Agriculture...

FARM CREDIT CORPORATION • 1998-1999 ANNUAL REPORT

FCC SCA
Farm Credit Corporation
Société du crédit agricole
Canada

In Memoriam

Roger and Terri-Lynn Schmitz were featured on the cover of FCC's 1996-97 annual report along with young sons Dustin and Colton. A tragic car accident claimed the lives of Roger, Dustin and Colton along with Roger's father, Jake, on April 4, 1999. FCC dedicates this year's annual report to their memory. Our thoughts are with Terri-Lynn and her two-year-old daughter Tiana.

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MISSION

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

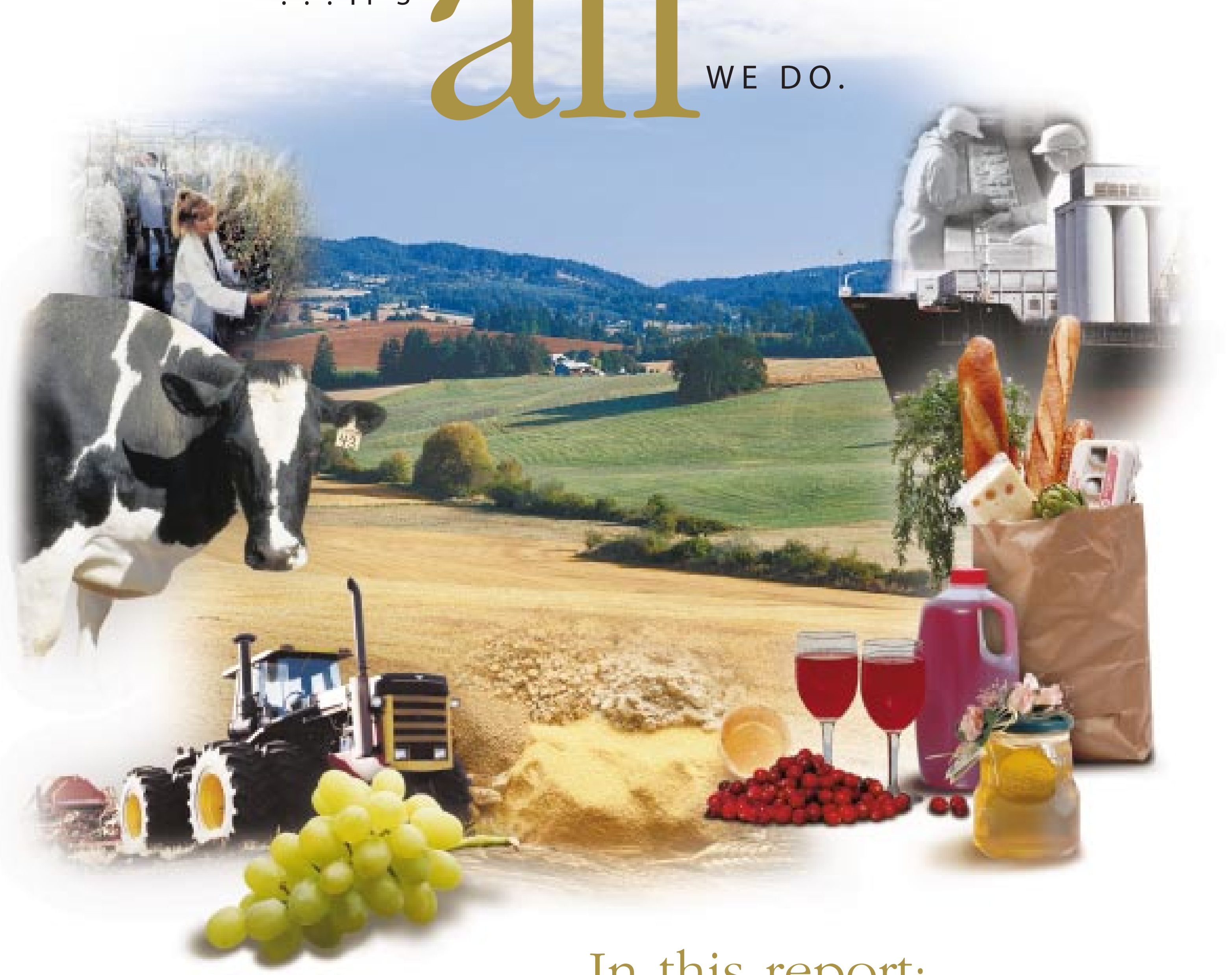
VISION

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

CORPORATE PROFILE

Farm Credit Corporation is Canada's largest agricultural term lender, offering flexible financing solutions to primary producers and agribusiness. Corporate office is located in Regina, Saskatchewan with 900 employees situated in 110 offices across Canada. FCC's loan portfolio of 72,311 accounts is valued at $5.8 billion. FCC delivers joint programs and services with government agencies and other financial institutions.

. . . IT'S all WE DO.



In this report:

FEATURE STORIES ABOUT OUR CUSTOMERS FROM ACROSS CANADA

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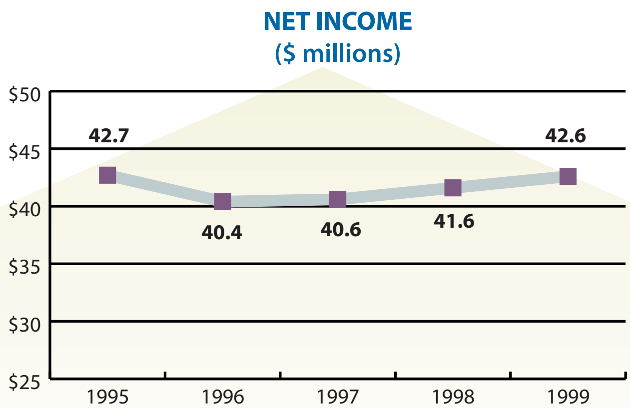
1998-99 Financial

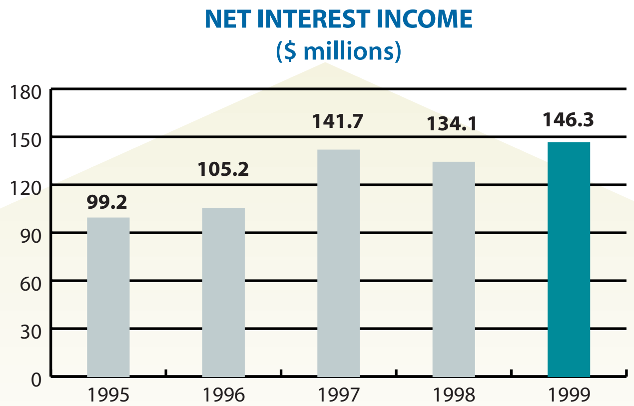
Highlights

OPERATIONAL	1999	1998	1997	1996	1995
Total Loans Receivable Portfolio					
Number of Loans	72,311	69,846	65,318	60,250	56,760
Amount ($ millions)	5,843.4	5,318.8	4,687.0	4,066.3	3,535.7
Number of loans approved	14,880	15,488	12,910	10,193	6,428
Amount of loans approved ($ millions)	1,617.4	1,525.2	1,402.9	1,032.7	631.9
Average size of loans approved ($)	108,700	98,500	108,700	101,300	98,300
Percentage of total owing in good standing	94.8	94.3	93.1	94.1	95.4
Real property held at year end					
Number	1,516	1,787	1,982	2,171	2,529
Amount ($ millions)	103.4	123.5	139.6	153.5	196.6

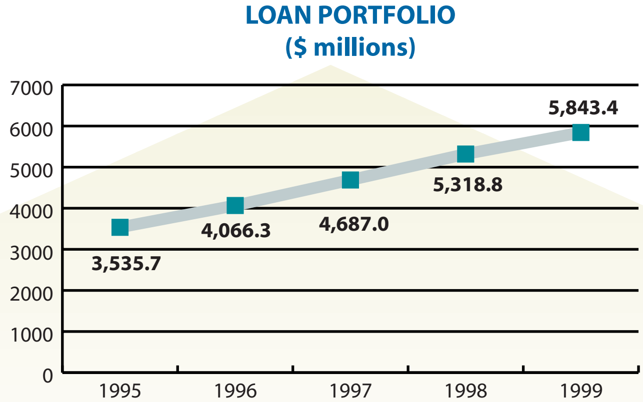
FINANCIAL	1999	1998	1997	1996	1995
Revenues and Expenses ($ millions)					
Net interest income	146.3	134.1	141.7	105.2	99.2
Provision for credit losses	33.2	18.7	24.0	12.1	9.7
Net lease and real estate income	14.7	13.0	7.1	11.3	8.6
Other income	7.1	8.8	5.8	4.2	6.3
Administration expenses	90.1	89.4	83.4	66.6	59.6
Income taxes	2.2	6.2	6.6	1.6	2.1
Net income for the year	42.6	41.6	40.6	40.4	42.7
Financial Position ($ millions)					
Total assets	6,125.1	5,706.2	5,022.4	4,371.4	3,986.3
Total liabilities	5,533.2	5,156.9	4,564.7	3,951.6	3,626.7
Equity	591.9	549.3	457.7	419.8	359.6



Net Income up 2.4%

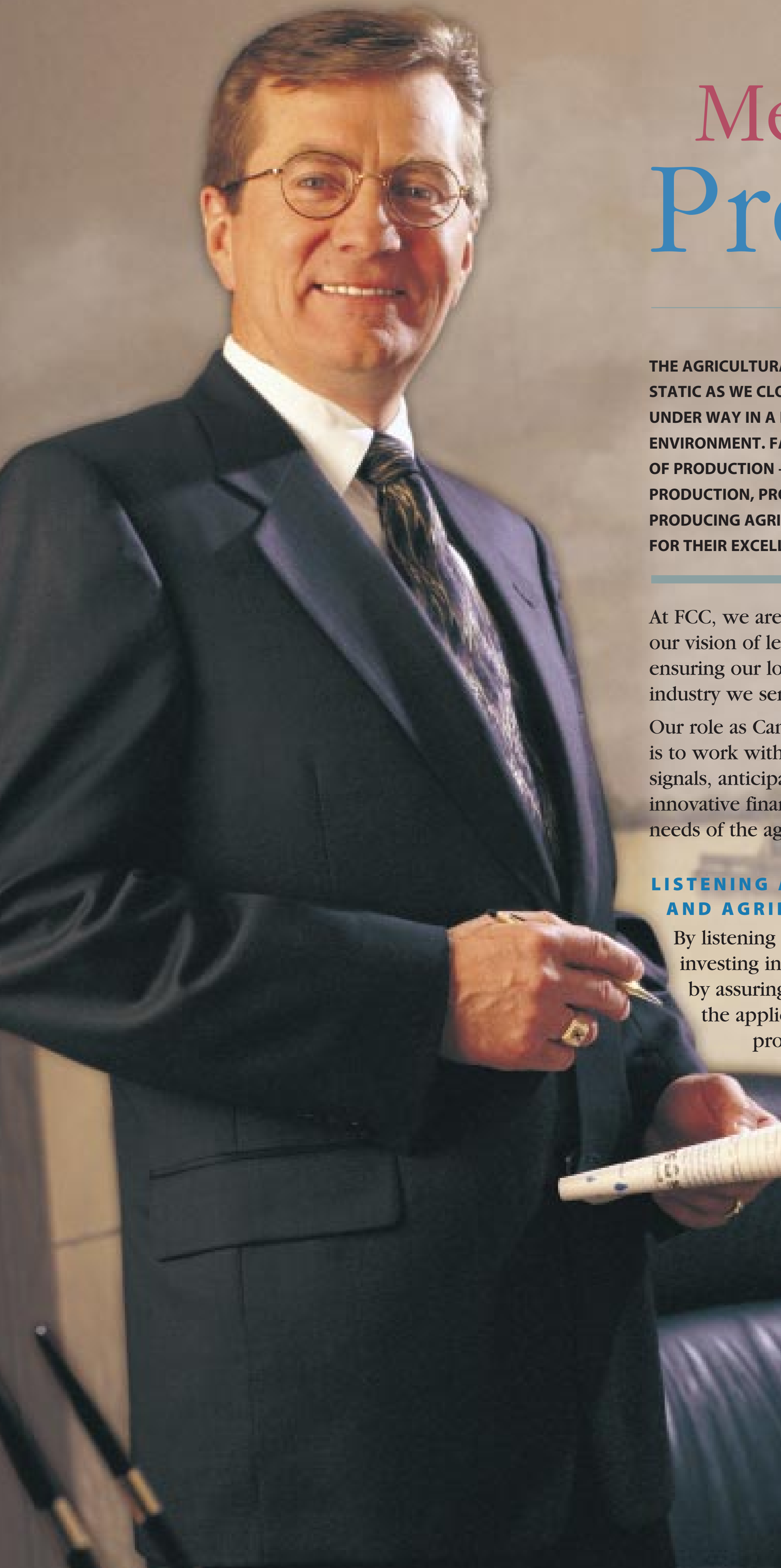


Net Interest Income up 9.0%



6th Consecutive Year of Growth

AS A SOVEREIGN BORROWER, FCC MAINTAINS AN AAA CREDIT RATING.



Message FROM THE President

THE AGRICULTURAL INDUSTRY IS ANYTHING BUT TRADITIONAL AND STATIC AS WE CLOSE THIS CENTURY. THERE IS A TRANSFORMATION UNDER WAY IN A HIGHLY SOPHISTICATED, GLOBALLY COMPETITIVE ENVIRONMENT. FARMERS AND AGRIBUSINESS ALONG THE STAGES OF PRODUCTION – FROM INPUTS, PRIMARY PRODUCER, SECONDARY PRODUCTION, PROCESSING, PACKAGING AND RETAIL – ARE PRODUCING AGRICULTURAL PRODUCTS RECOGNIZED WORLDWIDE FOR THEIR EXCELLENCE.

At FCC, we are driving our own transformation to achieve our vision of leading the way in agricultural financing, ensuring our long-term success for the benefit of the industry we serve.

Our role as Canada's largest agricultural term lender is to work with producers and agribusiness, observing signals, anticipating trends and offering customers innovative financing solutions tailored to the unique needs of the agricultural industry.

LISTENING AND RESPONDING TO PRODUCERS AND AGRIBUSINESS

By listening to customers and industry stakeholders, investing in employees, leveraging technology, and by assuring the Corporation's financial success through the application of sound business practices, we deliver products and services to meet the needs of producers and agribusiness.

For example, the development of the AgriStart line of products in September 1998, which assists developing farmers and family farm transfers, was the direct result of a need identified through customers and industry consultation.

Primary producers continue to be our focus, representing 93.7 per cent of FCC's new lending in 1998-99. Recognizing that a thriving agribusiness sector benefits the producer by opening new market opportunities and enhancing rural Canada by creating job opportunities, FCC has responded. Lending to agribusiness and valued-added enterprises represents 6.3 per cent of the Corporation's portfolio.

THE STRENGTH OF ALLIANCES

Growth in the agricultural industry has always come through innovation, commitment, and hard work. Add to that the right tools and the support of the community, and you have a strategy for success. Building alliances to provide a broader array of financial services and innovative financing packages is one of FCC's strategic thrusts. We work with other financial institutions, credit unions and federal Crowns, as well as Canadian agricultural organizations, to support the growth of the industry. Collectively, we believe we have made a difference. I would like to extend our thanks to our various partners for coming together to help our joint clientele succeed.

PEOPLE WORKING TOGETHER FOR RESULTS

If there is one thing I've learned in my experience over the years, it is that management alone cannot successfully drive change. It takes inspiration and commitment at all levels of the Corporation. FCC staff are passionate about agriculture – they relate to the customer's experience because many farm themselves. Whether they're meeting customers at their businesses or working behind the scenes processing the customer's loan, FCC staff are known for their expertise in agricultural financing.

We believe that investing in people is the key to achieving excellence. FCC committed slightly over $1 million of its expense budget toward training and development programs aimed at enhancing performance and encouraging the transformational thinking so necessary to achieving our vision.

OUR COMMITMENT TO THE INDUSTRY

Solid financial performance over the past nine years has positioned the Corporation to serve farmers and agribusiness through all economic cycles. Sound business and risk management practices coupled with a sufficient equity base affords both producers and FCC more flexibility during economic downturns.

This fiscal year, falling commodity prices had an impact on the agricultural economy and more particularly, hog and cereal grain producers. FCC credit advisors proactively contacted many of their customers to help them determine and address individual challenges. We urged customers to approach us early if they were anticipating difficulties in order to review options and design solutions tailored to their particular operations.

Despite recent difficulties in these sectors, the agricultural industry has recorded several years of strong growth in Canada during a period of optimism and good prices. This in turn is reflected in the growth of FCC's loan portfolio to $5.8 billion as of March 31, 1999 from $3.5 billion in 1995.

With the industry witnessing rapid change, producers and agribusiness need a lender with incomparable knowledge and unique solutions. We know that it is not enough to keep pace with agriculture's transformation. Ultimately, we must be ahead of the industry to best help customers.

Our role as Canada's largest agricultural term lender is to work with producers and agribusiness, listening to signals, anticipating trends and offering customers innovative financing solutions tailored to the unique needs of the agricultural industry.

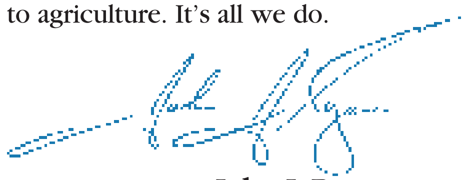
This is why we have enunciated a vision to become visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada. These are more than just words.

We have pledged our commitment to be leaders in agricultural financing. We are known for the fact that our customers can count on us, during the good times and bad. FCC staff are acknowledged experts in agricultural financing. We will build on these qualities.

I would like to thank FCC staff for their contributions throughout the year as well as our future-oriented Board of Directors, whose support is tangibly assisting us in attaining our vision. The Corporation will continue to be 100 per cent dedicated to agriculture now and in the future. Our customers can count on receiving the type of service they need to bring their plans to fruition. They also can look forward to increasingly innovative lending products and alternative delivery channels for service to suit their needs.

We are making changes to better serve our agricultural and agribusiness customers. But one thing about FCC won't change – our dedication to the industry we serve.

We are solely committed to agriculture. It's all we do.



John J. Ryan
President and Chief Executive Officer

Message FROM THE Chair

SUCCESSFUL PEOPLE DON'T CONFINE THEIR TALENTS TO THE OFFICE. THEY SHARE THEIR INTELLECT, ENTHUSIASM AND ENERGY WITH THE COMMUNITY. THIS SENSE OF SHARING IS WHAT MAKES THE FCC CULTURE STAND OUT. OUR VISION TO 'LEAD THE WAY' IN AGRICULTURAL FINANCING EXTENDS BEYOND BALANCE SHEETS AND BUSINESS PROCESSES TO INCLUDE 'MAKING A DIFFERENCE' IN THE COMMUNITIES WHERE EMPLOYEES AND CUSTOMERS LIVE AND WORK.

