



## CORPORATE PLAN SUMMARY

For the 2007-08 to 2011-12 planning period

## OPERATING BUDGET SUMMARY, CAPITAL BUDGET SUMMARY and BORROWING PLAN SUMMARY

For the 2007-08 budget year



## Table of Contents

Executive Summary .....	4
Corporate Overview .....	5
Mandate .....	5
Governance structure .....	7
Public policy role .....	12
Future Direction .....	17
Strategic planning process .....	17
Analysis of external operating environment .....	18
Vision, mission, values, cultural practices and value proposition .....	29
Current State .....	32
Assessment of corporate strengths, weaknesses, opportunities and threats .....	32
Enterprise risk management .....	34
Products and solutions .....	35
Business Strategy .....	41
Strategy map .....	42
Business strategy highlights .....	44
2007-08 Balanced scorecard .....	47
Performance Against Past Objectives .....	54
Assessment of results – 2006-07 Balanced scorecard .....	54
Corporate social responsibility scorecard .....	57
Operating Budget Summary .....	59
Operating budget schedules .....	60
Discussion of Expected Results – 2006-07 Forecast Versus 2007-08 Financial Plan .....	65
Capital Budget Summary .....	69
Borrowing Plan Summary .....	71
Reference Information .....	72
Glossary of terms .....	72
FCC office locations .....	74
References .....	75

## Executive Summary

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation that provides primary producers as well as suppliers and processors along the agricultural value chain with a variety of customized loans and business services.

At FCC, we believe that one of the key success factors for an agricultural business is the ability to plan proactively for the future. FCC is implementing a number of strategies to help customers succeed in a sophisticated and increasingly complex industry.

The corporation's strategic themes or priorities for 2007-08 to 2011-12 are as follows:

- financial success and commitment to agriculture
- enhance the customer experience
- optimize execution and performance
- enhance the employee experience

This corporate plan outlines Farm Credit Canada's corporate objectives and plan for providing products, services and knowledge tailored to the unique needs of the agriculture industry.

## Corporate Overview

Farm Credit Canada helps primary producers and others involved in agriculture to grow, diversify and prosper. 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 customers customized debt and equity financing, creditor insurance, management software, information and learning.

FCC is a financially self-sustaining federal Crown corporation that reports to Parliament through the Minister of Agriculture and Agri-Food. We lend to all sectors of agriculture, serving primary producers, value added operations and businesses that provide inputs to the industry. Our 1,274 employees serve over 43,000 primary producers, suppliers and processors along the agricultural value chain. In addition, we serve 9,000 alliance customers and provide training and publications to 50,000 participants and subscribers.

Funds are raised through domestic and international capital market borrowing programs. Profits are reinvested in the corporation for the purpose of developing products and services to benefit agriculture. Farm Credit Canada's healthy portfolio grew to \$12.3 billion in 2005-06, its thirteenth consecutive year of portfolio growth. The total loans receivable was \$13.2 billion as at September 30, 2006. FCC operates on a fiscal year ending March 31.

### 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.

The organization 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. The Act provided FCC with an expanded mandate that included broader lending and administrative powers. It also combined the corporation's powers to provide financial services to farming operations (including individuals, farming corporations and farm syndicates) under the authority of one Act.

On June 14, 2001, the Farm Credit Canada Act received royal assent, updating the previous Act. The new Act continued the corporation as Farm Credit Canada and allows the offering of a broader range of services to producers and agribusiness operators. According to the Act, Farm Credit Canada's mandate is:

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

From time to time, the corporation delivers specific programs for the Government of Canada on a cost-recovery basis (the Ruminant Slaughter Equity Assistance Program and Canadian Farm Families Options Program, for example).

## **Official languages**

FCC views official languages as more than an obligation. The corporation is committed to creating a climate of bilingualism for 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 official languages training program and high quality translation services allow FCC to simultaneously serve customers and employees in Canada's two official languages.

In 2003, FCC President and 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 deputy minister or CEO of a Crown corporation who has demonstrated leadership in the implementation of the Official Languages program within their organization.

## Governance structure

### Board of Directors

Our 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, co-operation and sound environmental stewardship.

The Board of Directors is appointed by the corporation's shareholder, the Government of Canada. The Governor-in-Council appoints the Chair and 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 and employment equity and geographical representation. Directors serve two- or three-year terms and may be reappointed.

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

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. A new written charter and a related set of Board governance guidelines were adopted in October 2004. These documents articulate the Board's responsibility in six major areas: integrity (legal and ethical conduct), strategic planning, financial reporting and public disclosure, risk management and internal controls, leadership development and succession planning, and corporate governance – including director orientation, continuing education and evaluation.

In 2007, the Board of Directors will recommend the appointment of a new President and CEO to replace John Ryan, whose term expires in November 2007. In addition, it is expected that there will be significant Board member turnover as the Government of Canada determines appropriate appointments for Directors whose terms have expired.

## Members of the Board of Directors

### **Gill O. Shaw, Chair**

Retired CEO of Manitoba Agricultural Credit Corporation (2002)  
Brandon, Manitoba  
Chair, Board of Directors  
Appointed Chair November 2, 2006

### **John J. Ryan**

President and Chief Executive Officer  
Farm Credit Canada  
Regina, Saskatchewan  
First appointed September 1, 1997  
Reappointed November 23, 2005

### **Jack C. Christie**

General Manager and CEO  
Northumberland Dairy Co-operative Ltd.  
Miramichi, New Brunswick  
Appointed November 27, 2003  
Reappointed October 20, 2005

### **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

### **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  
Reappointed August 29, 2005  
Chair, Corporate Governance Committee

### **R. Claude Ménard**

Retired CEO of Agropur (2003)  
Granby, Quebec  
Appointed March 11, 2005

### **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

### **Réal Tétrault**

President and Owner/operator  
Emerson Milling Inc.  
Emerson, Manitoba  
Appointed June 23, 2005

### **Deborah S. Whale**

Vice-President and Co-owner/operator  
Clovermead Farms Inc.  
Alma, Ontario  
Appointed November 4, 2003  
Chair, Nominating Committee

### **Sharon E. White**

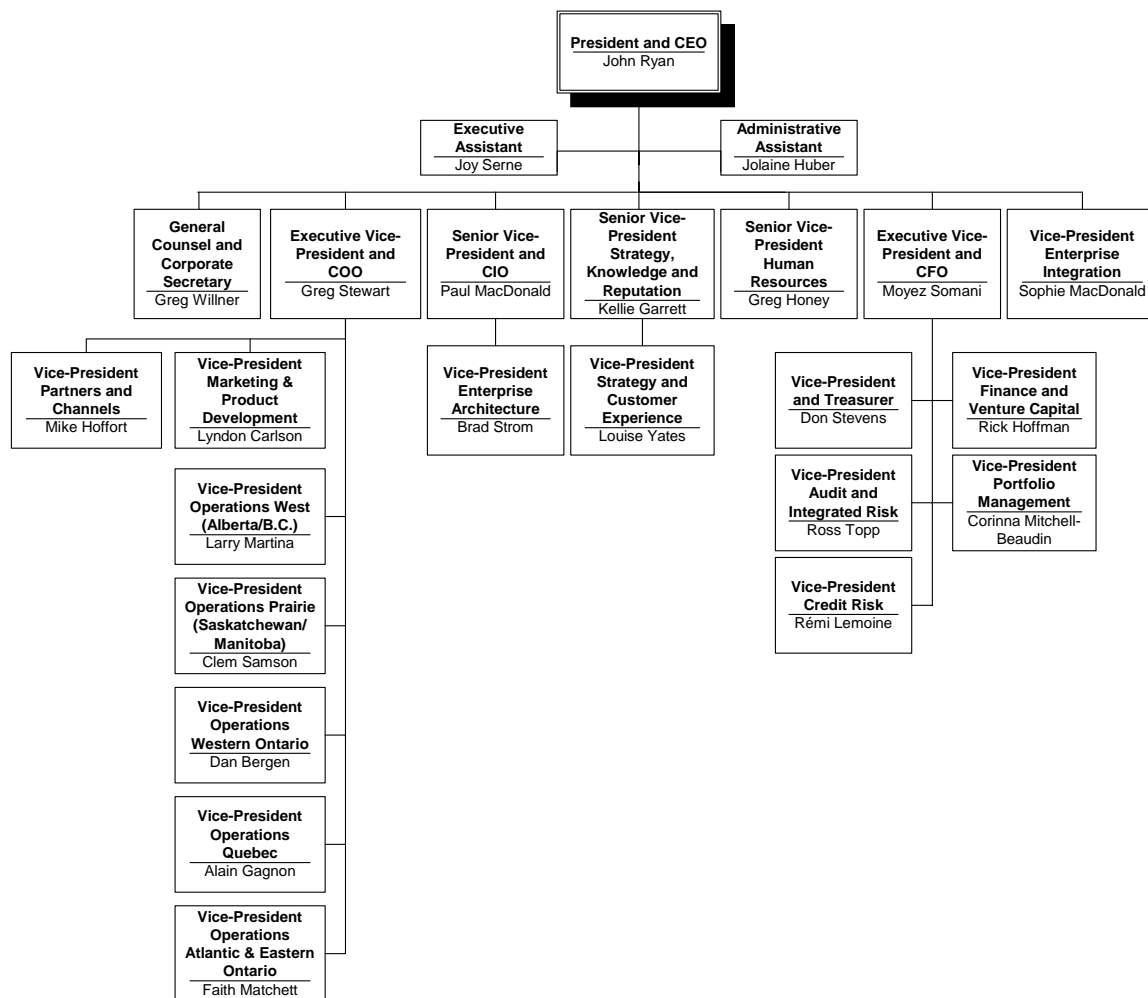
Lawyer – Partner  
Richards Buell Sutton LLP  
Vancouver, British Columbia  
Appointed December 14, 2006



## Executive

The President is the Chief Executive Officer (CEO) and is accountable for the business of the corporation. With the approval of the Board of Directors and Chief Executive Officer, the Senior Management Team sets corporate priorities and acts to achieve the strategic objectives consistent with the mandate and approved strategic direction. The Financial Administration Act serves to guide decision-making and business activities. Bound by the Code of Conduct and Ethics, the 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 compensation.

### Organizational Structure – Executive Level



**Executive Committee (EC)** consists of the President and CEO; Executive Vice-President and CFO; Executive Vice-President and COO; Senior Vice-President Human Resources; Senior Vice-President and CIO; and Senior Vice-President Strategy, Knowledge and Reputation. Executive Committee is responsible for corporate decision-making, including

the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

In September 2005, our Senior Management Team received the Saskatchewan Lieutenant-Governor's Institute of Public Administration (IPAC) Gold Medal award for "distinctive leadership and exceptional achievement in public administration in Saskatchewan." This award is sponsored by the Regina chapter of IPAC Canada and is based on the following criteria: service in public administration, relative importance of contributions in their own fields and work history and accomplishments of the nominees. The Senior Management Team is committed to building a high-performance organization and an environment in which employees can excel while exceeding customer expectations.

### Governance framework

In addition to the Board of Directors, Executive Committee and the Senior Management Team, FCC established a governance framework to guide corporate decision-making.



**Strategy Execution Team (SET):** is responsible for enabling the execution of the business strategy. SET approves, prioritizes and sequences corporate projects to ensure alignment with FCC strategy and optimum use of financial and human resources.

**Venture Capital Investment Committee:** is responsible for adjudicating all investment recommendations and reviewing the performance of the existing venture capital portfolio.

**Pension Committee:** is responsible for providing advice to the Human Resources Committee of the Board of Directors regarding monitoring the approved governance structure of support for the pension plan and reporting annually on the overall functioning of the plan, recommending changes to plan governance, developing and reviewing the plan's Statement of Investment Policies and Goals and monitoring and reviewing the performance and activities of the plan's investment managers. This committee comprises two Board members, four Senior Management members, five employees elected by their peers, and one external adviser.

**Integrated Marketing Communication Team:** is responsible for establishing an integrated brand marketing and communication strategy and implementation plan. This ensures all media relations, public relations, advertising and promotion and other visibility initiatives are integrated and co-ordinated.

**Lending Policy and Models Committee:** oversees the development of lending policies and the enhancement of credit risk models and scorecards to support and maintain our desired credit culture. The committee works to ensure the portfolio risk tools reflect Farm Credit Canada's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

**Credit Committee:** reviews and makes lending decisions on loan applications from customers with total exposure in excess of \$10 million for established operations and in excess of \$5 million for start-up operations.

**Asset/Liability Committee (ALCO):** directs and oversees the asset/liability management function of the corporation including the establishment and maintenance of prudent risk management policies and procedures and ensuring sufficient integration with corporate strategic and financial planning.

**Enterprise Architecture Committee:** governs the conceptualization, design and co-ordination of our information technology enterprise architecture. The committee is responsible for enterprise architecture development, platforms and compliance with IT standards.

## Public policy role

Farm Credit Canada fulfills its public policy role by offering loans, creditor insurance, management software, information and learning to the agricultural community. This commitment extends to customers throughout rural Canada with services provided in both official languages. FCC was founded to provide lending services to primary producers. Our depth of support now extends to financing the entire agriculture and agri-food value chain, from financing businesses that provide inputs to farm operations to providing financial services to businesses that process outputs from primary production. One of the corporation's foundational business principles is to assume an appropriate level of risk.

Farm Credit Canada is one of six organizations reporting to Parliament through the Minister of Agriculture and Agri-Food. FCC has co-operated with Agriculture and Agri-Food Canada (AAFC) in delivering a number of programs that have contributed to the goals of the Agriculture and Agri-Food portfolio. FCC was the first lender to participate in the Ruminant Slaughter Loan Loss Reserve Program and made loan commitments to two slaughter facilities under that program. FCC also administers the Ruminant Slaughter Equity Assistance Program and is assisting AAFC in providing farm business assessments to FCC customers who are in the Canadian Farm Families Options Program.

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

The following sections describe how FCC fulfills its public policy role through a strong commitment to rural communities, customers and the environment.

### Statement on accountabilities

The federal government is committed to helping Canadian farmers overcome the immediate pressures they face while putting the sector on a stronger, more competitive footing that is sustainable over the long term. The current agriculture environment presents challenges and opportunities. Solutions need to be market-driven and foster agile adaptation to a rapidly changing global marketplace throughout the value chain.

As the representative of the sole shareholder of Farm Credit Canada, the Honourable Chuck Strahl, Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, expects the corporation's strategies to provide the following:

- Continued attention to maintaining FCC as a self-sustaining Crown corporation to support agriculture through the cycles and unforeseeable events that negatively impact particular sectors and maintaining a strong financial position allows FCC to continue to provide financing to agriculture for the long term. FCC must be in a position to grow and support the ever-changing financial and business services needs of its customers. Loan products need to keep pace with those offered by other financial institutions and be available to all producers in all sectors of agriculture, across all of Canada.

- Continued support for new and young farmers entering agriculture as well as for those producers seeking opportunities in new markets, through unique loan products tailored to their needs. In addition, working with stakeholders, FCC will continue to provide business management training, information and tools to assist the intergenerational transfer of family farms and allow producers to capitalize on opportunities and make informed decisions concerning their operations.
- Continued collaboration with Agriculture and Agri-Food Canada (AAFC) in developing the next generation of agriculture and agri-food policy to be in place by 2008. FCC will continue to work with AAFC and other stakeholders to ensure the effective delivery of new programs such as the ruminant slaughter programs and the Canadian Farm Families Options Program.
- Leadership for agricultural science and innovation through sponsorship of the first venture capital fund devoted exclusively to funding younger commercialization and growth-stage companies in the industrial bio-products and food technology sectors and in nutraceutical ingredients companies. FCC sponsored the creation of a \$100-million industrial life sciences venture capital fund. FCC subscribed for the initial \$50 million in limited partnership units.

