



2003-04 to 2007-08 Corporate Plan Summary

Corporate Plan Summary
For the 2003-04 to 2007-08 Planning Period

Operating Budget Summary
For the 2003-04 Budget Year

Capital Budget Summary
For the 2003-04 Budget Year

Borrowing Plan Summary
For the 2003-04 Budget Year

Farm Credit Canada

Agriculture. It's all we do.

We are passionate about agriculture and helping our customers succeed. Our core strength is agricultural knowledge and expertise. We build relationships with customers through each business phase, from start up to retirement, not just the life of a loan. This strategic intent is called "Customer for Life".

FCC believes that the key to success for each agricultural enterprise is the ability to proactively plan for future growth. This corporate plan outlines our five-year strategies for how we will provide relevant products, services and solutions tailored to the unique needs of the agricultural industry.

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EXECUTIVE SUMMARY

This corporate plan is the culmination of FCC's integrated planning process, where senior management develop corporate strategy, allocate resources accordingly and devise plans for execution. This process ensures that each corporate staff member is focused on serving the needs of the customer by linking individual annual performance objectives to corporate strategy. This plan has been prepared by senior management with the direction and guidance of the Board of Directors of Farm Credit Canada.

Driven by the needs of primary producers and agribusiness, FCC will broaden its products and services over the coming five years and will grow and share its knowledge of the agricultural industry. The corporation will continue to deepen its understanding of the agricultural environment so that it can continue to offer solutions as unique and diverse as its customers' needs. FCC will continue to strengthen partnerships in the financial, business and agricultural communities in order to expand available offerings. These plans are reflected in the objectives, strategies and measures outlined in this corporate plan, within the framework of a balanced scorecard.

The Government of Canada's Agricultural Policy Framework (APF), developed with the provincial and territorial governments and the agriculture and agri-food industry, will guide agricultural program development across Canada. Farm Credit Canada's plans, products and services are consistent with and directly supportive of the objectives of the APF.

The major strategic issues the corporation faces during the five-year planning period are:

- ❑ FCC has identified the need for small and medium-sized primary producers to have increased access to the business and financial solutions needed to enhance their level of management sophistication
- ❑ Business planning is necessary for primary producers to increase their chance for success through knowledge of the risks and challenges of the marketplace.
- ❑ Succession planning to prepare for the impacts of current demographics, including strategies to ensure a return on investment for the retiring farmer and to encourage new entrants.
- ❑ The increasingly important role of value-added activities and agribusiness in maintaining the viability of Canadian agriculture.
- ❑ The evolution of distribution channels to enable new and existing financial solutions to be available to meet the needs of producers.
- ❑ Successful brand positioning in new markets, which is key to ensuring that those who may benefit from FCC's services are aware of them.

FCC's challenges for the future include:

- ❑ Helping producers enhance their management skills in order to better equip them for long-term success.
- ❑ Promoting an environment for growth through producer access to financial and business solutions.

These are the key planning assumptions FCC has used in the preparation of this corporate plan:

- ❑ FCC will provide new financial solutions for primary producers and agribusiness through expanded delivery channels.
- ❑ FCC will retain the competitive advantages of building lifetime relationships with the customer, and offering superior agricultural knowledge through dedicated staff.
- ❑ FCC will offer wider access to its business services through new and existing alliance partners.
- ❑ FCC will continue to focus on and respond to the needs of primary producers.
- ❑ FCC will be visibly supportive of the federal Agricultural Policy Framework.
- ❑ FCC's ability to provide a financial return adequate to fund future growth will be a key measure of financial success.

This year's corporate plan calls for continued expansion of FCC's financing and business solutions. The objectives, programs and strategies for the five-year planning period are as follows:

Objective	Strategic Program	Strategy
People – unique people leading our success	Leadership and employee development	Enhance leadership and employee engagement at all levels
	Innovative culture	Enhance innovative culture
	Knowledge management	Create and share knowledge among all employees
Customer – create solutions for customer success	Customer loyalty and acquisition	Enhance customer loyalty and acquisition with focus on primary producers and the agribusinesses and alliances that support them.
	Visibility	Demonstrate visible commitment to the full spectrum of the agriculture industry
	Business services	Develop and implement business services, with emphasis on improving producers' management skills and serving each life phase.
	Venture Capital	Serve as a catalyst for venture capital investment in the agricultural industry
Service – make it easy for customers to do business with us	Alliances	Build infrastructure to support partnerships and alliances
	Information technology performance	Enhance performance of information technology systems and processes
	Alternate channels	Improve customer choice by developing alternate product and service delivery channels
	Customer relationship management	Implement CRM infrastructure and processes
Financial success – the foundation of customer support	Optimize performance	Ensure prudent financial management
	Strategy implementation	Enhance strategy integration and execution

Corporate Profile

Overview

Farm Credit Canada (FCC) offers flexible financing and business solutions to primary producers and agribusiness. Established in 1959, FCC is Canada's largest agricultural term lender. The corporate office is located in Regina, Saskatchewan, with 1,000 employees serving 47,500 customers from 100 offices across Canada. The loan portfolio was approximately \$8.4 billion as of October 31, 2002.

As a federal Crown corporation, FCC reports to Parliament through the Minister of Agriculture and Agri-Food Canada. FCC's Board of Directors is comprised of 12 Directors who represent Canada from coast to coast. Their expertise, commitment and involvement in agriculture make a valuable contribution to the strategic direction of FCC.

Mission

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

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.

Values

- | | |
|--|---|
| <input type="checkbox"/> Focus on the customer | <input type="checkbox"/> Act with integrity |
| <input type="checkbox"/> Work together | <input type="checkbox"/> Give back to the community |
| <input type="checkbox"/> Achieve excellence | |

Strategic Intent

Customer for Life – FCC will provide products and services to meet the needs of each phase of a customer's business cycle.

Balanced Scorecard Perspectives – Corporate Objectives

People: Unique people leading our success.

Customer: Create solutions for customer success.

Service: Make it easy for customers to do business with us.

Financial Success: The foundation of continued customer support.

Agricultural Policy Framework

The Government of Canada, along with the provincial and territorial governments and the agriculture and agri-food industry, is working to develop long-term agricultural policy to ensure the sector's growth and profitability in the 21st century. Governments have agreed in principle on the key elements of this integrated Agricultural Policy Framework (APF): business risk management, renewal, food safety and food quality, environment, and science and innovation.

Business Risk Management – The APF's new approach to business risk management would not only protect farmers against traditional and emerging risks, but would also encourage the use of new practices and strategies to reduce risk in the future. This includes traditional and new era safety nets with the objective of delivering consistent, nation-wide, non-trade distorting programs. In addition, new risk management tools will be pursued with a focus on increasing both primary and value-added development and profitability.

Food Safety and Food Quality – Protect human health, increase consumer confidence and provide industry opportunities by strengthening Canada's position as a global leader in safety/quality systems.

Environment – Environmental stewardship is key to both the agriculture industry's long-term sustainability and its profitability. The APF will work to reduce agricultural risk as it relates to the health of water, soils, air and the atmosphere by increasing environmental awareness and effective environmental planning by Canadian producers.

Renewal – Agriculture is knowledge intensive, and producers are increasingly engaging in continuous learning to keep pace with change. New initiatives are included in the APF to allow all primary producers and agribusinesses to further develop their management and technical skills, from finance and production to the environment. In addition, the APF provides for the delivery of programs for farmers, from adding alternative income sources to exiting agriculture.

Science and Innovation – Advances in science and technology have long been part of the success of Canada's agriculture and agri-food sector and one of the goals of the APF is to make the sector the world leader in innovation.

The APF will guide agricultural program development across Canada. Farm Credit Canada's products and services are consistent with and directly supportive of the objectives of the APF.

Public Policy Role

Farm Credit Canada is a federal Crown Corporation, reporting to the Minister of Agriculture and Agri-Food. FCC's mission statement conveys the corporation's public policy role:

FCC's mission is to enhance rural Canada
by providing specialized financial and business solutions to
farm families and agribusiness.

FCC fulfills its public policy role by offering products and services to the agricultural community, through solid business principles, which includes assuming an appropriate level of risk and operating on a financially self-sustaining basis.

FCC is committed to agriculture. This commitment is exhibited by supporting customers with flexible products and services designed to help them effectively manage their way through cyclical fluctuations in commodity supply and demand, price pressure, weather-related issues, disease and other challenges. FCC fulfills its public policy role by supporting agriculture through good times and bad.

When disasters occur in the agricultural industry, FCC proactively contacts customers to develop plans to manage through challenging times. For example, in the past few years FCC has worked with Western Canadian farmers dealing with severe drought, PEI customers facing the potato embargo and disease, cranberry farmers in BC experiencing low commodity prices, and low prices for maple syrup in Quebec. FCC also helped Manitoba farmers during the Red River floods and Quebec and Ontario farmers during the ice storms.

For more than 40 years, FCC has served farmers. Supporting the primary producer has always been the main focus of the corporation and will remain so in the future. FCC also realizes the increasing importance of agribusiness to the overall health of the industry. FCC now finances everything from fertilizer to meat processing but there is one underlying criterion: everything FCC finances must be directly related to agriculture.

FCC tailors new products and services to help farmers and agribusiness handle the industry's unique and evolving needs. The leadership role played by FCC in the development of these products is driven by customer and sector need. In some instances, the markets for such products are initially limited. Since FCC is not driven purely by economic motives, the corporation can take the lead role in such ventures. In many cases, these products have subsequently been copied by other financial institutions, which is a good thing for the agricultural industry.

FCC's public policy role is further fulfilled by the presence maintained in every province, serving more than 47,000 customers in their official language of choice. FCC enhances rural communities through the 100 field offices located primarily in rural Canada, (See Appendix 1) and through the financial products and services provided to customers in these and other rural communities across Canada. In addition, FCC's community investment program provides dollars and staff time to every community where its employees and customers live and work. Agriculture is integral to rural Canada. FCC's commitment to agriculture is evident in everything we do.

To summarize, FCC's mission statement communicates the corporation's public policy role:

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

Agriculture. It's all we do.

Governance Structure

Board of Directors

FCC's Board of Directors is representative of the Canadian farming and agribusiness community. Their direct involvement and understanding contributes significantly to the vision, leadership and strategy development of the corporation. Committed to serving agriculture, the Board ensures that FCC focuses on customer service, productivity, self-sustainability, cooperation and sound environmental stewardship.

The Governor in Council appoints the Chair as well as the President and CEO. The Minister of Agriculture and Agri-Food Canada appoints Board members who represent Canadian agricultural and financial communities, striving for gender, linguistic, employment equity target group and geographical representation.

Board Responsibilities

The Board is responsible for the corporate governance of the corporation. It ensures that FCC's business activities are in the best interests of the corporation and the long-term interests of the Government of Canada as required by the *Farm Credit Canada Act (FCCA)* and *Financial Administration Act*. Directors exercise a stewardship role, establishing and contributing to a good working relationship with management. The Board participates in FCC's strategic planning process and approves the strategic direction and the corporate plan. The Board also exercises its responsibility to oversee and ensure that principal risks associated with FCC's businesses have been identified and that appropriate systems and policies are implemented to manage these risks.

Members of Board of Directors

ROSEMARY DAVIS, Chair

Owner/Manager,
Tri-Country Agromart Ltd.,
Trenton, Ontario
Chair, Board of Directors
Appointed Chair June 20, 2000

ROBERT M. COLPITTS

Former Director, Animal Industry Branch, New
Brunswick Department of Agriculture
Fredericton, New Brunswick
Appointed November 27, 2001

RASHPAL DHILLON

President and Chief Executive Officer,
Richberry Farms Ltd.; General Partner and
Chief Executive Officer, Pitt Meadows Farms
Ltd., Richmond, British Columbia
Reappointed September 5, 2002
*Deceased January 6, 2003

WARREN ELLIS

President and CEO, O'Leary Potato Packers
Ltd.; Proprietor, Warren Ellis Produce,
O'Leary, Prince Edward Island
Chair, Human Resources Committee
Reappointed November 27, 2001

DONNA GRAHAM

Managing Partner, Graham Farms Ltd.,
Vulcan, Alberta
Appointed September 26, 2000

ELEANOR M. HART

Farm Partner/Owner, Lokoja Farms;
Past-President, Ontario Home Economics
Association, Woodstock, Ontario
Reappointed August 28, 2001

MAURICE B. KRAUT

Co-owner and operator of cattle and grain
farm enterprise; owner and operator of
Agriculture Consulting; Winnipeg, Manitoba
Reappointed May 7, 2002

MARIE-ANDRÉE MALLETTE

Farmer, large-scale farming of commercial
crops and beans; Lawyer specializing in
agricultural law, Ste-Martine, Quebec
Chair, Audit Committee
Reappointed September 5, 2002

RUSSEL MARCOUX

Chief Executive Officer, Yanke Group of
Companies; Owner/operator grain farm
Saskatoon, Saskatchewan
Appointed December 10, 2002

JOAN MEYER

Co-owner/Operator of mixed farming
enterprise, Swift Current, Owner/Operator,
Swift Administration and Management
Services, Swift Current, Saskatchewan
Chair, Corporate Governance Committee
Reappointed September 26, 2000

