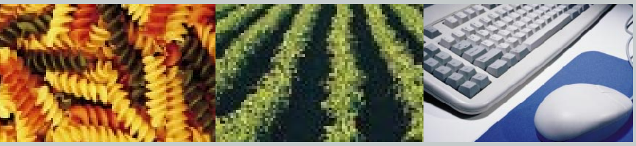
FCC



Visionary leaders

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.

Trusted partners

Farm Credit Corporation Annual Report 1997/98

Mission

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

Corporate Profile

Farm Credit Corporation is a federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Established in 1959, FCC is Canada's largest agricultural term lender. FCC delivers joint programs and services with government agencies and other financial institutions.

FCC has a loan portfolio of 69,846 accounts, valued at $5.3 billion. Approximately 900 employees serve clients from more than 100 offices in farming communities across Canada.

The Corporation is governed by a Board of Directors, comprised of 12 members, representing farmers and agribusiness from across Canada. Under the *Farm Credit Corporation Act*, FCC offers a range of flexible financing solutions to primary producers and agribusiness, including diversification initiatives and value-added agricultural operations beyond the farm gate. The *Financial Administration Act* provides for the direction, financial control and accountability of FCC and outlines its relationship with the Government of Canada.

FCC's Corporate Office is located in Regina, Saskatchewan.

FCC Farm Credit Corporation SCA Société du crédit agricole

Canada

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A new reality – a new vision for FCC

A new reality is emerging in the agricultural industry, inspiring a new vision for producers and FCC. Once focused on producing raw product, farmers today are delving into more processing and producing value-added goods. Canadian producers are listening for signals in the industry, responding to changing markets, and taking action. Value-added initiatives are playing a larger role in the agricultural sector as farmers explore creative ways to diversify their operations. Technology and biotechnology are having the same impact on agriculture as mechanization did at the outset of the 20th century.

FCC's new 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.

The agricultural industry has come together – producers and agribusiness alike – bridging gaps and strengthening the Canadian foothold in the new competitive global agricultural marketplace. Partnership and cooperation on the international trade front now reign over the old concepts of barriers and territorialism. Globalization and the resulting awareness that we can achieve more working together is driving change across virtually all sectors of the business. One of the seven producers featured in this annual report refers to these exciting and challenging times as the "industrial revolution of agriculture."

Over the past 40 years, FCC has dedicated itself to enhancing growth in rural Canada. Focusing 100 per cent on agriculture, we have worked to provide specialized knowledge and expertise to the agricultural industry during good times and bad. Values such as hard work, dedication and commitment are the building blocks that have helped us to form strong relationships with producers Canada-wide and form the foundation for the future.

Inspired by our customers, whose creativity and entrepreneurial spirit will see agriculture through the next millennium, we will lead the way in agricultural financing and have charted a new course – a new vision.

In this report:

Feature stories about our customers from across Canada

1997/98 Financial Highlights

Operational	1997/98	1996/97	1995/96	1994/95	1993/94
Total Loans Receivable Portfolio					
Number	**69,846**	65,318	60,250	56,760	55,455
Amount ($ millions)	**5,318.8**	4,687.0	4,066.3	3,535.7	3,322.6
Number of loans approved	**15,488**	12,910	10,193	6,428	5,117
Amount of loans approved ($ millions)	**1,525.2**	1,402.9	1,032.7	631.9	511.7
Average size of loans approved ($)	**98,473**	108,668	101,315	98,308	100,013
Percentage of loans in good standing	**95.4**	93.7	94.9	95.9	95.0
Percentage of total owing in good standing	**94.3**	93.1	94.1	95.4	94.3
Real property held at year end					
Number	**1,787**	1,982	2,171	2,529	2,758
Value ($ millions)	**123.5**	139.6	153.5	196.6	221.5

Financial	1997/98	1996/97	1995/96	1994/95	1993/94
Revenues and Expenses ($ millions)					
Net interest income	**134.1**	141.7	105.2	99.2	87.9
Provision for credit losses	**18.7**	24.0	12.1	9.7	9.6
Net lease and real estate income	**13.0**	7.1	11.3	8.6	6.9
Other income	**9.5**	6.5	4.9	6.9	2.8
Administrative expenses	**90.1**	84.1	67.3	60.2	59.0
Income taxes	**6.2**	6.6	1.6	2.1	0.7
Net income for the year	**41.6**	40.6	40.4	42.7	28.3
Financial position ($ millions)					
Total assets	**5,706.2**	5,022.4	4,371.4	3,986.3	3,773.6
Total liabilities	**5,156.9**	4,564.7	3,951.6	3,626.7	3,456.7
Equity of Canada	**549.3**	457.7	419.8	359.6	316.9

1997/98 Financial Highlights

Key Financial and Operating Data

$ Millions	1997/98 Actual	1997/98 Budget	1996/97 Actual
Net income	**41.6**	**39.4**	40.6
Net interest income	**134.1**	**136.9**	141.7
Net interest margin (%)	**2.50**	**2.60**	3.03
Loans receivable	**5,318.8**	**5,383.5**	4,687.0
Arrears	**29.7**	**40.1**	29.4
Loan loss factor (%)	**1.78**	**2.00**	1.86
Administrative expenses	**90.1**	**86.6**	84.1
Administrative coverage ratio (X:1)	**1.53**	**1.51**	1.56
Return on assets (%)	**0.77**	**0.75**	0.86
Debt to equity (X:1)	**9.4**	**10.3**	10.0
Return on equity (%)	**8.3**	**7.9**	9.3

Loans Approved By Province and Enterprise

(% of portfolio)

	Cash Crops	Dairy	Hogs	Beef	Poultry	Special Traditional	Other	Value Added	Provincial % of Portfolio
B.C.	39.8%	27.0%	0.3%	8.3%	7.1%	4.2%	3.0%	10.3%	4.0%
Alberta	37.7%	10.1%	6.8%	25.5%	5.6%	2.5%	6.2%	5.6%	15.7%
Saskatchewan	74.8%	6.4%	2.4%	6.6%	0.8%	2.2%	1.4%	5.4%	18.2%
Manitoba	46.3%	15.0%	20.0%	7.9%	4.6%	3.6%	1.4%	1.2%	9.6%
Ontario	30.7%	30.7%	13.8%	3.7%	9.4%	3.9%	6.4%	1.4%	30.2%
Québec	21.9%	34.5%	12.6%	3.6%	2.5%	15.8%	7.9%	1.2%	15.1%
New Brunswick	34.1%	31.3%	2.0%	1.0%	5.1%	2.3%	2.1%	22.1%	2.4%
Nova Scotia	5.5%	54.6%	6.4%	2.2%	10.7%	6.1%	1.5%	13.0%	2.2%
P.E.I.	43.6%	27.9%	18.3%	5.5%	0.7%	0.4%	1.0%	2.6%	1.6%
Newfoundland	9.5%	72.3%	2.2%	2.5%	1.8%	2.4%	0.0%	9.3%	1.0%
National % of Portfolio	40.2%	22.2%	10.1%	8.2%	5.5%	5.1%	4.8%	3.9%	100%

Message from the President

The ideal agricultural lender: knows its agricultural customers and their business and works to help realize their goals. Revered qualities are honesty and straightforwardness. Customers receive personalized service, whatever the size of their operation. Employees are knowledgeable, trustworthy and work to provide excellent products, competitive rates and timely delivery.

These are the qualities primary producers and agribusiness told us mattered in their quest for an ideal financial institution. They said FCC lives up to these expectations. And that's our bottom line. If you stopped reading right now, you would know who and what FCC stands for.

One hundred per cent focused on agriculture, FCC's business is to provide financial solutions to the agricultural sector for its continued growth. Surpassing expectations, FCC staff yielded a 13 per cent growth in loan portfolio while adapting to new work environments.

When I joined FCC in September, the momentum for the Corporation's future was building. For the first six months of 1997/98, the senior management team very capably led the organization through restructuring aimed at increasing service delivery to clients while at the same time growing the portfolio. The results speak for themselves.

Leading the Way
in Agricultural Financing

The vibrant agricultural sector – fed by pent-up demand, a buoyant economy, growing opportunities in the national and international markets and lower interest rates – has contributed to eight consecutive years of profit at FCC, growing the portfolio to $5.3 billion from $3.9 billion in 1990.

As agricultural lenders, our job is to anticipate our customers' needs and provide products and services that bring their visions to reality. Our focus is firmly fixed on primary producers and small to medium-sized value added and agribusiness clients, as demonstrated by an average loan approval of $98,473 during fiscal 1997/98.

Strongly focused on our core business: primary producers and agribusiness

FCC launched several new products aimed at encouraging primary production across Canada. Responding to a request from grape and fruit-growing producers for a product that helps alleviate start-up and renovation costs to existing orchards, FCC launched the "Plant Now – Pay Later" and "Apple Grower" Loans. In tune with industry needs, FCC introduced the Personal and Real Property, and Variable Rate loans, providing producers across the country with flexible financing options.

In the grain belt and across the various sectors of the industry, including dairy, beef, hogs and poultry, FCC's Farm Financing division helped farmers to take advantage of new markets, diversify their operations and venture into value-added industries.

Completing the circle, taking product from the field to the consumer, FCC's Agribusiness division worked with other financial institutions and credit unions to finance various enterprises on and off the farm that process, manufacture, transport, store or transform farm inputs and outputs.

FCC's vision – firmly fixed on enhancing access to capital for Canadian producers and agribusiness

To examine FCC's purpose and review our role in the agricultural environment, we invited senior representatives from the Canadian Federation of Agriculture, Credit Union Central of Saskatchewan, Agriculture and Agri-Food Canada, the Canadian Bankers Association and our Board to a senior management strategic thinking session last fall. Hearing their optimism as well as their concerns about the state of agricultural finance and views concerning FCC's role was enlightening and contributed to validating the Corporation's future direction.

Drawing upon the expertise of FCC staff across Canada, whose unique specialized knowledge bridges the worlds of agriculture and finance, we examined how FCC can best serve the sector. Recognizing that agricultural finance now stretches beyond farm finance – extending to value added and agribusiness – delivering products and services in a more diversified environment means being more diversified in our lending. This requires sharing expertise with other financial institutions and developing strategic alliances for the benefit of Canadian farmers.

We then refined our vision, dedicating ourselves to the agricultural industry as:

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

Key 1997/98 Financials
Loan Approvals: $1.5B
Portfolio: $5.3B
Net Income: $41.6M
D/E Ratio: 9.4:1

A Year of Accomplishment
Alliances: page 25
New Products: page 68

Message from the President

John Ryan with FCC customer Richard McAllister on his combine near Regina during harvest.

FCC staff: You can't buy passion. Our passion for agriculture is second to none.

Having been with the Corporation for seven months at year end, I am impressed with FCC staff throughout the Corporation. From the primary producer who grows product to the agribusiness processing product, the contribution made by our employees goes beyond figures. Many of our staff are from farms and have strong agricultural roots. They therefore possess a connection to the land and a way of life that only farmers understand.

I would like to recognize four retiring members of the senior management team whose exemplary work ethic, knowledge and commitment to agriculture have seen FCC and farmers through both good and difficult times: Bob Aumell, Executive Vice President, Special Projects; Jacques Doran, Executive Vice-President, Business Process Reengineering; Max Pierce, Executive Vice-President & Chief Economist; and Don Jackson, Vice-President, Marketing. All of us wish them the best in their future endeavors.

On a sad note, I would like to acknowledge the contribution of Jim Peters, a New Brunswick Appraiser and Credit Advisor who passed away while working. His advice, "listen carefully to the farmer's proposal and work on their plan, not yours," represents the essence of what FCC is all about.

In challenging ourselves to seek creative ways of meeting the needs of the agricultural sector, we endeavor to broaden the offering of financial products and services available to all sectors, including primary producers, agribusiness and value-added enterprises.

Learning and growing is a continual process. With ongoing feedback and collaboration from other financial institutions and farm groups, and the expertise of FCC staff – whose commitment, knowledge and passion for agriculture makes us leaders in agricultural financing – FCC and this sector are on their way to an exciting tomorrow.

I am very proud to be a part of the journey.

John J. Ryan

President and Chief Executive Officer

Message from the Chair

The cornerstone of FCC's success is relationship building – talking, listening and responding – working as a team to deliver products and services to our customers and enhance growth in the agricultural industry. Our employees' ability to reach out – farmer to farmer – has helped the industry and the Corporation grow, feeling the bumps of the difficult times and the elation of the optimistic times.

With the Corporation's new vision, FCC is renewing its commitment to the industry as "visionary leaders and trusted partners," pledging to lead the way in agricultural financing, "putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada."

In my dual role as Board Chair and Acting CEO for the eight months prior to John Ryan's appointment in September 1997, I gained a more in-depth perspective on FCC and its important role in the agricultural industry. To say that I am impressed with the dedication and commitment of FCC employees is an understatement. A passion for agriculture characterizes the men and women who work with farmers and agribusiness, a view shared by John and myself.

That passion, I am proud to say, extends to members of the Board of Directors. When ice storms froze and snapped power lines in Ontario and Québec, leaving farmers without heat for days, our Board colleague Marie-Andrée Mallette worked tirelessly in acquiring generators and other assistance for farmers. Lois Hole in Alberta, Rosemary Davis in Ontario and Edward Clark of P.E.I. pitched in to help.

With a strong empathy for the agricultural community and FCC's role as a leader, a partner and a lender, the Board of Directors, through its CEO Search Committee, sought a new President to lead FCC. That search culminated in the appointment of John J. Ryan, who possesses a background in finance and a strong connection to rural communities. His belief in corporate citizenship shows in his extensive involvement in every community he has lived in, from the little town of Mulgrave, Nova Scotia where he grew up to the big city of Montréal, his home immediately before joining FCC at its Regina home base.

A strong leader, John Ryan assumed his role with vitality, energy and commitment. Within two months, he had travelled Canada's length and breadth to meet with customers, farm groups, financial institutions and FCC employees. He led the Corporation in determining a new direction, consulting employees, customers, stakeholders and other lenders. Six months later, the Corporation established its new vision. He truly possesses the kind of spirit FCC is known for.

Under John Ryan's leadership, FCC is sure to be more visible and proactive in communities across Canada, working together, building a strong foundation for the future. On behalf of the Board of Directors, we look forward to working with John Ryan and all FCC employees as we continually seek new ways to serve Canada's ever-changing and growing agricultural community.

Respectfully submitted on behalf of the Board of Directors,

Donald W. Black
Chair, Board of Directors

Ray's Garden:
A Customer's Appreciation, FCC's Pride

Fourteen kilometres southwest of Saskatoon, Saskatchewan, outside a country eatery and gift shop, is a garden where visitors sit in lawn chairs under patio umbrellas. A river rolls by, its flat banks dense with Saskatoon-berry bushes. At the entrance of the garden, a three-foot-high cast-iron sign says, "Ray's Garden."

Ed, Darlene and Ray – looking forward to a new season. *(right)*

Spring Creek Berry Barn owners Ed and Darlene Derdall, and their daughter and son-in-law, Natalie and Grant Erlandson dedicated the garden to FCC Account Manager Ray Wagner because his suggestion to build the garden eased their minds during a time when solutions seemed to have run out.

"On this particular day, we were having doubts about it all," Darlene remembers. Due to environmental regulations, they knew they had to move the old-style hip-roof barn from the river. Besides costing additional money in topsoil and sod, Darlene was devastated that the move would destroy the view of the river from the eatery. Feeling defeated with only two months before opening day, Darlene, Ed, Grant and Natalie met with Ray at the FCC office.

"Ray could sense something was wrong. I told him I couldn't see this working for us. Then he started talking – 'you know, Darlene, have you ever thought of developing a garden with a walkway, putting in lawns, patio tables and umbrellas – I would far sooner sit outside and watch the river go by than sit inside anyway . . .'

