, and access to capital to respond to those needs. Farmers with off-farm employment supplementing their income will require access to solutions geared for their special business needs.

Commercial farmers (producers entering agribusiness, large commodity producers and dedicated traditional commodity producers) will require specialized products and services such as leading-edge financing instruments like risk management tools and specially designed lending products.[4] Business planning expertise is a necessity for both producers and agribusinesses to ensure strategic growth in an industry driven by consumer demand and affected so heavily by environmental forces.

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1 Bob Friesen, President, Canadian Federation of Agriculture, May 11, 2001.

2 Diane Vincent, Associate Deputy Minister, Agriculture & Agri-Food Canada, E-Commerce for Agribusiness Conference, Chicago, Illinois, October 12, 2000.

3 Agriculture and Agri-Food Canada, "The Agriculture and Agri-Food System in 2010."

4 Ray Bollman, Statistics Canada, "Rural and Small Town Canada : An Overview, 2000."

Financial services industry transforming

Financial institutions are a key partner in the development of Canadian agriculture, and we are witnessing an unprecedented transformation of the financial services industry. The need to balance customer service delivery with efficiency and increased shareholder value is being addressed through the delivery of creative, customer-focused solutions and technological innovation. Customers can access financial services through the Internet, automated banking machines, telephone banking or the local branch.

As a result of Bill C-8 (financial services reform legislation), the level of competition will likely increase in the industry with more product suppliers and new product offerings. Credit unions, provincial lenders and other business solutions providers have a strong role to play in rural Canada. Partnerships among these different stakeholders will support the agricultural sector with improved products and services that address the needs of the industry and individual producers.

FCC sees a gap in financing for producers and agribusiness operators seeking to expand the boundaries of agricultural production. Our role as a federal Crown corporation dedicated to agriculture is to help create an environment conducive to growth. The Corporation is committed to working with credit unions, provincial lenders, other financial institutions and business solutions providers to equip Canadian producers with the resources they need to be competitive.

Financial industry **partnerships** increase options for **producers**.

BALANCED

Scorecard

A balanced approach to meeting and anticipating customer needs

At the core of every decision and business activity undertaken at FCC is the question, "How does this benefit our customers?"

FCC measures progress through a system called the "balanced scorecard," which translates FCC's vision into measurable strategic 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:

Human resources and organization

FCC staff are known for their agricultural expertise and their passion for agriculture and seeing our customers succeed. Focusing on employee development and a positive workplace environment leads to productivity to the benefit of customers.

Customer loyalty and market presence

FCC continually strives to provide primary producers and agribusinesses with financial solutions that enable them to succeed.

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.

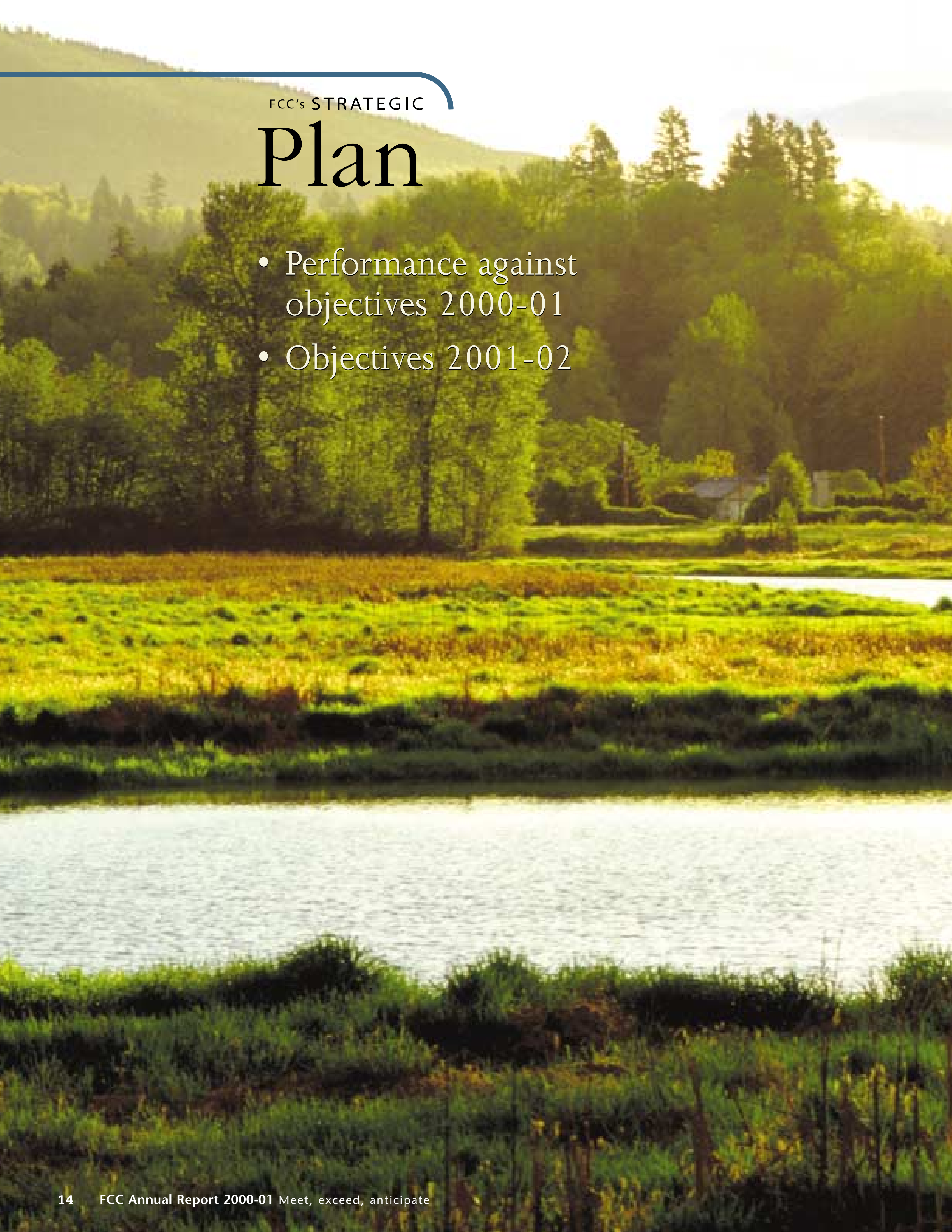
Financial success

Sound financial management of the Corporation enables FCC to continue meeting, exceeding and anticipating the needs of producers and agribusinesses.

FCC's balanced scorecard objectives

FCC's STRATEGIC

Plan



- Performance against objectives 2000-01
- Objectives 2001-02

Human Resources and Organization

Unique people leading our success.

STRATEGIC INITIATIVES 2000–01

Inspire innovation by encouraging individual leadership and recognizing contributions.

- Innovative ideas generated through staff with realized savings.
- Employee participation in designing processes which lead to efficiency gains.

Improve factors impacting employee satisfaction.

- Improve the annual employee satisfaction survey (Human Resource Index) results.
- Voluntary turnover rate of less than 10 per cent.
- Fully meet linguistic obligations to staff as defined by the *Official Languages Act*.

Develop expertise by supporting a learning environment.

- Learning retention of 85 per cent as measured through follow-up process.
- Invest 3.5 per cent of salary budget in training and development.

2000–01 RESULTS

- Innovative ideas generated by staff in 2000-01 included:
  - development of Flexi-Hog product based on ideas from Manitoba field staff;
  - launch of a pilot project to market FCC's medium- and long-term notes to rural Canadians;
  - design and implementation of an intranet to improve access to sector and regional information;
  - implementation of a land-for-sale database accessible through FCC's Web site to reduce general inquiry calls.
- Employees participated in the testing and validation of new lending and loan administration processes, redesigned in the previous year, and in the redesign of human resources processes.
- January 2001 Human Resource Index (HRI) survey results show a statistically significant increase in all 15 factors, with an overall increase to 3.50 from 3.36 in 1999 on a scale of one to five.
- The annualized voluntary turnover rate of permanent employees, excluding retirements, was 8.05 per cent.

Customer Loyalty and Market Presence

Create solutions for customer success.

STRATEGIC INITIATIVES 2000-01

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

- Disburse $1.2 billion to primary production.
- Achieve $230 million in disbursements to agribusiness.
- Implement the Customer Relationship Management (CRM) strategy by March 31, 2001.
- Establish Customer Loyalty Index (CLI) benchmark by March 31, 2001.
- Establish FCC Brand Equity benchmark by March 31, 2001.

Enhance existing and develop new channels for service delivery.

- Disburse $200 million via strategic alliances, including $27 million in disbursements through the National Equipment Dealer Financing Program (NEDFP).
- Develop the corporate service delivery channel strategy by January 1, 2001 for implementation in 2001-02.
- Implement an e-business strategy by March 31, 2001.

Anticipate customer needs and respond with:

- two new fee-based solutions
- five new interest-based solutions (one national, two regional, two niche)

2000-01 RESULTS

- A total of $1.28 billion was disbursed to primary producers.
- $235.5 million was disbursed to agribusiness customers.
- A CRM strategy was created in 2000-01 as the first step in making our corporate Customer for Life strategy operational.
- FCC's first CLI resulted in action plans at the district level and will be used to design a customer retention strategy operation.
- FCC measured brand equity of the Corporation and its services with customers and agricultural operators and established benchmarks.
- Total of $253.6 million was disbursed via alliances, including $15.7 million disbursed through the NEDFP.
- FCC identified a strategic direction for ensuring that all customers receive high-quality service, no matter how they choose to interact with us (face-to-face, telephone, Internet).
- Implementation of FCC's e-business strategy began in 2000-01.
- Two new fee-based solutions were introduced:
  - In May 2000, FCC launched an enhanced creditor life insurance program that includes accidental dismemberment and early payout options.
  - Processing fees were added to personal property loans, allowing FCC to continue to offer competitive interest rates to customers.

- In 2000-01, 78 employees at all levels of the organization were enrolled in language training. For the first time, satisfaction with the provision of services in language of preference was measured through the HRI, with a result of 4.68 out of five.
- Learning retention rate measured for internal courses including credit, appraisal and system training was 83 per cent.
- A total of 4.47 per cent of salary budget was invested in training and development in 2000-01. This does not include travel expenses incurred by staff while attending training.

OBJECTIVES 2001–02

Inspire innovation.

- Launch an innovation program that will inspire employees to generate ideas for new products, services and efficiency gains.
- Innovations will result in increased customer and employee loyalty, increased revenues, reduced costs or improved efficiency.

Continuously improve factors contributing to employee satisfaction.

- A statistically significant improvement from January 2001 HRI.
- Attraction and retention strategies implemented to assist in maintaining the voluntary turnover rate at less than 10 per cent.
- 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 per cent of corporate salary budget invested in training and development.
- Identify corporate competencies required to advance the Customer for Life strategy and establish a plan for their development.
- Ten industry expert teams established to build on specialized knowledge and better meet customer needs.

- Five new interest-rate products were launched in 2000-01 (two national, one regional and two niche):
  - National Enviro-Loan supports producers implementing environmental enhancements to their operations. $3.9 million was provided to producers under this program.
  - AgriSuccess, a life-cycle planning initiative with business partners across Canada, encourages producers and agribusinesses to incorporate succession and other types of planning into their business operations.
  - A pre-approved product targeted to the Quebec market was launched.
  - Flexi-Hog loan helps producers plan for the cyclical nature of the pork industry. Producers borrowed $19.7 million through this loan product.
  - A special loan for Saskatchewan producers impacted by flooding in 1999 developed in co-operation with the governments of Saskatchewan and Canada.
- A number of other products also are in development for release in the next fiscal year.

OBJECTIVES 2000–01

Grow support for primary production and agribusiness.

- $1.3 billion in disbursements to primary production.
- $250 million in direct disbursements to agribusiness.
- $250 million in disbursements through alliances.
- Improve customer retention.

Offer expert knowledge to customers.

- Specialized knowledge will increase customer loyalty and improve brand equity as measured through corporate surveys.

Increase options for service delivery.

- Customer Service Centre operational as a delivery channel and integrated into e-commerce.
- Increase disbursements via electronic channel.
- Business-to-business Internet loan processing to be provided to three alliance partners.

Anticipate needs of the agricultural industry and respond with proactive product development.

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

Process Effectiveness and Quality Improvement

Make it easy for customers to do business with us.

STRATEGIC INITIATIVES 2000–01

Continuously improve product and service delivery.

- Complete loan administration system enhancements by March 31, 2001.
- Re-engineer the loan process by March 31, 2001, to realize an efficiency gain of 30 per cent.
- Develop the corporate service delivery channel strategy for implementation in 2001-02.
- Implement an e-business strategy by March 31, 2001.
- Introduce corporate-wide service levels and service standards by March 31, 2001.
- Ensure equitable service to customers in the language of their choice in all designated offices by March 31, 2001.

Transform information into knowledge.

- Ensure 98 per cent accuracy on completed data fields.
- Ensure 100 per cent of required customer information fields are complete.
- Develop and approve a corporate knowledge management strategy by March 31, 2001.

2000-01 RESULTS

- Loan administration system enhancements implemented as far as technology allows.
- In July 2000, a new lending policy was implemented as a result of re-engineered loan processes. These enhancements saved 2,600 hours of field staff's time, allowing them to spend more time developing customer relationships. The remaining savings will be realized in the first quarter of 2001-02 with the implementation of technology enhancements.
- Human Resources processes re-engineered and implementation of new processes initiated.
- FCC began work on a corporate service delivery channel strategy and identified a strategic direction for ensuring that all customers receive high quality service, no matter how they choose to interact with us. The strategy will be refined in 2001-02.
- Implementation of FCC's e-business strategy began in 2000-01.
- Service standards were introduced for the following:
  - Information Technology developed a framework for service level agreements and service improvement plans for two major lending applications.
  - Risk Management implemented and successfully met service standards for approving large loan requests.
  - Agri-Land implemented and successfully met service standards for provision of appraisals, valuations and loan concurrence.

Financial Success

The foundation of continued customer support.

STRATEGIC INITIATIVES 2000-01

Ensure long-term viability by attaining the following financial targets in 2000-01:

- Efficiency ratio of 57 per cent
- Return on equity (ROE) of 6.6 per cent (to exceed Government of Canada's cost of capital)
- Return on assets (ROA) of 0.63 per cent
- Debt-to-equity ratio of 9.3:1

Treasury operations will be managed within approved risk limits.

Measure risk through the use of a strategic credit risk model (SCRM) in order to ensure a managed approach that is neither conservative nor aggressive. SCRM score should be less than 70.

2000–01 RESULTS

FCC significantly exceeded financial targets

- Efficiency ratio of 55 per cent
- ROE* of 8.4 per cent, exceeding the Government of Canada's cost of capital by 2.7 per cent
- ROA* of 0.89 per cent
- Debt-to-equity ratio of 7.6:1

The borrowing costs for 2000-01 were four basis points over the Government of Canada's cost of capital, an improvement of three basis points from the previous year.

SCRM average score was 60, well within the managed range of 50 to 75.

* *before income taxes*

- Employees in the 43 offices designated bilingual or "service by appointment" were trained to provide an appropriate level of customer service in both official languages. Each of these offices was audited to ensure that standards were met. FCC's fully bilingual Web site also ensures consistent service to all customers in both official languages. In 2000-01, FCC received no complaints on language of service.
- Measurement of data quality and field completion was implemented in the fourth quarter. Due to changes in the disbursement process, the measurement methodology will be revisited in 2001-02.
- Knowledge management strategy currently in development.

