Agriculture. It's all we do.

1-888-332-3301

www.fcc-fac.ca

Canada

Farm Credit Canada

forward momentum

Annual Report 2002-03

forward momentum

Farm Credit Canada is passionate about agriculture. We are committed to helping our customers succeed, and we use our agricultural expertise to help make that happen. But we can't do it alone.

At FCC, relationships matter.

Great relationships provide us with insights that allow us to remain relevant, tailoring products and services to help our customers' businesses move forward through each life phase.

Relationships permit us to forge mutually beneficial alliances with our partners and stakeholders.

We recognize that alongside opportunities, traditional challenges such as weather and market forces exist, but issues such as these aren't hindering the agricultural industry's momentum.

Primary producers are expanding and diversifying.

The agribusinesses that support farmers are growing.

Partnerships, which have always been intrinsic to rural communities and farming, are becoming indispensable in modern operations.

FCC is moving forward, too, continuing to serve Canada's primary producers while leveraging our expertise to create new products and services that go beyond lending.

Offering venture capital, expanding business services and forging new alliances and partnerships are just some of the ways we are benefiting our customers and the agricultural industry as a whole.

Today, inspired by the energy of our customers, FCC is fuelling agriculture's momentum by serving its full spectrum, by being proactive and forward looking.

This industry is our passion and our purpose.

Agriculture. It's all we do.

Corporate profile

FCC helps farmers and agribusiness grow, diversify and prosper. Operating out of 100 offices located primarily in rural areas, the corporation's dedicated employees are passionate about the business of agriculture. FCC's healthy portfolio of $8.8 billion and ten consecutive years of portfolio growth are a reflection of our customers' success.

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

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

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

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

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

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

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

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

Table of contents

Operational and financial highlights

2002-03

For the year ended March 31

Operational	2003	2002	2001	2000	1999
Loans receivable portfolio					
Number of loans	78,442	75,888	75,202	73,686	72,311
Amount ($ millions)	8,812.6	7,715.8	6,907.6	6,303.8	5,843.4
Net portfolio growth (%)	14.2	11.7	9.6	7.9	9.9
Percentage of loans receivable in good standing (%)	96.4	96.5	95.5	94.9	94.8
New lending					
Number of loans approved	24,396	17,842	13,289	14,201	14,880
Amount of loans approved ($ millions)	3,138.3	2,446.1	1,752.5	1,611.6	1,617.4
Average size of loans approved ($)	128,640	137,097	131,875	113,500	108,700
Real property held at year end					
Number of properties	19	115	372	924	1,516
Number of acres	5,109	28,855	120,924	360,284	604,054
Value ($ millions)	3.5	10.1	25.1	64.9	103.4

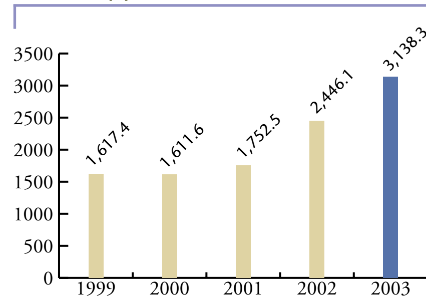
Financial	2003	2002	2001	2000	1999
Balance sheet ($ millions)					
Total assets	8,991.2	7,884.0	7,179.3	6,570.7	6,125.1
Total liabilities	8,148.4	7,138.0	6,346.7	5,943.5	5,533.2
Equity	842.8	746.0	832.6	627.2	591.9
Income statement ($ millions)					
Net interest income	269.3	201.2	164.5	154.4	146.3
Provision for credit losses	67.2	45.5	40.2	52.7	33.2
Other fees and income	14.0	14.7	31.4	29.4	21.8
Administration expenses	119.3	101.6	94.5	90.8	90.1
Income before income taxes	96.8	68.8	61.2	40.3	44.8

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

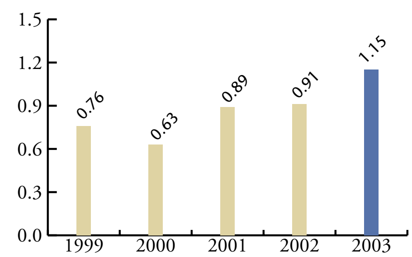
Key results

- $3.1 billion of new loans approved
- Loan approvals increased in all areas of the country and in all business lines
- Achieved tenth consecutive year of portfolio growth with a 14.2 per cent increase in 2002-03
- Net income generated increased return on assets and return on equity
- Higher net income mainly due to increased net interest income
- Efficiency ratio improved to 42.3 per cent in 2002-03 from 48.4 per cent in 2001-02
- Maintained debt to equity ratio of 9.7:1, well within legislated maximum of 12:1, demonstrating FCC's ability to fund growth

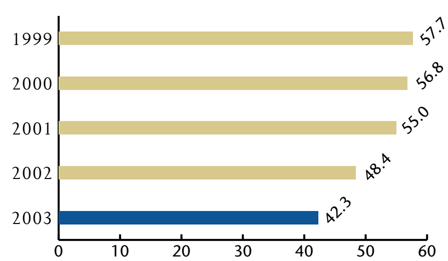
Loans Approved ($ millions)



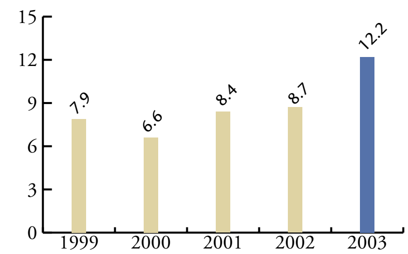
Return on Assets* (%)



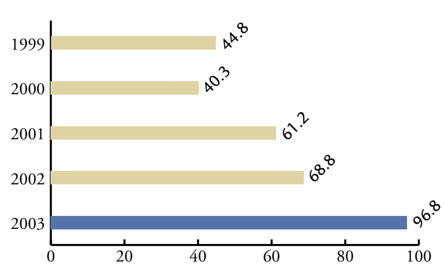
Efficiency Ratio (%)



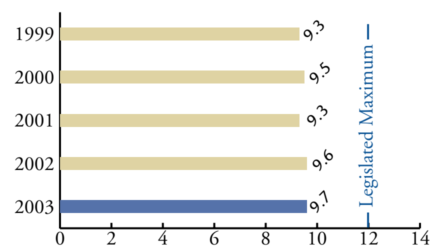
Return on Equity* (%)



Net Income ($ millions)

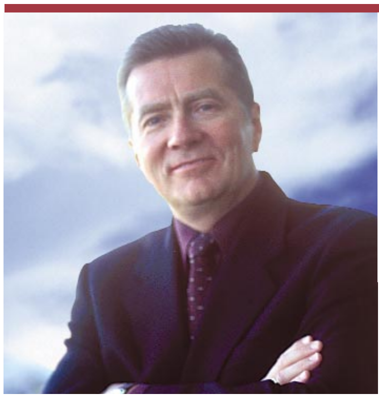


Debt-to-equity** (X:1)



** FCC not subject to income tax effective April 1, 2002 – all years are stated before income taxes*
*** equity restated in 2001 to remove tax asset pursuant to FCC income tax exemption*

message from the President



Forward. Momentum.

Globalization, environmental issues, consolidation, the evolution of complex operations – all have combined to change the face of agriculture and agribusiness in Canada.

With these changes come challenges and opportunities. Challenges include the fact that modern operations are capital intensive. New entrants to farming and agribusiness with the vision and drive to forge ahead often lack the cash flow, down payment or credit history to access the capital they need. Even the most experienced operators have extensive capital needs when expanding or diversifying.

In terms of opportunities, value-added processing, new products, expanded markets and new sources of capital are increasing profitability and economic growth within agriculture and agribusiness. At the heart of this complex industry, there is momentum that cannot be denied. FCC is contributing to agriculture's forward thrust because we understand the forces shaping the industry. As our customers often say, "We get it."

We understand the cyclical nature of agriculture: how weather, commodity prices and other market forces can affect even the most sophisticated farm or agribusiness operator. We know that large up-front capital costs are the norm and recognize that there can be a lengthy period between initial investment and revenue generation.

Our knowledge can largely be attributed to our employees, most of whom have agriculture degrees or diplomas; many still farm or have family members who farm; and all share a passion for the industry. FCC's biggest asset, therefore, is our staff, with their understanding of the vast agricultural industry and deep commitment to its success.

Speaking of success, this is the tenth consecutive year of growth for FCC, and we have our customers and employees to thank. Our customers give us their business. They share ideas and insights. They are the reason we exist. Our employees listen and respond, providing products, services, information and education for our customers. Thanks to these two groups, we remain totally self-sustaining.

In 2002-03, FCC's loan portfolio grew to a record $8.8 billion. Our return on equity increased to 12.2 per cent, and every dollar of profit is re-invested into diverse agricultural endeavors.

FCC's momentum is increasing as we grow from providing loans and advice to offering business and financial solutions. This past year, we purchased Settler Computer Technologies Inc., enabling FCC to offer producers sophisticated products to enhance their management skills. A warm welcome to Settler employees who have joined the FCC team.

Our commitment to primary producers remains at the very core of our business. They require support from the entire value chain, from agribusinesses that produce inputs to those that process or package outputs. We also entered the venture capital field and are maximizing partnerships in order to get things done on behalf of Canadian farmers.

In the midst of all this activity and achievement, I must pause to acknowledge the passing of Rashpal Dhillon, or Paul as I knew him. He was an extraordinary individual who served on our Board of Directors for the past seven years. Mr. Dhillon passed away on January 6, 2003, surrounded by family and friends. The contributions he made to FCC, and the vision and the energy he brought to our Board, will not be forgotten.

- continued on page 6

Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Driving principles.

Our vision, mission and values drive our business strategy, identifying our purpose, our aspirations and our conduct with our customers, partners and employees. From this solid foundation, we move forward, united and committed.

There are three principles shaping our efforts to better serve FCC customers: leadership, knowledge management and innovation. When I talk about leadership, I am not confining this concept to managers. We encourage leadership at all levels of FCC. Leadership means taking initiative: seeing an opportunity and acting upon it to provide solutions to our customers, partners and co-workers.

FCC customers respect and rely on our extensive knowledge of agriculture. Indeed, it is the single biggest reason we attract and retain our customers. Knowledge management is formalized at FCC with communities of practice that inventory and expand our knowledge base for the use of customers, partners and fellow employees.

Innovation is also in action at FCC. Our vision to "lead the way" means that we constantly strive to anticipate customer needs. We strive to identify trends, management practices and customer challenges in order to develop innovative products and services. Sometimes our staff demonstrate innovation simply by structuring a loan proposal for a customer in a unique way. In short, innovation is a way of thinking that permeates FCC.

With these three principles shaping our future, we are well equipped to help producers and agribusiness thrive in the future.

Strategies for success.

Our focus will remain on our customers, adding value at every opportunity and at every stage of their business life cycle.

We will develop, package and deliver creative, new solutions for primary producers and agribusiness.

We will continue to optimize our performance, ensuring prudent financial management and improving operating efficiencies, expanding our customer base and increasing our activities in scope and range.

Results.

Our intentions are clear and our track record good, but how can we ensure we stay relevant and focused? We cannot evaluate ourselves based on any one measure, so we use a balanced scorecard. The scorecard focuses on four perspectives. A strong and explicit *customer focus* sets the pace in everything we do. A *people focus* ensures that we continue to grow and develop dedicated, skilled and innovative staff. *Service improvements* make certain we are constantly improving our processes, delivery channels and the quality of advice we provide. *Financial success* is the foundation of our continued customer support and corporate longevity. I invite you to review the balanced scorecard so you can see how we performed in these key areas this past year and what we're proposing for the year ahead.

Our balanced scorecard is a reflection, again, of the kind of people we have working at FCC. Our employees are directly responsible for the positive results that I so proudly share with you. It is their efforts, enthusiasm and expertise that elevate this corporation to new levels year after year, and I am proud to be working alongside them.

By constantly challenging ourselves, exploring opportunities with customers and encouraging leadership at all levels, FCC has completed another great year, helping enhance rural Canada and ensuring the long-term sustainability of Canadian agriculture.

There is an energy and momentum propelling us forward, and I am looking forward to what is yet to come.

John J. Ryan

message from the Chair

Proud to WORK ALONGSIDE farmers, agribusiness operators and alliance partners.

The FCC Board of Directors has a rare blend of skills and experience. Our group reflects diverse backgrounds in agriculture, management, finance and public policy.

Our role is to oversee FCC's management and business in the best interests of the company and, as a Crown corporation, in the best interests of the Government of Canada. We play a crucial role in setting the strategic direction. We then hold management accountable for the execution of said strategies.

We experienced some changes to the Board this year. Sadly, our respected colleague Rashpal (Paul) Dhillon passed away January 6, 2003. He had served as a Director since June 6, 1995, and made many contributions. Recognizing and rewarding people was a way of life with Mr. Dhillon, not just a way of doing business, and I would be remiss if I did not acknowledge the tremendous impact he had on our Board and myself personally. He will be sorely missed.

As well, Marilyn Marie Scott's term expired December 10, 2002. In the six years she served, Ms. Scott shared her knowledge, energy and enthusiasm with us tirelessly. We thank her and commend her on a job well done!

Russel Marcoux replaces Marilyn Scott. Mr. Marcoux owns and operates a grain farm in Saskatchewan. As well, he is the Chief Executive Officer of the Yanke Group of Companies. We welcome him and look forward to the skills and abilities he brings to the Board.

The boundaries of Canadian agriculture are expanding. However, I am pleased to report that primary producers continue to be FCC's first priority. We believe that it is also important to work with the agribusinesses that support farmers.

Strong partnerships and alliances have always been central to the way FCC does business. Today, they are indispensable.

FCC's community investment activities focus on farm safety, hunger and education. We actively seek ways to impact rural areas, as often those needs are not so obvious or so easily met. It is exciting to make a difference, whether providing a van to transport food hampers to rural locations, donating money and time to Habitat for Humanity, partnering with St. John Ambulance or fostering 4-H programs.

FCC employees make a huge contribution to community by sharing their time. They are also the prime reason that FCC is so successful as a business. Without their efforts, this corporation could never achieve the things it does, and I'd just like to say a sincere "Thank you" to all FCC employees. You are a remarkable group of people.

From the orchards of British Columbia to the potato farms of Prince Edward Island, there is momentum that we, the Board of Directors of FCC, can both sense and see. These are exciting times, and we will continue to work with our employees, partners, customers and their communities to keep pace and contribute to the long-term success of the agricultural industry.

Respectfully submitted on behalf of the Board of Directors,

Rosemary Davis

Rosemary Davis

message from the Minister

Today's agriculture and agri-food business faces significant new challenges, from changing consumer demands to a complex international marketplace.

In the new global economy, operating a farm is a challenging, knowledge-intensive task. Recognizing this, the federal, provincial and territorial governments are developing programs under the Agricultural Policy Framework to ensure Canada's farmers have access to the tools and advice necessary to make sound business decisions and to help them plan for the future. Our objective is to provide a national framework to make the Canadian agriculture industry the world leader in food safety, innovation and environmentally responsible production.

To achieve this goal, producers need access to business planning and financial solutions that will help ensure the long-term viability of their farming operation. By putting the power of sound business solutions and flexible financial services to work for farm families and businesses across the country, Farm Credit Canada (FCC) has become a valuable partner in helping us achieve our objective.

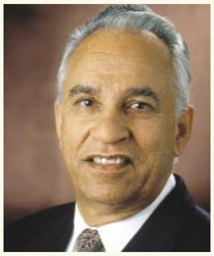
FCC's ability to offer products and services to meet the changing needs of farm-related businesses makes it an important tool in the growth and development of our sector. As well, the corporation now offers business solutions that complement its traditional financial offerings and encourages outside sources of funding to enter the agriculture industry.

I am confident that as the industry evolves, we will see more innovative services from Farm Credit Canada, and that it will continue to provide valuable financial expertise and leadership to ensure a bright future for our industry.

Lyle Vanclief
Minister of Agriculture and Agri-Food

Rashpal Dhillon

People were his passion



On January 6, 2003, Rashpal (Paul) Dhillon passed away at the age of 64. He was a beloved family man, loyal friend, astute businessman and respected leader in his home community of Richmond, British Columbia. He also was a highly valued member of FCC's Board of Directors.

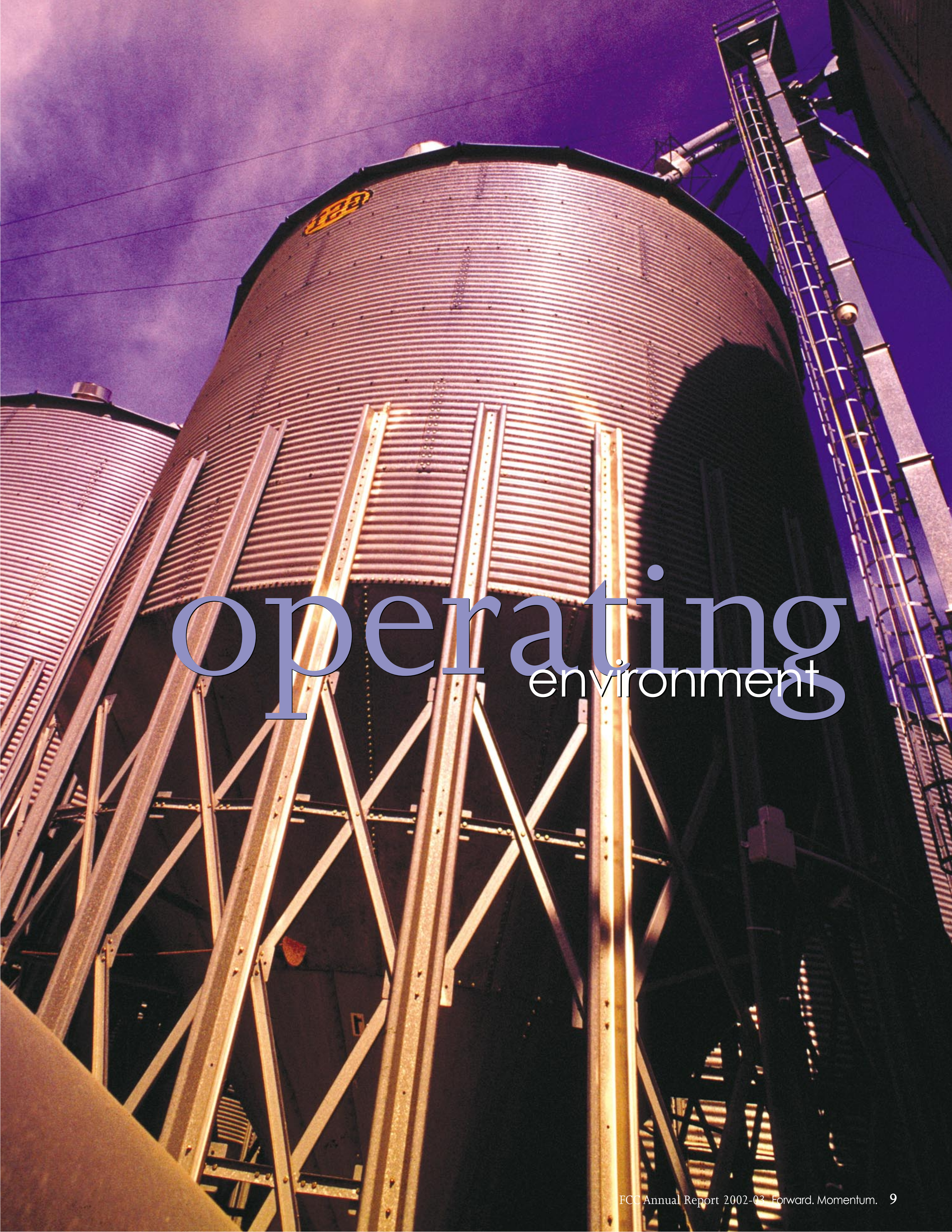
Recognizing and rewarding people was a way of life for Rashpal, not just a way of doing business. It was this passion for people that led him to serve on FCC's Human Resources Committee. This passion also fuelled his community activities.

