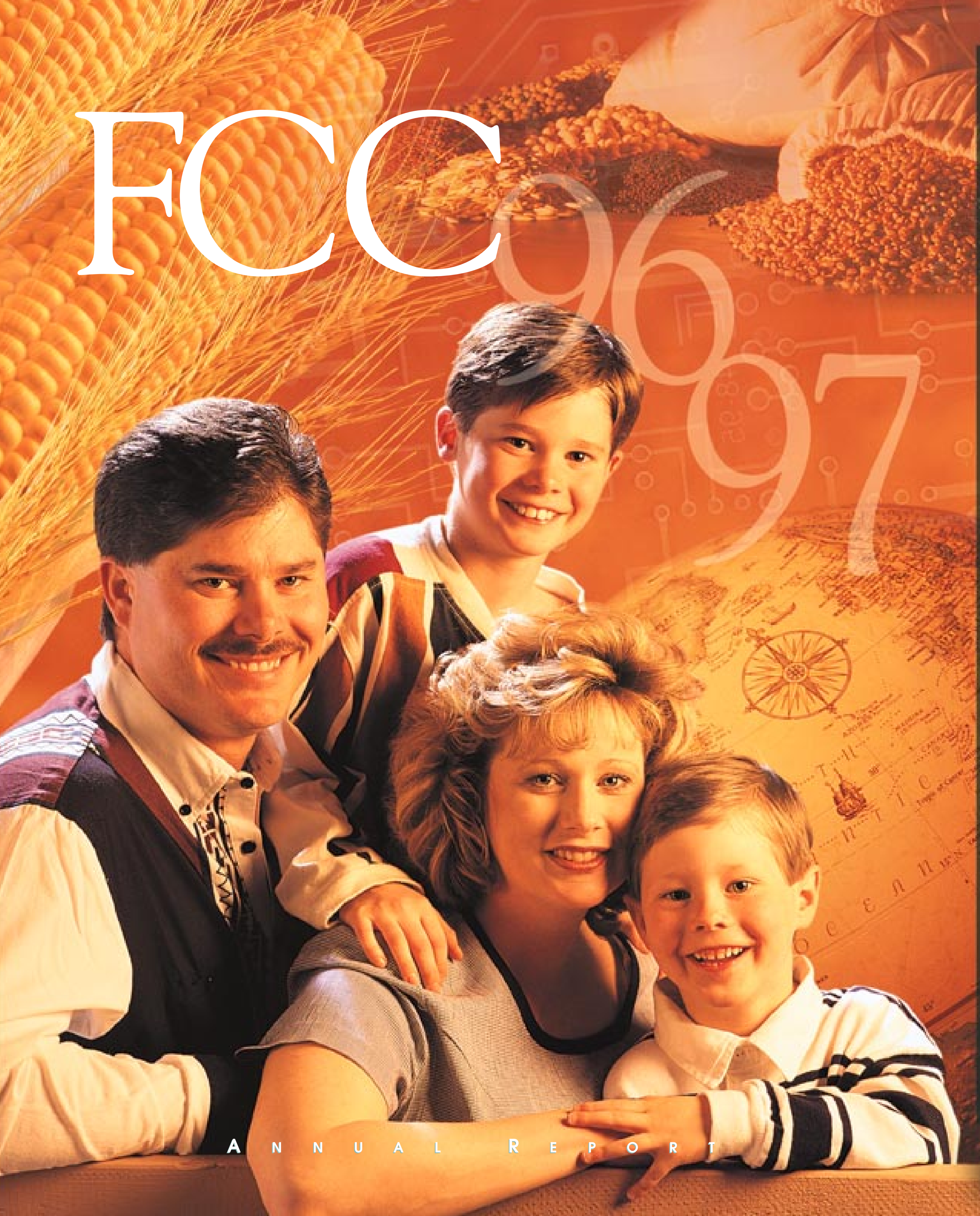
# FCC 96 97

ANNUAL REPORT



## Vision

To be Canada's first choice for agricultural finance.

## Purpose

To enhance agricultural growth in Canada by providing specialized and personalized financial services to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are related to farming.

To serve as an effective delivery vehicle for federal policy on agricultural issues.

## Corporate Profile

Farm Credit Corporation (FCC) is a federal Crown corporation, reporting to Parliament through the Minister of Agriculture and Agri-Food. Established in 1959, FCC is Canada's largest agricultural term lender.

The Corporation is governed by a Board of Directors comprised of 10 directors, representing farmers and agricultural businesses from every province in Canada. Primary producers heading small and medium-sized operations form the majority of FCC's clientele. Under the *Farm Credit Corporation Act*, FCC offers a wide range of flexible financing solutions supporting farmer-controlled diversification initiatives and value-added agricultural operations beyond the farm gate. The *Financial Administration Act* provides for the direction, financial control and accountability of FCC and outlines its relationship with the Government of Canada. FCC delivers joint programs and services with government agencies and other financial institutions.

FCC has a loan portfolio of 65,318 accounts, valued at $4.7 billion. Approximately 800 employees serve clients from over 100 offices in farming communities across Canada. FCC's Corporate Office is located in Regina, Saskatchewan.

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Agriculture harnesses energy contained in plant and animal life, causing renewal and growth.

# the seed for farm credit is planted

This year marks the 70th year since the *Canadian Farm Loan Act* was passed, which formed the basis for agricultural lenders and farmers to jointly foster agricultural growth in Canada. Building a relationship of this kind takes plenty of listening.

In celebration of FCC's history of partnering with Canadian producers, we are pleased to present profiles of Canadian farmers who talk about their experiences in agriculture, and what they see for the future of the industry.

Berthe and Raymond Fréchette from Québec are now retiring after 50 years of building a successful farming operation and raising four children. They leave behind a legacy of prudence and sound judgement. Terri-Lynn and Roger Schmitz from Saskatchewan, featured on the cover, are looking forward to a future of farming with their children Dustin, 8, Colton, 5, and brand-new baby, Tiana Lynn.

> "... farmers provide the energy, the initiative and the talent."

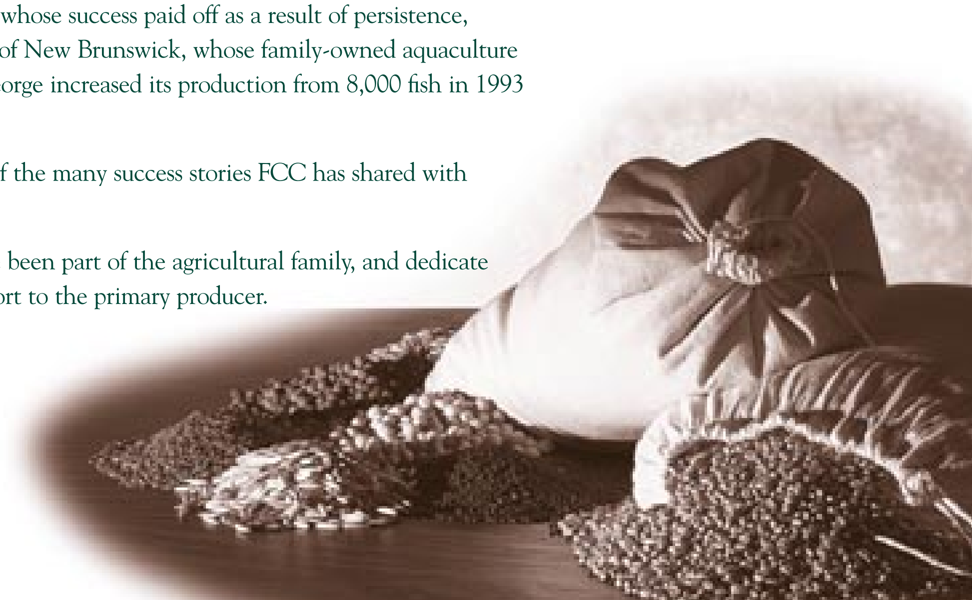
Paul Speck, an Ontario viticulturist and winemaker, says the path to the future is to control the end product by extending the shelf-life of the raw material beyond harvest. Jean-Marie Fortin in Mistassini, Québec, turned an obstacle into an opportunity, building a blueberry freezing plant in his community.

As the industry evolves, farmers continue to work together using technology and innovation to pave the way to the future. The Himmelsbach family is making unprecedented strides in cattle breeding through biotechnology. Larry Jewett from Mouth of Keswick, New Brunswick, designed a new container to ship cattle to overseas markets that were formerly out of reach.

Then there are those whose success paid off as a result of persistence, like Ken Brown, also of New Brunswick, whose family-owned aquaculture operation near St. George increased its production from 8,000 fish in 1993 to 320,000 fish today.

These are just a few of the many success stories FCC has shared with clients over the years.

We are proud to have been part of the agricultural family, and dedicate this year's annual report to the primary producer.



# a message from the chair

Traditionally, farmers worked the land, doing "whatever it takes" to sustain family and community. That tradition continues but the farmer's field is now of global proportions.

Consumer trends, increased competition and technology are drastically changing the agricultural industry, as well as influencing the Canadian economy as a whole.

Canadian farmers are virtually redefining the agricultural industry in seeking out new products and markets. FCC's challenge is to employ our industry knowledge to be at the leading edge of agricultural finance to assist that process.

FCC must continue to change and grow as well. In meeting that challenge, we are inspired by the primary producer, from a farmer in New Brunswick who developed specialized containers for shipping cattle overseas, to the young family featured on the cover who are diversifying their operation to ensure their children will have a future in farming.

These stories, and the others featured in this annual report, illustrate an optimism in the future of agriculture, which is confirmed by FCC's record number of agricultural loans made last year.

Lending activity in 1996/97 grew to $1.4 billion compared to $1.0 billion last year. The net result is $4.7 billion in total loans outstanding to Canadian farmers and agribusinesses, a 15 per cent increase. FCC's portfolio now represents approximately 16 per cent of total agricultural term debt in Canada.

## FCC and Agriculture Prepare for the Next Century

In our public policy role, we serve the borrowing requirements of agriculture through good and bad times. A financial institution cannot lend money without incurring some losses. As FCC is solely focused on agriculture, we must balance our single-industry concentration by having a geographically diverse portfolio, spread throughout the various segments of agriculture and agribusiness, to mitigate risk and ensure long-term sustainable profitability. By building its capital base, FCC will continue to keep pace with the financial needs of a growing industry.

The Corporation financed growth during a year of tremendous change. FCC restructured the Corporation and re-engineered lending processes,

"The next CEO will lead the

committing approximately $40 to 50 million over five years to a major re-engineering program, to ensure that our internal environment reflects the transformation occurring in the worlds of finance and agriculture. FCC's goal is to diversify service delivery to address the individual needs of customers. The Corporation invested $9.7 million during the 1996/97 fiscal year, the first year of the project.

be a time when change ceases. We are not surprised by change. We expect it and work to help our cus

In This Report...



…omers take advantage of it • The tradition continues but the farmer's field is now of global propo…

FCC continues to ensure financial tools are available by forging alliances with other businesses, financial institutions and governments. FCC and the Business Development Bank of Canada (BDC) have piloted a customer referral service. We have formed alliances with other financial institutions to offer joint services to farmers. On behalf of Agriculture and Agri-Food Canada, we deliver a number of programs developed to support a strong, vibrant agricultural sector in Canada.

“Holding our track record as a measuring stick for the future, we are confident we can meet future challenges.”

C. Gerald Penney stepped down in December 1996 after shepherding FCC through the difficult financial terrain of the last decade to the profitable organization of today. The next Chief Executive Officer will focus the vitality and expertise of the Corporation on the needs of the agricultural industry at a pivotal point in history; both the industry and the Corporation have hurdles and challenges to overcome in taking advantage of changes.

Corporation into the future.”

Holding our track record as a measuring stick for the future, we are confident we can meet future challenges. Our financial results are the best evidence of FCC staff's commitment to our customers and the Government of Canada. FCC is reporting its seventh consecutive year of profitability with net income of $40.6 million. In addition, a dividend of $2.7 million was paid to the Government of Canada on September 30, 1996. This is the second year in which FCC paid a dividend, bringing the total to $6.7 million to date since 1995.

Over the last five years, FCC has seen a steady increase in demand for its services by Canadian farmers and agribusinesses. FCC is developing plans tailored to new and expanding farmers, which we expect to launch in 1997/98. The $50 million in additional capital, recently announced by the federal government, will contribute to the Corporation's ability to develop products and services to meet the financial needs of a growing industry.

There will never be a time when change ceases. We are not surprised by change. We expect it and work to help our customers take advantage of it.

*Respectfully submitted on behalf of the Board of Directors and Farm Credit Corporation.*

Donald W. Black

*Chair, Board of Directors*
*Acting Chief Executive Officer*

# changing

## Leaving a Legacy of Prudence and Sound Judgement

Over the century, farmers have witnessed radical changes – from the days when electricity was a novelty and the invention of the power take-off and the hydraulic lift revolutionized farming, to the age of satellite dishes and web sites.



Berthe and Raymond Fréchette have lived those changes over the past 50 years on their farm near Saint-Paul, Québec which began as 159 acres in 1948 and now spans 476 acres, worth more than $2 million.

Over the years, they have been involved in hog production, dairy cows, and a 2,200 bucket tap-sugar-maple operation. Farmers today call this diversification. Back then, it was tagged "doing what it takes."

"I thought my hogs were twice as profitable as my dairy cows, until I undertook a study from 1951 to 1953 which proved the opposite," says Raymond. Since then, the operation's focus has been on milk production and raising purebred registered Holsteins. They bought milk quota as their production grew and today, it is greater than 1,500,000 pounds (66 kilograms of fat content per day). Starting with five purebred Holstein heifers in 1962, they now have over 200 head.

The couple is looking forward to retiring, but not without a sense of satisfaction of their family's accomplishments, including three sons and a daughter. In 1966 they were awarded the silver medal, the *Ordre du mérite agricole*, a prestigious award of merit in agriculture. In 1971, the Fréchettes won the gold medal and were named Farmer of the Year.

*Their secret? Prudence and sound judgement.*

## Taking a Leap of Faith

Terri-Lynn and Roger Schmitz do their banking by telephone and pay their bills by computer from their farm near Central Butte, Saskatchewan. Their children, Dustin, 8, Colton, 5, and newborn baby, Tiana Lynn, have a world of information at their fingertips via the Internet. The Schmitz family is using today's tools to preserve a 74-year family farming tradition.

Roger believes learning from the past and diversifying is the way to do that.

A pilot for 10 years, Roger is venturing into crop spraying to complement their cash crop and cattle operation. He says spraying is a vital part of the growth process, pointing to approximately 10 years ago when grasshoppers literally mowed through fields.

"A lot of farmers lost a lot of money," he says. "If there had been a plane in the area, it might have helped the situation."

In his research over the past eight months, Roger also discovered aerial fertilizing is another new avenue to be explored. Top-dressing cereal grains with nitrogen before the flowering stage yields a bigger pay-off and better quality. He plans to experiment this year, as long as the weather cooperates.

"We're doing this for more security and to be able to subsidize the farm income," Roger says, adding he hopes someday his children will be the next generation of farmers.

"It really is a good life, and worth hanging on to," adds Terri-Lynn. "There's no better life than harvesting a crop, calving cows and raising kids."

# times

# how FCC measured up in 96/97

## 1 Objective: To manage the change process to become "operationally excellent."

Results speak to customers, no matter what the business. And processes are at the heart of every business. FCC embarked on a re-engineering project in January 1996 to examine all aspects of our lending processes.

In order to phase in costs and manage employee ability to absorb change, our goal in 1996/97 was to employ existing technology to make significant short-term improvements to lending and loan administration processes. We created specialized processing centres to support the "behind-the-scenes" journey of a loan from analysis to disbursement. Our regional sales office structure was dissolved and reorganized around strategically located corporate functions. Because we recognize that our presence in farming communities is at the core of our purpose, we have kept the same number of offices across Canada throughout the changes.

Our investment in technology will help us achieve continual customer service improvements in the years to come. We are currently building a Customer Service Centre to give clients another channel to access FCC's services. We are rebuilding our databases and systems to enable staff to answer customer account inquiries with greater speed and accuracy, and tailor our services to individual needs.

Each change is designed to free up field staff from administrative duties, allowing them to spend more time with clients, while retaining the authority to manage each account personally.

Managing the change process, and maintaining the high standard of personal service our clients expect, has been a real challenge. Everything from moving 65,000 files, involving employees in redesign and providing cross-country training has taken place during a very short period of time. Although there have been a few incidents where we could not deliver services in the time frames our customers

> "Everything we are changing has to pass one test: will it deliver the results that the customer wants?"
>
> *– Russ Holm, Executive Vice-President, Operations*

are accustomed to, we have been able to keep such occurrences to a minimum. The patience and understanding shown by our loyal customers in these situations has been greatly appreciated. The changes are being closely monitored. We are actively seeking feedback from field staff regarding what works well and what requires improvement.

"Today's customers want to deal with somebody who knows them and their business and has flexible products, services, delivery channels and competitive prices." – *Don Jackson, Vice-President, Marketing & Communications*

*1967*

*Number of Loans Approved* **11,238**

*Amount of Loans Approved* **$209 million**

*Average Amount of Loan* **$18,600**

## 2 Objective: To develop marketing strategies that promote portfolio growth in order to achieve financial objectives.

The click of a mouse. That's all it takes to access financial markets on the other side of the world, borrow funds or purchase equipment. Today's customers demand immediate service with instantaneous results.

Marketing involves the transfer of goods and services to our customers. Ideally, every decision at FCC should be made with consideration of how it affects the customer.

FCC is undergoing a complete restructuring and transformation of business processes, to enhance relationships with customers by giving them service when and how they want it. That may mean a call from the field, completing transactions over the phone or through the computer in the middle of the night, or a personal visit from an FCC Credit Advisor to discuss new plans.

A formal evaluation of sales training offered to staff in 1995/96 showed that progress has been made towards growing a market culture at FCC, with the goal of providing the right products and service to the right customer at the right cost. A new marketing research division will actively seek feedback from our customers and the agricultural industry on FCC products and services, to ensure we are meeting and exceeding customer expectations.

## 3 Objective: To develop an effective human resource strategy designed to provide employees with the training and support needed to achieve corporate objectives.

FCC's human resource strategy ensures an environment where employees receive the training and support they need to provide excellent customer service.

A thorough review of our compensation system culminated in the development of a new system that will better reward and encourage the results and behaviors that the Corporation needs to serve clients. The new system, approved by FCC's Board of Directors in January 1997, features performance rewards based on individual, team, and corporate performance.

"Investing in employees to help them realize their full potential is essential to the achievement of corporate objectives."

– *Janet Wightman, Assistant Vice-President, Human Resources*

The organizational changes undertaken in 1996/97 challenged employees, as they adapted to new work processes, structure and technology.