FCC's board members possess a passion for community and agriculture, which they bring to policy discussions about the course of FCC and which underlies each decision made.

Our mandate is to enhance the quality of life in rural Canada. We are committed to working with others with like objectives to foster vibrant communities throughout rural Canada. The continued growth and success of our customers depends on this, as does that of our organization.

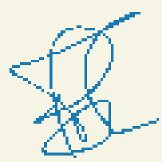
The members of the FCC Board of Directors are equally committed to giving back to their communities. Each one is an agricultural industry leader in their own right – both in their individual businesses and in their communities where they contribute to worthwhile initiatives such as 4-H, the Outstanding Young Farmers program, local marketing boards and Chambers of Commerce.

We are also proud to report that FCC is leading the way for other Crown corporations and many private sector companies in community relations activities. Our employees have a superior track record of community involvement. In 1998, FCC launched an official corporate community relations program to formalize our goal of being a 'neighbor of choice.' Putting commitment into action, FCC has joined other similarly-minded Canadian corporate citizens in the *Imagine* program by pledging to invest one per cent of pretax profits annually in community-based initiatives and programs aimed at improving the quality of life for residents of communities across Canada. Being a neighbor of choice means more than money; it includes lending a helping hand when and where needed.

This belief in giving back to the community is tangibly demonstrated in hundreds of acts – both large and small – by employees across Canada. Moncton staff banded together and raised funds to help send a co-worker to Africa to visit her sick mother whom she had not seen since coming to Canada. With the news of a six-year-old boy needing a bone marrow transplant to treat his leukemia, hundreds of employees registered in the Unrelated Bone Marrow Donor Program through Canadian Blood Services. Whether participating in a fundraiser for a local charity or mentoring a young person who wants to establish a career in agriculture, employees and members of the Board reach out to their communities every day and are, in turn, richly rewarded for their efforts.

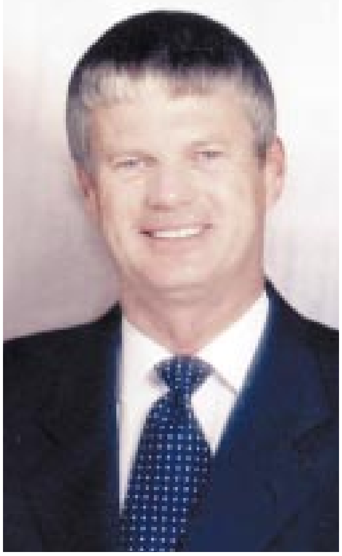
We have endless opportunities to apply our industry knowledge and our spirit of citizenship across Canada. The Board takes pride in being able to participate in the continuing growth of FCC's contributions to agriculture and efforts to support rural communities.

Respectfully submitted on behalf of the Board of Directors,



Donald W. Black
Chair

MESSAGE FROM THE MINISTER



If there is one message that has been driven home in the past few years in Canadian agriculture, it is that farming is a global business. Canadian producers are responding to volatile international commodity markets by diversifying into crops and livestock with strong potential for growth, working to expand value-added production in their own communities and harnessing technology to increase returns. This intensive effort requires a considerable amount of capital. By providing financing to primary producers and small and medium-sized agribusiness, Farm Credit Corporation is investing in the future of Canadian agriculture and helping to expand global trade. In the past year, the federal Crown corporation has delivered about $1.6 billion in new lending to agricultural customers from coast to coast. The Government of Canada supports the growth of profitable agricultural and agri-food trade as an important means of strengthening the industry as a whole. Today, nearly half of every dollar earned by primary producers comes from international trade. This ratio likely will increase in the future as Canadian producers continue to extend their reach from the farm into the global marketplace.

**– THE HONOURABLE LYLE VANCLIEF,
MINISTER OF AGRICULTURE AND AGRI-FOOD.**

Bringing new market potential to New Brunswick

CANNEBERGES ACADIENNES

"WITH THE SUPPORT OF BOTH THE NEW BRUNSWICK MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT, AND FARM CREDIT CORPORATION, WE WERE ABLE TO TAKE OUR KNOWLEDGE OF CRANBERRY PRODUCTION AND OUR ENERGY TO CREATE NEW OPPORTUNITIES IN AGRICULTURE AND AGRI-FOOD WITHIN THE PROVINCE."

BENOÎT RICHARD AND ODETTE HACHÉ

THE LEADING EDGE IN CRANBERRY PRODUCTION:

- First to commercially harvest cranberries in New Brunswick, 1997.
- Processed 45 per cent of 1998 production into cold-pressed juice, cranberry/orange/Grand Marnier spread, purée and whole cranberries in a light syrup.
- 'Richard' products were introduced to Atlantic Canada in spring 1999.
- *Canneberges acadiennes* provides consulting services to new cranberry producers.

START UP:

- Began in 1994 with venture capital accessed through a perennial crop loan from New Brunswick's Ministry of Agriculture and Rural Development.
- Additional long-term financing and expansion funds provided by FCC.

IMPACT ON LOCAL MARKET:

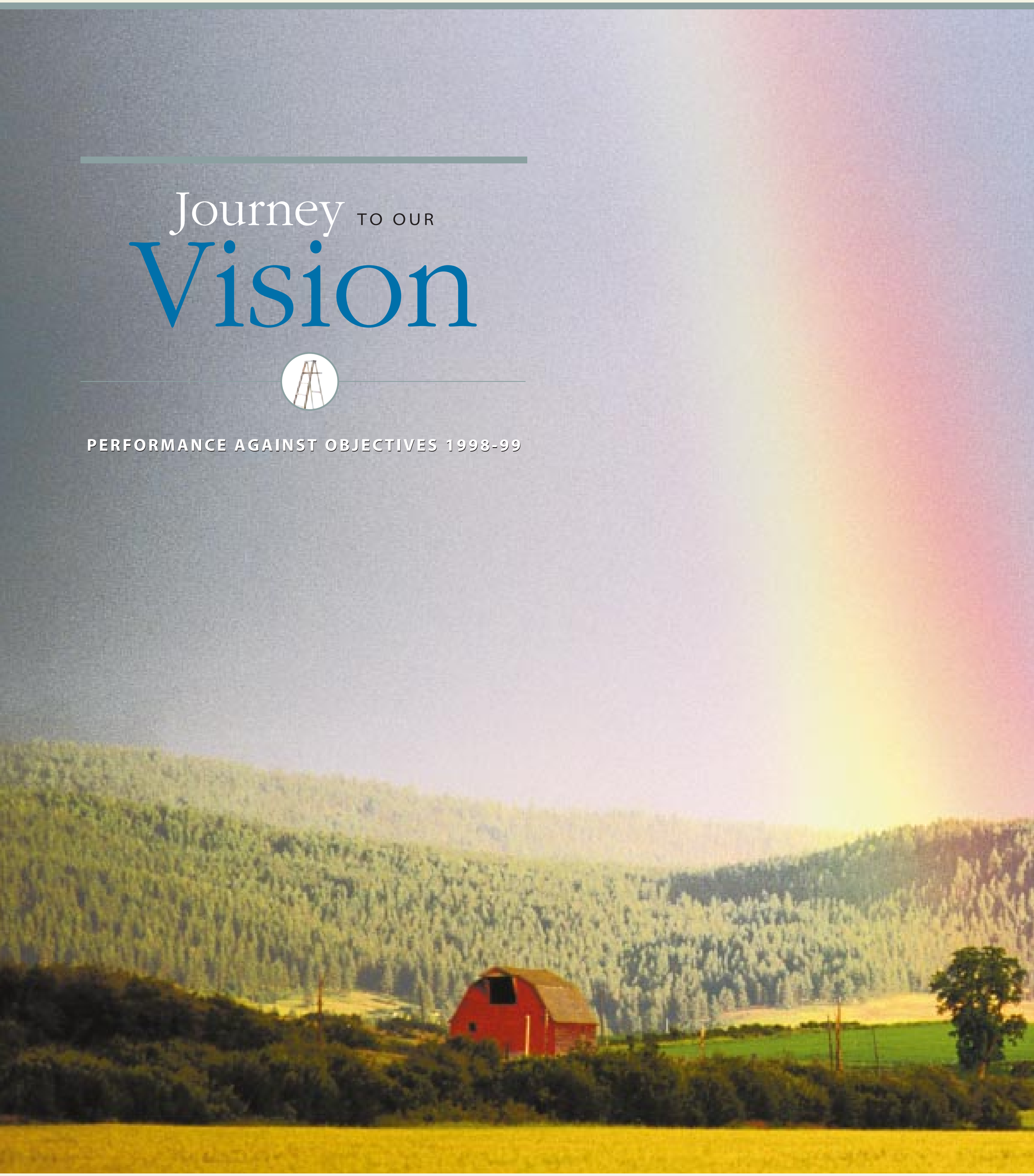
- Cranberry production has grown from zero to 300 acres in five years with the prospect of future job creation to support cranberry production and processing.

INTERNATIONAL MARKETS:

- Products tested and used by award-winning chefs in Canada and France.
- Served at a Government of Canada-sponsored dinner at Germany's international bi-annual food fair, ANUGA, in 1997.
- Served at the 35th anniversary celebration of the Okura Hotel in Tokyo in 1996 when Québec chefs presented *Canneberges acadiennes* products in their creations.
- Samples distributed to contacts in Japan, England and the United States.

Journey TO OUR Vision

PERFORMANCE AGAINST OBJECTIVES 1998-99



Customer Loyalty

STRATEGIC INITIATIVES 1998-99	1998-99 *RESULTS*
DEVELOP, PROMOTE AND DELIVER AGRICULTURAL FINANCIAL SOLUTIONS THAT MEET THE NEEDS OF CANADIAN FARMERS. • Create products and services that address the market needs of primary producers and agribusiness. • Develop a customer relationship management program to ensure that all customers receive service throughout the life of their FCC loan.	***Product and service excellence yields excellent results*** • FCC lending hit $1.6 billion in 1998 - 99, surpassing our $1.4 billion projected by 14.7 per cent and our previous year's lending of $1.5 billion by 6.0 per cent. ***Innovative new products custom-designed for specific agricultural needs*** • AgriStart – a unique family of products for intergenerational transfer and developing farmers was launched in September. By year-end, 563 producers had borrowed $66.7 million, exceeding our $35 million forecast by 90.6 per cent. • Tailored the New Brunswick Land Clearing Loan and the New Brunswick Blueberry Loan, in cooperation with the provincial government, to meet the specialized needs of local producers. • Designed the Agri-Land Loan to help FCC tenants purchase their land, as part of an ongoing effort to return FCC land holdings to their original owners.
PROACTIVELY AND CONSISTENTLY COMMUNICATE FCC'S PURPOSE, VISION AND SERVICES TO ALL EXTERNAL PUBLICS AND STAFF. • Introduce a community relations program to support community initiatives. • Develop and launch an Internet site to improve access to FCC information. • Share expertise through speaking opportunities. • Increase awareness of FCC through increased media contact. • Enhance FCC's ability to provide service in both official languages.	***Enriching our communities*** • Launched a national community relations program to enhance the communities where FCC employees and customers live and work. • Joined the Canadian Centre for Philanthropy's *Imagine* group of caring companies, committed to giving one per cent of pretax profits to charitable and not-for profit activities in Canada. • Dedicated $415,800 to national and local community activities in 1998–99. ***FCC goes live on the Net*** • Launched Internet site June 1998. Visitors can access information on FCC, its products and services; view, download and request e-mail subscriptions to news releases and publications; complete preliminary loan assessments; view employment opportunities and submit resumés; and contact FCC directly via e-mail or interactive feedback forms.
ENHANCE CANADIAN AGRICULTURE THROUGH PROACTIVE DEVELOPMENT AND IMPLEMENTATION OF PUBLIC AFFAIRS AND PUBLIC INITIATIVES.	***Bringing agricultural issues to the forefront*** • FCC staff personally briefed Members of Parliament in rural constituencies on its products and services. • As changes impact the financial services industry, FCC addressed the Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce on the needs for agricultural financing.

Enhanced products in response to customer feedback

- Improved and extended the Plant Now – Pay Later Loan to all fruit growers wishing to renovate or expand their operation.
- Enhanced flexible terms by adding repayment options to seven and 10-year term loans.

Customized financing for agribusiness

- Partnered with other financial institutions to provide customized financial solutions for agribusiness clients.
- Approved 136 new agribusiness loans, for a total of $104.1 million.

Improved customer relationship management

- Piloted Managing Local Markets – a new customer relationship management system based on market needs, to ensure that our customers get the specialized, one-on-one service they deserve.

OBJECTIVES 1999 – 2004

TO MEET THE EVOLVING NEEDS AND CHALLENGES OF THE AGRICULTURAL INDUSTRY, FCC WILL SEEK OUT NEW SERVICES, NEW DELIVERY CHANNELS AND NEW MARKETS.

1999-2000 Goals and Measures

1. **Offer customers innovative products and services** resulting in $1.0 billion in new loan disbursements to primary producers.
2. **Establish strategic alliances** to ensure farmers can access a broader range of financial services.
3. **Grow our agribusiness portfolio** by developing specific strategies, resulting in $262 million in new agribusiness loan disbursements.
4. **Develop and implement a customer relationship management** system to enhance customer-driven culture and best serve FCC clients.
5. **Develop non-interest-based products** and services targeted to customer groups.

- The site drew 10,604 visitors and 105 preliminary loan assessments resulting in $903,000 in loans by March 31, 1999.

Exchanging ideas and sharing expertise – FCC executives address industry groups

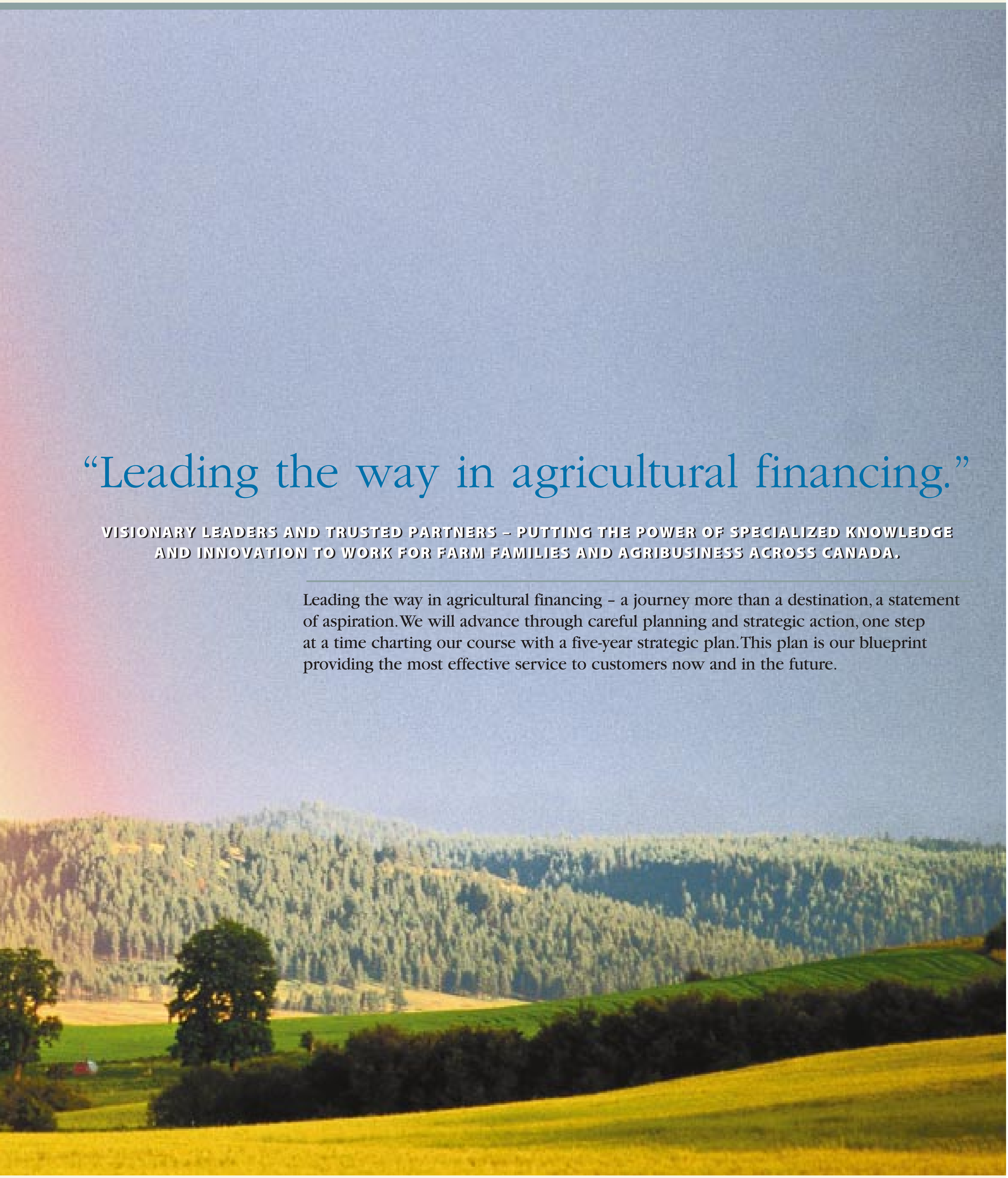
- FCC executives shared their knowledge and expertise in agricultural financial management with industry and stakeholder groups, including the Canadian Federation of Agriculture, *l'Union des producteurs agricoles*, Canadian Young Farmers Forum, Canadian Horticultural Association, Keystone Agricultural Producers, and the Atlantic Farm Challenges Conference.

Enhancing service in both official languages

- Established linguistic position profiles and initiated new language training programs to better serve our clients in the official language of their choice.

ENSURE THAT STELLAR COMMUNICATION REMAINS A SUCCESS FACTOR AT FCC THROUGH PROACTIVE AND CONSISTENT MESSAGING REGARDING FCC'S PURPOSE, VISION AND SERVICES TO ALL EXTERNAL PUBLICS AND STAFF VIA STAKEHOLDER RELATIONS, CUSTOMER INTERACTION AND COMMUNITY SPONSORSHIPS.

- FCC executives met with provincial agricultural ministers and deputy ministers to share information and expertise and strengthen partnerships.
- Established a government and industry affairs office in Ottawa to enhance communications between FCC and key stakeholder representatives.



"Leading the way in agricultural financing."

VISIONARY LEADERS AND TRUSTED PARTNERS – PUTTING THE POWER OF SPECIALIZED KNOWLEDGE AND INNOVATION TO WORK FOR FARM FAMILIES AND AGRIBUSINESS ACROSS CANADA.

