

## Corporate Plan Summary 2005-06 to 2009-10



Farm Credit Canada

Canada

2005-06 to 2009-10 **C o r p o r a t e P l a n S u m m a r y**

[Agriculture. It's all we do. ]

## Corporate Plan Summary

*For the 2005-06 to 2009-10 Planning Period*

## Operating Budget Summary, Capital Budget Summary and Borrowing Plan Summary

*For the 2005-06 Budget Year*



**Canada**

## Farm Credit Canada

*Agriculture. It's all we do.*

Farm Credit Canada (FCC) helps farmers and agribusiness grow and diversify. Operating out of 100 offices located primarily in rural areas, the corporation's dedicated employees are passionate about the business of agriculture. We continue to expand to meet the changing needs of the industry, offering our customers a variety of customized loan products and business solutions.

A federal Crown corporation that is financially self-sustaining, FCC lends to all sectors of agriculture across Canada. Funds are raised through domestic and international capital market borrowing programs. Profits are reinvested in agriculture, developing products and services to benefit the industry. FCC's healthy portfolio grew to \$10 billion in 2003-04 and we've experienced 11 consecutive years of portfolio growth.

FCC's strength is relationships with customers and strong knowledge of agriculture. "Enhancing the Customer Experience" is FCC's strategic intent for 2005-06 to 2009-10. This means making it easy for customers to do business with FCC and ensuring that their experience is second to none.

FCC believes that a key success factor for agricultural businesses is the ability to plan proactively for the future. This corporate plan outlines FCC's corporate objectives and plan for providing relevant products and solutions tailored to the unique needs of the agriculture industry.

*Experience FCC. Innovative solutions to help agriculture grow, diversify and prosper.*

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## Executive Summary

The 2005-06 to 2009-10 corporate plan results from FCC's strategic planning process, and includes the corporation's strategy, corporate objectives and plans for execution. FCC's Board of Directors leads the formulation of FCC's business strategy. The Senior Management Team is responsible for executing the corporation's strategy, devising initiatives for its fulfillment and monitoring progress. The Board provides direction throughout the planning period and indeed, the full fiscal year. Ultimately, every employee's individual annual performance objectives are linked to FCC's corporate business strategy. This ensures that the whole organization is aligned and working towards the corporation's vision: Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Working from a deep sense of commitment to agriculture, FCC will continue to explore unique ways to encourage the further growth and development of the industry. Our commitment to primary producers remains at the very core of our business. They require support from the entire value chain, from agribusinesses that produce inputs to those that process or package outputs. FCC also entered the venture capital field in 2002 and is leveraging partnerships in order to serve Canadian producers.

The corporation will continue to grow its understanding of the agricultural environment so that it can continue to offer solutions as unique and diverse as its customers' requirements. FCC will work to strengthen partnerships in the financial, business and agricultural communities in order to help producers and agribusinesses succeed.

FCC works closely with Canadian producers and agribusiness operators to create financing solutions for each stage of their business life cycle. FCC understands the challenges faced by young farmers and start-ups today and is committed to offering products and services tailored to their needs. Business and succession planning remain important as primary producers work to increase their knowledge of current marketplace risks and challenges while preparing for the future.

FCC offers multiple products and solutions through various channels, including Field Operations, the Customer Service Center, e-business and Alliance Partners. In order to meet the needs of customers now and in the future, we plan to enhance internal processes, systems and an infrastructure that supports a more seamless approach to how we do business.

The experience and passion of our people are the foundation of our business strategy. FCC employees offer a level of knowledge, expertise and commitment that is unparalleled in agricultural financing. For the second year in a row, FCC was recognized as one of the 50 best places to work in Canada by the Globe & Mail Report on Business Magazine. Fostering leadership at all levels and creating a culture where we bring out the potential of all employees is a top priority. Our code of conduct and cultural practices support FCC's environment of respect and accountability. Our commitment to leadership, knowledge management, innovation, diversity and official languages helps make FCC a great place to work.

FCC's strategic intent for the 2005-06 to 2009-10 planning period is Enhancing the Customer Experience. Our business strategy is focused on delivering the right products and solutions, at a reasonable price while creating exceptional relationships with our customers, partners, stakeholders and suppliers. It's more than customer service; it's about the entire experience that FCC creates.

The following key strategies were used in the preparation of this corporate plan:

- ❑ FCC will continue to provide long and short-term financing, insurance, venture capital and business services to primary producers and agribusiness operators.
- ❑ FCC will also provide new products and solutions for primary producers and agribusiness operators through expanded delivery channels.
- ❑ FCC will retain its emphasis on long-term relationships with customers, offering superior agricultural knowledge through dedicated employees.
- ❑ FCC will offer wider access to its business services through new and existing alliance partners.
- ❑ FCC will enhance its internal processes and systems to make it easier for customers to do business with us.
- ❑ FCC will increase internal and external awareness of its value proposition.
- ❑ FCC's ability to provide a financial return adequate to fund future growth will be a key measure of financial success.

## Mandate

Farm Credit Canada's roots date back to 1927, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1942, the *Veteran's Land Administration Act* (VLA) was introduced to assist veterans of World War II to enter farming, providing the most important source of farm credit at the time.

Farm Credit Corporation was established through the *Farm Credit Act* in 1959 as an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*, making FCC the successor to the Canadian Farm Loan Board.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law, replacing the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act provided FCC with an expanded mandate that included broader lending and administrative powers. It also combined under the authority of one Act the corporation's powers to provide financial services to farming operations, including individuals, farming corporations and farm syndicates.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, updating the previous *Farm Credit Corporation Act*. The new Act continues the corporation as Farm Credit Canada and allows the offering of a broader range of services to producers and agribusiness operators.

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

# Corporate Profile

## Overview

Farm Credit Canada is Canada's largest agricultural term lender, offering flexible financing and business solutions to primary producers and agribusiness. FCC has 100 offices across Canada with Corporate office located in Regina, Saskatchewan. FCC's 1,100 employees serve 42,000 primary producers and agribusiness operators with agriculture financing. FCC also has 8,000 alliance customers and provides business services to 28,500 producers. The total loans receivable was approximately \$11.0 billion as at December 31, 2004.

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

## FCC's Vision

We are striving to be visionary leaders and trusted partners in agricultural financing – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.

## FCC's Mission

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

How will we realize the vision and mission?

1. By expanding WHO we serve:

Expand the ability to serve the full agriculture industry – from inputs to value-added and processing operations – with the ultimate goal of strengthening primary producers' success in the long term.

2. By broadening WHAT we offer:

Expand our range of products and services – moving from largely an agricultural term lender to an organization that offers a diverse range of loans, venture capital, insurance coverage, management training and software – all tailored exclusively to agriculture.

3. By extending awareness of WHO we are:

Establishing our brand position in new markets, which is key to ensuring that those who may benefit from FCC services are aware of them. Grow our reputation for possessing a profound understanding of the agriculture industry's challenges and opportunities and track record of relevant, practical value-added offerings.

4. By expanding HOW we serve customers:

Expand alliances with other financial institutions and agricultural organizations to maximize our ability to serve primary producers and agribusiness. Let customers choose how they do business with FCC (field offices, Internet and/or call centre), while preserving our trademark face-to-face, relationship-oriented service.

5. By HOW we work with customers and employees:

Employees rely on the FCC corporate values and cultural practices to guide their behaviour.

## FCC's Corporate Values

**Focus on the customer** – we succeed when our customers succeed. To help them, we listen and work to understand their needs.

**Act with integrity** – we treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

**Work together** – we believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers. We team up with colleagues because we recognize that we can accomplish more when we share in the strengths of others.

**Achieve excellence** – we are committed to one thing: the success of the agricultural industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees to achieve their potential.

**Give back to the community** – we believe in giving back to our communities – the communities where our customers and employees live and work.

## FCC Cultural Practices

In addition to the corporate values, our cultural practices refer to the expected behaviours of FCC employees at all times with colleagues, customers, partners, suppliers and stakeholders.

We hold ourselves and each other accountable for:

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

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

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

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

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

We clean up and recover quickly.

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

## Strategic Intent: Enhancing the Customer Experience

Over the last 20 years, companies have differentiated themselves on physical, tangible elements such as price, product, quality and service. However, the traditional focus on providing a quality product at a reasonable price with satisfactory customer service is no longer enough. In the 21<sup>st</sup> century, products are replicated at lightning speed, consumers are more demanding, channels are multiplying and technology is changing rapidly. With mass commoditization and increasing competition in all markets, many businesses are struggling to find new ways to compete.

As a result, the customer experience is quickly becoming recognized as the strategic differentiator. Companies are looking for ways to differentiate their experience so that they are recognized and remembered by their customers. The customer experience is a unique competitive advantage that results in customer loyalty and brand recognition.

FCC's strength has always been the strong relationships our employees have with customers, forged by an understanding of agriculture, strong expertise and a down-to-earth approach. We are building on this strength with a focus on taking the customer experience to the next level.

To accomplish this, a number of strategic objectives have been defined and depicted on FCC's revised strategy map (see page 44).

FCC believes that an exceptional employee experience is key to further enhancing the customer experience. It's the essence of our strategy as employees embody our brand. The FCC experience is everything that we do, from the frontline to the back office.

The customer experience starts long before a customer enters an FCC field office, visits us on-line or phones the Customer Service Centre. It starts with awareness through advertising, reputation and word of mouth.

Enhancing the Customer Experience is the focus of the 2005-06 to 2009-10 planning period at FCC.

## Governance Structure

### Board of Directors

FCC's Board of Directors represents the Canadian farming and agribusiness community. Their understanding of the industry 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 appoints Board members who represent Canadian agricultural and financial communities, striving for gender, linguistic, employment equity and geographical representation.

### Board Responsibilities

The Board is responsible for the corporate governance of the corporation. It ensures that FCC business activities are in the best interests of the corporation and the interests of the Government of Canada as required by the *Farm Credit Canada Act* and *Financial Administration Act*. Directors exercise a stewardship role, establishing and contributing to a good working relationship with management. The Board leads 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 business have been identified and that appropriate systems and policies are implemented to manage these risks.

## Members of the Board of Directors

### **ROSEMARY DAVIS, Chair**

Owner/Manager  
Tri-County Agromart Ltd.  
Trenton, Ontario  
Chair, Board of Directors  
First appointed December 19, 1995  
Appointed Chair June 20, 2000  
Reappointed June 20, 2003

### **JACK C. CHRISTIE**

General Manager and CEO  
Northumberland Dairy Co-operative Ltd.  
Miramichi, New Brunswick  
Appointed November 27, 2003

### **WARREN ELLIS**

President and CEO  
O'Leary Potato Packers Ltd.  
Proprietor, Warren Ellis Produce  
O'Leary, Prince Edward Island  
First appointed April 4, 1995  
Reappointed November 27, 2003  
Chair, Human Resources Committee

### **DONNA GRAHAM**

Managing Partner  
Graham Farms Vulcan Ltd.  
Vulcan, Alberta  
First appointed September 26, 2000  
Reappointed October 21, 2003

### **DON A. HALIBURTON**

General Manager  
Exchange-A-Blade Ltd.  
Vancouver, BC  
Appointed November 4, 2003

### **MAURICE B. KRAUT**

Co-owner/operator of cattle and grain farm enterprise  
Owner/operator of Agriculture Consulting  
Winnipeg, Manitoba  
First appointed April 13, 1999  
Reappointed May 7, 2002

### **MARIE-ANDRÉE MALLETTE**

Farmer, large-scale commercial crops and beans  
Lawyer specializing in agricultural law  
Ste-Martine, Quebec  
First appointed June 16, 1995  
Reappointed September 5, 2002  
Chair, Audit Committee

### **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  
Owner/operator, Swift Administration and Management Services  
Swift Current, Saskatchewan  
First appointed January 11, 1995  
Reappointed October 21, 2003  
Chair, Corporate Governance Committee

