Advancing the business of agriculture

Annual Report 2007-08

Farm Credit Canada

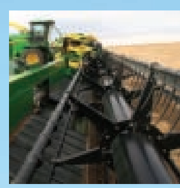
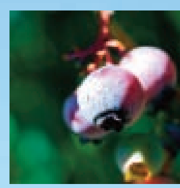
Advancing the business of agriculture

Is agriculture a business? We think so. In fact, we know so. It is a business that contributes significantly to Canada's gross domestic product and generates billions of dollars in exports annually. Its executives meet in fields, processing facilities, kitchens, coffee shops and offices in cities, towns and villages across the country.

Throughout this report, you will find mention of our Ag Day in Canada celebrations honouring the many Canadians who live and breathe agriculture. To them, it is a business and more – it is their passion. They are the reason we at FCC strive to let Canadians know the effort, skill and determination each producer and agribusiness operator contributes to this vibrant and innovative industry.

We are committed to every aspect of agriculture – the communities, people, products and the potential – and we are proud of the role we play in the success of producers and agribusiness operators all along the agriculture value chain. Our financing, management training and software, community programs and knowledge help our customers and the agriculture industry thrive and grow.

That is why at FCC, we adopted the positioning line "Advancing the business of agriculture." We think it pretty well sums up what we're up to.

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Operational and financial highlights

FCC continued to experience exceptional growth in 2007-08 with portfolio growth of $1.4 billion or 10.6 per cent. The number of disbursements increased significantly in 2007-08 and the average size of the loans disbursed rose slightly, resulting in net disbursements reaching $4.3 billion. Equity continues to grow as FCC generates positive net income. Growth in net interest income, other income and a reduced level of provision for credit losses drove net income upwards, which was offset by an increase in administration expenses and an unfavourable fair value adjustment. The corporation continues to build a strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

For the years ended March 31

Operational	2008	2007	2006	2005	2004
Loans receivable portfolio					
Number of loans	**98,066**	101,470	95,768	90,492	87,423
Loans receivable ($ millions)	**14,992.1**	13,550.4	12,310.2	11,150.0	10,039.0
Net portfolio growth (per cent)	**10.6**	10.1	10.4	11.1	14.0
Loans receivable in good standing (per cent)	**97.4**	97.4	97.5	96.9	96.0
New lending					
Number of loans disbursed	**32,561**	28,684	28,634	27,948	26,529
Net disbursements ($ millions)	**4,285.0**	3,714.7	3,317.3	3,067.2	2,861.7
Average size of loans disbursed ($)	**131,600**	129,504	115,852	109,747	107,871

Financial	2008	2007	2006	2005	2004
Balance sheet ($ millions)					
Total assets	**15,470.5**	13,834.2	12,576.3	11,405.0	10,203.9
Total liabilities	**13,693.7**	12,372.1	11,312.5	10,320.5	9,258.7
Equity	**1,776.8**	1,462.1	1,263.8	1,084.5	945.2
Income statement ($ millions)					
Net interest income	**434.4**	415.5	388.4	351.9	314.4
Provision for credit losses	**5.0**	38.9	62.4	95.2	84.0
Other income	**14.4**	7.7	6.6	5.0	4.1
Administration expenses	**197.6**	180.5	163.0	143.7	128.9
Fair value adjustment*	**(41.1)**	–	–	–	–
Net income	**205.1**	203.8	169.6	118.0	105.6

*The fair value adjustment is a new component of net income and is a result of changes to the accounting standards related to financial instruments.

Why we exist

Vision

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

Mission

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

Public policy role – summary

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

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

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

The FCC value proposition

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

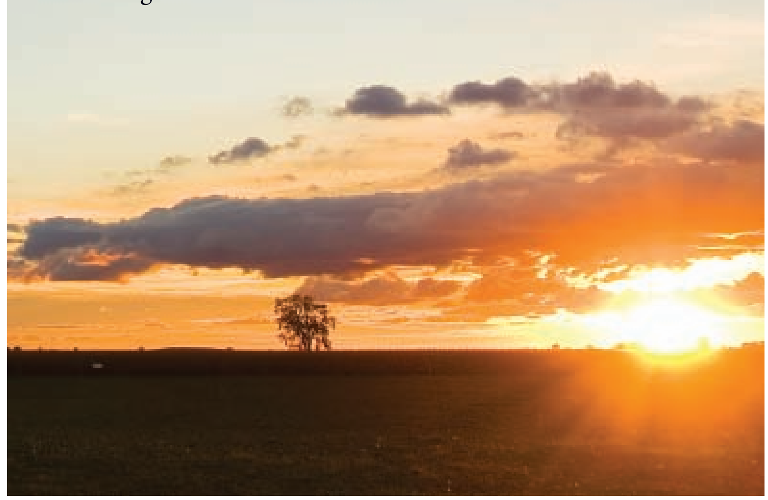
We focus on the primary producer as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

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

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

We're easy to do business with.

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



How we behave

Corporate values

FCC's corporate values represent our core beliefs:

Focus on the customer

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

Act with integrity

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

Work together

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

Give back to the community

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

Achieve excellence

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

Cultural practices

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

We hold ourselves and each other accountable for:

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

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

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

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

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

We clean up and recover quickly.

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

Corporate profile

Farm Credit Canada (FCC) proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959. Operating out of over 100 offices located primarily in rural communities, our 1,400 dedicated employees are passionate about the business of agriculture. We continue to meet the changing needs of the industry, offering our customers customized debt and equity financing, creditor insurance, management software, information and learning.

We are a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board. We provide financing and other services to about 50,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. In addition, we provide training and publications to over 50,000 participants and subscribers every year.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. Then in 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law. It gave us an expanded mandate and combined all our lending and administrative powers under the authority of one Act.

On June 14, 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

We also deliver specific programs for the Government of Canada at their request, on a cost-recovery basis. Two such programs are the Ruminant Slaughter Equity Assistance Program and Canadian Farm Families Options Program.

We are governed by or subject to the requirements of the following federal legislation:

- Farm Credit Canada Act
- Access to Information Act

- Canada Human Rights Code
- Canada Labour Code
- Canadian Environmental Assessment Act
- Conflict of Interest Act
- Employment Equity Act
- Employment Insurance Act
- Federal Accountability Act
- Financial Administration Act
- Official Languages Act
- Privacy Act
- Public Servants Disclosure Protection Act

We also comply with other federal and provincial legislation like land titles, farm debt mediation, personal property security acts, environmental protection, bankruptcy, insurance, occupational health and safety, and securities.

Message from the President and CEO

Agriculture is the backbone of a strong and healthy Canada. It generates $26.5 billion in exports annually and in 2005, contributed $86.1 billion to Canada's gross domestic product. Canadian agriculture supplies more than just our food and drink – it contributes to our health care, renewable energy and a clean environment. It is growing in ways unimaginable a generation ago: safflower oil is being used to produce insulin, pigs contribute to many medications and soybean crops are a component of environmentally friendly oil paint, to cite just a few examples.

There is growth in traditional agriculture sectors, too. Thirty-year highs in wheat and canola prices helped boost profitability for grains and oilseeds growers, Canada's largest agriculture sector. Globally, new exporting opportunities are on the horizon for Canadian producers and agribusinesses, such as increased feedstock demand from biofuel activity and demand for products like ready-to-eat meals.

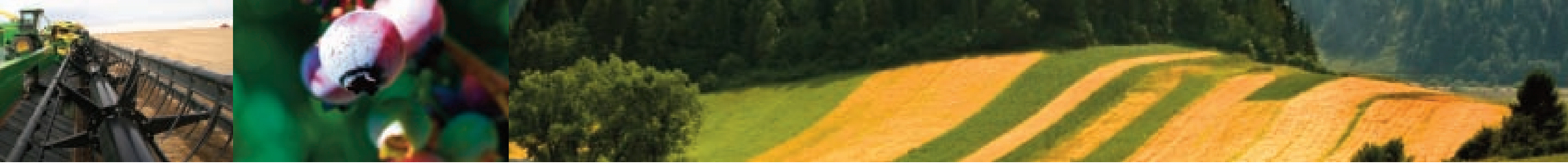
However, success in one sector of an industry sometimes presents challenges to others. The significant increase in crop prices that benefited grain and oilseed growers contributed to higher input prices for biofuel and livestock operations already facing restricted processing capacity. Trade-related issues such as country of origin labelling, ongoing World Trade Organization negotiations and exchange rates challenged exporters, and while a strong Canadian dollar further limited the competitiveness of some agricultural exports, it also encouraged the import of lower-cost commodities used in certain value-added operations.

Many innovative producers and agribusinesses are navigating the challenges and opportunities very well. According to an October 2007 study conducted with FCC's Vision panel that surveyed 8,000 agricultural producers and business leaders from across the country, two-thirds of the respondents believe their operation is in better shape now than it was five years ago. Seventy-five per cent believe the best is yet to come. That optimism is reflected in our new positioning statement and the theme of this report, "Advancing the business of agriculture." Agriculture is a business, and those involved use highly sophisticated management practices, processes, knowledge and financial skill to run their operations.

FCC is proud to be a valued partner to Canadian agriculture, providing business and financial services to farms and agribusiness. This includes offering a number of loan options to ensure we meet the needs of producers in all sectors, as well as farm management software, insurance and farm management information, training and workshops. To highlight the pride of those in the industry and help educate urban Canadians about the contribution agriculture makes to this country, in 2007 we launched a national television and print advertising campaign.

In January 2008, we hosted 86 Ag Day in Canada events across the country to pay tribute to those who live and breathe agriculture. We brought producers together to share ideas, connect with each other, learn from experts in the industry, and celebrate the future of agriculture. We also launched Knowledge, a semi-annual publication that brings leading-edge thinking to our customers and others.

Although there is optimism in the industry, we are very aware of the challenges facing many of our customers. This year, for example, when livestock producers saw high feed prices and a high Canadian dollar reduce profitability, we put our customer support strategy to work. The strategy is designed to help customers weather extreme difficulty. It lets us partner one-on-one with customers when an entire sector is threatened by external factors – as the beef and pork sectors were – and manage each of their situations individually as the need arises.



With 35 per cent of Canadian agricultural producers expected to retire over the next 15 years, the future of agriculture depends on a new generation's enthusiasm and commitment. In 2007, FCC doubled its support of young farmers with the commitment of an additional $50 million to the Accelerator Loan product. Uptake was strong: 309 customers under age 40 qualified for this loan to buy or build an agriculture operation. In total, we approved over $500 million in lending to young farmers in 2007-08.

Also in 2007, we introduced our Start Now – Pay Later Loan. Based on our Plant Now – Pay Later product, it lets customers defer payments until a new operation is financially stable. Since inception, $78 million in new lending has been disbursed.

Despite the many challenges our customers face and the stronger competition in our industry, FCC experienced another successful year in 2007-08, our 15th consecutive year of growth. Our loan portfolio grew to $15.0 billion, compared to $13.6 billion in 2006-07. We lent $4.3 billion to Canadian agriculture through loans to 19,544 customers. We believe our success is possible only if we continue to bring relevant and valuable advice and services to our customers.

We are committed to fulfilling our public policy role of supporting Canada's agricultural community, and in 2007-08 helped 183 customers through adversity with the customer support strategy I mentioned earlier. Charitable contributions of $500,000 from the FCC AgriSpirit Fund supported capital projects in 58 rural communities across Canada. We contributed over $2 million to communities, encouraged employees as they donated over 4,000 volunteer hours to non-profit groups across the country, and helped 84 families cope with difficulties such as accidents, fires, floods and other unforeseen events.

November 2007 marked the end of John Ryan's term as FCC President and CEO. Staff and management are grateful to John for his work in transforming the corporation from a "lender of last resort" in Canadian agriculture to an extremely successful financial institution with an enviable reputation for customer service and a healthy lending portfolio. Throughout his decade of service, John also worked tirelessly to strengthen stakeholder relationships and develop strong management and employee teams.

I feel very fortunate to be leading an organization so deeply committed to agriculture. In December 2007, the Globe and Mail's Report on Business magazine named us among Canada's 50 Best Employers for the fifth consecutive year. Our seventh-place ranking is up from eighth the previous year, helping secure our reputation as an employer of choice. I am very proud of this accomplishment, as I firmly believe the only way we can deliver an extraordinary customer experience is by having employees who truly love what they are doing and who act as one team serving each customer. I thank them all for their outstanding work and their support through the year.

I am certain that because so many FCC employees come from agricultural backgrounds, no one understands the needs of agriculture like we do, no other financial institution has the depth of knowledge and experience we have, and no one can help grow this industry the way we can.

FCC is committed to supporting Canadian agriculture and to sustaining the strong financial position that lets us serve as a stable source of support for the industry as it continues to expand. We will pursue success for FCC and the Canadian agriculture industry by focusing on three priorities: continuing to deliver an extraordinary customer experience, sustaining our internal culture of respect and commitment to each other's success, and seeking efficiency at every opportunity.

> "FCC is proud to be a valued partner to Canadian agriculture, providing business and financial services to farms and agribusiness."

Agriculture is a business. In this country, it is an important business. The producers and agribusiness operators we serve consistently impress me with the passion they have for this vibrant industry. Their pride in what they do is awesome, humbling and inspiring.

Agriculture is bigger than many Canadians realize, and we are very proud of the role we play – in partnership with customers and many others – in advancing the business of agriculture.

Greg Stewart, President and CEO

Message from the Chair

My first full year of service to FCC and its Board of Directors was very rewarding. I am pleased to report that in 2007-08, the corporation again made a significant difference to Canadian agriculture.

FCC's purpose is to enhance rural Canada by providing specialized business and financial services to the full agriculture value chain. FCC reports to Parliament through the Honourable Gerry Ritz, Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board. The Board of Directors ensures that FCC recognizes and respects the best interests of all stakeholders in performing its duties. Following the highest standards of ethical conduct, the Board works to ensure FCC's management is held accountable for its performance.

FCC welcomed three Board members during the fiscal year to replace incumbents Deborah Whale, Claude Ménard and long-serving member Marie-Andrée Mallette. I look forward to working with new arrivals Caroline Granger, Gilles Lapointe and Caroline Belzile, and thank our departing members for their years of excellent service.

One of the Board's most significant tasks in 2007-08 was participating in the selection of FCC's new President and CEO. Greg Stewart was appointed to the position in November 2007.

Greg joined the corporation in 1987 and most recently served as Executive Vice-President and Chief Operating Officer. He led the Operations division through some of the most successful years in FCC's history, and the Board has every confidence in his abilities to advance the corporation's commitment to Canadian agriculture.

> "This year, I witnessed the passion and commitment FCC employees and managers have for the business of agriculture."

In December 2007, Minister Ritz provided FCC management with a statement of accountabilities outlining the government's expectations of the corporation. Minister Ritz asked that FCC pursue its public policy role with vigour and determination, and continue its commitment to building an agriculture sector with a strong competitive foundation that will remain viable in the long term.

Like other federal Crown corporations, FCC is periodically subject to Special Examinations by the Office of the Auditor General of Canada (OAG). FCC underwent such an examination in 2007. The OAG returned a generally favourable report and made recommendations, some of which centred on increasing overall transparency, improving external reporting and demonstrating due diligence in the procurement process.

All recommendations were accepted, and FCC's Board of Directors will oversee progress to ensure all are addressed in a timely manner. Several recommendations have already been implemented.

This year, I witnessed the passion and commitment FCC employees and managers have for the business of agriculture. The atmosphere of openness and accountability is due in no small part to the culture that John Ryan, FCC's former president and CEO, envisioned and brought to life. John's tenure ended in November with the conclusion of his third contract with FCC, and on behalf of the Board, I extend him our deepest appreciation for a job very well done.

Along with the Board, I thank all FCC employees for the dedication they demonstrate every day in serving Canada's agriculture industry.

Respectfully submitted on behalf of the Board of Directors,

Gill Shaw

Gill O. Shaw

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

I would like to extend my congratulations to Farm Credit Canada (FCC) on another successful year and my thanks for the outstanding contribution they continue to make to Canada's agriculture community. After 15 consecutive years of portfolio growth, FCC continues to advance the business of agriculture in Canada by working with farmers to ensure they're growing, prospering and preparing for the future.

The Government of Canada puts farmers first, because when farmers succeed, processors succeed, retailers succeed and consumers at home and around the world benefit. Agriculture remains a cornerstone of Canada's economic growth. Farmers generate $130 billion in consumer sales each year and provide jobs for one out of every eight Canadians in the workforce.

> "Agriculture remains a cornerstone of Canada's economic growth. Farmers generate $130 billion in consumer sales each year and provide jobs for one out of every eight Canadians in the workforce."

In recognition, FCC held its first Agriculture Day in Canada in January 2008, staging 86 celebrations across the country. I was proud to join Prime Minister Stephen Harper in greeting participants in this landmark event and I was pleased to hear that more than 4,200 people joined in the festivities and workshops.

I know first-hand how potentially unpredictable the agriculture business can be. Farmers have to manage risks and seize the right opportunities and FCC helps them to do that.

I look forward to our continued work towards ensuring our country continues to be recognized as an agricultural leader on the world stage.

On behalf of the Government of Canada, I commend FCC for its continued commitment to putting farmers first.

Gerry Ritz, P.C., M.P.

Jim Latrace
Lumsden, Saskatchewan

Lutzer Latrace Seed Farm

Working his seed farm in southern Saskatchewan is exactly where Jim Latrace likes to be. Being out in the field, driving the tractor or combine and having his kids tag along, gives him great pleasure. He is proud to earn a living doing something he enjoys. It's a bonus that his chosen career lets him spend lots of time with his family.

> "FCC's support of agriculture is like a boost when you need it – they're the ones who give you a leg up when you need it."
>
> – Jim Latrace

Jim believes there will always be a demand for quality seed and is optimistic about his operation's future. He uses FCC's AgExpert Analyst to manage his financial records and Field Manager PRO for seed and crop data. He thinks one of the biggest benefits of Field Manager PRO is the history built by tracking data over a period of years. "That's when you really see the payoffs," Jim says.

Public policy role

Statement of priorities and accountabilities

The October 2007 Speech from the Throne made it clear that an agriculture industry with a strong competitive foundation remains a cornerstone of the federal government's plans to build a stronger economic future for Canada.

In December 2007, the Honourable Gerry Ritz, Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, asked that FCC meet specific expectations. As the representative of our sole shareholder, the Government of Canada, Minister Ritz established our priorities and accountabilities as follows:

- Continued attention to maintaining FCC as a self-sustaining Crown corporation that supports agriculture through the cycles and unforeseeable events that can negatively impact particular sectors.
- Continued growth and support for the ever-changing financial and business services needs of FCC's customers.
- Continued development and maintenance of a full range of loan products tailored to FCC's diverse customers in all sectors of agriculture and all areas of Canada, and competitive with products offered by other financial institutions. This will support FCC customers as they grow, diversify and expand outside Canada to capture new markets for Canadian agricultural products.
- Continued support for new and young farmers entering agriculture. In addition, working with stakeholders, FCC will continue to provide business management training, information and tools that will assist in the intergenerational transfer of family farms throughout Canada, and that will allow producers to capitalize on opportunities and make more informed decisions concerning their operations.

- Continued attention to acting on the recommendations of the Office of the Auditor General of Canada in its most recent Special Examination Report concerning FCC.
- Continued collaboration with Agriculture and Agri-Food Canada (AAFC) in implementing Growing Forward, its new policy framework for Canadian agriculture.
- Continued collaboration with AAFC in developing short- and medium-term measures to help industries facing hardship, such as the current situation facing the livestock sector. This collaboration will ensure that AAFC benefits from FCC's extensive experience in assessing the financial situation of farmers and the sector, and from FCC's current service delivery channels.

As a federal Crown corporation, FCC's purpose is to enhance rural Canada by providing specialized and personalized business and financial services to family farms, farming operations and small and medium-sized businesses related to farming.

We believe our public policy role permeates everything we do. For example, the theme of this year's annual report illustrates our belief that agriculture, including the full value chain, is a business. It tells people that we are a visionary organization committed to helping producers and business operators succeed in a very complex industry. We are committed to advancing the business of agriculture across Canada.

FCC fulfils its public policy role through the loans, services and support offered to the agricultural community.

We create business and financial solutions with agriculture in mind

We offer loans, management software, information and learning opportunities specifically tailored to the agriculture industry. Innovative products are designed to address the unique needs of our customers:

- AgExpert software provides producers with detailed management information to enhance decision-making
- AgriSuccess offers learning programs with an emphasis on succession, marketing and management skills
- AgriSuccess Journal and AgriSuccess Express offer news and information pertaining to agriculture
- CanadianFarmersMarket.com provides customers a place on the Internet where they can promote and sell products

Since the Accelerator Loan targets young farmers starting or expanding an operation, we asked the Canadian Young Farmers Forum for input into its design: 309 young farmers were approved for loans under this program in 2007-08, and in total, over $500 million in lending was approved to young farmers through our custom and standard loan products.

FCC Ventures, the corporation's venture capital division, was created to address the need for non-traditional capital financing in Canada's agriculture industry. Providing venture capital funds tailored to agriculture is intended to help Canadian agriculture succeed domestically and on the world stage.

We support agriculture through all cycles

Our customer support strategy helps customers manage when challenges like sector downturns or weather-related events impact the industry. In recent years, we have worked with producers affected by drought, flooding, avian influenza and bovine spongiform encephalopathy (BSE) to reduce or defer payments or negotiate flexible repayment plans.

We are proactive about establishing our customer support strategies. In 2007, when heavy winter snowfall and late spring melt pointed to the potential for excessive flooding in British Columbia's Fraser Valley, we had a plan ready. Although the anticipated large-scale flooding did not occur, we were prepared to help.

In 2007, with hogs at the low end of their price cycle, we approved use of the customer support strategy for hog operators across Canada when a number of other factors suggested pending cash flow challenges: in 2007-08, 146 hog-related operations sought relief under the program, which is expected to continue until September 30, 2008.

We implemented the FCC Ag Crisis Fund in 2004 to give employees a mechanism for requesting support for an individual customer facing a difficult time. These situations often result from natural disasters like flooding, tornadoes or drought, or from serious illness, fire or farm accidents.

FCC launched the Ag Crisis Fund because employees wanted a way to offer assistance in the moment to alleviate some of the distress and upheaval a crisis can cause: in 2007-08, 84 families received help when they needed it because an FCC employee saw an opportunity and acted.

On occasion, the fund also supports non-customers, such as FCC's 2007 donation of $25,000 to the Saskatchewan Association of Rural Municipalities to provide relief for widespread flooding in northern parts of that province. Funds in this program are often disbursed to customers in smaller amounts.

We serve the spectrum of the agriculture industry

FCC offers lending products and services to farming operations and businesses of various profiles and sizes in all sectors and all geographic areas, including operators expanding outside Canada to capture new markets for Canadian agricultural products. We carefully manage the level of risk we assume, to maximize customer success.

Following is a breakdown of net new lending customers in 2007-08 by line of business:
AgProduction – 3,526
AgValue – 171

We maintain a presence across the country

Most of FCC's 100 offices are located in rural areas. Because of our commitment to public policy, we keep offices open across Canada to ensure producers and agribusiness operators throughout the country have equitable access to our services.

In 2007-08, we served 48,019 lending customers across Canada:
British Columbia and Alberta – 11,625
Saskatchewan and Manitoba – 18,743
Western Ontario – 7,705
Quebec – 3,942
Atlantic and Eastern Ontario – 6,004

We do business in both official languages

As a federal Crown corporation, FCC adheres to the Official Languages Act, offering customers across Canada service in both official languages. FCC also communicates with employees in their language of choice for core services and respects language of work policies. In 2007-08, 16 per cent of FCC employees identified French as their language of preference at work.

We act as delivery agent for the Government of Canada

FCC co-operates with AAFC in delivering programs such as the Ruminant Slaughter Equity Assistance Program and providing farm business assessments to FCC customers participating in the Canadian Farm Families Options program.

The Canadian Farm Families Options program provides short-term income assistance to farmers and their families while they pursue training and advice to improve their business prospects and income for the long term: since inception, we have provided independent consultants to over 500 customers to help with business assessments.

We also collaborated with AAFC in developing environment and enterprise programming in the Growing Forward initiative, a new policy framework for the Canadian agriculture, agri-food and agri-based products sector. The programs under this initiative include:

- AgriInvest – a savings account for producers that provides flexible coverage for small income declines, it also supports investments that help mitigate risk or improve market income
- AgriStability – a margin-based program that provides income support when a producer experiences larger income losses
- AgriInsurance – includes existing production insurance and other insurance products, and will expand to include other commodities
- AgriRecovery – a disaster relief framework to provide rapid assistance when small-sized disasters hit producers

We visibly support rural Canada

We adhere to the Canadian Centre for Philanthropy's Imagine program guidelines and donate 1.5 per cent of profits to communities in Canada where our customers and employees live and work. We promote farm safety, support causes that address food and hunger issues, provide education about agriculture and fund projects that improve quality of life.

The FCC AgriSpirit Fund provides $500,000 annually to rural capital projects: in 2007-08, 58 community organizations received funding.

Our annual Drive Away Hunger Tours collect thousands of pounds of food for rural food banks. We support World Food Day, Canadian Agricultural Safety Week and First Aid on the Farm training sessions.

We safeguard the environment

As a responsible authority under the Canadian Environmental Assessment Act, it is our duty to assess the environmental effects of projects within the meaning of that act that may impact the natural environment. We work with our customers to gather information through questionnaires, site inspections and, where warranted, environmental assessment reports from qualified consultants, and we recommend action when significant adverse environmental effects are identified. We also carefully review environmental risks related to lending activities like accepting real property as loan security.

We also incorporate well-balanced, environmentally aware business practices into our daily operations. We established a bio-security protocol to ensure employees practise disease prevention when visiting customers. This bio-security protocol, supporting documentation and supplies are available to all employees.

Corporate social responsibility

Transparency in the pursuit of corporate objectives is a cornerstone of corporate social responsibility (CSR) at FCC. In this section of the annual report, we will show the progress we are making toward working in an economically, socially and environmentally sustainable manner, while recognizing the best interests of our stakeholders.

FCC is committed to advancing Canada's agriculture industry in a socially responsible and sustainable way. We are accountable and responsive to our stakeholders through:

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

Corporate governance

We act with integrity, balancing business decisions with individual needs. We are accountable to our stakeholders and act in accordance with all laws and with high ethical standards.

At FCC, our corporate values are more than just words. They guide our interactions with colleagues, customers and stakeholders. We openly share our values with employees and customers, and challenge all stakeholders to ensure we act in accordance with those values.

Our code of conduct and ethics includes whistleblower protection so employees feel safe reporting any wrongdoing. Measures are in place to monitor compliance to the code and ensure business activities at all levels of the organization are appropriate. In 2007-08, we experienced four situations that required attention from management or senior management. None required the intervention of the CEO or Board of Directors.

New employees sign a declaration acknowledging that they have read the code of conduct and ethics and agree to abide by it. As of the fourth quarter 2007-08, all employees now sign the declaration annually to confirm they understand and accept their responsibilities under the code.

Projects currently underway include sharing the code and its implications with stakeholders through our external website, developing a series of communications for staff addressing possible ethical dilemmas and how to deal with them, and automated notification to our Integrity Officer when new employees are hired so the officer can help clarify roles and responsibilities under the code.

To ensure our CSR commitments remain challenging, achievable and sustainable, FCC's Board and senior management receive quarterly status reports.

Human resources management

We leverage our people's specialized knowledge and passion, developing and encouraging employees to be their best. Our cultural practices explicitly outline the behaviour expected of FCC employees at all times with colleagues, customers, partners, suppliers and stakeholders.

FCC recognizes that our people are our strength. We strive to consistently provide a healthy work environment, respect in the workplace, and appropriate compensation and acknowledgement for the passion and commitment with which they approach their work. We encourage all employees to contribute to business solutions and exercise their leadership abilities, regardless of title or job description.

Our cultural practices set guidelines for working together, and our customer experience standards ensure employees deliver an extraordinary experience in every customer interaction. To help keep these practices and standards top of mind, we communicate updates regularly.

FCC spends over 3.5 per cent of annual payroll on employee development every year. In 2007-08, 29 employees were identified as candidates for our leadership excellence and development programs, and 456 lending operations staff participated in our customized field development program.

The Conference Board of Canada recommends that the number of women on an organization's board, executive or senior management team is reflective of the Canadian population as a whole. At March 31, 2008, there were three women on the FCC Board of Directors (25 per cent) and five on the Senior Management Team (23 per cent).

FCC is committed to a strategy that ensures our workforce reflects the face of the Canadian population.

FCC's compensation and benefits programs are reviewed and analyzed annually. No significant changes to compensation are required at this time. Our philosophy endorses total cash compensation in the 65th percentile, a lead market position that ensures FCC employees receive higher compensation than two-thirds of comparable organizations. Extended family leave is offered under our benefits program, and

Our cultural practices set guidelines for working together, and our customer experience standards ensure employees deliver an extraordinary experience in every customer interaction.

in 2007-08, 91 employees accessed additional adoption, maternity or paternity benefits.

Each year, FCC participates in a Hewitt Associates survey to determine employee engagement scores. Achieving a high employee engagement score helps FCC attract and retain high-calibre employees. Our score in 2007-08 rose to 83 per cent, up from 82 per cent last year, and we rose to seventh from eighth place on Canada's 50 Best Employers list from the Globe and Mail's Report on Business. Action teams address the areas that scored lowest and work to further improve employee satisfaction and engagement.

We participate in the survey annually to ensure we are competitive in the employment marketplace. Hewitt Associates developed and delivers the survey and tallies the results.

We offer several formal recognition programs to empower employees and managers to recognize and reward colleagues for their achievements.