Leading the way in agricultural financing – a journey more than a destination, a statement of aspiration. We will advance through careful planning and strategic action, one step at a time charting our course with a five-year strategic plan. This plan is our blueprint providing the most effective service to customers now and in the future.

Employee Excellence

STRATEGIC INITIATIVES 1998-99

REALIZE MAXIMUM EMPLOYEE POTENTIAL THROUGH THE CREATION OF A COMPREHENSIVE HUMAN RESOURCES MANAGEMENT FRAMEWORK.

- Provide training and staff development programs to ensure the continued delivery of expert and personalized customer service.
- Introduce a succession-planning program, which identifies high potential individuals and helps develop them.
- Conduct a review of the current pension plan and recommend changes, if necessary, for implementation in 1999–2000.

1998-99 *RESULTS*

Improving customer service through front-line staff development

- A new and improved Credit Advisor Development program introduced ensures that our customers continue receiving top-notch service by FCC's largest employee group who interact with our customers directly.

Developing management excellence

- FCC's first ever succession planning framework has been designed and is ready to identify high potential among professional level employees and to identify potential successors for management positions.
- "Best ever" is how the Leadership Development Program delivered at the Banff Centre for Management was rated by participants of the first of three modules.

Technology

STRATEGIC INITIATIVES 1998-99

ENHANCE CUSTOMER SATISFACTION AND IMPROVE INTERNAL EFFICIENCY THROUGH BUSINESS PROCESS REENGINEERING AND THE STRATEGIC USE OF TECHNOLOGY TO POSITION FCC FOR THE NEW MILLENNIUM.

- Ensure Year 2000 Readiness.
- Develop and implement management reporting tools.
- Process improvement of the loan origination system.
- Implement the reengineered loan maintenance process and reengineered appraisal process.

1998-99 *RESULTS*

Year 2000 Ready

- Year 2000 preparedness plan is on track following the execution of a comprehensive project led by senior management. For a more detailed discussion on Year 2000, see page 34.

Technology Plan in sync with business needs

- Developed a three-year plan, in consultation with an industry specialist, to upgrade FCC's information technology environment.
- Work continued on the loan origination system and the data warehouse, a virtual data storage facility, to provide more detailed information on customer needs.
- Replaced one third of FCC's systems, including appraisal systems, scorecard and general ledger.

Financial Success

STRATEGIC INITIATIVES 1998-99

FCC WILL BE FINANCIALLY VIABLE OVER THE LONG TERM, ENABLING FCC TO WORK WITH FARM FAMILIES AND AGRIBUSINESS TO ACHIEVE THEIR VISION.

- Achieve a Return on Equity (ROE) of 7.2 per cent.
- Introduce an integrated risk-management program to take a corporate-wide approach to monitoring risk.
- Develop a methodology to measure return on resources employed.
- Generate average funding costs flat to five basis points below government benchmark bonds to contribute to higher margins.

1998-99 *RESULTS*

Return on investment target exceeded

- Surpassed all targets with a year-end ROE of 7.5 per cent.
- Consulted with industry specialists to design an Integrated Risk Management framework, to be implemented over a three-year period.
- Developed a methodology to measure return on resources employed and a formalized project approval process.

Global financial turmoil affects margins

- Global financial turmoil last year contributed to a general widening of credit spreads for borrowers including FCC; borrowing costs for 1998-99 were 12 basis points over Canada's.

Pension Plan Review

- FCC's participation in the Public Service Superannuation Plan has been assessed for its effectiveness in linking overall compensation with the needs of FCC employees and corporate strategy.
- A mandate to bring forth innovative options was given to management by the Board of Directors to provide pension coverage that meets the needs of all employees.

OBJECTIVES 1999 – 2004

PROVIDING THE BEST SERVICE TO FCC CUSTOMERS BY CREATING A WORK ENVIRONMENT WHICH WILL ATTRACT AND RETAIN THE BEST PEOPLE.

1999-2000 Goals and Measures

1. **Recruit and develop** the highest calibre employees, so that 90 per cent of new hires successfully pass probation. Recognizing the correlation between customer satisfaction and high calibre employees, FCC will survey to establish customer satisfaction targets.
2. **Maximize customer service** while improving employee productivity through a work environment that fosters innovation, knowledge and diversity. Success will be measured through the Human Resources Index survey.
3. **Assist employee development** through learning opportunities via assignment to inter-disciplinary projects, coaching and training with a success rate of 85 per cent (measured learning retention). FCC will invest 3.5 per cent of salary budget in training.

- FCC leveraged technological resources toward completely revamping the corporate strategic planning and budgeting process.

Processing centres revamped for greater efficiency

- The Financial Analysis and Concurrence Centres were amalgamated in two locations, Ottawa and Regina, to streamline the lending process and offer more efficient customer service.

VAL – reengineering the appraisal process

- Introduced VAL, a fully shareable, centralized database of real estate sales and valuations, which permits quick and accurate appraisals.

OBJECTIVES 1999 – 2004

CONTINUOUS IMPROVEMENT OF BUSINESS PROCESSES THAT WILL RESULT IN HIGHER QUALITY CUSTOMER SERVICE, REDUCED COST OF OVERALL SERVICE DELIVERY AND INCREASED PRODUCTIVITY.

1999-2000 Goals and Measures

1. **Design innovative ways to deliver services** to customers internally and externally resulting in a reduction of the administration expense ratio, increased portfolio and increased net income per employee.
2. **Develop cost-effective and flexible technology** architecture and business applications to enhance customer service and support FCC's business needs.
3. **Improve availability and data quality** of corporate information by establishing enhanced customer data requirements.

OBJECTIVES 1999 – 2004

CONTINUED FOCUS ON FCC'S LONG-TERM FINANCIAL VIABILITY, ENABLING PROVISION OF SUPERIOR SERVICE AND RELEVANT PRODUCTS WHILE OFFERING COMPETITIVE PRICING TO CUSTOMERS.

1999-2000 Goals and Measures

1. Realize **stable and profitable asset** growth with returns in excess of the Government of Canada's cost of capital. Measures for success:
   - *ROE of 5.7 per cent,*
   - *ROA of 0.55 per cent,*
   - *debt to equity 9.7:1,*
   - *loan portfolio growth of 6.2 per cent.*
2. **Diversify FCC's reliance on interest income** by identifying other revenue sources.
3. **Maintain and improve corporate margins** by setting specific lending margins and sourcing cost-effective funding.

THE MAKING OF AN FCC Product

IN 1998-99, FCC INTRODUCED A PRODUCT DEVELOPMENT PROCESS THAT COVERS EVERY STAGE FROM CONCEPTION TO DELIVERY. FCC'S AGRISTART PRODUCT LINE, DESIGNED FOR DEVELOPING FARMERS, MADE ITS SUCCESSFUL DEBUT FOLLOWING THIS PROCESS.

"To offer customers the best possible service, we must continue to introduce high-quality products and improve existing product lines. Our new product development process makes creating innovative solutions much easier."

*– **Shelley Legin**, Vice-President, Marketing and Product Development*

The first step in any successful product development process is to determine customer needs. FCC began its search for product excellence by commissioning a national survey to ask producers where they saw gaps in the current lending marketplace.

Their response was clear. Most respondents felt that more products are needed to help developing farmers and farm families with:

- starting or expanding agricultural and agribusiness enterprises; and
- transferring farm assets from one generation to the next.

Once customer needs were identified, FCC followed a strict product development process to help ensure the successful delivery of the right products.

PRODUCT DEVELOPMENT PROCESS

- **Gather ideas** through customer comments, field staff, industry stakeholders and market research.
- **Assess the market potential** and technical viability of each idea through a cross-functional task force of representatives from Operations, Legal Services, Information Technology and Treasury
- **Develop detailed business cases** for each concept; screen ideas based on projected results.
- **Examine product development and implementation**, considering resources, associated risks, rewards, issues or opportunities.
- **Create and test** a prototype of the product in a real market situation.
- **Evaluate test results** against the business analysis to confirm that the product meets customer expectations.
- **Test pilot** new products in a limited market.
- **Refine** product for a successful delivery.
- **Launch** product.

PRODUCT DEVELOPMENT PROCESS BRINGS POSITIVE RESULTS

FCC staff across the country report strong customer interest in the AgriStart family of loans. Since the launch, 563 customers looking to either start or expand their farming operations borrowed $66.7 million. The new development process will be the prototype used to launch more innovative products in the years to come.

"This product development process will help us anticipate marketplace trends and provide customers with the tools they need to succeed now and into the future."

*– **Louise Neveu**, Executive Vice-President and Chief Operating Officer*

READY, SET, AGRISTART!

agristart

On September 15, 1998, the Honorable Lyle Vanclief, Minister of Agriculture and Agri-Food, and John Ryan, FCC President and CEO, unveiled AgriStart at the opening of the International Plowing Match and Farm Machinery Show in Sunbury, Ontario.

*AgriStart consists of three products: The **1-2-3 Grow Loan** is ideal for producers and agribusiness operators starting or expanding an enterprise that will have limited income during the start-up period. The **Payday Loan** is designed for individuals who use off-farm income to fund their agricultural operations. The revamped **Family Farm Loan**, first introduced in 1993, has new features to assist with the transfer of farming assets from one generation to the next.*

Fire Devastates Dairy Operation:

Community and FCC pitch in to help

OCEANVIEW FARMS, A DAIRY FARM OWNED AND OPERATED BY RICHARD AND MARJORIE WALSH FOR 22 YEARS, STANDS ATOP A HILL OVERLOOKING THE TOWN OF BAY BULLS, NEWFOUNDLAND. ONE NIGHT IN JUNE 1998, THE BARN CAUGHT FIRE, BRINGING FIRST CALAMITY AND THEN COMMUNITY.

RICHARD AND MARJORIE WALSH

"Family and friends from the community came out to help – within 20 minutes there were about 100 people. We opened doors and gates and just let everything go. At first, the fire was confined to one area. In 20 minutes, we had every cow out and then she just lit up," remembers Richard. "There was nothing left."

The building and equipment valued at $260,000, including a milking parlor, computer feeders and dairy equipment, was destroyed. Seven of the 80 cows died. Over the three months that it took to rebuild the barn, the Walshs experienced a loss of production due to the stress on the environment and the move. During that time, they lost another 10 per cent of their cows. Suffering another setback, the herd was later struck with IBR, a type of pneumonia that affects the lungs, killing five more cows.

FCC PITCHES IN

Like the fire, news spread quickly. That night, the Walshs' FCC Credit Advisor, Christine Wheaton, heard about the fire over the radio. "I waited two days for things to settle down for them and then I went to visit," Christine said. "They were devastated by the fire, of course, but they told me that they were glad that I had come. I was glad to show my support during this very difficult time."

Insurance covered 80 per cent of the loss. Richard and Marjorie called Christine two days later to arrange for financing of the remaining 20 per cent to rebuild their dairy barn. "There was no hesitation. Christine gave us options and helped us put together a package."

"We were able to approve their loan within 48 hours. Richard and Marjorie were very happy to obtain approval so quickly because they were anxious to begin rebuilding."
– Christine Wheaton,
FCC Credit Advisor

Thanks to incredible community support, the barn was up and operating three months and two days after the fire.

In spite of the fire and the disease, Oceanview Farms was awarded second prize for the most stable production in 1998. Richard and Marjorie held a barn dance with live music to celebrate the opening of their new barn and to thank the volunteers. About 450 people attended. FCC provided the signage, which stands proudly on their property today as a symbol of partnership.

"I would like to stress that it wouldn't have been possible to do this without the help of the family. We are very pleased," Richard said. "It's given us a new lease on life. That's how we see it today."

FCC Products & Services

LOAN PRODUCTS:

Variable Rate Loan
FCC offers a unique Variable Rate Loan for any agricultural or farm-related purpose, such as land, buildings, quota, equipment or livestock, secured by real or personal property.

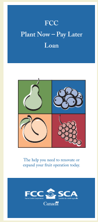
One-Year Convertible Loan
FCC's One-Year Convertible Loan offers the best of both worlds. It provides the flexibility of short-term lending when rates are dropping, while allowing the borrower to switch to a longer term rate at any time should rates begin to rise.

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

Personal Property Loan
This is a practical loan for a practical purpose – purchasing new and used equipment, quota or breeding stock. Two to 10-year amortization periods with quarterly and semi-annual payment options are available.

AgriStart
This innovative line of loans is designed to help families transfer farming operations from one generation to another as well as assist developing farmers in starting or expanding their operations. The AgriStart Plan encompasses the following three products.

- The **Family Farm Loan** enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business. Successfully launched in 1993, it has been updated and streamlined to increase flexibility and serve a wider market.
- The **1-2-3 Grow Loan** provides financing with deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years.
- The **Payday Loan** is designed for individuals with off-farm employment who are interested in starting or expanding a farm business.



Plant Now – Pay Later
FCC understands that expanding a horticultural operation often results in a reduced income stream for a number of years. Plant Now – Pay Later loans are customized to meet the needs of our vibrant fruit-growing industry.

Farmbuilder Construction Loan
Financing for building projects is easier with this innovative product that provides interim financing for construction. The Farm Builder Construction Loan applies to any type of construction project eligible for FCC financing. No payments are required during the first year and funds are disbursed as needed during the project.

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

New Brunswick Wild Blueberry Initiative
Offered in cooperation with the New Brunswick Department of Agriculture and Rural Development, this loan is designed to further develop New Brunswick's wild blueberry and associated pollination industries. This initiative assists with land development and the addition of new beehives for wild blueberry pollination.

EMERGING SECTOR SERVICES:

Aquaculture
FCC offers financing options that support salmon, fresh water fish or shell fish operations. Our staff has the specialized knowledge to assist with financial requirements for expanding aquaculture businesses including purchasing barges, cages, nets, smelt, feed, tanks, hatcheries, processing equipment, construction costs, land and site leasing.

Silviculture
FCC offers specialized lending services for the forestry industry including loan products for buying forestry equipment, expanding existing forestry operation, buying land.

Patience, Foresight and Commitment Yield Returns in Dairy Production

"WORKING WITH THE RIGHT PEOPLE AT THE RIGHT TIME MADE THIS POSSIBLE. I DON'T THINK WE'D BE FARMING WITHOUT FCC. THEY ARE ALWAYS 'FARM-MINDED' — ESPECIALLY WHEN IT COMES TO QUOTA LOANS. OUR CHALLENGE IS TO ADJUST TO WHATEVER COMES. BY MANAGING OUR DEBT LOAD AND KEEPING COSTS DOWN, WE CAN STRENGTHEN OUR POSITION."

John and Karen Devet moved to Alberta in 1990 with $30,000, two vehicles and a desire to run a dairy farm. They started milking 40 cows on rented land near Stettler, Alberta, with 200 litres of fluid and approximately 4,000 kilograms of market share quota. Less than a decade later, they own a 100-cow dairy.

STRATEGY FOR SUCCESS:

"Invest only in things that will make money — in dairy production, that's quota. If you don't have milk coming into the tank, you don't make money. It's that simple," says John Devet. "Working together is very important. We've made a lot of sacrifices during the years in order to build up our quota — but we've done it together," agrees Karen.

FIRST LAND PURCHASE:

In 1995, the Devets purchased a quarter section near Ponoka, Alberta through a joint loan between FCC and the Agriculture Financial Services Corporation. The original land included a workshop and a quonset barn. They purchased a mobile home, where they still live with two-year-old daughter Shelby.

IMPROVED PRODUCTION AND DEDICATION EQUALS PERFORMANCE:

Through animal selection based on performance and working with a nutritionist, the Devets' production per cow climbed from 8,000 litres/cow in 1990 to 10,500 litres/cow in 1999, yielding a more than 25 per cent increase in production.

AGRICULTURAL FINANCE EXPERTISE HELPS REALIZE GOALS:

Since the original purchase, FCC has partnered with the Devets through the many stages of growth, including building the dairy barn that will house approximately 150 milking cows as well as quota and equipment.

OTHER SERVICES:

Land Sales & Leasing

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

Feeder Finance Program

FCC finances feeder livestock through several livestock business alliances as well as numerous feeder finance co-operatives across the country.

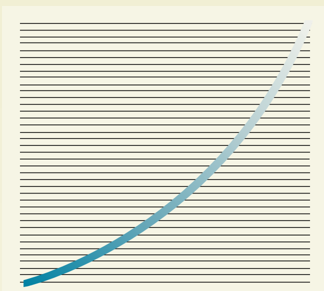
National Dealer Equipment Financing Program

The program assists dealers who do not have finance programs available or who wish to give their customers an alternative to their current program, by allowing them to provide financing to their clients through FCC.

Agricultural Value-Added Program

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

INVESTMENTS:

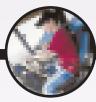


FCC Medium and Long-Term Notes

FCC's Medium and Long-Term Notes are issued daily at competitive market interest rates, for maturities ranging from one to 10 years. The notes are sold by investment dealers who act as agents for FCC and give investors the opportunity to invest in Canadian agriculture. These notes are issued by FCC to raise capital that is used to support Canadian Agriculture.

Finding a Niche in Pea Harvesting

BUILT ON A FOUNDATION OF FIVE GENERATIONS OF FARMING, MIKE MACAULEY FARMS IS MORE THAN A CORPORATE ENTITY. IT IS A DIVERSIFIED FARMING OPERATION AND ONE OF THREE CUSTOM PEA HARVESTING OPERATIONS IN CANADA. A FAMILY TRADITION WITH AGRICULTURAL ROOTS AND A STRONG SENSE OF FAMILY, MIKE AND JOY HAVE RAISED THEIR FIVE CHILDREN, BILL, PAM, SARAH, KATIE AND MIKE IN THE ORIGINAL HOUSE BUILT IN 1846 WHEN THE MACAULEYS FIRST SETTLED NEAR TRENTON, ONTARIO.



SMALL FARM ROOTS:

- The Macauleys started with 50 acres in 1978. They now own 550 acres and rent 1,200, growing corn, soybeans, wheat and oats.
- In the eighties, Mike expanded into custom pea harvesting. Today, he operates four pea harvesters, worth $384,000 each. He employs five people full time, as well as seasonal workers during harvest. Among the crew are his eldest son Bill who works full time on the farm, and Katie, 16, and Mike, 11, who both drive a pea combine.
- After the pea harvest ends in August, the crews continue harvesting wheat, oats, soybeans and field corn into the fall.

THE ROAD TO SUCCESS RARELY RUNS SMOOTH:

- When a pea processing plant near Trenton expanded in 1988, Mike saw an opportunity to expand his custom harvesting operation to supply peas to the plant.
- In 1997, the plant went into receivership, owing Macauley Farms almost a half million dollars. At the same time, Mike suffered a heart attack.