### **JOHN J. RYAN**

President and Chief Executive Officer  
Farm Credit Canada  
Regina, Saskatchewan  
First appointed September 1, 1997  
Reappointed September 1, 2002

### **GERMAIN SIMARD**

Dairy farmer  
La Baie, Quebec  
First appointed June 6, 1995  
Reappointed August 28, 2001

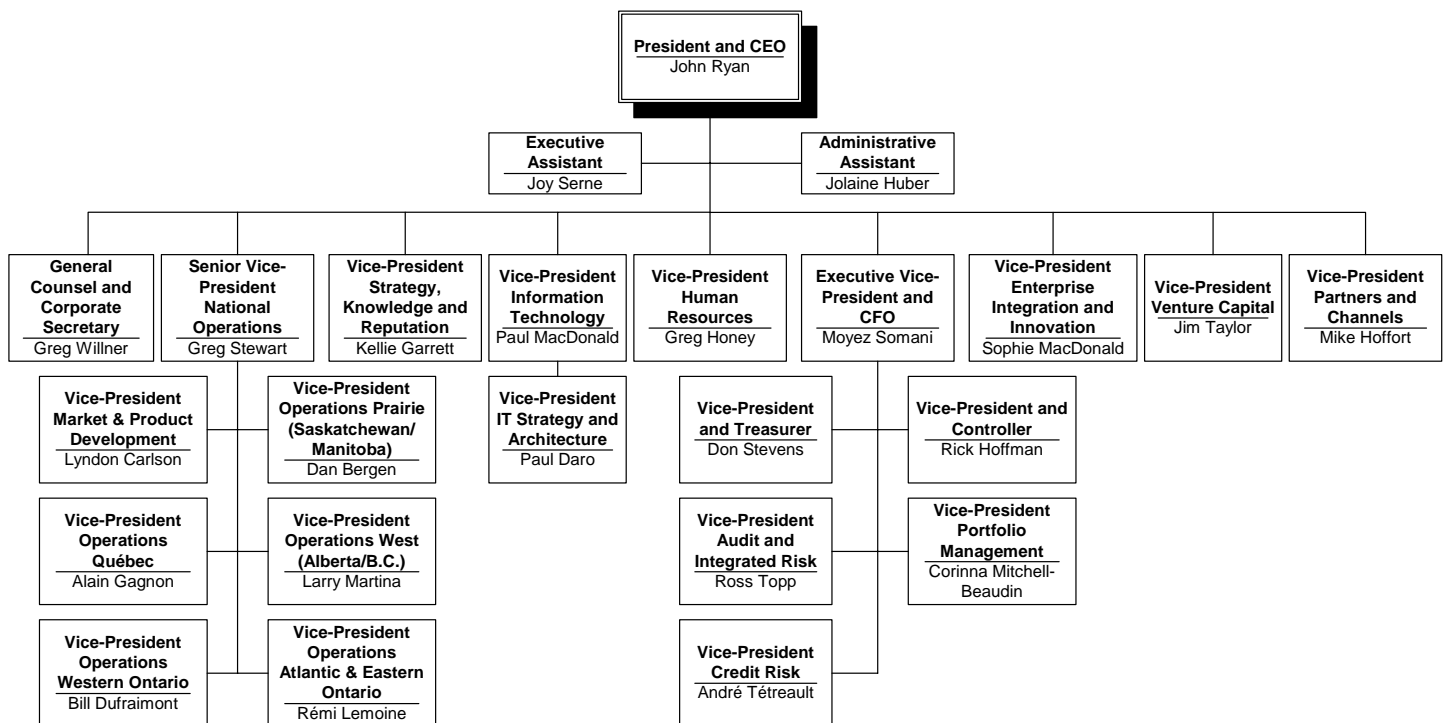
### **DEBORAH S. WHALE**

Vice-President and Co-owner/operator  
Clovermead Farms  
Alma, Ontario  
Appointed November 4, 2003

## Executive

The President is the Chief Executive Officer (CEO) and supervises 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 Team 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.

### FCC Executive Level



## Corporate Social Responsibility and Public Policy Role

Corporate Social Responsibility encompasses a corporation's behaviour in all areas – from procurement to philanthropy. It also includes the honest disclosure of such practices. Whether it is providing programs to benefit our communities, ensuring environmental safety, or fulfilling our public policy role, FCC is serious about its social responsibility obligations.

Farm Credit Canada is a federal Crown corporation, that reports to Parliament through 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.*

The following sections describe how FCC is working to enhance its corporate social responsibility and how the public policy role is fulfilled.

## Our People

FCC's ability to serve customers is based on our understanding of the vast agricultural industry and deep commitment to its success. We understand the issues that farmers and agribusiness operators face as many front-line employees still farm or have family members who farm and all share a passion for the industry. FCC offices are located in 100 rural communities across Canada where employees live and work.

FCC's people practices make FCC an enviable place to work. Special attention is paid to employee productivity and development through annual performance and competency reviews. In addition, the annual Hewitt survey measures employee engagement - the degree to which employees say good things about FCC, strive to do their best, and want to stay with the organization. In 2004, this score rose to 81%, up from 69% in 2003. The corporation offers a competitive benefits program and conducts an annual salary review. Employees at all levels of FCC have access to training and career development, and a formal succession planning program is in place to prepare employees for future leadership positions within the company. Knowledge Management program and activities demonstrate that the organization is committed to growing agricultural knowledge within FCC and the industry.

For the second year in a row, FCC was profiled as one of the 50 best places to work in Canada in the December 31, 2004 Globe & Mail Report on Business Magazine. The report cites many reasons as to why FCC stands out as an employer of choice, including the company's training and development programs, internal communication practices, employee benefits, the community investment program, commitment to knowledge management and alignment of the leadership team at FCC. In October 2004, Maclean's magazine also recognized FCC as one of Canada's Top 100 Employers.

## 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. Accordingly, the corporation has implemented several best practices that have been recognized by the Treasury Board Secretariat and the Commissioner of Official Languages. Employee commitment to bilingualism, the language training program and high quality translation allows FCC to serve customers and staff in Canada's two official languages simultaneously.

In 2003, FCC President & CEO John Ryan was awarded the Leon Leadership award from the Commissioner of Official Languages, recognizing the corporation's commitment to bilingualism. There is only one Leon Leadership Award given each year to a federal Minister or CEO who has demonstrated leadership in the implementation of the Official Languages Program within their organization.

## Supplier Relations

Supplier relations are important to how FCC does business. A formal procurement policy ensures a fair, open and transparent procurement framework. Administration of the policy includes locating and securing competitive sources of quality goods and services required by FCC. All supplies, equipment and services are purchased in the most cost effective manner, based on quality, fitness of purpose, efficiency to procure and availability at the time of purchase. Fair handling of all FCC contracts is just one of the responsibilities of FCC's in-house legal counsel.

## Customer Relations

Enhancing the customer experience is FCC's strategic intent for 2005-06 to 2009-10. Customer relationships are maintained by offering excellent and reliable service. FCC gauges success in this area via contact with customers and regular research.

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

## Community Investment

Investment in communities is one way FCC lives its corporate value of "Giving Back to the Community". As a member of the Imagine group of caring companies, FCC has made a formal commitment to give at least 1% of profits back to the community.

FCC gives back in three ways:

- 1) Projects are supported across Canada that focus on food (including feeding the hungry and providing education regarding where food comes from) and helping to improve rural safety. Projects include the FCC 4-H Scholarship Program, World Food Day and First Aid on the Farm. Through its field offices, FCC also donates money to help local community efforts that focus on food and rural safety – giving employees the opportunity to decide what to support in their own communities.
- 2) In 2004, FCC's Board of Directors approved an additional \$600,000 to be used in support of rural community service projects and communities in crisis. Once each year, community-based organizations will have an opportunity to apply for funding.
- 3) Through the Employee Volunteer Program, employees who volunteer a minimum of 20 hours per year may enter to win a \$500 donation to the charity they serve. Employees who work together to raise funds from other FCC employees can receive a \$0.50 matching donation for each dollar they raise. FCC is a major supporter of the annual United Way campaign. Employee donations are matched dollar for dollar and employees can specify where they would like to see their donations used.

## Fostering Pride in and Awareness of Agriculture

FCC is proud to be part of the Canadian agriculture industry. It is our deep sense of commitment to agriculture and customers that inspires FCC to explore unique ways to showcase this industry. This year, a program was created to raise awareness and to foster pride in the agriculture industry. Components under development include:

**CanadianFarmersMarket.com**, a website launched in January 2005 that gives FCC customers the opportunity to advertise and sell products.

**Ag 101 on Highway 1**, a pilot project targeted to journalism/broadcasting students will increase their awareness and knowledge of agriculture.

**Agriculture in the Classroom** educates young people about agriculture. FCC is increasing its involvement in this program to bring this learning opportunity to more students from all across Canada.

## Environmental Responsibility

Customer success is clearly connected to sound, sustainable environmental management. FCC understands this connection and is committed to supporting and promoting well-balanced environmental business practices. FCC's Environmental Policy provides a tool for managing environmental risk and a mechanism for integrating environmental sustainability into all aspects of its operations.

Several tools help customers manage environmental risk. Customers complete an environmental questionnaire as a component of every new real property loan. Due diligence is conducted regarding the environmental risk posed by real property offered as lending security. If required, FCC will perform site inspections and seek an environmental assessment report from a qualified environmental consultant. Appropriate lending terms encourage best management practices and further ensure that applicable federal, provincial, municipal environmental regulations and by-laws are met.

Lending products, like FCC's Enviro-Loan, enable producers and agribusiness owners to improve their operations and adopt sound resource management techniques. Showcasing environmentally innovative solutions developed by FCC customers provides an opportunity to see environmental stewardship in action. Ongoing employee training helps facilitate environmentally sound lending decisions and promotes a climate of awareness between FCC and its customers to encourage environmentally safe farming practices.

Sound environmental practices make good business sense. FCC's Environmental Policy helps customers succeed in this area.

## Customer Support Strategy

When disasters occur in the agriculture industry, FCC proactively contacts customers to develop plans to manage through challenging times. For example, in the past few years, FCC has worked with farmers affected by severe drought, PEI customers facing the potato embargo and disease, and cranberry farmers in BC experiencing low commodity prices.

The May 2003 announcement of a case of Bovine Spongiform Encephalopathy (BSE) significantly impacted the Canadian beef industry. FCC believes strongly in this sector and is closely following the developments regarding BSE and monitoring the impact on our 8,000 beef customers across Canada. While progress has been made, the ongoing uncertainty around live cattle exports is creating financial difficulties for the industry and for many of our customers.

Shortly after the BSE crisis began, FCC activated its Customer Support Program and account managers proactively contacted customers, giving them the opportunity to explore flexible solutions such as payment rescheduling or interest-only payments. FCC remains committed to the beef sector and will continue to work with affected customers to see them through. FCC continues to lend to those involved in the beef sector, thus demonstrating belief in its long-term viability.

## Corporate Social Responsibility Scorecard

Objectives related to FCC's Corporate Social Responsibility Role	Corporate Strategies and Tactics	Corporate Results 2004-05
Tailor new products and services to unique needs of agriculture	Focus on various ag sector needs and producer life phases	Development of Agri-Assurances, AgriSuccess seminars.
Support agriculture through fluctuations in commodity supply and demand, price pressure, weather-related issues, disease and other challenges	Proactive customer contact during challenging times	National Customer Support Program extended to help 8,000 beef customers address potential cash flow problems
Corporate self-sustainability	Prudent financial management and continuous efficiency improvement	Eleven consecutive years of portfolio growth and positive net income; addition of the Enterprise Integration and Innovation division
Maintain presence in rural areas of every province	Field and district 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.
Provide visible support to rural Canada	Invest in the communities where our employees and customers live and work	Community investment of 1% of net income – targeted at 4-H scholarships, First Aid on the Farm, United Way, World Food Day, Employee Volunteer program and industry sponsorships
Doing business responsibly to safeguard the environment	Support agricultural operations and agribusiness ventures by effectively managing environmental risk	Delivered environmental training for credit risk managers; training module for account manager; review and analysis of current environmental risk management policy; ongoing federal and provincial legislative review; assessment of environmental services providers; investigation into corporate environmental management strategy

# Products and Solutions

## Lending Products

For 45 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 with 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 evolving needs. FCC has taken a leadership role in developing products that are driven by customer and sector needs. In some instances, the markets for these products are initially limited. In many cases, other financial institutions have subsequently copied these products, which benefits the agricultural industry. FCC works closely with Canadian producers and agribusiness operators to create financing solutions for each stage of their business life cycle – from start-up to succession and retirement.