"My mind started to whirl. Everything was going into place. I was excited again. Ready to go. It was the perfect day for Ray to help us. Very few lenders have the compassion that that man has – and he's very professional too."

"I didn't want to see this one go under for three reasons," Ray said. "One, it's a landmark. Two, it's a major money-maker. And three, I like Saskatoon-berry pie. I also felt the Derdall and Erlandson families were the right people for this business. This feeling was also shared by the vendors. I was just glad that we could help them realize their dreams."

Canadian Biotechnology
Internationally Recognized

Credit Advisor Robert Gelinas with Mario Désaulniers.

Despite the fact that embryo production is highly technical and specialized, the foundation for Louis' success is basic: Simply put, "a satisfied client is a client for life," says Louis.

Loubel Holsteins Inc., a family-owned and operated purebred Holstein farm in Saint-Boniface, Québec, is internationally recognized as a supplier of top-quality embryos, selling Holstein embryos to more than 15 countries including Japan, Brazil, Ireland, Germany, Italy and France.

Louis Désaulniers established his operation 20-odd years ago. He believes its success is due partly to hard work and partly to his vision to achieve market globalization.

"I've always been a forward thinker, constantly seeking to improve my herd and investing accordingly," says Louis. "My goal was to develop a top quality herd."

In the last 15 years, 21 of his cows have been named "All Canadian" and "All American" champions. In 1995, one of his cows was named Canadian Champion for Protein. Louis judges at provincial, national and international shows, which helps him to develop relationships with dairy producers in other countries.

"The development of rural Canada, where nine million Canadians live and generate a substantial share of this country's economic output, is a top priority for the Government of Canada. Farm Credit Corporation's constant innovation in designing financing plans tailored to the specific needs of primary producers and agribusiness – most of whom naturally are located in rural communities – makes the Corporation a valued partner with rural Canada in meeting the challenges and opportunities presented by the global economy."

– **The Honourable Lyle Vanclief**, Minister of Agriculture and Agri-Food

In our quest to be visionary leaders and trusted partners in agricultural financing, we leverage our knowledge and expertise, applying teamwork, initiative and problem solving, to bring producers' visions to light. Their success is our measurement of success.

Objectives:
FCC Measures Up!

Performance Against Objectives 1997/98

Visionary Leaders

Visionary Leaders

Our role is to be forward thinking, anticipating what farmers and agribusiness need. Our solutions must be above the ordinary . . . and they must be beneficial to the customer.

Objective 1

Pursue customer-driven organizational change

Absolutely everything we do must benefit the customer, from the first farm visit to administering the loan for its duration to final payout. Service must be professional, friendly, efficient and timely. To meet these expectations, the Corporation has continued to streamline processes first initiated with reengineering in 1995/96.

Specialized processing centres were created at the beginning of fiscal 1997/98 to support the "behind-the-scenes" journey of a loan, from analysis, concurrence and disbursement to loan administration. In addition to FCC's network of over 100 field offices across the country, FCC's national internal service centre processes personal property loans (such as equipment and livestock) and real property loans (such as land and buildings) as well as loans for other purposes sourced by FCC staff or by our alliance partners. Seven centres across the country are completely devoted to loan administration, disbursements and loan approvals, freeing time for personalized service and enhanced customer relations. This internal restructuring also completely separated risk management from the line lending functions, corresponding with modern risk management practices.

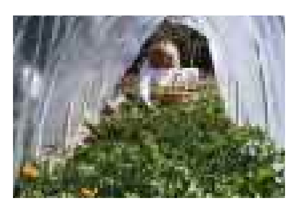
Ensuring an optimum level of customer service during restructuring was a high priority. FCC retained staff experience and expertise throughout the transition period by relocating staff with their functions where needed. Employees participated in change-management training sessions as well as information sessions on new work processes.

The result? Greater efficiency and faster turnaround times for loans of all sizes.

Immediately following the restructuring, we asked a sample group of 220 customers if they had noticed a difference in the level of service they received from one of our operational centres or from field staff. The majority told us that we had indeed supplied optimum service and many even noted that service was faster.

Innovation

Putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada is our only business.



Objective 2

Fulfill customer expectations for best total cost, dependability and convenience, and ensure products are delivered in a planned, systematic, client-friendly manner.

In today's fast-paced global environment, it is essential for customers to receive timely, accurate and useful information that enables them to reach their goals and objectives. FCC must provide this kind of service to earn customer trust, respect and confidence. We determined the best way to do this was by improving, designing and implementing business information systems.

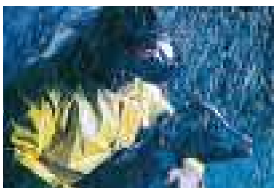
FCC continued updating technological architecture and evaluating alternatives to improve or replace its integrated loan accounting and financial management system. The Corporation has also developed an action plan to ensure readiness for the new millennium, including raising customer awareness of the need to prepare for the Year 2000.

The Corporation developed and implemented a corporate-wide training program to provide staff with professional skills and increased knowledge of FCC's loan management systems. The program provides a benchmark measuring progress. A post-training evaluation of its effectiveness will identify where follow up is needed.

Trusted Partners

Trusted Partners

We take time to get to know our customers and their business. We understand their needs. We value our relationships and partnerships with key stakeholders in the industry. Strategic alliances benefit our customers.



Objective 3

Enhance access to capital and other financial services for agricultural customers by developing new products and services and exploring agribusiness market potential.

Technology, travel and communication have opened up markets for Canadian agricultural producers. In order for Canadian producers and agribusiness to capitalize on these opportunities, FCC established an Agribusiness division to complement the Farm Financing division. Each is devoted to assisting Canadian agribusiness and primary producers respectively in achieving their full market potential.

FCC announced several new products developed in consultation with producer groups to meet the particular financial needs of certain specialized enterprises. The Plant Now – Pay Later Loan for the grape and winemaking sector, and the Apple Grower Loan, both industry requested, help offset necessary costs associated with replanting and expansion to grow high-quality fruit to meet customer demands. In the aquaculture sector, FCC is a major source of credit. In the grain belt and in other parts of the country, FCC has provided knowledge, understanding and timely financing to producers diversifying their operations and developing value-added enterprises.

In step with growth in the agribusiness sector, the Corporation worked with other financial institutions – including banks, credit unions and other suppliers of capital – to provide funding packages for projects such as inland grain terminals, feed mills, specialty seed processing plants, potato processing, specialty cheese processing and meat processing facilities.

Endeavoring to make access to capital easier and more convenient for producers and agribusiness, FCC established alliances with equipment dealers, livestock brokers and agricultural suppliers. FCC's Agribusiness division reports a net volume of $155.0 million compared to virtually no lending to agribusiness five years ago. FCC will further develop products and services and expand partnerships as the needs of the agribusiness sector evolve.

Power

Agriculture is powered by people – farm communities, farm families and all those supporting the industry. FCC's ability to be a powerful and integral player begins with the employees who serve Canadian agriculture.

Objective 4

Create an environment that results in dedicated and resilient employees by introducing and implementing a new compensation system.

While upgrading information systems and changing the way we work is important, FCC recognizes that the human factor is the most essential component in delivering the most effective solutions possible to our customer.

FCC implemented a new compensation system that links incentives to performance and bases salary progression on the development of strategic competencies.

Core competencies of knowledge and expertise, teamwork and leadership, customer service, problem solving, achievement orientation and communication skills have been integrated into all aspects of FCC's Human Resource programs. These strategic competencies, first introduced in recruitment and core curriculum developed for training purposes, are now part of the compensation system. As a next step, the core competencies system will be integrated into succession planning and management development.

Viability

The real value of possessing a vision is having a clear destination. In concert with each customer's vision to realize success in their business, we provide products and services that add value. Viability is an essential ingredient for success.

Objective 5

Achieve a desired return on equity that contributes to a sound capital structure, thereby enhancing the Corporation's viability.

Strong financial performance during 1997/98 contributed to FCC's goal of long-term financial viability, demonstrated by an improved loan portfolio quality and a better-than-planned capital structure, in spite of increased expenses necessary to continue restructuring and reengineering. Marking eight consecutive years of profit, FCC earned a net income of $41.6 million, a slight improvement over last year's net income of $40.6 million.

The Corporation achieved an 8.3 per cent return on equity (ROE), better than the 7.9 per cent target. In 1996/97, the ROE was 9.3 per cent. The lower ROE reflects a greater level of administration costs and diminished gains from special programs introduced in earlier years.

FCC's equity base grew by $91.6 million during the year from profits and $50 million received from the Government of Canada. This equity injection demonstrates the federal government's long-term commitment to Canadian agriculture and FCC's role as a leader in agricultural financing. FCC's growth in equity allowed for expanded lending volumes while maintaining a sound debt-to-equity position. FCC's debt-to-equity ratio improved to 9.4:1 compared to 10.0:1 in the previous fiscal year as a result of increased lending.

In 1997/98, the Corporation achieved an ambitious goal, set in 1994, to build a $5 billion loans receivable portfolio by 1999. FCC staff reached this goal one and a half years ahead of schedule. FCC's substantial growth in lending, spurred by the introduction of new products such as the Variable Rate and Personal Property Loans, and a healthy lending environment, is proof that FCC excels at providing lending services to farmers and agribusiness.

Agricultural Financing Across Canada

Relationships with customers, key stakeholders and financial specialists create a synergy that benefits all. By working together, we can provide solutions to meet our customers' needs.

Objective 6

Provide financial services to farmers and agribusiness that are consistent with government objectives for rural economic development.

Recognizing that strategic partnerships and alliances create greater value for our customers, we actively developed partnerships with other industry stakeholders, financial institutions and credit unions to broaden the offering of financial services available to Canadian producers and agribusiness. These partnerships help us combine resources, products and services, offering the whole spectrum of services to shared clients.

FCC continued providing programs and services on behalf of Agriculture and Agri-Food Canada. The National Biomass Ethanol Program (NBEP) encourages firms to invest in the Canadian ethanol industry and makes it easier for producers to obtain private sector funding. Business Planning for Agri-Ventures (BPAV) gives farmers access to planning expertise in order to increase the success rate of agricultural and value-added business initiatives in rural Canada.

After a two-year pilot, the Cattle Options Pilot Program (cOPP), a federal program administered by FCC, wound down following the recommendations of its advisory committee. Agriculture & Agri-Food Canada will continue to explore the possibility of listing a cattle option on a Canadian exchange by the fall of 1998. New cOPP options were available until October 23, 1997.

Beyond 2000

Objectives 1998 – 2003

Building Relationships That Last

FCC Credit Advisor Bill Adam with David Glover at Madaglo Farms near Campbellford, Ontario.

Relationship building is at the core of our business. We know that the customer of today and beyond expects service from people who not only understand their business, but also work with them to help achieve their goals.

Everything we do at FCC must support our vision of leadership and partnership with the agricultural community. Our corporate objectives for the next five years are tied to our five strategic thrusts: Purpose, Viability, Alliances and Partnerships, Product Development and Visibility.

1998 - 2003 Objectives

Enhance customer satisfaction and radically improve internal efficiency through business process reengineering and the strategic use of technology to position FCC for the new millennium. A formal mechanism will be established to measure satisfaction which will become a major component of employees' performance evaluation.

Maximize employee potential through the creation of a comprehensive human resources management framework by developing a succession planning program and management development programs, which will complement initiatives already in place. A review of the current pension plan will be conducted. Recommended changes will be implemented in 1999/2000. Our highly motivated staff, wholly committed to serving our customers, will ensure that we succeed in achieving our vision and objectives.

Ensure sustained financial viability to enable FCC to consistently work with farm families and agribusiness to achieve their vision. Specific goals include developing and implementing an Integrated Risk Management program, and improving priority management and resource allocation. FCC will continue working toward a sound capital structure. FCC's goal for 1998/99 is to achieve a return on equity of 6.6 per cent while growing a quality portfolio by $407 million, improving the margins in accordance with the targets set and continued expense containment. Striving for the lowest available funding costs, FCC will diversify its funding base and develop new sources of capital.

Develop, promote and deliver agricultural financial solutions that meet the needs of primary producers and agribusiness by listening and working with customers and industry stakeholders. FCC will allocate additional resources to develop and launch new products.

Actively and consistently communicate FCC's purpose, vision and services to customers, stakeholders, and financial lenders. Personal contact will continue to be FCC's strength. The Corporation's priority is to ensure producers, processors, farm groups, and other lenders understand its direction towards becoming a visionary leader and trusted partner in agricultural financing. Raising awareness and broadening its accessibility into the next millennium, FCC will develop and launch an Internet site and develop a national speaker's bureau.

Enhance Canadian agriculture through proactive development and implementation of corporate affairs and public policy initiatives based on a thorough understanding of shareholder and stakeholder expectations. The Corporation will strengthen liaison with both groups, including through the establishment of a government affairs office in Ottawa. FCC will continue to serve as an effective delivery vehicle for government policy on agricultural issues on a cost-recovery basis.

FCC's Family Farm Loan – A Recipe for Success

Marilyn and Ken Danielson

of Last Mountain Stock Farms are venturing into hog production, filling an appetite for pork in Japanese and U.S. markets. FCC's Family Farm Loan is an important part of their recipe for success.

Taking the first step toward realizing their goal, the Danielsons sold their cattle and expanded their land base, purchasing five quarters from two different vendors with FCC's Family Farm Loan. This loan, unique to FCC, allows the seller to receive all proceeds over five years while the buyer pays less interest and builds equity faster.

"Without the Family Farm Loan, it wouldn't have happened because the down payment would have been prohibitive," says Mike McAllister, Credit Advisor.

"We really appreciate the trust FCC put in us. They place confidence in us, giving a lot of room to grow," says Ken.

FCC Wins Auditor General of Canada's Award

Auditor General of Canada L. Denis Desautels (centre) presents the award to John J. Ryan (left) and Donald W. Black, Chair, Board of Directors (right).

In March 1998, Farm Credit Corporation was awarded the *Auditor General of Canada's Award for Excellence in Annual Reporting by Crown Corporations* for the 1996/97 Annual Report and Corporate Plan. This is the second consecutive year that FCC has won this prestigious award.

> *"The receipt of this award for the second year in a row is confirmation that the Auditor General of Canada recognizes and concurs with FCC's belief in accountability and our way of doing business."*
>
> – John J. Ryan, FCC President & CEO

FCC

Lending a Helping Hand *in the* Community

Farming is a way of life and business like no other: one day reaping Mother Nature's bounty, the next, feeling her wrath. Over the past 40 years, there have been the good times and there have been times when FCC has been put to the test – when the stakes have gone beyond the bottom line. These are the times when experience, commitment, passion and understanding really count.

Clockwise from top left: **Bruno Soucy, Assistant Vice-President and Credit Advisor Paul van de Wiel hard at work during an FCC-sponsored aquaculture client barbecue in St. Andrews, New Brunswick.**

Ted Young congratulates Mairi Sunter, winner of the Young Speakers for Agriculture Program.

Guelph Mayor Joe Young, Federal Minister of Agriculture and Agri-Food Lyle Vanclief, Ontario Minister of Agriculture, Food and Rural Affairs Noble Villeneuve, and FCC Chief Executive Officer John Ryan officially open FCC's new Guelph office.

Farm Credit corporate office employees and friends support the Heart and Stroke Foundation by riding in the annual Heart Beat Bike Tour.

CEO John Ryan presents door prize to farmer Chris Hale at Regina District's customer appreciation night.

Atina Ford, Administrative Assistant, corporate office is a proud member of the Sandra Schmirler rink, Canada's Olympic Gold Medal Women's Curling Team.