JOHN J. RYAN

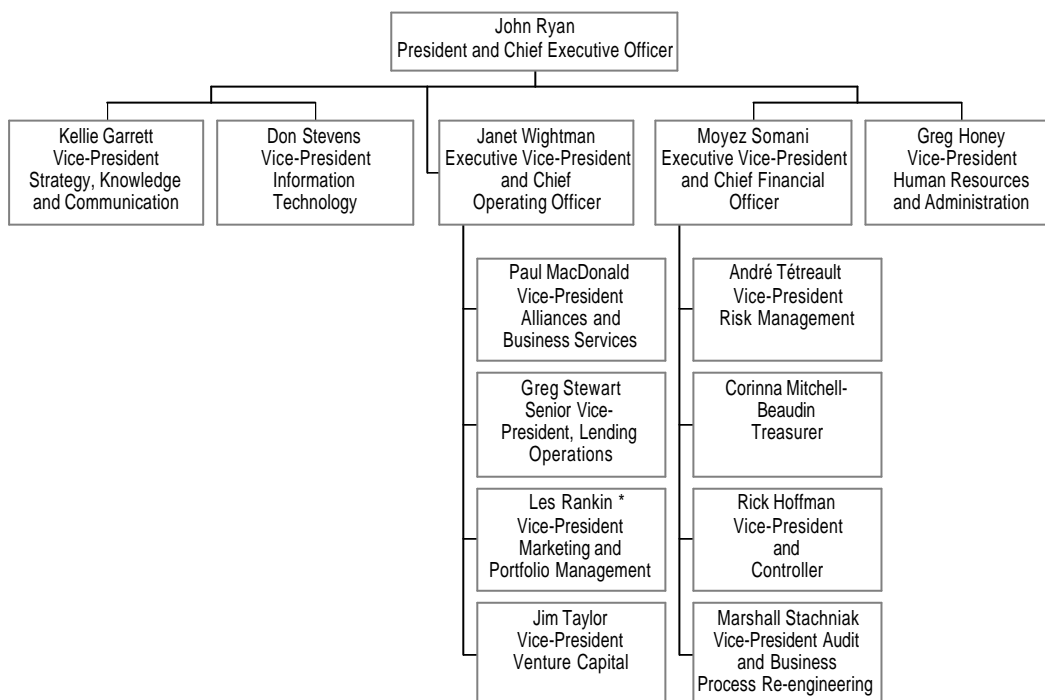
President and Chief Executive Officer,
Farm Credit Canada
Regina, Saskatchewan
Reappointed September 1, 2002

GERMAIN SIMARD

Dairy Farmer,
La Baie, Quebec
Reappointed August 28, 2001

Executive

The President is the Chief Executive Officer (CEO) and is responsible for the supervision of the business of the corporation. With the approval of the Board of Directors and Chief Executive Officer, the corporation's Senior Management team sets corporate priorities and acts to achieve FCC's objectives consistent with the mandate and approved strategic direction. The *Financial Administration Act* serves to guide decision-making and business activities. Bound by the Employee Conduct and Ethics Policy, FCC's Senior Management adheres to the highest ethical standards of business, professional and personal conduct. All executives, with the exception of the CEO are paid within the salary ranges and compensation policies approved by the Board of Directors. The Governor in Council establishes the CEO's salary and benefits.



*Les Rankin resigned from FCC on April 23, 2003.
Lyndon Carlson is the Vice-President of Marketing and Portfolio Management

Products and Services

FCC's products and services are designed to help producers and small to medium-sized agribusinesses grow and succeed. Many loans feature flexible payment options, to support the cash flow and cyclical issues unique to each agriculture sector. Our customers are often the source of new loan product ideas.

Lending products offered by FCC include:

- ❑ Real property loans – for the financing of land or buildings, with a variety of terms, amortization periods and prepayment options.
- ❑ Personal property loans – for the financing of new equipment, quota or livestock, with flexible rates and convenient repayment terms.
- ❑ AgriStart – for the transfer of farming operations from one generation to the next, and for assisting developing farmers in starting or expanding their operations.
 - 1-2-3 Grow Loan – financing with deferred payment options for farmers starting or expanding an enterprise that will have a reduced income stream from one to three years.
 - Payday Loan – financing for individuals with off-farm employment interested in starting or expanding a farm business.
 - Transition Loan – helps those wishing to purchase property from someone who is retiring and helps those retiring to receive the equity from their farm without risk.
 - Cash Flow Optimizer – gives producers the freedom to use money that would normally go towards principal and invest it in other areas of their operation.
 - First Step – designed to help those starting out build their business and ease cash flow so they can allocate income to other parts of their business.
- ❑ Farmbuilder Construction loan – interim financing for up to six months on construction projects such as milking parlours, farrowing barns, or grain storage facilities. Funds are disbursed as needed during construction, but no payments are required until completion.
- ❑ Plant Now – Pay Later – horticulture operations can have payments deferred until the new plantings start to generate cash flow.
- ❑ Flexi-Farm and Flexi-Hog Loans – allow producers in all sectors to pause principal payments during the loan. Pauses can be for up to one year, in order to ease cash flow during adverse conditions.
- ❑ Enviro-Loan – financing to upgrade manure storage handling facilities, develop buffer zones, or for the sale and leasing of crop areas between water runways.
- ❑ Enhanced creditor life insurance – this program provides life insurance and accidental dismemberment coverage, with an early payout option in the event of terminal illness.
- ❑ FCC-CULEASE leasing program – provides lease financing with low or no down payments and terms from three to five years.

- ❑ National Equipment Dealer Financing Program – equipment financing that can be arranged directly through the member dealerships.
- ❑ Agricultural Input Financing – agricultural input financing obtained directly through alliance partners.

The expansion of FCC's mandate in 2001 resulted in the creation of a Business Services Division. The division's role is to advance the management practices of primary producers and agribusiness. This will include strategy, production, finance, marketing, risk management and business planning. Business Services will deliver programs that provide information, education, tools, service and security (insurance).

Alliances and Partnerships

Alliances are relationships between FCC and other operations that enable more extensive services to customers. FCC currently has alliance relationships with suppliers, and other financial institutions.

Business alliances allow FCC partners to maintain independence, while adding value through combined resources and expertise to their respective customers and operations.

The objective is to improve the products and services available to the agriculture industry & individual producers by encouraging potential partners to complement FCC's service offerings.

FCC's alliances include:

- ❑ Business Development Bank of Canada
- ❑ National Equipment Dealer Financing Program
- ❑ Feeder/Breeder Finance Programs
- ❑ Western Economic Diversification Canada and the Canadian Imperial Bank of Commerce
- ❑ Agricultural Financial Services Corporation of Alberta
- ❑ United Farmers of Alberta
- ❑ Credit Union Central of Ontario
- ❑ Credit Union Central of Prince Edward Island
- ❑ CULease Financial Services
- ❑ Saskatchewan Wheat Pool

Competition

FCC participates in the Canadian **financial services industry**, which includes the chartered banks, credit unions, caisse populaires and provincial lending agencies.

In the **venture capital sector**, investment in agriculture is limited, with approximately \$130 million, being disbursed through 104 rounds of financing since the beginning of 1998. There are only a small number of funds with an investment mandate that includes an industry preference in agriculture. Provincial governments, notably Québec and Saskatchewan, created the majority of these funds as a means to foster economic development. Within this small group of funds, there is no leader by geography, industry or stage of development.