OBJECTIVES 2001–02

Continuously improve process effectiveness and operational efficiency.

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

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

- Information technology infrastructure availability target of +99 per cent.
- All technology-related projects will be delivered within specifications.
- 100 per cent of service level targets achieved for all mission critical applications.
- Re-engineered Information Technology processes implemented.

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

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

OBJECTIVES 2001–02

Ensure long-term viability.

- ROE of 8.2 per cent
- ROA of 0.78 per cent
- Debt-to-equity ratio of 9.4:1
- Cost-effective funding 10 basis points lower than Crown curve

Proactively manage risk.

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

Unique PEOPLE Leading our

Success

Left to right: Camrose office staff members: Linda Forre, Suzanne Barber, Allan Tovee, Wally Wrubleski, Dale Broker and Jon Hironaka.

Because of the dedication, expertise and passion of our employees, FCC will attain its vision to lead the way in agricultural financing.

One of FCC's responsibilities is to create an environment where all employees can develop to their full potential. FCC human resource initiatives focus on creating such an environment.

Human Resources Index

FCC listens to employees. The Corporation regularly conducts a corporate-wide Human Resources Index (HRI) that measures employee attitudes, level of satisfaction and commitment to organizational goals. The HRI is a key vehicle for allowing employees to provide direct feedback on the Corporation's direction and key strategies.

This year the response rate for the HRI was 83 per cent, up from 69 per cent for the previous survey. The results revealed a statistically significant increase in all of the 15 factors tested. This increase is mainly due to the work of dedicated employees developing recommendations and action plans to address issues identified by previous HRIs.

The positive trend reflects employee alignment with and support for FCC's direction and strategies. Management and staff will use this year's results to further focus human resource and strategic initiatives.

Learning and organizational development

FCC provides specialized expertise to all customers. One way of building and maintaining this expertise is to invest in training and development for employees.

FCC employees require specialized agricultural and financial training that is often not available externally. As a result, a significant amount of training is offered internally on subjects such as risk management, credit and market analysis, and leadership development.

The Corporation regularly tests for learning retention to ensure that employees are realizing the benefit of training This year, follow-up measurements of internal training revealed a retention rate of 83 per cent.

Recruitment and retention

FCC seeks to lead the way in agricultural financing by recruiting and retaining the highest calibre employees possible. In return for their commitment, FCC develops and rewards employees. As a result of this focus, the Corporation experienced a low voluntary turnover rate of 8.05 per cent.

FCC offers exceptional leadership development and succession planning programs. Through these programs, employees can effectively chart their professional development and the Corporation can ensure "bench strength" exists to maintain viable and consistent leadership for the future. To date, 71 managers have completed a leadership program developed and delivered by the Banff Centre for Management specifically for FCC employees.

FCC continued to evolve the Spectrum employee benefits program. Enrolment procedures were streamlined and employees can tailor benefits to their own personal and family needs.

FCC initiated a successful withdrawal from the *Public Service Superannuation Act* (PSSA) pension plan. Enrolment of all staff in the FCC Solstice pension plan took effect on July 1, 2000. FCC has now moved into the final stages of implementation. This last stage includes the transfer of PSSA funds into Solstice.

Every step of Solstice implementation was overseen by the FCC Pension Committee. This Committee includes members of senior management, the Board and employees elected by their colleagues from across the country. The Committee provides direction and a vital liaison function between FCC and the Board of Directors. It also offers employees the opportunity to participate in the management of their future retirement funds.

Official languages

As a federal Crown, FCC must not only provide customer service in both official languages, but also fully meet linguistic obligations to employees as defined by the *Official Languages Act*.

Officially, 11 of FCC's 100 offices are designated bilingual for language of work. The level of bilingual service, especially in the corporate office, continues to increase as employees identify their desire to work with their colleagues and customers in both official languages.

In designated offices, all communications, training and software are available in both English and French. Management continues to take steps to ensure that employee-manager interactions, especially for development and performance appraisal issues, are in the employee's official language of choice.

FCC encourages employees to participate in language training and invested $176,848 in various training initiatives over the past year that involved nearly 10 per cent of FCC's work force – from office assistants to vice-presidents. This not only helps ensure that the Corporation is a leader in offering bilingual services and employment, it also helps build a sense of teamwork, enhances morale and provides employees with additional development opportunities. As a result, customers can choose to do business with the Corporation in their official language of preference, in offices designated bilingual for service to the public.

Diversity

FCC recognizes and celebrates the diversity of employees. From coast to coast, FCC employees strive to understand and use their differences to create innovative solutions for customers.

FCC regularly collects employee profile data and maintains a databank on representation from designated groups, in compliance with *Employment Equity Act* guidelines. Information on this database contributes to FCC's recruitment strategy.

In 2000, FCC employees participated in a national Diversity Advisory Committee and four sub-committees – each focusing on different designated groups. These committees helped raise awareness of diversity throughout the Corporation and lead the change in attitudes to help build a greater commitment to a diverse workplace. A highlight of this year's diversity initiatives was the Make It Work! employment equity and diversity conference in Regina in October 2000. Open to the public, this workshop-based conference demonstrated FCC's commitment to promote diversity within the Corporation and to learn from professionals in the greater Saskatchewan community.

FCC strives to develop innovative human resources initiatives to make the Corporation an employer of choice and to create long-term value for customers.

FCC's BOARD of

Directors

FCC's Board of Directors is responsible for developing and approving the strategic direction of the Corporation. Working closely with the Senior Management Team, the Board ensures that FCC continues to meet, exceed and anticipate the needs of agricultural producers and small- to medium-sized agribusinesses. The individual members bring relevant experience and a dedication to agriculture to the performance of their roles.

Rosemary Davis, Chair

Chair since June 20, 2000

Director since December 19, 1995

Ms. Davis is the owner/operator of Tri-Country Agromart Ltd. in Trenton, Ontario. In addition to her involvement with FCC, Ms. Davis is a Director of the Trenval Development Corporation and Chair of its Agriculture Committee. She is also active in many local and provincial agricultural committees and associations and is currently serving as a Director of Loyalist College and as a member of the Advisory Committee of Shurgain Foods. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership to the Ontario Institute of Agrologists.

Edward W. Clark

Director since May 28, 1996

Chair, Corporate Governance Committee

The owner and operator of a beef and forage farm in Miscouche, Prince Edward Island, Mr. Clark has been directly involved in agriculture for more than 40 years. His work as a 4-H leader over a 20-year period was recognized with a Friend of 4-H award in 1995. In addition to work with the P.E.I. Junior Farmers, the Federation of Agriculture and P.E.I. Shorthorn Breeder's Association, Mr. Clark was a member of the P.E.I. Legislative Assembly from 1970 to 1996, serving in that time as Minister of Agriculture and Forestry and as Speaker.

Rashpal Dhillon

Director since June 6, 1995

Mr. Dhillon is the President and Chief Executive Officer of The Richberry Group of Companies 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. He presently serves on the Board of the B.C. chapter of the Canadian National Institute for the Blind.

FCC Board of Directors

Left to right: Rosemary Davis, Edward W. Clark and Rashpal Dhillon.

Warren Ellis

Director since April 4, 1995

Warren Ellis Produce, in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley, wheat and feeder cattle. Mr. Ellis is President of O'Leary Potato Packers Ltd, an operation that processes and markets potatoes and potato products throughout the world. In 1994, he was the Atlantic Region honoree in Canada's Outstanding Young Farmers program. In addition to his 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 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. 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.

Eleanor M. Hart

Director since May 2, 1995

Chair, Human Resources Committee

Board representative on FCC's joint Pension Committee

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.

Maurice Kraut

Director since June 28, 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.

FCC Board of Directors
Left to right: Eleanor M. Hart, Maurice Kraut, Donna Graham and Warren Ellis.

Marie-Andrée Mallette

Director since June 16, 1995
Chair, Audit Committee
Ms. Mallette operates a large-scale commercial crops and coloured beans operation in Quebec. A lawyer for 15 years, Ms. Mallette is 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 also shares her own experience in exporting with new producers. 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, Saskatchewan. She also owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She has served her community through many organizations including the Dr. Noble Irwin Healthcare Foundation, the Multicultural Council of Saskatchewan, Luther College in Regina, Southwest Crisis Services Line and the Southwest Recreation Association.

John J. Ryan

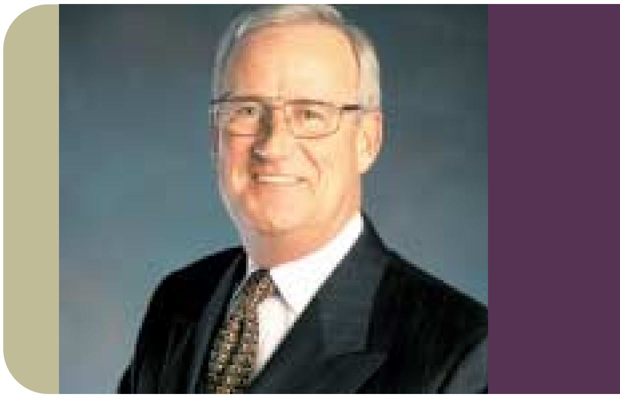
Director since September 1, 1997
Mr. Ryan has served FCC as President and Chief Executive Officer since September 1997. He is currently a member of the Board of Trustees of the Canadian Athletic Foundation, the Board of Directors of the Hospitals of Regina Foundation and the Foundation of the Adult Learning Centre, also in Regina. Mr. Ryan is an avid supporter of the United Way's local campaigns, serving as Vice-Chair in 1999 and as Chair in 2000.

FCC Board of Directors
Left to right: Joan Meyer, Marie-Andrée Mallette and John J. Ryan.

Marilyn Marie Scott
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 the 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.

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 of Directors
Marilyn Marie Scott and Germain Simard



Donald W. Black
Past Chair
Mr. Black served as Chair of FCC's Board of Directors from January 1995 to May 2000. While the Board conducted its search for a new President and Chief Executive Officer (CEO) in 1997, he also served as acting CEO for nine months.

During his tenure as Chair, Mr. Black brought vision, focus and vitality to the Corporation. He was actively involved in improving corporate governance, restructuring operations to better meet customer needs and ensuring that FCC offered competitive compensation and benefits to employees. He strengthened the business focus of FCC's operations and encouraged the Corporation to work toward financial self-sufficiency.

A strong believer in the business sector's obligation to support the community at large, Mr. Black encouraged FCC's membership in the *Imagine* program of the Canadian Centre for Philanthropy. His personal involvement in many community groups reflected employees' commitment to serve communities across the country in new and innovative ways.

Mr. Black resigned from the Board in order to concentrate on his business interests, in particular Greystone Capital Management Inc., the Regina-based independent investment counseling firm of which he is President and Chief Executive Officer. The Board, Senior Management and staff thank him for his commitment and leadership in making FCC a stronger, more focused organization.

FCC's SENIOR MANAGEMENT

Team

Dedicated to customer service

FCC's Senior Management Team (SMT) works with the Board of Directors to establish and implement the Corporation's strategic direction. These dedicated professionals, with diverse views and experience, ensure FCC maintains its focus on meeting, exceeding and anticipating customer needs. With the approval of the Chief Executive Officer (CEO) and the Board of Directors, SMT sets the corporate priorities and acts to achieve FCC's objectives.

Every member of the SMT is committed to effective and inspiring leadership and has participated in training to further develop these skills. They respect the guidelines of the *Financial Administration Act* by acting in good faith and exercising care, skill and diligence in their decision-making and business activities.

They lead by example, adhering to the highest ethical standards of business, professional and personal conduct. They are bound by the Employee Conduct and Ethics Policy to avoid conflicts of interest. In order to enhance FCC's competitive advantage by providing customers with access to services in both official languages, most possess or are improving their second-language skills.

Left to right: Greg Honey, *Vice-President, Human Resources;* Nelson Tkatch, *Vice-President, Information Technology;* and John J. Ryan, *President and Chief Executive Officer.*

New responsibilities

The SMT listens attentively to customers and closely studies the marketplace in order to ensure that FCC's products and services meet the needs of today's producers and agribusiness operators. In 2000-01, this dedication to the highest quality customer service made it possible for the Corporation to expand its services to include E-business and Aboriginal Business.

Greg Honey was hired as Vice-President, Human Resources and Administration when Terry Kremeniuk obtained the position of Vice-President, Aboriginal Business. Also new to the team in 2000-01 were Rick Hoffman, Vice-President and Controller, and Nelson Tkatch, Vice-President, Information Technology.

Following changes made to the corporate structure on April 1, 2001, an executive search was initiated to fill the position of Vice-President, Risk Management.

Left to right: Louise Neveu, *Executive Vice-President and Chief Knowledge Officer*; Dale Canham, *Vice-President, General Counsel & Corporate Secretary;* and Shelley Legin, *Vice-President, Strategy and Communications.*

Left to right: Terry Kremeniuk, *Vice-President, Aboriginal Business;* Janet Wightman, *Executive Vice-President and Chief Operating Officer*; Greg Stewart, *Vice-President, Agribusiness and Western Operations;* Kellie Garrett, *Vice-President, Marketing, Products and Brand;* and André Tetreault, *Vice-President, Eastern Operations.*

Compensation and decision-making

All executives, with the exception of the 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 CEO's salary and benefits. All receive a variable component linked to the performance of the Corporation, the business unit and the individual. In 2000-01, the salary range for the CEO was set at $163,800 to $204,800. The salaries of the Executive Vice-Presidents ranged from $130,825 to $242,820. Compensation for Vice-Presidents ranged from $108,590 to $143,735. Total cash compensation paid to SMT was $2,490,909.

In addition to their management responsibilities, SMT members provide advice to the CEO and the Executive Committee, a subset of the full SMT and the principal decision-making authority of the Corporation. This committee acts on broad strategic direction and establishes corporate priorities. The following officers are members of the Executive Committee:

- the President and CEO;
- the Executive Vice-President and Chief Financial Officer;
- the Executive Vice-President and Chief Knowledge Officer;
- the Executive Vice-President and Chief Operating Officer;
- the Vice-President, Human Resources and Administration; and
- the Vice-President, Information Technology.

Left to right: Don Stevens, *Vice-President and Treasurer;* Marshall Stachniak, *Vice-President, Audit and Business Process Re-engineering*; Rick Hoffman, *Vice-President and Controller;* and Moyez Somani, *Executive Vice-President and Chief Financial Officer.*

CREATING SOLUTIONS for

Customer Success

Listening creates solutions

At FCC, we are interested in relationships with customers that last a lifetime, not just the life of a loan. We work hard to understand our customers and recognize that every person has needs unique to their individual operation. Our specialized agricultural expertise and long-term commitment to customers are the cornerstones of FCC's reputation.

In 2000-01, FCC began developing a corporate strategy to help us meet our long-term commitment to customers. The Customer for Life strategy is about doing more for our customers throughout their entire life and business cycle – from start-up to retirement.

The strategy will provide the framework for a more comprehensive approach to serving customers through new partnerships and services. If amendments to the *Farm Credit Corporation Act* tabled in Parliament in April are passed, FCC will be able to increase the depth and variety of financial and business services it offers. We are integrating delivery channels, including the Internet, Customer Service Centre and face-to-face service, to increase access to personalized service any time, anywhere. By focusing on the life and business cycle needs of our customers, FCC will become a more integral partner with our customers.

Customer Michel Lasnier with FCC's Alain Beaudry.

Last fiscal, FCC commissioned studies to measure the quality of our relationships with customers and reputation in the wider community. A national research company, Ipsos-Reid, conducted a customer loyalty index as well as a brand equity study.