Celebrating the Good Times

FCC sponsors agricultural related events across Canada such as the Royal Winter Fair; Canadian Dairy Farmers Annual Meeting; Farm Progress Show; National Logging and Forestry Show; Canadian Western Agribition; Canadian Poultry Industry Council; London Poultry Show; Atlantic Aquaculture Explosion Conference and Fair; and the Canadian Young Farmers Forum.

A proud sponsor of 4-H and FRAQ in Québec, FCC's 4-H Scholarship Program offers 16 scholarships of $1,000 each to rural youth pursuing a post-secondary education.

FCC was the title sponsor of a permanent soil display at the Saskatchewan Science Centre. The display, entitled *Discovery Jones's Fantastic Farming Adventure*, is made up of 26 interactive displays promoting farming. It is the first hands-on interactive farming exhibit in the world, with a focus on providing educational resources for tomorrow's farmers.

FCC lends its support and encouragement to dozens of other worthy causes and community activities across the country including: Farm Safety Night in Shakespeare, Ontario; *Fondation Éducation Coopérative*; Nova Scotia Agricultural College; Peace Region Farm Women's Seminar; the Wascana Institute for American Sign Language; the Breast Cancer Action Walk; Western Heritage Centre; and Ranch Ehrlo Society, a group which assists troubled adolescents.

In 1997/98, FCC contributed more than $425,000 in agricultural sponsorship and donations to communities.

FCC Credit Advisors Duane Guina and Kendra Mueller present the FCC 4-H Scholarship to Kelley Willison and Wendy Moellenbech.

"I would like to take the opportunity to extend my sincere thanks for the scholarship you awarded me. It is comforting to know that organizations such as yours are taking measures to ensure a proper education and a prosperous future for rural youth. Your generosity is greatly appreciated and will be put to good use."

– Jason Brownridge,
Student and recipient of the FCC 4-H Scholarship.

Below: **Credit Advisor Les Pilsner wins bareback event at the Canadian Cowboy Association Finals Rodeo in Lloydminister.**

Adopt-A-Family – *a program that gives back in smiles*

"When I made my delivery to one of the families, I arrived at bath time. Two very wet pink cherubs came running to the door with mom – towels in hand. The oldest, at four, had a good idea of what was going on. When she looked up with bright eyes and asked if I was from the North Pole, my heart melted. "

– Michel Hermann, Information Technology, Programmer/Analyst

Commitment to the family and community are values not only felt, but lived among FCC staff in their support and enthusiasm for the Adopt-A-Family program which supports families experiencing difficulty.

Corporate office employees sponsored families at Christmas time with Christmas dinner, toys, clothes and personal computers. They discovered the real gift is in giving.

"It made me realize how people go through tough times and how important it is to help others. " – Kimberley Hembroff, Administrative Support, Agri-Land.

Staff in the Moncton office actively support the Adopt-A-Family program with food, bedding, kitchen supplies and school supplies as well as by donating money to the school breakfast program all year.

"When it comes to people in need, the Moncton staff are always willing to lend a helping hand and give back to the community." – Marie-France Kenny, Official Languages and Translation Officer.

United Way – *supporting Farmers with Disabilities*

FCC demonstrated its commitment to those in need with enthusiastic support of the United Way Campaign through employee "fun-raising" contributions and matched donations from the Corporation.

FCC sponsored Farmers with Disabilities, a group under the United Way umbrella which offers support to farmers and their families who have undergone major accident traumas, chemically induced illness, chronic pain, stress health and financial strain.

Corporate office staff rallied behind the United Way, participating in the local fire truck push competition.

Reaching Out During the Bad Times

The spring of 1997 and early winter of 1998 saw Mother Nature at her most powerful, affecting farmers East and West. In Southern Manitoba, the Red River flood devastated agricultural communities, leaving many farmers with destroyed homes and eroded soil. During this difficult time, FCC staff lent a hand with sandbagging to keep the waters back.

Mother Nature again unleashed her fury, this time on Eastern Ontario and Western Québec. The ice storm of January 1998 paralyzed communities, destroying trees and leaving many farmers without power for days or weeks.

Employees contributed to the relief efforts, personally helping in their communities and distributing generators that were shipped in from other areas including the United States. FCC responded with financial contributions to the Ontario Rural Relief Fund and to the *Union des producteurs agricoles du Québec's (UPA) Fondation de la famille terrienne* relief fund for ice-storm victims.

In both instances, FCC responded immediately, helping customers overcome the challenges of rebuilding by offering support and advice and providing additional loans or adjusting existing loan terms.

"It is one thing to lose material items and buildings or have damage to land, but they can all be rebuilt, replaced or repaired. However, lives cannot be replaced and we are thankful to God that very few lives were lost."

– FCC Office Assistant Suzanne Gagnon whose house lost the battle against rising flood waters. FCC staff pitched in from across the country to help out with a donation.

Top right: Marie-Andrée Mallette, FCC Board Member, M. Laurent Pellerin, président, Union des producteurs agricoles du Québec, and FCC Assistant Vice-President Jacques Lagacé pose with FCC's presentation cheque for ice storm relief.

Bottom right: Leslie Jacobson, Keystone Agricultural Producers, accepts FCC's $25,000 cheque for Manitoba Farm Flood Relief from Armand Leclerc, Assistant Vice-President.

"Many residents are still not back in their homes and many farmers will be feeling the effects of the flood for years to come."

– FCC Credit Advisor Bonnie Hagborg of Morris, Manitoba

FCC Senior Management

back row from left to right:

M. Blake Walker, *Vice-President and Treasurer*

Marshall Stachniak, *Vice-President, Farm Financing*

André Tétreault, *Assistant Vice-President, Corporate Audit*

Dale Canham, *Vice-President, Planning, Legal and Government Relations*

Russ Holm, *Executive Vice-President, Operations (retired May 8, 1998)*

Greg Stewart, *National Project Director, Business Process Reengineering*

Terry Kremeniuk, *Vice-President, Agribusiness*

Doug Higgins, *Vice-President, Service Centres*

front row from left to right:

Kellie Garrett, *Vice-President, Communications & Public Relations*

Moyez Somani, *Chief Financial Officer*

Donald Stevens, *Vice-President and Controller*

Louise Neveu, *Executive Vice-President, Operations*

Terry Craig, *Vice-President, Risk Management*

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

Linda Yeo, *Vice-President, Information Technology*

Inset from left to right:

Janet Wightman, *Vice-President, Human Resources & Administration*

Don Jackson, *Vice-President, Marketing & Product Development (retired March 31, 1998)*

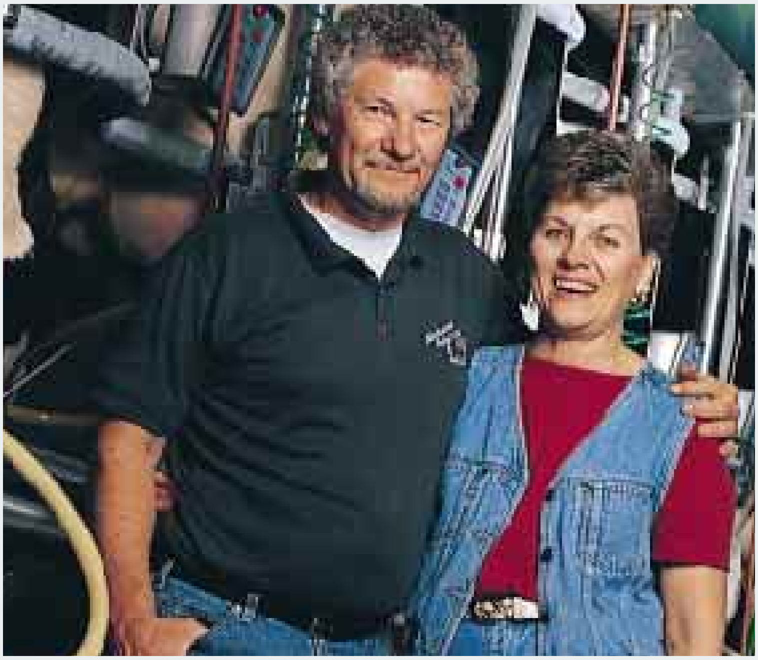
FCC's Senior Management Team

plays a key role in guiding the Corporation, championing its direction, inspiring and empowering employees to put the power of our specialized knowledge to work for farm families and agribusiness across Canada. This group of 17 men and women set strategy in accordance with FCC's vision and corporate goals as well as balanced the Corporation's ability to absorb change by choosing initiatives to maximize results. Representing every facet of the Corporation from operations to support functions, the Senior Management Team ensures all critical information is considered in decision making. The team regularly reviews progress on all projects and initiatives, sharing current issues regularly and reviewing strategic direction and corporate performance quarterly.

Members are expected to act in good faith, exercise care, skill and diligence in accordance with the *Financial Administration Act*. They must adhere to the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest as specified in the *Employee Conduct and Ethics Policy*. At all levels, FCC management is committed to making FCC a positive, professional and ethical environment in which to work.

Senior Management is compensated in keeping with compensation policies and scales approved by the Board of Directors. Compensation for the Chief Executive Officer position ranged from $140,000 to $175,000; Executive Vice-President and Chief Financial Officer compensation ranged from $89,680 – $130,580; and compensation for Vice-Presidents ranged from $75,930 to $110,560. All executives are paid within their respective ranges and receive a variable component linked to the performance of the Corporation, the business unit and the individual. On average, this payout represents 10 per cent of salary. Total cash compensation paid to all senior management, including the CEO, for fiscal 1997/98 was $1,594,056.

Hard Work, Ambition *Yield* Success *in Agribusiness*



Len and Grace Krahn of Birchwood Dairy run a successful agribusiness that includes a 180-cow dairy, processing plant and retail outlet in Abbotsford, British Columbia, specializing in kosher dairy products.

"Len was always the push behind things. When you are young and ambitious, things happen," says Grace.

Things happened all right. Beginning with a 20-head cow operation in 1964, the Krahns now employ five people on the farm and eight more in the processing plant, including their four children. The coffee shop/ice cream parlor employs 10 people.

Birchwood Dairy was the Krahns' dream, brought to fruition by the hard work of the whole family and realized with the assistance of FCC Account Manager Diana Barchard.

"We can't say enough about the help Diana has been to us," says Grace. "She really got us on our feet when we were expanding and is always there to help us work through those financial challenges."

Management Discussion and Analysis

Visitors at Green Week in Berlin, Germany sample Canadian salmon. In international markets, the Canadian maple leaf is recognized as a symbol of quality.

The concept of working together, being innovative and creative is a core value shared by agricultural communities across Canada. Primary producers, value-added enterprises and agribusiness have long understood the concept of collaboration – forming cooperatives, working together for a common goal. Farm families represent partnerships that extend beyond blood ties, with sons and daughters, hired hands and the agri-food sector working interdependently – moving product from the field to the table.

These strong roots position primary producers to adapt to the demands of the new global marketplace where world trade and technology have virtually redefined agriculture. The farmgate is now open to new cultures, ideas, concepts and expanding markets. In this highly competitive environment, consumer demands have changed toward processed foods and specialty products in some markets, while other market demands reflect Canadian appetites for leaner meat. Industries such as fresh-water and salt-water aquaculture, estate wineries, hydroponic greenhouses and wild game farming and processing have rapidly grown in the past decade. The agricultural sector has changed from a focus on producing to processing, value added and delivery to customers.

The agriculture and agri-food sectors expect to see greater demand as the population continues to grow. Positive indicators for the Canadian agricultural economy begin with growing global trade and a strong competitive position. The demand for credit, at a record high in 1996, remained strong through 1997. Overall, the Canadian farmer's balance sheet is healthy at 85 per cent equity and is comparable to the U.S. farmer's. Land values have been increasing steadily for the past four and a half years but are expected to increase at a much slower rate. Recognizing the inherent risks in focusing efforts on a single commodity, the agricultural community is diversifying and employing business practices to offset exposure to risk. The success of the sector is having an impact both at home and abroad. The value of gross output (including inputs and outputs) of all sectors linked to the agriculture and agri-food industry is $95.5 billion.

Operating Environment

Factors Affecting Canadian Agriculture

While the Canadian agricultural sector is experiencing a positive environment for growth, there are challenges on the horizon.

Environmental Issues: The sector is affected by increasing environmental concerns about waste management and chemical use, especially in more populated areas. Food quality and safety continue to be important.

Traditional farm groups most directly affected by environmental issues are those near urban areas and intensive cattle, poultry and hog operations facing the challenge of dealing with unpleasant odors and waste disposal.

FCC works with the industry to deal with environmental challenges by including environmental assessment standards in the lending process, which ensure agricultural operations meet accepted environmental standards; and by referring customers to environmental experts when necessary. The Corporation also promotes environmental awareness in customer publications.

Technology: In today's competitive market, advancements in technology have virtually brought worlds and markets together. Through telephone and computer access, information is available instantaneously. With information and opportunity virtually at their fingertips, producers act with flexibility, accuracy and timeliness, using advances in biotechnology and selective breeding and feeding developments. Responding and taking advantage of new developments are essential to future success as Canadian producers compete domestically and globally. FCC supports customers in taking advantage of technological benefits to realize goals for long-term viability and increased productivity.

Technology also is revolutionizing the financial services sector, opening more access channels, affording choices in service delivery. To ensure that our customers receive quality products and services at competitive prices, FCC restructured and reengineered business processes, streamlining service delivery channels.

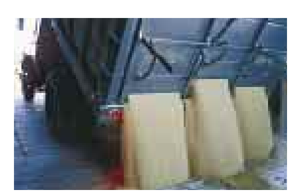
FCC has not lost sight of the fact that customers still demand personalized service. Our field staff visit customers on the farm, at the processing plant and at the kitchen table.

Social/Demographic: The face of agriculture is expected to change extensively in the next decade as the farm population ages. From 1991 to 1996, the numbers under 35 years of age have declined from 78,000 to 61,000. The average age of operators is now 48. This presents some challenges for the agricultural financing sector to find innovative ways to help older farmers to receive an appropriate return on their investment when they decide to sell or transfer their farms while alleviating prohibitive start-up costs for developing farmers. Through products such as the Family Farm Loan, FCC facilitates intergenerational transfers and is working to develop additional products to address this issue.

Global Trade Policy Drives Change

A number of changes in agricultural policy both at home and abroad are impacting various industries across Canada. Trends toward global trade liberalization and the elimination of trade-distorting subsidies are creating more opportunities and risk as a result of greater competition in the international markets.

Canadian agricultural policy also is being affected by these trends as evidenced by the conclusion of the Western Grain Transition Payments Program (WGTPP) which largely affects producers in Saskatchewan and Manitoba. Producers are now paying the full cost of shipping their products to market, which has prompted them to grow crops that will maximize their return and to delve into markets more likely to produce



"Decision-making processes have changed as producers and processors focus on market needs. Producers have to get their products to market and make money at the end of the day. As a result, we are seeing more creativity and innovation on the part of our customers to maintain competitiveness"

– Terry Kremeniuk, Vice-President, Agribusiness

greater financial benefits. As farmers look for competitive ways to increase their return, on-farm diversification is becoming common practice.

Structural changes, such as railway branchline closures, have encouraged the next generation of grain handling facilities, inland grain terminals, replacing the many prairie grain elevators that have served the industry for many years.

Completing the circle: FCC's Farm Financing and Agribusiness divisions – from primary production to consumer products.

Globalization and increased competition demand that producers respond to the market with high-quality products at a competitive price. Challenges associated with increased cost of inputs, changing grain prices and less government program payouts may indicate a decline in farm net income. To ensure success and growth in the agricultural industry as a whole, FCC has devoted resources to both the primary producer and agribusiness through its Farm Financing and Agribusiness divisions.

International and domestic demand for higher value products are resulting in growth in the agribusiness and value-added sectors, which is having a positive impact on primary producers as new avenues for their products open up.