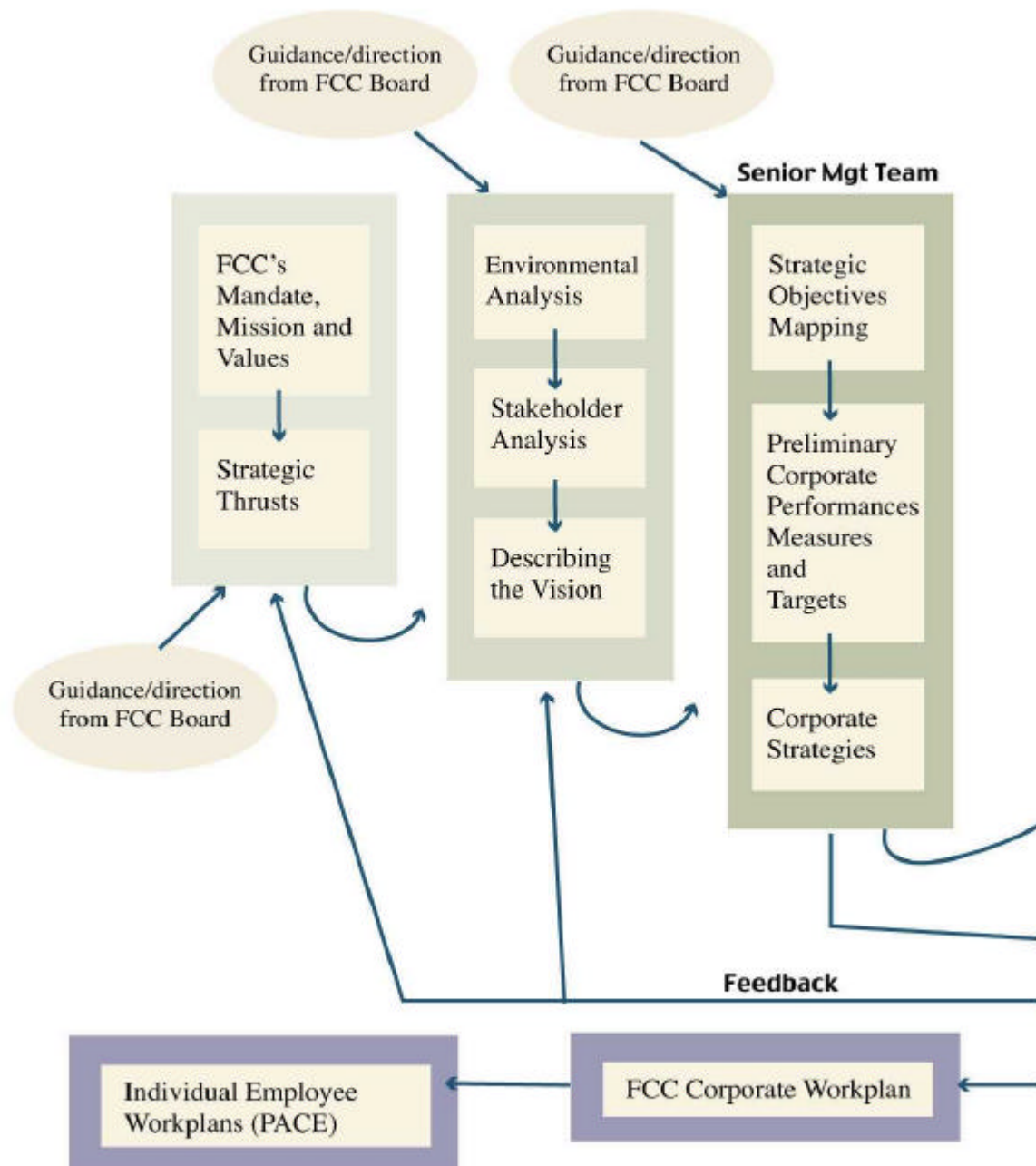
Integrated Planning Process

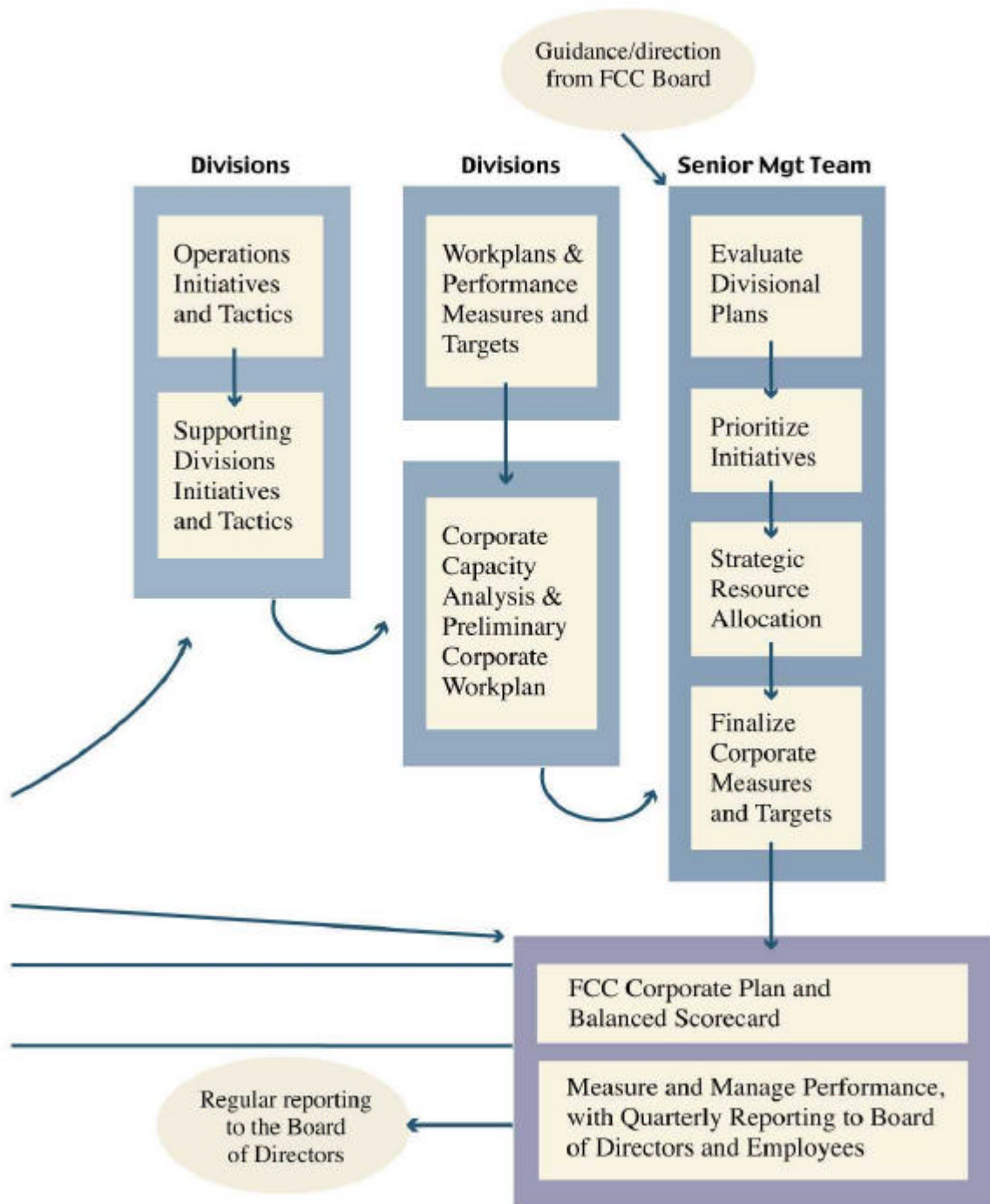
FCC's integrated planning process employs a balanced scorecard approach to strategic planning. The Board of Directors and senior management establish the strategic intent and corporate objectives. These objectives provide direction for corporate strategies and related performance measures and targets. The strategies are used to identify projects that are tracked through a corporate work plan and resources are appropriately allocated. The corporate strategic planning and resource allocation processes are closely linked and:

- ❑ specify the strategic programs and initiatives of the corporation;
- ❑ identify timelines and responsibilities for implementation;
- ❑ allocate corporate resources to each strategy.

Through the integrated planning process, the corporate strategic planning, divisional planning, resource allocation, annual budget and annual employee performance processes are integrated.

FCC Integrated Planning Process





STRATEGIC ISSUES FOR THE PLANNING PERIOD

Assessment of Results - Balanced Scorecard 2002-03

In last year's corporate plan, Farm Credit Canada outlined the 15 corporate strategies and 20 performance measures and targets to monitor their progress. The projected results for fiscal year 2002-03 are contained in the following table.

Measures and Targets	2002-03 Projected Results
Training & development spending/salary dollars – target of 3.5% each fiscal year.	Project achievement.
Acquire venture capital and complementary services ¹ expertise – target of March 31, 2003.	Venture Capital and Business Services staffing completed per plan.
Employee development plan completion – target of 100% by November 30 each fiscal year.	Project achievement.
Implement the corporate innovation program – target of 10 innovative ideas sponsored by March 31, 2003.	Pilot project completed with 10 ideas implemented.
Establish a university recruitment program – target of March 31, 2003.	Summer/co-op student program implemented with 35 students hired for work terms. Anticipate permanent recruitment in future from this group.
Apply Customer for Life segmentation – target of 30% of customers segmented by March 31, 2003.	34% response rate to Customer for Life Segmentation Survey. Segmentation on track.

¹ Complementary Services renamed Business Services in Q1.

Measures and Targets	2002-03 Projected Results
Establish venture capital business line – target of up to \$5 million invested by March 31, 2003, and \$25 million by March 31, 2007 ²	Venture Capital business line established and strategy approved by Board. Numerous business plans from potential ventures have been reviewed, with \$10M funded.
Establish complementary services ³ as a business line – target of two complementary services launched by March 31, 2003.	"Business Services" business line established. New FCC Business Planning Award developed & launched. Acquired Settler Computer Technologies Inc. AgriAssurances – Loan Life and Accident Insurance launched.
Provide relevant syndicated or 3 rd party information on the FCC Web site – target of 150 information pages by March 31, 2003	Channel strategy and web content plan completed.
Disbursements for Primary Production ⁴ , Agribusiness, and Alliances – target of Primary Production \$1.48B, Agribusiness \$325M, Alliances \$425M for fiscal 2002-03.	Projections – Primary Production \$1.85B; Agribusiness \$516M; Alliances \$331M.
Launch a product suite for new entrants to agriculture – target March 31, 2003	A suite of three products, Transition Loan, Cash Flow Optimizer, and First Step, was launched September 2002.
Percentage of FCC disbursements via CSC, e-business, and Alliances – target of 20% for fiscal 2003	To be determined.

² Board approved Venture capital strategy in Q1 which recommended new targets of \$10M invested in 2002-03 and \$50M invested by March 31, 2007

³ Complementary Services renamed Business Services in Q1.

⁴ Primary Production is now referred to as Farm Finance.

Measures and Targets	2002-03 Projected Results
Implement IT strategy, supported by redesigned business processes – target Mar. 31, 2003	The IT strategy has been incorporated into the IT annual workplan. Divisional restructuring has occurred, and business processes are under redesign.
Corporate efficiency ratio – target of 48.1% for fiscal 2003	Project achievement.
Establish a portfolio vision for agribusiness – target of March 31, 2003	Project the portfolio vision will be established.
ROE – target of 10.05% for fiscal 2003	Project achievement.
Debt to equity ratio – target of 9.2:1 at March 31, 2003	To be determined.
Strategic credit risk score on portfolio – target of less than 70 at March 31, 2003	Project achievement.
Cost effectiveness of funding – target of 10 bps lower than Crown curve for fiscal 2003	Project achievement.
Community investment – target of 1.5% of previous three-year average net income invested by March 31, 2003	Project achievement.

Public Policy Scorecard

FCC's public policy role is described in the "Executive Summary" section of this document (page 10). The following chart indicates objectives and results achieved by FCC relative to this role.

Objectives related to FCC's Public Policy Role	Corporate Strategies and Tactics	Corporate Results 2002-03
Provide business and financial solutions to farm families and agribusiness	Provide appropriate products and services that meet the needs of both primary production and value added businesses	Flexi-Farm loan products; AgriStart suite of products – Transition Loan, CashFlow Optimizer, and First Step loans, were introduced.
Support agriculture through all cycles	Proactive customer contact during challenging times	More than 8,000 letters were sent offering assistance and support to prairie producers facing severe drought conditions, resulting in positive feedback.
Appropriate risk management	Implement and maintain integrated risk management processes	Corporate integrated risk management framework developed and progress reports completed.
Corporate self-sustainability	Prudent financial management and continuous efficiency improvement	Nine consecutive years of portfolio growth and positive net income; ongoing business process reengineering
Tailor new products and services to unique needs of agriculture	Focus on various ag sector needs and producer life phases	Development of Venture Capital and Business Services Divisions, Business Planning Award, Ag Expert
Maintain presence in rural areas of every province	Field, district and regional offices operated in each province	Offices maintained in each province; vast majority located in rural areas; annual Member of Parliament visitation program.
Conduct business in both official languages	Designated offices; Support for language training	Maintenance of designated English and French offices; provision of immersion programs and tutoring services for FCC employees studying English and French language; award winning translation procedures.
Community investment	Participate in the Canadian Centre for Philanthropy's Imagine program, whereby corporations donate a minimum of 1% of net income to communities.	Targeted community investment based on 1.5% of corporate net income – targeted at 4-H scholarships, First Aid on the Farm, United Way, World Food Day, food banks, and the Employee Volunteer program, and industry sponsorships.

Environmental Responsibility

FCC strongly believes in environmentally sustainable business practices and environmental stewardship.

FCC has responsibilities for safeguarding the environment under the Canadian Environmental Protection Act (CEPA), the Canadian Environmental Assessment Act (CEAA), Fisheries Act (FA) and the Species at Risk Act (SARA). As a federal Crown corporation, FCC must ensure that its lending activities do not lead to misuse, contamination or other deterioration of the environment. Federal government policies concerning the environment require FCC to have a proactive environmental approach. This includes full support of the “environment” element of the Agricultural Policy Framework.

FCC includes appropriate terms and provisions in loan documentation regarding the environment and undertakes periodic environmental audits. An environmental questionnaire must be completed by all customers offering real property as security in order to assess environmental risk. Customers must comply with all applicable federal and provincial environmental legislation and municipal by-laws. These terms and provisions help ensure customers and their operations are protected, and also protect FCC from environmental liability.

FCC expects to be subject to the provisions of the proposed Canadian Environmental Assessment Act (currently in the House of Commons as Bill C-9).

FCC invests in environmentally sound enterprises and takes all reasonable care in the execution of its business to safeguard the environment.

Official Languages

FCC views official languages as more than an obligation. The corporation is committed to creating a true climate of bilingualism for both customers and employees. Management and employee support has allowed the corporation to implement several best practices that have been recognized by Treasury Board and the Commissioner of Official Languages. Employee engagement to bilingualism, the language training program, and award-winning translation procedures and guidelines allow FCC to serve customers and staff in Canada's two official languages simultaneously.

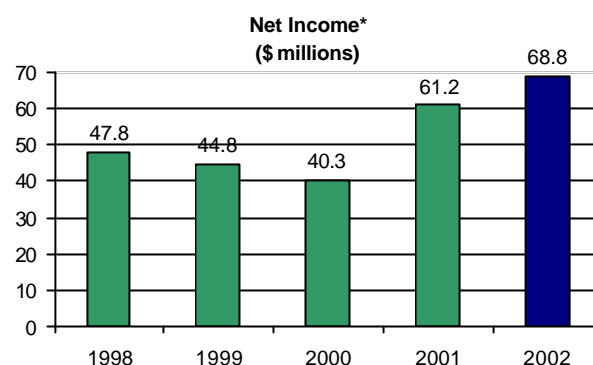
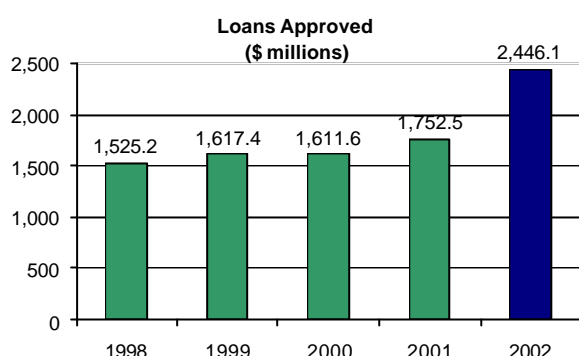
Operational and Financial Highlights

For the years ended March 31

Operational	2002	2001	2000	1999	1998
Loans receivable portfolio					
Number of loans	75,888	75,202	73,686	72,311	69,846
Amount (\$ millions)	7,715.8	6,907.6	6,303.8	5,843.4	5,318.8
Net portfolio growth (%)	11.7	9.6	7.9	9.9	13.5
Percentage of loans receivable in good standing (%)	96.5	95.5	94.9	94.8	94.3
New lending					
Number of loans approved	17,842	13,289	14,201	14,880	15,488
Amount of loans approved (\$ millions)	2,446.1	1,752.5	1,611.6	1,617.4	1,525.2
Average size of loans approved (\$)	137,097	131,875	113,500	108,700	98,500
Real property held at year end					
Number of properties	115	372	924	1,516	1,787
Number of acres	28,855	120,924	360,284	604,054	725,703
Value (\$ millions)	10.1	25.1	64.9	103.4	123.5

Financial	2002	2001	2000	1999	1998
Balance sheet (\$ millions)					
Total assets	7,884.7	7,179.3	6,570.7	6,125.1	5,706.2
Total liabilities	7,138.7	6,346.7	5,943.5	5,533.2	5,156.9
Equity	* 745.9	832.6	627.2	591.9	549.3
Income statement (\$ millions)					
Net interest income	201.2	164.5	154.4	146.3	134.1
Provision for credit losses	45.5	40.2	52.7	33.2	18.7
Net lease and real estate income	5.4	23.2	23.0	14.7	13.0
Other income	9.3	8.2	6.4	7.1	8.8
Administration expenses	101.6	94.5	90.8	90.1	89.4
Income before income taxes	68.8	61.2	40.3	44.8	47.8
Current income taxes	1.9	2.2	1.9	2.2	6.2
Future income taxes	25.6	27.4	-	-	-
Net income for the year	41.3	31.6	38.4	42.6	41.6

* Reduction in equity due to the removal of the future income tax asset at March 31, 2003, as a result of the corporation attaining tax exempt status.