Rashpal was a trailblazer and an entrepreneur. He had the distinction of being the first Indo-Canadian RCMP officer. After leaving the police force, he directed his energies into building one of the largest cranberry operations in British Columbia.

A visionary who recognized opportunities and opened doors, Rashpal was instrumental in the decision to increase FCC's presence in British Columbia. He maintained that the business would be there to justify the expansion. In his own unassuming but convincing way, he was right.

Rashpal's passion for people, his diplomacy and his drive have influenced us all. We at FCC mourn his loss deeply. He will be sadly missed by all those who touched his life and were touched in return.

operating environment



FCC is focused on agriculture, a key contributor to our national economy and an increasingly complex industry. FCC is also a player in Canada's financial industry, which is rapidly changing. In order to meet and anticipate customers' needs, FCC closely monitors the agricultural and financial services marketplace. We use this market intelligence along with customer feedback to develop innovative strategies, products and services. The following section explores key trends that have influenced our business strategy.

Canadian agriculture

The agricultural industry is cyclical in nature. Weather, transportation systems, capacity, consumer demand, international subsidies, competition and other variables affect the industry. FCC is committed to working with producers and agribusiness operators in good times and bad.

There is an ongoing trend to integrate agricultural production from supplier to consumer. Producers and agribusiness are expanding their operations and exploring niche markets. They are building partnerships along the agricultural value chain, increasing efficiencies, managing risk and intensifying marketing efforts. Recognizing the growing interconnectedness of the industry, FCC offers financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks.

Structural change in agriculture is resulting in fewer but larger farms, with an increase in the average loan size. This is resulting in an increased need for financing. Producers and agribusiness operators are running businesses just as complex as those of urban entrepreneurs. In this environment, sound business (including financial) management is a core competency that will distinguish successful producers. FCC is addressing this through an array of flexible financing, business services and education/training that extends beyond traditional lending activity.

According to Statistics Canada, the median age of all farm operators in Canada increased from 47 in 1996 to 49 in 2001. Over the next decade, as farms are transferred to a new generation, more than $50 billion in assets is expected to change hands. This trend confirms the need for strong succession planning, which FCC is addressing through AgriSuccess workshops, and reaffirms our efforts to engage and encourage young producers. FCC has several products that help young producers purchase existing operations while providing adequate income for those leaving farming.

Agribusiness continues to experience rapid changes in production, processing, communication and transportation technologies. Many of these value-added initiatives require large injections of cash to get off the ground and achieve long-term success. The result is increased efficiencies that improve the competitiveness of Canadian agriculture. FCC's expertise will play a crucial role in meeting the capital needs of agribusiness in the coming years. By supporting the growth of agribusiness, we are directly contributing to the success of primary producers.

As concern for the environment moves higher on the public agenda, regulations are becoming more stringent. Some operations will require additional capital to comply with new environmental regulations. In 2002, we introduced the Enviro-Loan to help producers and agribusiness operators make environmentally focused improvements. FCC actively supports sustainable business practices and good environmental stewardship. Terms and provisions to safeguard the environment are standard in our loan documentation.

Financial services industry

Like agriculture, the financial services industry is affected by change on many levels. Key financial and governance reforms are occurring across North America. Potential mergers, changing legislation, more regulation, volatile markets, changing demographics and technology are having an impact. The effects of Bill C-8, reforming Canada's financial services industry, also will be felt in the marketplace.

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

Technology is shaping consumer demand and business models. Financial institutions provide customers with access to information and services 24 hours a day, seven days a week – in person, by phone, or through the Internet. FCC has determined that field staff serving customers "face to face" will remain our predominant service channel. This is supported by a call centre and Internet service.

Of ongoing interest are changes in the values of the American and Canadian dollar and in each country's interest rates, since the United States is Canada's primary trading partner. Many FCC customers export to the United States.

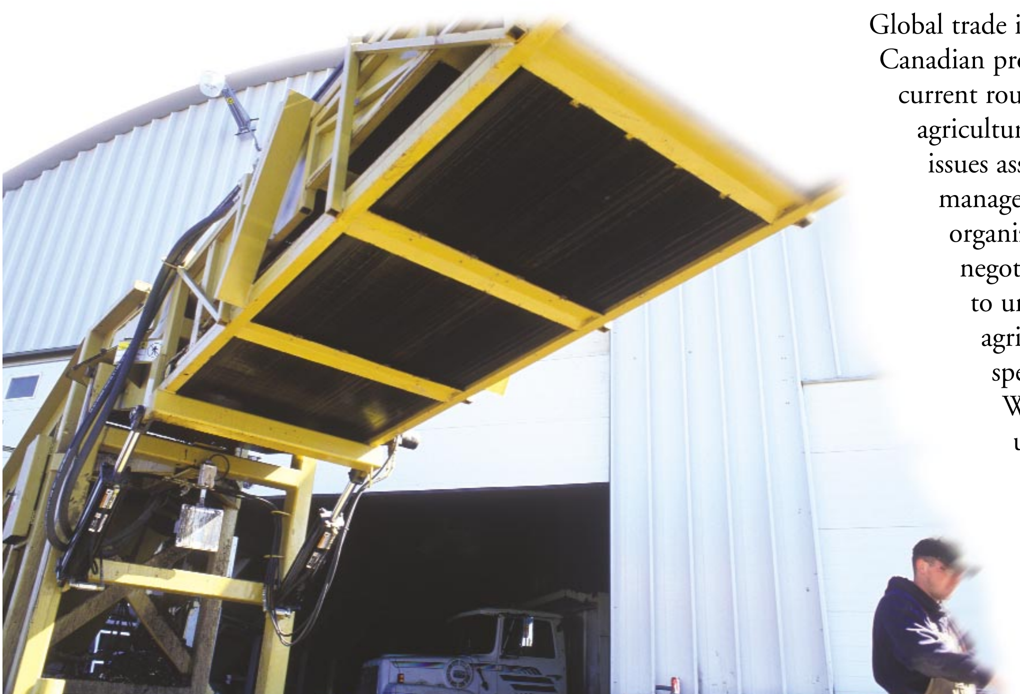
Statistics Canada[1] indicates that farm debt outstanding rose to $40.8 billion at the end of 2001, continuing the steady upswing since 1993. Farm debt in Canada increased 23.4 per cent over the previous five-year average. In 2001, all provinces increased their debt load. Increases ranged from 2.8 per cent in Saskatchewan to 15.8 per cent in Newfoundland and Labrador.

Major holders of mortgaged farm debt were FCC (32.7 per cent), chartered banks (25.3 per cent), private individuals (13.6 per cent), credit unions (7.5 per cent) and provincial government agencies (6.8 per cent). Most non-mortgaged debt was owed to chartered banks (64.2 per cent) and credit unions (23.4 per cent). In 2001, FCC's market share of non-mortgage lending was 4.7 per cent. FCC's overall market share (mortgaged and non-mortgaged debt) was 18.5 per cent, an increase from 17.5 per cent in 2000.

International considerations

Global trade issues continue to place pressure on Canadian producers to increase competitiveness. The current round of World Trade Organization agricultural negotiations is expected to address issues associated with agricultural supply management systems, national trading organizations and subsidies. When these negotiations are finalized, it will be important to understand the effect on Canada's agricultural industry. The impact of the high spending levels in the U.S. Farm Bill on World Trade Organization negotiations is unclear.

- continued on page 12



It is predicted the role of government will continue to expand as a result of the September 11, 2001, terrorist attacks and heightened global conflict. Foreign trade will be more expensive because of higher transportation costs and border costs and delays (over 80 per cent of Canadian exports are to the U.S.).

The international Kyoto Protocol calls for reduced production of greenhouse gases. How this will affect the Canadian economy, and specifically agriculture, has yet to be determined.

As reflected in the federal government's Agricultural Policy Framework, there is a drive around the world toward increased food quality and safety and sustainability. Fortunately, Canada's food supply is widely respected internationally for its safety record and quality.

The ongoing transformation of agriculture and agribusiness and the evolution of the financial services industry present risks, challenges and opportunities for customers. Today, fueled by business savvy, determination and pride, primary producers and agribusiness are accelerating into new areas, exploring new opportunities. FCC's role is to help the industry meet these challenges and maximize the opportunities.

In perspective

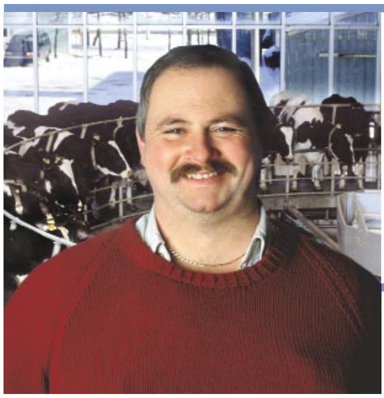
Farm financial research released by Agriculture and Agri-Food Canada in January 2003 indicates that:

- Average net worth per farm has increased by 15 per cent since 1999.
- Canadian farm families earned an average of $75,400 in 2001.
- Average net market income increased 4.5 per cent in 2001.
- All provinces reported higher average net cash income for 2001.
- Investment in farm machinery and equipment is up 14 per cent since 1999.
- Quota investment has nearly doubled between 1997 and 2001.
- 72 per cent of farms were in the favourable stability class in 2001, up from 70 per cent in 1999.

[1] *Statistics Canada, Catalogue No. 21-603-UPE*

Customer profiles

Newfoundland's best-kept secret



Newfoundland's DAIRY industry isn't what usually comes to mind when people think of Canadian agriculture. As dairyman Brent Chaffey explains, "Anywhere else in this country, most people are at least aware that there is an agricultural industry in their province. In Newfoundland, we're fighting a battle just to inform people, 'Hey listen, we really do have an industry here!'"

Brent Chaffey

Brent has made the development and promotion of Newfoundland's agricultural industry his life's work. His passion is dairy and he's seeing the impact of his efforts in his own business and the province's growing industry.

His family settled in Newfoundland in the 1700s, and generations of Chaffeys made their living on the land and sea – cutting trees, raising vegetables and fishing. Walter Chaffey, Brent's grandfather, kept a few cows and it wasn't long before Brent's dad, Wilson, took the family business to the next level, starting the dairy side of Chaffey's Farm in 1969.

In 1992, the Chaffeys decided to incorporate their business and pass it down through the family. FCC helped them examine options for structuring the sale and arranged the necessary financing.

Under Brent's management, Chaffey's Dairy Farm employs 15 full-time staff and a number of seasonal employees. Brent says his approach to running the business has evolved to meet the challenges and opportunities in today's marketplace. "We've grown tremendously and we're getting ready to go even further. We've applied new technology and production methods and we're working very hard to see the dairy industry grow in Newfoundland – an industry that could double if we develop markets like secondary processing."

Brent says doing business in Newfoundland poses some unique challenges. "Newfoundland is different from the rest of Canada in that we're very limited in the financial resources we have available to us for business enterprises of any nature. The need for new land, especially to raise corn and other crops to feed dairy cattle, is a severe drain on cash flow. We needed a flexible, innovative lending institution to bring this property into production.

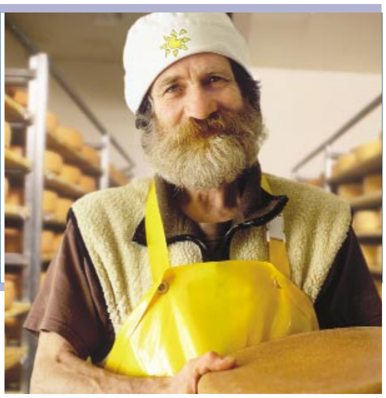
Individuals interested in these kinds of business opportunities need support and risk capital," Brent explains. "FCC, through its local staff, is very much in their customers' corner. It takes a forward-thinking organization like FCC to take the needs of a remote province, such as Newfoundland, seriously and to make sure we get the services we need. That commitment keeps us doing business with FCC – they've been with us from the beginning and we've always had great service from them."

Chaffey's Dairy Farm
Christine Wheaton, FCC Account Manager

The secret is in the milk

A culinary REVOLUTION is heating up in Quebec.

The province's most reputable chefs are beginning to realize the outstanding quality of home-grown ingredients.



Jacob Lehmann

You'll find chefs and producers pooling their expertise to win over even the most discerning Quebec palates with new and exciting specialities.

Marie and Jacob Lehmann recognized the opportunity and seized it. The Lehmanns immigrated to Quebec from Switzerland in 1983. With the help of FCC, the Lehmanns became successful first-time owners of a dairy farm, a feat that would have been virtually impossible in Europe. Their Brown Swiss herd of 30 enabled them to provide for their own family, while their three children were young. "In the 1980s, our dairy herd was considered average sized," says Jacob. "By 2001, our herd wasn't large enough to provide a living for five adults!"

The day their children – Sem, Isaban and Léa – told them that they all wanted to take over the family farm, the Lehmanns faced a choice. They could either triple their milk quota or turn the milk into cheese and capitalize on the high quality of milk from their Brown Swiss cattle. As Marie tells it, "Before we left Switzerland, Jacob was a third-generation cheese maker. Our passion for home-made goods and our love of the rural lifestyle led us to create La Fromagerie Lehmann (Lehmann Cheese)."

When the time came to switch over to an agribusiness, the five equal-share partners presented a business plan to Jean Côté, their FCC account manager for the last 20 years.

"What most impressed me about the Lehmann business plan was that each member of the family had a voice in the decision making. Léa and Jacob are master cheese makers, Marie is in marketing and Isaban looks after the equipment and the fields. Sem manages the cattle and feed," Jean adds, "The business plan was so well prepared that we gave the go ahead and, 10 months later, La Fromagerie Lehmann came to be."

"We can't produce enough to meet demand," Marie explains. "We produced approximately 15,000 kilos of cheese in 2002. Demand was much higher." But as everyone who's tasted fine food knows, it's better to have a little bite of a good thing than a lot of mediocre.

Lehmann cheeses were introduced to the Quebec market in March 2002, winning both a local following and prizes! Customers from over 120 Quebec restaurants chose the company's Kénogamie, a raw milk-based cheese, as the "best Quebec cheese." That's a big accomplishment for such a new operation.

To what do these master cheese makers attribute their success? "The secret is in the milk!" they say.

La Fromagerie Lehmann
Jean Côté, FCC Account Manager

Success over and under the hill

Over the HILL and Under the Hill Farms Ltd.

The name of this family-run mixed farming operation wraps up the location and a major facet of the business in one neat package. As president Doug Berry explains, "'Over the Hill' describes where we're located, about 140 kilometres west of Winnipeg in the Glenboro/Cypress River area. 'Under the Hill' refers to the potato part of our operation."

Doug, Chad and Kevin Berry

Over the Hill and Under the Hill is truly a family business. Doug, his brother Bruce, son Chad and nephew Kevin operate the 6,400-acre farm that has grown from the section and a half farmed by Doug and Bruce's father Stan.

Through the years, the family expanded into corn, beans, wheat, barley, sunflowers and livestock production. In 1996, they produced their first crop of potatoes. Doug explains, "We knew that if we were going to keep our boys here, we needed to expand, so we put our plan together and talked it over with FCC. They were part of our preliminary discussions about whether potato expansion would be a feasible alternative to grain farming."

Starting with 300 acres of potatoes, the operation now has 1,500 acres in the potato park. Over the Hill and Under the Hill has four full-time employees. During peak season, the workforce swells to 35 or 40.

"I think FCC has really good people. Another positive thing is that their policies don't change with the wind. They stay the course and they've made the effort to know what we're about. You don't have to prove yourself over and over again. That's a big plus for us."

The future of Over the Hill and Under the Hill Farms will likely include further expansion, especially on the potato side. "The potato business is changing, just like every other business. So, to make everything work, we need to keep an eye on the markets and the industry and keep growing just to stay in the game."

Doug adds, "We try to make every decision with a five to ten-year outlook, and to make sure our risks are calculated. Our farm is a business, and we run it as a successful one. FCC helps us with that."

The younger family members are now moving into more responsible positions and eventually will be running the operation. Judging from the history of Over the Hill and Under the Hill Farms, FCC will be there when needed. As Doug says, "They've always looked at us and said we were a pretty good investment. Along with everything else, we really appreciate the fact that they've always made us feel like we're real people, and we feel good about dealing with real people. That makes a big difference."

Over the Hill and Under the Hill Farms Ltd.
Tom Harland, FCC Account Manager

Growing strong

What can we grow for YOU? is the motto that Marc and Dianne Shane created for their rapidly expanding greenhouse operation. The slogan is a perfect fit for their output of bedding plants, wholesale annuals, perennials and specialty varieties for garden centres and grocery store chains in western Canada and the northwestern United States.

Dianne and Marc Shane

Marc explains, "The motto came from the fact that our business is not to grow the flowers that my wife and I like, but to grow what our customers want to offer to the people they serve. So we say, 'What can we grow for you?' Then, we listen. If our customers are successful, we are successful."

In 1988, the Shanes established their business in Milner, British Columbia, with a 2,800-square-foot cold frame. Today, their company is one of the largest bedding plant greenhouse operations in British Columbia, with 31 acres of greenhouses and 12 acres of developed outdoor growing area. They also own Milner Greenhouses, the single largest greenhouse operation in Saskatchewan, with more than eight acres of greenhouses in Biggar.

In the six years since FCC became Milner Greenhouses' term lender of choice, the Shanes have found that Farm Credit Canada shares their customer service philosophy. "FCC has enabled us to grow our business," says Marc. "We have been able to seize opportunities, whereas traditional financing wouldn't have allowed us to do that."