DETERMINATION PAYS OFF:

- Despite these setbacks, Mike secured a harvesting contract with a major pea farming operation in southwestern Ontario. During the summer of 1998, he and his crew lived in tents and trailers and worked around the clock to help the customer bring in the crop within the six-week harvest period. This farming operation is still his major customer to this day.
- Recently, Macauley Farms was rated as the most efficient harvester in North America by OXBOW, one of two pea harvester manufacturers on the continent.

QUOTE:

- Mike applies the same enthusiasm and sense of teamwork to his business that he does to coaching his son's hockey team, which he has guided to three Ontario championships. "No one person can do everything. Like in hockey, our crews all work together as a team. We would also like to express our deepest thanks to Farm Credit Corporation and our Credit Advisor Bill Adam for helping us get back on the road to recovery."

Surfing for Service

New Farmer Obtains Loan Through Technology and Teamwork

Karen and Gilbert Gregory operate a 1,200 acre grain farm about 60 miles east of Calgary. They frequently surf the net for seed and chemical suppliers, as well as machine parts. When their 22-year-old son Grant decided to start building his own farming operation, they went to FCC's web site for financing.

They filled out FCC's preliminary assessment form on the site and sent it in. By the next morning, they had already received a response from FCC. A follow-up meeting with Credit Advisor Bruce Gordon completed the loan process. Gilbert was so impressed that he came to FCC for his next loan.

Pig Operation on the Move

RICK KLASSEN'S PASSION FOR AGRICULTURE WASN'T BRED IN THE BONE. HIS FATHER WAS A SCHOOL TEACHER, NOT A FARMER. HOWEVER, THE SMALL-TOWN BOY SPENT ENOUGH TIME AT RELATIVES' FARMS TO DECIDE AT AN EARLY AGE THAT IT WAS HIS FUTURE. "IT WAS REALLY THE ONLY THING I EVER WANTED TO DO." IN THE YEARS SINCE, HE AND WIFE KAREN HAVE COMBINED A SHARED PASSION FOR FARMING WITH AN ACUTE BUSINESS SENSE TO RUN A SUCCESSFUL PIG OPERATION NEAR WATROUS, SASKATCHEWAN. A FEW YEARS AGO, THEY FORMED TWO CORPORATIONS WITH THREE OTHER FARMING COUPLES AS PARTNERS. THE PARTNERS AND SHAREHOLDERS HAVE BUILT AN INTEGRATED BUSINESS THAT HANDLES PIGS FROM NURSERY TO FINISH.

HOW THEY STARTED:

- In 1986, the Klassens bought a small farming operation. By 1991, they had increased capacity to 240 sows and began raising breeding stock for an international genetics company. A few years later, they started growing barley for feed.

DECIDING TO INCORPORATE:

- In 1995, the Klassens decided to form a partnership with former employee Gerald Wall and his wife, Muriel. The two couples created Salty Lake Farms Inc.
- To integrate more fully and increase capacity further, Salty Lake Farms entered a partnership last year with two other couples who farm nearby – Ross and Betty Shantz and Don and Pat Shantz. Together, they started Dellwood Pork Inc. The operation raises pigs from weaner (about 21 days old) to finish and sells to processors in Canada and the Northern United States.
- While giving up total autonomy was difficult at times, Rick Klassen says the benefits of incorporating far outweigh the challenges. "You don't have to take every decision by yourself," he explains.

EXPANSION PLANS:

- The partners worked with FCC to finance a $1.6 million expansion of Dellwood Pork, completed in March 1999 that increased capacity to 14,000 pigs a year.
- A $500,000 expansion of Salty Lake Farms was completed in April, resulting in a 750-sow capacity.
- The partners plan to double the size of Dellwood Pork in five years.

DEALING WITH ECONOMIC CYCLES:

- While he anticipated the cyclical nature of the hog industry, Rick did not expect the depth of the 1998 downturn. The businesses lost a significant amount per pig last fall and early winter.
- However, as prices continue to recover in 1999, they have weathered the worst and are increasing profitability. The recent expansions provide definitive proof of the partners' confidence in the hog industry over the long term.

FCC'S KENDRA MUELLER – PARTNER FOR THE LONG HAUL

Rick said that FCC Credit Advisor Kendra Mueller has been with them every step of the way since the creation of Salty Lake Farms. She was eager to learn more about their operation in order to provide financing to fit their particular needs.

Lending a helping hand

Sharing in the good times as well as the bad. Earning trust.

WE ARE NEIGHBORS

Since 1959, FCC staff have been neighbors to our farming and agribusiness clients. We understand their business. We work hard to help them succeed. And we care about the quality of life in the communities we share. That's why we have articulated our new social vision – *to be a neighbor of choice, leader and trusted partner in the communities where our customers and employees live and work across Canada.*

OUR COMMITMENT . . .

is to help strengthen rural Canada by supporting community organizations that work in farm communities from coast to coast. In 1998–99, Farm Credit Corporation became a proud member of the Canadian Centre for Philanthropy's *Imagine* program. Founded in 1988, it challenges Canadian companies to address issues facing communities and to increase support to voluntary organizations.

As a member of *Imagine*, FCC has committed to give a minimum of one per cent of pre-tax profits to charitable and community organizations each year; in 1998–99 FCC contributed $415,800 to not-for-profit organizations.

By lending a helping hand, FCC lends action to spirit and contributes to improving the quality of life in our communities.

HABITAT FOR HUMANITY: GREG STEWART, VICE-PRESIDENT, RISK MANAGEMENT (FOREGROUND) AND JOHN RYAN, PRESIDENT & CEO (BACKGROUND), ALONG WITH THE ENTIRE SENIOR MANAGEMENT TEAM HELPED BUILD A HOME FOR A REGINA FAMILY.

"We initiate. We participate. We challenge."
*– **John J. Ryan**, President and CEO*

FCC believes that true corporate giving means more than just donating money. FCC offers support to communities through in-kind contributions of products or services, loaned representatives for fund-raising campaigns and employee voluntarism. FCC also encourages other organizations and businesses to contribute to community giving.

FCC's **CEO challenge for Habitat for Humanity** demonstrated the power of leadership and partnership, challenging local executives and businesses to make a minimum $5,000 contribution to Habitat for Humanity and to help build homes for six families. Ten "CEO Challenge" teams gathered at the Ed Schreyer Work Project in Regina.

DON STEVENS, JANET WIGHTMAN, KELLIE GARRETT AND MARSHALL STACHNIAK LEAD BY EXAMPLE: SENIOR MANAGEMENT PARADED IN COSTUMES IN DOWNTOWN REGINA TO KICK OFF THE ANNUAL UNITED WAY CAMPAIGN.

OUR COMMUNITIES . . .

include organizations dedicated to the agricultural industry. FCC is a long-time supporter of: the **Canadian Federation of Agriculture**, a farmer-funded, national umbrella organization, with a membership of 200,000, dedicated to the continued development of a viable and vibrant agriculture and agri-food industry in Canada; the **Outstanding Young Farmers Program**, which recognizes the young men and women who have achieved success and leadership in farming; and the **United Way**, an umbrella organization that helps the worthy causes of over 30 different organizations, including Farmers With Disabilities, a Saskatchewan Abilities Council program.

During the annual corporate-wide United Way campaign, staff pledged their support through payroll deductions as well as their creativity through *fun-raising* initiatives during an intense four-month campaign. Some of the events included karaoke nights, hallowe'en parties, wine and cheese samplers and staff breakfasts. John Ryan, President and CEO, led the way in the 1998–99 United Way campaign through his commitment to serve as Chapter Chair on the United Way Cabinet. The Corporation raised $90,000 through employee contributions, fund-raising events and FCC-matched contributions.

PULLING FOR AGRICULTURE

More than 13 teams participated in FCC's first annual **Great Little Tractor Pull**, a fund raiser conceived by FCC for Adopt-A-Family, United Way of Regina, Regina and District Food Bank, and Farmers with Disabilities. FCC matched each team's donation to raise $25,000 for four worthy charitable organizations.

TERRY KREMENIUK, VICE-PRESIDENT, AGRIBUSINESS, LEADS COW – CLAD GARY GALE, ELLIE RUSK AND LYNDON CARLSON, AS WELL AS THE *BOVINELY* DRESSED ATINA FORD AND SCOTT MCCALL IN A FUN EVENT FOR CHARITABLE ORGANIZATIONS.

"Today, more than ever, it is essential for young people in rural Canada to have access to the education and training needed to ensure their success in agriculture."

*– **Ted Young**, Canadian 4-H Council President and FCC Account Manager*

ROBIN CRISTO, CA, ASSINIBOIA OFFICE PRESENTS 4-H AWARD TO CHARLA GIRAVDIER OF WILLOW BUNCH, SASKATCHEWAN

A longstanding supporter of the **Canadian 4-H Council,** FCC's annual scholarship program awards sixteen $1,000 scholarships to 4-H members and members of L'Association des jeunes ruraux du Québec or Québec Young Farmers.

4-H is a rural, community-based organization that develops life skills such as citizenship, leadership, co-operation, responsibility and independence in youth through achievement in individual and club projects. Members have the opportunity to participate in a wide variety of club projects that encourage membership from both farm and non-farm rural youth.

Pledging its support for the future of farming, FCC announced a $150,000 five-year partnership with **Canadian Young Farmers Forum**, a group dedicated to ensuring a voice for future farmers.

"A large number of Canadian farms will be changing hands in the next decade. Partnerships such as this will help prepare the next generation of farmers for the challenges and opportunities they will face in the 21st century." – John Ryan

FCC partnered with **Computers for Schools** with the pledge to offer 170 of its own computers to the program. The Computer for Schools program has been extremely successful in obtaining computers and identifying schools and libraries with specific needs. To date, about 90,000 computers have been delivered nation-wide. The program's challenge is to deliver 250,000 computers by March 31, 2001. FCC employees have volunteered to deliver the computers in rural areas, saving the program thousands of dollars in shipping costs. This initiative reflects the Corporation's commitment to enhancing the quality of life in Canada's farming communities.

We demonstrated our firm commitment to quality of life in communities across Canada, by supporting the **Canadian Coalition for Agricultural Safety and Rural Health, Agriculture in the Classroom**, ***Fédération de la relève agricole du Québec***, and the **Health Promotion program** of the **University of Regina**.

In support of the ***Union des producteurs agricoles***, FCC sponsored *the Grand Jeu De La Mondialisation du Commerce Agroalimentaire*, a trade game which is designed to trigger strategic thinking in the advent of upcoming trade talks which will establish the Americas as a free trade zone for agricultural products.

SDWF
Safe Drinking Water Foundation

SAFE DRINKING WATER

FCC donated money and technical services to help the **Safe Drinking Water Foundation (SDWF)** raise awareness about the impact of poor drinking water in rural areas by helping SDWF produce a newsletter and build and launch a website.

Across the country . . .

"Meeting the children at the Sunrise Equestrian Centre was the highlight of my career at FCC."
*– **Jaye Atkins**, Marketing Officer, Guelph*

Jaye Atkins found out how good it feels to give back to the community when he delivered a cheque for $1,000 to the **Sunrise Equestrian Centre**, which is dedicated to helping disabled children develop skills and confidence through riding programs.

Glen Svenungard, Credit Advisor, Stony Plain, Alberta, Rick Dehod, Recovery Officer, Edmonton, and Marcel Lemire, Account Manager, Agribusiness, Edmonton rode in the **Multiple Sclerosis Bike Tour**, raising over $3,500 for MS research and family support services in Alberta.

ANGELA PADDY, TERRI SMALLBOY, LEONARD HORSE, LAURA HORSE, JOE ANGUS, TIM WEEKUSK, ROLLAND WEEKUSK, RUSTY PADDY, DEBBIE JIMMY, LINDA OKANEE, FRED THUNDERCHILD, MAGGIE KING AND JERRY OKANEE VISITED THE SECHELT INDIAN BAND IN BRITISH COLUMBIA WITH HELP FROM FCC.

A journey of self-realization: thirteen students of the Thunderchild High School in Turtleford, Saskatchewan learned about self-government in action when they visited the Sechelt First Nation in British Columbia, the first Band in Canada to obtain self government (1986). FCC was pleased to join in the sponsorship team that supported the students in their journey.

FCC's
Senior Management Team

CHAMPIONING DIRECTION. INSPIRING EMPLOYEES.

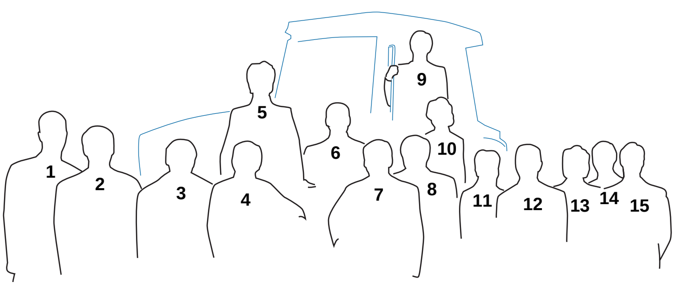
STRONG LEADERSHIP AND MANAGEMENT PRINCIPLES PLAY A KEY ROLE IN GUIDING THE CORPORATION TOWARD ACHIEVING ITS VISION.

This action-oriented team is accountable for developing, in concert with the Board of Directors, the strategy necessary to achieve FCC's vision. Focusing their efforts on challenging and inspiring employees to surpass creativity and performance, they seek to achieve excellence in product and service development and delivery. Applying sound business principles and monitoring performance, they set priorities and manage progress toward the achievement of objectives, including financial success so necessary to provide stellar customer service.

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

Senior Management is compensated in keeping with compensation policies and scales approved by the Board of Directors. Salary ranges for the Chief Executive Officer position ranged from $163,800 to $204,800; Executive Vice-President ranged from $128,260 to $189,340. Compensation for Vice-Presidents ranged from $104,410 to $138,200. All executives are paid within their respective ranges and receive a variable component linked to the performance of the Corporation, the business unit and the individual. Total cash compensation paid to the Senior Management Team of $1,937,023 reflects the full year that the new and complete team was in place. The Governor in Council sets salary and benefits of the CEO. All other executive salary ranges and specific salaries are set by Corporate Policy.

The Executive Committee, a subset of the full Senior Management Team, is comprised of the President and Chief Executive Officer, Executive Vice-President and Chief Operating Officer, Executive Vice-President and Chief Financial Officer, Vice-President, Agribusiness, Vice-President, Farm Finance and Vice-President, Human Resources and Business Processes. Mandated to act on broad strategic direction and establish corporate priorities, the Executive Committee is the principal decision-making authority. Total cash compensation paid to the Executive Committee for the fiscal year was $870,575 and is part of the total cash compensation paid to the Senior Management Team.



1 – **GREG STEWART,** *Vice-President, Risk Management*
2 – **DALE CANHAM,** *Vice-President, General Counsel & Corporate Secretary*
3 – **MARSHALL STACHNIAK,** *Vice-President, Farm Financing*
4 – **TERRY CRAIG,** *Vice-President, Risk Management (Retired June 1999)*
5 – **LOUISE NEVEU,** *Executive Vice-President and Chief Operating Officer*
6 – **M. BLAKE WALKER,** *Vice-President and Treasurer*
7 – **JOHN J. RYAN,** *President and Chief Executive Officer*
8 – **TERRY KREMENIUK,** *Vice-President, Agribusiness*
9 – **KELLIE GARRETT,** *Vice-President, Communications and Public Relations*
10 – **JANET WIGHTMAN,** *Vice-President, Human Resources and Business Processes*
11 – **LINDA YEO,** *Vice-President, Information Technology*
12 – **MOYEZ SOMANI,** *Executive Vice-President and Chief Financial Officer*
13 – **SHELLEY LEGIN,** *Vice-President, Marketing and Product Development*
14 – **ANDRÉ TETREAULT,** *Assistant Vice-President, Corporate Audit*
15 – **DON STEVENS,** *Vice-President and Controller*

Sweet Success in Apiculture

"APICULTURE WAS CONSIDERED A HIGH-RISK ENTERPRISE AT THE TIME AND WE HAD DIFFICULTY FINDING VENTURE CAPITAL. IF FCC HAD NOT BEEN THERE, INTERMIEL WOULD NOT EXIST IN QUÉBEC." – VIVIANE MACLE

Rated as number one among 49 agricultural enterprises in Quebec's Outaouais-Laurentian region, Intermiel is considered to be a leader and one of the greatest ambassadors of the bee-keeping industry. In 1998, the company was awarded the *Mérite agricole* in the Bronze category, an award of merit given every five years by the provincial department of agriculture.

OPERATION:

- 2,000 beehives and 15,000 taps.
- Harvest honey into mead and honey by-products.
- Prepare gift baskets.
- Harvest maple syrup.

THE SWITCH TO VALUE ADDED:

- Interpretation centre and gift shop.
- Intermiel now receives 100,000 visitors per year – of which 20,000 are school children – and employs 12 to 30 people depending on the season.

PRODUCT EXPOSURE:

- Intermiel products are available in 200 to 300 points of sale across the province, depending on the season.
- Five different mead products are available at the *Société des alcools du Québec* (Québec liquor board).
- First sought after as a local tourist attraction, Intermiel has become a preferred agro-tourism destination.
- Maple products are also offered to complete a wide variety of original products appreciated by corporations and individuals.

CHRISTIAN AND VIVIANE MACLE
INTERMIEL
SAINT-BENOÎT-DE-MIRABEL, QUEBEC

MANAGEMENT

Discussion and Analysis

Operating Environment

Canada's agricultural industry is rapidly transforming to compete effectively in an increasingly global marketplace. This transformation affects the entire spectrum of agriculture – from inputs and primary production to value added and the consumer. Farmers, input suppliers, equipment dealers, processors and manufacturers are working together to create new markets and expand existing ones.

Tremendous growth in the agriculture and agri-food industry is expected in the next several years. The industry has set the target of increasing agri-food exports to four per cent of the world's total trade by the year 2005, effectively doubling our current exports from $22 billion to approximately $40 billion per year.

Canadian producers and agribusiness are the driving force in meeting these goals. Their ability to anticipate trends, produce high-quality products and adopt leading-edge technologies and processes will determine Canada's share of the global agricultural and agri-food market in the next millennium.

This push to be competitive requires capital. Producers are making the necessary capital investments to increase their productivity and profits.

As Canada's largest agricultural term lender, FCC is working with producers and agribusiness operators to help them make the necessary investments to succeed with financing tailored to the unique needs of this industry.

THE INESCAPABLE EFFECTS OF CHANGING DEMOGRAPHICS

World population is projected to grow from 5.5 billion today to 8.5 billion in 2025. This growth, combined with continued migration from rural to urban areas and higher standards of living in developing countries, means that food production and processing must almost double by the year 2025. Canadian producers can be assured of continued strong demand for food products.