A high level of accountability and transparency toward the Canadian public is critical. To this end, the Federal Accountability Act aims to make everyone involved in the process accountable – from the Prime Minister to parliamentarians, from public sector employees to Canadians who receive government funding. The Board and management of FCC take this accountability very seriously, and work hard to ensure the corporation is well managed, that financial systems and decisions ensure the effective use of public funds and that the public and customers are served by a skilled and representative workforce.

## Enhancing rural Canada

### Community investment

Investment in communities is one way FCC lives its corporate value of “Giving Back to the Community.” As a member of the Canadian Centre for Philanthropy’s Imagine program, FCC gives a minimum of one per cent of profits back to the community and industry organizations.

FCC funds projects that focus on feeding the hungry, providing education regarding where food comes from and helping to improve rural safety. Projects include the FCC 4-H 4-Ever program, World Food Day and First Aid on the Farm. Through its field offices, FCC also donates money to help local community efforts focused on food and rural safety – giving employees the opportunity to decide what to support in their own communities.

FCC employees dedicate thousands of volunteer hours to charities across Canada. Through the Employee Volunteer program, employees who volunteer a minimum of 20 hours per year have the opportunity to 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 50 cent matching donation for every dollar they raise. FCC is a major supporter of the annual United Way campaign through which employee donations are matched dollar for dollar, with the opportunity for employees to specify where they would like to see their donations used.

### **Fostering pride in and awareness of agriculture**

FCC is proud to serve the Canadian agriculture industry. Our deep sense of commitment to agriculture and our customers inspires us to explore unique ways to showcase this industry. In 2004, a program was created to raise awareness of and foster pride in the agriculture industry. This program included the launch of [www.CanadianFarmersMarket.com](http://www.CanadianFarmersMarket.com) (a website that gives customers the opportunity to advertise and sell products online), Ag101 on Highway 1 (a project targeted to journalism and broadcasting students to increase their awareness and knowledge of agriculture) and contributions to Agriculture in the Classroom (a program to educate young people about agriculture).

In 2006, the Board of Directors approved an expanded awareness and reputation program. This program will ensure Canada's agriculture community is aware of the full array of FCC products and services available to meet the unique needs of the industry. A series of projects will be completed that focus on broadening awareness and enhancing the corporation's reputation with key stakeholders. The program is research-based and will include promotional campaigns directed to potential customers and others involved in the industry.

### **AgriSpirit Fund**

The AgriSpirit Fund annually awards \$500,000 towards capital projects for communities with populations under 100,000 across Canada. To qualify, projects must enhance the quality of life for people in rural communities. Successful projects receive between \$5,000 and \$25,000 for community improvements such as emergency services equipment, playgrounds, food banks, recreation centres and care homes. In 2005-06, 42 projects were selected from 283 applications. Further information about the AgriSpirit Fund can be found on the Farm Credit Canada website at [www.fcc-fac.ca](http://www.fcc-fac.ca).

### **Drive Away Hunger Tour**

Every year, FCC recognizes World Food Day on October 16 and works towards heightening awareness and motivating the public to address the struggle against hunger and malnutrition. This year, a team of FCC employees drove two 100-hp tractors and 16-foot wagons across Ontario in the third annual FCC Drive Away Hunger tour. A total of 350,845 pounds of food was collected. There were several other FCC activities planned in support of World Food Day, including the corporate office challenge in Regina and the efforts of individual offices across Canada.

### **Customers**

FCC is deeply committed to customer success. This commitment is exhibited by supporting customers with flexible products and solutions designed to help manage cyclical fluctuations, price pressure, weather-related issues, disease and other challenges. Through the Agriculture Crisis Fund and Customer Support Program, FCC provides proactive, reliable service that demonstrates our commitment to serving customers through prosperous and challenging times.

### **Agriculture Crisis Fund**

FCC helps customers in times of need. When our customers experience natural disasters such as fires, floods or tornadoes, FCC provides assistance. The Agriculture Crisis Fund is

another way FCC demonstrates its commitment to rural Canada. Support is based on the nature and magnitude of the disaster.

Support is provided for:

- immediate response care to individual producers in times of short-term crisis (fire, tornado, etc.)
- projects that provide direct support or funding to individual producers

Support may be provided for:

- events and projects organized to deal with a crisis or disaster that has widespread impact, affecting a large number of producers (drought, floods, etc.)

This past year, FCC provided support to 15 families across Canada.

### **Customer Support Program**

When challenges occur in the agriculture industry, FCC proactively contacts customers to develop a plan to help them manage through adversity. Individual situations are evaluated on a case-by-case basis and account managers work with customers to defer payments or create flexible repayment schedules under the Customer Support Program. For example, in recent years FCC worked with producers affected by drought, floods, avian influenza and bovine spongiform encephalopathy (BSE). FCC knows that producers in all sectors are vulnerable to unforeseen challenges. Providing this support reinforces FCC's commitment to customers and the Canadian agriculture industry.

### **Environment, health and safety**

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. As a federal Crown corporation, FCC is also committed to ensuring its lending activities do not contribute to misuse, contamination or deterioration of the environment. We are a responsible authority under the Canadian Environmental Assessment Act and our environmental policy provides a tool to assess the environmental risk component of lending. FCC is also looking at mechanisms for integrating environmental sustainability into all aspects of our operation.

We start every environmental assessment with a customer questionnaire. Our due diligence looks at the environmental risk posed by real property offered as lending security and the projects and activities supported by our loans. If required, FCC will perform site inspections and seek an environmental assessment report from a qualified environmental consultant. Training and information have been provided to our lending staff to facilitate environmentally sound lending decisions. In addition, appropriate lending terms encourage best management practices and compliance with applicable environmental regulations.

The FCC Enviro-Loan helps producers and agribusiness owners improve their operations using sound resource management techniques.

**Bio-security**

Potential outbreaks of transmissible diseases like anthrax, foot and mouth, salmonella and avian influenza can decimate our customers' flocks and herds and cost millions in lost revenue. FCC employees visit customer operations across Canada daily and we are committed to taking precautions against spreading harmful or deadly animal and plant disease. In 2006, Farm Credit Canada introduced a bio-security protocol for customer visits to ensure we take every precaution necessary to protect our customers.

We have drawn upon common best management practices encouraged by knowledgeable agricultural experts. Our bio-security protocol and supporting information is available in print and electronic form for all FCC employees. As of November 2006, all FCC account managers and appraisers were trained on our bio-security protocol and this protocol is part of every farm visit.



## Future Direction

### Strategic planning process

The strategic planning process engages the Board of Directors and Senior Management Team in the development of the corporation's business strategy. This process includes reviewing the operating environment, establishing the future direction and success measures, assessing the current state and developing strategies and initiatives to move FCC towards its vision. It is cascaded to the organization through divisional and business unit planning, and is incorporated into the annual team and employee performance objective-setting process.

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

The main components of the corporate plan include:

- **An analysis of the operating environment**  
To identify potential strategic issues that need to be addressed.
- **Vision, mission, values, cultural practices and value proposition**  
Outlining the corporation's desired future.
- **Strategic themes**  
Representing the key areas of focus for the next five years.
- **Strategic objectives**  
Representing the outcomes FCC is striving to achieve over the next five years.
- **Performance measures and targets**  
Demonstrating how FCC will determine successful attainment of the future direction, strategic themes and objectives. Targets represent the annual milestones towards achieving the full set of objectives over the five-year period.
- **Strategic initiatives**  
Projects and initiatives that contribute to the attainment of the corporate targets, objectives and themes.

## Analysis of external operating environment

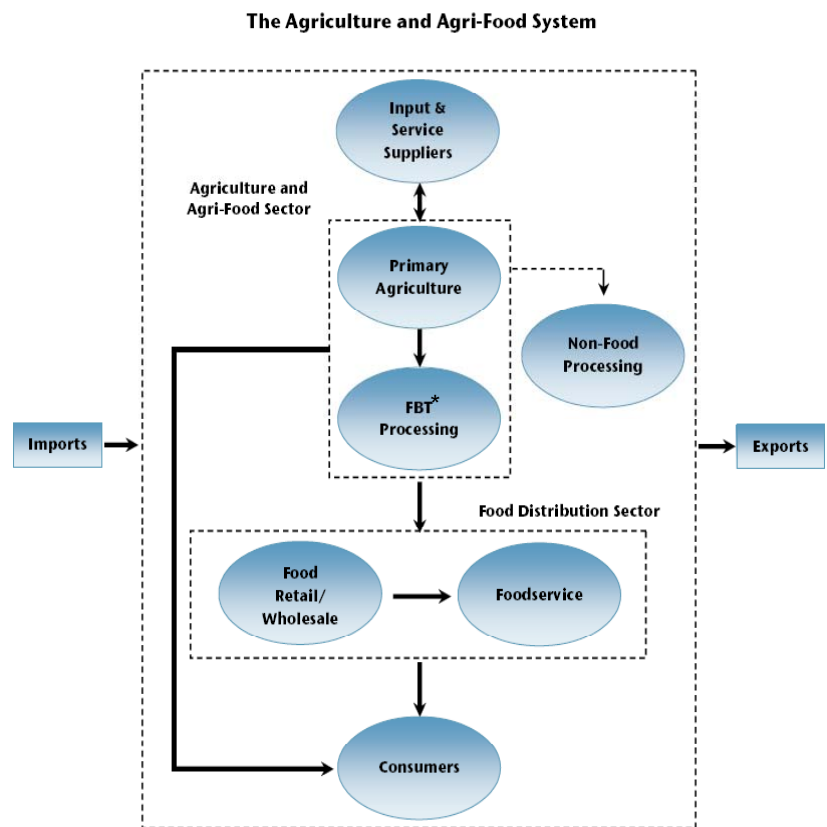
Farm Credit Canada proactively monitors and analyzes the external operating environment to identify strategic issues that need to be addressed. A group of subject matter experts provides quarterly updates on changes to the operating environment and their potential impacts on FCC.

### Agriculture industry

FCC provides loans, services and information to the agriculture and agri-food industry in Canada. This key sector of the Canadian economy provides one in seven jobs and accounts for over eight per cent of the Gross Domestic Product (GDP) <sup>1</sup>.

The Canadian agriculture and agri-food system is a complex integrated production and distribution chain of industries that supplies food and beverage to both Canadian and international consumers. It is an integral part of the global economy with trade occurring at each stage in the chain.

Component industries include agricultural input and service suppliers, primary agriculture, food and beverage processing, food retail/wholesale and foodservice. The agriculture and agri-food sector encompasses both primary agriculture and food processing. The food distribution section is made up of food retail/wholesale and foodservice<sup>2</sup>.



Source: An Overview of the Canadian Agriculture and Agri-Food System, Agriculture and Agri-Food Canada, May 2005. \*FBT Processing – refers to food, beverage and tobacco processing.

<sup>1</sup> [http://ats.agr.ca/invest/overview\\_e.htm](http://ats.agr.ca/invest/overview_e.htm)

<sup>2</sup> An Overview of the Canadian Agriculture and Agri-Food System, Agriculture and Agri-Food Canada, May 2005.

The industry is facing several challenges, including<sup>3</sup>:

- Technological change resulting in continuous growth in world agricultural production and a long-term decline in commodity prices
- Continued growth in exports from emerging low-cost producers
- Continued decline in real commodity prices with relatively stable input prices in real terms
- Pressure from macroeconomic factors such as the appreciating exchange rate and higher energy prices
- Downward trends in aggregate farm level profitability, such as net farm income

The agriculture and agri-food industry is undergoing significant change, providing opportunities in several areas such as value-added processing, bio-products and biofuels, and new markets for specialty crops. The value of agri-food exports has more than doubled in the past 15 years and many components of the agriculture and agri-food industry continue to grow. There is increased demand for traditional commodities from developing countries and for new high-value-added products in developed markets<sup>3</sup>. The industry is making adjustments by consolidating, increasing economies of scale and size, and increasing concentration and specialization. FCC continues to monitor industry changes and to develop innovative programs and services to support changing customer needs and emerging markets.

### **Future outlook**

Despite several challenges, FCC believes in the agriculture and agri-food industry and the important role it continues to play in the Canadian economy and society. Key indicators suggest there are many reasons to remain optimistic about the future of Canadian agriculture. Agriculture leads the Canadian economy in productivity growth and has outstripped the manufacturing and business sectors over the last 40 years. Canada is the fourth largest exporter of agriculture and agri-food products in the world and the value of total export sales of Canadian agriculture and agri-food is increasing. In the future, it is expected that a liberalized trade environment will open access to larger markets in countries such as China and India.

As the sector is evolving, producers are becoming increasingly more sophisticated. They are embracing technology, making complex business decisions and looking for new information and knowledge. They are also finding creative ways to maximize profits by discovering new niche markets and making the best use of existing capital.

There is potential for the industry in numerous areas such as addressing growing environmental challenges including climate change and the role of biofibres, nutraceuticals, pharmaceuticals, renewable and environmentally-friendly industrial products, and bio-energy (ethanol, biodiesel, biogas<sup>4</sup>) to name only a few.

---

<sup>3</sup> Long Term Challenges and Opportunities: Future Competitiveness and Prosperity of the Agriculture and Agri-Food Industry, Agriculture and Agri-Food Canada, February 2006.

<sup>4</sup> Biogas is a biofuel produced by bacterial degradation of organic matter. It consists primarily of methane and carbon dioxide and can be used as vehicle fuel or for generating electricity.

Furthermore, consumers are becoming more educated about food and are demanding more variety and food choices. The demand for convenient processed food is growing to accommodate busier lifestyles and there is increased consumer interest in domestically and locally grown foods, organic foods and food products, and healthier foods – including those that provide health benefits. There is an increased movement to buy food locally and at farmers markets, as individuals are concerned about how far their food travels. Through [www.CanadianFarmersMarket.com](http://www.CanadianFarmersMarket.com), FCC customers have the opportunity to market and sell their products online, free of charge.

The creation of new markets, technologies, innovative products, and scientific advances provides optimism for the future. Farm Credit Canada is committed to agriculture and to helping our customers grow and diversify in a changing environment.

### **Cattle industry – bovine spongiform encephalopathy and anthrax**

After a two-year Canada-U.S. border closure due to bovine spongiform encephalopathy (BSE), Canadian cattle under the age of 30 months are again being exported to the United States for slaughter. The U.S. Department of Agriculture is currently working toward regulations allowing cattle and beef products from cattle over the age of 30 months to be shipped across the border.

In August 2006, Canada's eighth case of BSE was discovered in a mature cow from Alberta. The national BSE surveillance program continues to demonstrate its capacity to effectively detect BSE cases. All cases confirmed in Canada have been identified through the program which, since 2003, has tested more than 117,500 cattle from the highest-risk populations.

Over the summer of 2006, the largest outbreak of anthrax (an environmental disease) occurred. This resulted in 147 farms testing positive as of August 2006 and more than 693 cattle dying. One human case was reported. In Manitoba, 137 cattle have died since June 2006 and 21 farms were quarantined. Anthrax is an environmental disease. The bacterium-produced spores are located in the soil and rise with soil saturation or flooding. Although the spores are ingested during livestock feeding, they are not spread from one animal to another. Immunization immediately followed the initial outbreak.

### **Pork industry**

From September 2005 to 2006, hog prices dropped approximately 18 per cent. Statistics Canada reports that hog receipts plunged 15.3 per cent to \$2.6 billion, as a result of lower prices for hogs sold in domestic and international markets. The continued strength of the Canadian dollar coupled with rapidly increasing feed costs and disease in Quebec and Ontario has stripped the Canadian pork industry of profitability. Insulating the balance sheet from excessive margin compression will be an important factor in weathering the current hog price cycle.