Community investment and involvement

We give back to the communities where our employees and customers live and work by promoting safety, supporting causes that address food and hunger issues, providing education about agriculture and funding projects that improve the quality of life in rural Canada.

FCC is a member of the Canadian Centre for Philanthropy's Imagine program, and we donate 1.5 per cent of annual profits to charitable and not-for-profit community and industry organizations like 4-H, the Canadian Association of

Food Banks, the Canadian Agricultural Safety Association and Agriculture in the Classroom. Our contributions to communities were over $2 million in 2007-08.

> World Food Day every October is one of our biggest community investment undertakings, and one that our employees look forward to every year.

Most of what happens in agriculture happens in rural Canada, so we focus our efforts on enhancing life for the people who live and work there. Each year, the FCC AgriSpirit Fund awards a total of $500,000 to rural capital projects – communities apply for funding and may receive between $5,000 and $25,000. In 2007-08, successful projects included fire trucks, playground and medical equipment, and recreation centres.

We encourage our employees to give back to their communities through the projects or charities that touch their hearts. We offer two programs to help: the employee matching program funds projects where three or more FCC employees are involved, and under the employee volunteer program, employees who donate more than 20 hours of volunteer time to a charitable organization may be selected to receive funding for that organization. In 2007-08, 10 per cent of FCC employees accessed at least one of these two programs.

World Food Day every October is one of our biggest community investment undertakings, and one that our employees look forward to every year. Its purpose is to heighten awareness of hunger in rural Canadian communities, and motivate people to join in our campaign to Drive Away Hunger.

This year our employees organized three Drive Away Hunger tours – one in P.E.I., one in Quebec and one at corporate office in Regina, Saskatchewan. Each featured a farm tractor and wagon driving a pre-determined route, collecting food and cash donations on behalf of local food bank organizations along the way. There were Drive Away Hunger events in 20 other FCC offices across the country, and in the end, we helped raise over 300,000 pounds of food to help fight hunger.

Environment, health and safety

We are committed to sound environmental practices and educating customers about environmental risk and bio-security issues. We incorporate environmental sustainability considerations into our decision-making.

FCC is responsible for environmental due diligence under the Canadian Environmental Assessment Act. We work with customers to review environmental risks through questionnaires, site inspections and assessment reports from qualified consultants. We help customers assess the environmental impact of their operations by providing information and education.

We incorporate environmentally conscious business practices into our daily operations, such as recycling and energy-conscious purchases of light bulbs, paper and office-related supplies. We are tracking our use of paper and resources as a first step toward reducing the environmental impact of our business operations across the country. Our corporate office participates in a carpool program that helps 43 employees a year connect with neighbours to drive to work together, reducing emissions and the consumption of non-renewable fuels.

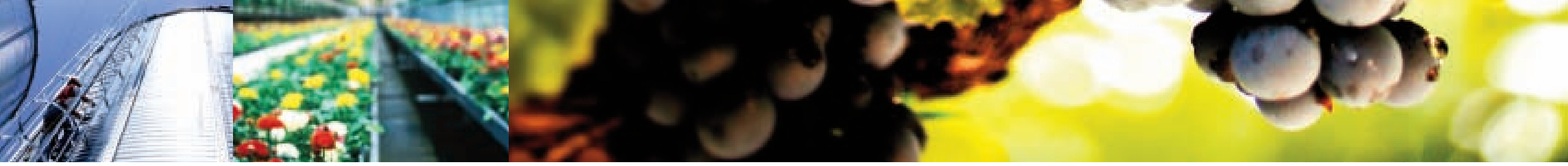
Bio-security is an important element of our business, and we are committed to raising awareness among customers and in the industry at large. Our bio-security protocol helps ensure that employees understand and practise disease prevention when visiting customers. It is reviewed annually and updated as needed. As part of our commitment, we make sure bio-security supplies are accessible to every employee who visits agriculture operations.

We keep employees safe through ongoing first aid and CPR training, and our safe workplace training for managers and supervisors. In 2007-08, 61 employees were certified to deliver both CPR and first aid, and 43 employees successfully undertook the safe workplace training program.

Human rights

We are proud to act in accordance with human rights standards, including the Canadian Human Rights Act and the Canadian Human Rights Commission.

We respect the rights of the individual. In all our interactions with customers, employees, suppliers or others, we take human rights very seriously. We have put in place a rigorous code of conduct and ethics that is reviewed and acknowledged, in writing, by every employee every year.



In 2008-09, our cross-divisional CSR committee will initiate a review of initiatives we might adopt to further the human rights pillar of our CSR program.

Customer focus

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

Our commitment is exhibited by the care we take with each customer, the ease with which they can do business with us and the value they get from all interactions with our employees. We know that the business of agriculture experiences many cyclical fluctuations, and we are ready with products and solutions that support customers through all cycles.

Our AgriSuccess management workshops and seminars help customers gain the skills they need to better manage not only their financial and human resource requirements, but plan for succession as well. We launched a very successful series of seven learning tours making 49 stops across the country in 2007-08. We also hosted 86 workshops in the AgriSuccess training program that attracted almost 2,850 producers, and celebrated our industry with over 4,200 attendees at Ag Day in Canada events across the country. We continued our very successful Winning in Agriculture forums as well, where 3,174 customers attended one of eight major events to hear presentations on subjects of interest to anyone involved in Canadian agriculture.

Our commitment is exhibited by the care we take with each customer, the ease with which they can do business with us and the value they get from all interactions with our employees.

We have two initiatives that help customers during challenging times. Through our customer support strategy, we proactively contact customers to develop plans to help manage through adversity. We evaluate situations individually and work with customers to defer payments or create flexible repayment schedules. In 2007-08, we invoked the customer support strategy for our customers in both the beef and pork sectors who were facing challenges brought on by low prices and high input costs. We worked with 162 producers across Canada, providing support when they needed it.

The FCC Ag Crisis Fund gives employees a mechanism for requesting support for an individual customer facing a difficult time. These situations often result from natural disasters like flooding, tornadoes or drought, or from serious illness, fire or farm accidents.

Our CanadianFarmersMarket.com website is a showcase for customer products in the world's biggest marketplace – the Internet. We promote the website by encouraging urban Canadians to visit, and now have more than 330 customers using the free service. Products range from appetizers to snacks and sweets.

FCC believes in operating as a responsible corporate citizen. Our deep commitment to these six pillars of social responsibility will help us provide a strong competitive foundation to Canada's agriculture sector.

Corporate social responsibility scorecard

For the years ended March 31

FCC takes corporate social responsibility seriously. We care about our impact on employees, customers and the communities where we live and work. According to the Conference Board of Canada, corporate social responsibility (CSR) is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

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

Corporate governance	**2008**	**2007**
Statement of social responsibility	yes	yes
Statement of corporate values	yes	yes
Code of business conduct	yes	yes
Board Chair and company CEO are separate functions	yes	yes
Human resources management		
Conducts employee satisfaction surveys:	yes	yes
• Included in Globe and Mail's Best Employers list and Maclean's Top 100 companies		
Provides employees with education and development	yes	yes
Conducts annual market compensation reviews	yes	yes
Policy on diversity and employment equity	yes	yes
Public reports on diversity issues	yes	yes
Offers employees diversity training	yes	yes
Benefits include additional maternity and paternity benefits	yes	yes
Percentage of women on the Board	25	36
Percentage of women among senior management team	23	24
Community investment		
Policy statement on community donations is available to the public	yes	yes
Calculates donations based on one per cent of profits	yes – 1.55%	yes – 1.59%
Programs are in place to support employee giving and volunteering	yes	yes
Environment, health and safety		
Corporate environmental management systems in place, including policies, programs and performance analysis	in progress	in progress
Reports on resource use (energy, materials, water)	in progress	not yet
External reporting on lending environmental risk management	yes	yes
Lending environmental risk management policy and processes, including environmental risk assessment	yes	yes
Bio-security protocol for customer visits	yes	yes
Offers loans that reduce environmental impact	yes	yes
Environmental reporting, including policy, programs and initiatives, and performance data	in progress	in progress
Human rights		
Human rights policy and code of conduct	yes	yes
Policy/code of conduct governing the supply chain of procured items	yes	yes
Customers		
Conducts customer satisfaction surveys	yes	yes
Helps customers market their products:	yes	yes
• 331 customers with 410 listings on CanadianFarmersMarket.com		
Loans to meet the needs of new entrants into agriculture	yes	yes
Offers industry-related training:	yes	yes
• AgriSuccess delivered 86 workshops, 8 forums and 7 learning tours		

Peter Quiring
Leamington, Ontario

Nature Fresh Farms

Peter Quiring is excited about the greenhouse industry and proud of the way his 67-acre bell pepper greenhouse operation helps protect the environment. In the greenhouse, everything is recycled, including the plant vines, the coconut fibre growing medium and all the plastics. Even the excess water is sterilized and returned to the plants.

> "Farm Credit is a loyal investor in Canada's agriculture industry – clearly, they have a great knowledge of agriculture."
>
> – Peter Quiring

Nature Fresh Farms has four biomass boilers that not only warm the greenhouses, they also keep about a thousand tractor-trailer loads of scrap wood from going to local landfills every year. According to Peter, FCC understood that the right investment in biomass energy could help him capitalize on an opportunity – and that in an area like his where scrap wood is plentiful, this equipment was a perfect fit.

FCC Board of Directors 2007-08 **L-R**: Brad Hanmer, Gilles Lapointe, Jack Christie, Sharon E. White, Greg Stewart, Gill O. Shaw, Russel Marcoux, Caroline Belzile, Donald Bettle, Caroline Granger, Réal Tétrault, Ron Hierath

Corporate governance

Responsibility for the stewardship of the corporation

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

The FCC Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO are appointed by the Governor-in-Council. The Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board appoints FCC Directors.

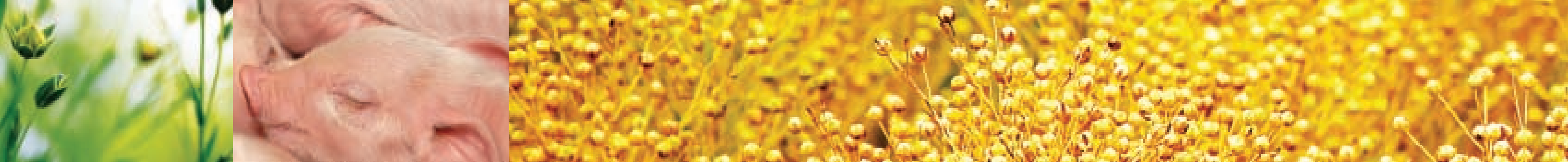
The corporation has a well-established enterprise risk management process, which is designed to identify potential events that may affect FCC. The Board oversees this process to manage risk within the risk appetite of FCC and to provide reasonable assurance regarding the achievement of FCC goals and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

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

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

FCC's public policy objectives

As a federal Crown corporation, FCC serves a public policy role. Our mission is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. FCC fulfils this mission by offering loans and business services to meet the needs of the industry. FCC operates on a financially self-sustaining basis and supports all sectors of the agriculture economy in all parts of the country through good times and bad.



Each year the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, in consultation with the Board Chair, delivers a statement of priorities and accountabilities that sets out the Minister's expectations and the government's priorities. As FCC's governing legislation does not call for regular mandate reviews, this letter is key in ensuring that FCC fulfils its public policy mandate. This statement is provided on page 11 of this report.

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

FCC is increasingly challenged to meet the needs of customers in an increasingly global agriculture economy.

Communication with other Crowns, stakeholders and the public

FCC regularly meets with Treasury Board, Department of Finance and other Crown corporations to ensure its policies and procedures are continually reviewed against best practices and government guidelines.

In addition, each year, FCC attends the annual meeting of the Canadian Federation of Agriculture and Canadian Young Farmers Forum. We attend events and meetings hosted by other industry and producer groups as well, to share knowledge and solicit input and feedback on issues facing agriculture.

We invite representatives of industry-related organizations and associations to speak to our various communities of practice on subjects within their areas of expertise, and twice each year we collaborate with Export Development Canada and the Business Development Bank of Canada to share ideas, best practices and ways we can work together to benefit customers.

In August 2007, FCC held its first annual public meeting of stakeholders. This meeting allowed the corporation to report on activities and financial results for the past fiscal year and receive feedback from interested stakeholders and the public at large concerning our mandate and strategic direction.

FCC also ensures that its products and services meet the needs of the agriculture industry by regularly consulting with the FCC Vision panel. The panel is a group of over 8,000 Canadian producers (including customers and non-customers) and other agriculture professionals from coast to coast who have volunteered to share their ideas and insights with us.

Effective working relationship with management

In November 2007, John Ryan retired after 10 years as FCC's President and CEO. Greg Stewart, who was the corporation's Chief Operating Officer and who has worked for FCC for almost 20 years, was appointed FCC's new CEO on an interim basis by the Board. A formal appointment by Order in Council for a term of five years, commencing January 1, 2008, followed. Greg's appointment was the result of an extensive national search that started in January 2007.

In September, the Board met with John Ryan and Greg Stewart in a three-day off-site session, facilitated by an external consultant, to ensure alignment on the strategic direction and operational priorities of the corporation. The session also ensured a deep and committed working relationship between the CEO and the Board based on mutual trust and candid communication.

Board independence

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

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

The roles of the CEO and Board Chair are separate. All Board members, with the exception of the CEO, are independent of management. At each meeting, the Board sets aside time to meet without management present. The Board also arranges regular meetings with FCC's external auditor and various members of the executive management team to meet in private.

Mechanism to assess CEO's position and evaluate CEO performance

With the appointment of Greg Stewart, the Board engaged the services of an outside consultant to work with Greg and the Board to develop the process to annually set the CEO's goals and objectives, to help in the documentation of those goals and objectives for the 2008-09 fiscal year and to develop a process for evaluating and reporting on those objectives. This consultant will work through this process with the Board and the CEO during the upcoming year.

Mechanism to assess Board capacity, competency and evaluate Board performance

Through a structured process of self-evaluation, the Board regularly assesses its collective performance and the individual performance of its members. This year, the Board once again engaged in an extensive evaluation conducted by an outside consultant. Each Board member was individually interviewed and completed a written survey. Feedback was also sought from members of executive management concerning the effectiveness of the Board and its governance practices.

In addition, the Board reviewed and re-established its profile for the Board Chair and individual Directors, to clearly set out the desired competencies and skills for both. Board members engaged in a process to self-assess their competencies and skills. From this, the Board conducted a skills gap analysis and put in place plans to address skill gaps through new appointments, training and the hiring of outside experts to advise the Board on particular technical matters.

Orientation and education programs for Board

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. Board members also have direct access to the Senior Management Team for ongoing education. This year, because of the significant number of new appointments to the Board over the last two fiscal years, Board members requested followup orientation sessions. In conjunction with Board meetings, Directors travelled to Regina a day early and met with various members of the Senior Management Team to follow up on questions they had concerning the corporation's operations and to better understand the reports typically presented to the Board.

To gain understanding of FCC business and the current issues facing the corporation, the Board regularly engages in continuing education. Gill Shaw, Board Chair, has enrolled in the Directors College at the DeGroote School of Business at McMaster University and is working toward obtaining his Chartered Director designation.

Other Board members have individually attended conferences and seminars conducted by private sector organizations on various topics relevant to corporate governance and FCC business. Each year, the Board also visits a number of customer operations and corporate area conferences. This gives them a better understanding of the corporation, the depth and scope of Canadian agriculture, and the issues facing primary producers and agribusiness operators.

Review of adequacy and form of compensation for Board Directors

Directors are paid an annual retainer and per diems. Amounts are set by the Governor-in-Council pursuant to the Financial Administration Act. On January 8, 2008, those rates were increased retroactive to June 2001, the date FCC's governing legislation was changed and FCC's mandate expanded:

- the Board Chair receives an annual retainer of $12,400 (increased from $10,800)
- committee Chairs receive an annual retainer of $7,200 (increased from $6,400)
- all other Board members receive an annual retainer of $6,200 (increased from $5,400)
- all Board members including the Chair receive a per diem of $485 for meetings, training sessions and FCC-sponsored events (increased from $375 in the case of Directors and $420 in the case of the Board Chair)
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties

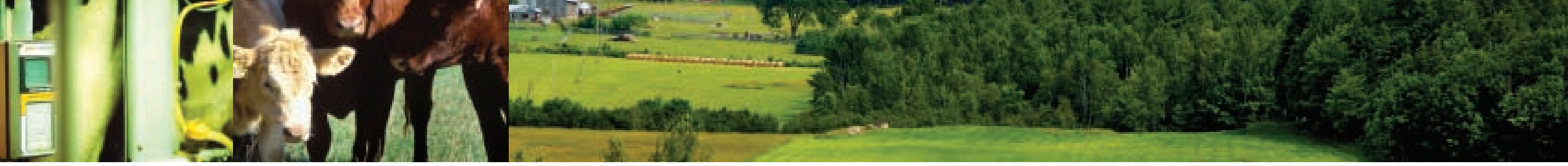
During 2007-08, there were 13 Board meetings and 18 committee meetings. Total remuneration (annual retainer and per diems) paid to all Directors was $279,708. This amount includes the retroactive adjustment of annual retainers and per diems. The total adjustment amount paid retroactive to 2001 was $289,735.50, of which $117,264.15 was paid to current directors and $172,471.35 was paid to former directors. Total Board travel and related expenses were $196,654, compared to $188,303 in 2006-07.

Responsibility for developing the corporation's governance issues

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

Promote a culture of ethical and business conduct

All Board members are bound by the FCC Code of Conduct and Ethics (the code). As well, the corporation is subject to the Access to Information Act, the Privacy Act, the Federal Accountability



Act, the Conflict of Interest Act and the Public Servants Disclosure Protection Act and this year, the Board approved in principle a Reputation Risk policy against which all of the corporation's current and future programs and policies will be reviewed.

Acting with integrity is a core value and maintaining the highest ethical standards is a vital priority for the Board of Directors and FCC. Upon their appointment and each year thereafter during their tenure, each Director signs a declaration committing to adherence to the code. The Board also approved a protocol setting out the process by which disclosures of possible violations of the code by the CEO, any of his direct reports or any member of the management team in the Finance division are reported to the Board.

At least annually, the corporation's Integrity Officer reports to the Board on all disclosures of possible violations of the code and discusses ongoing education and awareness activities for employees. This year, awareness activities included:

- the first annual re-signing by all employees of the Declaration and Promise of Fidelity and Secrecy
- staff communiqués from the CEO reminding them of the existence of the code, the Integrity Officer, whistleblower protection, and ConfidenceLine, the employee hotline
- regular presentations by the Integrity Officer to work teams regarding the code as well as individual employee counselling regarding questions of integrity and the application of the code

The Board also has its own specific policy related to loans where a Director has a material interest that supplements the corporate bylaws prescribing rules for dealing with situations where a Director has a conflict of interest.

Travel and hospitality expenses incurred by the CEO

Quarterly, the Board reviews the travel and hospitality expenses of the CEO, which in turn is published on the corporation's public website.

Review of contracts over $50,000

Annually, the Board reviews a listing of all contracts entered into by the corporation where the amount of the contract exceeds $50,000.

Audit

FCC annual financial statements are audited by the Auditor General of Canada. In addition, every five years, the Auditor General of Canada conducts a special examination. This is a value-for-money audit and is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. The most recent special examination was completed in September 2007. A copy of the report is available on FCC's public website. The Board has committed itself

2007-08 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Board meeting attendance[2]	Committee meeting attendance[3]	Board travel and related expenses
Caroline Belzile	$1,033	$5,820	$6,853	3/3	0/0	$10,766
Don Bettle	$6,200	$17,240	$23,440	13/13	11/11	$16,827
Jack Christie	$6,367	$21,825	$28,192	13/13	11/11	$13,044
Caroline Granger	$4,650	$13,580	$18,230	10/10	4/4	$22,804
Brad Hanmer	$6,200	$15,035	$21,235	12/13	11/11	$8,452
Ron Hierath	$6,200	$14,065	$20,265	11/13	5/5	$13,087
Gilles Lapointe	$517	$2,910	$3,427	1/1	0/0	$8,444
Marie-Andrée Mallette	$6,000	$9,215	$15,215	10/10	6/7	$320
Russel Marcoux	$7,200	$14,308	$21,508	12/13	7/7	$15,400
Claude Ménard	$6,200	$20,370	$26,570	12/12	4/4	$22,787
Gill Shaw	$12,400	$28,615	$41,015	13/13	17/17	$29,916
Réal Tétrault	$7,200	$21,583	$28,783	13/13	7/7	$16,473
Deborah Whale	$1,800	$3,880	$5,680	3/3	2/2	$3,250
Sharon White	$6,200	$13,095	$19,295	11/13	10/11	$15,084
Total	**$78,167**	**$201,541**	**$279,708**			**$196,654**

[1] Column A (Board retainer) and column B (Per diems)
[2] There were 13 Board meetings (six in person and seven by teleconference)
[3] There were six Audit, five Human Resources, five Corporate Governance, and two Nominating Committee meetings.

to ensuring the corporation follows up on all of the recommendations of the report in a timely manner.

Board composition

The Board is composed of 12 members, including the Chair and the President and CEO. Directors serve terms of up to four years and may be reappointed.

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

New appointments

On June 27, 2007, Caroline Granger from Prince Edward County, Ontario, was appointed to replace Deborah Whale. Gilles Lapointe of Casselman, Ontario, was appointed to replace Claude Ménard effective March 11, 2008. Caroline Belzile of St-Elzéar, Quebec, was appointed to replace Marie-Andrée Mallette effective January 29, 2008.

Audit Committee

Chair: Jack Christie
Members: Gill Shaw (Board Chair), Don Bettle, Brad Hanmer, Caroline Granger and Gilles Lapointe

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

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems, integrated risk management processes and audit functions.

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

Important issues dealt with this year included overseeing the final report of the 2007 Special Examination and action plans resulting from that report.

Human Resources Committee

Chair: Réal Tétrault
Members: Gill Shaw (Board Chair), Greg Stewart (CEO), Don Bettle, Brad Hanmer and Caroline Belzile

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of CEO, how to assess the CEO's performance and working with him to agree on an annual development plan.

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

Important issues dealt with this year included approval of a new process to set and evaluate the CEO's goals and objectives and performance. Other matters included the approval of new funding policies concerning the corporation's pension plan and funding pension plan deficits.

Corporate Governance Committee

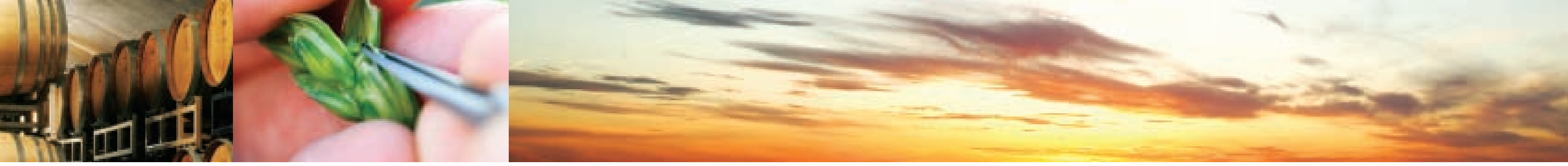
(in 2007, the Nominating Committee was combined with the Corporate Governance Committee)

Chair: Russel Marcoux
Members: Gill Shaw (Board Chair), Greg Stewart (CEO), Jack Christie, Ron Hierath, Sharon White and Caroline Granger

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

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

The most important issue dealt with this year by the Corporate Governance/Nominating Committee was the selection and hiring of the



corporation's new CEO. In addition, the Committee oversaw the Board evaluation process, provided direction for the corporation's first annual public meeting and approved in principle a new Reputation Risk policy.

Pension Committee

Board Representatives: Sharon White and Brad Hanmer

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

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

Members of the Board of Directors

Full biographies are available at www.fcc.ca

Gill O. Shaw, B.Sc.Ag., MBA, Chair
Retired CEO
Manitoba Agricultural Credit Corporation
Brandon, Manitoba
Appointed Chair October 30, 2006
Chair, Board of Directors

Greg Stewart, P.Ag.
President and CEO
Farm Credit Canada
Regina, Saskatchewan
Appointed January 1, 2008

Caroline Belzile, D.T.A.
Co-owner, beef, hog and grain farm and sugar bush
St-Elzéar, Quebec
Appointed January 29, 2008

Don Bettle
Former dairy farmer
Former Chairman
Canadian Atlantic Dairy Export Co-op
Passekeag, New Brunswick
Appointed January 25, 2007

Jack C. Christie, B.Comm., FCA
General Manager and CEO
Northumberland Dairy Co-operative Ltd.
Miramichi, New Brunswick
Appointed November 27, 2003
Reappointed October 20, 2005
Chair, Audit Committee

Caroline Granger
President and CEO
The Grange of Prince Edward Vineyards and Estate Winery
Hillier, Ontario
Appointed June 27, 2007

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm
Runs a family-owned seed retail and seed processing and exporting business
Govan, Saskatchewan
Appointed January 25, 2007

Ron Hierath
Realtor, residential and agricultural sales
Lethbridge, Alberta
Appointed January 25, 2007

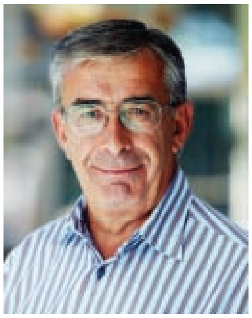
Gilles Lapointe, B.Comm., CGA, CFP
Associate, BDO Dunwoody LLP
Casselman, Ontario
Appointed March 11, 2008

Russel Marcoux, BA
CEO, Yanke Group of Companies
Owner/operator, grain farm
Saskatoon, Saskatchewan
Appointed December 10, 2002
Reappointed August 29, 2005
Chair, Corporate Governance Committee

Réal Tétrault, Dip. Ag.
President and CEO
Emerson Milling Inc.
Emerson, Manitoba
Appointed June 23, 2005
Chair, Human Resources Committee

Sharon E. White, B.Comm, LL.B.
Lawyer – Partner
Richards Buell Sutton LLP
Vancouver, British Columbia
Appointed December 18, 2006

Marie-Andrée Mallette



Claude Ménard

Deborah Whale

Board acknowledgements

The passion and commitment of FCC's Board of Directors benefits both the corporation and Canada's agriculture industry. During 2007-08, three Board members completed their terms. We would like to acknowledge their service and thank them for their efforts and contributions over the years.

Marie-Andrée Mallette –
appointed June 16, 1995
One of FCC's longest-serving Board members, Marie-Andrée's passion for agriculture was inherited from her parents. She has long believed agriculture is at the very core of our lives and Canadian society. Marie-Andrée takes pride in the quality products grown at her large-scale commercial crops and coloured beans operation. She is a lawyer, business executive, women's advocate and active community leader.

Claude Ménard –
appointed March 11, 2005
Claude is a chartered accountant with a solid grounding in the agriculture industry, and he brought over 40 years experience in business and accounting to FCC's Board. He was previously CEO of Agropur, Canada's largest dairy co-operative, from 1989 to 2003. It was this senior management experience that was particularly valuable to FCC's Board. Claude's insight and judgment earned him the respect of his fellow Board members and members of senior management.

Deborah Whale –
appointed November 4, 2003
Whether operating her commercial dairy and veal production business or demonstrating leadership in Canada's agriculture community, Deborah's dedication to the industry is unwavering. Deborah saw the importance of bio-security and was instrumental in the development of a comprehensive bio-security protocol used by FCC staff when making field visits to customer farms.

These individuals selflessly served FCC and the industry during a period of rapid and often substantial change in Canadian agriculture. FCC employees deeply appreciate the dedication and direction they have given the organization's leaders throughout their terms on the Board. Their staunch support has been a foundation of FCC's success.

Moyez Somani, Greg Stewart, Kellie Garrett, Dan Bergen, Lyndon Carlson, Paul MacDonald, Rémi Lemoine, Greg Honey

Executive Team

Greg Stewart, P.Ag.
President and Chief Executive Officer
Reporting to the FCC Board of Directors, Greg supervises all aspects of the corporation's business. He is responsible for refining the corporate vision and strategic direction to ensure the corporation continues to grow and remains a leading-edge organization in terms of products and services, processes, supporting technologies, and in the development and recruitment of people. He maintains and builds strong relationships with external stakeholders to maximize the corporation's competitive position, and oversees a cohesive, high-performance, values-led organization that focuses on the customer, acts with integrity and gives back to the community while achieving excellence. Greg helps his senior executives identify, recruit, develop, motivate, manage and retain top executive talent. He represents FCC as a portfolio head at meetings with the corporation's Minister and standing committees of Parliament, and at ad hoc meetings with other financial institutions, Crown corporations, stakeholders and others.

Dan Bergen, P.Ag.
Executive VP and Chief Operating Officer
Dan is responsible for overall management of our national operations, including alliances and channel management. Front-line employees in our 100 field offices work with customers to identify and deliver the products and services that meet their needs in traditional sectors such as cash crops, dairy, poultry, beef and pork (AgProduction lending) and operations that provide inputs to primary production or add value to its outputs (AgValue lending). His team also provides strategic, multi-channel solutions that assist our customers and alliance partners in doing business with FCC.

Moyez Somani, CMA, MBA, FCMA
Executive VP and Chief Financial Officer
Moyez provides leadership to FCC's finance division and is responsible for finance and venture capital, internal audit and treasury functions. These include portfolio and financial accounting, procurement, internal audit, business continuity and corporate security, funding, cash flow and asset liability management, pension investments and venture capital financing. The work his team does allows FCC to operate as a financially self-sustaining federal Crown corporation that serves the changing needs of Canadian agriculture.