A Transition Team formed early in the restructuring process has ensured regular staff communication and feedback. Written communication, an employee

to customers, no matter what the business. All processes are at the heart of eve hotline and face-to-face meetings between managers and staff in the new structure kept staff informed as the changes progressed.

Staff is learning the new processes through ongoing technical training, which includes a certification program in the skills needed to work with the new loan accounting system. Education on managing change and developing personal resilience is helping staff with their transition to new systems and new job responsibilities.

Regional office staff was the first group to be offered corporate-wide career development training as it was most affected in the Corporation's restructuring. Managers received training in coaching employees through career development. Participant feedback was positive and the program will continue to be offered in the next fiscal year to all employees.

## 4 Objective: To achieve a rate of return on equity to ensure the Corporation's ongoing financial viability.

Alongside client-driven growth, FCC's portfolio quality and financial performance continued to improve during 1996/97. FCC's return on equity (ROE) of 9.3 per cent continues to be strong with the five-year average equalling 9.8 per cent annually. For fiscal 1996/97, FCC exceeded its ROE target of 6.5 per cent, and is well above the shareholder's long-term cost of capital.

This strong ROE has not been achieved at the expense of other financial goals. Indeed, FCC surpassed its lending projections, improved the quality of its loan portfolio and achieved a better-than-planned capital structure in spite of increased expenses necessary to position the new FCC service channels.

Progress continued ahead of plan toward the $5 billion in revenue-generating assets by March 31, 1999. The loan portfolio, FCC's largest asset, grew to $4.7 billion. FCC's 1996/97 net income of $40.6 million marks seven consecutive profitable years. This solid performance helped to achieve a debt-to-equity ratio of 10.0:1, compared to the target of 10.6:1.

FCC's financial progress is in line with its long-term goal of financial sustainability. In 1996/97, FCC's staff made a record number of loans. We were able to manage our loan margins at levels that had not been seen in six years. We also increased the cost effectiveness of our risk management strategies and sought less costly sources of funds through enhanced structured debt issues such as our equity-index linked notes. FCC's status as a Crown corporation provides us with a strong credit rating comparable to the Government of Canada's domestic credit rating which is attractive to investors worldwide.

> "Liquidity and long-term financial backbone are necessary to support significant service delivery improvements: FCC has that."
>
> *– Marie-José Bourassa, Vice-President & Controller*

### Canada – the "Promised Land" for Agriculture

**1908** The government embarked on the "promised land" campaign to sell Canada as a land rich with resources, prime for agriculture. Experimental farms were established to demonstrate that farming could be profitable. The phenomenal growth in agriculture in Manitoba, Saskatchewan and Alberta was encouraged by a steady demand for wheat and flour in western Europe. Harvests were abundant. Wheat prices reached $2 per bushel during World War I – equivalent to $20 today.

**1927** *Canadian Farm Loan Act* received royal assent in response to farmers' need for long-term credit. The Canadian Farm Loan Board (CFLB) was established in 1929.

### 1929 to 1939 The Great Depression Grips Farmers

"In the large majority of cases where foreclosure proceedings were instituted during the year, borrowers had already, through the action of other creditors, lost the stock and equipment necessary to operate the mortgaged farm property successfully, or, due to a heavy accumulation of other debts, had felt themselves unable to continue with farming operations."

*– 1932/33 CFLB Annual Report*

**1934** The *Farmer's Creditors Arrangement Act* was introduced to manage farm debt.

*1972*

*Number of Loans Approved* **4,035**

*Amount of Loans Approved* **$114.7 million**

*Average Amount of Loan* **$28,430**

With the approaching end of the Commodity-Based Loans Program, it made good business sense for many of our customers to take advantage of the gradual decrease in major commodity prices and opt out of the program before maturity. In accordance with our Terms of Agreement with Agriculture and Agri-Food Canada, early conversions have accelerated income recognition for FCC to the tune of $19.6 million in 1996/97.

These enhanced revenue streams have been used to create value for FCC's staff and customers, by funding the corporate restructuring and the acquisition of new technology, which cost approximately twice what had originally been estimated. Changing an organization's delivery structure without service disruption is a daunting task. Fortunately, our favorable financial position gave us the freedom to pursue this organizational change at the pace required in 1996/97.

## 5 Objective: To be the employer of choice by making communication everyone's business.

Communication is an integral part of FCC's business relationship-building philosophy. More than just selective information exchange, communication means sharing business activities and news with staff in a timely, efficient and meaningful way.

Achieving this kind of open communication presents a particular challenge in an environment where nearly 800 staff work in some 100 offices in two official languages across Canada. To help achieve this goal, we have begun incorporating communication goals into the business objectives of individual divisions and managers' performance plans.

> "For communication truly to be everyone's business, it must permeate the very culture of FCC."
>
> *– Kellie Stevens, Assistant Vice-President, Communications*

FCC implemented a cascading communications program in 1996/97. Managers are encouraged to communicate news to staff in face-to-face meetings to facilitate two-way dialogue. The Communications division regularly conducts cross-country telephone surveys to measure awareness and understanding levels, and to record questions and concerns. Actively soliciting employee feedback has allowed management to respond quickly to concerns and information gaps.

To improve understanding of the changing corporate environment and to support verbal communication, FCC introduced a new publication, *Discover*, which is devoted entirely to issues associated with restructuring the Corporation.

With the goal of further enhancing communication, managers of all corporate functions now participate on the Corporation's Senior Management Team.

### Media Coverage

FCC's media exposure for the 1996/97 fiscal year more than doubled the level attained in 1995/96. Advertising value jumped 16 per cent, rising to a level of nearly $790,000, and audience exposure increased 125 per cent, reaching nearly 64 million newspaper readers.

Coverage of FCC initiatives and performance was substantially higher profile this year than last, mainly due to pick-up in wider-circulation dailies. Print and broadcast coverage featured a variety of major issues throughout the year, including FCC's role in the 4-H Scholarship Awards Program, the federal budget announcing a funding boost, the Corporation's mandate, the farmland values report and the significant increase in FCC's lending volume.

In addition to raising its media profile, FCC improved the quality of its coverage, registering a high level of positive coverage and very little criticism, especially in the last quarter.

## $50 Million Capital Injection

The federal budget of February 18, 1997 announced a $50 million capital injection to FCC. The Corporation is required by the *Farm Credit Corporation Act* to keep its debt-to-equity ratio at or below 12:1. The capital injection will strengthen FCC's capital structure and enable the Corporation to lend an additional $400 million at a time when it is faced with ever-increasing demand for its services. By investing an additional $50 million in FCC, the government has shown its support for what the Corporation is doing to enhance access to capital for primary producers and agribusinesses to help them get started, grow and diversify.

"Strength in rural Canada is vital to our national well-being. Agriculture must have access to a modern and tailored portfolio of financial tools and services, to add value, diversify and grow." *– Ralph E. Goodale, Minister of Agriculture & Agri-Food*

## 6 Objective: To work with other government agencies and departments to fulfil FCC's public policy role.

In fulfilling the Corporation's role as an agricultural lender, FCC serves as a delivery vehicle for government programs to enhance Canadian farms, agribusiness ventures and farming communities.

In spring of 1996, FCC became an eligible financial institution under the Net Income Stabilization Account (NISA) program of Agriculture and Agri-Food Canada. Under NISA, farmers were given until May 31, 1997 to choose an institution to hold their NISA accounts.

FCC becomes the default financial institution on June 1, 1997. As of March 31, 1997, FCC had received $17.6 million dollars in NISA contributions from 2,656 clients.

FCC will continue to develop new business alliances with other private and public sector organizations to enhance the Canadian farmer's access to financing.

"FCC is committed to sharing information with industry groups and the federal government to support strategic and policy decisions that will benefit Canadian agriculture and provide support where gaps exist."

*– Max Pierce, Executive Vice-President & Chief Economist*

### Post-depression mind-set presents challenge for growth

"One has to keep in mind that at this period in time, society had a very different outlook on the borrowing of money. It was considered more or less sinful for an individual to borrow on any scale. Appraisers had to be very careful because if the neighbors learned that the Farm Loan Board appraiser had called on a farmer, he was automatically considered to be in serious difficulty."

*– John McIntyre, former CFLB appraiser & former FCC Loans Officer.*

**World War II** Recovery begins; need for long-term credit prompts action.

**1944 to 1951** Veterans Land Administration provides most important single source of farm credit.

# FCC responds to Dynamic Marketplace Gaps

"FCC is successful in identifying financing gaps in the agricultural sector because of its unique focus on agriculture," says Max Pierce, Executive Vice-President & Chief Economist. "In the delivery of financial services, FCC complements the private sector through the identification and servicing of dynamic marketplace gaps."

**Fact** FCC specializes in agriculture-related lending. Our staff and our organizational culture are oriented toward agriculture.

**Fact** FCC focuses on innovative products geared specifically for agricultural clients.

**Fact** FCC maintains a continuous lending presence in agriculture in good times and in bad.

**Fact** FCC focuses on the needs of smaller family operations.

**Fact** FCC has a clear focus on improving access to capital for the agricultural industry.

**Fact** FCC exerts a competitive influence in the financial marketplace for the benefit of farmers and agribusinesses.

**Fact** FCC serves a public policy role as a delivery agent for government programs targeted toward agriculture.

A gap in the marketplace can be defined as the interval between perceived and realized opportunities. Closing a gap enables a plan to become reality. Canadian agriculture is dynamic and often, as current gaps are addressed, new ones emerge.

**Size Gap** *Costs of preparing and assessing business plans for financing proposals are much the same for small transactions as large ones; therefore, small commercial loans are often seen as unprofitable.*

It is evident FCC's focus is the family farm, considering over 80 per cent of FCC accounts are less than $100,000. Through re-engineering, the Corporation is improving service delivery to better serve smaller operations.

**Knowledge Gap** *A lack of knowledge about a sector or specific operation often results in a reluctance to finance low-asset firms developing new technologies or new export markets.*

FCC has a high degree of agricultural expertise and is, therefore, better equipped to provide its clients with up-to-date industry knowledge. Farm clients have singled out FCC as an institution knowledgeable about their financial requirements and prepared to work with them to address their needs.

To decrease the knowledge gap between other financial institutions and the agricultural sector, FCC has entered into alliances with government and private lenders.

The Corporation also helps the government address the knowledge gap by delivering the Business Planning for Agri-Ventures program which is designed to assist operators with the necessary business planning expertise in the development of a new enterprise.

**Flexibility Gap** *Flexible repayment terms are often not available to match the irregular cash flow of businesses.*

Because of its seasonal nature, the agricultural industry requires added flexibility in loan products and terms. In businesses where sales are concentrated in certain periods of the year – such as greenhouses, aquaculture operations and cattle feeder operations – FCC works with the client to match loan payments with the operation's cash flow. The most recent example is FCC's Plant Now-Pay Later loan, which delays payments during the developmental stages of grape production.

**Risk Gap** *Lending institutions are often unwilling to provide high-risk loans, even at interest rates which reflect the higher risk.*

As FCC specializes in agriculture, and has staff who are particularly knowledgeable about this sector, the Corporation has developed products to support risk management. FCC's Shared-Risk Mortgage, which cushions the impact of volatile interest rates and FCC's participation in the Cattle Options Pilot Program (cOPP) are two examples. FCC, due to its specialization, is also in a strong position to assess the risk of various agricultural operations and therefore can lend to an enterprise which may be deemed "higher risk" by the financial marketplace.

## Alliances and Partnerships

Joint initiatives are becoming increasingly important in today's business world. By combining forces and pooling resources, organizations avoid duplication of services, share the risk associated with financing large-scale projects and devote more energy towards developing new services.

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Over the past few years, FCC has built a number of alliances with public and private sector organizations for the greater benefit of mutual clients. FCC shares office space and resources with the Alberta Agriculture Financial Services Corporation, and offers feeder and equipment financing programs through dealers, co-operatives and other suppliers.

During the past year, the Senate Standing Committee on Banking, Trade and Commerce made recommendations after studying "how the federal government's financial institutions, as a whole, function in relation to the private sector, the appropriate role for them to play and the kind of gaps that they are endeavoring to fulfil."

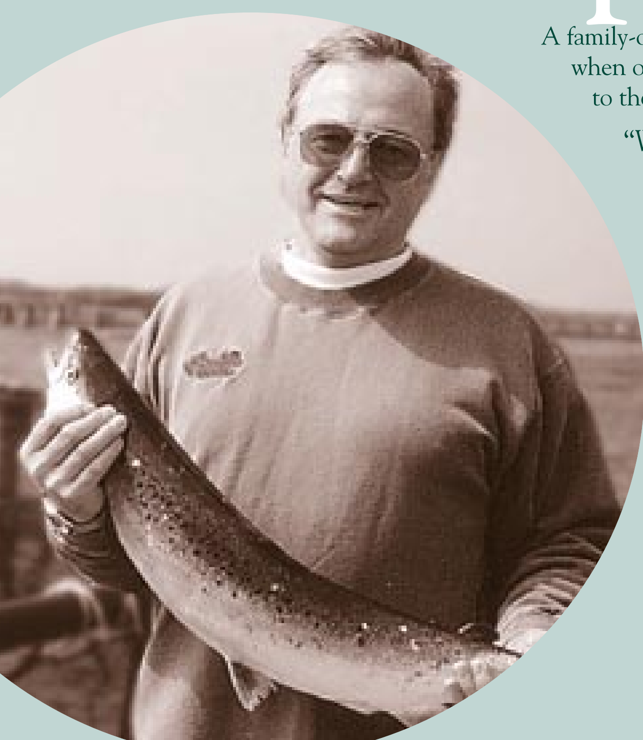
Among others, a recommendation was made to merge FCC with the Business Development Bank of Canada (BDC), and to merge the Canadian Commercial Corporation (CCC) with the Export Development Corporation (EDC).

The government's response noted that it chose to realize the shared goal of improved client service and to minimize overlap or duplication by focussing on customer needs rather than on institutional reform. These goals would be reached through increased collaboration among institutions and regional agencies. To ensure progress continues in this direction, the government established the Council of Crown Financial Institutions.

FCC and BDC have since partnered to offer joint financing to a number of agribusiness and rural development initiatives, and have established a customer referral network.

# Aquaculture Operation

## Catching Headlines



A family-owned aquaculture company, Ross Island Salmon, made headlines this year when owner Ken Brown travelled to the mainland to deliver a $250,000 cheque to the FCC office in St. George, New Brunswick.

*"We would probably have had to go in with a large company and lose control. That is why we are here today," Brown told the reporter. "We want to thank these people."*

Brown started the business in the fall of 1993 with 8,000 fish. The initial venture was funded by a bank, but after the first $500,000, the company was unable to obtain further financing to expand.

That was when Brown visited Ed Giles, FCC Credit Advisor. In 1995, the company went to FCC to add two 100-metre cages. The operation has grown to 320,000 fish. With the help of the Fisheries and Oceans Biological Station in St. Andrews, Brown is diversifying into sea urchins for export to Japan.

# management discussion & analysis

## Operating Environment

In a rapidly changing world, there are two constants: technological innovation and customer service.

In This Section …



In an intensely competitive environment, driven by demands for consumer-oriented products, today's successful farmers not only produce agricultural product, they spot trends, seek opportunities, and explore markets.

Information available through technology has opened up possibilities, but it has also increased competition. The window of opportunity can be small; farmers must be able to turn on a dime as they move their product from the farm to the table. And they must turn at exactly the right time.

As an agricultural lender and an agent of public policy for the Canadian government, FCC is challenged by the same operating environment as the agricultural industry. We strive to shape and influence the global offering of financial services in Canada and provide farmers with the tools to meet their objectives.

> "In 30 years, I've never seen a time when there have been more opportunities in agriculture than today."
>
> – *Russ Holm, Executive Vice-President, Operations*

Several factors are contributing to this explosion of opportunities. World population is expected to double by the year 2020, creating an increased demand for food production. Experts estimate that world cereal production must increase by 2.5 per cent per year to keep pace with population and consumption patterns. Biotechnology will play a role in plant and livestock production to meet the demands for food production, as well as for the creation of "designer" foods, such as red pork for the Asian market.

Agri-food exports have risen from $13.3 billion in 1993 to $17.3 billion in 1995. The Minister of Agriculture and Agri-Food has set a goal to increase exports to at least $20 billion – or 3.1 per cent of the total world agri-food trade by the year 2000. Canada requires exports of $23 billion to achieve its traditional share of agricultural exports.

Bulk commodities continue to be the main thrust of Canada's exports, accounting for 72 per cent of total exports in 1995 with processed and value-added products accounting for the remaining 28 per cent. As a country, we must aim to increase the percentage of value-added exports compared to bulk commodities.

Cash crops make up the largest portion of FCC's $4.7 billion loan portfolio, followed by dairy, beef and hogs. Crops and dairy are expected to hold the dominant share of new lending.

> "A lot of changes have occurred in the agricultural industry – projections suggest the sector will become more involved in value-added products."
>
> – *Terry Craig, Vice-President, Risk Management*

Despite all these changes, it is interesting to note that the vast majority of our lending is still to traditional agriculture. For example, our largest loan is to a family-owned farm operation in western Canada.

Recent changes to Canadian agricultural policy have led to significant structural changes and presented new opportunities for exploration:

- the elimination of the *Western Grain Transportation Act* in 1995;
- branch-line consolidation which will see the number of prairie elevators decline from a few thousand to approximately 300 by the year 2000, to be replaced with inland grain terminals; and
- Feed Freight Assistance elimination.

"The agricultural sector is in a state of transition," says Holm. "In Canada, as some support programs have ceased, primary producers are looking to the world market to identify new opportunities."

The share of value-added products in world trade is expected to increase from 42 per cent in 1990 to 50 or 60 per cent by the year 2000. This trend means that in the future, entrepreneurial farmers will delve into processing, packaging and exporting the production of those who remain in the primary production sector. FCC must provide service to both primary producers and to those who add value to their products.

To ensure that both traditional and emerging markets receive the full attention and support that they require, the Corporation's lending operation was divided into two divisions: Farm Financing and Agribusiness and Agricultural Alliances.

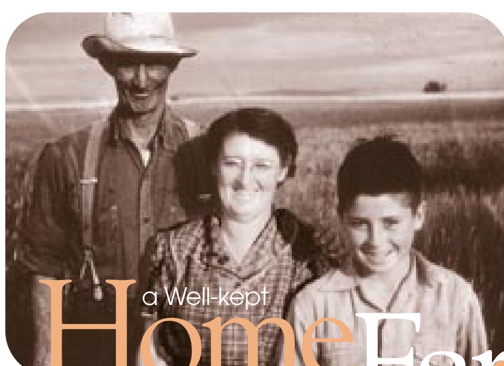
The Farm Financing division represents a majority of FCC's resources, including about 450 front-line staff who work with customers directly, and is devoted to traditional lending, such as cash crops, dairy, beef, and hogs.