"Continued growth in value-added initiatives and a strong agribusiness sector create economic activity that benefits the agricultural industry as a whole. The more value added, the more primary production is needed and supported," says Marshall Stachniak, Vice-President, Farm Financing.

"Decision-making processes have changed as producers and processors focus on market needs. Producers have to get their products to market and make money at the end of the day. As a result, we are seeing more creativity and innovation on the part of our customers to maintain competitiveness," says Terry Kremeniuk, Vice-President, Agribusiness.

To provide the next step in production, getting the product from the "gate to the plate," FCC is working with other partners to help producers take advantage of new opportunities, such as building new grain terminals to clean product ready for export. Through FCC's Agribusiness division, the Corporation actively works with other financial lenders to meet the financial needs of agribusiness, equipment dealers, feedlots and processing plants.

"Continued growth in value-added initiatives and a strong agribusiness sector create economic activity that benefits the agricultural industry as a whole. The more value added, the more primary production is needed and supported"

– Marshall Stachniak, Vice-President, Farm Financing

Alliances and Partnerships

– Bridging the Worlds of Agriculture and Finance

"Working together, we can create a more positive, long-term environment for growth for the Canadian agricultural industry."

– John J. Ryan, President and CEO

As the agricultural industry continues adapting and changing, FCC is committed to putting its expertise to work for our customers by identifying and filling gaps in the marketplace to seize opportunities. That involves being proactive, keeping our vision fixed squarely on the future, fulfilling our role as a lender and an industry partner.

Just as farmers are developing alliances with suppliers to deliver an end product to the marketplace and looking at ways to manage risk within their operations, so is FCC developing partnerships and alliances with other lenders in the financial community in support of new business opportunities for the sector. The Corporation is committed to making this a natural part of everyday business to ultimately improve products and services offered to clients.

A Memorandum of Agreement with the Business Development Bank of Canada (BDC) assures seamless delivery to FCC and BDC customers in rural communities and assists agribusiness and farming-related business to grow by making available the coordinated services of both corporations. FCC collaborated with Export Development Corporation (EDC) to meet the financial needs of producers and processors to assist them in managing risks associated with exporting.

FCC collaborated with Export Development Corporation (EDC) to meet the financial needs of producers and processors and to assist them in managing risks associated with exporting.

Breaking new ground in the agricultural financial services sector, FCC is working with various financial institutions, expanding product availability and flexibility for mutual agricultural customers.

"Alliances between FCC, financial institutions, and credit unions is a triple-win situation. The client has a wide array of products to choose from, and benefits from the combined expertise of other lenders and FCC. The key is discussion and cooperation at a local level." – Roger Shier, Assistant Vice-President, Agribusiness.

"Developing strategic alliances is one of the Corporation's key strategic thrusts," says John Ryan, President and CEO. "I have met with various senior members of banks and credit unions across Canada to apprise them of FCC's future direction toward developing and building relationships for the benefit of Canadian agriculture.

"Our core business is to provide term financing to primary producers, farm families and small and medium-sized agribusinesses. Working together we can create a more positive, long-term environment for growth for the Canadian agricultural industry. Opportunities also exist for FCC to work with other organizations to co-finance larger transactions that would prove to be beneficial to our customers and both financial organizations. We are offering our expertise in the agricultural environment in conjunction with financial institutions and the customer will be the winner."

Management Discussion and Analysis

Operating Results

1997/98 Highlights

- Net income of $41.6 million is slightly above last year's result of $40.6 million.
- Fiscal 1997/98 was the fifth consecutive year of loan portfolio growth, up $631.8 million or 13 per cent.
- In 1997/98, net lease and real estate income was $5.9 million above last year. The number of acres returned to producers (98,082) exceeded the previous year's results (77,582).
- Cost of operations or administrative expenses of $90.1 million were higher than the $84.1 million reported in 1996/97. The administrative coverage ratio was 1.53:1, slightly lower than 1.56:1 last year.
- Return on equity of 8.3 per cent was below last year's results, largely due to a capital injection of $50 million from the Government of Canada.
- Debt-to-equity ratio for 1997/98 has improved to 9.4:1 from 10.0:1 in the previous fiscal year.

Current Year Lending by Enterprise

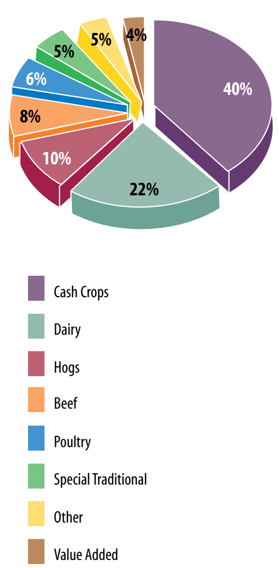
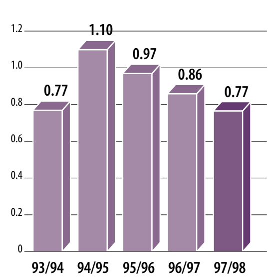


Table 1 – Key Financial and Operating Data

$ Millions	1997/98 Actual	1997/98 Budget	1996/97 Actual
Net income	41.6	39.4	40.6
Net interest income	134.1	136.9	141.7
Net interest margin (%)	2.50	2.60	3.03
Loans receivable	5,318.8	5,383.5	4,687.0
Arrears	29.7	40.1	29.4
Loan loss factor (%)	1.78	2.00	1.86
Administrative expenses	90.1	86.6	84.1
Administrative coverage ratio (X:1)	1.53	1.51	1.56
Return on assets (%)	0.77	0.75	0.86
Debt to equity (X:1)	9.4	10.3	10.0
Return on equity (%)	8.3	7.9	9.3

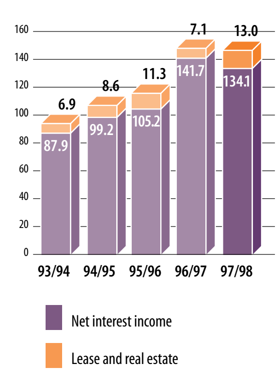
Return on Assets

(%)



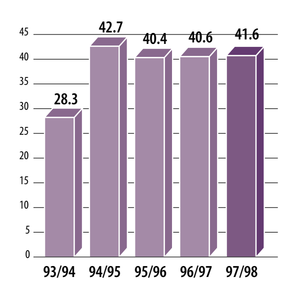
Net Revenues

($ millions)



Net Income

($ millions)



Lending Activity

1) Volume of Business

Net income of $41.6 million for the year ended March 31, 1998 is slightly higher than last year's result of $40.6 million and $2.2 million better than the budgeted net income of $39.4 million. This favorable variance is a result of strong loan growth, stringent management of net interest income margins, strong results from the real estate portfolio and increases in other income.

FCC approved a record 15,488 loan applications with a net value of $1.5 billion. This activity represents a 20 per cent increase in the number of loans approved and a nine per cent increase in the dollar value compared to last year's results. The average loan size in 1997/98 was $98,473 compared to $108,668 in 1996/97 – a decrease resulting from increased lending for equipment and livestock purchases.

Fiscal 1997/98 results reflect a financially healthy agricultural industry, stable interest rates and commodity prices, increased alliances and partnerships for FCC, a continuing trend in the agricultural community towards diversification of business into new markets, and a cautiously optimistic outlook for the future of agriculture.

Net loan disbursements during 1997/98 totalled $1.5 billion, representing a $161.3 million or 12 per cent improvement over 1996/97 and exceeding budget expectations by $41.2 million.

FCC offers renewals on maturing loans to customers who demonstrate both the willingness and ability to repay debt. Of those offered renewals, 95 per cent accepted, choosing to remain with FCC. This renewal rate is slightly ahead of last year's result of 94 per cent.

FCC views this high level of renewals as a positive measure of client satisfaction, an indication that FCC is meeting the needs of the agricultural community through its product and service delivery.

2) Loan Product Selection

For the year ended March 31, 1998, FCC clients chose lending terms that were fairly evenly divided between terms of less than five years (52 per cent) and five years or more (48 per cent). This is consistent with the choices made by our clients in the two previous years. Lending to both cash crop and dairy enterprises continues to dominate new lending activity, representing 40 per cent and 22 per cent respectively.

Table 2 – 1997/98 Key Lending Results

$ Millions	1997/98 Actual	1997/98 Budget	1996/97 Actual
Net loan disbursements	1,504.2	1,463.0	1,342.9
Loan renewal rate (%)	95.0	94.0	94.0
Loans receivable	5,318.8	5,383.5	4,687.0
Loan loss factor (%)	1.78	2.00	1.86
Arrears	29.7	40.1	29.4

In addition, FCC has diversified its lending, serving a greater variety of enterprises, as evidenced by increases in new lending to hog, poultry, value-added and other enterprises.

3) Agribusiness and Alliances

Agribusiness and alliance agreements contribute to the economic diversification and strength of Canadian agriculture, helping to build a strong future for producers and their communities.

Of the approved 15,488 loan applications, 16 per cent were a direct result of partnerships and alliances. FCC's Agribusiness division reports a net volume of $155.0 million compared to virtually no lending to agribusiness five years ago.

Loan Portfolio

1) Loans Receivable Portfolio

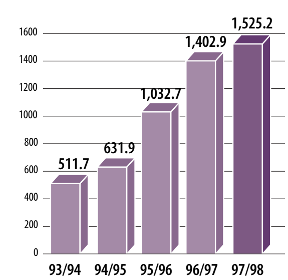
Fiscal 1997/98 was the fifth consecutive year of portfolio growth, up $631.8 million from $4.7 billion at March 31, 1997. This increase represents a growth rate of 13 per cent (15 per cent in 1996/97) bringing the loans receivable portfolio to $5.3 billion at March 31, 1998.

Over the past three years, loans receivable portfolio growth has averaged 15 per cent or $594.4 million. This success is due to the following factors:

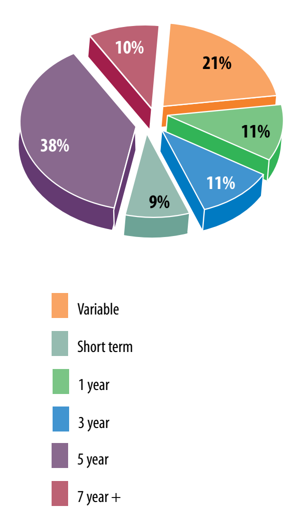
- continued financial strength and diversification in the Canadian agricultural industry;
- initiatives to strengthen existing relationships with clients and to establish new FCC customers by understanding their needs and delivering products to match; and

Net Amount of Loans Approved

($ millions)



Current Year Lending by Loan Term



Loans Receivable Portfolio

($ billions)

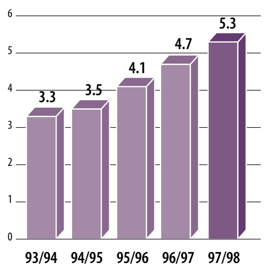


Table 3 – Loans Receivable Portfolio as at March 31

	1997/98		1996/97	
$ Millions	Number	Amount	Number	Amount
British Columbia	**1,872**	**233.2**	1,805	246.9
Alberta	**8,497**	**765.8**	7,696	605.0
Saskatchewan	**22,975**	**1,174.9**	21,336	1,066.9
Manitoba	**7,771**	**481.1**	7,718	431.0
Ontario	**16,573**	**1,586.8**	15,409	1,382.6
Québec	**8,294**	**731.1**	7,786	640.5
New Brunswick	**1,827**	**149.0**	1,837	143.8
Nova Scotia	**734**	**79.7**	517	61.4
Prince Edward Island	**1,079**	**95.4**	1,024	88.3
Newfoundland	**224**	**21.8**	190	20.6
National	**69,846**	**5,318.8**	65,318	4,687.0
Allowance for credit losses		**182.7**		165.4
Loans Receivable, net of allowance for credit losses	**69,846**	**5,136.1**	65,318	4,521.6

- establishing mutually beneficial partnerships and alliances with other members of the agricultural community.

Total Canadian agricultural debt at December 31, 1996 as reported by Statistics Canada was $27.2 billion, with FCC holding 16 per cent market share, unchanged from one year earlier. Since 1986/87, the outstanding value of Canadian agricultural debt has increased by 13 per cent from $24 billion. At that time, FCC held 21 per cent of the total debt outstanding. Declining market share over this 10-year period occurred as a result of an increased number of sources of credit in the agriculture market and a strengthening of commitment to agriculture by other financial institutions.

2) Allowance for Credit Losses

The allowance for credit losses is management's estimate of probable credit losses (established as described in Note 2c to the financial statements) embedded in the loans receivable portfolio at the end of the year. The allowance is comprised of:

- a specific component to value loans specifically identified as impaired at their estimated realizable amount; and
- a general component in respect of loans for which impairment has not been specifically identified.

At March 31, 1998, the allowance for credit losses was $182.7 million, an increase of $17.3 million or 11 per cent from the previous year end. The allowance represents 3.4 per cent of the total loans receivable portfolio which, as a percentage, remains relatively unchanged from the two previous years. The related provision for credit losses was $18.7 million at March 31, 1998, compared to $24.0 million at March 31, 1997.

3) Portfolio Quality

The long-term viability of FCC is dependent on following policies established to ensure that the Corporation is not exposed to an unacceptable level of risk.

FCC uses financial modeling techniques to calculate a credit risk factor that estimates potential loss. It is a leading indicator in the management of risk on new lending. The risk factor at March 31, 1998 on new loans approved was 1.78 per cent, below target of 2.00 per cent and slightly less than the previous year's risk factor of 1.86 per cent. This improvement over the previous year is due to greater diversity in the loan portfolio, application of prudent lending policies and a stronger agricultural economy.

Loan portfolio quality is assessed using two key measures: the total arrears as a percentage of loan principal outstanding and the aging of arrears. After having shown improvement for five consecutive years, both of these indicators were relatively unchanged in comparison to the previous year.

Arrears at March 31, 1998, defined as the principal and interest payments past due, totalled $29.7 million and represent 0.57 per cent of principal outstanding. This is comparable to results one year earlier when total arrears were $29.4 million, representing 0.64 per cent of principal outstanding.

The aging of arrears experienced nominal change with arrears over one year at March 31, 1998 totalling $13.6 million or 46 per cent of total arrears.

4) Financial Performance of Lending and Funding Activities

Total interest income of $431.0 million for the year ended March 31, 1998, offset by an interest expense of $296.9 million, resulted in net interest income (NII) of $134.1 million, below budget by $2.8 million or two per cent. NII for 1997/98 is below last year's NII by $7.6 million due to reduced special lending program revenue.

Loans receivable income of $408.2 million is $21.6 million below budget due to higher-than-anticipated loan prepayment and interest rate buydowns combined with a lower rate environment.

"Financial viability cannot be achieved by any one individual in the corporation. Successful organizations require the commitment and contribution of every employee working as a team. Each one of us plays a vital role."

– Moyez Somani, Chief Financial Officer

Total interest expense of $296.9 million is $7.8 million less than budget. This favorable variance was a result of funding activities that took advantage of market opportunities and a lower rate environment than envisioned.

Net interest margin was 2.50 per cent at March 31, 1998, below last year's result of 3.03 per cent and below the budgeted target of 2.60 per cent. The decrease from last year's result is due to the significantly lower revenue received from special programs (net interest margin for 1996/97 would have been 2.61 per cent without revenue from special programs). The unfavorable variance from budget is a result of a higher level of short-term investments than budgeted. Short-term investments, held for liquidity purposes, provide low margin yields.