Lyndon Carlson, P.Ag.
Senior VP, Marketing
Lyndon is responsible for marketing, brand management, enterprise and market research, product development, Agri-Assurances (insurance), AgriSuccess (knowledge and training) and AgExpert (agriculture software). His team works to offer our customers a combination of financing, equity, insurance, management software, information and learning through our business lines – all with the goal of helping them grow, diversify and prosper. We offer flexible financing that producers and their suppliers and processors can customize for their operations, and we research and monitor marketplace changes to ensure our products meet the evolving needs of our customers and the agriculture industry.

Kellie Garrett, ABC, MA Leadership
Senior VP, Strategy, Knowledge and Reputation
Kellie is responsible for FCC's business strategy and corporate project management, knowledge management, government relations, strategic intelligence, communications, translation, customer experience, corporate social responsibility, innovation, enterprise risk management, and enterprise document and records management functions. At FCC, we care about our customers, our employees and our communities, and we operate within a corporate social responsibility framework that promotes accessibility, accountability and transparency. And because knowledge is key to business success, her team works closely with employees across FCC and industry stakeholders to provide value-added information to our customers.

Greg Honey
Senior VP, Human Resources
Greg and his team provide HR expertise, advice and programs that create an environment (including employee experience and culture) to attract – and retain – the best and the brightest. Deepening and reinforcing our culture, enhancing our learning strategy, advancing our work in official languages and diversity, and planning for the future through workforce analysis and planning are foundational to HR's strategy to support the business. At FCC, we know that our employees are our most valuable asset and we are committed to keep enhancing the employee experience we offer.

Rémi Lemoine, MBA, FCI
Senior VP, Portfolio and Credit Risk
Rémi and his team provide the knowledge and tools needed to manage the risks and opportunities for our loan portfolio, ensuring the integration of all credit-related areas. The team measures and manages loan portfolio risks and opportunities, and provides services, training and tools to FCC employees to build an optimal portfolio and create an exceptional customer experience. The team establishes credit policy to protect the assets of FCC and ensure financial success by having appropriate credit risk mitigating policies. The team also manages the administration of loans and has a lead role in ensuring our environmental protocols comply with Canadian Environmental Assessment Agency requirements.

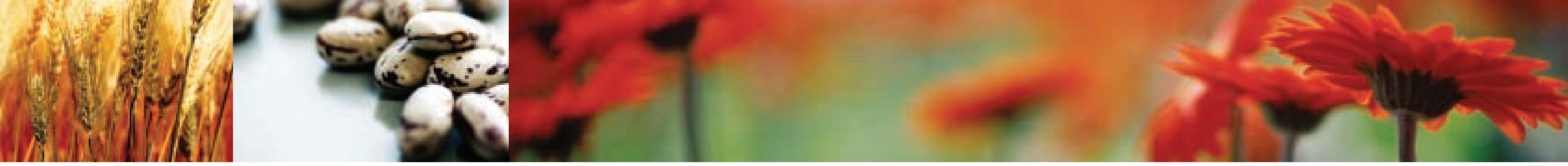
Paul MacDonald, B.Sc., MA
Senior VP and Chief Information Officer
Paul is responsible for information technology and enterprise architecture at FCC. His team collaborates with employees across FCC to deliver innovative business and technology solutions, supporting the success of FCC, our alliance partners, and our customers. Paul has led the transformation of FCC's IT organization by introducing a wide range of information technologies, services and processes to innovate how we deliver services and products to our customers. FCC is maximizing the value of our IT investments and delivering agile, integrated solutions that help employees deliver an exceptional customer experience.

FCC's senior management includes executive committee members and the following senior leaders:

Darren Bly, P.Ag., VP, Partners and Channels
Vincent Giard, P.Ag., MBA, VP, Operations – Quebec
Rick Hoffman, CMA, VP, Finance and Venture Capital
Mike Hoffort, P.Ag., VP, Operations – Prairie
Faith Matchett, BBA, CMA, VP, Operations – Atlantic and Eastern Ontario
Corinna Mitchell-Beaudin, CA, CFA, VP, Portfolio Management
Clem Samson, CIM, FICB, VP, Operations – Western
Joy Serne, B.Sc.Ag., Senior Director, Culture
Barry Smith, B.Sc.Ag., VP, Operations – Western Ontario
Don Stevens, B.Engineering, MBA, CFA, CMA, P.Eng., VP and Treasurer
Brad Strom, VP, Enterprise Architecture
Ross Topp, CA, VP, Audit and Integrated Risk
Greg Willner, B.Admin., LL.B., General Counsel and Corporate Secretary
Louise Yates, MBA, B. Vocational Technical Ed., VP, Strategy and Customer Experience

The full senior management team, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor-in-Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2007-08, the salary range for the President and CEO was set at $268,500 to $314,900. The salary range for Executive Vice-Presidents was $197,170 to $301,550. The salary range for Senior Vice-Presidents was $142,335 to $217,685. The salary range for Vice-Presidents was set at $120,095 to $176,610. The salary range for Senior Director was set at $104,805 to $141,790. The salary range for General Counsel and Corporate Secretary was set at $120,095 to $176,610.

Total compensation paid to senior management in 2007-08 was $5,365,136.



Executive network recognizes FCC's Garrett

In 2007, the Women's Executive Network named Kellie Garrett, Senior Vice-President of Strategy, Knowledge and Reputation, one of Canada's 100 most powerful women.

Kellie is known as a practical visionary with a down-to-earth style. She is a sought-after speaker, has been recognized as a great communicator and strategist, and has played a key role in FCC's success – particularly our ranking as one of Canada's top 50 employers. Kellie is a board member of Canadian Business for Social Responsibility, chair of the Hospitals of Regina Foundation and a lay counsellor to parents who receive an autism diagnosis.

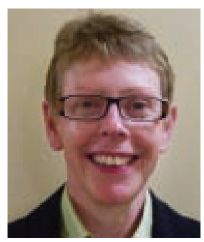
The FCC Rosemary Davis Award

Marie Logan

Lilliane Sabiston

Debbie Coke

Claire Désaulniers



Elspeth McLean-Wile

Five women who are passionate about agriculture were named the 2008 winners of the FCC Rosemary Davis Award.

The five were selected because they serve as role models to others in the agriculture industry. Accomplished producers and volunteers, these women are involved in an impressive variety of pursuits and have given selflessly of their time and talents:

Marie Logan: farmer, 4-H and community leader; Lomond, Alberta

Lilliane Sabiston: farmer, women's advocate, volunteer; Kelliher, Saskatchewan

Debbie Coke: farmer, feed specialist inspector, agriculture advocate; Dresden, Ontario

Claire Désaulniers: dairy farmer, business manager, farm women's advocate; St-Tite, Quebec

Elspeth McLean-Wile: dairy farmer, entrepreneur; Wileville, Nova Scotia

This award is named for Rosemary Davis, the first woman to chair FCC's Board of Directors. We are proud to honour her contributions to the industry as a successful agribusiness owner and operator.

External operating environment

FCC monitors changes in the global external operating environment to identify future trends, strategic issues and opportunities in agriculture. In 2007-08, the categories scanned included the environment, social demographics, science and technology, economy and trade, and governance.

Environment and natural resources

Ecological pressures will shape the business of agriculture while environmental priorities reshape the world of finance. In planning for the future, farm and agribusiness operators will need to consider the impact of their operations on the environment and the capacity of the earth's ecosystems. Water rights are already causing conflict between agriculture and urban users in some parts of the world, and some leading financial institutions are now supporting environmental causes and green enterprises they saw as liabilities just a decade ago.

Society and demographics

The trend to a consumer focus in agriculture represents a significant shift, given agriculture's current commodity production model. Financial products are changing to accommodate consumer demand. In Canada, the shift in the financial services industry is toward wealth management and adapting to an aging population's needs.

Science and technology

The integration of machinery guidance and information management systems, computerization, and robots signal a technology revolution occurring in agriculture operations. Nanotechnology – sometimes called molecular manufacturing – is poised to enhance construction and food packaging materials, while ecological principles and biological models are fuelling innovations in product and process design. Computers are transforming banking and agri-financing, offering convenience and efficiency with automated processes, enhanced customer service options and web-based customer support.

Economy, business and trade

The globalization of agriculture implies added competition and complexity for agriculture producers and lenders alike. FCC is positioned as delivering an extraordinary customer experience and expert agricultural knowledge. However, for FCC and our customers to truly succeed, we must leverage our current knowledge and constantly increase our knowledge base to meet the needs of an expanding agriculture industry.

Governance, policy and regulation

Agriculture operations are becoming increasingly specialized and complex. While mergers and acquisitions are common strategies for creating integrated value chains, strategic alliances and partnerships with specialized niche players have also been successful in certain marketplaces. The size and scope of farms and agribusiness operations are growing. They're pushing the boundaries of lending caps, security requirements, knowledge and risk appetite. Highly sophisticated, financially strong producers will be in a position to negotiate with almost any financial institution.

Agricultural operating environment

FCC also monitors the events, trends and developments that influence the business of agriculture in Canada. The operating environment in 2007-08 was characterized by volatility, accelerating change, industry complexity and intensifying competition.

Interest and foreign exchange rates

Between April 4 and December 31, 2007, the Canadian dollar rose from US$0.8651 to US$1.088, an increase of 25.8 per cent, and remained near par during the first quarter of 2008.

The higher Canadian dollar was troublesome for many export sectors, as it made commodities less attractive in foreign markets. Operators in the beef, pork, forestry and greenhouse sectors all felt the impact.

The Bank of Canada began cutting the target overnight rate in December 2007, dropping the overnight rate 100 basis points by March 31, 2008. Bank economists and currency traders speculate that the overnight interest rate set by the Bank of Canada may fall by an additional 75 to 100 basis points during the remainder of 2008. If the overnight rate continues to drop, prime and short-term rates will fall as well. Whether or not long-term rates will follow suit depends on factors such as the market's expectations for inflation in the future.

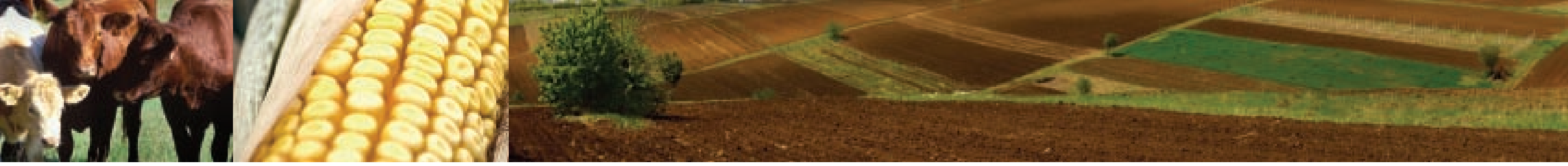
Meanwhile, in the United States, the key policy rate set by the Federal Reserve Bank declined 300 basis points from September 2007 to March 31, 2008. Further cuts to the key policy rate are expected to outpace Canada's in 2008, putting more downward pressure on the U.S. dollar.

The sub-prime mortgage crisis and global credit upheaval of 2007 continues into 2008. Impact on Canadian banks has been modest so far compared to the United States, and our banking system is assessed as fundamentally sound. However, the International Monetary Fund believes the worst is yet to come, including further deterioration for Canadian banks, which may curtail credit availability in 2008.

International trade

World trade is projected to grow for all commodities, with a marked increase in trade between countries in the southern hemisphere.

In 2007, the growth of Brazil, Russia, India and China – known as the BRIC countries – was significant. As these economies continue to develop, new opportunities for trade will evolve, bringing increased competition in agricultural commodities as these countries capitalize on their natural abundance of inexpensive land and available labour. Growth in India and China has created a substantial amount of competition for raw resources, especially energy. This trend was readily apparent in 2007 and will continue through 2008, making the price of core agricultural and manufacturing inputs like fuel, steel and fertilizer relatively expensive.



The Doha round of the World Trade Organization (WTO) negotiations was suspended in July 2006 and reconvened in July 2007. A draft text on agriculture was released in February 2008. The WTO established a trade dispute settlement panel to consider the combined claim from Brazil and Canada that the U.S. exceeded the allowable levels of subsidy for its agricultural sector. A decision is not expected until mid-2008 on this issue.

We will continue to monitor the progress of these and other WTO negotiations and prepare for potential impacts on our customers and portfolio.

In November 2007, the U.S. border opened to ruminants over the age of 30 months, removing a major impediment to cattle exports to the U.S. that has been in place since the discovery of BSE in a Canadian cow in May 2003.

Implementation of the mandatory U.S. country of origin labelling, set for September 2008, may have further negative ramifications on the Canadian beef and pork industries.

Farm revenue and expense

General agricultural revenues improved through 2007-08 as commodity prices rose and the crops sector experienced unprecedented demand and lower than usual world stocks of key agricultural commodities. Grains, oilseeds and specialty crop prices remained well above historical levels. According to the Farm Product Price Index, annualized prices for crops rose 19.4 per cent from 2006 to 2007. Specialty crop prices led the year-over-year increase at 47.6 per cent, followed by grains at 37.4 per cent and oilseeds at 34.8 per cent.

The relative strength of the Canadian dollar hurt profitability in livestock. Hog and cattle prices declined 4.4 and 3.5 per cent respectively, with livestock and animal product prices dropping to 0.39 per cent below 2006 levels.

However, supply-managed commodities continued their upward trend with increases ranging from 3.4 per cent for eggs to 9.6 per cent for poultry.

All sectors were impacted by higher than usual input prices that raised the cost of production. Energy costs led the price gains for principal commodity inputs and accounted for up to 15 per cent of total farm expenses, according to Agriculture and Agri-Food Canada (AAFC). Diesel prices rose significantly during the 2007 planting season, then levelled off during the summer and rose rapidly again in early winter. Nitrogen fertilizer followed the same pricing trend.

Forestry, greenhouses and other agriculture operations were also hard hit by increases in energy costs and the relative strength of the Canadian dollar.

Farm debt in Canada

Farm debt increased by 4.0 per cent between December 31, 2006, and December 31, 2007, continuing a five-year trend. Overall debt climbed by 16.2 per cent between 2003 and 2007.

The major holders of farm debt in Canada are chartered banks (41.2 per cent), FCC (24.4 per cent) and the credit unions (17.2 per cent).

Farmland values

Farmland values increased across the country by an average 7.7 per cent between July and December 2007, topping the 3.6 per cent increase in the first half of the year:

- the largest increases were in B.C. and Alberta
- Saskatchewan and Manitoba experienced moderate increases
- values increased slightly in Ontario, Quebec and Nova Scotia, and decreased slightly in New Brunswick and P.E.I.
- there was no change to farmland values in Newfoundland and Labrador

Visit Farmland Values Online at www.fcc.ca for the latest information on farmland values.

Grains and oilseeds

There is optimism for the future of crop production in Canada. The 2007 crop year was marked by strong commodity prices with net income moderated somewhat by high input costs.

Two significant factors contributed to the surge in crop pricing. The first was rooted in the general production shortfall for basic agricultural grains due to drought-induced crop stress around the globe. Exporters of wheat experienced significant crop damage and yield loss. In Australia, wheat production dropped from 25.4 million metric tonnes in 2005-06 to 9.8 million metric tonnes in 2006-07. When combined with low world carry-out stocks in grains, a significant supply shortfall put upward price pressure on all crop commodities.

The second factor of note was the effect of biofuels on crop demand. Strong growth in the biofuels sector in response to global oil pricing and the U.S. desire for energy security had a significant impact on the crop sector. Biofuels production is diverting significant stocks from the export market and into fuel production, increasing the price of corn and the commodities that compete against corn in the marketplace.

In addition, production acres in the U.S. switched from soybean to corn to fill domestic demand in 2007, according to the U.S. Department of Agriculture. This move impacted soybean prices, and consequently canola and other oilseeds as well.

See the Biofuels section for more detail.

Beef

High feed prices, the high Canada-U.S. exchange rate, increasing labour costs and some slaughter facility closures negatively impacted margins throughout the value chain.

In 2007-08, prices for animals under 30 months of age declined due to normal market forces in the beef price cycle and the relatively fast appreciation of the Canadian dollar. As the U.S. is Canada's primary customer for beef, the high exchange rate reduced the export competitiveness of our beef products, pushing cattle prices substantially lower during 2007 and creating a significant revenue problem for the industry.

In November 2007, the U.S. Department of Agriculture granted approval for cattle and beef products from cattle born later than 1999 to be exported into the United States (known as the over 30 month or OTM ruling). The national BSE surveillance program continues to demonstrate Canada's ability to effectively detect the disease.

Pork

Like the beef sector, in 2007-08, the pork sector laboured under a number of converging market circumstances that combined to limit financial performance:

- the low part of the hog price cycle
- high Canadian dollar
- high feed prices
- porcine circovirus
- increasing labour costs
- slaughter plant closures

Maple Leaf Foods, Canada's largest food processor, and Olymel, the other top player in pork processing, are restructuring operations. Olymel announced the closing of some plants in Quebec in 2006 and reduced contract prices across Canada. After months of mediation and significant union concessions, not all closures came to pass. The Quebec government appointed a crisis negotiator to continue to work with all levels of the industry and to develop a new model.

Alberta is taking similar action to try and safeguard the struggling sector.

Poultry

Consolidation continues to be a trend in the poultry industry. While operations are generally becoming larger, smaller niche players that focus on organic, local or health-conscious products such as omega-3 eggs are emerging.

High feed prices are an emerging concern for poultry producers. This is mitigated by formula pricing, which takes into account the costs of production, somewhat insulating supply-managed commodities from the effects of higher feed costs.

Dairy

Weak domestic demand, concern over recent tariff rulings and other trade issues challenged the Canadian dairy industry in 2007-08. Milk consumption is declining due to an aging population, milk allergies and an increase in consumption of soy and rice alternatives.

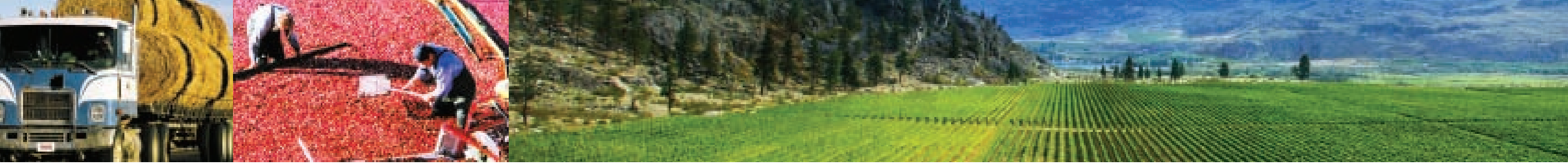
High quota prices continue to be a barrier to entry and expansion, placing a financial burden on smaller farms and driving a consolidation of operations. Producers face high debt levels as operations consolidate to gain efficiencies. Several provinces have implemented quota transfer assessments in the last year to address the extremely high quota prices.

Due to commodity price increases in the crops sector, feed costs for dairy have increased. The impact of this increase is buffered by the pricing formula for dairy that takes cost of production into account. The dairy industry remains strong.

Biofuels

In 2006, the Canadian government announced its intention to regulate an annual average renewable energy content of five per cent of volume in gasoline by 2010, and two per cent in diesel fuel and heating oil by 2012. The Renewable Fuel Bill is scheduled to be introduced in Parliament in 2008. This legislation will spur consumption of about three billion litres of renewable fuel per year.

The development of a mature biofuels industry will leave a lasting mark on agriculture. Current ethanol production is 900 million litres per year, with additional capacity of an estimated 700 million litres under construction. Production is targeted to total about 2.55 billion litres per year, so even if all construction is completed on schedule, capacity will not meet legislated demand.



According to initial estimates by AAFC, feedstock requirements to meet the renewable content standards are in the range of 4.6 million tonnes of corn and 2.3 million tonnes of wheat for ethanol. Biodiesel production is calculated to require 0.6 million tonnes of canola and 0.03 million tonnes of soybeans.

The renewable energy initiative in the U.S. is also impacting the Canadian agriculture landscape. Recent initiatives resulted in an explosion of plant construction there, and by January 2008, 139 ethanol plants were operational with 62 under construction and seven in expansion. About 230 biodiesel plants are in operation, under construction or on the drawing board in the U.S. today.

A recent U.S. energy bill calls for an increase in automotive efficiency and a 36-billion gallon renewable fuel standard by 2022. Current ethanol production in the U.S. is 8.5 billion gallons.

Renewable fuel policy in the U.S. has resulted in sudden and greatly increased competition for feedstocks. As some were diverted to fuel production, acres being planted to corn shot up, including on marginal and sensitive land; fertilizer became scarce and expensive and corn meal shortages occurred in other countries. Economists and sociologists are calling for greater understanding of the impact of using traditional feedstocks for fuel.

Based on currently viable ethanol production technologies, plant breeders are focused on developing higher-yield crop varieties. Livestock, pork and poultry producers are also increasingly looking for feed substitutes and solutions, some of which could come from biofuels byproducts. In addition, any shift in the feedstock of choice for biofuels or relaxation of import restrictions on foreign biofuels could have a huge impact on the supply and price of corn, wheat and soybean oil and corresponding food prices in the future.

Other sectors

Forestry and greenhouses were among the agriculture operations impacted by higher than usual input prices and the strength of the Canadian dollar.

Greenhouse operators are working with value chains to offer a quality product year-round, and some are investing in new technologies like bio-digesters and biomass equipment to help improve their economic picture. In the forestry sector, operators face the added pressure of an uncertain economy and declining housing industry in the United States, devastation of large tracts of forest land by the mountain pine beetle and the recent implementation of an additional export surcharge.

Alberta's seed potato farmers discovered very limited amounts of the potato cyst nematode at two Edmonton-area farms in October 2007, effectively shutting down exports to the U.S. and Mexico.

To help raise awareness of the importance of the potato and of agriculture in general, the International Year of the Potato 2008 was officially launched at United Nations headquarters in New York in October 2007. In Canada, as elsewhere in the world, that sector has faced a decline in recent years.

Demographics

The trend to an increase in the average age of farm operators continued in 2007-08, and attracting and retaining qualified employees in the agriculture sector is becoming a considerable challenge. As competition for a shrinking labour pool continues to intensify, some operations are pursuing foreign workers to fill their labour needs.

Réjean Vermette
St-Simon, Quebec

J P Vermette & Fils

The Vermette farrow-to-finish hog and field crop operation near St-Hyacinthe produces about 35,000 hogs and 10,000 tonnes of feed annually. This family-run operation successfully mixes a thriving livestock operation and crop production with sound environmental practices and innovation.

> "FCC meets our needs and our deadlines, helping us build a farming business that is well-positioned to be passed to the next generation."
>
> – Réjean Vermette

The main goal of the operation, according to Réjean Vermette, is to succeed in business while looking after the environment. The Vermettes use minimum tillage and direct seeding practices in the crop operation, and manure from the registered Landrace and Yorkshire breeding herd helps fertilize the cultivated land. Their own truck delivers inputs to the operation and feed to its three hog production sites. Réjean values the advice, information and training programs FCC has to offer agricultural producers like him.

Building agriculture awareness

In 2007, we launched a program to broaden awareness of Canadian agriculture and strengthen FCC's relationship with key stakeholders in the industry, including agricultural producers and agribusinesses that are current or potential customers of FCC.

One of the first tangibles to emerge from the program was a positioning statement that speaks directly to the heart of our role: Advancing the business of agriculture. It appears in much of our advertising, and is the theme of this annual report. It is a phrase that tells customers we support the agriculture industry through the entire value chain.

We created a campaign to celebrate major producers across Canada and included nationwide television, print and online advertising and media relations, as well as promotional materials that underscore the importance of agriculture to all Canadians.

We have implemented a variety of projects through the awareness program, including talking to Canadians about our commitment to enhancing rural Canada through community involvement and creating new tools to deliver industry knowledge to customers.

In all, 13 projects were initiated to reach our target audiences. Six were delivered in 2007-08 with more to come – including working with accountants to ensure they are aware of the ways FCC can help them serve their agricultural clients, continued support of the Canadian Centre for Health and Safety in Agriculture to fund research on farm safety, and with value-added operations across Canada to build awareness of the products we can offer to help their businesses grow and prosper.

FCC is advancing the business of agriculture – and we are very proud to do so.

Products and services

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

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

AgProduction

We lend money to primary producers. Our loans are tailored to the unique needs of agriculture. Our diverse customers include those who produce raw commodities in various sectors like crops, beef, pork, poultry, sheep, dairy, fruits and vegetables. FCC Relationship Managers work with customers to find the right combination of terms, security and payment schedules.

AgValue

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

AgExpert

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

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

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

Alliances
We provide lending services where our customers do business through a network of equipment dealers, input providers, livestock handlers and manufacturing partners. Customers can obtain loan approvals on the spot. Equipment dealers can help their customers get equipment loans by joining our National Equipment Dealers Finance Program.

AgriSuccess
We strengthen relationships with customers and producers across the country through information and learning programs. Workshops and speaker topics include managing farm finances, human resources, succession planning and others. In 2007-08, FCC expanded the Winning in Agriculture forum series to eight Canadian cities. The forums featured informative speakers ranging from local agriculture business leaders to an Olympic gold medal winner and a Canadian adventurer who conquered Mount Everest. Ag Day in Canada was launched to provide information for producers planning their 2008 production as well as to recognize the contributions of the agriculture industry. This one-day event took place in 86 locations across Canada on January 23, 2008.

Also launched in 2007-08 were the AgriSuccess learning tours. Seven tours made 49 stops across Canada to bring important agriculture information to producers. Industry leaders travelled from town to town to present information ranging from commodity marketing to thinking like a farm CEO and the importance of communicating for success within and beyond your agriculture operation.

Every week, producers can get the latest in agriculture e-news with AgriSuccess Express. This publication shares provincial, national and international news and trends that affect agriculture – and the bottom line. AgriSuccess Express is delivered free, on a weekly basis, to subscribers and customers with e-mail addresses.

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

Agri-Assurances
Insurance is an important tool for any business. It is also important to our customers. That is why we offer loan life and accident insurance tailored to agriculture. It is an easy way for our customers to protect themselves, their businesses and their families.

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

This year, FCC Ventures invested $10.0 million in venture capital funds, bringing the total provided to the industry to $72.9 million since its inception in 2002. In addition, third-party co-investors have contributed $1.50 in venture capital for every dollar invested by FCC.

On November 1, 2006, FCC became the lead sponsor to create the Avrio Ventures Limited Partnership, Canada's first industrial life sciences venture capital fund. The fund was launched with a $50-million commitment from FCC Ventures and will reach nearly $75 million in 2008-09 with new investors joining the limited partnership. Avrio Ventures was created in response to the convergence of life sciences and industrial technology and focuses on investing in Canadian commercialization-to-growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is well represented across Canada with offices in Montreal, Quebec; Oakville, Ontario and Calgary, Alberta.

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

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

FCC loans

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

Customized loans

1-2-3 Grow Loan
Manage your cash flow with interest-only payments until you get a return on your investment.

Accelerator Loan
Are you a young farmer looking to build your farm? Get as low as zero down – and flexible payment options.

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

AdvancerPlus Loan (new)
Need financing that provides working capital? Keep your day-to-day operations running smoothly with this revolving, pre-approved loan you can access any time.

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

Capacity Builder Loan
Purchase quota or breeding livestock with pre-approved financing for up to 18 months and the option to capitalize interest.

Cash Flow Optimizer Loan
Make interest-only payments while re-investing funds into other areas of your operation, giving you the control to make principal payments when you choose.

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

Enviro-Loan
Defer principal payments while constructing, improving or expanding your operation when you improve environmental facilities.

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

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

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

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

Spring Break Loan
Match your payment schedule to the forestry harvesting season.

Start Now – Pay Later Loan
Defer payments in your operation until you start seeing rewards for your efforts.

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

Standard loans

Closed rates
FCC's lowest rates fixed for the term of your personal property or mortgage loan

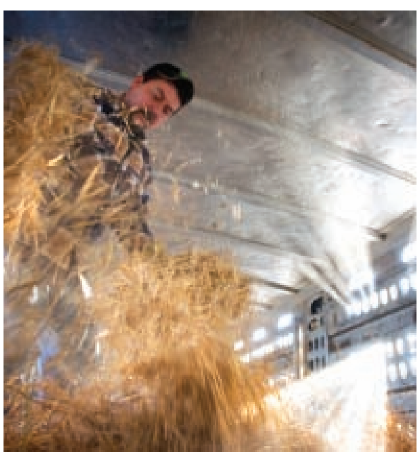
Fixed rates
Fix a low mortgage rate for the term of the loan with a 10 per cent prepayment option included.

Open rates
Have the benefit of prepayment without penalty with a low rate fixed for the term of your personal property loan.

Variable rates
Enjoy maximum flexibility with a rate that floats as interest rates rise and fall. Prepay any amount at any time for personal property loans, or with the Open Variable Rate mortgage loans. Prepay up to 10 per cent any time for standard variable rate mortgage loans.

Bill Jameson
Moose Jaw, Saskatchewan

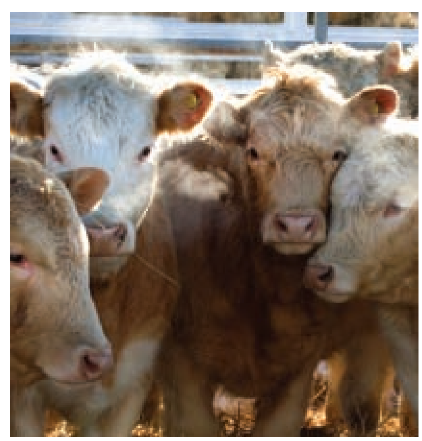
JGL Livestock



Bill Jameson is co-owner of JGL Livestock and 2007 president of the Saskatchewan Cattle Feeders Association, so he knows beef. A full-service cattle procurement operation, JGL buys feeder cattle for large and small feeding operations throughout Canada and the United States.