Operational highlights

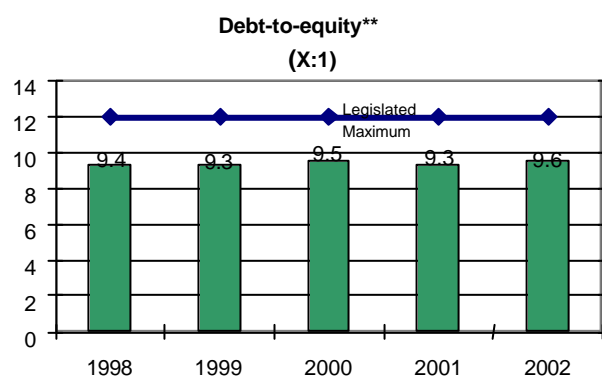
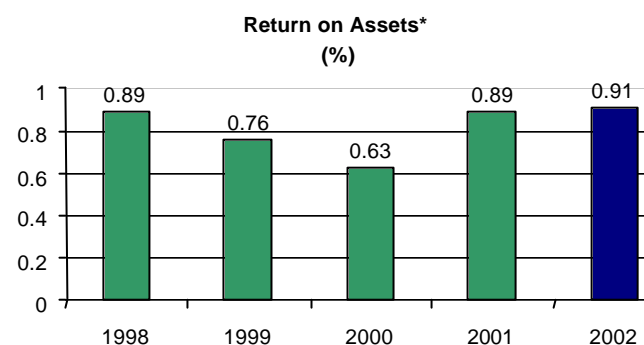
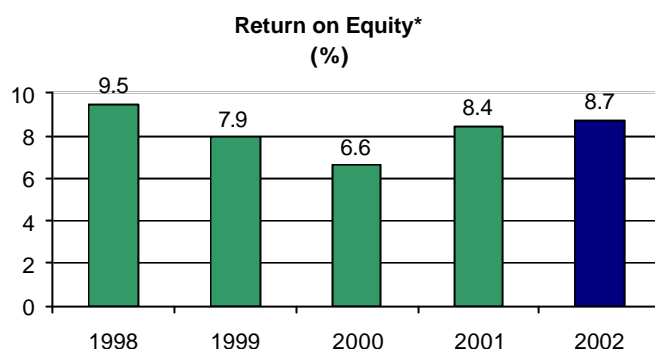
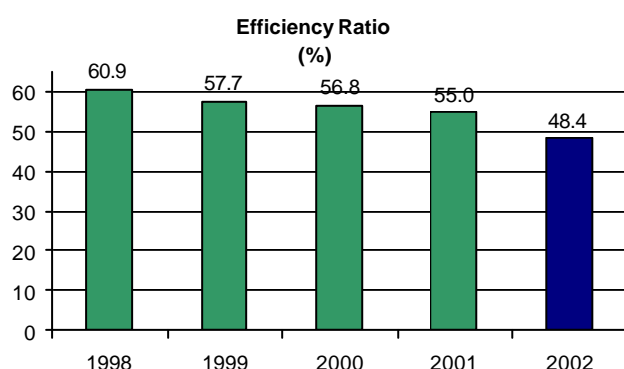
- ❑ Approved \$2.4 billion in new loans
- ❑ Ninth consecutive year of portfolio growth at 11.7 per cent in 2001-02
- ❑ Initiated significant new agreements with Alliance partners
- ❑ Continued development of internet services
- ❑ Improved health of loan portfolio

Financial highlights

- ❑ Continued strong net income generated increased capacity for lending
- ❑ Higher return on equity mainly due to increased net interest income

As a sovereign borrower, FCC maintains an AAA credit rating

Allowance for credit loss increased by \$28.1 million, reflecting the risks associated with the larger portfolio
Efficiency ratio improved to 48.4 per cent from 55.0 per cent in 2001-02.



* before income taxes

** equity restated in 2001 for comparative purposes

Additional expected financial results compared to plan information are indicated in the Financial Plan section of this document.

Analysis of External Business Environment

The Board of Directors and senior management of Farm Credit Canada regularly review the corporation's external business environment. Various factors of potential significance for the corporation have been explored and conclusions reached on the likelihood of occurrence and expected impact for each factor.

Specific elements of the external environment and the potential relevance to FCC are as follows:

International Considerations

The United States Farm Bill will be in effect from 2002-07. The bill locks in a high level of support for major commodities and introduces new support measures for the specific pulse crops of dry peas, lentils and small chickpeas. However, compared to recent U.S. spending on agriculture, which includes annual ad hoc emergency payments to U.S. farmers since 1999, actual payments are expected to decrease slightly. Nevertheless, the effects on some crops, such as pulses, could be significant. There is also the possibility of future ad hoc payments.

Under this bill, retailers must provide information to consumers about the country of origin for muscle cuts of beef, pork and lamb; ground beef, pork and lamb; fish and shellfish (both wild and farm-raised); fresh fruits and vegetables; and peanuts. Voluntary labeling was to begin by September 30, 2002 and mandatory labeling is to begin by September 30, 2004.⁵

The impact of the high spending levels in the U.S. Farm Bill on the current round of World Trade Organization (WTO) negotiations is unclear. One opinion is that the U.S. will offer to cut its agricultural subsidies in return for concessions from other countries.

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

Global trade issues continue to place pressure on Canadian producers to increase competitiveness. The current round of WTO negotiations, scheduled to be complete by 2005, could have major implications for producers.

FCC continuously monitors international issues to ensure a proactive response if necessary.

⁵ USDA, ERS, "Country of Origin Labeling", May 2002.

Canadian Agriculture

In the 2001 Census of Agriculture, 33% of Canadian farms had cash receipts greater than \$100,000, compared to 30.2% in 1996 and 15.3% in 1981. The average Canadian farm family receives most of its income from off-farm sources.

Canadian net cash farm income is expected to fall by 9% in 2002 to just over \$8B because of lower crop production (drought) and lower prices in some sectors. This may cause some producers to evaluate their farming operations, which in turn may lead to expansion, liquidation of assets or diversification.

Structural change in agriculture is resulting in fewer, but larger farms, with an increase in the average loan size. This is resulting in an increased need for financing. Sound business (including financial) management is a core competency that will distinguish successful producers.

People have been exiting agriculture because of rising productivity and/or low net farm income, and people have been "pulled" out of agriculture because of the strong demand for labour outside of agriculture. The median age of all farm operators in Canada increased from 47 in 1996 to 49 in 2001. The percentage of operators aged 35 and above has increased, while the percentage below age 35 decreased by 34.6% over the preceding five years.

Environmental concerns are increasing in attention. Greater emphasis on the environment coupled with a desire to renew the agricultural industry may result in increased investment in alternative fuels such as ethanol and other new environmental management technologies. Venture capital will be required to build these capital-intensive operations.

Financial Services Industry

Change in the financial services industry is being driven by global competition, product innovation, demographics and technology. Competition will intensify as the full effect of Bill C8, reforming Canada's financial service sector, is felt in the marketplace. An increase in the number of small businesses and self-employed individuals is increasing demand for more specialized financial products. Meanwhile, the baby-boom generation has adopted a savings-oriented financial focus, leading to the growth of a wealth management sector.

Technology is shaping consumer demand and business models. Financial institutions provide customers with access to information and services 24 hours a day, seven days a week – in person, by phone, or through the Internet.

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

Farm Credit Canada faces strong competition from both traditional and non-traditional competitors for valuable current and potential customers. However, the face of this competition varies across Canada. Retaining a bricks and mortar presence in rural Canada is becoming a differentiator; it remains to be seen whether it will be a competitive advantage.

Data from Statistics Canada indicates the following:

"as at December 31, 2001, farm debt outstanding rose 5.6% to \$40.8 billion, continuing the steady upswing since 1993. Both mortgaged and non-mortgaged debt rose, by 7.9% and 3.6%, respectively. Since 1994, non-mortgaged debt has contributed more to the total debt than mortgaged debt. In 2001, non-mortgaged debt rose to \$20.7 billion, while mortgaged debt rose to \$20.0 billion.

"Most non-mortgaged debt was owed to chartered banks (64.2%) and credit unions (23.4%). Major holders of mortgaged farm debt were Farm Credit Canada (32.7%), chartered banks (25.3%), private individuals (13.6%), credit unions (7.5%) and provincial government agencies (6.8%).

"In 2001, all provinces increased their debt load. Increases ranged from 2.8% in Saskatchewan to 15.8% in Newfoundland and Labrador."⁶

⁶ Statistics Canada, Catalogue No. 21-603-UPE

In 2001, FCC held 32.7% of the Canadian mortgage lending market and 4.7% of the lending market. This represents a market share increase from 2000 of 31.9% and 4.2% respectively. FCC's overall market share was 18.5%, an increase from 17.5% in 2000.

Market Share of Total Debt Outstanding						% Change
						In Market Share
Market Share	1998	1999	2000	2001	2002	
1) Chartered banks	45.72%	47.25%	47.98%	46.62%	45.13%	-1.49%
2) Farm Credit Canada	16.81%	17.17%	17.30%	17.54%	18.46%	0.92%
3) Business Development Bank of Canada	0.10%	0.09%	0.01%	0.01%	0.01%	0.00%
4) Credit unions	14.40%	14.42%	14.02%	15.07%	15.60%	0.53%
5) Treasury branch	3.62%	3.38%	3.18%	3.13%	3.22%	0.09%
6) Veteran Land Act	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7) Provincial government agencies	4.41%	3.96%	3.73%	3.71%	3.65%	-0.06%
8) Insurance, trust companies and/or other	1.03%	0.94%	0.93%	0.94%	0.99%	0.05%
9) Supply companies	4.52%	4.13%	4.22%	4.35%	4.57%	0.23%
10) Private individuals	7.49%	6.85%	6.74%	6.73%	6.91%	0.18%
11) Farm Improvement Loans Act	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
12) Advance Payment Programs	1.90%	1.81%	1.89%	1.90%	1.45%	-0.45%
Total market share	100.00%	100.00%	100.00%	100.00%	100.00%	

* All figures back to 1999 have been updated according to Statistics Canada data as of November 2002. Figures are updated on a semi-annual basis for all categories excluding Insurance, Trust Companies and/or other, Supply companies and Private Individuals. Insurance, Trust Companies and/or other, Supply companies and Private Individuals categories are updated bi-annually through the Farm Financial Survey.

Assessment of Corporate Strengths and Challenges

FCC's Strengths

- ❑ FCC is 100 per cent focused on agriculture.
- ❑ FCC possesses strong brand recognition, a solid reputation for customer relationship building and management, and a history of working in the customers' best interests.
- ❑ FCC's model for providing solutions to customers through business partners is proven and effective.
- ❑ FCC's workforce has great expertise in primary agriculture.
- ❑ The corporation's strong equity position and access to debt capital provides the capacity to grow.
- ❑ FCC's sound enabling infrastructure and leadership will ensure managed growth.
- ❑ The functionality of FCC's strategic technology applications enables customer-focused service delivery.
- ❑ FCC's culture is customer service and results-oriented.
- ❑ The corporation enjoys strong stakeholder support.

These strengths enable the corporation to:

- ❑ Increase access to capital for primary producers and agribusiness through new financial solutions;
- ❑ Innovate to deliver solutions, by using FCC's expertise and through partnership with industry experts;
- ❑ Expand FCC's existing brand and customer loyalty beyond primary producers to agribusiness and others directly supporting agriculture;
- ❑ Raise the profile of the importance of agricultural knowledge management in Canada.

FCC's Challenges for the Future

- ❑ FCC can take a lead role in expanding a sense of pride in agriculture to help attract new entrants, and enhance the understanding among Canadians of the importance of agriculture.
- ❑ Producers with strong management skills are better equipped to achieve long-term success. FCC has a role to play in helping producers enhance their management skills.

Assessment of Strategic Issues and Key Planning Assumptions

FCC's Strategic Issues

FCC has focused on specific strategic issues and customer needs in developing its response to the current environment. The following key issues, challenges and assumptions remain virtually the same as one year ago:

- ❑ FCC sees a need for increased access to business and financial solutions necessary to enhance management sophistication in small and medium-sized primary producers.
- ❑ Business Planning is necessary for primary producers to increase their chance for success through understanding risks and challenges of the marketplace.
- ❑ Succession Planning is crucial given demographics, and many producers want to put strategies in place to ensure a return on investment for the retiring farmer and to encourage new entrants.
- ❑ The role of value-added activities and agribusiness is increasingly important for the viability of Canadian agriculture.
- ❑ The evolution of distribution channels for new and existing financial solutions is necessary to meet the needs of producers.
- ❑ Successful brand positioning in new markets is key to ensuring that those who may benefit from FCC's services are aware of them.

FCC's Key Planning Assumptions

- ❑ FCC will provide new financial solutions for primary producers and agribusiness through various delivery channels.
- ❑ FCC's competitive advantage will continue to be relationship building and the superior agricultural knowledge of staff.
- ❑ Through alliances, FCC will offer wider access to its business services.
- ❑ FCC will continue to focus on and respond to the needs of primary producers.
- ❑ FCC will be visibly supportive of the Agricultural Policy Framework.
- ❑ Financial success will be measured by FCC's ability to provide a financial return adequate to fund future growth.

OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES



FCC believes in helping customers realize their potential. At the core of decisions undertaken at FCC is the question, *How does this benefit the customer?* FCC is focused on creating products and services for each phase of a customer's business life cycle. This strategic intent is called "Customer for Life".

FCC measures progress through its Balanced Scorecard, which translates FCC's vision into measurable strategic objectives. From the corporate to the individual level, objectives, goals and measures are established for key performance areas.

The balanced scorecard divides FCC's business strategy into four areas: People, Customer, Service and Financial Success.

This year's corporate plan calls for continued expansion of FCC's financing and business solutions. This section outlines FCC's intentions over the five-year planning period.

FCC Strategy Map

As part of this year's strategic planning process, the FCC Senior Management team developed a strategy map.

The map is designed to identify and communicate the strategic thrusts, enabling thrusts and strategies that FCC has chosen to pursue over the five-year planning period to achieve the corporate mission. The map is presented on the following two pages.

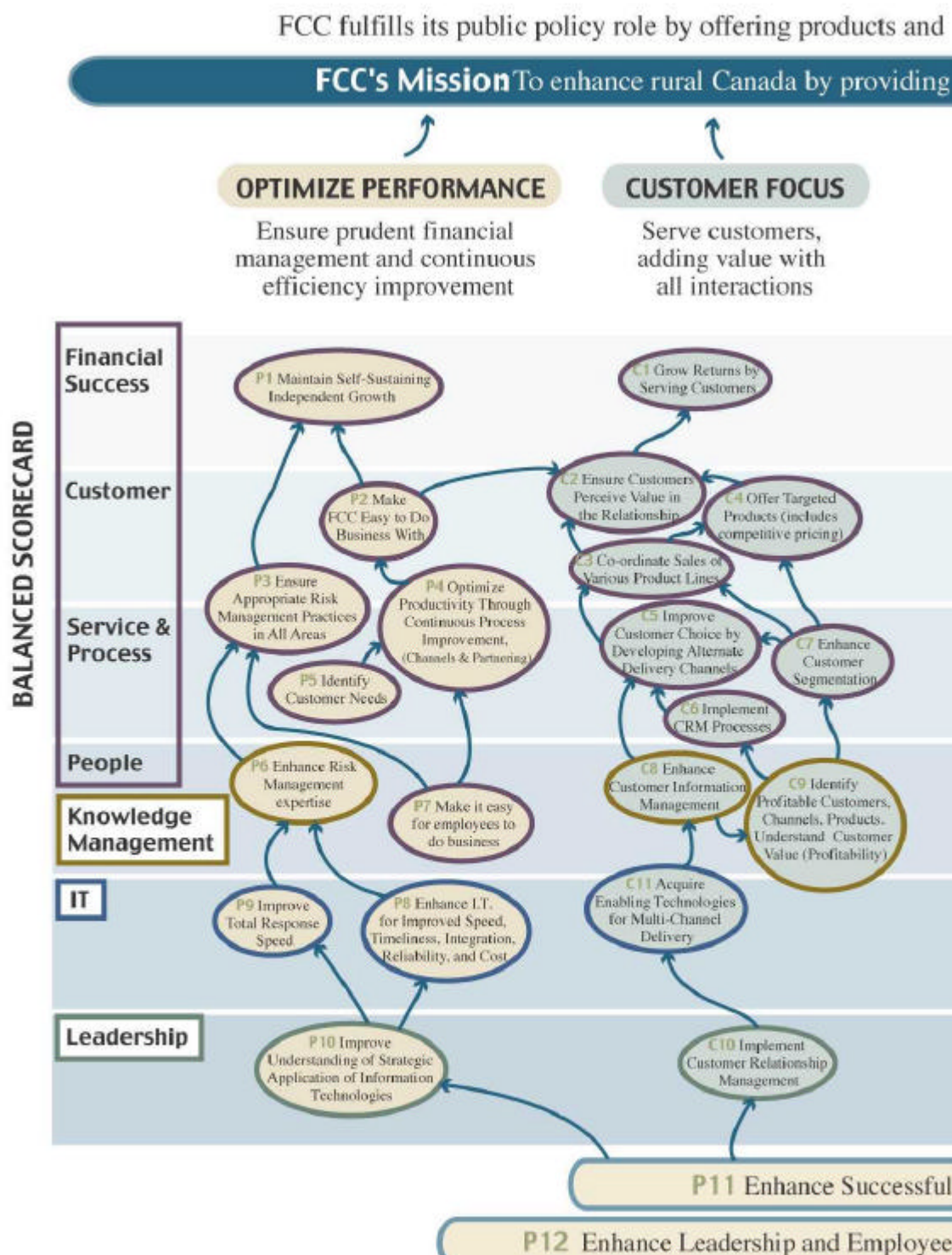
The five vertical columns of this map show FCC's "Strategic Thrusts":

- ❑ Optimize Performance
- ❑ Customer Focus
- ❑ Innovative Culture
- ❑ Serve Full Ag Industry
- ❑ Visibility

The top four horizontal sections indicate the four perspectives of the balanced scorecard. Displayed horizontally across the lower section of the map are the "Enabling Thrusts": Knowledge Management, Information Technology and Leadership.

The circles on the map indicate the various business strategies that FCC will pursue over the next five years. The arrows between the strategies indicate the dependencies for timing the completion of the various strategies.

Further information on these strategies is provided on the pages following the strategy map.



FCC is committed to primary producers and agribusiness, through good times and bad.

March 2003

services to the agricultural community, utilizing solid business principles.

business and financial solutions to farm families and agribusiness

INNOVATIVE CULTURE

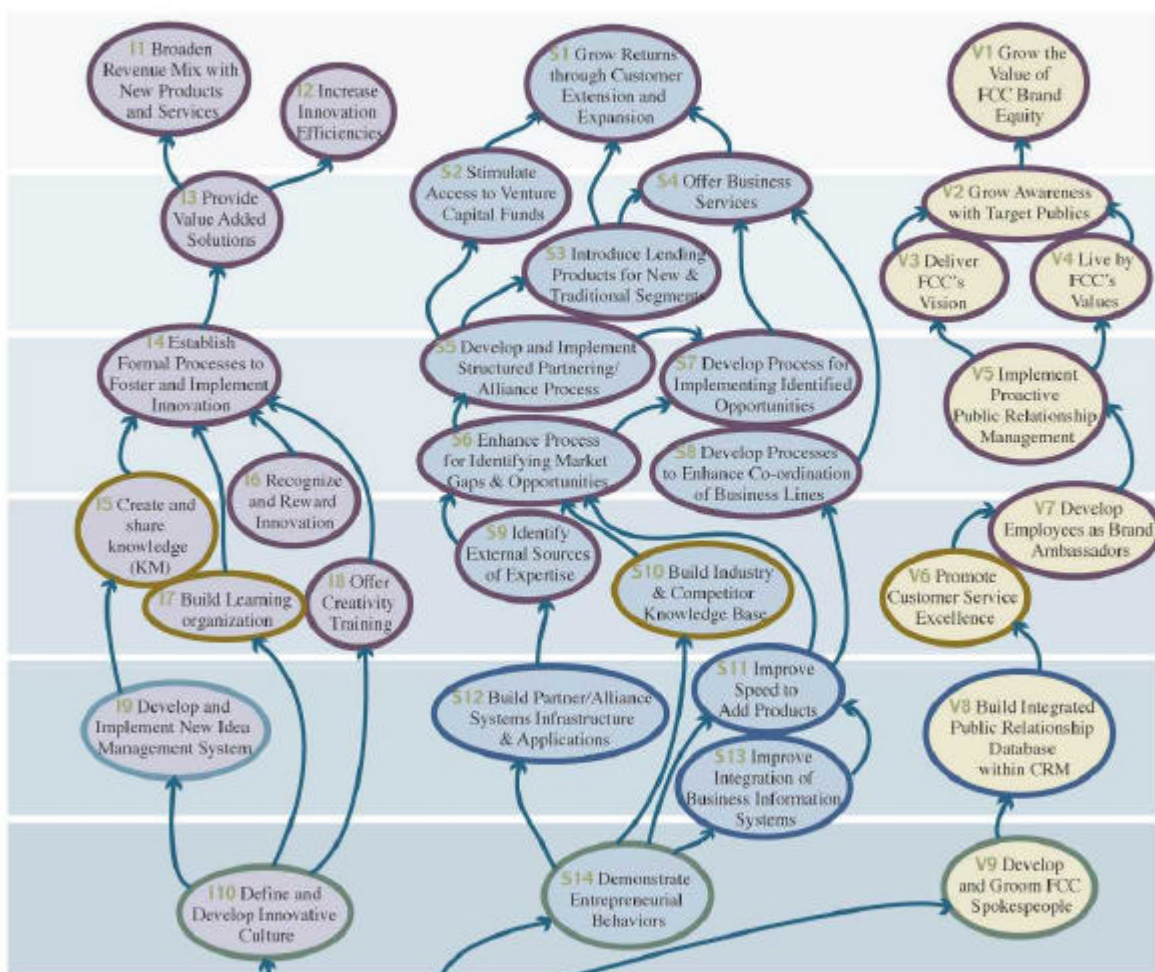
Develop, package and deliver new solutions in new ways

SERVE FULL AG INDUSTRY

Offer products and services tailored to agriculture – from inputs to processing

VISIBILITY

Be well known, understood and respected



Strategy Integration and Execution

Engagement at ALL Levels in the Organization

We base our success on the success of our customers. Agriculture. It's all we do.

March 2003

OBJECTIVE: UNIQUE PEOPLE LEADING OUR SUCCESS

Since FCC opened its doors 40 years ago, the corporation has been solely focused on agriculture. The corporation has a reputation for building strong, lasting relationships with its customers and providing them with service based on knowledge, understanding and trust. FCC's commitment to agriculture is based on deeply held values from dedicated employees. This is one of the reasons FCC invests in the people who come to work every day. Building and sustaining strong customer relationships requires a workforce that is dedicated, motivated and innovative.

Balanced Scorecard Perspective	Corporate Objectives	Corporate Strategies	Measures and Targets
People	Unique people leading our success	<p>Enhance leadership and employee engagement at all levels</p> <p>Develop and foster an innovative culture</p> <p>Create and share knowledge among all employees</p>	<ul style="list-style-type: none"> ❑ Employee engagement score 2004: 70% 2008: 74% ❑ Innovation index 2004: benchmark ❑ 2004: Corporate policies available on intranet 2005: All corporate information on intranet ❑ Agricultural Communities of Practice 2004:10 2008:15

FCC will realize this objective through the following strategic programs and strategies.

Leadership and Employee Development Program

1) Strategy - Enhance Leadership and Employee Development at all levels

Leadership and employee engagement is vital to FCC's success. The corporation's strength is its people - their understanding of the agricultural industry as well as knowledge and ideas regarding many other areas of its business.

FCC believes in continuous learning and develops staff by providing opportunities to "learn the business" and enhance personal competencies via coaching and training. The corporation believes that its ability to meet and exceed customers' needs is contingent on the calibre of its employees.

FCC will implement business education training programs that lead to furthering employee understanding of the operational and financial areas of FCC. Specific programs such as risk management training, the Field Development Program, and project management training all are part of FCC's efforts to develop skills for the future environment.

FCC also offers training and education, ongoing communication and partnership opportunities to all staff toward building a corporate culture that embraces diversity.

FCC will continue to provide leadership development to all managers. FCC recognizes the importance of providing employees with opportunities for lateral movement and advancement. Part of each manager's job is the identification and development of high-potential employees for succession planning purposes.

This strategy will help the corporation sustain a high-performance culture, thus helping to ensure that FCC has "unique people leading our success".

Initiatives:

- ❑ Introduce a comprehensive "Learn the Business" training program for all staff, which provides knowledge of all major facets of FCC's business.
- ❑ Provide a leadership development program to all new managers and executives.
- ❑ Continue to offer high-potential employees development within the succession planning program.
- ❑ Undertake a formal organizational analysis with subsequent program development designed to further align FCC staff development efforts with the desired corporate culture.
- ❑ Implement a proactive staff communication program that integrates all corporate initiatives.

Innovative Culture Program

2) Strategy - Enhance Innovative Culture

Forward-looking companies inspire innovation among their workforces to stimulate the creation of new strategies, processes and products that positively impact their customers and the business. Innovative cultures can result in higher levels of expertise, productivity and creativity and employees consider them preferable places to work.

FCC has long been recognized for developing innovative products to meet customer needs. Examples include the AgriStart product line, which helps new entrants as well as retiring farmers. Flexi-Farm is another innovative product tailored to the unique challenges and opportunities faced by producers. The corporation believes that further development of an innovative culture will ensure that FCC can generate solutions to help producers and agribusiness succeed in an increasingly complex industry.

This past year, FCC implemented a pilot innovation program called Idea Central. The purpose was to inspire FCC staff to share innovative ideas regarding internal operations, and new products and services for customers. FCC is expanding this pilot by creating a more formal program. The intent is to facilitate creativity, the generation of new ideas and the willingness of staff to try new approaches. FCC will establish and maintain processes that encourage and sustain innovation throughout the corporation.