As a result, restructuring is occurring in the Canadian meat processing industry. Several packers have announced their intentions to significantly downsize or restructure their operations, potentially impacting future slaughter and processing capacity and hog production in Canada. While the pork industry is currently facing challenges, Farm Credit

Canada is committed to supporting customers and believes in the long-term viability of the industry.

### **Poultry industry – avian influenza**

Avian influenza is a contagious viral infection that is thought to affect all species of birds. Although rare, infection in humans can occur.

Avian influenza continues to be a significant concern to the poultry industry. The Food and Agriculture Organization estimates world consumption of poultry will decrease by three per cent in 2006. Declining domestic and international prices are expected to restrict production growth as per capita poultry consumption declines.

The Canadian poultry industry remains concerned about the potential impacts of avian influenza on the industry, especially if the decreased European demand is any indication of the impacts that may occur in Canada. The Canadian Food Inspection Agency (CFIA) expects the HP H5N1 strain will be present in the Canadian wild bird population by 2007. Given the Canadian disease containment response through the CFIA and the compressed production cycle of a poultry operation, producers can recover relatively quickly from an outbreak that is similar in scale to the outbreak that occurred in B.C. in 2004. The challenge of maintaining consumer demand following an outbreak remains.

FCC is actively monitoring avian influenza developments and potential impacts on the industry and our customers. An internal cross-functional team developed a strategy to prepare for an avian influenza and human influenza pandemic.

### **Dairy industry**

Weak domestic demand, concern over recent tariff rulings and other trade issues challenge the Canadian dairy industry. Milk consumption is declining due to an aging population, milk allergies and an increase in consumption of soy and rice milk alternatives. In 2006, Canadian cheese production will likely be the only segment of the dairy industry to show a production increase from last year.

High quota prices are creating a barrier to entry and expansion, placing a financial burden on smaller farms and driving a consolidation of operations. Producers continue to face high debt levels as operations consolidate to gain efficiencies. The ability to attract an adequate supply of labour is also an issue given the competition with oil and construction industries.

Furthermore, the Dairy Farmers of Ontario (DFO), the Fédération des producteurs de lait du Québec (FPLQ) and the Dairy Farmers of New Brunswick (DFNB) cancelled their November Quota Exchange. As of November 2006, the DFO, FPLQ and DFNB are considering changes to dairy quota and regulations. The impact of these discussions on the Canadian dairy industry is not yet known and FCC is monitoring new developments.

### **Crops**

Despite pressure on crop prices due to high world stocks and the strong Canadian dollar, Statistics Canada reports that crop receipts amounted to \$10.1 billion over the January to September 2006 period, an increase of almost four per cent compared to the previous year.

Compared to last year, farm expenses are expected to rise due to increased feed costs, higher interest rates and higher farm labour costs.

For 2006-07, the production of grains and oilseeds is estimated to decrease by seven per cent from 2005-06. A better-than normal grade distribution is estimated for all crops. As of November 10, 2006, AAFC estimates that Canadian prices for all crops, with the exception of flaxseed, will increase as compared to 2005-06. Total Canadian production of pulse and special crops is estimated to decrease by 18 per cent from 2005-06. In general, quality is normal to higher than normal. As of November 10, 2006, average prices over all types, grades and markets are forecast to increase for dry peas, lentils, chickpeas, mustard seed, canary seed and sunflower seed, decrease for dry beans and remain the same for buckwheat.

### **Farm income**

Realized net farm income for Canadian producers declined by 7.7 per cent to \$2.1 billion in 2005, its lowest level since 2003<sup>5</sup>. This figure was 8.0 per cent below the previous five-year average (2000-04). Farm income forecasts for 2006 predict a 16 per cent drop in net cash income and a decrease in realized net farm income of 54 per cent compared to 2005.

Producers continue to face cash flow challenges from a combination of production shortfalls, low prices, marketing challenges and rising input costs, all of which place additional stress on working capital. The rising Canadian dollar relative to the U.S. dollar has directly affected the margins of all non-supply-managed producers, particularly the horticulture, aquaculture, beef and pork sectors. For every cent increase in the exchange rate, there is a one per cent loss in income.

Statistics Canada reports that farmers received \$3.5 billion in program payments during the first nine months of 2006, down 9.4 per cent from the same period in 2005. Despite the decline, the total was 18.4 per cent above the previous five-year average. Although intended to support producers through unseen events, these payments have been bridging the gap between poor market revenue generation and escalating costs of production, demonstrating a real decline in the financial strength and sustainability of producers. Without government payments, farm income would have been negative over the past few years.

Farm Credit Canada continues to monitor the impact of farm income on its lending portfolio and is looking for new ways to meet customer needs by developing innovative products and services, AgriSuccess learning workshops and sharing knowledge with customers.

### **International trade environment**

The international trade environment is an evolving challenge in Canadian agriculture. Currently, there are a number of concurrent issues placing broad-based pressure on agricultural products.

In April 2006, the Canadian International Trade Tribunal determined that imports of U.S. grain corn did not cause injury to Canadian corn producers so the US\$1.65-per-bushel duty was removed. The Canadian Corn Producers are appealing the ruling.

---

<sup>5</sup> Statistics Canada, May 26, 2006

A U.S. tariff on imports of Canada Western Red Spring wheat was removed in late February 2006. The duty had been in place since 2003.

A resolution to the ongoing Canada-U.S. softwood lumber dispute was reached in April 2006, and the final agreement was signed on September 12, 2006. Implementation of the agreement came into effect on October 12, 2006. Approximately \$4 billion of the \$5 billion in export taxes collected by the U.S. will be returned to the forestry sector. The agreement is based on a graduated scale – when lumber prices are in excess of US\$355 per thousand board feet, no penalties will be charged. Export taxes and/or voluntary export restraints will apply for prices below the minimum price threshold. Given market prices as of August 2006, Canadian lumber exports to the U.S. would not be subject to an export tax under the proposed softwood lumber agreement.

On July 26, 2006, the DOHA round of the World Trade Organization (WTO) negotiations was suspended. The main blockage is in the two agriculture legs of market access and domestic support. Talks will resume when it is deemed that progress can be made, which in turn will require changes in entrenched positions. FCC is actively monitoring the progress of WTO negotiations in order to proactively prepare for potential impacts on our customers and portfolio.

### **Financial services industry**

FCC operates within the Canadian financial services industry. The agricultural market is served by chartered banks, credit unions, provincial lending agencies, equipment manufacturer financing programs and independent financing institutions. New lenders are also entering the marketplace.

Canada currently has six large bank financial groups in addition to:

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

Federal and provincial government programs that serve agriculture include:

- ATB Financial (formerly Alberta Treasury Branch)
- Agriculture Financial Services Corporation (AFSC)
- La Financière agricole du Québec
- Manitoba Agricultural Services Corporation (MASC)
- Nova Scotia Farm Loan Board
- PEI Lending Agency

The main players nationally are Farm Credit Canada, the chartered banks and credit unions.

The corporation's rural presence continues to be important as financial institutions increase their focus on larger international markets, resulting in reduced access to service in rural areas of Canada. FCC will continue to monitor marketplace activity and its potential impact on our customers and portfolio.

## Customer

FCC serves an industry experiencing an extraordinary period of transformation and consolidation. According to the Statistics Canada 2001 Census of Agriculture, the farm population continues to decrease, dropping by more than 120,000 farm operators from 1996 to 2001. In just one census period, the number of farms (and the number of farm operators) dropped significantly in every province. The number of farm operations in Canada has declined steadily since the 1930s. If current trends hold, it is projected that at least 25,000 more farm operations will cease to exist over the next five years.

The average age of farm operators continues to rise, increasing from 45.3 in 1996 to 49.9 in 2001. Similar trends are reflected in the Farm Credit Canada customer base from 2001-02 to 2005-06. There has been a decline in customers aged 36 to 45 and an increase in customers aged 46 to 55.

The average total farm family income from all sources was \$64,160, which was 3.2 per cent lower than the total income received by families in the general population. Net farm income contributed only 18 cents of each dollar earned. From 2001-02 to 2005-06, FCC loan size by enterprise increased steadily across all enterprises.

Farm Credit Canada's portfolio mix remains stable. Over the past five years, customer numbers by enterprise have shown a slight increase in beef, poultry and mixed enterprises and a slight decrease in hogs, dairy, crops, maple syrup and sheep. More significant increases occurred in the number of value-added and lifestyle farmers.

Farm operators age 55 years and older hold \$86 billion in assets and almost half of all assets of the agriculture sector<sup>6</sup>. As the median age of retirement for farmers was 69 in 2001, a considerable amount of assets will change hands in the next ten years<sup>7</sup>. This creates challenges for producers who need to create value from their assets to retire comfortably, and for the next generation of producers who may not be able to finance the full value of a farm. Large down payment requirements and sufficient cash flow are challenges for young farmers.

To address these challenges, FCC is committed to delivering innovative programs for new and young farmers. In the spring of 2006, FCC introduced the Accelerator Loan, a \$50 million dollar lending commitment for young farmers. Those who use the Accelerator Loan for purchases will receive free access to an FCC AgriSuccess management training workshop. Similarly, those who sell their property using the Accelerator Loan will receive

---

<sup>6</sup> Farm Financial Survey 2005, Statistics Canada

<sup>7</sup> Perspectives on Labour and Income, September 2003, Statistics Canada



free access to a workshop on succession or estate planning. In addition, buyers who use the Accelerator Loan will receive AgExpert Analyst, Farm Credit Canada's industry-leading farm financial management software, at no charge. FCC will continue to research the needs of young farmers to develop new solutions and sustain existing programs.

Although the number of primary producers is shrinking, the total value of the farm level market as a whole has increased. Census of Agriculture (2001) statistics indicate a trend towards consolidation and growth in the sector. Between 1996 and 2001, the number of farm operations simultaneously shrank in each province across Canada while the level of farm capital grew, creating a larger pool of capital on the whole – albeit a pool held in fewer hands.

The process of consolidation has necessitated expansion of remaining operations. As a consequence, the level of interest paid by farm operators has increased significantly in every province.

Customer experience scoreboards provide daily, actionable reporting on the customer experience, as perceived by customers. Overall, customer feedback continues to be favourable, with the most contentious responses from those who leave FCC for another financial institution. The customer experience index is derived from the customer scoreboards and provides key metrics in the areas of customer satisfaction, loyalty, advocacy and problem resolution, including whether customer interactions result in an easy, care, value experience. The national customer experience index score was very positive indicating strong customer satisfaction.

Many primary producers recognize FCC as a lender to agriculture. However, FCC now offers more than loans and there is an opportunity for FCC to increase awareness regarding how FCC can help producers and others involved in agriculture succeed.

An important part of maintaining a growing portfolio is the need to ensure customer relationships are maintained effectively. Ensuring that account managers, the Customer Service Centre and other employees have sufficient time to provide customers with the service they need is important. This includes providing products and services that are relevant to the next generation of producers while continuing our focus on customer retention and attraction.

## **Economics**

The Bank of Canada held rates steady at the October 2006 meeting, leaving the target overnight rate and prime rate at 4.25 per cent and 6.00 per cent respectively. This was the third straight rate announcement in which the bank held the rate steady, following seven consecutive 25-basis-point increases that began in September 2005. In the Bank of Canada's quarterly Monetary Policy Report Update, the bank lowered its forecast for economic growth due to a weakening U.S. economy. Most economists are forecasting the bank to hold rates steady for the rest of 2006 and into the spring of 2007 where rates are expected to drop.

Core Consumer Price Index (CPI), a measure of inflation, was higher than expected in September 2006 at 1.7 per cent. However, this is still below the Bank of Canada's target of 2.0 per cent. The unemployment rate reached a 34-year low of 6.1 per cent in May 2006 and remained low at 6.2 per cent in October 2006. Consumer confidence is strong and housing remains robust. The economy continues to adjust to the strength of the Canadian dollar, trading in the US\$0.88 - \$0.90 range. Many analysts expect the Canadian dollar will continue to trade at or above US\$0.90 for the remainder of 2006.

Bank of Canada expects net trade will likely slow near-term growth. In early 2006, exports were down 3.4 per cent and imports were up by 2.3 per cent. In 2005, Canada exported \$26.2 billion of agri-food products, only one per cent below the 2004 level.

FCC continues to monitor the impact of interest rates on our customers and potential margin compression as loans are converted from variable to fixed rate products.

### **Socio-demographics – employees**

FCC has approximately 1,274 employees located across the country. The average employee age is 40, and 38 per cent of the workforce has been employed with FCC for at least eight years. Given the relatively young average age and the low average tenure of employees, it is increasingly important to establish a process of knowledge transfer from experienced to new employees.

The FCC workforce predominantly consists of baby boomers and generation Xers. Each group is motivated by different factors and priorities. These differences need to be considered when managing, training, rewarding and communicating with employees.

The low number of expected retirements in the next five years indicates FCC should focus its efforts on the longer term (six to 15 years) as more employees reach retirement eligibility. As new projects are undertaken and new expertise is required, FCC will need to anticipate skill shortages and potential needs. Employee attraction, retention and development activities are necessary to ensure relevant skills are available over the short and long term.

While it remains a challenge to increase workforce representation from some of the diverse work groups, FCC is committed to improve in this area as it continues to attract qualified employees. Our diversity plan will be integrated with many of the human resources initiatives currently underway in order to achieve a more diverse workforce.

### **Government relations**

Given the large rural representation in the governing party, agricultural issues are expected to be a priority. Agricultural producers staged several Ottawa protests in April 2006, where they urged the Prime Minister to provide immediate aid to cash-strapped food and livestock producers. A further protest was held on Parliament Hill on July 1, 2006. In an open letter released April 24, 2006, the Canadian Federation of Agriculture along with twenty allied organizations demanded immediate action to address the farm income crisis and counter subsidies offered to American and European farmers.

In May 2006, Minister Strahl made several announcements: \$950 million for farmers, changes to the Canadian Agricultural Income Stabilization (CAIS) Program and cash advance programs, \$50 million in spring flood assistance funding through the new Cover Crop Protection Program, and a Science and Innovation Strategy to maximize breakthroughs in agriculture science and innovation.

On July 21, 2006, the Minister announced \$10 million in funding to support the development of sound business proposals and to undertake feasibility or other studies to support the creation and expansion of biofuel production. An additional \$1 million was allocated to the existing co-operative development initiative. On July 31, 2006, the Minister announced the Canadian Farm Families Options Program to assist lower-income farmers. On November 24, 2006, the Minister announced an additional \$40 million in funding for the Cover Crop Protection Program, increasing the total program funding to \$90 million, to ensure that approximately 20,000 affected producers receive support.

Amendments to the Agricultural Marketing Programs Act (AMPA), Bill C-15, received royal assent on June 22, 2006. Regulations were developed over the summer and plans are underway to operationalize the changes. Changes will combine the Spring Credit Advance program and the Advance Payments Program under the AMPA, providing up to \$100,000 (previously \$50,000) in interest-free loans. Advance limits will be increased to \$400,000 (previously \$250,000). Livestock producers will now be eligible for benefits.

Over the summer of 2006, Agriculture and Agri-Food Canada held consultations across Canada seeking stakeholder input into possible enhancements to the Farm Improvement and Marketing Cooperatives Loans Act. Changes being considered include making beginning farmers eligible for benefits and expanding the eligibility for co-operatives so that non-farmer investors would not disqualify a co-operative from receiving benefits.

The federal, provincial and territorial governments are working with the agriculture and agri-food industry to develop the next generation of the Agriculture and Agri-Food policy. The key areas of focus for the government remain: food safety and quality, environment, science and innovation, renewal, market development and trade. The objective of the framework is to make Canada a global leader in food safety, innovation and environmentally responsible production.

## Technology

### Information technology

Technology connectivity is transforming the way people live and interact, and the technology revolution has not yet reached a mature stage. Individuals, public sectors and businesses are learning how to make the best use of information technology in designing processes and developing and accessing knowledge.