"Our Farm Financing division focuses on traditional customers, the primary producers, who continue to be the cornerstone of Canadian agriculture and central to our purpose," says Marshall Stachniak, Vice-President, Farm Financing.

FCC created a second lending division, Agribusiness and Agricultural Alliances, devoting about 20 staff to serve the unique needs of the expanding value-added and diversification sector.

The new Agribusiness and Agricultural Alliances division is geared toward lending for the refining of primary agricultural products, and developing alliances with other organizations to ensure the future of the primary producer in Canada.

"For the primary producer to do well, value-added and agribusiness has to be vibrant and growing," according to Terry Kremeniuk, Vice-President, Agribusiness and Agricultural Alliances.



*• Alexander, Eugenie, and Larry Malone, on their farm near Shaunavon, Saskatchewan, 1958.*

## a Well-kept Home is a Sign of a Well-kept Farm

Appraisers were instructed to take note of the wife's activities on the farm when making an appraisal.

> *"The first thing to do… is to go into the house and if it is well kept, then you could assume that the farm would also be kept in good condition. The appraiser should remember that the applicant's wife is often more familiar with the financial end of the business than the applicant himself and if questioned tactfully can be of great assistance to the appraiser."*

**1945** *Farm Improvement Loans Act (FILA)* encourages banks to enter farm lending.

**1956** Farm organizations criticize CFLB policies and credit facilities.

**1959** *The Canadian Farm Loan Act* repealed to make way for long-term mortgage credit.

### July 18, 1959 – Farm Credit Act replaces CFLA

"… from the point of view of the long-term welfare of agriculture I believe this is one of the most important Bills which has been considered by the Canadian Parliament. The importance of credit used by farmers as a supplement to their own capital has increased almost continuously during the last 50 years."

*– D.S. Harkness, Minister of Agriculture on the passing of the Farm Credit Act.*

### Brigadier General T.J. Rutherford known as "Mr. Farm Credit"

"It is our duty to ensure that the Canadian farmer is well informed about the new credit services which the federal government has placed at his disposal. When a farmer comes to you with a request for a loan, your first job is to help him to discover whether or not he is eligible. You may be the first person with whom the applicant has had the courage to discuss credit … explain to him the difference between credit and debt. FCC credit is an investment for profit. Debt is money owing on a dead horse – all the difference in the world!"

*– Brigadier General T.J. Rutherford who served as FCC's first Chairman from 1959 to 1962.*

# living & working for the Community

Lasting relationships go far beyond profit margins and bottom lines. Lasting relationships are built on giving back to the communities in which we live and work.

"The award will greatly help broaden my studies, and is a significant gesture of faith to the Canadian 4-H program. The establishment of this award has done a great deal to promote excellence in the youth participating in the 4-H program, as well as raise the status of 4-H in the eyes of others."

• *Matthew Clark, of Baden, Ontario, is in his third year of a five-year engineering program at the University of Waterloo and was an exchange student at the Technical University at Braunschweig, Germany.*

## Recognizing Excellence Across Canada

Every year, FCC sponsors agricultural and business-related events from British Columbia to the Maritimes such as the Western Canadian Wheat Growers Annual Meeting, National Dairy Convention, Canadian Farm Women's Network Conference, Canadian Cattlemen's Association and the Canadian Federation of Agriculture. At the Royal Winter Fair in Toronto, FCC sponsors a public speaking competition for Canadian youth. During 1996/97, we contributed $375,000 to community events, education and youth.

As a major sponsor of such shows as the Farm Progress Show in western Canada and the Western Canadian Agribition, FCC recognizes excellence in the farming community. FCC purchased the Reserve Grand Champion Junior Steer entered at Agribition 1996 by 23-year-old Jennifer Fenton of Irma, Alberta; the Grand Champion Forage Sheaf created by Ryan Peters, 14, of Regina, Saskatchewan; and the prize-winning poinsettia grown by Parkland Greenhouses of Yorkton, Saskatchewan.

"By purchasing these items, we show our appreciation for those segments of the industry," says Wes Gordon, Assistant Vice-President, Market and Product Development.

FCC partnered with 4-H and FRAQ in Québec to create the FCC 4-H Scholarship Program which provides 16 scholarships of $1,000 to rural youth pursuing post-secondary education.

"The word 4-H in rural communities is pure gold and we are privileged to be a part of that, working with those who will be tomorrow's leaders," says Ted Young of FCC's Guelph office, and President-Elect 1998, Canadian 4-H Council.

"Farm Credit Corporation has taken a leadership role in support of educational development. It is certain that the impact of our partnership will be realized as graduating students move forward to take on leadership roles in business and community development."

– *Kelly J. Lendsay, MBA, Director of Aboriginal Business Programs, The Scotiabank Directorship, College of Commerce, University of Saskatchewan*

• *Terry Craig, Vice-President, Risk Management presented a cheque to Jennifer Fenton after FCC purchased the Reserve Grand Champion Steer.*

associated with financing large-scale projects, and devote more energy towards d

## Being Part of the Solution

FCC employees give generously in time, cash and payroll deductions to support the United Way and contribute to local community charities. In Moncton, for example, FCC staff members contribute food and necessities to families in need and raise money for a school breakfast program. Corporate Office employees in Regina take part in a Christmas Adopt-a-Family Program to extend a helping hand during a time that is difficult for some, giving gifts and a Christmas hamper. In addition, FCC donated computers to five single-parent families to help them with their studies.

Beyond the doors of FCC, our staff are out in their communities, to build strong communities and strong leaders of tomorrow.

- *FCC Vice-President & Controller, Marie-José Bourassa, presented a cheque of $3,000 to students at Monseigneur de Laval, a French-language school in Regina.*

## Bridging Two Worlds

Linda Okanee envisions a bridge that is both solid and flexible. It will be constructed of experiences from the past, knowledge of the present and a vision of the future. Its path will be paved with education and cultural understanding.

Okanee, a 33-year-old from Thunderchild First Nation in Northern Saskatchewan, is one of 20 students who entered the premier offering of the First Nations Master of Business Administration Program at the University of Saskatchewan in Saskatoon, to which FCC donated $50,000.

The MBA program is designed to provide a path that will lead Aboriginal business managers and leaders to future roles both in Aboriginal and non-Aboriginal communities. Okanee believes such a path is crucial to Aboriginal business development and leadership.

*"If I'm going to be an Aboriginal people leader, I don't want to lead them down the wrong way," she says.*

*"My father told us the key to success is education. You can help people to become self-reliant, not only as individuals, but as a community."*

# management discussion & analysis

1978

*Number of Loans Approved* ***7,066***

*Amount of Loans Approved* ***$558.2 million***

*Average Amount of Loan* ***$78,995***

## Operating Results

The year ending March 31, 1997 has been another solid performance for Farm Credit Corporation, producing strong financial results.

FCC reports a 15 per cent growth in loan portfolio, record loan approvals and disbursements, and products that continue to meet the needs of the changing agricultural marketplace. The management discussion and analysis will identify key operating results and compare them both to last year's performance and to corporate targets. Trends that significantly impacted on operations are also discussed.

## Lending Activity

### Volume of Business

During 1996/97, FCC approved a record 12,910 loans with a net value of $1.4 billion. This represents a 27 per cent increase in the number of loan approvals and a 36 per cent increase in the dollar value compared to 1995/96.

The average loan size was $108,700 as compared to $101,300 last year.

These results are a reflection of:

- the strengthened agricultural economy;
- strong commodity prices;
- a cash injection from Western Grain Transition Payments Program (WGTPP);
- interest rates which are at a 40-year low;
- a continued trend towards diversification;
- long overdue retooling for producers, replacing outdated equipment; and
- an optimistic outlook for the future of agriculture.

The majority of FCC loans are disbursed within three months of approval, and only as clients require the funds. Net loan disbursements totalled

Table A1

**1996/97 Key Lending, Real Estate & NISA Targets**

| $ Millions | Actual | Plan | % Variance from Plan |
|---|---|---|---|
| Net loan disbursements | 1,342.9 | 1,036.8 | 30 |
| Loan renewal rate (%) | 94.0 | 93.0 | 1 |
| Loans receivable | 4,687.0 | 4,512.3 | 4 |
| Loan loss factor (%) | 1.86 | 2.06 | (9) |
| Arrears | 29.4 | 32.6 | (10) |
| Real estate portfolio | 139.6 | 151.4 | (8) |
| NISA portfolio | 17.6 | – | – |

$1.3 billion, representing a 44 per cent improvement over 1995/96, and significantly exceeding the target established in the corporate plan by 30 per cent.

FCC offers renewals on maturing loans to all borrowers who demonstrate an ability and willingness to repay debt. During the year, extensions were offered to 99 per cent of FCC clients whose loan term matured. Of clients offered renewals, 94 per cent chose to remain with FCC, slightly exceeding our target of 93 per cent. These renewals represented 7,347 loans valued at $551.2 million.

**GOAL #1**

FCC achieved an interest margin/spread* of 1.80 per cent on new and renewed lending compared to our target of 1.75 per cent.

*based on transfer pricing assuming 100 per cent funding at benchmark rates.

The Corporation views this high percentage of renewals, virtually unchanged from last year, as a measure of client satisfaction and an indication that it is delivering products and services that meet the needs of the agricultural community.

## Loan Product Selection

During 1996/97 as in 1995/96, FCC clients were fairly evenly split in the selection of lending terms. Of new and renewed loans, 46 per cent of our clients chose an interest rate term of five years or more, while 54 per cent chose a term of less than five years. Management believes this reflects differing views on future interest rate trends.

As in previous years, lending activity was dominated by the traditional cash crop and dairy enterprises. We serviced a greater variety of enterprises, including aquaculture and value-added processing.

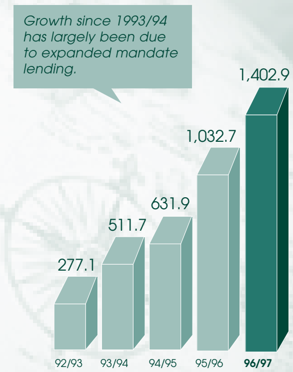
## Expanded Mandate Lending

FCC now serves a broader scope of agriculture-related and value-added ventures, as a direct result of the 1993 expansion in mandate. The expanded scope has not detracted FCC from supporting the primary agricultural producer. In 1996/97, 97 per cent of the Corporation's lending was to primary agriculture, consistent with the previous year. In 1996/97, expanded mandate lending represented 48 per cent of new lending, compared to 47 per cent last year and 38 per cent in the fiscal year 1994/95. Expanded mandate lending supports all FCC traditional (cash crops, dairy and commercial livestock) and non-traditional (aquaculture, abattoirs, seed cleaning and other value-added) enterprises.

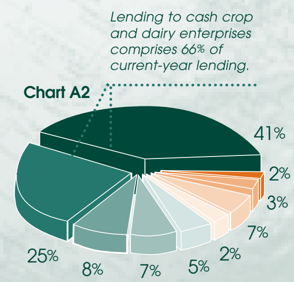
Expanded mandate activity has occurred predominantly in four provinces: Alberta, Saskatchewan, Ontario and Québec. This represented 80 per cent of expanded mandate loan applications and 77 per cent of dollars approved and is consistent with the overall lending patterns in these provinces.

FCC continues to receive applications for financing for value-added agricultural ventures which cannot be directly funded since they do not fall within the scope of the current mandate. To facilitate service to such clients, FCC pursues joint ventures, partnerships with other credit providers and alliances. For example, our alliance with a feeder cattle operation has allowed farmers to obtain short-term financing right on the auction floor. These agreements contribute to the strength and economic diversification of the Canadian agricultural community.

Chart A1



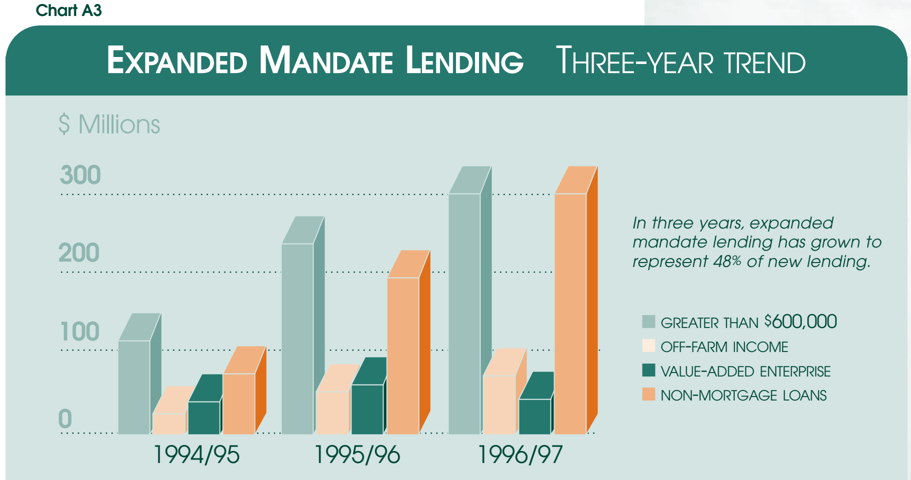

**Net Amount of Loans Approved**
($Millions)




**Current Year Lending By Enterprise**

- Cash crops
- Special traditional
- Value added
- Other
- Maple syrup
- Poultry
- Hogs
- Beef
- Dairy

Chart A3



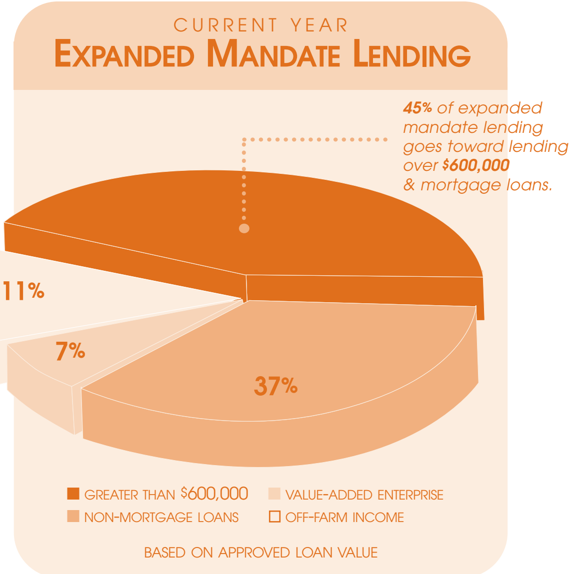
*1984*

*Number of Loans Approved* ***5,830***

*Amount of Loans Approved* ***$761.0 million***

*Average Amount of Loan* ***$135,763***

Chart A4




## Loans Receivable Portfolio

The 1996/97 fiscal year was the fourth consecutive year of portfolio growth, up $620.7 million from $4.1 billion at March 31, 1996. The March 31, 1997 loans receivable portfolio is at $4.7 billion, representing a 15 per cent year-over-year increase and surpassing FCC's target by four per cent.

Table A2

**Loans Receivable Portfolio at March 31**

| | 1996/97 | | 1995/96 | |
|---|---|---|---|---|
| **$ Millions** | **Number** | **Amount** | **Number** | **Amount** |
| British Columbia | 1,805 | 246.9 | 1,781 | 208.2 |
| Alberta | 7,696 | 605.0 | 7,176 | 491.8 |
| Saskatchewan | 21,336 | 1,066.9 | 19,438 | 966.7 |
| Manitoba | 7,718 | 431.0 | 7,303 | 392.9 |
| Ontario | 15,409 | 1,382.6 | 14,368 | 1,204.2 |
| Québec | 7,786 | 640.5 | 6,982 | 533.4 |
| New Brunswick | 1,837 | 143.8 | 1,755 | 125.9 |
| Nova Scotia | 517 | 61.4 | 353 | 43.5 |
| Prince Edward Island | 1,024 | 88.3 | 930 | 80.0 |
| Newfoundland | 190 | 20.6 | 164 | 19.7 |
| National | 65,318 | 4,687.0 | 60,250 | 4,066.3 |
| Allowance for loan impairment | | 165.4 | | 143.7 |
| Loans receivable, net of allowance for loan impairment | 65,318 | 4,521.6 | 60,250 | 3,922.6 |

GOAL #2

Portfolio growth is $620.7 million. Total growth of interest-bearing assets is $564.0 million compared to our target of $199.7 million.

The growth of the loans receivable portfolio during the past two years has been fairly dramatic, and has been responsible for keeping FCC on track towards reaching its target of $5 billion in revenue-generating assets.

This success is due to several factors:

- ongoing efforts to nurture relationships with existing clients and to establish relationships with new FCC customers;
- mandate expansion which allows the Corporation to finance a wider range of projects; and
- continuing strength and diversification of the Canadian agricultural community.

This level of lending activity has resulted in FCC increasing its market share to 15.8 per cent of the total Canadian agricultural debt market valued at $25.8 billion by Statistics Canada for the year 1995/96. This is an increase of 1.5 per cent from last year.

The market value of Canadian agricultural debt has remained quite stable over the years since 1986/87 when FCC held 21 per cent of the $24 billion of total debt outstanding. The decline in market share was due to legislative restrictions and the use of internal resources to resolve debt problems, brought about by a difficult economic environment and depressed commodity prices.

## Allowance for Loan Impairment

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

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

The allowance for loan impairment at March 31, 1997 was $165.4 million and reflects a $21.7 million or 15 per cent increase from $143.7 million at March 31, 1996. The percentage of the allowance to total loans receivable of 3.5 per cent remains essentially unchanged from the previous year. The related charge for loan impairment was $24.0 million compared to $12.1 million in 1995/96.

## Portfolio Quality

Credit risk is an inherent part of FCC's business. Prudent lending practices are followed to ensure that the credit quality of new lending is not sacrificed to increase lending volumes. Such practices are key to the long-term viability of FCC and ensure that the Corporation is not exposed to an unacceptable level of credit default risk.

FCC uses a risk factor to measure potential loss and manage risk on new lending entering the portfolio. The risk factor for loans approved in 1996/97 is 1.86 per cent of the net value of those loans. This compares favorably to a risk factor of 2.01 at March 31, 1996 and to FCC's 1996/97 target of 2.06. The risk levels vary by enterprise. Improvement over the previous year is largely due to greater diversity in the loan portfolio and the overall improved economic health of the agricultural economy.

Portfolio loan quality is also assessed by monitoring the level of arrears.

Two key measures of arrears are the total as a percentage of loan principal not due (PND) and the aging of arrears. Both have steadily improved over the past five years. Total arrears, which are defined as the principal and interest payments that are past due, are $3.2 million below plan, closing at $29.4 million, representing 0.6 per cent of PND at March 31, 1997. This is a slight improvement over last year's 0.7 per cent.