Recognizing the growing interconnectedness of the industry, we also offer financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks. FCC forms alliances and partnerships with other organizations so we can offer producers a full range of financing options. Working together, we can open the door to new opportunities for producers and agribusinesses.

As customer needs continue to change, so has the way FCC manages its product line. FCC regularly examines each product's relevance to maximize the ability of sales staff to work with each customer to find the right product for their individual situation. This approach allows for more flexibility in product tailoring and pricing to address customer needs.

Product Solutions will continue to focus on delivering new and innovative products that build upon our commitment to all sectors of the agriculture industry. Some of the lending products offered by FCC include:

**1-2-3 Grow Loan** – The interest-only payments can be used by producers to help manage their cash flow until they see a return on their investment.

**Advancer Loan** – A pre-approved, secured loan that features the ability to re-advance funds at the producer's discretion.

**American Currency Loan** – Allows agribusiness operations deriving a significant portion of their sales from export markets to finance their operations with a loan from FCC in US dollars.

**Capacity Builder** – Financing that is pre-approved for up to 18 months, with the option to capitalize interest, for the purchase of quota and breeding livestock.

**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.

**Construction Loan** – Take up to 18 months on construction projects such as processing plants, cold storage and grain storage facilities. Funds are disbursed as needed during construction, but no payments are required until completion.

**Enviro-Loan** – Defer principal payments for up to 18 months to construct, improve or expand operations while implementing sound environmental practices.

**Farm Builder Loan** – Interim financing for up to 18 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.

**First Step** – Designed to help those with post-secondary education purchase their first farm related asset.

**Flexi-Farm Loan** – Allows producers in all sectors to pause principal payments during the loan. Pauses can last up to one year in order to ease cash flow during adverse conditions.

**Herd Start Loan** – While a producer starts a herd, cash flow can be used to grow the business, rather than for making payments.

**Payday Loan** – Financing for individuals with off-farm employment interested in starting or expanding a farm business.

**Performer Loan** – Rewards the borrower with lower interest rates when their business achieves pre-set financial goals and ratios.

**Personal property loans** – For the financing of new equipment, quota or livestock, with flexible rates and convenient repayment terms.

**Plant Now – Pay Later** – Horticulture operations can defer payments until new plantings start to generate cash flow.

**Real property loans** – For the financing of land or buildings, with a variety of terms, amortization periods and prepayment options.

**Spring Break Loan** – Designed for forestry operators who typically reduce harvesting during spring road bans. The flexible payment schedule allows payment during the actual harvesting season.

**Stop & Grow** – Developed for woodlot owners, principal payments can be deferred for an extended period to allow saplings to become trees and trees to become profitable woodlots.

**The Opportunity Loan** – Permits the customer to request principal payment holidays of up to 12 months at any one time, allowing such funds to be used for other capital purposes.

**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.

## Agri-Assurances

Agri-Assurances was launched in October 2002. This expanded FCC's group creditor life insurance to include enhanced accident insurance. Customers can choose individual or joint coverage, and insure the full loan or only a portion. The risk reduction features bring the plan in line with industry standards at competitive pricing.

FCC has four life insurance plans providing life and dismemberment coverage: Loan Life and Accident Insurance for all standard declining balance loans, Level Coverage insurance for indefinite interest only loans, Key Person Insurance for employees and managers of borrowers and Payment Protection Insurance which offers a unique benefit of a two year payment pause. Revolving Credit Insurance is in development to insure revolving loans with an adjustable premium amount.

## AgriSuccess

FCC's AgriSuccess Division delivers programs such as educational workshops and seminars designed to meet the needs of today's sophisticated farmers and agribusiness operators. AgriSuccess delivers the AgriSuccess Express, Canada's only weekly email news publication devoted to agricultural issues as well as the AgriSuccess Journal – a bi-monthly print publication.

To help producers manage each stage of their life cycle, AgriSuccess offers a comprehensive suite of management training and information. Full-day and half-day workshops and seminars provide training on topics such as financial planning, human resource management and business planning. Advanced Farm Manager, an eight-day program, provides an in-depth review of essential components of strategic business planning. In support of education, FCC offers the Business Planning Award to agricultural students attending agriculture programs in universities and colleges across Canada. Participants work with a mentor to create functional business plans that prepare them for real-world challenges and opportunities.

AgriSuccess is FCC's strategic response to the increasing challenges of a global agricultural marketplace. Proprietary research demonstrates that Canadian farm operators are, as a rule, very informal in their management techniques. According to a 2002 OECD global report on Environmental Indicators for Agriculture, only eight per cent of Canadian producers have full agricultural training<sup>1</sup>. This represents a fraction of the levels of training completed in other countries. Nonetheless, the use of training is becoming more common among

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<sup>1</sup> Source: 3-12 OECD Environmental Indicators for Agriculture, 2002.

Canadian producers: four in ten report attending a management training seminar more than once in the past two years and a further five in ten report attending at least one management seminar in the past two years. FCC is committed to providing such services and tools to help producers succeed.

In addition to FCC's offerings, producers participate in various seminars and training sessions with different stakeholders in the marketplace such as Provincial Agriculture Departments, Technical Agricultural Colleges, Producer or Marketing Groups, Banks, Accountants, Farm Advisers, Universities and Research Centers.

## AgExpert

AgExpert, Canada's leading publisher of farm management software (formerly Settler Agricultural Software) became part of FCC in October 2002. AgExpert offers the AgExpert Analyst accounting software and the AgExpert Field Manager programs to primary producers. AgExpert Analyst 2005, a bilingual farm management and accounting software, was introduced in October 2004 with specific reporting capabilities for the new Canadian Agricultural Income Stabilization (CAIS) program. Livestock management tools will be developed through partnerships with current industry leaders wherever possible.

## Alliances and Partnerships

Traditionally, FCC has conducted business directly with customers through a network of offices located across Canada. Over the last several years, FCC has been working more and more with alliance partners to deliver products and services to producers. Our alliance partners sell or facilitate the sale of a wide variety of products to producers. FCC currently has alliance relationships with over 60 suppliers, financial institutions and other agricultural groups and co-ops.

Business alliances allow FCC partners to maintain independence, while adding value through combined resources and expertise for their respective customers and operations. The objective is to improve and expand the products and services available to the agriculture industry and individual producers by encouraging potential partners to complement FCC's service offerings. This is accomplished by sharing the administration, risk and the credit process for loans advanced to the borrower. While some of the alliance customers are already FCC customers, many are new to our organization. Sales staff and other employees working for the alliance partner act as intermediaries between the alliance partner's customers and FCC, effectively permitting FCC to broaden its ability to serve the agricultural community.

## Venture Capital

Access to capital is an important issue for producers and agribusiness operators in Canada. As the agriculture industry changes and evolves, they need access to alternate sources of funds.

Drawing upon its expertise in agricultural financing, network across Canada and commitment to the development of venture capital within agriculture, FCC realized an opportunity existed for a strong leader to emerge as the impetus for growth and investment in the agriculture industry. Accordingly, FCC Ventures was launched in 2002 with a mandate to meet this need.

FCC Ventures focuses on providing equity and quasi-equity financing to small and medium-sized companies. A positive reputation is growing within the venture capital industry and FCC Ventures is quickly becoming a recognized investor in agriculture. FCC Ventures has focused on the following sectors: value-added food manufacturing; commercial processing; commercial-scale farming; businesses that support the agricultural sector and ag-biotech.

Initial investments range from \$500,000 to \$5,000,000 and use a variety of investment instruments. Since its launch in 2002, FCC Ventures has invested a total of \$18.2M. Further investments will continue to be made<sup>2</sup>. Through venture capital funding, FCC is helping to finance strong, well-managed businesses that have the potential to dramatically and positively impact agriculture across Canada. FCC encourages participation of other venture capitalists in their projects. A co-investment ratio of 1.8:1 (\$20.6 million) was achieved in 2003-04 and a ratio in excess of 1.3:1 is expected for 2004-05.

In the Canadian venture capital marketplace, there are three main categories of funds:

1. Other government funds such as BDC Venture Capital and various provincial government backed private equity and venture capital funds (primarily in Quebec).
2. Bank-owned and other institutional funds such as Bank of Montreal Capital Corporation, Roynat Capital, CIBC Mezzanine Partners, Manulife Financial etc.
3. Private funds such as McKenna Gayle, CCFL, Dancap etc.

Investment activity in Canada's venture capital industry continued to decline in 2003, with disbursements totaling \$1.5 billion at December 31<sup>st</sup>, down by a substantial 41% from the \$2.5 billion of 2002<sup>3</sup>. In the first three months of 2004, dollars invested by Canada's venture capital (VC) industry rose, as compared to the same first-quarter period last year. In total, the industry disbursed \$401 million, which is up by 23% from the \$325 million recorded in the first quarter of 2003. In this same period, over \$23 million was funded in ag-related industries, the vast majority being funded in early stage biotechnology opportunities.

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<sup>2</sup> To date, the federal government has announced funding of \$40M for FCC Ventures with additional funding possible in future. FCC and the Department of Finance are finalizing the terms and conditions for these funds.

<sup>3</sup> Source: MacDonald & Associates Limited, 2004.

## Marketplace

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

Canada currently has six large bank financial groups as well as:

- ❑ Nine smaller domestic banks;
- ❑ 33 foreign banks subsidiaries
- ❑ 21 branches of foreign banks (17 full service branches and four lending branches);
- ❑ 25 trust companies;
- ❑ 100 life insurance companies;
- ❑ 1,200 credit unions and caisses populaires;
- ❑ 4,000 independent financial, deposit and mortgage brokers;
- ❑ 6,550 financing firms with assets of at least \$5 million.

Several large competitors now participate in Canada's financial services market and offer products and services, which include residential and commercial mortgages, credit cards, motor vehicle financing and equipment leasing.

Federal and provincial government programs that serve agriculture include:

- ❑ La Financière agricole du Québec
- ❑ Nova Scotia Farm Loan Board
- ❑ ATB Financial (formerly Alberta Treasury Branches)
- ❑ Agriculture Financial Services Corporation (AFSC)
- ❑ Manitoba Agricultural Credit Corporation (MACC)

## Enterprise Integration and Innovation

FCC has grown rapidly over the last decade and its business is more complex. While maintaining a focus on primary production, FCC also serves agribusiness, offering multiple product solutions through various channels, including Field Operations, the Customer Service Centre, e-business and Alliance Partners. In order to meet the needs of customers now and in the future, FCC needs to create the infrastructure and processes that will support future business growth and enable the delivery of an enhanced customer experience.

In 2004, the Enterprise Integration and Innovation (EII) division was created to address these opportunities. Over the planning period, enterprise integration will refine business processes in order to create an environment that will make it easier for customers to do business with FCC. This will be accomplished by providing FCC employees with the tools they need to do their jobs effectively. The end goal is to provide customers with a consistently great customer experience, no matter which service channel they choose.

In cooperation with IT and various FCC business divisions, Enterprise Integration will:

- ❑ Ensure that FCC is quick to market with the innovative products and services that customers want and need;
- ❑ Provide FCC employees, customers and partners with a single user interface (process portal) through which information from multiple applications will be accessed;
- ❑ Streamline business processes to increase efficiencies and enhance employee and customer experience;
- ❑ Provide immediate access to the business information that employees need to do their jobs;
- ❑ Improve consistency in documentation and reporting to allow FCC employees to spend more time with their customers.