For our first-ever Customer Loyalty Index, we received a response rate of 98 per cent from our customers, an unheard-of rate, according to Ipsos-Reid. We surveyed 1,800 of our customers across Canada. Their responses to key measures of customer loyalty indicated that 73 per cent of FCC customers thought they would recommend FCC in the coming year. The same percentage stated FCC was their first choice for agricultural financing. These results can be linked to customer service provided by our frontline staff, who received scores of 6.0 to 6.5 on a seven-point scale for quality of service, trust and responsiveness.

We also wanted to gain a better understanding about how we are perceived by the people who live and work near our customers. For the brand equity study, Ipsos-Reid interviewed 1,532 current and potential customers, equipment dealers and agricultural organizations. The findings from both surveys revealed that FCC has a great reputation with current customers because of the personalized service and agricultural expertise our employees provide. The findings also showed that those who are not customers are unfamiliar with FCC's services and mandate and do not necessarily understand the extent to which FCC helps the agricultural industry move forward.

FCC plans to use the Customer Loyalty Index and the brand equity study findings to continuously improve our relevance and service to customers, as well as to improve our contribution to the agricultural industry.

ABORIGINAL BUSINESS
Development

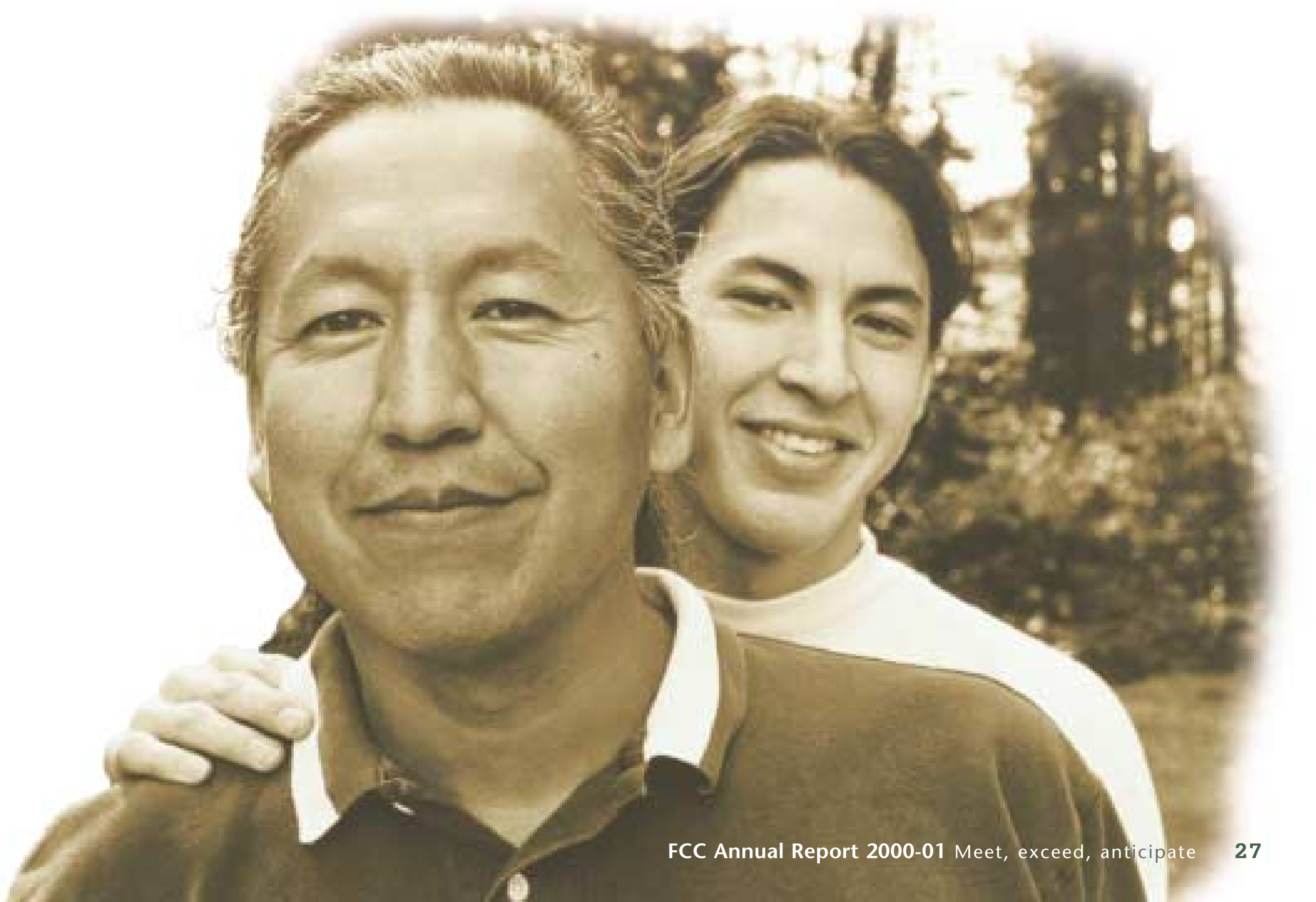
According to the 1996 Census, more than half of aboriginal people in Canada live in rural areas – and 68 per cent of them are under 30 years of age. This is the fastest growing demographic group in rural Canada. Agriculture can be a key component in enhancing the livelihood and economic growth of aboriginal peoples and communities.

FCC has specialized expertise in agriculture and agricultural finance and believes in the importance of contributing to the establishment and long-term viability of agriculture. First Nations and Métis peoples are building an increased presence in the agriculture industry. FCC believes that by providing financing and business services to this segment of the agricultural sector, we can contribute to their success and support new entrants to agriculture.

FCC established an aboriginal business function in 2000. It has developed a number of strategies to contribute to the financing of aboriginal agriculture. A key strategy will involve partnering with all levels of government, organizations such as the Aboriginal Agricultural Capital Corporations and other financial institutions serving First Nations and Métis farmers.

Over the next few decades, aboriginal communities are poised to grow both demographically and economically. FCC's aboriginal business strategy aims to create the internal infrastructure and policies to provide the level of service, expertise and understanding on which the Corporation has built its reputation.

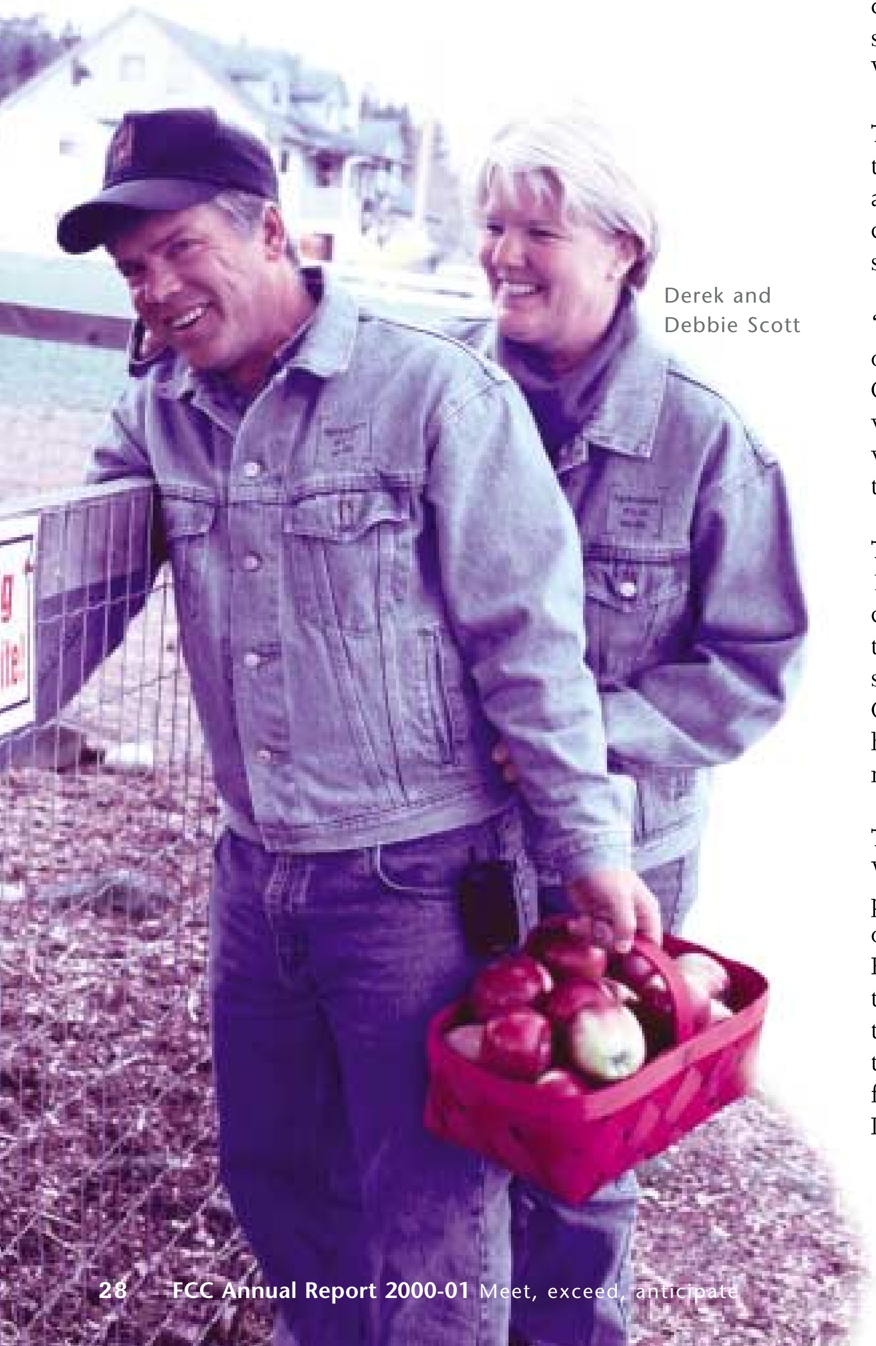
The fastest **growing** demographic **group** in rural Canada



FCC CUSTOMER

Profiles

A passion for promoting Island agriculture



Derek and Debbie Scott

Derek & Debbie Scott
Saanicton, British Columbia

When Derek and Debbie Scott purchased 12 acres near Saanichton, on Vancouver Island, in 1986, they were determined to earn a full-time living off the land. Thanks to hard work, determination and innovation, the couple's dream has come true. "When we came here, there was a small orchard of apples and peaches," says Debbie. "We've diversified beyond those fruits to include strawberries, blackberries, kiwi fruit and vegetables. We now farm 60 acres."

These products are sold at their farm market, and the kiwi fruit is also sold to wholesalers. They have added a bakery to sell pies and bread. The continued growth of their operation led them to seek financing from FCC.

"Derek and Debbie were looking for an organization that would share their vision," says Cam McDiarmid, FCC Account Manager. "They were organizing agricultural promotional events, which create new markets for their products and those of their neighbours."

The Scotts' foray into organizing events began 10 years ago when they hosted an Octoberfest celebration. "October was a slow period because of the colder weather, but we had products to sell," says Debbie. That led them to create an annual Octoberfest which features hay rides, a haunted house, 4-H projects, antique displays and much more.

The Scotts now host Taste of the Islands, where Vancouver Island food and beverage producers provide samples; and this year they will host Feast of Fields, which features products made from British Columbian commodities. They also intend to partner with Victoria hotels to provide tours for the conference market. "We believe there's a tremendous opportunity to share the benefits of the farm with people who live in the cities," says Debbie.

Quick financing for cattle producers

Cattlemens Financial Corp.
Edmonton, Alberta

In 1996, John Meston, FCC's Assistant Vice-President, Alliances West, noticed a gap in existing finance programs for feeder cattle. Many producers purchasing cattle at auctions required specialized financing with a quick turnaround time. This same trend was also spotted by Bill Grieve of Nilsson Bros. Inc., a company with interests in ranching, auction marts and processing plants.

The two began talking and before long their discussions led to the creation of Cattlemens Financial Corp. (CFC) to provide loans to these producers. CFC staff work with potential customers and make field visits to assess facilities, feed, herd health and management skills. FCC provides the financing.

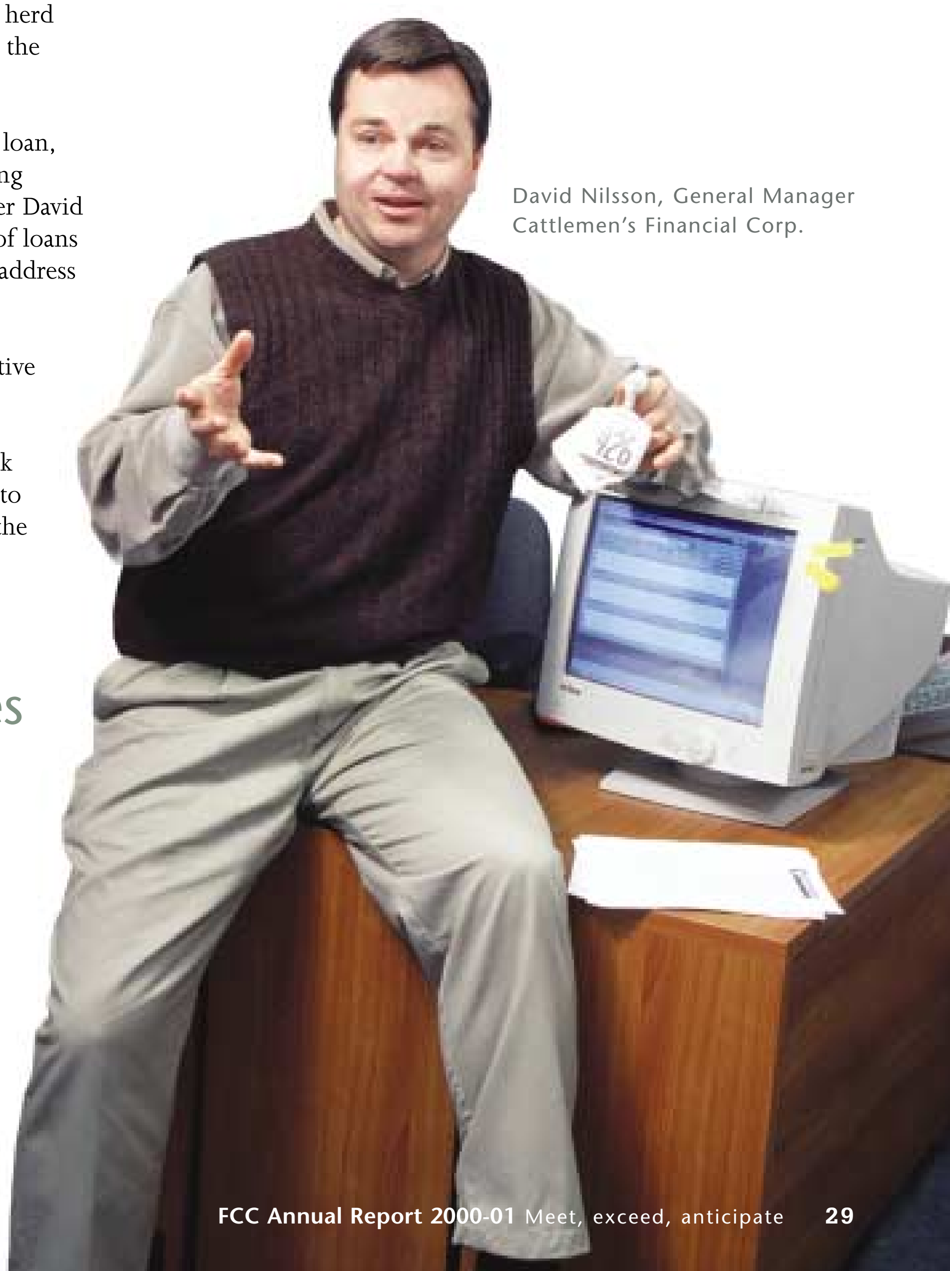
"We initially started with one type of feeder loan, but now we offer six different types, including breeder loans," explains CFC General Manager David Nilsson. "We wanted to diversify the types of loans we offer to better meet customer needs and address the risks in the industry."