This reduction is partly due to the improved economy but also reflects FCC's commitment to work with clients in developing flexible and reasonable repayment options in times of difficulty.

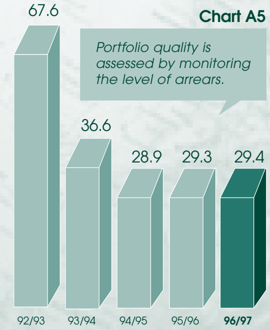
Arrears by geographic region reveal that the provinces of New Brunswick, Newfoundland and British Columbia possess the highest level of arrears as a percentage of PND, while the provinces of Québec, Saskatchewan, Manitoba and Nova Scotia demonstrate the lowest.

The difference in the level of arrears between geographic regions is not significant. Arrears are well managed in all areas of the country with no alarming trends evident in either of the geographic or enterprise categories.

**GOAL #3**

Our new lending YTD carries a loan loss rating of 1.86 per cent compared to last year's 2.01 per cent. That's quality improvement.

Chart A5




**ARREARS**
($Millions)

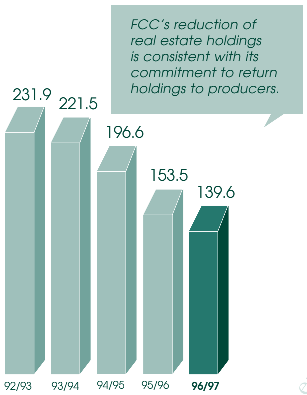

# Roadblock Becomes a Right Turn

Jean-Marie Fortin has been in the blueberry-producing business for more than 20 years, growing, purchasing, and shipping blueberries to a freezing plant in Maine, U.S.A. for local markets. Seven years ago, he hit what some would have considered a roadblock.

The freezing plant could no longer process his blueberries. Fortin decided to diversify, building his own freezing plant with help from FCC.

His company, Bleuet Mistassini, now employs 250 seasonal workers and an average of 70 year-round workers and handles 35 per cent of the blueberry freezing in Québec.

Chart A6




**Real Estate Portfolio**
($Millions)

## Lease and Real Estate Activities

FCC's Agri-Land division manages the land portfolio with the goal of leasing and eventually returning it to farmers, ideally former owners.

FCC has completed year three of the five-year national lease-back program for all Canadian farmers which allows participating farmers to buy back their land at any time.

At March 31, 1997, 96 per cent of the land held by FCC was leased, an increase from the 94 per cent leased at the end of 1995/96. Of those leased acres, approximately 96 per cent were leased back to former owners.

FCC has demonstrated its commitment by returning real estate holdings, acquired as part of the loan settlement process, to Canadian farmers.

FCC's sales of 77,582 acres to farmers totalled $17.8 million in fiscal year 1996/97. Although sales this year are significantly lower than last year's sales (218,000 acres for $42.0 million) they are 15 per cent higher than expected.

During the 1996/97 fiscal year, FCC completed its program of sharing the WGTPP payment with farmers. In fiscal year 1995/96, FCC agreed to rebate 25 per cent of the WGTPP payment to its tenants with long-term leases, as well as to pass on 100 per cent of the payment to tenants who purchased FCC-owned property prior to January 1, 1996. Significant sales of land holdings were finalized as a result of farmer response to this initiative. This program has now been completed, with FCC receiving $16.7 million and returning $6.4 million to Canadian farmers.

Of this year's total sales, 77 per cent were to former owners. Sales were offset by acquisitions of $3.9 million during the year which resulted in a closing real estate portfolio of $139.6 million and 823,841 acres. This is a reduction of $13.9 million from the closing real estate portfolio of $153.5 million and 901,423 acres, at March 31, 1996.

## Net Income Stabilization Account Program (NISA)

In May 1996, FCC became an eligible participating financial institution for the federal Net Income Stabilization Account (NISA) program.

At March 31, 1997, 2,656 clients had either transferred or invested $17.6 million with FCC. Approximately 85 per cent of clients have their funds in variable-rate accounts, with the rest in fixed-term products of one, three or five-year terms.

FCC's eligibility status under the NISA program originally raised concerns from some financial institutions who perceived this as a possible infringement into their traditional markets. FCC focuses on the underlying link between using these funds from producers to meet their financing needs. By investing NISA funds with FCC the producer is assured that these funds will be put to work within the agricultural community.

In November 1996, the Minister of Agriculture and Agri-Food Canada appointed FCC as the default financial institution for the NISA program. All Fund 1 NISA Accounts not administered by one of the eligible participating financial institutions (including FCC) as of May 31, 1997, will be transferred from NISA Administration to FCC. This will potentially result in transfers of 25,000 accounts with a value of $110 million to FCC by August 1997.

Table A3

**NISA Portfolio as at March 31, 1997**

| $ Millions | # of Accounts | Total Value $ |
|---|---|---|
| British Columbia | 60 | 0.3 |
| Alberta | 370 | 2.1 |
| Saskatchewan | 944 | 6.6 |
| Manitoba | 218 | 1.3 |
| Ontario | 940 | 5.8 |
| Québec | 9 | 0.1 |
| New Brunswick | 15 | 0.2 |
| Nova Scotia | 40 | 0.3 |
| Prince Edward Island | 53 | 0.8 |
| Newfoundland | 7 | 0.1 |
| National | 2,656 | 17.6 |

Table A4

## Geographic Distribution of Arrears as at March 31

| $ Millions | 1996/97 Arrears | 1996/97 *PND | 1996/97 % of PND | 1995/96 Arrears | 1995/96 PND | 1995/96 % of PND |
|---|---|---|---|---|---|---|
| British Columbia | 2.6 | 242.8 | 1.0 | 2.1 | 205.7 | 1.0 |
| Alberta | 4.8 | 588.1 | 0.8 | 5.3 | 474.3 | 1.1 |
| Saskatchewan | 5.0 | 1,033.9 | 0.5 | 8.0 | 928.9 | 0.9 |
| Manitoba | 2.1 | 420.9 | 0.5 | 2.5 | 383.4 | 0.7 |
| Ontario | 9.3 | 1,362.8 | 0.7 | 7.5 | 1,198.2 | 0.6 |
| Québec | 2.1 | 632.8 | 0.3 | 1.5 | 532.6 | 0.3 |
| New Brunswick | 2.3 | 139.4 | 1.6 | 1.6 | 123.6 | 1.3 |
| Nova Scotia | 0.3 | 60.7 | 0.5 | 0.3 | 43.5 | 0.7 |
| Prince Edward Island | 0.7 | 86.1 | 0.8 | 0.4 | 79.0 | 0.5 |
| Newfoundland | 0.2 | 20.5 | 1.1 | 0.1 | 20.3 | 0.5 |
| National | 29.4 | 4,588.0 | 0.6 | 29.3 | 3,989.5 | 0.7 |

* *Principal Not Due*

y's successful farmers not

Table A5

## Lending Risk and Arrears by Enterprise at March 31

| $ Millions | 1996/97 Total PND | 1996/97 Risk Factor | 1996/97 Arrears as % of PND | 1995/96 Total PND | 1995/96 Risk Factor | 1995/96 Arrears as % of PND |
|---|---|---|---|---|---|---|
| Cash crops | 2,091.1 | 1.82 | 0.8 | 1,854.7 | 1.96 | 0.9 |
| Dairy | 1,131.5 | 0.42 | 0.2 | 1,025.9 | 0.56 | 0.1 |
| Beef | 402.6 | 1.95 | 1.6 | 367.5 | 1.73 | 1.5 |
| Hogs | 339.2 | 3.37 | 0.5 | 309.2 | 3.71 | 0.5 |
| Poultry | 240.8 | 0.26 | 0.4 | 203.7 | 0.46 | 0.3 |
| Value added | 73.7 | 6.13 | 0.9 | 25.9 | 5.48 | 0.0 |
| Special traditional | 68.5 | 3.69 | 0.9 | 48.7 | – | 1.0 |
| Maple syrup | 41.4 | 4.37 | 0.3 | 19.9 | – | 0.4 |
| Other | 199.2 | 3.80 | 0.9 | 134.0 | 4.46 | 0.9 |
| National | 4,588.0 | 1.86 | 0.6 | 3,989.5 | 2.01 | 0.7 |

Table A6

## Agri-Land Property Holdings at March 31

| $ Millions | 1996/97 Total # of Acres | 1996/97 # of Acres Leased | 1996/97 Book $ Value | 1995/96 Total # of Acres | 1995/96 # of Acres Leased | 1995/96 Book $ Value |
|---|---|---|---|---|---|---|
| British Columbia | 433 | 0 | 0.2 | 550 | 112 | 0.3 |
| Alberta | 11,279 | 8,796 | 3.7 | 12,856 | 11,203 | 4.2 |
| Saskatchewan | 771,187 | 743,410 | 123.1 | 844,014 | 794,175 | 134.9 |
| Manitoba | 37,274 | 36,924 | 8.1 | 39,935 | 35,513 | 9.0 |
| Ontario | 2,752 | 1,981 | 3.5 | 3,245 | 2,870 | 4.2 |
| Québec | 168 | 0 | 0.2 | 79 | 0 | 0.1 |
| New Brunswick | 191 | 0 | 0.2 | 484 | 189 | 0.8 |
| Nova Scotia | 548 | 0 | 0.6 | 251 | 251 | 0 |
| Prince Edward Island | 0 | 0 | 0 | 0 | 0 | 0 |
| Newfoundland | 9 | 0 | 0 | 9 | 0 | 0 |
| National | 823,841 | 791,111 | 139.6 | 901,423 | 844,313 | 153.5 |

## Financial Performance

Net income of $40.6 million for the year ended March 31, 1997 is 55 per cent better than the budgeted amount of $26.2 million, and is slightly higher than last year's net income of $40.4 million. This variance of $14.4 million over budget is a result of earning $23.9 million more net interest income than budgeted, $9.9 million higher net lease and real estate income, and $1.1 million more in other income. These improvements were offset by $10.8 million in higher-than-projected administrative expenses, unfavorable variances of $4.7 million in the charge for loan impairment and $5.1 million increase in income taxes.

Total interest income of $419.8 million for the year ended March 31, 1997, offset by interest expense of $278.1 million, produced net interest income of $141.7 million, which is 20 per cent above plan and a 35 per cent improvement over 1995/96.

This level of interest income was achieved despite lending rates that were on average 61 basis points, or $26.7 million, lower than anticipated on loans.

This unfavorable rate variance was offset by two factors: a favorable volume variance of $12.5 million, due to higher-than-planned average loans receivable of $132.5 million; and $19.6 million revenue earned from the early retirement of loans under the Commodity-Based Loans (CBL) program.

Total interest expense of $278.1 million is $24.3 million less than budget. This was accomplished as the Corporation took advantage of the funding opportunities available in a declining interest rate environment and as a result, achieved funding costs that were 75 basis points, $32.5 million less than planned. This favorable variance was offset by an unfavorable volume variance of $8.2 million on average loans outstanding.

*1989*

*Number of Loans Approved* **1,494**

*Amount of Loans Approved* **$102.9 million**

*Average Amount of Loan* **$92,444**

# Turning Corn into Fuel

FCC played a key role in financing a $153 million ethanol plant in Chatham, Ontario which will consume 15 million bushels of corn – eight per cent of Ontario's corn production – each year.

Through the National Biomass Ethanol Program (NBEP), which FCC administers on behalf of Agriculture and Agri-Food Canada, the Corporation joined a consortium of financial institutions to provide capital to Commercial Alcohols Incorporated (CAI) for construction of the plant.

The Corporation will provide a $31 million contingent line of credit if the Excise Tax exemption for ethanol is removed.

"The senior lenders financing the plant needed the line of credit through the NBEP to alleviate their tax risk concerns," says John Geurtjens, the account manager responsible for the NBEP in Ontario.

The plant is expected to be running by January 1998. It will produce 150 million litres of fuel ethanol and industrial alcohol, 127,000 tonnes of dry distillers grain used as high protein animal feed and 100,000 tonnes of carbon dioxide for use in food and beverage products. The plant will create 400 direct and indirect jobs during construction and 90 full-time jobs when in operation.


*Sod turning ceremony for Commercial Alcohols Incorporated*

## Table A7

### 1996/97 Key Financial Targets

| $ Millions | Actual | Plan | % Variance from Plan |
|---|---|---|---|
| Net income | 40.6 | 26.2 | 55 |
| Net interest income | 141.7 | 117.8 | 20 |
| Lease and real estate income | 0.4 | (2.8) | 114 |
| Administrative expenses | 84.1 | 73.3 | (15) |
| Administrative coverage ratio (x:1) | 1.56 | 1.38 | 13 |
| Administrative expense ratio (%) | 1.86 | 1.66 | 12 |
| Debt-to-equity ratio (x:1) | 10.0 | 10.6 | (6) |
| Return on equity ratio (%) | 9.3 | 6.5 | 43 |

Net interest margin for March 31, 1997 was 3.03 per cent, significantly above both the corporate plan target of 2.57 per cent and last year's margin which was 2.56 per cent. Had FCC not received the income from the conversion of the CBL loans, the net interest margin for the year would have been 2.61 per cent, a solid above-plan performance.

## Lease and Real Estate Income

At March 31, 1997, lease and real estate income was $.4 million, which is $3.2 million higher than plan and up $1.3 million compared to 1995/96. The improvement over budget and over last year's results is due to higher average lease rates and a reduction in the carrying cost of property due to lower interest rates.

Fiscal 1996/97 was the last year payments will be received from the Farm Debt Review Board, which ceased offering concessions effective March 31, 1994. At one time, lease concessions paid to FCC under this program were as high as $40 million per year.

Gains on the disposal of property are consistent with the increase in farmland values over the past three and a half years. These gains represent a partial recovery of substantial property write-downs incurred in prior years. For the year 1996/97, gains totalled $6.6 million, down from the $12.2 million earned in 1995/96 when property sales were significantly higher.

## Other Income, Administrative Expenses & Taxes

Other income for 1996/97 amounted to $6.5 million, exceeding last year's results by $1.7 million and surpassing FCC's target of $5.4 million. Comprised mainly of appraisal revenues, recovery of insurance administration costs and service fees, the increase in other income is a direct result of higher-than-predicted lending activity.

Total administrative expenses were $84.1 million for the year ended March 31, 1997 compared to $67.3 million a year earlier. This 25 per cent increase was the result of two factors. First, our ongoing costs of operations increased 11 per cent to help manage a 27 per cent increase in loan approvals. Secondly, the Corporation invested $9.7 million in the first year of a major re-engineering project.

(continued on page 26)

Chart A7

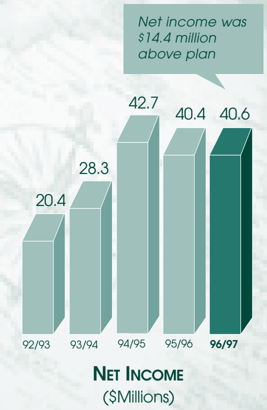



Chart A8

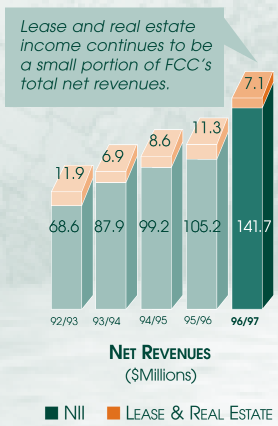



Chart A9

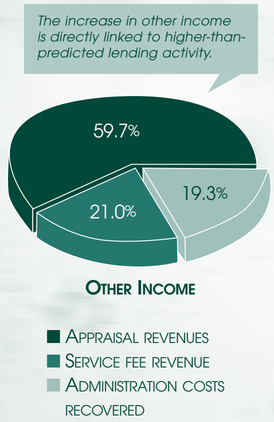


Table A8

## Net Interest Income

| $ Millions | 1996/97 Actual | 1996/97 Plan | 1995/96 Actual |
|---|---|---|---|
| Interest income | | | |
| Loans receivable | 406.4 | 400.9 | 357.5 |
| Investments | 13.4 | 19.3 | 22.0 |
| | 419.8 | 420.2 | 379.5 |
| Interest expense | | | |
| Loans payable | 255.9 | 263.4 | 240.8 |
| Short-term notes | 22.2 | 39.0 | 33.5 |
| | 278.1 | 302.4 | 274.3 |
| Net interest income | 141.7 | 117.8 | 105.2 |
| Average interest-bearing assets* | | | |
| Loans receivable | 4,376.6 | 4,178.3 | 3,801.0 |
| Investments | 301.7 | 300.3 | 313.3 |
| Average loans payable* | | | |
| Short-term notes | 602.0 | 600.0 | 480.1 |
| Long-term notes | 3,602.5 | 3,598.0 | 3,270.3 |
| Net interest margin | 3.03% | 2.57% | 2.56% |

* Calculated using opening and closing balances.

Table A9

## Lease and Real Estate Income

| $ Millions | 1996/97 Actual | 1996/97 Plan | 1995/96 Actual |
|---|---|---|---|
| Real estate income | | | |
| Real estate revenue | 13.5 | 12.5 | 13.8 |
| Farm Debt Review Board payments | 0.1 | 0.0 | 2.0 |
| | 13.6 | 12.5 | 15.8 |
| Real estate expense | | | |
| Real estate expense | 2.9 | 3.2 | 3.5 |
| Interest expense | 10.3 | 12.1 | 13.2 |
| | 13.2 | 15.3 | 16.7 |
| Lease and real estate income | 0.4 | (2.8) | (0.9) |
| Gain on disposal of property | 6.6 | – | 12.2 |
| Net lease and real estate income | 7.1 | (2.8) | 11.3 |

Table A10

## Administrative Expenses

| $ Millions | 1996/97 Actual | 1996/97 Plan | 1995/96 Actual |
|---|---|---|---|
| Personnel | 46.8 | 41.9 | 41.7 |
| Telecommunications | 7.3 | 6.3 | 5.6 |
| Office accommodation | 6.5 | 5.4 | 5.9 |
| Travel | 4.9 | 4.6 | 5.0 |
| Professional fees | 3.9 | 1.1 | 3.8 |
| Other | 4.1 | 10.7 | 4.5 |
| Training and development | 0.9 | 1.2 | 0.8 |
| Total on-going operations | 74.4 | 71.2 | 67.3 |
| Re-engineering | 9.7 | 2.1 | – |
| Total | 84.1 | 73.3 | 67.3 |

• *Roy & Trevor Himmelsbach using the latest technology in cattle breeding.*

## Formula Breeds Success

For the last 47 years, the Himmelsbach family has ruled out failure. They keep records on each cow they've owned, breeding results, an inventory of sires and their results from feedlot performance to the quality of calf they yield. Animals that don't measure up are sold.

Their company, Twin H Cattle Co., of Goodsoil, Saskatchewan, was named commercial breeder of 1996 by the Canadian Red Angus Promotion Society, for genetic and livestock production in a large commercial herd.