According to Marc, FCC understands their business. "The folks at FCC know that farming isn't like a traditional business. Farming is unique in its needs. It's weather-driven, our products are live, with a limited shelf life, and they've got to be moved."

He continues, "With our FCC account manager, we have someone who knows what we're talking about.

"FCC looks at your operation, sees what's going on with the market, and knows enough to make an informed decision when you present an idea to them."

This flexibility and specialized knowledge about specific sectors of the industry as well as agribusiness in general, has made FCC a valuable partner in the rapid expansion of Milner Greenhouses. Marc and Dianne are focused on still more growth, and they intend to stick with FCC.

The young couple agrees that success in business, like life, is all about relationships. "Unless you build a relationship," Marc explains, "chances are you aren't going to go anywhere. We have an excellent relationship with FCC and its people. It's a relationship where they understand and support what we're doing. Just like us, FCC is here to serve its customers and do the best it can."

Milner Greenhouses Ltd.
Raymond Wagner, FCC Account Manager

Building value from gate to plate

When Farm Credit Canada's alliance program began,

it primarily involved the livestock production industry, serving farmers' co-operatives financing feeder cattle or breeding cattle for their members. Now, FCC has expanded into new areas where they can make significant contributions to the growth of the agricultural industry's value-added sector.

Peter Hatzis

Better Beef Ltd. is one of Canada's most successful meat processors, providing high-quality beef products to the world from its headquarters in Guelph, Ontario. A family-founded corporation that is 100 per cent Canadian-owned and operated, its goal is to integrate the best people with the best technology to consistently provide the best beef products. Better Beef believes that stable, long-term relationships with employees, suppliers and customers are essential to the future prosperity of the company. As their motto says, "Together, we build value."

In 2002, FCC Account Manager Rick McElheran talked with Better Beef about the possibility of forming a livestock alliance with a slight twist – a private company rather than a co-operative, involved in processing rather than basic production. A deal was struck. Better Beef was then able to disburse funds to producers enabling them to finance feeder cattle that would, in turn, be delivered to Better Beef for processing.

Explains Better Beef's cattle-buyer Peter Hatzis, "Our goal is to increase the province's cattle production, adding value to turn Ontario cattle into beef that's sold around the world. For us at Better Beef, financing with FCC will help us grow our industry, make our farmers more prosperous and make it easier for young producers to get into the feeding end of cattle production."

Building positive relationships with suppliers through the FCC alliance program is one way that Better Beef seeks to ensure the best possible results. Peter says, "Our relationship with FCC is just an extension of our company's philosophy. We go for the best to get the best results."

Peter stresses that food safety is, and always will be, Better Beef's number one concern. "We plan to implement all new technology that will allow us to trace products from gate to plate," he says, "so we can ensure that we continue to produce our products safely. The whole idea of traceability ensures that we can pinpoint any potential problems that might come through the plant. We want to grow, but we will not compromise on safety and quality."

Better Beef Ltd.
Rick McElheran, FCC Account Manager

Going once, going twice SOLD

David Carson, a true ENTREPRENEUR and auctioneer,

is sold on FCC. "The staff at the local office here in town are excellent. When we want to consult with them or make a deal, they're willing and available … FCC has always come through for us."

David Carson

Along with two to three monthly dairy auctions, David Carson Farms & Auction Services Ltd. retains between 2,500 and 3,000 Holstein heifers and cows for private sale. But the Listowel, Ontario business goes far beyond auctioning dairy cattle. They also handle horse and beef sales, consignment machinery auctions, cash crop and custom work, operate a feed supply store, tack shop and restaurant. They even raise pure-bred boxer pups!

David says it all started when he was 19. He had a 100-acre farm and a few dairy cows his father helped him buy because he wasn't old enough to have the business in his own name. "When I turned 21, I got a loan with Junior Farmers and started out on my own," David explains. "Then I went to auction school and we expanded from there."

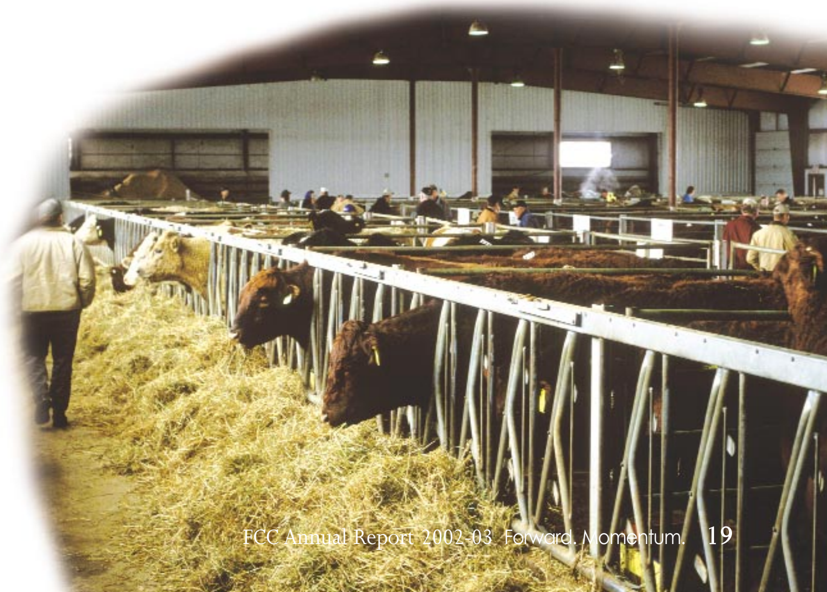
The auction business is a big part of David's operation. They farm to grow feed for the cattle they auction. They feed cattle so if the market is short, they have cattle on hand. If the market's overloaded, they have facilities to maintain cattle until the market changes. They buy out-of-season and sell in-season.

"We really enjoy dealing with FCC," David says. "Turnaround time is very good. And when you get something arranged, it's a done deal. They're not back in three months wanting to change it, or to change the people you're dealing with."

David appreciates that FCC understands the market. "They know that everything in agriculture is getting bigger – bigger numbers, bigger expenditures but smaller margins. They know why you need a million dollars here, a million dollars there. They're on board with the size of today's operations, not expecting you to run a farm on $50,000."

David's son Brad has joined the business and also has his own farm. "FCC has a lot of products that help give today's agribusinesses the edge they need to be successful. For example, we've had FCC come to some of our large sales to assist people who want to buy these enormous machines and need financing. FCC also has a lot of feeder finance programs and they work with us if we have customers who need that kind of assistance. All in all," David concludes, "FCC is really geared for modern farming; they're steady and here to stay."

David Carson Farms & Auction Services Ltd.
Tom Gibson, FCC Account Manager



Strategic direction and balanced scorecard

FCC takes a forward-thinking approach to strategic planning.
This year, we created a five-year strategy map that identifies FCC's key thrusts, the inter-relationships between corporate strategies and how we will achieve our vision.

The corporate strategic programs that move FCC forward flow from the strategy map. We have 13 programs in place to drive our momentum:

1. Demonstrate a visible commitment to the full spectrum of the agricultural industry.
2 Enhance customer loyalty and acquisition, focusing on primary producers and the agribusiness and alliances that support them.
3. Develop business services, with emphasis on improving producers' management skills and serving each life phase of our customers' operations.
4. Improve customer choice by developing alternate product and service delivery channels.
5. Build an infrastructure to support partnerships and alliances.
6. Enhance performance of information technology systems and processes.
7. Implement Customer Relationship Management infrastructure and processes.
8. Serve as a catalyst for venture capital investment in the agricultural industry.
9. Ensure prudent financial management.
10. Develop and foster an innovative culture.
11. Enhance strategy integration and execution.
12. Enhance leadership and employee engagement at all levels.
13. Create and share knowledge among all employees.

The Balanced Scorecard

The balanced scorecard is the foundation of the strategy map. Each of the 13 strategic programs identified above fall within one of the four perspectives of the balanced scorecard: customer, people, service and financial success. FCC balances its efforts among these perspectives, which are used to measure progress toward achieving corporate goals.

The balanced scorecard section of this report contains the strategies for 2002-03, the measures and targets, results at year end plus the strategies and targets for the following year. In essence, the balanced scorecard forms a snapshot of where we've been and where we're going.

Customers: Create solutions for customer success

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

Strategies 2002-03

Implement Customer Relationship Management techniques
- Apply Customer for Life segmentation, target of 30% of customer segmentation completed by March 31, 2003

Provide venture capital as a business line
- Establish venture capital as a business line, target of up to $5 million invested by March 31, 2003, and $25 million by March 31, 2007

Develop and initiate complementary services
- Establish complementary services as a business line, target of two complementary services launched by March 31, 2003

Integrate knowledge management into the core business of FCC
- Provide relevant syndicated or 3rd party information on the FCC Intranet, target of 150 information pages by March 31, 2003**

Implement new financial and business solutions addressing customer needs
- Gross disbursements for farm financing $1.48 billion, agribusiness $325 million and alliances $425 million for fiscal 2002-03
- Launch of product suite for new entrants to agriculture

Results 2002-03

37% response rate to Customer for Life Segmentation Survey.

Venture capital strategy approved by Board, targets revised to $10 million invested in 2002-03, $50 million by March 31, 2007

Business Services division established*; FCC Business Planning Award launched; AgriAssurances enhanced; Settler Computer Technologies Inc. acquired; AgriSuccess workshops delivered

Business planning expertise provided to over 1,000 customers

On a gross basis, FCC disbursed $2.9 billion, with $2.0 billion to farm financing, $452 million to agribusiness and $430 million through alliances

Disbursements, net of FCC refinancings, totalled $2.6 billion, with $1.8 billion to farm financing, $409 million to agribusiness and $429 million through alliances

FCC launched a new suite of AgriStart products that resulted in 283 loans, totalling $92.3 million

Strategies 2003-04

Enhance customer loyalty and acquisition with focus on primary producers and the agribusiness and alliances that support them

Serve as a catalyst for venture capital investment in the agricultural industry

Develop business services, with emphasis on improving producer management skills and serving each life phase of our customers' operations

Demonstrate visible commitment to the full spectrum of the agricultural industry

Measures and Targets 2003-04

Maintain customer loyalty index at 4.24

$22 million cumulative investment in venture capital projects

Business Services revenues of:
- $2.4 million for AgExpert management tools
- $10.3 million for AgriAssurances

Attract 2,500 participants to professional development programs

Develop an AgExpert software customer base of 14,400

Gross disbursements of:
- Farm financing $1.7 billion
- Agribusiness $500 million
- Alliances $490 million

Disbursements, net of FCC refinancings of:
- Farm financing $1.6 billion
- Agribusiness $469 million
- Alliances $462 million

* *Business Services was called Complementary Services in 2001-02.*

** *This measure was revised to: "Provide access to business planning expertise to 1,000 customers."*

Tailoring solutions to fit

FCC is a leader in devising innovative solutions to serve a variety of customers in different life phases, found in various geographical locations and pursuing vastly different endeavors. Our share of the Canadian agricultural term debt market has grown steadily since 1993, reaching 32.7 per cent as of December 2001 (Statistics Canada). This trend confirms that FCC continues to meet the needs of the industry, in good times and bad, acting as a stabilizing force when fluctuations occur.

FCC Ventures acts as a catalyst, negotiating partnerships that will ultimately encourage other venture capital partners to invest in agriculture.

The Business Services division offers services that complement FCC's lending and address the need for more than just financing, making life and accident insurance available as a risk mitigator and providing training and education.

Product development

At FCC, customer feedback plays a key role in product development. We expanded our AgriStart product line in 2002 in consultation with our target audience: young farmers. Our Flexi-Farm loans offer producers the chance to seize opportunities or deal with such things as weather challenges without penalty.

Building on our strengths

FCC enters partnerships and alliances to provide more extensive services to customers. Through business alliances, partners maintain their independence while adding value by combining resources and expertise with FCC. As of March 2003, our alliance partners exceeded 30.

The objective of these alliances and partnerships is to increase our access to products and services for individual producers and agribusiness operators, thus strengthening the industry as a whole.

People: Unique people leading our success

By focusing on employee development and building a positive workplace environment, FCC is fostering the productivity and innovation we need to better serve our customers.

Strategies 2002-03	Results 2002-03	Strategies 2003-04
Mentor, train and develop all staff • Training and development spending/salary dollars, target of 3.5% each fiscal year	Investment in training and development to year end, 5.7% of salary dollars	Enhance leadership and employee engagement at all levels
Recruit skills that expand existing corporate competencies • Acquire venture capital and complementary services* expertise, target of March 31, 2003 • Establish a university recruitment program, target of March 31, 2003	Venture Capital and Business Services staffing complete University Recruitment program established	Create and share knowledge among all employees Develop and foster an innovative culture
Expand leadership training • Employee development plan completion, target of 100% by November 30 each fiscal year	Employee development plans complete Performance and Competency Excellence (PACE) training provided to all managers	
Recognize and reward workplace innovation • Implement the corporate innovation program, target of 10 innovative ideas sponsored by March 31, 2003	Innovation Program strategy complete Innovation intranet pages launched Idea Central Innovation's pilot project complete, with 56 ideas accepted for consideration, over 20 ideas implemented or incorporated into various strategies	

Measures and Targets 2003-04

Employee engagement score of 70% in 2004

Knowledge Management to establish 3 new agricultural communities of practice (CoPs)while maintaining the existing CoPs

Corporate policies available on the intranet

Benchmark innovation within FCC and develop innovation index

** Business Services was called Complementary Services in 2001-02.*

Remarkable people, remarkable progress

FCC has focused solely on agriculture for more than four decades. Over time, that focus has broadened to include the entire value chain, from agribusinesses that produce inputs to those that process or package outputs. These ventures, from primary production to value-added operations, benefit from the expertise, passion and commitment of our remarkable staff.

The corporation is committed to providing employees with the work environment, learning opportunities and challenges required to achieve their full potential. We offer ongoing coaching and training programs that address leadership, succession planning, risk management and project management, a field development program and "Learn the Business" initiative, which is a synopsis of the full range of FCC business activities.

FCC encourages employees to move into new areas of interest and pursue opportunities to keep careers vibrant and rewarding. This strategy helps to sustain a high-performing culture and maintain superior customer service.

We are committed to diversity within the workplace, and offer training, education, communication and partnership opportunities in this area. Also, FCC celebrates National Aboriginal Day, International Day for Persons with Disabilities, International Women's Day and International Day for the Elimination of Racism to promote diversity and discourage discrimination.

As a federal Crown corporation, FCC provides customers as well as employees with service in both official languages.

Our continued ability to surpass the highest expectations of our customers depends on high-calibre employees. This year, our University Recruitment Program hired 35 students for four-month work terms. Innovation, diversity, knowledge management, training, recruitment and growth are keys to attracting – and keeping – an engaged and energetic workforce.

The extensive knowledge of FCC employees helps build loyalty, increase retention and attract new customers. To maximize this business advantage to the benefit of customers, we need to capture and capitalize on existing knowledge within the corporation while growing new areas of expertise. In 2002-03, Knowledge Management (KM) added two new communities of practice (CoPs): Dairy and an Agricultural Operating Environment to the existing five: Pork, Aquaculture, Forestry, Greenhouse, Vineyards/Wineries and Beef. Other contributions include supporting and maintaining existing CoPs through face-to-face meetings, monthly teleconferences and developing intranet content. KM also worked with members of the CoPs to develop a cash-flow budget template and benchmarks, and identified sector strengths, weaknesses, opportunities and threats. A multi-year project to create an industry synopsis and a knowledge map of sectors is halfway complete. A continued focus on KM will ensure that FCC remains relevant to customers over the long term, in an increasingly complex industry.

> Knowledge Management encourages groups of experts to share expertise, analyze industry developments and create a storehouse of knowledge for peers.
>
> *Kellie Garrett,*
> *VP, Strategy, Knowledge & Communication*

Service: Making it easy for customers to do business

Process effectiveness is essential to making it easy for customers to do business with FCC. We strive to provide superior customer service, offering the kinds of quality solutions our customers need, when and how they want to receive them.

Strategies 2002-03	Results 2002-03	Strategies 2003-04
Integrate and grow Customer Service Centre (CSC), e-business and Alliance capabilities • Percentage of FCC disbursements via CSC, e-business and alliances, target of 20% for fiscal 2003*	54.6% of the total number of disbursements were processed via the CSC and e-business/alliance channels	Build an infrastructure to support partnerships and alliances Improve customer choice by developing alternate product and service delivery channels
	The corporate strategy was incorporated into IT annual workplan	
Integrate flexible corporate information systems • Implement IT strategy, supported by redesigned business processes, target March 31, 2003**	IT divisional restructuring occurred and business processes are being redesigned, implementing the business process reengineering (BPR) study recommendations	Enhance performance of information technology systems and processes Implement customer relationship management (CRM) infrastructure and processes
Re-engineer business processes • Corporate efficiency ratio, target of 48.1% for fiscal 2003	Corporate efficiency ratio of 42.3% for 2003	**Measures and Targets 2003-04** Benchmark an IT performance index 42,600 customer contacts via the CSC 8,500 customer contacts via e-business Corporate efficiency ratio of 43.1% Complete Phase 1 of CRM software installation

* *Target refers to loans originated through these channels. E-Business and Alliances are now considered to be one channel.*
** *The intent is to implement the business process reengineering (BPR) study recommendations.*

Process effectiveness and adding value

Technology and globalization have a significant influence on how customers obtain products and services. The financial industry is no exception. At FCC, we continually strive to improve our processes and delivery channels while adding value through the quality of our advice.

Information technology enables FCC to effectively serve customers across Canada. Employees depend on system applications and the speed and reliability of data transmission networks to conduct business and to share knowledge, both internally and externally, in a timely fashion. This vital resource must be continuously maintained and upgraded.

FCC focuses on providing flexible and responsive service to producers and agribusiness operators. Our Customer Service Centre (CSC), Alliance partnerships and enhanced Internet capabilities are just some of the ways that we are making it easy to do business with us.

