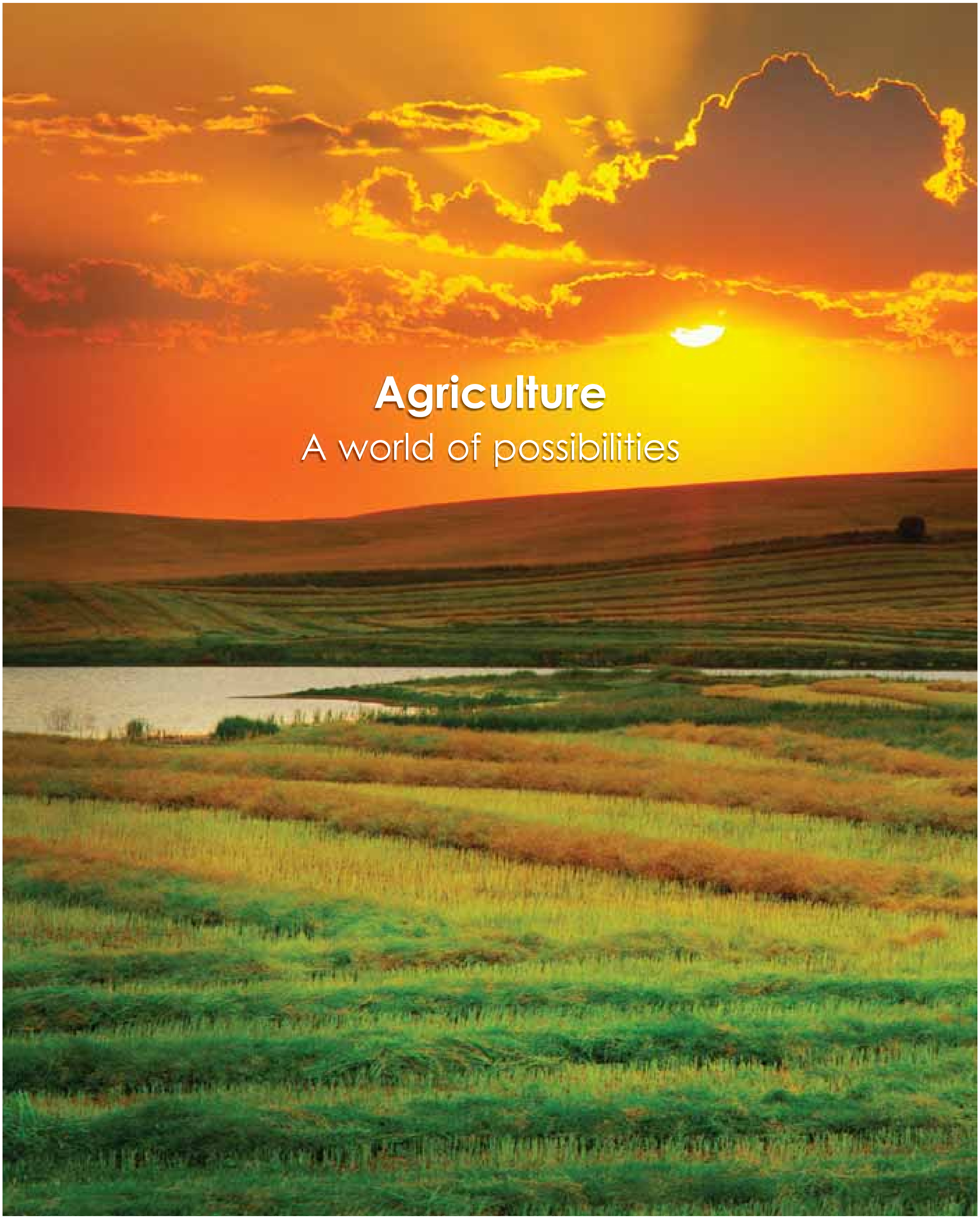
Annual Report 2006-07



Farm Credit Canada

Table of Contents

Why we exist

Vision

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

Mission

To enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Public policy

We fulfil our public policy role of enhancing rural Canada by offering loans and services to the agricultural community. These services include management software, information and learning to help customers make sound business decisions. Our commitment extends to customers throughout rural Canada with services provided in both official languages. Founded on providing lending services to primary producers, FCC's depth of support now extends to financing businesses that provide inputs to and outputs from primary production.

FCC is built on solid business principles, which includes assuming an appropriate level of risk.

Our commitment to agriculture is unwavering. We are dedicated to supporting the industry by working with our customers to see them through challenges and to help them take advantage of opportunities.

The FCC value proposition

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

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

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

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

We're easy to do business with.

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

How we behave

Corporate values

FCC's corporate values represent our core beliefs:

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

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

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

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

Achieve excellence
We are committed to one thing – the success of the Canadian agriculture industry. We set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

Cultural practices

In addition to the corporate values, our cultural practices explicitly outline the behaviours employees and Board members are expected to demonstrate at all times with colleagues, customers, partners, suppliers and stakeholders.

We hold ourselves and each other accountable for:

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

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

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

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

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

We clean up and recover quickly.

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

Operational and financial highlights

In 2006-07, FCC experienced another year of exceptional growth with its portfolio growing by $1.2 billion or 10.1 per cent. The number of disbursements increased slightly in 2006-07, however the average size of the loans disbursed rose significantly, resulting in net disbursements reaching $3.7 billion. Equity continues to grow with increases in net income. This is composed of growth in net interest income and lower provision for credit losses, somewhat offset by higher administration expenses and lower other income. The corporation continues to build its strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

For the year ending March 31

Operational	**2007**	2006	2005	2004	2003
Loans receivable portfolio					
Number of loans	**91,658**	88,559	85,650	82,551	78,442
Loans receivable ($ millions)	**13,550.4**	12,310.2	11,150.0	10,039.0	8,803.7
Net portfolio growth (per cent)	**10.1**	10.4	11.1	14.0	14.2
Loans receivable in good standing (per cent)	**97.4**	97.5	96.9	96.0	96.4
New lending					
Number of loans disbursed	**28,684**	28,634	27,948	26,529	25,133
Net disbursements ($ millions)	**3,714.7**	3,317.3	3,067.2	2,861.7	2,561.4
Average size of loans disbursed ($)	**129,504**	115,852	109,747	107,871	101,914

Financial	**2007**	2006	2005	2004	2003
Balance sheet ($ millions)					
Total assets	**13,834.2**	12,576.3	11,405.0	10,203.9	8,982.3
Total liabilities	**12,372.1**	11,312.5	10,320.5	9,258.7	8,142.7
Equity	**1,462.1**	1,263.8	1,084.5	945.2	839.6
Income statement ($ millions)					
Net interest income	**414.6**	388.4	351.9	314.4	273.2
Provision for credit losses	**38.9**	62.4	95.2	84.0	67.2
Other income	**5.8**	6.6	5.0	4.1	6.6
Administration expenses	**177.7**	163.0	143.7	128.9	116.3
Net income	**203.8**	169.6	118.0	105.6	96.3

Message from the President and CEO

Agriculture is an incredibly diverse and dynamic industry. Its success hinges on the innovation and perseverance of those who work in this rewarding and demanding business.

Canadian agriculture experienced an interesting year marked with challenges in some sectors and successes in others. Overall, a higher Canadian dollar and rising fuel and fertilizer costs adversely affected agriculture exports and profit margins. Conversely, new opportunities continued to rise. The area of alternative fuels shows promising activity as consumers and industry search for an answer to global dependence on oil. This opens the possibilities of higher demand and better prices for grains and oilseed crops, improving profits for producers.

Our customers have proven that their resilience and ingenuity in agriculture can overcome any challenge that comes their way. It is our job to explore new ways to grow and expand opportunities for those involved along the entire agriculture value chain.

Having a stable financial partner that is knowledgeable and specializes in agriculture has never been more important. Farm Credit Canada continues to build strong relationships with industry partners and customers to help them succeed.

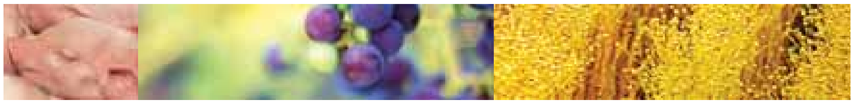
As a result of these relationships, I am pleased to report that FCC's loan portfolio grew to $13.6 billion in 2006-07, which marks 14 consecutive years of growth. In all, we lent $3.7 billion to Canadian producers, processors and suppliers, strengthening Canadian agriculture while stimulating the national economy.

When I joined FCC in September 1997, the momentum for the corporation's future was just beginning. At that time, we asked what our customers wanted from their financial partner. We listened and acted, building an organization that is customer focused.

We knew Canadian agriculture required a solid financial partner that understood the industry. That's what makes FCC different. We get agriculture. We care about the people involved in this industry. That's why we develop services and products tailored to our customers' unique needs. Together, we are working to evolve the industry and expand opportunities for everyone.

We have long recognized an imminent demographic shift as producers look to retire or move out of agriculture, while smaller producers work to establish their stake in the industry. With this in mind, we create new services and innovative loans to better serve the changing needs of our customers.

"Having a stable financial partner that is knowledgeable and specializes in agriculture has never been more important."



In 2006, FCC launched the new Accelerator Loan, a $50 million commitment in new lending to young farmers. This loan was created to enable buyers and sellers to transfer farms and farm assets from one generation to the next. There are opportunities for young farmers who want to get into agriculture. We are committed to helping them prepare for a prosperous future.

By offering specialized training and education, we are helping customers and others expand their knowledge and capabilities. This past year, we introduced the Winning in Agriculture series, the largest AgriSuccess and customer events ever hosted by FCC. The speaker series was held in six cities across Canada. Each hosted over 500 customers and others involved in the agriculture industry who heard informative speakers ranging from local agriculture business leaders to climate and weather specialists.

For the fourth consecutive year, we were named one of Canada's 50 Best Employers by the Globe and Mail's Report on Business. This year, we achieved eighth place, up from 12th last year. This is a result of our annual Hewitt Associates employee opinion survey where employees can share their views about FCC as a workplace.

Our new Board Chair is Gill Shaw, who has over 30 years of experience in agriculture and financial management. We look forward to working with Gill and his vision for enhancing Canadian agriculture.

Having a culture where people are truly excited to come to work and excel is something that is very special. As I enter my final year as President and Chief Executive Officer, I am confident we have the tools in place to deliver an extraordinary customer experience while building our commitment to creating a world-class, high-performance internal culture for years to come.

I am particularly proud of the way we work together at FCC. Through our cultural practices, we have created a work environment characterized by collaboration, new ideas and 100 per cent accountability. Employees are encouraged to evolve and build their skills, professionally and personally. Our success is due to our employee efforts, and their willingness to go the extra mile for our customers and each other.

Over the past decade, I have had the tremendous pleasure of working with many inspiring and passionate people. Together, we have shaped FCC into a strong, healthy and self-sustaining corporation committed to enhancing agriculture.

We have stayed the course and maintained our vision, and the results speak for themselves. I am extremely proud to have shared this journey with our customers, employees, Board members, friends and colleagues alike.

By constantly learning, growing and expanding, the future of agriculture will always be full of possibilities.

Thank you.

John J. Ryan

Message from the Chair

I am honoured to be the new Chair of the FCC Board of Directors. Responsibility and integrity are core values shared by all Board members and help steer the success of FCC.

The Board of Directors oversees and evaluates the management and performance of FCC operations. The Board has a long history of commitment to the highest standards of ethical conduct and accountability for its members and the organization.

Agriculture is based on a cycle of constant renewal and evolution. This year, the Board of Directors underwent a change of its own as long-time members moved on* and new members joined us.

We commend Rosemary Davis for her ongoing commitment to enhancing agriculture. After 12 years of dedicated service to the FCC Board, Rosemary stepped down as Chair, a position she had held since 2000. Her leadership and vision were key to the successful growth of FCC.

Our new Directors are Donald Bettle, Brad Hanmer, Ron Hierath and Sharon E. White.

I feel confident in the diverse experience, knowledge and passion of the men and women on our Board and look forward to working with them. Each individual brings expertise from the worlds of agriculture, business or finance.

Our industry is undergoing a demographic shift as more and more farm operations change hands, making way for the next generation. There has never been a more important time to support young farmers. The future needs producers who are on the cutting edge of new opportunities and new markets. Providing business management training, information and the tools necessary to assist in the intergenerational transfer of family farms is key to successfully meeting this challenge.

I am impressed by the commitment and dedication of the management of FCC, and by all employees nationwide. From field offices and the helpful voices on the phone to the staff in corporate office, nowhere else will you find people so willing to go the extra mile for customers and for each other.

The Board is deeply committed to maintaining this high-performance culture. In addition to FCC corporate values, the cultural practices clearly outline the behaviours that employees and Board members are expected to demonstrate at all times with colleagues, customers, partners, suppliers and stakeholders.

As a Board, we ensure the organization fulfils its mandate in the best interests of the organization and, as a Crown corporation, in the best interests of all Canadians.

FCC is an incredible organization and I am proud to be a part of it. I thank all of our employees for their daily commitment in making FCC a world-class organization where their skills shine and their passion contributes to furthering the success of Canadian agriculture.

Respectfully submitted on behalf of the Board of Directors,

Gill O. Shaw

* See page 98 regarding departing Board members

Message from the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board

Congratulations to Farm Credit Canada on another successful year of helping the Canadian agriculture and agri-food sector grow, diversify and prosper.

FCC posted its 14th consecutive year of growth in 2006-07, a testament to the corporation's continued success in meeting the needs of Canadian agricultural producers, of others in the value chain, of employees and of communities across Canada.

Meeting clients' needs, nurturing a dedicated and motivated workforce, and fostering corporate responsibility continue to be a formula for success at FCC. The corporation moved up to eighth overall on the 50 Best Employers in Canada list this year, and was included on the list of Canada's Top 100 employers for 2006, featured in Maclean's magazine.

As a valued member of the agriculture portfolio, FCC is also instrumental in helping Agriculture and Agri-Food Canada deliver a number of important programs to Canadian producers and others in the sector.

The Canadian agriculture and agri-food sector is a bedrock industry for Canada – not only putting safe, high quality food on our tables, but also safeguarding our environment, supporting our rural communities and driving our economy and employment.

Like FCC, Canada's New Government is committed to creating new opportunities for success for our hard-working Canadian farmers. Together with FCC and our other valued partners in the agriculture portfolio, we are getting things done for farmers and others in the value chain, creating solutions and working with them to tackle challenges and take advantage of opportunities.

I am proud of the important gains we have achieved for farmers, including substantial improvements to farm income programming, increased budget commitments and support for renewable or biofuels to help farmers grow new markets for their crops – and help protect our environment.

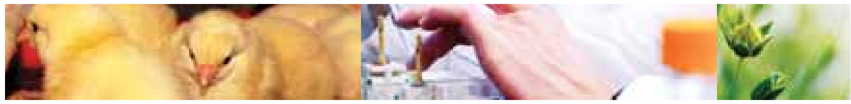
To capture new and exciting opportunities for growth, producers need the right business tools and capacity in place. That is where FCC's role is so critical – providing innovative financial products, comprehensive information services and other products and solutions that help keep Canadian agricultural producers and the entire value chain competitive and focused on the future.

We are entering a very exciting and pivotal period for agriculture. We are now working with our portfolio partners, the provinces, the territories, the industry and all Canadians to develop a new generation of agriculture and agri-food policy that will create a prosperous and profitable future for this vital Canadian sector. FCC will certainly be an important partner in this process.

On behalf of the federal government, I extend my thanks and congratulations to FCC for its tremendous work this year. I look forward to working together in the future to capture new opportunities for Canadian farmers.

Chuck Strahl

The Honourable Chuck Strahl
Minister of Agriculture and Agri-Food
and Minister for the Canadian Wheat Board



Corporate social responsibility

At FCC, we care about our customers, our employees and our communities. This care is at the heart of everything we do.

In 2006-07, FCC adopted a corporate social responsibility (CSR) framework with six categories:

- corporate governance
- human resources management
- community investment and involvement
- environment, health and safety
- human rights
- customers

Accessibility, accountability and transparency in these areas are key to the success of this framework.

Corporate governance

The FCC corporate values guide our interaction with colleagues, customers and stakeholders. Our code of conduct and ethics includes whistleblower protection to ensure employees feel safe to report wrongdoing. All staff are required to sign a declaration acknowledging that they have read the code and agree to abide by it. The code guides employees in the demonstration of appropriate behaviours.

The FCC Integrity Officer works with the CEO and the Board of Directors to uphold the highest standards of governance and accountability regarding the code of conduct and ethics. Our Board, with the exception of the CEO, is independent of management, and the functions of the Board Chair and CEO are separate.

Human resources management

We have created a healthy work environment where employees are inspired to give their best to customers. With our set of 10 cultural practices, our employees, management and Board members follow the same rules. We are accountable for building respectful relationships characterized by trust and straight talk.

FCC conducts an annual confidential employee opinion survey using the Hewitt Associates survey. The survey measures employee engagement by gathering opinions on many topics ranging from trust in senior management to satisfaction with pay and benefits. In 2006-07, employee engagement scored 82 per cent and we placed eighth on the 50 Best Employers in Canada list published by the Globe and Mail's Report on Business.

FCC spends over 3.5 per cent of annual payroll toward individual employee development every year. We encourage and support employee growth. We offer a customized field development program for lending operations staff, as well as leadership development training for managers, supervisors and Leadership Development program participants. All employees also receive training in FCC's cultural practices.

By investing in our people, we create a dynamic and positive work environment where employees can grow and attain a higher level of performance. The benefit is threefold: better results for the corporation, personal achievement for employees, and most importantly, an extraordinary experience for our customers.

We created several recognition programs to empower management and staff members to recognize and reward colleagues for their achievements.

World Food Day, Ontario

Community investment and involvement

FCC is a committed member of the Canadian Centre for Philanthropy's Imagine program. We donate at least one per cent of our annual profits to charitable and not-for-profit community and industry organizations, with a focus on food and rural safety.

By supporting organizations like 4-H, the Canadian Association of Food Banks, the Canadian Agricultural Safety Association, St. John Ambulance and Agriculture in the Classroom, we're helping to build safer agriculture workplaces and increasing awareness of food-related issues and the importance of the agriculture industry.

Growing strong rural communities is important to us. In 2006-07, the FCC AgriSpirit Fund provided $500,000 toward community improvements like emergency services equipment, playgrounds, food banks, recreation centres and care homes. Since 2004, FCC has contributed $1.3 million to communities through the AgriSpirit Fund.

FCC encourages employees to give back to their communities. When employees donate more than 20 hours of volunteer time, they are eligible to win $250 to $500 in donations for their charity. In 2006-07, our contributions totalled almost 3,000 hours valued at $26,750, benefiting 60 charitable organizations across the country. With the Employee Matching program, FCC donates another 50 cents for every dollar that three or more employees raise for registered charities.

World Food Day is an important day for FCC employees across the country. For seven days in October 2006, teams of FCC employees drove two tractors with 16-foot trailers across Ontario to Guelph, collecting food in 50 communities along the way. Another 27 FCC activities across Canada in support of World Food Day helped raise a total of 410,642 pounds of food for food banks in our communities.

Environment, health and safety

Our commitment to the environment is integrated with our lending decisions. We are responsible for environmental due diligence under the Canadian Environmental Assessment Act. We work with customers to review environmental risks through environmental questionnaires, site inspections, and environmental assessment reports from qualified consultants. Our Enviro-Loan helps customers to meet environment regulations.

We incorporate well-balanced, environmentally aware business practices into our daily operations. These practices include recycling and energy-conscious purchases of light bulbs, paper and office-related supplies.

FCC has established a bio-security protocol to ensure that employees demonstrate the importance of disease prevention at all times with customers. In addition, we are committed to raising bio-security awareness among customers and the industry at large.

AgriSpirit Fund, Brooklyn, Nova Scotia

Human rights

At FCC, we respect the rights of the individual. FCC adheres to the provisions of the Canadian Human Rights Act and has put in place a code of conduct and ethics. Whether it's working with customers, employees, suppliers or others, we take care to act responsibly.

Customers

We take the time to know our customers and understand their needs. We tailor solutions unique to each person's individual needs. This could be a loan, training, software or providing networking opportunities with other industry partners.

We work with customers facing adversity such as flooding, BSE, avian influenza or drought. Whether it's deferring payments or creating flexible repayment schedules, we do our best to help our customers succeed.

FCC AgriSuccess management workshops and seminars allow customers to gain skills to take their operations to the next level.

FCC helped 19 families through difficult times with the FCC Ag Crisis Fund in 2006-07. When our customers experience natural disasters such as fires, floods or tornadoes, we're there to help. Whether it's providing meals to volunteers, helping to rebuild a farm building or providing gift certificates for purchasing lost household items, FCC cares.

Canadian Agricultural Safety Week launch, Quebec

Corporate social responsibility highlights

For the year ending March 31, 2007

FCC takes corporate social responsibility seriously. We care about our employees, customers and the communities where we live and work.

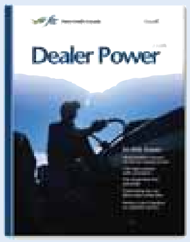
According to the Conference Board of Canada, corporate social responsibility is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

The following summary was adapted from the Globe and Mail's Report on Business as a measure of FCC's performance in six key decision-making, behaviour and performance priority areas.

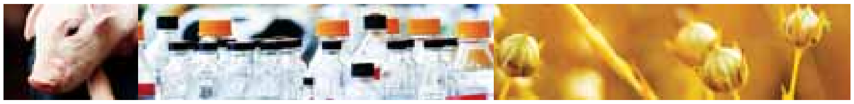
Corporate governance	2006-07	2005-06
Statement of social responsibility	yes	not yet
Statement of corporate values	yes	yes
Code of business conduct	yes	yes
Board Chair and company CEO are separate functions	yes	yes
Human resources management		
Conducts employee satisfaction surveys:	yes	yes
• Included in Globe and Mail's Best Employers list and Maclean's Top 100 companies		
Provides employees with education and development	yes	yes
Conducts annual market compensation reviews	yes	yes
Policy on diversity and employment equity	yes	yes
Public reports on diversity issues	yes	yes
Offers employees diversity training	yes	yes
Benefits include additional maternity and paternity benefits	yes	yes
Percentage of women on the Board	36	42
Percentage of women among senior management team	24	14
Community investment		
Policy statement on community donations is available to the public	yes	yes
Calculates donations based on one per cent of profits	yes – 1.59%	yes – 1.19%
Programs are in place to support employee giving and volunteering	yes	yes
Environment, health and safety		
Corporate environmental management systems in place, including policies, programs and performance analysis	in progress	not yet
Reports on resource use (energy, materials, water)	not yet	not yet
External reporting on lending environmental risk management	yes	in progress
Lending environmental risk management policy and processes, including environmental risk assessment	yes	yes
Bio-security protocol for customer visits	yes	in progress
Offers loans that reduce environmental impact	yes	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress	in progress
Human rights		
Human rights policy and code of conduct	yes	yes
Policy/code of conduct governing the supply chain of procured items	yes	not yet
Customers		
Conducts customer satisfaction surveys	yes	yes
Helps customers market their products:	yes	yes
• 316 customers with 369 listings on CanadianFarmersMarket.com		
Loans to meet the needs of new entrants into agriculture	yes	yes
Offers industry-related training:	yes	yes
• AgriSuccess delivered 85 events		

"The integrity, resiliency and innovative capacity of the agriculture industry are second to none." – **Brian M. Hughes**, Chief Executive Officer, ACC Farmers' Financial

Brian and his team at ACC Farmers' Financial are committed to providing innovative financial solutions and they partner with FCC's Alliances to develop programs that assist the agriculture industry in Ontario.



Members of FCC's dealer network stay connected, informed and enthusiastic with the help of regular store visits by our Relationship Managers and our Dealer Power newsletter that is distributed three times annually.



Products and services

We care about our customers and take the time to listen, learn and understand their goals.

We offer a combination of financing, equity, insurance, management software, information and learning through our business lines. At the end of the day, we want customers to say, “Wow, that was easy. FCC really cares about my success.”

AgProduction

We lend money to primary producers. Our loans are tailored to the unique needs of agriculture. Our diverse customers include those who produce raw commodities like crops, beef, hogs, poultry, sheep, dairy, fruits, vegetables and alternative livestock or crops. An FCC Relationship Manager works with customers to find the right combination of terms, security and payment schedules.

AgValue

We also lend money to those who buy from and sell to primary producers. These are the equipment manufacturers and dealers, input providers, truckers and processors along the agriculture value chain. If customers need financing to do business, they can talk to us and we will help them take advantage of opportunities.

Alliances

We provide lending services where our customers do business through a team of equipment dealers, input, livestock and manufacturer partners. Customers can obtain loan approvals on the spot. Equipment dealers can help their customers get their equipment loans by becoming a member of our National Equipment Dealers Finance Program.

AgriSuccess

We advance farm management practices through information and learning. These include workshops such as managing farm finances, human resources, succession planning and others.