Table 4 – Lending Risk and Arrears by Enterprise at March 31

$ Millions	1997/98 Total Principal Outstanding	1997/98 % Risk Factor	1997/98 Arrears as a % of Principal Outstanding	1996/97 Total Principal Outstanding	1996/97 % Risk Factor	1996/97 Arrears as a % of Principal Outstanding
Cash Crops	**2,391.2**	**1.69**	**0.7**	2,136.2	1.82	0.8
Dairy	**1,235.9**	**0.29**	**0.2**	1,155.9	0.42	0.2
Beef	**489.3**	**1.38**	**0.9**	411.3	1.95	1.6
Hogs	**411.4**	**3.54**	**0.4**	346.5	3.37	0.5
Poultry	**275.3**	**0.39**	**0.2**	246.0	0.26	0.4
Value-added	**124.4**	**5.04**	**1.2**	75.3	6.13	0.9
Special traditional	**169.8**	**3.79**	**0.9**	70.0	3.69	0.9
Other	**221.5**	**3.23**	**0.8**	245.8	3.90	0.8
National	**5,318.8**	**1.78**	**0.57**	4,687.0	1.86	0.64

Arrears

($ millions)

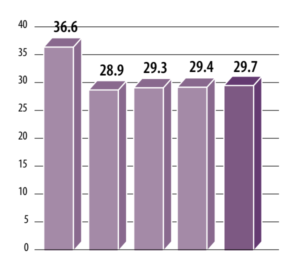


Table 5 – Net Interest Income

$ Millions	1997/98 Actual	1997/98 Budget	1996/97 Actual
Interest Income			
Loans receivable	**408.2**	**429.8**	406.4
Investments	**22.8**	**11.8**	13.4
	431.0	**441.6**	419.8
Interest Expense			
Loans payable	**267.4**	**274.8**	255.9
Short-term notes	**29.5**	**29.9**	22.2
	296.9	**304.7**	278.1
Net Interest Income	**134.1**	**136.9**	141.7
Average Interest-bearing Assets			
Loans receivable	**5,002.9**	**5,063.0**	4,376.6
Investments	**353.7**	**200.0**	301.7
Average Loans Payable			
Short-term notes	**846.7**	**680.0**	602.0
Long-term notes	**3,908.3**	**3,943.6**	3,602.5
Net Interest Margin (%)	**2.50**	**2.60**	3.03

Real Estate

Lease and Real Estate Operations

FCC's Agri-Land division manages the land portfolio and has a mandate to lease and eventually return land to the original owner where feasible. FCC is meeting its mandate: 80 per cent of the current year's total sales were to former owners. During the 1997/98 fiscal year, sales of 98,082 acres totalled $28.0 million, significantly higher than last year's sales of 77,582 acres for $17.8 million.

Sales were offset by acquisitions of $2.8 million, which resulted in a closing real estate portfolio of $123.5 million with 725,703 acres. This compares to the previous year's holdings of $139.6 million with 823,841 acres.

At March 31, 1998, 98 per cent of the land held by FCC was leased, up slightly from 96 per cent at the end of 1996/97. Of those leased acres, approximately 97 per cent were leased to former owners.

Net lease and real estate income for the year ended March 31, 1998 was $13.0 million, higher than last year's result by $5.9 million and $5.3 million above plan. This improvement over last year and budget are due to the gains on increased land sales, increases in lease rates, combined with a reduction in the carrying cost of property due to lower interest rates.

Table 6 – Agri-Land Property Holdings at March 31

$ Millions	1997/98 Total # of Acres	1997/98 # of Acres Leased	1997/98 $ Book Value	1996/97 Total # of Acres	1996/97 # of Acres Leased	1996/97 $ Book Value
British Columbia	**433**	**433**	**0.2**	433	0	0.2
Alberta	**8,297**	**8,000**	**3.0**	11,279	8,796	3.7
Saskatchewan	**680,556**	**665,833**	**109.7**	771,187	743,410	123.1
Manitoba	**33,917**	**33,917**	**7.4**	37,274	36,924	8.1
Ontario	**2,123**	**1,898**	**2.8**	2,752	1,981	3.5
Québec	**73**	**0**	**0.1**	168	0	0.2
New Brunswick	**1**	**0**	**0.0**	191	0	0.2
Nova Scotia	**302**	**302**	**0.3**	548	0	0.6
Prince Edward Island	**0**	**0**	**0.0**	0	0	0.0
Newfoundland	**1**	**0**	**0.0**	9	0	0.0
National	**725,703**	**710,383**	**123.5**	823,841	791,111	139.6

Gains on the disposal of property are consistent with the increase in farmland values over the past four and a half years and represent a partial recovery of substantial property write-downs incurred in prior years. Gains for fiscal 1997/98 were $9.2 million, an increase from the $6.6 million earned in 1996/97 when property sales were substantially lower.

Other Income

Comprised mainly of appraisal revenues, recovery of insurance administration costs and service fees, other income for the year ending March 31,1998 totalled $9.5 million, exceeding last year's results of $6.5 million and ahead of plan by $3.0 million. The increase in other income over last year was a result of funds received from FCC's insurance carrier, partially offset by a reduction in appraisal revenue.

Table 7 – Lease and Real Estate Income

$ Millions	1997/98 Actual	1997/98 Budget	1996/97 Actual
Real Estate Income			
Real estate revenue	**13.6**	**12.7**	13.6
Real Estate Expenses			
Real estate expenses	**2.9**	**2.7**	2.9
Interest expense	**6.9**	**10.3**	10.2
	9.8	**13.0**	13.1
Lease and Real Estate Income	**3.8**	**(0.3)**	0.5
Gain on disposal of property	**9.2**	**8.0**	6.6
Net Lease and Real Estate Income	**13.0**	**7.7**	7.1

Non-Interest Expenses

Administrative Expenses

Administrative expenses were $90.1 million for the period ending March 31, 1998, compared to $84.1 million last year and to the budgeted amount of $86.6 million. The increase over last year's actual and budget is mainly the result of the larger infrastructure required to support our expanding business.

During fiscal 1997/98, through a major restructuring with related cost implications, FCC established seven new service centres across Canada to provide enhanced customer service and increase efficiencies for the Corporation.

At March 31, 1998, the administrative coverage ratio, a measure of the resources available to meet operating expenses, was 1.53:1, slightly lower than 1.56:1 last year, but exceeding the target of 1.51:1.

Income Taxes

Income tax expense of $6.2 million is $1.2 million over budget but lower than last year's $6.6 million. The unfavorable variance from budget is a result of a temporary surtax under Part VI of the *Income Tax Act* (implemented by Revenue Canada) and budget assumptions that did not include the capital injection of $50 million received from the Government of Canada.

Discussion of Financial Ratios

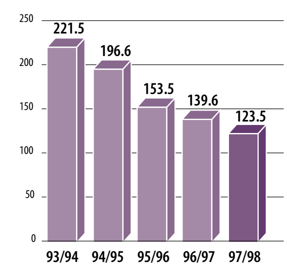
The debt-to-equity ratio at March 31, 1998 was 9.4:1, comparing favorably to the previous year end ratio of 10.0:1 and exceeding the target ratio of 10.3:1. The debt-to-equity ratio improved due to a $50 million capital injection from the federal government and net income of $41.6 million. This was partially offset by growth in outstanding debt necessary to support a larger portfolio. The Corporation is well within the legislated maximum debt-to-equity ratio of 12.0:1.

Return on equity at year end was 8.3 per cent (budget was 7.9 per cent) versus 9.3 per cent at March 31, 1997. The difference from last year's result is largely due to the capital injection of $50 million.

Return on assets is below last year's result and slightly above budget. At March 31, 1998, return on assets was 0.77 per cent compared to budget of 0.75 per cent and last year's result of 0.86 per cent. The return on assets for 1997/98 is lower than last year due to reduced special programs revenue.

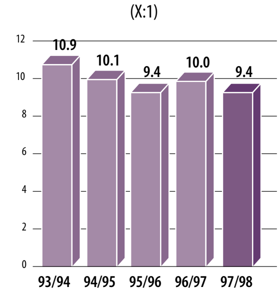
Real Estate Portfolio

($ millions)



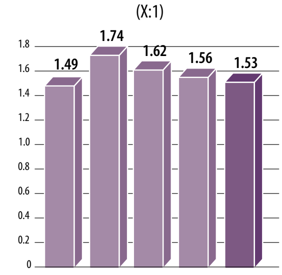
Debt-to-Equity Ratio

(X:1)



Administrative Coverage Ratio

(X:1)



Net Income Stabilization Account Program (NISA)

At the end of the second year of providing NISA services, 23,206 clients had invested $91.7 million dollars with FCC. This result is well below our target.

During the year, FCC conducted an extensive review of existing services, including NISA and consulted with farm groups and industry in the process. It was determined that the Corporation's renewed focus on its mandated core services to primary producers and small to medium-sized agribusiness means that the deposit-taking function required to offer NISA services does not mesh with the future direction of the Corporation.

FCC has decided to withdraw from NISA as a deposit-taking institution, as it is likely an area better served by other financial institutions. As at March 31, 1999, FCC will no longer hold NISA accounts.

The Corporation is working with the NISA Administration to ensure the smooth transition of all current FCC NISA customers to other financial institutions. FCC continues to strongly support participation in the NISA program as a good business decision for producers.

Outlook

With the softening of some commodity prices and the anticipated drop in farm net income, the Corporation expects lending to stabilize at current levels. Loan loss and risk levels are expected to also remain stable as producers continue to diversify and explore new opportunities.

Plans include the continued sale of land holdings back to producers. FCC expects future land sales to be lower than1997/98 levels due to uncertainties related to commodity prices.

Meeting the challenges of the Year 2000 and beyond is a major priority at FCC. The Corporation is well on its way to ensuring Year 2000 compliance of all systems, supporting hardware and software components. Research into infrastructure, networks and workstations is complete. Changes to the mainframe operating system, hardware and software are progressing on schedule. FCC is working with software vendors to ensure that existing products are Year 2000 compliant. Completion is targeted for December 1998, allowing a full year for quality assurance prior to the new millennium.

Table 8 – Key Financial Data and Forecast

$ Millions	1998/99 Budget	1997/98 Actual
Loans receivable	5,747.6	5,318.8
Net loan disbursements	1,320.5	1,504.2
Loan renewal rate (%)	96	95
Loan loss factor (%)	2.00	1.78
Arrears	40.9	29.7
Real estate portfolio	112.3	123.5
Admin. expenses	87.3	90.1
Net income	36.9	41.6
Admin. coverage ratio (X:1)	1.53	1.53
Return on assets (%)	0.61	0.77
Debt-to-equity ratio (X:1)	9.9	9.4
Return on equity ratio (%)	6.6	8.3

Partners in the True Sense

Madaglo Farms is a partnership in the truest sense of the word. This family-run dairy operation, named after Marie and David Glover, is a home, business and a future for the couple and their three children, Laura, Carolyn and James.

Since buying their first farm near Campbellford, Ontario in 1986, the Glovers have increased their operation in a careful, prudent manner, moving ahead only when the time was right, knowing when change was necessary to succeed.

"We started with 25 head of Holsteins, about 100 acres in vegetable cash crops and winter wheat and 150 acres of cattle feed," remembers David. "We expanded to 60 cows overnight and have increased to 400 working acres."

Using best practices such as good genetics, high quality rations and milking three times a day, the Glovers have increased production by 2,000 kilograms/cow/year or a total of 140,000 kilograms of bulk milk. In 1996, they won an award for the highest producing dairy herd in Northumberland county and eighth highest in Ontario.

In 1997, the Glovers installed a naturally vented, 100-head free-stall barn, which they plan to fill to capacity over the next five years, as they acquire more quota and land to increase productivity while assuring a sufficient land base for cropping and manure disposal.

"I found out farming is where my heart is," David says. "Marie and I really hope one or two of our kids will want to farm. If they do, we could expand again."

Treasury Management

Market Risk Management Overview

FCC's financial performance is impacted by the management of market risks that include foreign exchange and interest rate risk. FCC utilizes a formal risk management structure to oversee the management of market risks. The Corporation's Board of Directors sets risk policies and limits consistent with best business practices and in accordance with the Minister of Finance's *Financial Risk Management Guidelines for Crown Corporations*.

Risk limits relate the maximum amount of earnings variability and economic value risk the Corporation will accept from adverse movements in interest rates and foreign exchange rates. FCC's Asset/Liability Committee (ALCO) consists of senior management and is chaired by the President & CEO. It formulates policy and oversees foreign exchange and interest rate risk, and liquidity management on behalf of the Board of Directors.

Foreign Exchange Risk Management

Foreign exchange risk is caused by fluctuations in foreign exchange rates. The Corporation has a policy of fully hedging all foreign currency exposures to eliminate the potential foreign exchange risk associated with adverse movements in foreign currencies.

Interest Rate Risk Management

Lending activities expose the Corporation to interest rate risk (IRR), the potential adverse impact on FCC's earnings and economic value emanating from changes in interest rates. IRR can result from mismatches in the repricing of assets and liabilities and/or from embedded options related to lending products (i.e. loan rate guarantees and prepayment features). Repricing mismatches result from gaps in the amount of assets and liabilities maturing or repricing in a given period. The magnitude of interest rate exposure depends on the degree of mismatch and interest rate change. Embedded option risk exists when loan products contain prepayment features that allow borrowers to prepay debt before the scheduled maturity date. Based on past experience, approximately five per cent of the portfolio prepays annually. In 1997/98, loan prepayments of $416.9 million were received.

IRR exposures are monitored and managed to ensure compliance with policy risk tolerance limits established by the Board of Directors. Asset/liability management ensures that interest rate changes will not have a material adverse impact on net interest income or the capital position of the Corporation.

A variety of techniques are used to measure, monitor, and control interest rate risk including duration analysis, gap reporting and simulation and sensitivity analysis. FCC measures IRR exposures with an asset/liability modeling system that simulates changes in net interest income (NII) and market value of portfolio equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 1998, assuming an immediate and sustained increase of two percentage points in interest rates, NII would be lower than planned by approximately $1.7 million or 1.2% over the next 12-month period. This exposure is well within the NII variation limits approved by the Board of Directors. In addition, the market value of both assets and liabilities is calculated to determine the MVPE. Assuming an immediate and sustained two per cent increase in interest rates, MVPE would be lower by approximately $23.3 million. This exposure is within the MVPE variation policy limit.

Market Sensitivity– March 31, 1998

$ Millions	200 bps Increase	200 bps Decrease
Net interest income variability	(1.7)	(0.1)
Economic Value (MVPE) variability	(23.3)	7.8

Gap positions are also monitored to provide complementary financial control to the more sophisticated NII and Market Value analysis models. Gap analysis measures the difference in the amount of assets and liabilities and off-balance sheet instruments maturing or repricing in specified time periods. Gap positions may positively or negatively impact earnings depending on the nature or sensitivity of the gap and the future direction of interest rates. The Corporation strives to measure option-adjusted gap positions and manage its gap positions to ensure that interest rate changes will not have a material negative impact on the Corporation's earnings and economic value of capital.

Liquidity Risk Management

The goal of liquidity management is to maintain sufficient cash resources to meet customer and business operational requirements in a cost-effective manner. Liquidity risk is the risk that the Corporation may not have sufficient funds to meet all cashflow obligations. In this regard, FCC maintains policies that establish parameters for cash management, asset liquidity and diversified funding.

Liquidity coverage as measured by the liquidity ratio (ratio of cash and investments to total assets) increased to 6.8% in 1998 compared with 6.4% in 1997.

An additional component of effective liquidity management is the continual development and enhancement of a stable and diversified funding base.

Short-term funding sources include:

- *a domestic Commercial Paper Program;*
- *chartered bank lines of credit; and*
- *government funding sources.*

FCC also enhances its liquidity position by accessing international capital markets for medium-term funds as required and when market opportunities present themselves.

Off-Balance Sheet Management

Derivatives

Derivative instruments are used to manage interest rate risk and foreign exchange exposures. As an end user of derivatives, FCC also employs derivatives for funding and investment management purposes.