North America's biggest demographic group – the baby boomers – is aging and demanding more healthy, nutritious and convenient choices. For example, consumption of fresh fruit and vegetables in Canada has increased by 30 per cent in the past 20 years.

The aging of baby boomers has a direct impact on rural Canada. As more farmers approach 60 and start making retirement plans, about half of Canadian family farms are expected to change hands in the next 10 years.

The financial industry must be prepared to help the next generation take over the family farm. In 1998, Farm Credit Corporation introduced the AgriStart Family Farm Loan to facilitate the transfer of farming assets from one generation to the next.

PUSH TO DIVERSIFY

Primary producers are recognizing that diversifying their product provides greater protection from the cyclical nature of most commodity prices. They are exploring emerging niche markets governed by changes in the consumer market place.

Producers are diversifying to meet the rising demand for health foods, fresh fruits and vegetables and lower-fat meat. Farmers are increasing production of such specialty crops as chick peas, lentils and canary seed. There are now more than 1,000 alternative livestock operations across Canada, including elk, bison and emu. Many producers have diversified into berry production, taking advantage of developing markets for cranberries and blueberries.

INDUSTRY SHIFT TO VALUE ADDED

Canada's value-added production sector, building on the example of co-operatives and food processing companies, as well as non-food production is poised for significant growth.

As a nation, we have long been aware of the need to counterbalance our traditional dependence on international commodity markets by developing our own processing industry.

The Canadian food processing industry is coming of age. In fact, in 1998, for the first time, Canada's trade in value-added products outstripped commodity sales. With another round of World Trade Organization negotiations on the horizon and increased pressure from the United States to further reduce subsidies, Canadians will have to be even more innovative in adding value to the top-quality commodities we produce.

We have seen ample evidence in the past several months of the volatile nature of global markets. Producers have been severely challenged by the downturn in international prices for cereal grains and hogs. By adding value to primary production within our borders, producers reduce exposure to unstable global commodity prices and increase margins. Even more importantly, our growing processing industry creates jobs and contributes to local economies across rural Canada.

The agri-food industry, which includes primary agriculture, food and beverage processing and retail, wholesale and food services, contributes significantly to the economy. The third-largest manufacturing industry in Canada, it comprises 3,200 food and beverage-processing establishments and 13 per cent of total manufacturing employment.

FINANCIAL INDUSTRY TRANSFORMS

Twenty years ago, the only financing instruments available to farmers were mortgages, farm equipment loans and insurance policies. Today, primary producers and agribusiness can choose from a variety of financing options and service providers. The financial industry is rapidly evolving to include new players, products and delivery channels. In 1999, a farmer might purchase a piece of equipment and arrange lease financing from an equipment dealer, negotiate a loan for next year's chemicals from a supplier and research new loan products over the Internet.

Use of electronic transactions is on the rise. Experts predict that by the year 2010 almost half of all financial transactions will be online. This shift to e-commerce will have a dramatic effect on financial institutions and their customers. Through FCC's Internet site, customers have access to products and services as well as online loan applications.

Canadian producers will be able to choose from an ever-widening spectrum of foreign financial institutions, either through Canadian branch offices or over the Internet. As well, more non-traditional lenders will enter the market, including suppliers, insurance companies and brokerage houses.

These changes in the financial industry reinforce the need for differentiation to help farmers and agribusiness choose from a growing array of options. FCC's strategy is to build on its strengths such as specialized knowledge of agriculture and partnership building with customers and agricultural industry players. FCC's goal is to fully support current customers and attract new ones, offering products that are competitive, innovative and targeted to meet emerging needs.

PARTNERSHIPS AND ALLIANCES

As the agricultural industry of the future takes shape, the agricultural and financial industries must develop ways of financing promising new primary production and agribusiness markets in the form of loans and venture capital.

With new markets and opportunities comes risk. As a result, it is becoming increasingly difficult to achieve success as a lone player and far easier to gain access to expertise, technology and production capacity through alliances in one form or another.

This trend toward partnerships is not confined to the agricultural industry. The financial sector is driven by the same market forces – including new technologies, diversification and increased global competition – that the agri-food industry is experiencing.

The financing needs of larger and more integrated farming operations can easily break the million-dollar barrier. Agribusiness start-ups require significant capital. As a result, a dramatic change is occurring in agricultural financing. More and more financial institutions are looking to partnerships and alliances to pool resources and reduce risk when financing major agri-food enterprises. These alliances help provide the amount and variety of financing options that this market requires.

FCC frequently works in partnership with other financial institutions, such as chartered banks, credit unions, Crown corporations and government agencies to provide more complete financing packages. Often, we supply the term loans for buildings, land, equipment and other assets while our partners provide loans for operating purposes.

The financial sector also is beginning to work in partnership with agricultural input suppliers such as equipment dealers and fertilizer companies. These suppliers enter an alliance with a financial organization to bundle their products with financial services. Through its National Dealer Equipment Financing Program, FCC has established partnerships with dealers across Canada to provide credit on competitive terms and conditions that may not be otherwise available through many of those dealerships.

We are living in the Information Age, where producers are exposed to a constant flow of information on changing consumer trends, new technologies and new international markets. Producers must decide which trends are passing fads and which ones will determine the future of their operations. Competitive financial institutions must anticipate the trends that will affect customers' financing needs.

As we look back over the 20th century, the face of the agricultural industry has changed. It is global. Competitive. Insightful. Entrepreneurial. Harold MacKay, Chair of the Task Force on the Future of the Canadian Financial Services, said: "change comes through the actions of leaders, entrepreneurs and innovators."

Today's leaders, agricultural and agribusiness entrepreneurs and innovators will drive the growth and progress of the agricultural industry. They will depend on the lending services and equity investment of the financial community in order to realize their goals. They will require their financial partners to be every bit as innovative, driven and visionary as they are in pursuing success. FCC embraces this challenge.

Did you know . . .

- APPLES ARE CANADA'S #1 FRUIT CROP WITH ABOUT 530,000 TONNES GROWN EACH YEAR.
- THE MOST VALUABLE VEGETABLE CROP IN CANADA IS POTATOES. CANADA PRODUCES APPROXIMATELY $600 MILLION WORTH OF POTATOES EACH YEAR.
- THERE ARE MORE THAN 12,000 MAPLE SYRUP PRODUCERS IN CANADA.
- APPROXIMATELY 11,000 BEEKEEPERS MAINTAIN ALMOST 500,000 BEEHIVES.
- THE MOST CELEBRATED CANADIAN WINE IS ICE WINE, A SWEET DESSERT WINE PRODUCED FROM GRAPES WHICH HAVE BEEN FROZEN ON THE VINE AND PRESSED WHILE STILL FROZEN.
- NORTH AMERICAN GINSENG HAS BEEN EXPORTED FROM CANADA TO ASIA SINCE THE 18TH CENTURY, WHEN JESUITS DISCOVERED THE PLANT GROWING WILD IN CANADIAN FORESTS.
- THE AVERAGE CANADIAN FARM PRODUCES ENOUGH FOOD TO FEED 120 PEOPLE.
- CANADA IS THE LARGEST PRODUCER OF WILD BERRIES.
- ABOUT 22 MILLION LAYING HENS PRODUCE SIX BILLION EGGS IN CANADA.
- CANADA IS THE FIFTH LARGEST PRODUCER OF HONEY IN THE WORLD, BEHIND CHINA, THE UNITED STATES, MEXICO AND ARGENTINA.
- CANADIAN DAIRY CATTLE, RECOGNIZED FOR THEIR DISEASE-FREE STATUS AND THEIR ABILITY TO PRODUCE HIGH QUANTITIES OF MILK OVER MANY LACTATIONS, ARE EXPORTED TO OVER 50 COUNTRIES.
- MANY OF THE WORLD'S TOP PASTA PRODUCERS, SUCH AS ITALY AND TURKEY, IMPORT LARGE QUANTITIES OF CANADIAN DURUM TO MAKE PASTA.
- THERE ARE APPROXIMATELY 37,000 BISON ON CANADIAN FARMS.

(Source: Agriculture and Agri-Food Canada)

Financial Performance

TABLE 1 – KEY FINANCIAL RESULTS

$ Millions	1999 Actual	1998 Actual
Net income	42.6	41.6
Net interest income	146.3	134.1
Net interest margin (%)	2.47	2.50
Loan approvals	1,617.4	1,525.2
Loans receivable	5,843.4	5,318.8
Loan renewal rate (%)	96	95
Arrears	31.8	29.7
Administration expense	90.1	89.4
Efficiency ratio (%)	57.7	60.9
Return on equity (%)	7.5	8.3
Return on assets (%)	0.72	0.77
Debt to equity	9.3:1	9.4:1

1998-99 HIGHLIGHTS

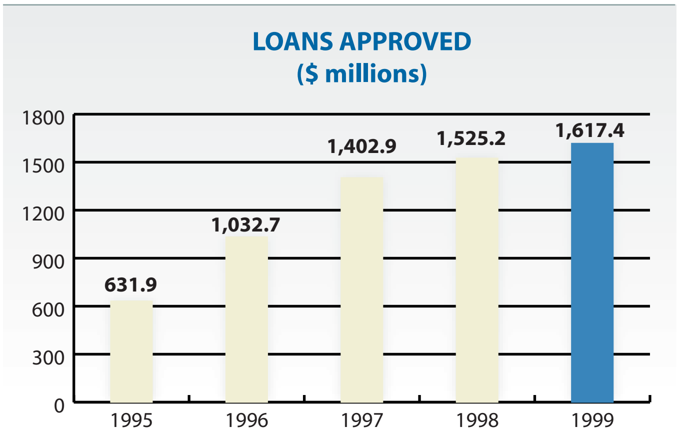
- Net income of $42.6 million was slightly better than last year's result of $41.6 million.
- Net interest margin of 2.47 per cent compares to 2.50 per cent in the previous year.
- Loans receivable portfolio increased by $524.6 million or 9.9 per cent.
- Administration expenses remained steady at $90.1 million.
- Return on equity of 7.5 per cent declined from the prior year's result of 8.3 per cent.
- Debt-to-equity ratio of 9.3:1 improved from last year's 9.4:1.

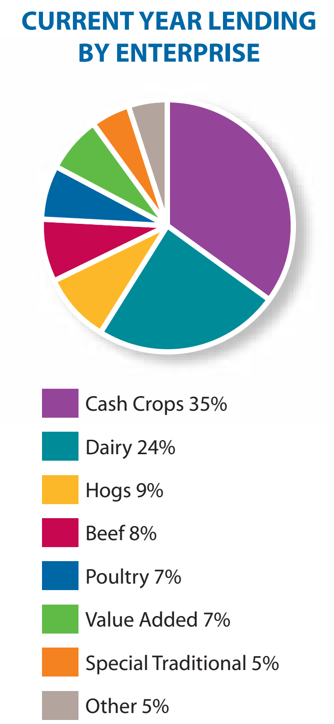
TABLE 2 – GEOGRAPHIC DISTRIBUTION – LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31

	1999		1998	
	Number of Loans	Amount ($ Millions)	Number of Loans	Amount ($ Millions)
British Columbia	1,877	250.1	1,872	233.2
Alberta	9,327	860.6	8,497	765.8
Saskatchewan	23,620	1,250.4	22,975	1,174.9
Manitoba	7,895	549.9	7,771	481.1
Ontario	17,220	1,753.7	16,573	1,586.8
Quebec	8,378	810.4	8,294	731.1
New Brunswick	1,774	150.1	1,827	149.0
Nova Scotia	863	87.1	734	79.7
Prince Edward Island	1,116	104.3	1,079	95.4
Newfoundland	241	26.8	224	21.8
National	72,311	5,843.4	69,846	5,318.8
Allowance for credit losses		214.2		182.7
Loans receivable, net of allowance for credit losses	72,311	5,629.2	69,846	5,136.1

LOAN PORTFOLIO

Fiscal 1998-99 was the sixth consecutive year of portfolio growth, up $524.6 million from 5.3 billion at March 31,1998. This increase represents a growth rate of 9.9 per cent, bringing the loans receivable portfolio to $5.8 billion at March 31,1999. As an indication of client satisfaction, 96 per cent of current customers chose to renew their loans compared to 95 per cent last year, suggesting that FCC's products and services are meeting customers' needs.





LENDING ACTIVITY

Volume of business

During 1998-99, FCC approved 14,880 loan applications with a value of $1.6 billion compared to 15,488 and $1.5 billion respectively in 1997-98. The 3.9 per cent decrease in loan approvals reflects difficulties in the cash crop and hog sectors affected by low commodity prices. The average loan size increased from $98,500 in 1997-98 to $108,700 this fiscal, reflecting a growing agribusiness sector.

Primary production

Primary production consists of traditional farming activities, including crops, beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock.

Cash crops and dairy enterprises continue to dominate new lending activity at 35 and 24 per cent respectively. New lending in the poultry and dairy sectors increased slightly, while crops and hogs decreased from previous years. Approvals for primary production amounted to $1.3 billion for fiscal 1998-99.

Agribusiness

Agribusiness lending contributes to the economic diversification and strength of Canadian agriculture, helping to build a strong future for producers and their communities. Lending for seed, vegetable and cheese processing plants, as well as abattoirs and other value-added businesses, creates alternatives for farmers to market their commodities.

FCC approved 136 agribusiness loans with a net value of $104.1 million for an average loan size of $765,000. While these statistics reflect loans made strictly to value-added enterprises, it is noteworthy that many of FCC's primary production loans also include investment in value-added businesses.

Alliances

Alliances with equipment dealers, input suppliers and livestock brokers combine FCC products with established distribution channels resulting in convenient financing alternatives for producers. FCC also partners with other financial institutions to offer a wider array of products for primary production and agribusiness customers. In 1998-99, alliance loans approved totaled 3,881 with a net value of $217.7 million.

Outlook 2000: ***Lending activity is expected to reflect the continued diversification of primary production necessary to compete in the global economy.***

NET INCOME

Net income of $42.6 million for the year ended March 31, 1999 was slightly higher than the previous year's result of $41.6 million. This favorable variance is a result of substantial loan growth and strong results from the real estate portfolio, offset by increases in provision for credit losses.

NET INTEREST INCOME

Net interest income was $146.3 million, ahead of the prior year's net interest income of $134.1 million. Loan volume growth of $524.6 million or 9.9 per cent was a key driver toward the increase in net interest income.

Net interest margin, which expresses net interest income as a percentage of average assets, was 2.47 per cent in 1998-99, compared to the prior year's 2.50 per cent. The stable net interest margin indicates that net interest income growth is keeping pace with the asset growth experienced this year.

TABLE 3 – NET INTEREST INCOME AND MARGIN

$ Millions	**1999**	**1998**
Interest income		
Loans receivable	442.3	408.2
Investments	25.9	22.8
	468.2	431.0
Interest expense		
Short-term debt	50.0	29.5
Long-term debt	271.9	267.4
	321.9	296.9
Net interest income	**146.3**	**134.1**
Average total assets	5,915.6	5,364.3
Net interest margin (%)	**2.47**	**2.50**
Year over year change in net interest income due to:		
Changes in volume	28.5	
Changes in rates	(16.3)	
	12.2	

PROVISION FOR CREDIT LOSSES

Management assesses the carrying value of the loan portfolio and determines the appropriate allowance for credit losses as described in Note 2(c) of the financial statements. During fiscal 1998-99, the provision for credit losses was $33.2 million compared to $18.7 million in the previous fiscal. The increased provision reflects a larger portfolio as well as a more conservative estimate of the overall allowance for credit losses largely attributable to greater uncertainty in the agricultural economy.

Outlook 2000:* *Net interest income growth is expected to be consistent with portfolio growth. Due to uncertainties in the agricultural economy, lower lending activity and higher provision for credit losses are forecasted.

NET LEASE AND REAL ESTATE INCOME

Net lease and real estate income for the year ended March 31,1999 was $14.7 million, up from $13.0 million last fiscal. Revenue from land sales represents recovery of substantial write-downs incurred in prior years.

This fiscal, sales of 123,855 acres totaled $32.7 million compared to 98,082 acres for $28.0 million in 1997-98. With acquisitions of $0.6 million, FCC holds 604,054 acres with a book value of $103.4 million.

FCC has a mandate to lease and eventually return land to the former owners where feasible. At fiscal year end, 96 per cent of the land held by FCC was leased, compared to 98 per cent in prior year. Of the total leased acres, approximately 99 per cent was leased to former owners.

Outlook 2000:* *FCC will continue to reduce its property holdings with sales to former owners wherever feasible.

NET LEASE AND REAL ESTATE INCOME (continued)

TABLE 4 – AGRI-LAND PROPERTY HOLDINGS AS AT MARCH 31

	1999		1998	
	Total Acres	Acres leased	Total Acres	Acres leased
British Columbia	433	433	433	433
Alberta	6,193	6,154	8,297	8,000
Saskatchewan	566,762	544,371	680,556	665,833
Manitoba	28,407	27,923	33,917	33,917
Ontario	1,957	1,797	2,123	1,898
Quebec	0	0	73	0
New Brunswick	0	0	1	0
Nova Scotia	302	302	302	302
Newfoundland	0	0	1	0
National	604,054	580,980	725,703	710,383

OTHER INCOME

Other income, comprised mainly of appraisal, service fee and insurance revenues, was $7.1 million for the year ended March 31,1999, compared to last year's result of $8.8 million.

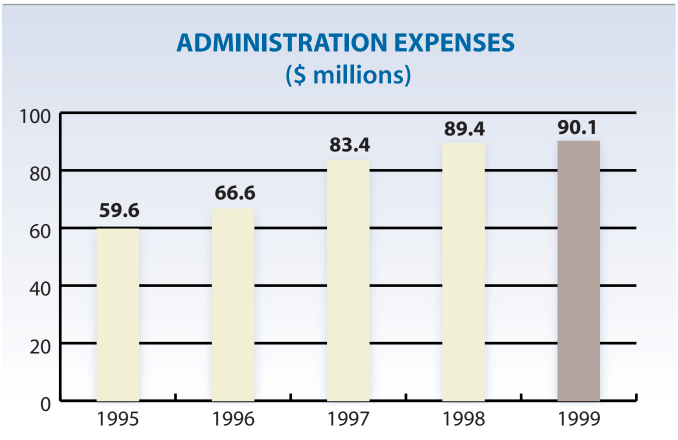
ADMINISTRATION EXPENSES

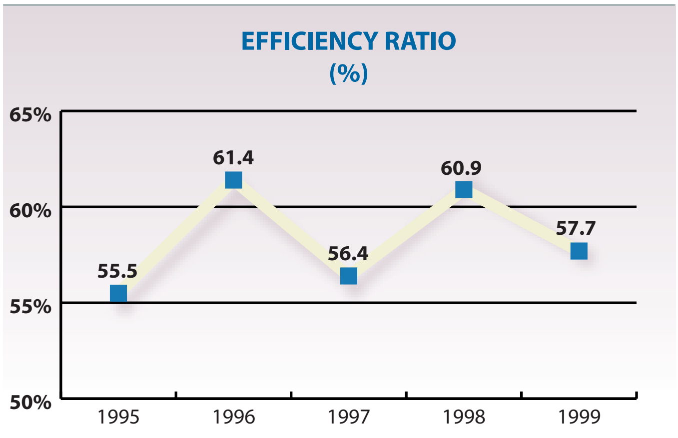
Administration expenses were $90.1 million, slightly higher than $89.4 million the year previous. FCC uses an efficiency ratio, which represents the expenses incurred to earn a dollar of revenue, as a performance measure. At March 31,1999, the efficiency ratio was 57.7 per cent, an improvement over last year's 60.9 per cent.