This past year, we launched the Winning in Agriculture series, the largest AgriSuccess speaker series ever hosted by FCC. The events were held in six cities across Canada, featuring informative speakers ranging from local agriculture business leaders to climate and weather specialists.

Every week, customers can get the latest in agriculture e-news with AgriSuccess Express. They receive provincial, national and international news and trends that affect agriculture – and their bottom line. AgriSuccess Express is delivered free every week.

Customers can learn more about farm management strategies with AgriSuccess Journal, published every two months. With this free national farm management magazine, they get tips and insight from other industry experts and producers.

AgExpert

We offer Canada’s leading management software for agricultural producers – AgExpert Analyst and AgExpert Field Manager PRO. These allow producers to easily produce financial statements, manage their business, and track and report important field and crop records.

AgExpert Analyst allows customers to track income and expenses. With just a few clicks, a completed GST return is ready. It’s the accounting software that’s designed specifically for Canadian agriculture.

AgExpert Field Manager PRO software is an innovative crop record-keeping and planning system that gives customers access to all of their crop production data – any time, anywhere. They can get a complete picture of their operation as it is – and as it could be – on a desktop PC or handheld.

Agri-Assurances

Insurance is an important aspect to any business. It's also important to our customers. That's why we offer loan life and accident insurance tailored to agriculture. It's the best way to protect them, their families and their businesses.

FCC Ventures

FCC Ventures, the corporation's venture capital division, has been successful in addressing the need for non-traditional capital financing in Canada's agriculture industry.

This year, FCC Ventures invested $19.8 million in venture capital funds, bringing the total provided to the industry to $63.0 million since its inception in 2002. In addition to its own investments, FCC has attracted other venture capital to agriculture from third party co-investors totalling $1.60 for every dollar invested by FCC.

During the year, FCC leveraged this success by becoming the lead sponsor and committing $50 million to a new venture capital fund called Avrio Ventures Limited Partnership. The new fund intends to capitalize on the convergence of life sciences and industrial technology and will focus on Canadian commercialization to growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is represented across Canada with offices located in Calgary, Alberta, Oakville, Ontario and Montreal, Quebec.

Online Services

We make it easy for customers to do business with us. Customers can check their entire portfolio online, review farmland values reports, use our online farm finance kit, watch commodity futures prices, the weather and news, 24 hours a day, seven days a week.

CanadianFarmersMarket.com

Promoting Canadian agriculture and helping customers market their products are important to us. That's why we promote customer products and services by bringing buyers and sellers together on CanadianFarmersMarket.com. Consumers can purchase Canadian products online, direct from the producer, while learning what agriculture has to offer.

Winning in Agriculture event, Manitoba

FCC loans

We pride ourselves on offering flexible financing that producers and their suppliers and processors can customize for their operations. Our people understand agriculture and take the time to work with customers to offer the right loan with a flexible combination of terms, security and payment options.

Customized loans

Accelerator Loan

New

As a young farmer, you can buy or build with zero down, full payment flexibility and no-cost access to farm management tools.

Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer Loan

Make interest-only payments and re-invest funds into other areas of your operation. Simply pay down the principal when you choose.

Construction Loan

Get interim financing for up to 18 months on construction projects, including processing plants, cold storage and grain storage facilities. Use the money to build and only pay when your project is done.

Enviro-Loan

Defer principal payments in constructing, improving or expanding your operation when you improve environmental facilities.

Farmbuilder Loan

Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step Loan

Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm Loan

Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start Loan

Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

Opportunity Loan

Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday Loan

Use your off-farm income to start or expand your farm business.

Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break Loan

Match your payment schedule to the forestry harvesting season.

Stop and Grow Loan

Defer principal payments at your woodlot as saplings grow into profits.

Transition Loan

Help the next generation purchase your property at retirement. Get the equity from your farm without risk.

Personal property

Buying equipment or livestock? Choose from these options:

Variable

Rate floats as interest rates rise or fall, plus lock in your rate, or prepay any amount, any time.

Closed

A low fixed rate for the term of the loan.

Open

Low fixed rate with option to prepay any amount, any time.

Real property

Perfect for those looking to purchase land or financing the construction of a new building.

Variable

Rate floats as interest rates rise or fall, plus option to prepay up to 10 per cent, any time.

Closed

A low fixed rate for the term of the loan.

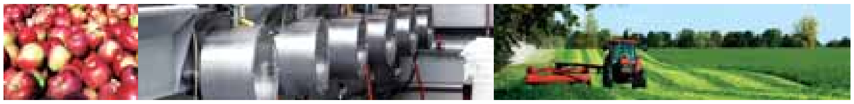
Fixed

Fixed rate with option to prepay up to 10 per cent any time.

Jamie and Kelly Keiver run Carnival Farms in Riverside-Albert, N.B., and plan to continue doing what they're doing, just more of it.

The Keivers have 200 beef cows and nearly 200 feeders on 800 acres of land. Jamie says his greatest achievement is being able to do what he loves for a living with a great wife and three wonderful children. You can't argue with that.

1. Jamie
2. Kelly
3. Courtney
4. Samantha
5. Matthew



Operating environment

Monetary policy

The Canada-U.S. average exchange rate increased 1.7 per cent from April 3, 2006, to March 30, 2007. Although the Canadian dollar declined slightly at the end of 2006, it remains higher than historic levels. High exchange rates, combined with global oversupply of many agricultural commodities, resulted in downward pressure on agricultural commodity prices. The high value of the Canadian dollar combined with low agricultural commodity prices negatively affects Canada's agricultural trade balance, since Canada's agricultural exports are relatively more expensive for importing countries.

After seven consecutive rate hikes by the Bank of Canada that began in September 2005, the Bank has held rates steady at 4.50 per cent since June 2006.

International trade

The Doha Round of WTO was suspended in July 2006 and did not resume until February 2007. Progress continues to be slow. FCC is monitoring the discussions closely.

The softwood lumber agreement between Canada and the United States came into effect on October 12, 2006. The seven-year deal revoked U.S. countervailing and anti-dumping duty orders, and returned to Canadian exporters more than $5 billion in duties collected by the United States since 2002. As of December 14, 2006, about 98.9 per cent of the estimated $5 billion has been returned to Canadian lumber companies.

Farm revenue and expenses

Statistics Canada reports that in 2006, total farm cash receipts increased 0.5 per cent, while total market receipts (excluding government program payments) increased 1.9 per cent, compared to 2005. Total crop receipts increased 7.9 per cent, while total livestock receipts declined 2.5 per cent.

Prices of major farm inputs such as fertilizer, fuel, farm labour and chemicals were higher than they were in 2005. Higher energy prices drove the price of fertilizer and fuel upward while labour shortages, particularly in Western Canada, led to higher farm labour costs.

Farm debt

According to Statistics Canada as of December 31, 2005, farm debt outstanding rose 4.6 per cent to $51 billion, continuing the steady upswing since 1993. Major holders of farm debt were chartered banks (42.1 per cent), Farm Credit Canada (21.5 per cent), credit unions (16.8 per cent), private individuals (7.8 per cent), treasury branch (2.8 per cent), and other (9.0 per cent) including provincial government agencies (3.2 per cent) and machinery and supply companies (2.9 per cent).

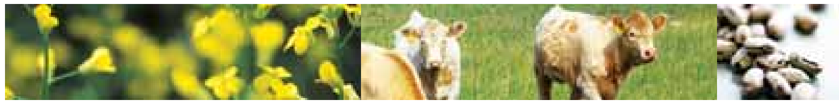
Farmland values

The average value of farmland increased 2.5 per cent during the last six months of 2006, Canada's highest increase since 2002. This is higher than the 2.1 per cent increase in the first six months of 2006. Most provinces continue to see growth in farmland values. Increases are consistent with an upward trend since January 2000.

Beef

The cattle sector continued to recover from bovine spongiform encephalopathy (BSE). Increased exports to the United States and higher prices resulted in an increase to total market receipts for cattle and calves of 2.2 per cent in 2006 compared to 2005.

Despite a confirmed ninth case of BSE since 2003 (in February 2007), trade of cattle and beef under 30 months of age between Canada and the United States continues. The U.S. Department of Agriculture stated that they "do not expect this Canadian detection to impact our trade with Canada."



The U.S. has begun the process of allowing the import of Canadian cattle over 30 months of age, which will take several months to be approved.

Grain crops

Total crop market receipts for 2006 are up 7.9 per cent from 2005, excluding government support payments. This is largely due to a large crop of grains and oilseeds in 2005-06 marketed during 2006.

Statistics Canada's Farm Product Price Index for total crops decreased 1.1 per cent in 2006 compared to 2005. Crop prices rose dramatically in the third quarter of 2006 due to higher demand for biofuels combined with concerns over lower global production of oilseeds.

Dairy

Canada's dairy producers experienced some challenges in the past year. Increased imports of industrial milk products, combined with health trends such as the growth of soy and rice products, are on the radar.

In an effort to stabilize and reduce high quota prices and enhance the long-term sustainability of the supply management system for dairy producers, some provincial marketing boards have amended their quota policies. Some provincial dairy boards have implemented a transfer assessment, essentially a holdback of quota each time quota is sold in an arms-length transaction. The amount withheld varies from as low as five per cent to as high as 30 per cent on quota sold through the provincial quota exchange, effectively reducing the resale value to below the cost to purchase. This makes it difficult for lenders to provide loans for new entrants, as well as for producers who are expanding quite rapidly.

Ontario and Nova Scotia announced changes that will limit the terms of Letters of Direction to 10 years. A Letter of Direction is an agreement between the dairy producer, provincial marketing board and a lender that allows the lender to use a producer's Market Share Quota to secure a loan. Provincial dairy boards have not yet finalized the details of their quota policies.

Despite the Statistics Canada Farm Product Price Index for dairy products increasing 1.4 per cent from 2005 to 2006, dairy market receipts declined 0.2 per cent in 2006 compared to 2005 as productivity declined.

Pork

A strong Canadian dollar, along with disease in Ontario and Quebec, lowered revenues for hog producers. Prices rallied in the summer months and for a time were equal to the previous year's level. By fall, hog prices were about one to eight per cent lower than a year ago, and the Farm Product Price Index decreased 12.1 per cent from 2005 to 2006. Statistics Canada reports that 2006 market receipts for hogs decreased 13.6 per cent from 2005. In addition, feed prices increased dramatically at the end of 2006, contributing to losses.

Slaughter capacity uncertainty is another issue facing producers. Olymel, Quebec's largest pork producer, has been restructuring operations due to decreased profitability resulting from labour disputes and the strong Canadian dollar. Olymel also announced it would not go ahead with the proposed OlyWest (Olymel, Hytek and Big Sky Farms) hog processing plant in Winnipeg. Maple Leaf Foods has also put some plants up for sale and announced the closure of others. Some producers will ship hogs to processing facilities that are farther from their farms, and some live hogs may be shipped to the United States.

Poultry

Canadian demand for chicken remains strong, but foreign markets have declined. Due to concerns over avian influenza, Canada has adopted tighter bio-security and precautionary measures. Avian influenza has also reduced per capita consumption of poultry products, particularly in Europe. This decrease in demand has lowered international prices, and growth in domestic production has slowed.

Statistics Canada reports that market receipts for poultry and eggs declined 2.1 per cent from 2005 to 2006. The Farm Product Price Index in 2006 was 3.4 per cent lower than 2005. The index provides the prices for products relative to a base year while the farm cash receipts provide the revenues generated, two important metrics in determining the cause of a decline in market revenue.

Bio-security

The global threat of avian influenza, diseases such as anthrax and foot and mouth, and salmonella continue to impact producers. This year, FCC introduced new bio-security protocols to protect our customers.

Agriculture and Agri-Food policy

In early 2007, federal, provincial and territorial governments gathered input and advice through public consultations to develop the next generation of Agriculture and Agri-Food policy. This information from industry stakeholders and the Canadian public is intended to shape a new policy to keep the agriculture industry healthy and competitive for years to come.

Alternative fuels

Concerns with global oil supply and the rising costs of fuel have sparked growing interest in alternative fuels. In response, the federal government is continuing to work on a biofuels strategy. Three billion litres of ethanol or biodiesel will be required to meet Canada's five per cent biofuels target by 2010.

In July 2006, Agriculture and Agri-Food Minister Chuck Strahl announced $10 million in funding to support the development of business proposals and feasibility studies to support the expansion of biofuel production. In December 2006, the federal government announced an investment of $345 million to support bio-product research and development. In March 2007, the federal budget included a commitment of $2 billion in funding over seven years to achieve Canada's national biofuel targets.

Demographic shift

There is a demographic shift occurring in the agriculture industry. The average age of farm operators continues to increase – from 49.9 in 2001 to 52.0 in 2006. About 34.9 per cent of farms are owned by operators age 55 years or older, and most are likely to retire over the next five to 15 years. This will lead to a loss of expertise, and provide tremendous opportunity for the next generation of operators.

According to Agriculture and Agri-Food Canada, there are currently 55,000 single generation farms likely to be transferred outside of family. Over the next five years, the number of producers in Canada may be reduced by 25,000, leading to bigger and fewer farms. It is estimated that 80 per cent of agriculture production currently is derived from 20 per cent of the farms in Canada.

Shylo Kassian and Bev Badry showed their team spirit at a 2006 Western Sales Area conference in Canmore.

"I've seen a lot of change, and 99 per cent of the time it's good. Give it a chance."

– **Gary Martin**, FCC Senior Relationship Manager

Gary loves variety. From the customers he deals with to the activities and training he receives as an employee in our Moncton office, Gary is a positive force with customers and colleagues.

Balanced scorecard 2006-07

FCC uses the balanced scorecard framework to establish and monitor progress toward achieving our business strategy. The balanced scorecard outlines our strategic themes, objectives, measures, targets and initiatives in each of the following balanced scorecard perspectives: financial/shareholder, customer, internal capability and people (employees).

Our business strategy is characterized by four strategic themes. These themes are to strengthen market presence, enhance customer experience, optimize execution and performance, and sustain commitment to agriculture.

Strengthen market presence

2006-11 Strategic objectives	**Measures**	**2006-07 Plan targets**	
Financial Income growth	Portfolio growth	4.64% [1]	
	Non-interest revenue	$21.8 million [2]	
	Net interest income (NII) margin	3.04%	
Customer Understand business, financial, and relationship needs Attract customer and business relationships	New customer acquisitions – all channels Venture capital • Interest and fee income • Co-investment ratio • Capital invested	Measure performance against targets Target set at >0 • $2.8 million • 1.3:1 • $20.0 million	
	Market share	22.4%	
Internal capability Enhance market awareness and positioning Relationship selling, management of all FCC solutions Portfolio/risk management Consistent brand-marketing of FCC's full capabilities Strategic integrated planning	Time spent with customers and prospects for value-added activities	Using the new sales contact tool, benchmark customer, prospect and Centre of Influence (COI) contact volumes at area and district levels [3]	

[1] Target was adjusted to reflect portfolio growth of loans receivable and its equivalent is 4.43% in Principal Not Due (PND).

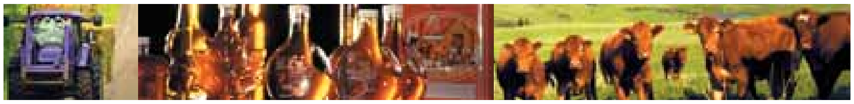
[2] The 2006-07 non-interest revenue calculation was corrected and the previously published target of $24.2 million was revised.

[3] Target was adjusted due to the implementation of the new sales contact tool. This tool will track both proactive and reactive sales calls with customers, prospects and centres of influence (COIs). Benchmarks will be established in 2006-07, so that specific targets can be established for future years.

2006-07 Initiatives	2006-07 Results
	Portfolio growth: 10.07%
	Non-interest revenue: $21.6 million
	Net interest income (NII) margin: 3.06%
Deliver a customer experience that results in loyal customers who recommend FCC Leverage new venture capital locations in order to better serve the agriculture industry and attract additional co-investment	Customer acquisitions: 1.1 (110 customers gained for every 100 who exited) Customer Experience Phase II was developed and focuses on enhancing customer touch points Venture Capital: Three locations (Montreal, Oakville and Calgary) retained and leveraged via Avrio Interest and fee income: $5.4 million Co-investment ratio: 1.6:1 Capital invested: $19.8 million
	Market share: 21.5% as at December 31, 2005
Redesign key processes to enable more time with customers Leverage integrated marketing communication (IMC) strategy to raise visibility and create awareness of FCC's spectrum of offerings and commitment to agriculture	Since April 1, 2006, 20,498 calls were completed. 15,663 calls were proactive and 4,835 were reactive calls. Post-sale customer management processes fully redesigned IMC strategy resulted in enhanced advertising, promotion and trade show presence

Enhance customer experience

2006-11 Strategic objectives	Measures	2006-07 Plan targets	
Financial Return on equity and investment **Customer** Anticipate and offer tailored, preferred solutions across channels Build and expand relationships across channels	Return on equity	12.28%	
	Customer experience index	Q1 Begin monitoring and reporting Baseline set at 53.47	
	Total value penetration (TVP)	Increase national TVP score; Q1 set targets based on 2005-06 baseline Baseline set at 1.74	
Internal capability Seamless, cross-channel integration to deliver sales, service Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management Monitor and respond to marketplace activity	Channel usage • # of unique website visitors per month • # of website pages visited per year • # of online registered borrowers • # of Customer Service Centre (CSC) customer contacts • $ disbursed of CSC direct full-service lending	 • 17,000 • 1.8 million • 12,000 • 80,000 • $175.0 million	
	Customer value management	Benchmark	
	Customer channel awareness, preferences and permissions	Benchmark	



2006-07 Initiatives	2006-07 Results
	Return on equity : 15.0%
Monitor customer experience scoreboards, develop index, communicate results and implement action plans to enhance the customer experience	Customer experience index developed and target score achieved at 53.94. The goal is perfect scores, indicating customer delight. Action plans created to further improve the customer experience. Results focus on perfect "five out of five" scores for customer delight. The index is calculated using data gathered from customer post-loan, customer exit and annual report card surveys. The score is derived from questions pertaining to customer satisfaction, customer loyalty, advocacy, ease of doing business with FCC, care, overall value and problem resolution.
Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs	Tools created include employee ambassador kit, networking training and revised products and services brochure
Create/enhance products and services uniquely tailored to satisfying customer needs and exceeding their expectations	Programs launched include Accelerator Loan for young farmers, 4-H and AgExpert on Campus
	Total value penetration : 1.78
Execute on-line and CSC (call centre) strategies to provide customers with enhanced service via their channel of choice	Strategy executed with online disbursement process enhanced, FCC website refreshed and new Moncton CSC staff hired
Benchmark customer value	Measure removed due to lack of relevance and difficulty linking action items to results
Monitor marketplace activity	Strategic Intelligence unit established and enhanced reports produced
Implement foundational customer experience standards throughout FCC to ensure delivery of enhanced and consistent customer experience	Customer experience Phase I training complete and reinforced to employees
Redesign post-sale customer management processes to enhance the employee and customer experience	Process redesign complete • # of unique website visitors per month: 22,329 • # of website pages visited per year: 2.7 million • # of online registered borrowers: 12,216 • # of CSC customer contacts: 89,323 • $ disbursed of CSC direct full-service lending: $196.5 million Customer value management benchmark: A decision was made to remove this measure at the end of fiscal 2006-07
	Customer Service Centre awareness = 84.9% FCC website awareness = 94.8% E-mail addresses in Amigo (customer relationship management application) = 22,516 E-mail addresses for AgriSuccess Express = 24,179

Optimize execution and performance

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Financial Balance sheet optimization	Efficiency ratio	45.0% [4]
	Debt-to-equity	Under 10:1
	% of PND with arrears	6.00%
	Strategic credit risk management	Managed range between 51 and 70
Customer Continuously deliver consistent, efficient, quality service Retain customers and grow loyalty efficiently	Process improvements	Corporate business case parameters and approach to be reviewed and finalized
	Near term improvements	60% of approved near-term improvements implemented
Internal capability Process innovation and continuous improvement Integrated value chain process redesign Agile, integrated IT architecture and solutions delivery IT platform reliability and performance Effective project execution, management and control Strategy execution, enterprise risk management Enterprise services delivery, management	IT architecture capability	86% of key architectural framework elements incorporated
	User acceptance (performance, reliability and usability)	Measure performance against targets
	Project management maturity	Set baseline

[4] Target adjusted to top of range.

	2006-07 Initiatives	2006-07 Results
		Efficiency ratio: 42.3%
	Amend FCC's environmental policies and processes to address changes to the Canadian Environmental Assessment Act	Policies and processes amended
	Continue implementation of Enterprise Records Management initiative	Implementation complete – continuous improvement now part of core operations
	Develop enterprise-wide content management governance committee, approach, and implementation plan for content deployed through employee portal	Project postponed to 2007-08 due to resource availability
	Internal Control Framework – implement framework to maintain and enhance controls through process and system design	Framework developed and implemented
	Implement identity and access management solution to increase efficiency and safeguard customer data	Proof of concept completed, and management software purchased and implemented
	BK Program – process redesign, technical infrastructure and application development to support the enhancement of the customer and employee experience	BK Program year one complete in accordance with project milestones
	Enhance business platforms	E-business and Human Resources platforms upgraded, and Translation platform upgrade underway
	Cascade strategic objectives from the corporate to the divisional level	Strategic themes and objectives incorporated into employee performance planning, enabling clear line of sight to corporate performance objectives and targets
	Enhanced enterprise risk management, risk mitigation planning and status reporting	Enterprise risk management scanning process enhanced (further development of strategy deferred to 2007-08 due to resource availability)
	Complete capacity planning installation for project portfolio management projects	Project plan to enhance project management complete – installation will occur in 2007-08
		Debt-to-equity: 8.5:1
		% of PND with arrears: 2.64%
		Strategic credit risk management: 56.5
		New and more stringent approach to business cases adopted, including qualitative elements.
		Approved near-term improvements implemented: 71%
		IT architecture capability: 86%
		At 49% this result is consistent with the previous year's score of 50% in that there is no statistically significant difference between the two measurements (i.e., the margin of error is greater than 1%).
		Project management maturity baseline established. Planning for a program of improvement initiatives is underway.

Sustain commitment to agriculture

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Financial Investment in agriculture	% of profits invested in communities	1.40%
Customer Trusted partner and industry catalyst Build industry, stakeholder awareness, credibility and support	Corporate social responsibility (CSR) scorecard	Measure performance against targets
	Corporate reputation index	Conduct new corporate reputation survey
	Media favourability index	Score of 64
Internal capability Knowledge management leverage Industry investments and stakeholder relations		

People

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Strategic enterprise leadership Customer and knowledge culture Define and enhance the employee experience Make it easy for employees to do business Aligned performance management Strategic competencies and capabilities	Engagement score	Minimum threshold 80%
	Employee experience	Benchmark
	Make it easy for employees to do business	Develop measure and set baseline

2006-07 Initiatives	2006-07 Results
Educate Canadians regarding agriculture including journalists, school-age children and urban residents Invest in promoting FCC customer products on CanadianFarmersMarket.com	Agriculture 101 brochure shared with journalists Media promotional campaign completed generating 3,887 contest entries % of profits invested in communities: 1.59% = $1,691,350
	Presentation of Corporate Social Responsibility statement and principles received Governance Committee approval. Some phase I initiatives implemented.
Grow producer knowledge of management practices via: • AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management	85 AgriSuccess learning events delivered to 3,191 participants
• Advanced Farm Manager: comprehensive business management training for today's farm owners/managers	Three Advanced Farm Manager sessions delivered to 67 participants in Abbotsford, Drummondville and Woodstock
• Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues	FCC customers now receive AgriSuccess Journal and AgriSuccess Express
Deliver innovative programs for young farmers	Young farmer program developed (Accelerator Loan and 4-H recruitment campaign)
Continue community investment with an emphasis on farm safety and food issues (World Food Day, First Aid on the Farm, etc.)	Support provided to multiple programs, including World Food Day and Canadian Agricultural Safety Week
Continue enhanced support for rural communities with AgriSpirit capital giving program	Capital support distributed to successful AgriSpirit applicants
Develop bio-security protocols and enhanced awareness of bio-security management practices	Bio-security protocols developed and communicated to customers and employees
	Reputation Index methodology was developed and the research project is in progress. The findings will be known in Q1 2007-08
	Media favourability index score: 66
Leverage Community of Practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC website and inviting customers to select FCC events Conduct program to inform elected officials of FCC's role and offerings	Red meat and greenhouse research studies added to website, and customers participated in Pork, AgValue and Crops West CoP events All Members of Parliament received an FCC information package – personal contact made with 95 members

2006-07 Initiatives	2006-07 Results
Continue implementation of cultural transformation strategy, through rollout of Holding to Account program to all employees Identify and develop future leaders through the Leadership Development program Identify key drivers and create action plan to continuously improve employee engagement	Holding to Account program complete with very positive employee evaluations New managers enrolled in Leadership Development program Second phase of Horizon compensation and performance management project complete with job-specific competencies selected for all FCC roles Engagement score: 82%
Define the FCC employee experience and attendant development requirements Create a brand ambassador program for employees	The employee experience index has been benchmarked and a new measure has been developed for 2007-08. HR Culture department established and employee value proposition developed Brand ambassador program launched to all employees
Implement the transition plan for the redesign of the performance and competency program Develop and implement Employee Orientation program Deliver Field Development program and revise as necessary	Annual market review and revised job profiles complete Existing orientation practices enhanced and second phase of program underway Field Development program updated: new course in environmental assessment to be developed in 2007-08 A measure has been developed and the baseline has been set to track progress regarding how FCC makes it easy for employees to do business

Management's Discussion and Analysis

Overview of the MD&A

FCC Management's Discussion and Analysis (MD&A) provides management's perspective on the corporation's performance in fiscal 2006-07 through key performance indicators, an outlook for 2007-08 and risk management activities. The MD&A is presented in six sections:

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

Vision and strategy

In order to fulfil its vision, FCC must achieve financial success. It is important to generate a sufficient rate of return from operations to remain financially self-sustaining as well as fund growth and strategic initiatives. FCC must also have the capability to withstand the market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles. The corporation is also expanding its product offerings, which now extends beyond financial products to business services. These services offer specialized knowledge to FCC's customers. The corporation has a solid financial foundation, ensuring ongoing viability through sound financial and risk management practices.