Technology changes have also brought about shifts in human behaviour where work is done globally and instantaneously. For perhaps the first time in history, geography is not the primary constraint on the limits of social and economic organization.

A slowdown in IT spending is forecast for 2006, 2007 and 2008 (Forrester: Expect a Tech Slowdown, October 11, 2005). This slowdown is a result of emerging negative indicators for the U.S. economy (including rising interest rates, energy costs, and consumer debt), and will adversely affect the software vendors who provide products and services to FCC. FCC should also expect to see continued mergers and acquisitions in the IT industry as the software vendors struggle to generate organic revenue growth. FCC will continue to monitor the merger and acquisition activity in the IT industry, and will ensure investments remain viable and supported.

Over the last five to seven years, many organizations have outsourced all or parts of their IT functions with the hope of reducing costs and leveraging expertise in non-core areas. The outsourcing industry is experiencing difficulty as many clients have experienced decreased service levels, increased communication problems, poor change management, increased complexity, and other issues. A study released in April 2005 by Deloitte Consulting indicated that many large organizations are disillusioned with outsourcing and are bringing business and IT operations back in-house. In September 2006, FCC repatriated its Help Desk, which provides assistance to employees experiencing computer difficulties.

### **Agricultural technology**

Rapid urbanization, increased pressure on natural resources and environmental issues are driving radical change in agricultural technology. The development and refinement of equipment and technology has become fundamental to the quality, efficiency and safety of agricultural food production. As more information and technological choices become available, producers are challenged to manage all facets of the business – from financing to production to marketing. Innovation and adaptation are no longer options for producers who must adopt new technologies to meet the challenges of an increasingly commercialized and globalized agriculture industry.

The increasing cost of larger, more powerful machinery and equipment represents a large percentage of capital costs. Together, machinery and technology are figured as the number two capital investment for producers, second only to land purchases.

## Vision, mission, values, cultural practices and value proposition

### Vision

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

### Mission

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

### Corporate values

The corporate values represent our core beliefs:

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

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

**Work together** – we believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

**Achieve excellence** – we are committed to one thing – the success of the Canadian agriculture industry. 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.

## Cultural practices

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

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people
- delivering on commitments, agreements and promises
- building and sustaining committed partnerships 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.

## Rules of engagement

Rules of engagement have been developed and outline how senior executives and the Board of Directors conduct themselves during meetings. This disciplined protocol ensures that meetings are effective and perpetuate the high-performance culture at FCC.

## Value proposition

A value proposition is generally a clear and succinct statement that outlines an organization’s unique value-creating features to potential customers and stakeholders<sup>8</sup>. It answers the question “What value do I get from a relationship with Farm Credit Canada?”

FCC Value Proposition:

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

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

---

<sup>8</sup> [www.marketingprofs.com](http://www.marketingprofs.com)

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

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

We're easy to do business with.

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

## Current State

### Assessment of corporate strengths, weaknesses, opportunities and threats

#### Strengths

Financial/Shareholder	Customer
<ul style="list-style-type: none"> <li>• strong financial position (self-sustaining)</li> <li>• efficiency ratio excellent, ranging from 40 to 42% over the past three years</li> <li>• high quality portfolio</li> <li>• all portfolio risk indicators are stable or improving (i.e., impairment, arrears, losses)</li> </ul>	<ul style="list-style-type: none"> <li>• commitment to agriculture</li> <li>• Canada's largest agricultural term lender</li> <li>• stakeholder support</li> <li>• increasing visibility through community investment</li> <li>• favourable media coverage</li> <li>• better understanding of FCC performance with customer experience scoreboards</li> </ul>
Internal capability	People
<ul style="list-style-type: none"> <li>• innovative solutions tailored to agriculture</li> <li>• redesign of processes and supporting systems to enhance the customer and employee experience in progress</li> <li>• foundational customer experience standards in place</li> <li>• implementation of corporate change management program in progress</li> <li>• bio-security standards</li> <li>• enhancing the employee experience by redesigning business processes to make it easy to do business in a "once and done" environment (this will positively impact the customer experience)</li> </ul>	<ul style="list-style-type: none"> <li>• employee knowledge of agriculture</li> <li>• employee engagement score of 82%</li> <li>• positive internal culture based on cultural practices</li> <li>• employee volunteer spirit</li> <li>• external recognition and awards</li> <li>• knowledge capture and sharing through communities of practice</li> </ul>

#### Weaknesses

Financial/Shareholder	Customer
<ul style="list-style-type: none"> <li>• high customer debt leverage in some key sectors</li> <li>• highly cyclical industry dependent on many non-controllable external factors</li> </ul>	<ul style="list-style-type: none"> <li>• AgValue market knowledge</li> </ul>
Internal capability	People
<ul style="list-style-type: none"> <li>• capacity to execute strategy and business-as-usual activities</li> <li>• full integration of IT systems, data and processes (in progress)</li> <li>• number of duplicate, manual processes and lack of integrated corporate processes</li> <li>• enterprise-wide content management in early stages</li> <li>• challenge to maintain momentum and resolve to implement integration initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• need for enhanced employee orientation</li> <li>• need more employees with specialized skills</li> <li>• need to define employee experience and align people practices accordingly</li> </ul>



## Opportunities

Financial/Shareholder	Customer
<ul style="list-style-type: none"> <li>• contribute to federal government's new Agricultural Policy Framework</li> <li>• demonstrate leadership in financing bio-products sector (i.e., biofuels, food technology and nutraceuticals)</li> </ul>	<ul style="list-style-type: none"> <li>• strengthen and leverage relationships with Centres of Influence (accountants, lawyers)</li> <li>• campaign to educate customers regarding breadth of FCC offerings, resulting in enhanced awareness and reputation</li> <li>• further define what is required to deliver an extraordinary customer experience</li> <li>• increase focus on young farmers</li> <li>• enhance online business, service and knowledge management offerings for customers</li> </ul>
Internal capability	People
<ul style="list-style-type: none"> <li>• enhance customer experience by redesigning business processes from the customer perspective</li> <li>• leverage Customer Service Centre (call centre) to promote full service offerings</li> </ul>	<ul style="list-style-type: none"> <li>• leverage recognition as one of "Top 50 Companies" to attract new employees</li> <li>• enhance diversity in the workforce</li> </ul>

## Threats

Financial/Shareholder	Customer
<ul style="list-style-type: none"> <li>• impact of avian influenza or human pandemic on customers, industry and portfolio</li> <li>• potential for a new animal health crisis</li> <li>• higher interest rates and currency</li> <li>• World Trade Organization negotiations and impact on Canada</li> </ul>	<ul style="list-style-type: none"> <li>• new financial institutions in the marketplace</li> <li>• industry consolidation/succession issues</li> <li>• rising farm debt, increased operating expenses and decreased farm income</li> <li>• protection against privacy breaches</li> <li>• potential changes in dairy quota allocation and regulations</li> </ul>
Internal capability	People
<ul style="list-style-type: none"> <li>• ability to meet customer needs consistently through each business line and channel</li> </ul>	<ul style="list-style-type: none"> <li>• attraction of employees with specialized expertise and bilingual capability</li> <li>• external companies wooing talented employees with experience gained at FCC working on leading-edge projects</li> </ul>

## Enterprise risk management

Since all of FCC's business activities involve risk, effective risk management is key to protecting customers and the corporation's long-term viability. Within FCC, Enterprise Risk Management (ERM) helps the corporation balance risk-taking activities and risk management practices within the context of executing the corporate strategy and achieving the business objectives. ERM creates a common understanding of risk, provides a framework to comprehensively identify risks including their interdependence, and ensures the corporation's risk-taking activities are aligned with customers' needs and shareholder's expectations.

Enterprise Risk Management offers a comprehensive view of risk across the organization and works with Strategy to ensure ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing action plans to address ongoing business risks. ERM reports quarterly to the Audit Committee of the Board with respect to the highest-ranked risks.

The Senior Management Team is accountable for putting risk mitigation initiatives in place. As part of our Business Continuity Management program, a cross-functional team is developing strategies to prepare for and respond to a human influenza pandemic.

## Products and solutions

FCC has seven distinct solutions designed to serve the diverse needs of primary producers, suppliers, processors and others involved in the Canadian agriculture industry: AgProduction loans, AgValue loans, Alliance loans through partners, Agri-Assurances loan life and accident insurance, AgriSuccess information and learning, AgExpert management software and FCC Ventures.

## Financing

Farm Credit Canada provides financial solutions through four business lines: AgProduction, AgValue, Alliances and Venture Capital. AgProduction focuses on all primary producers from small to large, whereas AgValue is directed to suppliers or processors that are selling to, buying from and otherwise serving primary producers (equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors). Alliances include producer-run alliances, co-operatives and other integrated networks.

### **AgProduction and AgValue loans**

FCC tailors new products and solutions to help primary producers, suppliers and processors along the agricultural value chain meet the industry's unique and evolving needs. FCC demonstrates innovative leadership by working closely with Canadian producers and value-added operators to create financing solutions for each stage of their business life cycle – from start-up to succession and retirement. In some instances, the markets for our products are initially limited. In many cases, other financial institutions copy our solutions, to the benefit of the agriculture industry.

In recognition of the growing interconnectedness of the industry, FCC offers financial packages to meet the needs of producer-run alliances, co-operatives and other integrated networks. Alliances and partnerships are formed with other organizations to enable FCC to offer a full range of financing options. Working together, we can open the door to new opportunities for producers, suppliers and processors along the agricultural value chain.

To ensure FCC products remain focused on the changing needs of customers, each product is regularly examined to ensure continued relevance for each customer's situation. This approach allows more flexibility in product tailoring and pricing to meet customer needs.

Any combination of the following loans can be tailored to meet customers' growing needs:

**Accelerator\***

Allows young farmers the time and flexibility to build and expand their operation. With as little as zero down and interest-only payments, purchasers have the flexibility to meet other spending priorities.

**Advancer**

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

**American Currency**

Allows operations deriving revenue in U.S. dollars to borrow and make payments in U.S. dollars.

**Capacity Builder**

Financing that is pre-approved for up to one year with the option to capitalize interest for the purchase of quota and breeding livestock.

**Cash Flow Optimizer**

Gives producers the freedom to invest the money that would normally go towards principal in other areas of their operation.

**Construction**

Provides interim financing for up to 18 months on construction projects including processing plants, cold storage and grain storage facilities. Funds are disbursed as needed during construction, but no payments are required until completion.

**Enviro**

Allows customers to defer principal payments to construct, improve or expand operations while implementing sound environmental practices.

**Farm Builder**

Defer principal payments on construction projects. 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**

Allows producers to defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

**Herd Start**

While a producer starts a herd, cash flow can be used for growing the business, rather than for making payments.

**1-2-3 Grow**

Interest-only payments can be used by producers to help manage their cash flow until they see a return on their investment.

**Opportunity**

AgValue customers can fund their expansion with principal payment holidays for up to 12 months.

**Payday**

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

**Performer**

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

**Plant Now – Pay Later**

Horticulture operations can defer payments until new plantings start to generate cash flow.

**Spring Break**

A flexible payment schedule allows forestry operators to defer payments until new plantings start to generate cash flow.

**Stop and Grow**

Woodlot owners can defer principal payments as saplings grow into profits.

**Transition**

Helps the next generation purchase property from someone who is retiring, and helps those retiring receive the equity from their farm without risk.

**Real Property**

Variable, closed or fixed rate loans for those looking to purchase land or finance the construction of a new building.

**Personal Property\*\***

Variable, closed or open rate loans for those buying equipment or livestock.

\*New product launched in 2006-07.

\*\*1-year open and 1-year fixed Personal Property products launched in 2005-06.

## Venture capital

On November 1, FCC became the lead limited partner in a new venture capital fund called Avrio Ventures Limited Partnership. This is Canada's first industrial life sciences fund focused on businesses that combine agricultural science and industrial technology. The fund will focus on three sectors: bio-products, food technology and nutraceutical ingredients.

This move positions FCC to assist development of Canadian companies that are in the commercialization to growth stages of development in these three emerging sectors. Our commitment of \$50 million will also help attract long-term capital commitments from other limited partners such as financial institutions and private investors. The fund will be invested over the next five to seven years.

Rising energy costs are driving world demand for products derived from renewable feedstocks. Demand for biofuels, biodegradable packaging and fibre-based building materials continues to increase. Since Canada is a world leader in the production and management of agricultural feed stocks, this fund meets a major need in the industry to provide venture capital to companies responding to this growing demand.

This fund also meets Canada's need to be competitive on the world stage and is consistent with the Government of Canada's new focus on providing leadership in agricultural science and innovation. FCC will be recognized for taking a central and leadership role in developing the future of the agriculture industry.

Avrio Ventures is a separate legal entity, operating and making its investment decisions independent of FCC. However, as the sponsor of the fund, FCC sets the investment objectives that Avrio must follow. The management and ownership of Avrio Ventures consists of experienced and well-qualified venture capitalists with a proven track record working with FCC and other venture capitalists. Avrio Ventures will maintain offices in Calgary, Oakville and Montreal. The employees of Avrio Ventures continue to work closely with FCC field staff to offer venture capital financing to customers.

The existing FCC Ventures portfolio remains an asset of FCC. However, management of the investments has been outsourced to Avrio Ventures. In consultation with FCC, these investments will continue as planned with FCC exiting from each investment when it is appropriate. FCC Ventures will continue as an active division within FCC pursuing other opportunities to support agriculture with venture capital.

Since its launch in 2002, FCC Ventures has invested a total of \$62,650,000 and has commitments to invest an additional \$5,100,000. Investments have ranged from \$1,000,000 to \$9,000,000, using a variety of investment instruments. FCC also encourages participation of other venture capital and private equity firms in the investments. A co-investment ratio of 1.2:1 (\$16.4 million) was achieved in 2005-06. Since inception in 2002, FCC Ventures has achieved a co-investment ratio of 1.6:1 (\$97.3 million).

### **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 expanded its market reach by working with alliance partners to deliver products and services to Canadian producers. Our alliance programs support the core business objectives of our partners while offering innovative financial solutions to producers conveniently at point of sale. FCC currently has alliance relationships with 525 agriculture equipment retailers, over 60 suppliers, financial institutions, other agricultural groups and co-ops.

FCC alliance relationships are consciously designed to deliver a positive outcome for all key stakeholders including the producer, the partner and FCC. In the case of agriculture equipment retailers, the partner relationship can be as simple as a loan referral service – loan applications are sent directly from the dealership to our Customer Service Centre for processing. In more integrated alliance relationships, FCC may lend through an organization acting as the point of contact for the loan administration. The overriding objective is to improve and expand the products and services available to the agriculture industry and individual producers by working with partners to complement their service offerings.

### **Creditor insurance**

FCC offers creditor loan life and accident insurance protection for borrowers, spouses, shareholders, guarantors and the key persons that manage their businesses. Insurance coverage of up to \$1.5 million is available to fully or partially cover a loan. Customers can choose individual or joint coverage for up to four applicants. Proceeds from insurance claims can be applied to reduce the loan balance or to make future loan payments.

FCC consolidated rules, coverages, premium tables, and procedures during 2006-07 to make loan life and accident insurance easier for customers and employees to use and understand.

Agri-Assurances offers the following types of creditor loan life and accident insurance:

- Reducing Plan – this core insurance plan can be used to insure all loans except Cash Flow Optimizer, Stop and Grow, Advancer and American Currency. Coverage reduces as the loan balance reduces, but premiums do not change as the applicant ages.
- Fixed Coverage Plan – this plan is used to insure a fixed amount of coverage, ideally suited for Cash Flow Optimizer, or Stop and Grow loans. It is also used to provide payment protection on any loan, where fixed coverage can be used to provide a temporary loan payment holiday while survivors make decisions and adjustments to the business.
- Revolving Credit Plan – this plan offers insurance protection for loans where the coverage and premiums fluctuate with the loan balance, as in the Advancer loan.