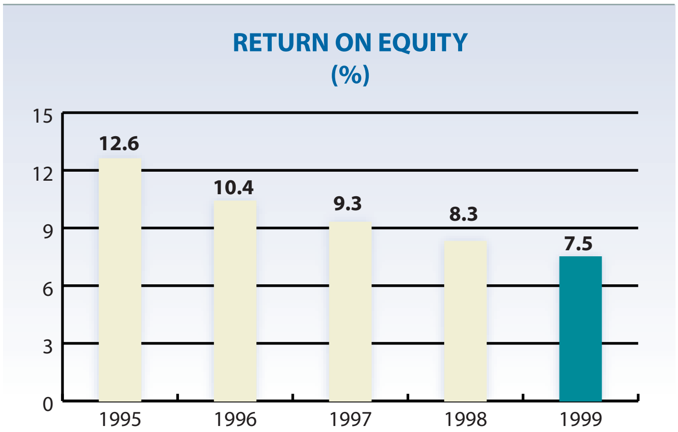
***Outlook 2000:* The efficiency ratio is expected to improve as management continues its focus on cost control and process improvements. Administration expenses are expected to remain flat despite the growth in portfolio.**

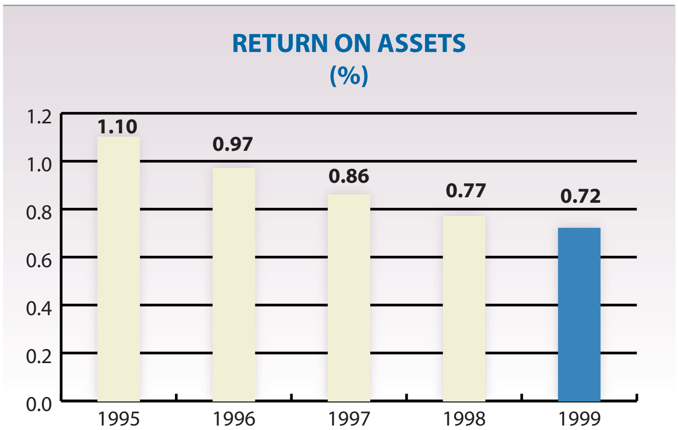
INCOME TAXES

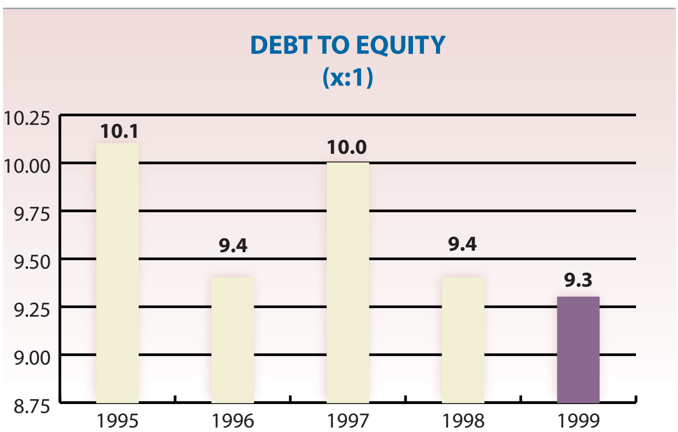
Income tax expense for 1998-99 was $2.2 million, considerably lower than the prior year's expense of $6.2 million. This reduction is primarily due to the elimination of Part VI tax as a result of the Corporation's exit from the Net Income Stabilization Account (NISA) program as described in Note 10 of the financial statements.











KEY FINANCIAL RATIOS

Discussion of financial ratios

Return on equity (ROE)

Return on equity at year-end was 7.5 per cent, compared to 8.3 per cent the prior year. This decrease is due to a significant increase in the provision for credit losses this year and declining one-time gains, which occurred in the prior year.

In order to achieve an appropriate return in relation to the various risks associated with our business activities, FCC manages ROE against a minimum standard, which is set by the Board of Directors. FCC's performance has exceeded this economic standard consistently.

Return on assets (ROA)

Return on assets of 0.72 per cent was below the prior year's result of 0.77 per cent, largely due to a significant increase in the provision for credit losses.

Debt to equity

Debt-to-equity ratio at March 31,1999 was 9.3:1, slightly better than 9.4:1 in 1997-98. This is well below the Corporation's legislated maximum of 12.0:1.

***Outlook 2000:* ROE and ROA are expected to remain low as the provision for credit losses is likely to continue to impact profits. This will also cause the debt-to-equity ratio to rise slightly.**

Risk Management

Inherent in lending are significant risks, such as credit quality, interest rate and liquidity risk. FCC has in place stringent controls to monitor and manage exposure to risks.

CREDIT RISK

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The process of monitoring the level of arrears allows management to assess portfolio loan quality. Total arrears, defined as principal and interest payments past due, were $31.8 million during 1998-99, nominally up from $29.7 million the year prior.

ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is management's estimate of probable credit losses on the loans receivable portfolio, as described in note 2(c) to the financial statements. The allowance is comprised of:

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

The allowance for credit losses takes into consideration a number of factors including agricultural and general economic conditions, as well as client issues related to Year 2000.

At March 31,1999, the allowance for credit losses was $214.2 million, an increase of $31.5 million or 17.2 per cent from the previous year.

Outlook 2000: ***Ongoing analysis of the loan portfolio as well as agricultural economic trends and conditions will continue to play a vital role in loan portfolio management.***

MARKET RISK MANAGEMENT FRAMEWORK

The Corporation manages its exposure to market risk (interest rate and foreign exchange risk) by utilizing limits developed in consultation with the federal Department of Finance and approved by the Board of Directors.

FCC's Treasury division develops risk management policies and is tactically responsible for implementing the market risk management directives established by the Asset/Liability Management Committee (ALCO).

Treasury's activities and the Corporation's asset/liability positions are reported monthly to ALCO and quarterly to the Board.

TABLE 5 – ARREARS AS A % OF LOANS RECEIVABLE BY ENTERPRISE AS AT MARCH 31

	1999		1998	
	Total Loans Receivable ($ Millions)	**Arrears as a % of Loans Receivable**	**Total Loans Receivable ($ Millions)**	**Arrears as a % of Loans Receivable**
Cash crops	2,533.7	0.7	2,391.2	0.7
Dairy	1,295.6	0.1	1,235.9	0.2
Beef	554.5	0.8	489.3	0.9
Hogs	477.0	0.6	411.4	0.4
Poultry	329.8	0.1	275.3	0.2
Value added	191.1	0.5	124.4	1.2
Special traditional	205.5	0.7	169.8	0.9
Other enterprises	256.2	0.7	221.5	0.8
National	5,843.4	0.5	5,318.8	0.6

LIQUIDITY RISK

The objective of liquidity management is to ensure funds are available to meet cashflow obligations.

As an integral part of liquidity management, FCC measures and forecasts cashflow commitments on a rigorous basis. The Corporation's objective is to maintain sufficient funds and funding capacity to meet customer and business operational requirements.

To manage liquidity risk, FCC maintains a liquid investment portfolio ($348.5 million as at March 31, 1999) and has established a stable and diversified funding base to raise the necessary funds to meet ongoing business requirements.

FUNDING

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

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

SHORT-TERM FUNDING

As at March 31, 1999, outstanding short-term borrowings were $1.1 billion, compared to $938.4 million as at March 31, 1998. The increase is attributable to a larger portion of short-term debt supporting the mortgage and liquidity portfolios in 1998-99.

To diversify short-term funding, FCC continued to expand its borrowing facilities by implementing a $1 billion (U.S. dollar) Euro Commercial Paper Programme (Euro C.P.) in March 1999. This program complements the Corporation's domestic funding sources by providing a diverse international investor base for generating cost-effective funding.

MEDIUM AND LONG-TERM FUNDING

During 1998-99, FCC borrowed a total of $1.5 billion in medium and long-term funds, up from $1.0 billion in 1997-98. In 1998-99, $1.3 billion of MTN's were issued in the domestic bond market using a combination of retail, institutional and structured notes. FCC also increased activity in the EMTN market in 1998-99 with two retail syndicated EMTN issues totaling $250 million.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are AAA for debt denominated in Canadian dollars and AA+ for foreign currency debt.

ASSET/LIABILITY MANAGEMENT

FCC is exposed to interest rate risk (IRR) as a result of the mismatch or gap between assets, liabilities and off-balance-sheet instruments scheduled to reprice on different dates.

IRR exposures are monitored and managed to ensure that they will not have a material adverse impact on FCC's earnings and capital value.

Since FCC has a policy to not accept foreign exchange risk, all foreign currency borrowings are fully hedged at issuance.

Derivative financial instruments, primarily swaps and options, are used to manage and control interest rate and foreign exchange risk arising from funding, risk management and investment activities.

Credit risk associated with derivative financial instruments is managed using 'dollars-at-risk' methodology. Derivative counterparty positions and credit risk exposures are monitored and regularly reported to ALCO and the Board of Directors.

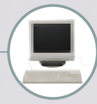
FCC manages IRR exposures with an asset/liability model that simulates changes in net interest income (NII) and Market Value Portfolio Equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 1999, an immediate two per cent decrease in interest rates across all maturities would reduce NII by $0.60 million, or 0.4 per cent over the next 12 months. Assuming a two per cent increase in interest rates, MVPE would be lower by approximately $27.6 million over that period. Both NII and MVPE are within limits approved by the Board.

TABLE 6 – MARKET SENSITIVITY

$ Millions	2% Increase	2% Decrease
Net interest income variability	1.7	(0.60)
Economic Value (MVPE) variability	(27.6)	34.6

Outlook 2000: ***Based on expected new lending activity, aggregate new medium and long-term borrowings are targeted at approximately $1.4 billion.***

YEAR 2000



THE YEAR 2000 ISSUE PRESENTS A SIGNIFICANT RISK BECAUSE MANY COMPUTERIZED SYSTEMS RECOGNIZING A TWO-DIGIT DATE CODE MAY NOT RECOGNIZE '00' AS THE YEAR 2000. THIS COULD CAUSE COMPUTER APPLICATIONS TO FAIL OR PRODUCE ERRONEOUS RESULTS POTENTIALLY IMPACTING VIABILITY AND PROFITABILITY.

To address the Corporation's reliable transition to the Year 2000, FCC has initiated an action plan that is directed and guided by a Senior Management steering committee. To further assist management and to ensure the adoption of best practices, FCC has engaged consultants with significant experience in the development and implementation of an enterprise-wide framework and contingency plans.

As of March 31, 1999, all mission-critical systems have been tested and modified to mitigate year 2000 risk. Final contingency plans are under way and will be completed by August 31, 1999, followed by the completion of an operational plan by September 30, 1999. Embedded systems, such as office facilities and equipment, have been addressed with suppliers. FCC has in place a change control process to ensure integrity of efforts to date.

FCC has raised the issue with business partners, alliances, customers and suppliers. Efforts will continue throughout 1999 to assess and mitigate the risks associated with their readiness.

Total cost to date for the Year 2000 project is approximately $4.6 million with a final estimate of $5 million.

FCC believes the efforts taken are reasonable to prepare for the changing of the millennium. However, due to the general uncertainty, resulting in part from Year 2000 Readiness of other parties, no assurance may be given that the year 2000 issue will not have a material or adverse impact on FCC's operations.

Performance Against Plan

Despite downturns in the hog and cash crops sectors due to low commodity prices, the overall agricultural economy was relatively stable in fiscal 1998-99. As a result, FCC still met all major financial goals and exceeded specific goals such as ROE and net income. FCC's total loan portfolio at March 31, 1999 was $5,843.4 million and above plan of $5,747.6 million. Fiscal 1998-99 saw a sixth consecutive year of loan portfolio growth, up $524.6 million or 9.9 per cent. Net income exceeded plan as a result of increased portfolio growth and strong results from the real estate portfolio, offset by higher-than-anticipated provision for credit losses. Increased net income resulted in a higher ROE of 7.5 per cent compared to a target of 7.2 per cent. Administration expenses were on plan at $90.1 million.

In 1997-98, the Corporation decided to withdraw from the NISA program. As of March 31,1999, FCC no longer held any NISA investments. The 1998-99 plan was amended to reflect this decision.

Outlook 1999-2000

Canadian producers will continue to be challenged by the cyclical nature of the agricultural economy, increased competition and the need to hedge risk through diversification. As a result, the Corporation has adopted a cautious stance for the coming year. An increase in the provision for credit losses will result in a planned net income of $34.7 million. An anticipated increase in agribusiness lending will offset an expected decrease in primary production lending due to difficulties in some sectors of the agricultural economy. This will result in an overall decline of loan portfolio growth with forecasted approvals of $1.4 billion in 1999-2000. Reflecting management's strategy to improve efficiency and control costs, the administration expense budget for the coming year is set at $90.0 million, similar to the Corporation's expenditures in fiscal 1998-99.

In response to those specific sectors experiencing difficulties, such as hogs and cash crops, FCC continues to monitor and assess the situation and plan accordingly. The Corporation is dedicated to providing optimal assistance to clients.

TABLE 7 – KEY FINANCIAL DATA

$ Millions	1999 Plan*	1999 Actual	2000 Plan
Net Income	40.9	**42.6**	34.7
Net Interest Income	139.6	**146.3**	151.9
Net Interest Margin	2.29	**2.47**	2.39
Loans Receivable	5,747.6	**5,843.4**	6,103.8
Arrears	40.9	**31.8**	70.0
Administration expenses	90.5	**90.1**	90.0
Efficiency ratio (%)	60.6	**57.7**	56.7
Return on equity (%)	7.2	**7.5**	5.7
Return on assets (%)	0.67	**0.72**	0.55
Debt to equity	9.7:1	**9.3:1**	9.7:1

*Revised to reflect the impact of FCC's exit from NISA

Forward looking statements appearing in this Management Discussion and Analysis are subject to risks and uncertainties. Actual results may differ materially due to a variety of factors.

FCC SCA

Farm Credit Corporation Société du crédit agricole

Canada

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 14, 1999

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, 1999 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 3l, 1999, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 14, 1999

Balance Sheet

AS AT MARCH 31

		1999		1998
		(thousands of dollars)		
ASSETS				
Cash and short-term investments (Note 3)	$	**245,797**	$	237,605
Accounts receivable and other accrued assets		**31,760**		44,158
Long-term investments (Note 4)		**102,713**		149,613
Loans receivable (Notes 5 and 6)		**5,629,202**		5,136,138
Real estate acquired in settlement of loans (Note 7)		**103,395**		123,481
Equipment and leasehold improvements		**12,194**		15,208
	$	**6,125,061**	$	5,706,203
LIABILITIES				
Accounts payable and accrued liabilities	$	**21,699**	$	19,748
Accrued interest on borrowings		**122,522**		105,181
		144,221		124,929
Borrowings (Note 8)				
Short-term debt		**1,120,318**		938,387
Long-term debt		**4,237,171**		3,964,766
		5,357,489		4,903,153
Other liabilities and deferred fees (Note 9)		**31,505**		128,834
	$	**5,533,215**	$	5,156,916
EQUITY				
Capital (Note 1)	$	**507,725**	$	507,725
Retained earnings		**84,121**		41,562
	$	**591,846**	$	549,287
	$	**6,125,061**	$	5,706,203

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

Approved:

Donald W. Black
Chair, Board of Directors

Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings

FOR THE YEARS ENDED MARCH 31

	1999	1998
	(thousands of dollars)	
INTEREST INCOME		
Loans receivable	$ 442,331	$ 408,237
Investment income	25,845	22,762
	468,176	430,999
Interest expense	321,923	296,857
Net interest income	146,253	134,142
Provision for credit losses (Note 6)	33,220	18,748
Net interest income after provision for credit losses	113,033	115,394
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	23,013	22,808
Operating expenses	2,452	2,853
Interest expense	5,852	6,948
Net lease and real estate income	14,709	13,007
OTHER INCOME	7,176	8,769
INCOME BEFORE OTHER EXPENSES	134,918	137,170
OTHER EXPENSES		
Administration expenses	90,130	89,383
Income taxes (Note 10)	2,229	6,225
Other expenses	92,359	95,608
NET INCOME	42,559	41,562
Retained earnings/(deficit), beginning of year	41,562	(660,608)
Reallocation of contributed capital to eliminate deficit	–	660,608
RETAINED EARNINGS, END OF YEAR	$ 84,121	$ 41,562

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

Statement of Changes in Financial Position

FOR THE YEARS ENDED MARCH 31

	1999	1998
	(thousands of dollars)	
OPERATING ACTIVITIES		
Net income	$ **42,559**	$ 41,562
Items not involving cash		
Provision for credit losses	**33,220**	18,748
Change in accrued interest receivable	**(14,104)**	(24,648)
Change in accrued interest payable	**18,938**	33,015
Other	**26,972**	11,356
Cash provided by operating activities	**107,585**	80,033
INVESTING ACTIVITIES		
Long-term investments	**44,948**	(71,894)
Loans receivable disbursed	**(1,509,900)**	(1,504,200)
Loans receivable repaid	**995,459**	870,697
Change in real estate held	**20,086**	16,148
Other	**(1,523)**	15,010
Cash used in investing activities	**(450,930)**	(674,239)
FINANCING ACTIVITIES		
Long-term debt repaid to Canada	**(436,250)**	(503,963)
Long-term debt from capital markets	**1,520,504**	1,014,311
Long-term debt repaid to capital markets	**(821,058)**	(243,744)
Increase in capital	**–**	50,000
Change in short-term debt	**182,095**	197,991
Change in NISA investments held	**(93,754)**	76,202
Cash provided by financing activities	**351,537**	590,797
Increase (decrease) in cash and short-term investments	**8,192**	(3,409)
Cash and short-term investments, beginning of year	**237,605**	241,014
Cash and short-term investments, end of year	$ **245,797**	$ 237,605

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

Notes to Financial Statements

1. THE CORPORATION

a) Authority and objectives

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

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

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

b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of a March 31,1998 reallocation to eliminate the accumulated deficit.