Corporate measures

The following discussion outlines the key measures used to analyze financial success and performance against strategic objectives:

Portfolio growth: In order to generate a sufficient rate of return the corporation must grow its number one revenue-generating asset, its portfolio. There are a number of factors contributing to portfolio growth including net disbursements, loan maturities, loan renewals and prepayments. To assess FCC's performance and opportunities management primarily focuses on net disbursements, which is the largest contributor to portfolio growth.

Principal Not Due (PND) is the principal balance owing on loans. PND is used to assess the growth between business lines, geographic areas and enterprises as it represents the principal balance, excluding items such as arrears and interest accruals that are included within loans receivable. Portfolio growth performance is also assessed through the change in FCC's market share of the total farm debt outstanding.

Credit quality: In conjunction with portfolio growth, the credit quality of the portfolio is reviewed to determine the amount of allowance for credit losses that is required based on the risks within the portfolio and the industry. Loans in arrears and impaired loans are important indicators of risk within the portfolio. The level of allowance required determines the provision for credit losses, which is the expense charged to the income statement.

Efficiency and cost management: The net interest income remaining after deducting the provision for credit losses must cover administration expenses. Cost control performance is measured using the efficiency ratio, which is the percentage of each dollar of net interest income required to cover administration expenses.

Financial results: Key measures used to assess financial strength and success towards achieving the corporate vision include net interest income, net income, return on equity and debt-to-equity.

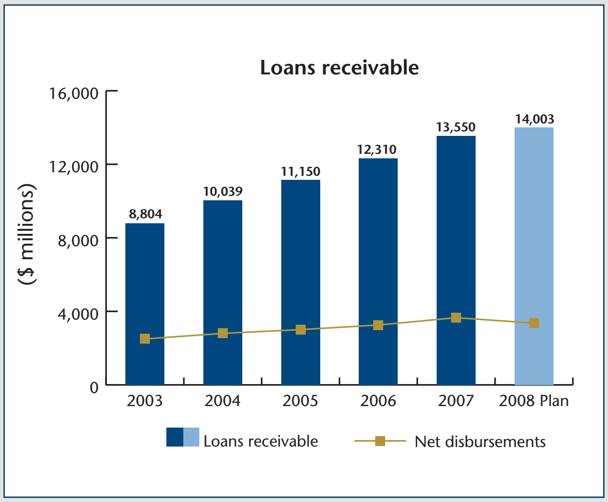
Caution regarding forward-looking statements

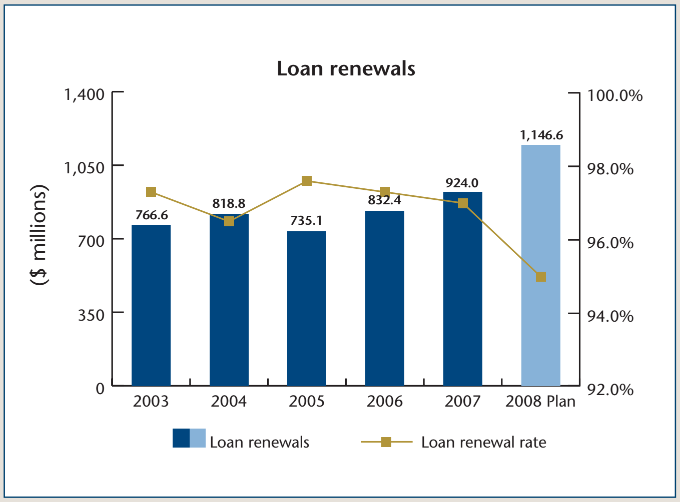
The MD&A includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary, and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including but not limited to interest rates. To manage within this volatility, management routinely reforecasts financial results, as early as the first quarter.

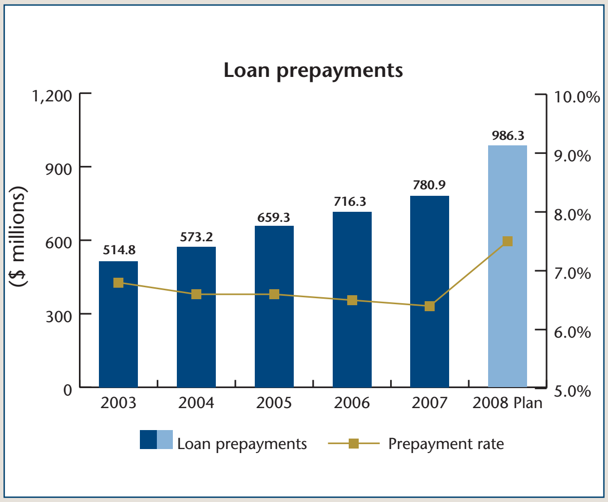
Portfolio growth

Lending activity

FCC's portfolio experienced growth for the 14th consecutive year. The 2006-07 growth rate was 10.1 per cent. Loans receivable grew from $12,310 million in 2005-06 to $13,550 million in 2006-07 and generated $872 million in interest income. The largest contributing factor to the growth in loans receivable was net disbursements of $3,715 million, $398 million higher than the previous year. Also, the prepayment rate was slightly lower, down 0.1 per cent from the previous year. The loan renewal rate was 97.0 per cent in 2006-07, 0.3 per cent lower than 2005-06.







	2008 Plan	**2007**	2007 Plan	2006
Loans receivable ($ millions)	14,003	**13,550**	12,482	12,310
Net disbursements ($ millions)	3,421	**3,715**	2,939	3,317
Renewal rate (per cent)	95.0	**97.0**	96.0	97.3
Prepayment rate (per cent)	7.5	**6.4**	7.5	6.5

The plan for the loans receivable balance in 2006-07 was $12,482 million. Actual results reached $13,550 million, representing an additional $1,068 million in portfolio growth. This was primarily due to higher net disbursements, a higher loan renewal rate and a lower prepayment rate than the plan.

The plan for the loans receivable balance in 2007-08 is $14,003 million. The assumptions around the 2007-08 plan were based on a lower loans receivable balance at year-end 2006-07. The planned slowdown in growth of loans receivable in 2007-08 versus historical experience is due to a number of factors including lower net disbursements, lower loan renewals and an increase in the prepayment rate.

Lines of business

AgProduction refers to customers who have loans with FCC including agricultural operations that produce raw commodities such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry, aquaculture and lifestyle customers.

AgValue refers to customers who have loans with FCC including suppliers and/or processors who are selling to, buying from and otherwise serving primary producers (equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors).

Alliances are relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

In 2006-07, FCC disbursed $3.3 billion or 87.8 per cent to primary producers, who continue to be the focus as FCC expands its product offerings to meet industry demands.

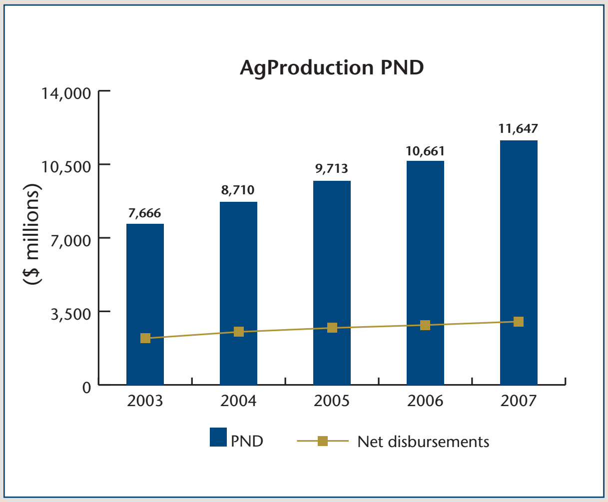
PND and net disbursements by line of business

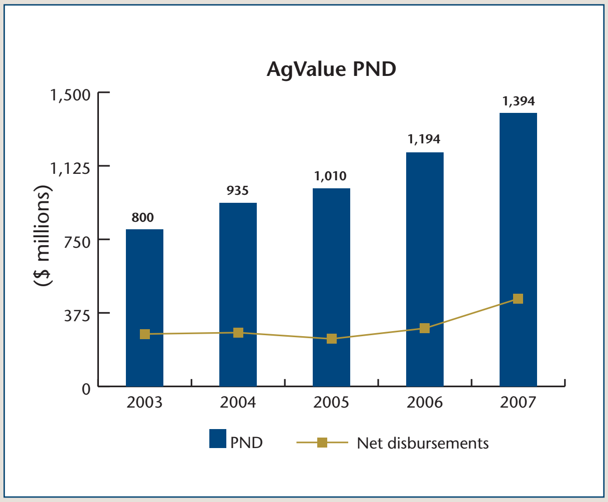
AgProduction

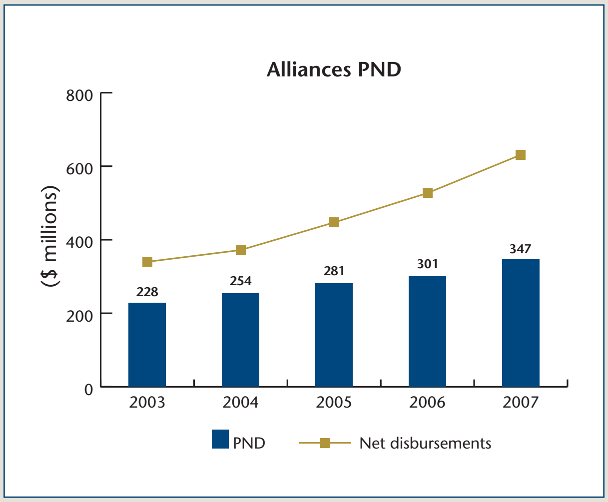
AgProduction PND grew by 9.2 per cent from $10,661 million in 2005-06 to $11,647 million in 2006-07. Net disbursements increased from $2,485 million in 2005-06 to $2,628 million in 2006-07. AgProduction net disbursements as a percentage of total net disbursements decreased from 74.9 per cent to 70.7 per cent due to the relative growth in the AgValue and Alliances business lines. All sales areas experienced increases in their respective portfolios; the largest was in the Western and Ontario areas. The cash crops, beef and other enterprises contributed to the largest increase in net disbursements for the AgProduction business line.

AgValue

AgValue PND grew by 16.8 per cent from $1,194 million in 2005-06 to $1,394 million in 2006-07. Net disbursements were up from $302 million in 2005-06 to $453 million in 2006-07, representing an increase of 50.0 per cent. All sales areas had increases in net disbursements with the exception of the Atlantic region. The largest increases were in the Western and Ontario areas. The value-added and cash crop enterprises accounted for the largest increase in net disbursements for the AgValue business line.







Alliances

Alliance PND grew by 15.3 per cent, from $301 million in 2005-06 to $347 million in 2006-07. Alliances net disbursements increased by 19.6 per cent from $530 million in 2005-06 to $634 million in 2006-07. Alliance lending largely supports input type loans that tend to be repaid in less than one year. This results in net disbursements exceeding the portfolio balance at year-end. The cash crop enterprise provided the largest increase in Alliances lending. FCC continues to expand Alliance partnerships and product offerings to capitalize on the opportunities in the market.

PND and net disbursements by enterprise

FCC lends to all areas of agriculture across Canada and groups them into seven major enterprises. By diversifying the portfolio between these different enterprises, the impact of enterprise-specific issues and risks are minimized.

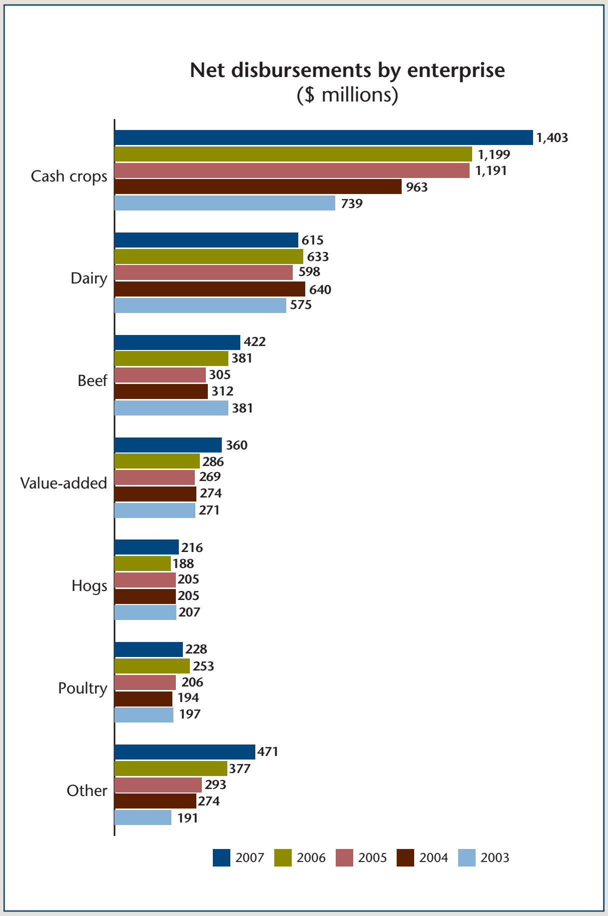
The total PND of the two major agriculture enterprises within the portfolio, cash crops and dairy, has decreased in 2006-07 to 55.9 per cent from 56.6 per cent in 2005-06. The total PND in poultry and other enterprises increased by 0.1 per cent and 1.2 per cent respectively. Beef and hogs decreased slightly by 0.2 per cent and 0.4 per cent respectively. The proportion of the portfolio represented by the value-added enterprise remained unchanged.

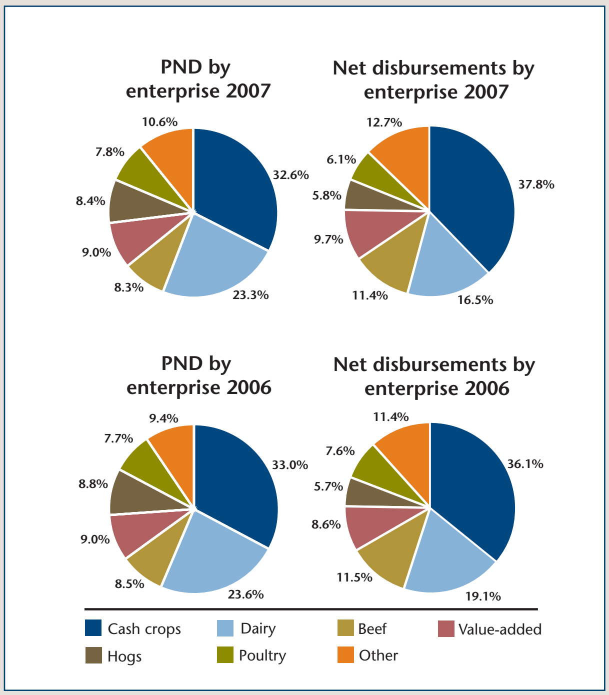
As a percentage of total net disbursements, the cash crops enterprise increased by the largest amount at 1.7 per cent, followed by the other, value-added and hog enterprises at 1.3 per cent, 1.1 per cent and 0.1 per cent respectively. Dairy, poultry and beef decreased by 2.6 per cent, 1.5 per cent and 0.1 per cent respectively. The largest increases in net disbursements from the prior year were in value-added, other, cash crops and hogs with 25.9 per cent, 24.9 per cent, 17.0 per cent and 14.9 per cent respectively.

PND and net disbursements by geographic area

FCC promotes portfolio diversification by geographic area by maintaining a strong and consistent presence throughout rural Canada. The corporation has offices in over 100 rural communities from coast to coast.

All areas across Canada experienced PND growth in 2006-07 except the Atlantic region. The largest PND growth was in the Western area at 18.1 per cent. This was followed by growth in the Quebec, Prairie and Ontario areas with 9.2 per cent, 8.4 per cent and 7.7 per cent respectively. The Atlantic area decreased by 1.3 per cent.

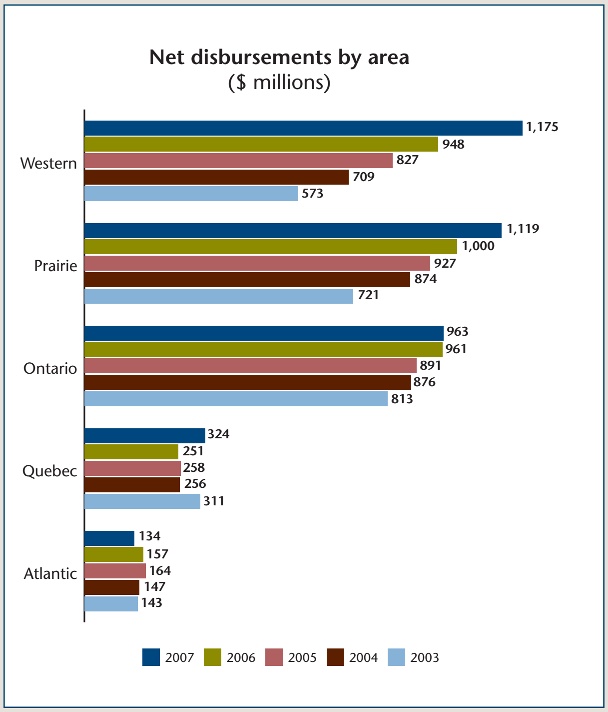


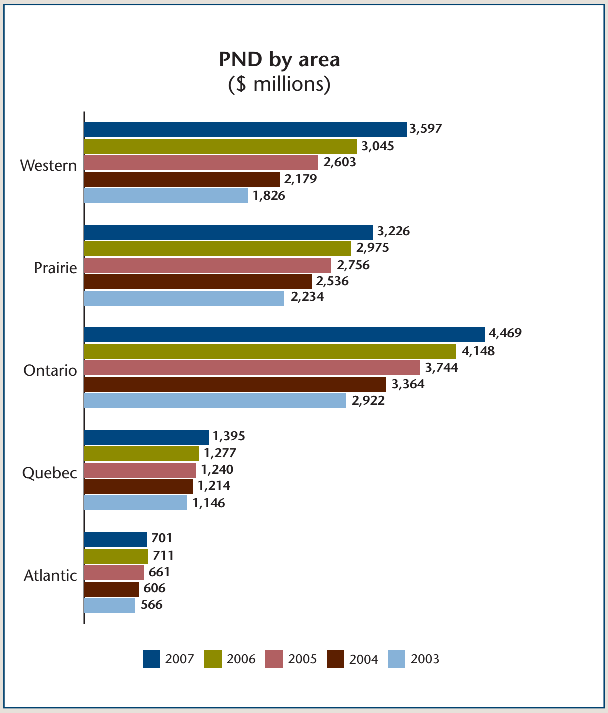


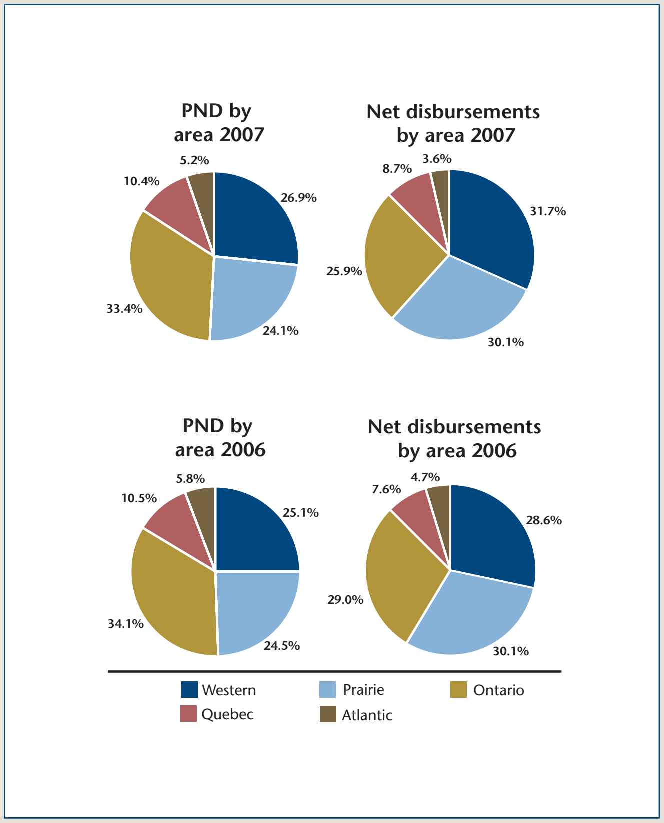
As a proportion of total PND the Western, Prairie and Ontario areas continue to comprise the largest portion of the total portfolio in terms of size. The Western area increased the most, from 25.1 per cent in 2005-06 to 26.9 per cent in 2006-07. The Quebec area remained at a similar level as the prior year, while the Prairie, Ontario and Atlantic sales areas decreased from 24.5 per cent, 34.1 per cent and 5.8 per cent to 24.1 per cent, 33.4 per cent and 5.2 per cent respectively.

Net disbursements increased over the previous year in all areas except Atlantic. The increase in net disbursements for the Western, Prairie, Quebec and Ontario areas were $227 million, $119 million, $73 million and $2 million respectively. The largest increase in the Western and Prairie areas was in the cash crops enterprise. The largest increase in the Quebec area was in the poultry enterprise.

Net disbursements for the Western and Quebec areas increased as a proportion of total net disbursements, from 28.6 per cent and 7.6 per cent in 2005-06 to 31.7 per cent and 8.7 per cent respectively in 2006-07. The Prairie area remained flat to the prior year and the Ontario and Atlantic areas experienced decreases. The Ontario area experienced the largest decrease, from 29.0 per cent in 2005-06 to 25.9 per cent in 2006-07.







Market share
FCC's commitment to the Canadian agriculture marketplace is demonstrated not only by growth in its own portfolio, but through its improving share of the farm debt market. Statistics Canada indicates that farm debt outstanding increased to $51.0 billion at the end of 2005. This represents an increase of $2.2 billion over the previous year and $9.9 billion over the past five years. FCC's market share as of December 31, 2005, was 21.5 per cent, and was only surpassed by all of the chartered banks combined at 42.1 per cent. FCC had the highest increase in market share at 1.0 per cent, followed by other at 0.3 per cent and credit unions at 0.2 per cent. In the past five years, FCC's market share has improved by 3.2 per cent.

Total farm debt outstanding as at December 31 (per cent)

	2005	2004	2003	2002	2001
Chartered banks	42.1	43.5	44.4	44.2	45.2
Farm Credit Canada	21.5	20.5	19.1	19.5	18.3
Credit unions	16.8	16.6	16.4	15.7	15.5
Treasury branch	2.8	2.9	3.2	3.1	3.2
Private individuals	7.8	7.8	7.5	8.7	7.6
Other	9.0	8.7	9.4	8.8	10.2
Total farm debt outstanding ($ millions)	50,956.8	48,737.4	46,663.7	44,497.1	41,060.0

* All figures back to 2004 have been updated according to Statistics Canada data as of June 2006. Figures are updated on a semi-annual basis for all categories by Statistics Canada.

Credit quality

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. Management uses a number of indicators to assess the appropriate level of allowance for credit losses required, including loans in arrears and impaired loans. In assessing their estimated realizable value, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The allowance for credit losses is broken down into two components:

Specific allowance – provides for probable losses on specific loans that have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

General allowance – provides for management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. It considers specific events to identify loans that have shown some deterioration in credit quality. The general allowance also represents management's best estimate of the probable unidentified losses in the portfolio. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends. This allows for probable credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans.