## Information Technology

In 2004, FCC's Information Technology division went through a process of reorganization aimed at enhancing its capabilities from a governance, technical architecture and human resource perspective. This reorganization was based on FCC's current business needs and the future business strategy, and provides greater alignment between IT, the business and Enterprise Integration.

Additionally, the IT division has developed new management tools, processes, capabilities and comprehensive plans (roadmaps) to provide stronger discipline, vision and leadership into building a flexible infrastructure and the capability required to support the strategic needs of the organization.

The IT division is currently recruiting and filling key vacancies as well as continuing to build upon the foundational infrastructure. There is a strong need for integrated and adaptable information systems to support company business practices.

## Strategic Planning Process

The strategic planning process engages the Board of Directors and Senior Management Team in the development of the corporation's strategy. The process is designed to enhance FCC's ability to develop and execute its strategy by reviewing the current operating environment; establishing the future direction; assessing the current state and developing corporate strategies to move FCC towards its desired future. The balanced scorecard format provides a template for the corporate strategic plan, divisional and business unit planning, and the setting of annual employee performance objectives.

In 2004, the corporation's strategy map and balanced scorecard were revamped to reflect new business strategies and attendant operational shifts. Areas of improvement included the incorporation of performance driver measures to better monitor progress toward desired outcomes.

Similarly, project portfolio management processes were adopted to ensure the optimal execution of FCC's business strategy. Project interdependencies, skills, employees and capacity, business cases, resource allocations, business and project risk are examined in order to prioritize and activate individual initiatives. The Strategy Execution Team (SET), a subset of the Senior Management Team, governs project portfolio management (PPM).

This corporate plan is an output of the strategic planning process, indicating how the corporation will achieve its vision, mission and business strategy.

The main components of the corporate plan include:

### **Balanced Scorecard Framework and Strategic Thrusts**

Key high-level areas of focus for the next five years articulated in terms of each perspective of the balanced scorecard.

### **Corporate Strategic Objectives**

The major ways FCC will execute the business strategy over the next five years.

### **Performance Measures and Targets**

Measures demonstrate how FCC will determine successful attainment of the corporate objectives. Targets identify the milestones towards achieving each objective or group of objectives.

### **Strategic Initiatives**

Projects and other initiatives that contribute to the attainment of corporate objectives.

## Strategic Issues for the Planning Period

### Assessment of Results – 2004-05 Balanced Scorecard

The following pages summarize FCC's balanced scorecard measures, targets and projected results for the 2004-05 fiscal year.

#### PEOPLE – Unique People Leading Our Success

Measures and Targets	2004-05 Projected Results
<ul style="list-style-type: none"> <li>❑ Identify 10 additional candidates for Leadership Development; Complete workforce plan.</li> <li>❑ Increase Employee Engagement to 70%.</li> <li>❑ Implement “Building Future Leaders” initiative.</li> <li>❑ Launch new Community of Practice re: additional agricultural sector. Launch new Community of Practice in Credit Risk/Commercial Lending</li> <li>❑ Produce 4 agribusiness enterprise guides</li> <li>❑ Implement Corporate Capacity Planning</li> </ul>	<ul style="list-style-type: none"> <li>❑ 16 candidates enrolled in the Leadership Development Program. Workforce planning program in progress.</li> <li>❑ 81% (+12% over 2003-04)</li> <li>❑ In progress</li> <li>❑ On track</li> <li>❑ Development of all guides is in progress, completion is scheduled for Q4.</li> <li>❑ On track</li> </ul>

#### CUSTOMER – Create Solutions For Customer Success

Measures and Targets	2004-05 Projected Results
<ul style="list-style-type: none"> <li>❑ Farm Finance &amp; Agribusiness disbursement target: \$2.17B</li> <li>❑ Venture Capital Investments: 40% of investments will carry a current yield; for every dollar invested by FCC Ventures, an additional \$1.3 will be attracted to the industry. <ul style="list-style-type: none"> <li>▪ Cash disbursed for capital invested: \$25.0M</li> <li>▪ Interest &amp; Fee Revenue: \$1.7M</li> </ul> </li> <li>❑ Clearly defined sales &amp; market roles. Integration of all business lines. Geographic &amp; sector strategies</li> <li>❑ Alliance Disbursements: \$558M<sup>4</sup> Target adjusted to \$475M</li> <li>❑ CSC Alliance Loan Processing: \$558M<sup>5</sup> Target adjusted to \$475M</li> </ul>	<ul style="list-style-type: none"> <li>❑ On track</li> <li>❑ Capital Invested is projected at \$16.5M due to slower than anticipated market development. Interest &amp; Fee Revenue: On track Co-investment ratio of 1.3:1: On track</li> <li>❑ Planning for a strengthened business plan is complete. Execution of the plan will be completed by fiscal year end.</li> <li>❑ On track</li> <li>❑ On track</li> </ul>

<sup>4</sup> Targets for 2004-05 to 2008-09 were established based on historical disbursement levels prior to the recent market distortions such as BSE and were adjusted accordingly as noted in the 2004-05 to 2008-09 Corporate Plan

<sup>5</sup> As above

## CUSTOMER – Create Solutions For Customer Success

Measures and Targets	2004-05 Projected Results
<input type="checkbox"/> CSC Detailer & Retail Lending: \$120M	<input type="checkbox"/> On track
<input type="checkbox"/> CSC Inbound Calls: 50,000	<input type="checkbox"/> On track
<input type="checkbox"/> CSC Outbound Calls: 15,000	<input type="checkbox"/> On track
<input type="checkbox"/> Alliance e-solutions: <ul style="list-style-type: none"> <li>▪ Loan origination</li> <li>▪ NEDFP site</li> </ul>	<input type="checkbox"/> Improvements to the Alliance portion of the FCC website include online disbursement request functionality and the launch of the Online Reporting pilot project. Development of the Alliance and NEDFP and customer portals has been incorporated with the EIP implementation process.
<input type="checkbox"/> Customer e-solutions: Online loan application for scorecard lending & lending process workflow Registered Users: 11,000	<input type="checkbox"/> On track
<input type="checkbox"/> AgExpert Revenue: \$2.40M	<input type="checkbox"/> Expect to be slightly under target
<input type="checkbox"/> Unique AgExpert Customers: 17,300	<input type="checkbox"/> Expect to be slightly under target
<input type="checkbox"/> AgriSuccess Participants: 1,500	<input type="checkbox"/> On track
<input type="checkbox"/> AgExpert Training Participants: 1,700	<input type="checkbox"/> On track
<input type="checkbox"/> Advanced Farm Mgr. Training: 100 participants annually	<input type="checkbox"/> 50 participants are projected. Marketing plan is in place for next fiscal year, to target the offering of this intensive course.
<input type="checkbox"/> AgExpert Newsletter Distribution: 15,000	<input type="checkbox"/> On track
<input type="checkbox"/> AgriSuccess Journal Distribution: 12,000	<input type="checkbox"/> On track
<input type="checkbox"/> Life & Accident Insurance Sales: \$9.92M	<input type="checkbox"/> On track
<input type="checkbox"/> Develop & launch 3 new insurance products: Insurance for Advancer Loan; Term Insurance (referral); Group Benefit Plan	<input type="checkbox"/> Insurance product for Advancer Loan designed and premium rates set. Term Insurance Referral and Group Benefit Plan have been removed from the 2004-05 initiative list due to other corporate priorities.
<input type="checkbox"/> Product pricing strategy implemented as per plan	<input type="checkbox"/> On track
<input type="checkbox"/> Target 43% of total Farm Finance and Agribusiness approvals made on products developed within the last five years.	<input type="checkbox"/> On track
<input type="checkbox"/> Customer Relationship Management Wave 2 and long-term structure in place	<input type="checkbox"/> The introduction of EIP has altered Customer Relationship Management (CRM) targets as follows: The focus for 2004-05 is to optimize CRM Wave 1, focussing on process improvement and data integrity.

<ul style="list-style-type: none"> <li>❑ Every customer with a new loan surveyed; Every exiting customer surveyed National panel activated</li> <li>❑ Central reporting for Post-Loan &amp; Exit Survey</li> <li>❑ Successful, on-budget completion of Customer Loyalty Index</li> <li>❑ Develop and implement Corporate Reputation Action Plans</li> <li>❑ Improve Corporate Reputation Index re: “contribution to the community”</li> <li>❑ Implement National advertising campaign</li> <li>❑ Increase visibility with target audiences</li> </ul>	<ul style="list-style-type: none"> <li>❑ Process for Post-Loan Survey and Customer Exit Survey is now active. National Agrifood Panel has more than 1,000 participants.</li> <li>❑ Central reporting now active. 3,500 customers have responded to the Customer Experience Scoreboards.</li> <li>❑ CLI will not be conducted in 2004-05 due to budget restraints.</li> <li>❑ New measurement options introduced for Corporate Reputation and Corporate Social Responsibility. Multi-divisional planning to begin in Q3.</li> <li>❑ On track</li> <li>❑ Program adjusted as follows: creation of website to promote customer products and profiles, journalism student education in agriculture and future enhancements to FCC’s involvement in Agriculture in the Classroom.</li> <li>❑ Speakers Market launched internally in September 2004.</li> </ul>
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### **SERVICE – Make It Easy For Customers To Do Business With Us**

<b>Measures and Targets</b>	<b>2004-05 Projected Results</b>
<ul style="list-style-type: none"> <li>❑ Initial implementation of Portfolio Risk Management tools</li> <li>❑ Establish high level project sequencing, Assess internal versus external resource requirements</li> <li>❑ Initiate core systems integration project based on outcome of high level project sequencing and resource capacity</li> <li>❑ Replace loan servicing system</li> <li>❑ Master corporate project plan</li> <li>❑ Implement revised activation process</li> </ul>	<ul style="list-style-type: none"> <li>❑ Developed a comprehensive and extensive suite of leading edge tools to help FCC manage risk.</li> <li>❑ The Enterprise Integration project commenced in Q1. Business and technical requirements that will optimize integration have been defined and implementation has begun. Enterprise integration initiatives will ensure projects are integrated resulting in seamless and enhanced customer experience across channels, business units and people.</li> <li>❑ Vendor decision deferred pending completion of the Enterprise Integration Loan Maintenance Process redesign. Vendor selection is now targeted for Q1 2005-06. Replacement of loan servicing system targeted for 2007-08.</li> <li>❑ Project Portfolio Management processes and templates revised to incorporate requirements of Enterprise Integration project.</li> <li>❑ Projects on the 2004-05 Annual Corporate Workplan are being activated according to the Project Portfolio Management processes.</li> </ul>

<ul style="list-style-type: none"> <li>❑ Implement Capacity Planning tool</li> <li>❑ Implement BPR recommendations – 2004-08: Loan Maintenance 2004-05: Translation &amp; Official Languages, Administration</li> <li>❑ Develop Alliance e-solutions (online portal)</li> <li>❑ Develop online transactional capability</li> </ul>	<ul style="list-style-type: none"> <li>❑ On track</li> <li>❑ Loan Maintenance recommendations are being implemented and, where appropriate, integrated with EII initiatives. Implementation of the Translation and Official Languages and Administration Services recommendations are underway.</li> <li>❑ The Alliance online portal project requirements and functionality have been incorporated into future Enterprise Integration and IT projects.</li> <li>❑ Online reporting for alliance partners rolled out in Q1-Q2.</li> </ul>
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#### **FINANCIAL SUCCESS – The Foundation of Customer Support**

<b>Measures and Targets</b>	<b>2004-05 Projected Results</b>
<ul style="list-style-type: none"> <li>❑ Improvements in profitability reporting &amp; analysis</li> <li>❑ Maximize margins</li> <li>❑ Efficiency ratio: under 45%</li> <li>❑ Return on Equity (ROE): 10.74%</li> <li>❑ Debt-to-Equity Ratio: 10:1 or better</li> </ul>	<ul style="list-style-type: none"> <li>❑ Improvements scheduled for Q3 &amp; Q4</li> <li>❑ Funding from new investors: On track Funding from new instruments/sources: On track</li> <li>❑ On track</li> <li>❑ On track</li> <li>❑ On track</li> </ul>