Loans offered through this alliance are attractive to producers because, other than a deposit, customers only pledge the animal being financed for security. Proceeds from livestock sales are used to pay off the customer's debt to the alliance and the surplus is forwarded to the customer.

"It really is a win-win alliance for all involved," says Marcel Lemire, FCC Account Manager. "The CFC/FCC alliance offers financing on the farm and at auction marts and is increasing its customer base."

In 2000-01, the staff in FCC's Customer Service Centre, located in Regina, processed more than 12,500 transactions for alliance partners including CFC.

"Diversify the types of loans to better meet customer needs."



David Nilsson, General Manager
Cattlemen's Financial Corp.

Skilled management fuels growth

Harman Poultry
Saskatoon, Saskatchewan

"When my father and I started our poultry operation in 1965, we had 5,000 birds and we produced and marketed about 8,500 boxes of eggs annually. Now we do that in a day," says Bert Harman, the owner of Star Egg and Harman Poultry Farm.

That growth has been fueled by skilled management, aggressive marketing and financial assistance from FCC. In 1978, Harman purchased Star Egg, a Saskatoon company that buys eggs from 54 Saskatchewan producers and packages them for sale throughout western Canada.

Five years ago, to increase production, he decided to connect the original facility to an adjacent building and purchase a nearby warehouse. "It was a very good move to work with FCC since they have a strong understanding of agribusiness and our needs," explains Harman.

With a good working relationship established, Harman received FCC financing this year to construct a new barn at Harman Poultry Farm, near Prince Albert. The company wanted to amalgamate three aging barns into one facility. The new barn contains state-of-the-art ventilation, heating, water and feeding systems that Harman can monitor via his computer in Saskatoon.

"We have worked with the company as it has progressed over the years," says FCC Account Manager Gary Rault. "We are pleased to have played a role in helping this customer build his vertically integrated operation."

"We used to **produce** 8,500 boxes of eggs annually. Now we do that in **a day**."

Bert Harman, Owner
Star Egg and
Harman Poultry

Flexi-Hog tailor-made for Manitoba operation

Rosegrove Farms
Landmark, Manitoba

When Rosegrove Farms Inc. wanted to assume the ownership of a neighboring 1,500 hog finishing barn in 1999, the decision to approach FCC for financing was relatively easy. FCC already held the loan on the barn from the previous owner, so company president Ray Plett elected to continue with FCC.

The next time the farm near Landmark, Manitoba, required financing, the decision was even easier. FCC had just introduced the Flexi-Hog program, which seemed tailor-made for Rosegrove Farms' plans to construct a 4,000 hog finishing barn. "Since they are independent producers in a volatile industry, they were interested in the program," explains FCC Account Manager Charles Koch. "This loan provides options for producers to pay interest only for periods of up to 12 months to cope with commodity price cycles. It's designed to assist farms like this one."

Plett says that FCC's financial terms and knowledgeable staff convinced the company to make FCC its lender of choice. Through this association, Rosegrove Farms, which started in 1998 with a 600 farrow-to-finish hog operation, has experienced tremendous growth. "Their terms have been very good and provide flexibility for us to meet our long-term credit needs," he says. "In fact, we've moved most of the loans from our poultry and grain operations to FCC as well."

"**Independent** producers in a volatile industry, they were **interested** in the program."

Tim Kroeker, Vice-President, and Ray Plett, President, Rosegrove Farms Inc.

Young farmer gets started with FCC

Greg Devries
Dresden, Ontario

Three years ago, Greg Devries realized he needed more than one drill to keep up with demand for his custom-planting services. After pricing out a new drill, he approached his FCC Account Manager to arrange financing. "When the paperwork was ready, the rain had just broke so I wanted to get back in the field. The Account Manager agreed to meet halfway into town, I signed papers, and he took it to the implement dealer. I'll always remember that incident because I was busy and that saved me half a day," Devries recalls.

It's for reasons like this that the Dresden, Ontario, area farmer chose FCC as his lender. His experiences stem back to 1989 when he wanted to purchase his grandparents' 50 acre farm. Devries went to FCC because of its long-standing relationship with his family and expertise in agriculture. The Corporation also was flexible enough to work with someone who was only 18 years old at the time.

Along with his parents, Devries now farms approximately 750 acres of commercial and seed corn, soybeans and wheat, and is expanding into peppers. He has learned techniques from other farms by working as a crop insurance claims adjuster. Devries keeps abreast of industry issues and policies by serving on several committees. For example, he serves as a director on the Ontario Soybean Growers Association. He recently completed the Advanced Agricultural Leadership Program, an intensive two-year educational program.

FCC Account Manager Chris Gass has worked with Devries since he started farming. "Although he was young when he came here, we liked his attitude towards farming," says Gass. "He thinks things through and is not afraid to come in, discuss his options and ask for assistance. He's certainly an indicator that there is a future for young farmers."

"He's certainly an **indicator** that there is a future for young **farmers.**"

Left to right: Charles Devries, Jennifer Atkinson, Jennie Devries and Greg Devries.

Helping producers meet environmental standards

Barrette Farm
Coaticook, Quebec

The Barrette farm near Coaticook, in southcentral Quebec, has been passed down for three generations. Proud dairy producers, brothers Bernard and Réjean Barrette purchased the family farm in 1989.

Their operation includes 106 dairy cows and 95 head of replacement stock. To meet provincial environmental standards, they needed to build a new manure storage facility. However, they needed a loan that delayed repayment until construction was complete. Like many other Quebec dairy producers, the business partners relied on FCC's Enviro-Loan to meet their financing needs. "We recommend it to other producers," Réjean insists. Thanks to the loan's flexible features, the Barrettes had the option of postponing principal payments until construction was successfully completed in the fall of 2000.

In 2001, the Barrettes plan to build a technologically sophisticated barn for the housing of replacement stock. This free-stall facility will allow them to reduce their workload, improve the development of the livestock quality and consequently increase production. Bernard and Réjean are using FCC's Farmbuilder Construction Loan to finance this project.

Over the years, the Barrette farm has become increasingly competitive. Since 1995, the Barrette brothers have relied on their close relationship with FCC Account Manager Louis Payette for the family farm's financing and for advice during its expansion phase. "With their long-range vision, Bernard and Réjean have been able to expand their facilities and protect the environment," says Payette.

Bernard and Réjean Barrette

Island couple has succession plan

Pieter and Jetty van Nieuwenhuyzen
Oyster Bed Bridge, Prince Edward Island

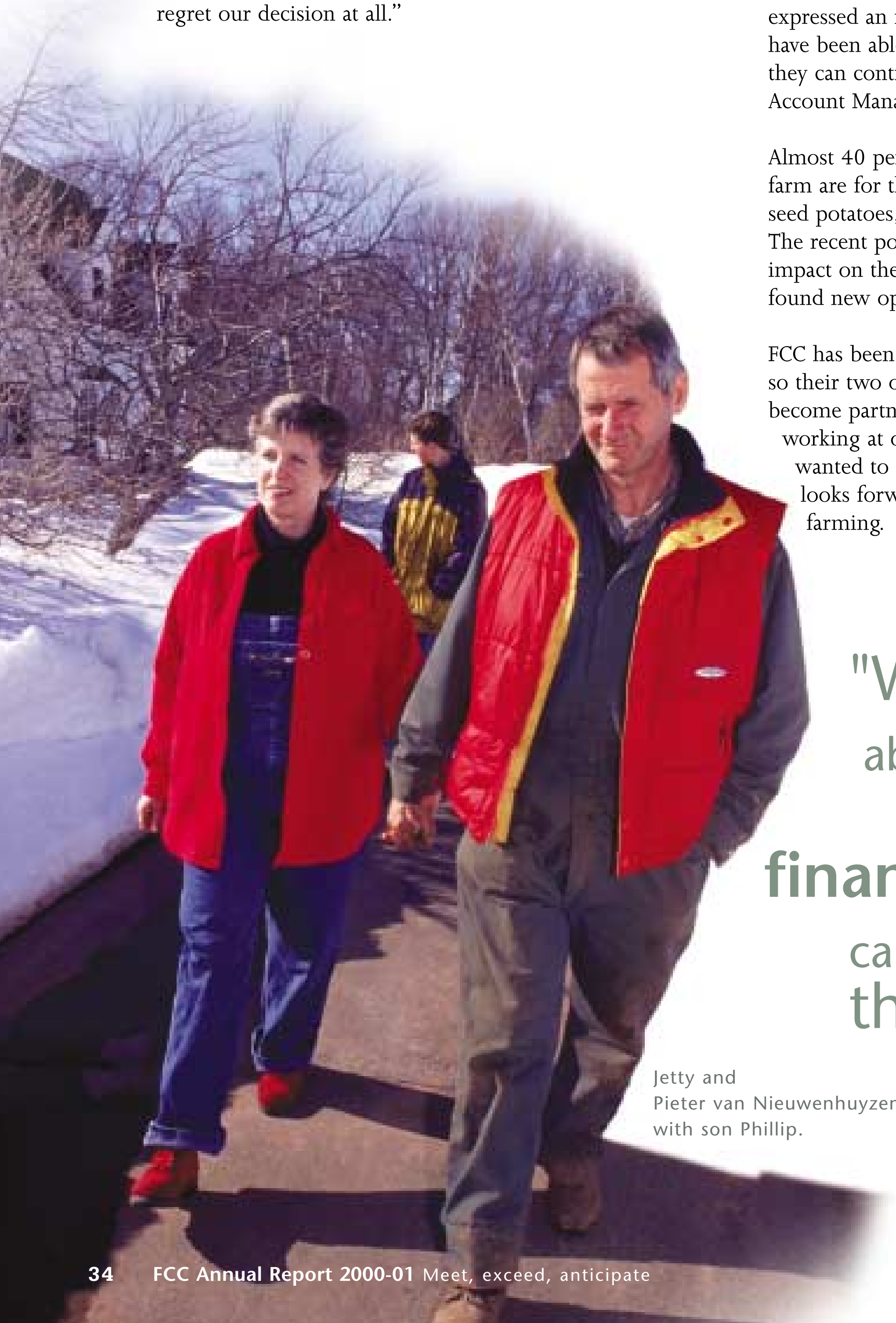
A passion for growing potatoes convinced Pieter and Jetty van Nieuwenhuyzen to emigrate from their mixed farm in the Netherlands to the heart of Canada's potato belt, Prince Edward Island, in 1982. "It has been good all along," says Pieter. "We don't regret our decision at all."

The family purchased a small farm of about 100 acres and has slowly expanded it to 1,250 acres. The farm had never grown potatoes before, so the van Nieuwenhuyzens invested in a new warehouse and equipment. FCC provided the financing that allowed them to diversify their operation.

"We've been with the family since they initially expanded their operation. As they've grown in size, we've been able to work with them to achieve remarkable success. Now that their children have expressed an interest in joining the operation, we have been able to provide additional financing so they can continue the family tradition," said FCC Account Manager France Vos.

Almost 40 per cent of the potatoes grown on the farm are for the french fry market, 10 per cent are seed potatoes, and the rest are sold to wholesalers. The recent potato wart trade issue has had an impact on their American markets, but they have found new opportunities in Quebec and Ontario.

FCC has been assisting with their succession plans so their two oldest sons, Willem and Rit, can become partners in the operation. "They had been working at other jobs and decided that they wanted to return home," says Pieter. The family looks forward to a long-term future in potato farming.



"We **have** been able to provide additional **financing** so they can continue the **family** tradition."

Jetty and Pieter van Nieuwenhuyzen with son Phillip.

COMMUNITY

Investment

Giving back to our community

During the past 41 years, FCC has not only invested in agriculture, but also in rural communities. The Corporation has a history rich with success stories of people helping people.

As a member of the Canadian Centre for Philanthropy's *Imagine* program, FCC is committed to donating one per cent of pre-tax income annually to charitable and not-for-profit community organizations. Through this commitment, FCC is innovative in finding new ways to give back to communities across Canada. Donations are made through financial resources, services and gifts in kind. The Corporation adds value to these donations by supporting employees' endeavours to volunteer their time and energy.

In addition to hundreds of local community initiatives, FCC works in partnership with many national organizations dedicated to improving quality of life in rural Canada and contributing to the agricultural community. Through our national community investment program, we are focusing on activities that raise awareness of farm safety as well as food and hunger issues.

Rheagan Schott presented with a 4-H scholarship by Cathy Sandercock, Morden, Manitoba.

Community partners

FCC is proud to support the following initiatives across Canada:

Canadian 4-H Council

Once again this year, FCC was proud to partner with the Canadian 4-H Council to offer rural young people a chance to win one of 10 provincial scholarships to help them pursue post-secondary education. For the 2000 4-H scholarship program, applicants were asked to create a plan for a project that would benefit their community. The entries showed tremendous creativity and commitment. Through the 4-H scholarship program, FCC can help young people become tomorrow's community leaders.

Canadian Coalition for Agricultural Safety and Rural Health (CCASRH)

CCASRH was established in 1993 by a coalition of agencies from across Canada to address problems related to farm safety and rural health. FCC shares the coalition's concern for the quality of life of people living and working in rural communities across Canada.

"Use ROPS and Wear Your Seat-belt"

The 2000 National Farm Safety Week campaign saw FCC join forces with the Canadian Federation of Agriculture (CFA) and CCASRH to promote a safer workplace for Canadian farmers and their families. The campaign focused on preventing tractor rollovers and highlighted the need for rollover protective structures (ROPS) and seat-belt protection on tractors. In March 2001, FCC again partnered with these two organizations as the major corporate sponsor of Canadian Agricultural Safety Week that focused on preventing tractor runovers.

FCC employees Alison Drew, Scott Yule, Michèle Bouvier and Brenda Stasuik helped build the CANstruction apple.

Building healthy communities across Canada in 2000-2001

At FCC, investing in our community goes beyond a financial contribution. We encourage our employees to seek opportunities for volunteerism and participation. Our employees are eager to roll up their sleeves and get involved in the communities they serve. The following local stories reveal how employees across the country have been enthusiastic volunteers and ambassadors in their communities.

Celebrating World Food Day in Abbotsford, B.C.

FCC Abbotsford office employees recognized World Food Day on October 16 by donating a steer to the Abbotsford Food Bank. The steer was purchased from a local 4-H member, resulting in a donation of 2,100 meat servings. Meat donations are a rare thing for food banks because of the costs involved.

FCC takes a giant bite out of hunger

In December 2000, FCC Corporate office staff participated in CANstruction, a community event held to raise funds for the Regina and District Food Bank. Participants were required to build structures completely out of canned, boxed or bagged food items. For the second year in a row, FCC was presented with the Jurors' Favourite Award for our Take a Bite out of Hunger Apple. FCC employees and community partners built the giant apple out of 6,500 cans of salmon and 500 packages of noodles and snack chips. This year's event raised more than $52,000 including 28,500 pounds of food for the Food Bank.