Financial Success: The foundation of customer support

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

Strategies 2002-03

Create a portfolio vision spanning all business lines, ensuring a principal focus on primary production

- Establish a portfolio vision for agribusiness, target of March 31, 2003

Proactively manage risk, investments and administrative expense levels

- ROE, target of 10.05% for fiscal 2003
- Debt-to-equity ratio, target of 9.2:1 at March 31, 2003
- Strategic credit risk score on portfolio, target of less than 70 at March 2003

Proactively create and grow FCC's support for communities across Canada

- Community investments of 1% of previous three year average net income, invested by March 31, 2003*

Results 2002-03

Portfolio vision incorporating agribusiness approved by FCC Board

ROE of 12.2%

Debt-to-Equity ratio of 9.7:1

Strategic credit risk score on portfolio of 58.6

Community investments across Canada of 1% of profits

Strategies 2003-04

Enhance strategy integration and execution

Ensure prudent financial management

Measures and Targets 2003-04

Install standardized project management methodology

Establish brand equity reputation index

ROE of 12.48%

Debt-to-Equity ratio of 9.5:1

Strategic credit risk score on portfolio of less than 70

** Total community investment is 1.5% when industry sponsorships are included.*

Financial success

To continue serving customers well and supporting the agricultural industry through all economic cycles, FCC must be financially viable. We need the resources to weather the fluctuations intrinsic to the agricultural industry and to continue growing and expanding products, which now extend beyond financial products to supporting services and education.

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

Building on the Balanced Scorecard

There are two dimensions that currently complement the balanced scorecard that have a tremendous impact on agriculture and FCC's role within it: our public policy role and our commitment to the environment.

Public policy role

FCC's public policy role is a reflection of its status as a federal Crown corporation. Our activities are focused primarily on enhancing rural Canada through our participation in agriculture and agribusiness.

Goals 2002-03

Provide business and financial solutions to farm families and agribusiness

Support agriculture through all cycles

Execute appropriate risk management

Maintain corporate self-sustainability

Maintain a presence in rural areas of every province

Conduct business in both official languages

Invest in the communities in which our employees live and work

Strategies 2002-03

Provide products and services that meet the needs of both primary production and value-added businesses

Focus on various ag sector needs and producer life phases

Proactive customer contact during challenging times

Implement and maintain integrated risk management processes

Continue prudent financial management and continuous efficiency improvements

Operate field, district and regional offices in each province

Have designated offices and support for language training

Donate 1% of corporate net income to charitable and non-profit organizations

Donate an additional .5% via industry relations sponsorships

Results 2002-03

Additional Flexi-Farm and AgriStart loan products designed and delivered

Creation of:
- FCC Ventures
- Business Services
- The Business Planning Award

Acquisition of AgExpert, a leading agricultural business management software

More than 8,040 letters sent offering assistance and support to customers facing difficulties

Corporate integrated risk management framework developed and progress reports completed

Ten consecutive years of portfolio growth

Positive net income

Ongoing business process re-engineering

Offices maintained in each province, primarily in rural areas

Maintenance of designated English and French offices

Provision of immersion programs and tutoring services for staff

Award-winning translation procedures

Targeted community investments based on 1.5% of corporate net income

Public policy: An unwavering commitment

FCC fulfills its public policy role by offering products and services to the agricultural community through solid business principles, which includes assuming an appropriate level of risk and operating on a financially self-sustaining basis. We further fulfill our public policy role by supporting agriculture *through good times and bad.* When disasters occur, FCC proactively contacts customers to develop plans to manage through challenging times. Over the past few years, FCC has worked with western Canadian farmers dealing with severe drought, PEI customers facing the potato embargo and disease as well as cranberry farms in BC and maple sugar operations in Quebec experiencing low commodity prices. We also helped Manitoba farmers during the Red River floods and Quebec and Ontario farmers during the ice storms.

Our ongoing presence in rural Canada speaks to our public policy role as well. FCC has offices in 100 rural communities, providing valuable products and services to customers when and where they need them, increasing revenues and offering employment opportunities.

FCC serves more than 44,305 customers in their official language of choice. We've implemented several best practices in this area that have been recognized by Treasury Board and the Commissioner of Official Languages. Employee participation in our language training program along with our award-winning translation procedures and guidelines allow FCC to serve customers and staff in Canada's two official languages simultaneously. The corporation is committed to creating a true climate of bilingualism for both customers and employees, thus enhancing the country's commitment.

Our public policy role is further fulfilled by our community investment program that provides funding and volunteers in the communities where our employees and customers live and work, thus strengthening rural Canada.

Primary producers continue to be FCC's key focus. However, our mandate provides opportunities to leverage the entire value chain. We now also finance the inputs to and outputs from primary production.

The leadership role FCC plays in product development is driven by customer and sector needs. In some instances, markets can be limited at the outset. However, since we're not driven purely by economic motives, the corporation can take the lead in such ventures. In many cases, our product offerings have subsequently been copied by other financial institutions, which is a good thing for the agricultural industry, giving customers ready access to and a choice of vendors.

With our expanded mandate, rural presence and focus on satisfying the long-term needs of customers, FCC will continue to help producers and agribusiness achieve success. We are firm in our resolve to contribute to the growth of the agricultural industry and economic strength of Canada.

Environmental responsibility and role

FCC actively supports sustainable business practices and good environmental stewardship.

We are careful to ensure that our lending activities do not lead to misuse, contamination or other deterioration of the environment. The *Canadian Environmental Protection Act* (CEPA), the *Canadian Environmental Assessment Act* (CEAA), *Fisheries Act* (FA) and the *Species at Risk Act* (SARA) identify FCC's responsibilities for safeguarding the environment.

FCC's loan documentation includes terms and provisions to safeguard the environment. All customers offering real property as security must complete an environmental questionnaire that allows for the assessment of any environmental risk. Customers must comply with all applicable federal and provincial environmental legislation and municipal by-laws, and may be subject to periodic environmental audits.

Planning is essential to the success of any corporation, especially one as large and diverse as FCC. The balanced scorecard is a tool that more and more businesses are using as it goes beyond financials into other key performance areas. It also serves as a vision casting mechanism, projecting strategies and targets for the future. We have found it highly effective in gauging our progress, charting our direction and informing the people of Canada about our work on behalf of the agricultural industry.

Community Investment

Building community strength

Fostering strong, vibrant communities with financial donations and volunteer help is an exciting way for FCC to fulfil its mission to enhance rural Canada.

As a member of the Canadian Centre for Philanthropy's Imagine program, FCC gives one per cent of profits to charitable and not-for-profit community organizations, through the donation of financial resources and in-kind services. This reflects our fervent belief that corporations have an obligation to give back to the communities in which they operate.

Our community investment activities are closely aligned with agriculture, focusing on farm safety, food and hunger.

Food for thought

Farmers and agribusiness operators are responsible for producing high-quality, safe food. We work with them to bring food to people in need.

Spreading holiday cheer

Over the holiday season, FCC supported local food banks and Salvation Army Christmas hamper programs, donating over $33,000.

In Nova Scotia, staff in the Kentville office partnered with ACA Co-operative Limited, an FCC customer, to purchase turkeys at cost. They helped 56 families enjoy a hearty Christmas dinner.

Staff in Granby, Quebec worked with the local Optimist Club to deliver Christmas dinner to 100 underprivileged kids.

World Food Day

October 16 is World Food Day. In 2002, FCC donated more than $30,000 in financial aid, food and volunteer support to food banks across Canada, enabling the Canadian Association of Food Banks to source and ship 1.2 million pounds of food.

Events were held from coast to coast. FCC's Brandon, Manitoba staff donated food vouchers to the Helping Hands Centre, a community-based soup kitchen, and cooked and served lunch to 150 people.

In Ontario, the Essex and Campbellford offices purchased steers from their local 4-H clubs and donated the meat to local food banks.

Addressing hunger year round

FCC understands the importance of investing time and money in hunger programs and food education events. Through our staff, we participate in a number of initiatives, including a school lunch program that fed over 3,000 needy students in 12 schools in Newfoundland. We also helped the Ontario Pork Association distribute processed pork to 2,500 people.

FCC worked with the Regina Board of Education and the Regina Exhibition Association to stage an engaging program called the "Pizza Project" that taught 2,000 grade two children where food comes from.

Supporting tomorrow's agricultural leaders

FCC helps youth in agricultural communities through its partnership with 4-H. In 2002, young people involved in 4-H were invited to create plans to reduce hunger or improve safety in their communities. Ten $1,000 scholarships were awarded, one in each province. Our national winner, 21-year-old Nancy Gorveatt of Nine Mile Creek, Prince Edward Island, received an additional $1,000 scholarship and a budget of $3,000 to put her garden plan into action. Over the summer, Nancy's garden project yielded fresh produce for 4,800 people. Nancy attends the University of Prince Edward Island and her goal is to become an elementary school teacher.

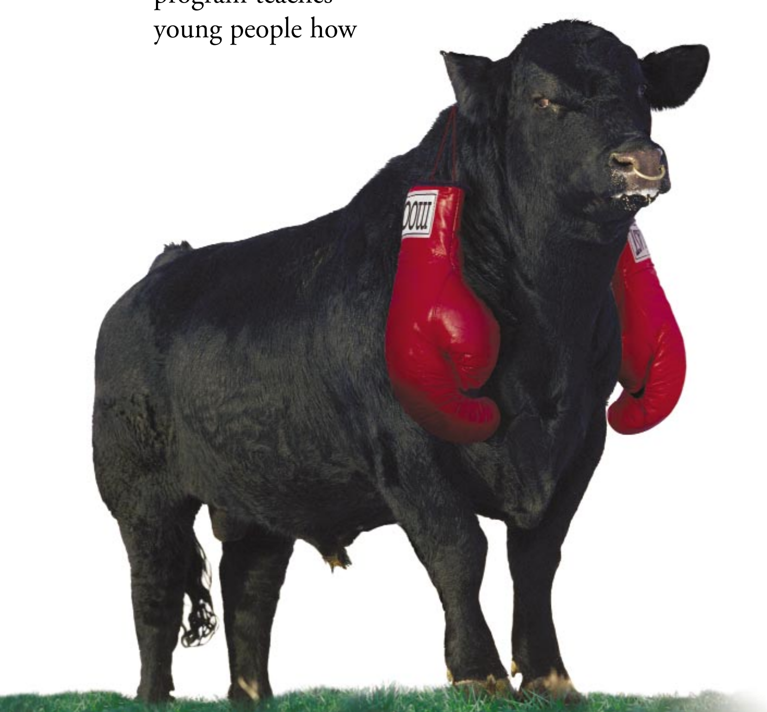
FCC received the *Friend of 4-H Award* in recognition of its long-term commitment to the Canadian 4-H council. This prestigious designation is shared with only five other organizations across Canada.

Farm safety

Farmers often work around large animals and operate heavy equipment, facing real hazards. FCC takes an active role in building awareness and providing education in the area of farm safety.

First Aid on the Farm

FCC and St. John Ambulance partnered for year two of "First Aid on the Farm". The program teaches young people how to prevent farm accidents and life-saving skills. In the past year, training was provided to 1,250 grade eight students in 45 schools across Canada.



Canadian Agricultural Safety Week

Working in partnership with the Canadian Federation of Agriculture, the Canadian Agricultural Safety Association and Agriculture and Agri-Food Canada, FCC was the lead sponsor for the 2002 Canadian Agricultural Safety Week. Each year, approximately 120 people are killed and another 1,700 seriously injured through farm-related accidents. Animal-related incidents are the leading cause of non-machinery deaths and injuries. FCC works with farm safety partners to reduce farm-related injuries and fatalities.

Farm safety signage

No consistent sign standards exist to identify potential danger areas on farms and agricultural work sites. FCC partnered with the Canadian Agricultural Safety Association and the Newfoundland Dairymen's Association to produce 900 safety signs for distribution across the country. The signs focus on common hazards such as farm chemical storage and heavy machinery operation areas. We hope that this initiative will become a catalyst in the development of consistent safety signage for all Canadian farms.

A passion for volunteering

FCC employees are remarkable. The amount of time and energy they spend volunteering positively impacts their communities across Canada.

The Employee Volunteer Program

FCC provides additional support to employees' charities of choice through the Employee Volunteer Program. When an employee donates a minimum of 40 hours annually, they are eligible for a $500 grant for that charity. In 2002-03, FCC's contribution through this program reached $34,000.

– continued on page 30

Nearly 10 per cent of FCC's staff registered in the Employee Volunteer Program, logging over 3,400 hours of volunteer time.

FCC employee Michel Champagne describes his involvement with the Scouts of Callander, Ontario for the last 16 years as "pure joy". Michel was a Scout Leader for years and is now on the Executive Committee. As a Scout Leader, Michel organized weekly meetings and took kids camping, canoeing and to jamborees. When he won an Employee Volunteer grant, he used the $500 to purchase tents for the 1st Callander Scouts.

Sharing the commitment

FCC recognizes the contributions employees make to various charities and supplements cash donations for certain events.

In 2002, FCC employees raised more than $169,000 for the United Way – another record year!

In Woodstock, Ontario, employees went the extra mile to raise money for the Canadian Cancer Society through the "Relay for Life" marathon. Led by FCC employee and cancer survivor Sharon Fendley, a total of $8,400 was raised.

Staff from Regina braved strong prairie winds to pedal in the Multiple Sclerosis bike tour, raising $10,000.

Spreading the bounty

When FCC replaces computers, office furnishings and equipment, older items are donated to local organizations.

Where there is need, there is opportunity. The passion of our employees and the commitment of the corporation combine to create a powerful force in the community and across the country.

A personal commitment

John Ryan, FCC's President and Chief Executive Officer, was honoured with the Queen's Golden Jubilee medal this year. The award was given in recognition of his contribution to Canadian society through his philanthropic efforts. Mr. Ryan serves on the boards of the Canadian Athletic Foundation, the 2005 Canada Summer Games, Regina's Adult Learning Centre and Wascana Golf and Country Club. He is on the Advisory Committee for the University of Regina Capital Campaign, is Chair of the Hospitals of Regina Foundation and former Chair of the Regina United Way Campaign Cabinet (2000). In 2001, Mr. Ryan led the CEO Challenge for Regina's Habitat for Humanity and he is taking the lead on this project again in 2003.

Lt. Gov. Haverstock (rt) presents the Queen's Golden Jubilee medal to John Ryan.

Mr. Ryan was raised in Mulgrave, Nova Scotia, where he grew up in a family of 12. The generous nature of his parents taught him the value of giving back to the community by helping those in need. Although the award recognizes distinguished service to others, Mr. Ryan freely acknowledges that he receives as much as he gives: "I find community service a challenge and a great deal of fun. The personal satisfaction that I gain is like one of those priceless moments that money can't buy." His beliefs and attitude inspire FCC employees and everyone he comes in contact with.

Loan products

Proactive and progressive

FCC works closely with Canadian producers and agribusiness operators to create financing solutions for each stage of their business life cycle.

We consulted with organizations like the Canadian Young Farmers Forum (CYFF) and the Canadian Federation of Agriculture (CFA) about the challenges facing start-up farmers. We then tailored new AgriStart products to meet those needs.

New, innovative AgriStart Loans:

Cash Flow Optimizer Loan

All you pay is interest, what you get is control.

This loan features interest-only payments that benefit start-up farmers with limited cash flow, allowing them to reinvest money that would normally go towards principal in other areas.

Transition Loan

Making farm ownership easier.

Retiring farmers with property to transfer to a new entrant can do so, risk-free. Full equity is guaranteed. Start-up buyers benefit from lower down payments and the potential for significant interest savings.

First Step Loan

Because the first step doesn't have to be the hardest.

This loan clears the way for students or recent graduates of post-secondary programs with limited credit history to raise capital toward the purchase of their first farm-related assets.

Building on the basics – other AgriStart Loans:

Payday Loan

10% Down, 100% Yours.

The Payday Loan is for individuals with off-farm employment who are interested in starting or expanding a farm business.

1-2-3 Grow Loan

Make a real profit, then make a real payment.

This loan provides deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years. The option gives them time to build a business and earn revenues before making loan payments.

Flexi-Farm Loans

FCC's series of Flexi-Farm Loans recognize that all agricultural endeavors have an element of risk and sometimes things don't go as planned. Any number of factors can challenge cash flow. Flexi-Farm allows most producers to pause principal payments and accommodate changing cash flows.

FCC's Flexi-Farm Loans take flexibility to the max. Each one is tailored to different sectors, including cash crops, cow-calf operations, hogs, horticulture, potatoes and poultry, recognizing that each sector has its own unique challenges and needs.

Enviro-Loan

With increased emphasis on environmental issues, FCC introduced Canada's first environmental loan product in 2000. The Enviro-Loan is designed for producers and agribusiness operators that make environmentally focused improvements, such as installing methane digester systems to treat manure and convert it to useful energy.

Agribusiness financing

To grow an operation, customers must manage risk effectively, have the freedom to take advantage of business opportunities and financing that works in their favour. FCC's financial products can help.

The Performer Loan helps agribusiness operators expand. Customers partner with FCC to develop business plans. Interest rates are decreased as agreed-upon goals are reached.

The Opportunity Loan allows agribusiness operators to pause principal payments or re-advance the principal on their current loan to take advantage of opportunities that will benefit the business in the long term.

The American Currency Loan is for agribusiness enterprises that export into foreign markets. This loan makes it possible to borrow capital and make payments in American funds.

FCC staples

FCC offers long-term loans with fixed interest rates and terms of up to 20 years with amortization periods between three and 29 years. We also offer personal property loans, featuring no prepayment fees and monthly, quarterly and semi-annual payment options.

Prepay Anytime

Flexibility is key to surviving and thriving, so we recently built a Prepay Anytime option into many of our loans that allows producers to prepay when it suits them – not on an arbitrary date that we set.

We welcome inquiries on these and any of our other loan products at any FCC office or call toll-free 1-888-332-3301.

There are unique risks associated with new entrants to farming, some agribusiness operations and others. Rather than penalize or abandon these customers, FCC crafts products specifically for them, often gathering ideas and inspiration straight from the customers so that they get what they require: funding, flexibility, expertise and understanding.

Business Services

Dynamic growth

As operations become more sophisticated, farmers and agribusiness operators require insurance protection, software solutions and strong management skills. FCC's Business Services division is working on a range of business and educational services to complement its traditional agricultural financing options.

Agri-Assurances

With the launch of Agri-Assurances in October 2002, FCC's group creditor life insurance expanded to include enhanced accident insurance with a number of new features. Individual or joint coverage is available and customers have the choice of insuring the full loan amount or only a portion. Risk reduction features bring the plan in line with industry standards at competitive pricing. The result is an insurance product with added features and flexibility that is less expensive than our previous offering.

Education

FCC is interested in advancing the management practices of Canadian producers and agribusiness operators given that this is a key predictor of future success.

For beginning and developing farmers, we created the FCC Business Planning Award, targeting agriculture students. Students in their final year of a diploma agricultural program compete for prizes. Participants work with a mentor to create functional business plans that prepare young people for real-world challenges and opportunities.

"The award reinforces FCC's dedication to the agricultural industry and rewards students for their forward-thinking business plans. As these students move their plans into reality, I am confident that they will appreciate the value they've gained from participating in the Business Planning Award."

Garth Coffin, Principal, Nova Scotia Agricultural College

"The FCC Business Planning Award is my chance to prove that consistent hard work pays off in the long run. It's an opportunity to work with a specialist before returning to the farm. The program is also a stepping-stone for me into the financial side of the agriculture industry."