Sun Life Assurance Company of Canada underwrites FCC's creditor insurance plan.

## Information and learning

As operations become larger and more complex, producers are seeking to improve their management skills. AgriSuccess is a comprehensive suite of management training and information designed to help producers manage their business and enhance their management skills. Full-day and half-day workshops provide training on topics including succession planning, human resource management, farm financial management, price risk management and value chain management. Advanced Farm Manager, a multi-day program, provides an in-depth review of the essential components of business planning.

FCC is currently expanding the AgriSuccess program to include larger-scale workshops and conferences aimed at reaching a greater number of producers and industry partners.

FCC provides comprehensive online information. Customers can safely review their loan portfolio, read Farmland Values, use the Farm Finance Kit, check the weather and watch for daily agriculture-related news on the FCC website. Producers can also subscribe to two free publications: AgriSuccess Express, a weekly online newsletter, and AgriSuccess Journal, a bi-monthly farm management magazine. Both subscriptions are available at [www.fcc-fac.ca](http://www.fcc-fac.ca).

To support students attending agriculture programs in universities and colleges across Canada, FCC offers the Business Planning Award. To qualify for the award, participants work with a mentor to create a business plan that prepares them for real-world challenges and opportunities. FCC awards over \$75,000 annually to students through participating educational institutions.

## Management software

Agriculture software is gaining momentum as more and more producers discover the importance of secure, accurate data and records protection. FCC offers two software products: AgExpert Analyst and AgExpert Field Manager. With AgExpert Analyst accounting software, customers track income, expenses, inventory and assets, complete GST and CAIS reporting and produce financial statements. The AgExpert Field Manager crop and field management software allows customers to track seeding and planting schedules, fertilizer applications, yield and herbicide use for their entire operation. All of the field and crop record-keeping is available on a desktop computer or handheld PC. A new version of Field Manager (PC and handheld) will be released in 2007 to provide future technical capacity to address the changing needs of agriculture.

The [www.AgExpert.ca](http://www.AgExpert.ca) website provides producers and customers with product and support information. Software support services are provided through the AgExpert Call Centre and AgExpert customers receive their first year of service support free of charge. AgExpert customers can also subscribe to annual software support services that provide them with daily access to knowledge specialists.

FCC knows that sophisticated management skills are required to succeed in today's environment. AgExpert products promote leading-edge farm management practices.

## Bonds

FCC offers a variety of bonds that are flexible, secure and competitively priced. These bonds are eligible for use in RRSPs, RESPs, RRIFs and long-term investment strategies. As part of FCC's commitment to rural Canada, proceeds from the sale of FCC bonds are used to lend funds to our customers.

FCC bonds are 100 per cent guaranteed by the Government of Canada. Maturities range from one to ten years and bonds are sold in multiples of \$1,000 subject to a minimum investment of \$5,000. Individual and/or corporate investors can choose flexible terms and pricing.

The advantages of FCC bonds are:

- provide investors with the same credit quality as the Government of Canada (AAA)
- offer a wide range of maturities, coupons and interest payment frequencies
- offer investors an excellent opportunity to support Canadian agriculture
- are eligible for Registered Retirement Savings Plans, Registered Retirement Income Funds and Registered Education Savings Plans

FCC bonds can be purchased through various investment dealers and discount brokerages across the country.



## Business Strategy

FCC is implementing a number of strategies to differentiate the organization in the marketplace and help customers achieve greater success. One of these key strategies relies on the ability to consistently deliver an extraordinary customer experience.

FCC believes that an extraordinary employee experience is key to 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 front line to the back office.

To accomplish this, a number of strategic themes and objectives have been defined and depicted on our corporate strategy map (see page 43).

### Assumptions for the planning period

The following assumptions have been incorporated into our business strategy and are derived from knowledge of the current operating environment and external risks that may impact the corporation:

- the Farm Credit Canada Act will not change during the planning period
- FCC will continue to grow while providing a financial return adequate to fund future growth
- incoming Board members, a new Chair of the Board of Directors and a new Chief Executive Officer will not dramatically alter our strategic direction and focus

## Strategy map

The strategy map succinctly depicts our FCC business strategy on one succinct page. The four vertical columns represent our strategic themes or key areas of focus for the planning period. The four horizontal sections of the map constitute the perspectives of the balanced scorecard.

In 2006, the strategic themes were modified to place additional emphasis on our commitment to agriculture and the employee experience. The strategic themes include:

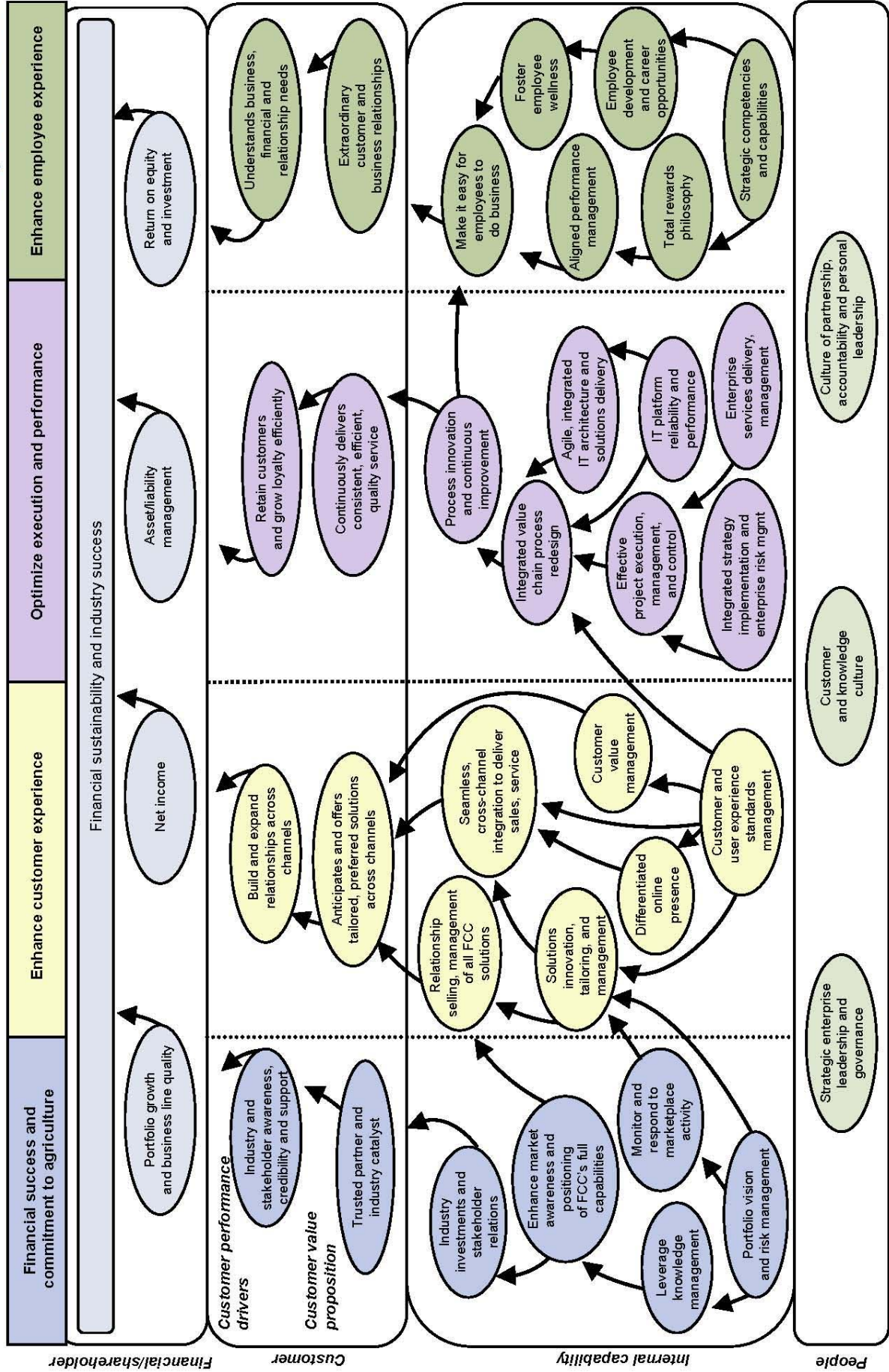
- financial success and commitment to agriculture
- enhance customer experience
- optimize execution and performance
- enhance employee experience

The circles on the map represent the strategic objectives (desired outcomes) over the next three to five years. The arrows between the objectives represent the flow of logic or cause-and-effect relationships between the objectives. The balanced scorecard architecture assumes that employees (the people perspective) are the foundation of the strategy. Employees require business processes and systems (internal capability perspective) to enable them to do their jobs effectively and efficiently, thereby delivering on an exceptional customer experience (customer perspective) that leads to the desired financial outcomes (financial/shareholder perspective).

# FCC Strategy Map

September 2006

## Strategic themes



## Business strategy highlights

### Financial success and commitment to agriculture

#### **Expanding our customer and partnership base**

Our traditional producer customer base has expanded to include input and value-added operations as well as processors – with the ultimate goal of strengthening the success of the agriculture industry as a whole.

#### **Enhancing market awareness of the corporation**

In order to ensure those who may benefit from our full range of services are aware of them, we are increasing our visibility and establishing our brand in new markets. We are growing our reputation for possessing profound understanding of the agriculture industry's challenges and opportunities, accompanied by a track record of relevant, practical offerings oriented to helping farmers and agribusiness succeed. The awareness and reputation program will increase the corporation's visibility in the marketplace and educate producers and key stakeholders about FCC products and solutions.

#### **Increasing our commitment to corporate social responsibility**

FCC takes corporate social responsibility seriously. We measure corporate social responsibility in six key decision-making, behaviour and performance areas. At FCC, we respect the rights of the individual and have implemented a human rights policy and code of conduct. We are strongly committed to our stakeholders, including customers, and we are building a strong culture where employees are inspired to give their best. Corporate governance and management systems are in place, including a code of conduct and ethics, and whistleblower protection, to ensure the highest standards of governance and accountability. We believe in supporting the communities where our customers and employees live and work. For this reason, we introduced the AgriSpirit program (which funds capital projects submitted by communities), the AgCrisis Fund and continue to provide community investment funding based on the themes of rural safety and food. Finally, as stewards to the environment, we recycle and make energy efficient and environmentally conscious purchases.

#### **Serve as an 'industry catalyst' to effect positive change where appropriate**

In order for FCC to serve as "visionary leaders," help the agriculture industry succeed and realize our public mandate, we serve as a catalyst to effect positive change where appropriate. One of these priorities includes expanding FCC's knowledge management initiative to provide external customers and stakeholders with information to help them succeed. We are also finding innovative ways to increase industry support for young farmers while fostering awareness of good environmental and bio-security practices to help protect those involved in the industry.

Other areas of focus include fostering pride among those who work in agriculture and educating Canadians about the value of agriculture. In 2004-05, FCC launched CanadianFarmersMarket.com to help customers sell their products on our website. To date, we have 310 customer listings and many stories that showcase the operations our customers are proud to run.

## Enhance customer experience

### Defining the customer experience

The customer experience relies on employees being able to: make it easy for customers to do business, care about customer business issues and provide them with practical, valuable advice. When customers interact with FCC we want them to experience the same level of outstanding service – whether in person, on the phone, via e-mail or in written communications. The goal is to have customers feel their experience dealing with FCC is extraordinary.

## Optimize execution and performance

### Streamlining and updating business processes, technology architecture and systems

FCC has grown rapidly in the last decade and has outgrown its current processes and supporting technology. As a result, several major initiatives are underway to redesign processes from an enterprise-wide perspective while upgrading the supporting technology. This will help reduce the number of hand-offs and enhance the speed of service to customers. Emphasis on the technology side is on effectively implementing core platforms that will deliver business benefits (i.e., customer relationship management and loan accounting) while developing the IT infrastructure to deliver timely, integrated solutions on a reliable, high-performance platform. This will enable rapid changes to technology in the future and free up time for field staff to build relationships with customers.

### Maintaining focus on innovation and continuous improvement

Farm Credit Canada is now a large and complex business. FCC is putting frameworks in place for project management, process integration and policy revision. Our new innovation website, “Think Original,” stimulates creative thinking and allows employees to propose ideas and business improvements. FCC also has a continuous improvement process that allows us to monitor the number of ideas and improvements implemented.

## Enhance employee experience

### Being more specific about the FCC employee experience

FCC is building a strong culture, where employees feel safe to present new ideas and are inspired to do their best every day. FCC continues to create an environment that emphasizes trust, respect, teamwork and high performance. Employees rely on the corporate values and cultural practices to guide their behaviour when dealing with customers and colleagues. We believe the only way to consistently deliver an extraordinary customer experience is to ensure our employees become the customer experience.

Training and coaching are provided to all employees on how to exhibit the cultural practices in daily interactions. In 2005-06, over 800 employees completed a training program (Holding to Account) designed to ensure all employees have a common set of tools and language to support them in creating a high-performance culture in our workplace.

Each year, FCC conducts an employee opinion survey with Hewitt Associates. The 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. Our latest engagement score was 82 per cent. In January 2006, FCC was honoured to be placed 12th on the 50 Best Employers in Canada list (*Globe & Mail Report on Business Magazine*).

FCC believes strong employee engagement results in positive customer experiences. To enable the growth and development of strategic skills, behaviours, knowledge and capacity to meet future business needs, we are creating an employee value proposition and are further defining the employee experience. The employee experience includes everything that touches employees at work – work processes and tools, relationships, meaningful work, growth opportunities, pay and benefits to name a few. The corporation is always looking for new ways to make FCC a better place to work. Fostering a great employee experience helps FCC attract and retain great people, deliver an exceptional customer experience and achieve outstanding business results.

An important part of the employee experience is celebrating our achievements, both large and small. The Encore program empowers employees to recognize colleagues in several different categories. Employee attraction and retention strategies also are on the radar screen. The implementation of our new compensation and reward system, job evaluation and salary progression system, and competency evaluation are currently in progress.

Since change is a constant in our business environment, FCC is implementing a corporate change management framework. The objective is to build change management skills and competencies into the core and leadership competency models and to integrate change management within our project management processes.

Over the planning period, FCC will introduce an employee wellness strategy. Strategies for employee attraction, retention, facilities and workforce planning will be developed and existing strategies for diversity and official languages will be enhanced.

#### **Adopting more stringent governance practices**

To support the increased complexity and size of our business operations, our governance practices and the corporate social responsibility frameworks are being strengthened. These include the institution of the Strategy Execution Team (a sub-committee of the Senior Management team that approves, prioritizes and sequences major corporate projects and monitors their progress), the code of conduct, the creation of more specific measures and targets, personnel devoted to enterprise risk management (including an expanding portfolio vision to encompass all business lines and intensely focus on managing concentration risk), business control framework and ongoing review of corporate policies and procedures to achieve the desired risk tolerance.

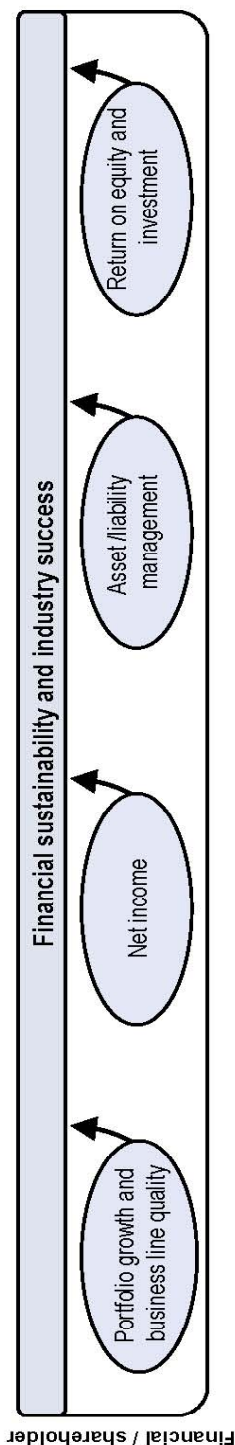


## 2007-08 Balanced scorecard

FCC uses the balanced scorecard framework to establish and monitor progress toward achieving our business strategy. The balanced scorecard outlines our strategic themes, objectives, measures, targets and initiatives in each of the following balanced scorecard perspectives: financial/shareholder, customer, internal capability and people (employees).