> "Our partnership with FCC brings services to the table that are not available anywhere else."
>
> – Bill Jameson

JGL's longstanding relationship with FCC began with a single financing arrangement in 1988 and has grown to a full-fledged partnership offering unique cattle financing options to cattle buyers. Bill has found that as the sectors in the beef industry grow, larger capital pools and financing options are needed that are not traditionally available. Through Canadian Cattle Buyers Credit, JGL partners with FCC to find innovative ways to meet the financing needs of the livestock industry.



FCC's balanced scorecard

We are implementing a number of strategies to help customers succeed in a sophisticated and increasingly complex global industry.

Every year, FCC measures progress toward achieving our corporate strategies by using a strategy map and balanced scorecard. This planning method is used by many Fortune 500 companies. The scorecard translates FCC's vision and strategic themes into a series of measures and targets. It provides a snapshot of where we have been and where we are going. It allows FCC and our partners to get a high-level view of the business, and to monitor our progress in fulfilling our mission.

In 2007-08, the corporation's strategic themes were modified to place additional emphasis on our commitment to agriculture. The strategic themes include commitment to agriculture, financial strength, enhance customer experience, optimize execution and efficiency and enhance employee experience.

In the five-year planning period, from 2008 to 2013, strong emphasis will be placed on enhancing the customer and employee experience and improving efficiencies in business systems and processes.

The following pages summarize the results of FCC's 2007-08 strategies, measures and initiatives and highlight our plans for the 2008-09 fiscal year.

Balanced scorecard 2007-08 results

Commitment to agriculture

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

2007-08

Strategic objectives	Measure	Target
Industry and stakeholder awareness, credibility and support Trusted partner and industry catalyst Industry investments and stakeholder relations Enhance market awareness and positioning of Farm Credit Canada's full capabilities Leverage knowledge management	Corporate social responsibility scorecard	Continue to implement Phase I and Phase II initiatives
	Corporate reputation index	Establish benchmark
	% of profits invested in communities	1.5%
	Media favourability index	Score of 64
	Initiative	
	Invest in communities * continue to support Ag in the Classroom. Continue community investment with an emphasis on rural safety and food issues (World Food Day, First Aid on the Farm, etc.) and the AgriSpirit capital giving program	
	Promote FCC customer products on CanadianFarmersMarket.com	
	Grow producer knowledge of management practices via AgriSuccess information and learning programs	
	Expand delivery and advocacy of centres of influence for AgExpert	
	Collaborate with Agriculture and Agri-Food Canada (AAFC) in developing the next generation of agriculture and agri-food policy	
	Continue to research needs of young farmers to develop new solutions and sustain existing offerings	
	Increase awareness of FCC with targeted audiences	
	Investigate opportunities in alternative energy sources	
	Enhance customer awareness of biosecurity protocols	
	Leverage Community of Practice (CoP) knowledge to the benefit of customers	
	Conduct program to inform elected officials of FCC's role and offerings	

2007-08

	Results
	Achieved: All initiatives completed as per plan.
	Achieved: Set a baseline reputation score of +45. (Leger Marketing)
	Ahead at 1.55%
	Ahead: FCC's index is 66. The global media favourability index and the rating for financial institutions are both 54.
	Results
	Achieved: Invested in Canadian communities though donations and support to local 4-H clubs, Agriculture in the Classroom, Drive Away Hunger, Canadian Centre for Health and Safety, Canadian Young Farmers Forum and funded rural capital projects through the AgriSpirit program.
	Achieved: External campaign completed; 331 customers using CanadianFarmersMarket.com with 410 product listings.
	Achieved: 11,725 attendees at 86 workshops, Ag Day in Canada events, Winning in Agriculture forums, and 49 learning tours; 51,000 copies of AgriSuccess Journal distributed bi-monthly; 24,000 AgriSuccess Express e-mail newsletters distributed weekly.
	Achieved: All AgExpert Certified Advisers surveyed and strategy developed.
	Achieved: FCC staff contributed to development of new federal agriculture policy.
	Achieved: Part I of Product Review was implemented and product brand names were changed. Focus groups were held with future producers across Canada to determine issues and needs of importance to them.
	Achieved: Successful national advertising campaign completed; Knowledge to Customers project launched.
	Achieved: Alternative Energy Community of Practice was launched; loan eligibility was expanded to include alternative fuel sources; developed and shared knowledge internally and through website.
	Achieved: Bio-security protocol article was published in AgriSuccess Journal.
	Achieved: Published semi-annual outlooks (called "Knowledge") and several sector fact sheets, including Understanding Biofuels.
	Achieved: 107 Members of Parliament were contacted and informed about FCC's mission and activites.

Financial success

Desired outcome: Our financial strength and stability enable us to serve agriculture for the long term.

2007-08

Strategic objectives	Measure	Target
Portfolio growth and business line quality Net income Asset/liability management Return on equity and investment Monitor and respond to marketplace activities Portfolio vision and risk management	Portfolio growth	5.1%
	Return on equity and investment	Old calculation 10.4% New calculation 11.0%
	Efficiency ratio	44.8%
	Debt-to-equity	Under 10:1
	Venture capital – co-investment ratio	1.5:1
	Venture capital – capital invested (fiscal year)	$15 million
	Venture capital – total capital outstanding	$60.9 million
	Non-interest revenue	$22.8 million
	Net interest income (NII) margin	2.95%
	% of PND with arrears	6%
	Strategic credit risk management (SCRM) score	Managed range: between 51 and 70
	Initiative	
	Leverage our role as the lead sponsor in Canada's first dedicated agricultural life sciences venture capital fund in order to attract additional investment and better serve the agriculture industry	
	Monitor performance of portfolio in a changing agricultural environment	
	Develop strategy for margin management and customer management	

2007-08

Results
Ahead at 10.6% primarily due to higher than target net disbursements partially offset by higher than target principal payments.
Ahead at 13.1% primarily due to lower than target provision for credit losses and administration expenses, and higher than target other income. This was partially offset by an unfavourable fair value adjustment and lower than target net interest income. The ROE and investment calculation is now based on net income and equity, excluding accumulated other comprehensive Income. All targets are now reported on a consolidated basis.
Ahead at 44.0% primarily due to lower than target administration expenses, and higher than target income.
Behind target at 8.2:1. The increased level of net disbursements resulted in a need to borrow additional funds to support the higher than target loans receivable balance.
Achieved: Since inception, FCC Ventures together with its funding partners has provided over $180 million in funding to the agriculture industry. As at March 31, for every $1 invested by FCC, third-party co-investors have invested an additional $1.50.
Behind target: The second closing of the fund was deferred to April 2008 resulting in a smaller fund and corresponding investment activity compared to plan.
Behind target at $53.7 million. The variance is related to the lower than target capital invested shown above.
Ahead at $23.2 million primarily due to higher than target gross insurance premiums and loan fees collected.
Behind target at 2.94% primarily due to lower than target margins, impaired interest recovered and prepayment fees. A number of unfavourable adjustments relating to hedge accounting also contributed to the lower than target net interest margin.
Achieved: 2.64% at March 31, 2008.
Achieved: 56.4 preliminary SCRM score at March 31, 2008. A lower SCRM score indicates less portfolio risk.
Results
Achieved: Invested $6.7 million and attracted $7.6 million in co-investment.
Achieved: Completed scans of agriculture operating environment, and reviews of hog sector, supply management and biofuels.
Achieved: Phase I plans were developed and implemented and margins are stable. Additional projects are planned for the next fiscal.

Enhance customer experience

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

2007-08

Strategic objectives	Measure	Target
Build and expand relationships across channels Anticipate and offer tailored, preferred solutions across channels Seamless, cross-channel integration to deliver sales, service Relationship selling, management of all FCC solutions Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management	Customer experience index	Increase score from 53.94%
	Channel usage	
	• # of unique website visitors per month (average)	19,000
	• # of online registered borrowers	2.25 million
	• # of website pages viewed per year	13,400
	• # of Customer Service Centre (CSC) customer contacts	90,000
	• dollars disbursed of CSC direct full service lending	$275 million
	New customer acquisitions – all channels	National index is greater than zero
	Market share	23%
	Customer channel awareness, preferences and permissions	Benchmark and establish targets for 2008-09 and beyond
	Time spent with prospects for value-added activities	Increase the number of proactive customer contacts from 20,498
	Initiative	
	Implement customer experience standards to enhance delivery of consistent customer experience	
	Monitor customer experience scoreboards and index to determine actions that enhance customer experience	
	Execute online and CSC (Customer Service Centre – call centre) strategies to provide customers with enhanced service via their channel of choice, including addition of second CSC in Moncton	
	Enhance awareness and uptake of FCC's other business solutions with Alliances end customers	
	Create products and services uniquely tailored to agriculture and customers	

2007-08
Results
Ahead at 56.36. This score is calculated using data gathered from customer post-loan, customer exit and annual report card surveys. The CEI score is derived from questions pertaining to customer satisfaction, loyalty, advocacy, ease of doing business with FCC, care, overall value and problem resolution.
Ahead at 24,105.
Ahead at 3.47 million.
Ahead at 13,612, including 2,172 new registrants.
Ahead at 92,238.
Ahead at $301.5 million.
Ahead at 1.17. A score of 1.17 means that FCC gained 117 customers for every 100 customers who exited.
Ahead at 24.4%. It was 23% in December 2006.
Ahead: Phase I customer awareness of each channel was determined. Phase II identifying preferences and permissions, will occur in fiscal 2008-09.
Ahead at 26,574.
Results
Achieved: Phase II Customer Experience standards initiative was completed.
Achieved: Monthly monitoring occurred at the national, area and district levels and impacted continuous improvement actions at all levels.
Achieved: Moncton CSC became operational April 16, 2007; Personal Property Scorecard loans are now processed at CSCs.
Achieved: Relationship Managers are actively cross-promoting AgExpert and AgriSuccess to Alliances and National Equipment Dealers Financing Program customers.
Achieved: AdvancerPlus product launched.

Optimize execution and performance

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

2007-08

<table>
<tr><th>Strategic objectives</th><th>Measure</th><th>Target</th></tr>
<tr><td rowspan="10">Retain customers and grow loyalty efficiently

Continuously deliver consistent, efficient, quality service

Process innovation and continuous improvement

Integrated value chain process redesign

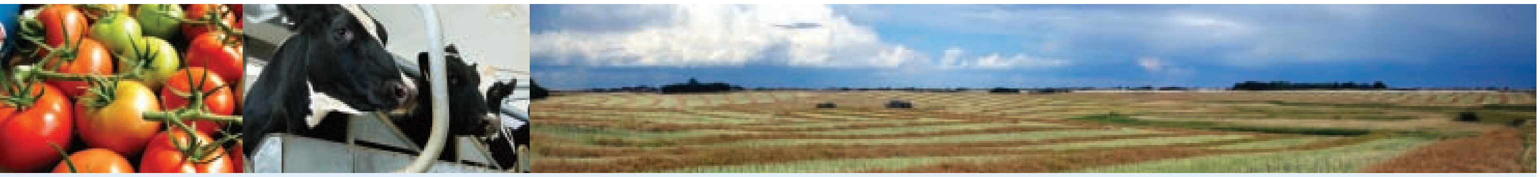
Agile, integrated IT architecture and solutions delivery

IT platform reliability and performance

Effective project execution, management and control

Strategy execution, enterprise risk management

Enterprise services delivery, management</td><td>Process improvement benefits realization</td><td>Measure performance against targets</td></tr>
<tr><td>IT architecture capability</td><td>Baseline to be established by Q2.
Targets to be defined by Q4.</td></tr>
<tr><td>Project management maturity</td><td>Assessment is bi-annual. Survey to be conducted in 2008-09.</td></tr>
<tr><th colspan="2">Initiative</th></tr>
<tr><td colspan="2">Enhance internal control framework to safeguard and maintain financial and security controls</td></tr>
<tr><td colspan="2">Implement business process and technology transformation to enhance customer and employee experience</td></tr>
<tr><td colspan="2">Revamp lending processes to enable more time with customers</td></tr>
<tr><td colspan="2">Enhance and execute business continuity management strategy</td></tr>
<tr><td colspan="2">Continue focus on respecting and safeguarding customer and employee privacy</td></tr>
<tr><td colspan="2">Enhance enterprise risk management (ERM), risk mitigation planning and status reporting</td></tr>
</table>



2007-08

	Results
	Achieved: Focused on the Business Process and Technology Transformation program and a methodology for benefits realization was devised.
	Completed: Targets were based on process, senior management involvement, operating unit participation and governance. Baseline has been established at 1.56 for FCC and 1.777 for IT. Target for 2008-09 is 1.83.
	Achieved: Project management maturity assessment completed and baseline established using the Project Management Institute's organizational project management model (OPM3). Baseline for areas assessed are: organizational enablers: 49%, project management: 31% and program management: 18%.
	Results
	Achieved: Established a new internal control framework, which provides the ability to identify and prioritize risk across various areas of information technology. Control owners have been identified and gaps assessed.
	Achieved: Installed and configured the Consumer and Mortgage Loan system (Mainstream replacement), and converted USD loans and Customer View (integration of contact management databases). Good progress has been achieved on additional system integration projects.
	Achieved: Implementation of the Credit Policy and Process Enhancements program commenced and four of its projects were completed. This enhances the effectiveness, usability and clarity of FCC's lending policies, processes and procedures.
	Achieved: Two of nine scenarios in the approved business continuity management framework were completed.
	Achieved: Education sessions were held with staff and employee and customer social insurance numbers were purged from systems.
	Achieved: Action plans completed for top risks; ERM fully integrated with strategic planning process.

Enhance employee experience

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

2007-08

<table>
<tr><th>Strategic objectives</th><th>Measure</th><th>Target</th></tr>
<tr><td rowspan="15">Understand business, financial and relationship needs
Extraordinary customer and business relationships
Make it easy for employees to do business
Foster employee wellness
Aligned performance management
Employee development and career opportunities
Total rewards philosophy
Strategic competencies and capabilities
Strategic enterprise leadership and governance
Customer and knowledge culture
Culture of partnership, accountability and personal leadership</td><td>Engagement score</td><td>Minimum threshold 80%</td></tr>
<tr><td>Make it easy for employees to do business</td><td>Equal to or better than 75.8% in 2008-09</td></tr>
<tr><td>Employee experience</td><td>Equal to or better than 74.2%</td></tr>
<tr><th colspan="2">Initiative</th></tr>
<tr><td colspan="2">Enhance the FCC employee experience</td></tr>
<tr><td colspan="2">Continue development of job-specific competencies through second phase of compensation, competence and performance management system redesign</td></tr>
<tr><td colspan="2">Make it easy for employees to do business</td></tr>
<tr><td colspan="2">Enhance employee attraction and retention strategy</td></tr>
<tr><td colspan="2">Develop workforce plan to ensure future capacity to execute business strategy</td></tr>
<tr><td colspan="2">Recruit and transition the new CEO</td></tr>
<tr><td colspan="2">Identify and develop future leaders through the leadership development program</td></tr>
<tr><td colspan="2">Educate employees about the FCC vision, mission, corporate plan and key FCC programs and services</td></tr>
<tr><td colspan="2">Identify key drivers for improvement and create action plan to continuously improve employee engagement</td></tr>
<tr><td colspan="2">Continue to invest in employee development to keep knowledge and skills relevant (includes development of specialized skills, field development, etc.)</td></tr>
<tr><td colspan="2">Continue implementation and sustainability phases of the cultural transformation strategy</td></tr>
</table>

	2007-08
	Results
	Ahead: Engagement score of 83% is up from 82% in the previous year. FCC was ranked number 7 on the 2008 Hewitt Associates / Globe and Mail 50 Best Employers in Canada list. The average engagement score of companies on the Top 50 list is 77%.
	Acheived: Measure was established in 2007-08. 75.8% is the average of the above-mentioned Hewitt Associates / Globe and Mail 50 Best Employers in Canada survey for statements related to ease of doing business within FCC.
	Ahead at 79.8%. This measure is an average of FCC's scores from five selected drivers of the Hewitt Associates / Globe and Mail 50 Best Employers in Canada survey.
	Results
	Achieved: A strategy was developed containing nine initiatives focused on leadership and career opportunities. Several additional initiatives to improve and/or automate processes are underway.
	Achieved: Additional job-specific competencies were developed. Leadership and strategic guidance briefs were developed.
	Achieved: Reviewed work processes and resources, and focused on executing existing initiatives.
	Achieved: A strategy was developed to communicate our unique employer brand, strengthen partnerships in the community, review people-focused policies and programs and improve recruitment and selection processes.
	Achieved: Workforce profiles with data on demographic trends was developed for all divisions and sales areas, and integrated with divisional planning process and employee development plans.
	Achieved: Recruitment and transition completed.
	Achieved: Nine new candidates entered the program.
	Achieved: Business strategy provided to all managers to communicate to employees and posted on intranet.
	Achieved: Initiatives related to leadership, career opportunities, work processes and resources were developed.
	Achieved: Corporate learning strategy developed; over 3.5% of annual payroll invested in training and development.
	Achieved: Cultural transformation training continued, culture articles were published monthly, and new employee orientation materials were developed.

Balanced scorecard 2008-09 to 2012-13 plan

Strategic theme: Commitment to agriculture

Desired outcome: We will be recognized as an agriculture industry leader – promoting agriculture as a vibrant industry, supporting its long-term success and viability, and sharing knowledge and innovations.

2008-09 to 2012-13 Strategic objectives	Measures	2008-09 Targets
Realize public policy role, serving as a catalyst and advancing positive change in the agriculture and agri-food industry Stakeholder awareness, credibility and support A leader in sharing aggregated industry knowledge and innovations Be socially responsible	**Venture capital** • co-investment ratio • capital invested fiscal year • total capital outstanding	 1.4:1 $7.8 million $52.2 million
	Total investment in agriculture	Between 3% and 5% of the total administrative budget
	CanadianFarmersMarket.com • number of unique visitors per month	 31,000
	Corporate reputation index	TBD
	Media favourability index	Score of 65
	Measure development in progress	Develop measure and set baseline
	Corporate social responsibility scorecard	Report against CSR scorecard
	2008-09 Initiatives	
	• Conduct program to inform elected officials of FCC's role and offerings • Measure FCC's total investment in agriculture in fulfilment of its public policy role • Determine next phase of Venture Capital strategy • Sustain young farmer strategy • Implement awareness program • Revise customer support strategy • Aggregate domestic and global trends, ag knowledge and innovations, and package for external use • Grow producer knowledge of management practices via AgriSuccess information and learning programs • Implement CSR strategy (corporate governance, human resources management, community investment and involvement, health and safety, human rights and customers) • Develop and implement environment strategy	

Strategic theme: Financial strength

Desired outcome: Financial success will enable us to fund long-term growth and continuing investment in agriculture.

2008-09 to 2012-13 Strategic objectives	**Measures**	**2008-09 Targets**
Profitable growth Effective risk management Effective financial management Monitor and respond to marketplace activity	Portfolio growth	6.9%
	Non-interest revenue	$25.4 million
	Net disbursements	$3,956.7 million
	Net income	$173.2 million
	% of PND with arrears	Less than 6%
	Return on equity and investment	10.0%
	Core and total efficiency ratio	Core: Measure performance against targets Total: 47.3%
	Debt-to-equity ratio	Under 10:1
	2008-09 Initiatives	
	• Develop comprehensive growth strategy • Develop non-interest revenue growth strategy • Develop AgValue growth strategy • Develop fraud awareness and prevention strategy • Enhance business continuity and security management • Implement and test mature, secure IT control framework • Enhance risk-based pricing • Enhance internal control framework • Grow profitability • Enhance loan loss allowance methodology • Develop margin management strategy • Monitor and respond strategically to marketplace changes	

Strategic theme: Enhance Customer experience

Desired outcome: We will create an extraordinary customer experience based on our genuine interest in the business of agriculture and customer success. We will provide solutions that exceed expectations and provide value to customers.

2008-09 to 2012-13 Strategic objectives	Measures	2008-09 Targets
Team relationship management of current and potential customers, centres of influence and partners Anticipate and offer individualized solutions to all customers Fully leverage delivery channels Customer experience management strategy Product and service innovation for tomorrow's customers and partners	Gross customer retention, net customer acquisition and net customer growth	Develop measure and set baseline
	Customer advocacy	Develop measure and set baseline
	Channel usage • number of unique website visitors per month (average)	21,000
	Customer experience index	54.44%
	Custom product penetration	60%
	2008-09 Initiatives	
	• Develop team relationship management strategy • Research sales process management best practices • Implement tactics for AgValue strategy • Develop individualized customer solutions strategy • Enhance awareness and uptake of FCC's other business solutions with Alliances end customers • Execute Customer Service Centre (CSC) strategies to provide customers with enhanced service via their channel of choice • Enhance equipment program sales strategy • Enhance equipment dealer and alliance channel conversion strategy • Implement customer experience management strategy • Determine corporate actions to enhance customer experience from customer experience index scoreboards • Develop future producer strategy • Create products and services uniquely tailored to AgValue customers • Create measure of product and service innovation	

Strategic theme: Optimize execution and efficiency

Desired outcome: We will create an effective, agile business infrastructure that makes it easy for customers and employees to do business. We will continue to enhance efficiency.

2008-09 to 2012-13 Strategic objectives	**Measures**	**2008-09 Targets**
Easy for customers and employees to do business Enhanced channel capabilities Optimized business policies, processes and procedures Agile, integrated business infrastructure Effective project execution, management and control Efficient and execution-focused business climate	Easy to do business with (customer and employee composites)	Customer: Develop measure and set baseline Employee: Develop measure and set baseline
	Dollars disbursed of CSC direct lending	$370 million
	Efficiency index (TBD)	Develop measure and set baseline
	Business and technology architecture capability	Establish targets
	Project management maturity	Level 2 with an average greater than or equal to 2.5 across 12 capabilities
	Efficient and execution-focused business climate – Measure development in progress	Develop measure and set baseline
	2008-09 Initiatives	
	• Implement business process and technology transformation to enhance customer and employee experience • Create composite customer and employee measure • Leverage effectiveness of the CSC channel • Revamp lending policies and processes to increase efficiencies and internal controls while enabling more time with customers • Establish a long-term business process management strategy • Define the principles, standards and processes required to ensure appropriate governance of FCC's enterprise architecture • Manage capacity to pace execution of major new initiatives through integrated strategic planning and SET • Implement project management maturity strategy • Ensure divisional process reviews • Define and share best practice efficiencies	

Strategic theme: Enhance employee experience

Desired outcome: We will sustain a high-performance culture where employees are highly engaged, strive for excellence and deliver outstanding results. Employees feel they add value and are appreciated and act as FCC ambassadors.

2008-09 to 2012-13 Strategic objectives	**Measures**	**2008-09 Targets**
Culture of partnership, accountability and leadership Employer of choice Customer and knowledge-focused strategic competencies and capabilities Strategic enterprise governance	Employee engagement score	Minimum threshold 80%
	Employee experience index	Annual Hewitt Survey score for the five selected drivers greater than or equal to the average of the top 50 employer scores
	Change management maturity	Approve change management maturity model and establish target
	Code of conduct	100% of employees review Code of Conduct and Ethics and sign Declaration of Fidelity and Secrecy annually
	2008-09 Initiatives	
	• Develop and implement next phase of culture strategy (culture in action) • Implement employee engagement strategy • Implement employee experience program • Review total remuneration and rewards program • Develop and implement a learning strategy • Develop workforce analysis and plan that includes – attraction – retention – diversity – official languages • Implement next phase of change management strategy • Review and implement enhanced leadership development program	

Management's discussion and analysis

Overview of the MD&A

FCC Management's Discussion and Analysis (MD&A) provides management's perspective on the corporation's performance in fiscal 2007-08 through key performance indicators, an outlook for 2008-09 and risk management activities. The MD&A is presented in six sections:

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

Vision and strategy

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

Corporate measures

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

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

Principal Not Due (PND) is the principal balance owing on loans. PND is used to assess the growth between business lines, geographic areas and enterprises.

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

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

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

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

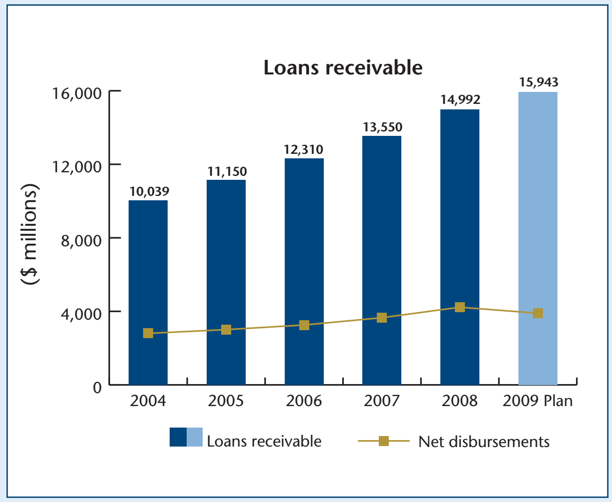
Portfolio growth

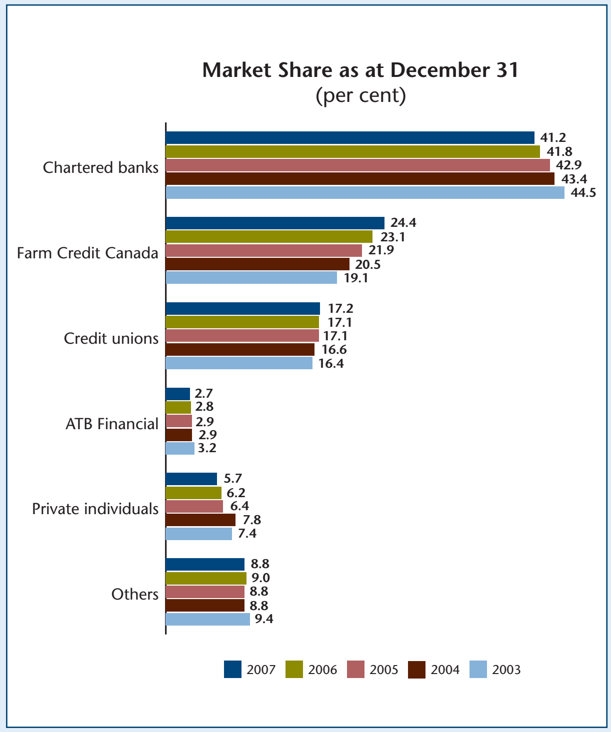
Lending activity

FCC's portfolio experienced growth for the 15th consecutive year. The 2007-08 growth rate was 10.6 per cent. Loans receivable grew from $13,550 million in 2006-07 to $14,992 million in 2007-08 and generated $961 million in interest income. The largest contributing factor to the growth in loans receivable was net disbursements of $4,285 million, $570 million higher than the previous year. Several factors influenced this growth, including strong economic conditions in several agricultural sectors. FCC's commitment to Canadian agriculture is demonstrated by continued growth in its share of the farm debt market.

Statistics Canada indicates that farm debt outstanding increased to $54.2 billion at the end of 2007, up $2.1 billion from 2006. FCC's market share as of December 31, 2007, was 24.4 per cent, and was only surpassed by that of the chartered banks at 41.2 per cent. FCC's market share has improved by 5.3 per cent since 2003, evidence of FCC's success towards execution of its strategies of enhancing the customer experience and optimizing execution and efficiency.

In addition to the growth in net disbursements and market share, the portfolio is also impacted by other factors, including the loan renewal and prepayment rates. In 2007-08, the loan renewal rate was 96.9 per cent, a decrease of 0.1 per cent from 2006-07. The prepayment rate was slightly lower at 6.1 per cent, down 0.3 per cent from the previous year.





($ millions)	2009 Plan	**2008**	2008 Plan	2007
Loans receivable	15,943	**14,992**	14,003	13,550
Net disbursements	3,957	**4,285**	3,421	3,715
Renewal rate (per cent)	96.0	**96.9**	95.0	97.0
Prepayment rate (per cent)	7.0	**6.1**	7.5	6.4

The plan for the loans receivable balance in 2008-09 is $15,943 million, growth of 6.3% from 2007-08. The plan is based on projections for farm debt outstanding and market share, both of which are expected to experience modest growth in 2008-09. The planned slowdown in growth of loans receivable in 2008-09 versus historical experience is due to a number of factors including lower net disbursements, lower loan renewals and an increase in the prepayment rate. A number of challenges currently affecting the agriculture industry are expected to continue. In addition, competition is expected to remain strong, putting pressure on FCC's ability to grow at historical rates.