Originally Hereford and Shorthorn breeders, they set out to improve genetics by using purebred bulls in the 1950s. Gerhardt Himmeslbach was one of the original artificial insemination technicians in the province. After training, he started the Himmelsbach herd and worked the community pastures for approximately six years.

Over the last three years, the family has operated an aggressive artificial insemination and synchronization program second to none in Canada.

On May 6, 1997, they began an embryo program in cooperation with a purebred Angus herd in Alberta, synchronizing the breeding of 1,100 head of cattle by separating the cows into three herds of 250 and one group of 350 heifers. They expect to complete the process in four weeks.

## Other Income, Administrative Expenses & Taxes (continued from page 23)

During 1996/97, FCC began a major re-engineering of its business processes and completed a corporate restructuring. These efforts are directed toward improving the effectiveness of operations and efficiency of resources utilized while demands upon those resources continue to increase. The project includes redesign of key business processes, upgrading of technology and information systems, implementation of new sales and sales management techniques and staff assistance and training during a time of major transition. The approximate $40 to $50 million total cost includes an incremental increase of $10 million in fixed assets expenditures. The cost of the project, including depreciation, will be spread over five years although most cash expenditures will occur in the first two years. Re-engineering will position the Corporation to better meet the future needs of Canadian agriculture.

Although administrative expenses were $16.8 million above last year, income before administrative expenses of $131.3 million was $22.1 million above the 1995/96 level of $109.2 million. The administrative coverage ratio of 1.56:1 at March 31, 1997 represents a slight deterioration from last year's coverage ratio of 1.62:1 but is better than the corporate target of 1.38:1.

Administrative expenses expressed as a percentage of average loans receivable plus average real estate holdings is referred to as the administrative expense ratio. This ratio measures how efficiently the Corporation has used its core assets in delivering its services. For the year 1996/97, this ratio was 1.86 per cent which falls short of the target of 1.66 per cent and last year's results of 1.69 per cent.

This deterioration in both ratios is a direct result of the cost of administering the growth in lending activity while making a significant investment in re-engineering.

## Income Taxes

The significant increase in income tax expense from last year's $1.5 million is primarily due to FCC's acceptance of NISA funds which subjects the Corporation to Part VI tax under the *Income Tax Act*. The additional Part VI taxes on capital of financial institutions are normally offset against current taxes payable. However because of the Corporation's taxation loss carry-forward position there is virtually no current tax payable.

**GOAL #4**

FCC's ROE is 9.3 per cent compared to our target of 6.5 per cent.

## Conclusion

Fiscal 1996/97 was a successful year for FCC, although the debt-to-equity ratio increased to 10.0:1 at March 31, 1997 compared to last year's ratio of 9.4:1. The slight deterioration of the debt-to-equity ratio is a result of the debt required to fund the growing portfolio growth which is increasing at a faster rate than the equity generated. The Corporation is still well within the legislated debt-to-equity limit of 12:1.

Return on equity of 9.3 per cent continues to be strong, with the five-year average equalling 9.8 per cent annually, well above the shareholder's long-term cost of capital. The return on assets for 1996/97 is 0.86 per cent. Both return on equity and return on assets are above the plan of 6.5 and 0.61 per cent respectively.

| $ Millions |
|---|
| Loans receivable |
| Net loan disbursements |
| Loan renewal rate (%) |
| Loan loss factor (%) |
| Arrears |
| Real estate portfolio |
| Administrative expenses |
| Net income |
| Administrative coverage ratio (X:1) |
| Administrative expense ratio (%) |
| Debt-to-equity ratio (X:1) |
| Return on equity ratio (%) |

# outlook

The Corporation expects that the strong performance turned in by the agricultural sector in 1996/97 will continue during 1997/98 and is anticipating another year of brisk lending activity that will result in a total loans receivable portfolio in excess of $5 billion. Loan loss and risk levels directly related to the strength of the agricultural sector should continue at current levels.

FCC plans to accelerate the pace of land sales to farmers during 1997/98 by divesting more than 13 per cent of its current portfolio. Of significant note will be Agri-Land's work to complete environmental impact assessments of current land holdings and loans in accordance with the federal government's Green Plan. FCC has set a target completion date of January 1, 1999.

FCC's transition to its status as the default financial institution for the NISA program and the continuing participation as an eligible financial institution for receipt of Fund 1 accounts provides a significant opportunity. The target for NISA deposits is $225 million by March 31, 1998.

The federal government has announced its intention to provide $50 million in additional capital to FCC. The Corporation will utilize these funds to meet the increasing demand for FCC's products and services.

FCC plans to continue investment in the re-engineering, restructuring and transformation initiative begun during 1995/96. Although these non-recurring investments will negatively impact some key financial ratios in the short run, the long-term outlook is for significant improvement.

**Table A11**

**Key Financial Targets**

| 1997/98 Plan | 1996/97 Actual | 1996/97 Plan |
|---|---|---|
| 5,384.0 | 4,687.0 | 4,512.3 |
| 1,463.0 | 1,342.9 | 1,036.8 |
| 94.0 | 94.0 | 93.0 |
| 2.00 | 1.86 | 2.06 |
| 40.1 | 29.4 | 32.6 |
| 119.3 | 139.6 | 151.4 |
| 86.6 | 84.1 | 73.3 |
| 39.4 | 40.6 | 26.2 |
| 1.50 | 1.56 | 1.38 |
| 1.70 | 1.86 | 1.66 |
| 10.3 | 10.0 | 10.6 |
| 8.3* | 9.3 | 6.5 |

* Prior to the $50.0 million capital injection from the Government of Canada.

**Chart A10**

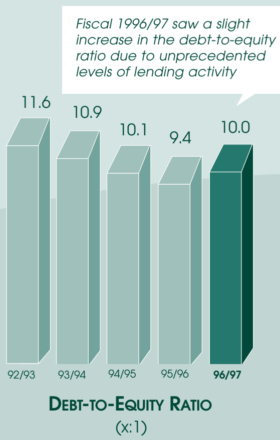



**Chart A11**


*The Corporation expects that the strong performance turned in by the agricultural sector in 1996/97 will continue during 1997/98 and is anticipating another year of brisk lending activity that will result in a total loans receivable portfolio in excess of $5 billion.*

# financial highlights

| Operational | 1996/97 | 1995/96 | 1994/95 | 1993/94 | 1992/93 |
|---|---|---|---|---|---|
| **Total loans receivable portfolio** | | | | | |
| Number | **65,318** | 60,250 | 56,760 | 55,455 | 56,687 |
| Amount ($ millions) | **4,687.0** | 4,066.3 | 3,535.7 | 3,322.6 | 3,308.7 |
| Number of loans approved | **12,910** | 10,193 | 6,428 | 5,117 | 2,734 |
| Amount of loans approved | | | | | |
| Gross ($ millions) | **1,432.4** | 1,084.9 | 658.2 | 553.9 | 285.4 |
| Net ($ millions) | **1,402.9** | 1,032.7 | 631.9 | 511.7 | 277.1 |
| Average size of loans approved – net ($) | **108,668** | 101,315 | 98,308 | 100,013 | 109,696 |
| Percentage of loans in good standing | **93.7** | 94.9 | 95.9 | 95.0 | 92.0 |
| Percentage of total owing in good standing | **93.1** | 94.1 | 95.4 | 94.3 | 87.8 |
| Real property held at year end | | | | | |
| Number | **1,982** | 2,171 | 2,529 | 2,758 | 2,803 |
| Value ($ millions) | **139.6** | 153.5 | 196.6 | 221.5 | 231.9 |

| Financial | 1996/97 | 1995/96 | 1994/95 | 1993/94 | 1992/93 |
|---|---|---|---|---|---|
| **Revenues and expenses ($ millions)** | | | | | |
| Net interest income | **141.7** | 105.2 | 99.2 | 87.9 | 68.6 |
| Net provision (recovery) for loan impairment | **24.0** | 12.1 | 9.7 | 9.6 | – |
| Net lease and real estate income | **7.1** | 11.3 | 8.6 | 6.9 | 11.9 |
| Other income | **6.5** | 4.9 | 6.9 | 2.9 | 1.7 |
| Administrative expenses | **84.1** | 67.3 | 60.2 | 59.0 | 55.3 |
| Large corporation tax | **6.6** | 1.6 | 2.1 | 0.7 | 1.2 |
| Net income for the year | **40.6** | 40.4 | 42.7 | 28.3 | 20.4 |
| **Financial position ($ millions)** | | | | | |
| Total assets | **5,022.5** | 4,371.4 | 3,986.3 | 3,773.6 | 3,623.0 |
| Total liabilities | **4,564.7** | 3,951.6 | 3,626.7 | 3,456.7 | 3,334.4 |
| Equity of Canada | **457.7** | 419.8 | 359.6 | 316.9 | 288.6 |

# senior management

Executive management at FCC is comprised of four Executive Vice-Presidents and nine Vice-Presidents whose role it is to manage and direct the Corporation's business and to ensure that the objectives set out in the corporate plan are realized. Senior management members also provide advice to the Chief Executive Officer on matters pertaining to the Corporation's direction.

Essential to the fulfillment of this role, is the responsibility of senior management to lead and motivate employees through business change and ongoing development of the Corporation.

Senior management members are governed by the *Financial Administration Act* which states that officers must act honestly and in good faith and exercise care, skill and diligence in performing such duties and responsibilities. Senior management, together with all employees of FCC, are also governed by the Employee Conduct and Ethics Policy, which ensures the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest. At all levels, FCC management is committed to making FCC a positive, professional and ethical environment in which to work.

## Senior Management Compensation

The compensation to senior management is based upon compensation policies and scales approved by the Board of Directors. Compensation paid to senior management members ranges from $104,040 to $130,040 at the Executive Vice-President level and from $79,350 to $113,570 at the Vice-President level.

The compensation range for the Chief Executive position during 1996/97 was from $117,000 to $142,400. The 14 members of the senior management team were paid a total of $1,486,030 including the CEO.

**FCC's Senior Management Team**

**John van Abbema**
*Vice-President, Eastern Region*

**Marshall Stachniak**
*Vice-President, Farm Financing*

**Dale Canham**
*Vice-President, General Counsel & Corporate Secretary*

**Marie-José Bourassa**
*Vice-President & Controller*

**Bob Aumell**
*Executive Vice-President, Special Projects*

**Russ Holm**
*Executive Vice-President, Operations*

**Jay Henryk**
*Vice-President, Corporate Services*

**Terry Craig**
*Vice-President, Risk Management*

**Terry Kremeniuk**
*Vice-President, Agribusiness & Agricultural Alliances*

**Max Pierce**
*Executive Vice-President & Chief Economist*

**M. Blake Walker**
*Vice-President & Treasurer*

**Jacques Doran**
*Executive Vice-President, Business Process Re-engineering*

**Don Jackson**
*Vice-President, Marketing & Communications*

# management discussion & analysis

1995

*Number of Loans Approved* **6,428**

*Amount of Loans Approved* **$658.2 million**

*Average Amount of Loan* **$98,308**

## Treasury Management

"FCC is searching global markets for new sources of funds to lower borrowing costs to benefit our farm clients" – *M. Blake Walker, Vice-President & Treasurer*

### Financial Risk Management

FCC's performance as an agricultural lending institution is impacted by the management of market risks such as liquidity, foreign exchange and interest rate risk.

FCC manages its financial risk exposure utilizing a formal risk management framework. Policy limits are established by the Corporation's Board of Directors in accordance with the Minister of Finance's *Financial Risk Management Guidelines for Crown Corporations*. During the 1996/97 fiscal year, FCC reviewed and revised its guidelines to reflect current risk management "best practices."

Senior management directs the management of financial risks via the Asset/Liability Management Committee (ALCO). Its responsibility is to identify, measure, monitor, control and report all risk exposures to the Board, set risk management policies and monitor performance on behalf of the Board.

FCC's Treasury Division develops risk management policies and is tactically responsible for day-to-day financial risk management using an array of analytical tools including duration analysis, gap reporting, net interest income and market value of portfolio equity simulations. Financial risk exposures, financial instrument positions and treasury activity are reported monthly to ALCO and quarterly to the Board.

### Liquidity Risk Management

FCC's liquidity management program ensures the generation of sufficient cash resources on a timely basis to support customer borrowing requirements and business operational requirements in a cost-effective manner. ALCO and the Board set policies establishing guidelines and parameters for cash management, diversified funding, and asset liquidity.

GOAL #5

In 1996/97, FCC lowered its average cost of funds by nine basis points relative to its benchmark funding targets.

The liquidity risk of the Corporation is mitigated by focusing substantial effort on careful measurement and forecasting of cash requirements for the fiscal year. Dynamic management of liquidity risk encompasses the daily monitoring of cash flows and the continual review and update of longer term forecasts to reflect new information. Cash resources and short-term investments increased 21.1 per cent in 1997 as FCC continued to maintain high levels of liquidity. Cash resources represented 4.8 per cent of total assets and consists of highly liquid investments including high-grade government and Canadian chartered bank investments.

The maintenance of a highly liquid investment portfolio, readily available for sale to meet daily cash requirements, is an essential part of the Corporation's liquidity risk management program. An additional component of this strategy is the continual assessment, enhancement and management of a stable and diversified funding base.

FCC's short-term funding sources include:

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

FCC also enhances its liquidity position by accessing international capital markets. At March 31, 1997, the Corporation had an authorized short-term borrowing capacity of $1.7 billion and had $747.7 million of short-term debt outstanding.

## Foreign Exchange Risk Management

FCC utilizes foreign currency borrowings to generate cost-effective funding. The majority of FCC's assets are denominated in Canadian dollars. Therefore the Corporation has a policy of fully hedging foreign currency borrowings to eliminate the potential foreign exchange (FX) risk associated with adverse movements in foreign currencies.

## Interest Rate Risk Management

Interest rate risk (IRR) is the risk that FCC's net interest income and capital position would decline from adverse changes in interest rates. IRR can result from imbalances in asset/liability (A/L) duration matching which causes mismatches in the repricing of assets and liabilities in a given period, or from embedded options related to our lending products (i.e. loan rate guarantees and prepayment features). In order to manage IRR, FCC targets the duration and maturity structure of its assets and liabilities on a portfolio basis and actively manages asset/liability positions.

IRR risk exposures are measured and managed to ensure compliance with prudent risk tolerance limits established by the Board of Directors. Measurements of IRR include measures of net interest income and economic net worth (i.e. capital position) variability. Assets and liabilities are managed to ensure that interest rate changes will not have a material adverse impact on net interest income or the capital position of the Corporation. Derivative instruments including interest rate swaps and interest rate options are used to manage IRR exposures.

FCC measures interest rate risk exposures with an A/L modeling system that simulates changes in net interest income (NII) and market value of portfolio equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 1997, assuming an immediate and sustained increase of two percentage points in interest rates, NII would be lower than planned by approximately $8.6 million over the next 12-month period. This exposure is well within the NII variation limits approved by the Board of Directors. In addition, the market value of both assets and liabilities is calculated to determine the market value of portfolio equity. Assuming an immediate and sustained two per cent increase in interest rates, MVPE would be lower by approximately $39.2 million. This exposure is within the one per cent MVPE variation policy limit approved by the Board.

"T.J. Rutherford's promotion of the use of credit as an active agent in bringing about the adjustments so necessary to the agricultural industry will have an increasingly significant influence upon the entire Canadian economy.

– *George Owen, Vice-Chairman, 1961/62 FCC Annual Report*

**1959 to 1962** In the first three years, FCC surpassed what CFLB accomplished in nearly 30 years.

**November 1964** *Farm Syndicates Credit Act* passed, opening an avenue for expansion.

**1964** Loan limit increased to $40,000.

### The first decade of the FCC agriculture partnership

"Canadian agriculture has undergone profound changes since the Corporation was established as successor to the Canadian Farm Loan Board in 1959. The farmer today requires a much higher cash income than did his father to satisfy not only his needs, but his legitimate expectations that he and his family might enjoy amenities of living comparable to that of other sectors of society."

– *George Owen, Chairman, 1969/70 FCC Annual Report*

**1972** Loan limit increased to $100,000

**1975** Loan limit of $150,000 for farmers under the age of 35

**1978** Loan limit increased to $200,000 for one operator and $400,000 for two or more operators.

*1997*

*Number of Loans Approved* **12,910**

*Amount of Loans Approved* ***$1.4 billion***

*Average Amount of Loan* ***$108,668***

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

## Derivative Management

Treasury utilizes an array of cash instruments and derivatives to manage and control interest rate risk and foreign currency risk exposures. In addition to risk management, as an end user of derivatives, FCC also employs derivatives for funding and investment management purposes.

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

FCC ensures it is able to measure, monitor and manage the value and financial risks of any derivative instrument before utilizing those instruments for hedging purposes. As at March 31, 1997, the total notional amount of outstanding derivative contracts was $1,403.3 million compared to $1,054.3 million as at March 31, 1996.

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

## Derivative Credit Risk

Credit risk associated with off-balance sheet activities pertains to counterparty failure, that is, the risk of possible loss if a counterparty defaults on its contractual obligations. FCC uses "dollars at risk" (DAR) methodology to manage credit risk in its derivative portfolio. DAR is based on statistical estimates of the potential losses FCC could experience due to changes in underlying prices and counterparty failure.

**Table B1** The following table highlights the primary types and uses of derivative instruments:

| Risk Management | Funding | Investment Management |
|---|---|---|
| • interest rate swaps for asset/liability management<br>• options on interest rate swaps (swaptions) to hedge prepayment and commitment risk<br>• caps, floors and collars to manage interest rate risk exposures | • currency swaps to eliminate foreign exchange risk<br>• equity-linked swaps and interest rate swaps to eliminate risks associated with structured funding transactions | • forward rate agreements (FRA's) to enhance investment returns and to hedge short-term funding costs<br>• interest rate futures for locking in investment yields |

FCC manages derivative credit exposure by entering into derivative contracts with highly creditworthy domestic and international counterparties and by utilizing collateral arrangements and other risk mitigating techniques in its International Swaps and Derivative Association, Inc. (ISDA) master agreements. Derivative positions and credit risk exposures are continuously monitored and regularly reported to ALCO and the Board. As at March 31, 1997, FCC had no material credit exposures to counterparties.

## Funding Activity

FCC's funding policy is approved by the Government of Canada pursuant to FCC's Corporate Plan. FCC uses domestic and international capital markets to fund its loan portfolio and business requirements.

FCC has three formal programs to source funds from the capital markets:

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

In 1996/97, FCC expanded its funding sources by the addition of NISA accounts. This has provided an additional source of funding, facilitating further diversification of the Corporation's funding base.