Food for thought. . . FCC's Atlantic offices give to school breakfast program

Countless medical studies confirm that children cannot learn on an empty stomach. Unfortunately, many children go to school hungry. FCC's Atlantic offices set aside $5,000 every year to help fund school breakfast and milk programs in the Atlantic provinces. FCC recognizes that children need a proper breakfast to start their day and to succeed in school.

Canadian Farmers with Disabilities

A disabling accident can dramatically change life on the farm. Canadian Farmers with Disabilities (FWD) provides support for farm families who have experienced such accidents. This group has a further mandate to educate the public about farm safety. FCC works closely with FWD and its provincial chapters and sponsors several of the group's events and initiatives. FWD also served as a tremendous resource in the development of FCC's Creditor Life Insurance program, which provides our customers with accidental dismemberment coverage.

United Way

In 2000, FCC led the way in employee giving in Regina and set the stage for a record-breaking year. With FCC President and CEO John Ryan at the helm as the Regina United Way Campaign Chair, Corporate Office raised nearly $90,000 for the 2000 campaign. The final tally far exceeded FCC's goal. The Regina United Way presented FCC with the Quantum Leap Award, given to the team that shows the most dollar growth in a campaign. In total, employees across the country raised over $143,000 for the United Way through donations and special fundraising events.

FCC's NEW

Products

Financing for today's producers

FCC understands agricultural producers and their industries like no other lender. For 41 years, we've worked closely with Canadian producers and, more recently, agribusinesses to develop the financing solutions they need to succeed. This year, we introduced three new national products based on customer needs.

Flexi-Hog gives producers more options

A little flexibility can go a long way for a hog producer's operation.

That's the idea behind FCC's Flexi-Hog Loan. With this loan, producers can take up to three one-year principal vacations. The loan is designed to help producers maximize their cash flows in the cyclical pork industry. Flexi-Hog is designed for independent and smaller producers who can proactively manage their operations' finances by using the vacations as a cushion during downturns.

The loan was launched nationally in Brandon, Manitoba in May 2000. FCC staff in southern Manitoba first suggested a flexible financing package for hog producers after discussions with FCC customers who wanted a loan that addressed this industry's price cycles.

Enhanced creditor life insurance

At FCC, we take the health and safety of farm families seriously. In October 2000, we introduced enhanced creditor life insurance to current and new customers through our carrier, Clarica Life Insurance Company. In addition to life insurance, the new program provides customers with accidental dismemberment coverage that includes an early payout option in case of terminal illness. This improved coverage is among the best in the industry.

Enviro-Loan

In February 2001, FCC launched the first national agricultural loan focused on the environment. This unique product allows producers and agribusiness operators to be proactive with long-term environmental planning, sustainable agricultural practices and stewardship of land and water resources. Customers – for the most part, livestock and dairy producers – can defer principal payments for up to 12 months while they improve their operations in accordance with sound land management principles and provincial environmental legislation. Funds are disbursed in increments during construction, thereby reducing interest costs. The Enviro-Loan was first introduced in Quebec in June 2000.

FCC FINANCING

Solutions

FCC's products and services are designed to help producers and small- to medium-sized agribusinesses grow and succeed. Flexible features, including multiple interest rate and payment options as well as a choice of amortization period, are available on all FCC's loans. We work with our customers to ensure our loans meet their needs.

Real property loans

FCC provides fixed and variable interest rate terms of up to 20 years and amortization periods between three and 29 years on long-term loans. Also available are FCC's 5+10, 7+10 and 10+10 loans, which offer an annual 10 per cent prepayment of the original loan amount on five, seven and 10 year fixed terms to be applied directly to the principal not due, with no prepayment fee at anniversary dates.

Personal property loans

FCC's Personal Property Loan is ideal for purchasing livestock, quota and new or used equipment. Open and closed terms are available for periods of between two and seven years, with amortization up to 10 years.

Farmbuilder Construction® loan

This flexible product provides interim financing for any type of building project eligible for FCC financing. Payments are not required until the project is complete, for a maximum of 18 months. Funds are disbursed as needed during the project.

AgriStart™

This innovative line of loans helps families transfer farming operations from one generation to another, as well as assists developing farmers in starting or expanding their operations:

- The **Family Farm® Loan** enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business;
- The **1-2-3 Grow Loan** offers deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years; and
- The **Payday Loan** is designed for individuals with off-farm employment who are interested in starting or expanding a farm business.

Plant Now – Pay Later

Customized to suit varying developmental phases, Plant Now – Pay Later loans meet the needs of our vibrant fruit-growing industry, including soft fruits and berries.

Other services

Property management services

FCC's Agri-Land division is responsible for the Corporation's property management services, including:

- **Appraisal services:** Accredited appraisers assist field staff in determining the value of customers' land, as well as produce the semi-annual Farmland Values report, the only source for comprehensive farmland values information across Canada. Upon request, the appraisers provide in-depth analysis of farmland values on a national, provincial or local basis.
- **Environmental assessments:** FCC's lending policies and processes are continually reviewed to ensure that all environmental laws and best practices are adhered to from a creditor's perspective. FCC staff are aware of the impact of environmental issues on the sustainability of an agricultural operation.
- **Land sales and leasing:** Agri-Land is also responsible for the sale and leasing of FCC properties.

FCC-CULEASE leasing program

FCC and CULEASE Financial Services™ are working together to offer capital lease financing on new or used agricultural equipment through FCC's national dealer equipment network. This product is available in Western Canada and Ontario.

National Dealer Equipment Financing Program

FCC works with a national network of agricultural equipment dealers to provide a competitive alternative for financing new and used agricultural equipment.

Agricultural Value-Added Program

In co-operation with Western Economic Diversification and CIBC, FCC assists western Canadian agribusiness enterprises in accessing debt capital.

For detailed information on our products, visit FCC's Web site at www.fcc-sca.ca or call our Customer Service Centre at 1-877-332-3301.

FCC MEDIUM-TERM

Notes

Strengthening your portfolio by contributing to agriculture

Canadian investors can safely lend their support to producers and agribusinesses through FCC's medium-term notes (MTNs). These notes offer competitive interest rates and a range of maturities to suit investors' needs.

The Corporation's MTNs are direct obligations of the Government of Canada and have the same security of principal and interest as federal government bonds. Medium-term notes can be held in investment portfolios and also inside registered plans such as retirement savings plans, retirement income funds or education savings plans.

MTNs can be purchased daily through a network of dealers for a minimum investment amount of $5,000 and then in multiples of $1,000. They are available in terms ranging from one to 10 years with semi-annual or monthly interest payments. Zero coupon bonds are also available at a discount with interest payable at maturity. By choosing different terms and interest payment options, investors can use FCC's medium-term notes to create a steady stream of interest income.

MTN investors help sustain the growth of Canadian agriculture while benefiting from an investment that features competitive yields, flexibility and capital safety.

For more detailed information on our medium-term notes, visit FCC's Web site at www.fcc-sca.ca or call our Customer Service Centre at 1-877-332-3301.

MAKING it EASY for

Customers

Customers' time is precious. They want fast, easy access to information and expertise that add value to their operations. Quality service and rapid transaction processing is part of this equation. That's why we continuously seek improvements in our processes, service delivery channels and quality of information.

Streamlining operations

Whether inquiring about account balances or applying for a new loan, our customers want answers quickly. This year, FCC's Business Process Re-engineering (BPR) team worked with field and service centre staff to implement new processes to allow the Corporation to serve customers better. As a result, field staff have access to new electronic tools and improved approval processes that decrease the turnaround time on loan requests.

In 2000-01, BPR and Human Resources (HR) reorganized HR service delivery to allow employees easier access to benefit and compensation information and services as well as to improve support to managers. The recommended structure is currently being implemented and efficiency gains should be evident by the end of the next fiscal year.

These service delivery improvements will help all employees focus on what's most important at FCC – the customer.

Improving access to products and services

For FCC, e-business is all about making it easier for agricultural operators in rural Canada to access FCC information and services. The strategy developed this year will take our Internet presence as an information resource to the next level by offering the ability to transact online. We will integrate our Internet services with face-to-face customer contact through our field offices and telephone service via the Customer Service Centre.

In March 2001, FCC redesigned the look and navigation of the FCC site to make it easier to access. We also began building the internal infrastructure to take our services online.

E-business is one way to enhance rural Canada by making our services accessible beyond the reach of our current office locations. This will support the federal government's commitment to spend $1 billion on high-speed Internet access into rural Canada by 2004.

Managing knowledge for greater strength

Producers and agribusiness operators depend on FCC's agricultural financing expertise to help them create financial solutions for long-term success. The Corporation is developing a knowledge management strategy to capture the expertise of FCC staff and share it within the Corporation and ultimately with our customers.

This year, FCC developed and launched its own corporate intranet to provide a central source of information for employees. The key objective of the first phase is to provide easier access to current corporate and industry information that employees need regularly.

The intranet will be an important tool in knowledge management. Employees will be able to access and build on available corporate information, turning it into knowledge. Online forums will allow staff to share their expertise with their colleagues. Communities of internal experts will be able to work together in the analysis of existing information, adding value that will result in improved understanding of customer needs.

In the future, the Internet will play a key role in delivering information and knowledge customized by sector and region.

Management DISCUSSION

and Analysis

Overview 2000-01

Highlights

- Improved financial stability – solid ratios and financial indicators
- Strong portfolio growth to $6.9 billion
- Diversification of portfolio by enterprise and geographic area
- Return of property to primary producers – property balances down 61 per cent from 1999-2000, based on total value held
- Improved operational efficiency

Key financial results

$ millions	2001	2000
Loans receivable	**6,907.6**	6,303.8
Portfolio growth rate	**9.6 %**	7.9 %
Loan approvals	**1,752.5**	1,611.6
Loan renewal rate	**94 %**	94 %
Arrears	**35.7**	35.1
Net interest income	**164.5**	154.4
Net interest margin	**2.41 %**	2.37 %
Administration expenses	**94.5**	90.8
Efficiency ratio	**55.0 %**	56.8 %
Income before income taxes	**61.2**	40.3
Return on equity*	**8.4 %**	6.6 %
Return on assets*	**0.89 %**	0.63 %
Debt-to-equity	**7.6:1**	9.5:1

* *Before income taxes*

- Loan portfolio is 9.6 per cent larger than in 1999-2000 and five per cent higher than planned.
- Loan approvals 8.7 per cent higher than in 1999-2000 (an additional $1.8 billion invested in agriculture).
- Net interest income 6.5 per cent higher than in 1999-2000.
- Overall net interest margin up four basis points from 1999-2000.
- Improved efficiency ratio reflecting the realization of process efficiency gains and cost containment.
- Increased income before income taxes due to the larger loan portfolio and higher net interest margin. All other revenues and expenses consistent with the prior year.
- Lower debt-to-equity ratio, indicating a stronger equity base which will better enable FCC to reinvest in agriculture and grow the balance sheet.

OUTLOOK 2001-02

- Steady growth of a strong, diversified portfolio
- Continued return of land holdings to primary producers
- Financial stability to support future portfolio growth
- Consistently high service levels through product and service delivery and quality improvement

Balance sheet

Highlights – Balance sheet

- Loan portfolio up 9.6 per cent to $6,908 million
- Loan approvals up 8.7 per cent to $1,753 million
- Impaired loans down $23 million to $145 million
- Allowance for credit losses up $19 million to $269 million
- Short- and long-term cumulative borrowings of $6.2 billion and $579 million respectively.

Lending activity

The loan portfolio grew 9.6 per cent to $6.9 billion in 2000-01, up from $6.3 billion in 1999-2000. Increased loan disbursements and renewals accounted for much of the portfolio growth, an indication of FCC's ability to retain and grow its customer base. New loan disbursements increased to $1.78 billion in 2000-01 from $1.58 billion in 1999-2000, a 12 per cent increase.

The lending focus continues to be on primary production, with the majority of loan approvals in 2000-01 going to primary producers. The overall lending mix shows increased diversification of the loan portfolio. The current year saw a shift in FCC's portfolio towards beef, hog, poultry and value-added operations, which is consistent with the overall growth in these industries during the year.

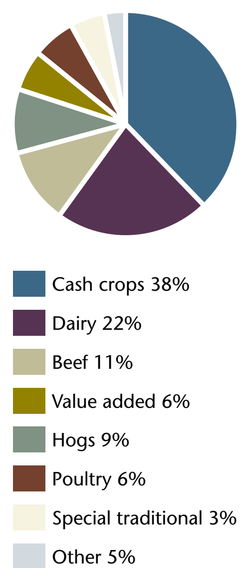
Primary production

Primary production is defined as farming that produces raw commodities, e.g. cash crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock.

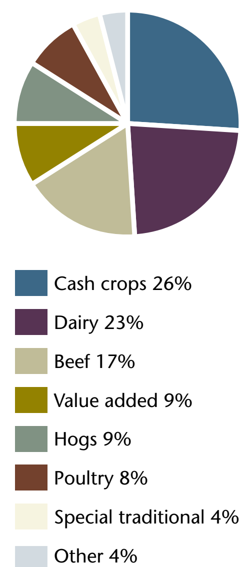
In 2000-01, loan approval dollars to primary producers remained consistent with 1999-2000 levels at $1.3 billion. The number of loans approved decreased, to 10,078 from 10,747. Lending to primary producers represents 86 per cent of the total loan approvals for the current year. This includes all lending through alliance partnerships as it is all to primary producers.

Cash crops and dairy represented 61 per cent of primary production loan approvals in 2000-01 compared to 65 per cent in 1999-2000. This difference was primarily due to an increase in lending to beef and poultry operations, reflecting the growth in these two industries. New products designed to meet specific customer needs have contributed to the diversification of the portfolio.

Portfolio by enterprise



2000-01 Approvals by enterprise



Special Traditional: includes bee-keeping, fur-bearing animals, Pregnant Mare Urine (P.M.U.), horses, vermiculture and aquaculture

Other: includes sheep, maple syrup, mixed enterprises and other income sources

At the regional level, primary production portfolios grew by an average of 8.0 per cent over the year, with the largest growth (12.3 per cent) in Ontario due to increased beef and poultry lending in the region. All other regions had growth rates near the average rate, with the Prairies seeing the slowest growth, due to nominal growth in lending to cash crop operations.

Agribusiness

Agribusiness includes businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

Loans approved for agribusiness enterprises grew in 2000-01 to $251 million from $146 million in 1999-2000. The portfolio increased by $154 million in the year as FCC served more producers diversifying into value-added production. By lending to agribusiness, FCC helps producers add more value to their commodities as well as create markets closer to home.

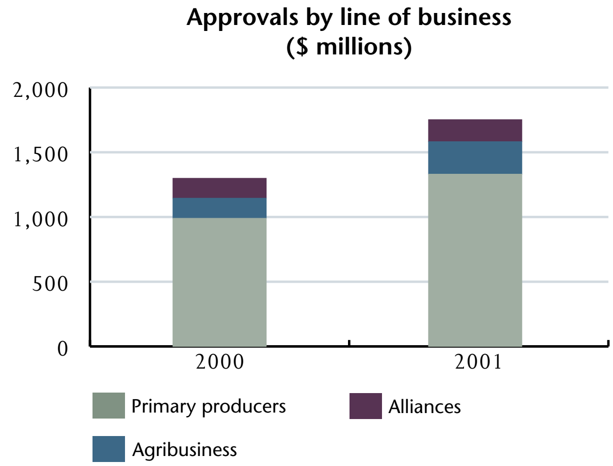
Quebec and Western regions led the growth in agribusiness lending, with 36.5 per cent and 31.0 per cent respectively. Significant increases in lending to value-added processing in the Quebec region and to poultry processors in the Western region drove this growth. The remaining growth was generated by increased lending to value added and crop processing in the Ontario region. Although agribusiness lending saw strong growth, the total volume still represents a small portion of the total portfolio.