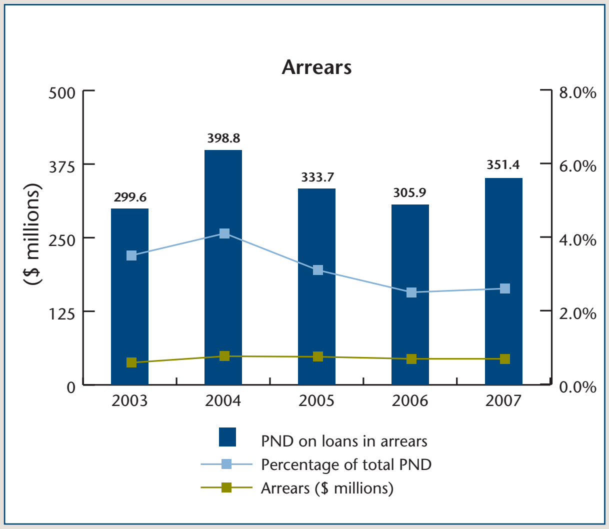
Once the appropriate level of allowance is determined, the necessary amount of provision for credit losses is charged to the income statement to bring the allowance to the desired balance.

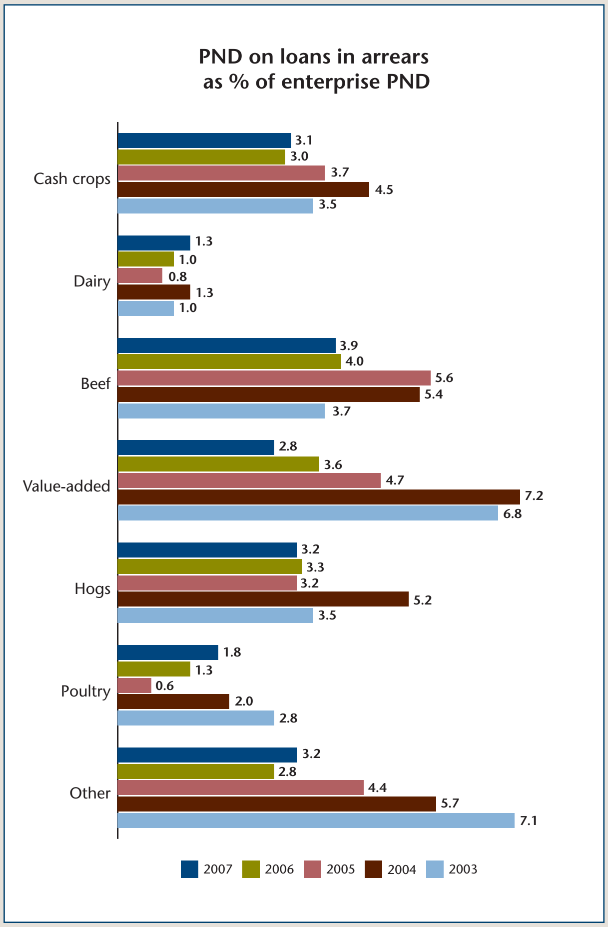
Loans in arrears

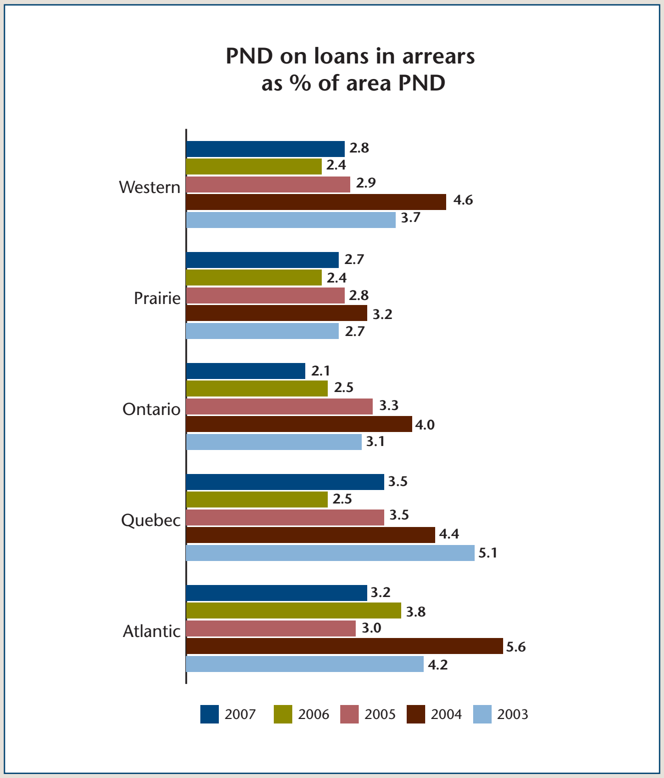
In 2006-07, arrears remained at the same level as 2005-06 at $36.4 million. PND on loans in arrears increased to $351.4 million from $305.9 million. PND on loans in arrears as a percentage of total PND increased 0.1 per cent to 2.6 per cent.

The arrears levels across Canada increased in the cash crops, dairy, poultry and other enterprises and decreased in beef, value-added and hogs. The relatively low level of PND in arrears as a percentage of total PND of 2.6 per cent in 2006-07 reflects the effective mitigation of risk through portfolio diversification. The number of loans in arrears has increased slightly and is compounded by a slight increase in the average principal balance of loans in arrears.

A number of factors within the agriculture market continue to impact the portfolio. These include but are not limited to flat or negative revenue growth in the agriculture industry and significant increases in production costs. FCC continues to provide customer support strategies that serve to work with its borrowers through times of difficulty in their specific enterprises.

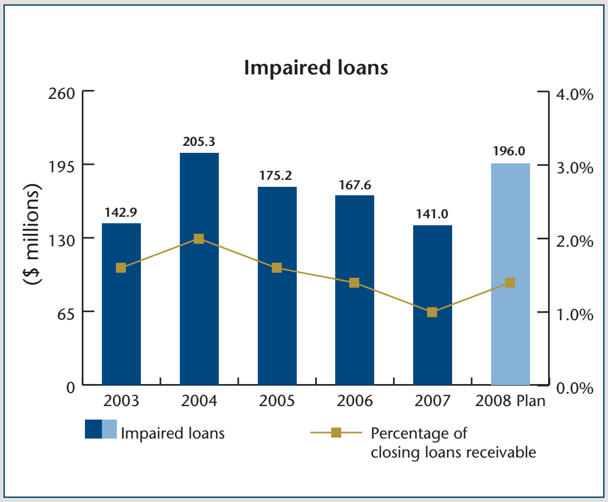






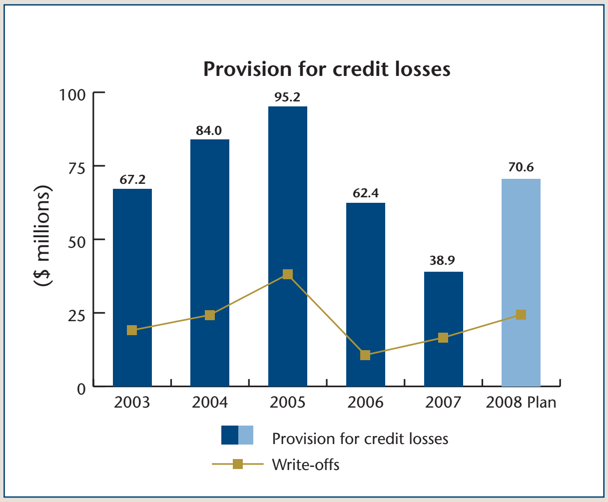
Impaired loans

Impaired loan balances at the end of 2006-07 totalled $141.0 million, representing a decrease of $26.6 million from $167.6 million in the previous year. Impaired loans as a percentage of closing loans receivable decreased to 1.0 per cent from 1.4 per cent in 2005-06. FCC continually monitors its portfolio and the industry to identify potential for developing proactive solutions to help customers through difficult times.



Provision for credit losses

The provision for credit losses decreased by $23.5 million to $38.9 million in 2006-07, down from $62.4 million in 2005-06 due to the low level of arrears and impaired loans. The health of the portfolio in 2006-07 relative to fiscal 2005-06 has strengthened resulting in a lower required allowance for credit losses as a percentage of opening loans receivable, thereby lowering the required provision for credit losses.

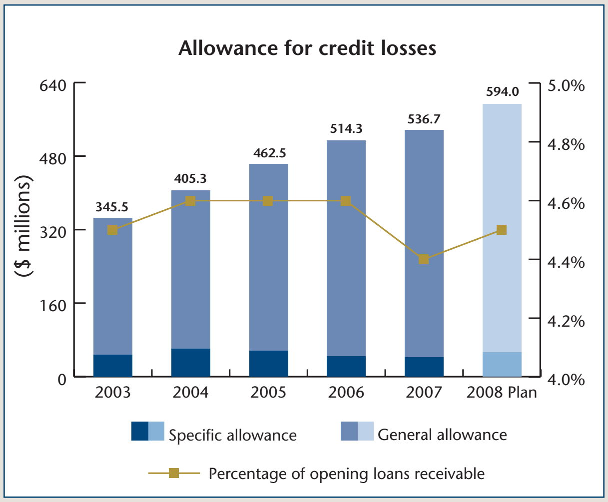


Allowance for credit losses

Due to growth in the portfolio, the allowance for credit losses increased by 4.4 per cent to $536.7 million, up from $514.3 million in 2005-06. The allowance as a percentage of opening loans receivable decreased from 4.6 per cent in 2005-06 to 4.4 per cent in 2006-07.

($ millions)	2008 Plan	**2007**	2007 Plan	2006
Arrears	56.7	**36.4**	87.2	36.4
Impaired loans	196.0	**141.0**	212.2	167.6
Provision for credit losses	70.6	**38.9**	46.5	62.4
Allowance for credit losses	594.0	**536.7**	513.9	514.3

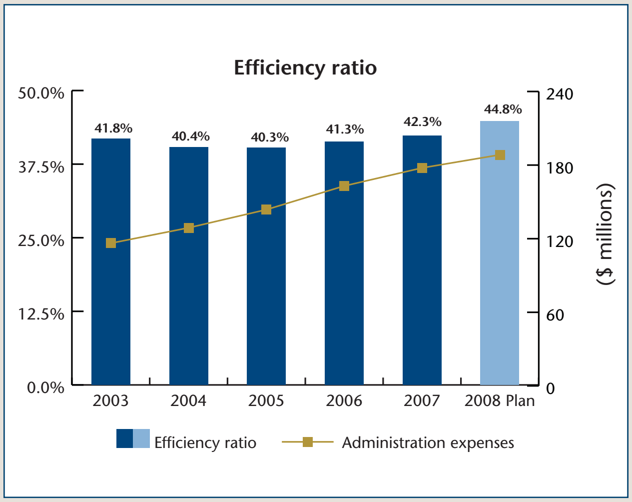
The arrears balance in 2006-07 was $50.8 million below plan, and the impaired loans balance was $71.2 million below plan. Provision for credit losses was $7.6 million below plan reflecting the improved portfolio strength. The allowance for credit losses was $22.8 million higher due to the larger growth in the loan portfolio in 2006-07 relative to the plan. The outlook for 2007-08 is an increase in the level of allowance for credit losses and provision for credit losses. Most of the increase in the allowance for credit losses will be in the general allowance portion due to the portfolio growth and increased level of arrears expected for 2007-08.



Efficiency and cost management

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business. A low efficiency ratio indicates an efficient use of resources. In 2006-07, FCC's efficiency ratio increased to 42.3 per cent. Net interest income grew by 6.7 per cent and administration expenses grew by 9.0 per cent, resulting in an increase in the efficiency ratio. Personnel expenses, specifically salaries, experienced the highest increase from 2005-06 to 2006-07 mainly due to the addition of 88 full-time equivalent employees to support continuing portfolio growth and the achievement of strategic initiatives.



	2008 Plan	2007	2007 Plan	2006
Administration expenses ($ millions)	188.4	**177.7**	173.3	163.0
Efficiency ratio (per cent)	44.8	**42.3**	44.8	41.3

Administration expenses were $4.4 million higher than plan in 2006-07; however, the efficiency ratio was 2.5 per cent lower. The majority of the increase compared to plan was due to increased salary expenses. The improved efficiency ratio was reflective of the higher actual portfolio growth in 2006-07 versus plan and a more efficient use of resources to support that growth. However, the efficiency ratio is expected to increase for the 2007-08 plan. Increases in administration expenses are necessary for investment in the strategic initiatives and infrastructure to support continued growth and success.

Financial results

Net interest income

Net interest income is the difference between the interest earned on assets and interest expense on borrowings. In 2006-07, net interest income increased to $414.6 million, a 6.7 per cent increase over the previous year. The major factor contributing to the increase is portfolio volume offset by a lower net interest margin, which is net interest income expressed as a percentage of average total assets. In 2006-07, the portfolio grew by $1.2 billion or 10.1 per cent over the previous year, which contributed $33.7 million more in net interest income. The net interest margin of 3.06 per cent is lower than the 2005-06 level of 3.21 per cent. The decrease in margin is primarily due to lower actual margins on fixed and variable rate assets relative to fiscal 2005-06. The lower net interest margin in 2006-07 reduced net interest income from 2005-06 by $7.5 million.

The net interest margin is intended to cover credit risks expressed through the provision for credit losses and administration expenses, as well as yield a sufficient return to enable the corporation to reinvest into future growth and viability.

Net interest margin 2007	**Average daily balance ($ millions)**	**Rate**
Earning assets:		
Fixed loan principal balance	5,313.9	6.55%
Variable loan principal balance	7,507.4	6.76%
Investments	838.7	4.22%
Venture capital investments	40.9	12.26%
Total earning assets	13,700.9	6.74%
Total interest-bearing liabilities	12,158.6	4.09%
Total interest rate spread		2.65%
Impact of total capitalization	1,542.3	0.41%
Net interest margin		3.06%

The following table outlines the historical year-over-year increases to net interest income and the amount of change that is due to changes in portfolio volume and changes in the net interest margin.

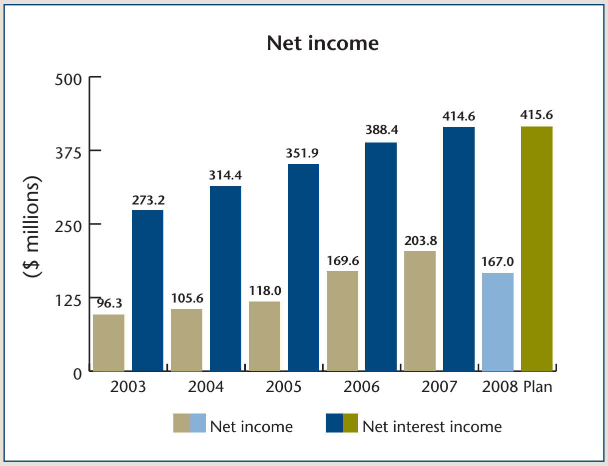
Net interest income and margin

($ millions)	2008 Plan	**2007**	2006	2005	2004	2003
Net interest income	415.6	**414.6**	388.4	351.9	314.4	273.2
Average total assets	14,089.9	**13,530.6**	12,100.7	10,940.8	9,739.1	8,563.3
Net interest margin (per cent)	2.95	**3.06**	3.21	3.22	3.23	3.19
Year-over-year change in net interest income due to:						
Increase in volume	16.2	**33.7**	30.8	31.2	27.6	26.3
Changes in margin	(15.2)	**(7.5)**	5.7	6.3	13.6	42.0
Total change to net interest income	1.0	**26.2**	36.5	37.5	41.2	68.3

Net income

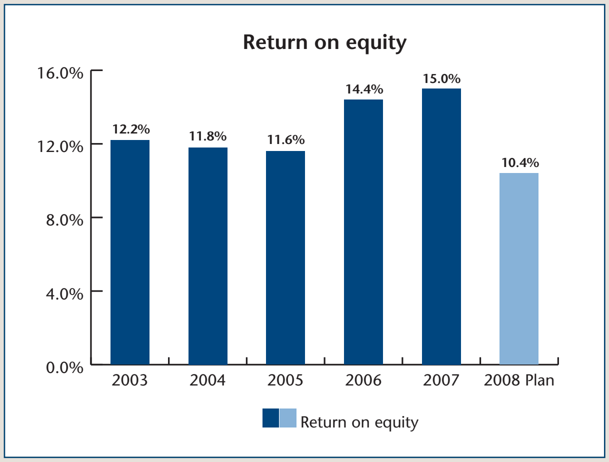
Net income is composed of net interest income plus other income less the provision for credit losses and administration expenses.

Net income in 2006-07 increased to $203.8 million, an increase of $34.2 million from the previous year. Higher net interest income, primarily due to the growth in the portfolio, and a lower provision for credit losses, is offset by lower other income and an increase in administration expenses. FCC is a self-sustaining entity and therefore reinvests its earnings back into agriculture through financing portfolio growth, new product development and business services that support the agriculture industry.



Return on equity

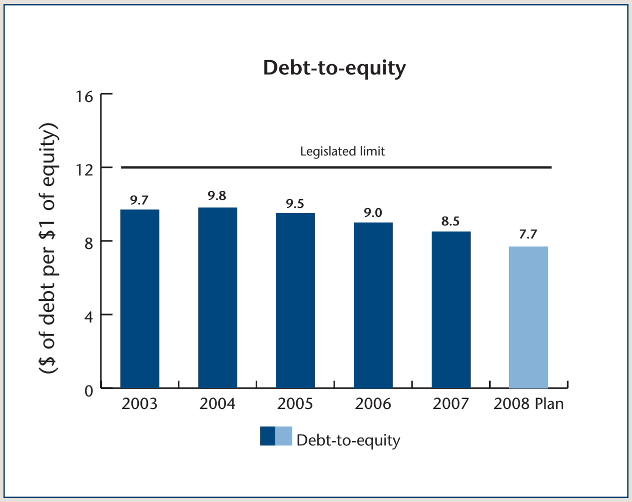
Return on equity is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives. Return on equity increased in 2006-07 to 15.0 per cent from 14.4 per cent in 2005-06. A lower provision for credit losses and strong portfolio growth were slightly offset by an increased efficiency ratio.



Debt-to-equity

Debt-to-equity is the amount of debt the corporation has outstanding in relation to each dollar of equity. It is also a measure of risk as the more a corporation borrows against a single dollar of equity, the greater its risk. FCC's legislated debt-to-equity limit is 12 to 1.

Debt-to-equity improved from 9.0:1 in 2005-06 to 8.5:1 in 2006-07. The decrease is due to the growth in net income and retained earnings from 2005-06. When the growth in equity exceeds portfolio growth, the debt-to-equity ratio is reduced due to the reduced requirement for borrowed funds.



	2008 Plan	**2007**	2007 Plan	2006
Net interest income ($ millions)	415.6	**414.6**	385.2	388.4
New lending margin (per cent)	2.47	**2.60**	2.53	2.60
Net interest margin (per cent)	2.95	**3.06**	3.04	3.21
Net income ($ millions)	167.0	**203.8**	166.8	169.6
Return on equity (per cent)	10.4	**15.0**	12.3	14.4
Debt-to-equity ($ of debt per $1 equity)	7.7	**8.5**	7.8	9.0

In 2006-07, net interest income was $29.4 million above plan due to portfolio growth exceeding plan and higher than planned margin levels. Net income exceeded plan by $37.0 million due to the increase in net interest income and lower provision for credit losses, offset by higher administration expenses and lower other income. The resulting return on equity ratio was 2.7 per cent above plan. Debt-to-equity was 0.7 higher than plan due to the higher than planned portfolio growth levels.

Net interest income is expected to increase in 2007-08 by $1.0 million from 2006-07, due to higher lending volumes partially offset by lower lending margins. Net income is expected to decrease to $167.0 million in 2007-08 due to increases in provision for credit losses and administration expenses, and lower other income. Return on equity is expected to decrease due to the increases in provision for credit losses and the increased administration expenses. The increases in administration expenses and in the efficiency ratio are due to investment in the strategic initiatives and infrastructure necessary to support continued growth and success. The debt-to-equity ratio is expected to drop in 2007-08. Slower expected growth will result in equity growing at a higher rate than the portfolio reducing the borrowing requirements per dollar of equity.

Funding activity

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

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

Short-term funding

Short-term funding consists of borrowings with a term to maturity of less than one year. This includes the Domestic and Euro Commercial Paper programs. The outstanding short-term borrowings at March 31, 2007, were $5.1 billion, compared to $5.7 billion at March 31, 2006. The slight decrease in short-term borrowings supports a corresponding decrease in variable-rate mortgages in the asset portfolio.

Medium and long-term funding

Medium and long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all MTN and EMTN debt with more than one year to maturity. During 2006-07, FCC borrowed a total of $3.0 billion in medium and long-term funds, up from $2.5 billion in 2005-06. The increase in MTN issuance was due to strong demand from institutional investors. FCC issued $65.5 million of EMTN debt in 2006-07, after renewing the program in February 2006.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2006-07, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed below as of March 31, 2007.

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

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

On March 19, 2007, the Finance Minister delivered the federal budget for fiscal 2007-08 and announced the federal government's intention to consolidate the Crown borrowings of FCC, Business Development Bank of Canada and Canadian Mortgage and Housing Corporation by providing direct lending to these Crown corporations beginning in 2008. While the specific framework under which the consolidated borrowing would operate is uncertain, FCC management believes the impact on FCC's borrowing costs will not be significant.

Capitalization

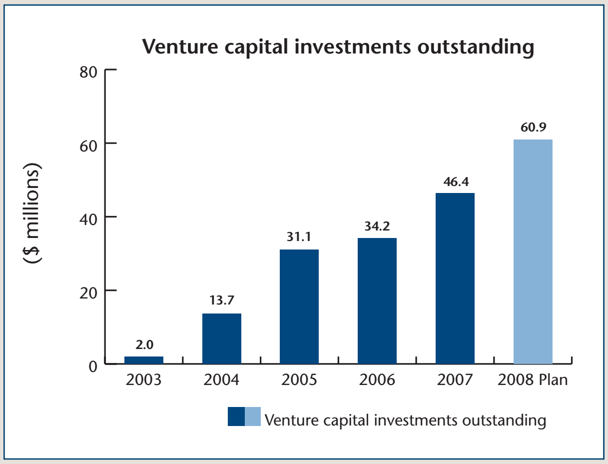
FCC's gross assets are $14,370.9 million, which are supported by equity and allowances of $1,998.8 million. At this level of capitalization, 13.91 per cent (2005-06 – 13.58 per cent) of assets do not require external debt financing.

($ millions)	2008 Plan	**2007**	2006	2005	2004	2003
Equity:						
Capital	547.7	**547.7**	547.7	532.7	507.7	507.7
Retained earnings	1,093.0	**914.4**	716.1	551.8	437.5	331.9
Subtotal	1,640.7	**1,462.1**	1,263.8	1,084.5	945.2	839.6
Allowance for credit losses	594.0	**536.7**	514.3	462.5	405.3	345.5
Total capitalization	2,234.7	**1,998.8**	1,778.1	1,547.0	1,350.5	1,185.1
Gross assets not requiring debt financing (per cent)	14.98	**13.91**	13.58	13.04	12.73	12.71

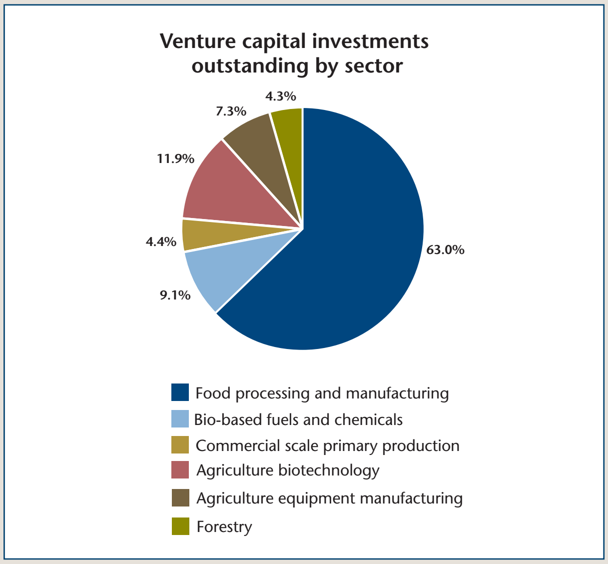
Business services

FCC Ventures

FCC Ventures, Farm Credit Canada's venture capital division, was formed in 2002. As a major player in Canadian agriculture, FCC has been very successful attracting and partnering with other venture capitalists to provide even greater funding to this sector. Over the past five years FCC Ventures, together with its funding partners, has provided over $150 million in funding to the agriculture industry across Canada. At March 31, 2007, for every $1 invested by FCC third-party co-investors have invested an additional $1.60.



During 2006-07, the corporation leveraged this success by becoming the lead limited partner in Canada's first industrial life sciences venture capital fund, called Avrio Ventures Limited Partnership. Coincident with the creation of the new venture capital fund, the corporation entered into a contract with Avrio Investments Inc. for the ongoing management of FCC Ventures' existing investment portfolio. This change helps to ensure that FCC Ventures retains the venture capital expertise required to effectively manage the investment portfolio. The new fund intends to capitalize on the convergence of life sciences and industrial technology and will focus on Canadian commercialization to growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is well represented across Canada with offices located in Calgary, Alberta, Oakville, Ontario and Montreal, Quebec.