Lines of business

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

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

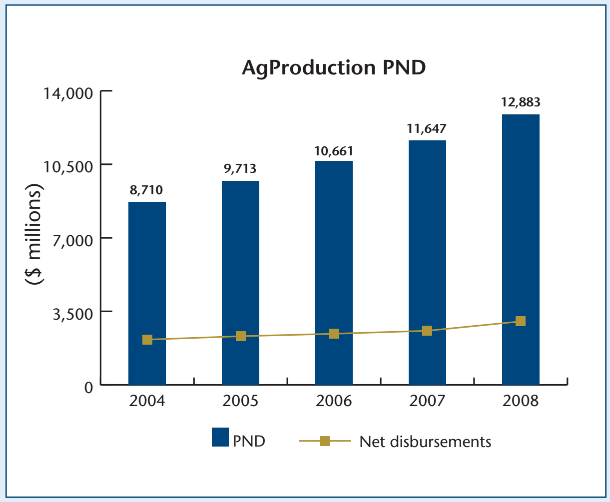
Alliances are relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

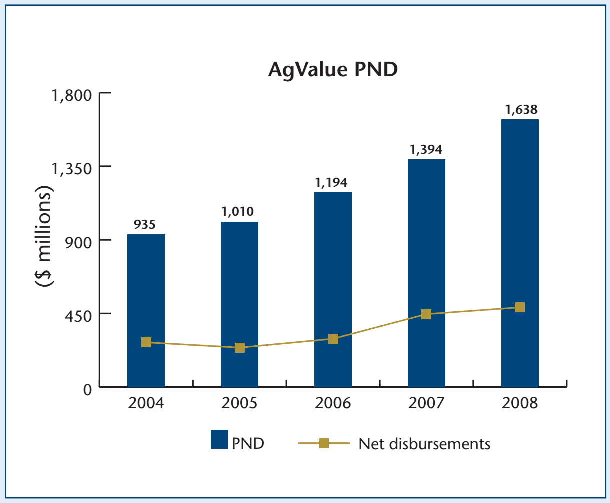
Of the $4.3 billion of net disbursements in 2007-08, $3.8 billion, or 88.5 per cent, was to primary producers as represented by the AgProduction and Alliances lines of business. Primary producers continue to be the focus as FCC expands its product offerings to meet industry demands.

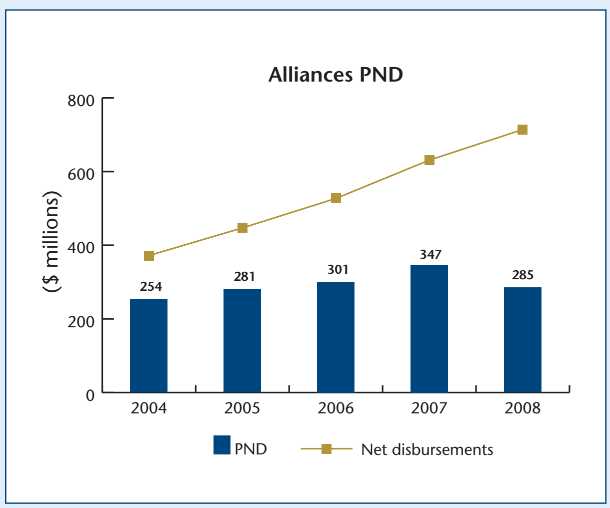
PND and net disbursements by line of business

AgProduction

AgProduction PND grew by 10.6 per cent from $11,647 million in 2006-07 to $12,883 million in 2007-08. A 17.0 per cent increase in net disbursements was the primary driver behind the growth in PND. AgProduction remains FCC's largest portfolio, representing 71.7 per cent of total net disbursements. All sales areas experienced increases in their respective portfolios; the largest were in the Western and Prairie areas. The cash crops, beef and other enterprises contributed to the largest increase in net disbursements for the AgProduction business line.







AgValue

AgValue PND grew by 17.5 per cent from $1,394 million in 2006-07 to $1,638 million in 2007-08. Net disbursements were up from $453 million in 2006-07 to $494 million in 2007-08, representing an increase of 9.1 per cent. The Western and Prairie sales areas experienced the largest increases in their respective portfolios. The hogs and value-added enterprises accounted for the largest increase in net disbursements for the AgValue business line.

Alliances

Alliance PND decreased by 17.9 per cent, from $347 million in 2006-07 to $285 million in 2007-08, with net disbursements increasing by a 13.1 per cent. Alliances lending largely supports input type loans that tend to be repaid in less than one year. This results in net disbursements exceeding the portfolio balance at year-end. The Ontario and Prairie regions provided the largest increase in Alliances lending.

FCC held a contract and Alliance-partnership agreement with Saskatchewan Wheat Pool. In 2007, Saskatchewan Wheat Pool and Agricore United merged their operations to form a new company, Viterra. Viterra subsequently terminated the two major programs, FarmSmart and QuickStart, established under the contract. The termination was effective on January 31, 2008. Viterra and FCC continue to operate a relatively small bin-financing program under the contract.

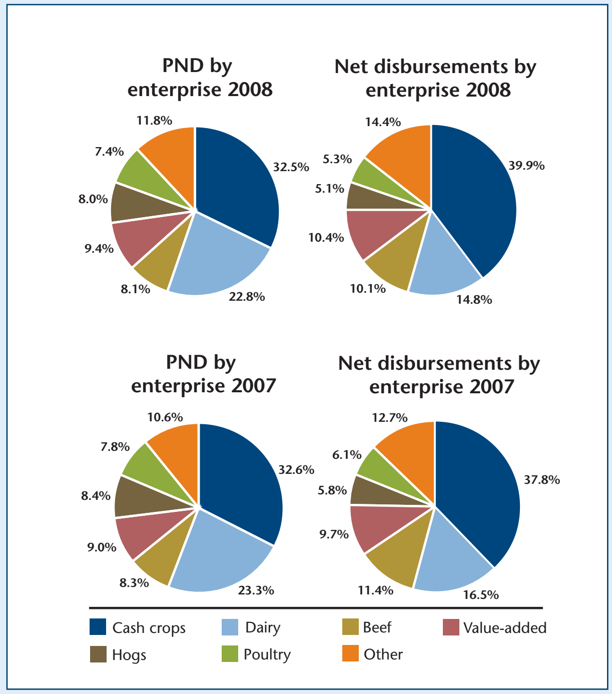
Over the past five years, on average, these programs have contributed $213 million to annual net disbursements and $54 million in closing PND. While the loss of the Viterra contract will have a negative effect on the portfolio, the impact to net income is not expected to be material as FCC continues to expand its Alliances partnerships and product offerings to capitalize on the opportunities in the market.

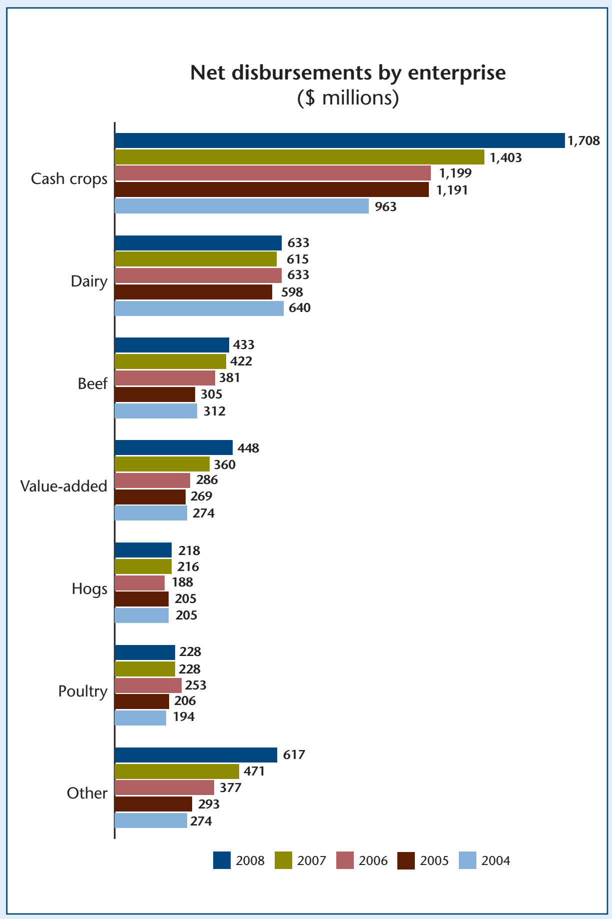
PND and net disbursements by enterprise

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

Of total PND, cash crops continues to represent the largest proportion of the portfolio at 32.5 per cent, down slightly from 2006-07. A 21.7 per cent increase in net disbursements contributed to the growth in cash crops PND. Strong commodity prices, growth in the biofuels sector and the appreciation of the Canadian dollar all contributed to the increase, renewing optimism in the sector and prompting additional capital investment. The value-added and other sectors also saw an increase in their share of the total portfolio, increasing by 0.4 per cent and 1.2 per cent respectively. The increase in other sectors was primarily due to continued growth in disbursements to hobby farmers.

All other sectors experienced a decrease in their relative share of the portfolio, with dairy, poultry and hogs experiencing the largest decrease at 0.5 per cent, 0.4 per cent and 0.4 per cent respectively.





While net disbursements in each of these sectors saw moderate to flat growth, they all experienced various challenges.

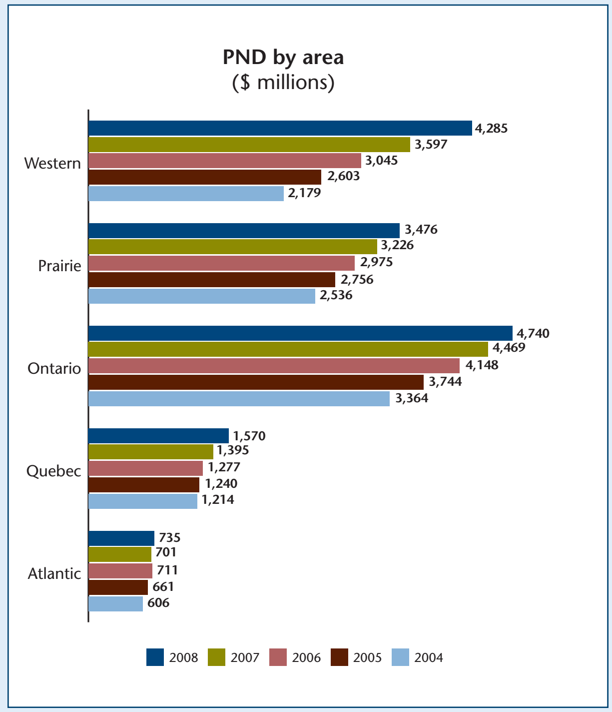
The dairy industry was affected by lower demand as milk consumption is declining while the hog industry was plagued by a myriad of challenges including high input costs, closures of slaughter plants and a strong Canadian dollar.

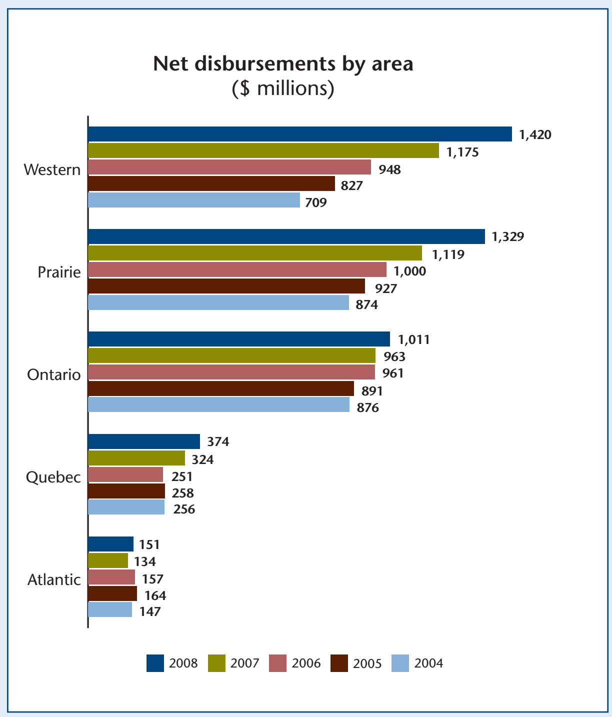
PND and net disbursements by geographic area

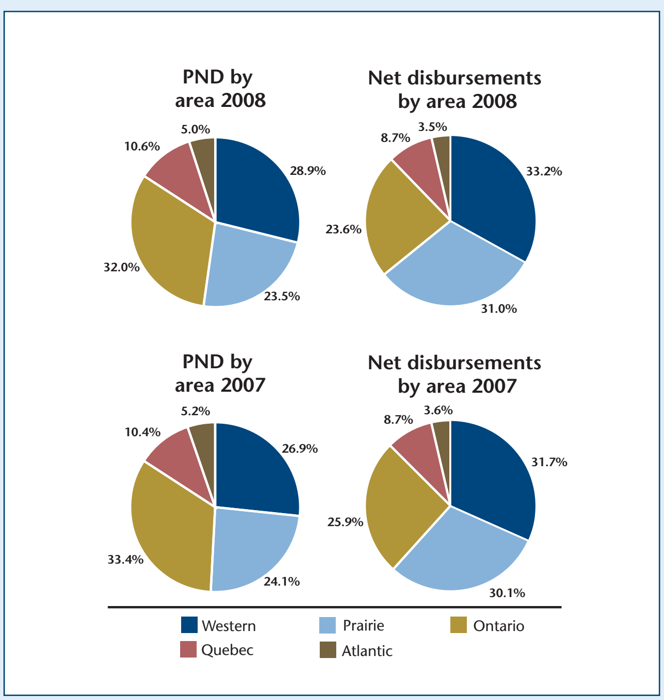
FCC promotes portfolio diversification by geographic area by maintaining a strong and consistent presence throughout rural Canada. The corporation has offices in over 100 rural communities from coast to coast.

All areas across Canada experienced PND growth in 2007-08. The largest growth was in the Western and Quebec areas at 19.1 per cent and 12.5 per cent respectively. Strong growth in farmland values coupled with optimism in the grain sector are contributing factors to the increased disbursements in these areas, which is pushing PND upward. While the Ontario and Atlantic regions saw the lowest year-over-year increase in PND, the level of growth was still notable at 6.1 per cent and 4.9 per cent respectively. Modest increases in farmland values and growth in the cash crops, dairy, value-added and other enterprises are driving the increase in disbursements and PND.

Consistent with the above analysis, the proportion of total PND and total disbursements represented by the Western and Prairie areas continued to grow and accounts for over 50 per cent of the portfolio. While the Ontario area still accounts for the largest single portion of total PND at 32.0 per cent, it experienced a 1.4 per cent decline from 2006-07.





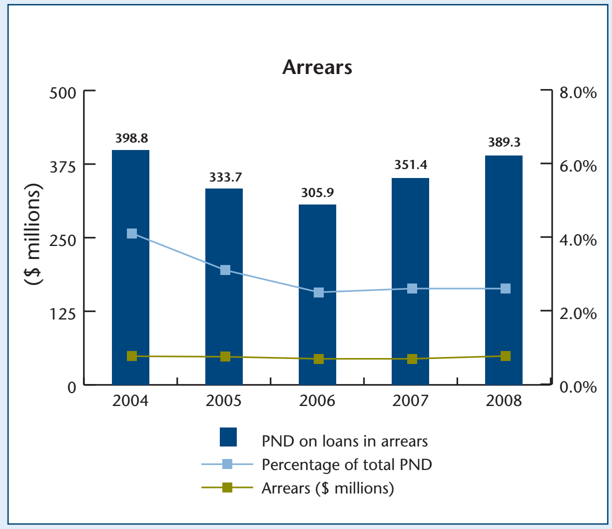


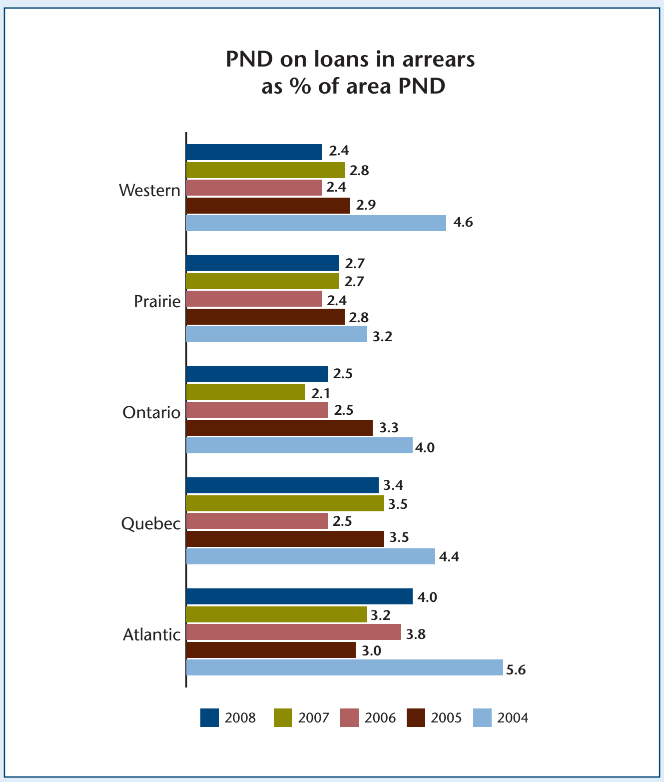
Credit quality

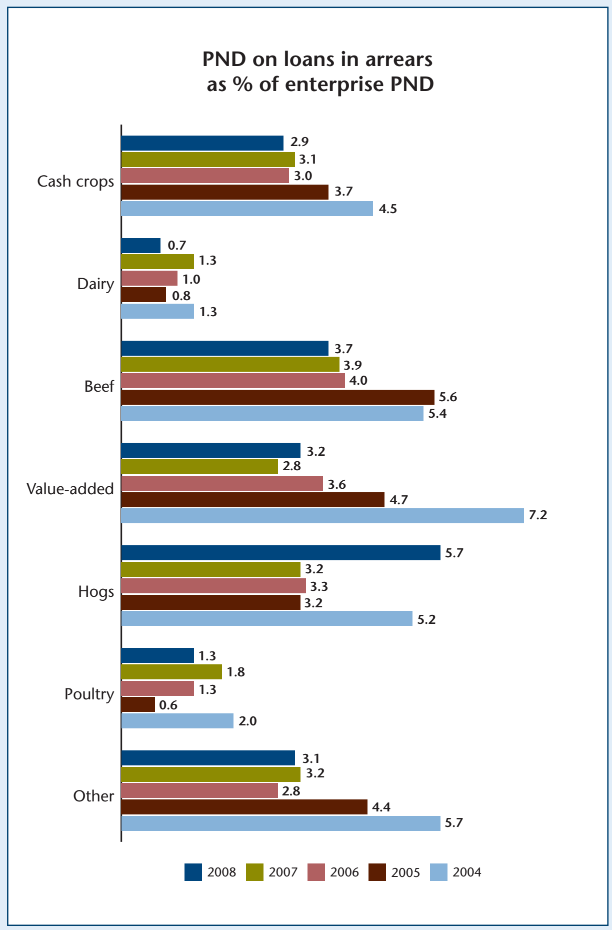
Loans in arrears

In 2007-08, arrears increased by $3.8 million to $40.2 million, up from $36.4 million in 2006-07. PND on loans in arrears increased to $389.3 million from $351.4 million. PND on loans in arrears as a percentage of total PND remains relatively low at 2.6 per cent, which reflects effective mitigation of risk through portfolio diversification and sound credit risk practices.

The hog enterprise saw the largest year-over-year increase in both PND on loans in arrears and PND on loans in arrears as a percentage of enterprise PND. There are several factors contributing to the increase, including higher input costs, lower prices and a stronger Canadian dollar, which negatively impacted exports.







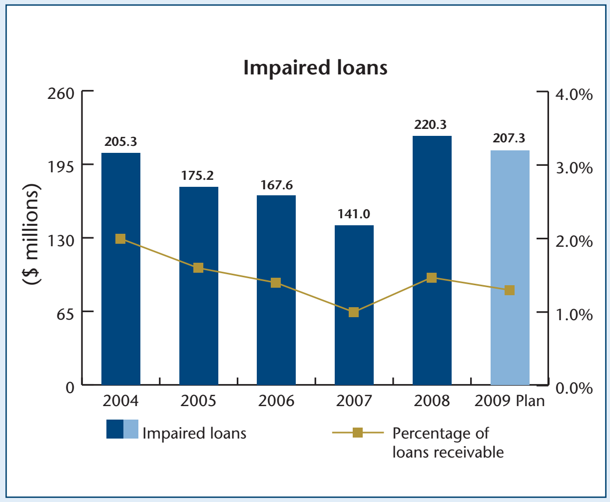
Impaired loans

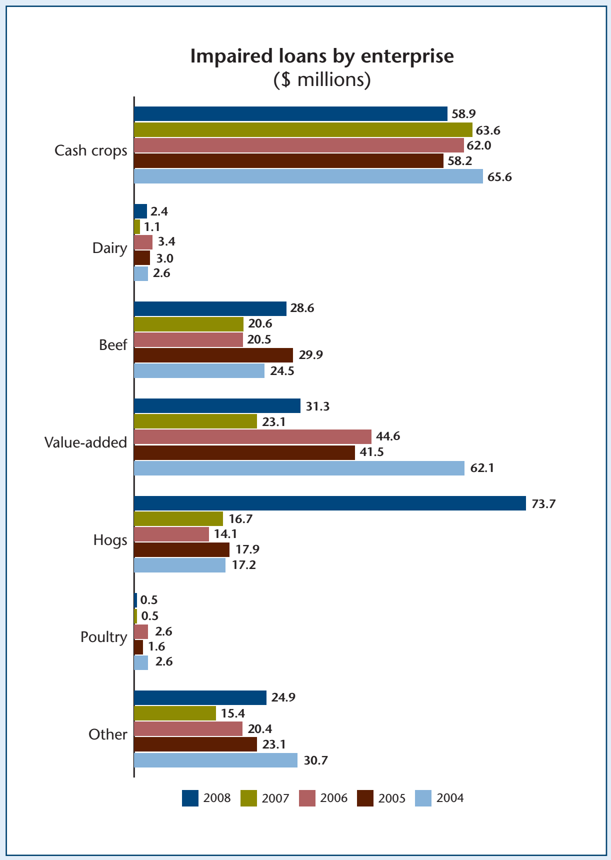
Impaired loan balances at the end of 2007-08 totalled $220.3 million, representing an increase of $79.3 million from $141.0 million in the previous year. Impaired loans as a percentage of closing loans receivable remains relatively low at 1.5 per cent. The increase is driven by the growth in loans receivable and a slight increase in risk.

Consistent with the arrears analysis, the hog enterprise saw the largest increase in impaired loans, increasing to $73.7 million from $16.7 million in 2006-07. The same factors driving the increase in arrears are also fuelling the increase in impaired loans. The other, value-added and beef enterprises also saw an increase in impaired loans, increasing by $9.5 million, $8.2 million and $8.0 million respectively. The beef industry, specifically, experienced many of the same challenges as the hog industry such as increased input costs and the higher Canadian dollar.

As part of FCC's strategy to deliver an extraordinary customer experience and support Canadian agriculture, FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. While several FCC products already have payment deferral options, customized support strategies are developed to assist those enterprises experiencing extraordinary challenges, as the beef and hog industries did in 2007-08. These tools offer the customer increased payment flexibility in a variety of ways, such as enabling the customer to amend the payment schedule on a loan. In 2007-08, FCC made 1,020 payment schedule adjustments, of which 40.3 per cent and 13.7 per cent were made on hog and beef loans respectively. Payment schedule adjustments as a percentage of total PND decreased from 2.38 per cent in 2006-07 to 2.31 per cent in 2007-08.

While these tools are used to support customers and manage the health of FCC's portfolio, it is important to note that these customer support strategies may understate the impact of economic events on arrears and impaired loans. The number of customers using such strategies is an indicator of the level of risk within the portfolio and as such, FCC continually monitors levels to gauge the overall health of the portfolio and ensure proper risk management practices are employed.





Allowance for credit losses

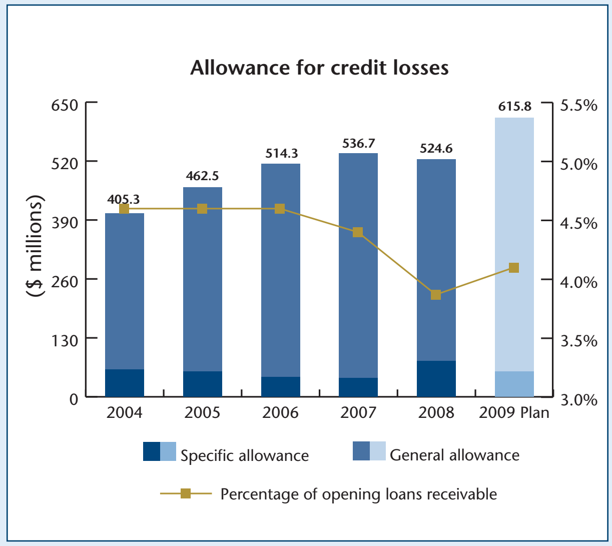
The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. Management uses a number of indicators to assess the appropriate level of allowance for credit losses required, including loans in arrears and impaired loans. In assessing their estimated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

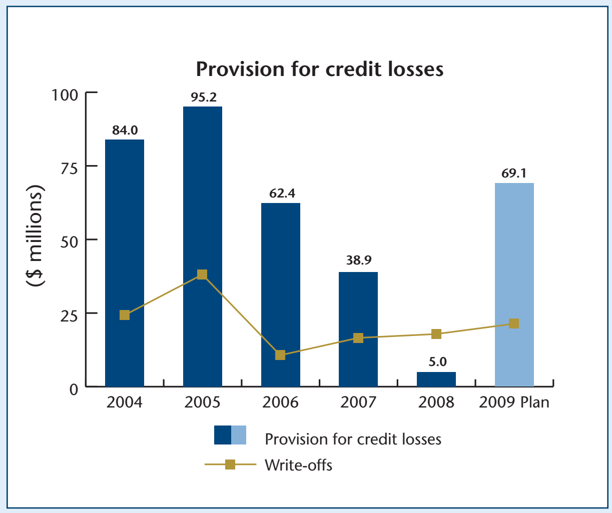
Specific allowance – provides for probable losses on specific loans that have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

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

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

The allowance for credit losses decreased by 2.3 per cent to $524.6 million, down from $536.7 million in 2006-07. The allowance as a percentage of opening loans receivable decreased from 4.4 per cent in 2006-07 to 3.9 per cent in 2007-08, reflecting the health of the portfolio and the recent loss experience.





Provision for credit losses

The provision for credit losses decreased by $33.9 million to $5.0 million in 2007-08, down from $38.9 million in 2006-07. The health of the portfolio and recent loss experience resulted in a lower required allowance for credit losses as a percentage of opening loans receivable. This resulted in a lower provision for credit losses, which was offset by increases in the allowance due to the growth in loans receivable.

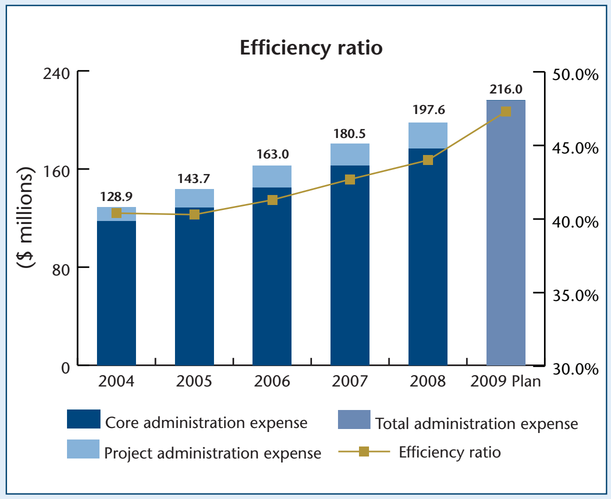
($ millions)	2009 Plan	2008	2008 Plan	2007
Arrears	64.5	**40.2**	56.7	36.4
Impaired loans	207.3	**220.3**	196.0	141.0
Provision for credit losses	69.1	**5.0**	70.6	38.9
Allowance for credit losses	615.8	**524.6**	594.0	536.7

The arrears balance in 2007-08 was $16.5 million below plan, and the impaired loans balance was $24.3 million above plan. Provision for credit losses was $65.6 million below plan, reflecting the improved portfolio strength. The allowance for credit losses was $69.4 million lower due to an overall lower level of risk within the 2007-08 portfolio relative to plan. The outlook for 2008-09 is an increase in the level of allowance for credit losses and provision for credit losses. Most of the increase in the allowance for credit losses will be in the general allowance portion due to the portfolio growth and increased level of arrears expected for 2008-09.

Efficiency and cost management

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business. A low efficiency ratio indicates an efficient use of resources. In 2007-08, FCC's efficiency ratio increased to 44.0 per cent. Net interest income grew by 4.5 per cent and administration expenses grew by 9.5 per cent, resulting in an increase in the efficiency ratio.



FCC's administration expenses are broken down into core administration expenses and project administration expenses. Core expenses represent the costs associated with the day-to-day operation of the business, such as salaries and benefits, and travel and training. Core administration expenses increased by $13.9 million in 2007-08 primarily due to increased personnel expenses associated with general salary increases and the addition of 90 full-time equivalent employees to support the continued portfolio growth. Project expenses are those costs related to specific projects undertaken by FCC to support operations and the achievement of strategic goals. In 2007-08, project expenses grew by $3.2 million as spending on projects to support the achievement of strategic objectives intensified.

($ millions)	2009 Plan	2008	2008 Plan	2007
Administration expenses	216.0	**197.6**	188.4	180.5
Efficiency ratio (per cent)	47.3	**44.0**	44.8	42.7

Administration expenses were $9.2 million higher than plan in 2007-08 and the efficiency ratio was 0.8 per cent lower. The majority of the increase compared to plan was due to increased salary expenses and additional spending on projects to support growth and strategic initiatives. The efficiency ratio is expected to increase in 2008-09 as further investment is required to support forecasted growth and to fund strategic initiatives that will continue to enhance the customer and employee experiences.

Financial results

Net interest income

Net interest income is the difference between the interest earned on assets and interest expense on borrowings. The major factors that will cause a change in net interest income are changes in portfolio volume and net interest margin, which is net interest income expressed as a percentage of average total assets. The net interest margin is intended to cover credit risks expressed through the provision for credit losses and administration expenses, as well as yield a sufficient return to enable the corporation to reinvest into future growth and viability.