Please refer to the balanced scorecard on the following pages for the details outlined above.

## Balanced scorecard 2007-08



Measures	Plan targets				2007-08 initiatives
	2007-08	2008-09	2009-10	2011-12	
Portfolio growth	5.1%*	5.7%	5.9%	7.2%	Monitor performance of portfolio in a changing agricultural environment. <u>Invest in communities:</u> • continue to support Ag in the Classroom Promote FCC customer products on CanadianFarmersMarket.com. Develop strategy for margin management and customer value management.
% of profits invested in communities	1.5%	TBD	TBD	TBD	
Efficiency ratio	44.8%	44.7%	44.7%	44.6%	
Debt-to-equity	Under 10:1	Under 10:1	Under 10:1	Under 10:1	
Return on equity and investment	10.4%	11.0%	10.6%	9.9%	
Non-interest revenue	\$22.8 million	\$24.3 million	\$26.1 million	\$30.2 million	
Net interest income margin	2.95%	2.94%	2.95%	3.01%	
% of PND with arrears	6%	6%	6%	6%	
Strategic credit risk management	Managed range: between 51 and 70	Managed range: between 51 and 70	Managed range: between 51 and 70	Managed range: between 51 and 70	

\*Subsequent to the determination of the portfolio growth targets, major changes in dairy quota administration were announced. Their impact on portfolio growth targets will be assessed in the months ahead when the new regulations are finalized.

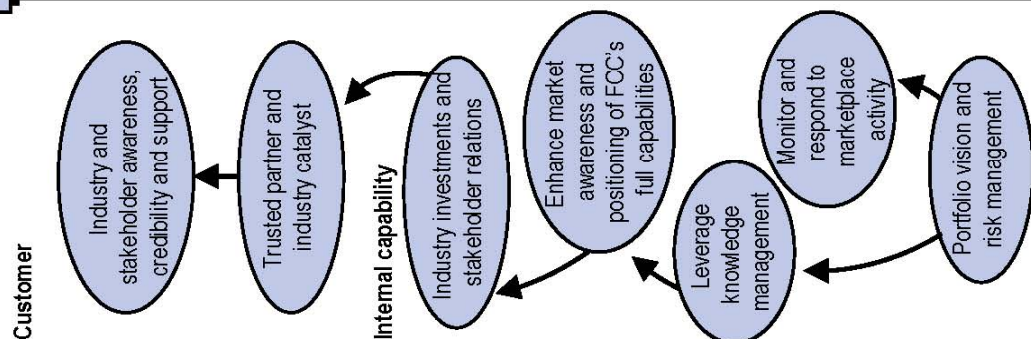


## Financial success and commitment to agriculture

### Balanced scorecard 2007-08

Measures	Plan targets				2007-08 initiatives
	2007-08	2008-09	2009-10	2011-12	
<b>Venture capital</b> <ul style="list-style-type: none"> <li>• Co-investment ratio</li> <li>• Capital invested (fiscal year)</li> <li>• Total capital outstanding*</li> </ul>	1.5:1 \$15 million \$60.9 million	1.5:1 \$12.1 million \$64.1 million	1.5:1 \$8 million \$65.8 million	1.5:1 \$22.3 million \$68.8 million	Leverage role as lead sponsor in Canada's first dedicated agricultural life sciences venture capital fund to attract additional investment to the agriculture industry.  Grow producer knowledge of management practices via AgriSuccess information and learning programs. Expand delivery and advocacy of centres of influence for AgExpert.
Corporate social responsibility scorecard	Determine targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Collaborate with Agriculture and Agri-Food Canada in developing the next generation of agriculture and agri-food policy and other joint initiatives.
Corporate reputation index	Establish once baseline is complete	Establish once baseline is complete	Establish once baseline is complete	Establish once baseline is complete	Continue to research needs of young farmers to develop new solutions and sustain existing offerings.
Media favourability index	Score of 64	Score of 65	Score of 65	Score of 65	Continue community investment with an emphasis on rural safety and food issues (World Food Day, First Aid on the Farm, etc.) and the AgriSpirit capital giving program.
Time spent with customers and prospects for value-added activities	Increase the number of proactive customer contacts	Increase the number of proactive customer contacts	Increase the number of proactive customer contacts	Increase the number of proactive customer contacts	Increase awareness of FCC with targeted audiences.
					Investigate opportunities in alternative energy sources.
					Enhance customer awareness of bio-security protocols.
					Leverage Community of Practice (COP) knowledge to the benefit of customers.
					Conduct program to inform elected officials of FCC's role and offerings.

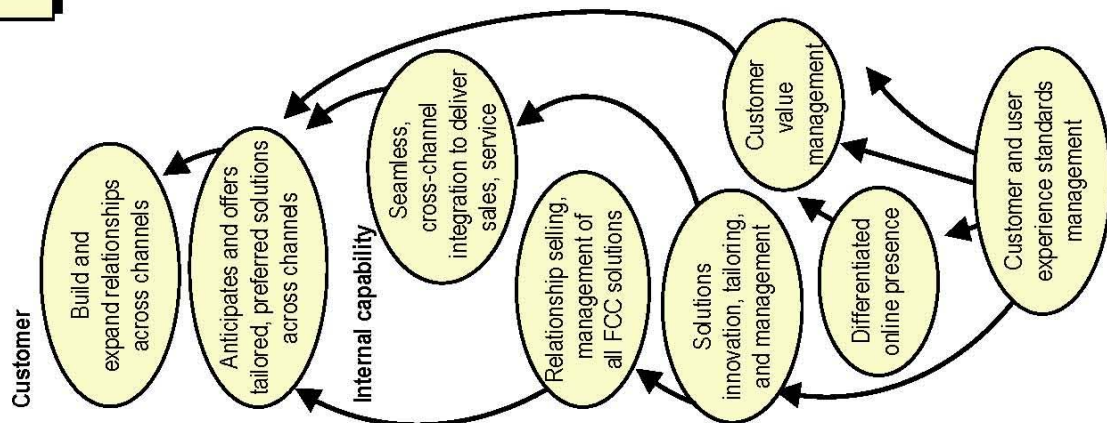
\*Represents the current balance of all venture capital investments measured at cost.



## Enhance customer experience

## Balanced scorecard 2007-08

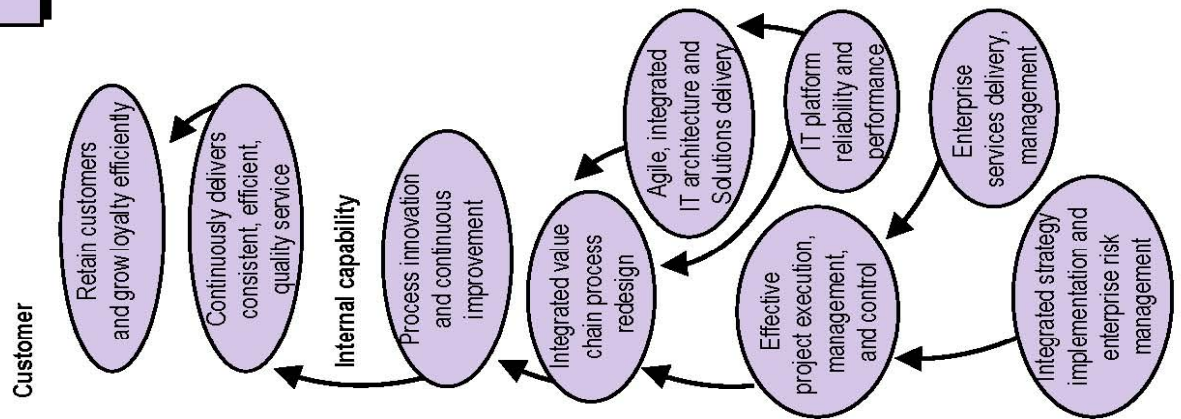
Measures	Plan targets				2007-08 initiatives
	2007-08	2008-09	2009-10	2011-12	
Customer experience index	Increase score	Increase score	Increase score	Increase score	Implement customer experience standards to enhance delivery of consistent customer experience.
Channel usage					Monitor customer experience scoreboards and index to determine actions that enhance customer experience.
• Number of unique website visitors per month	19,000	21,000	21,000	22,000	Execute on-line and CSC (call center) strategies to provide customers with enhanced service via their channel of choice, including addition of second CSC in Moncton.
• Number of website pages viewed per year	2.25 million	2.35 million	2.5 million	2.7 million	Enhance awareness and uptake of FCC's other business solutions with Alliances end customers.
• Number of online registered borrowers	13,400	15,000	16,200	18,600	Create products and services uniquely tailored to agriculture and customers.
• Number of Customer Service Centre (CSC) customer contacts	90,000	100,000	110,000	130,000	
• Dollars disbursed of CSC direct full service lending	\$275 million	\$370 million	\$515 million	\$750 million	
Customer value management	Increase the year-end index over start of year	Increase the year-end index over start of year	Increase the year-end index over start of year	Increase the year-end index over start of year	
Customer channel awareness, preferences and permissions	Benchmark and establish targets for 2008-09 and beyond	Measure performance against targets	Measure performance against targets	Measure performance against targets	



## Optimize execution and performance

## Balanced scorecard 2007-08

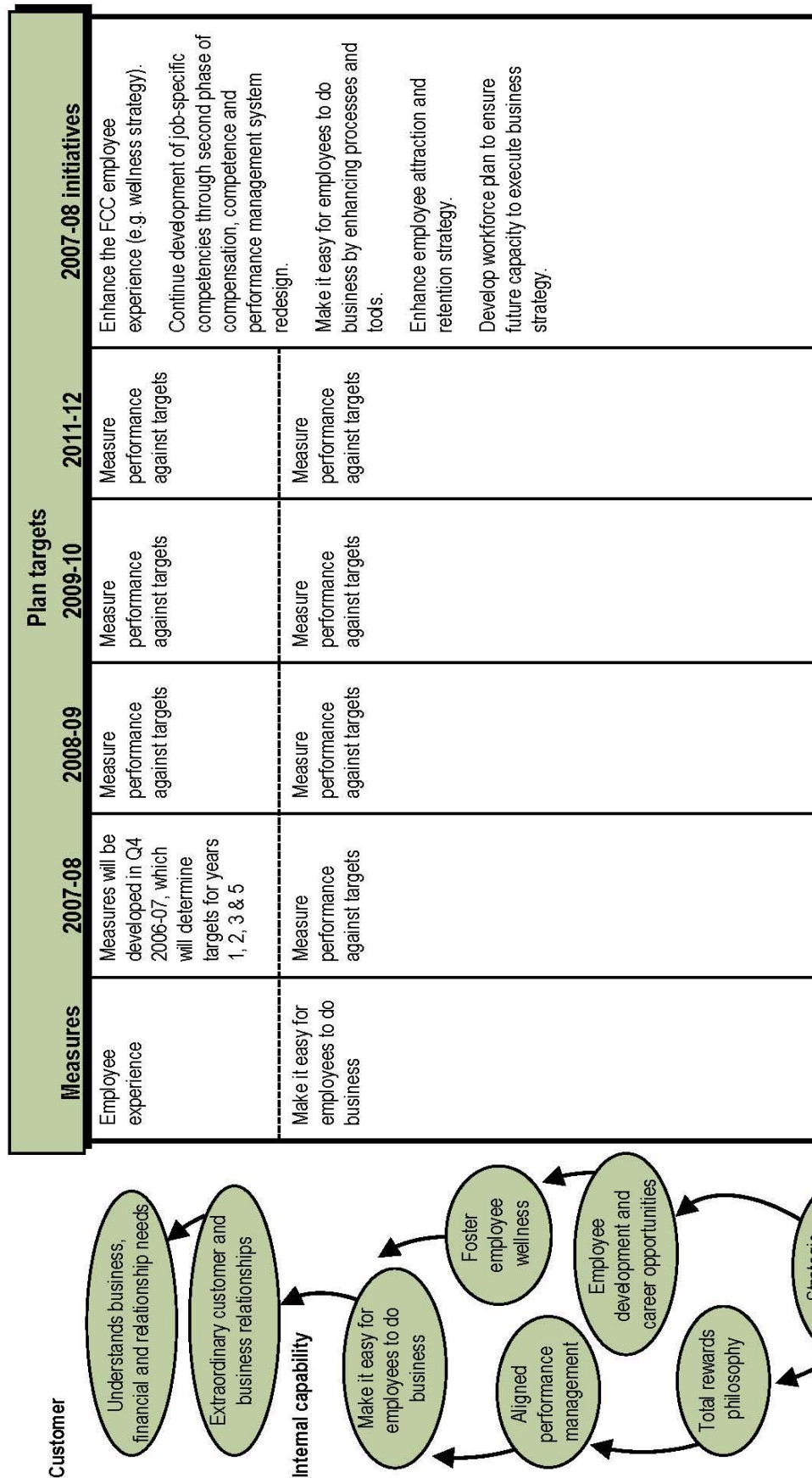
	Plan targets					2007-08 initiatives
	Measures	2007-08	2008-09	2009-10	2011-12	
Customer	New customer acquisition – all channels	National index score is greater than zero	National index score is greater than zero	National index score is greater than zero	National index score is greater than zero	Enhance internal control framework to safeguard and maintain financial and security controls.
	Market share	23%	23.5%	23.9%	24.5%	Implement business process and technology transformation to enhance customer and employee experience.
	Process improvements benefits realization	Measure performance against targets	Measure performance against targets	Measure performance against targets	Measure performance against targets	Revamp lending processes to enable more time with customers.
	IT architecture capability	Baseline to be established by Q2. Targets to be defined by Q4.	Measure performance against targets	Measure performance against targets	Measure performance against targets	Enhance and execute business continuity management strategy.
	Project management maturity	Assessment is bi-annual. Survey to be conducted in 2008-09.	Measure performance against targets	Assessment is bi-annual. Survey to be conducted in 2010-11.	Assessment is bi-annual. Survey to be conducted in 2012-13.	Continue focus on respecting and safeguarding customer and employee privacy.
						Enhance enterprise risk management, risk mitigation planning and status reporting.





## Enhance employee experience

## Balanced scorecard 2007-08



## Balanced scorecard 2007-08

People

Strategic enterprise  
leadership and  
governance

Customer and  
knowledge culture

Culture of partnership,  
accountability and  
personal leadership

Plan targets					2007-08 initiatives
Measures	2007-08	2008-09	2009-10	2011-12	
Engagement score	Minimum threshold 80%	Minimum threshold 80%	Minimum threshold 80%	Minimum threshold 80%	<p>Recruit and transition the new CEO.</p> <p>Identify and develop future leaders through the Leadership Development program.</p> <p>Educate employees about the FCC vision, mission, corporate plan and key FCC programs and services.</p> <p>Identify key drivers for improvement and create action plan to continuously improve employee engagement.</p> <p>Continue to invest in employee development to keep knowledge and skills relevant (includes development of specialized skills, field development, etc.)</p> <p>Continue implementation and sustainability phases of the cultural transformation strategy.</p>

## Performance Against Past Objectives

### Assessment of results – 2006-07 balanced scorecard

The following pages summarize the corporate measures, targets and projected results for the 2006-07 fiscal year (as of October 2006).