As of March 31, 1999, capital payments received from the Government of Canada amounted to $1,168 million (1998 – $1,168 million). The statutory limit for that same period was $1,175 million (1998 – $1,175 million).

c) Limits on borrowing

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

At March 31, 1999, the Corporation's total liabilities were 9.3 times the equity of $591.9 million (1998 – 9.4 times the equity of $549.3 million).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported in investment income.

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

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

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

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

b) Loans receivable

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

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

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

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

c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in the light of current 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 the loans receivable balances at year end 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, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of impairment can exist as early as the time of disbursement.

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

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

d) Real estate acquired in settlement of loans

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

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

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

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

e) Equipment and leasehold improvements

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

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

f) Capital leases

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

g) Translation of foreign currencies

Loans receivable/borrowings 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) Long-term debt

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

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

i) Derivative financial instruments

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

Currency exchange agreements

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

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

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively. Premiums on the option contracts are amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

j) Pension and other post-retirement employee benefits

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

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

k) Employee termination benefits

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

l) Income taxes

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

3. CASH AND SHORT-TERM INVESTMENTS

	Effective interest rate (%)		1999		1998
				(thousands of dollars)	
Cash		$	**2,606**	$	19,733
Short-term investments	4.80 – 5.10		**241,562**		216,572
Accrued interest			**1,629**		1,300
		$	**245,797**	$	237,605
Short-term investments consist of instruments with maturities of less than one year, issued by:					
The Government of Canada and its agencies and Crowns		$	**54,697**	$	80,051
Other			**186,865**		136,521
		$	**241,562**	$	216,572

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 1999, the largest total investment in any one institution was $37.2 million (1998 – $28.7 million) and the Corporation held investments in nine separate institutions (1998 – eight institutions).

4. LONG-TERM INVESTMENTS

	Stated interest rate (%)	1999	1998
		(thousands of dollars)	
Amounts due within:			
1 year		$ –	$ 50,000
1 – 5 years	5.50 – 7.50	**94,215**	80,000
over 5 years		**–**	15,000
		94,215	145,000
Unamortized premium and discount		**7,029**	3,357
Accrued interest		**1,469**	1,256
		$ 102,713	$ 149,613

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

5. LOANS RECEIVABLE

	Stated interest rate (%)	1999	1998
		(thousands of dollars)	
Principal amounts due, secured by:			
– mortgages	5.00 – 14.63	**$ 4,967,502**	$ 4,553,756
– chattels	5.00 – 12.40	**629,519**	579,044
– notes	5.00 – 12.50	**29,424**	82,341
		5,626,445	5,215,141
Accrued interest and fees, net of payments held		**86,771**	71,364
		5,713,216	5,286,505
Recorded investment in impaired loans, secured by:			
– mortgages		**119,743**	25,187
– chattels		**9,279**	5,249
– notes		**1,128**	1,897
		130,150	32,333
Less: Allowance for credit losses (Note 6)		**(214,164)**	(182,700)
		$ 5,629,202	$ 5,136,138
Principal amounts (excluding impaired loans) due within:			
1 year		**$ 1,234,532**	$ 1,490,243
1 – 5 years		**3,814,871**	3,619,991
over 5 years		**577,042**	104,907
		$ 5,626,445	$ 5,215,141

Management estimates that annually, over the next three years, between seven and eight per cent (1998 – seven and eight per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1999, $2.5 million (1998 – $2.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. ALLOWANCE FOR CREDIT LOSSES

		1999		1998
		(thousands of dollars)		
Balance, beginning of year	$	**182,700**	$	165,400
Write-offs, net of recoveries		**(1,756)**		(1,448)
Provision for credit losses		**33,220**		18,748
Balance, end of year	$	**214,164**	$	182,700
Specific allowance	$	**42,164**	$	8,200
General allowance		**172,000**		174,500
Balance, end of year	$	**214,164**	$	182,700

As at March 31, 1999, the total recorded investment in loans receivable against which a specific allowance has been identified was $130.2 million (1998 – $32.3 million). The general allowance was established against the remaining $5,713.2 million (1998 – $5,286.5 million) investment in loans receivable.

During the year, the Corporation enhanced its methodology for estimating the allowance for credit losses. One of the impacts of this change was to increase the number of loans classified as impaired and consequently, the specific allowance.

7. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

		1999		1998
		(thousands of dollars)		
Balance, beginning of year	$	**123,481**	$	139,629
Acquisitions		**622**		2,767
Disposals		**(20,708)**		(18,915)
Balance, end of year	$	**103,395**	$	123,481
Real estate under long-term lease, maturing:				
within 1 year	$	**59,074**	$	482
from 1 – 2 years		**37,530**		74,292
from 2 – 3 years		**1,882**		42,852
from 3 – 4 years		**792**		2,234
from 4 – 5 years		**–**		699
		99,278		120,559
Real estate held for sale		**4,117**		2,922
	$	**103,395**	$	123,481

Real estate represents 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 re-price annually.

		1999		1998
		(thousands of dollars)		
Future expected lease receipts, using current lease rates, due within:				
1 year	$	**9,824**	$	11,972
1 – 5 years		**7,533**		10,883
	$	**17,357**	$	22,855

8. BORROWINGS

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

a) Short-term debt

Short-term debt consists of promissory notes payable within one year totaling $1,120.3 million (1998 – $938.4 million). The effective interest rate on these notes ranges from 4.71% to 5.20% (1998 – 4.00% to 4.76%). All amounts are payable in Canadian dollars.

b) Long–term debt

	Stated interest rate (%)	1999	1998
		(thousands of dollars)	
Loans from Canada, secured by notes	6.69 – 9.91	$ **1,040,798**	$ 1,477,048
Loans from capital markets, secured by notes payable in:			
Canadian dollars	3.75 – 9.00	**2,959,869**	2,162,109
U.S. dollars ($100,000,000)	–	**–**	141,920
New Zealand dollars ($100,000,000)	8.00	**80,504**	77,689
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index	–	**12,000**	12,000
the Euro Top 100 Index	–	**56,000**	56,000
the S&P 500 Composite Stock Price Index	–	**38,000**	38,000
the DS Barra Government Bond Index	–	**50,000**	–
		$ **4,237,171**	$ 3,964,766

Loans with index-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 or bond index. The Corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

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

	1999	1998
	(thousands of dollars)	
Amounts due:		
within 1 year	$ **921,297**	$ 1,123,484
from 1 – 2 years	**1,019,582**	708,567
from 2 – 3 years	**594,673**	785,737
from 3 – 4 years	**652,254**	367,813
from 4 – 5 years	**479,511**	578,279
over 5 years	**569,854**	400,886
	$ **4,237,171**	$ 3,964,766

Included in long-term debt is $391.2 million (1998 – $494.0 million) of loans extendable beyond their original due dates at the Corporation's option.

9. OTHER LIABILITIES AND DEFERRED FEES

		1999		1998
				(thousands of dollars)
Other liabilities and deferred fees consist of:				
Agri-Land investment fund	$	**1,960**	$	2,707
Downpayments on real estate sales		**1,281**		492
Provision for employee termination benefits		**6,010**		4,933
Obligation under capital lease (Note 11)		**827**		744
Net currency swap payable		**14,757**		17,456
NISA investments held		**–**		93,754
Deferred loan fees		**6,670**		8,748
	$	**31,505**	$	128,834

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 4.00% (1998 – 3.00%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

10. INCOME TAXES

Timing differences of approximately $232.0 million are available to the Corporation as at March 31, 1999 (1998 – $35.0 million). These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $277.0 million (1998 – $492.0 million) and expires on the dates indicated:

		(thousands of dollars)
March 31, 2001	$	111,000
2003		70,000
2005		96,000
	$	277,000

Income taxes payable by the Corporation represent capital taxes under Part I.3 of the *Income Tax Act*, applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable. With the withdrawal from the NISA program effective in the current year, the Corporation is no longer subject to Part VI tax.

11. COMMITMENTS AND CONTINGENT LIABILITIES

a) Long-term commitments for leases

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

	Capital leases		Operating leases	
	(thousands of dollars)			
within 1 year	$	399	$	6,399
from 1 – 2 years		377		5,291
from 2 – 3 years		166		3,980
from 3 – 4 years		–		1,871
from 4 – 5 years		–		708
over 5 years		–		1,471
Total future minimum lease payments	$	942	$	19,720
Less: amount representing executory costs and imputed interest at 5.00%		115		
Balance of obligation under capital lease		827		
Less: current portion		327		
Long-term obligation under capital lease	$	500		

b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 1999, the Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $1.1 million (1998 – $0.7 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its clients.

As at March 31, 1999, loans to farmers and agribusiness approved but undisbursed amounted to $154.4 million (1998 – $123.0 million). These loans were approved at an average interest rate of 7.68% (1998 – 7.48%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 1999.

12. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize a date using “00” as the year 1900 or some other date, rather than the year 2000. This could result in errors when information using Year 2000 dates is processed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation’s ability to conduct normal business operations.

Due to the inherent uncertainty in the Year 2000 issue, it is not possible to be certain that all aspects of this issue, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved and that the problems will not adversely affect the Corporation. In addition, the failure of the Corporation’s borrowers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to counterparty credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality (Aa3 from Moody's or AA– from S&P or better). Additionally, International Swaps and Derivative Association (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 1999 was $493.4 million (1998 – $596.0 million) and the largest replacement cost of contracts with any institution as at March 31, 1999 was $3.2 million (1998 – $3.2 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 1999 were as follows:

1999 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 111,200	$ 284,000	$ –	$ 395,200	$ (11,405)
Fixed	Floating	236,200	212,000	857	449,057	3,505
Fixed	Fixed	45,000	40,000	–	85,000	3,294
Equity-linked	Floating	–	49,000	19,000	68,000	592
Equity-linked	Fixed	–	38,000	–	38,000	(3,247)
Bond index-linked	Floating	–	50,000	–	50,000	(321)
Forward rate agreements		150,000	–	–	150,000	(5)
Purchased options		170,000	10,000	–	180,000	528
Written options		–	–	–	–	–
		712,400	683,000	19,857	1,415,257	(7,059)
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	–	5,000	–	5,000	(161)
CDN fixed	USD float	–	2,250	–	2,250	(13)
USD fixed	CDN fixed	–	–	–	–	–
NZD fixed	CDN fixed	95,000	–	–	95,000	(10,529)
		95,000	7,250	–	102,250	(10,703)
Total		$ 807,400	$ 690,250	$ 19,857	$ 1,517,507	$ (17,762)

1998 – Remaining term to maturity			Within 1 year		1 to 5 years		Over 5 years		Total		Replacement cost
							(thousands of dollars)				
Interest rate contracts:											
Swap contracts											
Receive	*Pay*										
Floating	Fixed	$	100,000	$	55,000	$	–	$	155,000	$	(808)
Fixed	Floating		240,000		402,000		857		642,857		6,699
Fixed	Fixed		10,000		70,000		–		80,000		1,040
Equity-linked	Floating		–		12,000		56,000		68,000		(3,918)
Equity-linked	Fixed		–		38,000		–		38,000		(2,538)
Bond index-linked	Floating		–		–		–		–		–
Forward rate agreements			–		–		–		–		–
Purchased options			245,000		10,000		–		255,000		351
Written options			169,000		–		–		169,000		(9,653)
			764,000		587,000		56,857		1,407,857		(8,827)
Foreign exchange contracts:											
Cross-currency swaps											
Receive	*Pay*										
CDN fixed	USD fixed		–		5,000		–		5,000		(110)
CDN fixed	USD float		–		2,250		–		2,250		(21)
USD fixed	CDN fixed		137,750		–		–		137,750		2,963
NZD fixed	CDN fixed		–		95,000		–		95,000		(15,521)
			137,750		102,250		–		240,000		(12,689)
Total		$	901,750	$	689,250	$	56,857	$	1,647,857	$	(21,516)

Included in derivative financial instruments is $391.2 million (1998 – $494.0 million) of interest rate swap and option contracts extendable beyond their original due dates.

14. INTEREST RATE RISK

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

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

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

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

1999 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 243,191	–	–	$ 243,191
Average yield	4.99%	–	–	4.99%
Long-term investments	$ –	102,713	–	$ 102,713
Average yield	–	4.87%	–	4.87%
Loans receivable (1)				
– Fixed rate	$ 1,136,760	3,389,891	561,309	$ 5,087,960
Average yield	7.98%	7.89%	8.31%	7.96%
– Floating rate	$ 116,811	483,813	24,632	$ 625,256
Average yield	7.84%	7.82%	7.92%	7.82%
Short-term debt	$ 1,127,753	–	–	$ 1,127,753
Average yield	4.96%	–	–	4.96%
Long-term debt	$ 946,568	2,820,430	585,260	$ 4,352,258
Average yield	6.10%	6.01%	6.44%	6.09%

1998 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 217,872	–	–	$ 217,872
Average yield	4.65%	–	–	4.65%
Long-term investments	$ 50,486	81,426	17,701	$ 149,613
Average yield	5.02%	4.97%	6.06%	5.10%
Loans receivable (1)				
– Fixed rate	$ 1,420,864	3,270,383	99,236	$ 4,790,483
Average yield	7.64%	8.19%	8.55%	8.04%
– Floating rate	$ 89,770	399,145	7,107	$ 496,022
Average yield	7.45%	7.56%	7.66%	7.54%
Short-term debt	$ 945,658	–	–	$ 945,658
Average yield	4.43%	–	–	4.43%
Long-term debt	$ 1,151,699	2,621,835	289,142	$ 4,062,676
Average yield	5.90%	6.72%	7.58%	6.55%

Note: (1) Loans receivable excludes impaired loans.

15. FAIR VALUES

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

	1999		1998	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
		(thousands of dollars)		
Assets				
Cash and short-term investments	**$ 245,797**	**$ 245,797**	$ 237,605	$ 237,605
Accounts receivable and other accrued assets	**31,760**	**31,760**	44,158	44,158
Long-term investments	**102,713**	**102,397**	149,613	150,420
Loans receivable	**5,629,202**	**5,721,720**	5,136,138	5,163,582
Liabilities				
Accounts payable and accrued liabilities	**$ 21,699**	**$ 21,699**	$ 19,748	$ 19,748
Accrued interest on borrowings	**122,522**	**122,522**	105,181	105,181
Short-term debt	**1,120,318**	**1,120,667**	938,387	937,580
Long-term debt	**4,237,171**	**4,375,183**	3,964,766	4,112,278

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

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

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

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

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

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

16. SEGMENTED INFORMATION

The Corporation is engaged in two distinct business segments: agricultural lending and real estate leasing. These segments operate exclusively in Canada. Details regarding the results of operations for these segments are readily available in the Corporation's financial statements.

17. GOVERNMENT PROGRAMS

Commodity-based loans

Net loans receivable at March 31, 1999, includes $1.5 million (1998 – $18.3 million) of loans issued under the Commodity-Based Loans (CBL) program. In fiscal 1999, the Corporation billed $3.1 million (1998 – $6.4 million) to Agriculture and Agri-Food Canada as compensation for the early retirement of CBLs and concessions made under the program. During the same period, the Corporation received $3.1 million (1998 – $6.4 million). Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Farm Debt Review Act

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

Since the inception of the Farm Debt Review process, the Corporation has provided $279.0 million in concessions and billed $279.0 million to the Government of Canada. As of March 31, 1999, all Farm Debt Review Board concessions have been billed and received.

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

18. COMPARATIVE FIGURES

Certain 1998 comparative figures have been reclassified to conform with the presentation adopted in 1999.

Corporate

Governance

A REPORT FROM THE BOARD OF DIRECTORS

GUIDELINES FOR EFFECTIVE CORPORATE GOVERNANCE ARE SET OUT IN *CORPORATE GOVERNANCE IN CROWN CORPORATIONS AND OTHER PUBLIC ENTERPRISES.* THE GOVERNANCE GUIDELINES REQUIRE EACH CROWN CORPORATION TO ANNUALLY DISCLOSE ITS APPROACH TO CORPORATE GOVERNANCE AND ADDRESS SUCH MATTERS AS THE CONSTITUTION OF AND FUNCTIONS TO BE PERFORMED BY THE BOARD OF DIRECTORS OF CROWN CORPORATIONS.

BOARD STEWARDSHIP

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

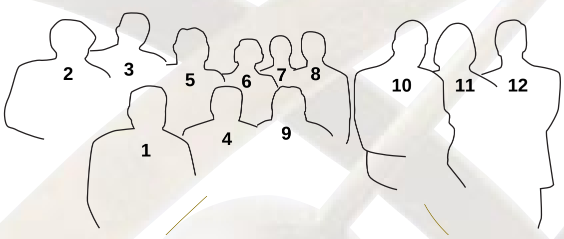
The Board discharges its responsibilities directly and through committees, which include Audit, Corporate, Governance and Human Resources. Formal recommendations are presented for consideration to the full Board of Directors.

The Board of Directors meets regularly to review strategic direction, business operations, financial results, and receive committee reports.

The Board explicitly assumes responsibility for the stewardship of the Corporation through:

- *establishment and approval of strategic direction and the Corporate Plan, including capital and operating budgets;*
- *assurance that the principal business risks have been identified and that appropriate systems to manage these risks are in place;*
- *approval of the management succession plan; and*
- *assurance that information systems and practices meet the Board's needs for confidence in the integrity of the information provided.*

As part of the strategic planning process, the Board examines FCC's public policy and strategic objectives and periodically reviews the legislated mandate to ensure its continuing relevance.



1 – EDWARD CLARK
2 – MARILYN MARIE SCOTT
3 – GERMAIN SIMARD
4 – JOHN J. RYAN
5 – MARIE-ANDRÉE MALLETTE
6 – LOIS HOLE
7 – PETER RAMPTON
8 – RASHPAL DHILLON
9 – ELEANOR M. HART
10 – WARREN ELLIS
11 – ROSEMARY DAVIS
12 – DONALD W. BLACK

The Board seeks to ensure that FCC communicates effectively with the Crown, other stakeholders and the public. In support of FCC's effective participation in agricultural communities across Canada, the Board has provided leadership in terms of FCC's community relations policy.

BOARD INDEPENDENCE

The Board of Directors is composed of 12 members including a Chair, a Chief Executive Officer and 10 Directors. Eleven of the Directors, including the Chair, are independent of management and free from any interest in any business or other relationship that could reasonably interfere with the Directors' ability to act in the best interests of FCC.