The following table presents interest rate spreads, which is the difference between the rate earned on earning assets and the rate paid on interest bearing liabilities, net interest margin and the changes to these rates over the past five years. Some of the historical values have been updated to reflect the current calculation methods.

Net interest margin	2008		2007		2006		2005		2004	
($ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:										
Fixed loan principal balance	**6,601.5**	**6.63%**	5,313.9	6.55%	4,076.1	6.70%	4,092.2	7.00%	4,424.7	7.35%
Variable loan principal balance	**7,523.8**	**6.84%**	7,507.4	6.76%	7,518.5	5.50%	6,361.3	4.87%	4,865.8	5.46%
Investments	**645.5**	**4.44%**	838.7	4.22%	627.5	2.93%	536.2	2.36%	469.4	2.82%
Venture capital investments	**54.4**	**6.46%**	40.9	12.26%	31.4	11.10%	19.7	10.59%	6.4	7.39%
Total earning assets	**14,825.2**	**6.72%**	13,700.9	6.66%	12,253.5	5.92%	11,009.4	5.71%	9,766.3	6.38%
Total interest-bearing liabilities	**12,879.0**	**4.36%**	11,933.0	4.17%	10,733.2	3.14%	9,735.2	2.83%	8,642.1	3.56%
Total interest rate spread		**2.36%**		2.49%		2.78%		2.88%		2.82%
Impact of non-interest bearing items		**0.58%**		0.58%		0.43%		0.34%		0.41%
Net interest margin		**2.94%**		3.07%		3.21%		3.22%		3.23%

This table illustrates that the net interest margin has been decreasing since 2005 primarily due to increased funding costs and lower margins on lending. This is indicative of an increasingly competitive environment placing downward pressure on margins. The decrease in the interest rate spread has been offset slightly by increases in the impact of non-interest bearing items.

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

Net interest income and margin

($ millions)	2009 Plan	2008	2007	2006	2005	2004
Net interest income	448.9	**434.4**	415.5	388.4	351.9	314.4
Average total assets	16,144.9	**14,764.7**	13,530.6	12,100.7	10,940.8	9,739.1
Net interest margin (per cent)	2.78	**2.94**	3.07	3.21	3.22	3.23
Year-over-year change in net interest income due to:						
Increase in volume	26.2	**32.9**	33.7	30.8	31.2	27.6
Changes in margin	(11.7)	**(14.0)**	(6.6)	5.7	6.3	13.6
Total change to net interest income	14.5	**18.9**	27.1	36.5	37.5	41.2

The preceding table shows that while net interest margin decreased in 2007-08, the net interest income increased to $434.4 million, a 4.5 per cent increase from 2006-07. In 2007-08, the portfolio grew by $1.4 billion or 10.6 per cent over the previous year. The $570.3 million increase in net disbursements, as discussed in the Portfolio Growth section from pages 62 to 65, was the primary driver behind this growth, contributing $32.9 million more in net interest income. The decrease in margins from 2006-07 to 2007-08 resulted in a reduction to net interest income of $14.0 million. The decrease in margin is due to several factors:

- an increase in conversions of variable rate assets to lower margin fixed-rate assets due to concerns of prime rate increases during the first part of the year
- continued competition in the financial services industry remained strong, resulting in downward pressure to actual margins on fixed and variable rate assets relative to fiscal 2006-07
- interest recovered on impaired loans was significantly lower in 2007-08, contributing $4.5 million to the unfavourable margin variance

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

FCC is a self-sustaining entity and therefore reinvests its earnings back into agriculture through financing portfolio growth, new product development and business services that support the agriculture industry.

Net income in 2007-08 increased to $205.1 million, an increase of $1.3 million from the previous year. Higher net interest income, other income and a reduced level of provision for credit losses increased net income by $18.9 million, $6.7 million and $33.9 million respectively. This was offset by increases to administration expenses and the fair value adjustment of $17.1 million and $41.1 million respectively. The fair value adjustment is a new component of net income.

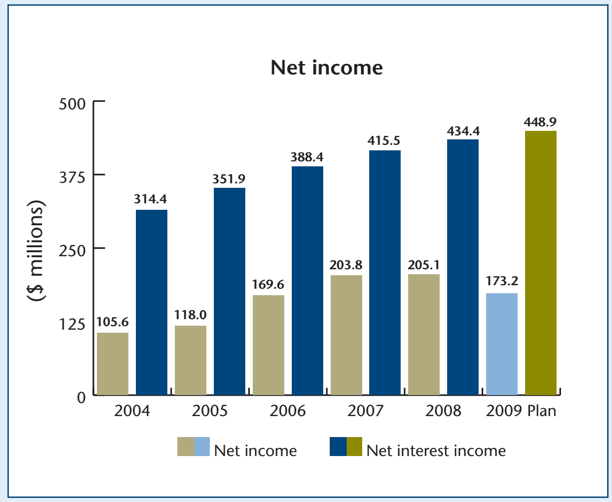
Effective April 1, 2007, FCC adopted new accounting standards related to financial instruments as described in Note 2 of the Notes to Consolidated Financial Statements on pages 93 to 95.

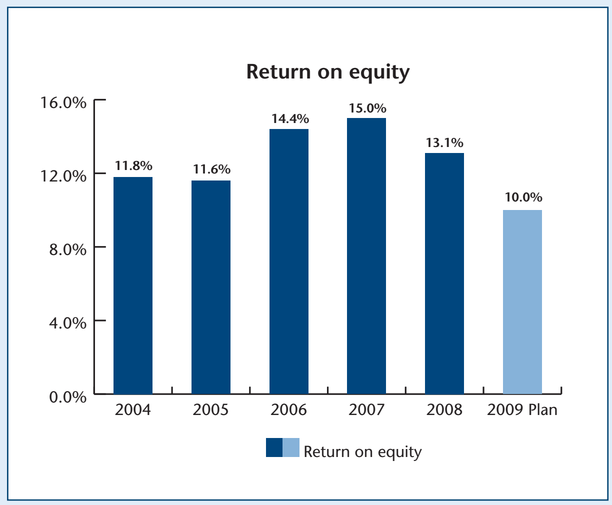
Return on equity
Return on equity is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives. Return on equity decreased in 2007-08 to 13.1 per cent from 15.0 per cent in 2006-07. Lower net income driven by the fair value adjustment and an increased efficiency ratio resulted in a decrease in the return on equity.

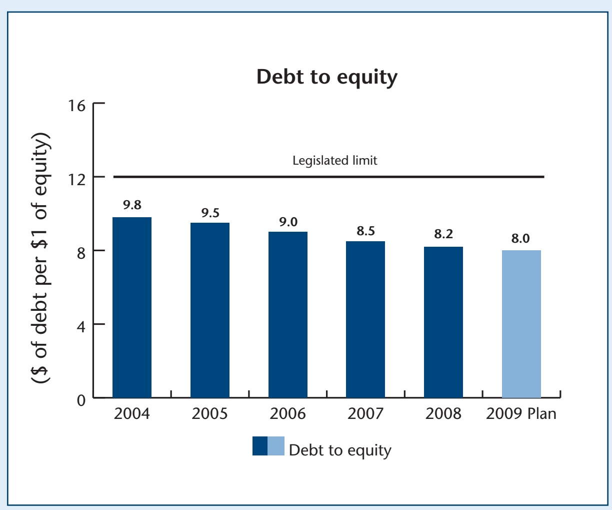
Debt to equity
Debt to equity is the amount of debt the corporation has outstanding in relation to each dollar of equity. It is also a measure of risk, as the more a corporation borrows against a single dollar of equity, the greater its risk. FCC's legislated debt to equity limit is 12 to 1.

Debt to equity decreased slightly to 8.2:1 in 2007-08, well below the legislated limit of 12.0:1. When the growth in equity exceeds the portfolio growth, the debt-to-equity ratio decreases due to the reduced requirement for borrowed funds. In 2007-08 the growth in equity was 14.9 per cent, higher than the portfolio growth of 10.6 per cent.

Return on equity and debt to equity have been calculated using net income and equity excluding accumulated other comprehensive income.







($ millions)	2009 Plan	2008	2008 Plan	2007
Net interest income	448.9	**434.4**	415.6	415.5
New lending margin (per cent)	2.28	**2.46**	2.47	2.60
Net interest margin (per cent)	2.78	**2.94**	2.95	3.07
Net income	173.2	**205.1**	167.0	203.8
Return on equity (per cent)	10.0	**13.1**	11.0	15.0
Debt to equity ($ of debt per $1 equity)	8.0	**8.2**	7.9	8.5

In 2007-08, net interest income was $18.8 million above plan due to portfolio growth exceeding plan and higher than planned margin levels. Net income was higher than plan by $38.1 million due to higher net interest income, lower provision for credit losses and an increase in other income. This is partially offset by the increase in administration expenses and the fair value adjustment. The resulting return-on-equity ratio was 2.1 per cent higher than plan. Debt to equity was 0.3:1 higher than plan due to the higher than planned portfolio growth.

Net interest income is expected to increase in 2008-09 by $14.5 million from 2007-08, due to higher lending volumes partially offset by lower margins. Net income is expected to decrease to $173.2 million in 2008-09 due to a higher provision for credit losses and administration expenses and lower other income. The increases in administration expenses and the efficiency ratio are due to investment in the strategic initiatives, infrastructure and people necessary to support continued growth and success. Return on equity is expected to decrease due to the decrease in net income. The debt-to-equity ratio is expected to drop in 2008-09 as slower expected growth will result in equity growing at a higher rate than the portfolio, reducing the borrowing requirements per dollar of equity. Based on the assumptions within the 2008-09 Corporate Plan, the table below approximates the sensitivity of FCC's projected financial results to a change in key variables. Sensitivity to interest rate changes is discussed in the interest rate risk section on page 81 and represents an additional key variable that could impact 2008-09 results.

Key Variables

($ millions)	Change	2009 Plan
Loan disbursements*	+/-10%/year	+/-5.0
New lending margins**	+/-10 bps/year	+/-3.9
New lending mix (F/V)	+/-10% fixed	+/-0.5

*assumes that disbursements are made throughout the year

**bps is basis points

Funding activity

On March 19, 2007, the federal government announced its intention to consolidate the Crown borrowings of Farm Credit Canada by providing direct lending to the corporation ("Crown Borrowing Program") beginning in 2008, which will eliminate the need for the existing capital market borrowing programs.

As an interim step, starting in December 2007, the federal government made short-term funding available to FCC through the Crown Borrowing program. Access to financing from the federal government was for short-term funding only, therefore, FCC continued to borrow through its existing borrowing programs.

In addition to funds raised through the Crown Borrowing program, FCC has raised short, medium and long-term funds through the following domestic and international capital market borrowing programs:

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

Short-term funding

Short-term funding consists of borrowings with a term to maturity of less than one year. Funding is raised through the Domestic Commercial Paper program and the Crown Borrowing program. The outstanding short-term borrowings at March 31, 2008, were $6.8 billion, compared to $5.1 billion at March 31, 2007. The increase in short-term borrowings supports a corresponding increase in variable-rate lending activity. Of the total short-term borrowings outstanding, $3.8 million were funds from the Crown Borrowing program.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all MTN and EMTN debt with more than one year to maturity. During 2007-08, FCC borrowed a total of $1.1 billion in medium and long-term funds, down from $3.0 billion in 2006-07. The decrease in MTN issuance was due to a significant decline in issuances to institutional investors.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2007-08, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed below as of March 31, 2008.

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

Capitalization

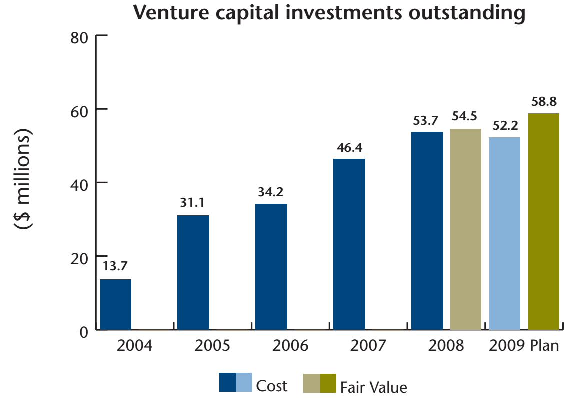
FCC's gross assets are $15,995.1 million, which are supported by equity and allowances of $2,301.4 million. At this level of capitalization, 14.39 per cent (2006-07 – 13.91 per cent) of assets do not require external debt financing.

($ millions)	2009 Plan	**2008**	2007	2006	2005	2004
Equity:						
Capital	547.7	**547.7**	547.7	547.7	532.7	507.7
Retained earnings	1,274.5	**1,132.0**	914.4	716.1	551.8	437.5
Accumulated other comprehensive income	(69.0)	**97.1**	0.0	0.0	0.0	0.0
Subtotal	1,753.2	**1,776.8**	1,462.1	1,263.8	1,084.5	945.2
Allowance for credit losses	615.8	**524.6**	536.7	514.3	462.5	405.3
Total capitalization	2,369.0	**2,301.4**	1,998.8	1,778.1	1,547.0	1,350.5
Gross assets not requiring debt financing (per cent)	14.01	**14.39**	13.91	13.58	13.04	12.73

Business Services

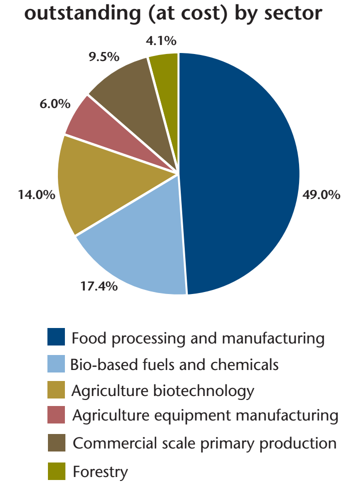
FCC Ventures

FCC Ventures is the corporation's venture capital division. Since its inception in 2002, FCC has been successful in leveraging its strong presence in agriculture to partner with other investors in providing over $180 million in venture capital funding to the sector. At March 31, 2008, for every $1 invested by FCC, third-party co-investors have invested an additional $1.50.



Venture capital investments outstanding

The venture capital portfolio includes investments made directly by FCC Ventures, as well as investments made through the Avrio Ventures Limited Partnership fund. The FCC Ventures investment portfolio is managed on FCC's behalf by Avrio Investments Inc. under a contractual arrangement. The Avrio Ventures fund was created in 2006 as Canada's first industrial life sciences fund. The fund was launched with a $50 million commitment from FCC Ventures and will reach nearly $75 million in 2008-09 with new investors joining the limited partnership. The fund will support opportunities related to the convergence of life sciences and industrial technology and will focus on Canadian commercialization-to-growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is well represented across Canada with offices in Montreal, Quebec; Oakville, Ontario and Calgary, Alberta.



Venture capital investments outstanding (at cost) by sector

The fair value of the combined venture capital investments was $54.5 million at March 31, 2008. During the year, $10.0 million in new investments and $0.8 million (net) in fair value accounting adjustments were partly offset by $2.8 million in divestitures. The total fair value reflects $47.8 million held in the FCC Ventures portfolio and $6.7 million in investments held in the Avrio Ventures fund. Further detail of the cost and fair value investment amounts can be found in Note 2 and Note 6 of the Notes to Consolidated Financial Statements. Co-investment partners contributed an additional $7.6 million to individual investments made during the year.

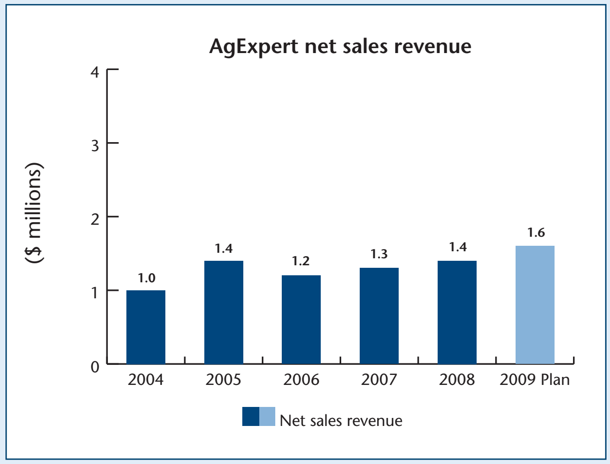
In 2007-08, FCC earned $3.2 million in income, primarily related to interest earned on investment in debt instruments. New investments made through the Avrio Ventures Limited Partnership are expected to be mainly in equity, rather than through debt instruments. Therefore, interest income is expected to decline in future years as existing debt instruments mature.

($ millions)	2009 Plan	**2008**	2008 Plan	2007
Investments – total capital outstanding	52.2	**53.7**	60.9	46.4
Investments – fair market value	58.8	**54.5**	80.1	
Co-investment ratio ($'s co-invested per FCC $)	1.4	**1.5**	1.5	1.6

The 2007-08 plan for new venture capital investments was $15.0 million. Actual investments were $10.0 million, $5.0 million below plan. As a result, the total capital outstanding (at cost) at the end of 2007-08 was $7.2 million below plan at $53.7 million. At March 31, 2008, the ratio of co-investment dollars per FCC Ventures dollars invested was the same as plan at 1.5 to 1. The outlook for 2008-09 is total capital outstanding (at cost) of $52.2 million. This is $1.5 million lower than the balance at March 31, 2008 due to maturities and planned divestitures partly offset by new investments.

AgExpert

The AgExpert Division of FCC is focused on developing and promoting farm management software for the Canadian agriculture market. The focus in 2007-08 has been on enhancing the features of the products, as well as improving ease of use for new and existing customers.



AgExpert Analyst software is a financial management program that delivers an accounting tool for Canadian farmers. Information reports are specialized for Canadian agriculture programs such as CAIS, as well as tracking GST, employee records, etc. AgExpert Analyst provides an excellent method for farmers to improve their financial management through strong record keeping and use of valuable reports that are specialized for the Canadian marketplace. The 2008 version of AgExpert Analyst was introduced to the market in November 2007. Reception of the new version has been excellent, with accountants as well as farmers.

Field Manager PRO is field and crop management software. Field Manager PRO provides a record-keeping system for all crops, including grains and oilseeds, potatoes and specialty crops such as vegetables and berries. In 2007, new initiatives were launched with processors to improve the tracking and record keeping of crops through the entire cycle, from planting to storage. In addition to record keeping, it is an excellent planning tool for next year's crops. The new version of Field Manager PRO was launched in January 2008. The new version features improved record keeping for storage of products, as well as an easy-to-use setup wizard for new users and many other enhancements.

Initiatives were also introduced in 2007-08 to expand and improve the network of influencers using of the product. This group includes accountants, processors and other groups involved with Canadian agriculture.

The AgExpert products provide excellent tools for Canadian farmers to improve the management of their operations. In addition, the record-keeping systems are a strong addition to the Canadian food system in terms of providing excellent tracking of production practices for all crops. The focus continues to be on providing management aids for Canadian farmers as well as some new initiatives with processors and handlers of crops.

($ millions)	2009 Plan	**2008**	2008 Plan	2007
Net sales revenue	1.6	**1.4**	1.3	1.3

Net sales revenue for 2007-08 was ahead of plan by $0.2 million. The plan for 2008-09 is net sales revenue of $1.6 million. This level of sales is expected as AgExpert products continue to provide strong value for the Canadian agriculture market and build on the strength of the FCC brand and distribution network.

AgriSuccess

AgriSuccess is the information and learning program offered in support of FCC's commitment to Canadian agriculture. Today's primary producers and agribusiness operators are sophisticated and require advanced skills to manage their operations. FCC continued to diversify its training delivery formats and tools to reach more producers in 2007-08. The AgriSuccess programs touch many customers and support FCC's sales process and customer experience objectives while raising awareness of FCC and its profile in communities across Canada.

Some of the highlights of the AgriSuccess program during 2007-08 are as follows:

- FCC offered nine different management workshops in 2007-08, which focused on topics such as human resource management (recruiting and retaining employees), financial management (management accounting systems and ratio analysis), succession planning, estate planning, vision and goal setting, value chain management and commodity marketing management.
- A new delivery format called AgriSuccess learning tours was launched in 2007-08, with a total of seven tours completed this past year. These tours focus on a variety of agricultural topics and enabled FCC to further extend its reach into smaller farming communities.

- Eight Winning in Agriculture AgriSuccess forums where held across Canada in 2007-08. These forums provided attendees with the opportunity to network and learn about key issues facing agriculture.
- FCC continued to deliver the AgriSuccess Express and AgriSuccess Journal publications. The Express brings breaking agricultural news stories electronically to subscribers' e-mail inboxes weekly. The Journal, a bi-monthly magazine, is dedicated to helping producers advance their management practices by providing practical information, real-life examples and innovative ideas that foster personal growth and advancement.

	2009 Objectives	2008	2008 Objectives	2007
AgriSuccess participants	13,750	**11,725**	3,300	3,191
AgriSuccess Express distribution	25,988	**23,625**	28,000	24,179
AgrSuccess Journal distribution	51,354	**51,354**	50,000	44,234

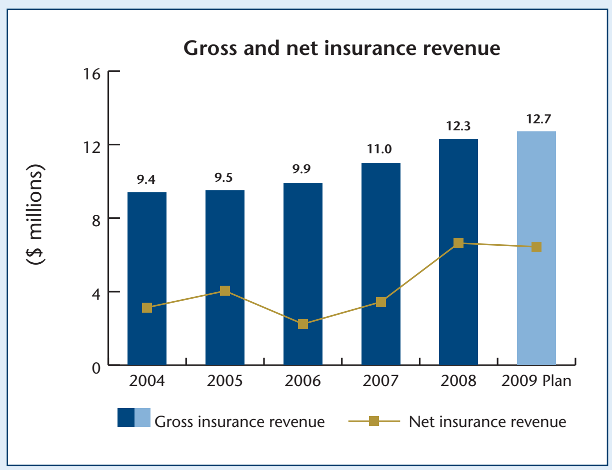
There were 86 workshops in both official languages delivered in all 10 provinces in Canada. The average attendance at workshop events increased by 12 per cent with total attendance of 2,847. Learning tour attendance was 1,429. These events combined to exceed our 2007-08 workshop goal of 3,300. In addition, 3,174 people attended AgriSuccess forums in 2007-08. In total, 11,725 people attended an AgriSuccess event this past year. AgriSuccess learning tours, workshops and forums will continue as learning events in 2008-09.

The AgriSuccess Journal subscriber list for the March 2008 edition totalled 51,354. The AgriSuccess Express subscription list included 23,625 e-mail addresses at year-end. Express circulation continues to expand as FCC's e-mail address database grows.

Agri-Assurances
FCC offers loan life and accident insurance to our customers, as a means for them to protect their business and their families. This past year, a new process, "tele-underwriting," was introduced, to help improves the customer experience when medical underwriting is required. The majority of underwriting interviews are now conducted by phone, which may eliminate the requirement for in-person paramedicals. SunLife Financial is the underwriter of FCC's insurance programs.

FCC's loan life and accident insurance is an important contributor to FCC's strategy of financial success and commitment to Canadian agriculture. Sales of life insurance contribute directly to FCC's net income. Gross premiums collected have increased over the past several years, both as a product of FCC's growing portfolio and due to a renewed emphasis on insurance. Net insurance revenue varies from year to year depending on claims paid. In 2007-08, $4.9 million in claims were paid to customers compared to $6.1 million in 2006-07.

Gross insurance revenue in 2007-08 was $12.3 million, an increase from $11.0 million in 2006-07. Net insurance revenue was $7.4 million, compared to $4.9 million in 2006-07. The significant year-over-year increase was due to both a decrease in the level of claims and a change in how the corporation accounts for revenues from this source. A detailed explanation on the accounting treatment for Agri-Assurances is in Note 2 of the Notes to Consolidated Financial Statements on page 99.



($ millions)	2009 Plan	2008	2008 Plan	2007
Gross insurance revenue	12.7	**12.3**	10.7	11.0
Net insurance revenue	6.5	**7.4**	3.2	4.9

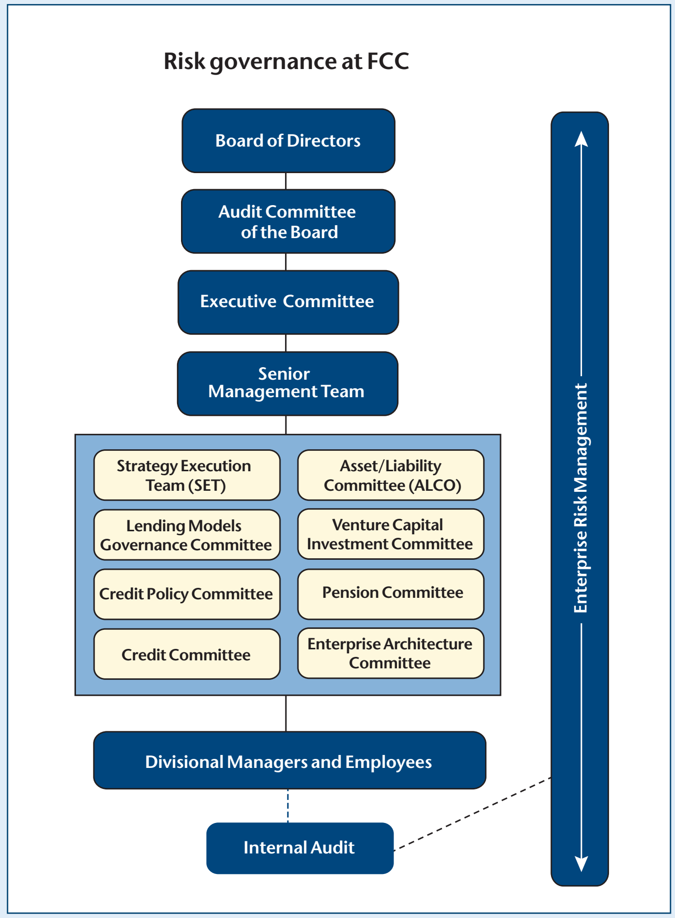
Gross insurance revenue was $12.3 million in 2007-08, $1.6 million higher than plan. The assumption for the 2008-09 planned gross and net insurance revenue was based on a lower loans receivable balance and insurance program as of March 31, 2008. Based on these assumptions, $12.7 million and $6.5 million in gross and net insurance revenue is planned for fiscal 2008-09.

Enterprise risk management

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

Risk governance

The **Board of Directors** has oversight responsibility for management of risks of the corporation and is involved in identifying and prioritizing enterprise risks through the strategic planning process. This oversight also includes reviews of Treasury operations, loan portfolio health, the annual internal audit work plan and the financial statement audit.



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

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

The **Senior Management Team** (SMT) participates in enterprise-wide assessment of risks and ranks them according to the extent of their impact and likelihood of occurrence. Individual SMT members are accountable to develop risk management action plans and to report against these risks on a quarterly basis.

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

The **Lending Models Governance Committee** oversees the design and development of credit risk-related models and lending scorecards. This committee is accountable for the integrity of the pricing infrastructure, including compliance with industry best practices and adherence to FCC's strategy to effectively balance profitability, growth and loan quality.

The **Credit Policy Committee** oversees the development of lending policies, and ensures they reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial, and regional laws and regulations.

The **Venture Capital Investment Committee** adjudicates all investment recommendations on venture capital investments and reviews the performance of the FCC Ventures legacy portfolio.

The **Pension Committee** provides advice regarding monitoring the approved governance structure of support for the pension plan and reporting annually on the overall functioning of the plan, recommending changes to plan governance, developing and reviewing the plan's Statement of Investment Policies and Goals and monitoring and reviewing performance and activities of the plan's investment managers.

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

The **Asset/Liability Committee** directs and oversees the asset/liability management function, including establishing and maintaining market risk policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.

The **Enterprise Architecture Committee** maintains the standards and guidelines of FCC's business and technical architectures.

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

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

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

Farm Credit Canada's top enterprise risks

The ERM business unit facilitates an annual assessment and ranking of significant risks identified by management, with input from the Board of Directors. Risk sponsors are appointed for the top risks and action plans developed for managing these risks to acceptable levels. The following have been identified as FCC's top risks for 2008-09:

Enterprise risk	Risk description
New and changing competitors	Losing customers and market share to new and changing competitors
Ability to meet needs of future producers	Inability to meet the needs of next-generation farmers and agribusiness customers who will operate larger, more complex businesses
Fraud	Reputation damage and/or financial loss due to fraudulent activity committed by internal or external parties
Failure to create desired employee experience	Inability to engage employees so they want to stay at FCC and do their best
Inability to attract and retain employees	Increased competition for skilled workforce may negatively impact the ability to fulfil FCC's mandate
Business disruption	Major impact on time-critical business processes due to significant disruptive events such as power outages, natural disasters, accidents, acts of sabotage or pandemic
Business process and technology transformation	Inability to deliver the information technology transformation program on time, within budget and within scope, which negatively impacts the desired customer and employee experience objectives
Inability to grow knowledge	Inability of FCC employees to stay ahead of the competition as industry specialized knowledge advances
Information security breach	Unauthorized disclosure of physical or electronic private customer, employee or business proprietary information
Capacity to execute major new initiatives	Inability to allocate enough resources (people and dollars) toward long-term strategic initiatives because of the need to focus on numerous business-as-usual activities
Uncertainty regarding internal controls for IT	Inability to provide reasonable assurance regarding the existence of sufficient internal control mechanisms for IT processes and systems

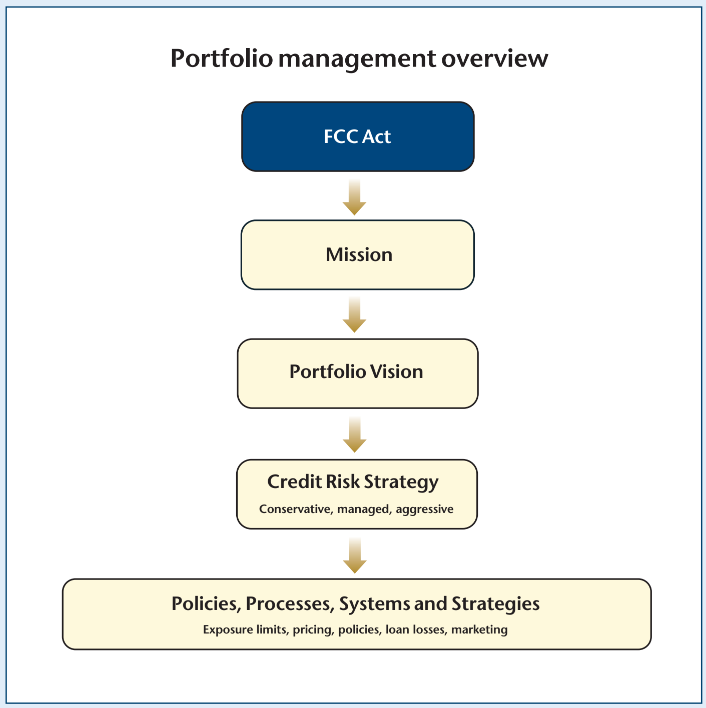
Credit risk

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

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

To perform at a level sufficient to create the desired level of net income, within an acceptable range of volatility. The desired net income must support portfolio growth and fund strategic initiatives, thereby allowing FCC to achieve its mission, create an extraordinary customer experience, and remain the leading provider of financing to the agriculture industry.