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

## Short-Term Funding

As at March 31, 1997, outstanding short-term borrowings were $748 million versus the balance outstanding as at March 31, 1996 of $456 million. This increase is attributed to a larger portion of short-term debt supporting the mortgage and investment portfolios in 1997.

The Corporation's five-year planning horizon incorporates an average increase in short-term debt of approximately $175 million per annum. This increased requirement is due to anticipated lending activities related to the introduction of new variable-rate loan products during the 1997/98 fiscal year, as well as the shortening of the duration of assets anticipated during the corporate planning period.

## Medium & Long-Term Funding

During 1996/97, FCC borrowed a total of $809 million in par value in long-term funds, down from $931 million in 1995/96.

**Table B2**

**Medium and Long-Term Borrowings for Fiscal Year Ended March 31, 1997**

| Capital Market Borrowings | $ Millions |
|---|---|
| Domestic Medium and Long-Term Notes | 481.0 |
| Domestic Structured Notes | 233.0 |
| Euro MTN Programme | 95.0 |
| Total | 809.0 |

In 1996/97, FCC issued $714 million in notes under its Medium-Term Note Program of which $233 million were structured notes. An example of structured notes offered by FCC in 1996/97 was the European Stock Index-Linked Note where the note pays investors a return based on the performance of the EuroTop 100 Index. The benefit of structured notes is FCC can diversify funding sources and generate cost effective floating or fixed-rate funding by swapping out of the financial risks inherent in structured notes.

Based on anticipated new lending activity and depending on market conditions, aggregate new long-term borrowings are estimated to be in excess of $1 billion annually over FCC's five-year planning period.

### The 80's Hard Times Return

Between 1980 and 1986, a number of major importing countries attempted to increase their self-sufficiency and reduce reliance on imports. World cereal production increased 18 per cent, farm stocks grew and market prices fell. World wheat prices decreased by 50 per cent and wheat stocks increased. By 1981/82, growth in demand for Canadian wheat began to stall as world supply increased relative to demand.

### FCC's Response

**February 1, 1983** FCC introduces 10-year renewable mortgages.

**February 4, 1983** FCC's first venture into capital markets.

**March 3, 1983** Loan limit increased to $350,000 for one applicant and $600,000 for two or more.

**June 10, 1983** FCC stopped loan approvals due to capital shortages.

**July 20, 1983** FCC allocated $250 million for its lending program to direct funds to those in need.

**April 6, 1984** Renewable loan of 5, 10, 20 years with a maximum of 29 years offered.

# 1997 objectives 2001

## Sending Cattle Overseas in Style

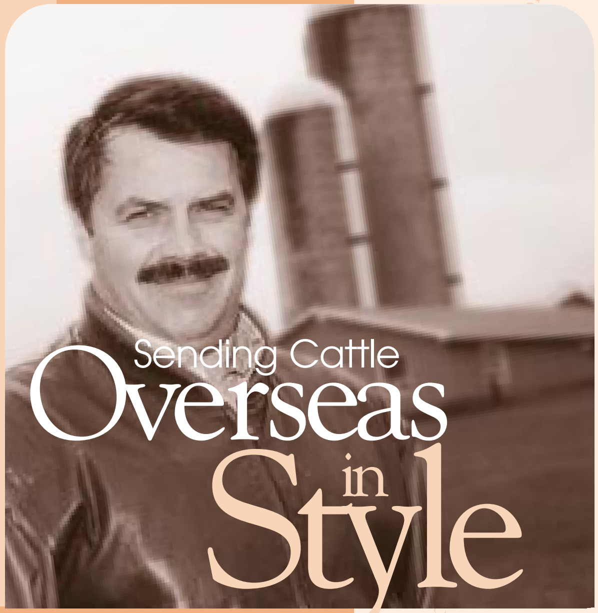
Larry Jewett, owner and President of Jewett Holsteins and Atlantic-Allstar Genetics Ltd., ships cattle overseas in specially designed and patented containers.

"We can ship 14 head or 500 head depending on what the need is, so we can go for large markets and small markets," Jewett says.

Recognizing that Atlantic cattle breeders were unable to access overseas markets because of the prohibitive shipping cost of trucking cattle to an airline and then flying the cattle to the destination, Jewett designed a specialized container for shipping cattle at a lower cost.

"We provided funding to purchase and convert 10 or 12 of these containers, seeing an opportunity for him to diversify his dairy, embryo-transfer and cattle exporting operation," says Neal Mundle, Credit Advisor.

Four years ago, Jewett sent his first shipment to England. Since then, he has shipped to Puerto Rico, Morocco and the Czech Republic. The biggest one-time shipment so far is 227 head recently shipped to the United Kingdom.



# PERFORMANCE

1 **Pursue client-driven organizational change** to develop a support system, by implementing re-engineered business processes, that fulfils the expectations of customers who demand the best total cost, dependability and convenience from their products. The Corporation will continue the streamlining process initiated in 1995/96. A Customer Service Centre will begin offering service to clients in 1997/98. Constant monitoring of client service will identify and correct any areas that need improvement.

2 **Design and implement business information systems** that fulfil the expectations of customers who demand the best total cost, dependability and convenience from their products, in a planned, systematic, client-friendly manner. FCC will continue updating technological architecture and evaluating alternatives to improve and/or replace the integrated loan accounting and financial management system. FCC will develop an action plan to address change issues in entering the new millennium, such as computer compatibility.

3 **Enhance access to capital and other financial services for agricultural clients.** FCC will keep pace with clients by continuing to develop new products and to explore agribusiness market potential.

4 **Create an environment that results in dedicated and resilient employees.** The new compensation system, with new job evaluation plans, base salary structure and reward programs will be more effective in motivating staff to exceed corporate goals. Continued training and support will ensure that staff have the skills they need to excel at serving clients. FCC's workplace diversity plan will ensure balanced representation of all groups in society, in keeping with the newly established legislative requirements and our corporate values of fair treatment and opportunity for all staff.

5 **Achieve a desired return on equity** that contributes to a sound capital structure, thereby enhancing the Corporation's financial viability. FCC will continue to work toward a sound capital structure and to improve and enhance financial performance by growing a healthy portfolio characterized by reasonable loan margins, diversification and low levels of arrears. The goal is to achieve an 8.3 per cent return on equity in 1997/98, prior to the impact of the $50 million equity injection, while growing a quality portfolio by $640 million. The more conservative ROE for 1997/98 reflects the costs associated with our sustained commitment to re-engineer FCC's delivery channels. To meet financial performance objectives, FCC is striving to lower funding costs by diversifying its funding base and developing new sources of capital.

As we move forward over the next five years, FCC will continue not only to manage the challenge of change, but to excel in offering excellent services and products to the agricultural industry.

6 **Provide financial services to farmers and agribusinesses consistent with government objectives for rural economic development.** The Corporation will continue to add value to the Government of Canada and the agricultural industry by sharing expertise and experience toward the formation of agricultural strategic and policy decisions, developing new business alliances with other public and private financial institutions and serving as a delivery vehicle for government for programs pursuant to the *Farm Credit Corporation Act*.

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

## AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1997 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

L. Denis Desautels, FCA
*Auditor General of Canada*

*Ottawa, Canada*
*May 16, 1997*

# Management's Responsibility for Financial Statements

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

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

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

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

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

Donald W. Black
*Chair and Acting*
*Chief Executive Officer*

Marie-José Bourassa
*Vice-President and Controller*

*Regina, Canada*
*May 16, 1997*

# Balance Sheet AS AT MARCH 31, 1997

| | 1997 | 1996 |
|---|---|---|
| | | *(000's)* |
| **ASSETS** | | |
| Cash and temporary investments (Note 4) | **$ 241,014** | $ 198,946 |
| Accounts receivable and other accrued assets | **28,928** | 29,590 |
| Long-term investments (Note 5) | **79,227** | 61,916 |
| Net loans receivable (Notes 6 and 7) | **4,521,604** | 3,922,554 |
| Real estate acquired in settlement of loans (Note 8) | **139,629** | 153,468 |
| Equipment and leasehold improvements | **12,065** | 5,895 |
| | **$ 5,022,467** | $ 4,372,369 |
| **LIABILITIES** | | |
| NISA investments held (Note 9) | **$ 17,552** | $ – |
| Accounts payable and accrued liabilities | **27,373** | 25,198 |
| Short-term notes (Note 10) | **747,667** | 456,369 |
| Other liabilities and deferred fees (Note 11) | **18,273** | 22,042 |
| Loans payable (Note 12) | **3,753,877** | 3,448,929 |
| | **$ 4,564,742** | $ 3,952,538 |
| **EQUITY** | | |
| Contributed capital (Note 1) | **1,118,333** | 1,118,333 |
| Deficit | **(660,608)** | (698,502) |
| | **457,725** | 419,831 |
| | **$ 5,022,467** | $ 4,372,369 |

**Approved:**

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

Donald W. Black
*Chair and Acting Chief Executive Officer*

Warren Ellis
*Chair, Audit Committee*

# Statement of Operations and Deficit

FOR THE YEAR ENDED MARCH 31, 1997

| | 1997 | 1996 |
|---|---|---|
| | | (000's) |
| **INTEREST INCOME** | | |
| Loans receivable | $ 406,351 | $ 357,440 |
| Investment income | 13,420 | 22,044 |
| | 419,771 | 379,484 |
| Interest expense | 278,053 | 274,299 |
| Net interest income | 141,718 | 105,185 |
| Charge for loan impairment (Note 7) | 23,986 | 12,146 |
| Net interest income after charge for loan impairment | 117,732 | 93,039 |
| **LEASE AND REAL ESTATE INCOME** | | |
| Lease and other revenue | $ 20,299 | $ 28,033 |
| Operating expenses | 2,960 | 3,524 |
| Interest expense | 10,264 | 13,219 |
| Net lease and real estate income | 7,075 | 11,290 |
| **OTHER INCOME** | 6,519 | 4,858 |
| **INCOME BEFORE NON-INTEREST EXPENSES** | $ 131,326 | $ 109,187 |
| Administrative expenses | 84,104 | 67,271 |
| Income taxes (Note 14) | 6,628 | 1,546 |
| **NET INCOME FOR THE YEAR** | $ 40,594 | $ 40,370 |
| Deficit at beginning of the year | (698,502) | (734,872) |
| Dividends (Note 1) | (2,700) | (4,000) |
| **DEFICIT AT END OF THE YEAR** | $ (660,608) | $ (698,502) |

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

# Statement of Changes in Cash Position

FOR THE YEAR ENDED MARCH 31, 1997

| | 1997 | 1996 |
|---|---|---|
| | | *(000's)* |
| **OPERATING ACTIVITIES** | | |
| Net income for the year | $ 40,594 | $ 40,370 |
| Items not involving cash | | |
| Charge for loan impairment | 23,986 | 12,146 |
| Change in accrued interest receivable | 6,243 | (26,559) |
| Change in accrued interest payable | (1,058) | 69 |
| Other | 22,043 | (12,455) |
| **Cash provided by operating activities** | $ 91,808 | $ 13,571 |
| **INVESTING ACTIVITIES** | | |
| Long-term investments | $ (18,042) | $ 40,968 |
| Loans receivable disbursed | (1,342,900) | (1,332,700) |
| Loans receivable repaid | 704,275 | 850,306 |
| Proceeds from disposal of real estate | 13,839 | 55,300 |
| Other | (9,051) | (6,999) |
| **Cash used in investing activities** | $(651,879) | $(393,125) |
| **FINANCING ACTIVITIES** | | |
| Loans from Canada | $ 0 | $ 220,000 |
| Loans repaid to Canada | (134,014) | (356,089) |
| Loans from capital markets | 808,139 | 707,546 |
| Loans repaid to capital markets | (378,136) | (204,459) |
| Change in short-term notes | 291,298 | (47,366) |
| Change in NISA investments held | 17,552 | – |
| Dividends paid | (2,700) | (4,000) |
| **Cash provided by financing activities** | $ 602,139 | $ 315,632 |
| **Increase (decrease) in cash and temporary investments** | 42,068 | (63,922) |
| **Cash and temporary investments, beginning of the year** | 198,946 | 262,868 |
| **Cash and temporary investments, end of the year** | $ 241,014 | $ 198,946 |

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

# Notes to Financial Statements

## 1. The Corporation

### *(a) Authority and Objectives*

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

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

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

### *(b) Contributed Capital*

Contributed capital of the Corporation constitutes capital payments received from the Government of Canada. As at March 31, 1997, the statutory limit is $1,125 million (1996 – $1,125 million).

The federal budget of February 18, 1997, announced a $50 million capital injection to the Corporation. These funds, when received, will be credited directly to contributed capital. The capital injection will strengthen the Corporation's capital structure.

### *(c) Dividends*

On May 29, 1996, the Corporation's Board of Directors declared a dividend in the amount of $2.7 million (1996 – $4.0 million) which was paid on September 30, 1996 to the Corporation's sole shareholder – the Government of Canada.

### *(d) Limits on Borrowing*

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

At March 31, 1997, the Corporation's total liabilities were 10.0 times the equity of $457.7 million (1996 – 9.4 times the equity of $419.8 million).

## 2. Significant Accounting Policies

### *(a) Investments*

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

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

Long-term investments are acquired primarily for the purposes of asset/liability management and are intended to be held to maturity. Long-term investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity.

Included in the long-term investment portfolio are investments purchased to hedge against changes in future borrowing rates. Gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the life of the related funding requirements.

### *(b) Net Loans Receivable*

Net loans receivable are stated net of unearned income and allowance for loan impairment. Loans are classified as impaired when:

i) principal or interest is 90 days past due, unless the loan is well secured and in the process of collection, or

ii) circumstances indicate doubt as to the ultimate collection of principal and interest.

Interest income is recorded on the accrual basis until such time as management determines that a loan be specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as a charge or credit for loan impairment. The loan reverts to accrual status when all charges for loan impairment are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans. Other loan fees are recorded as other income on the same basis as the related costs.

### *(c) Allowance for Loan Impairment*

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

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

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government programs, international trade negotiations, future commodity prices and climatic conditions, in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

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

### *(d) Real Estate Acquired in Settlement of Loans*

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

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

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

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

### *(e) Farm Debt Review Process*

Amounts received from the Government of Canada on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

### *(f) Equipment and Leasehold Improvements*

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

| | Methods | Terms |
|---|---|---|
| Office equipment and furniture | Declining balance | 20% annum |
| Computer equipment and software | Straight-line | 3 years |
| Automobiles | Straight-line | 4 years |
| Leasehold improvements | Straight-line | Lease term plus the first renewal option |

### *(g) Translation of Foreign Currencies*

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

### *(h) Loans Payable*

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

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

### *(i) Derivative Financial Instruments*

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

*Currency exchange agreements*

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

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

*Interest rate agreements*

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

### *(j) Pension Plan*

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

### *(k) Employee Termination Benefits*

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

### *(l) Income Taxes*

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

### 3. Change in Accounting Standard

The Corporation has adopted the new *Canadian Institute of Chartered Accountants Handbook* Section 3860: "Financial Instruments – Disclosure and Presentation" which includes a requirement that financial assets and liabilities be presented on a gross rather than a net basis unless an entity:

(a) has a legally enforceable right to offset the amounts; and

(b) intends to settle on a net basis.

Loans payable in foreign currencies were previously reported net of any currency conversion agreements. Effective in 1997 the Corporation reports these items on a gross basis. Prior period comparative figures have been restated to show these items on a gross basis increasing both assets and liabilities by $0.95 million. The implementation of this new standard has not changed the Corporation's measurement of net income.

### 4. Cash and Temporary Investments

| | Effective interest rate (%) | **1997** | 1996 |
|---|---|---|---|
| | | *(000's)* | |
| Cash (overdraft) | | **$ 15,563** | $ (6,250) |
| Temporary investments | 3.11 – 5.32 | **223,831** | 203,814 |
| Accrued interest | | **1,620** | 1,382 |
| | | **$ 241,014** | $ 198,946 |

| | **1997** | 1996 |
|---|---|---|
| Temporary investments consist of instruments with maturities of less than one year, issued by: | | |
| The Government of Canada and its agencies and Crowns | **$ 145,139** | $ 106,181 |
| Other | **78,692** | 97,633 |
| | **$ 223,831** | $ 203,814 |

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R1-L or higher. As at March 31, 1997, the largest total investment in any one institution was $25.0 million (1996 – $24.8 million) and the Corporation held investments in four separate institutions and provinces (1996 – six institutions and provinces).

## 5. Long-term Investments

| | Stated interest rate (%) | 1997 | 1996 |
|---|---|---|---|
| | | *(000's)* | |
| Amounts due within: | | | |
| 1 year | 7.50 – 10.75 | **$ 41,500** | $ – |
| 1 – 5 years | 6.50 | **15,000** | 56,500 |
| over 5 years | 7.50 – 9.00 | **18,500** | 3,500 |
| | | **75,000** | 60,000 |
| Unamortized premium and discount | | **3,150** | 1,278 |
| Accrued interest | | **1,077** | 638 |
| | | **$ 79,227** | $ 61,916 |

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

## 6. Net Loans Receivable

| | Stated interest rate (%) | 1997 | 1996 |
|---|---|---|---|
| | | *(000's)* | |
| Principal amounts due secured by: | | | |
| – mortgages | 4.25 – 15.25 | **$ 4,026,951** | $ 3,680,722 |
| – chattels | 5.25 – 14.75 | **408,451** | 160,092 |
| – notes | 4.75 – 14.63 | **156,250** | 130,454 |
| | | **4,591,652** | 3,971,268 |
| Accrued interest and fees, net of payments held | | **70,090** | 61,597 |
| | | **$ 4,661,742** | $ 4,032,865 |
| Recorded investment in impaired loans secured by: | | | |
| – mortgages | | **$ 18,851** | $ 31,726 |
| – chattels | | **3,840** | 1,134 |
| – notes | | **2,571** | 529 |
| | | **25,262** | 33,389 |
| Less: Allowance for loan impairment (Note 7) | | **(165,400)** | (143,700) |
| | | **$ 4,521,604** | $ 3,922,554 |

### 6. Net Loans Receivable (continued)

| | 1997 | 1996 |
|---|---|---|
| | (000's) | |
| Principal amounts (excluding impaired loans) due within: | | |
| 1 year | **$ 1,515,245** | $ 1,119,897 |
| 1 – 5 years | **2,571,325** | 2,227,881 |
| over 5 years | **505,082** | 623,490 |
| | **$ 4,591,652** | $ 3,971,268 |

Management estimates that annually, over the next three years, between one and five per cent (1996 – one and five per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1997, $2.3 million (1996 – $0.0 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

As at March 31, 1997, loans to farmers and agribusinesses approved but not disbursed amounted to $173 million (1996 – $177 million). These loans were approved at an average interest rate of 7.41% and do not form part of the net loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by June 30, 1997.