# Assessment of Corporate Strengths, Weaknesses, Opportunities and Threats

## FCC SWOT Analysis

September 2004

<b>FINANCIAL/SHAREHOLDER - STRENGTHS</b>	<b>FINANCIAL/SHAREHOLDER - WEAKNESSES</b>
<ul style="list-style-type: none"> <li>Strong financial position</li> <li>Efficiency ratio at 41%(one of the best among financial institutions)</li> </ul>	<ul style="list-style-type: none"> <li>Define profitability thresholds for each line of business</li> </ul>
<b>FINANCIAL/SHAREHOLDER - OPPORTUNITIES</b>	<b>FINANCIAL/SHAREHOLDER - THREATS<sup>6</sup></b>
<ul style="list-style-type: none"> <li>Deepen reach of newer business lines (Agribusiness, Alliances, Business Services and Venture Capital)</li> <li>Manage investments and external relations in support of public mandate to ensure maximum coverage and return</li> </ul>	<ul style="list-style-type: none"> <li>Single industry focus (if multiple disasters occur)</li> <li>Increase in number of non-performing loans due to economic downturn or widespread unfavourable market conditions in agriculture</li> </ul>

<b>CUSTOMER - STRENGTHS</b>	<b>CUSTOMER - WEAKNESSES</b>
<ul style="list-style-type: none"> <li>Reputation with customers is very high</li> <li>Agriculture industry stakeholder support</li> <li>Canada's largest agricultural term lender</li> <li>Product platforms that enable tailoring to specifically meet customer needs</li> <li>Strong presence in rural Canada (100 offices)</li> <li>Committed to agriculture through good &amp; bad times</li> <li>Community investment commitments</li> </ul>	<ul style="list-style-type: none"> <li>Need to define customer experience through all channels</li> <li>Expand portfolio vision to encompass all business lines</li> </ul>
<b>CUSTOMER - OPPORTUNITIES</b>	<b>CUSTOMER - THREATS</b>
<ul style="list-style-type: none"> <li>Enhance "customer experience" and build the required organizational capabilities to deliver consistently</li> <li>Shift to offering customers solutions (combination of products, services and expertise) and leverage field, CSC and eBusiness channels to expand AgExpert and Business Services reach</li> <li>Venture Capital – offer expanded access to capital through FCC and act as a catalyst with other investors</li> <li>Clarify FCC's value proposition to all lines of business</li> <li>Define specific target alliances and partners for expansion</li> <li>Increase business management competencies of producers and agribusiness operators</li> <li>Seek innovative ways to foster pride in agriculture industry</li> </ul>	<ul style="list-style-type: none"> <li>Privacy issues – ensuring that FCC protects information about customers or employees (includes premises security)</li> <li>Competitive interest in the "agriculture" space</li> <li>Protect brand while growing awareness with new markets (appeal to traditional and new markets)</li> <li>Insufficient awareness of FCC's offerings</li> <li>Potential new entrants to financial services industry</li> <li>Aging agricultural population and lack of new entrants</li> <li>Unanticipated rapid changes to agricultural, financial business marketplace</li> </ul>

<sup>6</sup> Actions to mitigate identified risks have been incorporated into various 2005-06 initiatives.

INTERNAL CAPABILITY - STRENGTHS	INTERNAL CAPABILITY - WEAKNESSES
<ul style="list-style-type: none"> <li>▪ Increased use of CSC as customer channel</li> <li>▪ Enterprise Integration roadmap developed</li> <li>▪ New governance in place to enhance strategy execution, including leading and lagging performance indicators</li> <li>▪ Workforce planning under way</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited experience with new business lines</li> <li>▪ IT infrastructure and capabilities to efficiently deliver integration solutions on a stable, reliable, high-performance platform</li> <li>▪ Need to grow cross-functional collaboration</li> <li>▪ High number of organizational changes currently under way</li> <li>▪ Need to define standards and guidelines and manage across all channels to offer a seamless customer experience</li> <li>▪ Capacity planning to match resources to corporate strategies and manage/sequence projects</li> </ul>
INTERNAL CAPABILITY - OPPORTUNITIES	INTERNAL CAPABILITY - THREATS
<ul style="list-style-type: none"> <li>▪ Define table stakes (functionality that all competitors have) and selected FCC differentiators for online channel</li> <li>▪ Leveraging key capabilities of CSC to deliver expanded services</li> <li>▪ Define integrated marketing communication strategy and channel strategy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Define standardized capabilities to address market needs by business line and channels</li> </ul>

PEOPLE - STRENGTHS	PEOPLE - WEAKNESSES
<ul style="list-style-type: none"> <li>▪ External recognition re: the quality of FCC's work: CEO Awards – international EXCEL Award from IABC, Leon Leadership for Official Languages, Lieutenant Governor's award for community work</li> <li>▪ 34 additional international, national and provincial awards for communication, brand and marketing</li> <li>▪ Employee engagement (81%): One of Top 50 Companies to work for in Canada</li> <li>▪ Cultural Practices - a climate of respect and open communication across FCC</li> <li>▪ Employees with strong knowledge &amp; passion for agriculture</li> <li>▪ Employee retention</li> <li>▪ Knowledge Management: capture/grow expertise with Communities of Practice</li> <li>▪ Community voluntarism</li> <li>▪ Ability for employees to transfer within FCC &amp; learn new skills</li> <li>▪ Competitive compensation package</li> <li>▪ Leadership development program</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to enhance employees' understanding and ability to embrace change</li> <li>▪ Need to grow pool of employees ready to promote from within</li> <li>▪ Align enterprise performance system to reflect desired behaviors (cultural practices) and results</li> <li>▪ Uncertainty over CEO succession</li> <li>▪ Knowledge Management confined to agriculture</li> </ul>

PEOPLE - OPPORTUNITIES	PEOPLE - THREATS
<ul style="list-style-type: none"> <li>▪ Leverage “Top 50 Companies to work for in Canada” and “Top 100 Companies” awards as “employer of choice” (culture, success, compensation) to attract new employees</li> <li>▪ Marketplace changes resulting in further availability of experienced potential employees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inability to recruit and retain a highly productive workforce (i.e. special skills, bilingual, diversity, managers at all levels, replacements for retirees):               <ul style="list-style-type: none"> <li>- Potential loss of FCC’s high performers to external organizations</li> <li>- Difficulty attracting bilingual employees to Regina</li> <li>- "Knowledge workers" have increased employment choices</li> <li>- Generation X workers desire more flexibility/ exhibit less loyalty</li> </ul> </li> </ul>

# Analysis of External Business Environment

## Socio-Demographics

FCC has more than 1,100 employees in offices located across Canada. The average age of our employees is 39 and most have been with the company at least 8 years. Due to the relatively young average age of FCC employees, and the low average tenure, it is becoming increasingly important to establish a process of knowledge transfer to newer employees from those that are more experienced.

FCC's workforce is predominantly made up of Baby Boomers and Generation Xers. These two groups have been impacted by different events over their lives, are motivated by different factors and have different priorities (for example Generation X places a higher value on work/life balance than Baby Boomers). These differences need to be considered when managing, training, rewarding and communicating with employees.

As less than 4% of the workforce is eligible for retirement at any given point over the next 15 years, significant skill shortages and losses of FCC knowledge are not expected. Human Resource initiatives such as Workforce Planning, Attraction, Retention and Leadership Development are also in place to ensure our workforce is maintained. These initiatives will also be used to address the challenges of increasing representation from diverse work groups.

## Customer Experience

According to Statistics Canada's 2001 Census of Agriculture, the number of people involved in agriculture dropped from 851,410 in 1996 to 727,125 in 2001. The average age of farm operators increased from 45.3 in 1996 to 49.9 in 2001.

Customer Experience Scoreboards are a new initiative at FCC, designed to deliver regular reporting on the customer experience, from the customer perspective. At this early stage 85.4% of customers surveyed indicate that if they needed financing tomorrow, they would come to FCC.

FCC's portfolio has grown considerably over the past few years and it is now time to ensure that customer relationships can be maintained effectively. It is essential that FCC's infrastructure be strengthened to allow Account Managers, the Customer Service Centre and other employees the time and capability to provide customers with the time they need.

FCC's business has grown rapidly over the last decade and has become more complex. In order to meet the needs of our customers now and in the future, FCC will need to create an infrastructure that will provide cross-functional collaboration, supporting business growth and enabling us to deliver an enhanced customer experience. Enterprise Integration will improve business processes to create a streamlined environment that will make it easier for customers to do business with us. The end goal is to provide customers with a consistently great customer experience, regardless of which service channel they choose.

## Environment

Our customers' success is clearly connected to sound, sustainable environmental management. FCC understands this connection and is committed to supporting and promoting well-balanced environmental business practices. FCC's Environmental Policy provides a tool for managing environmental risk and a mechanism for integrating environmental sustainability into all aspects of its operations.

As a Crown corporation, FCC will be subject to the Canadian Environmental Assessment Act (CEAA) and its regulations in June 2006. FCC's exact level of responsibility has not yet been determined. At the very least, the CEAA will want to ensure that FCC continues its sound, beneficial environmental policy and environmental due diligence processes.

## Economic Performance

As a financial institution, FCC is subject to the fluctuations of the currency market and the overall economy. Recent economic data, including continued employment and rising oil prices indicate a strengthening economy capable of rising inflation.

Canadian agri-food exports for the first six months of 2004 were \$13.3B, up 12.5% from the same period in 2003. Imports were \$10.2B, slightly below the same period last year. Exports to the U.S. were up only 2% while exports to the EU, Mexico and China were up by 19%, 106% and 247% respectively. The highest values of exports were for wheat, canola and fresh boneless beef.

Areas to watch out for are increased interest rates and a continued rise in the Canadian dollar (relative to the U.S. dollar). Higher interest rates could cause some of FCC's customers to convert from floating rates to fixed loan rates. FCC's fixed rate loan products must remain competitive in this environment. A shift to fixed rate loans may also negatively affect FCC's net interest margin. However, it is not yet known whether or not the current interest rate forecast will cause a significant switch from floating to fixed rates during this planning period. The rising value of the Canadian dollar relative to the U.S. has directly affected the margins of all non-supply managed producers, particularly horticulture, aquaculture, forestry and pork sectors. A rule of thumb mentioned across sectors is 1% loss of income for every cent change in rate.

## Government Relations

FCC has enjoyed multi-party support at the federal government level for the past several years. During FCC's last appearance before the Standing Committee on Agriculture and Agri-Food on March 25, 2004, there were no significant issues raised and several committee members made very positive comments. FCC's Elected Official Visitation Program has played an important role in supporting the relationship between FCC and elected officials.

The Government of Canada is currently undertaking a number of reviews of governance issues related to Crown corporations. Although the review of governance issues for Crown corporations will be far-reaching, the expected impact on FCC will be limited as the required governance procedures are already implemented or can be within a short time frame. FCC is seen as a leader in Crown corporation governance.

## Technology

The technology industry is becoming more and more complex, and is developing at an ever-accelerated pace. Keeping up to date in this environment can be a challenge for all organizations. In order for FCC to remain competitive with the services offered, it is essential to build and maintain an infrastructure that is also competitive. Market share can be gained by ensuring efficient time to market, which is greatly impacted by the speed with which FCC's technologies develop.

The IT division is working to build core competencies and capacity in order to deliver on FCC's strategies.

## Agriculture Industry

### **Bovine Spongiform Encephalopathy (BSE)**

BSE continues to be a serious issue. Since the discovery of a single BSE case in Canada (May 2003) and the subsequent confirmation of a single BSE case in the U.S. (December 2003), the Canadian/U.S. border has remained closed to the movement of live ruminants (cattle, sheep, bison, etc.)