The Corporation actively uses off-balance sheet derivative instruments, including interest rate and currency swaps, options, forward contracts and equity-linked swaps, to hedge or modify interest rate and foreign currency exposures arising from funding, risk management and investment activities.

As at March 31, 1998, the total notional amount of outstanding derivative contracts was $1,648 million compared to $1,403 million as at March 31, 1997.

Pursuant to financial risk policy guidelines, derivative positions and risk exposures are reported monthly to ALCO and quarterly to the Board of Directors.

The following table highlights the primary types and uses of derivative instruments:

RISK MANAGEMENT	• Interest rate swaps for duration adjustment ; • Options on interest rate swaps (swaptions) to hedge prepayment and commitment risk; and; • Caps, floors, and collars to manage interest rate risk exposures.
FUNDING	• Currency swaps and foreign exchange contracts to eliminate foreign currency risk; and; • Equity-linked swaps and interest rate swaps to manage risks associated with structured funding transactions.
INVESTMENT MANAGEMENT	• Forward rate agreements (FRA's) to lock in investment returns and to hedge short-term funding costs.

Derivative Credit Risk

Credit risk associated with derivative activities pertains to the potential for a counterparty to default on its contractual obligations to FCC. The Corporation uses "dollars at risk" (DAR) methodology to manage credit risk in its derivative portfolio. DAR is based on statistical probability estimates of the potential losses FCC could experience. DAR includes the current market cost of replacing the derivative plus an add-on factor which is an estimate of the potential future change in the value of the derivative to maturity.

Derivative positions and credit risk exposures are continuously monitored and regularly reported to ALCO and the Board. As at March 31, 1998, FCC had no material credit exposures to counterparties.

Funding Activity

FCC uses domestic and international capital markets to fund its loan portfolio and business requirements.

FCC has three formal programs to source funds from international and domestic capital markets:

- *a short-term domestic Commercial Paper Program;*
- *a domestic Medium-Term Note (MTN) Program; and*
- *a Euro Medium-Term Note (EMTN) Programme.*

FCC continues to explore new borrowing programs and opportunities both in domestic and international money and capital markets in order to diversify its investor base and to generate cost-effective funds.

Short-Term Funding

As at March 31, 1998, outstanding short-term borrowings were $946 million compared to the balance outstanding as at March 31, 1997 of $748 million. This increase is attributed to a larger portion of short-term debt supporting the mortgage portfolio in 1998.

Medium and Long-Term Funding

During 1997/98, FCC borrowed a total of $1,022 million in medium and long-term funds, up from $809 million in 1996/97.

Medium and Long-Term Borrowing

for the fiscal Year Ended March 31, 1998

$ Millions	
Capital Market Borrowings	
Domestic Medium and Long-Term Notes	524
Domestic Structured Notes	363
Euro MTN Programme Notes	135
Total	**1,022**

In 1997/98, FCC issued $887 million in notes under its Medium-Term Note Program, of which $363 million were structured notes.

Based on anticipated new lending activity and depending on market conditions, aggregate new medium and long-term borrowings are estimated to be in excess of $1.0 billion annually over FCC's five-year planning period.

"FCC continues to explore new borrowing programs and opportunities both in domestic and international money and capital markets in order to diversify its investor base and to generate cost-effective funds."

– M. Blake Walker, Vice-President and Treasurer

‘Industrial Revolution of Agriculture’

Driving Change

The Jacobson Legacy: four generations of farming that began with Anna and Ernest in the 1940s

Les and Robert Jacobson have seen agriculture evolve from their parents’ modest single-quarter grain farm in Arborg, Manitoba to the diversified 3,500 acre mixed cash crop and 2,800 hog operation that they now run with Les’ two sons, Jeff and David.

“These times are like the industrial revolution of agriculture. Everything is different with technological advancements. Seeing the signals for change is essential to succeed,” Les says.

“The farms that stayed still and didn’t take advantage of fertilizers, chemicals and technology seemed to die out,” Robert agrees. “Using modern techniques along with computers and crop rotations is essential.”

Since 1967, when they purchased their initial 178 acres with their father’s help, to the present day, Les and Robert have listened to the signals and responded; in 1970, they diversified with hogs and expanded. “We could see that we needed a second outlet for our grain,” Robert says.

“The farms that stayed still and didn’t take advantage of fertilizers, chemicals and technology seemed to die out. Using modern techniques along with computers and crop rotations is essential.”

– Robert Jacobson

Increased freight costs prompted the Jacobsons to branch out from growing exclusively wheat to growing barley, canola, and flax as well as producing forage seed. About half the acres they farm supply feed to their growing hog operation. Like their parents, they went to FCC to purchase land and equipment.

Past-president of Keystone Agricultural Producers, Les believes that research and development are essential to making educated choices. “You have to go further down the food chain and get into processing. That requires making well-informed decisions.”

Management's Responsibility for Financial Statements

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

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

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

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

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

John J. Ryan

Moyez Somani

John J. Ryan
President and Chief Executive Officer

Moyez Somani
Chief Financial Officer

Regina, Canada
May 15, 1998

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1998 and the statements of operations and retained earnings/(deficit) and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 3l, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with 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 Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 15, 1998

Balance Sheet

AS AT MARCH 31

	1998	1997
	(thousands of dollars)	
ASSETS		
Cash and short-term investments (Note 3)	**$ 237,605**	$ 241,014
Accounts receivable and other accrued assets	**44,158**	28,928
Long-term investments (Note 4)	**149,613**	79,227
Loans receivable (Notes 5 and 6)	**5,136,138**	4,521,604
Real estate acquired in settlement of loans (Note 7)	**123,481**	139,629
Equipment and leasehold improvements	**15,208**	12,065
	$ 5,706,203	$ 5,022,467
LIABILITIES		
NISA investments held (Note 8)	**$ 93,754**	$ 17,552
Accounts payable and accrued liabilities	**19,748**	27,373
Short-term notes (Note 9)	**945,658**	747,667
Other liabilities and deferred fees (Note 10)	**35,080**	18,273
Loans payable (Note 11)	**4,062,676**	3,753,877
	5,156,916	4,564,742
EQUITY		
Capital (Note 1 and 12)	**507,725**	1,118,333
Retained earnings/(deficit) (Note 12)	**41,562**	(660,608)
	549,287	457,725
	$ 5,706,203	$ 5,022,467

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

Approved:

Donald W. Black
Chair, Board of Directors

Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings/(Deficit)

FOR THE YEARS ENDED MARCH 31

	1998	1997
		(thousands of dollars)
INTEREST INCOME		
Loans receivable	**$ 408,237**	$ 406,351
Investment income	**22,762**	13,420
	430,999	419,771
Interest expense	**296,857**	278,053
Net interest income	**134,142**	141,718
Provision for credit losses (Note 6)	**18,748**	23,986
Net interest income after provision for credit losses	**115,394**	117,732
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	**22,808**	20,299
Operating expenses	**2,853**	2,960
Interest expense	**6,948**	10,264
Net lease and real estate income	**13,007**	7,075
OTHER INCOME	**9,464**	6,519
INCOME BEFORE OTHER EXPENSES	**137,865**	131,326
OTHER EXPENSES		
Administrative expenses	**90,078**	84,104
Income taxes (Note 13)	**6,225**	6,628
Other expenses	**96,303**	90,732
NET INCOME FOR THE YEAR	**41,562**	40,594
Deficit, beginning of the year	**(660,608)**	(698,502)
Reallocation of contributed capital to eliminate deficit (Note 12)	**660,608**	–
Dividends (Note 1)	**–**	(2,700)
RETAINED EARNINGS/(DEFICIT), END OF THE YEAR	**$ 41,562**	$ (660,608)

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

Statement of Changes in Financial Position

FOR THE YEARS ENDED MARCH 31

	1998	1997
	(thousands of dollars)	
OPERATING ACTIVITIES		
Net income	**$ 41,562**	$ 40,594
Items not involving cash		
Provision for credit losses	**18,748**	23,986
Change in accrued interest receivable	**(24,648)**	6,243
Change in accrued interest payable	**33,015**	(1,058)
Other	**11,356**	22,043
Cash provided by operating activities	**80,033**	91,808
INVESTING ACTIVITIES		
Long-term investments	**(71,894)**	(18,042)
Loans receivable disbursed	**(1,504,200)**	(1,342,900)
Loans receivable repaid	**870,697**	704,275
Change in real estate held	**16,148**	13,839
Other	**15,010**	(9,051)
Cash used in investing activities	**(674,239)**	(651,879)
FINANCING ACTIVITIES		
Loans repaid to Canada	**(503,963)**	(134,014)
Loans from capital markets	**1,014,311**	808,139
Loans repaid to capital markets	**(243,744)**	(378,136)
Increase in capital	**50,000**	–
Change in short-term notes	**197,991**	291,298
Change in NISA investments held	**76,202**	17,552
Dividends paid	**–**	(2,700)
Cash provided by financing activities	**590,797**	602,139
(Decrease) increase in cash and short-term investments	**(3,409)**	42,068
Cash and short-term investments, beginning of the year	**241,014**	198,946
Cash and short-term investments, end of the year	**$ 237,605**	$ 241,014

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

Notes to Financial Statements

1. The Corporation

a) Authority and Objectives

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

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

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of a reallocation to eliminate the accumulated deficit approved effective March 31, 1998. Further details regarding this reallocation are described in Note 12.

As of March 31, 1998, capital payments received from the Government of Canada amounted to $1,168 million (1997 – $1,118 million). The statutory limit for that same period was $1,175 million (1997 – $1,125 million).

c) Dividends

No dividends were declared or paid in the current year (1997 – $2.7 million).

d) Limits on Borrowing

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

At March 31, 1998, the Corporation's total liabilities were 9.4 times the equity of $549.3 million (1997 – 10.0 times the equity of $457.7 million).

2. Significant Accounting Policies

a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income.

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

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

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

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

b) Loans Receivable

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

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

Interest income is recorded on the accrual basis until such time as a loan is specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses. 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. Other loan fees are recorded as other income on the same basis as the related costs.

c) Allowance for Credit Losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in the light of current trends. It has a specific and a general component.

Based on a loan-by-loan review, the specific component 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 component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. 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, in establishing the general component of the allowance, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Since future agricultural and economic conditions are not predictable with certainty, actual loan losses may vary from management's estimate.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

d) Real Estate Acquired in Settlement of Loans

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

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

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

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

e) Equipment and Leasehold Improvements

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

	Methods	Terms
Office equipment and furniture	Declining balance	20% annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term plus the first renewal option

f) Capital Leases

Leases that transfer substantially all of the benefits and inherent risks of ownership of the leased property to the Corporation are capitalized by recording the present value of the lease payments as assets and liabilities. The leased property is then amortized to income (using the straight-line method) over its estimated useful life which in most cases will correspond to the lease term. Lease payments are recorded partly against the amount of the obligation and partly to interest expense.

g) Translation of Foreign Currencies

Loans receivable/payable and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

h) Loans Payable

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

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

i) Derivative Financial Instruments

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

Currency exchange agreements

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

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

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with net accrued interest receivable or payable recorded as a component of either accounts receivable and other accrued assets or accounts payable and accrued liabilities. Premiums on the option contracts are amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest income or expense. Realized gains or losses from interest rate options are deferred and recognized in income over the lives of the hedged positions as an adjustment to income or expense of the hedged item.

j) Pension and Other Post-retirement Employee Benefits

Employees participate in the Public Service Superannuation plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

k) Employee Termination Benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or settlements are reasonably determinable.

l) Income Taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Cash and Short-term Investments

	Effective interest rate (%)		1998		1997
			(thousands of dollars)		
Cash		**$**	**19,733**	$	15,563
Short-term investments	4.08 – 5.05		**216,572**		223,831
Accrued interest			**1,300**		1,620
		$	**237,605**	$	241,014
Short-term investments consist of instruments with maturities of less than one year, issued by:					
The Government of Canada and its agencies and Crowns		**$**	**80,051**	$	145,139
Other			**136,521**		78,692
		$	**216,572**	$	223,831

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R-1M or higher. As at March 31, 1998, the largest total investment in any one institution was $28.7 million (1997 – $25.0 million) and the Corporation held investments in eight separate institutions (1997 – four institutions).

4. Long-term Investments

	Stated interest rate (%)		1998		1997
			(thousands of dollars)		
Amounts due within:					
1 year	6.25 – 6.50	**$**	**50,000**	$	41,500
1 – 5 years	5.50		**80,000**		15,000
over 5 years	9.00		**15,000**		18,500
			145,000		75,000
Unamortized premium and discount			**3,357**		3,150
Accrued interest			**1,256**		1,077
		$	**149,613**	$	79,227

Long-term investments consist entirely of Government of Canada bonds.

5. Loans Receivable

	Stated interest rate (%)		**1998**		1997
					(thousands of dollars)
Principal amounts due secured by:					
– mortgages	5.00 – 15.00	**$**	**4,553,756**	$	4,026,951
– chattels	5.00 – 12.40		**579,044**		408,451
– notes	5.00 – 14.00		**82,341**		156,250
			5,215,141		4,591,652
Accrued interest and fees, net of payments held			**71,364**		70,090
			5,286,505		4,661,742
Recorded investment in impaired loans secured by:					
– mortgages			**25,187**		18,851
– chattels			**5,249**		3,840
– notes			**1,897**		2,571
			32,333		25,262
Less: Allowance for credit losses (Note 6)			**(182,700)**		(165,400)
		$	**5,136,138**	$	4,521,604

Principal amounts (excluding impaired loans) due within:				
1 year	**$**	**1,490,243**	$	1,515,520
1 – 5 years		**3,619,991**		2,721,070
over 5 years		**104,907**		355,062
	$	**5,215,141**	$	4,591,652

Management estimates that annually, over the next three years, between four and five per cent (1997 – three and six per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1998, $2.4 million (1997 – $2.3 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. Allowance for Credit Losses

		1998		1997
			(thousands of dollars)	
Balance, beginning of the year	**$**	**165,400**	$	143,700
Write-offs, net of recoveries		**(1,448)**		(2,286)
Provision for credit losses		**18,748**		23,986
Balance, end of the year	**$**	**182,700**	$	165,400
Specific allowance	**$**	**8,200**	$	7,800
General allowance		**174,500**		157,600
Balance, end of the year	**$**	**182,700**	$	165,400

As at March 31, 1998, the total recorded investment in loans receivable against which a specific allowance has been identified was $32.3 million (1997 – $25.3 million). The general allowance was established against the remaining $5,287 million (1997 – $4,662 million) investment in loans receivable.

7. Real Estate Acquired in Settlement of Loans

		1998		1997
			(thousands of dollars)	
Balance, beginning of the year	**$**	**139,629**	$	153,468
Acquisitions		**2,767**		3,913
Disposals		**(18,915)**		(17,752)
Balance, end of the year	**$**	**123,481**	$	139,629
Real estate under long-term lease maturing:				
within 1 year	**$**	**482**	$	195
from 1 – 2 years		**74,292**		297
from 2 – 3 years		**42,852**		85,110
from 3 – 4 years		**2,234**		48,327
from 4 – 5 years		**699**		1,521
over 5 years		**–**		254
		120,559		135,704
Real estate held for sale		**2,922**		3,925
	$	**123,481**	$	139,629

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

	(thousands of dollars)	
Future expected lease receipts, using current lease rates, due within:		
1 year	**$**	**11,972**
1 – 5 years		**10,883**
	$	**22,855**

8. NISA Investments Held

	Stated interest rate (%)		1998		1997
				(thousands of dollars)	
Net Income Stabilization Account investments:					
Variable rate	4.09	**$**	**87,169**	$	15,009
Term rate	3.25 – 6.00		**4,568**		2,369
			91,737		17,378
Accrued interest			**2,017**		174
		$	**93,754**	$	17,552

Subject to the terms and conditions of the "Federal/Provincial Agreement Establishing the Net Income Stabilization Account (NISA) Program", the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

In the fourth quarter of fiscal 1998, the Corporation announced its intention to withdraw as a participating financial institution under the NISA program. The Minister of Agriculture and Agri-Food granted approval for this withdrawal on March 31, 1998. As of April 1, 1998, the Corporation is no longer accepting deposits and it is anticipated that the transfer of the NISA investments to other financial institutions will be completed by March 31, 1999.