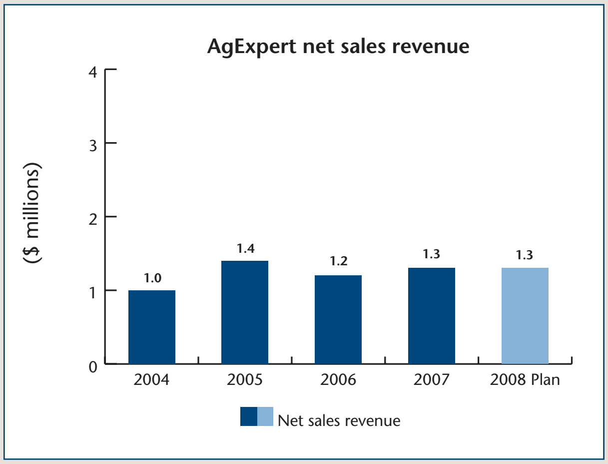
The FCC Ventures portfolio reached $46.4 million as at March 31, 2007, with FCC Ventures investing $19.8 million during the year. In 2006-07, FCC Ventures earned $5.4 million in income from its investments. In addition venture capital investments of $5.0 million were exited, creating a total gain of $1.6 million. One investment was written off, resulting in a loss of $1.0 million. Co-investment partners contributed an additional $21.2 million.

The largest portion of FCC Ventures' portfolio is in the food processing and manufacturing sector. FCC Ventures continues to support growth in the agriculture market through its investments and by raising awareness of potential investment opportunities within the venture capital and financial markets.

	2008 Plan	**2007**	2007 Plan	2006
Investments – total capital outstanding	60.9	**46.4**	57.5	34.2
Co-investment ratio ($'s co-invested per FCC $)	1.5	**1.6**	1.3	1.9

The 2006-07 plan for new venture capital investments was $20.0 million. Actual investments were $19.8 million, $0.2 million below plan. The total capital outstanding at the end of 2006-07 was $46.4 million, or $11.1 million below plan. The lower than anticipated investment balance was primarily due to the one exit and one write-off that occurred during the year. At March 31, 2007, the ratio of co-investment dollars per FCC Ventures' dollars invested was 1.6 to 1. This is above the plan of 1.3, but lower than the 2005-06 level of 1.9. The outlook for 2007-08 is total capital outstanding of $60.9 million, including direct investments and those made through the Avrio Ventures fund.

AgExpert



FCC's AgExpert division publishes Canada's leading farm management software, offering the AgExpert Analyst accounting software and AgExpert Field Manager PRO programs and related support to primary producers. In the past year, FCC continued to enhance AgExpert management software for application across Canadian agriculture and strengthen the connection to the FCC brand. New versions of the accounting software (AgExpert Analyst 2007), complete new field management software (AgExpert Field Manager PRO) and support services generated $1.3 million in net sales revenue in 2006-07. This is an 8.3 per cent increase in net sales revenue from the previous year.

Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including compliance programs such as the Canadian Agriculture Income Stabilization (CAIS) program and emerging food safety production initiatives. Expanded product usage by key industry influencers and stakeholders contributed to growth in the current year and will enable future market share growth and revenue increases.

	2008 Plan	2007	2007 Plan	2006
Net sales revenue ($ millions)	1.3	**1.3**	1.5	1.2

* In 2006-07 a change was made to what is included in Net Sales Revenue; the Plan numbers have been recalculated for comparison purposes in the above table. They were previously published as $2.1 million for the 2007 Plan and $2.0 million for the 2008 Plan.

Net sales revenue was below plan for the past year by $0.2 million. The plan for 2007-08 is net sales revenue of $1.3 million. This level of sales is expected as AgExpert products continue to leverage off of recognition within the marketplace and the strength of the FCC brand and distribution network.

AgriSuccess

AgriSuccess is the information and learning program offered in support of FCC's commitment to Canadian agriculture. Its mandate is to advance management practices that lead to success in Canadian agriculture. Today's AgProduction and AgValue operators are sophisticated and need more advanced skills to manage their operations. AgriSuccess continued to diversify its delivery formats and reached more producers in 2006-07.

In 2006-07, the AgriSuccess learning program had a foundation of nine different management workshops. Topics covered were in the areas of human resource management (recruiting and retaining employees), financial management (management accounting systems and ratio analysis), succession planning, estate planning, vision / goal setting and commodity marketing management. A new workshop was introduced in 2006-07 in the area of value chain management. As of January 2007, to recognize its loan customers and AgExpert Support customers, the registration fees to those two customer groups were waived. Non-customers continue to pay a registration fee.

Advanced Farm Manager is an intensive multi-day program that covers all aspects of strategic business planning and was delivered in three provinces this year.

AgriSuccess extended its reach by introducing a new learning format this year, the AgriSuccess Forums. The forums focused on learning and networking for the several hundred attendees at each one. The forum theme was "Winning in Agriculture," with multiple speakers presenting in a half-day, high energy conference format. The positive format and accompanying learnings were extremely well received by those in attendance. AgriSuccess's reach was further extended this year with the introduction of an AgriSuccess speaker sponsorship program to bring high-quality speakers to industry events.

The information programs of AgriSuccess include the AgriSuccess Express and AgriSuccess Journal. These high-quality publications are offered through subscription to customers and to other producers at no charge. Both publications are written and edited by professional agriculture journalists with guidance from FCC's editorial board. The Express brings the top 10 breaking agriculture news stories electronically to subscribers' inboxes weekly. The Journal, a bi-monthly colour magazine, is dedicated to helping producers advance their management practices by providing practical information, real-life examples and innovative ideas that foster personal solutions. This was the Journal's third year of publication and the editorial board increased the magazine's length from 16 to 20 pages this year. The Journal subscription list was expanded to include all FCC loan customers, beginning with the March/April 2007 edition. As of March 2007, all FCC customers with a valid e-mail address were included in the AgriSuccess Express subscription list.

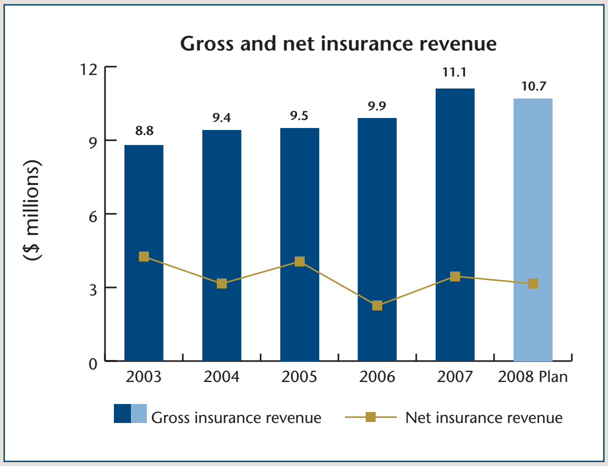
	2008 Objectives	2007	2007 Objectives	2006
AgriSuccess participants	3,300	**3,191**	3,000	3,169
AgriSuccess Express distribution	28,000	**24,179**	22,000	17,899
AgrSuccess Journal distribution	50,000	**44,234**	25,000	14,983

There were 73 workshops and 12 seminars in both official languages delivered in all ten provinces in Canada. The number of learning events increased slightly over 2005-06, and the average attendance at all workshop events increased by 16 per cent. In total, 3,191 people attended AgriSuccess events this past year, and 3,521 attended AgriSuccess-sponsored speaking events. The goal for workshop and seminar attendance is 3,300 in 2007-08. AgriSuccess forums will continue as a learning event format and will be expanded next year – 2,760 people attended AgriSuccess forums in 2006-07.

The AgriSuccess Journal subscriber list for the March 2007 edition totalled 44,234. The AgriSuccess Express subscription list included 24,179 e-mail addresses at year-end. Express circulation continues to grow, but at a slower pace than other years. It is expected that the e-mail distribution system will be upgraded in 2007-08.

Agri-Assurances

FCC offers loan life and accident insurance providing protection for its customers, their families and businesses. This past year, loan and accident insurance plans were simplified, while still offering all the past flexibility including full and partial coverage for reducing balance, key person, payment protection, fixed and revolving plans. FCC group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.



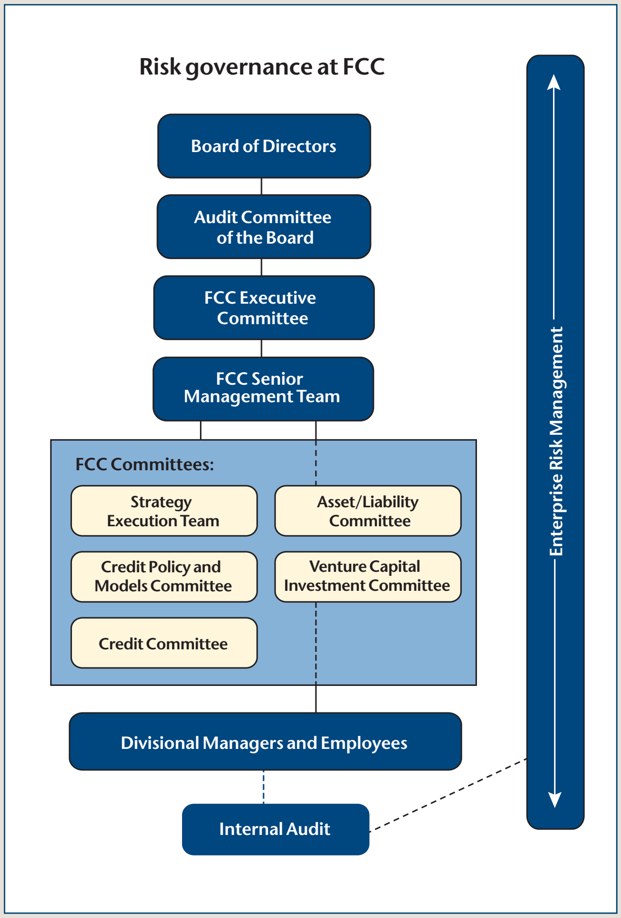
Insurance coverage sold on new loans in 2006-07 was $624.7 million compared to $592.0 million in 2005-06. Gross insurance revenue in 2006-07 increased to $11.1 million from $9.9 million in 2005-06. Net revenues from loan life and accident insurance vary from year to year depending on claims paid. For 2006-07, net insurance revenue was $3.5 million compared to $2.3 million in 2005-06.

($ millions)	2008 Plan	2007	2007 Plan	2006
Gross insurance revenue	10.7	**11.1**	10.3	9.9
Net insurance revenue	3.2	**3.5**	2.0	2.3

Gross insurance revenue was $11.1 million in 2006-07, $0.9 million higher than plan. The assumption for the 2007-08 planned gross and net insurance revenue was based on a lower loans receivable balance and insurance program as of March 31, 2007. Based on these assumptions, $10.7 million and $3.2 million in gross and net insurance revenue is the planned amount for fiscal 2007-08.

Enterprise risk management

Risk management is key to protecting FCC's customers, business interests and long-term viability. Enterprise risk management (ERM) helps balance risk-taking activities and risk management practices within the context of executing corporate strategy and achieving business goals and objectives. ERM creates a common understanding of risk, provides a framework to comprehensively identify risks and risk interdependence, and ensures risk-taking activities and risk management practices are appropriate to meet customers' needs and are aligned with shareholder's expectations.



Risk governance

The Board of Directors has oversight responsibility for management of risks of the corporation.

The Audit Committee of the FCC Board of Directors assists the Board in fulfilling its responsibilities by ensuring management has identified key risks and has put in place reasonable policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining the levels and trends in major risk areas and corresponding risk management measures implemented to provide assurance that FCC is effectively managing risk.

The Executive Committee (EC) is accountable for championing a culture that supports effective risk management and strategic decision-making, including risk/reward decisions, compensation alignment and prioritization. Additionally, EC reports to the Board on risks with potentially high impact to the corporation as they arise.

The Senior Management Team (SMT) participates in enterprise-wide assessment of risks and ranks them according to the extent of their impact and likelihood of occurrence. SMT is accountable for developing risk management action plans and to report against these risks.

The Strategy Execution Team (SET) is responsible for the ongoing monitoring and execution of the corporate workplan to enable the achievement of FCC's strategic objectives. SET prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of financial and human resources.

The Asset/Liability Committee is responsible for the establishment and maintenance of market risk policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.

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

The Credit Committee reviews and makes lending decisions on loan applications in excess of prescribed limits.

The Venture Capital Investment Committee adjudicates all recommendations on venture capital investments made by the corporation and reviews the performance of the existing investment portfolio.

Internal Audit provides independent assurance to FCC management and the Audit Committee on the effectiveness of FCC's risk management, internal control and governance processes.

The Enterprise Risk Management business unit co-ordinates a comprehensive view of risk across the organization and works with the Strategy division's Corporate Project Management Office to ensure that ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing actions to address ongoing business risks while enhancing FCC's ability to capitalize on developing opportunities. ERM reports semi-annually to the Audit Committee with respect to the highest-ranked risks.

FCC's ERM framework sets out the major categories of risk to which FCC is exposed: credit risk, market risk, liquidity risk and operational risk.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to FCC. This is the most significant measurable risk that FCC faces.

In order to fulfil the corporate mission to enhance rural Canada by providing business and financial solutions to farm families and agribusiness, and to meet the governing objective of remaining financially self-sustaining in order to grow support for agriculture and customers, a balance must be maintained between net income (profitability) and risk (volatility of net income). This relationship is explained in FCC's portfolio vision statement:

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

The Portfolio Management division assesses credit risk at the aggregate level, providing risk assessment tools and models to quantify credit risk and default loss allowances. The division also monitors the agriculture and agri-food operating environments to ensure FCC lending policies, activities and prices are appropriate and relevant.

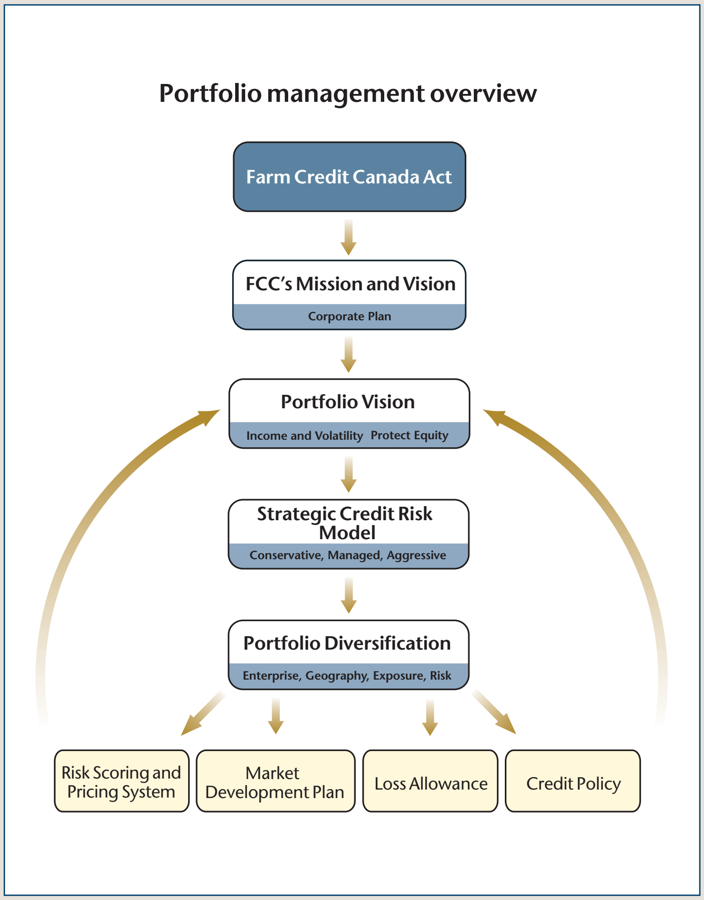
The following tools or systems are used to manage credit risk within the portfolio. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

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

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

FCC targets the managed range and in 2006-07 the SCRM indicated a managed level of overall strategic credit risk.

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



The Portfolio Diversification Plan is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agriculture debt, risk-adjusted and cost-adjusted returns by sector and FCC growth trends. The Portfolio Diversification Plan identifies target ranges and adjustment options for each of the following:

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

FCC is currently within the target ranges and is planning for growth in each sector.

The Risk Scoring and Pricing System is a behavioural scorecard used as FCC's risk rating system. It is also used to suggest interest rates for individual loans and ensures the cost of funds, risk, operating cost and planned profit are recovered.

The Market Development Plan operationalizes the Portfolio Diversification Plan, presenting the rationale, objective and strategy for each of FCC's business lines. The strategy component presents the relative priority of market development efforts in retention, expansion or acquisition for each business line in the upcoming year.

The Loan Loss Model models the losses due to credit risk within the loan portfolio. The Specific Allowance Loan Loss model identifies non-performing loans. The General Allowance Loan Loss model identifies loans that are still performing but have characteristics that indicate deterioration in credit-worthiness. In addition, the model considers recent events and changes in economic conditions that may have created deterioration in credit quality for many loans that has not yet been exhibited. For both of these groups of loans, the models consider security position to estimate the appropriate amount of loss allowance. Recording such losses protects FCC's equity and reduces the stated loans receivable on FCC's balance sheet.

The Credit Policy business unit is responsible for the management of FCC credit policies, and makes recommendations to the Credit Policy and Models Committee to ensure an appropriate balance between risk mitigation and effective procedures. Credit Policy reviews, enhances and clarifies credit policies, communicates policy changes to staff and provides policy training and ongoing interpretation of policy in relation to general and specific lending situations.

Operations employees with lending authorities are responsible for managing credit risk on the loans in their portfolio. Lending authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. Operations monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

The Credit Risk division manages credit risk for larger loans as well as loans with a higher risk rating. Credit Risk staff are responsible for credit-related delegation of authorities, credit education and coaching, and credit authorization including Credit Committee recommendations. Valuation staff research land sales, maintain benchmark data on land values and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Employees in Special Credit manage and resolve higher-risk accounts experiencing challenges.

Market risk

Market risk is the potential for loss to FCC as a result of adverse changes in underlying market factors such as the level of competition, business and economic conditions, interest rates and credit risk associated with derivative counterparties.

FCC has market risk policies and limits to ensure exposures to interest rate, foreign exchange and derivative counterparty credit risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by the Asset/Liability Committee (ALCO) and are approved by the Board of Directors. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and to the Board of Directors on its activities and asset/liability positions.

The Treasury division is responsible for managing funding operations as well as mitigating associated risks such as liquidity risk, interest rate volatility, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Interest rate risk is effectively managed through hedging and pricing strategies. FCC's policy is to eliminate foreign exchange risk. To accomplish this, all foreign currency borrowings are fully hedged at the time of issuance unless the foreign currency denominated debt is used specifically to finance a like currency asset.

Interest rate risk

Interest rate risk is the potential for adverse impacts on FCC's earnings and economic value due to changes in interest rates. FCC is exposed to interest rate risk primarily from interest rate mismatches and embedded options. Interest rate mismatches between assets, liabilities and off balance sheet instruments occur because of different maturity, renewal and/or re-pricing dates. Embedded options exist on loans that have principal deferral options, prepayment features and interest rate guarantees on mortgage commitments.

Exposure to interest rate risk is monitored primarily using an asset/liability model. Various scenarios are produced on a monthly basis to analyze the sensitivity of income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested to ensure that the logic and the assumptions used in the model are reasonable when compared to actual results.

The asset/liability model simulates changes in net interest income and the market value portfolio equity for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2007, an immediate and sustained two per cent change in the yield curve (across all maturities) would affect net interest income (over the next 12 months) and the market value of portfolio equity as follows:

	2% increase	2% decrease
	($ millions)	
Net interest income variability	-5.7	3.7
Market value portfolio equity variability	-102.1	92.3

Derivatives

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

Credit risk arises from the potential for a counterparty of a derivative contract to default on its contractual obligation to FCC. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of high credit quality, as determined by the published ratings of external credit rating agencies. Furthermore, standard credit mitigation via netting arrangements provided in the master International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation and provide FCC with collateral in the event that the counterparty credit exposure exceeds an agreed threshold.

Liquidity risk

Liquidity risk is the potential for financial loss if FCC cannot meet a demand for cash or fund our obligations at a reasonable cost as they come due.

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 $681.3 million were on hand at March 31, 2007 (March 31, 2006 – $668.7 million); ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements
- access to a $10 million bank operating line of credit and a $50 million revolving credit facility

Operational risk management

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks. FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible for daily management of operational risk by ensuring appropriate internal controls, policies and procedures are in place within their business units and are operating effectively. Executive Committee and the Senior Management Team are responsible for managing enterprise-wide operational risk.

A number of enterprise-wide programs and strategies are in place to assist with the management of operational risk:

Business continuity management: FCC is actively updating and testing its business continuity management to mitigate the risks associated with varying degrees of potential business disruptions including those associated with a human pandemic.

Corporate social responsibility (CSR): In 2006-07, the Board of Directors approved the adoption of a comprehensive CSR strategy, which includes initiatives associated with six themes:

- Corporate governance
- Human resources management
- Community investment and involvement
- Environment, health and safety
- Human rights
- Customers

The importance of CSR is reflected in its inclusion in the balanced scorecard and quarterly status reporting to the Board.

Corporate culture: FCC is committed to a culture that fosters committed partnerships that create extraordinary customer and employee experiences. The FCC cultural practices supplement the corporate values by explicitly outlining the behaviour expected of FCC staff at all times with colleagues, customers, partners, suppliers and stakeholders. Staff are accountable for their impact on business results as well as their impact on people.

Employee engagement survey: On an annual basis, FCC employees participate in the Best Employers in Canada study. This study provides a valuable measure of employee engagement, a gauge of emotional and intellectual commitment employees demonstrate for the organization for which they work. Strong employee engagement translates into employees speaking positively about the corporation, wanting to stay with the organization as well as doing all they can to help the corporation achieve its business goals.

Internal Audit: The FCC Internal Audit group provides the Board and management with independent assurance on the effectiveness of risk management, control and governance processes.

Code of conduct, whistleblower protection and Integrity Officer: Acting with integrity has long been a core value of FCC. As a complement to the corporate values and cultural practices, FCC's code of conduct and ethics ensures all employees and Board members have a clear and consistent understanding of how it applies to everyday work. In support of the code of conduct, FCC has included whistleblower protection and has established a confidence line to report possible violations of the code by others. The Integrity Officer upholds the highest standards of governance and accountability regarding the code of conduct and ethics

The Enterprise Risk Management business unit assists functional and senior managers in identifying operational risks, facilitates an annual evaluation of the likelihood and potential impact of these risks, co-ordinates the business continuity management program and prepares semi-annual progress reports for FCC's senior management and the Audit Committee.

Future accounting and reporting changes

Financial instruments – recognition and measurement

In January 2005, the CICA issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Financial liabilities will be classified as other or held-for-trading. The new standards also require the initial recognition of certain financial guarantees at their fair value on the balance sheet. Subsequent measurement is to be determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets classified as held-to-maturity or loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities classified as other will be accounted for at amortized cost. Financial liabilities classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income.

OCI will be a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income will be added to the corporation's primary financial statements. Comprehensive income is composed of the corporation's net income and OCI. OCI includes unrealized gains and losses on available-for-sale securities, foreign currency translation and changes in the fair value of derivative instruments designated as cash flow hedges.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods where net income is affected by the variability in the cash flows of the hedged item. The ineffective portion of changes in the derivatives' fair value will be reported in net income.

On transition, any previously recorded deferred gains or losses on hedging instruments with respect to cash flow hedging relationships that were discontinued prior to April 1, 2007, but qualify for hedge accounting under the new standards, will be recognized in opening accumulated other comprehensive income and reclassified to net income in the same period during which the hedged item affects net income. For discontinued cash flow hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of retained earnings.

Farm Credit Canada

Management's Responsibility for Consolidated Financial Statements

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

The consolidated 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 consolidated financial statements.

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

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

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated 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 18, 2007

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food

I have audited the consolidated balance sheet of Farm Credit Canada as at March 31, 2007, and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 18, 2007

Consolidated Balance Sheet

As at March 31 ($ thousands)

	2007	2006
Assets		
Cash and cash equivalents	$ 315,569	$ 297,870
Temporary investments (Note 3)	365,698	370,830
Accounts receivable	23,654	25,310
Derivative-related assets (Note 14)	11,991	13,339
	716,912	707,349
Loans receivable – net (Notes 4 and 5)	13,013,720	11,795,919
Venture capital investments (Note 6)	46,395	34,797
	13,060,115	11,830,716
Real estate property held for sale	1,475	1,159
Equipment and leasehold improvements (Note 7)	33,880	28,986
Other assets (Note 8)	21,849	8,139
	57,204	38,284
Total assets	$ 13,834,231	$ 12,576,349
Liabilities		
Accounts payable and accrued liabilities	$ 36,874	$ 33,796
Accrued interest on borrowings	127,547	88,267
	164,421	122,063
Borrowings (Note 9)		
Short-term debt	5,103,859	5,684,111
Long-term debt	6,950,566	5,361,628
	12,054,425	11,045,739
Other liabilities (Note 10)	27,967	29,443
Derivative-related liabilities (Note 14)	125,249	115,241
	153,216	144,684
	12,372,062	11,312,486
Shareholder's equity		
Capital	547,725	547,725
Retained earnings	914,444	716,138
	1,462,169	1,263,863
Total liabilities and shareholder's equity	$ 13,834,231	$ 12,576,349

Commitments, guarantees, and contingent liabilities (Note 16).
The accompanying notes are an integral part of the consolidated financial statements.