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



Policies, processes, systems and strategies are used to manage credit risk of the portfolio. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision. Significant research, modelling, validation and interpretation are used to determine the targets for each tool:

The **Strategic Credit Risk Model** (SCRM) measures portfolio risk by assessing the transaction risk arising from individual loans and customers, the intrinsic risk from the industries and lines of business receiving loans, and the concentration risk present from concentrations of loans to industries, lines of business or small groups of large borrowers.

There are three possible score ranges for the SCRM, each corresponding to a credit risk strategy:
- conservative (maximizes portfolio quality)
- managed (balances portfolio quality and growth)
- aggressive (maximizes growth)

FCC targets the managed range (a score of 51 to 70). For the year ended December 31, 2007, FCC achieved an average score of 56.85. The five-year average as of this date was 58.29. These results show consistent credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

The **Portfolio Diversification Model** determines the target for FCC's loan portfolio diversification by geography, business line and sector through a balance of profitability and risk. It considers projected growth in Canadian agriculture debt, risk-adjusted and cost-adjusted returns by sector and FCC growth trends. The Portfolio Diversification Model identifies target ranges and adjustment options for each of the following:

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

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

The **Risk Scoring and Pricing System** (RSPS) is a behavioural scorecard used for ranking risk based on the customer, the loan and the sector. RSPS suggests a price that covers FCC's cost of funds, risk, operating cost and planned profit.

The **Marketing Plan** presents strategies and programs intended to grow the loan portfolio in a way that is consistent with FCC's Portfolio Vision and Corporate Plan.

The **Loan Loss Model** estimates the losses within the loan portfolio due to credit risk. The Specific Allowance Loan Loss model identifies non-performing loans. The General Allowance Loan Loss model identifies loans that are still performing but have characteristics that indicate deterioration in credit-worthiness. This model considers recent events and changes in economic conditions that may have created deterioration in credit quality for many loans but have not yet exhibited deterioration in credit quality. For both of these groups of loans, the models consider security position to estimate the appropriate amount of loss allowance. Establishing adequate allowances to cover credit losses preserves FCC's equity and the debt-to-equity ratio.

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

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

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

Market risk

Market risk is the potential for loss to FCC as a result of adverse changes in underlying market factors such as interest rates, foreign exchange rates, and credit risk associated with investment and derivative counterparties.

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

FCC's policy is to eliminate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance unless the foreign currency denominated debt is used specifically to finance a like currency asset.

Interest rate risk

Interest rate risk is the potential for adverse impacts on FCC's earnings and economic value due to changes in interest rates. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity, and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

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

Interest rate risk management is governed by policy, which has defined limits based on the impact of a two per cent change in interest rates. Based on FCC's financial position at March 31, 2008, assuming an immediate and sustained two per cent change in interest rates (across all maturities and curves) occurs, net interest income (over the next 12 months) and the market value of portfolio equity would be affected as follows:

	2% increase	2% decrease
	($ millions)	
Net interest income variability	(3.3)	0.8
Market value portfolio equity variability	(120.0)	96.3

Derivatives

FCC uses derivatives to hedge interest rate and foreign currency risk. No derivatives are entered into for speculative purposes. Derivative instruments are used to hedge exposures to interest rate risk and foreign exchange risk. Derivatives alter the risk profile of the balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, they are designated as cash flow hedges and are accounted for as described in Note 2 of the Notes to Consolidated Financial Statements on pages 94 to 95. Derivatives transactions that do not qualify for hedge accounting are economic hedges and are recorded at fair value on the balance sheet with changes in fair value recognized in the Consolidated Statement of Operations. Economic hedges may lead to income volatility because the hedged items are recorded on an amortized cost basis; this volatility may not be representative of the overall risk.

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

Liquidity risk

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

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

FCC maintains liquidity through:

- a liquid investment portfolio – cash and marketable securities equal to $748.5 million were on hand at March 31, 2008 (March 31, 2007 – $681.3 million); ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio
- access to short-term funding – FCC's domestic commercial paper program and funding through the Consolidated Borrowing program provide the corporation with sufficient liquidity to meet daily cash requirements
- access to a $10-million bank operating line of credit and a $50-million revolving credit facility

Operational risk management

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

A number of enterprise-wide programs and strategies are in place to assist with the management of operational risk:
Business continuity management: FCC is actively updating and testing its business continuity management to mitigate the risks associated with varying degrees of potential business disruptions including those associated with a human pandemic.

Enterprise security: A cross-divisional Security Co-ordination Team promotes security policies, best practices and incident handling strategies to optimize privacy and protection for human, physical and information technology assets.

Environmental risk management: Specific lending policies and procedures direct that an environmental risk assessment is performed where the loan purpose falls within the sphere of the Canadian Environmental Assessment Act and where real property is accepted as loan security.

Biosecurity risk management: FCC's biosecurity protocol, supporting documentation and supplies ensure all employees practise disease prevention when visiting customers.

Internal control compliance: Works with individual business units to ensure there are effective controls in place within business processes to reduce operational risks.

Fraud risk management: A program is being established that will include three key elements – prevention controls, detection controls and response strategies.

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

- corporate governance and management systems
- human resource management
- community investment and involvement
- environment, health and safety
- human rights
- customer focus

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

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

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

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

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

Vision research advisory panel: This is an online forum for Canadian farmers, ranchers, agri-food processors and agribusiness professionals to share their ideas. The input is used to influence FCC's development of programs to better serve our customers.

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

Future changes in accounting policies

Financial instruments – presentation and disclosure

In December 2006, the CICA issued two new accounting standards for the presentation and disclosure of financial instruments. CICA Handbook Section 3862 – Financial Instrument Disclosures and Section 3863 – Financial Instruments – Presentation revise the current standards on financial instrument disclosure and presentation. Section 3862 places an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity. These recommendations are effective for fiscal years beginning on or after October 1, 2007, and therefore, the corporation will implement them for its year ended March 31, 2009.

Capital disclosures

In December 2006, the CICA issued a new accounting standard for capital disclosures. CICA Handbook Section 1535 – Capital Disclosures establishes guidelines for the disclosure of information regarding a corporation's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a corporation regards as capital are required. These recommendations are effective for fiscal years beginning on or after October 1, 2007, and therefore, the corporation will implement them for its year ended March 31, 2009.

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that use of International Financial Reporting Standards (IFRS) will be required for publicly accountable entities for fiscal years beginning on or after January 1, 2011 and therefore, the corporation will implement for its year ending March 31, 2012. The impact on the corporation's financial reporting is being assessed.

Farm Credit Canada

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

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

Greg Stewart

Moyez Somani

Greg Stewart
President and Chief Executive Officer

Moyez Somani
Executive Vice-President and Chief Financial Officer

Regina, Canada

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

I have audited the consolidated balance sheet of Farm Credit Canada as at March 31, 2008 and the consolidated statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, except for the change in method of accounting for financial instruments as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

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

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 16, 2008

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Consolidated Balance Sheet

As at March 31 ($ thousands)		2008		2007
Assets				
Cash and cash equivalents	$	269,837	$	315,569
Temporary investments (Note 3)		478,635		365,698
Accounts receivable		10,424		23,654
Derivative-related assets (Note 15)		111,649		11,991
		870,545		716,912
Loans receivable – net (Notes 4 and 5)		14,467,495		13,013,720
Venture capital investments (Note 6)		54,496		46,395
		14,521,991		13,060,115
Equipment and leasehold improvements (Note 7)		46,733		33,880
Other assets (Note 8)		31,187		23,324
		77,920		57,204
Total assets	$	15,470,456	$	13,834,231
Liabilities				
Accounts payable and accrued liabilities	$	40,015	$	36,874
Accrued interest on borrowings		150,957		127,547
Derivative-related liabilities (Note 15)		169,281		125,249
		360,253		289,670
Borrowings (Note 9)				
Short-term debt		6,838,350		5,103,859
Long-term debt		6,460,965		6,950,566
		13,299,315		12,054,425
Other liabilities (Note 10)		34,130		27,967
		13,693,698		12,372,062
Shareholder's equity				
Contributed surplus		547,725		547,725
Retained earnings		1,131,973		914,444
Accumulated other comprehensive income		97,060		–
		1,776,758		1,462,169
Total liabilities and shareholder's equity	$	15,470,456	$	13,834,231

Commitments, guarantees and contingent liabilities (Note 18).
The accompanying notes are an integral part of the consolidated financial statements.

Approved:

Greg Stewart, President and Chief Executive Officer

Jack Christie, Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 ($ thousands)	2008	2007
Interest income		
Loans	$ 961,247	$ 871,511
Investments	32,225	41,391
Total interest income	993,472	912,902
Interest expense		
Short-term debt	199,471	169,361
Long-term debt	359,573	327,996
Total interest expense	559,044	497,357
Net interest income (Note 11)	434,428	415,545
Provision for credit losses (Note 5)	5,033	38,927
Net interest income after provision for credit losses	429,395	376,618
Insurance income		
Premiums	12,316	11,005
Claims expense	4,920	6,145
Net insurance income	7,396	4,860
Other income	7,000	2,856
Income before administration expenses	443,791	384,334
Administration expenses (Note 12)	197,576	180,551
Income before fair value adjustment	246,215	203,783
Fair value adjustment (Note 14)	(41,128)	–
Net income	$ 205,087	$ 203,783

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 ($ thousands)		**2008**		2007
Net income	$	205,087	$	203,783
Other comprehensive income				
Unrealized gains on available-for-sale temporary investments		188		–
Unrealized gains on derivatives designated as cash flow hedges		89,473		–
Transfer of unrealized losses on derivatives designated as cash flow hedges to net income		8,728		–
Net change in unrealized gains on derivatives designated as cash flow hedges		98,201		–
Total other comprehensive income		98,389		–
Total comprehensive income	$	303,476	$	203,783

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

Consolidated Statement of Changes in Shareholder's Equity

For the year ended March 31 ($ thousands)	2008	2007
Contributed surplus (Note 1)	$ 547,725	$ 547,725
Retained earnings		
Balance, beginning of year	914,444	716,138
Impact of adopting new accounting standards for financial instruments as at April 1, 2007 (Note 2)	17,919	–
Net income	205,087	203,783
Dividends paid (Note 1)	(5,477)	(5,477)
Balance, end of year	1,131,973	914,444
Accumulated other comprehensive income		
Balance, beginning of year	–	–
Impact of adopting new accounting standards for financial instruments as at April 1, 2007 (Note 2)	(125)	–
Unrealized gains and losses on available-for-sale temporary investments	188	–
Total unrealized gains and losses on available-for-sale temporary investments	63	–
Impact of adopting new accounting standards for financial instruments as at April 1, 2007 (Note 2)	(1,204)	–
Unrealized gains and losses on derivatives designated as cash flow hedges	98,201	–
Total unrealized gains and losses on derivatives designated as cash flow hedges	96,997	–
Balance, end of year	97,060	–
Total shareholder's equity	$ 1,776,758	$ 1,462,169

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

Consolidated Statement of Cash Flows

For the year ended March 31 ($ thousands)		2008		2007
Operating activities				
Net income	$	205,087	$	203,783
Adjustments to determine net cash from (used in) operating activities:				
Provision for credit losses		5,033		38,927
Fair value adjustment		41,128		–
Gain on sale of venture capital investments		–		(1,610)
Write-down of venture capital investments		–		1,000
Amortization of equipment and leasehold improvements		11,655		11,241
Foreign exchange (gains) losses		102		(2,211)
Other		17,551		14,990
Changes in operating assets and liabilities:				
Accrued interest on loans receivable		(13,303)		(25,760)
Accrued interest on borrowings		23,410		39,280
Derivative-related assets		3,193		1,348
Derivative-related liabilities		1,752		10,008
Other		16,361		(13,050)
Cash provided by operating activities		311,969		277,946
Investing activities				
Disbursement of loans receivable		(4,285,023)		(3,714,750)
Repayment of loans receivable		2,840,753		2,485,165
Acquisition of temporary investments		(1,087,237)		(1,232,181)
Proceeds on maturity/disposal of temporary investments		972,877		1,238,687
Acquisition of venture capital investments		(9,971)		(19,677)
Proceeds on disposal and repayment of venture capital investments		3,214		8,197
Purchase of equipment and leasehold improvements		(24,508)		(16,134)
Disposal (acquisition) of real estate property held for sale		535		(316)
Cash used in investing activities		(1,589,360)		(1,251,009)
Financing activities				
Long-term debt issued		1,039,225		3,000,210
Long-term debt repaid		(1,819,721)		(1,447,771)
Short-term debt issued		20,005,476		15,108,658
Short-term debt repaid		(17,991,670)		(15,664,858)
Proceeds on sale of derivatives		3,826		–
Dividend paid		(5,477)		(5,477)
Cash provided by financing activities		1,231,659		990,762
Change in cash and cash equivalents		(45,732)		17,699
Cash and cash equivalents, beginning of year		315,569		297,870
Cash and cash equivalents, end of year	$	269,837	$	315,569
Supplemental information				
Cash interest paid during the year	$	535,634	$	458,076

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

Notes to Consolidated Financial Statements

1. The corporation

Authority and objectives

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

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

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

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

Contributed surplus

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

As of March 31, 2008, capital payments received from the Government of Canada amounted to $1,208.3 million (2007 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2007 – $1,250.0 million).

Dividend

On October 24, 2007, the corporation's Board of Directors declared a dividend based on the results of the year ended March 31, 2007 in the amount of $5.5 million (2007 – $5.5 million) to the corporation's shareholder, the Government of Canada, which was paid on March 26, 2008.

Limits on borrowing

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

At March 31, 2008, the corporation's total liabilities were 7.8 times the equity of $1,766.8 million (2007 – 8.5 times the equity of $1,462.2 million).

2. Significant accounting policies

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

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

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

Basis of consolidation

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

Financial instruments, hedges and comprehensive income

On April 1, 2007, the corporation adopted the following new accounting standards: Section 3855 – Financial Instruments – Recognition and Measurement; Section 3861 – Financial Instruments – Disclosure and Presentation; Section 3865 – Hedges; and Section 1530 – Comprehensive Income. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges as well as the recognition of certain adjustments in opening retained earnings or opening accumulated other comprehensive income as described below. The comparative consolidated financial statements have not been restated as a result of the adoption of the standards. The requirements of the new standards, related accounting policies adopted by the corporation and the resulting financial statement impact are further discussed below and in the following pages.

(a) Financial assets and financial liabilities

The corporation's financial assets are classified as loans and receivables, held for trading, or available-for-sale. Financial liabilities are classified as held for trading or other financial liabilities. Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Loans and Receivables are accounted for at amortized cost using the effective interest rate method. The corporation's accounts receivable and loans receivable are included in this classification. This accounting treatment is consistent with the accounting treatment prior to April 1, 2007.

Held for Trading (HFT) financial instruments are financial assets or financial liabilities, including derivatives, that are purchased or incurred with the intention of generating profits in the near term. Financial assets and financial liabilities classified as HFT are accounted for at fair value. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in the fair value adjustment. Dividends and interest earned are included in interest income. Interest incurred is included in interest expense. The corporation's derivative-related assets and derivative-related liabilities not designated as hedging instruments in effective hedging relationships are classified as HFT.

Prior to April 1, 2007, derivative-related assets and derivative-related liabilities included unrealized gains and losses on derivatives not designated as hedging instruments in effective hedging relationships, unrealized gains and losses on foreign currency exchange contracts and unamortized balances of premiums received or paid for derivative financial instruments. Unrealized gains and losses on derivatives not designated as hedging instruments were immediately recognized in interest expense. Unrealized foreign exchange gains and losses on cross-currency contracts were recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency borrowings. Premiums received or paid for derivative financial instruments were deferred and amortized over the life of the instrument as an adjustment to interest expense.

Designated as Held for Trading financial instruments are financial assets or financial liabilities that the corporation designates on initial recognition as instruments that it will measure at fair value through net income. These are accounted for in the same manner as HFT financial assets and financial liabilities. The corporation designated its structured notes, which are included in borrowings, and certain venture capital investments as held for trading.

Prior to April 1, 2007, venture capital investments were recorded at cost less any decline in market value that was considered to be other than temporary. Gains or losses on disposal were recognized in other income when realized. Prior to April 1, 2007, structured notes were accounted for at amortized cost.

Available-for-Sale (AFS) financial instruments are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT financial assets. AFS financial assets are recognized at fair value with unrealized gains and losses included in accumulated other comprehensive income (AOCI) until sale or other-than-temporary impairment when the cumulative gain or loss is transferred to net income. Interest earned on AFS financial assets, realized gains and losses on sale and other-than-temporary impairments are included in net interest income. The corporation designated its temporary investments as AFS.

Prior to April 1, 2007, temporary investments were carried at cost. If the value of temporary investments had a significant and other-than-temporary decline in market value, the carrying value was written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value were included in investment income.

Other Financial Liabilities are recorded at amortized cost using the effective interest rate method and include all of the corporation's financial liabilities, other than derivatives and borrowings designated as held for trading. This accounting treatment is consistent with the accounting treatment prior to April 1, 2007.

A liability has been recorded for the fair value of the obligation assumed at the inception of certain guarantees. The fair value of the obligation at inception is based on the discounted cash flow of the premium to be received for the guarantee. Prior to April 1, 2007, no amount was included in the balance sheet for the corporation's guarantees.

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs related to HFT and AFS financial instruments are expensed as incurred. Transaction costs relating to loans and receivables are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Prior to April 1, 2007, all transactions costs were deferred and amortized.

Settlement date accounting is used for all investments. Changes in fair value between the trade date and settlement date are reflected in the fair value adjustment for HFT investments while changes in fair value between trade date and settlement date are reflected in other comprehensive income (OCI) for AFS investments.

(b) Derivatives and hedge accounting

Derivatives

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Derivatives may be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative would meet the definition of a derivative if it was a free standing instrument, and the combined contract is not designated as held for trading. The corporation applied this accounting treatment to all host contracts that have been entered into or substantially modified after April 1, 2003.

Hedge accounting

The corporation formally assesses and documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, to ensure the relationships qualify for hedge accounting. This process includes linking all derivatives to specific assets, liabilities, or cash flows. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. In order to be deemed effective, the hedging instrument and the hedged item must be highly and inversely correlated such that the changes in the fair value of the hedging instrument will substantially offset the effects of the hedged exposure to the corporation throughout the term of the hedging relationship.

Derivatives that qualify for hedge accounting are accounted for at fair value and the related interest revenue or expense is recognized on the same basis as the hedged item as an adjustment to interest income or expense, respectively.

For derivatives that hedge variability in cash flows, the effective portion of changes in the derivative's fair value is initially recognized in OCI. When hedge accounting is discontinued, these gains and losses are subsequently reclassified to net interest income in the periods that net interest income is affected by the variability in the cash flows of the hedged item. The ineffective portion of changes in the derivative's fair value is reported in the fair value adjustment.

Premiums received or paid for derivative financial instruments are recognized in net income immediately.

Hedge accounting is discontinued prospectively when the derivative is unwound, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are recognized in net interest income in the same manner as the hedged item over the remaining term of the original hedge or immediately when the hedged item ceases to exist or the original term of the hedge is no longer probable. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Prior to April 1, 2007, derivatives that qualified for hedge accounting were accounted for on an accrual basis with the related interest revenue or expense recognized on the same basis as the hedged item as an adjustment to interest expense. Unrealized foreign exchange gains and losses on cross-currency contracts were recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency borrowings. Premiums received or paid for derivative financial instruments were deferred and amortized over the life of the instrument as an adjustment to interest expense. When a hedging relationship was discontinued, the associated derivative instrument was subsequently carried at fair value and any previously deferred gains or losses were carried forward for recognition in net income in the same period as the related hedged item.

(c) Comprehensive income and changes in shareholder's equity

The Consolidated Statement of Comprehensive Income now forms part of the corporation's consolidated financial statements and presents current period net income and OCI. AOCI is a separate component of shareholder's equity. The Consolidated Statement of Comprehensive Income reflects changes in AOCI, comprised of changes in unrealized gains and losses on AFS assets as well as changes in the fair value of derivatives designated as cash flow hedges, to the extent they are effective.

The Consolidated Statement of Changes in Shareholder's Equity now forms part of the corporation's consolidated financial statements. The Consolidated Statement of Changes in Shareholder's Equity presents changes in the three components of shareholder's equity: contributed surplus, retained earnings and AOCI.

(d) Opening financial statement impact

An adjustment has been made to opening retained earnings and AOCI. The impact of adopting the new standards as at April 1, 2007, was as follows:

(*$ thousands*)	Balance as at March 31, 2007	Adjustments upon adoption of new standards	**Balance as at April 1, 2007**
Assets			
Cash and cash equivalents	$ 315,569	$ –	**$ 315,569**
Temporary investments	365,698	(125)	**365,573**
Accounts receivable	23,654	–	**23,654**
Derivative-related assets	11,991	41,903	**53,894**
Loans receivable – net	13,013,720	–	**13,013,720**
Venture capital investments	46,395	2,406	**48,801**
Non-financial assets	57,204	–	**57,204**
Total assets	$ 13,834,231	$ 44,184	**$ 13,878,415**
Liabilities			
Accounts payable and accrued liabilities	$ 36,874	$ –	**$ 36,874**
Accrued interest on borrowings	127,547	–	**127,547**
Derivative-related liabilities	125,249	255,884	**381,133**
Borrowings	12,054,425	(228,347)	**11,826,078**
Other liabilities	–	57	**57**
Non-financial liabilities	27,967	–	**27,967**
	12,372,062	27,594	**12,399,656**
Contributed surplus	547,725	–	**547,725**
Retained earnings	914,444	17,919	**932,363**
Accumulated other comprehensive income	–	(1,329)	**(1,329)**
Total liabilities and shareholder's equity	$ 13,834,231	$ 44,184	**$ 13,878,415**

Cash and cash equivalents

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

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 and 365 days from the date of acquisition and are acquired primarily for liquidity purposes.

Temporary investments are designated as AFS and recognized at fair value with unrealized gains and losses included in AOCI until sale or other-than-temporary impairment, when the cumulative gain or loss is transferred to net income. Interest earned on temporary investments, realized gains and losses on sale and other-than-temporary impairments are included in investment income.

Loans receivable

Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at their amortized cost using the effective interest rate method.

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

Interest income

Interest income is recorded on an accrual basis and it is recognized in net income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability recognized at amortized cost and is not revised subsequently. The calculation of the effective interest rate takes into account transaction costs and discounts or premiums received as part of the return earned on these assets.

Interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured. At that time, previously non-accrued interest is recognized as interest income.

Interest expense

Interest expense is recorded on an accrual basis and is recognized in net income using the effective interest rate method.

Loan fees

Loan origination fees, including commitment and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees. Loan prepayment fees are recognized in interest income when received.

Allowance for credit losses

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

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

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the recorded investment or the estimated realizable amount measured by discounting the expected future cash flows at the original effective interest rate inherent in the loans. If future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allowance includes an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be established. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to identify probable credit losses on a loan-by-loan basis. The amount of the allowance is calculated based on the application of expected loan default rates to the estimated loss amounts for the loans identified. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

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

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

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

Variable interest entities

A variable interest entity (VIE) is an entity in which the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinate financial support. The corporation identifies VIEs in which it has an interest, determines whether it is the primary beneficiary of such entities and if so, consolidates them. The primary beneficiary is an entity that is exposed to a majority of the VIE's expected losses or entitled to a majority of the VIE's expected residual returns, or both.

Venture capital investments

Where the corporation has directly invested in venture capital entities, these venture capital investments are hereinafter referred to as the corporation's "Legacy Fund" investments. The corporation's "Avrio" venture capital investments are direct investments made by Avrio Ventures Limited Partnership (the partnership).

The corporation designated its Legacy Fund investments as held for trading in order to eliminate the need to identify and separate certain embedded options found in the investment contracts, with the exception of one investment over which the corporation has significant influence.

The corporation's Legacy Fund and Avrio venture capital investments are accounted for at fair value. Gains and losses realized on disposal and unrealized gains and losses are reported in the fair value adjustment. Interest on debt and dividends on preferred shares are accrued when receivable and dividends on common shares are included in income when declared. Interest, royalty, dividend and fee income amounts are included in investment income.

The Legacy Fund venture capital investment over which the corporation has significant influence is recorded using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment.

Borrowings

The corporation designated structured notes, a component of long-term debt, as held for trading in order to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated as held for trading are accounted for at fair value. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in the fair value adjustment.

The corporation's other borrowings are classified as other financial liabilities and measured at amortized cost. Interest incurred on all borrowings is included in interest expense.

Real estate property held for sale

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

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

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. In-house developed software costs are capitalized as incurred and amortization begins when the software is placed in use by the corporation. Amortization is provided over the estimated useful life using the following methods and terms:

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

Insurance

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

The corporation's insurance claims expense consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year end for claims that have been incurred as of the balance sheet date and a reserve for future insurance claims. The reserve for insurance claims represents the liability due to the expected shortfall of future premiums compared to future claims. The reserve is actuarially determined and is based on best estimates of future claims experience, expenses, past experience, interest rates and margins for adverse deviation from these assumptions. Actual experience may vary from best estimate assumptions, which will result in plan experience that differs from what is projected.

The corporation maintains an insurance reserve asset with the insurance provider to fund future claims payments.

Expenses related to administering the insurance program are recorded in administration expenses. The accrual for insurance claims payable is a financial instrument recorded at amortized cost in accounts payable and accrued liabilities. The reserve for insurance claims is recorded at fair value in other liabilities. The insurance reserve asset is recorded at amortized cost in other assets.

Translation of foreign currencies

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

Employee future benefits

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

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

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

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

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plans is 10 years (2007 – 10 years). The average remaining service period to expected retirement age is 16 years (2007 – 16 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan and 11 years (2007 – 11 years) for active employees covered by the post-employment benefit plan.

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

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

The corporation's derivatives not designated as hedging instruments in an effective hedging relationship at March 31, 2008, are classified as HFT and accounted for at fair value. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in the fair value adjustment. Interest earned and incurred is included in interest income and expense respectively.

Derivatives that qualify for hedge accounting are accounted for at fair value and the related interest revenue or expense is recognized on the same basis as the hedged item as an adjustment to interest income or expense, respectively.

For derivatives that hedge variability in cash flows, the effective portion of changes in the derivative's fair value is initially recognized in OCI. When hedge accounting is discontinued, these gains and losses are subsequently reclassified to net interest income in the periods that net interest income is affected by the variability in the cash flows of the hedged item. The ineffective portion of changes in the derivative's fair value is reported in the fair value adjustment.

Premiums received or paid for derivative financial instruments are recognized in net income immediately.

Future changes
(a) Financial instruments – presentation and disclosure
In December 2006, the CICA issued two new accounting standards for the presentation and disclosure of financial instruments. CICA Handbook Section 3862 – Financial Instrument Disclosures and Section 3863 – Financial Instruments – Presentation revise the current standards on financial instrument disclosure and presentation. Section 3862 places an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity. These recommendations are effective for fiscal years beginning on or after October 1, 2007, and, therefore, the corporation will implement them for its year ending March 31, 2009.

(b) Capital disclosures
In December 2006, the CICA issued a new accounting standard for capital disclosures. CICA Handbook Section 1535 – Capital Disclosures establishes guidelines for the disclosure of information regarding a corporation's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a corporation regards as capital are required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and, therefore, the corporation will implement them for its year ending March 31, 2009.

(c) International Financial Reporting Standards
On February 13, 2008, the Accounting Standards Board confirmed that use of International Financial Reporting Standards (IFRS) will be required for fiscal years beginning on or after January 1, 2011, and therefore, the corporation will implement IFRS for its year ending March 31, 2012. The impact on the corporation's financial reporting is being assessed.

3. Temporary investments

($ thousands)		2008		2007
Issued or guaranteed by Canada	$	39,874	$	–
Yield		3.93%		–
Other institutions		438,761		365,698
Yield		4.07%		4.27%
	$	478,635(a)	$	365,698

(a) Designated as AFS and recognized at fair value

Other institutions consists of short-term instruments issued by institutions with credit ratings of R-1M or higher by Dominion Bond Rating Service (2007 – R-1M or higher). As at March 31, 2008, the largest total investment in any one institution was $88.4 million (2007 – $75.0 million).

4. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2008. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

							2008		2007
($ thousands)		Under 1 year		1 to 5 years		Over 5 years		Total	Total
Floating	$	703,566	$	6,436,343	$	544,080	$ 7,683,989	$	7,538,784
Yield		6.11%		6.03%		6.01%	6.03%		6.54%
Fixed		896,511		4,609,501		1,586,154	7,092,166		5,876,287
Yield		6.65%		6.57%		6.85%	6.64%		6.83%
Performing loans	$	1,600,077	$	11,045,844	$	2,130,234	14,776,155		13,415,071
Impaired loans							220,320		140,960
Deferred loan fees							(4,376)		(5,611)
Loans receivable – gross							14,992,099		13,550,420
Less allowance for credit losses							(524,604)		(536,700)
Loans receivable – net							$ 14,467,495	$	13,013,720

Management estimates that annually, over the next three years, approximately 7.0 per cent (2007 – approximately 7.5 per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2008, $45.9 million (2007 – $72.5 million) of loans receivable were denominated in a foreign currency (USD). The foreign exchange risk on these loans is fully hedged at time of issuance.

Concentrations of credit risk

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition considering risk by business line, industry sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2008, all concentrations are consistent with the approved vision. The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are displayed in the following tables:

Performing loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2008	2007
Cash crops	$ 4,532,827	$ 205,696	$ 83,185	$ 4,821,708	$ 4,329,991
Dairy	3,330,817	1,076	17,405	3,349,298	3,100,143
Other	1,705,704	51,280	16,467	1,773,451	1,436,712
Value-added	134,090	1,260,600	17,346	1,412,036	1,283,228
Beef	1,050,068	8,091	120,137	1,178,296	1,104,848
Hogs	1,089,963	39,380	25,321	1,154,664	1,121,619
Poultry	1,009,861	71,874	4,967	1,086,702	1,038,530
Performing loans	$ 12,853,330	$ 1,637,997	$ 284,828	$ 14,776,155	$ 13,415,071

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2008	2007
Western	$ 3,719,151	$ 476,319	$ 89,467	$ 4,284,937	$ 3,562,352
Prairie	3,093,936	268,760	84,475	3,447,171	3,266,983
Ontario	4,249,270	386,834	103,115	4,739,219	4,440,110
Quebec	1,198,337	365,637	5,628	1,569,602	1,437,185
Atlantic	592,636	140,447	2,143	735,226	708,441
Performing loans	$ 12,853,330	$ 1,637,997	$ 284,828	$ 14,776,155	$ 13,415,071

Impaired loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2008	2007
Cash crops	$ 57,365	$ 1,398	$ 145	$ 58,908	$ 63,663
Dairy	2,379	–	–	2,379	1,084
Other	24,790	48	74	24,912	15,377
Value-added	3,777	27,546	–	31,323	23,089
Beef	26,806	–	1,770	28,576	20,576
Hogs	73,695	–	–	73,695	16,698
Poultry	498	29	–	527	473
Impaired loans	189,310	29,021	1,989	220,320	140,960
Less specific allowance (Note 5)	65,952	11,461	1,686	79,099	41,800
Net impaired loans	$ 123,358	$ 17,560	$ 303	$ 141,221	$ 99,160

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2008	2007
Western	$ 35,484	$ 1,182	$ 388	$ 37,054	$ 21,705
Prairie	77,760	9,555	1,087	88,402	50,381
Ontario	35,909	2,988	235	39,132	31,573
Quebec	23,033	10,063	59	33,155	24,189
Atlantic	17,124	5,233	220	22,577	13,112
Impaired loans	189,310	29,021	1,989	220,320	140,960
Less specific allowance (Note 5)	65,952	11,461	1,686	79,099	41,800
Net impaired loans	$ 123,358	$ 17,560	$ 303	$ 141,221	$ 99,160

5. Allowance for credit losses

($ thousands)	2008	2007
Balance, beginning of year	$ 536,700	$ 514,300
Write-offs	(20,141)	(18,260)
Provision for credit losses	5,033	38,927
Recoveries	3,012	1,733
Balance, end of year	$ 524,604	$ 536,700
Specific allowance	$ 79,099	$ 41,800
General allowance	445,505	494,900
Balance, end of year	$ 524,604	$ 536,700

6. Venture capital investments

The corporation's venture capital investments include Legacy Fund investments that are held directly by the corporation and venture capital investments held by Avrio Ventures Limited Partnership. The corporation's Legacy Fund investments are focused on providing financing to small and medium-sized companies in early to mature stages while investments held by the partnership target investments containing higher risk profiles in commercialization to growth stages. The concentrations of venture capital investments are listed below.

($ thousands)	2008	2007
Food processing and manufacturing	$ 31,788	$ 24,177
Bio-based fuels and chemicals	11,675	4,227
Agriculture biotechnology	4,200	5,501
Commercial-scale primary producers	3,579	7,071
Agriculture equipment manufacturing	3,254	3,411
Forestry	–	2,008
	$ 54,496	$ 46,395

Carrying value by type of investment is as follows:

($ thousands)	2008	2007
Common shares	$ 29,138	$ 21,643
Debt	25,358	24,752
	$ 54,496	$ 46,395
Comprised of:		
Legacy fund investments designated as held for trading (1)	$ 39,702	
Legacy fund investment – significant influence (2)	8,086	
Avrio investments (1)	6,708	
	$ 54,496	

(1) Recognized at fair value
(2) Recognized using the equity method of accounting

As at March 31, 2008, the total amount of net gains realized on disposal and reported in the fair value adjustment was $0.1 million and the total amount of net unrealized losses reported in the fair value adjustment was $0.7 million.

The total amount of fees, interest and dividends recorded in net income during the year for venture capital investments recognized at fair value was $3.3 million (2007 – $5.4 million). The total net loss recorded in net income for the venture capital investment subject to the corporation's significant influence during the year was $0.1 million.

In 2007, Legacy Fund venture capital investments with a carrying value of $1.0 million were sold for proceeds of $2.6 million, creating a total gain of $1.6 million and the total amount of debt investments that were written off during the year was $1.0 million, both of which were recorded in other income.

In addition to the above investments, the corporation has loans receivable and guarantees from venture capital investees in the amount of $55.7 million (2007 – $49.1 million).

7. Equipment and leasehold improvements

($ thousands)	Cost	2008 Accumulated amortization	Net book value	2007 Net book value
Computer equipment and software	**$ 65,175**	**$ 37,728**	**$ 27,447**	$ 17,205
Leasehold improvements	**21,643**	**10,134**	**11,509**	9,585
Office equipment and furniture	**18,905**	**11,128**	**7,777**	7,090
	$ 105,723	**$ 58,990**	**$ 46,733**	$ 33,880

Amortization of equipment and leasehold improvements of $11.6 million (2007 – $11.2 million) is included in administration expenses.

8. Other assets

($ thousands)	2008	2007
Accrued benefit asset (Note 13)	**$ 21,370**	$ 21,815
Insurance reserve assets	**8,836**	–
Real estate property held for sale	**940**	1,475
Other	**41**	34
	$ 31,187	$ 23,324

9. Borrowings

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

Short-term debt

Short-term debt consists of promissory notes payable within one year of $5,864.3 million (2007 – $3,850.5 million) and the portion of long-term debt due within one year of $974.0 million (2007 – $1,253.3 million). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

Starting in December 2007, the Government of Canada made short-term funding available to the corporation through the Crown Borrowing Program. The promissory notes payable consists of $3,806.4 million (2007 – nil) of debt issued to the Government of Canada and $2,057.9 million (2007 – $3,850.5 million) of debt issued in the money markets.

On November 7, 2007, the corporation renewed a revolving credit facility providing access to funds in the amount of $50.0 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2008, there were no draws on this facility.

The corporation also has a demand operating line of credit, which provides overdraft protection in the amount of $10.0 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2008, there was $0.3 million drawn on this facility (2007 – nil).

Long-term debt

(*$ thousands*)		2008		2007
Debt from capital markets, secured by notes payable in:				
Canadian dollars	**$**	**6,090,459**	$	6,304,318
Japanese yen (1)		**232,423**		317,358
United States dollars (2)		**138,083**		328,890
	$	**6,460,965**	$	6,950,566
Amounts due (3):				
From 1 – 2 years	**$**	**760,331**	$	808,255
From 2 – 3 years		**577,566**		270,464
From 3 – 4 years		**636,498**		605,564
From 4 – 5 years		**475,242**		615,030
Over 5 years		**4,011,328**		4,651,253
	$	**6,460,965**	$	6,950,566

(1) ¥23.4 billion Japanese yen (2007 – ¥32.4 billion JPY)
(2) $107.0 million United States dollars (2007 – $285.0 million USD)
(3) Long-term debt maturities based on final maturity date

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

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

Structured notes designated as held for trading, included in long-term debt, are as follows:

(*$ thousands*)		2008		2007
Extendible notes	**$**	**1,319,085**	$	1,530,569
Targeted redemption notes		**361,991**		447,178
Floating rate notes		**243,905**		497,294
Callable notes		**231,598**		196,830
Index-linked notes		**21,773**		74,246
Range notes		**57,860**		116,500
Amortizing notes		**39,857**		65,106
Fixed-rate notes		**32,213**		40,815
Other		**13,976**		16,000
Dual currency notes		**10,402**		30,289
	$	**2,332,660**	$	3,014,827

The amount the corporation is contractually required to pay on the long-term structured debt at maturity is $2,443.5 million, a $110.8 million difference from its carrying value.

The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the structured note if the counterparty exercises its right to terminate the related derivative swap agreement. These contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed rate interest and pays interest at a floating rate, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. The counterparty must have a minimum credit rating of A from an external credit rating agency (S&P, Moody's, DBRS or CBRS) for transactions of less than three years, and a minimum external credit rating of AA- for transactions of greater than three years. Credit exposure on derivative financial instruments is further discussed in Note 15.

10. Other liabilities

($ thousands)	**2008**	2007
Accrued benefit liability – other benefits (Note 13)	**$ 28,854**	$ 26,610
Reserve for insurance claims	**3,031**	–
Deferred revenues	**850**	715
Other	**1,395**	642
	$ 34,130	$ 27,967

11. Net interest income

The corporation's interest income and expense are recorded for each class of financial instruments as follows:

($ thousands)	**2008**
Interest income	
Loans and receivables	**$ 963,410**
AFS temporary investments	**28,533**
Designated as held for trading venture capital investments	**3,523**
Transfer of net unrealized losses on derivatives designated as cash flow hedges from AOCI to net income	**(1,994)**
Total interest income	**993,472**
Interest expense	
Other liabilities	
Short-term debt	**199,936**
Long-term debt	**227,609**
	427,545
Designated as held for trading long-term debt	**88,650**
HFT derivative-related liabilities	**36,115**
Transfer of net unrealized losses on derivatives designated as cash flow hedges from AOCI to net income	**6,734**
Total interest expense	**559,044**
Net interest income	**$ 434,428**

12. Administration expenses

($ thousands)	**2008**	2007
Personnel	**$ 120,420**	$ 114,884
Facilities and equipment	**26,898**	25,008
Professional	**26,144**	17,719
Travel and training	**12,938**	13,202
Other	**11,176**	9,738
	$ 197,576	$ 180,551

13. Employee future benefits

Description of benefit plans

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

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

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plan, were $12.8 million (2007 – $26.5 million).

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2007. The next valuations for funding purposes will be as at December 31, 2008.

(*$ thousands*)	**2008 Pension benefits**	2007 Pension benefits	**2008 Other benefits**	2007 Other benefits
Change in accrued benefit obligation:				
Balance at beginning of year	**$ 284,461**	$ 253,686	**$ 26,511**	$ 23,731
Current service cost	**12,009**	10,737	**1,923**	1,831
Interest cost on benefit obligation	**14,470**	12,908	**1,408**	1,265
Contributions by employees	**3,043**	3,168	**–**	–
Benefits paid	**(7,081)**	(4,835)	**(983)**	(498)
Plan amendment	**1,507**	–	**–**	–
Actuarial (gain) loss	**(420)**	8,797	**3,345**	182
Benefit obligation at end of year	**307,989**	284,461	**32,204**	26,511
Change in fair value of plan assets:				
Balance at beginning of year	**265,591**	220,255	**–**	–
Actual return on plan assets	**3,323**	25,691	**–**	–
Contributions by corporation	**9,913**	21,312	**–**	–
Contributions by employees	**3,043**	3,168	**–**	–
Benefits paid	**(7,044)**	(4,835)	**–**	–
Fair value of assets at end of year	**274,826**	265,591	**–**	–
Funded status – plan deficit	**(33,163)**	(18,870)	**(32,204)**	(26,511)
Unamortized past service cost	**1,507**	580	**29**	33
Unamortized net actuarial loss (gain)	**51,481**	37,252	**3,321**	(132)
Contributions by corporation after December 31	**1,545**	2,853	**–**	–
Accrued benefit asset (liability) at end of year	**$ 21,370(a)**	$ 21,815(a)	**$ (28,854)(b)**	$ (26,610)(b)

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

Plans with accrued benefit obligations in excess of plan assets

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

(*$ thousands*)	**2008 Pension benefits**	2007 Pension benefits	**2008 Other benefits**	2007 Other benefits
Accrued benefit obligation	**$ 289,575**	$ 266,328	**$ 32,204**	$ 26,511
Fair value of plan assets	**253,207**	243,494	**–**	–
Funded status – plan deficit	**$ (36,368)**	$ (22,834)	**$ (32,204)**	$ (26,511)

Defined benefit costs

(*$ thousands*)	**2008 Pension benefits**	2007 Pension benefits	**2008 Other benefits**	2007 Other benefits
Defined benefit costs:				
Current service cost	**$ 12,009**	$ 10,737	**$ 1,923**	$ 1,831
Interest cost on benefit obligation	**14,470**	12,908	**1,408**	1,265
Actual return on plan assets	**(3,323)**	(25,691)	**–**	–
Actuarial (gain) loss	**(420)**	8,797	**3,345**	182
Planned amendments	**1,507**	–	**–**	–
Costs arising in the period	**24,243**	6,751	**6,676**	3,278
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	**(15,494)(a)**	9,245 (a)	**–**	–
Actuarial loss (gain)	**1,265 (b)**	(7,431)(b)	**(3,453)(c)**	(311)(c)
Past service cost	**(927)**	637	**4**	4
Defined benefit costs recognized	**$ 9,087**	$ 9,202	**$ 3,227**	$ 2,971

(a) Expected return on plan assets of $(18,817) [2007 – $(16,446)] less the actual return on plan assets of $(3,323) [2007 – $(25,691)] = $(15,494) (2007 – $9,245).

(b) Actuarial loss recognized for year of $845 (2007 – $1,366) less actual actuarial (gain) on accrued benefit obligation for year of $(420) (2007 – $8,797) = $1,265 [2007 – $(7,431)].

(c) Actuarial (gain) recognized for year of $(108) [2007 – $(129)] less actual actuarial loss on accrued benefit obligation for year of $3,345 (2007 – $182) = $(3,453) [2007 – $(311)].

Significant assumptions

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

	2008 Pension benefits	2007 Pension benefits	**2008 Other benefits**	2007 Other benefits
Accrued benefit obligation as at December 31:				
Discount rate	**5.00%**	5.00%	**5.00%**	5.00%
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%
Benefit costs for years ended December 31:				
Discount rate	**5.00%**	5.00%	**5.00%**	5.00%
Expected long-term rate of return on plan assets	**7.25/4.00%(a)**	7.50/4.00%(a)	**–**	–
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%

(a) Registered pension plan/supplemental plans, respectively.

Assumed health-care cost trend rates at December 31:

	2008	2007
Hospital:		
Initial rate	**9.00%**	9.50%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2016
Prescription drugs:		
Initial rate	**9.00%**	9.50%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2016
Other health-care costs:		
Initial rate	**9.00%**	9.50%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2016

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are summarized in the table below.

(*$ thousands*)	Pension	Other
1% decrease in expected long-term rate of return on assets:		
Net benefit cost	$ **2,694**	$ **–**
1% decrease in discount rate:		
Total of service and interest cost	**6,707**	**890**
Accrued benefit obligation	**67,907**	**6,698**
0.25% increase in rate of increase in future compensation:		
Total of service and interest cost	**491**	**11**
Accrued benefit obligation	**3,376**	**225**
Assumed overall health-care cost trend rates on the aggregate of the service and interest cost components for the period:		
Impact of: 1% increase	**–**	**656**
1% decrease	**–**	**(501)**
Assumed overall health-care cost trend rates on the accrued benefit obligation:		
Impact of: 1% increase	**–**	**4,702**
1% decrease		**(3,768)**

Plan assets

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

	2008	2007
Equity securities	**63.3%**	66.6%
Debt securities	**31.9%**	29.5%
Other	**4.8%**	3.9%
	100.0%	100.0%

Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2008, the expense was $3.0 million (2007 – $2.7 million).

14. Fair value adjustment

The corporation's fair value adjustment is composed of the following:

(*$ thousands*)	2008
Designated as held for trading long-term debt	$ (111,531)
HFT derivative-related assets and derivative-related liabilities	70,902
Ineffectiveness of cash flow hedges	144
Designated as held for trading venture capital investments	(631)
Guarantees	(12)
	$ (41,128)

15. Derivative financial instruments

Description of derivatives

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The derivative contracts entered into by the corporation are over-the-counter instruments. The following are detailed descriptions of some of the more prominent derivative instruments used by the corporation to mitigate risk:

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

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

Notional amounts

Notional principal amounts outstanding for the various derivative financial instruments are:

		Remaining term to maturity				
(*$ thousands*)		Within 1 year	1 to 5 years	Over 5 years	2008	2007
Interest rate swap contracts:						
Receive	*Pay*					
Floating	Fixed	$ 355,000	$ 1,219,000	$ 31,000	$ 1,605,000	$ 1,082,000
Fixed	Floating	8,470,128	44,714	2,441,609	10,956,451	12,235,273
Cross-currency	Floating	419,457	–	–	419,457	761,163
Cross-currency	Fixed	–	3,900	–	3,900	–
		$ 9,244,585	$ 1,267,614	$ 2,472,609	$ 12,984,808	$ 14,078,436

Counterparty credit risk and fair values

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

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

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

		2008			2007	
(*$ thousands*)	**Positive fair value**	**Negative fair value**	**Net fair value**	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	**$ 111,649**	**$ 86,992**	**$ 24,657**	$ 37,796	$ 121,448	$ (83,652)
Cross-currency interest rate swaps	**–**	**82,289**	**(82,289)**	3,497	132,132	(128,635)
Fair value	**111,649**	**169,281**	**(57,632)**	41,293	253,580	(212,287)
Less impact of master netting agreements	**83,125**	**83,125**	**–**	40,651	40,651	–
Net fair value	**$ 28,524**	**$ 86,156**	**$ (57,632)**	$ 642	$ 212,929	$ (212,287)

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2008, was $4,688.0 million (2007 – $3,640.1 million) and the largest net fair value of contracts with any institution as at March 31, 2008, was $(27.6) million (2007 – $(0.1) million). The notional amounts of the financial instruments reported by the corporation are not indicative of either the market or credit risk associated with the contracts. The risk of loss is related solely to the possibility that a counterparty to a transaction does not perform as agreed. The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties. These agreements create the legal right of offset of exposure in the event of default.

Derivative-related amounts – assets and liabilities

Derivative-related assets and derivative-related liabilities are comprised of the following:

(*$ thousands*)	**2008**	2007
Derivative-related assets		
Derivatives designated as cash flow hedges	**$ 97,935**	$ –
Derivatives classified as HFT	**13,714**	–
Amounts receivable from counterparties under swap contracts	**–**	11,991
	$ 111,649	$ 11,991
Derivative-related liabilities		
Derivatives designated as cash flow hedges	**$ 1,337**	$ –
Derivatives classified as HFT	**167,944**	–
Amounts payable to counterparties under swap contracts	**–**	7,392
Unrealized losses on foreign currency swaps	**–**	114,915
Unamortized balances of premiums received or paid for derivative financial instruments	**–**	2,942
	$ 169,281	$ 125,249

16. Cash flow hedges

The corporation's cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets and financial liabilities on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 13 years.

17. Financial instruments fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date as well as the classifications of the financial instruments for the 2008 year. The fair values are determined using the valuation methods and assumptions described on the following page.

		2008		2007	
($ thousands)	**Classification**	**Carrying value**	**Estimated fair value**	Carrying value	Estimated fair value
Assets					
Cash and cash equivalents	n/a	**$ 269,837**	**$ 269,837**	$ 315,569	$ 315,569
Temporary investments	AFS	**478,635**	**478,635**	365,698	365,698
Accounts receivable	Loans and receivables	**10,424**	**10,424**	23,654	23,654
Derivative-related assets	HFT	**111,649**	**111,649**	11,991	11,991
Loans receivable – net	Loans and receivables	**14,467,495**	**14,774,957**	13,013,720	13,104,019
Venture capital investments	Designated as held for trading	**39,702**	**39,702**	–	–
	n/a	**14,794**	**12,819**	46,395	45,166
Other assets	Loans and receivables	**2,463**	**2,463**	–	–
Liabilities					
Accounts payable and accrued liabilities	Other liabilities	**$ 40,015**	**$ 40,015**	$ 36,874	$ 36,874
Accrued interest on borrowings	Other liabilities	**150,957**	**150,957**	127,547	127,547
Derivative-related liabilities	HFT	**169,281**	**169,281**	125,249	125,249
Short-term debt	Other liabilities	**6,838,350**	**6,838,350**	5,103,859	5,103,859
Long-term debt	Other liabilities	**4,128,305**	**4,338,844**	6,950,566	6,995,172
	Designated as held for trading	**2,332,660**	**2,332,660**	–	–
Other liabilities	Other liabilities	**3,031**	**3,031**	–	–
Guarantees	n/a	**71**	**71**	–	–

Certain 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 these instruments. For 2007-08, this valuation methodology applies to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, accrued interest on borrowings, other assets and short-term debt. For 2006-07, this valuation methodology also applied to temporary investments, derivative-related assets and derivative-related liabilities.

Carrying amounts reflect fair value for financial instruments designated as AFS, classified as HFT or designated as held for trading since these financial instruments are measured at fair value.

The fair value of financial instruments are determined based on published quoted market prices, valuation techniques with observable market inputs or valuation techniques with non-observable market inputs. The following methods of calculation and assumptions are used:

- Estimated fair value for temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent securities.
- The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Venture capital investments in shares that are traded on an exchange are valued based on the bid price as of the date of these consolidated financial statements. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, normally using market-based valuation methodologies. Estimated fair value for venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end equivalent terms to maturity.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by utilizing quoted market prices where available. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels, and estimations for other market-based pricing factors.
- Derivative fair values are determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and takes volatility levels, and estimations for other market-based pricing factors into consideration.
- The estimated fair value of the provision for insurance claims, included in other liabilities, is determined using present value techniques that incorporate assumptions about future claims experience, expenses, past experiences, interest rates, and a margin for adverse deviation.

The fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, some of which are based on non-observable market inputs. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

Non-observable market inputs used in valuation techniques are based on reasonable assumptions. The potential effect of using reasonable possible alternative assumptions for valuing these financial instruments would range from a reduction in the fair value by $61.0 million to an increase in the fair value by $58.1 million.

For structured notes designated as held for trading, which are included in long-term debt, the fair value change that is not due to changes in the risk-free interest rate is a positive $34.2 million.

18. Commitments, guarantees and contingent liabilities

Loan and venture capital commitments

As at March 31, 2008, loans approved but undisbursed amounted to $650.7 million (2007 – $890.8 million). These loans were approved at an average interest rate of 5.94 per cent (2007 – 7.25 per cent) and do not form part of the loans receivable balance until disbursed. The corporation also approved but did not disburse $1.3 million (2007 – $5.4 million) in venture capital investments. As many of these approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Operating commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles, investment management fees and community investments are due as follows:

(*$ thousands*)		
Amounts due:		
Within 1 year	$	**19,013**
From 1 – 2 years		**16,596**
From 2 – 3 years		**14,704**
From 3 – 4 years		**7,713**
From 4 – 5 years		**4,320**
Over 5 years		**8,910**
	$	**71,256**

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2008, is $4.1 million (2007 – $2.7 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within four years, usually without being drawn upon. As at March 31, 2008, an amount of $0.1 million (2007 – nil) was recorded in the other liabilities for these letters of credit.

Contingent liabilities

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require that the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the balance sheet as at March 31, 2008, or March 31, 2007, for these indemnifications and contingencies.

19. Interest rate risk

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

(*$ thousands*)	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 269,626	$ –	$ –	$ –	$ 211	$ 269,837
Effective yield (1)		3.34%					
Temporary investments	–	475,266	–	–	–	3,369	478,635
Effective yield (1)		3.94%					
Derivative-related assets (3)	–	–	–	–	–	111,649	111,649
Loans receivable – net	7,596,083	511,445	1,213,569	4,581,450	722,639	(157,691)	14,467,495
Effective yield (1)	5.99%	6.78%	6.56%	6.57%	6.75%		
Venture capital investments	5,161	–	7,647	13,400	–	28,288	54,496
Effective yield (1)	11.40%		13.51%	10.58%			
Other	–	–	–	–	–	88,344	88,344
Total assets	**$ 7,601,244**	**$ 1,256,337**	**$1,221,216**	**$4,594,850**	**$ 722,639**	**$ 74,170**	**$ 15,470,456**
Liabilities							
Non-structured borrowings	$ –	$ 6,072,433	$ 769,193	$ 1,498,528	$ 2,640,045	$ (13,544)	$ 10,966,655
Effective yield (1)		3.27%	4.01%	4.29%	4.51%		
Structured borrowings	–	1,122,878	1,270,887	44,714	5,000	(110,819)	2,332,660
Effective yield (1)		3.21%	3.33%	2.99%	0.00%		
Total borrowings		7,195,311	2,040,080	1,543,242	2,645,045	(124,363)	13,299,315
Accrued interest on borrowings	–	–	–	–	–	150,957	150,957
Derivative-related liabilities (2)(3)	6,260,000	(4,101,690)	(925,887)	1,178,186	(2,410,609)	169,281	169,281
Effective yield (1)	3.52%	3.43%	2.96%	4.72%	4.46%		
Other	–	–	–	–	–	74,145	74,145
Shareholder's equity	–	–	–	–	–	1,776,758	1,776,758
Total liabilities and equity	$ 6,260,000	$ 3,093,621	$ 1,114,193	$ 2,721,428	$ 234,436	$ 2,046,778	$ 15,470,456
Total gap 2008	$ 1,341,244	$ (1,837,284)	$ 107,023	$ 1,873,422	$ 488,203	$ (1,972,608)	$ –
Total cumulative gap 2008	$ 1,341,244	$ (496,040)	$ (389,017)	$ 1,484,405	$ 1,972,608	$ –	$ –
Total gap 2007	$ 358,019	$ (906,941)	$ 204,606	$ 1,777,135	$ 338,495	$ (1,771,314)	$ –
Total cumulative gap 2007	$ 358,019	$ (548,922)	$ (344,316)	$ 1,432,819	$ 1,771,314	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.
(2) Represents notional principal amounts on OIS, receive-fixed, pay-fixed and structured note swaps.
(3) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative-related liabilities.

20. Related party transactions

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

($ thousands)	**2008**	2007
Cash and cash equivalents	**$ –**	$ 34,905
Temporary investments	**39,874**	–
Accrued interest on borrowings	**20,287**	–
Short-term debt	**3,806,419**	–
Interest income	**3,299**	3,667
Interest expense	**20,287**	–
Other income	**16**	101
Administration expenses	**3,815**	3,424

The Government of Canada guarantees the borrowings of the corporation.

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

The corporation pays management fees to a corporation owned by the General Partner of the corporation's consolidated variable interest entity for the management of the corporation's venture capital investments and investment advisory services. These fees are included in administration expenses.

21. Segmented information

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

22. Comparative figures

Certain 2007 comparative figures have been reclassified to conform to the current year's presentation.

Glossary of terms

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

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

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

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

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

Available-for-sale (AFS) financial assets
AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, held-to-maturity investments or held for trading.

Basis point
One hundredth of one percent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

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

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

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

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

Debt-to-equity ratio
The level of debt expressed as dollars of debt per one dollar of equity before accumulated other comprehensive income.

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

Effective interest rate method
The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

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

Embedded derivative
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Enterprise
Specific type of agricultural operation (dairy, cash crops, beef, etc.).

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

Fair value
The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

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

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.

Held for trading (HFT) financial assets or financial liabilities
HFT financial assets or financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or are derivatives, except for derivatives designated in effective hedging relationships; or are financial instruments designated upon initial recognition as HFT.

Held-to-maturity (HTM) investments
HTM investments are non-derivative financial assets with fixed term to maturities, fixed or determinable payments and for which the corporation intends and is able to hold to maturity.

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

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

Interest expense
Expense to the corporation incurred on debt.

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

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

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

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

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

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

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

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

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

Other comprehensive income (OCI)
Represents unrealized gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of shareholder's equity called Accumulated Other Comprehensive Income (AOCI).

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

Principal not due (PND)
The principal balance owing on loans. PND is a useful measure of growth between business lines, geographic areas and enterprises. It excludes items such as arrears and interest accruals that are normally included in loans receivable.

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

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

Return on equity (ROE)
Net income expressed as a percentage of average equity before accumulated other comprehensive income.

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

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

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

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

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

FCC office locations

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

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

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

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

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

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

New Brunswick
Grand Falls, Moncton, Sussex, Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

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