Both process and product innovations are central to FCC's ability to serve customers. As well, an innovative culture will result in improved practices and efficiencies, resulting in revenue enhancements and cost reductions. A vibrant culture of innovation and idea sharing will also foster the attraction, development and retention of employees.

This strategy directly supports the federal Agricultural Policy Framework's of "science and innovation" component.

Initiative:

- ☐ Commit resources and establish formal processes to foster and implement innovation.

Knowledge Management Program

3) Strategy - Create and Share Knowledge Among all Employees

Knowledge management is not a new idea at FCC. Translating information into practical and value-added knowledge has been a trademark of FCC since its inception.

Knowledge is more than “documents”. It is a mix of experiences, values, contextual information and expert insight that can be represented in written form, but resides more richly in people’s minds.

The Knowledge and Expertise Challenge

The knowledge revolution is challenging FCC’s capacity to stay abreast of new ideas and techniques. Customers’ businesses are becoming more complex, often touching multiple productions or businesses and extending into other geographies. FCC’s staff must remain knowledgeable on agricultural issues and trends since the delivery of advice and solutions based on knowledge is how FCC brings value to customers.

Knowledge and relationships are the cornerstones of FCC’s brand. Expert knowledge reinforces FCC’s brand, and contributes to customer loyalty, thus increasing customer retention and the attraction of new business from customer referrals. A continued focus on Knowledge Management (KM) will ensure that FCC remains relevant to customers over the long term, in an increasingly complex agricultural industry.

Knowledge Management’s Role in Supporting FCC’s Long-Term Vision

“Knowledge access” and “knowledge exchanges” have been identified as two key KM outcomes for staff:

1. Knowledge Access: the first strategy of Knowledge Management is to **“know what we know”** – to make it easy to find codified information and to know who to call if knowledge can’t be located or if more context is needed, that is, to find the people who possess the knowledge we want, when we want it.
2. Knowledge Exchange: the second strategy is to **“grow what we know”** – both formally (e.g. communities of practice) and informally (e.g. communities of interest).

FCC’s Knowledge Management program began in 2001-02. Since then, seven agricultural communities of practice (CoPs)⁷ have been created as well as a community of interest on leadership. In contrasting FCC’s first year of KM initiatives to the practices of other organizations, FCC is in a healthy position. The rapid deployment approach of the CoPs engaged staff, delivered tangible results and gained broad-based support for the KM function. In 2001, Dr. Nick Bontis from McMaster University recognized FCC as a leading

⁷ Dairy, pork, beef, forestry, aquaculture, greenhouse, vineyards and wineries

practitioner in terms of rapid CoP installations and early successes. At the Conference Board KM conference in April 2002, FCC was mentioned as one of less than 100 Canadian companies who discussed initiatives for intellectual capital management or knowledge management in their last annual report. FCC's KM strategy for the five-year planning period is to build upon this solid foundation.

As FCC expands its offerings, the sharing of learnings, best practices and sector knowledge becomes more important. Knowledge management will provide this sharing through communities of practice for various subject areas, both for FCC staff and customers.

Initiatives:

- ❑ Increased depth of knowledge of existing agricultural communities of practice.
- ❑ Create & share knowledge by establishing a community of interest centered on innovation and leadership.

OBJECTIVE: CREATE SOLUTIONS FOR CUSTOMER SUCCESS

Canada's agricultural industry is built on a solid foundation of members of rural communities across Canada working together. FCC is committed to helping Canada's agricultural industry flourish.

FCC is recognized for its specialized agricultural expertise and emphasis on relationships. FCC leverages its trademark knowledge to deliver solutions tailored to the unique needs of primary producers and agribusiness. The corporation makes connections in the community to strengthen the agricultural community, from strategic alliances and partnerships to community investment.

The corporation will strive to be a leader in devising innovative solutions that serve each customer life phase.

Balanced Scorecard Perspective	Corporate Objectives	Corporate Strategies	Measures and Targets
Customer	Create solutions for customer success	<p>Enhance customer loyalty and acquisition with focus on primary producers and the agribusinesses and alliances that support them.</p> <p>Demonstrate visible commitment to the full spectrum of the agriculture industry.</p> <p>Develop and implement business services, with emphasis on improving producer management skills and serving each life phase.</p> <p>Serve as a catalyst for venture capital investment in the agricultural industry</p>	<p>❑ Customer loyalty index 2004: maintain CLI at 4.24 2006: Establish 2008 CLI target, using trend data since 2000 benchmark 2008: Attain new target</p> <p>❑ Disbursements 2004: Farm Finance \$1.59B Agribusiness \$469M Alliances \$502M 2008: Farm Finance \$2.42B Agribusiness \$699M Alliances \$993M</p> <p>❑ Business Services revenue 2004: Ag Expert Management Tools \$2.4M AgriAssurances \$10.3M Professional Development Programs 2,500 participants 2008: Ag Expert Management Tools \$4.8M AgriAssurances \$16.3M Professional Development Programs 4,000 participants</p> <p>❑ AgExpert software customer base 2004: 14,400 customers 2008: 24,750 customers</p> <p>❑ Venture capital investments by FCC 2004: \$22M cumulative investment 2008: \$50M cumulative investment Funds co-invested by other institutions 2004: \$25M cumulative investment 2008: \$65M cumulative investment</p>

FCC is working toward this objective through the following strategic program and strategies.

Customer Loyalty and Acquisition Program

4) Strategy - Enhance Customer Loyalty and Acquisition with Focus on Primary Producers, and the Agribusinesses and Alliances that support them

A customer's perception of the value received from the relationship with FCC is the strongest loyalty driver, according to the Ipsos-Reid 2000 FCC Customer Loyalty Index. FCC account managers, supported by the entire FCC team, strive to add value to customers with every interaction.

Customer retention is driven by product and service quality, costs and productivity, and the capabilities and motivation of employees.⁸ It results in higher profitability from retention and expansion of business with customers as well as from word-of-mouth recommendations and referrals to potential ones. It is the recommendations and referrals that distinguish loyalty from mere retention. Endorsements constitute a marketing and reputation management tool more powerful than the most creative advertising or marketing strategy. Customer loyalty also increases the likelihood of goodwill and an inclination to give the benefit of the doubt to a company during times of crisis or negative publicity.

It is important to ensure that FCC continuously acquires new customers to ensure that it are serving a broad spectrum of the agricultural community. Acquisition is also important to the self-sustaining growth of FCC and is one of the ways FCC provides access to capital to Canadian agriculture, in support of the federal Agricultural Policy Framework.

Initiatives:

- ❑ Establish marketing strategies to link all business lines.
- ❑ Offer targeted products to meet customers needs for today and tomorrow.
- ❑ Develop a process for implementing identified opportunities.

⁸ Bain & Company, "The Metaphysics of Measurement".

Visibility Program

5) Strategy - Demonstrate Visible Commitment to the Full Spectrum of the Agricultural Industry

FCC's mission includes serving the full spectrum of Canadian agriculture, from primary production as well as inputs and value-added enterprises. FCC also is committed to enhancing rural Canada. The legislative amendments of 2001 provided with the opportunity to assist a much broader range of agricultural enterprises than ever before.

Reaching producers and agribusinesses across the country, in the many and varied agricultural sectors, requires public visibility. The objective is to foster a strong level of public awareness in the agricultural community regarding the availability of FCC's products and services and an enduring positive reputation leading to further success.

FCC seeks to build long-term, loyal relationships with customers and it is evident that reputation has a part to play in this regard. Potential customers are attracted to companies with positive reputations for how they conduct business. Existing customers only want to remain associated with a company that maintains a good reputation. Conveying FCC's commitment to the industry and unique offerings are important elements of a reputation management program.

FCC is a member of the Canadian Centre for Philanthropy's Imagine Program, whereby corporations donate a minimum of one percent of their net income to their communities. FCC donates 1.5% of profits to organizations such as the Canadian 4-H Council, Canadian Agriculture Safety Association and the Canadian Federation of Agriculture. FCC believes in supporting the involvement of its employees in their various volunteer activities in the communities where they live and work. The intention is to continue this annual investment.

Initiatives:

- ❑ Undertake advertising campaigns in areas where awareness of FCC is low.
- ❑ Institute a monitoring program to assess FCC's progress in building awareness and strengthening brand positioning in the minds of target audiences.
- ❑ Develop and implement a proactive national media relations strategy in order to increase the number of key messages and their positioning (including pride in agriculture).
- ❑ Develop and implement a national speakers' bureau to showcase FCC's expertise in agriculture and financial services.
- ❑ Invest 1.5% of net income into the communities in where FCC employees and customers live and work.

Business Services Program

6) Strategy - Develop and Implement Business Services, with emphasis on helping producers improve their management skills and serving each life phase

Throughout the business cycle, producers face a variety of challenges that require solutions beyond traditional lending products. FCC believes that management skills and planning are vital elements required for producer success.

Business planning and risk management practices are necessary to manage the growth of an operation. Proper succession planning helps ensure the effective transition of the farming operation to the next generation. Knowledge of the environment — agricultural, marketplace, competitors and customers — leads to advantageous business decisions.

Business Services is a new division within FCC, which intends to offer services to advance the management practices of primary producers and agribusinesses. Services the corporation intend to work on encompass strategy, production, finance, marketing, risk management and business planning. Business Services will deliver programs that provide information, education, tools, services and security (insurance). In all pursuits, care will be taken to ensure that the Business Services division complements FCC's core business in the Farm Finance, Agribusiness and Alliances divisions.

This strategy directly supports the "business risk management" and "renewal" elements of the Agricultural Policy Framework.

Initiatives:

- ❑ Expand the "FCC Business Planning Award" that is offered through agricultural vocational schools.
- ❑ Develop new insurance products to complement existing FCC life and accident insurance products.
- ❑ Develop an advanced management training program for primary producers.
- ❑ Further develop and promote lifecycle business planning through AgriSuccess.
- ❑ Expand the distribution of the email publications AgExpert Market Express Bulletin and AgExpert Management Report.
- ❑ Develop an on-line chat area on FCC's public website, for agricultural producers and professionals to share questions and answers.
- ❑ Develop a comprehensive marketing plan for Business Services.

Venture Capital Program

7) Strategy - Serve as a Catalyst for Venture Capital Investment in the Agricultural Industry

Venture capital investing in agriculture is extremely limited with only \$130 million in disbursements since 1998. Less than 1% of all Canadian venture capital investments made since 2000 was invested in agriculture companies.⁹

A good opportunity exists for a new player, and FCC is well positioned for this role due to its strong ties to agriculture, rural network across Canada and commitment to the development of venture capital within agriculture.

Companies receiving venture capital funds in the agriculture industry tend to be start-up companies or later stage (growth and/or mature) companies that are seeking financing either for expansion or management restructuring (i.e. management buy-out, leveraged buy-out or succession planning).

FCC Ventures is the venture capital division of Farm Credit Canada. FCC Ventures will focus on providing equity and quasi-equity financing to small and medium-sized companies in the following sectors: value-added food manufacturing and processing; development and manufacturing of agricultural equipment; commercial processing; commercial-scale farming; businesses that support the agricultural sector and ag-biotech.

Initial investments will range from \$500,000 to \$2,500,000 and will use a variety of investment instruments, including common equity, preferred stock, convertible debt, debt with detachable warrants and high-yield debt. FCC Ventures will be actively involved with its portfolio companies, and will assist them with the development of marketing and distribution channels and in strengthening management. This allows FCC to add significant value to the agricultural industry.

The goal of the Venture Capital program is to encourage co-investment with other investors in the agriculture industry. This program is directly supportive of the “renewal” element of the Agricultural Policy Framework.

Initiatives:

- ☐ Implement the FCC Venture Capital plan.
- ☐ Identify sources of reliable specific technical expertise related to potential venture opportunities.

⁹ Macdonald & Associates Ltd.

OBJECTIVE: MAKE IT EASY FOR CUSTOMERS TO DO BUSINESS WITH US

Technology and globalization have impacted how customers can obtain products and services, and the financial industry is no exception. Timely access to knowledge, solutions and connections is necessary. Customers can now access financial services virtually anywhere, anytime.

FCC recognizes that relationship building service and quality are key to earning sustained customer loyalty. FCC is dedicated to retaining its trademark personal touch, while recognizing that each customer has unique needs. Some prefer face-to-face discussion, while others like to work via telephone or online.

Balanced Scorecard Perspective	Corporate Objectives	Corporate Strategies	Measures and Targets
Service	Make it easy for customers to do business	<p>Build infrastructure to support partnerships and alliances</p> <p>Enhance performance of information technology systems and processes</p> <p>Improve customer choice by developing alternate product and service delivery channels</p> <p>Implement CRM infrastructure and processes</p>	<p>❑ IT performance index 2004: benchmark</p> <p>❑ Alternate delivery channels Customer Service Centre: 2004: 42,600 customer contacts 2008: 50,500 customer contacts e-Business: 2004: 8,500 customers 2008: 29,750 customers</p> <p>❑ Corporate efficiency ratio 2004: 43.1% 2008: 40.0%</p> <p>❑ Installation of CRM software and related processes: 2004: Phase 1 installed 2005: Full implementation</p>

FCC is working toward this objective through the following programs and strategies.