#### Strengthen market presence

Measures	2006-07 Plan targets	2006-07 Projected results
Portfolio growth	4.64% <sup>9</sup>	Ahead
Non-interest revenue	\$21.8 million <sup>10</sup>	Behind due to fewer loan fees collected compared to original plan.
Net interest income (NII) margin	3.04%	On track
New customer acquisitions – all channels	Measure performance against targets	On track
Market share	22.4%	On track
Venture capital – interest and fee income	\$2.8 million	On track
Venture capital – co-investment ratio	1.3:1	On track
Venture capital – capital invested	\$20.0 million	On track
Time spent with customers and prospects for value-added activities	Using the new sales contact tool, benchmark customer, prospect and centres of influence (COI) contact volumes at Area and District levels <sup>11</sup>	On track

<sup>9</sup> Target was adjusted to reflect portfolio growth of loans receivable and its equivalent is 4.43% in Principle Not Due (PND).

<sup>10</sup> The 2006-07 non-interest revenue calculation was corrected and the previously published target of \$24.2 million was revised.

<sup>11</sup> Target was adjusted due to the implementation of the new sales contact tool. This tool will track both proactive and reactive sales calls with customers, prospects and centres of influence (COI). Benchmarks will be established in 2006-07, so that specific targets can be established for future years.

## Enhance customer experience

Measures	2006-07 Plan targets	2006-07 Projected results
Return on equity and investment	12.28%	On track
Customer experience index	Q1 begin monitoring and reporting	On track
Total value penetration (TVP)	Increase national TVP score; Q1 set targets based on 2005-06 baseline	On track
Channel usage		
Number of unique website visitors per month	17,000	On track
Number of website pages visited per year	1.8 million	On track
Number of online registered borrowers	12,000	On track
Number of Customer Service Centre (CSC) customer contacts	80,000	On track
Dollars disbursed of CSC direct full service lending	\$175 million	On track
Customer value management	Benchmark	On track
Customer channel awareness, preferences and permissions	Benchmark	On track

## Optimize execution and performance

Measures	2006-07 Plan targets	2006-07 Projected results
Efficiency ratio	44.8% <sup>12</sup>	On track
Debt-to-equity	Under 10:1	On track
% of PND with arrears	6%	On track
Strategic credit risk management	Managed range between 51 and 70	On track
Process improvements	Corporate business case parameters and approach to be reviewed and finalized	On track
Near term improvements	60% of near term improvements implemented	On track
IT architecture capability	86% of key architectural framework elements incorporated	On track
User acceptance (performance, reliability, usability)	Measure performance against targets	On track
Project management maturity	Set baseline	On track

<sup>12</sup> Target adjusted to top of range.

## Sustain commitment to agriculture

Measures	2006-07 Plan targets	2006-07 Projected results
% of profits invested in communities	1.4%	On track
Corporate social responsibility scorecard	Measure performance against targets	On track
Corporate reputation index	Conduct new corporate reputation survey	On track
Media favourability index	Score of 64	On track

## People

Measures	2006-07 Plan targets	2006-07 Projected results
Engagement score	Minimum threshold 80%	82%
Employee experience	Benchmark	On track
Make it easy for employees to do business	Develop measure and set baseline	On track



## 2005-06 Corporate social responsibility scorecard

According to the Conference Board of Canada, corporate social responsibility (CSR) is “transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society.”

FCC cares about the communities where customers and employees live and work. To enhance the fulfilment of our public policy role and underline our commitment to corporate citizenship, we have established a corporate social responsibility framework.

The Farm Credit Canada corporate social responsibility framework comprises six categories<sup>13</sup>:

- corporate governance and management systems
- human resources management
- community investment and involvement
- environment, health and safety
- human rights
- customers

Accessibility, accountability and transparency in these areas are key components of this framework. The Board of Directors' Corporate Governance Committee is responsible for the corporation's strategy concerning corporate social responsibility reporting.

---

<sup>13</sup> Based on the Conference Board of Canada.

## Corporate social responsibility scorecard

For the year ending March 31, 2006

The following summary was adapted from the Globe and Mail's *Report on Business* second annual CSR ranking to measure Farm Credit Canada's progress in six key decision-making, behaviour and performance priority areas.

2005-06

### Corporate governance and management

Statement of social responsibility	not yet
Statement of corporate values	yes
Code of business conduct	yes
Board Chair and company CEO are separate functions	yes

### Human resources management

Conducts employee engagement surveys:	yes
<ul style="list-style-type: none"> <li>included in Globe and Mail's Best Employers list for last three years</li> <li>increased engagement score from 81 per cent (2005) to 84 per cent (2006)</li> </ul>	
Provides employees with education and development	yes
Conducts annual market compensation reviews	yes
Policy on diversity and employment equity	yes
Public reports on diversity issues	yes
Offers employees diversity training	yes
Benefits include additional maternity and paternity benefits	yes
Percentage of women on the Board	42
Percentage of women on Senior Management Team	14

### Community investment

Policy statement on community donations is available to the public	yes
Calculates donations based on one per cent of profits	yes
Programs are in place to support employee giving and volunteering	yes

### Environment, health and safety

Corporate environmental management systems in place, including policies, programs and performance analysis	not yet
Reports on resource use (energy, materials, water)	not yet
External reporting on lending environmental risk management	in progress
Lending environmental risk management policy and processes, including environmental risk assessment (and bio-security)	yes
Offers loans that reduce environmental impact	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress

### Human rights

Human Rights policy and code of conduct	yes
Policy or code of conduct governing the supply chain of procured items	not yet

### Customers

Conducts customer satisfaction surveys	yes
Helps customers market their products:	yes
<ul style="list-style-type: none"> <li>310 customers with 361 listings on CanadianFarmersMarket.com</li> </ul>	
Loans to meet the needs of new entrants into agriculture (actual is 9)	yes
Offers industry-related training:	yes
<ul style="list-style-type: none"> <li>AgriSuccess delivered 90 events</li> </ul>	
Offers service to customers in their preferred official language*	yes

\*In 2003, President and CEO John Ryan received the Leon Leadership award, which recognizes the corporation's commitment to bilingualism.

## Operating Budget Summary

The operating budget provides details of our forecasted revenues and expenses for the fiscal year ended March 31, 2008. The table below summarizes financial targets for 2007-08.

Fiscal year ending March 31 (\$ millions)	2008 Plan
<b>Portfolio growth</b>	
Loans receivable	14,003.1
Loan disbursements *	3,420.8
Loan renewal rate (per cent)	95.0
Prepayment rate (per cent)	7.5
<b>Credit quality</b>	
Arrears	56.7
Impaired loans	196.0
Provision for credit losses	70.6
Allowance for credit losses	594.0
<b>Efficiency and cost control</b>	
Administration expenses	188.4
Efficiency ratio (per cent)	44.8
<b>Financial results</b>	
Net interest margin (per cent)	2.95
New lending margin (per cent)	2.47
Net interest income	415.6
Other income	5.4
Net income	167.0
Return on equity (per cent)	10.4
Debt-to-equity (\$ of debt per \$1 equity)	7.7
Return on assets (per cent)	1.15
<b>Funding activities</b>	
Borrowings	12,561.2
Total capitalization	2,234.7
Gross assets not requiring debt financing (per cent)	15.0
<b>Business services</b>	
<b>FCC Ventures</b>	
Investments - total capital outstanding	60.9
Investments - fair market value	80.1
Co-investment ratio (\$ co-invested per FCC \$)	1.5
<b>AgExpert</b>	
Net sales revenue	2.0
<b>Agri-Assurance</b>	
Gross insurance revenue	10.7
Net insurance revenue	3.2

\* Net of FCC Refinancing

## Operating Budget - Schedule 1

### Farm Credit Canada Balance Sheet 2007-08 Corporate Plan (millions of dollars)

As at March 31	2006 Actuals	2007 Forecast	2008 Plan
<b>Assets</b>			
Cash and cash equivalents	\$ 297.9	\$ 325.0	\$ 343.8
Temporary investments	370.8	325.0	343.7
Accounts receivable	25.9	62.0	62.0
	694.6	712.0	749.5
Loans receivable	12,310.2	13,317.3	14,003.1
Allowance for credit losses	514.3	547.7	594.0
Loans receivable (net)	11,795.9	12,769.6	13,409.1
Venture capital investments	34.2	50.1	80.1
Equipment and leasehold improvements	29.0	38.2	45.2
Derivative-related assets	13.3	0.0	35.0
Other assets	9.3	9.0	9.0
	85.8	97.3	169.3
<b>Total Assets</b>	<b>\$ 12,576.3</b>	<b>\$ 13,578.9</b>	<b>\$ 14,327.9</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 33.8	\$ 34.0	\$ 34.0
Accrued interest on borrowings	88.3	85.2	83.9
	122.1	119.2	117.9
Borrowings			
Short-term debt	4,406.7	5,443.9	6,693.6
Long-term debt	6,638.0	6,490.4	5,783.7
	11,044.7	11,934.3	12,477.3
Other liabilities	29.4	22.0	22.0
Derivative-related liabilities	116.3	70.0	70.0
	11,312.5	12,145.5	12,687.2
<b>Shareholder's Equity</b>			
Capital	547.7	547.7	547.7
Retained earnings	716.1	885.7	1,058.2
Accumulated other comprehensive income	0.0	0.0	34.8
	1,263.8	1,433.4	1,640.7
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 12,576.3</b>	<b>\$ 13,578.9</b>	<b>\$ 14,327.9</b>

Farm Credit Canada  
Statement of Operations and Retained Earnings  
2007-08 Corporate Plan  
(millions of dollars)

Fiscal year ending March 31	2006 Actuals	2007 Forecast	2008 Plan
<b>Interest income</b>			
Loans receivable	\$ 703.2	\$ 859.2	\$ 898.5
Investments	21.9	31.1	30.2
	<u>725.1</u>	<u>890.3</u>	<u>928.7</u>
<b>Interest expense</b>			
Short-term debt	112.6	188.3	258.3
Long-term debt	224.1	298.6	254.8
Total interest expense	<u>336.7</u>	<u>486.9</u>	<u>513.1</u>
<b>Net interest income</b>	<u>388.4</u>	<u>403.4</u>	<u>415.6</u>
Provision for credit losses	62.4	51.4	70.6
<b>Net interest income after provision for credit losses</b>	<u>326.0</u>	<u>352.0</u>	<u>345.0</u>
Other income	6.6	7.8	5.4
Income before administration expenses	332.6	359.8	350.4
Administration expenses	<u>163.0</u>	<u>184.7</u>	<u>188.4</u>
<b>Income before unrealized fair value adjustment</b>	<u>169.6</u>	<u>175.1</u>	<u>162.0</u>
Unrealized fair value adjustment	0.0	0.0	5.0
<b>Net Income</b>	<u>\$ 169.6</u>	<u>\$ 175.1</u>	<u>\$ 167.0</u>

Farm Credit Canada  
Statement of Comprehensive Income  
2007-08 Corporate Plan  
(millions of dollars)

Fiscal year ending March 31		2006 Actuals		2007 Forecast		2008 Plan
Net Income	\$	169.6	\$	175.1	\$	167.0
Other Comprehensive Income						
Unrealized gains and losses on available-for-sale financial assets		0.0		0.0		0.0
Reclassification adjustment for gains and losses included in net income		0.0		0.0		0.0
Change in gains and losses on derivatives designated as cash flow hedges		0.0		0.0		0.0
Gains and losses on derivatives designated as cash flow hedges		0.0		0.0		(7.2)
Gains and losses on derivatives designated as cash flow hedges in prior periods transferred to net income		0.0		0.0		0.0
Change in gains and losses on derivatives designated as cash flow hedges		0.0		0.0		(7.2)
<b>Comprehensive Income</b>	<b>\$</b>	<b>169.6</b>	<b>\$</b>	<b>175.1</b>	<b>\$</b>	<b>159.8</b>

Farm Credit Canada  
Statement of Changes in Shareholder's Equity  
2007-08 Corporate Plan  
(millions of dollars)

Fiscal year ending March 31	2006 Actuals	2007 Forecast	2008 Plan
<b>Capital</b>			
Balance, beginning of year	547.7	547.7	547.7
Capital contributions during the year	0.0	0.0	0.0
Balance, end of year	547.7	547.7	547.7
<b>Retained Earnings</b>			
Balance, beginning of year	\$ 551.8	\$ 716.1	\$ 896.7
Net Income	169.6	175.1	167.0
Dividends paid	(5.3)	(5.5)	(5.5)
Balance, end of year	716.1	885.7	1,058.2
<b>Accumulated Other Comprehensive Income</b>			
Balance, beginning of year	0.0	0.0	42.0
Unrealized gains and losses on available-for-sale assets	0.0	0.0	0.0
Gains and losses on derivatives designated as cash flow hedges	0.0	0.0	(7.2)
Balance, end of year	0.0	0.0	34.8
<b>Total Shareholder's Equity</b>	<b>\$ 1,263.8</b>	<b>\$ 1,433.4</b>	<b>\$ 1,640.7</b>

## Operating Budget - Schedule 5

### Farm Credit Canada Statement of Cash Flows 2007-08 Corporate Plan (millions of dollars)

Fiscal year ending March 31	2006 Actuals	2007 Forecast	2008 Plan
<b>Operating Activities</b>			
Net income	\$ 169.6	\$ 175.1	\$ 159.8
Items not involving cash and cash equivalents:	0.0	0.0	0.0
Provision for credit losses	62.4	51.4	70.6
Gain on sale of venture capital investments	(2.0)	(2.3)	0.0
Unrealized fair value adjustment of venture capital investments	0.0	0.0	(5.2)
Amortization of bond premiums/discounts	14.6	0.0	0.0
Change in accrued interest receivable	(12.5)	(19.5)	(9.2)
Change in accrued interest payable	11.1	(3.1)	(1.3)
Change in derivative-related assets	10.5	13.3	7.2
Change in derivative-related liabilities	28.0	(3.9)	0.0
Change in foreign exchange on long term debt	(30.4)	(42.4)	0.0
Other	8.1	(67.6)	(20.7)
<b>Cash provided by operating activities</b>	<b>259.4</b>	<b>101.0</b>	<b>201.2</b>
<b>Investing Activities</b>			
Loans receivable disbursed	(3,800.6)	(3,887.3)	(3,825.0)
Loans receivable repaid	2,644.4	2,913.8	3,148.0
Change in temporary investments	(102.1)	45.8	(18.7)
Venture capital investments purchased	(12.2)	(19.5)	(15.0)
Proceeds on disposal of venture capital investments	11.2	12.5	(2.6)
Other	(11.7)	(23.3)	(6.6)
<b>Cash used in investing activities</b>	<b>(1,271.0)</b>	<b>(958.0)</b>	<b>(719.9)</b>
<b>Financing Activities</b>			
Long-term debt from capital markets	2,545.0	3,590.0	2,648.2
Long-term debt repaid to capital markets	(3,265.1)	(3,737.6)	(3,354.9)
Dividends paid	(5.3)	(5.5)	(5.5)
Capital contribution	40.0	0.0	0.0
Change in short-term debt	1,676.8	1,037.2	1,249.7
<b>Cash provided by financing activities</b>	<b>991.4</b>	<b>884.1</b>	<b>537.5</b>
Change in cash and cash equivalents	(20.2)	27.1	18.8
Cash and cash equivalents, beginning of year	318.1	297.9	325.0
<b>Cash and cash equivalents, end of year</b>	<b>\$ 297.9</b>	<b>\$ 325.0</b>	<b>\$ 343.8</b>



## Discussion of Expected Results – 2006-07 Forecast versus 2007-08 Financial Plan

### Portfolio growth

#### Loans receivable

Loans receivable is projected to grow by 5.1 per cent, increasing from \$13,317.3 million forecast for 2006-07 to \$14,003.1 million in 2007-08. The increase in loans receivable reflects the projected lending through the AgProduction, AgValue and Alliances business lines.