Alliances

Alliances are relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services to primary producers.

FCC's present alliance portfolio includes 27 alliance contracts and several strategic partnerships with organizations such as Agriculture Financial Services Corporation in Alberta and the Business Development Bank of Canada. FCC creates these alliances and partnerships in order to provide leadership in the industry and to ensure that the Corporation has the resources and expertise available to respond to all producers' needs. For example, our alliance with CULEASE Financial Services provides FCC with the ability to offer leasing products to customers.

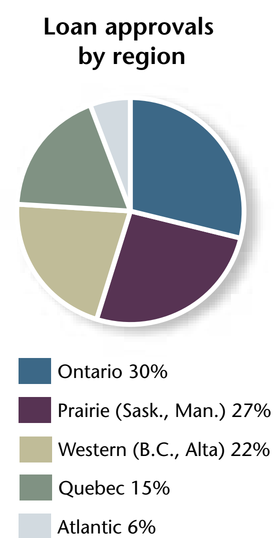
During the year, FCC continued to grow its alliance portfolio, which reached $215 million in the current year from $187 million in 1999-2000. This growth represents 5.1 per cent of the increase in the entire loan portfolio. At present, the alliance portfolio primarily serves the beef industry, with several beef alliances in the Prairie and Western regions making up 79 per cent of the total portfolio.



Total lending by geographic area

All areas of the country experienced an increase in dollar value of loans approved over the prior year. Ontario and Quebec experienced the largest increases, accounting for 45 per cent of all loan approvals in 2000-01, compared to 42 per cent in 1999-2000.

Overall portfolio growth of 9.6 per cent in 2000-01 is due primarily to significant increases in Ontario (13 per cent) and Quebec (12 per cent), a reflection of growth in the beef, poultry and value-added industries in these regions. The Prairie region experienced nominal growth in lending to cash crop operations.



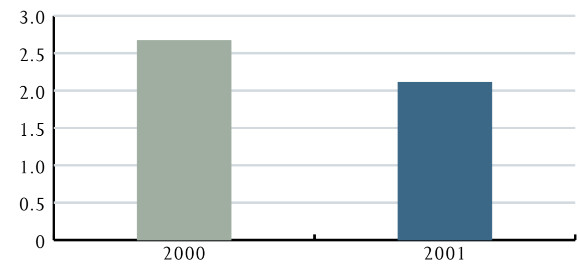
Strong credit quality

Impaired loans

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

In 2000-01, impaired loan balances decreased as a percentage of loans receivable to 2.11 per cent from 2.67 per cent and in overall value to $145 million from $168 million. This is a reflection of FCC's sound risk management policies and practices and the constant involvement of our employees in understanding and helping our customers. FCC continually monitors loans in arrears to identify potential impaired loans. The Corporation is proactive in helping customers through difficult times.

Impaired loans as percentage of loans receivable



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).

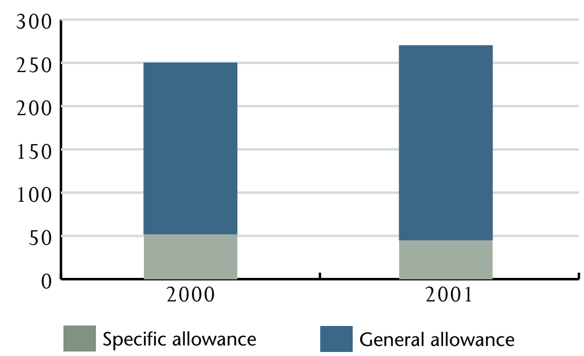
The allowance for credit losses has three components:

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 which 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.

Allowance balance ($ millions)



The allowance for credit losses increased by 7.8 per cent to $269.2 million from $249.7 million in 1999-2000. This increase is caused by the growth in the portfolio size of 9.6 per cent offset slightly by a healthier portfolio. This is reflected in the drop in the allowance as percentage of loans receivable to 3.90 per cent in 2000-01 from 3.96 per cent in 1999-2000. The increase in the allowance reflects the higher risks associated with a larger portfolio.

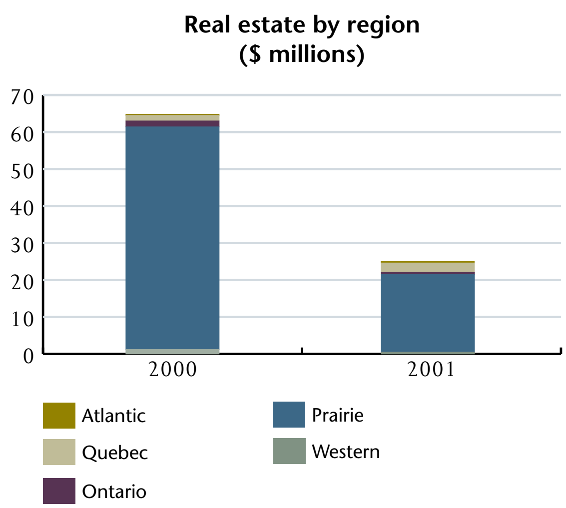
In order to limit credit losses and continue to meet the future needs of the agricultural industry, FCC will continue to emphasize good credit quality and build on sound lending risk management policies and practices.

Real estate acquired in the settlement of loans

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

The downward trend in FCC's real estate balances is a reflection of our commitment to returning farmland to primary producers. The real estate balance at March 31, 2001, was $25.1 million (120,924 acres), down from $64.9 million (360,284 acres) last year and lower than the target level for 2000-01.

The Corporation transferred 249,116 acres of land valued at $71.2 million to farmers this year compared to 248,772 acres, totaling $64.8 million, last year. Of the transfers completed this year, 64 per cent involved the return of farmland to former owners. As long-term leases mature, more farmland will be returned to producers in 2001-02.



Funding activity

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

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

Short-term funding

Short-term funding consists of borrowings with a duration 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, 2001, were $1.9 billion, compared to $1.0 billion as at March 31, 2000. This increase 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 duration of over one year. This includes all MTN and EMTN debt with over one year to maturity.

During 2000-01, FCC borrowed a total of $579 million in medium- and long-term funds, down from $1.1 billion in 1999-2000. The decrease is due to lower levels of debt maturing in the year. In 2000-01, $551 million of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes. FCC also issued $28 million in the EMTN market, down from $100 million in 1999-2000. 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 2001-02 – Balance sheet

- Sustained portfolio growth with continued emphasis on primary producers
- Expansion of portfolio depth and breadth through enhanced partnerships and delivery channels
- Increased allowance for credit losses to reflect risks associated with a larger portfolio and the uncertainty in general economic conditions
- Continued return of real estate to primary producers
- Financial strength as a result of solid margins and a larger portfolio
- Funding sourced via the domestic and international capital markets

Income statement

HIGHLIGHTS – INCOME STATEMENT

- Net interest income up 6.5 per cent to $164.5 million.
- Net interest income margin up four basis points to 2.41 per cent.
- Administration expense efficiency ratio improved to 55.0 per cent.
- Other income up 28 per cent to $8.2 million.

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 6.5 per cent to $164.5 million from $154.4 million last year. The major factors contributing to this year-over-year variance are:

- a larger portfolio – the loans receivable portfolio for 2000-01 is up by $603.8 million over 1999-2000, which contributed $21.4 million more in income; and
- a decrease in rates – lower rate levels offset the volume gain by approximately $11.3 million.

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

Net interest income and margin

$ millions	**2001**	**2000**
Interest income		
Loans receivable	**$ 524.6**	$ 470.2
Investments	**24.0**	25.3
	548.6	495.5
Interest expense		
Short-term debt	**83.6**	58.4
Long-term debt	**300.5**	282.7
	384.1	341.1
Net interest income	**$ 164.5**	$ 154.4
Average total assets	**$ 6,815.6**	$ 6,513.5
Net interest margin	**2.41 %**	**2.37** %
Year-over-year change in net interest income due to:		
Increase in volume	**$ 21.4**	$ 14.2
Decrease in rates	**(11.3)**	(6.1)
	$ 10.1	$ 8.1

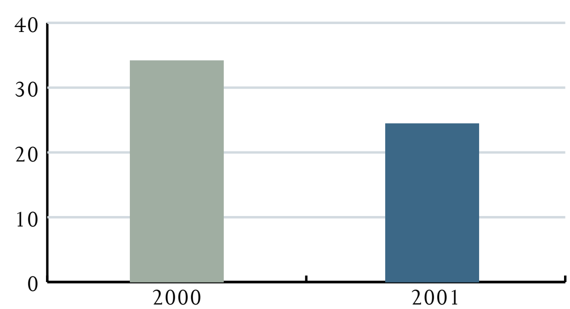
Provision for credit losses

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 decreased to $40.2 million from $52.7 million in 1999-2000 as a result of lower impaired loan balances and improved overall portfolio health.

The provision will remain at higher levels in future years due to the risks associated with a larger portfolio and the uncertainty in general economic conditions.

Provision as a percentage of NII (%)



Administration expenses and efficiency

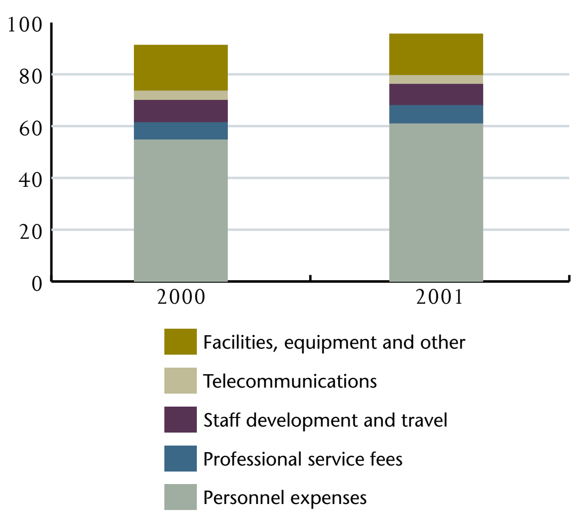
Despite portfolio growth which resulted in a 11.6 per cent increase in interest revenue, administration expenses increased by only 4.1 per cent. This improved the efficiency ratio, a measure of how well resources are used to generate income, to 55 per cent in 2000-01 from 57 per cent in the prior year.

The improvement in the efficiency ratio reflects the realization of efforts in prior years that were aimed at achieving process efficiencies and cost containment. A steady focus on process redesign and improvement led to better allocation of resources to support the growth of lending, enhanced product support and market development and a stronger infrastructure which maximizes customer support.

At the same time, service levels remain high and FCC is committed to making it easy for customers to do business with us through:

- continuously improving product and service delivery;
- initiating an e-business project for improved service to customers; and
- maintaining a focus on continuous quality improvement.

Administration expenses
($ millions)



Income taxes

Effective April 1, 2000, the Corporation retroactively adopted the accounting recommendations in Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3465, Income Taxes. Under Section 3465, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective value for income tax purposes. The Corporation's temporary differences, which are deductible, combined with the Corporation's income tax loss carry-forwards, represent a future income tax asset. Changes to the value of the future income tax asset are charged against income as future income tax expense.

Management of the Corporation is of the opinion that there is a less than likely probability of fully realizing the future income tax asset. However, after extensive consultation with the Office of the Auditor General and in order to accommodate the technical interpretation of Section 3465, the future tax asset has been recorded on the Balance Sheet.

Net income

Net income for the year is $31.6 million. This is not comparable to prior year net income of $38.4 million due to adoption of CICA Handbook section 3465 in 2000-01. Income before income taxes increased to $61.2 million compared to $40.3 million in 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 will continue to increase net income. This allows FCC to play an increasingly significant role in the support of growth in the agricultural industry. All income earned is reinvested into agriculture by financing portfolio growth and new product development.

OUTLOOK 2001-02 – Income statement

- Continued growth in net interest income driven by higher loan volumes and a modest rise in margins
- Expected increase in net income as net interest income outpaces administration expenses
- Efficiency ratio to improve due to process efficiency gains
- Increased provision for credit losses in response to portfolio growth and continued economic volatility

Managing risk

Highlights – Risk

- Implemented a new internal risk-rating system.
- Completed the first full year of the new field audit program.
- Met all risk measurement targets throughout the year.

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 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 considers that it faces four specific types of business risks: credit risk, market risk, operational risk and liquidity 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;
- risk of failure of other counterparties to honor contract arrangements.

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

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

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; and
- e-business.

Liquidity risk: Liquidity is the availability of funds or assurance that funds will be available to honour all commitments. Commitments are generally met by operating cash flows, supplemented by assets readily convertible to cash or through FCC's capacity to borrow. Liquidity risk may increase if principal and interest cash flows related to assets, liabilities and off-balance sheet items are mismatched.

Responsibility for risk management

No one division or unit is responsible for managing all the risks FCC faces. Instead, divisions and teams with specialized expertise address specific risk concerns.

- The Risk Management division manages credit risk in the loan portfolio and is responsible for credit authorization, customer and loan monitoring, participation in field office credit audits, and the development and administration of lending and loan administration policies. The division assesses credit risk at both the transactional level and the aggregate level.
- 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 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 and reports to the Board of the Corporation on a quarterly basis.
- Corporate Audit is responsible for ensuring compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. In 1999-2000, special emphasis was placed on the management of credit risk through the field audit program.

Integrated risk management

In 1999-2000, FCC began developing an integrated approach to risk management in order to better identify, evaluate and manage the variety of risks it faces. This approach is not designed to replace current risk management functions or structures, but to better coordinate risk mitigation efforts and enhance the risk culture of the organization. The initial project phase of the framework identified and addressed five major short-term and long-term risks FCC currently faces. The project phase ended March 31, 2001, with the presentation of an analysis of the five major risks and related recommendations. The development and implementation of the integrated risk management framework was supported by recommendations in the Office of the Auditor General's (OAG's) 1997 Special Examination.

Integrated risk management framework...

Defines the mechanisms needed to continually identify, measure, mitigate, monitor and communicate all forms of risk facing FCC.

Five major risks were identified, based on probability and severity, and analyzed during the project phase:

- agribusiness;
- loan portfolio management;
- information technology;
- customer retention and attraction; and
- strategic positioning.

Credit risk

In 2000-01, several initiatives were undertaken to support credit risk management at FCC, including the development of a portfolio vision and a portfolio diversification strategy. 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.

A revised lending operations policy was put in place during the fiscal year. As well, most employees directly involved in lending activities have completed additional credit training. Credit risk management for our agribusiness lending has improved, in part, through implementation of recommendations made during the integrated risk management project, as well as through the experience gained as the agribusiness portfolio grows.

In 2000-01, Portfolio Management introduced a new internal risk-rating system, the Risk Scoring and Pricing System (RSPS). 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. The RSPS is continually updated with the information necessary to rate the different risks associated with individual loans, customers' payment behaviour and the agricultural sector in which the customer operates. The RSPS also allows better separation of risk categories than past measurement tools, reflecting more accurately the numerous levels of potential risk. The new system was developed using historical FCC data on loan portfolio performance to ensure that the data reflected the specific tendencies in agricultural lending. The data will be tested and refined on a constant basis to ensure its relevance in today's changing environment.

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

- Regular, automatic updates ensure information used for risk scoring and pricing is current and relevant.
- Data facilitates calculation of allowance and provision for credit losses.
- 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.

The RSPS feeds information on risk at the individual loan level into a Strategic Credit Risk Model that measures overall credit risk present in the portfolio. The model 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.
- 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, which translates to a moderate level of volatility in overall credit risk and financial performance.