Despite the fact that the federal government has spent considerable resources on compensating producers, Statistics Canada still reported a significant drop in farm cash income. The focus of this situation has been on the primary beef industry, however, it is important to acknowledge the impact beyond normal portfolio boundaries. Many industries have been affected through one cash flow channel or another. Other sectors such as dairy and crops, as well as FCC's alliance partners have all felt the monetary impact created by BSE.

On September 10, 2004, the Minister of Agriculture and Agri-Food, Andy Mitchell, announced a series of initiatives to reposition the Canadian livestock industry. Subsequent to this, the Ruminant Slaughter Loan Loss Reserve Program was announced which will

facilitate the expansion of Canada's ruminant slaughter capacity. FCC will participate in this program.

In December 2004, the United States announced plans to re-open the border to Canadian exports of beef and live cattle under the age of 30 months on March 7, 2005. Shortly after this announcement, the Canadian Food Inspection Agency (CFIA) confirmed two new cases of BSE in Alberta (January 2005). Neither animal entered the human food or animal feed chains. As of January 2005, efforts were underway to investigate the situation and determine next steps.

### **Avian Flu**

On February 19, 2004, the Canadian Food Inspection Agency (CFIA) confirmed the presence of avian influenza in the Fraser Valley area of southern British Columbia. The area was immediately placed under quarantine and the birds were depopulated. Approximately 17 million birds were destroyed, accounting for 80% of British Columbia's total poultry production.

This outbreak has encouraged producers to be more aware of biosecurity practices and increased due diligence is warranted in the future. As the industry recovers, FCC will continue to work with our poultry customers to improve management practices and knowledge.

### **Pork Industry**

Based on the strength of current price fundamentals it is likely that pork prices will remain buoyant over the next 12 months. That being said, seasonal fluctuations will impact pricing in both directions.

In March, the American National Pork Producers Council (NPPC) petitioned to the U.S. Department of Commerce for antidumping and countervailing duty investigations on imports of Canadian live hogs. The U.S. International Trade Commission (ITC) heard the preliminary applications in early May. As of October 15<sup>th</sup>, both preliminary decisions have been handed down. The charges levied to instigate a Countervailing Duty order against Canadian hogs came down in favour of Canada. The anti-dumping investigation found that in certain cases, given a specific set of assumptions, that Canadian hogs were being dumped into the U.S. market. Final determinations for both cases are scheduled for March 2005.

### **International Trade Environment**

International trade continues as an evolving issue in Canadian agriculture. World Trade Organization (WTO) negotiations are progressing toward a December 2005 agreement of Ministers. Despite the failure of the Cancun portion of negotiations, the EU, U.S., Australia and several others put together a package in Geneva in July 2004 that will likely constitute the basis of negotiations for the coming rounds. While no firm agreement was struck, the negotiations are expected to move forward.

It remains to be seen whether the self-imposed 2005 negotiating deadline will be met. The major outstanding issues in the agricultural negotiations are:

- ❑ Agreement to set a date for the elimination of export subsidies on all products;
- ❑ The extent of all reductions that should be made to trade-distorting domestic support;
- ❑ How to achieve substantial improvements in market access for all products, while providing flexibility in how market access is improved for sensitive products.

In March 2003, the U.S. requested that a WTO dispute settlement panel examine the operations of the Canadian Wheat Board (CWB). The final report found that the U.S. did not provide sufficient evidence that the CWB has acted contrary to Canada's trade obligations. The U.S. appealed this decision, and in September 2004, the Appellate Body ruled in support of the original decision and in favour of the CWB.

## Objectives, Measures and Targets

Every year, FCC measures progress toward achieving corporate objectives through its Balanced Scorecard, which translates FCC's vision into a series of corporate objectives, measures, targets and initiatives. Each one of these objectives falls into one of four different balanced scorecard perspectives: Financial/Shareholder, Customer, Internal Capability and People.

This year's corporate plan calls for continued expansion of FCC's financing and business solutions. Greater emphasis has also been placed on the internal capability perspective, since enhancing business processes and information technology architecture will help take the customer experience to the next level.

## FCC Strategy Map

In 2004, FCC revised its strategy map which describes how the organization intends to create sustained value. The map is designed to identify and communicate the four strategic thrusts and corporate objectives that FCC has chosen to pursue to achieve the corporate vision.

Strategic thrusts represent groups of objectives and provide a summary of how FCC will realize its vision. The four vertical columns of this map represent FCC's "Strategic Thrusts":

- ❑ Strengthen Market Presence
- ❑ Enhance Customer Experience
- ❑ Optimize Execution and Performance
- ❑ Sustain Commitment to Agriculture

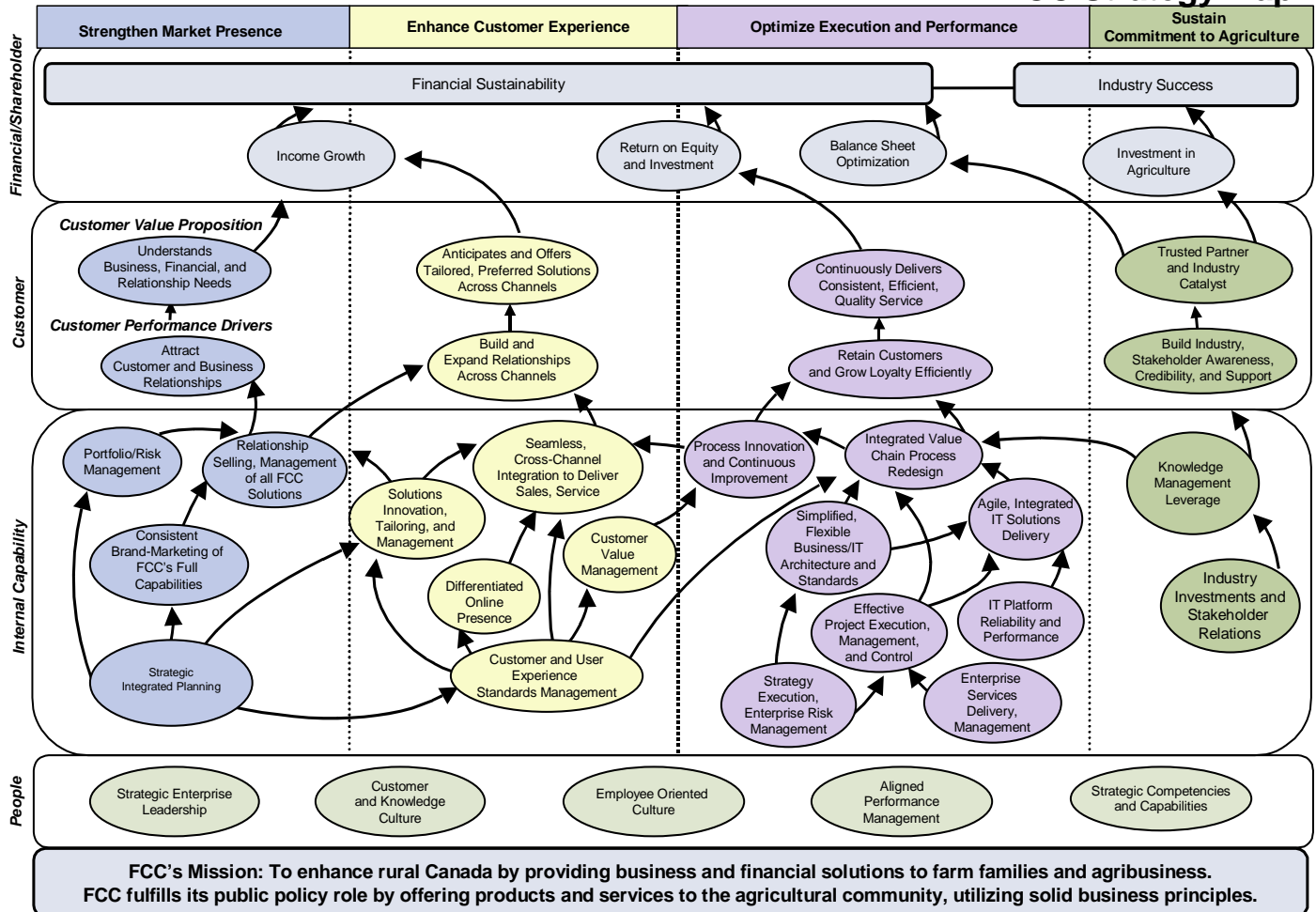
The four horizontal sections of the map constitute the balanced scorecard perspectives.

The circles on the map represent corporate strategic objectives that FCC will pursue over the next three years. The arrows between the objectives represent the flow of logic or cause-and-effect relationships. The balanced scorecard architecture assumes that financial outcomes can only be achieved if customers are satisfied. In order to satisfy customers, internal capabilities such as processes and systems must be in place. Finally, employees (the People perspective) are the foundation as those who deliver on the strategy. Ultimately, all the objectives are interconnected to deliver on FCC's desired outcomes for the strategy: Financial Sustainability and Industry success.

For further information on the associated measures, targets and initiatives associated with these corporate objectives please see the balanced scorecard on the pages following the strategy map.

**FCC's Vision: Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada**

## FCC Strategy Map



## Strengthen Market Presence

FCC will strengthen its presence in the agricultural financing marketplace, promoting the value FCC delivers with all customers, partners and all stakeholders and across all channels. This means continuing to build visibility to raise awareness of FCC's full offerings: relationships, expertise and products and services tailored to agriculture.

## Strengthen Market Presence

## FCC's Balanced Scorecard 2005-06

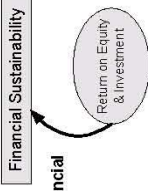
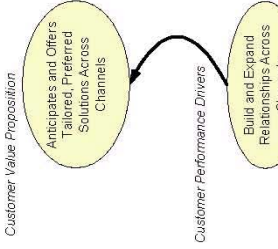
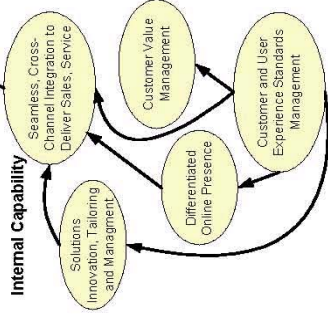
Measures		2005-06	2006-07	2007-08	2009-10	2005-06 Initiatives
<b>Financial Sustainability</b> 	Portfolio Growth	5.44%	7.22%	7.13%	8.04%	
	Non-Interest Revenue	\$11.9 million	\$12.9 million	\$14.0 million	\$16.3 million	
	Net Interest Income Margin	3.11%	3.09%	3.08%	3.12%	
	New Customer Acquisition- All Channels	Q1 - Farm Finance & AgExpert targets Q3 - Begin reporting against AgriSuccess targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Design business development strategies for each FCC business line Deliver a customer experience that results in vocal ambassadors Leverage relationships with centers of influence (accountants, lawyers, realtors and others) in order to attract new customers
<b>Internal Capability</b> 	Venture Capital Interest & Fee Income Amount Co-invested Capital Invested	- \$2.6M - Co-investment ratio of 1.3:1 - \$18.0M	- \$3.4M - Co-investment ratio of 1.3:1 - \$20.0M	- \$4.2M - Co-investment ratio of 1.3:1 - \$22.0M	- \$4.4M - Co-investment ratio of 1.3:1 - \$25.0M	Expand venture capital in line with funding from federal government in order to better serve the agriculture industry and attract additional co-investment
	Market Share at 20.70%	Set targets by business line	Measure performance against targets	Measure performance against targets	Measure performance against targets	Expand target market reporting ability by business line
	Time Spent with Customers and Prospects for Value-added Activities	Develop work plan and set targets for following fiscal years	Measure performance against targets	Measure performance against targets	Measure performance against targets	Redesign key processes to enable more time with customers Enhance portfolio risk management tools and processes to optimize portfolio composition and return Create integrated marketing communication strategy to raise visibility and create awareness of FCC's spectrum of offerings & commitment to agriculture

## Enhance Customer Experience

FCC will enhance the customer experience and customer perceptions of FCC. When customers choose FCC, we want them to feel they are choosing Canada's leader in the industry. Our focus will be on enabling FCC's ability to build and expand strong relationships with customers as a contributor to their success.