### 7. Allowance for Loan Impairment

| | 1997 | 1996 |
|---|---|---|
| | (000's) | |
| Balance at beginning of the year | **$ 143,700** | $ 136,157 |
| Write-offs, net of recoveries | **(2,286)** | (4,603) |
| Charge for loan impairment | **23,986** | 12,146 |
| Balance at end of the year | **$ 165,400** | $ 143,700 |
| Specific allowance | **$ 7,800** | $ 8,000 |
| General allowance | **157,600** | 135,700 |
| Balance at end of the year | **$ 165,400** | $ 143,700 |

As at March 31, 1997, the total recorded investment in loans receivable against which a specific allowance has been identified was $25.3 million (1996 – $33.4 million). The general allowance was established against the remaining $4,661.7 million (1996 – $4,032.9 million) investment in loans receivable.

## 8. Real Estate Acquired in Settlement of Loans

| | 1997 | 1996 |
|---|---|---|
| | *(000's)* | |
| Balance at beginning of the year | **$ 153,468** | $ 196,651 |
| Acquisitions | **3,913** | 7,958 |
| Disposals | **(17,752)** | (42,023) |
| WGTA reduction | **–** | (9,118) |
| Balance at end of the year | **$ 139,629** | $ 153,468 |

| | | |
|---|---|---|
| Real estate under long-term lease maturing: | | |
| within 1 year | **$ 195** | $ 1,360 |
| from 1 – 2 years | **297** | 61 |
| from 2 – 3 years | **85,110** | 344 |
| from 3 – 4 years | **48,327** | 98,039 |
| from 4 – 5 years | **1,521** | 52,642 |
| in 5 years and beyond | **254** | 1,204 |
| | **135,704** | 153,650 |
| Real estate held for sale | **3,925** | 8,936 |
| WGTA reduction | **–** | (9,118) |
| | **$ 139,629** | $ 153,468 |

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

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

Payments received from the elimination of the *Western Grain Transportation Act* (WGTA) subsidy and retained by the Corporation were recorded in 1996 as a reduction of the carrying value of the associated property. (Note 16).

| | *(000's)* |
|---|---|
| Future expected lease receipts, using current lease rates, receivable within: | |
| 1 year | **$ 13,099** |
| 1 – 5 years | **24,897** |
| | **$ 37,996** |

## 9. NISA Investments Held

| | Stated interest rate (%) | **1997** | 1996 |
|---|---|---|---|
| | | *(000's)* | |
| Net Income Stabilization Account investments: | | | |
| Variable rate | 4.00 | **$ 15,009** | $ – |
| Term rate | 2.75 – 6.00 | **2,369** | – |
| | | **17,378** | – |
| Accrued interest | | **174** | – |
| | | **$ 17,552** | $ – |

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

## 10. Short-term Notes

| | Effective interest rate (%) | **1997** | 1996 |
|---|---|---|---|
| | | *(000's)* | |
| Short-term notes payable within one year | 2.80 – 4.19 | **$ 742,384** | $ 451,737 |
| Accrued interest | | **5,283** | 4,632 |
| | | **$ 747,667** | $ 456,369 |

## 11. Other Liabilities and Deferred Fees

| | 1997 | 1996 |
|---|---|---|
| | *(000's)* | |
| Other liabilities and deferred fees consist of: | | |
| Agri-Land investment fund | **$ 3,731** | $ 4,754 |
| Downpayments on real estate sales | **626** | 2,802 |
| Provision for employee termination benefits | **5,500** | 4,905 |
| Net currency swap payable | **624** | 4,693 |
| Deferred loan fees | **7,792** | 4,888 |
| | **$ 18,273** | $ 22,042 |

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund of the Corporation. Funds held in the Agri-Land investment fund earn interest at 3.25% (1996 – 5.25%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

## 12. Loans Payable

| | Stated interest rate (%) | 1997 | 1996 |
|---|---|---|---|
| | | *(000's)* | |
| Loans from Canada, secured by notes | 6.29 – 10.21 | **$ 1,981,011** | $ 2,115,025 |
| Loans from capital markets, secured by notes | | | |
| payable in: | | | |
| Canadian dollars | 3.00 – 9.00 | **1,458,639** | 896,273 |
| U.S. dollars ($75,000,000) | 5.21 | **103,773** | 373,517 |
| New Zealand dollars ($100,000,000) | 8.00 | **95,781** | – |
| payable in Canadian dollars, with interest payments linked to: | | | |
| the Hong Kong Exchange index | – | **12,000** | – |
| the Euro Top 100 index | – | **37,000** | – |
| | | **3,688,204** | 3,384,815 |
| Accrued interest | | **65,673** | 64,114 |
| | | **$ 3,753,877** | $ 3,448,929 |

## 12. Loans Payable (continued)

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

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

| | **1997** | 1996 |
|---|---|---|
| | *(000's)* | |
| Amounts due: | | |
| within 1 year | **$ 764,471** | $ 507,709 |
| from 1 – 2 years | **984,758** | 680,964 |
| from 2 – 3 years | **515,614** | 715,237 |
| from 3 – 4 years | **521,485** | 325,802 |
| from 4 – 5 years | **271,837** | 435,130 |
| in 5 years and beyond | **630,039** | 719,973 |
| | **3,688,204** | 3,384,815 |
| Accrued interest | **65,673** | 64,114 |
| | **$ 3,753,877** | $ 3,448,929 |

Included in loans payable are $194 million (1996 – $20 million) of loans extendable beyond the above due dates at the Corporation's option.

The Corporation's borrowings (short-term notes and loans payable) are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

## 13. Derivative Financial Instruments

The Corporation uses derivative financial instruments with off-balance sheet risk to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Currency and interest rate swaps are used to offset foreign currency risk on foreign dollar borrowings and manage interest rate risk. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to derivative credit risk. The Corporation manages its exposure to credit risk by dealing only with financial institutions having very high credit ratings. Additionally, ISDA documents have downgrade and collateral provisions to reduce counterparty credit risk and, as a result, the Corporation does not anticipate any significant nonperformance by counterparties. The largest notional amount contracted with any institution as at March 31, 1997, was $435.3 million (1996 – $263.1 million) and the largest replacement cost of contracts with any institution as at March 31, 1997, was $1.6 million (1996 – $3.0 million).

## 13. Derivative Financial Instruments (continued)

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of financial instruments outstanding as at March 31, 1997, were as follows:

| 1997 – Remaining term to maturity | | Within 1 year | 1 to 5 years | Total | Replacement cost |
|---|---|---|---|---|---|
| | | | *(000's)* | | |
| **Currency Swaps:** | | | | | |
| *Receive* | *Pay* | | | | |
| CDN Fixed | USD Fixed | $ – | 5,000 | 5,000 | (69) |
| CDN Fixed | USD Float | – | 2,250 | 2,250 | (69) |
| USD Fixed | CDN Fixed | – | 103,050 | 103,050 | (3,603) |
| NZD Fixed | CDN Fixed | – | 95,000 | 95,000 | 2,139 |
| **Interest Swaps:** | | | | | |
| *Receive* | *Pay* | | | | |
| Floating | Fixed | $ – | 70,000 | 70,000 | (2,019) |
| Fixed | Floating | 55,000 | 475,000 | 530,000 | 2,367 |
| Equity-indexed | Floating | – | 49,000 | 49,000 | (2,415) |
| **Purchased options:** | | | | | |
| Interest rate options | | $ 470,000 | 10,000 | 480,000 | 1,588 |
| **Sold options:** | | | | | |
| Interest rate options | | – | 69,000 | 69,000 | (1,814) |
| **Total** | | $ 525,000 | 878,300 | 1,403,300 | (3,895) |

| 1996 – Remaining term to maturity | | Within 1 year | 1 to 5 years | Total | Replacement cost |
|---|---|---|---|---|---|
| | | | *(000's)* | | |
| **Currency Swaps:** | | | | | |
| *Receive* | *Pay* | | | | |
| USD Fixed | CDN Fixed | $ 137,310 | 103,050 | 240,360 | (5,349) |
| USD Float | CDN Fixed | 138,000 | – | 138,000 | (6,908) |
| USD Fixed | USD Float | 135,900 | – | 135,900 | 2,291 |
| **Interest Swaps:** | | | | | |
| *Receive* | *Pay* | | | | |
| Floating | Fixed | $ – | 25,000 | 25,000 | (974) |
| Fixed | Floating | – | 135,000 | 135,000 | 347 |
| **Purchased options:** | | | | | |
| Interest rate options | | $ 360,000 | 20,000 | 380,000 | 953 |
| **Total** | | $ 771,210 | 283,050 | 1,054,260 | (9,640) |

Included in derivative financial instruments are $179 million of interest rate swap and purchased option contracts extendable beyond the above due dates at the Corporation's option.

## 14. Income Taxes

(a) Timing differences of approximately $166 million are available to the Corporation as at March 31, 1997. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the charge for loan impairment charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $392 million and expires on the dates indicated:

| | *(000's)* |
|---|---|
| March 31, 1999 | **$ 179,000** |
| 2001 | **143,000** |
| 2003 | **70,000** |
| | **$ 392,000** |

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

## 15. Operating Leases

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

| | *(000's)* |
|---|---|
| within 1 year | **$ 5,488** |
| from 1 – 2 years | **4,978** |
| from 2 – 3 years | **4,518** |
| from 3 – 4 years | **3,719** |
| from 4 – 5 years | **2,506** |
| in 5 years and beyond | **3,182** |
| | **$ 24,391** |

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

## 16. Government Programs

***Net Income Stabilization Accounts***

In March 1996, the Corporation became an eligible financial institution, accepting and administering Fund 1 Net Income Stabilization Accounts (NISA). In November 1996, the Minister of Agriculture and Agri-Food designated the Corporation as the default financial institution for the NISA program. As the designated default financial institution, all Fund 1 NISA Accounts not administered by one of the 17 eligible financial institutions (in addition to the Corporation) as of June 1, 1997, will be transferred from the NISA Administration's Consolidated Revenue Fund, to the Corporation. The actual transfer of funds is scheduled to occur in August 1997.

## 16. Government Programs (continued)

***Commodity-Based Loans***

Net loans receivable as at March 31, 1997, included $100 million (1996 – $241 million) of loans under the Commodity-Based Loans (CBL) program. In 1997, the Corporation received $21.5 million (1996 – $9.9 million) from Agriculture and Agri-Food Canada as compensation for the early retirement of CBL loans and concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

***Western Grain Transportation Act***

During the year, the Corporation received a $16.7 million transition payment as a result of the elimination of the *Western Grain Transportation Act* (WGTA). The Corporation forwarded $3.2 million to clients who purchased land from the Corporation after February 27, 1995 and before January 1, 1996. An additional $3.1 million was transferred to clients who were former owner/tenants and leased land from the Corporation during 1995 and 1996. No further payments are expected under this program.

***Farm Debt Review Act***

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

Since the inception of the Farm Debt Review process, the Corporation has offered $279 million in concessions and billed $278 million to the Government of Canada, of which $2.6 million was billed in the current year. The committed difference of $1 million will become due and be received over the next two years as farmers meet their commitments and thereby realize the benefits of the concessions.

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

## 17. Guarantees and Letters of Credit

The Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $0.5 million as at March 31, 1997, (1996 – $0.2 million). In the event of a call on the above commitments, the Corporation has recourse against the clients.

## 18. Interest Rate Risk

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

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

Floating rate loan receivables are linked to prime and reprice with changes in prime; interest term maturity date is used to determine the remaining term for floating rate loan receivables.

The calculated yield for loans payable in foreign currencies is disclosed net of currency swaps which are used to convert borrowings to Canadian dollar obligations.

## 18. Interest Rate Risk (continued)

| | | | *(000's)* | | |
|---|---|---|---|---|---|
| **1997 — Remaining term to repricing or maturity date** | **Within 1 year** | **1 to 5 years** | **Over 5 years** | **No fixed term** | **Total carrying value** |
| Temporary investments | $ 225,451 | – | – | – | 225,451 |
| Average yield | 3.74% | – | – | – | 3.74% |
| Long-term investments | $ 42,740 | 14,999 | 21,488 | – | 79,227 |
| Average yield | 6.76% | 6.95% | 6.58% | – | 6.76% |
| Loans receivable (1) | | | | | |
| – Fixed-rate CDN | $ 1,002,996 | 2,548,602 | 1,088,071 | – | 4,639,669 |
| Average yield | 7.22% | 8.56% | 9.38% | – | 8.46% |
| – Fixed-rate USD | – | – | 2,329 | – | 2,329 |
| Average yield | – | – | 7.38% | – | 7.38% |
| – Floating rate CDN | 19,744 | – | – | – | 19,744 |
| Average yield | 5.38% | – | – | – | 5.38% |
| NISA investments (2) | | | | | |
| – Fixed-rate | $ 398 | 2,005 | – | – | 2,403 |
| Average yield | 3.29% | 4.73% | – | – | 4.49% |
| – Floating rate | – | – | – | 15,149 | 15,149 |
| Average yield | – | – | – | 4.00% | 4.00% |
| Short-term notes | $ 747,667 | – | – | – | 747,667 |
| Average yield | 3.13% | – | – | – | 3.13% |
| Loans payable | | | | | |
| – CDN | $ 781,865 | 2,135,772 | 632,189 | – | 3,549,826 |
| Average yield | 6.98% | 7.28% | 8.25% | – | 7.39% |
| – USD | – | 104,118 | – | – | 104,118 |
| Average yield | – | 5.90% | – | – | 5.90% |
| – NZD | – | 99,933 | – | – | 99,933 |
| Average yield | – | 5.93% | – | – | 5.93% |

## 18. Interest Rate Risk (continued)

| 1996 — Remaining term to repricing or maturity date | Within 1 year | 1 to 5 years | *(000's)* Over 5 years | No fixed term | Total carrying value |
|---|---|---|---|---|---|
| Temporary investments | $ 205,196 | – | – | – | 205,196 |
| Average yield | 5.91% | – | – | – | 5.91% |
| Long-term investments | $ – | 58,563 | 3,353 | – | 61,916 |
| Average yield | – | 6.81% | 8.81% | – | 6.93% |
| Loans receivable (1) | | | | | |
| – Fixed-rate CDN | $ 693,548 | 1,991,096 | 1,330,705 | – | 4,015,349 |
| Average yield | 8.93% | 9.03% | 9.67% | – | 9.22% |
| – Floating rate CDN | 17,516 | – | – | – | 17,516 |
| Average yield | 7.57% | – | – | – | 7.57% |
| Short-term notes | $ 456,369 | – | – | – | 456,369 |
| Average yield | 5.80% | – | – | – | 5.80% |
| Loans payable | | | | | |
| – CDN | $ 194,166 | 2,113,767 | 755,407 | – | 3,063,340 |
| Average yield | 8.39% | 7.48% | 8.57% | – | 7.81% |
| – USD | 282,956 | 102,633 | – | – | 385,589 |
| Average yield | 9.06% | 5.92% | – | – | 8.20% |

Note: (1) Loans receivable excludes impaired loans.

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

## 19. Fair Values

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

| | 1997 | | 1996 | |
|---|---|---|---|---|
| | **Carrying value** | **Estimated fair value** | Carrying value | Estimated fair value |
| | | *(000's)* | | |
| **ASSETS** | | | | |
| Cash and temporary investments | **$ 241,014** | **$ 240,972** | $ 198,946 | $ 199,168 |
| Accounts receivable and other accrued assets | **28,928** | **28,928** | 29,590 | 29,590 |
| Long-term investments | **79,227** | **79,202** | 61,916 | 62,278 |
| Net loans receivable | **4,521,604** | **4,600,266** | 3,922,554 | 3,963,329 |
| **LIABILITIES** | | | | |
| NISA investments held | **$ 17,552** | **$ 17,552** | $ – | $ – |
| Accounts payable and accrued liabilities | **27,373** | **27,373** | 25,198 | 25,198 |
| Short-term notes | **747,667** | **746,669** | 456,369 | 456,939 |
| Loans payable | **3,753,877** | **3,920,478** | 3,448,929 | 3,523,701 |

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

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

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

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

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

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

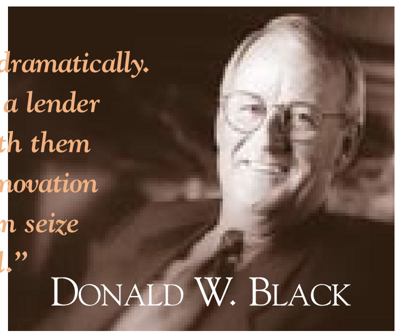
Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 13.

## 20. Comparative figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

# corporate governance

## A Report from the Board of Directors



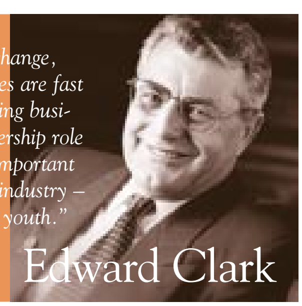
*"Agriculture is changing dramatically. Our entrepreneurs need a lender that will be out there with them on the leading edge of innovation and discovery, so they can seize the opportunities to excel."*

DONALD W. BLACK

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

As a Crown corporation, FCC is a distinct legal entity, wholly owned by the Crown. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister of Agriculture and Agri-Food, who functions as a link between the Corporation and Cabinet as well as Parliament.

FCC's approach to corporate governance is substantially consistent with objectives reflected in the June 1996 guidelines for *Corporate Governance for Crown Corporations and Other Public Enterprises*, set forth by the Crown Corporations Directorate, Department of Finance and Treasury Board Secretariat, which build on the guidelines adopted by the Board of Governors of the Toronto Stock Exchange in 1995.

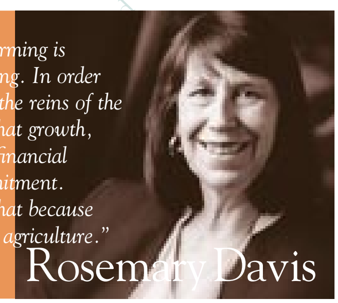


*"In these times of rapid change, partnerships and alliances are fast becoming the way of doing business. FCC takes a leadership role in supporting the most important partnership in the farm industry – the family farm and the youth."*

Edward Clark

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

These guidelines address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management, and the functioning of the Board.



*"The definition of farming is changing and growing. In order for farmers to take the reins of the future, and bridle that growth, they'll need strong financial solutions and commitment. FCC can provide that because it has confidence in agriculture."*

Rosemary Davis

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

Corporate governance is the process and structure for overseeing the direction and management of a Crown corporation so that it effectively fulfils its mandated public policy and commercial objectives. The process and structure defines the division of power and responsibilities among the Crown, the Board of Directors, and management, while establishing the mechanisms for achieving accountability.