Strategic Credit Risk Model – March 31, 2001, results

- In all three risk categories – transaction, intrinsic and concentration – risk was determined to be moderate, resulting in a managed level of overall strategic credit risk.
- These results 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-1980's data indicate significant progress in reducing overall levels of credit risk.

Last year also was the first full year of a new field audit program, aimed in part at ensuring compliance with credit policy and procedures. This process also provides the added value of on-site feedback and training on credit-related issues.

It is a tribute to our customers and to our front-line staff that the numerous difficulties in the agricultural economy did not significantly erode portfolio performance. This is a result of the proactive manner in which FCC works with customers facing uncertain cash flow.

Market risk

Treasury manages exposure to market risk within limits developed in consultation with the federal Department of Finance and approved by the Corporation'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.

The Treasury division manages operations using 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 is not exposed to foreign exchange rate risk since 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, 2001, 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	$9.1	($9.6)
Economic value variability (MVPE)	($44.5)	$49.9

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 $302.3 million were on hand at March 31, 2001 (March 31, 2000 – $364.3 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.

OUTLOOK 2001-02 – Risk

- Continue to develop the Integrated Risk Management framework
- Continue to develop and refine the internal risk-rating system

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation 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 and the valuation of real estate acquired in settlement of loans, 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. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management 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 11, 2001

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 Corporation as at March 31, 2001, 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 3l, 2001, 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, after giving retroactive effect to the change in the methods of accounting for employee future benefits and income taxes as explained in Note 3 to the financial statements, 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 Corporation Act* and the by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Interim Auditor General of Canada

Ottawa, Canada
May 11, 2001

Balance Sheet

AS AT MARCH 31

(thousands of dollars)

	2001	2000
ASSETS		
Cash and short-term investments (Note 4)	**$ 302,261**	$ 308,768
Accounts receivable and other accrued assets	**47,728**	74,874
Long-term investments (Note 5)	**–**	55,557
Loans receivable (Notes 6 and 7)	**6,638,344**	6,054,099
Real estate acquired in settlement of loans (Note 8)	**25,118**	64,855
Equipment and leasehold improvements (Note 9)	**15,521**	12,554
Other assets (Notes 12 and 14)	**152,866**	–
	$ 7,181,838	$ 6,570,707
LIABILITIES		
Accounts payable and accrued liabilities	**$ 40,072**	$ 23,349
Accrued interest on borrowings	**131,831**	165,966
	171,903	189,315
Borrowings (Note 10)		
Short-term debt	**1,893,450**	1,040,139
Long-term debt	**4,263,028**	4,700,734
	6,156,478	5,740,873
Other liabilities and deferred fees (Note 11)	**20,880**	13,302
	6,349,261	5,943,490
EQUITY		
Capital (Note 1)	**507,725**	507,725
Retained earnings	**324,852**	119,492
	832,577	627,217
	$ 7,181,838	$ 6,570,707

Commitments and contigent liabilities (Note 13)

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

Statement of Operations and Retained Earnings

FOR THE YEARS ENDED MARCH 31

(thousands of dollars)

	2001	2000
INTEREST INCOME		
Loans receivable	**$ 524,562**	$ 470,152
Investment income	**23,984**	25,337
	548,546	495,489
Interest expense		
Short-term debt	**83,564**	58,419
Long-term debt	**300,482**	282,653
Net interest income	**164,500**	154,417
Provision for credit losses (Note 7)	**40,200**	52,743
Net interest income after provision for credit losses	**124,300**	101,674
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	**26,335**	29,785
Operating expenses	**1,065**	1,994
Interest expense	**2,048**	4,804
Net lease and real estate income	**23,222**	22,987
OTHER INCOME	**8,226**	6,415
INCOME BEFORE ADMINISTRATION EXPENSES	**155,748**	131,076
Administration expenses	**94,509**	90,779
INCOME BEFORE INCOME TAXES	**61,239**	40,297
Current income taxes (Note 12)	**2,206**	1,926
Future income taxes (Note 12)	**27,436**	–
Income taxes	**29,642**	1,926
NET INCOME	**31,597**	38,371
Retained earnings, beginning of year, as restated (Note 3)	**293,255**	84,121
Dividend	**–**	(3,000)
RETAINED EARNINGS, END OF YEAR	**$ 324,852**	$ 119,492

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

Statement of Cash Flows

FOR THE YEARS ENDED MARCH 31

(thousands of dollars)

	2001	2000
OPERATING ACTIVITIES		
Net income	**$ 31,597**	$ 38,371
Items not involving cash		
Future income taxes	**27,436**	–
Provision for credit losses	**40,200**	52,743
Amortization of bond premiums/discounts	**36,236**	21,117
Change in accrued interest receivable	**32,802**	(30,864)
Change in accrued interest payable	**(46,438)**	45,110
Other	**15,888**	(5,730)
Cash provided by operating activities	**137,721**	120,747
INVESTING ACTIVITIES		
Long-term investments	**53,404**	45,734
Loans receivable disbursed	**(1,776,200)**	(1,579,700)
Loans receivable repaid	**1,159,157**	1,095,652
Change in real estate held (Note 8)	**39,737**	38,540
Other	**(9,899)**	(16,032)
Cash used in investing activities	**(533,801)**	(415,806)
FINANCING ACTIVITIES		
Long-term debt repaid to Canada	**(226,113)**	(236,194)
Long-term debt from capital markets	**567,154**	1,109,989
Long-term debt repaid to capital markets	**(814,983)**	(431,349)
Change in short-term debt	**863,515**	(81,416)
Dividend paid	**–**	(3,000)
Cash provided by financing activities	**389,573**	358,030
(Decrease)/increase in cash and short-term investments	**(6,507)**	62,971
Cash and short-term investments, beginning of year	**308,768**	245,797
Cash and short-term investments, end of year	**$ 302,261**	$ 308,768

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

Notes to Financial Statements

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (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 the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. 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, 2001, capital payments received from the Government of Canada amounted to $1,168.3 million (2000 – $1,168.3 million). The statutory limit for that same period was $1,175.0 million (2000 – $1,175.0 million).

(c) Limits on borrowing

The *Farm Credit Corporation 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, 2001, the Corporation's total liabilities were 7.6 times the equity of $832.6 million (2000 – 9.5 times the equity of $627.2 million).

2. Significant accounting policies

(a) Investments

Investments comprise the Balance Sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported 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.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in income as a component of investment income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the lives of the related funding instruments.

(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.

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 special 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 write-downs on real estate acquisitions and 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 from the translation of foreign denominated debt and interest expenses, are reported net of the exchange gains and losses from the related currency exchange agreements. These amounts are included as a component of interest 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 index-linked or equity index-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest 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 index-linked 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 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

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 elect to transfer their past service, there will be a transfer of assets from the Public Service Superannuation Fund equal to the liabilities held for these members.

Under the plan administered by the Government of Canada, the Corporation's contributions were expensed during the year in which the services were rendered and those contributions represented the total pension obligation of the Corporation.

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 service 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 two defined benefit pension plans and a defined contribution pension plans. 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 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, the provision for employee future benefits and the recognition of the deductible temporary differences and loss carry-forwards for income tax purposes as a future income tax asset. Actual results could differ from those estimates.

3. Changes in accounting policies

(a) Employee future benefits

Effective April 1, 2000, the Corporation retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, *Employee Future Benefits*.

In previous years, the Corporation accounted for the costs of post-retirement benefits and all post-employment benefits except termination benefits on a pay-as-you-go basis. Under Section 3461, these costs are required to be accrued over the periods in which the employees render services in return for the benefits. The cumulative effect of this accounting policy change, as of April 1, 2000, is an increase to Accounts receivable of $2.0 million, an increase in Accrued liabilities of $8.4 million in addition to the $3.6 million accrual at the beginning of the year and a decrease to the opening balance of retained earnings for the year ended March 31, 2001 of $6.4 million. The increase to Accounts receivable reflects an amount due from the prior plan administrator, which would fund the obligation incurred in prior years with respect to supplementary death benefits.

The Corporation's new pension plans were implemented on July 1, 2000. The new standard with regards to pensions was adopted prospectively as this was a new accounting policy to the Corporation.

(b) Income taxes

Effective April 1, 2000, the Corporation retroactively adopted the accounting recommendations in CICA Handbook Section 3465, *Income Taxes*. As permitted by this Handbook Section, the comparative statements have not been restated.

Section 3465, *Income Taxes*, requires a change from the deferred method of accounting for income taxes under CICA Handbook Section 3470, *Corporate Income Taxes*, to the asset and liability method of accounting for income taxes. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. In this, the first year the Corporation is adopting Section 3465, management has used tax rates that were substantively enacted as at March 31, 2001 to measure the future tax asset as at April 1, 2000. Had the Corporation used the tax rate in effect at April 1, 2000, the tax asset and future tax expense would have both been increased by $24.1 million. Management believes this would have created a distortion of operating results. Further, management believes that the approach adopted results in an appropriate value of the future tax asset at both the beginning and end of the year and an appropriate charge to operations during the year. The cumulative effect of this accounting policy change is an increase in Other assets and Retained earnings as at April 1, 2000 of $180.2 million, a charge to operations of $27.4 million during the year and an increase in Other assets and Retained earnings as at March 31, 2001 of $152.8 million.

Beginning Retained earnings, as of April 1, 2000, was adjusted as follows:

(thousands of dollars)

Retained earnings, beginning of year, as previously reported	$	119,492
Change in accounting policy for employee future benefits		(6,445)
Change in accounting policy for income taxes		180,208
Retained earnings, beginning of year, as restated	$	293,255

4. Cash and short-term investments

(thousands of dollars)

	Effective interest rate (%)		2001		2000
Cash		**$**	**24,430**	$	19,375
Short-term investments	4.58 – 5.72		**276,463**		287,739
Accrued interest			**1,368**		1,654
		$	**302,261**	$	308,768
Short-term investments consist of instruments with maturities of less than one year, issued by:					
The Government of Canada, its agencies and Crowns		**$**	**88,665**	$	47,890
Other			**187,798**		239,849
		$	**276,463**	$	287,739

Other investments consist of short-term instruments issued by the governments of the provinces of Canada and short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2001, the largest total investment in any one institution was $59.7 million (2000 – $43.6 million).

The weighted average term-to-maturity of the short-term investments was 73 days (2000 – 50 days).

5. Long-term investments

(thousands of dollars)

	Effective interest rate (%)		2001		2000
Amounts due within: 1 – 5 years	–	**$**	**–**	$	50,000
Unamortized premium and discount			**–**		4,314
Accrued interest			**–**		1,243
		$	**–**	$	55,557

Long-term investments consisted entirely of Government of Canada bonds which were sold during the current year.

6. Loans receivable

(thousands of dollars)

	Stated interest rate (%)	2001	2000
Principal amounts due, secured by:			
– mortgages	5.00 – 14.00	**$ 5,852,024**	$ 5,306,707
– chattels	5.45 – 13.40	**792,222**	721,415
– notes	5.00 – 12.50	**28,654**	25,087
		6,672,900	6,053,209
Accrued interest and fees, net of payments held		**89,250**	82,156
		6,762,150	6,135,365
Recorded investment in impaired loans, secured by:			
– mortgages		**136,275**	156,170
– chattels		**8,614**	11,377
– notes		**555**	902
		145,444	168,449
Total loans receivable		**6,907,594**	6,303,814
Less: Allowance for credit losses (Note 7)		**(269,250)**	(249,715)
		$ 6,638,344	$ 6,054,099
Principal amounts (excluding impaired loans) due:			
within 1 year		**$ 1,499,447**	$ 1,390,237
1 – 5 years		**4,530,250**	4,038,768
over 5 years		**643,203**	624,204
		$ 6,672,900	$ 6,053,209

Management estimates that annually, over the next three years, approximately 6.4% (2000 – approximately 8.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2001, $11.4 million (2000 – $2.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

7. Allowance for credit losses

(thousands of dollars)

	2001	2000
Balance, beginning of year	**$ 249,715**	$ 214,164
Write-offs, net of recoveries	**(20,665)**	(17,192)
Provision for credit losses	**40,200**	52,743
Balance, end of year	**$ 269,250**	$ 249,715
Specific allowance	**$ 44,671**	$ 52,215
General allocated and unallocated allowance	**224,579**	197,500
Balance, end of year	**$ 269,250**	$ 249,715

As at March 31, 2001, the total recorded investment in loans receivable against which a specific allowance has been identified was $145.4 million (2000 – $168.4 million). The general allowance was established against the remaining $6,762.1 million (2000 – $6,135.4 million) investment in loans receivable.

8. Real estate acquired in settlement of loans

(thousands of dollars)

	2001	2000
Balance, beginning of year	**$ 64,855**	$ 103,395
Acquisitions	**4,693**	2,253
Disposals	**(44,430)**	(40,793)
Balance, end of year	**$ 25,118**	$ 64,855
Real estate held for sale	**$ 21,099**	$ 28,770
Real estate under long-term lease maturing:		
within 1 year	**123**	32,115
from 1 – 2 years	**2,901**	2,863
from 2 – 3 years	**995**	1,107
	4,019	36,085
	$ 25,118	$ 64,855

(thousands of dollars)

	2001	2000
Future expected lease receipts, using current lease rates, due:		
within 1 year	**$ 205**	$ 1,904
1 – 5 years	**45**	303
	$ 250	$ 2,207

Included in real estate held for sale is property which, as of March 31, 2001, has been sold on a conditional basis. This property has a recorded value of $11.1 million (2000 – $17.0 million).

9. Equipment and leasehold improvements

(thousands of dollars)

	Cost	Accumulated amortization	Net book value 2001	Net book value 2000
Office equipment and furniture	$ 7,838	$ 3,639	**$ 4,199**	$ 3,912
Computer equipment and software	25,488	17,611	**7,877**	5,555
Leasehold improvements	7,211	3,766	**3,445**	3,087
	$ 40,537	$ 25,016	**$ 15,521**	$ 12,554

Included in Administration expenses was $5.3 million (2000 - $6.4 million) of amortization of equipment and leasehold improvements.

10. 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 totaling $1,893.4 million (2000 – $1,040.1 million). The effective interest rate on these notes ranges from 4.35% to 5.92% (2000 – 4.91% to 5.54%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 13, 2000, the Corporation entered into a line of credit agreement allowing the Corporation to access funds in the amount of $50 million on a revolving basis. Indebtedness under this agreement is unsecured. This credit facility expires December 12, 2001. As at March 31, 2001, there were no draws on this line of credit.

(b) Long-term debt

(thousands of dollars)

	Stated interest rate (%)	2001	2000
Loans from Canada, secured by notes	7.03 – 9.91	**$ 578,491**	$ 804,604
Loans from capital markets, secured by notes payable in:			
Canadian dollars	nil – 9.00	**3,620,046**	3,740,130
Japanese yen (¥2,000.0 million)	2.00 – 2.50	**27,523**	–
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index		**4,580**	12,000
the Euro Top 100 Index		**32,388**	56,000
the S&P 500 Composite Stock Price Index		**–**	38,000
the DS Barra Government Bond Index		**–**	50,000
		$ 4,263,028	$ 4,700,734

Loans 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.

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

Long-term debt maturities are as follows:
(thousands of dollars)

	2001	2000
Amounts due:		
within 1 year	**$ 1,360,788**	$ 1,279,186
from 1 – 2 years	**1,023,501**	1,060,127
from 2 – 3 years	**730,300**	779,771
from 3 – 4 years	**509,048**	631,052
from 4 – 5 years	**263,770**	421,036
over 5 years	**375,621**	529,562
	$ 4,263,028	$ 4,700,734

Included in long-term debt is $378.6 million (2000 – $391.2 million) of loans extendable beyond their original due dates at the Corporation's option.