Barrett J. Gaunce, student, Nova Scotia Agricultural College

Another program FCC helped initiate to assist producers is AgriSuccess. AgriSuccess started out as a partnership of public and private sector organizations dedicated to helping Canadian farm and agribusiness operators plan for the future through a series of workshops. Since its inception, 80 workshops on succession planning and business planning have been delivered to over 2,000 participants. The program continues to evolve, but its focus remains firm: enhancing management skills within the agricultural industry.

FCC is also lead sponsor of Canadian Total Excellence in Agricultural Management (C-TEAM), a highly acclaimed management program for top agricultural managers, offered by the George Morris Centre.

FCC's Business Services division is gaining momentum by offering a range of business and educational services that put the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

AgriSuccess: planning pays

Gerry and Lynne Smith have spent their lives together farming in Manitoba. They're now planning how to spend their well-deserved retirement.

"Gerry's dad, Douglas, retired at 55 and we were hoping to do the same," Lynne says over a cup of coffee.

"We started saving RRSPs about 15 years ago," Gerry explains as he takes a break during calving. "I'd love to have the family take over the farm, which was my father's. They would be the sixth generation on this land, but it's got to be viable."

With the help of sons Leigh and Jason, the Smiths farm about 3,700 acres and produce pedigreed seed. They also have a 180-cow/calf and feeder operation that utilizes barley and corn silage. Their other son, Ryan, works for a grain company in Alberta and Jason is in fourth year accounting at university. All the boys have degrees in agriculture.

The Smiths are some of an estimated 120,000 farmers across Canada who will be looking to retire during the next decade.

"We've been to seminars about retirement suggested by our accountant but they weren't specific to farming. When Gerry and I heard about one of the FCC AgriSuccess sessions called 'Building Your Business Plan,' we decided to go."

"I was particularly impressed by the presenters," explains Gerry. "I was quite surprised to learn how many people don't have business plans and what the success statistics show between farms that have one and those that don't."

As a result of the workshop, they've put their plans and their goals on paper and have given a copy to each of their sons. Now, they're looking forward to a family meeting to discuss the options.

"The workshop was a good reminder that we need to get this thing initiated," says Gerry. "My sons and their partners reacted very well. In fact, Leigh suggested the family meeting even before he received his letter. And one son told me he didn't know that I was such a writer!" he laughs.

It's very important to the Smiths to keep one step ahead of the game since some of the plans will take at least a couple of years to materialize.

"I will always be grateful to my father who allowed me to take responsibility on the farm at a young age. He allowed me the opportunity to make decisions, right or wrong," says Gerry. "I want to do the same for my sons and I think we can make it work."

AgExpert answers a need

The percentage of farmers using a personal computer for farm record keeping and planning as well as research is growing at a very rapid pace. Last year, FCC acquired Settler Computer Technologies Inc., a Regina-based company that has been in business for 20 years and is well known for the development of AgExpert, a leading agricultural business management software. Settler has customers in nearly every province, with the majority in the three prairie provinces and a significant number in Ontario.

FCC is moving AgExpert to a more modern platform that will make the software even easier to use. Over the next year, we plan to launch a French-language edition and market the enhanced software to farmers across Canada. Farmers, agribusiness operators and the agricultural industry will benefit through AgExpert management tools that will add value to their operations. In the near future, watch for expanded products and services.

Industry Relations

Building co-operation

At Farm Credit Canada, we seek to partner with the industry groups representing agricultural producers and stakeholders. Such groups actively contribute to innovation, leadership and the development of expertise within Canada's agricultural sector. Their work often parallels our own initiatives. Nurturing these relationships is, therefore, a natural way to positively influence the development of agriculture across the country.

We work with a kaleidoscope of producer groups, including the Canadian Federation of Agriculture (CFA), Canadian Young Farmers Forum (CYFF), Union des Producteurs Agricoles (UPA), Keystone Agricultural Producers (KAP) and the Canadian Farm Business Management Council (CFBMC), to name a few. We are proud to support mutual efforts that enhance agriculture and agribusiness.

When the worst drought in years hit the prairies, we made a $15,000 donation to the Agriculture Producers Association of Saskatchewan (APAS), in support of their Feed Connection Trust Fund.

The trust fund helped to offset the cost to transport feed into drought areas of the province and to transport livestock into areas with surplus feed.

FCC donated $50,000 to HayWest to ship rail cars full of hay from the east to drought-stricken farmers in the west.

On the Thanksgiving weekend, the Say Hay organization held two charity concerts in aid of Alberta's drought-stricken farmers and ranchers, raising a total of $1.5 million. FCC donated $15,000 to help make these concerts a reality and create awareness of the impact of the drought.

We are building understanding and co-operation through our Industry Relations activities. With a clear focus and targeted initiatives, we are committed to achieving more in the future to the benefit of Canadian agriculture.

We can't change the weather conditions, but we can contribute compassion and commitment.

Greg Stewart, Senior Vice-President, National Lending Operations

FCC Ventures

Stimulating the industry

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

The *Farm Credit Canada Act* allows FCC to offer venture capital financing either directly or in partnership with others to help grow agricultural and agribusiness operations.

The opportunities are significant. In 2001, the agricultural industry generated $36 billion of Canada's gross domestic product, yet accounted for less than one per cent of total venture capital disbursements. FCC Ventures was launched in the fall of 2002 with a mandate to change that.

Many profitable markets are emerging that hold great potential for Canadian agriculture. To get a good start, customers need access to large amounts of capital. FCC Ventures is focusing on providing equity and quasi-equity financing to small and medium-sized businesses in these areas:

- value-added food manufacturing and processing;
- development and manufacturing of agricultural equipment;
- commercial processing;
- commercial-scale farming;
- businesses that support the agricultural sector; and
- ag-biotech.

We don't expect immediate returns because we understand the cyclical nature of agriculture. We're also in a unique position to attract other venture capital investors to this area, either directly or through partnerships with us.

James Taylor, Vice-President, FCC Ventures

The momentum is being felt. Co-investment strategies already have been developed in partnership with private and institutional sources of funding, and an impressive number of business plans have been submitted for consideration.

Through venture capital funding, FCC is helping to finance strong, well-managed businesses related to agriculture, many of which are located in rural Canada, and that's both exciting and rewarding.

Investing in Agriculture

Management Discussion AND Analysis

Strong financial results in 2002-03 are expected to continue into the next fiscal year and beyond. This financial viability allows FCC to be self-sufficient in expanding service to the agriculture industry through increased lending and introduction of new services and products.

Overview 2002-03

- Portfolio up 14.2 per cent to $8.8 billion
- Loan approvals up 28.3 per cent to $3.1 billion
- Allowance for credit losses increased by $48.1 million
- Initial $2.0 million venture capital investment
- $6.4 billion short-term cumulative borrowings
- $2.9 billion long-term cumulative borrowings
- Net interest income increased to $269.3 million
- Efficiency ratio improved to 42.3 per cent
- Acquired Settler Computer Technologies Inc.

Future Outlook

- Portfolio expected to exceed $9.5 billion in 2003-04
- Anticipate over $2.8 billion in loan approvals in 2003-04
- Larger allowance for credit losses increasing with the portfolio
- Increase in venture capital investments
- Continued high credit rating allows FCC strong capital market presence
- Expanded business services including AgExpert
- Continued improvement to efficiency ratio
- Continued focus on primary producer

2002-03 ← Support for Agriculture → Outlook

Key financial results

fiscal year ending March 31

$ millions	2003		2002	
Loans receivable	8,812.6		7,715.8	
Portfolio growth rate	14.2	%	11.7	%
Loan approvals	3,138.3		2,446.1	
Loan renewal rate	97.3	%	95.0	%
Arrears	31.2		29.5	
Net interest income	269.3		201.2	
Net interest margin	3.14	%	2.66	%
Administration expenses	119.3		101.6	
Efficiency ratio	42.3	%	48.4	%
Income before taxes	96.8		68.8	
Return on equity*	12.2	%	8.7	%
Return on assets*	1.15	%	0.91	%
Debt-to-equity	9.7:1		9.6:1	

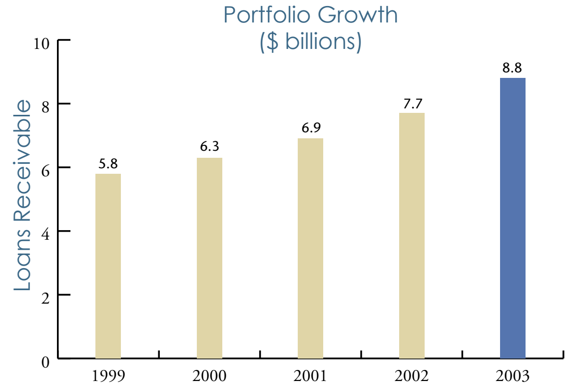
* *before income tax*

- Portfolio growth of 14.2% or $1.1 billion.
- Loan approvals increased 28.3 percent or $692.2 million with year-over-year increases in all FCC business lines.
- $68.1 million growth in net interest income provided for a $28.0 million increase in income before taxes, which will be reinvested in agriculture in the future.
- Efficiency ratio improved for the fifth consecutive year, reflecting income growth, process improvements and cost management.
- Strong debt-to-equity ratio allows FCC flexibility to fund growth in agriculture and remain self-sustaining.
- Strong results in key financial ratios.

Balance sheet

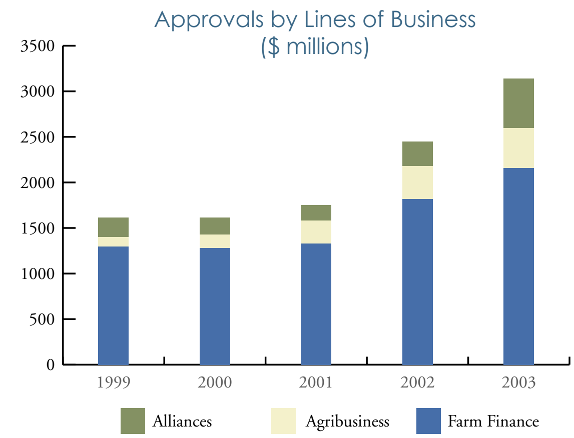
Record-setting year

The loan portfolio grew 14.2 per cent to a record $8.8 billion in 2002-03, up from $7.7 billion in 2001-02. FCC also approved a record $3.1 billion in loans for the year compared to $2.4 billion in 2001-02. This, combined with a 97.3 per cent renewal rate on loans coming due, accounts for the significant portfolio growth. These results indicate the value customers place on FCC's suite of products and staff knowledge of customer needs.



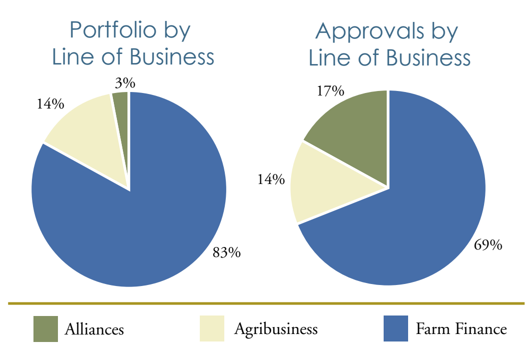
Growth based on primary producer as main focus

FCC's lending activities are divided into three lines of business: Farm Finance, Agribusiness, and Alliances. For more than 40 years, FCC has served the primary producer. Although FCC has expanded to meet the changing needs of the industry, supporting primary producers has continued to be the main focus. Lending to primary producers is done through all three lines of business with $2.9 billion or 90.9 per cent of total 2002-03 approvals directed at primary producers. As of March 31, 2003, lending to primary producers accounted for 90.5 per cent of FCC's total portfolio.



Farm Finance *(defined as farming that produces raw commodities, e.g.: crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes forestry and aquaculture)*

During the year, Farm Finance accounted for 68.8 per cent of all loan approvals, increasing to $2.2 billion from $1.8 billion. As of March 31, 2003, primary producer loans represented 98.8 per cent of the Farm Finance portfolio.



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

Agribusiness loan approvals grew to $436.9 million in 2002-03 from $357.8 million in 2001-02. This increase demonstrates ongoing commitment to Agribusiness customers. Through FCC guidance, expertise and financial solutions these customers are able to grow and diversify in their target markets.

The corporation finances a wide range of agriculture-related businesses on both the input and output sides of primary production. This includes enterprises from feed operations to food processing and agricultural by-product manufacturing. The legislative mandate change approved in 2001 allows FCC to lend to agribusiness customers that are not primary producers. FCC has been successful in expanding into this new market. Approvals to non-primary producers increased to 58.8 per cent of total Agribusiness approvals in 2002-03 from 54.0 per cent in 2001-02. As of March 31, 2003, loans to primary producers made up 40.8 per cent of the total Agribusiness loan portfolio.

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

During the year, FCC continued to grow its Alliance lending portfolio with loan approvals of $542.9 million, compared to $270.1 million in 2001-02.

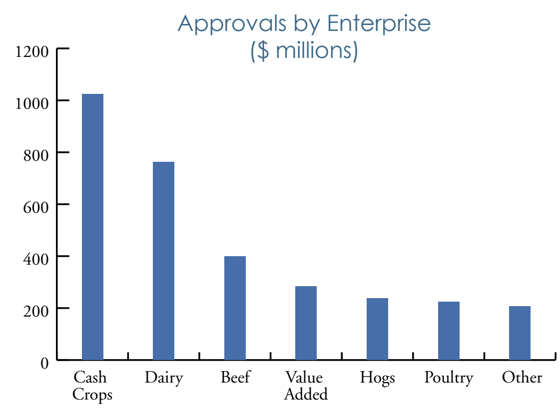
FCC continues to develop Alliance partnerships as a means of expanding FCC service offerings. Innovative relationships allow FCC to serve producers in agriculture through other distribution channels. For example, FCC has entered into Alliance partnerships which allow the corporation to support crop input financing using the Alliance partners' customer service network. Continuing to build on these and other opportunities through partnerships is an important part of FCC's future.

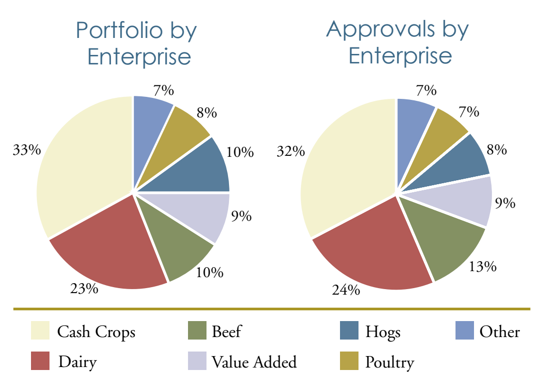
Continued portfolio diversification

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

Total portfolio of the two major agricultural sectors, cash crops and dairy, has decreased to 56.3 per cent compared to 58.3 per cent last year. This is the result of the shifting lending mix to beef and value-added enterprises, both of which increased as a percentage of total approvals for the year.

FCC tailors new products to respond to customer and sector needs, even if markets for these products are initially limited. This approach grows the portfolio in smaller sectors and increases the diversification of the portfolio overall.



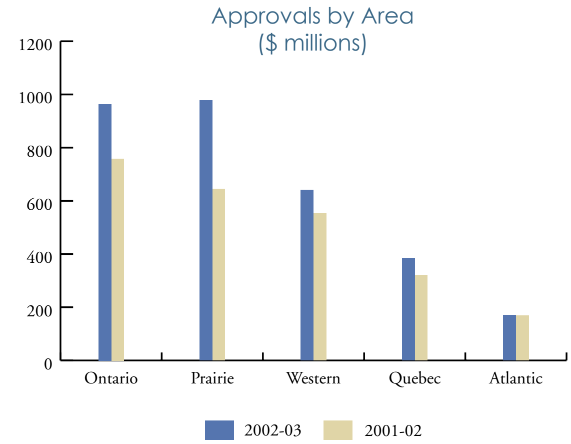


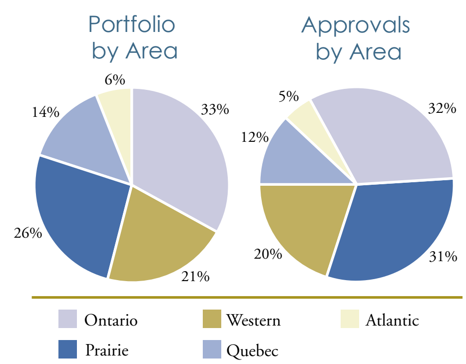
Increased lending from coast to coast

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

FCC experienced an increase in loans approved over the previous year in all areas of the country. The Prairie and Ontario areas experienced the largest increases, with $333.2 million and $205.2 million more approvals respectively. The large increase in the Prairie area was in the cash crop enterprise and the increase in the Ontario area was in the dairy and poultry enterprises.

Overall portfolio growth of 14.2 per cent in 2002-03 is due primarily to significant increases in the Ontario area (19.8 per cent) and Western area (15.6 per cent), a reflection of growth in the dairy, poultry and beef industries in these areas.





FCC makes first venture capital investment

FCC stepped into the agricultural venture capital business in 2002-03 with the launch of FCC Ventures. This division of the corporation was formed to address the critical need for more venture capital in agriculture to help fund the growth of the industry.

FCC Ventures targets small to medium-sized firms with high-growth potential. In 2002-03, the division entered this market by making an initial investment totaling $2.0 million. Further investments are planned in the future. It is intended that these investments will act as a catalyst to attract other venture capital investors into agriculture across Canada.

FCC purchases agricultural software firm

On October 28, 2002, FCC acquired 100 per cent of the outstanding common shares of Settler Computer Technologies Inc. This included rights to AgExpert™, Canada's leading agricultural management software.

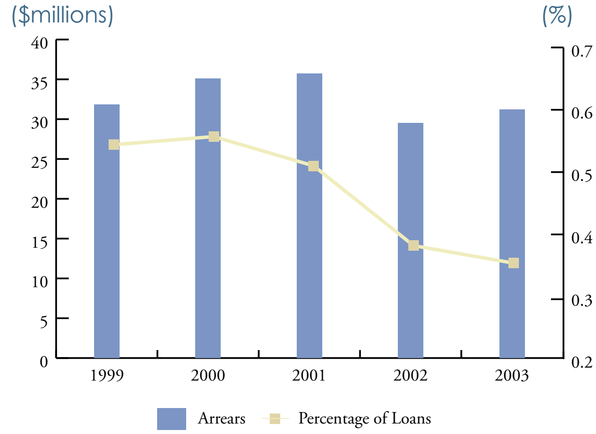
AgExpert™ provides software tools, training and support that transform data into management information, primarily in the areas of agricultural accounting and financial management, as well as production planning and analysis. The purchase and marketing of AgExpert™ complements FCC's other service offerings to Canadian farmers by providing a tool to assist with farm business management.