Approved:

John J. Ryan, President and Chief Executive Officer

Marie-Andrée Mallette, Chair, Audit Committee

Consolidated Statement of Operations and Retained Earnings

For the year ended March 31 ($ thousands)

	2007	2006
Interest income		
Loans	$ 871,511	$ 703,218
Investments	40,414	21,889
Total interest income	911,925	725,107
Interest expense		
Short-term debt	169,361	112,604
Long-term debt	327,996	224,078
Total interest expense	497,357	336,682
Net interest income	414,568	388,425
Provision for credit losses (Note 5)	38,927	62,399
Net interest income after provision for credit losses	375,641	326,026
Other income	5,813	6,557
Income before administration expenses	381,454	332,583
Administration expenses (Note 11)	177,671	162,959
Net income	203,783	169,624
Retained earnings, beginning of year	716,138	551,824
Dividend paid	(5,477)	(5,310)
Retained earnings, end of year	$ 914,444	$ 716,138

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

Consolidated Statement of Cash Flows

For the year ended March 31 ($ thousands)

	2007	2006
Operating activities		
Net income	$ 203,783	$ 169,624
Items not involving cash and cash equivalents:		
Provision for credit losses	38,927	62,399
Gain on sale of venture capital investments	(1,610)	(2,018)
Write-down of venture capital investments	1,000	–
Amortization of bond premiums/discounts	14,990	*14,579*
Change in accrued interest receivable	(25,760)	*(12,534)*
Change in accrued interest payable	39,280	11,100
Change in derivative-related assets	1,348	10,527
Change in derivative-related liabilities	10,008	21,561
Amortization of equipment and leasehold improvements	11,241	10,522
Foreign exchange gains/losses	(2,211)	(30,379)
Other	(13,050)	(3,631)
Cash provided by operating activities	277,946	251,750
Investing activities		
Disbursement of loans receivable	(4,185,710)	(3,800,565)
Repayment of loans receivable	2,956,125	2,644,401
Acquisition of temporary investments	(1,232,181)	(857,413)
Proceeds on maturity/disposal of temporary investments	1,238,687	757,142
Acquisition of venture capital investments	(19,677)	(12,745)
Proceeds on disposal and repayment of venture capital investments	8,197	11,195
Purchase of equipment and leasehold improvements	(16,134)	(11,165)
Acquisition of real estate property held for sale	(316)	(638)
Cash used in investing activities	(1,251,009)	(1,269,788)
Financing activities		
Long-term debt from capital markets	3,001,591	2,544,983
Long-term debt repaid to capital markets	(1,425,301)	(2,847,941)
Dividend paid	(5,477)	(5,310)
Capital contribution	–	40,000
Change in short-term debt	(580,051)	1,266,114
Cash provided by financing activities	990,762	997,846
Change in cash and cash equivalents	17,699	(20,192)
Cash and cash equivalents, beginning of year	297,870	318,062
Cash and cash equivalents, end of year	$ 315,569	$ 297,870
Supplemental information		
Cash interest paid during the year	$ 458,076	$ 325,583

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

Notes to Consolidated Financial Statements

1. The corporation

Authority and objectives

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

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

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

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

Capital

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

As of March 31, 2007, capital payments received from the Government of Canada amounted to $1,208.3 million (2006 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2006 – $1,250.0 million).

In 2005, the Government of Canada agreed to provide the corporation with additional capital contributions of $75 million over the next five years. To date, the corporation has received $40 million in additional capital contributions. There were no additional capital contributions received in 2007.

Dividend

On December 7, 2006, the corporation's Board of Directors declared a dividend in the amount of $5.5 million to the corporation's shareholder, the Government of Canada, which was paid March 26, 2007 (2006 – $5.3 million).

Limits on borrowing

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

At March 31, 2007, the corporation's total liabilities were 8.5 times the equity of $1,462.2 million (2006 – 9.0 times the equity of $1,263.8 million).

Avrio Ventures Limited Partnership

On November 1, 2006, the corporation entered into a limited partnership agreement forming Avrio Ventures Limited Partnership (the partnership). This agreement provides for the partnership to raise up to $125 million in funding.

The corporation has committed to provide the partnership with capital contributions of $50 million which represents a 97 per cent interest in the partnership at March 31, 2007. At fiscal year end the corporation has contributed $0.8 million.

2. Significant accounting policies

The corporation's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and in the following pages.

Basis of consolidation

The consolidated financial statements includes the accounts of the corporation and Avrio Ventures Limited Partnership. The partnership falls under the classification of a variable interest entity for which the corporation is the primary beneficiary. Inter-company balances and transactions have been eliminated in the consolidated figures.

Variable interest entities

A variable interest entity (VIE) is an entity in which the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinate financial support. The corporation identifies VIEs in which it has an interest, determines whether it is the primary beneficiary of such entities and if so, consolidates them. The primary beneficiary is an entity that is exposed to a majority of the VIE's expected losses or entitled to a majority of the VIE's expected residual returns, or both. The corporation has determined that Avrio Ventures Limited Partnership falls under the classification of a VIE for which the corporation is the primary beneficiary. The accounts of the partnership have been included in these consolidated financial statements.

Cash and cash equivalents

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

Temporary investments

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

Loans receivable

Loans receivable are stated net of the allowance for credit losses and deferred loan fees.

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 classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when, in management's opinion, there is no longer any reasonable doubt regarding the collectability of principal and interest, and payments are not 90 days past due.

Interest income

Interest income is recorded on an accrual basis until such time as a loan is 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. At that time previously non-accrued interest is recognized as interest income.

Loan fees

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are considered an integral part of the return earned on the loans and are deferred and amortized to interest income over the average loan term. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees. Loan prepayment fees are recognized in interest income when received.

Allowance for credit losses

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

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

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the recorded investment or the estimated realizable amount of the 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 allowance includes an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be established. 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 identify probable credit losses on a loan-by-loan basis. The amount of the allowance is calculated based on the application of expected loan default rates to the estimated loss amounts for the loans identified. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

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

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

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

Venture capital investments

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

Gains or losses on disposal are recognized in income when realized. Venture capital interest, royalty and dividend income amounts are included in investment income. Venture capital fee revenue and gains and losses on investments, including write-downs, are included in other income.

Real estate property held for sale

Property acquired from customers in settlement of loan commitments is classified as held for sale and recorded at fair value less selling costs. Fair value less selling costs is the amount that could be realized in an arm's-length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

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

Equipment and leasehold improvements

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

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

Agri-Assurances

The corporation sells group creditor life and accident insurance to its customers through the Agri-Assurances program. The program is administered by a major insurance provider, and is based on premiums that are actuarially determined. Insurance premiums charged to customers are recognized in income in the period for which the premium provides insurance coverage.

The corporation's insurance claim expense consists of paid claims that are recorded as incurred throughout the year plus a provision for insurance claims. The provision for insurance claims represents the estimated liability attributable to claims incurred but not yet reported, on or before the balance sheet date under the terms and conditions of the insurance policies. The insurance premiums net of insurance claims expense and other expenses paid to the insurance provider for administering the program are recorded in other income.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses are included in net income for the year as a component of interest income or interest expense.

Long-term debt

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

Employee future benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require that employees 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.

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

The accrued benefit obligation for pension and non-pension post-retirement benefits is actuarially determined using the projected benefit method pro-rated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

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

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plans is 10 years (2006 – 10 years). The average remaining service period to expected retirement age is 16 years (2006 – 16 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan and 11 years (2006 – 11 years) for active employees covered by the post-employment benefit plan.

Past service costs arising from plan amendments are amortized over the average remaining service period of active employees when the amendment is recognized.

Derivative financial instruments

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

The corporation formally assesses and documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, to ensure the relationships qualify for hedge accounting. This process includes linking all derivatives to specific assets, liabilities, or cash flows. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives that qualify for hedge accounting are accounted for on an accrual basis with the related interest revenue or expense recognized on the same basis as the hedged item as an adjustment to interest expense. Unrealized foreign exchange gains and losses on cross-currency contracts are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency borrowings.

Hedge accounting is discontinued prospectively when the derivative is unwound, matures or no longer qualifies as an effective hedge. At the date the hedge accounting relationship is discontinued, the difference between the fair value and the accrued value of the derivative is deferred and recognized over the remaining term of the original hedging relationship. For derivatives still outstanding following the date of the discontinued hedging relationship, all following gains and losses are recognized immediately in interest expense.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the instrument as an adjustment to interest expense.

Derivative-related assets and derivative-related liabilities include amounts receivable or payable under interest rate swap contracts, unamortized balances of premiums received or paid for derivative financial instruments, unrealized gains and losses on derivatives not accounted for using hedge accounting and the remaining difference between the fair value and the accrued value of discontinued derivatives, respectively. Unrealized gains and losses on foreign currency exchange contracts are included as a component of the derivative-related assets and liabilities, respectively.

Future accounting and reporting changes

In January 2005, the CICA issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Financial liabilities will be classified as other or held-for-trading. The new standards also require the initial recognition of certain financial guarantees at their fair value on the balance sheet. Subsequent measurement is to be determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets classified as held-to-maturity or loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities classified as other will be accounted for at amortized cost. Financial liabilities classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income.

OCI will be a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income will be added to the corporation's primary financial statements. Comprehensive income is composed of the corporation's net income and OCI. OCI includes unrealized gains and losses on available-for-sale securities, foreign currency translation and changes in the fair value of derivative instruments designated as cash flow hedges.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods where net income is affected by the variability in the cash flows of the hedged item. The ineffective portion of changes in the derivatives' fair value will be reported in net income.

On transition, any previously recorded deferred gains or losses on hedging instruments with respect to cash flow hedging relationships that were discontinued prior to April 1, 2007, but qualify for hedge accounting under the new standards, will be recognized in opening accumulated other comprehensive income and reclassified to net income in the same period during which the hedged item affects net income. For discontinued cash flow hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of retained earnings.

The following table summarizes the corporation's expected classification of financial instruments on April 1, 2007:

<table>
<tr><th></th><th>Financial instrument type</th><th>Classification</th></tr>
<tr><td rowspan="4">Financial assets</td><td>Temporary investments</td><td>Available-for-sale</td></tr>
<tr><td>Accounts receivable</td><td rowspan="2">Loans and receivables</td></tr>
<tr><td>Loans receivable</td></tr>
<tr><td>Venture capital investments</td><td>Held-for-trading</td></tr>
<tr><td rowspan="4">Financial liabilities</td><td>Accounts payable and accrued liabilities</td><td rowspan="3">Other financial liabilities</td></tr>
<tr><td>Short-term debt</td></tr>
<tr><td>Long-term debt (other)</td></tr>
<tr><td>Long-term debt (structured notes)</td><td>Held-for-trading</td></tr>
<tr><td rowspan="3">Derivatives</td><td>Receive-fixed and pay-fixed swaps</td><td>Hedge accounting – cash flow hedges</td></tr>
<tr><td>Structured note swaps</td><td rowspan="2">Held-for-trading</td></tr>
<tr><td>Overnight index swaps (OIS)</td></tr>
</table>

A transition adjustment attributable to the following will be recognized in the corporation's opening balance of retained earnings as at April 1, 2007: (i) financial instruments classified as held-for-trading that were not previously recorded at fair value, (ii) the ineffective portion of cash flow hedges, (iii) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards, and (iv) the initial recognition of the corporation's financial guarantees at fair value.

A transition adjustment attributable to the following will be recognized in the corporation's opening balance of accumulated other comprehensive income as at April 1, 2007: (i) financial assets classified as available-for-sale that were not previously recorded at fair value, (ii) the effective portion of cash flow hedges, and (iii) deferred gains and losses on discontinued hedging relationships that qualify for hedge accounting under the new standards.

These changes will be applied prospectively and the prior period will not be restated.

3. Temporary investments

($ thousands)	2007	2006
Issued or guaranteed by Canada	$ –	$ 64,745
Yield	–	3.52%
Other institutions	365,698	306,085
Yield	4.27%	3.57%
	$ 365,698	$ 370,830

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher by Dominion Bond Rating Service (2006 – R-1M or higher). As at March 31, 2007, the largest total investment in any one institution was $75.0 million (2006 – $65.0 million).

4. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2007. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

($ thousands)	Under 1 year	1 to 5 years	Over 5 years	2007 Total	2006 Total
Floating	$ 641,731	$ 6,340,460	$ 556,593	$ 7,538,784	$ 7,483,942
Yield	6.97%	6.48%	6.84%	6.54%	6.36%
Fixed	727,155	3,954,358	1,194,774	5,876,287	4,665,715
Yield	6.91%	6.82%	6.75%	6.83%	6.61%
Performing loans	$ 1,368,886	$ 10,294,818	$ 1,751,367	13,415,071	12,149,657
Impaired loans				140,960	167,559
Deferred loan fees				(5,611)	(6,997)
Loans receivable – gross				13,550,420	12,310,219
Less allowance for credit losses				(536,700)	(514,300)
Loans receivable – net				$ 13,013,720	$ 11,795,919

Management estimates that annually over the next three years, approximately 7.5 per cent (2006 – approximately 7.4 per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2007, $72.5 million (2006 – $54.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentrations of credit risk

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition considering risk by business line, industry sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2007 all concentrations are consistent with the approved vision. The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are displayed in the following tables:

Performing loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Cash crops	$ 4,110,879	$ 149,426	$ 69,686	$ 4,329,991	$ 4,006,970
Dairy	3,083,887	884	15,372	3,100,143	2,872,243
Other	1,358,923	49,632	28,157	1,436,712	1,146,732
Value-added	93,635	1,118,632	70,961	1,283,228	1,097,262
Hogs	1,083,240	19,477	18,902	1,121,619	1,063,041
Beef	959,538	3,551	141,759	1,104,848	1,027,744
Poultry	979,230	55,925	3,375	1,038,530	935,665
Performing loans	$ 11,669,332	$ 1,397,527	$ 348,212	$ 13,415,071	$ 12,149,657

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Western	$ 3,092,801	$ 382,971	$ 86,580	$ 3,562,352	$ 2,983,265
Prairie	2,907,949	211,793	147,241	3,266,983	3,011,953
Ontario	3,988,675	353,611	97,824	4,440,110	4,121,894
Quebec	1,103,410	322,881	10,894	1,437,185	1,319,995
Atlantic	576,497	126,271	5,673	708,441	712,550
Performing loans	$ 11,669,332	$ 1,397,527	$ 348,212	$ 13,415,071	$ 12,149,657

Impaired loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Cash crops	$ 57,002	$ 6,517	$ 144	$ 63,663	$ 61,975
Dairy	1,084	–	–	1,084	3,426
Other	15,302	–	75	15,377	20,381
Value-added	4,965	18,124	–	23,089	44,579
Hogs	16,684	–	14	16,698	14,107
Beef	19,450	–	1,126	20,576	20,489
Poultry	473	–	–	473	2,602
Impaired loans	114,960	24,641	1,359	140,960	167,559
Less specific allowance (Note 5)	33,544	7,304	952	41,800	43,694
Net impaired loans	$ 81,416	$ 17,337	$ 407	$ 99,160	$ 123,865

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Western	$ 14,262	$ 7,164	$ 279	$ 21,705	$ 27,900
Prairie	43,424	6,744	213	50,381	48,661
Ontario	27,946	3,342	285	31,573	40,140
Quebec	18,521	5,376	292	24,189	29,068
Atlantic	10,807	2,015	290	13,112	21,790
Impaired loans	114,960	24,641	1,359	140,960	167,559
Less specific allowance (Note 5)	33,544	7,304	952	41,800	43,694
Net impaired loans	$ 81,416	$ 17,337	$ 407	$ 99,160	$ 123,865

5. Allowance for credit losses

($ thousands)	2007	2006
Balance, beginning of year	$ 514,300	$ 462,500
Write-offs (1)	(25,061)	(16,449)
Provision for credit losses	38,927	62,399
Recoveries	8,534	5,850
Balance, end of year	$ 536,700	$ 514,300
Specific allowance	$ 41,800	$ 43,694
General allowance	494,900	470,606
Balance, end of year	$ 536,700	$ 514,300

(1) The total amount of restructured loans that were written off during the year was $2.0 million (2006 – nil).

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small- and medium-sized companies in the agriculture industry. As at March 31, 2007, the corporation does not have significant influence in the companies. The concentrations of venture capital investments are listed below.

($ thousands)	2007	2006
Food processing and manufacturing	$ 29,213	$ 14,554
Agriculture biotechnology	5,501	5,651
Bio-based fuels and chemicals	4,227	8,302
Agriculture equipment manufacturing	3,411	2,252
Commercial-scale primary producers	2,035	3,035
Forestry	2,008	1,003
	$ 46,395	$ 34,797

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

($ thousands)	2007	2006
Common shares	$ 21,643	$ 11,236
Debt	24,752	23,561
	$ 46,395	$ 34,797

The total amount of fees, interest and dividends recognized in income for venture capital investments during the year was $5.4 million (2006 – $4.1 million). Venture capital investments with a carrying value of $1.0 million (2006 – $9.2 million) were sold for proceeds of $2.6 million (2006 – $11.2 million) creating a total gain of $1.6 million (2006 – $2 million). The total amount of debt investments that were written off during the year was $1.0 million (2006 – nil). There were no write-downs in the carrying value of the corporation's common share investments (2006 – nil).

In addition to the above investments, the corporation has loans receivable and guarantees of loans receivable from venture capital investees in the amount of $59.5 million (2006 – $40.7 million).

7. Equipment and leasehold improvements

($ thousands)		2007		2006
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 16,617	$ 9,527	$ 7,090	$ 5,383
Computer equipment and software	47,643	30,438	17,205	16,088
Leasehold improvements	17,491	7,906	9,585	7,515
	$ 81,751	$ 47,871	$ 33,880	$ 28,986

Amortization of equipment and leasehold improvements of $11.2 million (2006 – $10.5 million) is included in administration expenses.

8. Other assets

($ thousands)	2007	2006
Accrued benefit asset (Note 13)	$ 21,815	$ 8,032
Other	34	107
	$ 21,849	$ 8,139

9. Borrowings

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

Short-term debt

Short-term debt consists of promissory notes payable within one year of $3,850.5 million (2006 – $4,406.7 million) and the portion of long-term debt due within one year of $1,253.3 million (2006 – $1,277.4 million). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 9, 2006, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2007, there were no draws on this facility.

The corporation also has a demand operating line of credit, which provides overdraft protection in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2007, there was no outstanding balance (2006 – nil).

Long-term debt

($ thousands)	2007	2006
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ 6,304,318	$ 4,778,422
United States dollars (1)	328,890	261,766
Japanese yen (2)	317,358	321,440
	$ 6,950,566	$ 5,361,628

(1) $285.0 million United States dollars (2006 – $224.0 million USD)
(2) ¥32.4 billion Japanese yen (2006 – ¥32.4 billion JPY)

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

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

($ thousands)	2007	2006
Amounts due:		
from 1 – 2 years	$ 808,255	$ 1,103,154
from 2 – 3 years	270,464	569,532
from 3 – 4 years	605,564	220,012
from 4 – 5 years	615,030	565,922
over 5 years	4,651,253	2,903,008
	$ 6,950,566	$ 5,361,628

Structured notes

The corporation has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments.

Structured notes outstanding included in long-term debt are as follows:

($ thousands)	2007	2006
Extendible notes	$ 1,530,569	$ 1,345,465
Floating rate notes	497,294	503,536
Targeted redemption notes	447,178	520,950
Callable notes	196,830	159,830
Range notes	116,500	111,500
Index-linked notes	74,246	69,246
Amortizing notes	65,106	89,665
Fixed-rate notes	40,815	22,000
Dual currency notes	30,289	43,638
Other	16,000	16,000
	$ 3,014,827	$ 2,881,830

The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the structured note if the counterparty exercises its right to terminate the related derivative swap agreement. These contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed rate interest and pays interest at a floating rate, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. The counterparty must have a minimum credit rating of A from an external credit rating agency (S&P, Moody's, DBRS or CBRS) for transactions of less than three years, and a minimum external credit rating of AA- for transactions of greater than three years. Credit exposure on derivative financial instruments is further discussed in Note 14.

10. Other liabilities

($ thousands)	2007	2006
Accrued benefit liability – other benefits (Note 13)	$ 26,610	$ 24,137
Deferred revenues	715	610
Other	642	4,696
	$ 27,967	$ 29,443

11. Administration expenses

($ thousands)	2007	2006
Personnel	$ 115,984	$ 105,585
Facilities and equipment	25,057	22,718
Professional	21,147	22,255
Travel and training	11,613	11,756
Other	3,870	645
	$ 177,671	$ 162,959

12. Agri-Assurances

The transactions related to insurance accounted for in other income are as follows:

($ thousands)	2007	2006
Insurance premiums	$ 11,090	$ 9,938
Insurance claims	(4,995)	(5,358)
Administration and other expenses	(2,612)	(2,326)
	$ 3,483	$ 2,254

13. Employee future benefits

Description of benefit plans

The corporation has a registered defined benefit pension plan, two supplemental defined benefit pension plans, a defined contribution pension plan and a defined benefit plan that provide other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary and are inflation-protected. The supplemental defined benefit pension plans are available for employees with employment income greater than pensionable earnings.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans also provide short-term disability income benefits, as well as severance entitlements after employment.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plan, were $23.7 million (2006 – $15.4 million).

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2006. The next valuations for funding purposes will be as at December 31, 2007.

($ thousands)	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Change in accrued benefit obligation:				
Balance at beginning of year	$ 253,686	$ 175,210	$ 23,731	$ 28,080
Current service cost	10,737	7,172	1,831	2,089
Interest cost on benefit obligation	12,908	10,715	1,265	1,664
Contributions by employees	3,168	2,579	–	–
Benefits paid	(4,835)	(3,938)	(498)	(442)
Plan amendment	–	1,217	–	37
Actuarial loss (gain)	8,797	60,731	182	(7,697)
Benefit obligation at end of year	284,461	253,686	26,511	23,731
Change in fair value of plan assets:				
Balance at beginning of year	220,255	183,651	–	–
Actual return on plan assets	25,691	26,586	–	–
Contributions by corporation	21,312	11,377	–	–
Contributions by employees	3,168	2,579	–	–
Benefits paid	(4,835)	(3,938)	–	–
Fair value of assets at end of year	265,591	220,255	–	–
Funded status – plan deficit	(18,870)	(33,431)	(26,511)	(23,731)
Unamortized past service cost	580	1,217	33	37
Unamortized net actuarial loss (gain)	37,252	38,424	(132)	(443)
Contributions by corporation after December 31	2,853	1,822	–	–
Accrued benefit asset (liability) at end of year	$ 21,815(a)	$ 8,032(a)	$ (26,610)(b)	$ (24,137)(b)

(a) Recorded in other assets.
(b) Recorded in other liabilities.

Plans with accrued benefit obligations in excess of plan assets

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

($ thousands)	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Accrued benefit obligation	$ 266,328	$ 239,551	$ 26,511	$ 23,731
Fair value of plan assets	243,494	205,655	–	–
Funded status – plan deficit	$ (22,834)	$ (33,896)	$ (26,511)	$ (23,731)

Defined benefit costs

($ thousands)	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Defined benefit costs:				
Current service cost	$ 10,737	$ 7,172	$ 1,831	$ 2,089
Interest cost on benefit obligation	12,908	10,715	1,265	1,664
Actual return on plan assets	(25,691)	(26,586)	–	–
Actuarial loss (gain)	8,797	60,731	182	(7,697)
Past service costs	–	1,217	–	37
Costs arising in the period	6,751	53,249	3,278	(3,907)
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	9,245 (a)	15,669 (a)	–	–
Actuarial (gain) loss	(7,431)(b)	(60,430)(b)	(311)(c)	8,118(c)
Past service cost	637	(1,217)	4	(37)
Defined benefit costs recognized	$ 9,202	$ 7,271	$ 2,971	$ 4,174

(a) Expected return on plan assets of $(16,446) (2006 – $(10,917)) less the actual return on plan assets of $(25,691) (2006 – $(26,586)) = $9,245 (2006 – $15,669).