11. Other liabilities and deferred fees

(thousands of dollars)

	2001	2000
Other liabilities and deferred fees consist of:		
Accrued benefit liability (Note 14)	**$ 12,678**	$ 3,600
Net currency swap payable	**2,823**	165
Downpayments on real estate sales	**2,308**	4,577
Deferred loan fees	**1,922**	4,241
Other	**1,149**	719
	$ 20,880	$ 13,302

12. Income taxes

As at March 31, 2001, deductible temporary differences of approximately $311.9 million (2000 – $239.5 million) are available to the Corporation as deductions against future tax liabilities. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for tax purposes.

In addition, the loss carry-forwards for income tax purposes, which have been recognized in the financial statements, amount to $138.5 million (2000 – $280.8 million) and expire on the dates indicated:

(thousands of dollars)

March 31, 2003	**$ 41,059**
March 31, 2005	**97,433**
	$ 138,492

The net future tax asset is included in Other assets on the Balance Sheet and is comprised of:
(thousands of dollars)

		2001
Components of future income tax balance		
Future income tax assets:		
Allowance for credit losses	$	**82,196**
Post-retirement benefits other than pensions		**4,687**
Equipment and leasehold improvements		**18,647**
Non-capital loss carry-forwards		**46,976**
Other		**267**
Net future income tax asset	$	**152,773**

Current income taxes payable by the Corporation 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.

The following is a reconciliation of income taxes expense:
(thousands of dollars)

	2001			2000		
Income taxes at statutory rates	$	**24,042**	**39.26%**	$	15,925	39.52%
Retroactive adoption of section 3461		**3,316**			–	
Large corporations tax		**2,206**			1,926	
Non-deductible expenses		**258**			275	
Part VI tax recovery		**–**			(9,523)	
Utilization of timing differences		**–**			(6,677)	
Other		**(180)**			–	
Income taxes expense	$	**29,642**		$	1,926	

13. 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	$	**5,548**
from 1 – 2 years		**3,531**
from 2 – 3 years		**2,368**
from 3 – 4 years		**1,626**
from 4 – 5 years		**815**
over 5 years		**484**
	$	**14,372**

(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, 2001, the Corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $16.2 million (2000 – $1.6 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its customers.

As at March 31, 2001, loans to farmers and agribusiness approved but undisbursed amounted to $101.8 million (2000 – $138.1 million). These loans were approved at an average interest rate of 7.74% (2000 – 8.79%) 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, 2001.

14. 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, 2000.

Change in the accrued benefit obligation:
(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Accrued benefit obligation, beginning of year	$ –	$ 12,045
Current service cost	1,847	470
Interest cost	105	615
Plan participants' contributions	956	–
Benefits paid	(69)	(452)
Actuarial losses	154	278
Accrued benefits obligation, at measurement date	$ 2,993	$ 12,956

Change in plan assets:
(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Fair value of plan assets, beginning of year	$ –	$ –
Actual return on plan assets	25	–
Employer contributions	1,986	–
Plan participants' contributions	956	–
Benefits paid	(69)	–
Fair value of plan assets, at measurement date	$ 2,898	$ –

Funded status at measurement date:
(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Deficiency of plan assets at fair value over projected plan benefits	$ (95)	$ (12,956)
Unrecognized net actuarial losses	188	278
Accrued benefit asset (liability)	$ 93	$ (12,678)

The accrued benefit asset for the Corporation's pension plan is included in Other assets on the Balance Sheet. The accrued benefit liability for other benefits 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)

	Pension benefits 2001	Other benefits 2001
Current service cost	$ 1,847	$ 470
Interest cost	105	615
Expected return on plan assets	(58)	–
Net benefit plan expense	1,894	1,085
Employer contributions to PSSA plan	2,485	–
Employer contributions to defined contribution plan	1,336	–
Accrued contributions to RCA plan	204	–
Total benefit expense included in the Statement of Operations and Retained Earnings	$ 5,919	$ 1,085

The amount of expense included in the Statement of Operations and Retained Earnings represents nine months to March 31, 2001 for the defined contribution plan and six months for the defined benefit plans to December 31, 2000, 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:

	Pension benefits 2001	Post-retirement benefits 2001	Post-employment benefits 2001
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% increase in the per capita cost of covered hospital and drug costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil ten years from the current year and remain at that level thereafter. The rate for drug costs was assumed to decrease gradually to 5.00% in 10 years from the current year and remain at that level thereafter.

15. 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 (Aa3 from Moody's or AA- from Standard & Poor's or better). 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, 2001, was $330.5 million (2000 – $425.1 million) and the largest positive replacement cost of contracts with any institution as at March 31, 2001, was $9.8 million (2000 – $15.3 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2001, were:

(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
Equity index-linked	Fixed	–	–	–	–	–
Bond index-linked	Floating	–	–	–	–	–
Purchased options		–	–	–	–	–
		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	–
CDN fixed	GBP fixed	–	–	–	–	–
		109,747	1,875	–	111,622	8,275
Total		$ 554,950	$ 419,263	$ 857	$ 975,070	$ 25,434

(thousands of dollars)

2000 – 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	$ 90,000	$ 209,000	$ 7,900	$ 306,900	$ 321
Fixed	Floating	322,200	176,000	80,000	578,200	3,365
Fixed	Fixed	20,000	40,000	–	60,000	4,829
Floating	Floating	–	–	857	857	20
Equity index-linked	Floating	–	49,000	19,000	68,000	12,358
Equity index-linked	Fixed	38,000	–	–	38,000	–
Bond index-linked	Floating	50,000	–	–	50,000	–
Purchased options		10,000	–	–	10,000	51
		530,200	474,000	107,757	1,111,957	20,944
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	51,000	5,000	–	56,000	–
CDN fixed	USD floating	–	2,250	–	2,250	–
CDN fixed	GBP fixed	29,860	–	–	29,860	36
		80,860	7,250	–	88,110	36
Total		$ 611,060	$ 481,250	$ 107,757	$ 1,200,067	$ 20,980

Included in derivative financial instruments is $378.6 million (2000 – $391.2 million) of interest rate swap and option contracts extendable beyond their original due dates.

16. 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)

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%
Long-term investments	$ –	–	–	$ –
Average yield	–	–	–	–
Loans receivable (1)				
– 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	5.62%	6.06%	5.65%	5.88%

(thousands of dollars)

2000 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
Short-term investments	$ 289,393	–	–	$ 289,393
Average yield	5.27%	–	–	5.27%
Long-term investments	$ –	55,557	–	$ 55,557
Average yield	–	4.79%	–	4.79%
Loans receivable (1)				
– Fixed-rate	$ 1,203,026	3,153,728	536,886	$ 4,893,640
Average yield	8.03%	7.87%	8.45%	7.97%
– Floating-rate	$ 206,080	939,855	95,790	$ 1,241,725
Average yield	7.90%	8.08%	8.12%	8.05%
Short-term debt	$ 1,046,337	–	–	$ 1,046,337
Average yield	5.16%	–	–	5.16%
Long-term debt	$ 1,322,891	2,989,663	547,948	$ 4,860,502
Average yield	5.65%	5.98%	5.74%	5.86%

Note: (1) *Loans receivable excludes impaired loans.*

17. Fair values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

(thousands of dollars)

As at March 31	2001 Carrying value	2001 Estimated fair value	2000 Carrying value	2000 Estimated fair value
Assets				
Cash and short-term investments	**$ 302,261**	**$ 302,261**	$ 308,768	$ 308,768
Accounts receivable and other accrued assets	**47,728**	**47,728**	74,874	74,874
Long-term investments	**–**	**–**	55,557	53,493
Loans receivable	**6,638,344**	**6,839,570**	6,054,099	6,100,958
Liabilities				
Accounts payable and accrued liabilities	**$ 40,072**	**$ 40,072**	$ 23,349	$ 23,349
Accrued interest on borrowings	**131,831**	**131,831**	165,966	165,966
Short-term debt	**1,893,450**	**1,893,450**	1,040,139	1,040,139
Long-term debt	**4,263,028**	**4,330,599**	4,700,734	4,695,442

As at March 31	2001 Notional amount	2001 Net fair value	2000 Notional amount	2000 Net fair value
Derivatives				
Interest rate contracts	**$ 863,448**	**$ 3,823**	$ 1,111,957	$ 5,236
Foreign currency contracts	**111,622**	**8,198**	88,110	(699)

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.

Fair value for long-term investments is determined by reference to quoted market prices.

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 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. The estimated fair value for the performing variable 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.

The method of calculating the estimated fair value for the impaired loans receivable was changed in the current year with the comparative amount restated in order to make it more consistent with the method used by other financial institutions.

18. 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.

19. Comparative figures

Certain 2000 comparative figures have been reclassified to conform with the presentation adopted in 2001.

CORPORATE Governance

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 the *Farm Credit Corporation Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through committees that include Audit, Corporate Governance and Human Resources. 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 systems to manage these risks are in place;
- 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

The Board performs a significant role in setting the strategic direction and ensuring that the legislative mandate of the Corporation continues to meet the needs of the agricultural industry. In 2000-01, the Board reviewed the business needs of the Corporation's customers and recommended legislative changes to ensure that the Corporation is well positioned to meet those customer needs.

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

Director appointment and renewal

The Governor in Council appoints the Chair and the President of the Corporation. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with approval of the Governor in Council. 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.

The Board of Directors has approved a Chair profile and a Director profile that 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 for the selection of new candidates to both positions by the government. The Board also periodically assesses its own composition to ensure that it has the right mix of expertise and background to meet the strategic needs of the Corporation.

Appointments

Rosemary Davis, a member of the Board since 1995, was appointed as Chair of the Board effective June 20, 2000. Donna Graham and Joan Meyer were appointed as Directors on September 26, 2000.

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 the business and affairs of the Corporation. Information and education on the business of the Corporation is provided to board members on an ongoing basis and includes direct access to members of senior management. Board members also participate in ongoing development activities, including attendance at educational seminars sponsored by the Conference Board of Canada and periodic board in-service governance sessions with experts on governance.

Loans where Directors may have a material interest

Agriculture and agribusiness knowledge is one of the key attributes for a Board member to possess. 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 has no involvement in the approval of any loans including their terms, conditions or interest rates. In addition, the Board has a clearly enunciated policy governing the matter of loans where a director may have a material interest. This policy, along with the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders, clearly sets out a process to distance a Director from any involvement in the particular matter.

Directors must disclose any interest in, and refrain from voting or making representations in respect of, any material contract with the Corporation. The policy further states that any such loan or material contract where a Director may be interested shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to either.

Board composition

The Board of Directors is composed of 12 members including 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.

FCC's President and Chief Executive Officer is appointed on a full-time basis by the Governor in Council and is also a member of the Board of Directors. John J. Ryan was appointed to this position on September 1, 1997.

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. Any recommendations are brought to the attention of Board as required. In discharge of its responsibilities, the Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General, the auditors for FCC.

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

- approved the 1999-2000 Financial Statements and Annual Report and the quarterly financial results for the fiscal year 2000-01;
- 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 2000-01; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 1999-2000, as well as the plan for the 2000-01 annual audit.

BOARD Committees

Human Resources Committee

Chair: Eleanor M. Hart
Members: Rosemary Davis
John J. Ryan
Rasphal Dhillon
Warren Ellis
Marilyn Marie Scott

The Human Resources Committee's primary responsibility is to review all major human resources 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 also pays close attention to the Corporation's Human Resource Index survey and subsequent action plans.

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

- set the CEO's objectives for 2000-01 and evaluated performance against those objectives;
- examined the Corporation's compensation policies;
- assessed the Corporation's performance in the areas of official languages and employment equity;
- reviewed the 2001 Human Resource Index survey results and plans; and
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions.

Corporate Governance Committee

Chair: Edward W. Clark
Members: Rosemary Davis
John J. Ryan
Maurice Kraut
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 which need to be considered by the Board or any 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 four times and carried out the following activities:

- reviewed the composition and recommended appointments to the committees of the Board;
- discussed the orientation process and established a mentoring approach for new Board members;
- recommended enhancements to the Board policy on loans where directors may have a material interest that were subsequently approved by the Board;
- reviewed the level of Board remuneration and made a recommendation to the Board;
- updated the Board member profile to ensure an appropriate mix of expertise that reflects the current needs and strategic direction of the Corporation;
- reviewed Chapter 18 on Governance of Crown Corporations as presented in the Auditor General's December 2000 Report to the House of Commons.

Board and management relations

A Board's ability to be able to work closely with management and simultaneously function with an independent perspective is central 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

The Corporation developed a new pension plan for its employees effective July 1, 2000 and withdrew from the *Public Service Superannuation Act* pension plan. The Board monitored the establishment and implementation of the pension plan and participated in the creation of the Pension Committee as a committee of the Corporation, with representation from the Board, senior management and elected employee representatives. The Board defined a governance structure for the Pension Committee, including its role and responsibilities, and is responsible for overseeing the administration of the plan and establishing investment policies and goals.

Actions requiring Board approval

There is a clear understanding between management and the Board of Directors, through historical board practice and accepted legal practice, that all matters of a material nature must be presented to the Board of Directors for approval. The Board by-laws state that all significant corporate policies require Board approval, including the corporate plan as well as the strategic, financial and borrowing plans.

Board remuneration

For the performance of their duties, Directors are paid an annual retainer and per diem amounts, which are 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 fiscal year. Pursuant to Ministerial recommendations, the Governor in Council subsequently approved adjustments to Board member remuneration effective October 1, 2000. The new retainers and per diems were applied for the second half of the fiscal year.

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 respectively.

Per diems are paid for time spent performing corporate 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.

2000-01 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remuneration (A&B)	Board meeting attendance (%)	Committee meeting attendance[1] (%)	Board expenses
Donald W. Black[2]	$ 1,083	$ 750	$ 1,833	100	100	$ –
Edward W. Clark	5,325	9,075	14,400	100	100	22,272
Rosemary Davis	8,650	9,240	17,890	100	100	15,720
Rashpal Dhillon[3]	4,450	2,100	6,550	20	20	6,007
Warren Ellis	4,450	8,775	13,225	100	100	22,842
Donna Graham	2,700	4,425	7,125	100	100	6,135
Eleanor M. Hart	5,325	8,475	13,800	100	100	17,105
Maurice Kraut	4,450	5,100	9,550	100	100	6,948
Marie-Andrée Mallette	5,325	6,975	12,300	80	80	14,800
Joan Meyer	2,700	3,750	6,450	100	100	1,634
Marilyn Marie Scott	4,450	3,750	8,200	80	80	4,371
Germain Simard	4,450	7,350	11,800	100	100	18,112
Total	**$ 53,358**	**$ 69,765**	**$123,123**	**7 meetings**		**$135,946**

[1] *14 committee meetings were held: five Audit, five Human Resources and four Corporate Governance Committee meetings*
[2] *Donald W. Black stepped down from the Board on May 31, 2000.*
[3] *Mr. Dhillon's absence was authorized.*

GLOSSARY of Terms

Agribusiness/value added – Businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

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 – Administration expenses as a percentage of income before administration expenses, recovery on real estate and provision for credit losses.

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

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.

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, Westaskiwin, 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, Lambeth, Lindsay, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec

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

New Brunswick

Grand Falls, Moncton, St. George Sussex, Woodstock

Newfoundland

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