### Enhance Customer Experience

### FCC's Balanced Scorecard 2005-06

Measures		Targets				2005-06 Initiatives	
Return on Equity		2005-06	2006-07	2007-08	2009-10		
Financial Sustainability		11.49%	11.65%	11.34%	11.39%		
<b>Financial</b> 	Customer Experience Index	Q3 Establish baseline Q4 Set targets	Q1 Begin monitoring and reporting	Measure performance against targets	Measure performance against targets	Define components of customer experience and build index	
	Total Value Proposition	Q1 Set targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs Create products and services uniquely tailored to satisfying customer needs and exceeding their expectations	
	Channel Usage	<ul style="list-style-type: none"> <li>Establish baseline and set targets</li> <li>1.4 million</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> <li>1.55 million</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> <li>1.7 million</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> <li>2.0 million</li> </ul>	Execute on-line and CSC (call center) strategies to provide customers with enhanced service via their channel of choice	
	<ul style="list-style-type: none"> <li># of unique Website visitors per year</li> <li># of Web-site pages visited per year</li> <li># of Online registered borrowers</li> <li># of CSC Customer Contacts</li> <li>\$ Disbursed of CSC Direct Full Service Lending</li> </ul>	<ul style="list-style-type: none"> <li>10,000</li> <li>80,000</li> <li>\$155 million</li> </ul>	<ul style="list-style-type: none"> <li>12,600</li> <li>85,000</li> <li>\$175 million</li> </ul>	<ul style="list-style-type: none"> <li>15,200</li> <li>90,000</li> <li>\$200 million</li> </ul>	<ul style="list-style-type: none"> <li>20,000</li> <li>100,000</li> <li>\$250 million</li> </ul>		
<b>Customer</b> 	Customer Value Management	Establish approach	Benchmark	TBD	TBD	Investigate approach to measuring customer value	
	Customer Channel Awareness, Preferences and Permissions	Establish approach	Benchmark	TBD	TBD	Solutions Sales Origination initiative - Create integrated and streamlined processes for offering the full spectrum of products and services to enhance the customer experience across channels (Farm Finance, Agribusiness, Alliance and Dealer loans as well as "solution sales", such as insurance, AgExpert, AgriSuccess training, etc.). These processes will be deployed to employees through a "single user interface" to make it easy for them to serve customers, which will create the capacity and ease of execution necessary to handle sales growth.	
						Enhance the integration of lending policy across business lines.	
<b>Internal Capability</b> 	Solutions Innovation, Tailoring and Management						
	Seamless, Cross-Channel Integration to Deliver Sales Service						
	Customer Value Management						

## Optimize Execution and Performance

FCC's organizational capabilities will strengthen the ability to deliver a unique, best-in-class customer experience. The integration of FCC's processes, technology and resources will be optimized to deliver efficient, cost-effective and quality solutions to the benefit of customers and the agriculture industry.

## FCC's Balanced Scorecard 2005-06

Measures		Targets				2005-06 Initiatives	
		2005-06	2006-07	2007-08	2009-10		
Financial	Efficiency Ratio	Between 40% and 45%	Between 40% and 45%	Between 40% and 45%	Between 40% and 45%	Re-evaluate arrears targets in relation to the changing portfolio	
	Debt to Equity	Under 10:1	Under 10:1	Under 10:1	Under 10:1		
	% of PND with Arrears	6%	6%	6%	6%		
	SCRM	Managed range: between 55 and 70	Managed range: between 55 and 70	Managed range: between 55 and 70	Managed range: between 55 and 70	Revise Environmental Policy and Process to meet new legislative requirements	
Customer	Balance Sheet Optimization					Revamp Forms Management	
	Continuously Delivers Consistent, Efficient, Quality Service					Create Enterprise Records Management strategy and implement document imaging solution	
	Retain Customers and Grow Loyalty Efficiently					Research & evaluate user identity management to increase efficiency & safeguard customers	
	Internal Capability					Enterprise Integration	
Internal Capability	Process Innovation and Continuous Improvement					Create corporate content management strategy and content management framework to standardize FCC's enterprise-wide approach to content development, deployment and governance	
	Integrated Value Chain Process Redesign	EVC Baseline and Business Case	Sub-Process Business Case: Tracking Benefits	Sub-Process Business Case: Tracking Benefits	Sub-Process Business Case: Tracking Benefits	Internal Control Framework - implement framework to maintain and enhance controls through process and system design	
	Agile, Integrated IT Solutions Delivery	67%	89%	95%	100%	Redesign Loan Maintenance process	
	Effective Project Execution, Management and Control	Q3 Establish baseline and preliminary targets mid-year	Measure performance against targets	Measure performance against targets	Measure performance against targets	Information Technology	
IT Platform Reliability and Performance	Simplified, Flexible Business/IT Architecture and Standards					Upgrade FCC Network	
	Strategy Execution, Enterprise Risk Management					Determine loan management system replacement	
	Enterprise Services Delivery, Management					Enterprise and Back Office Application Architecture Integration	
	Enterprise Risk Management					Enhance Business Platforms	
Enterprise Risk Management	Enterprise Risk Management					Enterprise Risk Management	
	Enterprise Risk Management					Carry out enterprise risk management process and incorporate into strategic plan process and risk mitigation activities	
	Enterprise Risk Management					Increase focus on business strategy execution with enhanced metrics and cascaded objectives	
	Enterprise Risk Management					Complete installation of capacity planning	

## Sustain Commitment to Agriculture

FCC is committed to helping the agricultural industry succeed as well as contributing to the enhancement of the rural communities where our customer and employees live and work. Strengthening and leveraging FCC's knowledge base and building awareness of agriculture will demonstrate support for the industry and customers.

### Sustain Commitment to Agriculture

#### FCC's Balanced Scorecard 2005-06






Measures		Targets				2005-06 Initiatives	
		2005-06	2006-07	2007-08	2009-10		
<b>Financial</b> Industry Success Investment in Agriculture	Corporate Social Responsibility Scorecard	Q1 Set targets Q2 Begin reporting against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Increase awareness of the value of agriculture in: <ul style="list-style-type: none"> <li>Journalism students (Ag 101 on Highway 1)</li> <li>School-age children (Agriculture in the Classroom)</li> </ul> Explore additional initiatives to increase awareness of agriculture industry	Promote agriculture and help FCC customers sell their products with FCC initiative CanadianFarmersMarket.com
	Corporate Reputation Index	Not applicable	Update Corporate Reputation Index measure	TBD	TBD	Grow producer knowledge of farm/agribusiness management practices via: <ul style="list-style-type: none"> <li>AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management</li> <li>Advanced Farm Manager: comprehensive business management training for today's farm owners/managers</li> <li>Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues</li> <li>Explore needs of young farmers</li> </ul> Continue community investment with an emphasis on farm safety and food issues (World Food Day, First Aid on the Farm, etc.)	Enhanced support for rural communities with AgriSpirit capital giving program
	Media Favourability Index	Score of 63	Score of 64	Score of 65	Score of 65	Develop Corporate Social Responsibility Scorecard to measure FCC's corporate citizenship	Continue to increase quality and quantity of media coverage regarding FCC
<b>Internal Capability</b> Knowledge Management Leverage Industry Investments and Stakeholder Relations						Target urban publications to educate Canadians regarding agriculture	Invite customers to participate in select Knowledge Management Community of Practice events
						Leverage Community of Practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC web site	Conduct program to inform elected officials of FCC's role and offerings

### People: The Foundation of FCC's Strategy

FCC's commitment to agriculture is founded on the commitment of 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 knowledgeable, motivated and innovative.

FCC believes in fostering leadership at all levels within a culture of respect and accountability. Areas of focus include leadership governance, creating a culture that is customer-focused, knowledge and employee oriented, aligning performance management and creating strategic competencies and capabilities.

### FCC's Balanced Scorecard 2005-06

	Targets					2005-06 Initiatives
	Measures	2005-06	2006-07	2007-08	2009-10	
    	Engagement Score	Minimum Threshold 80%	Minimum Threshold 80%	Minimum Threshold 80%	Minimum Threshold 80%	Continue implementation of Cultural Transformation Strategy, including coaching employees regarding the cultural practices  Deliver leadership training to new managers and supervisors  Help develop future leaders via Leadership Development Program
	Engagement Driver Management	Q1 Establish targets once drivers are confirmed	Measure performance against targets	Measure performance against targets	Measure performance against targets	Identify key drivers and create action plan to continuously improve employee engagement
	Employee Experience	Q1 Set targets Q2 Begin monitoring and reporting against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Define the FCC employee experience and attendant development requirements  Provide education and tools to enhance employee ability to serve as brand ambassadors
	Strategic Competency Development	Q3 Set targets Q4 Begin monitoring and reporting against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Create opportunities for future employees with Account Manager and Coop Student Work Experience Program  Explore required strategic competencies to meet FCC's future needs
						Conduct review of FCC's Employee Classification system, Competency & Performance Management  Deliver Field Development Program

## Operating Budget Summary

The Operating Budget provides details of FCC's forecasted revenues and expenses for the fiscal year ended March 31, 2006.

### Key Financial Targets for 2005-06

(\$Millions - except where noted by \*)

Net interest income	360.8
Net interest income margin *	3.11%
New lending margin *	2.53%
Income before Administration Expense	291.7
Administrative expenses	159.0
Efficiency ratio *	43.0%
Net income	132.7

# Operating and Capital Budgets - Schedule 1

## Farm Credit Canada Balance Sheet - 2005-06 Corporate Plan (Millions of dollars)

	2003-04 Actuals	2004-05 Forecast	2005-06 Plan
<b>Assets</b>			
Cash and cash equivalents	\$ 149.4	275.0	300.0
Temporary investments	328.8	275.0	300.0
Accounts receivable	38.0	22.0	22.0
	<u>516.2</u>	<u>572.0</u>	<u>622.0</u>
Loans receivable	10,049.4	10,994.5	11,617.0
Allowance for credit losses	405.3	470.7	511.1
Loans receivable (net)	<u>9,644.1</u>	<u>10,523.8</u>	<u>11,105.9</u>
Venture capital investments	13.7	29.8	45.2
Real estate acquired in settlement of loans	3.7	1.0	1.0
Equipment and leasehold improvements	29.8	33.0	35.0
Other Assets	6.7	5.0	5.0
	<u>53.9</u>	<u>68.8</u>	<u>86.2</u>
<b>Total Assets</b>	<u>\$ 10,214.2</u>	<u>11,164.6</u>	<u>11,814.1</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 31.5	27.0	29.0
Accrued interest on borrowings	69.1	92.3	99.0
	<u>100.6</u>	<u>119.3</u>	<u>128.0</u>
Borrowings			
Short-term debt	2,075.5	3,928.0	4,314.0
Long-term debt	7,064.5	6,005.0	6,108.6
	<u>9,140.0</u>	<u>9,933.0</u>	<u>10,422.6</u>
Other Liabilities and deferred fees	25.8	25.0	40.0
	<u>9,266.4</u>	<u>10,077.3</u>	<u>10,590.6</u>
Capital	507.7	532.7	547.7
Retained Earnings	440.1	554.6	675.8
	<u>947.8</u>	<u>1,087.3</u>	<u>1,223.5</u>
<b>Total Liabilities and Shareholder's Equity</b>	<u>\$ 10,214.2</u>	<u>11,164.6</u>	<u>11,814.1</u>