Alliances Program

8) Strategy - Build Infrastructure to Support Partnerships and Alliances

Strategic partnerships and alliances continue to grow as a business model in many industries, including agriculture and financial services. These arrangements occur where two or more independent organizations recognize that they can attain their individual objectives faster and more efficiently by working together rather than individually. Knowledge, capabilities, resources and risks can be shared, such that the results of the business generated is more favorable than if the parties operated independently. Partnerships and alliances are often a very successful vehicle for quickly developing and launching new ventures, products and services while achieving significant economies of scale.

Since 1995, FCC has been significantly involved in partnerships and alliances as they have proven to be an effective way of reaching an increased number of customers in a very efficient manner. In order to maintain these efficiencies, retain existing alliance partners, and develop new alliances, it will be necessary to continue to implement systems and processes that enhance the possibility and efficiency of such business arrangements. The primary vehicle for achieving this goal at this point in time is through expanding the use of e-business capabilities with FCC's partners.

Initiatives:

- ❑ Build a suite of flexible e-applications that allows e-business collaboration with existing and future partnerships and alliances.
- ❑ Develop an alliance portal strategy.

Information Technology Performance Program

9) Strategy - Enhance Performance of Information Technology Systems and Processes

Information technology is a key enabler to FCC's ability to effectively serve customers across the country. Staff are highly dependent on the systems applications utilized in administering business transactions, and the speed and reliability of the data transmission networks. Customers rely on the corporation's ability to serve them quickly, efficiently and accurately, which is in turn dependent on timely access to accurate information.

Reliability of this type of infrastructure is key for FCC, and therefore it must be continuously maintained and upgraded. Ongoing investments in technology are even more critical given the rapid advancements in the capability of various information technologies, and the fact that such infrastructure can indeed be a competitive advantage. At the same time, effective

utilization of appropriate technologies is important in efficiently managing business operations and controlling operational costs.

Timely access to information for both customers and staff is especially challenging when operations are spread across a vast geography such as Canada. Rural clientele do not always enjoy equal services comparable to those located in Canada's more heavily populated areas. The speed and reliability of data transmission networks can enhance or inhibit customer service and business results in very short order.

Initiatives:

- ❑ Convert the major FCC business origination system (BOSS) to a web-enabled application, and enhance its systems integration capabilities.
- ❑ Finalization of an alternate sourcing strategy for specific information technology services.
- ❑ Implement a formal systems development methodology.
- ❑ Increase bandwidth in FCC's distributed network to improve staff productivity.

Alternate Channels Program

10) Strategy - Improve Customer Choice by Developing Alternate Product and Service Delivery Channels

Customers want choice, particularly with regard to their method of accessing a company's products and services, receiving general and management information, sourcing industry news, etc. They also want the ability to do business when they want, and in the manner most convenient to them. A quick and accurate response is expected during contact with a supplier of products, services or information. The advent of the Internet and other new technologies have greatly increased possibilities for companies to meet customers' desires in this aspect of their business relationship.

FCC understands that many primary producers and agribusiness would like the flexibility and responsiveness in service provision that new channels such as the Internet make possible. The corporation's initial efforts in providing service through the Customer Service Centre and through Alliance partners have recently been complemented by FCC's public website. It is now the time to expand those initial efforts by providing further customer sales and service capability on-line. This includes such things as providing the capability for on-line credit card shopping for goods and services from FCC's new Business Services Division during the five-year planning period.

Initiatives:

- ❑ Finalize the FCC website content strategy and source content provision
- ❑ Redesign the FCC website to be customer centric

Customer Relationship Management Program

11) Strategy - Implement Customer Relationship Management Infrastructure and Processes

Customer Relationship Management (CRM) is about building long-term relationships with customers, and leveraging FCC's knowledge to develop and deliver products and services that meet and exceed their expectations. FCC is working to offer customers choice when, where and how they want to do business with us. FCC must deliver service through their preferred channel (face-to-face, telephone, Internet, or via alliances). CRM is also about being able to deliver these offerings with seamless coordination between marketing, sales, field support and customer service.

FCC will implement a new Customer Relationship Management technology system to provide staff with the ability to track customer interactions at every touch point, thereby preserving its reputation for delivering a consistent experience and accurate information no matter how customers interact with FCC.

CRM will provide better data management, with one "view" of the customer. This will eliminate the need for staff to look for current customer information from multiple sources. It will provide consolidated and consistent customer contact and transactional information across all of FCC's business channels, creating understanding of what the corporation does know and doesn't know about its customers.

Initiatives:

- ❑ Implement the selected CRM system. This includes development of a customer profile, customer service, knowledge centre, activity tracking and report functionality.
- ❑ Develop and implement appropriate organizational processes for populating and utilizing the CRM system.
- ❑ Develop a strategy to enhance or replace existing corporate loan accounting systems, based on the capabilities of the CRM system.
- ❑ Develop and integrate a public relationship database within the CRM system.

OBJECTIVE: FINANCIAL SUCCESS –THE FOUNDATION OF CUSTOMER SUPPORT

Financial viability is key to FCC's ability to serve its customers well and to provide support during all economic cycles. FCC must generate an adequate rate of return on its operations to be self-sustaining and provide for future growth.

A financial framework has been established to indicate an adequate rate of return for FCC that takes into account the following key elements of sustainability: capital adequacy, net interest income, return on equity, and an internal efficiency ratio. A number of initiatives have been implemented over the last few years to build a sound financial foundation. Over the planning period, FCC will continue to ensure its financial viability through financial management, risk management, and innovative financial solutions for customers.

Balanced Scorecard Perspective	Corporate Objectives	Corporate Strategies	Measures and Targets
Financial Success	Financial Success - the foundation of customer support	<p>Ensure prudent financial management</p> <p>Enhance strategy integration and execution</p>	<ul style="list-style-type: none"> ❑ Return On Equity 2004: 12.48% 2008: 12.44% ❑ Debt to equity ratio 2004: 9.5:1 2008: 8.2:1 ❑ Strategic credit risk score on portfolio 2004: less than 70 2008: less than 70 ❑ Major corporate strategies execution and integration 2004: standardized project management methodology installed ❑ Brand equity – reputation index 2004: benchmark

FCC is working toward this objective through the following programs and strategies.

Optimize Performance Program

12) Strategy - Ensure Prudent Financial Management

FCC is a financial service organization, and as such must pay particular attention to risk management. The size of the loan portfolio is significant and growing, so the use of ever increasing sophistication in portfolio management and risk analysis is key to sound financial management. Usage of appropriate risk management tools can result in better understanding of the portfolio, reduced loan losses and associated costs, and tailoring of collection and/or review activities. Further consideration could be given to potential benefits from securitization of the portfolio. Preparation for significant unexpected events that impact the portfolio could be strengthened.

A key component of FCC's operation is the Valuation Services function. A review of the organizational structure and business processes currently utilized for this unit is planned to optimize efficiency.

Continued upgrading of the functionality of the Human Resource Management system utilized by FCC is desirable for ensuring data integrity, and for providing efficient desk top access to pertinent human resources data for FCC management staff. This would aid management of current human resources, and facilitate sound recruitment of new resources.

Automation of document filing through document imaging can provide FCC with improved security of loan documentation, timelier access to the necessary data for lending and administration staff, and reduced need and cost for specialized storage.

Initiatives:

- ❑ Research advanced portfolio management tools.
- ❑ Improve Valuation Services processes.
- ❑ Implement phase 3 of the Human Resource Management system functional upgrade.
- ❑ Implement document imaging at the two Loan Administration Centres.

Strategy Implementation Program

13) Strategy - Enhance Strategy Integration and Execution Program

Governance is the process by which corporate objectives are established; goals, strategies and initiatives are developed; priorities are managed; and progress against objectives evaluated. Effective governance is facilitated by the processes used to implement corporate strategies and initiatives. This requires excellent project prioritization, standardized project management, regular status reporting and integrated project and resource management. These initiatives are often accomplished through the use of a corporate project management office, positioned at a strategic level and responsible for monitoring and reporting on the implementation of major corporate initiatives.

FCC has grown dramatically over the past few years. Increasingly complex projects with interdependencies have resulted in a need for a central body to monitor the execution of corporate strategy. As a result, FCC created a corporate project management office (PMO). In addition, a Corporate Priority Management Council made up of a subset of Senior Management, chaired by the Vice-President, Strategy, Knowledge and Communication, was created in September 2002. This Council is tasked with ensuring fulfillment of the corporate plan's measures and targets by providing recommendations regarding issues, the addition of new projects and the postponement of milestones if necessary.

One of the key tools FCC will use to ensure excellence in strategy execution is the development and maintenance of a comprehensive annual corporate work plan. Such a tool will embody corporate priorities, responsibilities, timelines, accountability and arbitration.

The creation of a project management culture throughout FCC will require the adoption of standard processes and methodologies. Such standardization will facilitate the corporation's ability to complete a rapidly increasing number of major projects in an integrated manner, on time and on budget.

Initiatives:

- ☐ Establish Priority Management Council and Corporate Project Management Office.
- ☐ Develop and maintain an annual corporate workplan, with appropriate regular management reporting.
- ☐ Implement standardized project management methodology across the corporation.

Operating Budget Summary

The Operating Budget provides details of FCC's forecasted revenues and expenses for the fiscal year ended March 31, 2004.

Key Financial Targets for 2003-04 (\$Millions / except where noted by *)

Long Term Investments	22.0
Loans Receivable	9,778.8
Loan Disbursements **	2,562.3
Loan Renewal Rate *	95%
Loan Prepayments	709.4
Arrears	67.3
Allowance for Credit Losses	358.9
Borrowings	8 964.3
Net Interest Income	289.2
New Lending Margin *	2.45%
Provision for Credit Losses	59.0
Administration Expenses	133.0
Efficiency Ratio *	44.1%
Net Income	109.3
Return on assets *	1.15%
Return on equity *	12.2%
Debt-to-equity (:1) *	9.5

** Net of FCC refinancings

Expected net results for business services and venture capital initiatives are as follows:

	(\$Millions)	
	Forecast	Plan
	<u>2002-03</u>	<u>2003-04</u>
Revenue	1.0	3.4
Expenses	<u>(2.5)</u>	<u>(4.1)</u>
Net (loss) Income	<u>(1.5)</u>	<u>(0.7)</u>

Farm Credit Canada
Balance Sheet
(\$ millions)

	2001-02 Actual	2002-03 Forecast	2003-04 Plan
Assets			
Cash and short-term investments	349.6	400.0	450.0
Accounts receivable and other accrued assets	84.5	26.7	14.2
Long-term investments	-	10.0	22.0
Loans receivable	7,715.8	9,008.4	9,778.8
Allowance for credit losses	<u>(297.3)</u>	<u>(326.4)</u>	<u>(358.9)</u>
Loans receivable-net	7,418.5	8,682.0	9,419.9
Real estate acquired in settlement of loans	10.1	2.0	1.0
Equipment and leasehold improvements	<u>22.0</u>	<u>27.7</u>	<u>32.3</u>
Total Assets	<u>7,884.7</u>	<u>9,148.4</u>	<u>9,939.4</u>
Liabilities			
Accounts payable and accrued liabilities	22.0	16.9	14.1
Borrowings			
Short-term debt	2,059.7	2,651.8	4,551.5
Long-term debt	<u>5,035.9</u>	<u>5,615.2</u>	<u>4,412.8</u>
	7,095.6	8,267.0	8,964.3
Other Liabilities and deferred fees	<u>21.2</u>	<u>16.3</u>	<u>13.7</u>
	<u>7,138.8</u>	<u>8,300.2</u>	<u>8,992.1</u>
Equity			
Capital	507.7	507.7	507.7
Retained Earnings	<u>238.2</u>	<u>340.5</u>	<u>439.6</u>
	745.9	848.2	947.3
Total Liabilities and Equity	<u>7,884.7</u>	<u>9,148.4</u>	<u>9,939.4</u>

Operating and Capital Budgets - Schedule 2

Farm Credit Canada
Statement of Operations and Retained Earnings
(\$ millions)

	2001-02 Actual	2002-03 Forecast	2003-04 Plan
Interest Income			
Loans receivable	527.6	547.6	621.2
Investment income	<u>17.3</u>	<u>11.9</u>	<u>13.1</u>
	<u>544.9</u>	<u>559.5</u>	<u>634.3</u>
Interest Expense			
Short-term debt	88.0	113.6	162.9
Long-term debt	<u>255.7</u>	<u>176.9</u>	<u>182.2</u>
	<u>343.7</u>	<u>290.5</u>	<u>345.1</u>
Net interest income	201.2	269.0	289.2
Provision for credit loss	<u>(45.5)</u>	<u>(53.0)</u>	<u>(59.0)</u>
NII after provision for credit loss	<u>155.7</u>	<u>216.0</u>	<u>230.2</u>
Other Income	<u>14.7</u>	<u>9.0</u>	<u>12.1</u>
Income before admin expense	170.4	225.0	242.3
Administration expenses	<u>(101.6)</u>	<u>(122.7)</u>	<u>(133.0)</u>
Income before income taxes	<u>68.8</u>	<u>102.3</u>	<u>109.3</u>
Income taxes	<u>27.5</u>	<u>-</u>	<u>-</u>
Net Income	<u>41.3</u>	<u>102.3</u>	<u>109.3</u>
Retained earnings, beginning	324.9	238.2	340.5
Dividend *	(0.8)	-	(10.2)
Adjustment for future income taxes **	<u>(127.2)</u>	<u>-</u>	<u>-</u>
Retained earnings, ending	<u>238.2</u>	<u>340.5</u>	<u>439.6</u>

* Dividend up to 10 per cent of prior year net income paid at direction of FCC Board of Directors.