Impaired loans and arrears

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

Impaired loan balances at the end of 2002-03 totaled $142.9 million, compared to $127.6 million in the previous year. Impaired loans as a percentage of loans receivable was virtually unchanged at 1.6 per cent from 1.7 per cent in 2001-02. FCC continually monitors loans in arrears to identify potential impaired loans and is proactive in developing solutions to help customers through difficult times. Although arrears increased in dollar terms from $29.5 million in 2001-02 to $31.2 million in 2002-2003, arrears as a percentage of loans receivable decreased over that same timeframe.

Arrears



Allowance for credit losses

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

The allowance for credit losses has three components:

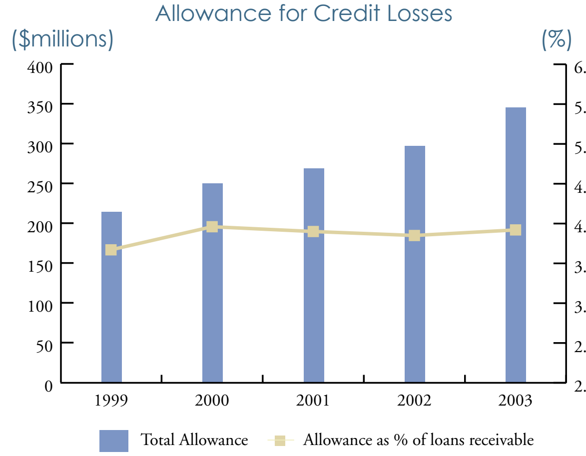
Specific – provides for probable losses on specific loans which have become impaired.

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

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

The allowance as a percentage of loans receivable increased to 3.92 per cent in 2002-03 compared to 3.85 per cent for the prior year. The allowance for credit losses increased by 16.2 per cent to $345.5 million from $297.3 million in 2001-02. These results do not reflect a decrease in the overall credit quality of the portfolio, but are the normal outcome of the growth in the portfolio and considered prudent given market conditions.

Allowance for Credit Losses



FCC funds over $9 billion in 2002-03

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

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

Short-term funding

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

The outstanding short-term borrowings at March 31, 2003, were $1.5 billion, compared to $2.1 billion as at March 31, 2002. This is the result of an increase in long-term, floating rate structured note issuances supporting variable rate lending.

Medium and long-term funding

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

During 2002-03, FCC borrowed a total of $2.9 billion in medium and long-term funds, which is up significantly from $2.4 billion in 2001-02. The increase is due to higher levels of debt maturing in the year, increased structured note issuances and portfolio growth. In 2002-03, $2.4 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes.

FCC also issued $491.4 million in the EMTN market, up from $23.8 million in 2001-02. Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. FCC's credit ratings are detailed below. During 2002-03, the corporation's foreign debt ratings were increased by Moody's and Standard & Poor's as a result of the upgrade of the Government of Canada's foreign debt rating. Moody's also upgraded FCC's long-term domestic rating, citing FCC's sound financial fundamentals and governance framework as the main reasons for the change.

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

Income statement

Net interest income grows to support portfolio growth

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

NII increased to $269.3 million from $201.2 million last fiscal year, a total of 33.8%. The major factors contributing to this increase are:

- a larger portfolio – the loans receivable portfolio for 2002-03 is up by $1.1 billion over 2001-02, which contributed $35.2 million more net interest income; and
- movements in interest rates – lower interest expense more than offsets lower interest revenue, increasing net interest income by $32.9 million. This also reflects the benefit of the corporation's prepayment of high interest rate debt in prior years.

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

Provision for credit losses increases with portfolio growth

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

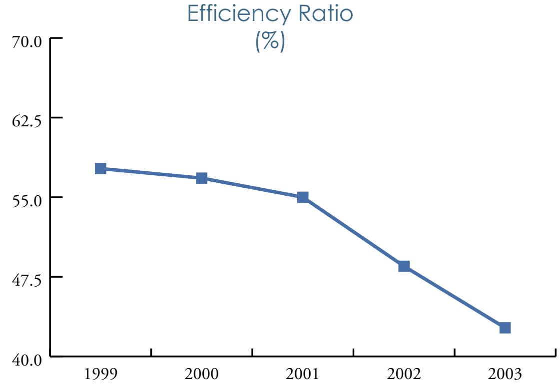
The provision for credit losses increased to $67.2 million in 2002-03 from $45.5 million the previous year as a result of a larger portfolio. Further provisions are anticipated in future years given expected portfolio growth and uncertainty in general economic conditions.

Net interest income and margin

$ millions	2003	2002
Interest income	$ 558.1	$ 544.9
Interest expense	288.8	343.7
Net interest income	$ 269.3	$ 201.2
Average total assets	$ 8,567.7	$ 7,566.5
Net interest margin	3.14 %	2.66 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 35.2	$ 25.5
Movement in rates	32.9	11.2
Total change to net interest income	$ 68.1	$ 36.7

Efficiency ratio improves for fifth consecutive year

Despite 33.8 per cent growth in net interest income in 2002-03, administration expenses increased by only 17.4 per cent.



This improved the efficiency ratio, a measure of how well resources are used to generate income, to 42.3 per cent in 2002-03 compared to 48.4 per cent in the previous year.

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

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

The improvement in the efficiency ratio reflects the benefits derived from combined efforts in 2002-03 and previous years. A steady focus on process redesign and improvement provides better utilization of resources. The efficiency gains provide capacity to support growth in lending and enhanced product support, market development and customer service.

FCC exempt from income tax

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

Other fees and income

Revenue from other fees and income decreased to $14.0 million in 2002-03 compared to $14.7 million in the previous year. This revenue includes fees associated with lending operations as well as net lease and real estate income. Net lease and real estate income continues to decline with the quantity of land held by the corporation. Fees from lending operations are increasing with the size of the portfolio.

Net income improves FCC's future ability to lend

Income before income taxes for the year increased to $96.8 million from $68.8 million the previous year. This increase was primarily the result of higher net interest income driven by a larger portfolio and movements in interest rates. Net income allows the corporation to play an increasing role in the industry since all income is reinvested into agriculture through financing portfolio growth and new product development.

Managing risk

Risk HIGHLIGHTS

- Enhanced the integration of credit assessment and portfolio management tools within the loan origination system.
- Special Credit division assigned to resolve accounts experiencing challenges.
- Met all risk measurement targets.
- Treasury enhanced its mitigation of credit risk associated with derivative instruments by entering into collateral management agreements known as Credit Support Annexes with key counterparties.

Overview

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

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

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

Market risk

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

Credit risk

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

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

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

Operational risk

All risks inherent in the operational activities of the corporation:

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

Integrated risk management

In 2002-03, FCC continued to develop the use of an integrated approach to risk management. A corporate-wide scan was undertaken to develop a central database of internal and external risks to FCC. Results of this scan will be used to review and validate existing risk management practices at FCC and to identify gaps in current risk management practices.

The integrated risk function maintains the responsibility to identify and assess risks to the corporation throughout the year and work with functional areas to implement measures to effectively manage and mitigate these risks.

Integrated risk management

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

Objectives

- Strengthen risk management at FCC through timely identification, assessment and prioritization of risks to the corporation, which leads to better management, measurement and reporting of risk.
- Build on the risk culture at FCC through increased staff awareness of risks to the corporation and integrating risk management into day-to-day decision making at all levels of FCC.

Responsibility for risk management

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

- Field Offices are the first place where risk management is engaged. Staff are trained to handle relevant aspects of credit risk and operational risk management.
- The Risk Management division manages transactional credit risk. The Credit Policy department reviews and manages lending and loan administration policies, communicates policy changes to staff, and works to ensure that FCC's credit policies maintain an appropriate balance between flexibility and risk mitigation. The Risk Management Centres are responsible for delegation of authorities, credit authorization, customer and loan monitoring, and also participate in field office credit audits. Valuation Services staff research land sales, maintain benchmark data on land values, and appraise the value of FCC real estate security with particular emphasis on specialized enterprises and agribusinesses. Special Credit resolves accounts experiencing challenges.
- The Portfolio Management unit assesses credit risk at the aggregate level. It provides the risk assessment tools and models to quantify credit and default loss allowances. Portfolio risk is measured primarily with the Risk Pricing and Scoring System. The Board approves the Portfolio Visions which includes the credit risk strategy and portfolio diversification including enterprise, geography, exposure and risk.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of credit, liquidity and market risks at the executive level. The Vice-President and Treasurer reports to the Board on a quarterly basis.
- The Corporate Audit division is responsible for assessing compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through an annual operational review of the Treasury functions.

Credit risk

In 2002-03, several initiatives were undertaken to support credit risk management at FCC, including the enhancements of a Credit Application Scorecard and the Risk Scoring and Pricing System. Continued improvements of the portfolio vision and portfolio diversification strategy added to greater understanding of FCC's quantified credit risk. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. The portfolio vision also includes targets for the performance and structure of the loan portfolio that the corporation desires.

A revised eligibility policy based on the new FCC Act was put in place during the fiscal year, allowing staff to serve a wider spectrum of agribusinesses while keeping a focus on sectors emphasized by the portfolio diversification strategy. The account review policy was revised to emphasize the review of larger and higher-risk accounts. The policy on large loans was updated to focus on connection exposure rather than loan size, and to intensify the review and due diligence on large or complex accounts as well as on large construction projects.

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

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

During the fiscal year, FCC maintained its emphasis on analyzing environmental risk and ensuring that this risk is adequately mitigated. Risk Management played a leading role in this initiative through the development and implementation of sound environmental policies and training programs for lending staff and serving as the focal point for determining actions required on specific loan files.

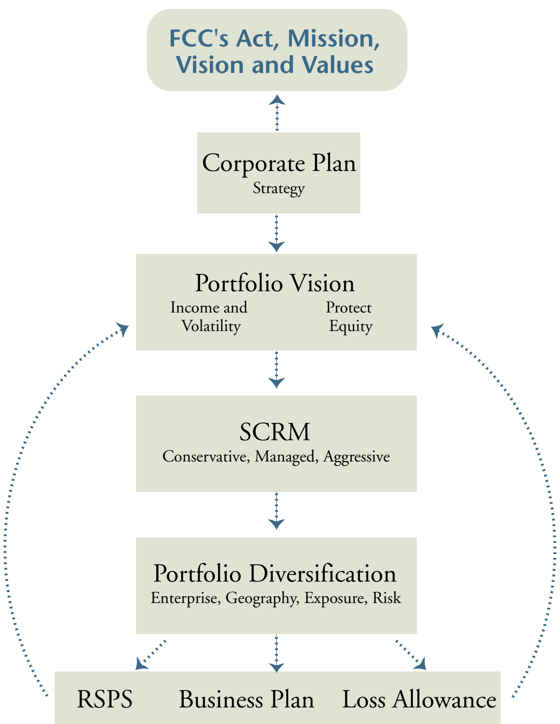
In 2000-01 FCC developed an internal risk-rating system, the Risk Scoring and Pricing System (RSPS). This tool helps FCC employees evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio. RSPS allows better separation of risk categories, reflecting more accurately the numerous levels of potential risk. It is continually updated with the information necessary to rate the different risks associated with individual loans, customer attributes, and the agricultural sector. In 2002-03 RSPS was enhanced in how it allocates administration costs and return on investment of the loan portfolio.

The Strategic Credit Risk Model (SCRM) measures overall credit risk strategy. It reflects the impact of corporate priorities, credit culture and risk controls to optimize financial performance while maintaining credit performance within an acceptable range of volatility. This overall risk is calculated based on three broad categories whose risk is scored as low, moderate or high:

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

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

Portfolio Management Overview



Two years ago, the mandate of Special Credit was formalized with new policies to deal with accounts in difficulty where it was considered likely that financial performance could be enhanced to again establish satisfactory credit rating. Earlier identification of substandard performing loan accounts was considered essential to enable increased monitoring and evaluation of alternatives. The staff expertise in Special Credit is now well recognized by operations staff, resulting in more frequent loan transfers.

The goal of returning accounts to the loan portfolio as performing accounts was largely achieved during the past year. Over half of the accounts handled by Special Credit were favorably resolved and are performing well.

The performance on accounts not returned as performing was also positive. Almost 80% of these were resolved on a voluntary basis with the customer. Most of the accounts resolved by Special Credit were done so without incurring a loss to FCC. Of the total resolved during the year, 88% did not result in a loss.

Strategic Credit Risk Model (SCRM) – March 31, 2003, results

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

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

Field Audits

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

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

- compliance to lending and corporate policies;
- documentation, financial analysis and risk mitigation;
- an assurance that environmental policies are being adhered to;
- an assessment of lending decisions; and
- internal control activities.

Market risk

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

In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is not to be exposed to foreign exchange rate risk and all foreign currency borrowings are fully hedged at the time of issuance.

Interest rate risk

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

Asset/liability management

FCC manages IRR exposures with an asset/liability model. The model simulates changes in net interest income (NII) and market value portfolio equity (MVPE) for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2003, an immediate two per cent increase (decrease) in interest rates across all maturities would affect NII and MVPE as follows:

	2% increase	2% decrease
	$ millions	
NII variability	+13	-15
Economic value variability (MVPE)	-63	+57

As of March 31, 2003, FCC is within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

The Treasury division uses derivative financial instruments, primarily swaps and options, to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative instruments using Board approved exposure limits and deals only with high quality counterparties with whom FCC has entered into master International Swap and Derivative Association (ISDA) agreements. The corporation has further strengthened its credit risk management practices in 2002-03 by entering into collateral management agreements, known as Credit Support Annexes with key counterparties. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO, FCC's Board of Directors and the Department of Finance.

In response to FCC's increased variable rate loan volume in 2002-03, Treasury successfully implemented a hedging strategy designed to stabilize NII margin.

Liquidity risk

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

FCC maintains liquidity through:

- *a liquid investment portfolio* – Cash and marketable securities equal to $403.5 million were on hand at March 31, 2003 (March 31, 2002 – $349.6 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities as well as limits the size and composition of the total investment portfolio;
- *access to commercial paper markets* – FCC's domestic and European commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements.
- access to a $10 million bank operating line of credit and a $50 million revolving credit facility.

Outlook - risk

- Continue to enhance the Integrated Risk Management framework.
- Continue to enhance the internal risk-rating system.
- Continue to update and review Market Risk Policies and further strengthen Credit Risk Management practices.

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

Management's Responsibility for Financial Statements

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

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

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

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

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

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 9, 2003

Canada

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2003, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 9, 2003

Balance Sheet

As at March 31 *(thousands of dollars)*

		2003		2002
Assets				
Cash and cash equivalents	$	**146,683**	$	190,022
Temporary investments (Note 4)		**256,782**		159,538
Accounts receivable		**83,833**		83,833
		487,298		433,393
Loans receivable – net (Notes 5 and 6)		**8,467,106**		7,418,455
Venture capital investments (Note 7)		**2,000**		–
		8,469,106		7,418,455
Real estate acquired in settlement of loans		**3,470**		10,113
Equipment and leasehold improvements (Note 8)		**26,962**		22,006
Other assets		**4,325**		11
		34,757		32,130
Total Assets	$	**8,991,161**	$	7,883,978
Liabilities				
Accounts payable and accrued liabilities	$	**25,554**	$	21,950
Accrued interest on borrowings		**75,175**		96,423
		100,729		118,373
Borrowings (Note 9)				
Short-term debt		**1,512,419**		2,050,957
Long-term debt		**6,494,467**		4,948,182
		8,006,886		6,999,139
Other liabilities and deferred fees		**40,775**		20,528
		8,148,390		7,138,040
Equity				
Capital		**507,725**		507,725
Retained earnings		**335,046**		238,213
		842,771		745,938
Total Liabilities and Shareholder's Equity	$	**8,991,161**	$	7,883,978

Commitments and contingent liabilities (Note 15). *The accompanying notes are an integral part of the financial statements.*

Approved:

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

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

		2003		2002
Interest Income				
Loans receivable	$	545,354	$	527,616
Investments		12,814		17,266
		558,168		544,882
Interest expense				
Short-term debt		52,068		79,727
Long-term debt		236,774		263,981
Net interest income		269,326		201,174
Provision for credit losses (Note 6)		67,157		45,500
Net interest income after provision for credit losses		202,169		155,674
Other Fees and Income		13,948		14,715
Income before Administration Expenses		216,117		170,389
Administration expenses (Note 10)		119,284		101,616
Income before Taxes		96,833		68,773
Current income taxes (Note 11)		–		1,885
Future income taxes (Note 11)		–		25,625
Income taxes		–		27,510
Net Income		96,833		41,263
Retained earnings, beginning of year		238,213		324,852
Dividend		–		(754)
Adjustment for future income taxes (Note 11)		–		(127,148)
Retained Earnings, end of year	$	335,046	$	238,213

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

Statement of Cash Flows

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

	2003	2002
Operating Activities		
Net income	$ 96,833	$ 41,263
Items not involving cash and cash equivalents:		
Future income taxes	–	25,625
Provision for credit losses (Note 6)	67,157	45,500
Amortization of bond premiums/discounts	39,415	36,772
Change in accrued interest receivable	7,189	8,071
Change in accrued interest payable	(20,135)	(24,498)
Other	(10,565)	(54,739)
Cash provided by operating activities	179,894	77,994
Investing Activities		
Loans receivable disbursed	(2,854,300)	(2,293,800)
Loans receivable repaid	1,742,181	1,459,797
Change in temporary investments	(97,244)	(139,660)
Venture capital investments disbursed	(2,000)	–
Change in real estate held	6,640	15,005
Other	15,712	(11,649)
Cash used in investing activities	(1,189,011)	(970,307)
Financing Activities		
Long-term debt repaid to Canada	–	(578,491)
Long-term debt from capital markets	2,812,132	2,078,122
Long-term debt repaid to capital markets	(1,305,262)	(848,708)
Change in short-term debt	(541,092)	149,783
Dividend paid	–	(754)
Cash provided by financing activities	965,778	799,952
Decrease in cash and cash equivalents	(43,339)	(92,361)
Cash and cash equivalents, beginning of year	190,022	282,383
Cash and cash equivalents, end of year	$ 146,683	$ 190,022
Supplemental Information		
Cash interest paid during the year	$ 310,090	$ 379,115

The accompanying notes are an integral part of the 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.

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

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

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

Capital

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

As of March 31, 2003, capital payments received from the Government of Canada amounted to $1,168.3 million (2002 – $1,168.3 million). The statutory limit for that same period was $1,175.0 million (2002 – $1,175.0 million).

Limits on borrowing

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

At March 31, 2003, the corporation's total liabilities were 9.7 times the equity of $842.8 million (2002 – 9.6 times the equity of $745.9 million).