(b) Actuarial loss recognized for year of $1,366 (2006 – $301) less actual actuarial loss on accrued benefit obligation for year of $8,797 (2006 – $60,731) = $(7,431) (2006 – $(60,430)).

(c) Actuarial (gain) loss recognized for year of $(129) (2006 – $421) less actual actuarial loss (gain) on accrued benefit obligation for year of $182 (2006 – ($7,697)) = $(311) (2006 – $8,118).

Significant assumptions

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

	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Accrued benefit obligation as at December 31:				
Discount rate	5.00%	5.00%	5.00%	5.00%
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%
Benefit costs for years ended December 31:				
Discount rate	5.00%	6.00%	5.00%	6.00 / 5.25%(a)
Expected long-term rate of return on plan assets	7.50 / 4.00%(b)	7.50 / 4.00%(b)	–	–
Rate of compensation increase	5.50%	3.50%(c)	5.50%	4.00%(c)

(a) Percentages reflect post-retirement benefits / post-employment benefits, respectively.
(b) Registered pension plan / supplemental plans, respectively.
(c) Plus annual merit / promotion increases.

Assumed health-care cost trend rates at December 31:

	2007	2006
Hospital:		
Initial rate	9.50%	10.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2016	2016
Prescription drugs:		
Initial rate	9.50%	10.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2016	2016
Other health-care costs:		
Initial rate	9.50%	10.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2016	2016

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage-point change in assumed health-care cost trend rates would have the following effects for 2007:

($ thousands)	Increase	Decrease
Total of service and interest cost	$ 614	$ (467)
Accrued benefit obligation	3,871	(3,102)

Plan assets

The percentage of plan assets based on market values at the most recent actuarial valuation are:

($ thousands)	2007	2006
Equity securities	66.6%	63.4%
Debt securities	29.5%	32.5%
Other	3.9%	4.1%
	100.0%	100.0%

Defined contribution plan
The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2007, the expense was $2.7 million (2006 – $2.6 million).

14. Derivative financial instruments

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

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. Included in interest rate swaps are OIS swaps, receive-fixed swaps, pay-fixed swaps and certain structured note swaps.

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

Interest rate options are contracts that grant the buyer the right, but not the obligation, to buy or sell a financial instrument at an agreed upon price at a future date.

Notional amounts
Notional principal amounts outstanding at March 31, 2007, for the various derivative financial instruments are:

		Remaining term to maturity				
($ thousands)		Within 1 year	1 to 5 years	Over 5 years	2007	2006
Interest rate swap contracts:						
Receive	*Pay*					
Floating	Fixed	$ –	$ 1,051,000	$ 31,000	$ 1,082,000	$ 450,000
Fixed	Floating	9,308,558	280,106	2,646,609	12,235,273	9,772,861
Cross-currency	Floating	761,163	–	–	761,163	695,578
		10,069,721	1,331,106	2,677,609	14,078,436	10,918,439
Interest rate option contracts:						
Receive	*Pay*					
Floating	Fixed	–	–	–	–	140,000
Total		$ 10,069,721	$ 1,331,106	$ 2,677,609	$ 14,078,436	$ 11,058,439

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

The corporation manages its exposure to counterparty 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. Counterparty credit risk is managed via the corporation's Board approved Counterparty Credit Risk Guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating. The counterparty must have a minimum credit rating of A from an external credit rating agency (S&P, Moody's, DBRS or CBRS) for transactions of less than three years and a minimum external credit rating of AA- for transactions of greater than three years. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are in place with primary derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. The net fair values of the derivative instruments are as follows:

		2007			2006	
($ thousands)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 37,796	$ 121,448	$ (83,652)	$ 11,041	$ 147,704	$ (136,663)
Cross-currency interest rate swap	3,497	132,132	(128,635)	306	150,072	(149,766)
Interest rate options	–	–	–	361	–	361
Fair value	41,293	253,580	(212,287)	11,708	297,776	(286,068)
Less impact of master netting agreements	40,651	40,651	–	11,708	11,708	–
Net fair value	$ 642	$ 212,929	$ (212,287)	$ –	$ 286,068	$ (286,068)

The derivative contracts entered into by the corporation are over-the-counter instruments. Fair values are determined using present value techniques and quoted market values. Quoted market values are obtained from the counterparty for some derivative instruments. The fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, some of which are about unobservable market parameters. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2007 was $3,640.1 million (2006 – $3,884.0 million) and the largest net fair value of contracts with any institution as at March 31, 2007, was $(0.1) million (2006 – $(0.3) million). The notional amounts of the financial instruments reported by the corporation are not indicative of either the market or credit risk associated with the contracts. The risk of loss is related solely to the possibility that a counterparty to a transaction does not perform as agreed. The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties. These agreements create the legal right of offset of exposure in the event of default.

Derivative-related amounts – assets and liabilities

Derivative-related assets as at March 31 is composed of the following item:

a) amounts receivable from counterparties under swap contracts included in derivative-related assets of $12.0 million (2006 – $13.3 million).

Derivative-related liabilities as at March 31 is composed of the following items:

a) amounts payable to counterparties under swap contracts of $7.4 million (2006 – $3.9 million);
b) unrealized losses on foreign currency swaps of $114.9 million (2006 – $112.4 million);
c) unamortized balances of premiums received or paid for derivative financial instruments of $2.9 million (2006 – $(1.0) million); and
d) unrealized gains on derivatives not accounted for using hedge accounting of nil (2006 – $0.4 million).

15. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date. The fair values are determined using the valuation methods and assumptions described below. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair values of derivative financial instruments are not included in the table below and are presented in Note 14.

	2007		2006	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 315,569	$ 315,569	$ 297,870	$ 297,870
Temporary investments	365,698	365,698	370,830	370,830
Accounts receivable	23,654	23,654	25,310	25,310
Derivative-related assets	11,991	11,991	13,339	13,339
Loans receivable – net	13,013,720	13,104,019	11,795,919	11,855,237
Venture capital investments	46,395	45,166	34,797	37,122
Liabilities				
Accounts payable and accrued liabilities	$ 36,874	$ 36,874	$ 33,796	$ 33,796
Accrued interest on borrowings	127,547	127,547	88,267	88,267
Short-term debt	5,103,859	5,103,859	5,684,111	5,684,111
Long-term debt	6,950,566	6,995,172	5,361,628	5,355,003
Derivative-related liabilities	125,249	125,249	115,241	115,241

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

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

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

16. Commitments, guarantees and contingent liabilities

Loan and venture capital commitments

As at March 31, 2007, loans approved but undisbursed amounted to $890.8 million (2006 – $791.4 million). These loans were approved at an average interest rate of 7.25 per cent (2006 – 6.52 per cent) and do not form part of the loans receivable balance until disbursed. The corporation also approved but did not disburse $5.4 million (2006 – $12.8 million) in venture capital investments. As many of these approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

The corporation has committed to provide Avrio Ventures Limited Partnership with additional capital contributions of $49.2 million, which are expected to be paid over the next five years.

Operating commitments

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

($ thousands)		
Amounts due:		
within 1 year	$	17,677
from 1 – 2 years		15,808
from 2 – 3 years		14,210
from 3 – 4 years		12,336
from 4 – 5 years		5,586
over 5 years		3,488
	$	69,105

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2007, is $2.7 million (2006 – $2.9 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within two years, usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2007, or March 31, 2006, for these letters of credit.

Contingent liabilities

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require that the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. The corporation's contingent liabilities include creditor life and accident insurance policies sold to customers under the Agri-Assurances program. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the balance sheet as at March 31, 2007, or March 31, 2006, for these indemnifications and contingencies.

17. Interest rate risk

The corporation is exposed to interest rate risk as a consequence of the mismatch or gap between the remaining term to maturity or re-pricing and interest rate sensitivity of its assets and liabilities. The corporation uses derivative financial instruments to manage its interest rate risk. The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. The corporation's borrowings are also shown net of the derivative financial instruments entered into to manage the corporation's interest rate risk and foreign currency risk related to the structured borrowing. In the normal course of business, loan customers frequently prepay their loans in part or in full prior to the contractual maturity date.

($ thousands)	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 305,712	$ –	$ –	$ –	$ 9,857	$ 315,569
Effective yield (1)		4.29%					
Temporary investments	–	303,719	57,188	–	–	4,791	365,698
Effective yield (1)		4.28%	4.30%				
Loans receivable	7,443,019	377,858	1,003,610	3,854,244	567,849	(232,860)	13,013,720
Effective yield (1)	6.79%	6.94%	6.67%	6.48%	6.76%		
Venture capital	–	–	–	21,557	2,500	22,338	46,395
Effective yield (1)				11.92%	11.10%		
Other	–	–	–	–	–	92,849	92,849
Total assets	$ 7,443,019	$ 987,289	$ 1,060,798	$ 3,875,801	$ 570,349	$ (103,025)	$ 13,834,231
Liabilities							
Borrowings							
Non-structured borrowings	$ –	$ 4,149,794	$ 956,192	$ 1,207,666	$ 2,837,463	$ 3,398	$ 9,154,513
Effective yield (1)		4.22%	4.05%	3.99%	4.49%		
Structured borrowings	–	3,014,827	–	–	–	(114,915)	2,899,912
Effective yield (1)		4.15%					
Total borrowings	–	7,164,621	956,192	1,207,666	2,837,463	(111,517)	12,054,425
Pay-side instruments on swap contracts (2)	7,085,000	2,896,609	–	1,051,000	31,000	–	11,063,609
Effective yield (1)	4.27%	4.12%		4.36%	4.80%		
Receive-side instruments on swap contracts (2)	–	(8,167,000)	(100,000)	(160,000)	(2,636,609)	–	(11,063,609)
Effective yield (1)		4.25%	3.65%	3.70%	4.46%		
Accrued interest	–	–	–	–	–	127,547	127,547
Other	–	–	–	–	–	190,090	190,090
Shareholder's equity	–	–	–	–	–	1,462,169	1,462,169
Total liabilities and equity	$ 7,085,000	$ 1,894,230	$ 856,192	$ 2,098,666	$ 231,854	$ 1,668,289	$ 13,834,231
Total gap 2007	$ 358,019	$ (906,941)	$ 204,606	$ 1,777,135	$ 338,495	$ (1,771,314)	$ –
Total cumulative gap 2007	$ 358,019	$ (548,922)	$ (344,316)	$ 1,432,819	$ 1,771,314	–	–
Total gap 2006	$ 576,094	$ (145,938)	$ (77,021)	$ 1,095,634	$ 99,400	$ (1,548,169)	–
Total cumulative gap 2006	$ 576,094	$ 430,156	$ 353,135	$ 1,448,769	$ 1,548,169	–	–

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.
(2) Represents notional principal amounts on OIS, receive-fixed and pay-fixed swaps. Excludes structured note swaps.

18. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business. Such items are included in the consolidated financial statements as follows:

($ thousands)	2007	2006
Cash and cash equivalents	$ 34,905	$ 9,982
Temporary investments	–	64,745
Interest income	3,667	2,530
Other income	101	244
Administration expenses	3,424	3,247

In addition, the Government of Canada guarantees the borrowings of the corporation.

The corporation administers various programs for Government of Canada departments on a cost-recovery basis. The administration fee for this service is recorded in other income.

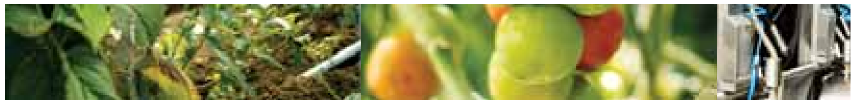
The corporation pays management fees to a corporation owned by the General Partner of the corporation's consolidated variable interest entity for the management of the corporation's venture capital investments and investment advisory services. These fees total $0.4 million (2006 – nil) and are included in administration expenses.

19. Segmented information

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

20. Comparative figures

Certain 2006 comparative figures have been reclassified to conform to the current year's presentation.



Balanced scorecard 2007-12

The balanced scorecard summarizes Farm Credit Canada's corporate strategic objectives, measures, targets and initiatives. In 2006, the corporation's strategic themes or key priorities were modified to place additional emphasis on our commitment to agriculture and the employee experience. The strategic themes include financial success and commitment to agriculture, enhance customer experience, optimize execution and performance, and enhance employee experience.

In the five-year planning period from 2007 to 2012, emphasis will be placed on cultural transformation, new technology systems and business processes, and enhancing the customer and employee experience.

Financial success and commitment to agriculture

We serve as a catalyst to effect positive change that helps the agriculture industry succeed and realize our public mandate. We support rural communities and foster pride in the agriculture industry.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Financial/shareholder Portfolio growth and business line quality Net income Asset/liability management Return on equity and investment	Portfolio growth	5.5% [1]	Monitor performance of portfolio in a changing agricultural environment Invest in communities: • continue to support Ag in the Classroom Promote FCC customer products on CanadianFarmersMarket.com Update strategy for margin management and customer value management
	% of profits invested in communities	1.5%	
	Efficiency ratio	44.8%	
	Debt-to-equity	Under 10:1	
	Return on equity and investment	10.4%	
	Non-interest revenue	$22.8 million	
	Net interest income margin	2.95%	
	% of PND with arrears	6.00%	
	Strategic credit risk management	Managed range: between 51 and 70	

[1] Subsequent to the determination of the portfolio growth targets, major changes in dairy quota administration were announced. Their impact on portfolio growth targets will be assessed in the months ahead when the new regulations are finalized.

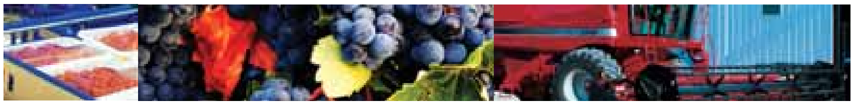
2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Industry and stakeholder awareness, credibility and support Trusted partner and industry catalyst **Internal capability** Industry investments and stakeholder relations Enhance market awareness and positioning of Farm Credit Canada's full capabilities Leverage knowledge management Monitor and respond to marketplace activities Portfolio vision and risk management	Venture capital • co-investment ratio • capital invested (fiscal year) • total capital outstanding [2]	 1.5:1 $15.0 million $60.9 million	Leverage role as lead sponsor in Canada's first dedicated agricultural life sciences venture capital fund to attract additional investment to the agriculture industry Grow producer knowledge of management practices via AgriSuccess information and learning programs Expand delivery and advocacy of centres of influence for AgExpert Collaborate with Agriculture and Agri-Food Canada in developing the next generation of agriculture and agri-food policy and other joint initiatives Continue to research needs of young farmers to develop new solutions and sustain existing offerings Continue community investment with an emphasis on rural safety and food issues (World Food Day, First Aid on the Farm, etc.) and the AgriSpirit capital giving program Increase awareness of FCC with targeted audiences Investigate opportunities in alternative energy sources Enhance customer awareness of bio-security protocols Leverage Community of Practice (COP) knowledge to the benefit of customers Conduct program to inform elected officials of FCC's role and offerings
	Corporate social responsibility scorecard	Determine targets	
	Corporate reputation index	Establish once baseline is complete	
	Media favourability index	Score of 64	
	Time spent with customers and prospects for value-added activities	Increase the number of proactive customer contacts	

[2] Represents the current balance of all venture capital investments, measured at cost.

Enhance customer experience

We offer our customers more than financing. They want our advice and counsel. They want us to use our specialized knowledge of agriculture financing and management practices to help them build their dreams. Offering personalized insight takes more time than simply processing a loan. We're determined to deliver an extraordinary customer experience.

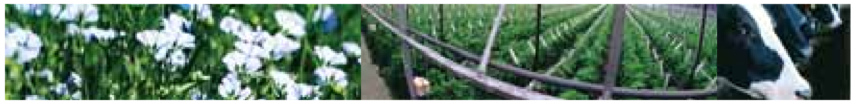
2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Build and expand relationships across channels Anticipate and offer tailored, preferred solutions across channels **Internal capability** Seamless, cross-channel integration to deliver sales, service Relationship selling, management of all FCC solutions Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management	Customer experience index	Increase score	Implement customer experience standards to enhance delivery of consistent customer experience Monitor customer experience scoreboards and index to determine actions that enhance customer experience Execute online and CSC (call centre) strategies to provide customers with enhanced service via their channel of choice, including addition of second CSC in Moncton Enhance awareness and uptake of other FCC business solutions with Alliances end customers Create products and services uniquely tailored to agriculture and customers
	Channel usage		
	• number of unique website visitors per month	19,000	
	• number of website pages viewed per year	2.25 million	
	• number of online registered borrowers	13,400	
	• number of Customer Service Centre (CSC) customer contacts	90,000	
	• dollars disbursed of CSC direct full-service lending	$275 million	
	Customer value management	Increase the year-end index over start of year	
	Customer channel awareness, preferences and permissions	Benchmark and establish targets for 2008-09 and beyond	



Optimize execution and performance

We're committed to making it easier for our customers and employees to do business by redesigning business processes in ways that will reduce handoffs, increase effectiveness and integrate business lines. We're upgrading the supporting technology and IT infrastructure so we can serve our customers more quickly and efficiently.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Retain customers and grow loyalty efficiently	New customer acquisition – all channels	National index score is greater than zero	Enhance internal control framework to safeguard and maintain financial and security controls Implement business process and technology transformation to enhance customer and employee experience Revamp lending processes to enable more time with customers Enhance and execute business continuity management strategy Continue focus on respecting and safeguarding customer and employee privacy Enhance enterprise risk management, risk mitigation planning and status reporting
Continuously deliver consistent, efficient, quality service	Market share	23%	
Internal capability Process innovation and continuous improvement	Process improvements benefits realization	Measure performance against targets	
Integrated value chain process redesign Agile, integrated IT architecture and solutions delivery	IT architecture capability	Baseline to be established by Q2; targets to be defined by Q4	
IT platform reliability and performance Effective project execution, management and control Integrated strategy implementation and enterprise risk management Enterprise services delivery, management	Project management maturity	Assessment is biennial; survey to be conducted in 2008-09	



Enhance employee experience

FCC is building a strong culture that emphasizes trust, respect, teamwork and high performance. Why? A strong sense of corporate values enables employees to better serve Canadian agriculture.

<table>
<tr><th>2007-12
Strategic objectives</th><th>Measures</th><th>2007-08
Plan targets</th><th>2007-08
Initiatives</th></tr>
<tr><td rowspan="2">Customer
Understand business, financial and relationship needs
Extraordinary customer and business relationships
Internal capability
Make it easy for employees to do business
Foster employee wellness
Aligned performance management
Employee development and career opportunities
Total rewards philosophy
Strategic competencies and capabilities</td><td>Employee experience</td><td>Measures will be developed to determine targets for years 1, 2, 3 and 5</td><td rowspan="2">Enhance the FCC employee experience (wellness strategy)
Continue development of job-specific competencies through second phase of compensation, competence and performance management system redesign
Make it easy for employees to do business by enhancing processes and tools
Enhance employee attraction and retention strategy
Develop workforce plan to ensure future capacity to execute business strategy</td></tr>
<tr><td>Make it easy for employees to do business</td><td>Measure performance against targets</td></tr>
</table>

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
People Strategic enterprise leadership and governance Customer and knowledge culture Culture of partnership, accountability and personal leadership	Engagement score	Minimum threshold 80%	Recruit and transition the new CEO Identify and develop future leaders through the Leadership Development program Educate employees about the FCC vision, mission, corporate plan and key FCC programs and services Identify key drivers for improvement and create action plan to continuously improve employee engagement Continue to invest in employee development to keep knowledge and skills relevant (includes development of specialized skills, field development) Continue implementation and sustainability phases of the cultural transformation strategy

FCC Board of Directors 2006-07

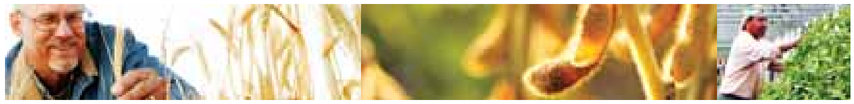
L-R | Donald Bettle, Sharon E. White, R. Claude Ménard, Gill O. Shaw, Jack Christie, John J. Ryan, Russel Marcoux, Deborah Whale, Brad Hanmer, Ron Hierath
Missing: Marie-Andrée Mallette, Réal Tétrault

Corporate governance

The FCC Board of Directors is committed to continually reviewing its corporate governance policies and practices to ensure they are consistent with current best practices and reflect the needs of the corporation. The Board of Directors ensures the corporation remains focused on its mandate by following a deliberate planning and reporting process. This process starts with a letter of expectations from the Minister. This is followed by strategic planning sessions that result in the corporate plan and annual operating, capital and borrowing budgets. The corporation's performance against the expectations of its Minister and its corporate plan are then reported on in the FCC annual report. In addition, as part of its commitment to openness, transparency and accountability, these results will be presented in August 2007 at Farm Credit Canada's first annual public meeting.

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act, and reports to Parliament through the Minister of Agriculture and Agri-Food.

The FCC Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO are appointed by the Governor-in-Council. The Minister of Agriculture and Agri-Food appoints FCC directors. There are 12 people on the Board of Directors; all but the CEO are independent of the business.



FCC annual financial statements are audited by the Auditor General of Canada. In addition, every five years, the Auditor General of Canada conducts a special examination. This is a value-for-money audit and is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. A special examination is currently underway and will be completed in November 2007.

Board mandate

The Board oversees FCC to ensure that the corporation manages and performs in the best interests of the corporation, agriculture, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board has put in place a written charter and a related set of Board governance guidelines. These documents articulate the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning
- financial reporting and public disclosure
- risk management and internal controls
- leadership development and succession planning
- corporate governance – including director orientation, continuing education and evaluation

Independence

With the exception of the CEO, all members of the FCC Board are independent of management. The FCC Board Chair and committee chairs are all independent of management. The Board meets regularly in private, with and without the CEO or other management.

Board evaluation

Through a structured process of self-evaluation, the Board regularly assesses its collective performance and the individual performance of its members, with a view to continuous improvement. This year, the Board engaged in an extensive evaluation conducted by an outside consultant. Each Board member was individually interviewed and required to complete a written survey. Feedback was also sought from members of executive management concerning the effectiveness of the Board and its governance practices. The consultant's report then served as the basis for a special meeting of the Board, focused on self-improvement. Members of the corporation's executive management committee joined the Board near the end of its session. This allowed the opportunity for a full and open discussion that led to alignment between the Board and management concerning the mandate, strategies, governance practices and culture of the corporation.

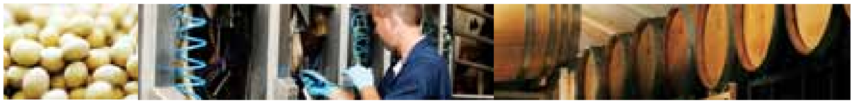
Public policy role

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

This year, for the first time, the Minister of Agriculture and Agri-Food Canada, in consultation with the Board Chair, delivered a letter of expectations that outlined the government's priorities and accountabilities for FCC. The letter is key in ensuring that FCC fulfils its contributions to the government's agenda.

Integrity and ethics

Acting with integrity and maintaining the highest ethical standards are core values for the Board of Directors and FCC. On December 12, 2006, the Federal Accountability Act received royal assent. This Act, through the enactment of new Acts and amendments to existing Acts, provides for conflict of interest rules as well as measures respecting administrative transparency, oversight and accountability applicable to all Crown corporations, including FCC. Compliance with the Conflict of Interest Act is a deemed term and condition of appointment for FCC Board members and the employment of the CEO.



The FCC Code of Conduct and Ethics, to which Board members are also subject, has since March 2005 governed the ethical accountability of employees and Board members in the same way contemplated by the new Act. The establishment of an FCC Integrity Officer in 2005 to oversee the code mirrors the intent and purpose of the Integrity Commissioner established under the amended Public Servants Disclosure Protection Act. This includes providing general advice and ongoing education concerning the code, investigation of disclosures of possible wrongdoing, and the protection from reprisal of individuals making such disclosures.

Board policy specifically related to loans where a director has a material interest, and corporate bylaws prescribing rules for dealing with situations where a director has a conflict of interest provide further clarity and commitment to the code.

Strategic planning and reporting

The Board leads the corporation in the achievement of long-term goals by overseeing the strategic planning process and providing input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plan has been approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives.

Each year, typically in August, the Board and senior management participate in a joint planning session. At that session, the Board receives a report from management on enterprise risk management. All FCC strategies include measurable targets to gauge performance.

This coming year, FCC will hold its first annual public meeting of stakeholders. This meeting will allow the corporation to report on its activities over the current fiscal year and receive feedback from interested stakeholders and the public at large concerning FCC's mandate and strategic direction.

Feedback from this meeting will be used in the Board's strategic planning session. Following this, management will begin drafting the corporation's corporate plan, which is presented for approval in principle in the fall and for final approval in December or January.

The Board also discusses particular strategic initiatives throughout the year.

Enterprise risk management

The corporation has a well-established enterprise risk management process. It is designed to identify potential events that may affect FCC, to manage risk within the risk appetite of FCC and to provide reasonable assurance regarding the achievement of FCC goals and objectives.