The President and Chief Executive Officer is appointed on a full-time basis by the Governor in Council and is also a member of the Board of Directors. John J. Ryan was appointed to the position of Chief Executive Officer on September 1, 1997.

RENEWAL OF THE BOARD

The Board of Directors has approved a Chair Profile and a Director Profile that sets out the desired qualifications and experience as well as the duties and responsibilities of the Chair and Directors individually. These profiles define the expectations of the Chair and Directors in terms of experience, contribution and performance and establish a frame of reference for the selection of candidates for renewal and succession of the Chair and members of the Board of Directors.

The Governor in Council appoints the Chair and the President of the Corporation. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with approval of the Governor in Council. Directors are appointed for terms of up to three years and are eligible for reappointment.

LOANS TO DIRECTORS

Agriculture and agribusiness knowledge is one of the key attributes for a Board member to possess. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, have dealings with the Corporation with respect to the financial services it offers.

…continued on page 58

It is therefore desirable for the Board to have a clearly enunciated policy governing the matter of loans to Directors. The policy established by the Board, along with the *Financial Administration Act* and the *Conflict of Interest Code for Public Office Holders,* imposes requirements on the Directors regarding conflicts of interest.

Directors must disclose any interest in, and refrain from voting in respect of, any material contract with the Corporation. The policy further states the principles that any loan involving a director shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to any such loan. The Board has no involvement in the approval of any loans including their terms, conditions and interest rates.

CONTINUING EDUCATION

Each member of the Board of Directors receives an introductory orientation supplemented by continuing development, including attendance at education seminars sponsored by the Conference Board of Canada and periodic board in-service governance sessions with experts on governance. This fiscal year, seven Directors attended seminars, bringing back information and best practices to the Corporate Governance Committee for discussion and implementation.

WORKING WITH MANAGEMENT

The Board has established an effective working relationship with management including a clear accountability and evaluation framework for the Chief Executive Officer. The Board is cognizant of the difference between the role of the Board and the responsibilities of management and seeks to maintain a clear focus and perspective on these roles.

The Board of Directors expects FCC management to implement the Corporation's strategy and business plan and to keep the Board apprised of its activities. For the year ended March 31, 1999, the Board of Directors believes that management provided appropriate and sufficient information in a timely fashion, which permitted the Board to properly oversee the business and affairs of FCC.

In matters of corporate governance, the board has shown strong leadership in setting performance standards for the positions of Chair and Director. In 1998-99, FCC established and implemented an evaluation process to assess the effectiveness of the board itself. This initiative places FCC among Canada's leading corporations in the area of corporate governance.

AUDIT COMMITTEE

Chair: Warren Ellis
Members: Donald W. Black
Rosemary Davis
Rashpal Dhillon
Marie-Andrée Mallette
Peter Rampton

Composed of six non-management Directors, including the Board Chair, the Audit Committee's primary functions are to: assist in fulfilling the Board's responsibilities to oversee FCC's financial performance; to monitor activities by reviewing the Corporation's financial and operational reporting systems, internal control systems and audit processes; and make recommendations accordingly. In discharge of its responsibilities, the Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General, the auditors for FCC.

The Audit Committee carried out its mandate in four key areas:

- *review and approval of the 1997-98 Financial Statements and Annual Report and the quarterly financial results for the fiscal year 1998-99.*
- *review and approval of the 1998-99 annual corporate audit plan, all final audit reports issued, as well as the status of actions taken by management to address areas requiring improvements;*
- *review and approval of Board and CEO expenses for fiscal 1998-99; and*
- *the Committee received and reviewed the report on the results of the Annual Audit and Management Letter from the Auditor General of Canada for fiscal 1997-98, as well as the 1998-99 Annual Audit plan.*

The Audit Committee met five times during the fiscal year ended March 31, 1999.

BOARD

Committees

HUMAN RESOURCES COMMITTEE

Chair: Eleanor Hart
Members: Donald W. Black
Rashpal Dhillon
Lois Hole
Peter Rampton
John J. Ryan
Germain Simard

The Human Resources Committee is composed of seven Directors. Six are independent of management, including the Chair of the Board. The Committee's primary responsibility is to review all major human resources policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on management development, performance evaluation and succession planning with respect to the Chief Executive Officer. In addition, it oversees the management development plan, management succession plan framework, employment equity policy and official language policy of the Corporation, as well as the design, objectives and competitiveness of FCC's compensation plans.

During this fiscal year, significant accomplishments of the Human Resources Committee included:

- *initiating a review of the management succession planning framework;*
- *overseeing the implementation of a management development plan focussed on key leadership objectives;*
- *completing a compensation review of the salary band levels for the Corporation; and*
- *completing a CEO performance evaluation based on an evaluation framework, which included a scorecard analysis of corporate and individual performance and success at meeting the strategic objectives of the Corporation.*

The Human Resources Committee met four times during the year ended March 31, 1999.

CORPORATE GOVERNANCE COMMITTEE

Chair: Edward Clark
Members: Donald W. Black
Rosemary Davis
Marie-Andrée Mallette
John J. Ryan
Marilyn Marie Scott

The Board of Directors has taken the lead role in developing the Corporation's approach to corporate governance issues and has mandated the Corporate Governance Committee with the responsibility to focus on emerging issues that enhance Board effectiveness. The Corporate Governance Committee is comprised of five non-management members, including the Chair of the Board plus the Chief Executive Officer.

The Corporate Governance Committee's responsibilities include: assessing and making recommendations to the Board regarding governance processes; Board committee structure and responsibilities; the Board's relationship with the CEO; Board member qualification and succession; orientation and education of Board members; and, evaluation of Board performance. The Governance Committee is also responsible for overseeing the Corporation's standards of conduct and ethics as well as Board member responsibilities and conflict of interest matters.

During this fiscal year, significant accomplishments of the Corporate Governance Committee included the establishment of an evaluation process to formally assess the effectiveness of the Board and its Committees with a view to enhancing overall performance. The Committee also developed and recommended a Chair Profile and Director Profile, which set out the desired knowledge, experience and background for Directors. These profiles were provided to the Minister of Agriculture and Agri-Food Canada and to the Director of Appointments for consideration in the selection and renewal process of Directors.

The Corporate Governance Committee met four times during the year ended March 31, 1999.

BOARD AND MANAGEMENT RELATIONS

The Board of Directors has established a practice of working with all members of senior management in order to enhance Board and management relationships. This includes having members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis throughout the year.

ACTIONS REQUIRING BOARD APPROVAL

There is a clear understanding between management and the Board of Directors through historical board practice, as well as accepted legal practice, that all transactions or matters of a material nature must be presented to the Board of Directors for approval. The Board by-law states that all significant corporate policies require Board approval, including the Corporate Plan as well as the strategic, financial and borrowing plans. The Board of Directors believes it is well informed as to the business and affairs of FCC and that appropriate matters have been brought to the Board of Directors for approval.

BOARD REMUNERATION

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

The Chair of the Board receives an annual retainer of $6,500 and per diem of $375 for meetings attended. Committee chairs receive an annual retainer of $4,250 and $300 per day for meetings attended. All other Board members receive an annual retainer of $3,500 and a per diem of $300 respectively. Per diems are paid for time spent performing corporate business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties on behalf of the Corporation.

DIRECTOR	BOARD REMUNERATION	COMMITTEE REMUNERATION	TOTAL REMUNERATION	EXPENSES	BOARD ATTENDANCE RECORD (%)	COMMITTEE ATTENDANCE RECORD (%)
Donald W. Black	$ 13,250	$ 1,875	$ 15,125	$ 10,050	100	100
Edward W. Clark	9,200	1,950	11,150	17,270	100	100
Rosemary Davis	7,400	1,500	8,900	13,670	100	100
Rashpal Dhillon	7,100	900	8,000	7,250	67	67
Warren Ellis	9,500	2,250	11,750	23,360	100	100
Eleanor M. Hart	8,300	1,950	10,250	13,590	100	100
Lois Hole	6,800	600	7,400	4,420	67	50
Marie-Andrée Mallette	9,200	1,500	10,700	16,290	100	100
Peter V. Rampton	7,100	1,200	8,300	9,770	83	88
John J. Ryan	N/A	N/A	N/A	N/A	100	100
Marilyn Marie Scott	7,700	900	8,600	5,460	83	100
Germain Simard	9,200	1,200	10,400	17,390	100	100
Total	**$ 94,750**	**$ 15,825**	**$110,575**	**$ 138,520**		

FARM CREDIT CORPORATION

Board of Directors

Donald W. Black

Chair since January 11,1995, Member, Audit, Corporate Governance and Human Resources Committees

- President and Chief Executive Officer of Greystone Capital Management Inc., a Regina, Saskatchewan-based independent investment counseling firm with $8 billion under management
- Served as director of public companies, such as TGS Properties Ltd. and the Luscar Coal Income Fund as well as private companies, industry associations and charitable organizations
- Strong believer in the business sector's support of the community and now serves on the Boards of the Hospitals of Regina Foundation, the Canadian Scholarship Trust Plan and the Ranch Ehrlo Society

Edward W. Clark

Director since May 28,1996, Chair, Corporate Governance Committee

- Owner/Operator, Beef and Forage Farm, Miscouche, Prince Edward Island for 40 years
- Served on Minister's Advisory Committee that named the Confederation Bridge connecting PEI to the mainland
- Won the 'Friend of 4-H' award commemorating commitment to the 4-H organization in 1995
- Elected to the Prince Edward Island Legislative Assembly in 1970 and served as Minister of Agriculture and Forestry, and the Speaker of the Legislative Assembly among other portfolios, retired MLA 1996
- Strong commitment to community: Former President of PEI Junior Farmers, former member of Federation of Agriculture, past provincial president of the PEI Shorthorn Breeder's Association, 4-H Leader for 20 years

Rosemary Davis

Director since December 19, 1995, Member, Audit and Corporate Governance Committees

- Owner/Operator, Tri-Country Agromart Ltd., a retail and wholesale fertilizer plant, farm supply, feed store and garden centre
- Director, Trenval Development Corporation – Chair of the Agriculture Committee, member of the Organizing Committee of the Quinte Farm Show
- Involved in the Fertilizer Institute of Ontario Fertilizer Use committee, Ontario Federation of Agriculture, Soil and Crop Associations of Northumberland, Hastings, Prince Edward and Northumberland Apple Growers Association, and Rotary International

Rashpal Dhillon

Director since June 6, 1995, Member, Audit and Human Resources Committees

- President and Chief Executive Officer, Richberry Farms Ltd., a cranberry and blueberry operation; General Partner and Chief Executive Officer of Pitt Meadows Farms Ltd., a cranberry operation and Director/Owner of Richview Golf Centre.
- Former Director/Secretary of the Richmond Farmers Institute and the British Columbia Cranberry Marketing Board; former Director/Vice-President of the British Columbia Blueberry Co-operative
- Director of the Canadian National Institute for the Blind; former Director of the Richmond Foundation

Warren Ellis

Director since April 4, 1995, Chair, Audit Committee

- Proprietor, Warren Ellis Produce, O'Leary, Prince Edward Island, a mixed farming operation of potatoes, barley, wheat and feeder cattle
- President of O'Leary Potato Packers Ltd., a potato processing operation that processes and markets throughout North America and the Caribbean
- Past Board member of Western PEI School Board and PEI Landing Authority; Past Chairman of the O'Leary Community Sports Centre and Potato Blossom Festival
- Atlantic Region honoree in Canada's Outstanding Young Farmers Program in 1994

Eleanor M. Hart

Director since May 2, 1995, Chair, Human Resources Committee

- Farm partner/owner, Lokoja Farms
- Past-President, Ontario Home Economics Association, Woodstock, Ontario
- Volunteer Oxford's Family and Children's services, local Director for the County Federation of Agriculture, member Canadian Home Economics Association, the London Home Economics Association, the London Home Economics Association, International Development Committee and the Agricultural Research Institute of Ontario
- Active with the Woodstock Campus Fanshawe College, participating in advisory boards and past member of its evaluation committee for the Farm Business Management Course

Lois Hole

Director since April 4, 1995, Member, Human Resources Committee

- Holes Greenhouse and Gardens Ltd., St. Albert, Alberta, a 40-year-old operation that is one of the biggest retail garden centres and greenhouses in Western Canada and regarded as a premier supplier of quality plants and gardening-related material in Canada
- Published author and renowned gardening expert with seven books (Canadian best sellers) to her credit as well as regular columns in *The Globe and Mail* and *Edmonton Sun*; and recently completed the Canadian portion of the 1999 *Old Farmer's Almanac Gardening Companion*
- Present affiliations: Board member, Canadian Heritage Garden Foundation, Child & Adolescent Services Association, and Quality of Life Commission; Honorary Board Member, Poverty in Action; Director, The Alberta Congress; and Chair, Edmonton Mayor's Luncheon for the Arts
- Chancellor of the University of Alberta Senate and has received numerous awards and honours, including an honorary doctorate from Athabasca University for her contribution to education

Marie-Andrée Mallette

Director since June 16, 1995, Member, Audit and Corporate Governance Committees

- Farmer, large-scale farming of commercial crops and colored beans
- Lawyer specializing in agricultural, municipal, real estate, international trade corporate and commercial law, Saint-Paul-de-Chateauguay, Québec for 13 years
- Regional Director of the Québec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the APAQ
- Works actively with Québec Business Women's Association, the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power and the Canadian Bar Association and shares her own experience in exporting to assist and guide producers

Peter Rampton

Director since May 2, 1995, Member, Audit and Human Resources Committees

- Director of Finance, Cowichan Valley Association for Community Living, British Columbia
- Earned a Bachelor of Science in Agriculture Economics from University of Manitoba in 1971 and a Certified General Accountant designation in 1994
- Managed Rampton's Gartmore Farms, a 1,900 acre grain farm for 27 years
- Active past involvement in home community of Dauphin, Manitoba includes Association for Community Living, ARC Industries, Parkland Residential Services, Dauphin's Donor's choice, St. Victor's Pastoral Council, Manitoba Winter Games, midget hockey and Dauphin's Countryfest

John J. Ryan

Director since September 1, 1997, Member, Corporate Governance and Human Resources Committees

- President and Chief Executive Officer, Farm Credit Corporation, Regina, Saskatchewan
- Member of the Conference Board of Canada's 'Operating Executives Council on Quality' and involved, in various capacities, with Boards of Trade and Chambers of Commerce; Serves on the Board of Trustees with the Canadian Athletic Foundation and the Board of Directors for the Hospitals of Regina Foundation; has worked extensively with the Jaycees and the United Way
- Led the CEO challenge for Habitat for Humanity in 1998; past co-chair of the federal division for Regina's 1998 United Way campaign; Vice Chair in the 1999 United Way campaign.

Marilyn Marie Scott

Director since October 24, 1996, Member, Corporate Governance Committee

- Lawyer specializing in agriculture law, wills and estates and is Senior Partner in Scott and Weber Law Firm, Humboldt, Saskatchewan
- Earned a Bachelor Commerce degree from University of Saskatchewan in 1977, followed by a Bachelor of Laws degree in 1978 and admittance to the Saskatchewan Bar in 1979
- Member and past Director of Women Entrepreneurs of Saskatchewan and a member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association
- Active community involvement includes Girl Guide Leader, girls minor softball, as well as various church, educational and hospital liaisons.

Germain Simard

Director since June 6, 1995, Member, Human Resources Committee

- Dairy Farmer, La Baie, Québec
- President of the Union des producteurs agricoles (UPA) for Saguenay-Lac-Saint-Jean; Board member for the Québec insurance company, Les Coopérants; the Commission professionelle de l'Agriculture du Québec; the Chaîne Coopérative du Saguenay; Nutrinor; and the regional agricultural advisory committee

Glossary of Terms

Agribusiness – Businesses which are upstream or downstream from primary agricultural production.

Alliances – Relationships between FCC and other agricultural organizations formed to pool talents and offer expanded services to the primary producer and value-added enterprises.

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

Allowance for Credit Losses – Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general provisions for loan impairment and reduced by writedowns on real estate acquisitions and loan writeoffs net of recoveries. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Derivative Financial Instrument – A financial instrument where 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.

Efficiency Ratio – Administration expenses as a percentage of income before real estate gains and provision for credit losses.

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 payment is 90 days past due, unless the loan is well secured and in the process of collection; or when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principle and interest.

Interest Expense – Expense to the Corporation incurred from the use of interest bearing funding instruments.

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

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

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

International Swap Dealer's 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.

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

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

Net Interest Margin – Net interest income expressed as a percentage of average total assets.

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

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

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

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

RISK

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

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

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.

FARM CREDIT CORPORATION

Locations

BRITISH COLUMBIA:
Abbotsford, Dawson Creek, Duncan, Kelowna

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

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

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

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

QUÉBEC:
Alma, Drummondville, Gatineau, Granby, Joliette, Rock Forest, St-Jérôme, Rivière-du-Loup, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Foy, Trois-Rivières, Valleyfield, Victoriaville

NEW BRUNSWICK:
Grand Falls, Moncton, Sussex, St. George, Woodstock

NEWFOUNDLAND:
St. John's

NOVA SCOTIA:
Kentville, Truro

PRINCE EDWARD ISLAND:
Charlottetown, Summerside

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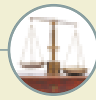
CORPORATE Values



Client Service: WE ARE COMMITTED TO BUILDING CUSTOMER LOYALTY BY CONSISTENTLY PROVIDING VALUE WITH EXEMPLARY SERVICE. **Trust and Respect:** WE BUILD CLIENT TRUST AND RESPECT BY CONDUCTING OUR BUSINESS IN A FAIR AND ETHICAL MANNER AND BY BEING SENSITIVE TO CLIENT VALUES. **Teamwork:** WE ADVOCATE TEAMWORK AND EMPOWERMENT FOR STAFF TO DO THEIR JOBS EFFECTIVELY. **Continuous Learning:** WE PROMOTE PROFESSIONAL DEVELOPMENT OF STAFF AND CONTINUOUS LEARNING. **Partnerships:** WE BELIEVE IN PARTNERSHIPS THAT FURTHER ENHANCE OUR COMMITMENT TO AGRICULTURE. **Corporate Social Responsibility:** WE SUPPORT COMMUNITY ACTIVITIES CONSISTENT WITH OUR VISION AND ARE SENSITIVE TO THE PROTECTION OF OUR ENVIRONMENT. **Diversity:** WE BELIEVE THAT A DIVERSE WORKFORCE REFLECTING THE VARIOUS BACKGROUNDS AND CULTURES OF CANADIANS BRINGS STRENGTH TO THE ORGANIZATION.

FCC Farm Credit Corporation SCA Société du crédit agricole

Canada

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Cette publication est également offerte en français.

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