2. Significant accounting policies

Cash and cash equivalents

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

Temporary investments

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

Loans receivable

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

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

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

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

Allowance for credit losses

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

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

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

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

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

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

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

Real estate acquired in settlement of loans

Real estate acquired in settlement of loans which is held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and fair value, less cost to sell. Fair value less cost to sell is the amount which could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated cost of realization and any amounts legally required to be paid to the borrower.

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

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

Gains or losses on disposal are recognized in income when realized. When the value of an investment is permanently impaired, the investment is written down to recognize the loss.

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

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

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

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

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

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

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

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

Employee future benefits

Pension and post-retirement benefits

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

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs; and

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

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

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

Post-employment benefits

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

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

Use of estimates

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

3. Acquisition

On October 28, 2002, a wholly owned subsidiary of the corporation, 4117468 Canada Ltd., acquired 100 percent of the issued and outstanding shares of Settler Computer Technologies Inc., a software developer specializing in agricultural accounting software. 4117468 Canada Ltd. and Settler Computer Technologies Inc. were amalgamated on October 30, 2002, continuing as Settler Computer Technologies Inc. The results of Settler Computer Technologies Inc. have been included in these financial statements since the date of acquisition.

The aggregate purchase price of $2.2 million was paid in cash of $1.3 million and $0.9 million in notes payable. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

(thousands of dollars)

Current assets	$	39		
Equipment		85		
Intangible assets		611		
Goodwill		2,705		
Total assets acquired			$	3,440
Total liabilities assumed				(1,239)
Net assets acquired			$	2,201

Of the $611,000 in acquired intangible assets, $595,000 was assigned to software and market development costs and the remainder to acquired customer lists.

Pursuant to an Order in Council, all of the assets of Settler Computer Technologies Inc. will be transferred to the corporation within one year of the acquisition date and Settler Computer Technologies Inc. will be dissolved.

4. Temporary investments

(thousands of dollars)

		2003		**2002**
Issued or guaranteed by Canada	**$**	**37,814**	$	148,380
Yield (%)		**3.11%**		2.61%
Other institutions	**$**	**218,968**	$	11,158
Yield (%)		**3.10%**		2.14%
	$	**256,782**	$	159,538

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1L or higher.
As at March 31, 2003, the largest total investment in any one institution was $62.0 million (2002 – $64.8 million).

5. Loans receivable

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2003. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

(thousands of dollars except %)

2003

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

2002

	Under 1 year	1 to 5 years	Over 5 years	Total
Floating	$ 168,634	$ 2,408,103	$ 379,791	$ 2,956,528
Yield	4.72%	4.66%	4.62%	4.66%
Fixed	770,751	3,121,721	739,157	4,631,629
Yield	7.10%	7.82%	8.37%	7.79%
Performing loans	$ 939,385	$ 5,529,824	$ 1,118,948	7,588,157
Impaired				127,636
Loans receivable – gross				7,715,793
Allowance for credit losses				(297,338)
Loans receivable – net				$ 7,418,455

Management estimates that annually, over the next three years, approximately 7.5% (2002 – approximately 8.3%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2003, $34.3 million (2002 – $25.1 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. The corporation monitors the concentration of loans and believes it does not have any significant concentrations in any specific sector or location. The concentration of performing loans by sector and geographic area are displayed in the tables on page 63.

Sector distribution
(thousands of dollars except %)

	2003			2002	
Cash Crops	$	**2,913,005**	**33.6%**	$	2,754,501	36.3%
Dairy		**1,976,682**	**22.8%**		1,661,806	21.9%
Beef		**866,966**	**10.0%**		773,992	10.2%
Value Added		**823,617**	**9.5%**		561,524	7.4%
Hogs		**849,626**	**9.8%**		705,699	9.3%
Poultry		**650,224**	**7.5%**		553,935	7.3%
Other		**589,537**	**6.8%**		576,700	7.6%
Performing loans	$	**8,669,657**	**100.0%**	$	7,588,157	100.0%

Geographic distribution
(thousands of dollars except %)

		2003			2002	
Western	$	**1,794,619**	**20.7%**	$	1,563,160	20.6%
Prairie		**2,236,771**	**25.8%**		2,063,979	27.2%
Ontario		**2,904,335**	**33.5%**		2,420,622	31.9%
Quebec		**1,170,404**	**13.5%**		1,039,578	13.7%
Atlantic		**563,528**	**6.5%**		500,818	6.6%
Performing loans	$	**8,669,657**	**100.0%**	$	7,588,157	100.0%

6. Allowance for credit losses

(thousands of dollars)

		2003		2002
Balance, beginning of year	$	**297,338**	$	269,250
Write-offs, net of recoveries		**(19,010)**		(17,412)
Provision for credit losses		**67,157**		45,500
Balance, end of year	$	**345,485**	$	297,338
Specific allowance	$	**47,858**	$	39,688
General allocated and unallocated allowance		**297,627**		257,650
Balance, end of year	$	**345,485**	$	297,338

As at March 31, 2003, the total recorded investment in loans receivable against which a specific allowance has been identified was $142.9 million (2002 – $127.6 million). The general allowance was established against the remaining $8,669.7 million (2002 – $7,588.1 million) investment in loans receivable.

7. Venture capital

During the year, the corporation launched its venture capital activity, which provides investment, deal organization, structuring and portfolio management to the agricultural industry. Investments will be held for between 3 to 7 years through a variety of instruments. There was a single venture capital investment at March 31, 2003, in the distribution sector with a carrying value by type of investment as follows:

(thousands of dollars)

		2003		2002
Preferred shares	$	**1,000**	$	–
Debentures		**1,000**		–
	$	**2,000**	$	–

8. Equipment and leasehold improvements

(thousands of dollars)

	2003			2002
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 11,646	$ 5,569	$ 6,077	$ 4,520
Computer equipment and software	37,411	23,281	14,130	13,069
Leasehold improvements	12,783	6,028	6,755	4,417
	$ 61,840	$ 34,878	$ 26,962	$ 22,006

Administration expenses include $7.7 million (2002 – $6.8 million) of amortization of equipment and leasehold improvements.

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 totalling $1,512.4 million (2002 – $2,051.0 million). The effective interest rate on these notes ranges from 1.15% to 3.46% (2002 – 1.72% to 4.45%) with an average yield to maturity of 2.95% (2002 – 2.25%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 3, 2002, 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, 2003, there were no draws on this facility.

The corporation also has a line of credit facility providing access to funds in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. As at March 31, 2003, there were no draws on this line of credit.

Long-term debt

(thousands of dollars)

	Stated interest rate (%)	2003	2002
Debt from capital markets, secured by notes payable in:			
Canadian dollars	0.00 – 9.00	$ 6,007,523	$ 4,901,371
United States dollars ($92,000)	4.00 – 8.49	135,311	–
Japanese yen (¥25.7 billion)	0.95 – 2.50	319,245	14,423
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
The Euro Top 100 Index		32,388	32,388
		$ 6,494,467	$ 4,948,182

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

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

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

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

(thousands of dollars)

	2003		**2002**	
Remaining term to repricing or maturity date	**Carrying Value**	**Average Yield**	Carrying Value	Average Yield
Within 1 year	**$ 1,411,074**	**3.49%**	$ 1,522,684	4.71%
1 to 5 years	**3,254,493**	**4.60%**	3,196,421	4,65%
over 5 years	**1,897,950**	**4.00%**	316,822	4.43%
	$ 6,563,517	**4.05%**	$ 5,035,927	4.66%

Long-term debt maturities are as follows:

(thousands of dollars)

	2003	**2002**
Amounts due:		
Within 1 year	**$ 1,396,229**	$ 1,496,153
From 1 – 2 years	**1,134,260**	1,439,238
From 2 – 3 years	**1,075,576**	809,561
From 3 – 4 years	**495,131**	688,240
From 4 – 5 years	**515,288**	203,688
Over 5 years	**1,877,983**	311,302
	$ 6,494,467	$ 4,948,182

Included in long-term debt is $1,369.9 million (2002 – $760.5 million) of instruments extendable beyond their original due dates and $632.9 million (2002 – $204.7 million) of callable debt. The redemption of these instruments is controllable by the corporation.

10. Administration expenses

(thousands of dollars)

	2003	**2002**
Personnel	**$ 75,164**	$ 66,786
Facilities and equipment	**18,585**	16,663
Professional and other	**15,103**	10,459
Travel and training	**10,432**	7,708
	$ 119,284	$ 101,616

11. Income taxes

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

12. Employee future benefits

The following table presents information related to the corporation's defined benefit plans including amounts recorded on the balance sheet and the components of net periodic benefit cost. The measurement date for the defined benefit plans is December 31, 2002.

(thousands of dollars)

	2003 Pension benefits	**2002** Pension benefits	**2003** Other benefits	**2002** Other benefits
Change in accrued benefit obligation				
Balance, beginning of year	$ 102,722	$ 2,993	$ 15,655	$ 12,956
Current service cost	5,199	4,873	966	818
Interest cost	7,813	3,019	1,119	966
Employee contributions	2,103	1,690	–	–
Benefits paid	(2,311)	(336)	(577)	(488)
Net transfer in*	2,300	102,551	–	–
Actuarial (gain)/loss	9,183	(12,068)	713	1,403
Balance, end of year	$ 127,009	$ 102,722	$ 17,876	$ 15,655
Change in fair value of plan assets				
Balance, beginning of year	$ 113,192	$ 2,898	$ –	$ –
Actual return on plan assets	(193)	2,353	–	–
Employer contributions	5,903	4,036	–	–
Employee contributions	2,103	1,690	–	–
Benefits paid	(2,311)	(336)	–	–
Net transfer in*	2,300	102,551	–	–
Balance, end of year	$ 120,994	$ 113,192	$ –	$ –
Funded status				
Surplus (deficiency)	$ (6,015)	$ 10,470	$ (17,876)	$ (15,655)
Employer contributions after December 31	769	698	–	–
Unamortized net actuarial (gain)/loss	6,979	(11,157)	2,644	1,682
Accrued benefit asset (liability)	$ 1,733	$ 11	$ (15,232)	$ (13,973)
Net pension benefit expense				
Current service cost	$ 5,199	$ 4,873	$ 966	$ 818
Interest cost	7,813	3,019	1,119	966
Amortization of actuarial (gain)	–	–	(248)	–
Expected return on plan assets	(9,364)	(3,077)	–	–
Net pension benefit expense	$ 3,648	$ 4,815	$ 1,837	$ 1,784

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

The accrued benefit asset and liability are included in other assets and other liabilities and deferred fees respectively on the balance sheet.

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

2003	**Pension benefits**	**Post-retirement benefits**	**Post-employment benefits**
Discount rate at the beginning of the period	**7.00%**	**7.00%**	**6.25%**
Discount rate at the end of the period	**7.00%**	**7.00%**	**5.75%**
Expected long-term rate of return on plan assets	**7.00%**	**N/A**	**N/A**
Rate of compensation increase	**4.00%**	**4.00%**	**4.00%**

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

For measurement purposes, a 9.00% (2002 – 9.00%) increase in the per capita cost of covered hospital costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil ten years from the current year (2002 – to nil ten years from the current year) and remain at that level thereafter. For drug costs, a 11.00% (2002 – 10.00%) increase in the per capita cost was assumed to decrease gradually to 5.00% ten years from the current year (2002 – to 5.00% ten years from the current year) and remain at that level thereafter. For other health care costs, a 4.00% (2002 – 3.00%) per annum increase in the per capital costs was assumed.

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. In the year ended March 31, 2003, the expense was $1.6 million (2002 – $1.3 million).

13. Derivative financial instruments

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

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

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

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

Bond forward agreements are transactions to either buy or sell financial instruments at specified prices and dates in the future.

Interest rate options are transactions that grant the buyer the right, but not obligation, to buy or sell a specific amount of currency, commodity or financial instrument at an agreed upon price.

Notional principal amounts outstanding at March 31, 2003, for the various derivative financial instruments were:

(thousands of dollars)

Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	2003	2002
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 3,950,000	$ 1,198,320	$ 1,752,400	$ 6,900,720	$ 546,000
Fixed	Floating	86,000	260,000	–	346,000	1,435,167
Fixed	Fixed	–	–	–	–	20,000
Floating	Floating	–	20,257	–	20,257	857
Equity index-linked	Floating	16,688	15,700	–	32,388	32,388
Bond forward		–	–	–	–	25,000
Option		–	–	–	–	5,000
		4,052,688	1,494,277	1,752,400	7,299,365	2,064,412
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	1,188	–	–	1,188	124,820
Total		$ 4,053,876	$ 1,494,277	$ 1,752,400	$ 7,300,553	$ 2,189,232

The counterparty credit risk associated with derivative financial instruments is the risk of loss due to the failure of a counterparty to discharge their obligations in a derivative financial instrument agreement. The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk is managed via the corporation's board approved Counterparty Risk Guidelines, which specifies the maximum exposure which the corporation will accept for each level of credit rating.

Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade and collateral 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 will be executed with all derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

These same derivatives can be measured by fair value and replacement costs as follows:

(thousands of dollars)

	2003		**2002**	
	Net Fair Value	**Replacement Cost**	Net Fair Value	Replacement Cost
Interest rate contracts	**$ 2,559**	**$ 47,039**	$ (27,042)	$ 11,349
Foreign currency contracts	**(58)**	**–**	4,992	4,992
Total	**$ 2,501**	**$ 47,039**	$ (22,050)	$ 16,341

Fair values for derivative financial instruments are estimated using present value techniques.

Replacement cost measures the maximum exposure to counterparty risk. The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2003, was $2,591.7 million (2002 – $742.7 million) and the largest replacement cost of contracts with any institution as at March 31, 2003, was $16.5 million (2002 – $7.0 million).

Amounts due from counterparties included in accounts receivable at March 31, 2003, were $21.1 million (2002 – $21.0 million). Amounts due to counterparties included in accounts payable and accrued liabilities at March 31, 2003, were $3.3 million (2002 – $4.7 million).

14. Fair values

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

(thousands of dollars)

	2003		2002	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	**$ 146,683**	**$ 146,683**	$ 190,022	$ 190,022
Temporary investments	**256,782**	**256,782**	159,538	159,538
Accounts receivable	**83,833**	**83,833**	83,833	83,833
Loans receivable	**8,467,106**	**8,616,053**	7,418,455	7,523,031
Venture capital investments	**2,000**	**2,000**	–	–
Other assets	**4,325**	**4,325**	11	11
Liabilities				
Accounts payable and accrued liabilities	**$ 25,554**	**$ 25,554**	$ 21,950	$ 21,950
Accrued interest on borrowings	**75,175**	**75,175**	96,423	96,423
Short-term debt	**1,512,419**	**1,512,419**	2,050,957	2,050,957
Long-term debt	**6,494,467**	**6,566,439**	4,948,182	4,967,920

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

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

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

15. Commitments and contingent liabilities

Long-term commitments for leases

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

(thousands of dollars)

Within 1 year	$	**6,299**
From 1 – 2 years		**5,218**
From 2 – 3 years		**4,445**
From 3 – 4 years		**3,741**
From 4 – 5 years		**2,763**
Over 5 years		**13,111**
	$	**35,577**

Other commitments and contingent liabilities

In the normal course of its business, the corporation enters into various commitments and contracts. As of March 31, 2003, the corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $17.0 million (2002 – $16.7 million). In the event of a call upon the guarantees disclosed above, the corporation has recourse against its customers.

As at March 31, 2003, loans to farmers and agribusiness approved but undisbursed amounted to $275.0 million (2002 – $276.6 million). These loans were approved at an average interest rate of 6.23% (2002 – 5.15%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 30, 2003.

16. Related party transactions

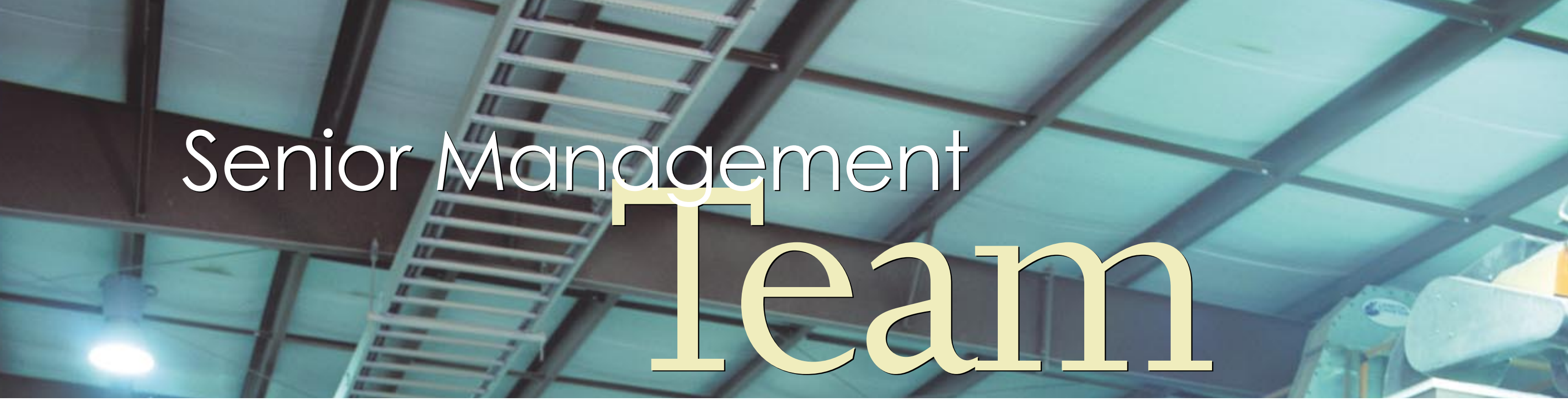
The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

17. Segmented information

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

18. Comparative figures

Certain 2002 comparative figures have been restated to conform with the current year's presentation.



Senior Management Team

The Senior Management Team's (SMT) leadership and integrity ensure that FCC remains relevant to customers, contributes to the agricultural industry and fosters a high-performance workplace culture.

FCC's strength stems from its people

The Senior Management Team levers this strength in countless ways, utilizing their own and fellow employees' expertise to engage in long-term planning for the corporation. Following approval of the corporate strategic direction by the Board of Directors, it is the responsibility of SMT to successfully implement it, guiding and growing the corporation. SMT's enthusiasm inspires their co-workers to participate, learn, innovate and excel.

Members of SMT exemplify leadership, continually honing their competencies in this area through professional development and evaluation. SMT has undertaken extensive work in the areas of high-performance teamwork, accountability and issues resolution, in order to ensure FCC's stellar track record is sustainable. Personal commitment to leadership is demonstrated by consistently successful corporate results and individual growth. FCC believes that leadership occurs at all levels. SMT helps lead the way.