Certain costs are expected to be incurred as a direct result of the plan to withdraw. The Corporation has included $0.9 million as an estimate of these costs in current year administration expenses.

9. Short-term Notes

	Effective interest rate (%)		1998		1997
				(thousands of dollars)	
Short-term notes payable within one year	4.00 – 4.76	**$**	**938,387**	$	742,384
Accrued interest			**7,271**		5,283
		$	**945,658**	$	747,667

10. Other Liabilities and Deferred Fees

		1998		1997
			(thousands of dollars)	
Other liabilities and deferred fees consist of:				
Agri-Land investment fund	**$**	**2,707**	$	3,731
Downpayments on real estate sales		**492**		626
Provision for employee termination benefits		**4,933**		5,500
Obligation under capital lease (Note 14)		**744**		–
Net currency swap payable		**17,456**		624
Deferred loan fees		**8,748**		7,792
	$	**35,080**	$	18,273

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 3.00% (1997 – 3.25%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

11. Loans Payable

	Stated interest rate (%)	1998	1997
		(thousands of dollars)	
Loans from Canada, secured by notes	6.29 – 10.21	**$ 1,477,048**	$ 1,981,011
Loans from capital markets, secured by notes payable in:			
Canadian dollars	3.00 – 9.00	**2,162,109**	1,458,639
U.S. dollars ($100,000,000)	5.21	**141,920**	103,773
New Zealand dollars ($100,000,000)	8.00	**77,689**	95,781
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange index	–	**12,000**	12,000
the Euro Top 100 index	–	**56,000**	37,000
the S&P 500 Composite Stock Price index	–	**38,000**	–
		3,964,766	3,688,204
Accrued interest		**97,910**	65,673
		$ 4,062,676	$ 3,753,877

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

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

	1998	1997
	(thousands of dollars)	
Amounts due:		
within 1 year	**$ 1,123,484**	$ 765,627
from 1 – 2 years	**708,567**	760,630
from 2 – 3 years	**785,737**	627,694
from 3 – 4 years	**367,813**	527,743
from 4 – 5 years	**578,279**	384,813
over 5 years	**400,886**	621,697
	3,964,766	3,688,204
Accrued interest	**97,910**	65,673
	$ 4,062,676	$ 3,753,877

Included in loans payable are $494.0 million (1997 – $194.0 million) of loans extendable beyond the above due dates at the Corporation's option.

The Corporation's borrowings (short-term notes and loans payable) 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.

12. Capital

Effective March 31, 1998, approval was obtained from the Governor in Council to eliminate the accumulated deficit of $660.6 million through a reallocation of contributed capital. The details of the resulting capital figure are as follows:

	1998	1997
	(thousands of dollars)	
Balance, beginning of the year	**$ 1,118,333**	$ 1,118,333
Additional capital contributions	**50,000**	–
Reallocation of contributed capital to eliminate deficit	**(660,608)**	–
Balance, end of the year	**$ 507,725**	$ 1,118,333

The change in retained earnings, as a result of this reallocation, is presented in the Statement of Operations and Retained Earnings/(Deficit).

13. Income Taxes

a) Timing differences of approximately $35.0 million are available to the Corporation as at March 31, 1998 (1997 – $166.0 million). These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $492.0 million (1997 – $392.0 million) and expires on the dates indicated:

	(thousands of dollars)
March 31, 1999	**$ 179,000**
2001	**143,000**
2003	**70,000**
2005	**100,000**
	$ 492,000

b) Income taxes payable by the Corporation represent capital taxes under Part VI and I.3 of the *Income Tax Act*. Part VI tax – a tax on the capital of financial institutions – is applicable to financial institutions with capital in excess of $200 million and can be reduced by Part I tax or surtaxes payable. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable.

14. Commitments and Contingent Liabilities

a) Long-term Commitments for Leases

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

	Capital leases	Operating leases
	(thousands of dollars)	
within 1 year	$ 245	$ 6,199
from 1 – 2 years	245	5,722
from 2 – 3 years	245	5,000
from 3 – 4 years	120	3,657
from 4 – 5 years	–	1,739
over 5 years	–	2,453
Total future minimum lease payments	$ 855	$ 24,770
Less: amount representing executory costs and imputed interest at 5.00%	111	
Balance of obligation under capital lease	744	
Less: current portion	200	
Long-term obligation under capital lease	$ 544	

b) Other Commitments and Contingent Liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 1998, the Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $0.7 million (1997 – $0.7 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its clients.

As at March 31, 1998, loans to farmers and agribusiness approved but undisbursed amounted to $123.0 million (1997 – $172.5 million). These loans were approved at an average interest rate of 7.48% (1997 – 7.41%) 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 31, 1998.

15. Derivative Financial Instruments

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

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to derivative credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is "high" (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivative Association (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 1998, was $596.0 million (1997 – $435.3 million) and the largest cumulative replacement cost of contracts with any institution as at March 31, 1998, was $3.2 million (1997 – $1.6 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 1998, were as follows:

(thousands of dollars)

1998 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
Currency swaps:						
Receive	*Pay*					
CDN fixed	USD fixed	$ –	$ 5,000	$ –	$ 5,000	$ (110)
CDN fixed	USD float	–	2,250	–	2,250	(21)
USD fixed	CDN fixed	137,750	–	–	137,750	2,963
NZD fixed	CDN fixed	–	95,000	–	95,000	(15,521)
Interest swaps:						
Receive	*Pay*					
Floating	Fixed	100,000	55,000	–	155,000	(808)
Fixed	Floating	240,000	402,000	857	642,857	6,699
Fixed	Fixed	10,000	70,000	–	80,000	1,040
Equity-indexed	Floating	–	12,000	56,000	68,000	(3,918)
Equity-indexed	Fixed	–	38,000	–	38,000	(2,538)
Purchased options:						
Interest rate options		245,000	10,000	–	255,000	351
Sold options:						
Interest rate options		169,000	–	–	169,000	(9,653)
Total		$ 901,750	$ 689,250	$ 56,857	$ 1,647,857	$ (21,516)

15. Derivative Financial Instruments (continued)

(thousands of dollars)

1997 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
Currency swaps:						
Receive	*Pay*					
CDN fixed	USD fixed	$ –	$ 5,000	$ –	$ 5,000	$ (69)
CDN fixed	USD float	–	–	2,250	2,250	(69)
USD fixed	CDN fixed	–	103,050	–	103,050	(3,603)
NZD fixed	CDN fixed	–	95,000	–	95,000	2,139
Interest swaps:						
Receive	*Pay*					
Floating	Fixed	–	70,000	–	70,000	(2,019)
Fixed	Floating	55,000	465,000	10,000	530,000	2,367
Equity-indexed	Floating	–	12,000	37,000	49,000	(2,415)
Purchased options:						
Interest rate options		470,000	10,000	–	480,000	1,588
Sold options:						
Interest rate options		–	69,000	–	69,000	(1,814)
Total		$ 525,000	$ 829,050	$ 49,250	$ 1,403,300	$ (3,895)

Included in derivative financial instruments are $494.0 million (1997 – $264.0 million) of interest rate swap and option contracts extendable beyond the above due dates.

16. Interest Rate Risk

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

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

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

The calculated yield for loans payable in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars)

1998 – Remaining term to repricing or maturity date		**Within 1 year**	**1 to 5 years**	**Over 5 years**	**No fixed term**	**Total carrying value**
Short-term investments	$	217,872	–	–	–	217,872
Average yield		4.65%	–	–	–	4.65%
Long-term investments	$	50,486	81,426	17,701	–	149,613
Average yield		5.02%	4.97%	6.06%	–	5.10%
Loans receivable (1)						
– Fixed rate	$	1,420,864	3,270,383	99,236	–	4,790,483
Average yield		7.64%	8.19%	8.55%	–	8.04%
– Floating rate	$	89,770	399,145	7,107	–	496,022
Average yield		7.45%	7.56%	7.66%	–	7.54%
NISA investments (2)						
– Fixed rate	$	780	3,884	–	–	4,664
Average yield		3.43%	4.59%	–	–	4.39%
– Floating rate	$	–	–	–	89,090	89,090
Average yield		–	–	–	4.09%	4.09%
Short-term notes	$	945,658	–	–	–	945,658
Average yield		4.43%	–	–	–	4.43%
Loans payable	$	1,151,699	2,621,835	289,142	–	4,062,676
Average yield		5.90%	6.72%	7.58%	–	6.55%

16. Interest Rate Risk (continued)

(thousands of dollars)

1997 – Remaining term to repricing or maturity date		Within 1 year	1 to 5 years	Over 5 years	No fixed term	Total carrying value
Short-term investments	$	225,451	–	–	–	225,451
Average yield		3.74%	–	–	–	3.74%
Long-term investments	$	42,740	14,999	21,488	–	79,227
Average yield		6.76%	6.95%	6.58%	–	6.76%
Loans receivable (1)						
– Fixed rate	$	1,518,579	2,762,038	360,445	–	4,641,062
Average yield		7.97%	8.56%	9.49%	–	8.44%
– Floating rate	$	20,075	567	38	–	20,680
Average yield		5.30%	5.65%	5.73%	–	5.31%
NISA investments (2)						
– Fixed rate	$	398	2,005	–	–	2,403
Average yield		3.29%	4.73%	–	–	4.49%
– Floating rate	$	–	–	–	15,149	15,149
Average yield		–	–	–	4.00%	4.00%
Short-term notes	$	747,667	–	–	–	747,667
Average yield		3.13%	–	–	–	3.13%
Loans payable	$	779,961	2,587,151	386,765	–	3,753,877
Average yield		6.96%	6.73%	7.31%	–	6.84%

Note:

(1) Loans receivable excludes impaired loans.

(2) Although certain of these contributions have fixed-interest terms, the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of NISA program.

17. Fair Values

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

	1998		1997	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
		(thousands of dollars)		
Assets				
Cash and short-term investments	**$ 237,605**	**$ 237,605**	$ 241,014	$ 241,014
Accounts receivable and other accrued assets	**44,158**	**44,158**	28,928	28,928
Long-term investments	**149,613**	**150,420**	79,227	80,279
Loans receivable	**5,136,138**	**5,163,582**	4,521,604	4,600,266
Liabilities				
NISA investments held	**$ 93,754**	**$ 93,754**	$ 17,552	$ 17,552
Accounts payable and accrued liabilities	**19,748**	**19,748**	27,373	27,373
Short-term notes	**945,658**	**944,851**	747,667	746,669
Loans payable	**4,062,676**	**4,210,188**	3,753,877	3,920,478

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

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

The estimated fair value of NISA investments held is equal to the amount payable upon withdrawal.

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:

Estimated fair value for short-term notes and loans payable is calculated by discounting contractual cash flows at interest rates prevailing at year end for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates for loans with similar credit risks. The allowance for credit losses is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 15.

18. Government Programs

Commodity-Based Loans

Loans receivable as at March 31, 1998, includes $18.3 million (1997 – $100.0 million) of loans under the Commodity-Based Loans (CBL) program.
In 1998, the Corporation received $6.4 million (1997 – $21.5 million) from Agriculture and Agri-Food Canada as compensation for the early retirement of CBL loans and concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Farm Debt Review Act

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has provided $278.9 million in concessions and billed $278.9 million to the Government of Canada, of which $0.7 million was billed in the current year.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

19. Comparative figures

Certain 1997 comparative figures have been reclassified to conform with the presentation adopted in 1998.

Corporate Governance

A Report from the Board of Directors

From left to right:

Germain Simard
John J. Ryan
Eleanor M. Hart
Donald W. Black
Marilyn Marie Scott
Peter Rampton
Rosemary Davis
Warren Ellis
Edward Clark
Rashpal Dhillon
Marie-Andrée Mallette

Inset:
Lois Hole

Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure that principal risks of the Corporation's business have been identified and appropriate systems and policies implemented to manage such risks. The Board met six times during fiscal 1997/98.

Board Composition

FCC's Board of Directors is representative of the Canadian farming and agribusiness community. Members possess a variety of significant attributes, including strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgement and initiative. Board members are committed to serving the Corporation, and in so doing, serve Canadian agriculture through emphasis on client service, productivity and profitability, cooperation and sound environmental stewardship.

The Minister of Agriculture and Agri-Food, pursuant to the *Farm Credit Corporation Act*, appoints Board members who represent Canadian agricultural and financial communities, striving for gender, linguistic, employment equity target group and geographical representation.

Candidate profiles include successful business people from rural areas or small urban centres, as well as people who are successful in the agri-food and financial service industries, and academics with a sound track record in policy making. Board members have technical knowledge in areas such as agriculture, lending practices, marketing, accounting, law, corporate management and financial administration.

Board Orientation and Training

Upon their appointment, Board members receive a briefing package of pertinent materials and orientation to the Corporation. As part of their ongoing education and training, the Board received information and presentations from outside industry experts on matters such as Board governance, derivatives and risk management policies. In addition, Board members participated in governance workshops sponsored by the Conference Board of Canada.

Board Independence

The Chair and Directors are unrelated to and independent from management with the exception of the position of Chief Executive Officer who by statute is required to be a member of the Board.

FCC's Board of Directors is sensitive to the requirement that they have and exhibit an ability to exercise fair and impartial judgement in the best interests of the Corporation. Acting in accordance with the *Financial Administration Act*, Directors act honestly and in good faith, exercising care and diligence. The government's *Conflict of Interest and Post Employment Code for Public Office Holders* applies to members of the Board.

Board Governance and Oversight Responsibilities

FCC's Board of Directors has been active in implementing corporate governance practices that are consistent with *The Guidelines for Corporate Governance for Crown Corporations and Other Public Enterprises* recommended by the Department of Finance and Treasury Board of Canada.

In terms of the functioning of the Board, during this fiscal year the Board established a Corporate Governance Committee to provide enhanced focus and leadership of governance principles and objectives within the Corporation. The Corporate Governance Committee is responsible for overseeing issues such as the development of, and enhancements to, the Corporation's approach to corporate governance, along with responsibility for matters such as assessing Board effectiveness and evaluating performance.

Board and Chief Executive Officer

The Chief Executive Officer is appointed by the shareholder, the Government of Canada, in consultation with the Board of Directors and in accordance with the *Farm Credit Corporation Act*. The Human Resources Committee has the responsibility to evaluate the CEO's performance against established duties and objectives.

As part of the relationship between the Board and Management, the assessment and evaluation of the CEO is integral to effective governance. The Board works with the CEO to develop a position description to outline the limits of management's authority, and develop and approve corporate objectives for which the CEO is accountable.

In working with management the Board is responsible, among other things, for approval of management's succession plan framework and for evaluation of the performance of the Chief Executive Officer. With the completion of the term of the previous CEO, C. Gerald Penney, this fiscal year the Board conducted a search process to fill the position of Chief Executive Officer. Working in conjunction with the Prime Minister's Office and the Minister of Agriculture and Agri-Food, desired skills and management attributes for the CEO position were established and applied in the selection process. The search process successfully concluded with the appointment of John J. Ryan as President and Chief Executive Officer effective September 1, 1997.

Committees

The Board established the following four committees to assist in discharging specific areas of Board responsibility:

- **Audit Committee**
- **CEO Search Committee**
- **Corporate Governance Committee**
- **Human Resources Committee**

The Chief Executive Officer sits on the Human Resources and Corporate Governance Committees. All Committees report to the Board, making recommendations within the area of responsibility.