Senior management holds primary responsibility for identifying risks, and designing and implementing solutions to mitigate them. The Board requires that management assure risks are managed and that appropriate authorities and controls are in place.

Each year, FCC staff follows a prescribed process to identify risks. The risks identified are prioritized by senior management and presented to the Audit Committee, together with risk mitigation plans. Within six months, a progress report is made to the Audit Committee.

This year, emphasis was placed on business interruption planning, disaster preparedness and contingency planning in the event of a pandemic.

Succession planning

This year, the Board was pleased to welcome Gill Shaw as Chair of the Board of Directors. In addition, the Board saw four new directors appointed.

John Ryan, who has been the corporation's President and Chief Executive Officer since 1997, will retire in November 2007. His replacement will be critical to the corporation's continued success. The Board, through its Nominating Committee, has begun the search process and has engaged the services of an external search consultant to assist with this process.

In addition, the Board, through its Human Resources Committee, annually reviews the corporation's succession plans for key positions and leadership development initiatives. Succession planning ensures there is continuity and depth throughout the organization over the long term.

The review identifies employees ready to take over a particular position and others who might be developed for leadership positions over time.

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

Integrity of internal controls and management information systems

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

Each year, the Board reviews lending targets for the next fiscal year, as well as the corporation's portfolio vision.

FCC treasury operations are key to the corporation's overall success. The Audit Committee reviews the operations of Treasury at each meeting and regularly reviews and updates, as necessary, policies and limits. The Board regularly engages an outside consultant, expert in these areas, to assist its review.

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

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

Board orientation and professional development

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

To gain understanding of FCC business and the current issues facing the corporation, the Board regularly engages in continuing education. This year, many Board members individually attended conferences and seminars conducted by private sector organizations on various topics relevant to corporate governance and FCC business. In addition, as part of the strategic planning session each year, the Board visits a number of customer operations, creating better understanding of the depth and scope of Canadian agriculture and the issues facing primary producers and agribusiness operators. The Board also takes every opportunity, when meeting in Regina for Board meetings, to tour areas of corporate office and individual business units. Board members also attend employee area conferences to gain a better understanding of the day-to-day challenges faced by the corporation and its employees.

Board composition

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

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

Board members are generally successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – in order to reflect the broad spectrum of agriculture in Canada.

Board remuneration

Directors are paid an annual retainer and per diems. Amounts are set by the Governor-in-Council pursuant to the Financial Administration Act. The rates were last approved on April 5, 2001. The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended:

- committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended
- all other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended
- directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties

During 2006-07, there were nine Board meetings and 28 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $218,473, compared to $219,958 in 2005-06. Total Board travel and related expenses was $188,303, compared to $206,841 in 2005-06. Each year, the amounts reported include per diems and travel expenses for Board members who attended FCC annual employee conferences, as well as external seminars or continuing education workshops.

New appointments

On October 30, 2006, Gill Shaw from Brandon, Manitoba, was appointed Board Chair, replacing Rosemary Davis. On December 18, 2006, Sharon White of Vancouver, B.C., was appointed to the FCC Board of Directors to replace Don Haliburton, who resigned as Director on May 23, 2006. On January 25, 2007, Don Bettle from Passekeag, New Brunswick, Brad Hanmer from Govan, Saskatchewan and Ron Hierath from Lethbridge, Alberta, were appointed, replacing Warren Ellis, Joan Meyer and Donna Graham.

Audit Committee

Chair: Marie-Andrée Mallette
Vice-Chair: Jack Christie
Members: Gill Shaw (Board Chair), Claude Ménard, Deborah Whale, Sharon White, Don Bettle and Brad Hanmer

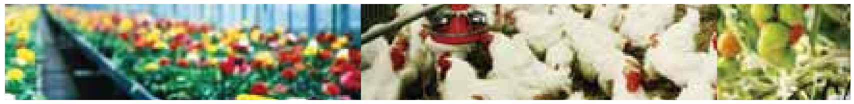
Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, as those terms are now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial

2006-2007 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Board meeting attendance[2]	Committee meeting attendance[3]	Board travel and related expenses
Don Bettle	900	2,625	3,525	1/1	0	2,843
Jack Christie	5,400	12,750	18,150	9/9	13/13	18,182
Rosemary Davis	6,300	11,760	18,060	6/6	12/12	11,788
Warren Ellis	5,333	13,825	19,158	8/8	11/12	26,823
Donna Graham	4,500	12,375	16,875	8/8	9/9	11,021
Don Haliburton	900	0	900	0	0	75
Brad Hanmer	900	1,875	2,775	1/1	0	1,007
Ron Hierath	900	1,875	2,775	1/1	0	2,019
Marie-Andrée Mallette	6,400	18,375	24,775	8/9	13/13	29,526
Russel Marcoux	5,817	13,125	18,942	7/9	19/21	15,467
Claude Ménard	5,400	12,375	17,775	7/9	10/12	21,337
Joan Meyer	5,033	13,500	18,533	7/8	5/5	7,893
Gill Shaw	4,500	10,080	14,580	3/3	16/16	13,279
Réal Tétrault	5,400	12,188	17,588	9/9	20/22	9,909
Deborah Whale	6,400	13,313	19,713	8/9	16/16	13,075
Sharon White	1,350	3,000	4,350	2/2	2/2	4,058
Total	**$ 65,433**	**$ 153,040**	**$ 218,473**			**$ 188,303**

[1] Column A (Board retainer) and column B (Per diems)
[2] There were nine Board meetings (six in person and three by teleconference)
[3] There were seven Audit (six in person, one by teleconference), six Human Resources, six Corporate Governance, and nine Nominating Committee meetings (six in person, one by teleconference and two meetings with consultants in Toronto)



reporting, control systems, integrated risk management processes and audit functions.

This committee meets regularly in private with representatives of the Office of the Auditor General, FCC internal auditors and management.

Important issues dealt with this year included approval of the 2007 Special Examination Audit Plan.

Human Resources Committee

Chair: Réal Tétrault
Members: Gill Shaw (Board Chair), John J. Ryan (CEO), Marie-Andrée Mallette, Claude Ménard, Don Bettle and Brad Hanmer

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of Chief Executive Officer and a process to assess performance, and agreeing to an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's succession plan, including plans for training and development of all employees, and for the review of the executive perquisites program with respect to senior management.

Important issues dealt with this year included approval of a comprehensive new corporate job classification, salary and performance structure.

Corporate Governance Committee

Chair: Russel Marcoux
Members: Gill Shaw (Board Chair), John J. Ryan (CEO), Jack Christie, Sharon White and Ron Hierath

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices including the updating of Board practices and procedures related to conducting meetings, their frequency and length, the kind of materials and information provided to Board members and the reporting of meetings.

The Corporate Governance Committee regularly reviews the number, structure, composition and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for directors.

Important issues dealt with this year included overseeing a significantly enhanced Board evaluation process and resulting review of the Board's governance practices, providing direction for the corporation's first annual public meeting and approving a new corporate policy regarding corporate social responsibility.

Nominating Committee

Chair: Deborah Whale
Vice-Chair: Réal Tétrault
Members: Gill Shaw (Board Chair), John J. Ryan (CEO) and Russel Marcoux

This committee reviews the qualifications of possible candidates and makes recommendations to the Board and Minister regarding the appointment of the President and CEO and new members to the FCC Board of Directors.

Important issues dealt with this year included commencing the search process for a new CEO for the corporation.

Pension Committee

Board Representatives: Claude Ménard and Ron Hierath

The Board of Directors provides representation on the corporation's pension committee to oversee the administration of pension plans, including the investment guidelines, the appointment of the pension fund managers and any material changes to the benefits granted to retiring employees. The Board's representatives on the Pension Committee make regular reports to the Human Resources Committee regarding suggested changes to the corporation's pension plans and to the Audit Committee regarding the financial solvency and financial status of the pension plans.

In addition to two Board members, the committee includes senior management representatives and elected employees.

L-R | Donald Bettle, Jack Christie, Brad Hanmer, Ron Hierath, Marie-Andrée Mallette, Russel Marcoux, R. Claude Ménard, John J. Ryan, Gill O. Shaw, Réal Tétrault, Deborah Whale, Sharon E. White

Board of Directors

Donald Bettle, Director since January 31, 2007
Donald Bettle has spent the last 30 years working in the agriculture industry in New Brunswick. He was formerly the chairman of the Canadian Atlantic Dairy Export Co-op, which administers the Canadian Quality Milk Program. His past achievements include serving on a committee to develop Canada's trade position for agriculture and WTO, serving as chairman and director on the Dairy Farmers of New Brunswick, and directing the Canadian Federation of Agriculture and the Agriculture Producers Association.

Jack Christie, FCA, Director since November 27, 2003
Jack Christie is a Fellow of the Canadian Institute of Chartered Accountants and the general manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 19 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants. Mr. Christie is a past-president and a member of the Rotary Club of Newcastle and is the treasurer for Enterprise Miramichi.

Brad Hanmer, Director since January 31, 2007
Along with his parents and two brothers, Brad Hanmer currently owns and operates a commercial grain and pedigreed seed farm and runs a family-owned seed retail and seed processing and exporting business. He has served as president of the Saskatchewan Canola Growers Association, director for the Canadian Canola Growers Association and was the founding chairman of the Biodiesel Association of Canada – fostering the commercialization of biodiesel in Canada.

Ron Hierath, Director since January 31, 2007
Ron Hierath currently works as a realtor in residential and agricultural sales in Lethbridge, Alta. Before this, Mr. Hierath was a member of the legislative assembly for the Government of Alberta, when he chaired the Standing Policy Committee on Agricultural and Rural Development and became a member of the Grain Marketing and Transportation Committee. Prior to that, Mr. Hierath was a third-generation wheat and barley producer for over 25 years, and a pork producer for over 20 years. He has also served as a member of the Alberta Grain Commission, Western Barley Growers Association, and director of the Western Canadian Wheat Growers Association.

Marie-Andrée Mallette, Chair, Audit Committee, Director since June 16, 1995
Marie-Andrée Mallette participates in a large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. She is also vice-president of strategic development for Adnutrio International Ltd. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association. Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Canadian Museum of Civilization in Gatineau, Quebec. Her involvement in the community and with the industry stakeholders contributed to the visibility of FCC in the province.

Russel Marcoux, Director since December 10, 2002
Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing more than 700 staff and operating a fleet of approximately 1,900 pieces of equipment. Mr. Marcoux owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, St. Paul's Hospital in Saskatoon, Sask., and the Children's Health and Hospital Foundation.

R. Claude Ménard, FCA, Director since March 11, 2005
Mr. Ménard is a chartered accountant with 40 years experience, beginning with a private firm in Montreal, and then with several key senior management roles in the mining, steel and agriculture industries. He was CEO of Agropur, the largest dairy co-operative in Canada, from 1989 to 2003. He has served as chair of the board of directors with NATREL Inc., Aliments Ultima Inc., the George Morris Centre, the National Dairy Council, and sat on the board of the Agri-Food Competitiveness Council. From 1999 to 2006, Mr. Ménard was a Board member with the Groupe Deschênes Inc. Mr. Ménard is a member of the Financial Executives Institute.

John J. Ryan, Director since September 1, 1997
Responsible for the strategic leadership of Farm Credit Canada, John Ryan joined FCC as President and Chief Executive Officer in 1997. Mr. Ryan has been instrumental in creating a high-performance culture at FCC, earning the corporation eighth place among Canada's 50 best employers in 2006. The corporation's customer loyalty and market share has increased significantly during his tenure. Mr. Ryan is a graduate of Harvard Business School's Advanced Management Program and holds a Bachelor of Business Administration from St. Francis Xavier University. Prior to joining FCC, Mr. Ryan was Chief Operating Officer at the Business Development Bank of Canada (BDC).

Deeply committed to community involvement, Mr. Ryan currently serves on the Board of Directors for Regina's Adult Learning Centre and the Hospitals of Regina Foundation. Mr. Ryan is past Chair of the successful Hospitals of Regina Foundation Board, past Chairman for several Regina United Way campaigns and led the CEO Challenge for Habitat for Humanity in 1998 and 2001. In 2002, Mr. Ryan was awarded a Commemorative Medal for the Queen's Golden Jubilee, in recognition of his significant contributions to the people of Canada. The following year, Mr. Ryan was presented with the Leon Leadership Award from Canada's Commissioner of Official Languages for his work in promoting both official languages in the workplace. In 2004, Mr. Ryan received the EXCEL Award from the International Association of Business Communicators (IABC). This international award recognizes a CEO who champions effective communication throughout his or her organization.

Gill O. Shaw, BScA, MBA, Chair and Director since November 2, 2006
Gill O. Shaw has over 30 years of experience in agricultural and financial management, and is a specialist in large commercial credit administration. From 1991 to 2002, he served as chief executive officer of the Manitoba Agricultural Credit Corporation and, during that time, was a member of the executive committee of the Manitoba

Department of Agriculture. From 1989 to 1991, he served as executive director of the Manitoba Farm Mediation Board. He lives in Brandon, Man.

Réal Tétrault, Director since June 23, 2005
Réal Tétrault owns and manages Emerson Milling Inc., a successful oat milling company he started in 1987. Emerson Milling currently exports to the United States, Mexico and South America. Mr. Tétrault also previously managed and operated a 2,000-acre grain farm. Mr. Tétrault is quite active in grain research and development and has participated in numerous studies and breeding programs. He has initiated several projects in partnership with the University of Manitoba and the University of Minnesota in agri-food and animal feed. Mr. Tétrault is a founding member of the Prairie Oat Breeding Consortium at the University of Manitoba. He sits on the board of the Emerson Economic Development Group and is a member of the Manitoba Food Processor Association. As well, Mr. Tétrault is a participating member in foreign trade missions with the Government of Canada and the Government of Manitoba.

Deborah Whale, Director since November 4, 2003
Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy and veal production business. She is on the board of the Ontario Livestock and Poultry Council, the board of the Alberta Poultry Research Council, the board of the Ontario Institute of Agrologists and on the CFIA's Avian Influenza Advisory committee. She was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, chair of the Veterinary Infectious Disease Organization and is the vice-chair of the Ontario Farm Products Marketing Commission.

Sharon E. White, Director since December 19, 2006
Sharon White is a graduate of the University of British Columbia. A practicing lawyer since 1981 in the area of corporate/commercial law, she is a partner at Richards Buell Sutton LLP, one of British Columbia's oldest law firms, and is head of their Corporate Finance department. She also serves as a director and chair of the Audit Committee of FreshXtend Technologies Corp., a company involved in the development and commercialization of life extension technologies for the fresh produce and flower industries. She is the past chair of the Securities Section of the B.C. Branch of the Canadian Bar Association. She is a member of the Law Society of British Columbia, the Canadian Bar Association, and a former member of the Bermuda Bar Association and the Council of Canadian Administrative Tribunals.

"I have been fortunate to work with the diverse and knowledgeable professionals who serve on the FCC Board. This year, we said farewell to several members whose contributions have been invaluable. I would like to acknowledge the work of Rosemary Davis, Warren Ellis, Donna Graham, Don Haliburton and Joan Meyer. Their expertise and enthusiasm will be missed." – John J. Ryan

L-R | Rosemary Davis, Warren Ellis, Donna Graham, Don Haliburton, Joan Meyer

Board Acknowledgments

FCC and the agriculture industry have benefited from the passion and unwavering commitment of the Board of Directors. This past year, several long-time members completed their terms and FCC acknowledges their many contributions.

Rosemary Davis – appointed December 19, 1995
With more than 30 years' involvement in Canadian agriculture, Rosemary Davis is a leader in the industry as well as a role model for many. Rosemary continually demonstrates her leadership in agriculture through innovation, creativity and a passion for the success of the industry.

In 2000, Rosemary became Farm Credit Canada's first female Chair of the Board. During her time on the Board, she supported important projects like the creation of the FCC AgriSpirit Fund, the Drive Away Hunger tour and Parliament's passing of the new Farm Credit Canada Act in 2001.

Under Rosemary's leadership, the portfolio has grown from $5.8 billion to $13 billion, with profits on operations reinvested in agriculture across Canada.

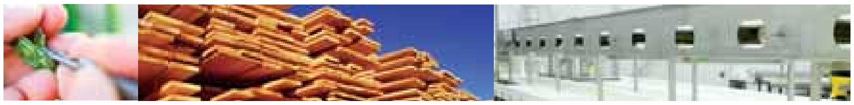
Warren Ellis – appointed April 4, 1995
Our longest serving member of the Board, Warren Ellis was Chair of the Audit Committee prior to becoming the Chair of the Human Resources Committee and he championed FCC with the federal government.

As Chair of the Human Resources Committee, Warren was key in championing the cultural practices. The transformation resulting from these HR practices led FCC to be ranked eighth on the Globe and Mail's 50 best employers in Canada study. Warren was passionate about acknowledging employees and rewarding them for their efforts. Warren demonstrated a deep commitment to FCC, with a near-perfect attendance record at Board of Directors and committee meetings during his 12 years on the Board.

Donna Graham – appointed September 26, 2000
Always personable, Donna Graham loved to meet staff from across Canada. She coined the phrase "it's cool to do business with FCC."

Donna is passionate about the sustainability of rural Canada and promoting agriculture as a great career for young people. She is a key supporter of Agriculture in the Classroom and the importance of raising awareness regarding the important role women play on the farm and in agriculture. As a member of the Human Resources, Corporate Governance and Audit Committees, Donna ensured that staff were supported to do the best job possible.

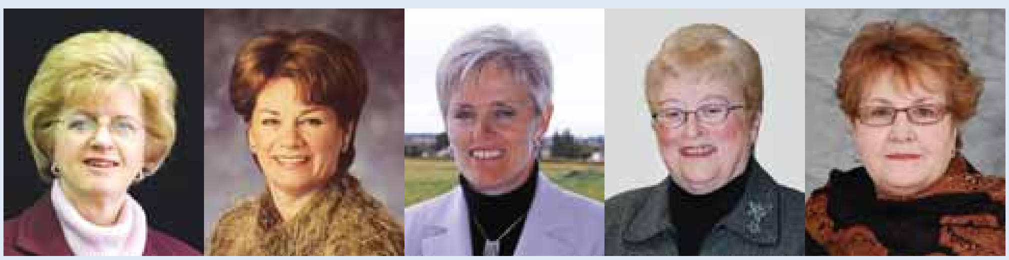
Don Haliburton – appointed November 4, 2003
Don Haliburton's considerable knowledge in accounting and corporate social responsibility made him a great asset to the Board. His interest in compensation and rational approach to business were appreciated by his Board colleagues.



Joan Meyer – appointed January 11, 1995
Joan Meyer believes that women are vital to the success of the agriculture industry and encourages Canadian women to be active on boards and in associations. Leading by example, Joan was appointed to the Board in 1995, becoming one of its longest-serving members.

Her passion on the Board was corporate governance. Joan ensured that FCC was at the forefront of Crown governance practices encouraging transparency and accountability. Joan was instrumental in promoting Board evaluation and the continual improvement of Board-management relations.

The last 10 years in agriculture at FCC can best be described as a period of unprecedented change. The direction and support provided by these Board members to the management team has been a major contribution to the success FCC has enjoyed. All employees owe our outgoing Board members a deep sense of gratitude.



L-R | Gertie Blake, Jacynthe Gagnon, Mabel Hamilton, Noreen Johns, Kay Young

The FCC Rosemary Davis Award

Women have always played a major role in agriculture.

They give of themselves in their communities and beyond – producers, veterinarians, teachers, researchers, agribusiness operators – you name it. These are women who are active leaders in Canadian agriculture.

To celebrate their many contributions, FCC created the Farm Credit Canada Rosemary Davis Award, named after the first female Chair of the Farm Credit Canada Board of Directors.

The 2006-07 FCC Rosemary Davis Award winners are:
- Gertie Blake, member service representative, Ontario Federation of Agriculture, Hanover, Ont.
- Jacynthe Gagnon, president of the Fédération de l'UPA de la Rive-Nord, La Malbaie, Que.
- Mabel Hamilton, teacher/purebred ranch co-owner/operator, Innisfail, Alta.
- Noreen Johns, farmer, Allan, Sask.
- Kay Young, farm partner, Young's Beef Farm, Lethbridge, N.L.

L-R

*Executive Committee member

Greg Honey* – Senior VP, Human Resources
Michael Hoffort – VP, Partners and Channels
Louise Yates – VP, Strategy and Customer Experience
Dan Bergen – VP, Operations – Western Ontario
John J. Ryan* – President and Chief Executive Officer
Kellie Garrett* – Senior VP, Strategy, Knowledge and Reputation
Clem Samson – VP, Operations – Prairie
Faith Matchett – VP, Operations – Atlantic and Eastern Ontario
Greg Stewart* – Executive VP and Chief Operating Officer
Larry Martina – VP, Operations – Western

Senior Management Team

"It's been an honour to work alongside the FCC Senior Management Team (SMT) for the past decade. These professionals lead by advising, setting priorities, executing corporate strategies and coaching their respective teams to enhance the customer and employee experience. Their contributions have led to the overall success of the corporation. I'm grateful and appreciative of the efforts and results of all SMT members and their teams. I welcome the new members on SMT and I look forward to their continued leadership in maintaining and growing our commitment to agriculture." – John J. Ryan

L-R

*Executive Committee member

Lyndon Carlson – VP, Marketing and Product Development
Don Stevens – VP and Treasurer
Paul MacDonald* – Senior VP and Chief Information Officer
Moyez Somani* – Executive VP and Chief Financial Officer
Rémi Lemoine – VP, Credit Risk
Joy Serne – Senior Director, Culture
Brad Strom – VP, Enterprise Architecture
Rick Hoffman – VP, Finance and Venture Capital
Ross Topp – VP, Audit and Integrated Risk
Alain Gagnon – VP, Operations – Quebec
Corinna Mitchell-Beaudin – VP, Portfolio Management

FCC follows the guidelines of Canada's Financial Administration Act, exercising care in decision-making and business activities. The corporate employee code of conduct and ethics reflects the highest ethical standards of business, professional and personal conduct. SMT adheres to these high standards, which include FCC cultural practices.

These cultural practices, which apply equally to managers and employees, foster a work environment worthy of national recognition. This year, FCC placed eighth on the annual Globe and Mail's Report on Business magazine survey naming Canada's top 50 employers, an accomplishment that makes SMT very proud.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor-in-Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2006-07, the salary range for the President and CEO was set at $255,000 to $305,500. The salary range for Executive Vice-Presidents was $189,035 to $289,110. The salary range for Senior Vice-Presidents was $136,855 to $209,305. The salary range for Vice-Presidents was set at $115,030 to $169,165. The salary range for Senior Director was set at $102,140 to $138,200. Total compensation paid to SMT was $5,237,813.

Glossary of terms

AgProduction
AgProduction refers to customers who get loans from FCC and includes agricultural operations that produce raw commodities such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and land based) and lifestyle customers.

AgValue
AgValue refers to agribusiness customers who get loans from FCC. It includes customers who are suppliers and/or processors that are selling to, buying from, and otherwise serving primary producers. These include equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors.

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

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

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

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

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.

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

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.

Debt-to-equity ratio
The level of debt expressed as dollars of debt per one dollar of equity.

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

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

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

Enterprise risk management
The balance of the corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives.

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

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

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

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

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

Interest expense
Expense to the corporation incurred on debt.

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

Variable interests
Contractual, ownership or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets.

Variable interest entity
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

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

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

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River (S), Virden

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

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Québec, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Trois-Rivières, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex, Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

Corporate Office
1800 Hamilton Street, P.O. Box 4320
Regina, Saskatchewan S4P 4L3
Telephone: 306-780-8100
Fax: 306-780-5167

AgExpert
10 Research Drive
Suite 170
Regina, Saskatchewan S4S 7J7
Telephone: 306-721-7949
Fax: 306-721-1981

FCC Ventures
1800 Hamilton Street, P.O. Box 4320
Regina, Saskatchewan S4P 4L3
Telephone: 306-780-5708
Fax: 306-780-8757

Government and Industry Relations
Room 841, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5
Telephone: 613-993-9897
Fax: 613-993-9919

(S) Satellite office – limited hours
www.fcc.ca
csc@fcc-fac.ca
Customer toll-free number – extended hours:
1-888-332-3301

FCC's venture capital business is delivered by:

Avrio Ventures Management Corporation

Calgary
Scotia Centre
3820-700 2nd Street SW
Calgary, Alberta T2P 2W2
Telephone: 403-215-5490
Fax: 403-215-5495

Toronto
205-1075 North Service Road W
Oakville, Ontario L6M 2G2
Telephone: 905-465-0885

Montreal
1155 René Lévesque Blvd. W
Suite 2500
Montreal, Quebec H3B 2K4
Telephone: 514-868-1079

www.avrioventures.com
info@avrioventures.com

– Photography by Greg Huszar

Farm Credit Canada

1-888-332-3301 www.fcc.ca

Cette publication est aussi offerte en français.

Canada