** Tax exemption declared effective April 1, 2002. Adjustment to remove future tax asset from the Balance Sheet.

Farm Credit Canada
Statement of Cash Flows
(\$ millions)

	2001-02 Actual	2002-03 Forecast	2003-04 Plan
OPERATING ACTIVITIES			
Net Income	41.3	102.3	109.3
Items not involving cash			
Future Income Tax	25.6	-	-
Provision for credit losses	45.5	53.0	59.0
Amortization of bond premium/discount	36.8	-	-
Change in accrued interest receivable	8.0	12.7	(8.5)
Change in accrued interest payable	(24.5)	4.3	(6.0)
Other	(54.7)	15.9	2.6
Cash provided by operating activities	<u>78.0</u>	<u>188.2</u>	<u>156.4</u>
INVESTING ACTIVITIES			
Change in Long-term investments	-	(10.0)	(12.0)
Loans receivable disbursed	(2,293.8)	(2,693.2)	(2,562.3)
Loans receivable repaid	1,459.8	1,400.6	1,791.9
Change in real estate held	15.0	8.1	1.0
Capital additions	(11.6)	(14.0)	(18.0)
Cash used in investing activities	<u>(830.6)</u>	<u>(1,308.5)</u>	<u>(799.4)</u>
FINANCING ACTIVITIES			
Long-term debt repaid to Canada	(578.5)	-	-
Long-term debt from capital markets	2,078.1	2,069.9	1,332.7
Long-term debt repaid to capital markets	(848.7)	(1,497.2)	(2,523.9)
Change in short-term debt	149.8	598.0	1,894.4
Dividends paid	(0.8)	-	(10.2)
Cash provided by financing activities	<u>799.9</u>	<u>1,170.7</u>	<u>693.0</u>
Increase (decrease) in cash and short-term investments	47.3	50.4	50.0
Cash and short-term investments, beginning of year	302.3	349.6	400.0
Cash and short-term investments, end of year	<u>349.6</u>	<u>400.0</u>	<u>450.0</u>

Discussion of Expected Results – 2002-03 Forecast vs 2003-04 Financial Plan

Balance Sheet

Long Term Investments are expected to increase from the 2002-03 forecasted amount of \$10 million to \$22 million in 2003-04. This increase reflects growth in Venture Capital as a business line and the related anticipated investment in agricultural businesses.

Loans receivable are projected to grow by 8.6 per cent increasing from \$9.0 billion forecast for 2002-03 to \$9.8 billion in 2003-04. The increase in loans receivable reflects growth initiatives for farm finance lending, expanded agri-business lending and additional lending through alliance arrangements.

Disbursements (net of FCC refinancings) are the primary driver of portfolio growth and are expected to decrease slightly from the forecast of \$2.7 billion in 2002-03 to \$2.6 billion in 2003-04. Alliance lending is expected to increase by \$0.2 billion, but is more than offset by a decrease of \$0.3 billion in Farm Finance lending while Agribusiness remains constant at \$0.5 billion. Lending to primary producers represents 82 per cent of total net disbursements in 2003-04.

Renewals are expected to be \$929.6 million in 2003-04, up from the forecasted \$852.4 million in 2002-03. This reflects a renewal rate of 95 per cent, which is consistent with prior years.

Prepayments are expected to be 8 per cent of loans receivable in both 2002-03 and 2003-04. This equates to \$607.7 million in 2002-03 and increases to \$709.4 million in 2003-04 as a result of the larger portfolio.

Impaired loans are expected to be 2.14 per cent of loans receivable or \$209.3 million in 2003-04, an increase of \$41.3 million over the forecast for 2002-03 of \$168.0 million. This increase is due to the larger portfolio in 2003-04 and does not reflect a change in management's tolerance for risk.

The **Allowance for credit losses** is recorded in the financial statements each year and represents management's best estimate of credit losses on loans receivable. The allowance is made up of three parts:

Specific – for loans known to be impaired

General allocated – for probable losses that exist in the portfolio, but have not yet been identified as impaired.

General unallocated – to reflect probable losses due to macro economic conditions and events that are not captured in the specific or general allocated allowance.

The allowance for credit losses is projected to grow from the forecast of \$326.4 million in 2002-03 to \$358.9 million at the end of 2003-04. The allowance as a percentage of loans receivable is projected to increase slightly from 3.62 per cent in 2002-03 to 3.67 per cent in 2003-04.

Borrowings are expected to increase from \$8.3 billion forecast for the 2002-03 to \$9.0 billion in 2003-04. This increase is the direct result of borrowing requirements to fund the growth in the loan portfolio.

Statement of Operations

Net Interest Income is the difference between interest earned on assets, such as loans and securities, and interest expense on borrowings. Net interest income is required to cover risk of credit losses and administration expenses, as well as to yield a sufficient profit to enable the corporation to remain financially viable and fulfill its role in supporting agriculture.

Net interest income increases from \$269.0 million forecast for 2002-03 to \$289.2 million for 2003-04. This increase is primarily driven by the increase in the loan portfolio, partly offset by expected lower margins on new and renewed lending in 2003-04 which decrease from 2.50 per cent forecast in 2002-03 to 2.45 per cent in 2003-04.

The provision for credit loss adjustment brings the allowance for credit losses to a level determined appropriate by management. The provision for credit losses of \$59.0 million in 2003-04 is an increase from the forecast of \$53.0 million for 2002-03. This increase reflects economic uncertainty in certain sectors of the agricultural economy, as well as normal risks associated with a larger loan portfolio.

Other income for 2003-04 is planned to increase to \$12.1 million from \$9.0 million forecasted for 2002-03. This increase reflects fees associated with increased disbursement levels. It also reflects results related to the new lines of business.

Administration expenses for 2003-04 are planned to increase to \$133.0 million from the 2002-03 forecast level of \$122.7 million. This reflects increased resources required to fund non-discretionary administration expense increases, infrastructure to support the growing business and funding for corporate strategic initiatives.

Permanent corporate staff levels expressed as full-time equivalents (FTE's) are expected to increase to 1,032 FTE's in 2003-04 from the forecasted 964 FTE's in 2002-03 due to the aforementioned business growth.

The **efficiency ratio** measures how well resources are utilized to generate income. It represents administration expenses expressed as a percentage of income before administration expenses and provision for credit losses. The efficiency ratio is expected to improve slightly from 44.2 per cent forecast for 2002-03 to 44.1 per cent in 2003-04. This reflects increases in administration expenses that are consistent with the growth in business and corresponding increases to income.

Net Income is projected to increase from the 2002-03 forecast of \$102.3 million to \$109.3 million in 2003-04. This results from the aforementioned increases in net interest income and other income, partly offset by a corresponding increase to administration expenses.

Statement of Cash Flows

Cash Provided by Operating Activities

After adjusting net income for non-cash items, FCC expects to realize \$156.4 million from operating activities in 2003-2004. This is a decrease of \$31.8 million from forecasted 2002-2003 cash from operations of \$188.2 million. The decrease mainly results from differences in non-cash items including a \$21.2 million increase in accrued interest receivable related to the growing portfolio and a \$10.3 million decrease in accrued interest payable resulting from the shift in funding from long term to short term as described in financing activities below. This decrease is only partially offset by increases in net income and the provision for credit losses as well as a lower balance in trade accounts receivable.

Cash Provided by (Used in) Investing Activities

Long Term Investments - \$(12.0) million

FCC expects to increase long term investments to \$22 million in 2003-2004 from \$10 million in 2002-2003. This reflects venture capital investments only. FCC has no plans to invest in long term marketable securities and would do so only within stated policy limits and guidelines.

Loans Receivable Disbursed - \$(2,562.3) million

Loans receivable disbursed to new customers (net of FCC refinancings) are expected to total \$2,562.3 million in 2003-2004.

Loans Receivable Repaid - \$1,791.9 million

A total of \$1,791.9 million in principal repayments from borrowers is anticipated.

Capital Additions - \$(18.0) million

A total of \$18.0 million in capital additions is expected in 2003-2004, which is an increase of \$4.0 million from the 2002-2003 forecast of \$14.0 million. See the "Capital Budget" section below for further details.

Cash Provided By (Used in) Financing Activities

Long Term Debt From Capital Markets - \$1,332.7 million

FCC anticipates long term funding of \$1,332.7 million in 2003-2004. This is down considerably from the \$2,069.9 million forecasted for long-term funding in 2002-2003. Forecasted funding for 2002-2003 includes structured notes that have long maturities, but include the option for short-term repayment. These notes are classified as long term debt for accounting purposes. The structured notes that may be called in 2003-2004 (approximately \$1.2 billion) could be replaced by long term or short term debt. For financial statement purposes, they are assumed to be replaced by short term promissory notes resulting in a significant increase to short term funding requirements on the cash flow statement (see change in short term debt below).

Long Term Debt Repaid to Capital Markets - \$(2,523.9) million

Principal payments to the capital markets are expected to be \$2,523.9 million.

Short Term Debt - \$1,894.4 million

FCC anticipates short term funding of \$1,894.4 million in 2003-2004. This is an increase of \$1,296.4 million from forecasted short term funding of \$598.0 million in 2002-2003 and reflects expected refinancing of long term structured notes.

Dividend Paid to Government of Canada - \$(10.2) million

A dividend of \$10.2 million is projected to be paid to the Government of Canada in 2003-04. This will be subject to approval by the Board of Directors.

Financial Ratios

The anticipated positive financial outlook results in favourable impacts on the corporation's key financial ratios, as explained below.

Return on assets is net income expressed as a percentage of average total assets. It measures how well the corporation is utilizing assets to generate income. The return on assets is projected to be 1.15 per cent in 2003-04, slightly lower than the 1.20 per cent forecasted in 2002-03. This decrease is the result of the projected lower margins on new and renewed lending, the higher provision for credit losses, higher administration expenses, the expected lag in realizing returns on venture capital initiatives and the increase in impaired loans.

Return on equity is net income expressed as a percentage of average equity. It measures the return the corporation is earning on its equity, which represents the investment the Government of Canada has made in the corporation. Return on equity is projected to decrease from 12.8 per cent forecast for 2002-03 to 12.2 per cent in 2003-04. This decrease is the result of the forecasted lower margins on new and renewed lending, the higher provision for credit losses, higher administration expenses, and the expected lag in realizing returns on venture capital initiatives and the increase in impaired loans.

Debt to equity ratio represents how many dollars of debt the corporation is carrying for each dollar of equity on the balance sheet. This ratio measures the financial strength of the corporation. The projected debt to equity ratio is 9.7:1 for 2002-03 and improves to 9.5:1 for 2003-04. The improvement reflects anticipated funding of a larger portion of the loans receivable growth through equity. This ratio is projected to remain well below the maximum 12:1 debt to equity ratio set under *The Farm Credit Canada Act*.

Capital Budget Summary

Capital spending is planned at \$18.0 million in 2003-2004, including \$15.3 million for computer system related projects. The development plans for information technology include normal hardware and software purchases, improvements to the corporation's business systems, upgrades to network infrastructure, continued development of the e-business strategy and the Customer Relationship Management (CRM) initiative. The remainder of capital spending relates to furniture, fixture and equipment purchases and leasehold improvements.

Borrowing Plan Summary

Farm Credit Canada requests authority:

Short Term

- a) to borrow short-term funds from the domestic and international money markets, stand-by revolving credit facilities, bank lines of credit or loan agreement for liquidity purposes and the financing of short-term assets and investments. The maximum short-term debt outstanding at any time will not exceed \$4.0 billion;

Long Term

- b) to borrow up to \$2.0 billion of long-term funds from the capital markets to fund loans under the *Farm Credit Canada Act* and to repay maturing debt;
- c) in addition to (b), to borrow additional long-term funds from the capital markets of up to 10 per cent (\$980 million) of expected year-end 2003-04 loans receivable outstanding to meet general contingencies and to borrow additional long-term funds from the capital markets of up to \$500 million to repay FCC's callable debt in the event it is called;
- d) to provide standing approval to issue debt obligations under the following:
 - I. Domestic Medium and Long-Term Note Program;
 - II. Euro Medium Term Note Program;
 - III. Japanese Retail Debt Program;
 - IV. Any other Canadian or International private or public markets.

Aggregate Borrowing Limit

The aggregate amount of borrowings issued under the aforementioned standing long term approvals will not exceed \$3.0 billion in 2003-04.

FCC Offices Across Canada



Reference Information

If you require more information about FCC's Corporate Plan Summary, or wish to provide feedback, please contact:

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