## Operating and Capital Budgets - Schedule 2

### Farm Credit Canada

#### Statement of Operations and Retained Earnings - 2005-06 Corporate Plan (Millions of dollars)

	2003-04 Actuals	2004-05 Forecast	2005-06 Plan
<b>Interest Income</b>			
Loans receivable	\$ 603.7	616.6	711.5
Investment income	13.6	13.4	21.4
	617.3	630.0	732.9
<b>Interest Expense</b>			
Short-term debt	49.0	71.2	146.6
Long-term debt	258.7	213.5	225.5
	307.7	284.7	372.1
<b>Net interest income</b>	309.6	345.3	360.8
Provision for credit loss	84.0	97.4	78.2
<b>NII after provision for credit loss</b>	225.6	247.9	282.6
<b>Other Fees and Income</b>	11.4	12.2	9.1
<b>Income before Administration Expenses</b>	237.0	260.1	291.7
Administrative expenses	131.9	145.6	159.0
<b>Net Income</b>	105.1	114.5	132.7
Retained earnings, beginning	335.0	440.1	554.6
Dividends, Corporate	0.0	0.0	(11.5)
<b>Retained earnings, ending</b>	\$ 440.1	554.6	675.8

## Operating and Capital Budgets - Schedule 3

Farm Credit Canada  
Statement of Cash Flows - 2005-06 Corporate Plan  
(Millions of dollars)

	2003-04 Actuals	2004-05 Forecast	2005-06 Plan
<b>Operating Activities</b>			
<b>Net Income</b>	\$ 105.1	114.5	132.7
Items not involving cash and cash equivalents:			
Provision for credit losses	84.0	97.4	78.2
Amortization of bond premiums/discounts	29.2	0.0	0.0
Change in accrued interest receivable	(2.0)	(6.9)	(6.8)
Change in accrued interest payable	(5.2)	23.2	6.7
Other	47.7	(19.7)	(18.2)
<b>Cash provided by operating activities</b>	\$ 258.8	208.5	192.6
<b>Investing Activities</b>			
Loans receivable disbursed	(3,188.1)	(3,350.0)	(3,195.0)
Loans receivable repaid	1,932.5	2,420.2	2,606.5
Change in temporary investments	(72.0)	53.8	(25.0)
Venture capital investments disbursed	(11.7)	(16.0)	(18.0)
Venture capital investments repaid	0.0	0.0	0.1
Change in real estate held	0.2	2.7	0.0
Other	(21.2)	(11.6)	(29.3)
<b>Cash used in investing activities</b>	\$ (1,360.3)	(900.9)	(660.7)
<b>Financing Activities</b>			
Long-term debt from capital markets	1,452.2	2,739.4	3,887.3
Long-term debt repaid to capital markets	(911.4)	(3,798.9)	(3,783.7)
Change in short-term debt	563.4	1,852.5	386.0
Capital contribution	0.0	25.0	15.0
Dividends paid	0.0	0.0	(11.5)
<b>Cash provided by financing activities</b>	\$ 1,104.2	818.0	493.1
Increase/(Decrease) in cash and cash equivalents	2.7	125.6	25.0
Cash and cash equivalents, beginning of year	146.7	149.4	275.0
<b>Cash and cash equivalents, end of year</b>	\$ 149.4	275.0	300.0

## Discussion of Expected Results – 2004-05 Forecast Versus 2005-06 Financial Plan

### Balance Sheet

**Loans receivable** are projected to grow by 5.7 per cent, increasing from \$11.0 billion forecast for 2004-05 to \$11.6 billion in 2005-06. The increase in loans receivable reflects continued lending to farm finance, agribusiness and via alliance arrangements.

**Disbursements (net of FCC refinancings)** are the primary drivers of portfolio growth and are expected to decrease slightly by \$0.2 billion from the forecast record level of \$2.9 billion in 2004-05 to \$2.7 billion in 2005-06. Farm finance lending is expected to decrease by \$0.2 billion. Agribusiness and alliance lending is expected to remain constant at \$0.5 billion respectively. Lending to primary producers represents 82 per cent of total net disbursements in 2005-06.

**Renewals** are expected to be 96 per cent, which is consistent with prior years.

**Prepayments** are expected to be 7.6 per cent of loans receivable in 2004-05 and 7.5 per cent of loans receivable in 2005-06. This equates to \$753.8 million in 2004-05 and increases to \$812.0 million in 2005-06.

**Impaired loans** are expected to be 2.15 per cent of loans receivable or \$249.8 million in 2005-06, an increase of \$10.7 million over the forecast for 2004-05 of \$239.1 million. This increase is due primarily to the larger portfolio in 2005-06 versus 2004-05.

The **allowance for credit losses** 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 \$470.7 million in 2004-05 to \$511.1 million at the end of 2005-06. The allowance as a percentage of opening loans receivable is projected to decrease slightly from 4.68 per cent in 2004-05 to 4.65 per cent in 2005-06.

**Venture Capital investments** are expected to increase from the 2004-05 forecasted amount of \$29.8 million to \$45.2 million in 2005-06. This increase reflects growth in venture capital as a business line and continued investment in agriculture-related ventures.

**Borrowings** are expected to increase from \$10.0 billion forecast for the 2004-05 to \$10.5 billion in 2005-06. 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 \$345.3 million forecast for 2004-05 to \$360.8 million for 2005-06. This increase is primarily driven by the increase in the loan portfolio.

**Net interest income margin** is the net interest income expressed as a percentage of average total assets. The net interest income margin is projected to decrease from 3.18 per cent forecast in 2004-05 to 3.11 per cent in 2005-06. The higher margin in 2004-05 is mainly due to higher lending margins and lower than planned hedging expenses for the year.

**The provision for credit loss** is the charge to the income statement of the amount necessary to bring the allowance for credit losses to a level determined appropriate by management. The provision for credit losses of \$78.2 million in 2005-06 is a decrease from the forecast of \$97.4 million for 2004-05. The decrease in the required provision is due to slower portfolio growth in the 2004-05 forecast and in 2005-06. In addition, the allowance for credit losses as a percentage of opening loans receivable decreases from 4.68 per cent in 2004-05 to 4.65 per cent in 2005-06 decreasing the required provision as a result.

**Other income** for 2005-06 is planned to decrease to \$9.1 million from \$12.2 million forecasted for 2004-05. This decrease reflects write-offs in venture capital partly offset by increased fees associated with higher disbursement levels and increased business volume in AgExpert.

**Administration expenses** for 2005-06 are planned to increase to \$159.0 million from the 2004-05 forecast level of \$145.6 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 staff levels expressed as full-time equivalents (FTEs) are expected to increase to 1,177 FTEs in 2005-06 from the forecasted 1,082 FTEs in 2004-05 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. As a result of the increase in administration expense, the efficiency ratio is expected to increase slightly, moving from 40.7 per cent forecast for 2004-05 to 43.0 per cent in 2005-06.

**Net Income** is projected to increase from the 2004-05 forecast of \$114.5 million to \$132.7 million in 2005-06. This results from the aforementioned increases in net interest income as well as the decrease in provision for credit losses, partly offset by a corresponding increase in administration expense.

## Financial Ratios

***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 2005-06, an increase from 1.07 per cent forecasted in 2004-05.

***Return on equity*** is net income expressed as a percentage of average equity. It measures the return earned on equity, which represents the investment the Government of Canada has made in the corporation. Return on equity is projected to increase from 11.3 per cent forecast for 2004-05 to 11.5 per cent in 2005-06.

***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 9.3:1 for 2004-05 and improves to 8.7:1 for 2005-06. 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*.

## Statement of Cash Flow

### Cash Provided by Operating Activities

After adjusting net income for non-cash items, FCC expects to realize \$192.6 million from operating activities in 2005-06. While net income is projected to increase due to a larger portfolio, cash provided by operating activities is forecasted to decrease by \$15.9 million from forecast 2004-05 to 2005-06. The decrease is primarily the result from differences in non-cash items, primarily a \$19.2 million decrease in provision and other small changes in accrued interest receivable and payables.

### Cash Provided by (Used in) Investing Activities

#### ***Loans Receivable Disbursed – (\$3,195.0) million***

Loans receivable disbursed to customers are expected to total \$3,195.0 million in 2005-06.

#### ***Loans Receivable Repaid - \$2,606.5 million***

A total of \$2,606.5 million in principal repayments from borrowers is anticipated.

#### ***Change in Temporary Investments - \$25.0 million***

FCC anticipates temporary investments of \$300.0 million in 2005-06. This is an increase of \$25.0 million from forecasted temporary investments of \$275.0 million in 2004-05.

#### ***Venture Capital Disbursed (\$18.0) million***

FCC expects to disburse \$18 million for venture capital investments in 2005-06, up from \$16 million in 2004-05.

### Cash Provided By (Used in) Financing Activities

#### ***Long-Term Debt From Capital Markets - \$3,887.3 million***

FCC anticipates long-term funding of \$3,887.3 million in 2005-06. This is up \$1,147.9 million from the \$2,739.4 million forecasted for long-term funding in 2004-05. Forecasted funding for 2004-05 includes existing structured notes that have long final maturities, but include a call option for short-term repayment. These notes are classified as long-term debt for accounting purposes.

#### ***Long-Term Debt Repaid to Capital Markets – (\$3,783.7) million***

Principal payments to the capital markets are expected to be \$3,783.7 million.

#### ***Short-Term Debt - \$386.0 million***

FCC anticipates short-term debt of \$4,314.0 million in 2005-06. This is an increase of \$386.0 million from forecasted short-term debt of \$3,928.0 million in 2004-05 and reflects expected refinancing of long-term structured notes.

#### ***Dividend Paid to Government of Canada – (\$11.5) million***

A dividend of \$11.5 million is projected to be paid to the Government of Canada in 2005-06, at the discretion of the Board of Directors.

## Capital Budget Summary

Capital spending is planned at \$11.0 million in 2005-06, including \$2.6 million for computer system-related projects. The development plans for information technology include normal hardware and software purchases, and improvements to the corporation's business systems. In addition, \$4.8 million will be spent to enhance FCC's enterprise integration architecture. This project will integrate new business processes and enhance existing business practices. The remainder of capital spending relates to regular furniture, fixture and equipment replacements as well as additional purchases of these items and related leasehold improvements, resulting from the forecasted increase in staff levels.

## 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 or 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 \$5.0 billion;

### Long-Term

- b) to borrow up to \$2.5 billion of long-term funds from the capital markets to fund loans under the Farm Credit Canada Act (FCCA) and to repay maturing debt;
- c) in addition to (b), to borrow up to \$1.5 billion of long-term funds from the capital markets as a contingency request relating to 10 per cent (\$1,110 million) of expected year-end 2005-06 loans receivable outstanding to meet general contingencies and approximately \$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:
  - ❑ Domestic Medium and Long-Term Note Program;
  - ❑ Euro Medium Term Note Program;
  - ❑ Japanese Retail Debt Program;
  - ❑ Any other Canadian or international private or public markets.

The aggregate amount of borrowings issued under the aforementioned standing long-term approvals should not exceed \$4.0 billion in 2005-06.

## FCC Office Locations

### **British Columbia**

Abbotsford, Dawson Creek, Duncan,  
Kelowna

### **Alberta**

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

### **Saskatchewan**

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

### **Manitoba**

Arborg, Brandon, Carman, Dauphin,  
Killarney, Melita, Morden, Morris,  
Neepawa, Portage la Prairie, Shoal Lake,  
Steinbach, Stonewall, Swan River, Virden

### **Ontario**

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

### **Quebec**

Alma, Drummondville, Gatineau, Granby,  
Joliette, Rivière-du-loup, Saint-Hyacinthe,  
Saint-Jean-sur-Richelieu, Saint-Jérôme,  
Sainte-Foy, Sherbrooke, Trois-Rivières,  
Valleyfield, Victoriaville

### **New Brunswick**

Grand Falls, Moncton, St. George, Sussex,  
Woodstock

### **Newfoundland and Labrador**

St. John's

### **Nova Scotia**

Kentville, Truro

### **Prince Edward Island**

Charlottetown, Summerside

### **Government and Industry Relations**

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### **Customer toll-free number:**

1-888-332-3301

## References

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