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

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2002-03, the salary range for the President and CEO was set at $229,500 to $270,000. The salary range for Executive Vice-Presidents was set at $153,325 to $283,515. The salary range for Vice-Presidents is $114,825 to $183,600. Total compensation paid to SMT was $3,159,288.

From left to right:
Greg Honey, Paul MacDonald, Don Stevens, Les Rankin, Kellie Garrett, Greg Stewart, John Ryan, James Taylor, Moyez Somani, Janet Wightman, Rick Hoffman, Marshall Stachniak, André Tétreault

SMT Profiles

John J. Ryan

President & Chief Executive Officer

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

John 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, John was Chief Operating Officer at the Business Development Bank of Canada (BDC).

Deeply committed to community involvement, John is currently Chairman for the Hospitals of Regina Foundation and serves on the Board of Directors for Regina's Adult Learning Centre. He is a member of the Board of Directors for the 2005 Canada Summer Games and the Board of Trustees for the Canadian Athletic Foundation. John has served as 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.

Working as one leadership team, SMT encourages the development of all FCC employees, challenging them to be innovative, forward thinking and focused.

Moyez Somani, CMA, MBA

EVP & Chief Financial Officer

Moyez provides leadership to FCC's financial function and has direct responsibility for the Risk Management, Treasury, Controller, and Audit and Process Innovation divisions. He is also actively involved in the local community as a Provincial Council member for CMA Saskatchewan, Board member for the Saskatchewan Science Centre and Financial Executives International (Regina Chapter), Investment Committee member for the AgriFood Equity Fund and Board advisor to Mind's Eye Pictures. Moyez brings over 20 years of senior management experience in the financial service sector to FCC.

Janet Wightman

EVP & Chief Operating Officer

Leading all aspects of FCC's national operations, Janet is responsible for farm financing and agribusiness lending, channel development, alliances, venture capital, marketing, portfolio management and development of new products and services such as AgExpert and related software. Janet has 22 years of experience in administration, human resources, organizational transformation and operations management and is a member of the SaskPower Board of Directors.

Kellie Garrett, ABC, BA

VP, Strategy, Knowledge & Communication

Responsible for corporate strategy, knowledge management, corporate communication and brand, Kellie is an Accredited Business Communicator (ABC) with a BA from Carleton University. Kellie is active on several boards, including the MacKenzie Art Gallery and the International Association of Business Communicators (IABC). A regular speaker at Conference Board of Canada and IABC events, Kellie also counsels parents who receive autism diagnoses.

Rick Hoffman, CMA

VP & Controller

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

Greg Honey, B.Ed.

VP, HR & Administration

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

Paul MacDonald, M.A., B.Sc.

VP, Alliances & Business Services

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

Les Rankin, Dip. Ag.*

VP, Marketing & Portfolio Management

Responsible for marketing, customer information and market research, portfolio management, and product development, Les has over 30 years of experience in several areas of agribusiness. He holds a Diploma in Agriculture from the University of Manitoba.

Marshall Stachniak, P.Ag.

VP, Audit & Process Innovation

Responsible for internal audit, measurement and control, reengineering of business processes and innovation initiatives, Marshall has served FCC for 30 years, largely in the farm finance and alliances area. He has a B.Sc. (Agriculture) from the University of Alberta and is a professional agrologist.

Don Stevens, CFA, MBA

VP, Information Technology

Responsible for FCC's information technology division, Don has a background in engineering, finance and treasury. Previously, Don served as FCC's Treasurer and Controller. A Chartered Financial Analyst, he holds an MBA from York University and a B. Eng. from Carleton University.

Greg Stewart, P. Ag.

SVP, National Lending Operations

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

James Taylor, MBA

VP, FCC Ventures

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

André Tétreault, CGA

VP, Risk Management

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

** Les Rankin resigned from FCC on April 23, 2003*

FCC's Board of Directors

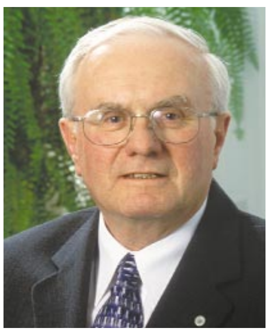
Diverse. Dedicated. Determined. **FCC's Board of Directors** is a highly motivated group of individuals bonded together by their commitment to the success of Canadian agriculture and agribusiness.

The Board works closely with FCC's Senior Management Team (SMT), creating a proactive, positive partnership.

Board Profiles

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

With over 25 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-Country Agromart Ltd. in Trenton, Ontario. She is a Director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. Ms. Davis is active on many local and provincial agricultural committees and associations. She is a Director on the Board of Loyalist College and is a member of the Fertilizer Institute of Ontario, Fertilizer Use Committee; the Ontario Federation of Agriculture; and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings Counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership to the Ontario Institute of Agrologists. She resides in Trenton, Ontario.



Robert Colpitts **Director since November, 2001**

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

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

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

Donna Graham **Director since September 26, 2000**

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

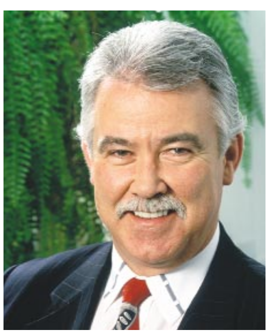
Eleanor M. Hart

Director since May 2, 1995, Board representative on FCC's joint Pension Committee

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

Maurice Kraut **Director since June 28, 1999**

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



Russel Marcoux **Director since December 10, 2002**

Mr. Marcoux is the newest member of Farm Credit Canada's Board of Directors. He is Chief Executive Officer of the Yanke Group of Companies, a firm that specializes in transportation, employing over 700 staff and operating a fleet of more than 400 trucks. Mr. Marcoux also owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, the Saskatchewan Agrivision Corporation and the Children's Health Foundation.

Marie-Andrée Mallette

Director since June 16, 1995, Chair, Audit Committee

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

Joan Meyer

Director from January 11, 1995 to September 1996, reappointed September 26, 2000
Chair, Corporate Governance Committee

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

John J. Ryan **Director since September 1, 1997**

With more than 30 years of financial leadership experience, John Ryan joined FCC as President and Chief Executive Officer in September 1997.

He currently serves as Chairman for the Hospitals of Regina Foundation and is a member of the Board of Directors for Regina's Adult Learning Centre. Mr. Ryan serves on the Board of Directors for the 2005 Canada Summer Games and is a member of the Board of Trustees for the Canadian Athletic Foundation.

A strong proponent of community involvement, Mr. Ryan has worked extensively with the United Way of Regina, serving as a Co-Chair in 1999, Chairman in 2000 and as Chair for the 2001 Leadership Campaign. In 1998 and 2001 he led the CEO Challenge for Habitat for Humanity. In 2002, Mr. Ryan received a Commemorative Medal for the Queen's Golden Jubilee, awarded in recognition of his significant contributions to the people of Canada.

Marilyn Marie Scott **Director October 24, 1996 to December 10, 2002**

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

Germain Simard **Director since June 6, 1995**

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

Corporate Governance

Board Stewardship

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

As part of its overall stewardship, the Board oversees and evaluates FCC's management and performance in order to ensure FCC fulfills its mandate effectively without undue exposure to risk.

With the exception of the CEO, the Board is comprised of members who are independent of management. The roles and responsibilities of the Chair, its members, the CEO and Board committees have all been set out in profiles and Charters approved by the Board. The Board enjoys and encourages open and candid communication with management. Both Executive Vice-Presidents attend every Board meeting. In addition, two other members of FCC's senior management team are invited on a rotating basis. However, the Board also ensures its independence by meeting in caucus at every Board meeting with and without management present.

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

Strategic direction, mandate and public policy

As part of the strategic planning process, the Board determines the broad strategic direction of the corporation and regularly examines FCC's strategic business objectives and public policy role. The Board also approves FCC's Corporate Plan – including the Financial Plan – as well as the Annual Report. Finally, the Board approves the annual goals and objectives of the CEO, which serve as the objectives for the corporation as a whole and holds management accountable for the achievement of those goals.

The Board of Directors is committed to providing input to FCC's strategic direction, and overseeing its execution. During the last fiscal year, the Board devoted an entire meeting to a discussion with senior management regarding FCC's strategic direction. In addition, the Board includes a discussion of general or specific strategic initiatives as a regular part of each meeting. The Board is committed to ensuring FCC's strategies provide specific and measurable targets against which performance can be determined.

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

- In December 2001, as part of the Budget speech, FCC was granted tax-exempt status. Although not yet law, the Board has worked closely with the Office of the Auditor General of Canada with respect to the reporting of this change in FCC's financial statements;
- In May 2002, the Board approved FCC's venture capital strategy. This initiative will play an important role in helping to fill a gap in the venture capital industry in Canada and will be key to the development of local value-added agricultural industries in rural communities, not only through FCC's direct equity investments in local agriculture enterprises but also through its ability to leverage this investment to attract other equity providers;

- In the fall of 2002, the Board approved the corporation's Business Services strategy. The corporation's goal is to enhance the management skills of individuals involved in agricultural enterprises. As part of that overall strategy, the Board also specifically approved the acquisition by FCC of Settler Computer Technologies Inc., producer of AgExpert, a leading agricultural management software.
- Throughout the year, the Board reviewed and approved a number of other strategies of the corporation, including portfolio vision, channel strategy for the delivery of FCC products and services, and customer loyalty.

FCC and its Board of Directors recognize the importance of federal Crown corporations fulfilling a public policy role. In the current fiscal year, the Board has engaged management in a process to better define, articulate and establish targets against which FCC can measure its public policy role. FCC has and will continue to demonstrate its commitment to farmers, agribusiness operators and rural Canada. It is this commitment that distinguishes FCC from the private sector.

Board composition

The Board of Directors is composed of 12 members, including the Chair, President and Chief Executive Officer, and 10 directors. With the exception of the CEO, all Directors, including the Chair, are independent of management.

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

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

Ongoing board training and evaluation

Upon becoming a member of FCC's Board of Directors, each member receives a detailed orientation briefing and meets with the senior executives of the corporation in order to become fully acquainted with its business and affairs. Direct access to members of FCC senior management also provides a source for ongoing education and information.

In order to stay current on important issues, trends and subjects, the Board also regularly engages in training sessions, either individually or as a whole, on topics relevant to their governance responsibilities. This year, the Board participated in training regarding financial statements and treasury, specifically derivatives. These training sessions are either prepared and presented internally, by members of management or by industry experts retained specifically to provide the training. Board members also attend seminars sponsored by organizations such as the Conference Board of Canada.

The Board's committee structure allows for more detailed study of issues affecting particular areas of the corporation. Membership on these committees is rotated on a regular basis in order to ensure a greater depth of knowledge on the part of all Board members over time. In addition, the Board encourages all members to attend meetings of committees they are not members of to promote better understanding of all of the issues and challenges facing the corporation.

Finally, the Board has and continues to engage in a process of self-evaluation. An external advisor has been retained to facilitate the Board's work in this regard.

Appointments

Russel Marcoux, from Saskatoon, Saskatchewan, was appointed as a Director in December 2002, replacing Marilyn Marie Scott, whose term expired on December 10, 2002. Currently, one vacancy on the Board exists as a result of the sudden passing of Rashpal Dhillon in early January 2003.

Board Committees

Audit Committee

Chair: Marie-Andrée Mallette
Members: Rosemary Davis, Donna Graham, Maurice Kraut, Germain Simard

The Audit Committee is composed entirely of Directors who are independent of management. It oversees FCC's financial performance and ensures that management has effective financial and operational reporting systems, internal control systems and processes for preparing reliable and consistent financial statements. The Audit Committee also ensures management has identified key business and financial risks and has put in place reasonable policies, control systems and practices to manage those risks. Finally, it ensures an effective and efficient audit function, including reviewing the findings of the internal auditor and reviewing and approving of the annual audit by the Auditor General of Canada. Recommendations of the Audit Committee are brought to the attention of the Board as required. This Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General and FCC's internal auditors.

During the 2002-03 fiscal year, the Audit Committee met five times and:

- approved the 2001-02 Financial Statements and Annual Report, and quarterly financial results for fiscal year 2002-03;
- approved Board and CEO expense reports for fiscal 2002-03; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 2001-02 as well as the plan for the 2002-03 annual audit.

In addition, the Audit Committee:

- reviewed and approved updates to a number of Treasury policies governing the corporation;
- worked with the Office of the Auditor General (OAG) during its third Special Examination of FCC. In November 2002, the Audit Committee reviewed the final report of the OAG, which found no significant deficiencies, and provided its report to the Board with the presentation of the final report of the Office of the Auditor General; and
- worked closely with the Office of the Auditor General with respect to the reporting of the change of FCC's income tax status.

Human Resources Committee

Chair: Warren Ellis
Members: Rosemary Davis, John J. Ryan, Robert Colpitts, Donna Graham

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

The Committee reviews and makes recommendations on human resource development plans and succession plan frameworks for all management positions at the corporation and evaluates the performance of the Chief Executive Officer. It oversees the employment equity and official language policies of the corporation and the design, objectives and competitiveness of FCC's compensation plans. The Committee receives the reports of the Board representatives on the Pension Committee and makes recommendations, as required to the Board.

During this fiscal year, the Human Resources Committee met seven times and:

- established the CEO's objectives for 2002-03 and evaluated performance for the 2001-02 fiscal year;
- examined the corporation's compensation policies and reviewed the corporation's competency review process applicable to all employees;
- reviewed the redesign and implementation of the corporation's Spectrum employee benefits plan;
- reviewed the 2002 Hewitt employee engagement survey;
- monitored the final stages of the implementation of FCC's Solstice pension program, including monitoring the performance of the investment fund managers;
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions; and
- completed a review of the corporation's corporate incentive bonus policy, approved a non-cash sales incentive program for lending staff and a long-term incentive program for venture capital staff.

Corporate Governance Committee

Chair: Joan Meyer
Members: Rosemary Davis, John J. Ryan, Robert Colpitts, Marie-Andrée Mallette, Eleanor Hart

The Corporate Governance Committee reviews and provides recommendations to the Board on policies, initiatives or enhancements to the corporation's systems that promote good governance practices of the Board and its Committees. In addition, the Corporate Governance Committee is responsible for overseeing the Board's policies with respect to ethics, conflict of interest and code of conduct for Directors.

During this fiscal year, the Corporate Governance Committee met four times and:

- completed the updating of the Corporate Governance Committee Charter and coordinated the updating of all of the other Committee Charters;
- completed a comprehensive update of the corporation's bylaws;
- recommended to the Board a rotation of members of all the Board's Committees;
- oversaw the orientation and training of the corporation's new Board members; and
- with the assistance of an external advisor, commenced a further round of Board evaluations.

Russel Marcoux has not yet been formally appointed as a member of any of the Board's committees. Mr. Marcoux is attending all committee meetings in order to familiarize himself with the corporation and the workings of the Board and its committees. He then will be appointed to one or more committees.

Board Remuneration

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

The Privy Council establishes remuneration levels for Governor-in-Council appointees to Crown boards and agencies.

The rates were last approved on April 5, 2001.

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

Pension Committee

This past year saw FCC's pension plan become fully operational following FCC's withdrawal from the *Public Service Superannuation Act* (PSSA) pension plan. Two Board members sit on the FCC Pension Committee, which oversees the administration and guides and develops the investment policies of the plan. In addition to Board representation, the FCC Pension Committee also includes senior management and elected employee representation.

2002-2003 Board remuneration, expenses and attendance

Director	Board retainer (A)1	Per diems (B)1	Total remunerations (A&B)	Board meeting attendance[2] (%)	Committee meeting attendance[3] (%)	Board travel and related expenses
Robert M. Colpitts	5,400	10,500	15,900	100	100	20,744
Rosemary Davis	10,800	9,240	20,040	75	63	15,410
Rashpal Dhillon[4]	4,500	4,125	8,625	67	60	6,766
Warren Ellis[7]	5,650	10,875	16,525	100	100	23,018
Donna Graham	5,400	12,000	17,400	100	100	17,328
Eleanor Hart[7]	6,150	12,000	18,150	100	100	17,552
Maurice Kraut[8]	6,150	13,500	19,650	100	100	15,480
Marie-André Mallette	6,400	13,125	19,525	100	100	21,476
Russel Marcoux[6]	1,800	2,250	4,050	100	100	1,637
Joan Meyer[8]	5,650	9,563	15,213	100	100	8,892
Marilyn Marie Scott[5]	4,050	5,250	9,300	100	100	4,185
Germain Simard	5,400	10,875	16,275	100	100	26,187
Total	**$67,350**	**$113,303**	**$180,653**	**8 meetings**		**$178,675**

1) Column A (Board retainer) and column B (Per diems) 2) There were six Board meetings and two Board teleconferences 3) 16 committee meetings were held; five Audit, seven Human Resources and four Corporate Governance 4) Rashpal Dhillon passed away in January 2003 5) Marilyn Scott's term expired on December 10, 2002 6) Russel Marcoux's term began on December 10, 2002 7) Warren Ellis replaced Eleanor Hart as Chair of the Human Resources Committee on January 28, 2003 8) Joan Meyer replaced Maurice Kraut as Chair of the Corporate Governance Committee on January 28, 2003

Glossary of terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest expense
Expense to the corporation incurred on debt.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna

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

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

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

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

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

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

Newfoundland and Labrador
St. John's

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

Government and Industry Relations
Room 859, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5
Telephone: (613) 993-9897
Fax: (613) 993-9919

Corporate Office
1800 Hamilton Street P.O. Box 4320
Regina, Saskatchewan S4P 4L3
Telephone: (306) 780-8100
Fax: (306) 780-5456
www.fcc-fac.ca

Customer toll-free number:
1-888-332-3301

Cette publication est aussi offerte en français.

Photography by Greg Huszar

A closing toast from our customers

"The wine industry in Canada wouldn't be where it is today without the help of FCC. Local people knew what could be done but the industry needed a financial backer that saw the possibilities. I know FCC's products and people – and I know that here in Ontario the winery tourism and the Ice Wine Festival would not exist without FCC's vote of confidence."

Lloyd Schmidt - International Viticulture Services

"The wine industry is capital intensive. There's a long period where nothing happens as you wait for crops to mature and try to develop a recognized brand. The French and Italians spill more wine than we make! But, even in our 20's, we were convinced that we could grow the grapes and produce a high quality product. FCC came to the plate for us!"

Paul Speck - Henry of Pelham

"FCC walks the talk. I've never met an FCC representative that wasn't willing to go the extra mile… to meet us in the field, on holidays or on weekends. I can honestly say that everyone that I've met from FCC is a great credit to their organization – and a great credit to this country."

John Howard - President/Owner, Vineland Estates