Audit Committee

– 4 meetings 1997/98

Chair: Warren Ellis – 100% attendance
Members: Donald W. Black – 75% attendance
Rosemary Davis – 100% attendance
Rashpal Dhillon – 75% attendance
Marie-Andrée Mallette – 100% attendance
Peter Rampton – 100% attendance

The Audit Committee has a broad mandate to provide the checks and balances on the Corporation and its activities. This committee's primary function is to help the Board fulfill its responsibilities to oversee the Corporation's financial performance and monitoring activities, by reviewing financial and operational information, internal control systems and audit processes. In carrying out its role, the Audit Committee has the authority to investigate any corporate activity, in all areas, as it deems necessary and appropriate. Members of the Audit Committee are independent from the management of the Corporation.

CEO Search Committee

– 5 meetings 1997/98 (2 meetings 1996/97)

Chair: Donald W. Black – 100% attendance
Members: Edward Clark – 100% attendance
Eleanor Hart – 100% attendance
Marie-Andrée Mallette – 100% attendance
Peter Rampton – 100% attendance

The Board of Directors formed the CEO Search Committee in January, 1997 to manage the selection process in conjunction with the Minister of Agriculture and Agri-Food and the Prime Minister's Office. John J. Ryan was appointed as President and Chief Executive Officer as at September 1, 1997, at which time the committee was dissolved.

Corporate Governance Committee

– 4 meetings 1997/98

Chair: Edward Clark – 100% attendance
Members: Donald W. Black – 100% attendance
Marie-Andrée Mallette – 100% attendance
John J. Ryan – 100% attendance
Marilyn Marie Scott – 75% attendance

The Corporate Governance Committee's responsibilities include assessing and making recommendations to the Board regarding governance processes, Board committee structure and responsibilities, the Board's relationship with the CEO, Board members' qualifications and attributes, orientation and education of Board members and evaluation of Board performance. The Governance Committee is also responsible to oversee the Corporation's standards of conduct and ethics as well as Board member responsibilities and conflict of interest issues. The Chief Executive Officer sits on the Corporate Governance Committee.

Human Resources Committee

– 3 meetings 1997/98

Chair: Eleanor Hart – 100% attendance
Members: Donald W. Black – 100% attendance
Lois Hole – 67% attendance
John J. Ryan – 100% attendance
Germain Simard – 100% attendance

The Human Resources Committee is responsible to review all major human resources policy matters of the Corporation and to make recommendations thereon. The Committee also reviews the annual strategic human resources plan, provides guidance on desired skills and qualifications, performance evaluation and succession planning with respect to the office of the CEO. The Committee is also responsible to review the management succession plan framework and to review the employment equity and official language policies of the Corporation. The Chief Executive Officer sits on the Human Resources Committee.

Board Remuneration

Annual retainer and per diem amounts are set by the Governor in Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food. FCC's Chair receives an annual retainer of $6,500 and per diem of $375; Committee chairs receive an annual retainer of $4,250 and a per diem of $300.

All other Board members receive an annual retainer of $3,500 and a per diem of $300 respectively. Per diems are earned for actual time spent performing corporate business in accordance with corporate policies. This includes meeting attendance, travel and Board-related work. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while engaged in corporate business. Individual director's expenses vary according to distance and amount of travel and are also relative to the volume of committee work performed.

Members of the Board

DONALD W. BLACK

President and Chief Executive Officer, Greystone Capital Management Inc., Regina, Saskatchewan

Chair of the Board
Appointed January 11,1995

Member, Audit, Corporate Governance, Human Resources and CEO Search Committees; Acting Chief Executive Officer from December 19, 1996 to September 1, 1997.

Board Meeting Attendance: 100%
Annual Retainer: $6,500
Board Per Diems: $5,250
Committee Remuneration: $4,125

Expenses: $15,522

EDWARD CLARK

Owner/Operator, Beef and Forage, Miscouche, Prince Edward Island

Appointed May 28, 1996

Chair, Corporate Governance Committee and member, CEO Search Committee

Board Meeting Attendance: 100%
Annual Retainer: $4,250
Board Per Diems: $4,800
Committee Remuneration: $4,200

Expenses: $32,760

ROSEMARY DAVIS

Owner/Manager, Tri-Country Agrimart Ltd., Trenton, Ontario

Appointed December 19, 1995

Member, Audit Committee

Board Meeting Attendance: 83%
Annual Retainer: $3,500
Board Per Diems: $3,000
Committee Remuneration: $900

Expenses: $14,842

RASHPAL DHILLON

President and Chief Executive Officer, Richberry Farms Ltd.; General Partner and Chief Executive Officer, Pitt Meadows Farms Ltd., Richmond, British Columbia

Appointed June 6, 1995

Member, Audit Committee

Board Meeting Attendance: 83%
Annual Retainer: $3,500
Board Per Diems: $3,000
Committee Remuneration: $900

Expenses: $7,517

WARREN ELLIS

Proprietor, Warren Ellis Produce, O'Leary, Prince Edward Island

Appointed April 4, 1995

Chair, Audit Committee

Board Meeting Attendance: 100%
Annual Retainer: $4,250
Board Per Diems: $3,600
Committee Remuneration: $1,200

Expenses: $18,963

ELEANOR M. HART

Farm Partner/Owner, Lokoja Farms; Past-President, Ontario Home Economics Association, Woodstock, Ontario

Appointed May 2, 1995

Chair, Human Resources Committee and member, CEO Search Committee

Board Meeting Attendance: 100%
Annual Retainer $4,250
Board Per Diems $4,200
Committee Remuneration: $3,000

Expenses: $19,526

LOIS HOLE

Owner, Holes Greenhouse and Gardens Ltd.,
St. Albert, Alberta

Appointed April 4, 1995

Member, Human Resources Committee

Board Meeting Attendance: 67%
Annual Retainer: $3,500
Board Per Diems: $2,400
Committee Remuneration: $300

Expenses: $4,038

MARIE-ANDRÉE MALLETTE

Farmer, large-scale farming of commercial crops and beans; Lawyer specializing in agricultural law, Saint-Paul-de-Châteauguay, Québec

Appointed June 16, 1995

Member, Audit, Corporate Governance and CEO Search Committees

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $5,400
Committee Remuneration: $3,600

Expenses: $22,606

PETER RAMPTON

Accountant, Duncan, British Columbia; Farm Partner, Dauphin, Manitoba

Appointed May 2, 1995

Member, Audit Committee and CEO Search Committee

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $4,800
Committee Remuneration: $3,300

Expenses: $5,258

JOHN J. RYAN

President and Chief Executive Officer, Farm Credit Corporation
Regina, Saskatchewan

Appointed September 1, 1997

Member, Corporate Governance and Human Resources Committees

Board and Committee Attendance: 100%

No per diems or remuneration are paid to Mr. Ryan as a member of the Board.

MARILYN MARIE SCOTT

Lawyer and Partner in Law Firm, Humboldt, Saskatchewan

Appointed October 24, 1996

Member, Corporate Governance Committee

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $1,800
Committee Remuneration: $1,200

Expenses $2,100

GERMAIN SIMARD

Dairy Farmer, La Baie, Québec

Appointed June 6, 1995

Member, Human Resources Committee

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $3,600
Committee Remuneration: $900

Expenses: $15,288

Poultry Farming Second Nature to

Young Farmers

Joanna, Zenon and their children Sylvia, seven, and Robert, nine months, meet with FCC Credit Advisor Doug Janzen.

Poultry farming is second nature to Joanna and Zenon Roznicki. At age 19 and 21 respectively, the two bought their first poultry farm near Leduc, Alberta with help from FCC. Beginning with 80 per cent of their quota (6,300 birds), they have doubled their farm with a quota of 12,500 birds only nine years later.

"It was something we both grew up with – we've been around poultry farming all our lives," Joanna says. "My father was encouraging us to buy a farm. When this one became available near Leduc, we thought it was in an excellent location."

Both Zenon and Joanna grew up on neighboring poultry farms in their homeland of Poland. In 1983, a 14-year-old Joanna moved to Canada with her family. Three years later, with help from Joanna's family, Zenon came to Canada where he began work on a poultry farm.

The couple bought their first farm in April 1989 by assuming an existing FCC loan and obtaining the balance of the financing from the Agriculture Financial Services Corporation. They have since transferred their business to FCC completely.

"My husband is very determined – there isn't a thing in the world that man can't do," Joanna says.

Glossary of Terms

Asset/Liability Management Committee (ALCO) A senior management committee responsible to ensure the management of an entity's assets with the management of its liabilities.

Allowance for Credit Losses Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general provisions for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

Basis Point One one-hundredth of a percentage point (i.e.: 1/100 of 1%).

Cross-Currency and Interest 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.

Derivative Product A financial instrument whose value is based on and derived from an underlying price, interest rate, exchange rate or price index. Types of derivative contracts include: interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts, and futures.

Duration Analysis Duration measures the price sensitivity of a financial asset or liability to changes in interest rates. It is used as a tool to analyze assets and liabilities to quantify and control exposure to interest rate risk.

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

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

Impaired Loans Loans are automatically classified as impaired when: i) a payment is 90 days past due, unless the loan is well secured and in the process of collection; or ii) when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest.

Interest Expense Expense incurred from the use of interest-bearing funding instruments.

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

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

International Swap and Derivative Association, Inc. (ISDA) The principal swap industry trade group whose agreements are the industry standard documentation for derivative instruments.

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 (ie: equity capital position) to changes in interest rates.

Net Income Stabilization Account (NISA) A federal program designed to help producers achieve long-term income stability. Producers may deposit funds into a NISA account and receive a matching contribution shared by the federal and provincial governments up to a specified percentage. Each account has two components: Fund 1 contains the participant's matchable and non-matchable deposits; Fund 2 contains the federal and provincial contributions and interest earned on both funds.

Net Interest Income (NII) The difference between interest earned on assets, such as loans and securities, and interest expense on liabilities, such as notes and loans payable.

Net Interest Margin Net interest income expressed as a percentage of interest-bearing assets.

Notional Principal Amount A reference amount upon which payments for derivative financial instruments are based.

Other Enterprises Includes sheep, maple syrup, mixed enterprises and enterprises with significant off-farm income.

Provision for Credit Losses A charge to income which is added to the allowance for credit losses.

Return on Assets (ROA) Net income expressed as a percentage of average total assets. Used with ROE as a measure of profitability and as a basis for intra-industry performance comparison.

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

Special Traditional Enterprises Includes beekeeping, fur animals, rabbits, Pregnant Mare Urine, horses, vermiculture, and pisciculture.

Value-Added Enterprises Includes seed cleaning and sales, feed processing and custom work, abattoirs, aquaculture, woodlots, machinery repair, fertilizer and chemical distribution and application, fuel, packaging and storage, value-added processing, farm vacations, manufacturing and fabrication, transportation and utilities such as hydro and municipal water works.

RISK

Counterparty Credit Risk The risk of a loss being incurred if a counterparty defaults on a financial instrument or transaction.

Foreign Exchange Risk (FX) The risk of financial loss due to adverse movements in foreign currencies.

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

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

FCC Products and Services

Loan Products:

Variable-Rate Loan
The Variable-Rate Loan is designed for maximum flexibility. It offers a floating rate that can be converted, at any time, without cost.

One-Year Convertible Loan
This product offers the flexibility of a one -year fixed rate that is convertible to a longer-term at any time without cost.

One-Year Fixed Loan
This product offers a fixed one-year rate that can be changed, without cost, to a longer term at the time of annual renewal.

Long-Term Loans
FCC provides fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable credit terms for Canadian farmers.

Personal Property Loan
This is a practical loan for a practical purpose – purchasing new and used equipment, quota or breeding stock. There are from two to ten-year amortization periods with quarterly and semi-annual payment options.

Farmbuilder Construction Loan
This innovative loan requires no payment until the building project is completed. Funds are disbursed within one year.

Family Farm Loan
FCC's Family Farm Loan makes it easier to transfer farm assets from one generation to the next, without creating an unmanageable debt position for the purchaser and without jeopardizing the retirement income of the older generation.

Shared-Risk Mortgage
This mortgage cushions the impact of rising interest rates and provides stability by minimizing exposure to fluctuating interest rates. This product also allows FCC and the borrower to split equally any interest rate fluctuations.

Plant Now - Pay Later
This deferred payment product is targeted to fruit growers who face financial challenges when upgrading, renovating or expanding their operations.

Aquaculture
FCC loans are available to salmon, fresh water fish or shell fish operations for business expansion, purchasing barges, cages, nets, smolt, feed, tanks, hatcheries, processing equipment, construction costs, land and site leasing.

Forestry
FCC offers financing for purchase of land or forestry equipment, expansion of existing forestry operations.

Investments:

FCC Medium and Long-Term Notes
FCC's Medium and Long-Term Notes are issued daily at competitive market interest rates, for maturities ranging from one to 29 years. The notes are sold by investment dealers who act as agents for FCC and give investors the opportunity to invest in Canadian agriculture.

Other Services:

Land Sales & Leasing
FCC's property division, Agri-Land Sales & Leasing, manages and markets most of FCC's land holdings and provides farmland management services for the owners and tenants.

Feeder Finance Program
FCC finances feeder livestock through alliances.

Agricultural Value-Added Program
In co-operation with Western Economic Diversification and CIBC, FCC assists Western Canadian agricultural value-added firms in accessing debt capital.

Agriculture & Agri-Food Canada Programs delivered by FCC:

Business Planning for Agri-Ventures (BPAV)
BPAV gives Canadian farmers access to planning expertise to increase the success rate of agriculture and value-added business initiatives in rural Canada.

National Biomass Ethanol Program
This program encourages firms to invest in the Canadian ethanol industry and makes it easier for producers to obtain private-sector funding.

Farm Credit Corporation
Wherever you are.

*FCC has more than 100 offices in communities across Canada. To contact the office in your area, please call the toll-free number 1-800-387-3232 from anywhere in Canada – or catch us on our Internet site at **http:/www.fcc-sca.ca**.*

British Columbia
Abbotsford, Dawson Creek, Kelowna, Prince George

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

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

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

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

Québec
Alma, Drummondville, Gatineau, Granby, Joliette, Rock Forest, St-Antoine des Laurentides, St. Jerome, Rivière-du-Loup, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Foy, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Grand Falls, Roachville, Sussex, St. George, Woodstock, Moncton, Mount Pearl

Newfoundland
St. John's

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

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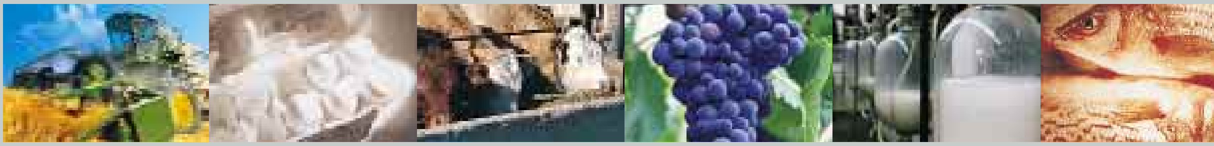

Corporate Values

Client Service

We are committed to building customer loyalty by consistently providing value with exemplary service.

Trust and Respect

We build client trust and respect by conducting our business in a fair and ethical manner and by being sensitive to client values.

Teamwork

We advocate teamwork and empowerment for staff to do their jobs effectively.

Employee Development

We promote professional development of staff and continuous learning.

Partnerships

We believe in partnerships that further enhance our commitment to agriculture.

Corporate Citizenship

We support community activities consistent with our vision and are sensitive to the protection of our environment.

Diversity

We believe that a diverse workforce reflecting the various backgrounds and cultures of Canadians brings strength to the organization.

FCC Farm Credit Corporation SCA Société du crédit agricole

Canada

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