#### Net disbursements

Net disbursements is the primary driver of portfolio growth and is expected to decrease slightly by \$38.2 million from the forecast level of \$3,459.0 million in 2006-07 to \$3,420.8 million in 2007-08. AgValue and Alliances are expected to increase by \$12.0 million and \$55.0 million respectively. AgProduction is expected to decrease by \$105.2 million. Lending to primary producers represents 90.9 per cent of total net disbursements in 2007-08.

Renewals are expected to be 95 per cent, which is consistent with recent results.

Prepayments are expected to be 7.1 per cent of loans receivable in 2006-07 and 7.5 per cent of loans receivable in 2007-08.

### Credit quality

#### Arrears

The arrears balance is forecast to be \$53.9 million in 2006-07 and increase to \$56.7 million in 2007-08, primarily due to a higher overall loans receivable balance in 2007-08.

#### Impaired loans

Impaired loans are expected to be 1.40 per cent of loans receivable or \$196.0 million in 2007-08, an increase of \$9.6 million over the forecast for 2006-07 of \$186.4 million. This increase is due primarily to the larger portfolio in 2007-08 compared to 2006-07 and is consistent with historical experience.

#### Provision for credit losses

The provision for credit losses is expected to increase in 2007-08 to \$70.6 million from the 2006-07 forecast of \$51.4 million. The projected increase in provision for credit losses is reflective of the anticipated growth in loans receivable.

### **Allowance for credit losses**

The allowance for credit losses represents management's best estimate of credit losses on loans receivable. The allowance is made up of two components:

1. Specific allowance – provides for probable losses on specific loans which have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.
2. General allowance – management's best estimate of probable losses that exist in the portfolio that may end up classified as impaired. The general allowance considers specific events to identify loans that have shown some deterioration in credit quality, but have not yet been classified as impaired. The allowance also considers management's best estimate of probable but unidentified losses in the portfolio. This assessment is supported by a review of recent events, changes in economic conditions and general economic trends going forward. This is to allow for credit losses within the portfolio where deterioration in credit worthiness has not yet been observed.

The allowance for credit losses is projected to grow from the forecast of \$547.7 million in 2006-07 to \$594.0 million at the end of 2007-08. The allowance as a percentage of opening loans receivable is projected to increase slightly from 4.45 per cent in 2006-07 to 4.46 per cent in 2007-08.

### **Efficiency and cost control**

#### **Administration expenses**

Administration expenses for 2007-08 are planned to increase to \$188.4 million from the 2006-07 forecast level of \$184.7 million. This reflects the increased resources required to support the growing portfolio and funding of corporate strategic initiatives.

Permanent staff levels expressed as full-time equivalents (FTEs) are projected for planning purposes at 1,342 FTEs in 2007-08 compared to 1,274 FTEs in the 2006-07 forecast. This increase is driven by the anticipated business growth.

#### **Efficiency ratio**

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. An efficiency ratio of 44.9 per cent is forecast for 2006-07. In 2007-08 the efficiency ratio is expected to improve slightly to 44.8 per cent.

## Financial results

### Net interest income

Net interest income is required to cover risk of credit losses and administration expenses as well as yield a sufficient profit to enable the corporation to remain financially viable and fulfill its role in supporting agriculture.

Net interest income is expected to increase from \$403.4 million forecast for 2006-07 to \$415.6 million for 2007-08. This increase is primarily driven by the growth in the loan portfolio.

### Net interest margin

Net interest margin is the net interest income expressed as a percentage of average total assets. The net interest margin is projected to decrease from 3.03 per cent forecast in 2006-07 to 2.95 per cent in 2007-08. The decrease in margin in 2007-08 is mainly due to lower portfolio growth coupled with increases in arrears, impaired loans and higher funding costs.

### Net income

Net income is projected to decrease from the 2006-07 forecast of \$175.1 million to \$167.0 million in 2007-08 mainly due to increases in the provision for credit losses and administration expenses and a decrease in other income. This is partially offset by the anticipated increase in net interest income.

### Return on assets

Return on assets measures how well the corporation is utilizing its assets to generate income. The return on assets is projected to be 1.15 per cent in 2007-08, a decrease from 1.34 per cent forecast in 2006-07. The decrease is due to the items discussed in the net income section.

### Return on equity

Return on equity 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 decrease from 13.0 per cent forecast for 2006-07 to 10.4 per cent in 2007-08. The decrease is mainly due to the increase in provision for credit losses, administration expenses and a decrease in other income, slightly offset by an increase in net interest income.

### Debt-to-equity

The projected debt-to-equity ratio for 2007-08 is 7.7-to-1, a decrease from the forecast of 8.5-to-1. The decrease reflects anticipated funding of a larger portion of loans receivable through equity. This ratio is projected to remain well below the maximum 12-to-1 debt-to-equity ratio set under the Farm Credit Canada Act.

## Funding activities

### Cash provided by operating activities

After adjusting net income for non-cash items, FCC expects to realize \$201.2 million from operating activities in 2007-08. While net income is projected to decrease, cash provided by operating activities is projected to increase by \$100.2 million from the 2006-07 forecast.

### Cash provided by (used in) investing activities

#### Loans receivable disbursed: (\$3,825.0) million

Loans receivable disbursed to customers are expected to total \$3,825.0 million in 2007-08 compared to \$3,887.3 million forecasted in 2006-07.

#### Loans receivable repaid: \$3,148.0 million

A total of \$3,148.0 million in principal repayments from borrowers is anticipated compared to \$2,913.8 million forecasted in 2006-07.

#### Change in temporary investments: (\$18.7) million

FCC anticipates temporary investments of \$343.7 million in 2007-08. This is an increase of \$18.7 million from forecasted temporary investments of \$325.0 million in 2006-07.

#### Venture capital purchased: (\$15.0) million

FCC expects to invest \$15.0 million in venture capital opportunities in 2007-08, down from \$19.5 million in 2006-07.

### Cash provided by (used in) financing activities

#### Long-term debt from capital markets: \$2,648.2 million

FCC anticipates long-term funding of \$2,648.2 million in 2007-08. This is down \$941.8 million from the \$3,590.0 million forecasted for long-term funding in 2006-07.

#### Long-term debt repaid to capital markets: (\$3,354.9) million

Principal payments to the capital markets are expected to be \$3,354.9 million compared to \$3,737.6 million in 2006-07.

#### Short-term debt: \$1,249.7 million

FCC anticipates short-term debt of \$6,693.6 million in 2007-08. This is an increase of \$1,249.7 million from forecasted short-term debt of \$5,443.9 million in 2006-07 and reflects expected refinancing of long-term structured notes.

#### Dividend paid to Government of Canada: (\$5.5) million

A dividend of \$5.5 million is projected to be paid to the Government of Canada in 2007-08, at the discretion of the Board of Directors. A dividend of \$5.5 million is anticipated for 2006-07.

## Business services

### **FCC Venture Capital**

FCC Ventures, the corporation's venture capital division, was formed in 2002. This initiative has been successful in addressing the need for more venture capital to support growth in the agriculture industry. In addition to its own investments, FCC's involvement has attracted other venture capital to the agriculture industry from third party co-investors totalling \$1.6 for every \$1 invested by FCC. In 2006, the corporation leveraged this success by becoming the lead limited partner in a new venture capital fund called Avrio Ventures Limited Partnership. FCC will invest \$6.25 million into the new fund in the 2006-07 forecast and \$15 million in 2007-08.

### **AgExpert**

AgExpert is Canada's leading publisher of farm management software, offering the AgExpert Analyst accounting software and AgExpert Field Manager programs and related support to primary producers. AgExpert net sales revenue is expected to increase from \$1.8 million in 2006-07 to \$2.0 million in 2007-08.

### **Agri-Assurances**

FCC has offered group creditor life insurance since 1960, providing protection for customers, their families and businesses.

Gross insurance revenue is forecast to be \$10.4 million in 2006-07 and is projected to increase to \$10.7 million in 2007-08. Net insurance revenue, after insurance claims, is forecast to be \$3.1 million in 2006-07, and is projected to increase to \$3.2 million in 2007-08.

Agri-Assurances group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.

## Capital Budget Summary

Capital spending is planned at \$21.0 million in 2007-08, including \$15.0 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. The remainder of capital spending relates to regular furniture, fixture and equipment replacements and incremental purchases of these items and related leasehold improvements resulting from the forecasted increase in staff levels.

## Future accounting changes

### Financial instruments

The Canadian Institute of Chartered Accountants has issued three new accounting standards which are effective for the corporation beginning April 1, 2007:

Section 1530 – Comprehensive income

Section 3855 – Financial instruments – recognition and measurement

Section 3865 – Hedges

The purpose of the new standards is to establish a framework for the recognition and measurement of financial assets, financial liabilities and derivative financial instruments. These new guidelines are reflected in the corporate plan for 2007-08.

Section 1530 introduces a new component to the balance sheet in the 2007-08 corporate plan entitled Comprehensive Income, which includes net income and other comprehensive income. Other comprehensive income includes certain gains and losses on financial assets classified as available-for-sale and certain financial instruments that are part of a designated hedging relationship and qualify for special accounting in accordance with Section 3865. Accumulated other comprehensive income is classified on the Balance Sheet as part of shareholder's equity.

With the adoption of Section 3855, Farm Credit Canada will be required to classify each of its financial assets and liabilities as either held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities and prospectively apply the appropriate accounting treatment for each.

In the corporate plan Farm Credit Canada's short term investments are classified as available-for-sale. Any changes in fair value are recognized in other comprehensive income. The loans receivable asset is classified as loans and receivables, accounted for on an amortized cost basis, which is consistent with our current accounting. Venture capital investments are classified as held-for-trading and are measured at fair value with gains and losses being recognized in net income in the periods in which they arise. Structured notes, which make up a portion of our long-term debt balance, are also classified as held-for-trading, measured at fair value with gains and losses recognized in net income. Short-term debt and long-term retail and institutional debt are classified as other financial liabilities, and are accounted for on an amortized cost basis which is consistent with our current accounting. Derivative Financial Instruments are measured at fair value with gains and losses recognized in net income, unless the derivative is a hedging item in a qualifying cash flow hedge for which a portion of the gains and losses are recognized in other comprehensive income. The remaining financial assets and liabilities are measured at cost.

## Borrowing Plan Summary

Farm Credit Canada requests authority to:

- a) 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 \$7.5 billion;
- b) borrow up to \$2.6 billion of long-term funds from the capital markets; and
- c) in addition to (b), borrow up to \$1.4 billion of long-term funds from the capital markets as a contingency request relating to 10 per cent (\$14,003 million) of expected year-end 2007-08 loans receivable outstanding to meet general contingencies and approximately \$2.0 billion to repay Farm Credit Canada's callable debt in the event it is called;
- d) issue long-term debt obligations under the following:
  - Domestic Medium-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 will not exceed \$6.0 billion in 2007-08.

## Reference Information

### Glossary of terms

**AgProduction**

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

**AgValue**

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

**Alliances**

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

**Allowance for credit losses**

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

**Arrears**

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

**Corporate governance**

Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

**Corporate social responsibility (CSR)**

CSR promotes accountability and transparency in pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society.

**Debt-to-equity ratio**

The level of debt expressed as dollars of debt per one dollar of equity.

**Efficiency ratio**

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

**Impaired loans**

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

**Interest expense**

Expense to the corporation incurred on debt.

**Interest income**

Income earned on loans receivable, cash and investments.

**Leverage**

The relationship between total liabilities and the equity of a business.

**Loan renewal rate**

Percentage ratio of principal dollars renewed to principal dollars matured.

**Net Disbursements**

Represents disbursement of funds against approved loans excluding refinancing of existing FCC loans.

**Net interest income (NII)**

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

**Net interest income margin**

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



**Prepayments**

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

**Provision for credit losses**

The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

**Return on assets (ROA)**

Net income expressed as a percentage of average assets.

**Return on equity (ROE)**

Net income expressed as a percentage of average equity.

**Risk scoring and pricing system (RSPS)**

A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

**Strategic credit risk model (SCRM)**

A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

**Value-added**

Agricultural businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

## FCC office locations

### **British Columbia**

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

### **Alberta**

Barrhead, Brooks (S), Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Stettler (S), Stony Plain, Vegreville, Vermilion, Westlock

### **Saskatchewan**

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

### **Manitoba**

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

### **Ontario**

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

### **Quebec**

Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, Sherbrooke, Ste-Foy, St-Georges-de-Beauce(S), St-Hyacinthe, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield, Victoriaville

### **New Brunswick**

Grand Falls, Moncton, Sussex, Woodstock

### **Nova Scotia**

Kentville, Truro

### **Prince Edward Island**

Charlottetown, Summerside

### **Newfoundland and Labrador**

St. John's

(S) Satellite office – restricted hours

### **Corporate Office**

1800 Hamilton Street, P.O. Box 4320  
Regina SK S4P 4L3  
Telephone: 306-780-8100  
Fax: 306-780-5456

### **Government and Industry Relations**

Sir John Carling Building  
930 Carling Avenue, room 841  
Ottawa ON K1A 0C5  
Telephone: 613-993-9897  
Fax: 613-993-9919

### **AgExpert**

170-10 Research Drive  
Regina SK S4S 7J7  
Telephone: 306-721-7949  
Fax: 306-721-1981

### **FCC Ventures/Avrio Ventures**

#### **Regina**

1800 Hamilton Street, P.O. Box 4320  
Regina SK S4P 4L3  
Telephone: 306-780-8100  
Fax: 306-780-5456

#### **Calgary**

3820-700 2<sup>nd</sup> Street SW  
Calgary AB T2P 2W2  
Phone: 403-215-5490  
Fax: 403-215-5495

#### **Oakville**

205-1075 North Service Road  
Oakville ON L6M 2G2  
Phone: 905-465-0885

#### **Montreal**

2500-1155 Rene Levesque Boulevard W  
Montreal QC H3B 2K4  
Phone: 514-868-1079

[www.fcc-fac.ca](http://www.fcc-fac.ca)

**Customer toll-free number: 1-888-332-3301**

## References

If you require more information about Farm Credit Canada's Corporate Plan or wish to provide feedback, please contact:

Corporate Office:  
Farm Credit Canada  
1800 Hamilton Street, P.O. Box 4320  
Regina SK S4P 4L3  
Telephone: 1-888-322-3301  
[www.fcc-fac.ca](http://www.fcc-fac.ca)

Erin Campbell Howell, Director  
Strategic Planning and Reporting  
Telephone: 306-780-5115  
Fax: 306-780-5703  
[erin.campbellhowell@fcc-fac.ca](mailto:erin.campbellhowell@fcc-fac.ca)

Roger Shier, Director  
Government and Industry Relations  
Farm Credit Canada  
Sir John Carling Building  
930 Carling Avenue, room 841  
Ottawa ON K1A 0C5  
Telephone: 613-993-9897  
Fax: 613-993-9919  
[roger.shier@fcc-fac.ca](mailto:roger.shier@fcc-fac.ca)

Si vous désirez obtenir de plus amples renseignements sur le Plan d'entreprise de FAC ou fournir des commentaires, veuillez communiquer avec:

Siège social:  
1800, rue Hamilton, C.P 4320  
Regina SK S4P 4L3  
Téléphone: 1-888-322-3301  
[www.fac-fcc.ca](http://www.fac-fcc.ca)

Noel Fahlman, stratège  
Planification et rapports stratégiques  
Téléphone: 306-780-8334  
Télécopieur: 306-780-5703  
[noel.fahlman@fac-fcc.ca](mailto:noel.fahlman@fac-fcc.ca)