Subject always to the *Farm Credit Corporation Act* (FCCA) and the *Financial Administration Act* (FAA), areas addressed by the Board in its governance

# The Role of the Board

In serving the public interest, Crown corporations have somewhat greater managerial autonomy than government in general, in order that they may operate in a commercial manner. The legislated control and accountability regime aims to balance the Corporation's autonomy with accountability to both government and to Parliament. Directors govern in accordance with the *FCCA* and the *FAA*.

Directors ensure that management pursues the Corporation's statutory functions and that these functions are in accordance with the mandate. The Board's responsibility can be summarized in three main areas:

### STEWARDSHIP OF THE CORPORATION

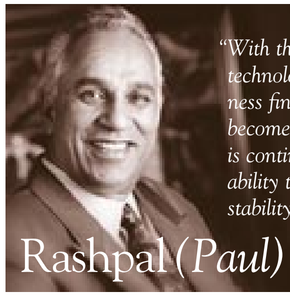
- including approval of strategic direction and corporate plan; identification of principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks; succession planning including appointment, training and monitoring of senior management; ensuring the integrity of the Corporation's internal control and management information systems and practices; examining its public policy objectives and legislated mandate to ensure relevance; ensuring effective communication with the Crown, other stakeholders and the public.

### WORKING WITH THE MANAGEMENT

- including board and management's working relationship, responsibilities and accountabilities; board functioning independent of management; the roles of the Chair and the CEO; the use of board and committee meetings; and periodic assessment of the CEO's position and performance.

### FUNCTIONING OF THE BOARD

- including renewal of the Board, and the desired skills, experience and knowledge of Board members; composition; assessment of Board practice; education of directors; on-going education; compensation and responsibility for corporate governance.

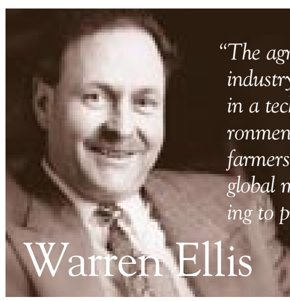


*"With the forces of globalization, technology and competition, business finance and agriculture has become more sophisticated. FCC is continually proving itself, in its ability to provide farmers with stability through these changes."*

Rashpal *(Paul)* Dhillon

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

of FCC include the composition, mandate and objectives of the Board of Directors and its committees; the Board's decision-making process; the orientation and education of directors; the independence of directors; avoidance of conflicts of interest; performance assessments of the Board and the Chief Executive Officer (CEO); the Board's expectations of management; and shareholder feedback.



*"The agriculture and agri-food industry is competing globally in a technologically-driven environment. To ensure Canadian farmers are players in the new global marketplace, FCC is working to provide flexible products."*

Warren Ellis

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

# Board Composition

Board members are appointed by the Minister of Agriculture and Agri-Food pursuant to the *FCCA* and are selected to represent Canadian agricultural and financial communities. In the Board selection process, it is important to strive

Farm Credit Corporation supports the governance objectives of the Board of Directors as they steward the Corporation through a time of challenge and change.

– Dale Canham,
Vice-President,
General Counsel &
Corporate Secretary

*"Farm Credit has positioned itself to assist in the intergenerational transfer of farming businesses."*

Eleanor M. Hart

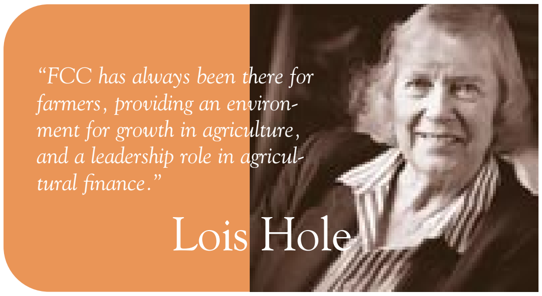
Lokoja Farms, Past-President, Ontario Home Economics Association, Woodstock, Ontario

"The government considers an effective Board of Directors to be a vital element of the corporate governance and accountability regime for Crown corporations."

• Paul Martin, *Minister of Finance*
• Marcel Massé, *President of the Treasury Board*

*Ottawa, June, 1996, Corporate Governance in Crown Corporations and Other Public Enterprises*


Farmer: large-scale farming of colored beans, Lawyer specializing in agricultural law, Saint-Paul-de-Châteauguay, Québec




Hole's Greenhouse & Gardens Ltd., St. Albert, Alberta

for gender, linguistic, employment equity target group and geographical representation. The candidate profile includes successful business people from a rural area or small urban centre, as well as people who are successful in the agri-food and financial services industries, and academics with a sound track record in policy making.

Board members have technical knowledge in agriculture, lending practices, marketing, accounting, corporate management and financial administration. While every board member cannot possess all skills and attributes, the totality of FCC's Board strives to reflect the profile.

## Formal Orientation & Training Program

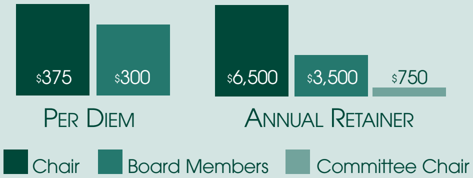
Upon their appointment, Board members receive an indepth briefing, together with a package of pertinent materials. The Board has also received information and presentations from outside industry experts on matters such as board governance, derivative instruments and risk management policies. In addition, Board members have participated in governance workshops sponsored by the Conference Board of Canada.

## Board Meetings

This fiscal year there have been nine board meetings, three Audit Committee meetings, six Human Resources Committee meetings, and two Chief Executive Officer Search Committee meetings.

## Annual Retainer & Per Diem Policy

Per diems and annual retainer fees as set by the Governor in Council pursuant to the *FAA*, on the recommendation of the Minister of Agriculture and Agri-Food are as follows:

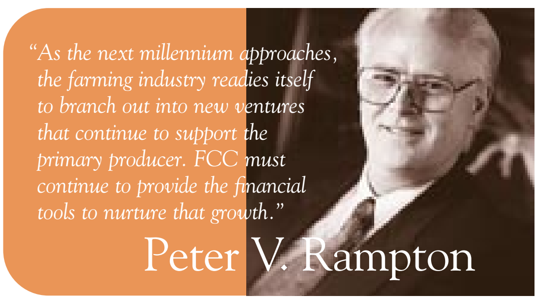



## Travel Policy

Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while attending meetings.

## Conflict of Interest/ Related Party Transactions

The Board of Directors is sensitive to the requirement that they have, and be seen to have, the ability to exercise fair and impartial judgement and a view to the best interests of the Corporation. The *FAA* requires directors of Crown corporations to act honestly and in good faith, to exercise care and diligence and to disclose the nature and extent of interest in any material contract with the Corporation. The government's *Conflict of Interest and Post Employment Code for Public Office Holders* applies to all Governor in Council appointees.




Accountant, Farm Partner, Board Member, ARC Industries, Dauphin, Manitoba

## Chief Executive Officer

The CEO is appointed by the shareholder, the Government of Canada, in consultation with the Board of Directors and in accordance with the *FCCA*. The Board works with the CEO to: develop a position description to outline the limits to management's authority; develop and approve corporate objectives that the CEO will be held accountable for meeting; and to conduct a formal evaluation of the CEO's performance.

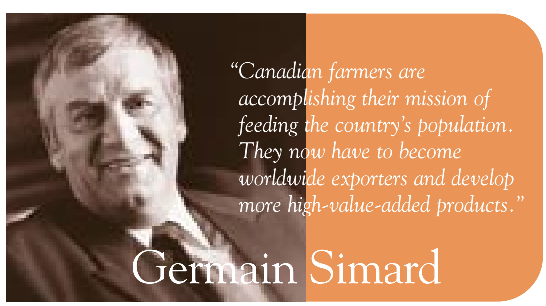
## Dividend Policy

The Board of Directors established a dividend policy in 1995. Since then the Board has declared and paid a dividend to the Government of Canada in each fiscal year.


Lawyer, Humboldt, Saskatchewan

## FCC Loan Review Board

The Board has established bylaw provisions for a Loan Review Board for each province. Members' appointments are made by the FCC Board of Directors from among independent successful farmers in each province. Loan Review Boards may hear applications for review from individuals whose loans have been declined by the Corporation or who have an issue of lease eligibility or terms with the Corporation. The Loan Review Board is empowered to inquire into the circumstances and to make recommendations only. Loan Review Board members receive per diem amounts set by FCC's Board of Directors and are reimbursed for out-of-pocket expenses in accordance with the Corporation's expense policies.




Dairy Farmer, La Baie, Québec

### April 2, 1993 Farm Credit Corporation Act passed

"The new legislation means the FCC can now provide credit to farm operations carrying out related businesses off the farm. This will help encourage diversification, value-added processing and the development of niche markets for farmers. The continued viability of family farm businesses, the agri-food sector and rural communities depends on the ability of farmers to develop new markets.

"By extending the mandate, the FCC now has the flexibility to provide specialized and personalized financial services to clients who are seeking to strengthen their positions in a changing and increasingly competitive agri-food market."

– *Bill McKnight, Minister of Agriculture*

### The definition of agriculture changes with new Act

FCC can set loan limits without legislative change.

FCC able to finance part-time or lifestyle farmers, make loans to producers for value-added enterprises; and to provide non-mortgage loans.

### The future of FCC and agriculture

FCC continues to ensure there are no gaps in agricultural finance. The possibilities are as limitless as the imagination and entrepreneurial spirit of the Canadian farmer.

# FCC board committees

## Audit Committee

Chair: Warren Ellis
Member: Donald W. Black
Rashpal Dhillon
Marie-Andrée Mallette

• The Audit Committee has a broad mandate to provide the checks and balances on the Corporation and its related activities. Its primary function is to help the Board fulfil its oversight responsibilities by reviewing financial and operational information, systems of internal controls, compliance with laws, regulations and ethics. In carrying out its role, the Audit Committee has the authority to investigate any corporate activity, in all areas, as it deems necessary and appropriate.

The Audit Committee consists of a minimum of three members, who are independent of management of the Corporation. The Chair and the members of the Audit Committee are appointed by the Board of Directors and serve at the pleasure of the Board of Directors.

## Human Resources Committee

Chair: Peter V. Rampton
Members: Donald W. Black
Eleanor Hart
Germain Simard

• The Human Resources Committee has a mandate to review all human resources policy issues of the Corporation that require Board approval and to report to the Board. The Committee also reviews the annual strategic human resources plan, provides guidance on issues of succession planning in respect of the office of the CEO, and reviews Board performance. The Committee is required to have at least three members, all of whom are independent of management, and must meet at least twice per year.

## CEO Search Committee

Chair: Donald W. Black
Member: Edward Clark
Eleanor Hart
Marie-Andrée Mallette
Peter V. Rampton

• With the completion of the term of C. Gerald Penney, FCC began the search process for a new CEO. The CEO Search Committee was formed January 9, 1997 to manage the selection process for the new CEO in conjunction with the Minister of Agriculture and Agri-Food and the Prime Minister's Office.

| Donald W. Black | Edward Clark | Rosemary Davis | Rashpal Dhillon | Warren Ellis | Eleanor M. Hart |
|---|---|---|---|---|---|
| Chair of the Board<br>Member, Audit Committee<br>Member, Human Resources Committee<br>Chair, CEO Search Committee<br>*Effective January 18/95* | Board<br>CEO Search Committee<br>*Effective May 28/96* | Board<br>*Effective December 19/95* | Board<br>Audit Committee<br>*Effective June 12/95* | Board<br>Chair, Audit Committee<br>*Effective April 14/95* | Board<br>Human Resources Committee<br>CEO Search Committee<br>*Effective May 2/95* |
| 14,600 | 8,400 | 11,700 | 11,800 | 13,500 | 9,200 |
| 15,000 | 17,400 | 13,100 | 13,000 | 18,000 | 23,000 |
| 100% | 100% | 100% | 92% | 100% | 94% |

Remuneration ($)
Expenses ($)
Attendance Ratio (%)

# 200-Year-Old Operation Drives Change

Henry of Pelham Incorporated, a viticulture and wine-making operation in St. Catharines, Ontario, is driving change in agriculture. At the helm of this million-dollar-plus business is 30-year-old President Paul Speck, and his brothers Matthew, 27, and Daniel, 22.

"I think the only way to control your destiny is to control the end product," Paul Speck says. "It is no longer adequate just to grow the raw material. In this economy, you're already at the mercy of too many things. We're young, but you need that energy. You have to be very aggressive."

Taking a product that has a limited shelf-life – the grapes at harvest – and creating a longer shelf-life through wine-making provides a bigger window to sell the product, he says.

The 175-acre vineyard has been in the family since 1794. However, it wasn't until 1982 when his father, Paul Speck Sr., discovered the land was ideal for growing the kind of grapes the Europeans have tended for centuries.

Paul and Matthew planted 65 acres in 1984 of Vinifera grapes which produce world-class wines. Now the three brothers have 110 planted acres, and 16 full-time staff who tend the vineyard from spring to the harvest in October. The winery is in operation all year.

Speck believes that "great wines are grown, they're not made," and hasn't lost sight of the fact that he and his brothers are farmers first. But they are setting new boundaries for Canadian agriculture. That requires a leap of faith on the part of the investment and financial communities.

"It's not like we're pumping out widgets and we can control these things. We need ingenuity in farm financing. Farming, especially vineyards, is heavily capital-intensive, requiring a layout of huge sums of money. We need creative ways to finance."

"FCC is out pushing risk barriers that the banks are not prepared to deal with," Speck says.

*"Growth will come as a result of forming partnerships with farmers. FCC does that."*


| Lois Hole | Marie-Andrée Mallette | Peter V. Rampton | Marilyn Marie Scott | Germain Simard |
|---|---|---|---|---|
| Board<br>*Effective April 4/95* | Board<br>Audit Committee<br>CEO Search Committee<br>*Effective June 12/95* | Board<br>CEO Search Committee<br>Chair, Human Resources Committee<br>*Effective May 2/95* | Board<br>*Effective October 24/96* | Board<br>Human Resources Committee<br>*Effective June 12/95* |
| 9,600 | 12,500 | 11,500 | 2,700 | 10,800 |
| 5,700 | 17,600 | 8,100 | 400 | 17,600 |
| 89% | 100% | 100% | 80% | 93% |

# glossary of terms

## FCC is Where You Are

### ATLANTIC PROVINCES

Suite 200
1133 St. George Blvd.
Moncton, N.B. E1E 4E1
(506) 851-6595

***Other locations include:***
*Charlottetown, Grand-Falls, Kentville, St. George, St. John's, Summerside, Sussex, Truro, Woodstock*

### QUÉBEC

979 Ave. de Bourgogne
Suite 300
Sainte-Foy, Qué. G1W 2L4
(418) 648-3993

***Other locations include:***
*Alma, Drummondville, Gatineau, Granby, Joliette, Rimouski, Saint-Arsène, Saint-Georges de Beauce, Saint-Hyacinthe, Saint-Jean-sur-Richelieu, Saint-Jérôme, Sherbrooke, Trois-Rivières, Valleyfield, Victoriaville*

### ONTARIO

1030 Gordon Street South
Guelph, Ont. N1G 4X5
(519) 821-1330

***Other locations include:***
*Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Kingston, Lambeth, Lindsay, Listowel, Nepean, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming*

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

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

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

**Capital** Capital of FCC consists of contributed capital, provided by the Government of Canada and retained earnings net of dividend payments.

**Charge for Loan Impairment** A charge to income which is added to the allowance for loan impairment.

**Cross-Currency and Interest Rate Swaps** Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

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

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

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

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

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

**Interest Expenses** Interest expense to the Corporation incurred from the use of interest-bearing funding instruments.

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

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

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

**Leverage** The relationship between total liabilities and the equity of a business. The higher the ratio of debt-to-equity, the greater the leverage.

**Market Value of Portfolio Equity (MVPE)** The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth (ie: equity capital position) to changes in interest rates.

ustomers take advantage of it • The tradition continues but the farmer's field is now of global proportio

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

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

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

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

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

**Special Traditional Farming** Includes loans for the purposes of beekeeping, fur-bearing animals, rabbits, Pregnant Mare Urine (P.M.U.), horses, vermiculture, maple syrup and pisciculture.

## Risk

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

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

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

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

## Government Programs

***Feed Freight Assistance (FAA)** A federal program commenced in 1941 to provide a market outlet for western grain shipments disrupted by the war and to encourage livestock production in the feed deficit areas of Canada, including British Columbia and eastern Canada. Following crop year 1994/95, the program was terminated.

***Western Grain Transition Payments Program (WGTPP)** The Western Grain Transition Payments Program was put in place in the 1995 federal budget to provide transitional assistance to the owners of eligible western farmland who were directly affected by the termination of grain freight subsidies previously provided under the *Western Grain Transportation Act* (WGTA). To help offset the impact of this change on farmland values, the federal government provided $1.6 billion as a one-time payment to the owners of prairie land used to produce WGTA-eligible crops.

**Source: Agriculture and Agri-Food Canada*

### Manitoba

400-5 Donald Street
Winnipeg, Man. R3L 2T4
(204) 983-4039

***Other locations include:***
*Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage la Prairie, Steinbach, Stonewall, Swan River, Virden*

### Saskatchewan

Suite 900
1801 Hamilton Street
Regina, Sask. S4P 4L3
(306) 780-5610

***Other locations include:***
*Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton*

### Alberta/ British Columbia

Exchange Tower
Suite 1200
10250-101st Street
Edmonton, Alta. T5J 3P4
(403) 495-4488

***Other locations include:***
*Abbotsford, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Fairview, Falher, Grande Prairie, Grimshaw, Hanna, Kelowna, Lacombe, Lethbridge, Medicine Hat, Olds, St. Paul, Stettler, Stony Plain, Three Hills,Vegreville, Vermilion, Wainwright, Westlock, Wetaskiwin*

*Yukon and North West Territories are served through the Edmonton Office*

### Agri-Land Sales & Leasing

1801 Hamilton Street
P.O. Box 4320
Regina, Sask. S4P 4L3
(306) 780-8411
1-800-910-5263

### Corporate Office

1800 Hamilton Street
P.O. Box 4320
Regina, Sask. S4P 4L3
(306) 780-8100

*This report was printed on recycled papers using vegetable-based inks.*

FARM CREDIT CORPORATION

The seed for farm credit is planted… These are just a few of the many success stories FCC has shared with clients over the years. We are pr o be art the agricultural family, and dedicate this year's ann

# Values

## Client Service

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

## Trust and Respect

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

## Teamwork

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

## Employee Development

*We promote professional development and continuous learning for staff.*

## Partnerships

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

## Corporate Citizenship

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

## Diversity

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

FCC SCA
Farm Credit Corporation
Société du crédit agricole

Canada

Cette publication est également offerte en français.

CORPORATE OFFICE • 1800 HAMILTON STREET • P.O. BOX 4320 • REGINA, SASKATCHEWAN • S4P 4L3 • (306) 780-8100